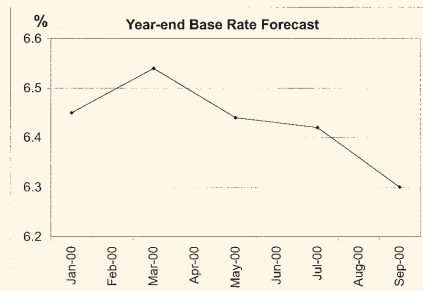


Economic growth

Fears of a 'two-speed' economy subside as the service/manufacturing sector growth rate differential narrows.

Interest rates

The slowing rate of GDP growth indicates a benign environment for the bank base rate for the rest of 2000 and into 2001.



Property Market Overview

The annual property total return (12.6%) continues to out-strip equities (9.5%) and gilts (8.7%). Property also produced the strongest quarterly total return, at 2.3%.

Record net investment

Property saw the highest quarterly net investment ever recorded in the second quarter. Pension funds look set to increase their portfolio weighting in property. Foreign investment grows strongly in the third quarter.

Total return forecasts

Investment Property Forum has produced 3-year forecasts which average 10.7% p.a. Rental growth rates are expected to slow in line with economic growth.

Office

Quarterly rental growth to September (2.3%) was strong relative to the industrial (0.8%) and retail (0.8%) sectors. Rental levels have

reached all-time highs in central London, but the analysis of the fundamentals shows there is little chance of a 'bust' following this 'boom'. Investors remain cautious following the strong rental growth, focussing on high

initial yields. The M25 investment market slowed in the second quarter after frenetic activity in the first quarter. Record rents are expected in Leeds and Manchester in the short term, attracting investor interest.

Retail

The downward trend in quarterly returns continues. The IPD high street annual return to September is 7.1%, while securitisation offers some much-needed innovation in the retail investment market.

Industrial

Yields across the regions look set to converge as investors find opportunities outside the South East. Proximity to broadband Internet services is stimulating speculative development.

Economic Overview

Slowdown in GDP growth rate

Economic growth slowed in the third quarter to 0.7%, from 0.9% in the second quarter. The service/manufacturing sector imbalance appears to be less pronounced as manufacturing output grew strongly on the back of demand for mobile phones and computer equipment. Meanwhile, telecommunications, financial services and computing reported significantly weaker growth than in the second quarter.

Less upside risk for the base rate

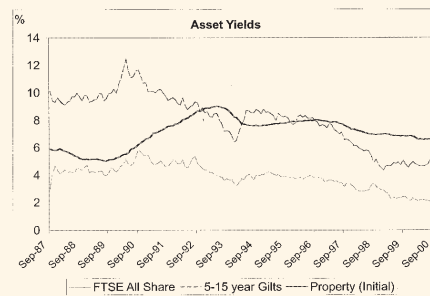
The latest survey of independent forecasters by HM Treasury shows a downward trend in year-end forecasts for

base rates. This looks set to continue, given the latest economic data. Average private sector pay settlements fell to 3% in the 3 months to September, according to Industrial Relations Services, compared to 3.1% in the 3 months to August. National Statistics data revealed a 3.9% annual increase in average earnings in August. This is 0.6 percentage points below the rate deemed to be sustainable in the long term by the government.

Property Market Overview

In August, gilt yields climbed above 5% for the first time since September 1999. The property-gilt reverse yield gap now stands at 1.6 percentage points, down from the record high of 2.66 recorded in January 1999. However, in early October (not included in Asset Yields chart), long gilt yields moved sharply downwards. Gilt annual returns continued the upward trend seen throughout most of 2000

and now stands at 8.7%, whilst property stands at 12.6%. Quarterly rental value slowed to 1.2%, the lowest rise since July last year, as industrial growth rates fell back.

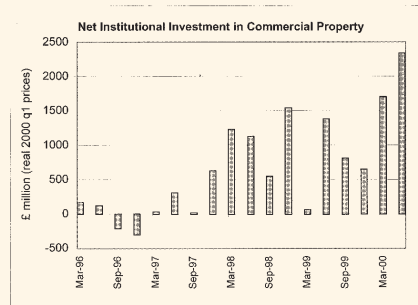


Source: IPD

Record net investment in the second quarter

Net institutional investment in commercial property stood at £2.4 billion in the second quarter of 2000, according to National Statistics. This is the highest quarterly total ever recorded (in real terms). Net investment in the first half of 2000 stood at £4.1 billion, which is higher, in real terms, than the annual total net investment in all but three years since 1980.

Total institutional investment turnover amounted to £6.9 billion, up from £4 billion in the previous quarter. Purchases rose to £4.6 billion in the second quarter, compared to £2.9 billion in the previous 3 months. Sales (£2.3 billion) saw a 92% increase from the first to the second quarter.



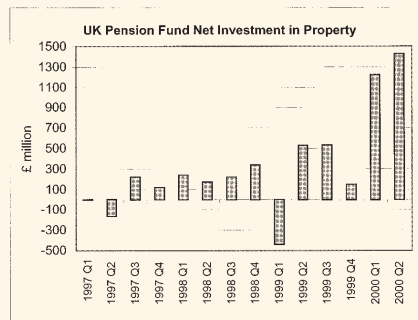
Source: National Statistics

Possible increase in portfolio weighting for property

With property's annual total return at 12.6%, against 9.5% for equities and 8.7% for

gilts (Source: IPD September Index), there is a distinct possibility that institutional portfolios may be re-weighted in favour of property.

Pension Funds have been keen to acquire industrial and office stock in the South East as it offers attractive yields relative to the bond market. Those funds wishing to reinvest in property have been reluctant to sell, as the shortage of high quality product remains acute in many markets.



Source: National Statistics

Pension funds account for over 60% of net investment in the second quarter and it is this group, which we would expect to show the largest proportionate increase in property weighting when decisions on asset

allocation are made at the year-end. However, many funds will be withdrawing from the market for the rest of 2000 as their funds allocated for property have already been spent.

This investor group is experiencing a watershed in terms of its weighting in property. Much press attention has recently been devoted to small funds' disinvestments. Many small funds' portfolio weightings in property amounted to 2 to 3%, so their exposure to specific risk was very high. Overall pension fund weighting in property fell from 14% in 1980 to 4.2% in 1997. Since then it has risen to 5.8% (£27 billion) in 1999. This compares to the insurance company portfolio weighting of 16% in 1980, 6.6% in 1997 and 9.1% in 1999, according to City University Business School.

There was a marked fall in UK equity investment, at £1.9 billion, down from £32.2 billion in the first quarter when Mannesmann launched an all-share take-over of Vodafone. Investment flows into the equity market are being affected by recent poor performance, as the total return in the first 9 months of 2000 is -4.9%. Net investment in gilts stayed low, at £0.3 billion, in the second quarter. Supply-side pressure on yields looks set to remain as gilt sales of £10 billion are planned for the year to March 2001. This compares to a 5-year average to March 2000 of £23.3 billion.

Record investment in the third quarter

Third quarter analysis of levels of property purchases sourced from the property press by DTZ Research shows a record quarterly high of £9.3 billion. This data series includes overseas and non-institutional investors. Purchases by overseas investors have risen 66%, to £5.7 billion, in the first 3 quarters of 2000 from the year-end 1999 figure. There appears to be a further concentration of investment flows in the South East this year as over two thirds of transactions occurred within this region, compared to 40% in 1999.

In 2000, office investment amounted to £6.2 billion, accounting for 30% of all commercial property investment in the first 3 quarters of this year. This is down from 40% in 1999 with non-prime, provincial stock probably accounting for the lion's share of this fall. Retail's share of investment has fallen from 27% to 18% as the poor performance of secondary, high street stock continues.

Three-year total return forecasts

The latest Investment Property Forum survey of investors' expectations produced a year-end total return forecast of 11.9%, down from 12.5% in the previous quarter's report. Rental growth rates are expected to slow from 5.4% in 2000 to 3.2% in 2002 as economic growth rates moderate. This slowdown drags forecast total returns down to 9.7% in 2002, with a 3-year forecast average of 10.7%.

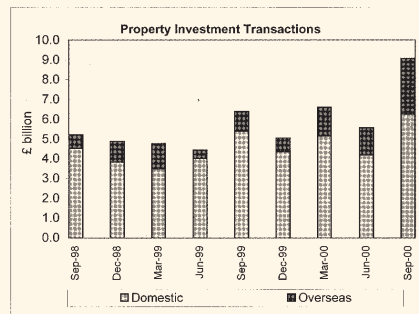
Offices

The Central London office market appears to be disengaging from the national property market's cycle. Annual total returns now stand at 19.4%. Comparisons are increasingly being made with the late eighties market but analysis of the market data reveals a more benign environment.

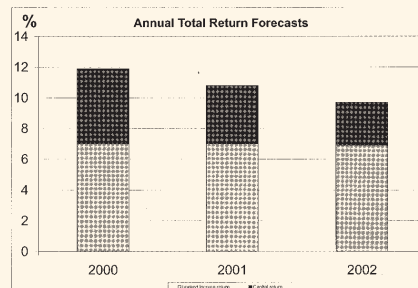
Central London fundamentals remain sound

In Central London, the development pipeline continues to be constrained, as banks appear to be finding sufficient opportunities

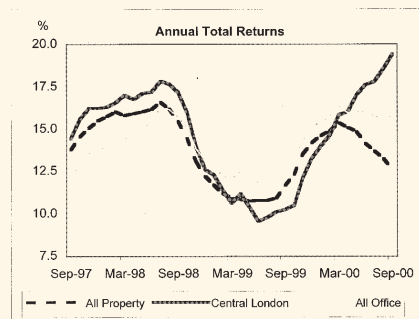
to fund the lower risk standing investments. A report by EGI London Property Research has



Source: DTZ Research



Source: Investment Property Forum



Source: IPD

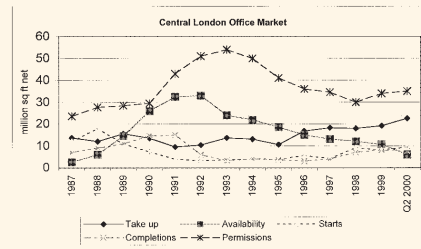
concluded that the London office market fundamentals remain healthy as a result of sound macro-economic management and the absence of a development 'boom'.

When compared to the market in 1987, the London market today has a number of 'safety valves', which will aid the maintenance of market equilibrium. These include a large amount of planning permissions, an extensive fringe, the return of space from pre-lets and real competition from the Docklands.

Space under construction in mid-1987 was 26% higher than in mid-2000

There are 78 requirements for property over 4,645 sq m (50,000 sq ft), with only 8 buildings available. Take up has risen by nearly 20% in the year to June 2000 with a healthy depth of demand. On the supply side, there are only 5 schemes of over 10,000 sq m (108,000 sq ft) becoming available in the second half of 2000, which offer new or refurbished space. All these units are located in the City, which suggests West End prime rental growth is set for further increases.

Large floorplates of over 2,000 sq m (21,500 sq ft) currently under construction in the West End amount to 81,760 sq m (880,000 sq ft) in only 17 schemes. 38% of this space is located in Mayfair, 19% in St James's and 10% in Covent Garden. An illustration of the extent to which demand is outstripping supply is provided by Jones Lang Lasalle who have found that for every square foot of Grade A office space available in the West End, there is active



Source: EGI London Property Research

demand for 3 times that amount. Hence, constraints in large floorplate supply continue to produce record rental levels in the West End, which have been broken twice in 3 months. In

October, Morgan Grenfell Private Equity is understood to have offered around £100 per sq ft for the top two floors of Harwood International's Cleveland House, St James's Square, SW1. Cluttons report a record level of take-up (33,769 sq m) in the Mayfair market in the 4 months to September. Very little air-conditioned space is available below £50 per sq ft (£538 per sq m) in this market. The next direct comparison of global office rents may well reveal that the West End now contains the most expensive office space in the world.

Investor demand across Central London remains relatively strong amongst medium-sized property companies and overseas investors supported by bank debt. This market should strengthen further as medium-term finance rates have recently fallen. Five-year swap rates fell from 6.7% to 6.5% in the 3 months to September.

West End rental growth continues

Demand remains focussed on active management, multi-let stock, refurbishments and covenant-sensitive gearing opportunities. The sharp increase in rents is beginning to affect West End yields, which have moved out to 6% for prime, rack-rented stock. Further rental growth may push levels out to 6.25%-6.5%.

City presents opportunities

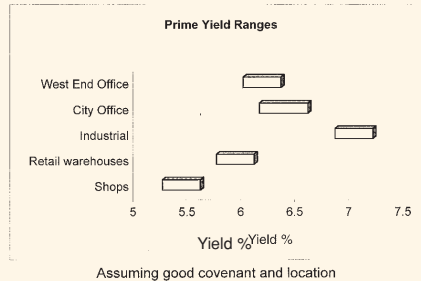
In the City, Jones Lang Lasalle report investment turnover of £1.1 billion in the third quarter, second only to the third quarter of 1998. Turnover in 2000 has already

exceeded the 1999 figure. The strength of sterling continues to act as a deterrent to German funds, whilst UK institutions' net investment amounted to £220 million. Funds have been employed in corporate acquisitions as several property companies trade at significant discounts to net asset values, an example being the Prudential acquisition of a £250m portfolio from Wates City of London. The same factor is driving property companies to dispose of assets. UK funds' performance measurement is increasingly based on short-term criteria, which is focussing attention on active management to realise added value quickly.

Investors may be unaccustomed to dealing with reversionary investments created by strong recent rental growth. Potential reversions tend to be heavily discounted, as attention is focussed on the high initial yield. Vendors have resorted to such tactics as topping up the initial rent until the next review in response. Buying opportunities are presenting themselves, especially for stock near rent review.

M25 market reflects appetite for limited partnerships

Demand for lower yielding investment opportunities has



eased as yields on leases with 10-year breaks remain around 7.25%-7.5%. Speculative funding deals remain rare with continued lender caution. Reflecting the UK market as a whole, investors are

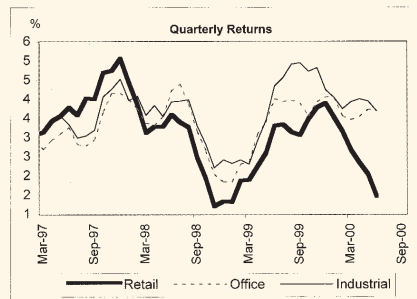
increasingly considering limited partnership investment deals. Vehicles offering prospective internal rate of return profiles of 12% plus are currently considered viable.

Provincial markets – record rents on the horizon

The Leeds and Manchester markets are expecting record rental levels in the short term, which has pressured yields downwards. Both markets offer an average yield of 6.5% whilst incentive levels are hardening. In Manchester, provable levels remain at £226 per sq m (£21 per sq ft) but quoting rents could reach £258 per sq m (£24 per sq ft). In Leeds, the development pipeline is being boosted by speculative schemes, as the prime rent level looks set to breach £215 per sq m (£20 per sq ft).

Retail

The retail sector is largely responsible for falling levels of IPD total returns, which have dropped from 15.3% to 12.6% in the last 6 months. Retail quarterly returns fell to 1.3% in September, from 3.9% in December 1999. Quarterly rental growth now stands at 0.8%, down from 1.5% in December 1999.



Source: IPD

Investor interest wanes in shopping centres

The latest Investment Property Forum/Estates Gazette survey of investment intentions would indicate retail continues to suffer from investor aversion. Shopping centres experienced the largest rise in yields, with the prime market up to 6.6% in June, from 6.1% in March and secondary stock up from 7.5% to 8% over the same period. DTZ research found that only 8 shopping centre investment transactions occurred in the third quarter, after a fairly active first half of the year. Thirty five schemes, valued at a total of £800 million, remain on the market. However, 25% of this total is rumoured to be under offer so investors may be taking advantage of buying opportunities.

Retailer margins still under pressure

Retail sales figures for September brightened the gloom with an annual rise of 4.6%, the highest increase since April. Non-food store sales volume recorded an annual increase of 7.3%. However, rising volume sales do not automatically ensure profit margins are eased.

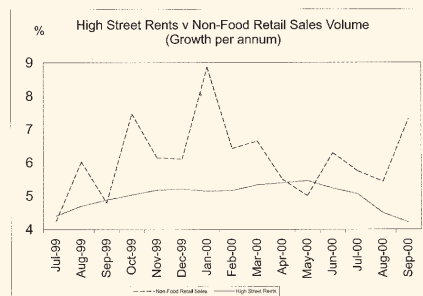
It is reported that occupiers willing to pay rental premiums are now confined to mobile phone operators and coffee shops seeking smaller units in prime pitches. Securing such deals from larger occupiers is less likely. Indeed, Arcadia's decision to close a further 55 shops is indicative of the pressure retailers face as foreign retailers such as Gap and Zara expand. The inflexibility of institutional leases, running for as long as 25 years are currently adding to

pressure exerted from the trading environment. The planning minister, Nick Raynsford, has told the property industry that the government will consider legislation if proposals to increase lease flexibility are not drawn up by the end of the year.

New opportunities provided by securitisation

As performance becomes polarised between (high-value) prime and secondary sectors, the securitised market may be the only opportunity for smaller investors to gain exposure to growth stock. To this end, Pillar and Schroders are seeking investors in a £1 billion securitised trust targeting retail parks, initially with the sale of 25% of Fosse Park. Other Pillar schemes such as Kinnaird Park in Edinburgh and Broughton Park in Cheshire could also be moved into the trust. This follows the decision by Pillar and Equitable Life to convert Hercules, their £550 million retail park joint venture,

concentrating on smaller £30m to £50m lots, into a Jersey unit trust. Investors would exchange their retail assets for units. Other such initiatives this quarter included a £462m bond issue by Morgan Stanley



Source: National Statistics, IPD

backed by 6 shopping centres in a joint venture set up between MEPC and Westfield. Anglo-Irish Bank raised £385.5m with a securitisation of its commercial property loans. This deal was backed by loans secured on 337 properties, 44% of which were in the retail sector. Standard and Poor expect the UK market in securitisation transactions to double this year. Whilst much activity has been created by companies securitising property assets, it appears that institutions are taking on commercial mortgages.

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Industrial

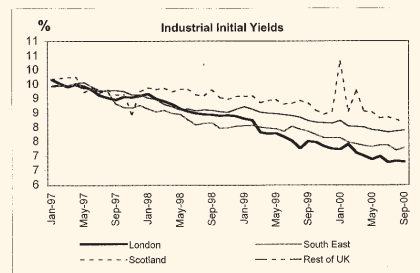
Quarterly total returns have fallen from 4.2% in December 1999 to 2.8% in September, according to IPD, as yields have declined more gently recently. The equivalent yield fell by just 0.04 percentage points in the third quarter of 2000, compared to 0.13 percentage points in the fourth quarter of 1999.

North-South yield differential

There could be a re-convergence of yields in this sector that characterised the market in 1997. The London-Scotland yield

differential now stands at 1.4 percentage points. After strong investor demand for prime, multi-tenanted estates in the South East, yields moved inward to the point where now, rental

growth appears to be priced into such stock. Consequently, investors have looked to the Midlands and North as the relative attraction of yields in these areas has grown. Prime yields in the South East remain solid but the secondary market has softened. The north-south differential may be narrowed further as the economy rebalances with manufacturing and service sector growth rates converging.



Source: IPD

Development activity increases

Recent deals around Heathrow are expected to produce new rental highs of £151 per sq m (£14 per sq ft) as Internet server farm occupiers crowd into the market. Multiple access points to telecom providers and broadband services led the Internet sector to take up 37,000 sq m (400,000 sq ft) of prime space in the area. This is feeding through into 25% increases in rents for airport-related companies, such as distribution occupiers. Consequently, there has been a 'ripple out' of airport-related occupier demand stimulating

speculative development in previously secondary areas such as Southall and West Drayton. FPD Savills identified more than 92,900 sq m (1 million sq ft) of speculative development currently

under construction in the area, which is 50% up on the figure for 1999. John Laing Property, who has been active in this area, estimate that one year ago, such schemes would become income-generating after 12 to 15 months, but this point is now being reached after just 9 months.

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