CB RICHARD ELLIS | MARKET INDEX

UK Prime Rent & Yield Monitor

Quarter 2 2008

All Property Yields Rise & Rents Stall

Property's Yield Gap over Bonds Falls to 100bp

- Following a modest decline in Q1, All Property rents were broadly flat in the second quarter of 2008 and over the first half of the year. However, a loss of momentum in the UK occupier markets has meant that annual rental growth has slowed from 7% in Q3 to just 1.7% this quarter.
- With ongoing turbulence in the financial sector it is unsurprising that All Office rents fell for the second consecutive quarter. However, shops rents continued to show some growth.
- Investment into UK commercial property fell once again in the second quarter. Just under £5bn was transacted in the three months to June compared to more than £17bn in the same period last year. Declining activity helped push the average prime yield out by 30bp over Q2, a faster outshift than the previous quarter.
- Over the last year, average All Property yields have risen more than 130bp from a low of 4.8% in Q2 2007. At 6.2%, the prime equivalent yield is now back to the level recorded in Q2 2004. Over the quarter, All Offices saw the largest upward shift in yields, while Retail movements were more muted.
- The positive property yield gap narrowed in Q2, despite a rise in the All Property yield. Higher inflation, with CPI of 3.3% in May, and expectations that this will rise to more than 4% in coming months, forced a sharp reversal in the UK interest rate outlook. Benchmark gilt yields correspondingly rose more than 80bp in the quarter.

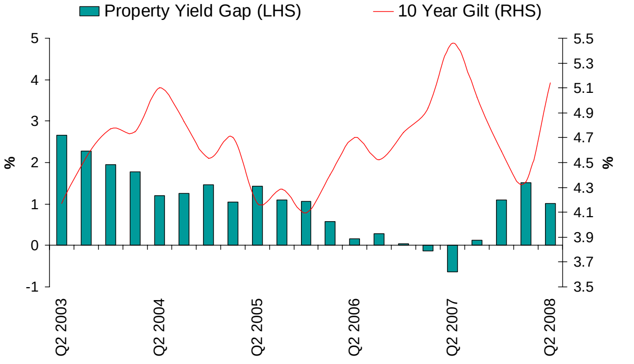
PRIME RENTS AND YIELDS: SUMMARY

Rents	Nominal Rental Value Growth % Q-on-Q	Y-on-Y
All Property	0.1	1.7
Shops	0.6	2.1
Retail Warehouses	0.0	1.3
Offices	-0.3	1.2
Industrial	-0.3	2.3

Yields, %	Q4 2007	Q1 2008	Q2 2008	Yield Shift * Q-on-Q	Y-on-Y
All Property	5.7	5.9	6.2	0.3	1.3
Shops	5.4	5.5	5.7	0.2	1.1
Retail Warehouses	5.4	5.5	5.9	0.2	1.4
Offices	5.8	6.0	6.4	0.4	1.5
Industrial	6.5	6.8	7.1	0.3	1.6
Gilts	4.6	4.3	5.1	0.8	-0.3
Base Rates	5.50	5.25	5.00		

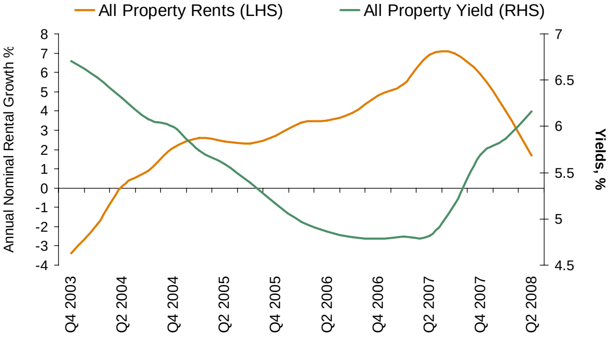
* Equivalent yields calculated on unrounded figures and then rounded. Yield shift rounded to 10 basis points

PROPERTY-GILT YIELD GAP



Source: CB Richard Ellis

ALL PROPERTY ANNUAL RENTAL GROWTH & YIELDS



Source: CB Richard Ellis

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Office

- All Office rents fell in Q2, although marginally at just 0.3% compared to -1.7% in Q1. The falls continue to be contained to the Central London market where financial and business service occupiers are increasingly vulnerable to the credit crunch and further economic slowdown. For the first time in four years, rental values on the West End Index fell, although key prime locations remain stable. City and Docklands rental indices are both lower than this time last year. Office rents in the regions continue to grow modestly with most showing growth between 1-3% year-on-year.

- As fears mount regarding the future prospects for office occupiers, All Office yields moved out more than 40bp in the quarter, the largest of any sector, and 150bp over the last year. Only the West End market remained relatively stable in Q2, recording a shift of just 20bp – against c50bp for the other London and Regional markets.

Retail

- Shops were the only sub-sector to record rental growth in Q2, which, at 0.6% q-o-q, has shown no signs of easing despite the announcements of profit warnings from retailers across the UK. Annual growth also remains a solid 2.1%. Central London continues to drive the sector with robust growth of 1.6% over the quarter, although Scotland also recorded notable uplifts; most other regions experienced relatively flat rents in the quarter.

- Following growth in the first quarter, All Retail Warehouse rents were flat in Q2 and are just 1.3% higher than a year ago. The weakness is evident in each of the three types, although Fashion and Open A1 showed noteworthy rental declines this quarter.

- Shops continue to be favoured by investors as their typically small lot sizes are ideal in the current debt environment. All Shops yields moved out just 20bp in Q2 and show the smallest annual shift of all segments. Central London Shops are demonstrating continued strength, with just a 40bp move in the last year compared to a regional average of 130bp.

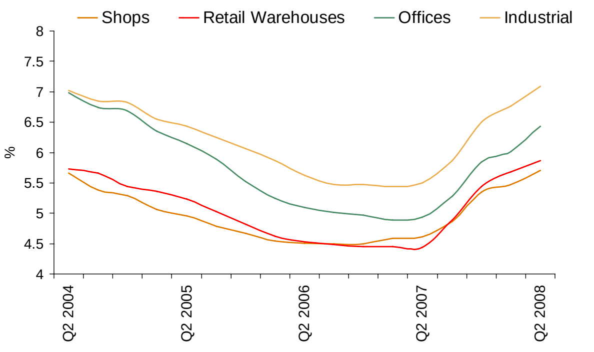
- Retail Warehouses have been particularly hard hit over the last year with yields moving out 140bp. However, the shift did slow significantly in Q2 across Open A1, Fashion and Bulky parks.

Industrial

- Industrial rents across the UK were either flat or declined modestly in Q2, with an All Industrial fall of -0.3%. Annual growth across the regions varied quite widely, but Scotland and the South West stand out with higher growth.

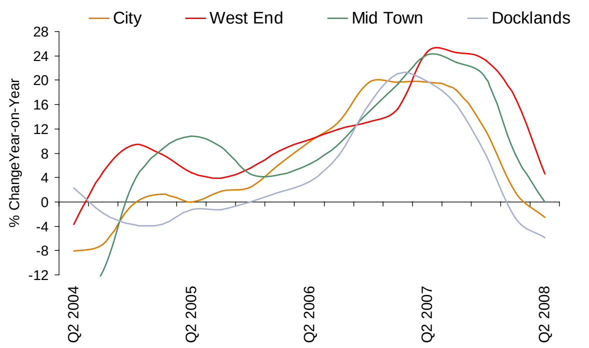
- The All Industrial yield shifted out by 160bp over the last year – the most of the three broad sectors. Properties in London and Scotland have been less adversely affected than all other regions.

ALL UK SECTOR YIELDS



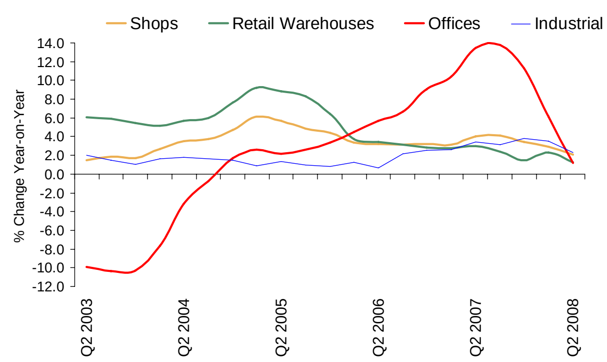
Source: CB Richard Ellis

CENTRAL LONDON OFFICE SUBMARKET RENTAL GROWTH



Source: CB Richard Ellis

ANNUAL SECTOR RENTAL GROWTH



Source: CB Richard Ellis

	RENTAL VALUES					YIELDS**			
	Index Base Q2 1988 = 100			Rental Value Growth (%)		Actual (%)		Yield Shift*	
	Q1 2008	Q2 2008	Q-on-Q	Y-on-Y	5 Year p.a.	Q1 2007	Q2 2008	Q-on-Q	Y-on-Y
All Property	191	192	0.1	1.7	4.1	5.9	6.2	0.3	1.3
All Shops	190	192	0.6	2.1	3.1	5.5	5.7	0.2	1.1
Central London	282	287	1.6	6.5	5.9	4.5	4.7	0.2	0.4
Suburban London	186	188	0.9	1.1	3.7	5.7	5.9	0.2	1.2
South East	159	158	-0.7	1.8	4.2	5.5	5.8	0.2	1.2
Eastern	167	167	0.0	0.0	2.8	5.8	6.0	0.2	1.2
South West	200	200	0.0	0.6	3.7	5.6	5.8	0.2	1.3
East Midlands	169	173	2.5	3.6	2.4	5.8	6.1	0.3	1.3
West Midlands	230	231	0.4	0.8	1.1	5.7	5.9	0.3	1.3
Wales	206	206	0.0	-0.4	1.6	5.9	6.2	0.3	1.4
North West	187	187	0.0	1.5	0.6	5.8	6.1	0.3	1.3
Yorkshire & Humberside	195	195	0.0	0.3	2.2	5.6	5.9	0.2	1.3
North East	183	183	0.0	0.0	0.4	5.7	5.9	0.2	1.3
Scotland	209	211	1.2	2.4	2.1	5.7	5.9	0.2	1.2
All Retail Warehouses	368	368	0.0	1.3	2.6	5.7	5.9	0.2	1.4
Bulky Goods Parks	307	309	0.7	1.1	1.2	6.2	6.5	0.2	1.6
Fashion Parks	179	178	-0.6	1.5	3.9	5.1	5.3	0.2	1.3
Open A1 Retail Parks	154	153	-0.3	1.3	3.2	5.4	5.6	0.2	1.4
All Offices	173	172	-0.3	1.2	6.7	6.0	6.4	0.4	1.5
West End	189	187	-0.9	4.6	12.9	5.4	5.6	0.2	1.3
City	100	99	-0.8	-2.6	8.6	5.6	6.1	0.5	1.6
Midtown	128	128	0.0	0.0	9.7	5.7	6.2	0.5	1.5
Docklands	226	220	-2.7	-5.9	5.2	5.3	5.8	0.5	1.1
Fringe Central London	204	204	0.0	6.4	5.8	6.4	6.8	0.4	1.3
Southbank	120	120	0.0	-4.1	3.9	5.8	6.4	0.6	1.4
Suburban London	157	158	0.9	3.4	5.4	6.6	7.1	0.5	1.9
South East	160	161	0.5	2.8	3.3	6.7	7.2	0.5	1.7
Eastern	185	186	0.5	3.3	4.1	6.9	7.4	0.5	1.7
South West	230	232	1.1	2.3	5.4	7.0	7.5	0.5	1.9
East Midlands	354	354	0.0	2.3	2.4	7.1	7.6	0.4	1.7
West Midlands	318	318	0.0	3.8	2.9	6.8	7.3	0.4	1.8
Wales	311	311	0.0	1.3	1.4	7.0	7.5	0.5	1.7
North West	283	285	0.7	2.1	2.7	6.9	7.4	0.5	1.7
Yorkshire & Humberside	381	386	1.2	7.1	4.4	6.7	7.1	0.5	1.7
North East	436	436	0.0	4.7	4.1	7.2	7.7	0.5	1.7
Scotland	309	316	0.0	7.4	5.8	6.5	6.9	0.4	1.5
All Industrial	183	182	-0.3	2.3	2.1	6.8	7.1	0.3	1.6
London	169	169	-0.1	2.8	3.4	6.3	6.6	0.3	1.4
South East	148	148	-0.7	2.0	0.4	6.7	7.0	0.3	1.5
Eastern	186	185	-0.4	2.3	1.8	6.8	7.1	0.3	1.6
South West	180	180	0.3	7.1	3.6	7.0	7.3	0.3	1.7
East Midlands	270	270	0.0	0.0	2.1	6.9	7.2	0.3	1.7
West Midlands	254	254	0.0	0.0	1.2	7.0	7.3	0.4	1.7
Wales	267	267	0.0	2.0	3.3	7.2	7.5	0.3	1.7
North West	284	283	-0.5	2.7	3.7	6.9	7.3	0.4	1.6
Yorkshire & Humberside	307	307	0.0	1.4	2.0	7.1	7.4	0.4	1.8
North East	369	364	-1.5	0.1	3.5	7.3	7.7	0.4	1.7
Scotland	307	307	0.0	7.2	6.0	7.2	7.4	0.3	1.3

**The CB Richard Ellis average prime yields are calculated from a sample size of circa 750 data points, on a nominal equivalent basis.

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