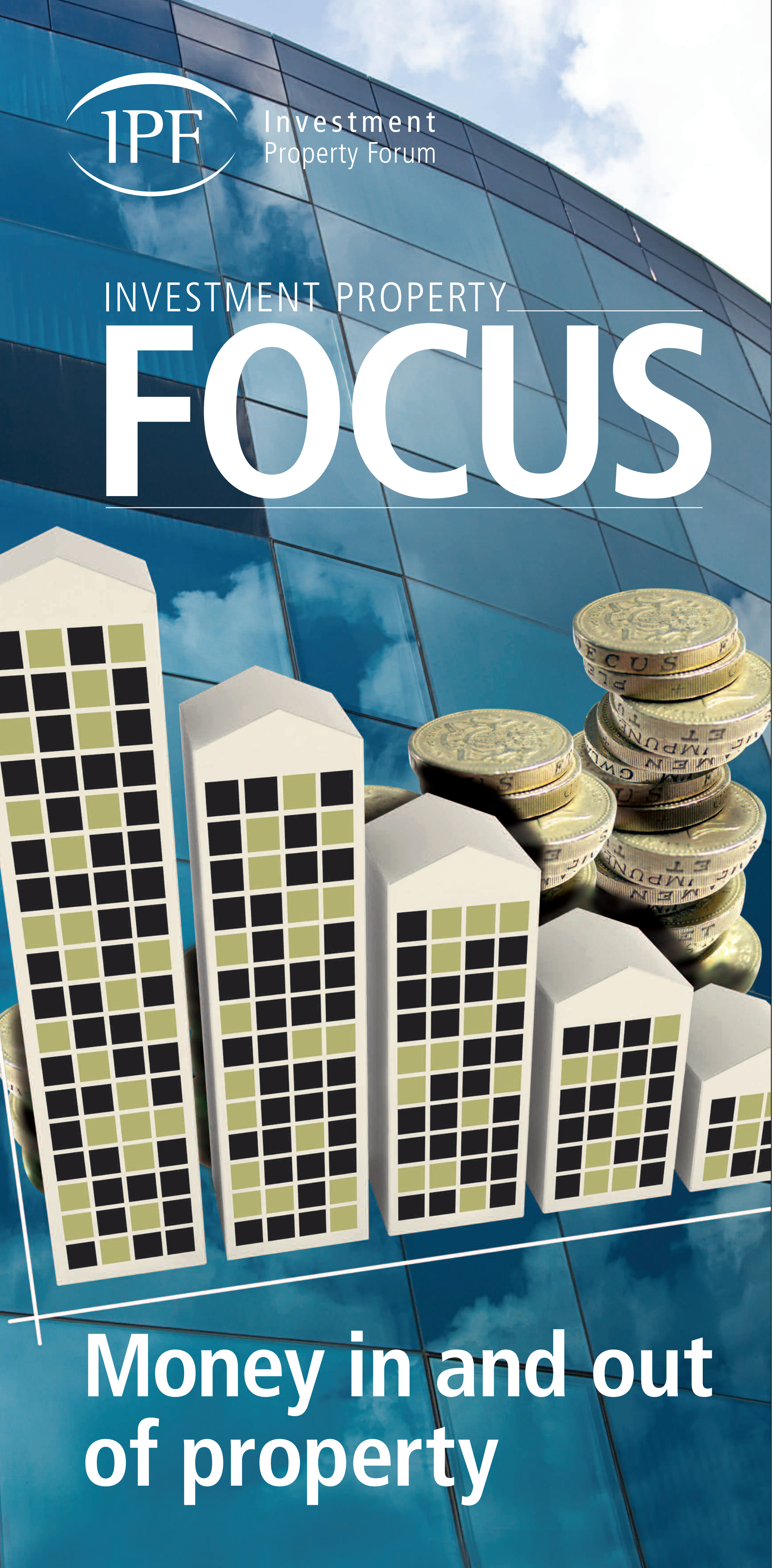

IPF Investment Property Forum

INVESTMENT PROPERTY FOCUS

Money in and out of property

The Journal of the Investment Property Forum
Issue No. 10 | July 2008

In this issue:

IPF Investment Property Forum

20 YEARS OF THE IPF
1988-2008

Midlands Region Dinner 2008

Thursday 16 October 2008 18:30 for 19:30 | Black Tie

International Convention Centre, Broad Street, Birmingham B1

Ticket Price £82.00 + VAT per person (total £96.35 excluding wine and liqueurs)

After Dinner Speaker Phil Hammond

Phil qualified as a doctor in 1987 and still works as a part-time GP and Lecturer in Medical Communication at Bristol University. Having formed 'Struck off and Die' with Tony Gardner in 1990, they have enjoyed three sell-out seasons at the Edinburgh Festival and their Sony Award winning BBC Radio show ran for two series.

Independently, Phil has notched up various presenting credits including five series of 'Trust Me, I'm a Doctor', 'Pulling Power' and 'The Motion Show'; he has been a panellist on 'Have I Got News For You' and 'Call My Bluff', a team captain with Tony Gardner on Channel 5's 'Tibs and Fibs' and he writes a weekly column in The Express newspaper and a monthly column in She magazine.

We are pleased to announce that we are now able to take bookings for the Investment Property Forum Midlands Region Annual Dinner 2008. A highlight in the Midlands property calendar, this hugely popular event forms part of our 20th Anniversary celebrations and in order to avoid disappointment, please book your tables ASAP. IPF members may reserve tables for the dinner by completing a booking form and returning it with payment, as soon as possible. Tables will be for ten – all business associates and colleagues are welcome. Individual bookings can also be made and, in this case, please indicate if you wish to join a table with specific people.

Please note that wine orders, hosted bars and special dietary requirements must be arranged directly with the International Convention Centre. Contact details for the ICC will be supplied on confirmation of your booking together with guest invitations. Due to the popularity of this event and the limited capacity of the venue, the number of tables which may be booked by any one organisation, is limited to two. Should tables still be available at the end of August, we will review this.

For more information or to book, please contact Ingrid Styles on 020 7194 7923 or email istyles@ipf.org.uk

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ABSTRACT LAND

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From the editor

Sue Forster, Executive Director, IPF

There can be no surprise that this edition of Investment Property Focus is not as upbeat as its predecessors, given that the impact of the credit crunch has been wide reaching and the end is not yet in sight. All the papers included here try to put some measure on where we are at present and then suggest, where appropriate, where we might be heading.

Bill Maxted and Trudi Porter of De Montfort University look at what happened in the debt market during 2007 and present the results of the 10th annual UK commercial property lending market survey. They then go on to look at how the market has moved since the year end. The recorded aggregated value of outstanding debt secured by commercial property rose from £172bn (2006) to £200bn by the end of 2007. However, the impact of the credit crunch meant that loan securitisation into the CMBS market during 2007 was half that of 2006 and this virtually ground to a halt in the second half of the year. The study also recorded the tightening of loan terms with the debt market downturn.

The current position of the banks was discussed at the recent IPF seminar 'Sliding Doors: Money in and out of property', reported by Tim Horsey. Mark Titcomb of Eurohypo said at the seminar that he thought both banks and institutions had some way to go before they regained confidence in the debt market. Although the banks liquidity problem has eased, they now have to face up to their underlying credit risk. Jonathan Short of Internos Real Investors presented a more optimistic perspective on the market, saying that while the opportunity funds were waiting to see markets were going to fall further, core investors like the German funds are back in the market. He also highlighted the total amount that sovereign funds are likely to invest in property. Looking the market from the retail investment funds' perspective, John Cartwright of PRUPIM said that most had recognised the need for the recent price correction and were now expecting the market to move towards a fair value position.

So what will drive property performance going forward? Malcolm Naish of Scottish Widows Investment Partners looks back over 1997-2007 – 'a decade of two halves' – when property fundamentals gave way to yield shifts as the key component of total returns. He argues that we will need to go back to basics and that working the income and income management are likely to prove central to achieving outperformance.

To find out more about retail investor's views on the current market, the IPF Research Programme 2006-09 commissioned two research projects. The results of these are outlined by the IPF's Director of Research, Louise Ellison. The intention is to conduct the online survey of IFAs every four months in order to monitor changing attitudes over time.

Louise is also responsible for the IPF UK consensus survey of property investment market forecasts and the European office market rental forecasts. The latest results from each are presented in this edition. The total UK return forecasts for 2008 have moved down sharply for the third quarter in a row, with capital values expected to continue falling in 2009. The European consensus survey shows expectations of rental growth to have fallen since the last report in November 2007, with the City of London this year being the first major market to show negative and then being joined by London's West End and Madrid in 2009.

To put the current UK property market in context, Peter Culliney and Lena Krivopaltsev of Real Capital Analytics report on property sales volumes across Europe by country and sector during the first quarter 2008. Not surprisingly they found that for virtually all property sectors and most countries there has been a steep decline in transactions. Despite the 61% drop, the UK market still had the largest volume, helped by the $1.9bn sale of Chelsea Barracks for residential development.

So could inflation assist investors with the cost of debt? Angus McIntosh of King Sturge looks at inflationary pressures in the economy and concludes they may be helpful, providing the occupational market does not falter.

While the level of occupancy is dependent largely on the state of the economy, the degree of occupier satisfaction with the products and services provided by UK commercial property industry is down to individual landlords. Sarah Mather of Kingsley Lipsey Morgan presents the results of the second Occupier Satisfaction Index (OCI), sponsored by CoreNet and the Property Industry Alliance, of which the IPF is a member.

This year's survey shows that occupiers are beginning to see the 'green shoots' of change but there is still a substantial way to go. We can but hope that there will be 'green shoots' elsewhere in the market before too long.

At the front of this edition of Investment Property Focus, the new IPF Chairman, Andrew Hynard of Jones Lang LaSalle sets out his thoughts on the Forum's aims for the coming year at a time when, in his words, 'our world of property investment is, to put it mildly, experiencing a bumpy ride'.

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Message from the Chairman

Andrew Hynard, International Director, Jones Lang LaSalle

The past 18 months since I was appointed Vice Chairman have flown by, and here I am representing the Forum in its 20th year, at a time when our world of property investment is, to put it mildly, experiencing a bumpy ride. In this piece, I would like to reflect on some of the themes that have kept the Forum occupied in recent times, touch upon matters of the moment, and outline some key issues for the immediate future.

The IPF is a not for profit members' organisation founded by a small group of investment surveyors in 1988 with the aim of raising the profile and standing of property as an asset class. The Forum has grown steadily over the years and now has over 1,900 members, drawn from the senior ranks of all types of practioners involved with property investment.

Our membership provides an outstanding and wide range of skills that benefit the IPF's nine permanent committees and sub-groups, ranging from research to sustainability to education and CPD. The group which steers overall strategy is the Management Board which currently comprises 21 members, all of whom, as with the other committees, give up their time outside their busy day jobs to contribute to the work of the Forum.

Sadly we say farewell to two outstanding members of the Board who are retiring, and whose massive contribution will be missed – Rob Bould of GVA Grimley and Paul McNamara of PRUPIM. Both have been honoured with life memberships of the Forum, which acknowledge their exceptional commitment to the IPF. Whilst Rob and Paul leave a gap behind, we welcome two new members to the Board, Nick Tyrrell of JP Morgan and Philip Ingman of SPREFS.

The effective working of the Forum is in no small part due to its Executive, the team of eight full and part time professionals in New Broad Street House led by Sue Forster. The appointment of Sue as Executive Director 12 months ago was a significant event at the start of our year, and she has an outstanding group which supports the running and evolution of the Forum in every respect.

It is no surprise that our industry continues to become more complex and the pace of change is relentless. As well as the work done by the special interest groups and committees, we have vibrant regional boards in Scotland, the North and the Midlands. These regions run a series of lectures, workshops, networking events and annual lunches and dinners. As the geography in which our members operate has expanded, so we have recognised the opportunity to address what we offer in terms of an international dimension. This aspect will form one of the themes of the Forum during the current year.

Whilst there were no major industry wide issues, such as REITs during the past year, items which have exercised the Forum's time have included the effect of the credit crunch on property values and the market in general; the impact of changes in legislation regarding empty rates; the development of a liquid and sustainable property derivatives market; and sustainability issues, including the development of a property investment index. The Forum has come of age in every sense, and in this, its 20th year, it has established its position as an informed, independent and respected body.

Having experienced a sustained period of unprecedented growth and returns, the property sector has witnessed a dramatic reversal of fortunes. With the virtual non-existence of debt, and an uncertain economic outlook for the UK, the expectation is that property values and returns will have further to fall. Within such an environment, it is no surprise that transaction volumes have plummeted.

These reduced levels of turnover are impacting on our industry. Job losses are occurring. At the IPF, we are establishing a framework of support for our members who may be made redundant. This will include making evening and breakfast seminars free of charge; launching a job site on the members' section of the IPF website; identifying around 20 senior IPF members across the different specialisations within property investment and finance who are willing to provide informal careers advice to any fellow members; and facilitating self-help groups amongst those members affected. We shall also promote the case for property as an asset class in order to responsibly counter the negative comment which inevitably makes headlines at times such as this.

Much has been achieved, but there is plenty to be done in the coming years. As I step into the shoes of Peter Freeman as Chairman, I am beginning to comprehend the scale of the task. Peter has led the team with clarity of purpose, charm and intellect. He has brought a fresh dimension to the table and we are fortunate to have had him leading us.

Finally, let me acknowledge and thank everyone who puts so much into the operation and development of our Investment Property Forum including the membership, the committees, the Management Board and last, but not least, the Executive.

I shall do all that I can to play my part in the continued success of the Forum.

The UK commercial property lending market

De Montfort University published its tenth research report in May 2008 on the bank lending patterns of the major commercial property lenders operating within the UK. This analysis of the market for the year ending 31 December 2007 is based on the questionnaires sent to 61 lending organisations that had contributed to this research in previous years. Two organisations had withdrawn from the market completely by the end of 2007 but a 100% response rate was received from the remaining 59 organisations (61 lending teams).

Throughout the research, commercial property lending is taken to mean secured lending where the purpose of the loan is for the acquisition, or development, or refinancing of commercial property. It excludes lending to PFI projects. Where reference is made to the commercial property loan books of lending organisations, this is taken as the net exposure to UK commercial property finance (i.e. net of any loan amounts sold down to other lenders and net of any securitised loans unless otherwise stated), including mezzanine, but excluding equity finance. This excludes lending to social housing unless otherwise stated.

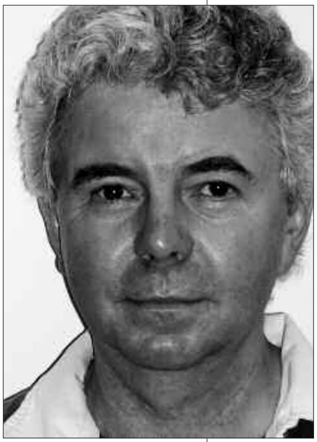
Value of outstanding loan books

The survey recorded £213.1bn of outstanding debt, including loans of approximately £12.7bn secured by social housing, as at 31 December 2007. In addition, a further £66.4bn of loans were committed but not drawn at this date. Figure 1 shows a breakdown of this debt by type of lender and finance.

Figure 1: Category of lender and type of finance

Categories of lender	Reported UK outstanding loans including social housing £m	Mezzanine £m	Equity £m
UK Lenders	121,647	2,689	1,922
German Lenders	20,360	–-	–
Other International lenders	34,791	321	–
North American Lenders	4,822	241	1,618
Building Societies	28,247	–	2
All Lenders	**£209,867**	**£3,251**	**£3,542**

The aggregated value of outstanding debt recorded in the survey and secured by commercial property only, rose from £172bn (2006) to £200bn (2007) an increase of 16%. This is greater than 10% recorded between 2005 and 2006 and is closer to the average annual increase of 18% recorded between 1999 and 2005.



Bill Maxted and Trudi Porter, Department of Corporate Development, De Montfort University.

Assuming this research captures between 90% and 95% of the specialist commercial property lending market, it is estimated that the total market size at year-end 2007 is £211bn to £222bn.

CMBS

Loan securitisations into the CMBS market during 2007 totalled a mere £9bn, compared with £18.2bn in 2006 and £12.4bn in 2005. The effective closure of this channel of disposal during the second half of 2007 resulted in loans that had been intended for securitisation remaining on balance sheet and being recorded within outstanding loan books. Thus the value of outstanding debt at year-end 2007 will have been 'artificially' high when compared with that for 2006 and 2005. Indeed this research recorded a total of £6.6bn of loans that were available for securitisation being retained in loan books. It is believed that a more realistic value may be closer to £11bn since only 13 organisations completed CMBS issues during the year out of 27 that had declared their intention of doing so at the end of 2006.

Mezzanine loans

The market conditions during the latter half of 2007 also prevented organisations from selling down mezzanine loans. Thus the proportion of mezzanine finance held by these organisations increased and the value of outstanding mezzanine finance rose to around £3.3bn in 2007. This equates to approximately 1.5% of the total outstanding debt of £200bn recorded by this research. As a proportion of the aggregated debt held by those organisations that have provided the mezzanine finance, £3bn equates to approximately 3.25% of all lending – reversing the decline in proportion seen virtually every year since 2001.

Importance of commercial property lending

As shown in Figure 2, lending secured by commercial property plays an increasingly important role in the overall business activities of many organisations. The Bank of England

Figure 2: Commercial property lending as a proportion of organisations' total lending

Year	% of total lending
2004	17.0
2005	19.0
2006	26.0
2007	25.0

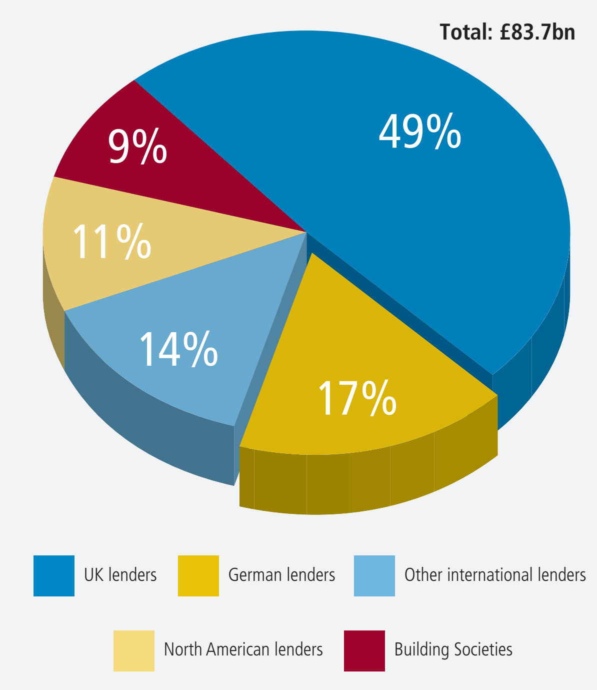
comparative year-end 2007 proportion from was 11%. This discrepancy can probably be explained by the inclusion in this research of a wider spectrum of organisations, including overseas lenders whose only business activity in the UK is secured lending to commercial property.

Loan originations

The £83.7bn of loan originations completed in 2007 represented an increase of only 3% compared with 2006. This is the lowest annual percentage increase recorded by the research, with the average annual increase between 1999 and 2006 being over 24%. Figure 3 shows the proportional allocation of loans secured by commercial property only in 2007.

During 2007, 59% of the value of loan originations were completed in the first half of the year and 41% during the second half; representing proportionately the most active first half and least active second half of any year since 2004.

Figure 3: Gross lending (excluding social housing)



In 2007, a total of £3.3bn originations were reported as being to companies created after sale and leaseback activity, which compares to £6.6bn reported in 2006. UK Lenders accounted for 50% of this lending activity. German and Other International Lenders each originated approximately 20% and Building Societies undertook the remaining 10%.

Of the lending completed in 2007, refinancing existing loans (either from an organisation's own loan book, or from that of another organisation) accounted for 48% with the remainder being new loans secured on a property that had not been previously financed.

Lenders

UK organisations generally (UK Lenders 60% combined with Building Societies 10%) hold over 70% of total debt secured on commercial property. The increased significance of UK Lenders, since 2001, and Other International Lenders, since 2003, is clearly indicated in contrast to the proportionate decline in value held by German organisations. However, there was a slight decrease in UK Lender dominance during 2007 from 62% recorded at the end of 2006 to 60% recorded at the end of 2007. The market shares of Building Societies and North American Lenders have been broadly maintained.

The value of outstanding debt continues to be concentrated in the loan books of a relatively small number of large organisations – since 2005, 77% has been held by the largest 12 lenders, of which eight are UK lenders.

Outstanding loans by type of project

By 2007, development property accounted for approximately 21% (16% in 2006) of the value of outstanding debt. Conversely, the proportion of outstanding debt allocated to investment property has been declining since 2003 and at 70% is the lowest proportion recorded by this research. 'Other Investment', including hotels, social housing and residential, accounted for 6%, 'Other Development' (land banks, corporate and Private Finance Initiative projects) for 1% and owner occupied the remaining 2%.

The value of outstanding development debt (£45.1bn) is split between 22.5bn secured on residential projects for sale (£15.1bn in 2006) and commercial development projects, which accounted for £20.6bn (14.4bn in 2006). Proportionately the values allocated to speculative development and to fully pre-let development each represent approximately 50% of outstanding debt secured by all commercial property in 2007.

Outstanding loans by property sector

After five consecutive years when the largest single allocation of debt is secured by retail uses, 2007 saw offices secure the highest level of funding (27% of total loan value). In 2007, German Lenders and North American Lenders had relatively high loan book expenditure to the office investment sector, being 42% and 34% respectively. UK Lenders reduced their loan book exposure to office investment property to 17.5% from 22% in 2006.

Retail had the second largest allocation of debt in 2007 at 26% and the allocation to residential increased to 20% in 2007, from 13% in 2006. 'Other' International Lenders had the highest exposure across all retail property (36%) with UK Lenders the second highest (26%). Building Societies recorded a higher proportion across all types of retail projects in 2007 of 18.5% (15.5% recorded in 2006) but still hold the lowest proportion in office investment at 15%.

The allocations to Industrial (10%), Leisure (6%) and Social Housing (5%) have remained broadly static between 2006 and 2007, while the allocation of 6% for 'Other' was a reduction from the 10.5% recorded in 2006 but is a reversion to the allocations recorded from 2002 to 2005.

Allocation by region

The South East together with Central London, in 2007, accounted for 44% (47.5% in 2006) of the value of outstanding loan books. This proportion is lower than the 47.5% recorded in 2006, 54% recorded in 2005 and 2004, and 57%, 62% and 67% recorded in 2003, 2002 and 2001 respectively. German Lenders with 65% continue to have the largest weighting in these two regions. Building Societies have much higher allocations of loans in the Midlands and Wales than the other categories of lender. North American Lenders have the greatest proportion allocated to 'Other' (East Anglia, the South-West, Northern Ireland, the Channel Islands and non-specified). UK Lenders, have, for the second time in this series, recorded an allocation of less than 50% in London and the South East with their loan portfolios being the most evenly distributed throughout the UK.

International lending

In 2007, £48.1 (£26.9bn in 2006) of outstanding debt was reported as being secured by commercial property situated outside of the UK. This was in addition to the outstanding debt secured by UK commercial property. Of this total, UK Lenders and Building Societies accounted for £9.4bn.

Loan length

During 2007, 25% of loans, by value, were written for duration of up to 3 years and a further 52% for between four and seven years. The most frequently cited loan length for an investment in 2007 was five years. Typical loan lengths for investment loans have recently been reducing, with the most frequently cited loan length now being five years. Respondents suggested that typically an investment loan would remain in place for on average four years before being refinanced or repaid.

For development projects, 71% of the value of development loans written during 2007 was provided by loans of one to three years duration. German Lenders had, at 46% (60% in 2006), the highest proportion of development finance provided by loans of three years duration or more. This suggests that these organisations are currently prominent in financing the larger scale commercial development.

Building Societies, in contrast, continue to be the category with the highest proportion of long-term loan originations of over 10 years in length.

Loan terms

The most obvious sign of the impact of the problems in the credit markets appear in relation to loan terms. Senior debt interest rate margins increased dramatically for loans secured by all property sectors during the second half of 2007. Margins increased by 27bps on average for loans secured by both prime and secondary property, resulting in the highest interest rate margins recorded by this research.

For loan-to-value ratios, these fell between mid-year and year-end for all sectors. The sharpest falls were recorded for loans secured by prime property where, on average, declines of 4% were recorded. The falls were less sharp for loans secured by secondary property which had already experienced a decline in average loan-to-value ratios at mid-year. Loan terms provided by organisations that structure their loans between junior and senior debt followed a similar pattern except that these lenders increased margins and reduced loan-to-value ratios by larger amounts. On average, interest rate margins increased by between 30bps and 40bps and loan-to-value ratios fell by between 7% and 8%.

All organisations increased arrangement fees substantially and at year-end 2007 those for investment loans were 50% higher than in 2005.

The outward movement of property yields compared with interest rates has improved income to interest cover ratios and with borrowers being required to provide greater amounts of equity, a move towards more sustainable lending terms has occurred. This bodes well for the medium-term future especially with 95% of respondents reporting that commercial property remains as an asset class against which their organisation is willing to lend.

Debt repayment

60% of all outstanding debt is due for repayment by 2013. A further 20% will mature between 2013 and 2017 and 20% thereafter. The proportion of debt due for repayment after five years (40%) is similar to that reported at the end of 2006 (39%) and thus continues the decline compared with the research results for 2005 (49%), 2004 (54%) and 2003 (51%). This provides an indication that typical loan lengths continue to decline. Some 34.2bn (17%) of outstanding debt is due to mature during 2008.

Hedging strategy

Interest rate hedging was taken to mean any arrangement that was longer than 12 month LIBOR. At 2007 year-end, organisations holding approximately 90% of outstanding debt had hedged 59% of the debt held – a lower proportion of outstanding debt than recorded by previous surveys.

With regard to new loans written during 2007, 67% of organisations always require an agreed interest rate hedging strategy to be in place. This proportion is the same as reported at the end of 2006. Of the remainder, 18% only 'sometimes' require a hedging strategy to be in place whilst 15% do not require a strategy to be in place at all.

Conclusion

If ever there was a year of two halves in the context of confidence in the UK commercial property lending market, 2007 was that year. At year-end, the major issue is the extent to which a slowdown in activity, together with more onerous loan terms, will impact on the lending market during 2008 and beyond. Coupled with this is declining values in the commercial property market and an economy that is showing signs of fragility.

Critical to the stability of the commercial property and lending markets is the return of liquidity. However, despite the continuing intervention of the Bank of England in the credit market, lending intentions were at their weakest recorded by this research. Approximately 35% of organisations reported that their inability to distribute debt in 2007 had impacted on their ability to originate new loans during 2008. These organisations accounted for 50% of loan originations during 2007.

Organisations also expressed serious doubts as to whether the CMBS market will return at all during 2008 and reported increasing difficulty in completing syndications. Thus a combination of a lack of liquidity and an increase in the cost of funding will restrict the ability and willingness of many organisations to lend in the current market.

Despite the fall in commercial property values during the second half of 2007, the value of loans in breach of financial covenant and loans that actually defaulted remained low. However, a number of organisations commented that 'they were not going to create a stick to beat themselves with' by testing loan-to-value covenants whilst a loan is continuing to perform in every other respect. The extent to which this attitude can persist within organisations is unclear but the values of loans-in-breach of financial covenant reported to this research are likely to understate the true position.

In conclusion, the key to a 'soft landing' in this unprecedented time of uncertainty depends on the resilience of the economy, together with positive and pro-active stances being taken by borrowers and lenders. A weakening economy, resulting in increasing tenant defaults and voids will jeopardise the servicing and refinancing of investment loans as well as the take up of new developments.

Sliding Doors: Money in and out of property

Tim Horsey,
Freelancer

This IPF evening seminar, which took place on 7 May, focused on recent evidence on flows of money into and out of UK property since the credit crunch. Doors which were wide open for debt-backed investment in 2007 may now have slammed shut, but others could be opening for overseas and retail investment.

Signs of life in 2008

Karen Sieracki of Kaspar Associates, using transactions information from Property Data, described how total investment in UK commercial property had fallen to £7.6bn in Q1 2008, a level last seen in Q1 2003. Central London offices were the most favoured sector this quarter, followed by rest of UK offices, while retail warehouses and unit shops were proving unpopular. Overseas investors were the largest purchasers (£74bn), followed by UK investors (£56bn) and then private property companies (£49bn).

Amongst the sellers, private property companies were the largest, followed by the institutions. In terms of net investment, overseas individuals and institutions made the largest positive impact, while occupiers were the biggest disinvestors. By nationality, Irish investors were the largest group, followed by Middle Eastern players.

The relatively robust level of investment in Q1 2008 came as some surprise to Sieracki, given the slowing of the market since July 2007. In fact October 2007 was the nadir for investment, and there had been some recovery since then, but the monthly levels for 2008 were still on average below those for 2007. Not surprisingly, the main providers of investment product so far this year have been the UK institutions. Perhaps the greatest surprise has been the role of private property companies as purchasers, given their dependence on debt finance.

A new world of capital?

Jonathan Short of opportunistic fund managers Internos Real Investors looked at recent trends in global capital markets for property. He recalled that in 2007, 143 real estate funds were raised worldwide with $83bn capital. US investors were dominant, particularly in opportunity funds, while the UK and Australia, which has come to prominence in the last few years, were also leading players.

Capital raising and placing is a very different ball game now compared to the last three or four years. Opportunistic investors may have capital, but they are generally waiting in case the markets fall further. Given that returns of 20% are likely to be difficult to achieve without debt, and the risk of buying equity and hoping to refinance over 12-24 months looks prohibitive, their options are limited. Nevertheless, global opportunistic funds are not having any problems raising capital, as seen by the example of Blackstone's huge $3bn launch in April.

Core investors like German funds are back in the market, and are buying prime assets in major European cities. Mezzanine finance is also looking increasingly attractive from both banks' and managers' viewpoints. Yet Short reckons property securities are still looking risky, despite their discounts of 20%, given the state of occupier markets.

At present the sovereign wealth funds are the most interesting phenomenon in the capital market. They accounted for 33% of global real estate acquisitions last year, and are set to increase this year with, for example, the Norwegian State Oil Fund ready to invest €14bn in property, mostly indirectly. In total sovereign wealth funds have some $3.5tn to invest, a figure constantly being boosted by the price of oil. Most of these funds are actively involved in real estate, and Russia, China, Japan, Korea and Saudi Arabia have all recently announced the formation of big new vehicles.

Short sees the long-term global trend for property allocations as still positive – as recently evidenced by the Dutch pension fund PGGM announcing a 16% allocation to the asset class. Internationalisation continues apace, with the implication that UK property will have to compete with a bigger market of alternative locations. US capital is however set to make further inroads into UK and Europe, perhaps through a growing number of partnership arrangements between big market players like the recent joint venture involving Blackstone, Mezzref and Goldman Sachs.

Retail revival

John Cartwright of PRUPIM painted a similarly cautious view of returning stability in the market for retail investment funds. He explained that by the start of 2008 there was clear evidence of a slowing of redemptions in PRUPIM's retail funds, while net inflows were starting to revive for its offshore fund.

He believes that most sensible investors have accepted that the recent price correction was necessary and now consider the market is moving towards a fair value position. There is also a realisation that markets may fall beyond fair value before rising again, so this may not be the best time to buy. But most investors are starting to remember why they were interested in property as an asset class in the first place.

Cartwright admitted that November, December and January were torrid months for the retail market. Much press coverage focused on the difficulty of managing daily-traded funds, but this is what the market had demanded. In this situation of a rapid pricing correction accompanied by a widespread desire to withdraw capital, the biggest challenge was to treat all customers fairly. This meant managing expectations and ensuring investors were confident they could access their money. The massive inflows of early 2007 became massive outflows by the autumn. But despite the press reports, no authorised funds actually closed for business.

Cartwright believes it is important to distinguish between different types of retail investors, who may behave differently. Buying into the Pru's offshore fund had already begun to fall off early in 2007, reflecting the more sophisticated research-led nature of its investors. The management industry had also helped by being honest in communicating that the boom couldn't go on for ever. So these investors are now starting to re-emerge, with a relatively positive view of the sector's prospects.

According to the Investment Management Association (IMA), property now accounts for about 3% of assets in retail investment funds. This has already increased three-fold over the last four years, and Cartwright believes it would not be unreasonable to talk about further growth to 10% in the long run – implying an additional £30bn to be invested in property.

The long shadow of debt

The crisis in global finance is clearly the biggest problem overshadowing UK capital markets, as was emphasised in the presentation by Mark Titcomb of Eurohypo. Eurohypo lent €65bn in the previous two years, but this year may not lend more than €10bn, while many banks may not do any new lending in 2008.

How the market copes with this situation depends on which investors can raise equity and which banks can still raise finance. On the positive side, some huge US loan portfolios have recently been sold on, and UK banks are trying to restructure their books in a similar way. There is now much more of a spirit of co-operation amongst UK banks, who are working hard to generate more liquidity. There are also likely to be mergers in this market, but the sands are shifting all the time as loan values are so uncertain. Titcomb believes that the spate of bank rights issues now taking place was inevitable in this context. Institutions have been very coy in public about the need to do this, but in reality have been making plans for months.

UK investors have feasted on debt for a number of years and values reached unsustainable levels. At one point early in 2007 the initial yield on all-UK property had fallen below 5% – no-one would now claim that could have been sustained – but the problem now is establishing where sustainable value really lies. Given the credit crisis and the state of occupational markets, values are now likely to overshoot, so the question is really how far.

While banks' liquidity position is showing the first signs of improvement, Titcomb explained that they will now have to face up to their underlying credit risk, which has not changed much since last year. At the moment, banks do not have to make provisions for the new losses just round the corner, but some of the rights issues are it least in part happening with this in mind.

At least investors are still able to raise equity. Titcomb is aware of at least 20 with more than £100m in cash waiting to spend on the UK market. There is also quite a lot of debt available up to 60-65% loan-to-value, but a great deal of caution surrounding the values this might rest on. Investors need to be able to work out angles at this point in the market. There are many players who have totally failed to assess their true cash flow risk and are therefore unlikely to be able to raise finance in future.

Eurohypo is not now lending above 70-75% loan-to-value, and finance beyond this level is getting very rare in the marketplace. In the late 1990s this was the standard, and Titcomb believes the market will once again have to learn to function at this level. The margin on this level of borrowing is now 150bps, compared to 75bps in July 2007. However, it is possible that these margins may fall later in the year as more debt comes into the market. Fees have also risen, and speculative development finance has disappeared completely.

A number of investors are now doing deals which look attractive from a bank perspective. But given the credit situation, many investors are waiting for forced sales from those who default. Some institutions are buying into AAA loans on single assets which are now priced more attractively than the underlying properties. This shows that the credit market is not completely dead, but the real problem lies in those secondary assets in weak locations that are very highly geared. Many such situations remain to unwind over the coming years.

Titcomb ended by reminding the audience that the word credit comes from the Latin credere – to believe. He feels that both banks and institutions have some way to go before they again reach a point where they believe in the market.

European property sales volumes

Peter Culliney, Director of Research, Real Capital Analytics

Lena Krivopaltsev, European analyst, Real Capital Analytics

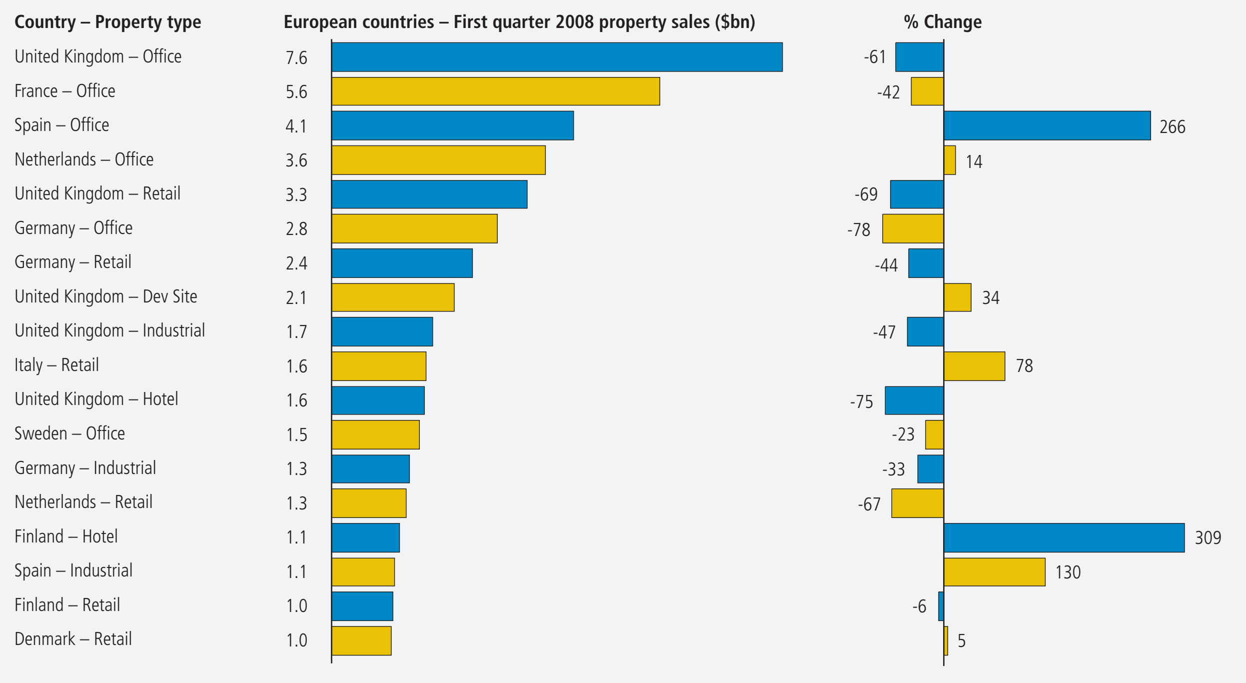
Nearly $56bn of major commercial property sales were completed throughout Europe, Africa and the Middle East in the first quarter of 2008. In a significant turn of events, Europe surpassed North America as the most active marketplace for property transactions. However, since this status was achieved while suffering a 40% drop in sales compared to the 70% decline experienced in North America, this victory could be considered pyrrhic. It may also be short-lived, as property sales in Asia are not far behind and are growing fast. Additionally, property sales in Europe look to be weakening in the second quarter, plunging 71% in April when compared to a year earlier.

Virtually all property types and most countries within Europe have recorded a sharp decline in transactions this year. This decline has been much more severe for large deals, including portfolios. Comparing the first four months of 2008 to 2007, the number of deals over $1bn dropped from 13 to just 5 while portfolio activity dipped 63% and entity level deals have been slashed by 89%. Retail and hotel transactions experienced the sharpest drops, each down around 60%. Sales of office buildings, Europe's most actively traded property type, decreased by 48%, while industrial sites and apartment properties plunged by 41% and 55% respectively.

Despite the slowdown in 2008, the UK still retained its status with the largest volume in Europe. Overall volume decreased by 61% in the UK, although activity in London held up better, being down by 42%. Volume in London was boosted by the $1.9bn sale of Chelsea Barracks for residential development. This deal also helped make land the only property type to show an increase in volume for Europe so far this year. Germany, Sweden, Belgium, Denmark and Ireland have all posted even greater declines in property sales than the UK. France, Russia and Poland have faired slightly better with sales off by 40% to 50% compared to a year ago. Finland, the Netherlands and Italy saw sales volume decline by 15% or less while Spain, Turkey, Romania and Bulgaria were among the largest of the few countries in Europe that recorded a gain in transactions. Totals in Spain were elevated due to PropInvest's acquisition of the Boadilla del Monte Financial Complex on the outskirts of Madrid for over $2.8bn, making it the largest single property transaction ever recorded. In the retail sector, Italy's volume increased by 78% in the first four months of 2008 over the same period in 2007, thanks to ING and Government of Singapore Investment Corporation's joint purchase of the Roma Est Shopping Centre for $594m.

Several emerging markets have posted significant gains recently. Office transactions increased in Poland and Bulgaria by 39% and 198% respectively. And of course, land – the driving force of emerging market property investment – is up 325% in Eastern Europe. Overall, countries the IMF has classified as 'emerging' accounted for 11% of all property transactions in Europe this year, up slightly compared to 2007.

Figure 1: European countries



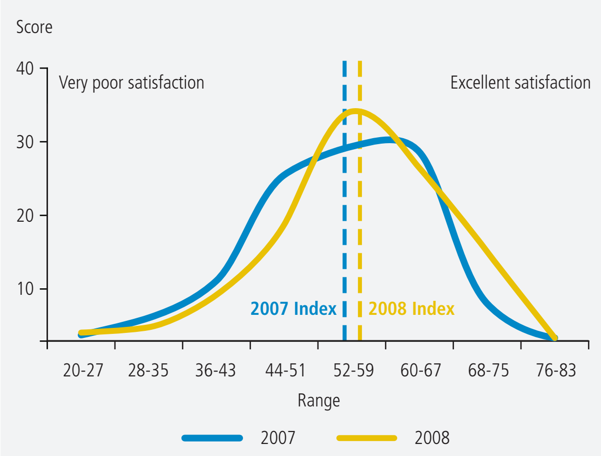
Occupiers still waiting for the 'Big Bang'

Sarah Mather, Kingsley Lipsey Morgan

The results of the second Occupier Satisfaction Index study were announced on 29 May. The 2008 study, which was carried out by Kingsley Lipsey Morgan and IPD Occupiers, reflects the views of 251 occupiers, drawn from across the UK commercial property industry.

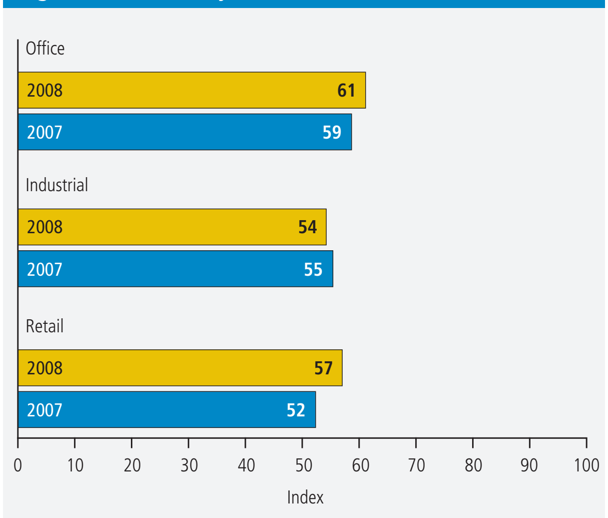
The Index shows a small positive improvement on 2007, with occupiers perceiving the positive changes in lease flexibility, communication and understanding of occupiers' needs as a continuation of a slow process of change. There is no sudden swing from dissatisfaction to delight; the change in the Index has been produced by a reduction in the number of occupiers rating their experience 'poor' or 'very poor'.

Figure 1: OSI Index 2007-08 change



It is important to point out that change is visible not only through the small improvement in satisfaction scores, but also in the qualitative feedback and the perceived change data collected during the personal telephone interviews which were conducted during January and February of this year.

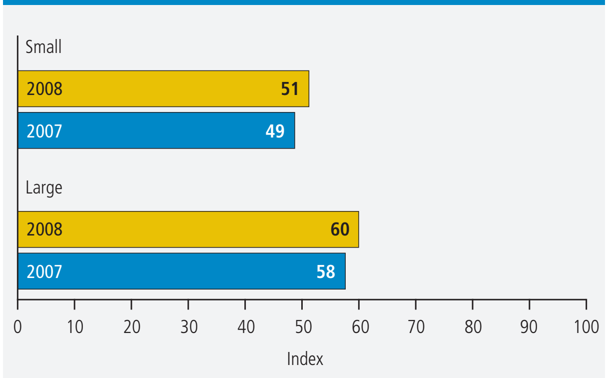
Figure 2: OSI Index by sector



The Occupier Satisfaction Index has moved up by two points from 55, in 2007, to 57 where total satisfaction would score 100. The indices for Retail and for Offices have moved up by +5 and +2 points respectively, whilst the index for industrial occupiers has moved down by one point to 54.

As in the 2007 study, larger occupiers with stronger brands and greater covenant strength tend to be more satisfied than smaller occupiers and this is reflected in the satisfaction indices of 60 for larger companies and 51 for smaller organisations.

Figure 3: OSI Index by company size



The largest increase in satisfaction, year on year, is found in the small retail sub-sector. The 2007 study revealed that small retailers were the least satisfied of the sub-sector groups. The 2008 results show that satisfaction amongst small retailers has improved by 6 points, bringing it from 41 to 47 points. Analysis shows that this increase in satisfaction has been produced by improvements in lease flexibility.

A thread of occupier feedback that runs throughout the study is the perception that larger landlords are taking the greatest strides forward, embracing change and adopting a customer service ethos more rapidly than the rest of the industry. Occupiers welcome this progress and want to see the rest of the property industry catch up.

Occupiers say that the UK leads the way in terms of build quality and specification, but that it underperforms other countries in terms of lease flexibility, with regard to lease lengths, breaks and the ability to assign and sublet, and also in terms of value for money.

The 2007 study identified six key challenges that occupiers wanted to see the property industry address, namely: lease flexibility, partnership, responsiveness, sustainability, value for money and the pace of change in the context of each of the other five challenges. The 2008 research confirms that these are still the key areas that occupiers would like to see the property industry focus on.

Challenge 1: Flexibility

Occupiers welcome the gradual shortening of lease lengths and the availability of more break clauses. They perceive that the larger landlords are driving change and taking account of occupiers' planning cycles. The perceived change data shows that 36.3% of respondents think that lease flexibility in terms of lease length and ability to break has improved in the past year, whereas 2.5% of interviewees say that that this has got worse.

However, whilst occupiers perceive a small overall improvement in the ability to assign and sublet, some occupiers express frustration. Occupiers say the restrictions that landlords impose on assignment and subletting are too rigorous, and that the bureaucratic process required for obtaining consents is too lengthy and complex. In contrast with other countries, restrictions in the UK are considered archaic.

Although it is recognised that the Code for Leasing Business Premises in England and Wales will take time to become established, compliance with the Code is considered to be patchy, with the larger landlords perceived to be leading the way. Occupiers want to see compliance with the Code become standard across the property industry, with property professionals such as letting agents and solicitors also embracing it. Others feel that the voluntary status of the Code means that it lacks teeth.

Challenge 2: Partnership

Occupiers perceive improvements in communication and in the property industry's understanding of their needs. Occupiers are looking for closer, partnership-style relationships which are consistent throughout the contract period, rather than sporadic and prompted by the key lease events.

Occupiers identify a variation in the customer service ethos of property owners. The larger landlords are perceived to be leading the field, with some occupiers acknowledging that brands are being built around the concept of customer service. Occupiers feel, however, that the property industry is slow to recognise itself as a service industry. They believe that the smaller suppliers in particular need to realise the importance of communication and relationship building.

Whilst larger occupiers with established well-known brands and strong covenants say that they do feel valued as customers, smaller occupiers often feel undervalued by the property industry.

Challenge 3: Responsiveness

Satisfaction with responsiveness shows some improvement but two in five occupiers remain dissatisfied. While occupiers feel that there is a great deal of variation in the speed and efficiency of response, the larger landlords are generally thought to be more responsive. Satisfaction tends to be higher when occupiers are kept well informed.

Occupiers say they are frustrated with the time taken to win approval to assign or sublet a lease, or obtain consent to carry out works and also feel the costs they incur are too high.

Challenge 4: Sustainability

Sustainability is the hot topic of the moment. Some 55.3% of respondents feel that the progress made by the property industry in implementing best practice in environmental initiatives has got better, whilst 0.9% perceive that it has got worse.

Green issues are becoming more important to occupiers and are playing a bigger part in building choice. Many occupiers, particularly the larger ones, have their own clearly defined sustainability agendas.

While occupiers welcome the property industry's progress on environmental issues, they feel that there is scope for faster progress and they want to see the talk translated into action. Some believe that it is occupiers and legislation that is driving the change, and that the industry needs to be more proactive.

Some occupiers say that the progress in environmental initiatives has been limited to new buildings and question what can be done to make existing building stock more sustainable.

Challenge 5: Value for money

Some occupiers believe that it is their demands, rather than action by suppliers that has led to improvements in the value for money for service charges. While some occupiers say that transparency has got better, there is a general feeling that there is scope for further improvement. Some would like to see more evidence of competitive tendering.

Occupiers welcome the revised RICS Code of Practice for Service Charges in Commercial Property, and are cautiously optimistic about its adoption by the property industry. Larger landlords and agents are perceived to be adopting it faster than the smaller organisations. The voluntary nature of the Code is seen as a limiting factor for some.

Service charges are still seen by some as a profit-making exercise. They feel that there should be more incentive for managing agents to keep their fees and costs down.

What will have the greatest impact on occupier satisfaction?

To determine which changes are likely to have the most significant positive impact on occupier satisfaction, the research findings have been analysed in two ways. Firstly, a correlation analysis was looked at which aspects of service are most closely aligned with high levels of occupier satisfaction. Secondly, the qualitative responses to the question 'What are the three things that would increase your satisfaction as a customer of the UK property industry?' were analysed to reveal that communication and building a partnership approach, together with increased lease flexibility, are particularly important to occupiers. Sustainability and transparency are also cited as being important.

Inflation: the evil or saviour for property investors?

Angus McIntosh, Partner & Head of Research, King Sturge

The well worn adage that 'property is the hedge against inflation' is almost complete nonsense – but not quite. The simple reality is that all investment classes outperform inflation over time – as shown in Figure 1.

Figure 1: Annualised rates of return, GDP and inflation 1971-2007

Asset class	Rate of return %	Standard deviation %
UK Equities	14.0	30.0
UK Bonds (15-20 yr)	10.9	14.4
UK Property	12.4	10.5
Inflation	**6.8**	**5.6**
GDP	**2.3**	**1.9**

Inflation can be helpful to property investors, but this all depends on which type of inflation is being considered.

There are essentially two types of inflation; cost push inflation which sees market prices rising due to input prices increasing year-on-year; and demand pull inflation which is where consumers (rightly or wrongly) feel sufficiently confident to bid up prices for goods and services. In other words, their demands are greater than that which can be supplied.

Following the depression of the 1930s, economic policy became increasingly based on 'Keynesian' demand management principles. John Maynard Keynes' idea became conventional wisdom amongst governments across the western world in the post second world war era.

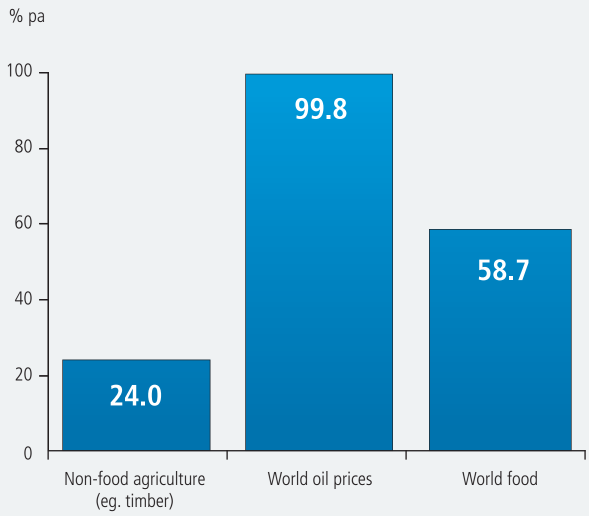
In 1970 this all changed; President Richard Nixon's government decided to move in the direction of monetary policy. Milton Freedman, and the Chicago School of economic thought, suggested that economies could be controlled using monetary policy, especially interest rates. The wave of privatisations, financial deregulation – coupled with monetary policy – has become the creed of the last 30 years, until recently. Today, monetary policy looks particularly unsatisfactory; it totally failed to anticipate, or control, the recent credit crunch. Nor has it been able to stem the tide of dramatic cost push inflation taking place across the world. In the intervening years, it has been accused of many things including creating too much cheap money and liquidity but also both causing the economic collapse and later the rise of the oligarchy in Russia.

Current cost push inflation

The extraordinary rise in oil prices is very simple; there is not enough energy supply (especially in the short term) in the world to meet a growing global demand (and much of the world's energy is supplied by an oligarchy of Russians and Arabs).

Understanding the explosion in food prices requires a little more thought; the dramatic rise in demand (the world's population has risen from 2bn to 6bn in 50 years), and the growth of affluence in places like India and China, is causing the demand for food to rise. Meanwhile, a series of environmental (perhaps one should say natural and metrological) events have caused droughts, floods, hurricanes – resulting in a significant drop in the food supply. As food prices have risen, inflation in every country of the world has increased significantly, causing food riots in many developing countries.

Figure 2: World commodity price inflation



Source: 19 May 2008 for World Food, N-fA and Oil Prices
(Oil: West Texas Intermediate)

So we are left with the decline of the 'goldilocks economy' when both inflation and interest rates were at a low level, with economic growth moving forward faster than the long term average. We are now facing the prospect of stagflation – a scenario in which there is lower economic growth, but both higher inflation and higher interest rates.

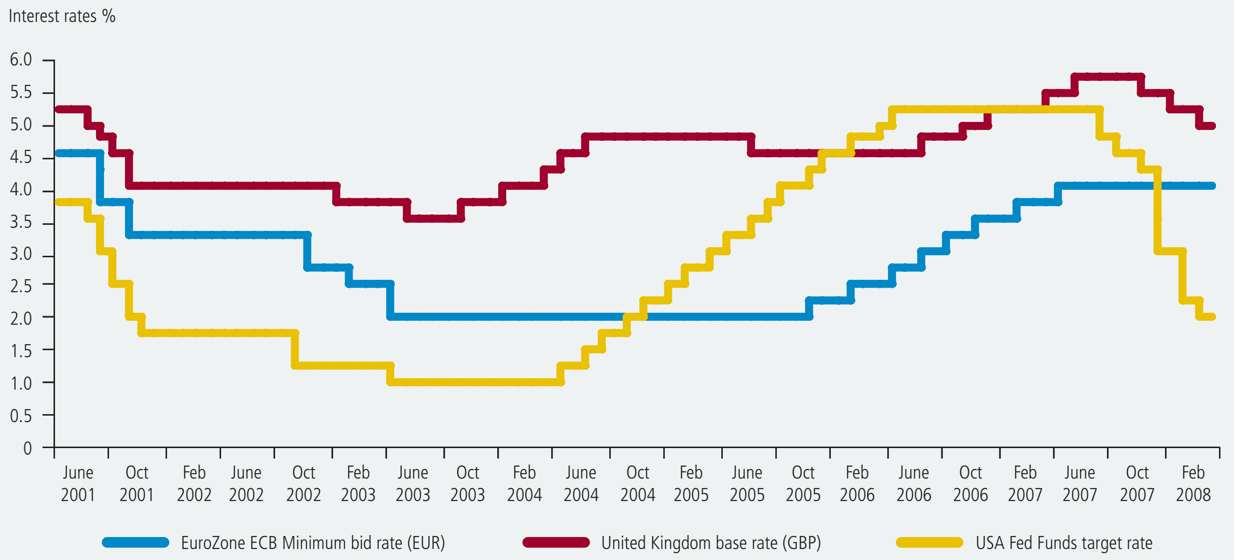
The three main central banks (Federal Research Board, European Central Bank and Bank of England) have taken a different approach to this dilemma as they try to rescue the world's financial markets from the chaos of the credit crunch, which started in the middle of 2007, having previously built up an uncontrolled head of steam for a decade or more.

The Federal Reserve Board has taken a more aggressive stance in lowering interest rates – regardless of the inflation consequences, but returning to a 1% interest rate is unlikely.

European Central Bank has been more cautious about inflation and is extremely reluctant to change the interest rate.

The Bank of England has taken a middle stance; it has reduced the interest rate slightly but is trying to find a balance between preventing the economy going into recession, whilst not fuelling

Figure 3: UK, US and ECB interest rates 2001-08



Source: RBS (8 May 2008)

demand for more inflation by making money to cheap. The dilemma for the Bank of England is that, whilst the interest rate has fallen, the LIBOR rate has not changed much. The London inter-bank offered rate for three months money has remained stubbornly high, demonstrating the impotence of monetary policy. Banks, following the credit crunch and creating their own internal liquidity crises, are extremely reluctant to lend to anybody until they know the extent of their own internal problems.

Monetary policy has become impotent; nowadays it is unable to control either world commodity price inflation or the cost of money!

Inflation and construction

Construction costs are being pushed upwards by general cost build inflation, coupled with an ever increasing amount of regulation. This plethora of codes and regulations, including energy performance certificates, display energy certificates and changes to Part L of the Building Regulations, is failing to address how the property market may be made more economically and socially sustainable, (the main focus is only energy) but raising building costs significantly. In other words, it is suggested at the current time that UK building costs are rising anywhere between 5% and 10% per annum (compared with RPI inflation of 4.2% and CPI inflation of 3.3%, as at the end of May 2008).

Outlook for demand pull inflation and rents

The rising costs of construction are clearly a form of cost push inflation. This is a further imposition on development, together with higher interest rates. The days of easy money, when capital values in the short term rose far faster than other forms of inflation (due to investment yields falling) are over.

Despite slower growth, the economy is still surprisingly strong; unemployment remains at a very low level and employment remains closer to full employment than for many periods in the 50 years. In the first part of 2008, the demand from occupiers also remained remarkably robust. By the end of 2008 and into 2009, this scenario may change.

However, the cost of creating new buildings is clearly rising. This will slowdown the supply of new construction and, assuming demand remains strong, push up prices; rents will have to rise to provide profitable returns to the development community.

To add yet more complexity, in its infinite wisdom (and desperately short of tax revenue) the government has introduced a tax on empty buildings. From April 2008, any industrial building empty more than six months or office buildings empty more than three months will have to pay a Uniform Business Rate. This increased uncertainty and cost will reduce new speculative development activity, reducing the supply of existing buildings; whilst the demand for occupiers remains reasonably robust, rental and capital values are likely to remain stable or move upwards.

Inflation – the saviour?

Less new supply, assuming on-going demand, will push up the value of standing investments. Assuming a property developer and/or investor has got worries with holding too much debt, slowly over time the cost of that debt will be eroded by the inflationary increase in the value of rental and capital costs. The evil of global inflation may become the saviour for some investors as their debt costs, relative to rising values, begin to recede.

But don't count on it! But if the economy slows down partly as a result of cost push inflation, so will the occupational market. Rents and capital values may then fall!

Retail investor attitudes to commercial property investment

Louise Ellison, Research Director, IPF

Retail investors have become a significant force in commercial property investment in recent years as the emergence of new types of investment product have enabled them to access what was a strongly performing market. However, little is known about this relatively new category of property investor, particularly in terms of their expectations of return, their attitude to risk and how they might respond to a market downturn. Two research projects have been initiated through the IPF Research Programme in recent months with a view to bridging this knowledge gap.

IPF commissioned GfK NOP to carry out a series of in-depth interviews with high-net-worth individuals and independent financial advisors (IFAs) focusing on their perceptions of the asset class, how they expect it to perform over time and possible changes to their holdings and investment patterns as a consequence of actual or perceived declines in fund performance.

The data was collected through in-depth interviews with 44 people in total. It is important to note these are not professional investors or fund managers, but high-net-worth individuals with holdings in retail funds and Independent Financial Advisors who provide advice on these types of product. All IFAs interviewed for the research were client facing and advising private clients on a range of investments, including commercial property funds.

Retail – investor categories

The research provided interesting insights into the characteristics of this investor group. Whilst it is often depicted as homogenous, the research identified three clearly differentiated retail-investor types with differing expectations for their property investments:

i) mainstream investors

ii) regular high-net-worth investors

iii) sophisticated high-net-worth investors

Key characteristics of the mainstream investors include a requirement for a return that beats the deposit savings rate, gives them capital growth and does not put their capital at risk. This group is risk averse and heavily reliant on advice from IFAs in making decisions regarding property and other investments, but sees property as a long term investment.

The second group have similarities to the first in terms of requirements from their investments, but are differentiated by a superior financial situation, giving them more funds to invest. However, as with the mainstream investors, they are also largely reliant on their IFA for information and advice when making investment decisions and are looking for both growth and a safe haven for their money.

The third group have a different profile to the first two groups. The interviews revealed them to be more likely to be seeking double digit returns from their investments and, having seen property as a potential source of strong income and capital returns some time ago, the group reported having sold their property interests and moved to other higher yielding investments. They were found not to use IFAs but to rely on their own knowledge of the market and business networks and contacts for information in developing investment strategies.

Figure 1: Retail investor sub-group characteristics

Mainstream retail investor	Regular high-net-worth investor	Sophisticated high-net-worth investor
Risk averse	Risk averse	Willing to take higher levels of risk and expecting high returns
Seeking deposit account returns+ from property	Seeking deposit account+ return. Sees c.8% as good returns from property	Looking for income return and capital growth
Sees property as long term investment	Sees property as long term investment	Saw property as an opportunity but many moved on 9-12 months ago
Reliant on IFA for advice	Reliant on IFA for advice	Less reliant on IFAs, strong personal and business networks for information gathering
Typically investing family money	Typically investing accrued capital	Typically investing accrued capital with the aim of generating strong income return and capital growth

Property as a long-term investment

The research begins to paint a picture of the retail investor group as comprising a range of sub-groups, each with different requirements and expectations of the market. A common theme that emerged from the interviews with all three groups is the perception of property as a long-term investment that is expected to involve some fluctuation in levels of return. However the third group, the sophisticated high-net-worth individuals, had moved out of the asset class in the quest for higher yielding investments elsewhere. The interviewees reported little interest in the liquidity of their property investments, more in their ability to produce long term stable returns.

There is a sense within this investor group that property is a safe long term investment that will provide good returns over time.

This assertion is based at least partially on a commonplace blurring of the commercial and residential property markets. In many instances, it was clear that interviewees' expectations of the commercial property sector were informed by their personal experiences of the residential market, in spite of them all having investment holdings above and beyond their homes. The interviews revealed a sense of familiarity with property and a strong sense that the tangible form of this asset, investing in 'bricks and mortar' added to its reliability.

There was a common acknowledgement amongst the IFAs that returns were not going to continue at the level they had been, which was seen as exceptional, but that they would revert to a more 'normal' level. A total return above the deposit account savings rate was the most common reference point for this. From the mainstream and regular high-net-worth investors' perspectives, there was some recognition of a reduction in returns, although this was certainly not universal.

Despite the predicted downturn, the outlook for this asset class remained positive. Moderate growth was the key aim for retail investors here, and that was expected to continue irrespective of short-term volatility. In addition, there was a widespread perception that whatever happens to returns in the short term, investors did not actually lose anything until the fund was cashed in.

Overall, commercial property funds were seen as a long-term investment and the common view was not to enter into the asset class unless willing to 'play the long game'. Moreover, most believed that commercial property would continue to be a strong asset class in the long term, one rationale being that with an ever-growing population in the UK there would always be strong demand for goods and services and therefore commercial property.

Advisors were of the view that commercial property funds would continue to be popular with clients as part of a diverse portfolio; although negative press may impact on take-up. It was seen as likely that advisors will continue to recommend commercial property funds to clients; though there was some suggestion it is likely to comprise less of their portfolio than currently.

Investment in retail funds

These views conform with the pattern of investment in the retail funds over the last 12-18 months. According to the Association of Real Estate Funds[1] (AREF), Q1 and Q2 2007 saw rising redemptions in the pooled property funds alongside increasing inflows from existing and new investors into authorised property unit trusts. This would conform with the sophisticated high-net-worth investors moving out of property into higher yielding investments elsewhere and mainstream investors beginning to enter the market, boosted by the publicity surrounding the launch of REITs. Whilst the sector experienced net disinvestment by the end of 2007, early 2008 saw a sharp reduction in redemptions with inflows and outflows almost balanced.

Whilst there has clearly been a high level of redemptions, evidence remains that many mainstream and regular high-net-worth retail investors view property as a long term investment. Many retail investors are unlikely to switch away from their property investments due not only to simple inertia and resistance to change, but also because of their understanding of the long-term benefits of sticking by investments and a conviction that property is a relatively secure asset class. To put this into context, typically, 12-18 months of poor performance was seen by interviewees as a temporary disruption, three-five years of poor results as disappointing and five years or more beginning to look like a trend. Of course, not all retail investors are the same, this is perhaps a key insight identified by this research. Some will be more active in moving funds, especially as the level of sophistication rises.

Requirement for information

One of the most important messages from the research was that the IFAs, who are the cornerstone in communicating with the retail investors, are hungry for independent, accessible, reliable information on the markets. They are reluctant to trust the media and regard independent publications and comparison websites as very helpful. Sources mentioned included insurance company and investment house websites, independent data providers such as IPD and Morning Star, and independent magazine editorials such as Money Management. Comparative analysis tools such as those provided by Money Management were regarded as especially useful, allowing the advisor to compare the performance of one property fund against another; advisors would like more of these generally.

Perceived characteristics of property

With the significance of the IFAs in mind, IPF commissioned a second piece of research focusing specifically on the IFAs and their current perceptions of commercial property. Using an on-line survey format, 241 IFAs were asked questions relating to how their advice to clients with regards commercial property were changing and what their expectations of the market are. The survey will be run three times a year to enable us to build a database and track IFA sentiment towards the market.

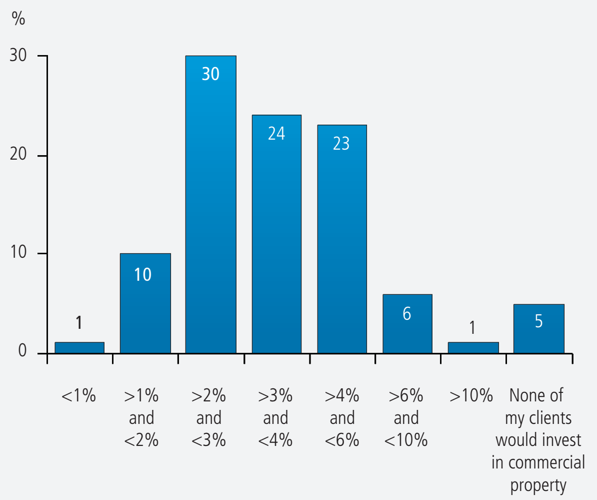
The first wave of the research supports the findings of the in-depth study. The key features of property as an investment for IFA clients were reported as:

- the provision of a regular and stable income flow;
- capital growth; and
- diversification from bonds and equities.

Liquidity was bottom of the list of priorities, again implying property is seen as a long term investment.

1 Source: AREF Investment Quarterly, 2007, 2008 www.aref.org.uk

Figure 2: Minimum threshold rate of return above a 'risk-free' rate for commercial property investment

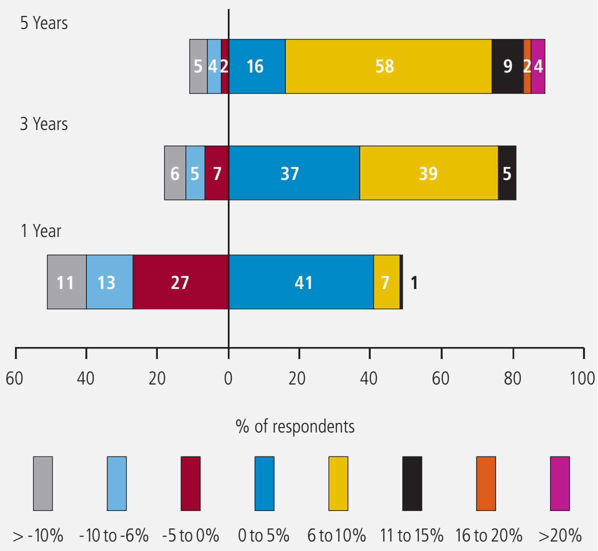


Property was seen as a mainstream investment class by the majority of respondents. On average they would recommend their clients allocate approximately 12% of their portfolio to commercial property, and in terms of the risk/return trade-off, 54% of respondents indicated their clients required a return of between 2% and 4% above a risk free rate for investing in this asset class (see Figure 2).

Potential changes in allocations to property are important given the volume of investments originating from this investor group. The survey will therefore track IFAs' attitudes to the level of their clients' allocations to property over time. In this initial wave, 47% felt their clients currently had a higher property allocation than they would recommend and 29% of respondents considered their clients currently had too little invested in commercial property.

The majority (55%) indicated they had been recommending commercial property as an investment less in the last three months than previously, but some clearly feel the current market provides opportunities for their clients. However, this should be considered in the context of the respondents views on potential returns from the sector over one, three and five years. These were significantly more positive than the views being returned in, for example, the IPF Consensus Forecast (see Figure 3).

Figure 3: Expected average annual returns from property investments



Appropriate investment vehicles

An important issue for the investment sector to understand is what type of investment vehicle best suits the retail investor. We therefore asked the IFAs which, out of a range of different vehicle types was the best fit with their clients property investment requirements. The responses again conformed with the findings of the in-depth study which showed the tangible nature of the asset as an important characteristic. In this survey, 'bricks and mortar' funds investing in the UK or globally were the most popular investment vehicle. Investment through property securities or REIT funds investing in the UK or globally came third and fourth respectively.

Overall the IFAs polled were positive about commercial property as an asset class, particularly in terms of portfolio allocation. Given that property currently accounts for just 3% of total funds under management, there is clearly potential for substantial growth in this sector. As the IPF IFA survey is rolled out we hope it will provide key information on the perceptions and expectations the retail investors have for commercial property as an asset class, supporting the industry in responding with appropriate products and information. The next wave will be run in September, with results available in early October 2008.

The full results of both the in-depth study on retail investor attitudes to commercial property and the first wave of the IPF IFA Questionnaire are available on the IPF website at www.ipf.org.uk.

Back to the Future

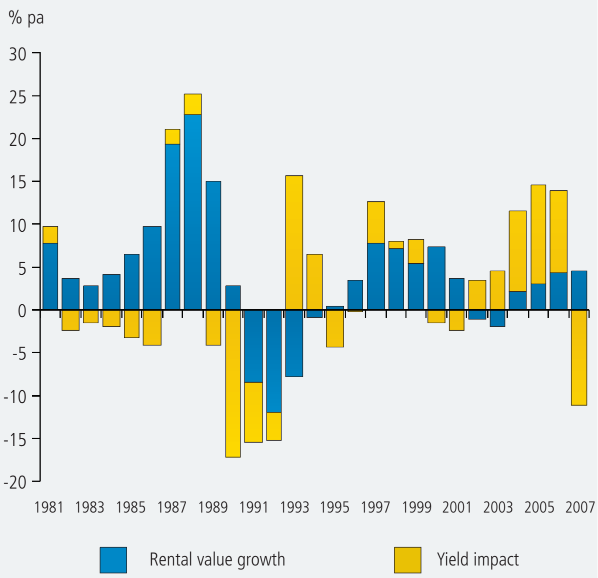
Malcolm Naish, Global Head of Property, Scottish Widows Investment Partnership

The Governor of the Bank of England called it the 'Nice Decade' – non-inflationary, constant expansion. If we ignore for a moment the sting in the tail, the 10 years ending in December 2007 was also a good time to be an investor in commercial real estate. Over the whole period UK property produced a total return of 11.4% pa, equivalent to a real return of 8.4% pa (net of RPI).

When seen in the context of the long run IPD data this level of performance looks at first sight to be less impressive. Between 1970 and 2007 total nominal returns were even higher at 12% pa. However, adjusted for RPI, real returns over those 37 years fell to 5.1% pa, some 330 basis points lower. So a 'Nice Decade' indeed.

But to borrow a football cliché, it was also a decade of two halves. At the start, returns were driven by real estate fundamentals; initial yield and rental growth. As the decade progressed more investors became aware that property looked mispriced relative to other asset classes and yield shift began to take over as the key component of returns (Figure 1). It did not take long for the savvy buyer to spot the attractive arbitrage between income yield and the cost of debt, and cap rates fell further on the back of 'financial engineering'. The music stopped around mid-2007 as the positive spread between income yields and interest rates narrowed (or disappeared altogether), and fears grew that rental growth would falter and void rates would increase.

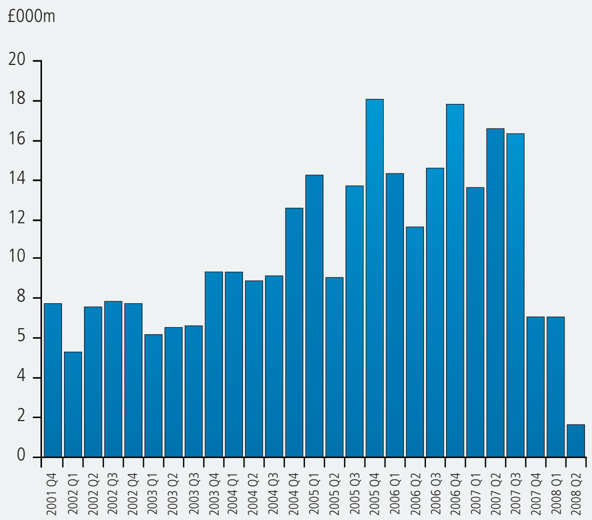
Figure 1: Components of capital growth 1981-2007



Source: IPD

The last six to nine months have seen something of a run on the sector: Funds aimed at the retail market were particularly hard hit as many investors rushed for the exit. Valuers responded quickly by marking down valuations sharply, which at the time of writing has lead to negative total returns in each of the last nine months. As would be expected, transactions virtually ceased and turnover (sales and purchases) in 2008 is expected to be a fraction of the figures recorded between 2005 and 2007 (Figure 2).

Figure 2: Investment activity

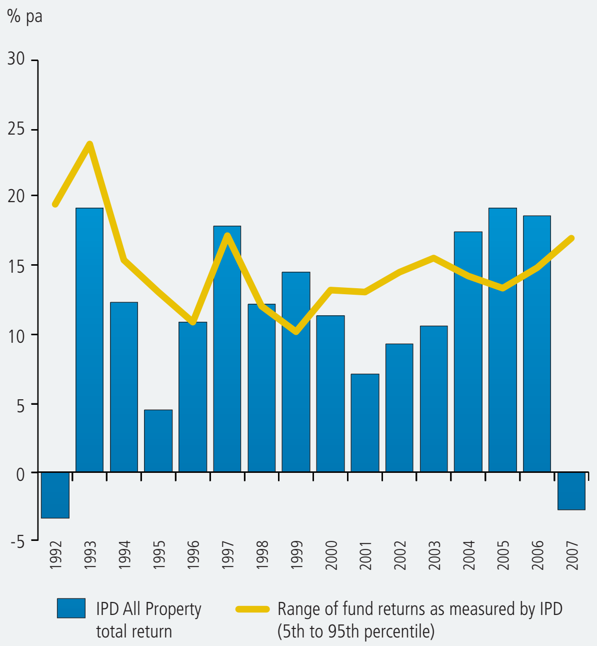


Source: Property Data

So is property a busted flush? I don't think so – in fact property is beginning to look better value than it has done for some time. Initial and equivalent yields have risen, whilst rental growth, although weaker, has broadly remained positive and void rates have stayed low. So we may be returning to a period when real estate fundamentals come again to the fore, and the skills and experience of the long term real estate investor have a greater role to play in extracting performance. This has added importance against a background of lower economic growth and weaker consumer demand. So what lessons can be learned and where should the focus lie?

Creating outperformance from property portfolios is a complex balancing act involving a number of different strategies; including stock selection, trading, development, added value opportunities, income management and sector allocation. The relative importance of each of these depends on the state of the property market. At different points in the cycle any one of these 'plays' may become the major factor.

Figure 3: Fund returns diverge in market downturn



Source: IPD

When the market is more stable, the performance of property funds has tended to lie within a fairly narrow band around the benchmark. In 2007, the range of fund returns as measured by IPD increased to its greatest level since 1993, the period when we were moving out of the last downturn (Figure 3). As we move into the next phase it is likely to be the ability of the managers to implement a blend of performance strategies and risk controls across their funds who will be able to create relative outperformance.

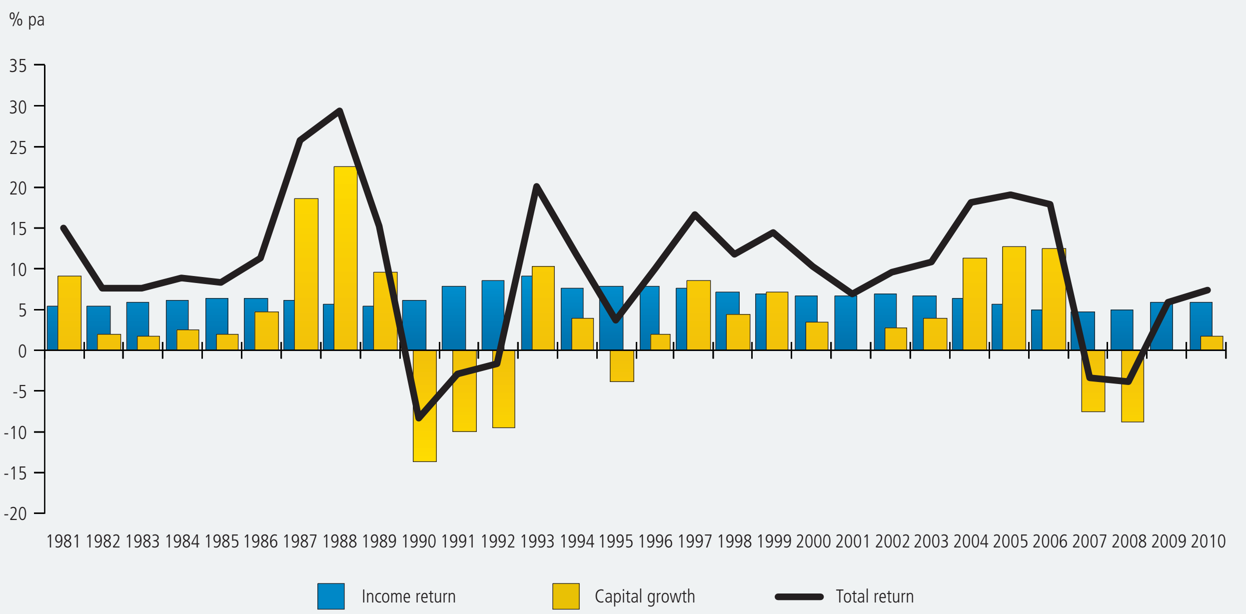
Impact of property turnover

As already noted, the strong returns seen between 2003 and mid-2007 were driven largely by capital growth, itself fuelled by the weight of money driving yields down. In this market properties were being traded frequently and capital growth in excess of 10% for each of the years 2004, 2005 and 2006 allowed significant acquisition costs (typically approaching 6%) to be absorbed and profits still to be made. Some assets changed hands three or four times within this period with each party realising a significant capital gain despite doing little or nothing to the underlying asset. In some instances, the day to day management of the assets moved as many times and the losers were the tenants, particularly in management intensive properties such as shopping centres.

As an industry we often claim that our tenants are our customers yet during this phase, from a tenant's perspective at least, it must have looked in some cases that they were little more than a chattel in the eyes of their landlord. Property traders had no time or inclination to form a relationship with their tenants; they did not need to since they were not in it for the long term.

If you wanted any justification for this approach you have only to look at the numbers. Over the three years 2004-06 the

Figure 4: Property returns 1981-2010



Source: IPD History SWIP Forecasts

annualised total return from property was 18.5% yet income accounted for only 30% (5.6% pa) of this figure.

However, moving forward, the expectation is for the current decline in capital values to moderate during 2008 and over the longer term for capital growth to move more in line with rental growth and to form a smaller proportion of total returns than income (Figure 4). Trading will no longer be a recipe for instant financial gratification.

Return to active asset management

In an environment where lower levels of turnover re-establish themselves as the norm, initial stock selection will be vital. History has shown that stock selection has a greater impact on fund performance relative to a benchmark than sector allocation. Only in certain years has the sector allocation within funds (i.e. being in retail, offices or industrial) become almost as important as individual stock choice and these tend to be years when the range of returns between the different sectors is at its greatest. This relates primarily to phases when the most volatile segments, such as central London offices, are outperforming or underperforming: suggesting that the primary check on sector exposure should be on these riskier parts of the market, whilst continuing to maintain good stock selection skills.

Before moving on let me throw in one more statistic. A former colleague once said that 'quantity has a quality all of its own'. This seems particularly apposite to thinking about the income return on property assets which over a 27-year period to end 2007 provided on average 60% of the total return. Working the income and income management are again likely to become one of the most important ways of achieving outperformance.

At a property level income management is about timely collection, rent reviews, lettings, expiries, renewals, the exercise of break clauses and the careful handling of tenants who encounter financial difficulties.

There are also things to be done at a portfolio level, as it is important to ensure that the income risks for the portfolio as a whole are understood and managed. Translating the analogy, 'for an engine to run smoothly the cylinders need to fire in sequence', to a property portfolio means looking at lease terms to avoid (or manage) groupings of rent reviews or expiries that could coincide with a weaker tenant market. By dissecting portfolio income the fund manager can also better assess the relative risks of prime vs. secondary, large vs. small, single lets vs. multi-lets and long leases vs. short leases. This approach allows a more rational assessment to be made of the risk premium at both portfolio and individual asset level, and can lead to some interesting conclusions: for example that a portfolio let to many weaker covenants can, on a risk-adjusted basis, look better value than another portfolio let to a fewer number of well regarded covenants.

Growing income through development and added value opportunities is also essential, not just to drive rental value growth but in some instances to maintain value. However this comes with risks that need to be understood. Speculative large scale development, in particular, sits at the high end of the risk spectrum. Timing is critical for development, the upside potential is great if the timing is right but so is the downside if it is not. In the early 1990s, developments were often a drag on performance as the completion of too many speculative schemes coincided with the downturn in the occupational markets. Development is of course a long process and the time taken to work up schemes from initial site assembly through planning, construction and eventual letting means the investor must look not just to the current occupational market but to the market that is expected to exist when the asset is delivered. Unfortunately it is all too easy to convince one self in a strong market to press ahead with new development, even though conditions may change markedly between a start on site and the delivery of the end product.

At the less risky end of the spectrum are a range of value-added opportunities. In many instances these carry low risk but high potential and often are centred around understanding and responding to the existing occupier's needs. In this context multi-let properties are the asset of choice, as some level of existing income can often be maintained, whilst allowing occupiers to benefit from an improved building specification or the chance to reconfigure their occupation to accommodate an increase or decrease in their space requirements.

So is it back to basics, or back to the future? Well probably both. The 'hot' money appears to have left the real estate sector, at least for the time being, and the strengths of the experienced and skilful property professional should reassert themselves. A feature of the credit crisis has been the rapid move away from risk in all types of assets. In a rising market, problems (lease expiries, vacancies etc) were seen as opportunities, now many purchasers are simply seeing these as high risk and avoiding the asset class altogether. Removing all risk limits the potential upside as we move into the next cycle but we have to manage that risk correctly if we are not to suffer in this one.

European Consensus Forecasts May 2008

This is the fourth Investment Property Forum consensus survey of European office market rental forecasts. The survey brings together prime rental forecasts undertaken by European property analysts in much the same way as the IPF UK Consensus Forecast does for the UK markets.

At present the IPF only releases the **European Consensus Forecasts** survey on office rental value growth in major cities. It is not possible as yet to assemble sufficient forecasts of all sectors across all European countries to produce a meaningful consensus of views. However, for the second time in this forecast, in addition to the rental value forecasts, we have run a consensus survey of forecast IPD European total returns by sector. The samples provided for this survey were once again small, and not sufficient to permit publication. We plan to provide a full release of this data as soon as the number of responses has grown sufficiently.

The data

Contributors are asked to provide prime office rental forecasts for 24 major European centres. The growth forecasts provided by each organisation are then analysed to provide average ('consensus') figures for each market.

This latest survey collected prime office rental forecasts for 24 major European office centres for the calendar years 2008, 2009 and 2010. We requested a three-year average forecast for 2008-10 if individual years were not available, and a five-year average for 2008-12. The survey requested both the percentage annual rental growth rates and also year-end rent levels.

The definition of market rent used in the survey is 'achievable prime rental values for city centre offices, based on buildings of representative size with representative lease terms for modern structures in the best location.' Prime in this case does not mean headline rents taken from individual buildings, but rather rental levels based on market evidence, which can be replicated. All figures included in the survey are required to have been generated by formal forecasting models. It should be emphasised that the survey records nominal rather than real growth rates.

Data from nine organisations was included in the pilot study survey in Spring 2006. The number of contributors rose to 11 for the first full survey which was completed in November 2006, and reached 13 for both the 2007 surveys. 15 organisations contributed to the latest survey, and we hope to expand the pool of contributors further in the future.

2008 and 2009 rental forecasts hit by market turbulence throughout Europe

Although it is expected that rental values in most European markets will continue to rise in over the next two years, the latest IPF European consensus forecasts for 2008-09 show that expectations have dropped since the previous survey last November.

After its rapid growth of recent years, the City of London is forecast to show falls in rents of 3.6% in 2008 and 5.4% in 2009. The City is the first major European rental market set for a decline, but is forecast to be followed by Madrid and London's West End in 2009.

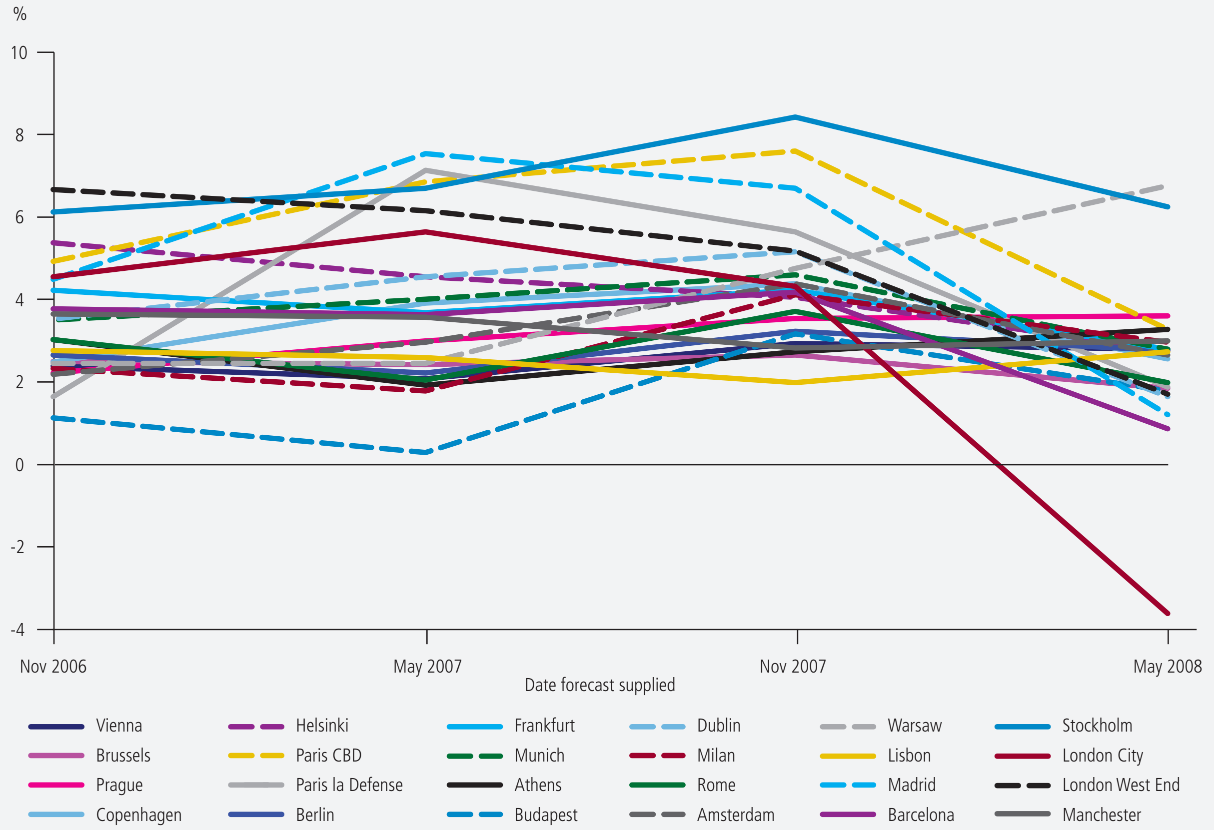
All but five of the 24 centres covered have had their forecasts for 2008 revised downward, with Paris CBD showing the largest adjustment outside the UK, from 7.6% to 3.3%. The Madrid and Dublin forecasts have both been strongly downgraded, shifting them from the top half to the bottom half of the 2008 forecast league table.

Figure 1: European office market prime rent forecasts

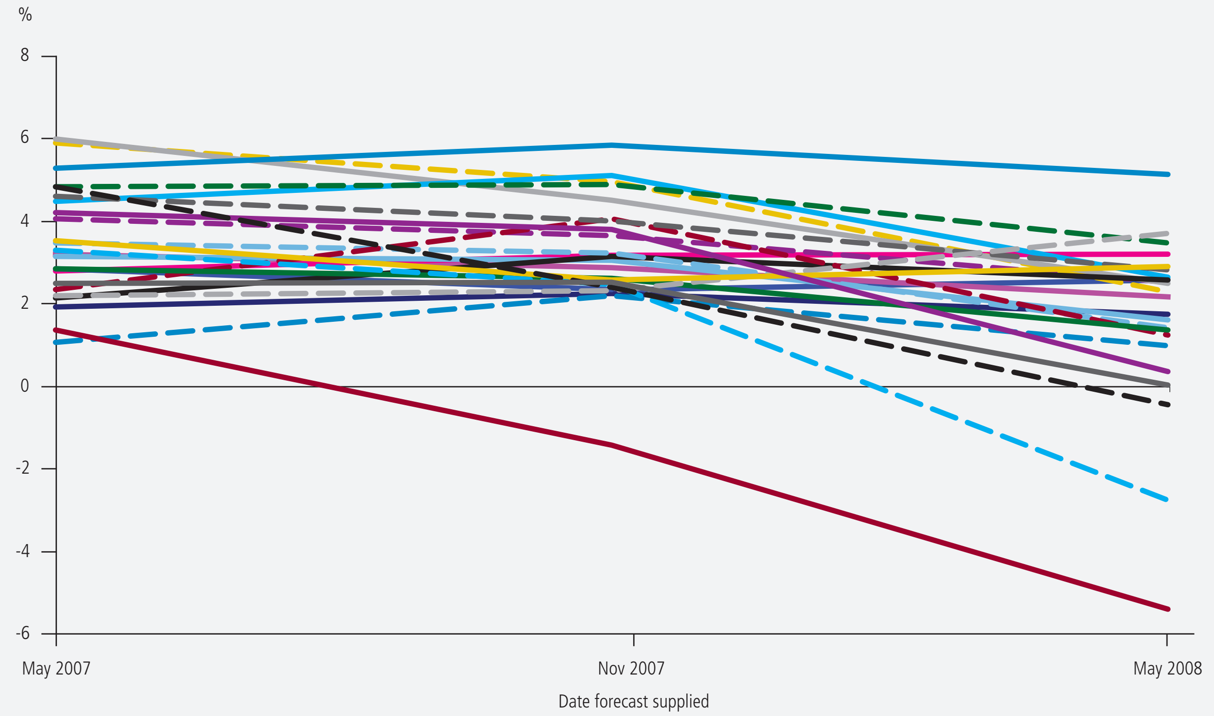
	Year rental growth forecast % pa			3-year forecast 2008-10 % pa	5-year forecast 2008-12 % pa
	2008	2009	2010		
Vienna	2.8	1.7	1.4	2.0	1.8
Brussels	1.8	2.2	2.6	2.2	2.3
Prague	3.6	3.2	2.7	3.2	3.2
Copenhagen	2.6	1.6	1.3	1.8	1.9
Helsinki	2.7	2.5	2.5	2.6	2.7
Paris CBD	3.3	2.3	1.8	2.4	2.9
Paris la Defense	1.9	2.5	2.9	2.4	3.2
Berlin	2.7	2.6	1.9	2.4	2.3
Frankfurt	2.8	2.6	2.8	2.7	2.7
Munich	2.8	3.5	2.7	3.0	3.0
Athens	3.2	2.6	3.1	3.0	3.0
Budapest	1.8	1.0	1.6	1.4	1.7
Dublin	1.6	1.4	2.1	1.7	2.6
Milan	2.9	1.2	1.8	2.0	2.7
Rome	2.0	1.3	2.2	1.8	2.7
Amsterdam	2.6	2.8	2.9	2.8	3.0
Warsaw	6.7	3.7	1.4	3.9	1.8
Lisbon	2.7	2.9	2.4	2.7	3.0
Madrid	1.2	-2.8	-1.1	-0.9	0.8
Barcelona	0.9	0.4	2.1	1.1	1.9
Stockholm	6.2	5.1	2.7	4.7	3.7
London City	-3.6	-5.4	-1.3	-3.5	-0.3
London West End	1.7	-0.4	2.3	1.2	2.5
Manchester	3.0	0.0	0.7	1.2	1.9

Figure 2: Retail growth forecasts for 2008 & 2009

Forecast for 2008



Forecast for 2009



Warsaw rising, Stockholm solid for 2008

Warsaw stands out as not only the top ranked location for 2008, with forecast growth of 6.7%, but also as the only European centre to be significantly upgraded. Prague, Athens, Lisbon and Manchester saw minor up-ratings.

Although Stockholm's forecast was reduced somewhat, it has been consistently forecast as one of the top four locations for rental growth in each of the IPF surveys completed 2006-08. Paris CBD is also among the strongest centres, despite its substantial downgrading.

Apart from Warsaw and Stockholm at the top, and the City of London at the bottom, all forecast growth rates fall within the range 0.9% – 3.6%.

Rental growth expectations remain positive for 2009 despite write-downs

Expectations for 2009 are generally somewhat lower than for 2008, but remain positive in nominal terms across most of Europe. The write-downs against the November 2007 survey are rather smaller than for the 2008 forecasts, as one might expect for the longer-term horizon.

Nevertheless, the City of London forecast has once again been revised hard, as have the Spanish markets of Madrid and Barcelona. These were formerly amongst the strongest European centres. Stockholm continues to show resilience for 2009, and as for 2008 has consistently been amongst the forecasters' favourites. Meanwhile Milan and Rome look set to weaken significantly against 2008 growth rates.

Notes

Consensus Forecasts further the objective of the Investment Property Forum to improve the efficiency of the market. The IPF is extremely grateful for the support those organisations which contributed to this publication, which has only been possible thanks to the provision of the individual forecasts.

The IPF welcomes new contributors for future surveys, so that the coverage of the market participants can be widened. If your organisation wishes to contribute to future surveys please contact Tim Horsey, consultant to IPF, at timhorsey@hotmail.com

Please note that subscribers receive a much more detailed set of statistical outputs than those shown in the table above – for each office centre the sample size, median and range of rental values are also provided.

Disclaimer

The IPF Consensus Survey of European office market rental forecasts is for information purposes only. The information therein is believed to be correct, but cannot be guaranteed, and the opinions expressed in it constitute our judgment as of the date of publication but are subject to change. Reliance should not be placed on the information and opinions set out therein for the purposes of any particular transaction or advice. The IPF cannot accept any liability arising from any use of the publication.

List of Contributors to the IPF European Consensus Forecasts, May 2008

Aberdeen Property Investors
AEW Europe
Cushman & Wakefield
Eurohypo
Experian
Goodman International
Henderson Asset Management
ING Real Estate
Invesco
Jones Lang LaSalle
King Sturge
Morley Fund Management
PMRECON
Standard Life Investments
One contributor wishes to remain anonymous.

UK Consensus Forecasts June 2008

This quarterly survey looks at property investment market forecasts and offers an insight into the range of forecasts of future property performance gathered from over 30 companies including fund managers, property advisors and equity brokers. The survey has become a key indicator of the UK commercial property market's performance expectations.

The latest IPF Consensus Forecast shows a continuation of last quarter's downward revision of commercial property returns. The consensus total return forecast for 2008 at the all property level is -5.2%, down from -2.6% last quarter. This expectation of worsening performance is replicated across all sectors for 2008 and is driven by further reductions in capital and rental value growth expectations.

The City and West End office markets are again badly affected as confidence in the financial services sector weakens. The City of London office market is forecast negative rental and capital value growth throughout the three and five year view in this quarter's forecast. The forecasts for West End offices are also weaker with rental and capital value growth both substantially reduced for 2008 and negative for 2009.

The forecast recovery shown for 2009 in the last two surveys now looks less certain. The improved total return figures reported for 2009 in the last survey have fallen back and, whilst still showing an improvement on 2008, are nonetheless weaker. This is particularly the case for West End and City offices which are now showing below inflation and negative total returns respectively for 2009.

The 2010 forecasts show improving total returns on the back of stronger capital value growth and a limited return to positive rental value growth. However these figures are also lower than those reported last quarter. Having been clustered around a 6% return last quarter the five-year forecast has dropped to 5.4%.

These markedly weaker figures than those reported in Q1 of 2008, appear to reflect growing concerns regarding the wider economy. The UK economy grew by 0.4% in Q1 2008, down from 0.7% in Q4 2007. The Treasury consensus of economic forecasts predicts GDP of 1.7% for 2008 and 1.5% for 2009. This is a significant downward shift from the 2% GDP predicted for 2009 last quarter.

Production industry output[1] has fallen in the last quarter, and growth in the service sector has slowed from 0.7% to 0.5%, with business and services particularly affected. Retail sales volumes also experience slower growth this quarter, with sales in household goods stores particularly affected. In contrast, sales in the retail sector that incorporates games, mobile phone and sports stores increased by 5.3%, the largest growth in the series.

The employment data is giving mixed messages this quarter. The employment rate has increased again and at 74.9% remains the highest since comparable records began in 1971. The number of working age people in employment increased by 117,000 in Q1 2008, the number of job vacancies increased and the number of hours worked also increased. In contrast, the number of unemployed people increased by 14,000 in Q1.

Continued concerns regarding economic growth and the housing market led to a further ¼ point cut in the Bank of England base rate to 5% in April 2008. However, concerns about inflation remain strong, with CPI reaching 3% in April and expected to remain at or about this level for the next 12 months. As might be expected, rising fuel and food prices were largely behind this increase. The latest HM Treasury economic consensus forecasts for 2008[2] forecast CPI at 3% for 2008 and 2.2% for 2009.

Key points

The consensus forecast all property total return in 2008 has moved down sharply for the third quarter in a row, falling from -2.6% to -5.2%. Rental and capital value forecasts for all sectors have been revised downwards for 2008 and 2009.

- Both the office and industrial sector total return forecasts have been revised sharply downwards, but retail warehousing remains expected to be the lowest performer for 2008. It is expected to be eclipsed in 2009 by the office sector in light of substantial reductions in both rental and capital value growth figures.
- The City and West End office sub-sectors have seen continued significant reductions in both rental and capital value growth forecasts. The consensus forecast shows negative rental value growth for City offices throughout the three- and five-year views.
- The partial recovery suggested for 2009 in the last forecast as been replaced by continued falling capital value growth as yields are expected to move out further next year, in spite of sharp adjustments in 2008. This quarter's consensus forecast suggests a longer downturn than was perhaps forecast in Q1.

The substantial downward revisions in forecasts for all sectors in the last two surveys are further reinforced this quarter.

- All sectors are showing negative capital value growth forecasts for 2008 and 2009, with the exception of standard shops with a mean forecast capital value growth of 0.1% in 2009, matching is forecast rental value growth figure.
- Rental value growth has also been revised downwards for all sectors in all years, including the 5 year view. City and West End offices again show the biggest falls.
- City offices expected total return performance for 2008 has fallen from -4.8% to -9.5%, driven by further downward revisions in expected capital value growth and rental value growth forecasts. City and West office total returns are expected to bounce back in 2010 on the back of stronger capital value growth performance.

2 Source: HM Treasury, Forecasts for the UK Economy, May 23, 2008

1 Source: National Statistics, May 2008.

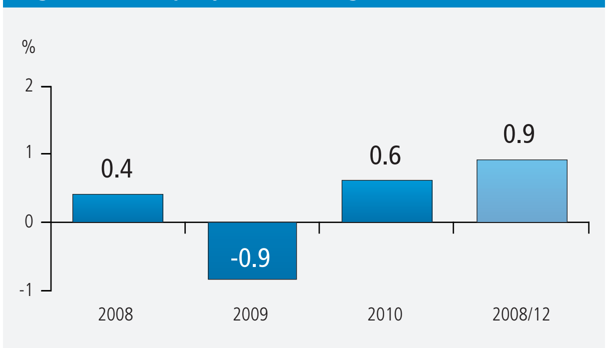
- Retail rental value growth forecasts have weakened further for both 2008 and 2009 and remain below inflation for the three- and five-year forecast views. The improved capital value growth forecasts for 2009 and 2010 seen last quarter have been revised downwards again.
- Total return forecasts for the industrial sector have moved down sharply this quarter. Both rental and capital value growth is now expected to continue to be negative for this sector into 2009.
- The forecasts for 2010 reflect expectations of a recovery at that stage. However, these figures have been revised downwards since last quarter, all-offices and the office subsectors most substantially.
- The five-year view continues to show above inflation total returns for all sectors except City offices, but by a reduced margin on last quarter.

All Property rental value growth forecasts

The All Property mean rental growth forecast for 2008 and 2009 fell back further this quarter. Mean rental growth forecasts turned negative for 2009 suggesting a weaker occupier market than previously expected.

Whilst the 2010 figures show signs of an improvement in performance, there is no expectation of a return to above inflation rental growth for the five-year view and these figures are weaker than those polled in Q1 2008.

Figure 1: All Property rental value growth forecasts



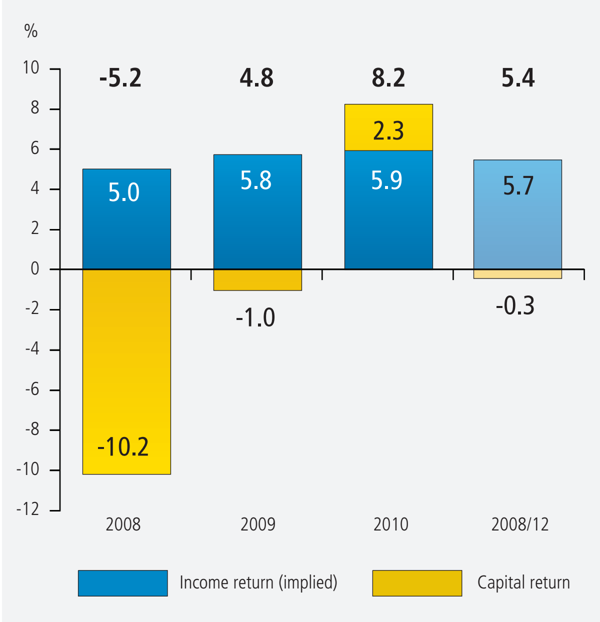
All Property total return forecasts

The consensus view shows further downward revision to total return forecasts for 2008 as capital growth predictions fall back further.

The more upbeat predictions of the previous two quarters for 2009 have also been scaled back with only 2010 figures showing any marked improvement.

The five-year view still shows positive, real total returns at the All Property level but these have also fallen, again as a result of lower capital growth forecasts.

Figure 2: All Property total return forecasts



All Property survey results by contributor type (Forecasts in brackets are November 2007 comparisons)

Figure 3: Property advisors and research consultancies (10 contributors)

	Rental value growth %			Capital value growth %			Total return %		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Maximum	3.2 (3.7)	0.9 (2.0)	2.2 (2.9)	-8.0 (-3.8)	2.0 (6.9)	4.8 (5.0)	-3.1 (1.5)	8.0 (13.1)	10.9 (11.1)
Minimum	-2.5 (-1.7)	-4.4 (-3.5)	-1.2 (-0.5)	-13.5 (-12.5)	-6.6 (-5.5)	-0.9 (-0.2)	-9.1 (-8.1)	-0.9 (0.1)	5.6 (6.2)
Range	5.7 (5.4)	5.3 (5.5)	3.4 (3.4)	5.5 (8.7)	8.6 (12.4)	5.7 (5.2)	6.0 (9.6)	8.9 (13.0)	5.3 (4.9)
Median	0.9 (1.5)	-0.1 (1.0)	1.3 (2.0)	-9.2 (-6.5)	0.3 (1.6)	3.5 (3.1)	-4.5 (-1.0)	6.1 (7.3)	9.6 (9.1)
Mean	0.6 (1.3)	-0.7 (0.6)	0.9 (1.7)	-9.9 (-7.3)	-0.6 (1.5)	3.1 (3.0)	-5.1 (-2.3)	5.2 (7.3)	9.1 (8.9)

Figure 4: Fund managers (13 contributors)

	Rental value growth %			Capital value growth %			Total return %		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Maximum	2.0 (2.4)	0.9 (2.0)	1.5 (2.3)	-5.9 (-4.9)	3.4 (4.4)	6.6 (6.2)	-0.5 (0.4)	9.2 (10.4)	12.2 (12.8)
Minimum	-0.6 (0.4)	-2.0 (0.0)	-1.2 (0.2)	-17.1 (-11.0)	-5.3 (-1.6)	-0.3 (-0.3)	-12.2 (-5.7)	0.8 (4.2)	6.0 (5.9)
Range	2.6 (2.0)	2.9 (2.0)	2.7 (2.1)	11.2 (6.1)	8.7 (6.0)	6.9 (6.5)	11.7 (6.1)	8.4 (6.2)	6.2 (6.9)
Median	0.9 (1.3)	-0.8 (0.9)	0.9 (1.6)	-10.0 (-8.1)	0.0 (1.0)	1.5 (2.0)	-5.0 (-3.1)	5.8 (6.1)	7.5 (7.8)
Mean	0.7 (1.4)	-0.5 (0.9)	0.6 (1.4)	-10.5 (-7.9)	-0.5 (0.8)	2.2 (2.3)	-5.4 (-2.6)	5.4 (6.7)	8.2 (8.3)

Figure 5: Equity brokers (4 contributors)

	Rental value growth %			Capital value growth %			Total return %		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Maximum	0.5 (1.0)	0.0 (1.0)	1.5 (2.0)	-6.0 (-4.0)	-1.4 (-1.0)	1.5 (2.0)	-1.0 (1.0)	3.6 (5.2)	6.5 (7.0)
Minimum	-2.8 (-2.5)	-6.9 (-6.1)	-2.2 (-1.7)	-14.0 (-12.0)	-5.9 (-5.7)	-0.3 (-0.2)	-9.0 (-6.7)	0.1 (0.2)	5.0 (6.1)
Range	3.3 (3.5)	6.9 (7.1)	3.7 (3.7)	8.0 (8.0)	4.5 (4.7)	1.8 (2.2)	8.0 (7.7)	3.5 (5.0)	1.5 (0.9)
Median	-1.4 (-0.3)	-2.2 (-1.2)	0.4 (0.5)	-10.0 (-10.4)	-4.0 (-2.0)	0.4 (1.0)	-5.1 (-5.1)	1.0 (3.0)	5.9 (6.7)
Mean	-1.3 (-0.5)	-2.8 (-1.9)	0.0 (0.3)	-10.0 (-9.2)	-3.8 (-2.7)	0.5 (1.0)	-5.0 (-4.0)	1.4 (2.9)	5.8 (6.6)

Figure 6: All forecasters (27 contributors)

	Rental value growth %			Capital value growth %			Total return %		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Maximum	3.2 (3.7)	0.9 (2.0)	2.2 (2.9)	-5.9 (-3.8)	3.4 (6.9)	6.6 (6.2)	-0.5 (1.5)	9.2 (13.1)	12.2 (12.8)
Minimum	-2.8 (-2.5)	-6.9 (-6.1)	-2.2 (-1.7)	-17.1 (-12.5)	-6.6 (-5.7)	-0.9 (-0.3)	-12.2 (-8.1)	-0.9 (0.1)	5.0 (5.9)
Range	6.0 (6.2)	7.8 (8.1)	4.4 (4.6)	11.2 (8.7)	10.0 (12.6)	7.5 (6.5)	11.7 (9.6)	10.1 (13.0)	7.2 (6.9)
Std. Dev.	1.4 (1.2)	1.7 (1.6)	1.0 (1.0)	2.5 (2.6)	2.9 (2.4)	2.0 (1.7)	2.6 (2.7)	3.0 (2.5)	2.0 (1.7)
Median	0.5 (1.2)	-0.8 (0.9)	0.9 (1.6)	-9.9 (-8.0)	-0.5 (1.2)	1.6 (2.2)	-4.9 (-2.8)	5.1 (6.8)	7.5 (8.0)
Mean	0.4 (1.1)	-0.9 (0.5)	0.6 (1.4)	-10.2 (-7.8)	-1.0 (0.7)	2.3 (2.4)	-5.2 (-2.6)	4.7 (6.5)	8.2 (8.4)

Notes

1. Figures are subject to rounding, and are forecasts of All Property or relevant segment Annual Index measures published by the Investment Property Databank. These measures relate to standing investments only, meaning that the effects of transaction activity, developments and certain active management initiatives are specifically excluded.

2. To qualify, all forecasts were produced no more than three months prior to the survey.

3. Maximum: The strongest growth or return forecast in the survey under each heading.

4. Minimum: The weakest growth or return forecast in the survey under each heading.

5. Range: The difference between the maximum and minimum figures in the survey.

6. Median: The middle forecast when all observations are ranked in order. The average of the middle two forecasts is taken where there is an even number of observations.

7. Mean: The arithmetic mean of all forecasts in the survey under each heading. All views carry equal weight.

8. Standard deviation: A statistical measure of the spread of forecasts around the mean. Calculated at the 'all forecasters' level only.

Survey summary results by sector

Figure 7: Sector summary

	Rental value growth %				Capital value growth %				Total return %			
	2008	2009	2010	2008-12	2008	2009	2010	2008-12	2008	2009	2010	2008-12
Office	0.1	-2.8	-0.5	0.4	-10.6	-2.7	1.5	-1.0	-5.7	3.0	7.5	4.8
Industrial	0.2	-0.3	0.7	0.7	-10.4	-1.0	1.7	-0.8	-4.8	5.5	8.4	5.7
Standard shops	0.4	0.1	0.8	1.1	-9.4	0.1	2.6	0.0	-4.5	5.7	8.4	5.5
Shopping centres	0.7	0.5	1.5	1.6	-9.2	-0.3	2.3	-0.1	-4.3	5.4	8.1	5.5
Retail warehouse	0.0	0.3	1.7	1.7	-10.9	-0.2	3.3	0.5	-6.3	5.2	8.9	5.7
All Property	**0.4**	**-0.9**	**0.6**	**0.9**	**-10.2**	**-1.0**	**2.3**	**-0.3**	**-5.2**	**4.7**	**8.2**	**5.4**
West End offices	2.1	-1.8	0.6	1.7	-10.2	-1.9	2.3	-0.3	-6.1	3.0	7.6	4.8
City offices	-3.1	-8.1	-2.7	-1.9	-14.1	-7.5	-0.1	-3.4	-9.5	-2.0	6.0	2.3
Office (all)	0.1	-2.8	-0.5	0.4	-10.6	-2.7	1.5	-1.0	-5.7	3.0	7.5	4.8

The 27 contributors to this quarter's forecasts at the All Property level included 11 property advisors, 13 fund managers and 4 equity brokers. Of these, 26 provided sector forecasts. In addition, 22 contributors provided West End office segment forecasts and 21 City office segment forecasts, (9 property advisors, 10 fund managers and 3 equity brokers). Out of the 27 forecasts 4 were updated in March 2008, 8 in April 2008 and 15 in May 2008.

Notes

Consensus forecasts further the objective of the Investment Property Forum to improve the efficiency of the market. The IPF is extremely grateful for the continuing support of the contributors as noted on the last page of this publication. This publication is only possible thanks to the provision of the individual forecasts.

If your organisation wishes to contribute to future surveys please contact the IPF Research Director at lellison@ipf.org.uk.

The sector figures are not analysed by contributor type, with all figures shown at the all-forecaster level.

In the charts and tables 'All Property' figures are for the full 34 contributors while the sector forecasts are for the reduced sample (30) of contributors.

Acknowledgements

The Investment Property Forum wishes to thank the following organisations for contributing to the IPF UK Consensus Forecasts in May 2008:

Property advisors (includes research consultancies): Capital Economics, CBRE, Cushman and Wakefield, Experian BSL, Fletcher King, GVA Grimley, IPD, Jones Lang LaSalle, King Sturge, Paul Mitchell Real Estate Consultancy, Real Estate Forecasting Limited.

Fund managers: Cordea Savills, F&C Property Asset Management, Goodman Property Investors, HSBC Real Estate Multimanager, ING REIM (UK) Ltd, Invista REIM, Morley Fund Management, Prudential Property Investment Managers, RREEF Ltd, Schroder Property Investment Management, Standard Life, SWIP.

Equity brokers: Exane BNP Paribas, Merrill Lynch, Morgan Stanley and one that wishes to remain anonymous.

Disclaimer

The IPF Survey of Independent Forecasts UK Property Investment is for information purposes only. The information therein is believed to be correct, but cannot be guaranteed, and the opinions expressed in it constitute our judgment as of the date of publication but are subject to change. Reliance should not be placed on the information and opinions set out therein for the purposes of any particular transaction or advice. The IPF cannot accept any liability arising from any use of the publication.

Forum activities and announcements

Website launch

We have been very busy recently launching our new website. Please take a look if you haven't as yet had the chance. To access all the articles in the Archives sections, you will need to login first, using the username and password as previously supplied. The password has been randomly generated but can be changed easily, once you have logged in, to something more memorable if you have not done so already.

We will be launching additional functionality over the coming months. If you have any comments or problems accessing the website, please contact Vivienne Wootten, Membership and Marketing Director, vwootten@ipf.org.uk

IPF career support

With the downturn in the market looking set to run through 2008 and possibly beyond, the Investment Property Forum (IPF) is putting a number of initiatives in place to help members who may be facing redundancy. These include:

- Making evening and breakfast seminars free of charge to members so that they can keep up to date with what is happening in the market and maintain and enhance their industry contacts;
- Launching a job site on the members' section of the IPF website. This is now in place and prospective employers are invited to submit details of jobs that would be appropriate for the IPF membership, which comprises fund managers, investment agents, lending and investment bankers, lawyers, accountants and other related professions;
- Identifying around 20 senior IPF members across the different specialisations within property investment and finance who are willing to provide informal careers advice to any fellow members made redundant; and
- Facilitating self-help groups amongst those members affected.

Alastair Ross Goobey memorial lecture

As many of you know, Alastair Ross Goobey, a former President of the IPF, died in February this year. The IPF Management Board has decided that the most appropriate way to commemorate him is by holding a memorial lecture by a prominent international figure.

More information on this will follow in the Autumn.

Education

Investment Education Programme – the IPF's formal postgraduate programme of modules

Portfolio Management, the final module from the 2007-08 programme is due to take place on 2-4 September 2008.

The next round of modules is due to begin in September 2008. For information about these modules, please contact Frankie Clay, Education & Research Manager, fclay@ipf.org.uk

Events

Recent Events

IPF Annual Dinner, The Grosvenor House Hotel, London
25 June 2008

The IPF Annual Dinner took place at the Grosvenor House Hotel on Wednesday 25 June 2008. This superb event, attended by over 1,400 investment professionals, marked the start of our 20th anniversary celebrations. Speeches from our new Chairman, Andrew Hynard and also from the IPF's first Chairman, Adrian Wyatt, were then followed by our after dinner speaker, Ian Hislop, who answered several questions from the audience and provided an interesting behind the scenes insight from Have I Got News For You. Following the Dinner, guests took part in our charity casino which raised over £6,000 for this year's nominated charity, the Alzheimer's Society.

Future dates for your diary

IPF Midlands Region Annual Dinner
The ICC, Birmingham, 16 October 2008

IPF Northern Region Annual Dinner
The Lowry, Manchester, 19 November 2008

IPD/IPF Annual Property Investment Conference
The Grand, Brighton, 27-28 November 2008

IPF Annual Lunch
Grosvenor House, London, 28 January 2009

IPF Scotland Dinner
Kelvingrove Art Gallery, Glasgow, 26 February 2009

IPF Midlands Region Annual Lunch
The ICC, Birmingham, 24 April 2009

Special Interest Groups

Property Derivatives Interest Group (PDIG)

The second PDIG breakfast for this year took place on 1 May. This was a joint event where both the Q1 derivatives trading volumes and the Q1 IPD index figures were announced. Both sets of figures will be published by IPD at the same time from now on, making this joint format a logical way of running the breakfasts.

PDIG has established a technical sub-committee to focus on educational issues. This is being chaired by Tony Yu (ING). PDIG plans to publish a booklet in early September on preparing to trade in property derivatives.

A link is being developed between PDIG and the BPF derivatives group to ensure there is some cross-industry co-ordination and communication on derivatives issues. Nick Scarles (PDIG Chairman) is on the BPF committee.

The next PDIG breakfast is scheduled for the 31 July 2008 and will once again be held in conjunction with IPD.

Sustainability Interest Group

The Sustainability Interest Group breakfast event held in May was very successful. Over 70 people attended to hear presentations from David Vincent (Carbon Trust), Tony Bennett (PRUPIM), Greg Hughes (Climate Change Capital). The event was chaired by Chris Brigstocke (Hammonds) and was kindly hosted by Grosvenor.

The next Sustainability Interest Group breakfast will be held in the Autumn.

For more information on the IPF Special Interest Groups, please go to the IPF website.

Research

The IPF Research Programme 2006-09 has published the following reports recently:

- Alpha and Persistence in UK Property Portfolios
- Implications for the Strategic Development of UK REITs from the Experience of LPTs in Australia
- Retail Investor Attitudes to Commercial Property Investment

Both reports are available to members to download for free from the IPF website.

We are expecting to publish the following reports in the coming months:

- UK REITs: What can be learnt from the US Experience?
- Green Leases – The Landlord and Tenant Relationship as a Driver of more Sustainable Property Occupation, Management and Ownership
- Occupier Demand for Sustainable Buildings
- The Development of a Sustainable Property Investment Index – IPD/IPF 4 Good
- Depreciation of Office Investment Property in Europe
- The Treatment of Covenant Strength by the Property Industry (University of Aberdeen)
- The Cost of Low Carbon Building Improvements (Cyril Sweett Limited)
- Evaluation of Investment Vehicles in Urban Regeneration: a scoping study (University of Ulster)

Publication will be announced on the website.

In July we will be publishing our second IPF Research Newsletter. The newsletter has links to all our downloadable reports.

Investment Property Forum

20 YEARS OF THE IPF 1988-2008

Northern Region Dinner 2008

Wednesday 19 November 2008 19:00 for 19:30 | Black Tie

The Lowry Hotel, 50 Dearmans Place, Chapel Wharf, Salford, Manchester M3 5LH

Ticket Price £80.00 + VAT per person (total £94.00 excluding wine and liqueurs)

After Dinner Speaker
Comedian John Bishop

John Bishop performed stand-up comedy for the first time in October 2000, and the following year made it to the final of all the major new act competitions, including So You Think You're Funny, the Daily Telegraph Open Mic Awards, the BBC New Comedy Awards and the City Life North West Comedian of The Year Award, which he won.

In 2002, he was named best newcomer by BBC Radio Merseyside, and in 2004 he won the North West Comedy Award for best stand-up. Following a national tour, he is performing at this year's Edinburgh Fringe Festival.

His material is drawn from his life's experiences, from fatherhood to cycling around the world, to playing semi- professional football, to working as a nightclub doorman.

Please reserve tables for the Northern Region Dinner by completing a booking form and returning it with payment, as soon as possible. Tables will be for ten. Individual bookings can be made and, in this case, please indicate if you wish to join a table with specific people. All business associates and colleagues are welcome.

For more information or to book, please contact Elizabeth Durrant on 07780 924248 or email edurrant@ipf.org.uk

This event is kindly sponsored by:

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