

Reita monthly UK property market update – December 2008

Welcome to the Reita monthly update on the UK REITs and Commercial Property market. We hope that you will find this a useful and concise overview of market activity and key news items that occurred during November 2008.

During this month we also carried out our quarterly Expert Panel Survey, asking the CEOs of major UK REITs and leaders in the property industry for their views on the key issues in today's market. A summary of the results are contained in this update but the full survey and our accompanying quarterly market commentary 'Property In Perspective' can be found at http://www.reita.org/live/Features/PIP_Nov08.html

Please visit our website www.reita.org for more information and to contact us about any of the items covered in this note. We would also be pleased to hear about any other areas that readers would like us to cover in the future.

Movements in the UK REITs market

October's stock market turbulence continued during November and after falling 22% in that month, capital values tumbled another 19% this month according to the FTSE / EPRA / NAREIT UK REIT index. During November the FTSE 100 fell by 7% compared to a fall of 12% in October. By the end of November the only REIT to have maintained its value was McKay Securities, a specialist outer London office REIT whose shares at end the month stood at the same price as on the 1st November. Although a number of smaller REITs outperformed the index during the month, the impact of the very large REITs following banking stocks inevitably pulled the whole index down.

The general downward trend meant that the UK REITs market hit yet another low on 21st November; again a small bounce back has followed but there are few commentators now willing to call the bottom. However more positively there appears to be a growing view that at current prices, the dividend yields from major REITs present some very attractive and predictable income opportunities. For more information and to review performance of UK REITs, Offshore property investment companies and other listed vehicles visit our databank section (<http://www.reita.org/live/Databank/>) where a range of charting and other tools are available.

The discount to Net Asset Values for major UK REITs as measured by EPRA averaged 55% at the start of November, down from 48% at the start of October. Updated information will be available mid December and will be posted at http://www.reita.org/live/Databank/chart_nav.html as soon as it is available.

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Other REITs news

The Pre Budget Report from the Chancellor brought two pieces of news for the property industry; an apparent significant concession over the removal of Empty Property Rate Relief and a tightening of the UK REIT rules. The government claimed that a temporary partial suspension of empty property rates would exempt 75% of commercial property. Unfortunately on closer examination this figure turned out to include ATMs advertising hoardings and other 'non-properties', The concession will actually benefit less than 1% of significant commercial property and will still cost the UK property industry more than £800m per annum.

The tightening up of the UK REIT rules reaffirmed the original legislative intention that only genuine property businesses who derived 75% of their income from rent could obtain REIT status and prohibited the creation of internal REITs within major property owning companies, whose main business was another trade, for example retailers or pub companies. Although this may prevent the launch of a few potential REITs the news has been generally welcomed, especially as it was accompanied by confirmation of a review to ensure that the new rules will not adversely affect existing REITs. Unfortunately the opportunity was missed to address the much more serious issues of creating regulations that would allow the development of residential REITs or make the launch of new REITs easier. For more information on the PBR please go to www.bpf.org.uk.

REITs going forward

Almost 90% of the Reita Expert Panel survey now expect to see the bottom of the market in the second half of 2009 or later and 61% now expect to see a significant deterioration in tenant related aspects of the market. In particular there is an expectation of significant failures amongst retailers following Christmas. More positively the majority of the panel expect to see REITs outperform direct property over the next 12 months and many.

Movements in the UK direct property market.

The Investment Property Databank (IPD) Monthly index published in November which measures ungeared monthly returns for UK direct property investment showed all property total returns falling sharply by 3.8% in October compared with -2.4% in September, the sharpest fall on record.. Over the same period the decline in capital

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values on a month-on-month basis also accelerated again to -4.3% from -2.9% in September. Relative sector performance was maintained in October with the retail sector again faring worst and falling by 4.7% compared to falls of 3.2% for industrial property. More information about the IPD monthly index can be found at <http://www.ipd.com/OurProducts/Indices/UnitedKingdom/UKMonthly/tabid/921/Default.aspx>

The pressure on direct property investments intensified again with the need to maintain liquidity a major issue for some investors. This led to significant withdrawals from funds, most notably the prestigious New Star International Property fund, which was forced to suspend redemptions after a number of major investors withdrew their cash. This pressure was also reported by the Reita expert panel, with 80% reporting deterioration in investment conditions with 62% also reporting that the availability of bank funding and their willingness to refinance property debt had deteriorated over the last month.

Expectations of future movements in direct property prices

At the end of November the UK IPD All property index was indicating a year on year fall of 23.2% in capital values between December 2007 and December 2008, a worsening of 0.8% since October with a further fall of 17% to December 2009. So far this year capital values have fallen by around 15.8% implying that further falls of around 7.5% in the last two months of 2008. On the basis of the IPD index, initial yields are also indicated to widen further to 6.69% over the same time, compared to 6.63% predicted at the end of October.

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Reita is a not for profit organisation whose core objective is to raise awareness and understanding of property investment and REITs. Reita is supported by the British Property Federation, leading UK REITs, international fund management companies, corporate advisers, London Stock Exchange, EPRA and NAREIT.

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