

UK Monthly Index

AUGUST 2008

All UK Property Values Fall 1.9% in July

Rental Conditions Deteriorate

- All Retail recorded the first monthly fall in rents since May 2001. With the office sector also showing negative monthly rental movements, All Property year to date rental growth is just 0.2% as of July.
- Further outward yield adjustments means that All Property capital values are now 20% lower since their peak in June last year.
- Property is the weakest performing asset class on an annual basis, returning -15.4% against -13.3% and 7.7% respectively for equities and benchmark gilts.

UK Interest Rates Held At 5%

- UK CPI rose to 3.8% in June, nearly twice the government target. However, fears relating to the health of the economy ensured the BoE left the base rate untouched.
- Following an output estimate of just 0.2% in Q2, anecdotal survey evidence indicates a further softening in manufacturing and service sector activity.
- Retail sales plummeted in June as consumer confidence, battered by rising energy and food prices, hit an all time low.
- Expectation of future interest rate cuts have seen the 5 yr swap ease 70 basis points to 5.4% since June. 10 yr gilts are now 4.7%, from 5.1% last month.

MARKET BACKGROUND

Waning investor interest and mounting fears for occupier demand as the economy slows, has lead to a re-acceleration of monthly capital value falls. All Property capital values fell 1.9% in July, the largest monthly decline since January, and takes the year to date correction to -9.2%. The CB Richard Ellis equivalent yield now stands at 7%, up from 6.4% at the end of 2007.

Compounding the yield impact, All Property monthly rental values fell -0.1% in July for a third consecutive month. At 1.8%, annual All Property rental growth is now at its weakest rate since December 2005. The All Property total return was -1.4% in July, and -6.1% y-to-date.

The debt environment for commercial property, which will have benefited from the recent fall in swap rates, remains very challenging. As bank lending standards have tightened, lease length and covenant strength have become increasingly important.

INVESTMENT MARKET RETURNS (END JULY)

	% Year-on-Year	
	Total Return	Capital Growth
Property	-15.4	-20.0
Equities	-13.3	-16.4
Gilts	7.7	2.8

Source: CB Richard Ellis, EcoWin

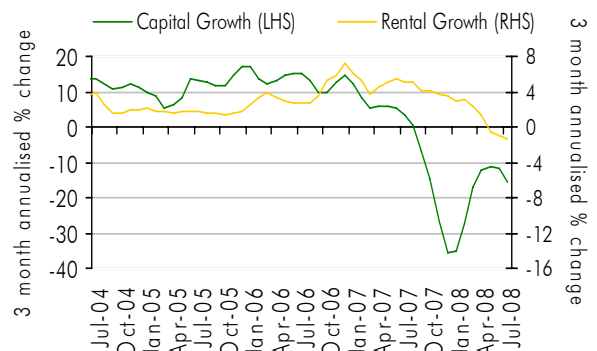
CB RICHARD ELLIS SHORT TERM INDICATORS

Sectors	Capital %	Rental %
Offices	-18.4	-5.2
Central London Offices	-19.5	-9.2
Standard Shops	-10.9	-0.5
Retail Warehousing	-16.2	0.2
Industrial	-14.5	1.2
All Property	-15.8	-1.4

Source: CB Richard Ellis Index July 2008.

The CB Richard Ellis Short Term Indicator is a three-month annualised average of capital and rental growth

ALL PROPERTY SHORT TERM INDICATORS



Source: CB Richard Ellis Index, July 2008

OFFICES

In July, All Offices suffered their largest monthly price correction so far this year, with a further 2.1% decline in capital values taking the year-to-date fall to -9.3%. This large negative yield impact is reflective of a quiet investor market, coupled with a deteriorating occupier outlook, especially in Central London offices. Rents in the capital fell -0.6% in July, the fourth consecutive monthly decline, taking All Office rents down -0.5% this year. Outside Central London in the Outer London/M25 and Rest of UK office market, whilst year-to-date rental growth is a meagre 0.6% and 0.5% respectively, rents are yet to turn negative on a monthly basis.

The uncertainty in financial and business services has led to a sharp slowdown in rental performance. Annual All Office rental growth in July was just 2.6%, having moderated from 10.7% this time last year. The largest reversal in rental conditions have occurred in Central London offices, whereby present annual rental growth of 3.8% is a stark comparison to 15% recorded at the start of 2008.

In light of these rental and capital downgrades, All Offices have returned -6.3% in the first seven months of this year. Annual All Office capital and total returns are -21.4% and -17.2% respectively.

RETAIL

All Retail monthly rental values fell -0.1% in July – the first recorded monthly fall since May 2001. This largely reflected High Street shop rents falling 0.3% over the month, although year-to-date shop rental growth remains positive at 0.7%. Retail Warehouses have recorded zero rental growth so far this year.

All Retail capital values fell 1.7% in July. This was the largest monthly adjustment since January, and dragged All Retail values down -8.7% in the year-to-date. The biggest contributor to this repricing has been the Retail Warehouse sector, with values having suffered a further 2.1% decline over the month, now 10.2% lower than the start of the year. Echoing fears aligned to the consumer economy, there has been an acceleration in monthly capital value declines across High Street shops. Values fell -1.4% in July, and have now contracted -7.9% in the year-to-date.

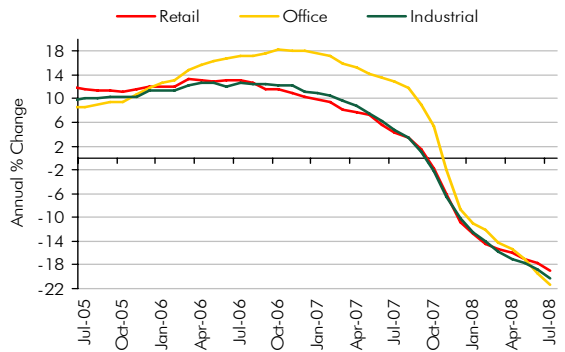
Overall, All Retail property has returned -5.6% so far this year, -14.3% annually. Retail Warehouses are the weakest performing sector on an annual basis, with capital growth and total return of -23.9% and -19.6% respectively.

INDUSTRIAL

Following a further 2% decline in capital values during July, Industrials have now suffered the largest market correction in the year to date at -10.3%. This is reflective of the Industrial equivalent yield softening 80 basis points to 7.7%, contributing to a year to date total return of -6.7%.

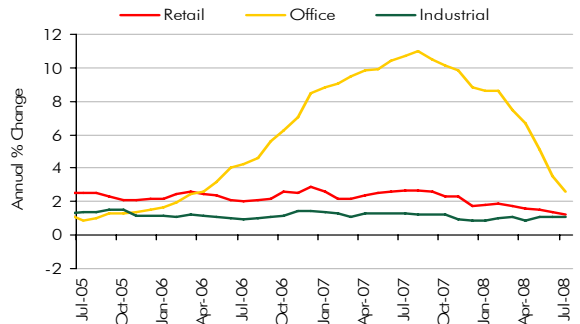
With the wider concerns to the economy, and the surge in input costs, rents remained flat over the month, with annual rental growth just 1.1%. Annual industrial capital growth and total returns was -20.2% and -14.9% in July.

CAPITAL GROWTH



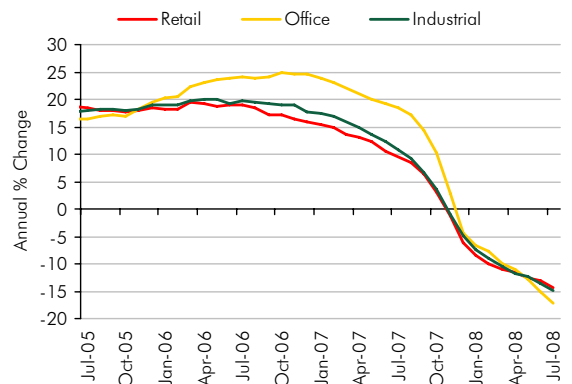
Source: CB Richard Ellis Index, July 2008

RENTAL GROWTH



Source: CB Richard Ellis Index, July 2008

TOTAL RETURN



Source: CB Richard Ellis Index, July 2008

ECONOMICS AND INVESTMENT MARKETS

US, Eurozone and UK interest rates were left unchanged in August as central banks struggle to control surging inflationary pressures and softening economies. Across the Atlantic, there are heightened fears of a recession as unemployment hit a four year high, and consumer prices rose at their fastest monthly rate in 11 years, although oil prices have receded from their mid-July high. In the UK, the economic climate also continues to deteriorate with early projections of Q2 output just 0.2%, following similar weak growth of 0.3% in Q1. This suggests that the latest IMF forecast of UK growth of 1.4% this year may prove somewhat challenging.

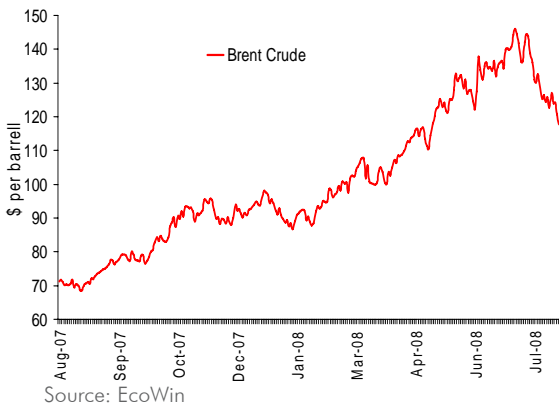
The slowdown in the UK economy is highlighted in the latest CIPS surveys, which reported that both services and manufacturing activity in June was at its lowest level since Q4 2001. The contraction in service sector activity is unsurprising given the on-going, and well documented troubles in the financial world, with further bank write-downs hampering profitability. The latest CBI survey of manufacturers' fortunes also paints a gloomy picture of trends in the industrial sector, with rising production costs and weakening demand dragging down output.

The UK housing market continued to slide in July, with mortgage approvals reaching new lows and house prices now 8% lower than a year ago according to the Nationwide index. With CPI inflation rising to 3.8%, following the increases to energy, food and utility bills, and the general concerns regarding the state of the UK economy, consumer confidence now stands at a level not recorded since the early '90s recession. This weakness was illustrated in the June retail sales figures, which after the surprise May rise, recorded the largest monthly decline since the series began in 1986.

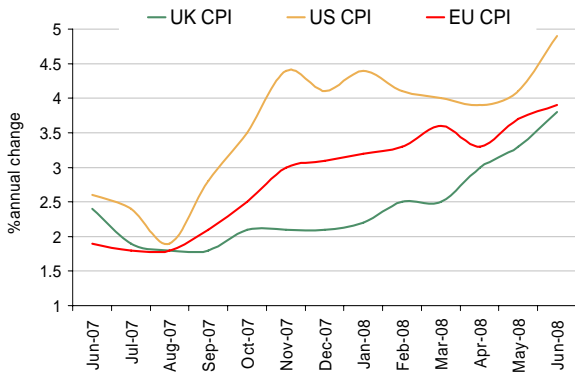
Data from the Bank of England revealed that bank lending to UK property companies fell significantly to £6.8bn in the three months to June, 25% down on the Q1 total of £9.1bn. This in large reflects the continued tightening of lending standards, and the more selective availability of debt in financial markets. However, on a more positive note, in anticipation that the next move in interest rates may be downwards, UK swap rates have fallen to 5.4%, from 6.1% in June.

Property continues to be the worst performing asset year-on-year, but outperforms equities on the FTSE All Share in the year-to-date. The uncertainty in the equity markets has delivered a return of -14.4% in the first seven months of the year, against -6.1% for property and 0.5% for Gilts .

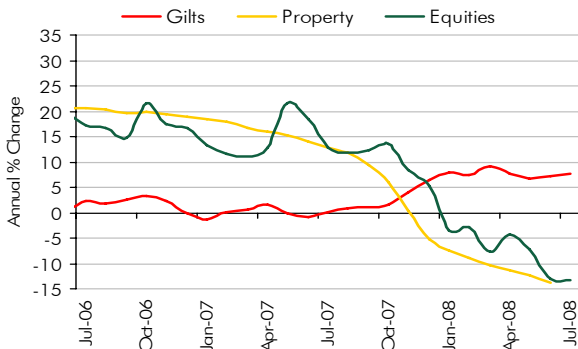
OIL PRICES RECEDING?



GLOBAL INFLATIONARY PRESSURES PERSIST



INVESTMENT MARKET RETURNS



PROPERTY INVESTMENT YIELDS, AUGUST 2008

	Equivalent Yields % August 2008		Equivalent Yields % August 2008
Prime Retail	5.35	Offices: West End	5.00
Good Secondary Retail	6.65	Offices: City	6.00
Secondary Retail	7.50	Offices: M25/South East	6.50
Prime Shopping Centres	5.65	Offices: Major Provincial	6.25
Secondary Shopping Centres	7.00	Offices: Secondary	8.25
Retail W/H: Prime – restricted user	6.65	Prime: Distribution Unit	6.75
Retail Parks: Prime – open user	5.35	Prime Industrial Estate (Greater London)	6.50
Retail Parks: Prime – restricted user	6.50	Prime Industrial Estate (Ex Greater London)	7.00
Retail Parks: Secondary	7.50	Older Industrial Estate (20 years old)	8.50
Leisure Centres: Prime	7.00		

Note: Prime yields refer to an equivalent yield for a prime (well specified, well located and rack rented) property let to a financially strong tenant on a lease with a minimum of 15 years unexpired.

CB RICHARD ELLIS MONTHLY INDEX, JULY 2008

Sectors	% , 1 Month			% , Year-to-date			% , 12 Months			Index, Dec 1999=100		
	TR	CG	RG	TR	CG	RG	TR	CG	RG	TR	CG	RG
All Offices	-1.6	-2.1	-0.3	-6.3	-9.3	-0.5	-17.0	-21.4	2.6	202.1	114.3	113.3
CL Offices	-1.7	-2.1	-0.6	-6.7	-9.3	-1.3	-17.3	-20.9	3.8	204.6	119.7	116.4
All Retail	-1.2	-1.7	-0.1	-5.6	-8.7	0.5	-14.3	-18.9	1.2	214.4	128.6	123.9
Shops	-0.9	-1.4	-0.3	-4.8	-7.9	0.7	-12.5	-16.7	2.1	210.8	128.7	122.1
Retail W/H	-1.6	-2.1	0.0	-7.0	-10.2	0.0	-19.6	-23.9	-0.1	217.6	132.9	128.1
Industrial	-1.5	-2.0	0.0	-6.7	-10.3	0.7	-14.9	-20.2	1.1	221.1	120.0	111.7
All Property	-1.4	-1.9	-0.1	-6.1	-9.2	0.2	-15.4	-20.0	1.8	211.2	121.9	117.8

TR – Total Returns, CG – Capital Growth, RG – Rental Growth

KEY ECONOMIC INDICATORS

Monthly Data	M-o-M %	Y-o-Y %
Retail Sales (June)	-3.9	2.2
RPIX (June)		4.8
ILO Unemployment Rate (Apr)	--	5.2
Manufacturing Output (May)	-0.6	-0.8
Base Rates (July)	--	5.00

Source: ONS

Quarterly Data	Q-o-Q %	Y-o-Y %
GDP (Q1 2008)	0.3	2.3
Household Spending (Q1 2008)	1.1	3.0
Business Investment (Q1 2008)	-1.8	4.5

AVERAGE INDEPENDENT FORECASTS FOR UK ECONOMY % change on year earlier, unless otherwise stated

	2008	2009
GDP	1.5	1.1
Private Consumption %	2.0	0.7
Unemployment Q4, mns	0.9	1.0
Manufacturing output %	0.1	0.1
Employment growth %	0.6	-0.2
Inflation % CPI Q4	3.9	2.4
Official Bank Rate Q4 %	5.0	4.4

Source: HM Treasury, Comparison of Independent Forecasts, July 2008

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