INVBRIEF

Property investment market

Winter 2010

Property overview
- capital growth slowing
- values still 35% below 2007 high
- total return forecast for 2010 of 14.4%
- forecast rental growth negative 1.2% in 2010

Economic outlook
- GDP has fallen (0.4% Q3)
- QE2, a real prospect for 2011
- October spending review remains ambitious

GERALDEVE

" GDP growth is slowing again "

0.4%

GDP growth Q3 2010 (ONS)

" Notwithstanding the current inflation conundrum, QE2 in 2011 is a real prospect "

ECONOMY

According to the Office for National Statistics (ONS), GDP growth stood at 0.4% in Q3 2010, down from 1.2% in the previous quarter. Although activity decelerated across most sectors, growth was double that anticipated by many forecasters. Whilst this is encouraging, downside risks to sustained growth remain. The construction sector was the main driver of growth followed by business and financial services and Government expenditure. However, given the fiscal contraction arising from the Comprehensive Spending Review, it is unlikely that the respective contributions from the construction and government sectors to GDP can be sustained.

Surprisingly, consumer expenditure also remained strong with retail sales rising 1.4% in the three months to August. This could suggest that households are yet to adjust their spending in response to the higher taxes arising from the Government's consolidation measures. In addition, weak real disposable income growth, continuing evidence of a slowdown in the labour market and a fall of 0.9% in average house prices during the three months to September could serve to dampen future consumer demand.

The trade deficit which reached a new low during Q3 also continues to act as a drag on GDP growth despite the continuing weakness of sterling, implying that prospects of an export-led recovery are diminishing. Official figures released by the Chartered Institute of Purchasing and Supply revealed a loss of momentum in the manufacturing sector over the course of Q3. The seasonally adjusted Purchasing Managers' Index (PMI) for manufacturing stood at a ten month low of 53.4 in September, this being the sixth consecutive month in which the index fell.

The drivers behind the slower growth rate were threefold. The first related to subdued order growth, a reflection in part of the fact that stock balances were now above their long run average, implying therefore that the boost to orders from an easing in de-stocking and/or re-stocking may soon be exhausted. The second related to a fall in new export orders which saw export orders falling below the 50 threshold mark to 49.3 adding support to the growing belief that a slowdown in the world economy was underway. In addition, investment in goods production also declined raising once again concerns regarding the sustainability of the recovery.

The service sector PMI index grew only modestly in September to 52.8 from a sixteen month low of 51.3 in the previous month. Growth in new business volumes was the weakest throughout the 15 months of expansion with the index standing at 5.6 points below the peak reached in February.

Inflation and the MPC

Concerns over the sluggish growth saw confidence within the business community diminish over the course of Q3. The possibility of a stalling recovery combined with an inflation rate that has consistently been above the Bank of England's 2% target presented the Monetary Policy Committee (MPC) with a significant policy challenge.

Consumer Price Inflation (CPI) was 3.1% for the period between July and September, down from 3.2% in June. Whilst a period of prolonged above target inflation could lead expectations to drift upwards and so make it more costly to bring it back to target, some commentators have argued that the underlying causes are temporary and linked to external price shocks including an increase in global commodity prices and the sharp depreciation of sterling which has served to make imports more expensive.

Furthermore, given the spare capacity in manufacturing capability and the relatively high level of unemployment which remain in the UK, any increase in demand may not necessarily result in upward inflationary pressure. Nonetheless, given the pending VAT increase in January 2011, inflation is unlikely to fall in the short term. The ONS have estimated that the increase in VAT to 20% will lift the CPI by 0.4%.

Conversely, concerns over growth prospects once current levels of restocking and public expenditure dissipate have added to the level of downside risk which could see an increase in spare capacity causing inflation to fall materially below target. The minutes of the September MPC meeting indicate that a number of members had felt that the probability of a second round of quantitative easing had increased.

Undoubtedly, the difficulty associated with assessing how recent developments have affected the balance of risk to economic growth and inflation has resulted in greater divergence in opinion amongst the MPC members.
A majority have, however, voted to maintain the base rate at 0.5% and for the asset protection scheme of £200bn to remain unchanged.

The publication of the better than anticipated Q3 figures has, however, increased the likelihood that the decision to make further stimulus available will be postponed to early 2011 at which point the impact of the consolidation measures arising from the Government's Spending Review will be clearer.

The Government has been quick to seize upon the Q3 results as evidence that their aggressive fiscal stance is working. Nevertheless, concern remains regarding the timing and magnitude of the cuts and the ability of the private sector to absorb the estimated 500,000 public sector jobs losses that are expected over the next five years.

However, the size of UK's deficit which as at the end of 2009 stood at 11% of GDP (the highest public sector deficit as a percentage of GDP in the OECD) meant that decisive action to reorganise public spending was unavoidable. Indeed, public spending grew from 45% of GDP in 2007 to 52.5% in December 2009.

The spending review

The Comprehensive Spending Review details of which were delivered by the Chancellor in October, aims to cut the deficit by about 8% to less than 3% of GDP by 2015. This will be achieved by way of £81bn of savings across the public sector. Undoubtedly, the scale of the cuts is substantial. Indeed, during the last thirty years, only two OECD countries have achieved deficit reductions of around 9% of GDP – these being Denmark (1982-86) and Greece (1989-94).

Nevertheless, the markets have reacted positively to the Government's austerity measures. Indeed, gilt yields have trended downward since the General Election in May implying a reduction in the Government's overall debt interest burden and S&P has recently upgraded the UK's outlook from negative to stable.

Despite the severity of the financial crisis, recovery is stronger than in the recessions of the late 1980's and 1990's, and the global upturn has been more robust than anticipated some eighteen months back. However, the tensions in the Eurozone, as a result of concerning finances for several member countries, present ongoing problems for financial stability and economic growth

Fig 1. Investment returns and inflation – rolling twelve months, %y/y
Source: IPD Monthly Index

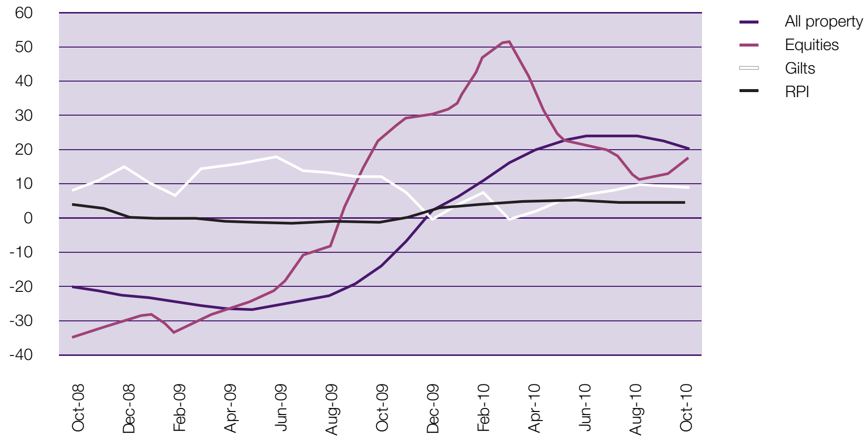
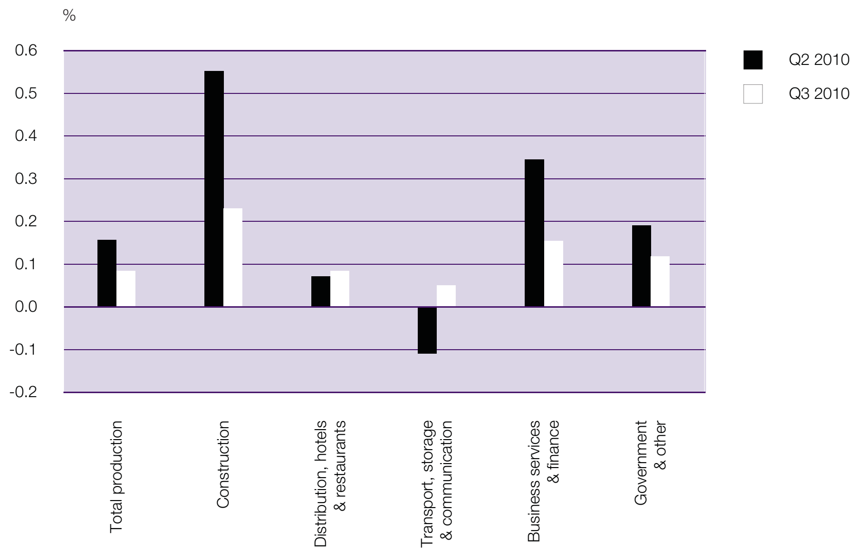


Fig 2. Quarterly contributions to GDP growth
Source: ONS



" Capital growth is slowing with equivalent yields falling slightly "

10.1%

Fall in average rents Q1 2008-Q2 2010 (IPD)

" Capital values are still 35% below the 2007 high "

PROPERTY

Commercial property overview

Total return at the All Property level stood at 2.3% in Q3 2010, down from 3.4% recorded in the previous quarter, according to the IPD Quarterly Digest. This means that total return has fallen in the last three quarters.

The declining trend in total returns reflects a general slowing in capital growth, which fell from 1.8% in Q2 to 0.7% for the three months to September 2010. Of the two key drivers of capital growth, yields and rental values, a weakening in yield movements had the greatest bearing upon the lower growth and return figures. The all-risks equivalent yield fell by 8bps in Q3 in contrast to the fall of 22bps in the prior quarter. As such, the positive yield impact, which measures the change in capital values due to changes in equivalent yields, fell from 2.3% in Q2 to 0.9% in Q3.

The slowdown in capital value growth is a continuation of the trend from Q2 and is further evidence of a loss of momentum in the recovery of the commercial real estate markets. As at the end of September, capital values at the All Property level were still 35% below those prior to the downturn in Q3 2007.

According to the IPD Quarterly Digest, rental value growth turned positive in Q3 for the first time since March, bringing to an end the period of nine consecutive quarters over which rental values fell by a total of 10.1%. Rental growth of 0.1% was recorded for Q3 which meant that the contribution to total return was marginal.

Nevertheless, comparison of the trajectory of quarterly rental growth during the most recent downturn with that of the early 1990's, reveals that the recovery of rental levels as expressed in years from the return peak is faster now than that of the 1990's (see figure 4).

Segments and regions

At the segment level, the offices and retail segments both recorded a total return of 2.4% in Q3 2010. The industrial segment continued to languish behind at 1.7%. In keeping with the trend that first emerged early this year, the office segment alone posted a positive rental growth figure, 0.6%, whilst both the retail and industrial segments continued to report negative growth of -0.2%.

The IPD Monthly Digest reveals that total returns were highest in the office segment in both July and August, meaning that offices were the top performing segment for six consecutive months due primarily to their superior capital value appreciation over this period. This, however, reversed in September when the retail segment delivered the highest total return due to growth in capital values which outstripped both the office and industrial segments.

The superior performance of the office segment for the six month period to August 2010 was driven predominantly by the strong recovery in central London office markets. The outperformance of City offices was due to this sector experiencing both the strongest inward yield movements and growth in rental values.

The dominance of City offices also explains the polarisation in returns between the northern and southern parts of the UK which saw the top three performing segments in terms of total return in Q3 being City offices, West End and Mid Town offices and South East standard retail. Amongst the poorest performing sub segments were offices in the rest of UK, industrials in the rest of UK and offices in the rest of the South East, the latter being the only exception to the north-south trend.

However, there is growing evidence of convergence in returns across the sub segments. The spread between total returns has narrowed considerably since December 2009 at which point there was a differential in total returns of 8.7% between the top and bottom performing sub segments. As at the end of Q3, this had narrowed to just 2.7%.

Undoubtedly, this is largely due to the loss of momentum in yield compression within the central London office markets. A number of agents have also reported that the level of uncertainty has increased in the City office market in recent weeks with the amount of space under offer falling to 0.8m sq ft as the end of September, down from 1.6m sq ft in June.

Outlook

Whilst the lower-than-anticipated cuts to governmental departmental budgets may suggest that future demand for office space may be greater than first anticipated, at a broader level the commercial real estate market faces a number of significant challenges.

With capital values still over a third below their peak, the risk to LTV ratios remains. With some UK banks wishing to reduce their existing exposure to real estate, continuing restrictions regarding credit availability and the high proportion of commercial real estate debt due for refinancing within the next two years, the level of forced sales may increase. This combined with a potential weakening in domestic consumer demand, as the effects of the fiscal consolidation feed through, implies that the prospect for further yield compression looks minimal.

Nonetheless, in spite of the above threats, a major correction in commercial real estate prices remains unlikely with some forecasters predicting total return growth of around 5% in 2011.

Fig 3. Investment performance by segment and region: Q3 2010
Source: IPD Quarterly Index

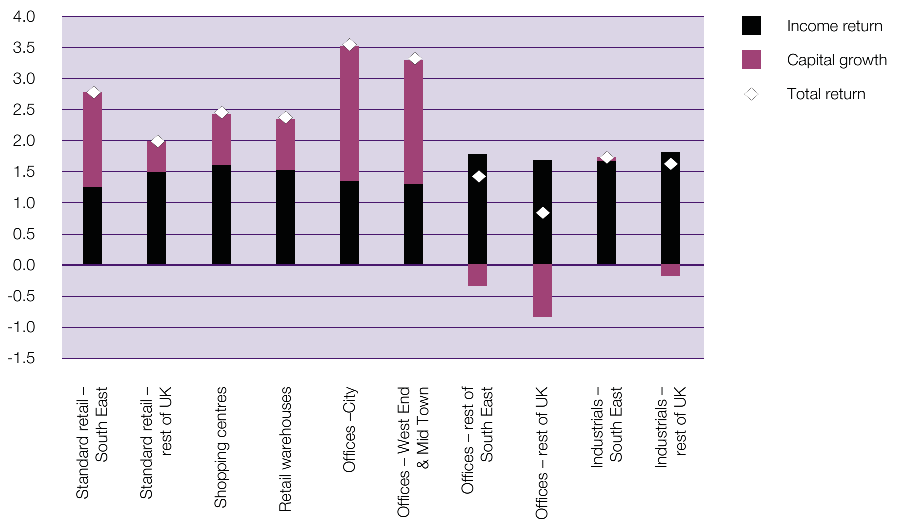
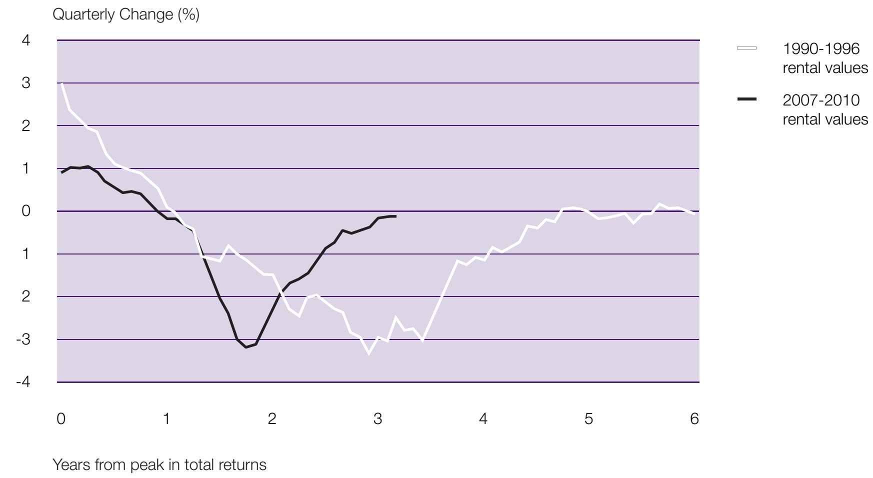


Fig 4. Rental value growth – 1990s & 2000s
Source: IPD



" We forecast all property total returns for 2010 of 14.4% "

2.2% pa

Average forecast rental growth for all property 2010-14 (Gerald Eve Research)

" Rental growth will be negative in 2010 but positive thereafter "

OUR FORECASTS

Forecast background

Some of the early momentum from the first half of the year considered to be a gradual 'recovery' in property values has eased. Value growth was driven by yield shift, the fall-off in yields reflecting new money entering the market rather than based on an outlook of fundamentals. Despite gilt yields being at historically low levels, the medium term outlook for rental growth is one of cautious growth. Furthermore, the uncertainty surrounding fundamentals is high with the consequent impact on risk premia. Ultimately, performance will be driven by sustained economic recovery, although active investors will still be looking to purchase quality product.

The uncertainty surrounding both the domestic and global economic outlook remains considerable and therefore far from encouraging for a positive outlook for commercial property. A recovery in real estate values and rental growth that is not rooted in economic growth is highly unlikely.

Whilst our property forecasts are based on the view that the economy will recover slowly, the downside risks are considerable and could affect these forecasts. Significant uncertainty surrounds the range of economic and financial risks and the potential outcomes.

The risk of a combination of a fall-off in economic growth next year, the Government's spending cuts and the VAT increases creating a subdued economic environment, will impact on disposable income and therefore consumer expenditure. The timing of a sustained recovery continues to remain uncertain. One piece of positive news, and assuming low levels of inflation, is that the current low base interest rate is likely to continue to remain at this level. As of November, interest rates have been kept on hold at 0.5% for 20 consecutive months.

The latest RICS Commercial Market Survey shows that occupier demand has been declining for the last two consecutive quarters, with demand for office space showing the greatest decline. At the same time, available space for occupation has continued to increase.

Rental growth

Overall, the immediate outlook for rental growth continues to remain subdued. Our bottom line 2010 figure All Property rental growth forecast is similar to that of the consensus forecast with future years marginally higher. This results in an annual average of 0.5% higher than the consensus over the five years to 2014. However, the consensus forecast for the London office markets are some 1% higher than our forecasts over the period 2011-2012, whilst the annual averages over the five-year period 2010-2014 are similar.

Table 1. Rental growth forecast (%pa)

Sector	2010	2011	2012	Average 2010-14
Standard shops	-3.2 (-2.8)	0.8 (-0.5)	1.7 (0.9)	1.0 (0.6)
Shopping centres	-3.7 (-3.1)	0.3 (-0.4)	1.4 (1.3)	0.9 (0.6)
Retail warehouses	-1.1 (-1.6)	1.7 (0.4)	2.3 (1.9)	2.0 (1.3)
West End offices	4.6 (4.8)	6.8 (7.7)	6.1 (7.5)	6.6 (5.9)
City offices	5.1 (6.1)	6.7 (7.5)	5.7 (6.9)	6.5 (5.8)
Offices (all)	0.9 (1.4)	3.2 (4.1)	4.5 (4.8)	4.0 (3.5)
Industrials	-1.3 (-2.1)	0.0 (-0.3)	1.6 (1.2)	1.1 (0.4)
All property	-1.2 (-1.1)	1.6 (1.2)	2.7 (2.5)	2.2 (1.6)

Figures in brackets represent IPF Consensus Forecasts

We anticipate that there will be a continued strength in manufacturing output with a consequent positive impact across industrial properties. However, letting markets remain weak and we anticipate that landlords will continue to offer considerable incentives. Net effective rental growth will be lower, and, in some cases, considerably so, than the average figures reported in the table.

Total return

We forecast total return for 2010 at 14.4%. At the segment level, total returns are likely to be in double-digit figures across the board, with the City and West End office markets delivering in excess of 20%.

We anticipate that prospects for 2012 will be better than in 2011, if not only reflecting a mild recovery from the relatively austere economic conditions in 2011. On this basis, our forecasts show a significant up-tick in 2012. We anticipate the office markets will deliver over 10% in 2012 and over the five-year period annual average returns also in excess of 10%. We expect that City offices will be the strongest performers and outperform West End offices by some 1.5% annually. Over the period 2010-14, both the City and West End office markets are expected to produce the highest returns driven mainly by capital growth. The industrial sector is expected to produce annual average returns approaching 10% over this period, outperforming the retail segments. Although we are marginally more optimistic over the five-year period, our figures are broadly in line with the consensus.

Fig 5. Historic and forecast 5yr annualised rental growth
Source: IPD, IPF

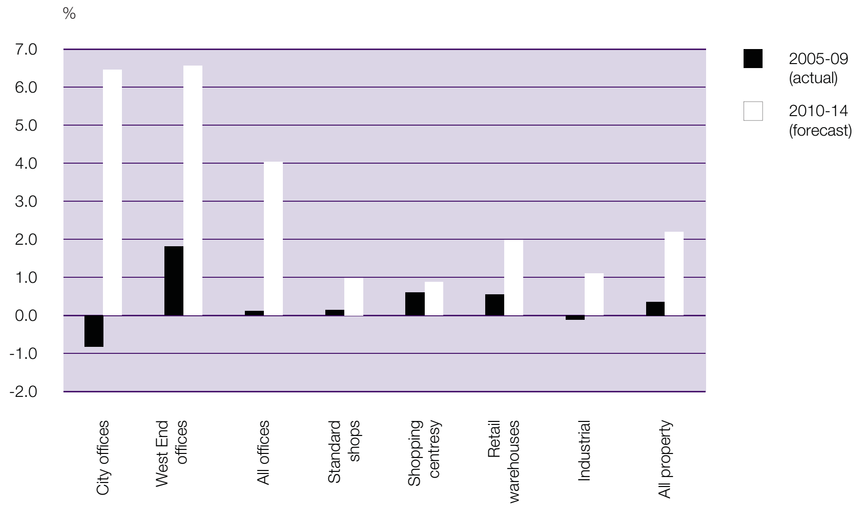


Fig 6. Annual total return forecasts
Source: Gerald Eve Research, IPD

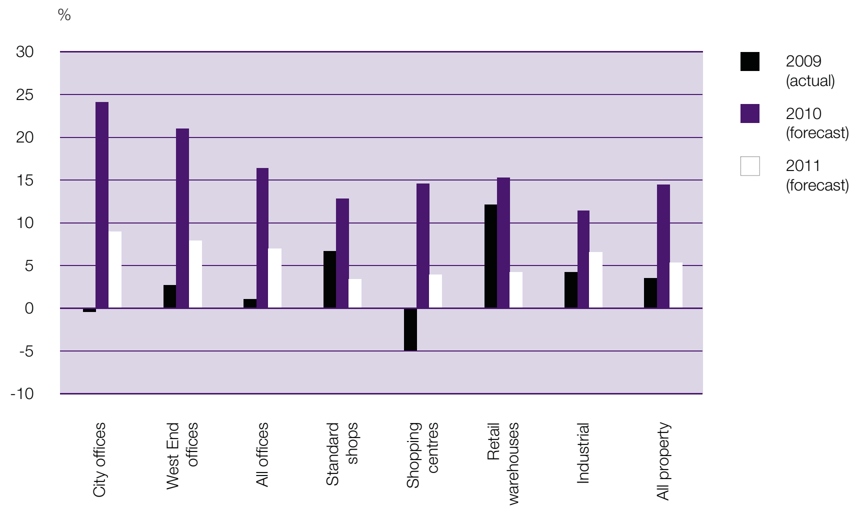


Table 2. Total rate of return forecasts (%)

Sector	2010	2011	2012	Average 2010-14
Standard shops	12.8	3.3	7.2	7.9
	(10.2)	(3.9)	(7.0)	(7.5)
Shopping centres	14.6	3.9	9.4	9.4
	(13.3)	(4.7)	(8.0)	(8.9)
Retail warehouses	15.2	4.2	9.3	9.0
	(13.3)	(4.5)	(8.7)	(8.9)
West End offices	20.9	7.9	12.1	11.4
	(18.9)	(8.9)	(11.2)	(11.0)
City offices	24.1	9.0	11.6	12.9
	(21.8)	(9.1)	(11.0)	(11.4)
Offices (all)	16.4	6.9	10.9	10.5
	(15.4)	(7.3)	(10.2)	(10.2)
Industrials	11.5	6.5	10.0	9.7
	(10.6)	(6.0)	(8.9)	(8.9)
All property	14.4	5.3	9.7	9.5
	(13.2)	(5.7)	(9.1)	(9.3)

Figures in brackets represent IPF Consensus Forecasts

" Strong demand for limited high quality office stock in central London "

5.25%

Prime City office yield (Gerald Eve)

" Retail warehousing has continued to see strong demand "

INVESTMENT

Central London offices

Demand for quality stock in central London has remained constant throughout Q3, the problem being the lack of suitable investment opportunities. This has led to high prices being paid for the best properties.

In the City there were a number of high profile purchases, including the sale of Drapers Gardens to Evans Randall, concluded for a figure of £242.5m which reflects a Net Initial Yield (NIY) of 5.25%. The 290,000 sq ft property is let to BlackRock on a new 25-year lease at a headline rent of £49.50 psf. Oxford Properties, already owner of a 50% share, bought the remaining stake in Watermark Place for £200m, reflecting a 5.5% NIY. The 547,000 sq ft building is let to Nomura on a 20-year lease. RREEF concluded their off-market purchase of 85 King William Street for £92m equating to 5.9% NIY, further demonstrating the demand for well-let core opportunities.

Foreign buyers still dominate the market; however, the number of UK buyers is steadily increasing. UK investment funds continue their resurgence as demonstrated by Scottish Widows' purchase of 75 King William Street, EC2 for £67m and Aberdeen Asset Management's purchase of 7 Moorgate, EC2 for £20.1m. Prime yields remain at 5.25%, maintained by confidence in the letting market and anticipated rental growth.

In the West End the past quarter has been one of caution although as in the City, there remains strong investor demand for the limited high quality stock that has been marketed. Demand for longer dated secure income has led to prime yields continuing to contract towards 4%. Selective demand is evident for higher risk, more intensive asset management stock, despite bank lending remaining tight, as demonstrated with the interest in the Prudential's development site on Conduit Street/Savile Row, Aberdeen's sale on St James's Street and LaSalle Investment Management's sale in Great Peter Street, SW1.

There is also good news for those who have been brave enough to speculatively develop: Legal & General and Mitsubishi Estate have secured both Universal Pictures and Mindshare for large lettings at their Central St Giles development. Axa/Heron's The Peak in Victoria has secured their first tenants at over £60psf, and there are also a few signs of companies expanding with Alliance & Bernstein taking 21,000 sq ft at 50 Berkeley Street at the upper end of the rental spectrum at £80psf.

The outlook into the new year is therefore generally positive although investment stock is likely to remain scarce for the West End. This is partly down to wider economic pressures and the lack of forced sales. The Government spending cuts announced in October are likely to have a greater impact in the regions than central London, although Victoria and Mid Town are most likely to be affected given their greater exposure to public sector and quango tenants.

Regional offices

The regional office market remained static with little activity over the summer period with little activity. A large yield differential remains between prime and secondary stock with secondary offices continuing to suffer due to the continued uncertainty and lack of demand in the occupational market. Investors are concerned with the ability to re-let secondary vacant space and are finding it increasingly difficult to assess exit yields and void periods. Prime yields have remained at c.6.25-6.50% over the last quarter.

The main transactions in Q3 include the sale of 86,785 sq ft in the Turner Building let to Reckitt Benckiser for an unexpired term of 9.75 years, sold in October for £31.5m which reflects 7.75% NIY. Another important deal is the purchase of Holland House, Bournemouth, which is let to the First Secretary of State for a further 10.5 years; the property sold for £12.95m which reflects 6.86% NIY.

Retail

Retail warehouses have continued to see strong demand albeit the depth of buyers has started to thin. Following a handful of prime open A1 transactions just after the summer, investors have started to again chase more yield and value-add opportunities in bulky goods parks to balance out the sharper yields paid over the first two quarters.

Prime transactions of note include the Crown Estate; purchase of Aintree Retail Park from London & Stamford for £101.5m which reflects a 5.3% NIY. The property, which was bought in June 2009 for £60m, has recently benefitted from a letting to US electrical goods giant Best Buy. The Crown Estate also purchased Victoria Retail in Nottingham from HSBC for a price in the region of £50m which reflected a 5.5% NIY.

In terms of food stores, there has been a steady flow of transactions that have established prime yields around 4.75% NIY with some longer leased stores or London locations edging outwards to 4.5% NIY and beyond. Examples of transactions include Legal & General purchasing a Tesco store in Newton le Willows with 24 years unexpired for £13.7m which reflected 4.5% NIY.

Industrial

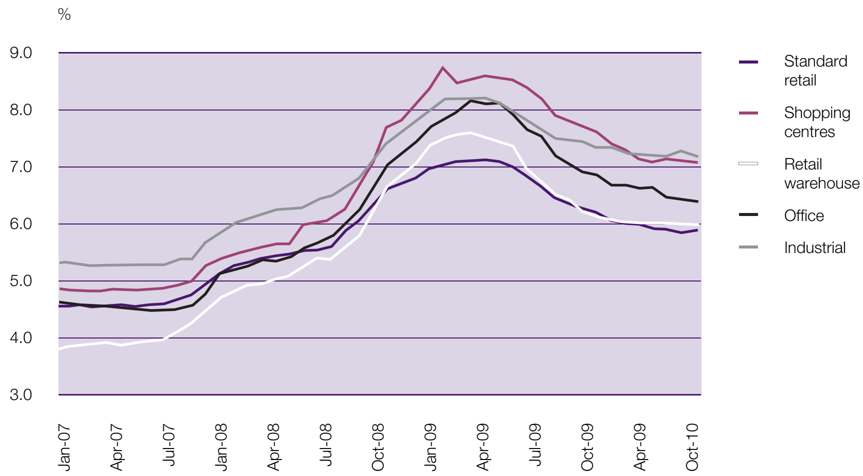
UK logistics yields remained stable during Q3 with the market continuing to be characterised by a severe shortage of prime investment product. Whilst investor demand remains at a similar level to that seen in Q2, requirements are increasingly portraying 'flight to quality' characteristics as investors become more risk adverse than they were previously. AMB's acquisition of the Hawker Pacific unit at Dawley Park, Hayes, at a 6.65% NIY for c.14 years income, illustrates that there remains good demand for assets in the best locations.

Whilst the number of investors actively seeking sub-ten year income stock has increased, the criteria for these requirements is narrow: only the best buildings in core locations where the re-letting prospects are strong will be considered. One example is Chubb Pension Fund's acquisition of the Toyota unit on Magna Park, Lutterworth, where they paid £13.4m for c.ten-year income. reflecting a yield of 7.25% NIY.

Although supply levels increased in September (for the final month of Q3), the current available stock is typically more secondary in terms of location, covenant or building (or a combination) and as such, is generally not appealing to institutional investors. Despite ongoing nervousness of faltering economic growth, we believe the current supply/demand imbalance will underpin prime yields in the short term at least.

Fig 7. Change in office capital values by region (rebased to 2007peak)
Source: IPD

Fig 8. Initial yields by segments
Source: IPD



GERALDEVE

"House prices are now falling, albeit marginally"

£756m

Total global notional traded in real estate derivatives in Q3 2010

"There are considerable regional variations and a continuing north-south divide"

RESIDENTIAL OVERVIEW

Both the Halifax and Nationwide seasonally adjusted house price indices fell in the three month period to September 2010 by -0.9% and -1.0% respectively, this being the first time since May 2009 that the Nationwide quarterly change turned negative. The Halifax quarterly index had previously recorded a fall of -0.3% in Q2 2010.

Whilst the loss of momentum may be indicative of the start of a new, weaker trend for the UK's residential markets, these falls are considerably less than those observed during the height of the downturn in Q3 2008 during which the above indices recorded quarter-on-quarter falls of -5.6% and -5.4%.

However, there is clear evidence of a slowing down in the national property market with both the Halifax and Nationwide monthly indices recording a steady fall in the annual rate of capital growth each month since April 2010. Indeed, as at April 2010, the yearly change in house prices stood at 8.7% and 10.5%. This had fallen to -0.8 % and 3.1% by September.

The general consensus amongst market commentators is that the recovery in house prices that occurred between March 2009 and May 2010 was built largely upon demand-supply imbalances. Supply restrictions have since eased considerably owing to vendors responding to the previous increase in capital values. This increase in supply has, however, coincided with falling demand necessitating the subsequent fall in capital values as vendors adjusted their expectations in response to weaker buyer demand.

In fact, survey evidence indicates that sale instructions grew three times faster than the rate of new buyer registrations during Q2, a trend which continued throughout the next quarter with RICS reporting sale instructions outpacing new buyer enquiries in each of the three months to September.

RICS also report that whilst available stock is currently close to 'normal' levels, the number of property sales is approximately 50% below the ten-year average prior to the 2007 downturn. Uncertainty over the sustainability of the recovery in tandem with mounting concern regarding the impact of the Comprehensive Spending Review has resulted in a further loss of consumer confidence over the summer months.

Continuing mortgage constraints also played a part in the subdued demand. Mortgage approvals fell to 47,000 in August, 11% lower than the same period last year. Data released by the Bank of England showed that mortgage approvals continued to fall in September, the fifth consecutive month of recorded falls. Total gross mortgage lending in September stood at £12bn, 7% lower than a year previously and the lowest September total since 2000.

Regional variations in property performance, however, persist with London continuing to have the highest rate of annual capital growth. According to the Nationwide index, London saw its sixth consecutive quarter of capital appreciation with prices increasing on an annual basis by 9.2% in Q3, down from 13.2% in the previous quarter. The general divergence between the north and south also persisted with weaker price growth in the northern and midland regions in comparison to those in the south.

Furthermore, according to the Nationwide index, house prices in the South East had recovered to within 5.5% of their peak by the end of Q3. This is in contrast to the North East region which was still approximately 12.9% below peak levels. The loss of public sector jobs arising from the Government's fiscal consolidation measures is likely to reinforce these regional variations as it is estimated that public sector jobs make up 17% of the total workforce in the South East compared to 23% in the North East.

In summary, it is clear that any improvement to the UK's mainstream residential property market hinges upon greater consumer confidence and availability of credit. Average income growth remains at very low levels and is unlikely to accelerate in the near future. Given the importance of income expectations to house purchases, demand is likely to remain subdued and buyers will continue to hold the balance of power over the short to medium term. With this in mind many commentators are predicting further moderate falls in house prices during the last quarter of 2010.

DERIVATIVES OVERVIEW

Trade volume in the property derivatives market recovered strongly in Q3 with global trade volume increasing by 52% over the course of Q3 to £756m. The number of trades grew from a total of 62 in Q2 to 83 in Q3, an increase of 34%.

The UK accounted for over 95% of global trade volume reflecting the dominance of the UK in the property derivatives market. The total notional traded amount increased almost threefold during the quarter to £731m reversing the downward trend in activity that occurred in Q1 and Q2, the latter period constituting the lowest level of activity in more than four and a half years with just £300m executed.

The total outstanding UK notional amount as at the end of Q3 stood at £7.5bn. As at the end of August, derivative prices were implying a total return of 9% for 2010. Sentiment has shifted considerably since the latter part of 2009 at which point traders were factoring in stronger growth for 2010.

Pricing for 2011 also fell during the early part of Q3 with implied forward prices falling from 4.2% in June to 0.2% by the end of July. Sentiment for the medium term improved during the course of September, with confidence building further throughout October at the end of which, total return pricing for 2011 stood at 2%. At the time of writing, pricing for December 2011 contracts had increased further to 4.2%. Pricing for 2012 also edged upwards to 4.0% up from 2.7% in September.

Fig 9. House prices by region – falls in average price
Source: Halifax HPI

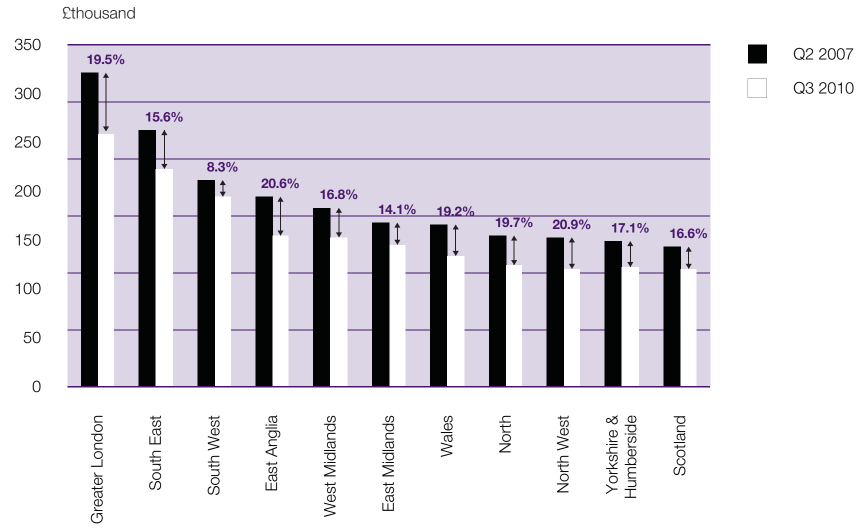
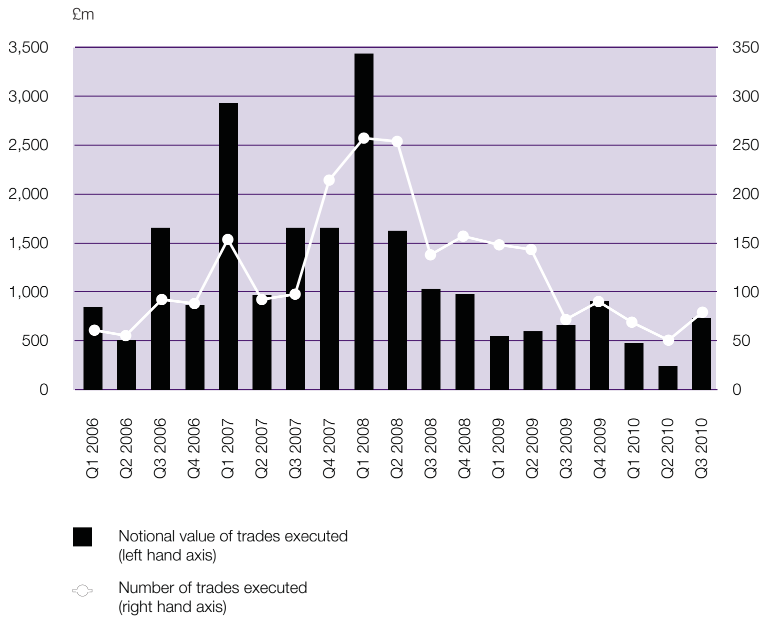


Fig 10. UK property derivative trade volume
Source: IPD/IPF



GERALDEVE

GERALD EVE'S UK OFFICE NETWORK

Gerald Eve LLP is an independent firm of chartered surveyors and property consultants, employing more than 320 staff across the UK.

We provide a comprehensive range of services to our private and public sector clients – including more than 40% of the FTSE100 – covering agency, corporate property management, professional and transaction-based advice.

Our philosophy is to serve clients by identifying opportunities and solving problems relating to property through the provision of high quality, thoroughly researched cost effective advice.

London (West End)
Hugh Bullock Tel. 020 7333 6302
hbullock@geraldeve.com

London (City)
Simon Prichard Tel. 020 7489 8900
sprichard@geraldeve.com

Birmingham
Chris Kershaw Tel. 0121 616 4800
ckershaw@geraldeve.com

Cardiff
Joseph Funtek Tel. 029 2038 8044
jfuntek@geraldeve.com

Glasgow
Ken Thurtell Tel. 0141 221 6397
kthurtell@geraldeve.com

Leeds
Mike Roberts Tel. 0113 244 0708
mroberts@geraldeve.com

Manchester
Mike Roocroft Tel. 0161 830 7070
mroocroft@geraldeve.com

Milton Keynes
Simon Dye Tel. 01908 685950
sdye@geraldeve.com

West Malling
Lisa Laws Tel. 01732 229423
llaws@geraldeve.com

Useful web links
Gerald Eve research derives some of its information for the production of Invbrief from the following sources:

www.swaprates.co.uk
www.bankofengland.co.uk
www.ons.gov.uk
www.treasury.gov.uk
www.dti.gov.uk
www.cebr.co.uk
www.oanda.com
www.ipf.org.uk
www.ipd.com
www.propertydata.com
www.property-week.co.uk
www.chamberonline.co.uk

Contact details
If you require any further details of the facts and figures presented in this publication or would like to discuss them, please contact
Alex Vaughan-Jones on 020 7333 6375 or
avaughan-jones@geraldeve.com

Investment agency
Tom Reeves — offices (City)
Tel. 020 7653 6835
treeves@geraldeve.com

Lloyd Davies — offices (West End)
Tel. 020 7333 6242
ldavies@geraldeve.com

Chris Mulcock — national
Tel. 020 7333 6234
cmulcock@geraldeve.com

Charles Wilford — leisure
Tel. 020 7333 6804
cwilford@geraldeve.com

Michael Riordan – alternative investment
Tel. 020 7653 6828
mriordan@geraldeve.com

Richard Moir — specialist
Tel. 020 7333 6281
rmoir@geraldeve.com

Garry Howes — northern England
Tel. 0113 218 2093
ghowes@geraldeve.com

Marcus Males — Scotland
Tel. 0141 227 2377
mmales@geraldeve.com

Gerald Eve research
We've been keeping our clients up to date with the latest investment trends for 20 years. It is a co-ordinated effort by the research team, each of whom has their own area of expertise:

Robert Fourt
Tel. 020 7333 6202
rfourt@geraldeve.com

Alex Vaughan-Jones
Tel. 020 7333 6375
avaughan-jones@geraldeve.com

Sally Bruer — industrial and distribution
Tel. 020 7333 6288
sbruer@geraldeve.com

Steve Sharman — industrial and distribution
Tel. 020 7333 6271
ssharman@geraldeve.com

George Matysiak — economy

THE SUNDAY TIMES 100 BEST COMPANIES TO WORK FOR 2010

11/10

GERALDEVE