

Marketbeat UK June 2008



An Overview of the UK Property Market

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FORECAST MARKET RETURNS (ALL SECTORS)

	2007	2008	2009
ERV Growth	4.6%	-0.3%	-0.2%
Total Returns	-3.4%	-4.1%	5.5%

UK PROPERTY INVESTMENT

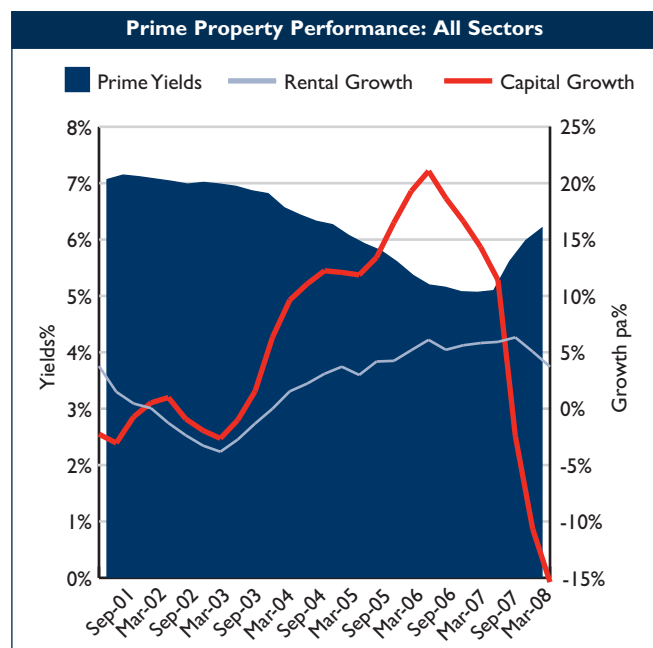
The effects of the financial crisis are clearly still reverberating around the world. However, whilst a significant number of downside risks continue to overhang the global economy and the financial sector, there is increasing talk that "the worst is over". Equity markets have partially stabilised and while banks continue to make write-downs, there is now at least more faith that a wholesale collapse of the banking system has been avoided. Indeed, the Bank of England's latest Financial Stability Report is cautiously optimistic on this point, stating that there has been an over-correction in the credit markets and the worst of the current crisis could be over.

With regard to property, despite some recent stability, a further softening in yields looks likely in the next few months, particularly for secondary stock. However, there does now appear to be some light at the end of the tunnel and whilst it seems clear that there will be more distress in the months ahead, so far at least, the dire predictions of bank foreclosures and widespread forced asset sales have not materialised.

To some extent, this has actually held the market back from finding its floor as buyers and sellers are not yet in agreement on pricing. Yields corrected remarkably quickly over the past 6-9 months, in part perhaps due to the increased frequency of valuations and benchmarking to monthly indices. Headline yield levels did however start to stabilise in March as vendors became increasingly resistant to any further move. A lack of evidence is still masking exactly where the market is standing, however. Transactional volumes stabilised somewhat in the opening quarter - falling less than 4% from their levels at the end of 2007 - but still stood some 45% down on the same period a year earlier. Nonetheless, the weight of capital looking to enter the market at the "right" price has increased further and buyers and vendors are at least talking to each other.

With signs of greater stability possibly emerging in the financial sector, the focus of concern is shifting to the economy and to rental growth. So far, the indications are that occupier markets are holding up well but parts of the market are undoubtedly more challenging and looking forward in to 2009, rental growth looks set to slow as weaker demand and inflationary pressures leave occupiers looking to cut costs.

As a result, the UK property investment market will remain demanding and, inevitably, comparisons with the slump of the early 1990s will continue to be drawn. There are, however, important differences between then and now. Not least, there is currently a strong weight of money standing by to invest once the market is deemed to have reached its floor, focusing on prime stock. This, together with a relatively balanced occupational sector, a falling pipeline of future developments, high employment levels and the lingering promise of lower interest rates, are the important elements which were not present during the recession of the early 1990s and which still point to the start of a recovery in the market by the year-end.



Prime Rents and Yield Movements to March 2008

Rental Growth	3 Years (pa)	1 Year	1 Quarter
Shops	3.0%	2.1%	1.1%
Industrial	1.9%	0.4%	0.3%
Offices (all UK)	9.6%	8.5%	0.3%
Offices-Central London	10.3%	8.7%	-1.7%

Average Prime Yields	Jun-07	Dec-07	Mar-08
Shops	4.53%	5.16%	5.42%
Industrial	5.61%	6.49%	6.82%
Offices (all UK)	5.09%	6.27%	6.34%
Offices-Central London	4.43%	5.48%	5.68%

UK PROPERTY INVESTMENT

Total direct investment volumes amounted to £7.6 bn in Q1 according to Property Data, with institutions the main vendors and property companies and overseas players the most active purchasers. Whilst there remains a mismatch in buyer and sellers views on pricing, interest in the market has firmed, with a growing number of investors viewing the UK as being increasingly attractively priced. The strength of the Euro against Sterling is one factor attracting European buyers despite the higher cost of hedging, but the relativity of pricing on a risk-adjusted basis is stirring interest from domestic as well as overseas players.

There has also been better news on property funds, with the Association of Real Estate Funds reporting a significant fall in withdrawals in Q1, with redemptions totalling £818 million, half the level seen in the last quarter of 2007. Whilst the run of redemptions has highlighted one of the major problems of combining a liquid vehicle structure with a relatively illiquid asset class, there are now some signs that inflows are starting to increase again, and although a number of major real estate funds remain on bid pricing, a small number have reverted to offer pricing.

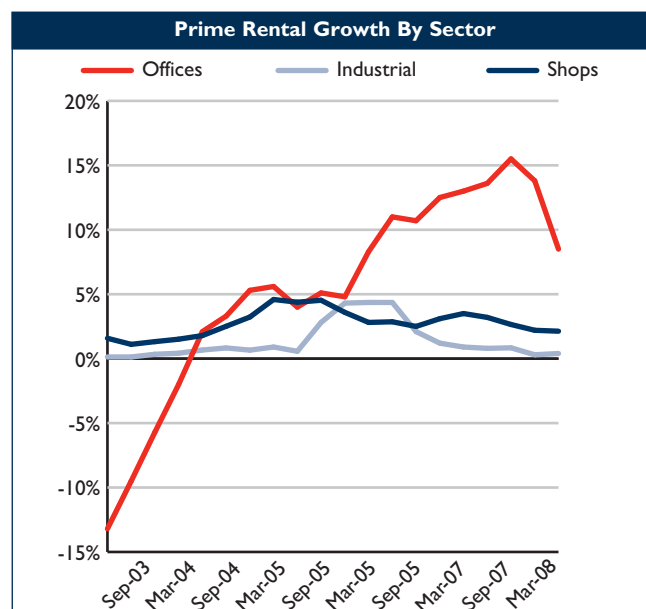
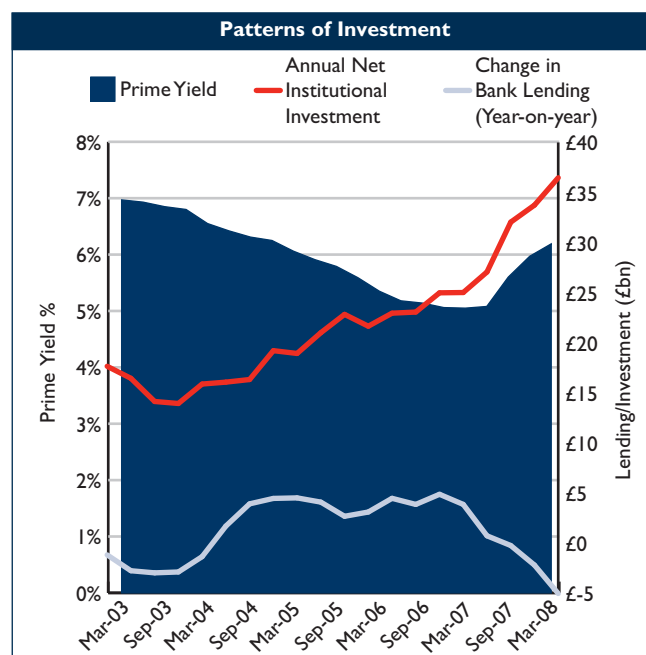
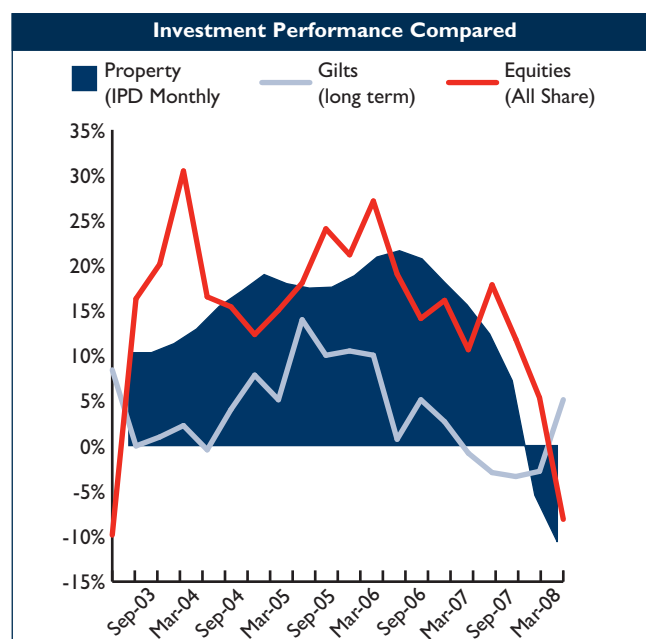
Sector trends

Over the first quarter, the average prime yield rose 22 basis points to 6.19%, half the average rate of the previous two quarters. The decline in values noted by IPD has also slowed, with the Monthly Index showing an average capital value loss of 0.95% in April, a marked improvement on recent months.

Led by falls in the retail warehousing market, the retail segment remains the underperformer on an annualised basis, although quarterly trends are now more uniform across the markets. Indeed, given the concerns hanging over the housing market and the effect of house price falls on consumer spending, the retail sector has remained surprisingly resilient in recent months. Prime retail rental growth is mildly positive and new schemes are still attracting tenants, even though incentives have increased to support this. A small number of pipeline schemes have been postponed due to falling values or funding issues, although in the context of containing supply, this may not be overly negative.

In the office sector, the City of London market remains an area of concern, with the problems in the financial sector now having an impact on rents which fell in March and are expected to see further falls this year. Elsewhere, however, the office occupational markets in a number of major regional cities are holding up and supply-demand imbalances continue to push up rents in a select number of locations.

The industrial sector is steady but has been affected by the more pessimistic outlook for the economy, in addition to the removal of tax relief on empty buildings and a significant amount of development in recent years. The investment market has been quiet, in line with the wider property sector, and the pace of rental growth remained lacklustre at under 0.5% for the year to March.



ECONOMIC OVERVIEW

With all the latest data showing that the global slowdown is gathering pace, the main question now is how serious and long-lasting it will prove to be. Rising food prices and energy costs are adding to inflationary pressures in the global economy, making it difficult for central banks to reduce interest rates to avoid a more severe slowdown. The International Monetary Fund recently said that world economic growth will fall sharply to 3.7% for 2008 and 2009, and is now predicting a mild recession in the US.

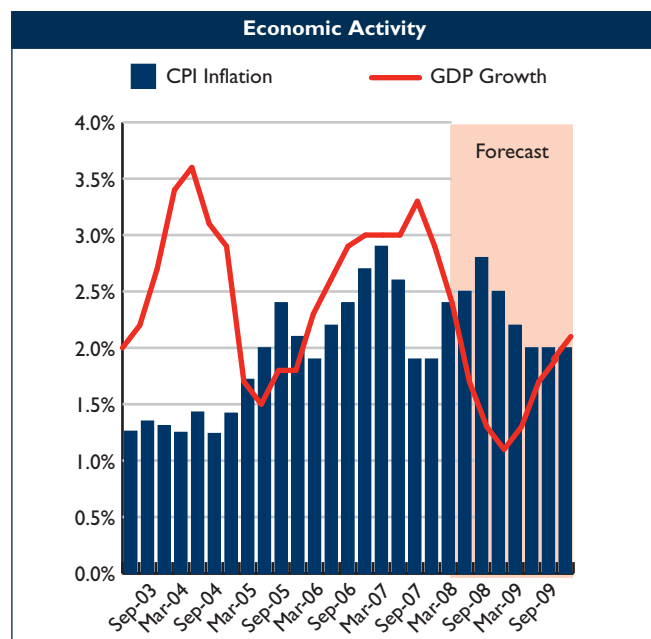
Following the Fed's recent aggressive interest rate cuts, the US government has now implemented a US\$110 bn package of tax rebates, which is hoped will filter through to consumption. Further interest rate cuts will be limited by inflationary pressures however and on the back of continued house price falls, consumer confidence fell to a five-year low in April. Despite this, spending growth has not fallen as sharply as predicted and the expected contraction in GDP in the first quarter was avoided. Consensus views currently point to quarter 3 as being the low of the current cycle meanwhile, with a modest improvement anticipated in the final months of the year which will help to stabilize the Dollar.

In Asia, whilst the region has been less directly affected by the financial crisis, there is growing concern about the impact of the US slowdown on the region's exports. More particularly, the continued increases in inflation, particularly for food, are worrying both economically and for social cohesion in some areas.

In Europe, growth held up well in the opening quarter but the outlook is now for a slowdown stretching into 2009, with the latest forecasts suggesting EU growth of 1.9% this year and 1.8% next. With higher inflation, it will be difficult for the ECB to reduce interest rates in the short term but slowing growth points to a reduction in price pressures that should allow for rates to be cut before the year end.

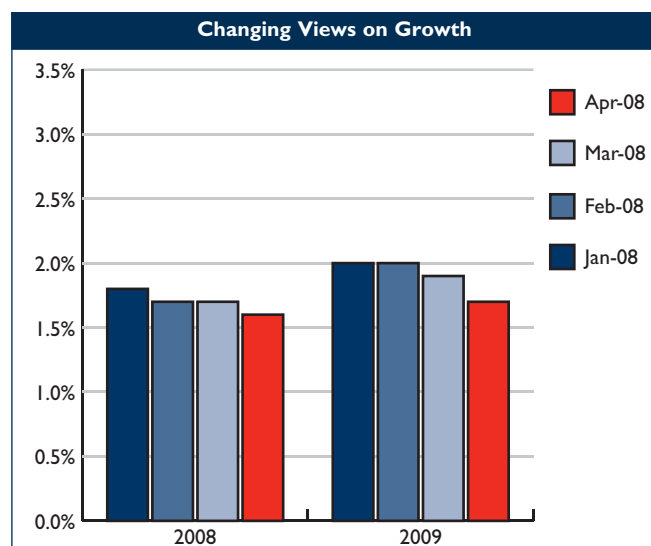
The UK faces a similar pattern of falling growth in 2008 and 2009 and stronger inflation. While a recession still looks unlikely, there is more weakness to come. Recent retail sales data from the ONS and the BRC produced markedly different pictures of current trading conditions, but there is a clear concern over the outlook for the consumer sector, with falling house prices hitting confidence, credit availability tight and higher inflation eroding spending power. As a result, it looks likely that slow growth will be with us for some time, with a pick up not expected until the second half of 2009.

Whilst April is usually a bad month for inflation, the rise this year, from 2.5% to 3%, took the market by surprise, with higher alcohol duties and rising fuel and food prices principally to blame. Hopes of further interest rate cuts, following the MPC's 25bp reduction of the base rate in April, have been undermined by this but a cut still looks likely in the second half of the year on the back of the weaker growth outlook.



Economic Activity

	2005	2006	2007	2008 (Fore)	2009 (Fore)
GDP Growth	1.8	2.9	3.0	1.6	1.7
CPI Inflation	2.1	2.3	2.3	2.6	2.0
Consumer Spending	1.5	1.9	3.0	1.5	1.4
Corporate Investment	1.5	7.6	6.2	2.1	1.5
Manufacturing Output	-1.2	1.5	0.6	0.2	0.7
Interest rates - 3 month	4.6	5.3	6.0	5.6	4.6
Interest rates - 10 year	4.1	4.7	4.6	4.4	4.5



UK Borrowing Costs

	Jun 07	Sep 07	Dec 07	Mar 08	Year Low / High
3 Month Libor	6.00%	6.30%	5.99%	6.01%	5.02/6.90%
5 Yr Swap Rate	6.30%	5.58%	5.11%	5.00%	4.96/6.30%
10 Yr Swap Rate	5.93%	5.45%	5.03%	4.98%	4.97/5.93%
15 Yr Swap Rate	5.69%	5.3%	4.93%	4.95%	4.93/5.69%
25 Yr Swap Rate	5.35%	5.04%	4.75%	4.79%	4.73/5.35%

DERIVATIVES

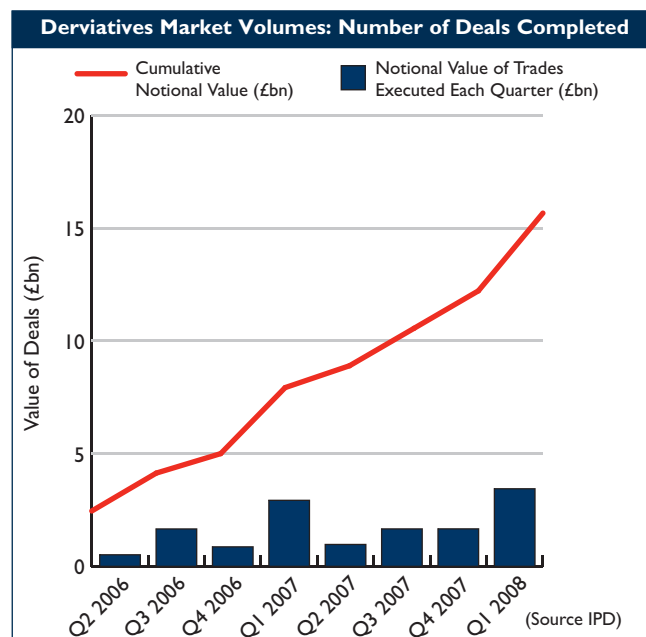
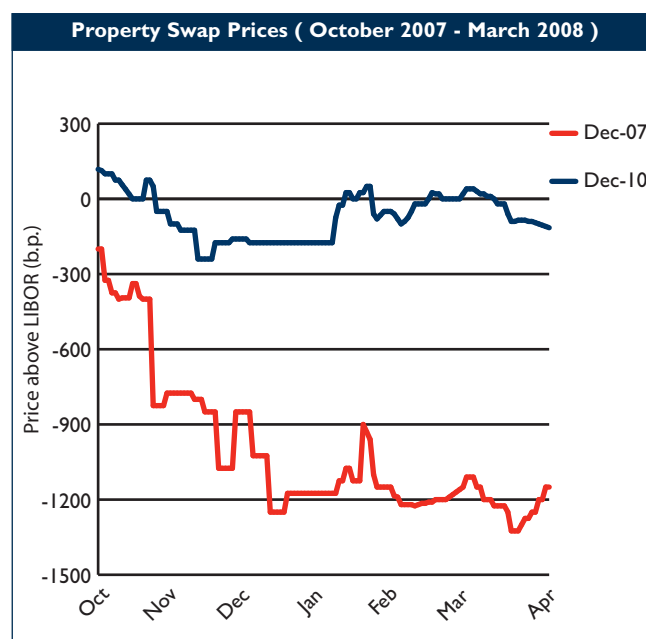
The first quarter of 2008 saw record levels of trading in the real estate derivatives market. The Investment Property Databank (IPD) released official data showing volumes for Q1 2008 were £3.7bn, £3.4bn of which was traded on the UK IPD index. This compares to the previous best quarter, Q1 2007, when £2.9bn was traded on the UK IPD.

The sharp fall in prices and the continuing uncertainty in the real estate market has helped boost derivative trading as this has led to an increasing divergence of investor views and a demand for products to help reduce downside risk. This is further emphasised when comparing the slow down in direct transactions in the physical market against the derivatives market which continues to grow.

As pricing in the physical market has moved out, a growing number of investors have started to consider opportunities in the UK. Many are now incorporating derivatives as a further means of increasing their exposure, either through swaps or IPD notes.

Derivative pricing fell in March partly on the back of the expected falls in UK IPD returns, but further compounded by the global credit crunch, although there has since been a marginal recovery. Current derivatives pricing reflects a continuing negative outlook on property values, with the one-year contract ending in December this year suggesting a total return of -12% for 2008, taking into account a fall in capital values of around 16.5% and rental income of approx. 4.5%. This further decline in property values comes on top of the falls seen in 2007. The swap market's view of capital values is that 2009 will register further falls, followed by flat performance in 2010 and a return to positive capital value growth in 2011 and beyond.

Whilst many accept that capital values may fall further this year, there is a growing view in the physical market that the worst of the price correction is over and that current derivative pricing may be overstating the potential fall. An increasing number of investors are taking the view, therefore, that derivatives offers a good opportunity to gain UK exposure at a heavily discounted rate. As a result, trading activity is expected to remain strong over the next quarter.



THE AUCTION MARKET

In the first 4 months of 2008, the three main London commercial auction houses have sold 358 properties, raised £257.4 million and have had an average sales success rate of 82%. In the same period in 2007, they sold 617 properties, raised £525.9 million and had an average sales success rate of 86%. Clearly therefore, whilst average sales success rates have remained fairly static, mainly as a result of auction houses being more selective in the properties they are offering, both sales volumes and the number of properties being offered for sale have dropped significantly in 2008.

This trend has accelerated in the second quarter, with early results in May indicating a fall in success rates for secondary stock. At the May C&W auction however, a catalogue dominated by bank sale & leasebacks, high success rates were again achieved (averaging 82% to date) albeit that a modest further outward shift in yields was noted. Whilst there still appear to be plenty of private investors willing to invest in the commercial market, funding has become a major issue for private investors, with loan to value ratios down and banks becoming more selective as to whom they are lending to and which covenants they are lending against.

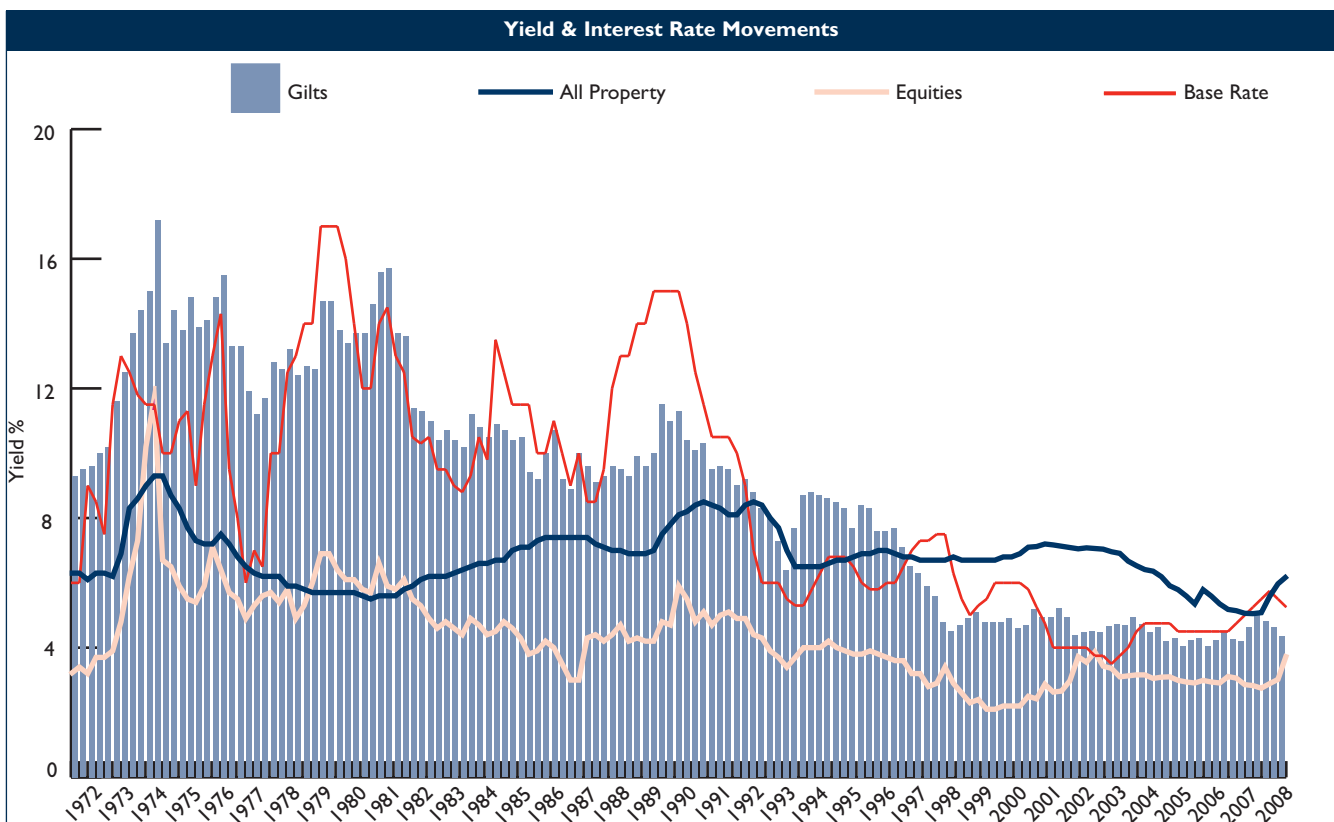
Nonetheless, strong prices are still being achieved for quality product and the main trend evident in the market is one of a flight to quality. Indeed, it is potentially easier to sell small lot size retail units at auction than by private treaty. Generally, quality lot sizes under £1 million are still selling well given the continuing ability to obtain loans on such properties. Properties that are in poor locations and let to weak covenants have become harder to sell as buyers seem to have adopted a "back to basics" approach to property fundamentals.

FINANCE FOR PROPERTY

Amidst further bad news of bank write-downs and losses, the major Banks are clearly still wary of lending to each other and the 3-month LIBOR rate remains stubbornly high. The Bank of England's latest Credit Conditions Survey gives little cause for optimism with regard to lending activity for the next few months, although the recently announced plan to inject an extra £50 billion of liquidity in to the banking system has been broadly welcomed and should start to be felt later in the year.

Sourcing debt for commercial property remains challenging and expensive, with lending margins high and typical LTVs settling in the 70-75% range. For the right asset (and borrower), debt is available, albeit that deals over £50 million will generally have to be co-underwritten by more than one lender and development finance is very limited. With a significant proportion of property loans up for refinancing this year, there are concerns that some banks with significant exposure may choose not to renew the facilities, which would potentially cause considerable problems for those investors unable to secure alternative sources of funds, but equally may improve property investment supply.

On a more positive note, interest in the moribund CMBS market appears to be gathering at least a little momentum again, with a growing number of banks and funds looking for mis-priced opportunities. CMBS spreads in the UK at the time of writing were 250 basis points above LIBOR for some AAA-rated securities, albeit based on low trading volumes, with spreads on BBB notes around three times this margin. There is also a greater degree of optimism that activity will begin to re-emerge in the next few months, as banks look to improve loan book capacity by issuing new CMBS.



INDUSTRIAL

While there remain a number of firms with significant warehousing requirements, including some major retailers and logistics operators, the wider industrial occupational market has slowed. The number of tenant enquiries is down as many companies delay expansion or relocation in view of the current economic uncertainties. The market is undoubtedly experiencing the combined effects of this, the changes to rate relief and a significant amount of speculative development in recent years. Site values and deals are under particular pressure and incentives are generally increasing. Some developers who have not yet started building are delaying their development until there is a resumption of activity.

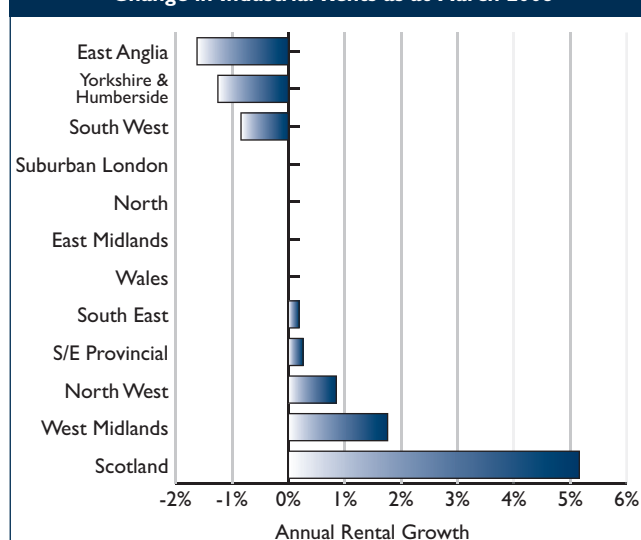
In the investment market, deal volumes are still low and if anything have fallen slightly, with very few major deals reported in recent months. There is still something of a mismatch between vendors and buyers' expectations and property companies in particular are currently reluctant sellers. While based on limited transactional evidence, Q1 prime yields were unchanged on December and although there may be some further upward adjustment in Q2, most of the prime yield shift has now taken place.

Secondary stock has proved particularly difficult to sell, with buyers and vendors even further apart on pricing than for prime property. One of the few secondary deals to be concluded in recent months was COBA Asset Management's acquisition of Biggin Hill Industrial Estate, which sold for around £8.5 million at a reported yield of 8.25%.

Recently completed investment deals have mainly comprised properties which had been on the market for some time, including a number which were initially offered for sale last year. In some cases, higher offers were submitted pre-credit crunch which were not accepted, only for the buyers to return later and secure the purchase with a lower price. However, while a lot of property is not selling or is being re-priced, sensibly priced stock is currently attracting 3-4 bids which suggests that demand is there when stock is priced correctly. A number of portfolios comprising mainly multi-tenanted properties are under offer and good quality, single-let distribution units with strong tenants on long leases are also attracting considerable interest at relatively low yields. Additionally, a number of German Funds are starting to look at UK distribution at yields over 6.75%, for quality buildings in strong, recognized locations.

Going forward, whilst there has been a degree of convergence between buyer and vendor expectations on pricing, yields are expected to see a further marginal upward shift in the coming months. Rental uplift will need to be the main driver of performance. Moreover, given the weak growth of recent years and the likely impact of the new empty rates legislation, rental growth will need to accelerate if development is to take place given the high level of land and development costs and the impact of higher yields.

Change in Industrial Rents as at March 2008



Prime Industrial Rents as at March 2008

(2,000 sq.m unit)	Rental Level		Pa Growth		Short Term Trend
	£ sq.ft/yr	€ sq.m/yr	5 year	1 year	
London-West	12.25	165	0.4	0.0	Stable
London-East	7.25	98	0.7	0.0	Stable
London-Croydon	8.50	115	0.6	0.0	Stable
Manchester	5.50	74	0.0	0.0	Stable
Birmingham	6.00	81	1.5	0.0	Stable
Bristol	7.00	95	1.5	0.0	Stable
Leeds	5.50	74	0.9	0.0	Stable
Newcastle	5.25	71	3.1	0.0	Stable
Cardiff	5.50	74	3.0	0.0	Stable
Edinburgh	7.50	101	3.7	7.1	Stable
Glasgow	6.00	81	0.9	0.0	Stable

Prime Industrial Yields as at March 2008

(2,000 sq.m unit)	Yield Level		10 yr record		Short Term Trend
	Current Qtr	Last Qtr	High	Low	
London-West	5.50	5.25	7.25	4.75	Stable/Up
London-East	6.75	6.50	7.75	5.50	Stable/Up
London-Croydon	6.25	5.75	7.50	5.00	Stable/Up
Manchester	6.50	6.25	7.25	5.25	Stable/Up
Birmingham	6.50	6.25	7.25	5.00	Stable/Up
Bristol	6.50	6.25	7.25	5.25	Stable/Up
Leeds	6.50	6.25	7.25	5.25	Stable/Up
Newcastle	7.00	6.50	8.00	5.75	Stable/Up
Cardiff	7.25	6.50	8.00	5.50	Stable/Up
Edinburgh	6.50	6.50	7.50	5.00	Stable/Up
Glasgow	6.75	6.75	7.50	5.50	Stable/Up

OFFICES

Office rental growth has clearly slowed but the national average was still up by 8.5% over the year. Whilst much of the recent focus has been on the City of London in view of the difficulties in the financial sector, other parts of the UK occupational market have remained relatively robust and may, in fact, benefit further from their attractive rental pricing relative to London. Indeed, while sentiment has cooled somewhat, with incentives up and leasing taking longer, there is nevertheless a reasonable volume of deals being done.

In the investment market, Q1 transaction volumes were down 50-60% on the same period last year, as was the amount of stock on the market, particularly of sensibly priced buildings. General market sentiment is fragile and, whilst prime yields are holding firm, secondary yields are still moving out. There are, however, several significant transactions in the pipeline and both supply and demand look set to improve in the months ahead, with a number of portfolios coming to the market and more investors preparing to re-enter the sector as vendors become more realistic on pricing. Going forward, the office sector still looks relatively attractive. Growth will undoubtedly slow, but office property still compares favourably with retail and industrial and should justify an increased level of investor interest in the months ahead.

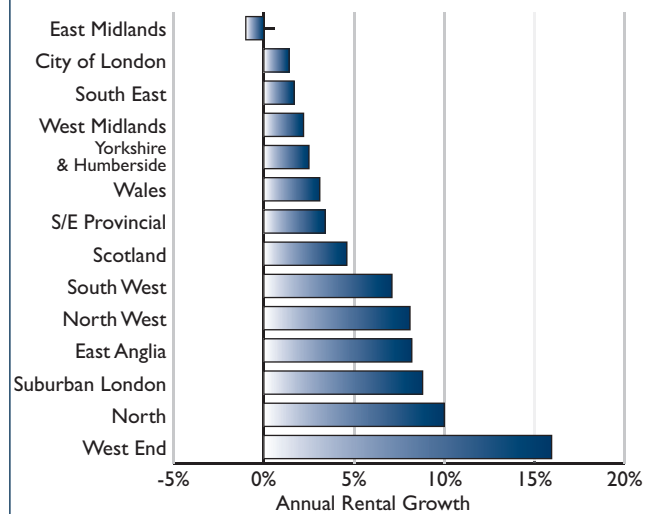
Regional Markets

Trends are emerging more on a city by city basis rather than at a regional level, with a number of large cities still experiencing good tenant demand for limited supply. As a result, rents are expected to come under further upward pressure this year. Current growth meanwhile has been more focused on smaller towns and cities, with markets such as Preston, Norwich and Solihull seeing strong recent growth.

The Thames Valley leasing market was active in Q1, with take-up increasing 36% on Q4 2007 to reach 708,000sq.ft, although this included a number of long-awaited key deals. Encouragingly, there are at least a dozen buildings under offer totalling nearly 600,000sq.ft, which may complete in Q2. The fall-out from the credit crunch continues to affect the investment market however, with just £94 mn of transactions in the first quarter. Investors are most sensitive to initial yields, even for properties with provable reversionary potential. However, investors are taking some comfort from the occupational market, with the limited supply and small development pipeline expected to underpin rental values.

In Scotland there is relatively good occupational demand, largely from indigenous companies such as accountants and lawyers. Headline rents for Grade A properties in Glasgow and Edinburgh are expected to break through the £30 per sq.ft barrier this year, albeit this is with the aid of rent free incentives of around eighteen months. The investment market is quiet, with little stock on the market and a continuing mismatch between buyer and vendor expectations.

Change in Office Rents as at March 2008



Prime Office Rents as at March 2008

	Rental Level		Pa Growth		Short Term Trend
	£ sq.ft/yr	€ sq.m/yr	5 year	1 year	
Croydon	22.00	299	1.9	4.8	Stable
Reading	28.50	388	3.5	14.0	Stable
Manchester	30.00	408	4.1	5.3	Stable
Birmingham	32.50	442	4.6	0.0	Stable
Bristol	28.50	381	5.9	3.7	Stable
Leeds	26.00	354	5.4	0.0	Stable
Newcastle	22.00	299	4.1	10.0	Stable
Cardiff	20.00	272	3.3	5.3	Stable
Edinburgh	29.00	394	0.7	7.4	Stable
Glasgow	27.50	374	3.6	1.9	Stable

Prime Office Yields as at March 2008

	Yield Level		10 yr record		Short Term Trend
	Current Qtr	Last Qtr	High	Low	
	Croydon	6.25	6.00	7.75	
Reading	6.00	6.00	7.25	5.00	Stable/Up
Manchester	6.00	6.00	7.25	4.50	Stable/Up
Birmingham	6.00	6.00	7.25	4.50	Stable/Up
Bristol	6.00	6.00	7.50	4.50	Stable/Up
Leeds	6.00	6.00	7.50	4.75	Stable/Up
Newcastle	6.00	6.00	7.50	4.75	Stable/Up
Cardiff	6.00	6.00	7.50	5.00	Stable/Up
Edinburgh	6.00	6.00	6.50	4.50	Stable/Up
Glasgow	6.00	6.00	6.75	4.50	Stable/Up

CENTRAL LONDON OFFICES

The Central London office market clearly slowed in the first quarter of this year, with a decline in take-up and signs of rising availability across most of the market.

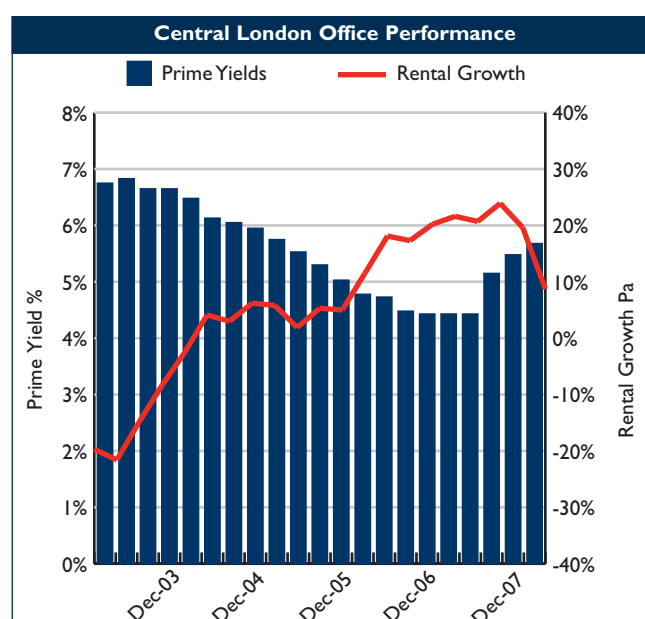
In 2007, the West End was relatively untouched by the fall-out from the ongoing troubles of the financial sector, but Q1 saw a reduction in take-up of around 20% on a year earlier to around 0.8 million sq.ft. Nonetheless, availability is still tight at 3.6 million sq.ft, with vacancy remaining low at 3.7%, despite a marked increase in development completions of almost half a million sq ft.

The occupational market in the City continues to experience the greatest impact, given its dependence on financial services. Q1 take-up was up slightly on the very subdued Q4 but down sharply on Q3 and Q2 last year, reflecting the increasingly cautious mood among occupiers as they scale back on expansion and, in the worst cases, plan headcount reductions. A number of large developments due for completion this year remain without a full complement of tenants. There is a reasonable level of tenant demand in the 5-30,000 sq.ft size bracket and, whilst there are some larger requirements, these occupiers are generally holding out for lower rents which may fall by as much as 15% to around £55 per sq.ft over 2008/9.

In the investment market, the prime City office yield moved out by 25 basis points to 5.50% in the first quarter and the trend is still weak. Few deals have been done this year, although German investors are in the market for stock priced at 5.75% and above. The secondary market has yet to see a sufficient correction and there are still a number of properties being offered on a short lease or off-pitch with little growth potential which is not reflected in asking prices. In the West End, the market has proved more resilient, with the prime yield stable at 4.75%, but activity has again been very limited.

In the short term, the City market is expected to remain subdued until there is greater stability in the banking sector. However, while moving towards a tenants' market, there is currently little evidence that there will be marked oversupply, as there was in the early 1990s and following the end of the dot.com boom. Future development is being reduced - with most schemes not progressing speculatively - and whilst availability will rise if the most negative forecasts of job losses are realized and surplus space starts coming back to the market, at present, job cutting programmes appear to be progressing at a slow pace and no glut of sub-let availability is currently on the horizon.

The West End should continue to be supported by its diverse tenant base and low vacancy rates, with limited new development in the next 2-3 years. Furthermore tenant demand for pre-lets is still good, given the lack of modern space available. Short term rental growth prospects are nonetheless weak and the risk of rental falls in some sub-markets and on Grade B space has increased.



Prime London Office Rents as at March 2008

	Rental Level		Pa Growth		Short Term Trend
	£ sq.ft/yr	€ sq.m/yr	5 year	1 year	
Mayfair	130	1,768	14.0	18.2	Stable
Victoria	67.50	918	6.2	3.8	Stable
City Core	60	816	3.7	-7.7	Stable
City Fringe	42.50	578	5.5	0.0	Stable
Holborn	60	816	8.4	9.1	Stable
Paddington	55	748	6.6	10.0	Stable

Prime London Office Yields as at March 2008

	Yield Level		10 yr record		Short Term Trend
	Current Qtr	Last Qtr	High	Low	
Mayfair	4.75	4.75	5.75	3.50	Stable/Up
Victoria	5.50	5.25	6.25	4.25	Stable/Up
City Core	5.50	5.25	6.25	4.25	Stable/Up
City Fringe	6.50	6.25	8.00	5.00	Stable/Up
Holborn	5.50	5.50	7.00	4.50	Stable/Up
Paddington	5.75	5.50	7.75	4.75	Stable/Up

Office Supply & Demand

	Supply (mn sq.ft)			Take Up (mn sq.ft)		
	Sep 2007	Dec 2007	Mar 2008	Q3 2007	Q4 2007	Q1 2008
City & Docklands	8.63	7.31	7.32	2.69	1.33	1.69
West End	3.46	2.99	3.51	0.98	1.15	0.74
Thames Valley	3.41	2.95	3.19	0.54	0.52	0.71
Edinburgh	1.73	1.59	1.52	0.13	0.26	0.22
Glasgow	1.54	1.71	1.83	0.23	0.25	0.21

RETAIL & LEISURE

Behind a general view that consumers are tightening their belts, recent retail sales data has been somewhat contradictory - to the point where the British Retail Consortium felt obliged to issue a press release expressing disagreement with the March official figures. Data from the BRC for February and March showed weak growth, most notably for large ticket items and home-related products, in line with the continuing slowdown in the housing market. The April data worsened further, with the annual rate of growth negative for the 2nd successive quarter (-1.5% on a like-for-like basis). ONS figures for April meanwhile show a more robust picture, with the annual rate of volume growth reaching 4.8%. While the story on volumes may be confused, there appears little doubt that margins are under pressure and there is clear evidence that retailers are experiencing increasingly tough conditions. Several have gone in to administration in recent weeks or are apparently on the verge of doing so and a number of operators have reportedly asked landlords to revert to monthly rather than quarterly rental payments.

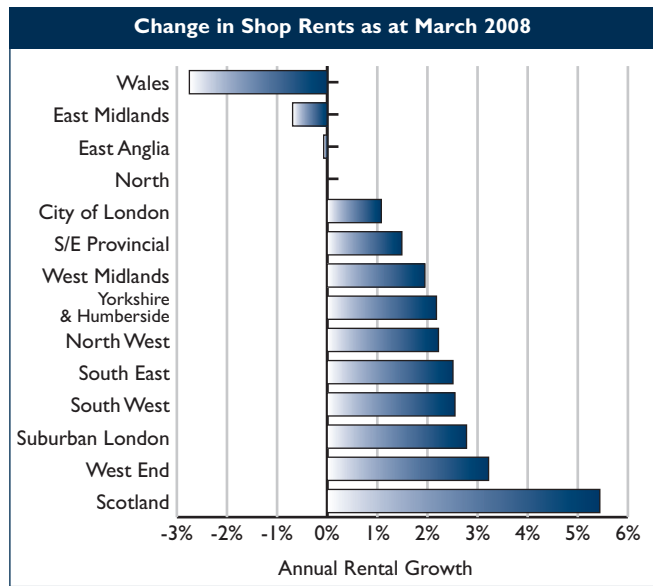
The Shops Market

High street rental growth is slowing but was still above 2% over the year to March. The occupational market remains challenging but there are still reasonable requirements from a number of expanding retailers, while the leading department store operators will still anchor good schemes. At the same time however, there are disposal programs also being conducted, including by a number of travel agents.

The investment market has seen very limited turnover in recent months meanwhile. There remains demand for small deals from the private market but, above £5mn, demand is limited to those who are seeking exceptional value. Currently, vendors are not willing to sell at the pricing on offer and activity is expected to remain subdued until at least the summer, given this mismatch between vendors' aspirations and purchasers' requirements. The tone on yields has been for a general 0.25% outward shift since December, although some smaller market towns are holding up better than bigger cities. Prime shop yields in the largest cities are still at 5.25%, albeit there are one or two exceptions where yields have drifted up because of supply issues.

Shopping Centres

There is reasonably good occupational demand, albeit highly deal driven and very dependant on incentives, with some shopping centre landlords doing turnover deals in order to fill vacant units. Headline rents are holding firm for the best schemes. The prime shopping centre yield softened for the third successive quarter to 5.25%, with yields on smaller schemes also softening by 25 basis points. Whilst there is potentially strong investment demand for shopping centres, transaction volumes in Q1 were well down on the previous quarter and, indeed, on a year earlier. Only nine deals were completed in Q1 (totalling £275mn), compared with 21



Note: Zoning bases differs between cities	Rental Level		PA Growth		Short Term Trend
	£ sq.ft/yr	€ sq.m/yr	5 year	1 year	
London-West End	725	5,873	8.8	0.0	Stable
London-City	260	1,623	0.8	0.0	Stable
London-Croydon	265	1,655	4.8	-1.9	Stable
Manchester	325	2,194	1.6	0.0	Stable
Birmingham	320	1,998	3.1	0.0	Stable
Bristol	200	1,356	3.3	8.1	Stable
Leeds	315	2,126	2.8	3.3	Stable
Newcastle	325	2,029	0.0	0.0	Stable
Cardiff	300	1,873	3.7	0.0	Stable
Edinburgh	235	2,181	1.3	17.5	Stable
Glasgow	268	2,488	4.0	0.0	Stable

	Yield Level		10 yr record		Short Term Trend
	Current Qtr	Last Qtr	High	Low	
London-West End	3.75	3.75	5.50	3.50	Stable
London-City	5.25	5.25	6.00	4.75	Stable
London-Croydon	5.50	5.25	6.25	4.25	Stable
Manchester	5.25	5.00	6.00	4.25	Stable
Birmingham	5.25	5.00	6.00	4.25	Stable
Bristol	5.50	5.25	6.25	4.50	Stable
Leeds	5.25	4.75	6.00	4.25	Stable
Newcastle	5.00	4.50	6.00	4.00	Stable
Cardiff	5.25	5.00	6.00	4.00	Stable
Edinburgh	5.50	5.25	6.00	4.00	Stable
Glasgow	5.00	5.00	6.00	4.00	Stable

RETAIL & LEISURE

deals (£1.25bn) in Q1 2007 and 15 deals (£825mn) in Q4 2007. There has also been a decline in the number of schemes on the market, as vendors fear that sale prices will not match what they see as "fair value".

Recent months have been dominated by medium-sized deals of up to £60mn, giving an indication that the reduced availability of finance is having an impact. Major deals included the acquisition of the Vicar Lane shopping centre in Chesterfield by a private investor for £60.5mn, JP Morgan/Kirkstone's purchase of the Old Market shopping centre in Taunton for £51mn and La Salle Ventures Fund's acquisition of the Coppergate shopping centre in York for £43mn. Only a handful of deals are currently in the pipeline and there is unlikely to be an immediate increase in the amount of stock on the market.

Out of Centre Retailing

Whilst market conditions remain tough for many retail warehouse operators, leasing deals are being done, predominantly in the open AI rather than bulky goods sector. Nonetheless, situations where occupational demand can be used to generate significant rental growth and positive premiums are currently limited. In fact, while rents generally are stable, vacancy rates have increased in some locations leading to localised rental falls.

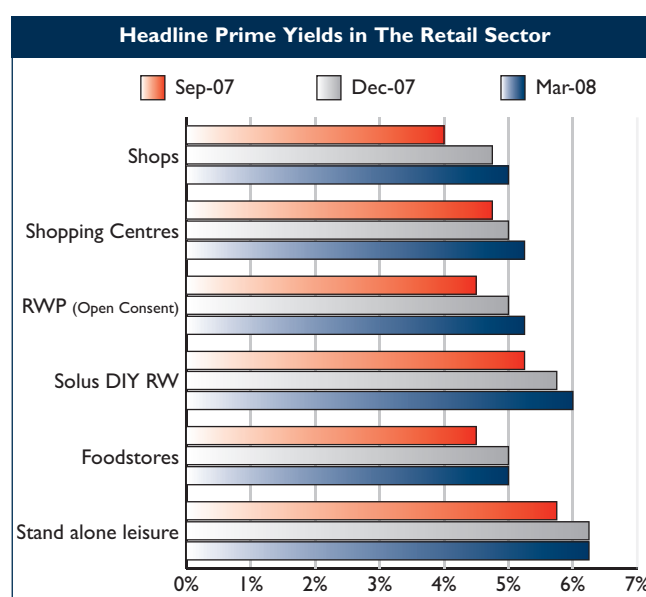
In the investment market, after a sustained period of weakness and limited activity, there are signs that, at least relative to the others sectors, retail warehousing is gaining favour. However, prime yields for bulky goods schemes softened from 5.75% to 6.00% over the first quarter, whilst prime yields for open consent parks remained stable at 5.25%.

Going forward, it is clear that landlords need to continue to innovate to compete and draw in retailers and shoppers. For example, more are ready to incorporate a broader range of leisure elements in order to maximise their schemes' appeal.

Leisure

The leisure sector has generally been on-hold in recent months, following the easing in consumer spending and the general slowdown in the economy. The sector has been getting to grips with the smoking ban, higher taxes on alcohol and changes to gaming legislation. The 2005 Gaming Act Casino Order was passed in the House of Lords on 15th May, following which the 16 Local Authorities can now start the process of awarding the new large and small casino licences.

The March prime leisure yield remained unchanged on December at 6.25%, indicating that the worst of the fall in capital values may be over and that prices may now be stabilising. However, investment activity has focused primarily on hotels, with virtually no major transactions of what might be called "traditional" leisure property in the first quarter.



Prime Retail Warehouse Rents as at March 2008

	Rental Level		PA Growth		Short Term Trend
	£ sq.ft/yr	€ sq.m/yr	5 year	1 year	
London (Croydon)	35	470	0.0	0.0	Stable
Manchester	25	336	0.8	4.2	Stable
Birmingham	30	404	3.7	13.2	Stable
Bristol	26	350	1.6	8.3	Stable
Leeds	30	404	2.1	7.1	Stable/Up
Newcastle	26	350	5.4	4.0	Stable
Cardiff	25	336	2.1	-3.9	Stable
Edinburgh	25	470	0.0	16.7	Stable
Glasgow	25.5	543	5.0	0.0	Stable

Prime Yields as at March 2008

	Yield Level		10 yr record		Short Term Trend
	Current Qtr	Last Qtr	High	Low	
Shopping Centres	5.25	5.00	6.25	4.50	Stable/Up
RWP Bulky Goods	6.00	5.75	6.00	4.50	Stable/Up
RWP Open Consent	5.25	5.25	5.75	4.00	Stable
RWP Fashion	5.25	5.00	5.50	3.75	Stable/Up
Solus DIY RW	6.00	5.75	6.75	4.50	Stable/Up
Foodstores	5.00	5.00	6.00	4.25	Stable
Stand Alone Leisure	6.25	6.25	7.50	5.25	Stable

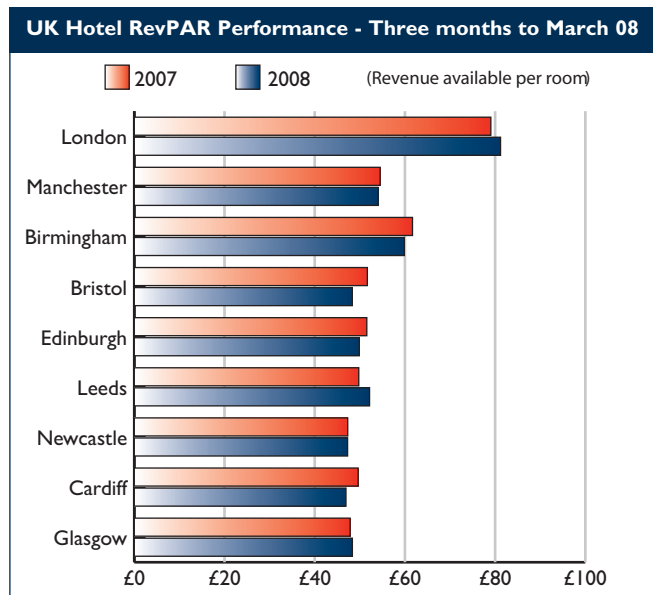
HOTELS

In line with the commercial real estate market generally, the hotel investment market has been subdued during the first quarter of 2008. The largest deal in the first three months of the year consisted of International Hotel Investment's £130mn acquisition of the Metropole Hotel at Whitehall Place in London from the Crown Estate, which will be developed in to a 5-star, 283-bedroom hotel with luxury residential accommodation. In a similar vein, the Alrov Group, an Israeli investment company, has acquired the Café Royal on Regent Street, for the reported figure of £90mn, with plans to develop a 160-room luxury hotel. In common with other major European cities, investment demand for quality hotel assets in strong locations in the capital remains strong.

Overseas tourist numbers remained robust in 2007, with the seasonally adjusted number of visits to the UK by overseas residents increasing by 3% in the final quarter, compared with the previous three months, to 8.3 million. Tourist expenditure figures were also positive, with spending by overseas residents on visits to the UK also increasing by 3% to £4.2bn. For 2007 as a whole, the number of visits by overseas residents to the UK rose by 1% to 32.9 million. Visits by Europeans rose by 2% (to 23.8 million), whilst the number of visits by North Americans fell markedly by 6% (to 4.5 million) and visits from other parts of the world remained unchanged (at 4.6 million).

London is expected to witness further hotel development activity in the run-up to the Olympics, which is acting as a strong catalyst for regeneration. Indeed, hotels form a major component of many of the large development projects currently underway. There are around fifteen mixed-use developments with significant hotel elements which, upon completion, will provide a further 6,000 rooms to augment the current figure of around 100,000. The largest developments are at Stratford and King's Cross and these will include at least eight hotels in what are among the largest regeneration projects in Europe.

A number of major hotel operators are continuing to seek



Source: TRI Hospitality Consulting

sites in the capital meanwhile. Travelodge are known to be seeking numerous sites around London and Whitbread for example has committed to spending £100mn to open six new hotels with a total of 1,200 bedrooms in London over the next three years. Three of the new hotels concerned have recently been acquired from the Real Hotel Company for £18.5mn, namely the Quality Hotel in Westminster, the Comfort Inn in Kensington and the Purple Hotel in the City. In addition, three new Premier Inns will be developed in Greater London in Waterloo, Ealing and Old Street in the City by 2011. A number of luxury hotel operators, including Kempinski and Waldorf Astoria, are also seeking sites in central London.

Major UK Hotel Transactions (Portfolio & Single Asset) Q1 2008

Hotel	Rooms	Price	£ Per room	Buyer	Vendor
Hotel Silken	137	£116,541,000	£850,664	Losan Hotels World	-
3 x Choice Hotels	395	£18,580,000	£47,038	Whitbread	Real Hotel Company
3 x Bridgehouse Hotels	189	£27,500,000	£145,503	Hand Picked Hotels	Bridgehouse Hotels
Carton Court	22	£8,000,000	£363,636	Private Investor	Sunterra Europe Group Holdings
The Point Hotel	139	22,000,000	£158,273	EBH	WG Mitchell Group

Note: The information presented in this table is based on publicly available reports. Therefore no warranty is made for its accuracy.

RESIDENTIAL

The housing market continues to experience a considerable degree of uncertainty, amid a reduction in the availability of mortgage finance and increasing evidence of falling values. Indeed, Nationwide and Halifax house price data for April showed annual price falls of 1% and 0.9% respectively. Whilst the Bank of England's planned £50bn liquidity boost and April's cut in the base rate should make things easier for some homeowners, early indications are that the impact on general mortgage costs and availability will take some time to come through and, as a result, the outlook is more pessimistic than for some time.

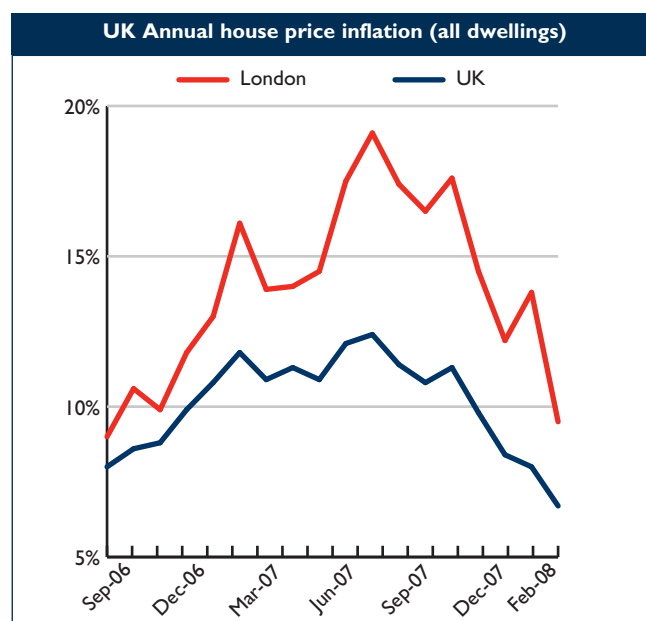
A major feature of recent months has been the rush by numerous mortgage providers to boost the quality of their loan book and overall margins through restricting the number of products available to borrowers, raising interest rates on key mortgages and charging higher fees. It is estimated that the total number of mortgages available on the market has fallen from around 15,600 to around 5,700 in the last 7-8 months.

Going forward, the Bank of England's latest credit conditions survey is somewhat pessimistic about the next few months.

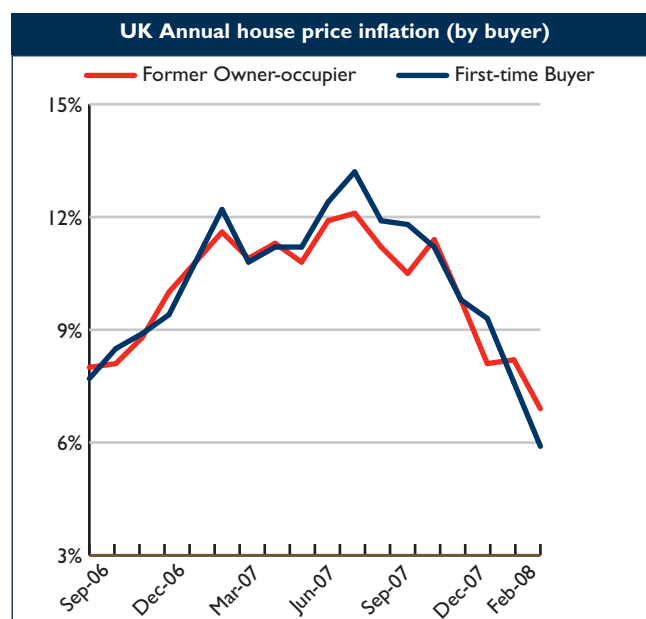
The balance of lenders expecting to cut the amount of secured credit available to households and small businesses increased sharply to 42.5% in March, up from 25.3% in December. This is likely to impact further on demand for housing and therefore house prices.

In terms of trading volumes, activity has slowed dramatically, with the latest RICS data showing a 40% increase in the amount of unsold property on surveyors' books since September 2007. New construction is slowing down however. The Q1 construction market survey by the RICS reported growth in construction workloads at its lowest for more than a decade, with the private housing sector worst hit. Some analysts predict that if the current level of construction continues for the next few months, there will be a serious shortfall in the government's annual target for new homes, which is currently 240,000.

In the buy-to-let market, the picture is somewhat mixed. On a positive note, figures from the Council of Mortgage Lenders suggest that buy-to-let lending amounted to £24.1 bn in the second half of 2007, up from £21.2 bn in the first half. Tenant demand also remains strong - no doubt reflecting in part the increased difficulty in getting on the housing ladder. According to mortgage provider Paragon, rental income increased by 2.5% in December, bringing the annualised rate to 19.4% - the fastest growth since 2001. On the other hand, however, there is increasing evidence of a more serious slowdown in certain parts of the market, notably for new apartments in some of the larger cities where there has been significant development and many such properties are failing to sell. The recent change to capital gains tax, combined with the softening in prices, may prompt some buy-to-let investors to cut their losses by disposing of badly performing property.



Source: Department for Communities & Local Government



Source: Department for Communities & Local Government

RENT AND YIELD DATA BY REGION

March 2008											
Rental Growth	EA	EM	N	NW	S	SE	SW	W	WM	YH	GB
Retail											
Base	7.2%	7.1%	6.5%	7.0%	6.1%	6.8%	6.9%	6.5%	7.0%	7.5%	6.8%
10 Years	2.2%	2.7%	1.8%	2.1%	2.4%	3.5%	2.4%	2.4%	2.6%	3.5%	3.0%
5 Years	2.2%	1.6%	1.1%	1.7%	2.5%	3.2%	3.3%	1.8%	3.5%	3.3%	2.9%
1 Year	-0.1%	-0.7%	0.0%	2.2%	5.4%	2.5%	2.5%	-2.7%	1.9%	2.2%	2.1%
1 Qtr	-0.8%	-0.7%	0.0%	1.1%	0.0%	1.7%	2.1%	0.0%	-0.5%	0.0%	1.1%
Office											
Base	6.5%	7.1%	7.3%	7.1%	6.8%	6.5%	7.1%	6.0%	7.6%	5.9%	6.6%
10 Years	2.8%	2.7%	5.4%	3.4%	3.3%	5.2%	3.8%	4.1%	2.5%	3.5%	4.7%
5 Years	1.4%	3.8%	4.1%	4.6%	3.0%	7.7%	4.4%	2.6%	2.4%	5.4%	6.6%
1 Year	8.2%	-1.0%	10.0%	8.1%	4.6%	9.8%	7.1%	3.1%	2.2%	2.5%	8.5%
1 Qtr	8.2%	-1.0%	0.0%	4.7%	0.0%	-0.4%	1.0%	-1.5%	3.7%	3.3%	0.3%
Industrial											
Base	4.9%	5.3%	5.7%	5.2%	5.5%	5.5%	5.5%	5.4%	5.8%	5.3%	5.3%
10 Years	1.9%	1.2%	2.9%	1.6%	4.0%	1.8%	0.9%	2.9%	1.5%	2.5%	1.9%
5 Years	1.3%	0.3%	2.5%	0.9%	4.2%	1.1%	0.9%	2.7%	1.1%	2.2%	1.4%
1 Year	-1.6%	0.0%	0.0%	0.8%	5.2%	0.2%	-0.8%	0.0%	1.8%	-1.2%	0.4%
1 Qtr	0.0%	0.0%	0.0%	0.0%	2.5%	0.2%	-0.8%	0.0%	1.8%	0.0%	0.3%
Average Prime Yields											
Retail											
Mar-07	4.25%	4.42%	4.50%	4.54%	4.25%	4.45%	4.40%	4.50%	4.55%	4.56%	4.46%
Jun-07	4.33%	4.58%	4.69%	4.67%	4.42%	4.45%	4.50%	4.67%	4.70%	4.63%	4.53%
Sep-07	4.67%	4.83%	4.88%	4.92%	4.83%	4.79%	4.80%	5.08%	5.05%	4.88%	4.84%
Dec-07	5.00%	5.17%	5.13%	5.33%	4.42%	5.08%	5.10%	5.42%	5.30%	5.25%	5.16%
Mar-08	5.42%	5.42%	5.50%	5.67%	5.50%	5.27%	5.45%	5.75%	5.60%	5.56%	5.42%
Office											
Mar-07	5.58%	5.58%	4.75%	4.75%	4.83%	5.01%	5.50%	5.00%	5.17%	5.17%	5.09%
Jun-07	5.67%	5.58%	4.75%	4.75%	4.83%	5.01%	5.50%	5.00%	5.17%	5.17%	5.09%
Sep-07	5.67%	6.50%	5.50%	5.38%	5.25%	5.84%	6.38%	5.50%	5.92%	6.08%	5.90%
Dec-07	7.00%	6.75%	6.00%	6.00%	6.00%	6.13%	6.88%	6.00%	6.42%	6.42%	6.26%
Mar-08	7.00%	6.83%	6.00%	6.13%	6.08%	6.24%	6.88%	6.00%	6.42%	6.42%	6.34%
Industrial											
Mar-07	5.83%	5.08%	6.13%	5.50%	5.75%	5.37%	5.80%	5.92%	5.55%	5.69%	5.59%
Jun-07	5.83%	5.33%	6.13%	5.50%	5.58%	5.37%	5.80%	5.92%	5.65%	5.69%	5.61%
Sep-07	6.25%	5.83%	6.75%	6.00%	5.92%	5.77%	6.20%	6.50%	6.15%	6.25%	6.07%
Dec-07	6.50%	6.08%	7.00%	6.42%	6.75%	6.18%	6.60%	7.00%	6.60%	6.63%	6.49%
Mar-08	6.83%	6.58%	7.38%	6.67%	6.75%	6.57%	6.90%	7.50%	6.95%	6.88%	6.82%

Geographical Key for all Graphics

EA = East Anglia
 EM = East Midlands
 N = North
 NW = North West
 S = Scotland
 SE = South East
 SE (ex-L) = South East (ex London)
 SW = South West

W = Wales
 WM = West Midlands
 Y&H = Yorkshire & Humberside
 WE of L = West End of London
 SL = Suburban London
 C of L = City of London
 GB = Great Britain

TECHNICAL SPECIFICATION

The data contained in this report relates to prime property. For each location and sector a standard definition is employed to ensure that the results are comparable and agency teams are asked to give their opinion of the prevailing level of rents & yields in the light of recent evidence and trends in each market. Please note that the composition of the samples used are subject to revision in order to reflect any changes in the wider market and consequently this may lead to adjustments being made to historical data.

Prime properties are located in the best position within a monitoring point, are built, designed and maintained to the highest standards then applicable. They are of the most marketable size and design and are let to tenants of unquestionable covenant on modern lease terms. Whilst such properties will in general command the most competitive terms, the data collected is not necessarily the highest rent achieved or the lowest yield over the period. The figures do not reflect deals achieved on certain properties that by virtue of their size, location, or quality are subject to exceptional demand, or to deals in which other pertinent facts specific to the individuals concerned, may merit a different rent or capital value. These figures represent the opinion of Cushman & Wakefield on the tone of the market for the best properties. Further information on the samples used, calculation methods and standard units can be obtained from Cushman & Wakefield European Research Group.

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- Location analysis, ranking and targeting for occupation or investment
- Future development activity and existing supply/competition
- Demand analysis by retail/industry sector
- Rental analysis, forecasts & investment & portfolio strategy
- Floorspace audits, tenant-mix assessment & catchment/expenditure analysis
- Retailer, occupier and consumer surveys
- Pedestrian flow analysis & local employment studies

For further information on research and its services in the UK or across the world, please contact:

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RESEARCH PUBLICATIONS



RESEARCH REPORTS

SNAPSHOTS

One page summary including rent and yield information on various European countries for the Office, Industrial, Retail and Economic sectors. Countries covered:

- | | | |
|-----------------------|----------------|-----------------------|
| <i>Austria</i> | <i>Belgium</i> | <i>Bulgaria</i> |
| <i>Czech Republic</i> | <i>Denmark</i> | <i>Finland</i> |
| <i>France</i> | <i>Germany</i> | <i>Greece</i> |
| <i>Hungary</i> | <i>Ireland</i> | <i>Italy</i> |
| <i>Netherlands</i> | <i>Norway</i> | <i>Poland</i> |
| <i>Portugal</i> | <i>Romania</i> | <i>Russia</i> |
| <i>Slovakia</i> | <i>Spain</i> | <i>Sweden</i> |
| <i>Switzerland</i> | <i>Turkey</i> | <i>United Kingdom</i> |

MAIN STREETS ACROSS THE WORLD

A detailed analysis of retail property rental performance across the globe in the twelve months to June 2006.

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