

Consolidation, Retrenchment and Change

Christopher Hedley, IPD Occupiers
15th October 2009

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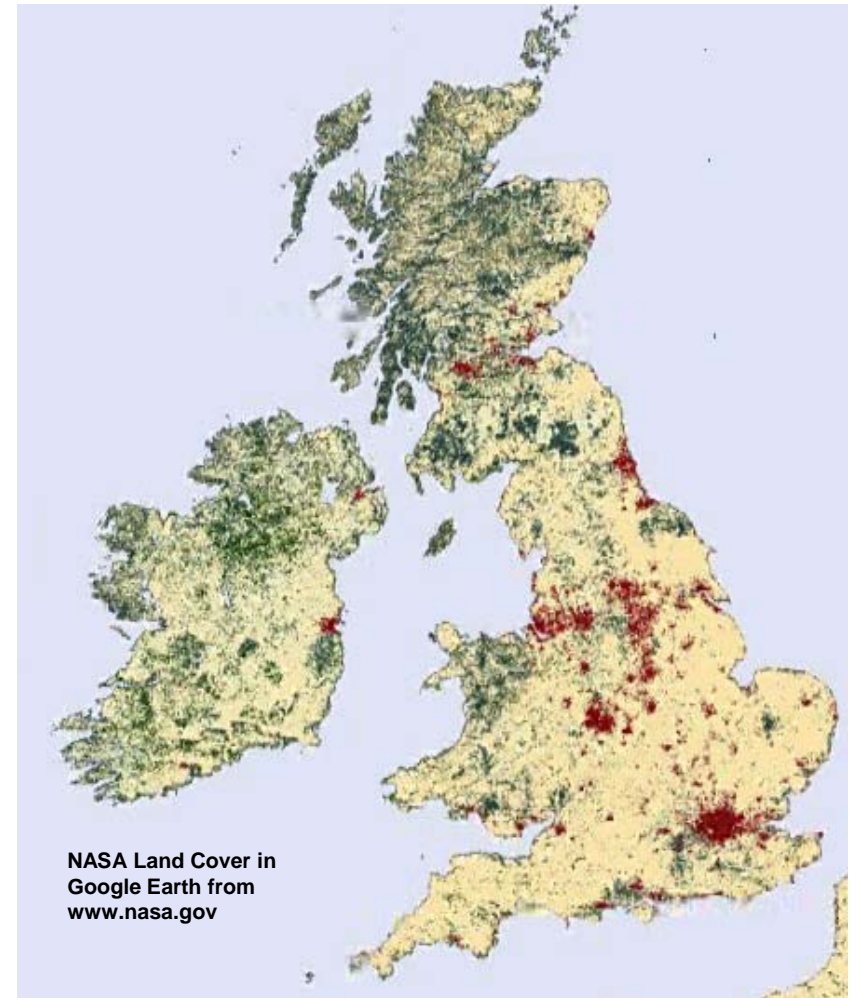
IPD occupancy at end-2008

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- Full dataset
 - 90,000 units
 - 780m sf = 0.03% of land surface
 - £9bn rent = 1% of GDP
 - £11bn RV = 25% VoA rate roll
- 2008 Occupied dataset
 - ex. car parks, missing data etc.
 - fully commercial occupied

	Occupied	Vacant	Other
Tenancies	58,700	12,551	18,267
Floorspace m sf	659	73	46
Rent £m	8,098	6	1,038
Rental Value £m	8,368	788	1,727

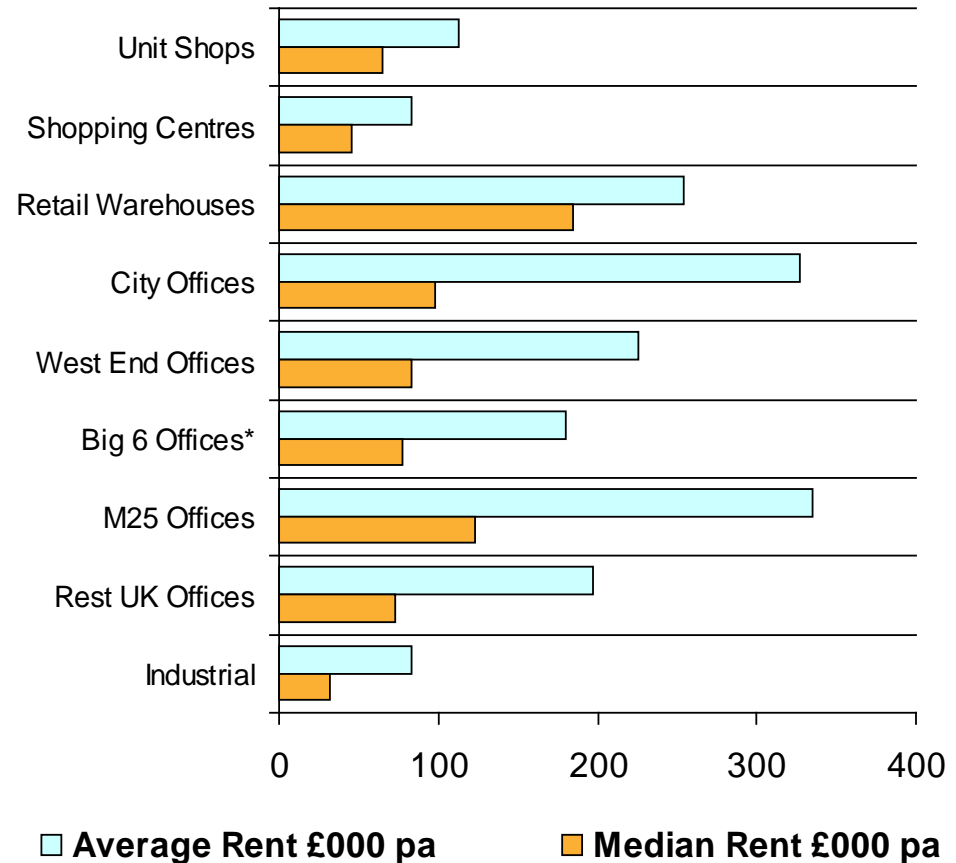


Occupied end-2008: the typical tenant

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- The average tenant occupies 11,000 sq ft paying £138,000 pa in rent
- But the average is not typical: variation across segments
- Skewed distributions within segments eg shopping centres average rent £83k but 6% of tenants paying over £250k pay 33% of total rent



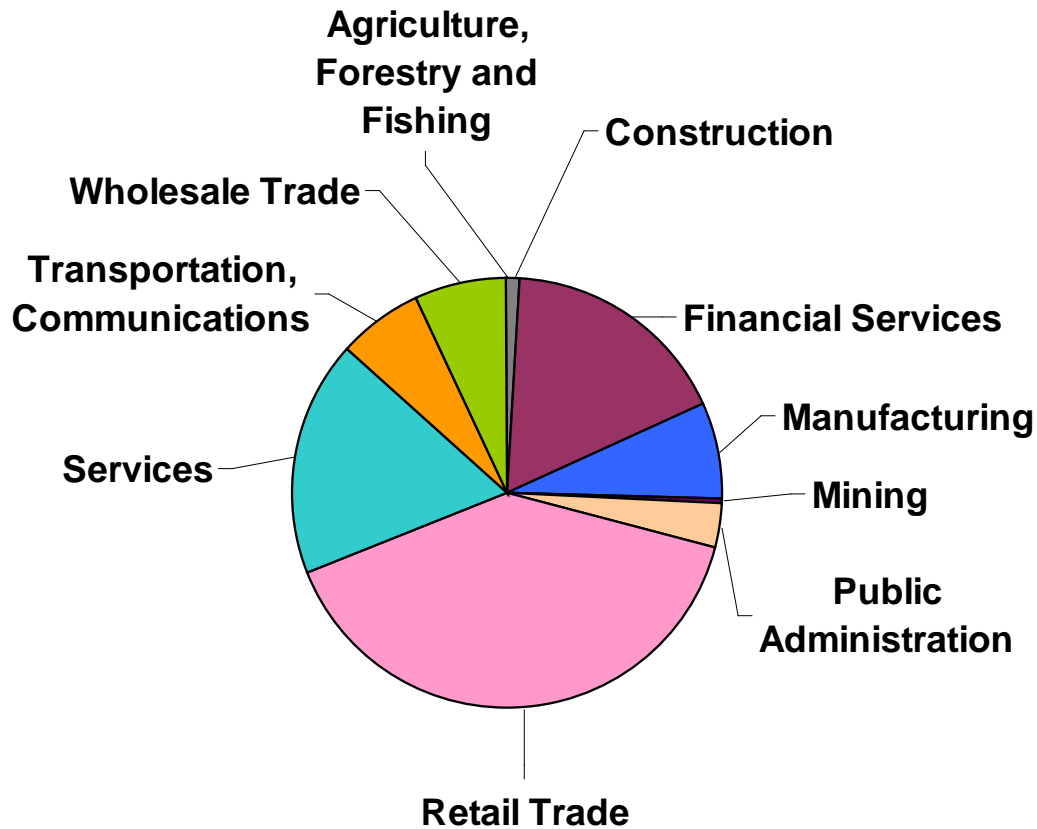
* Bristol Manchester Birmingham Leeds Edinburgh Glasgow

Who's got the space?

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The tenant market, by rental value, June 2009

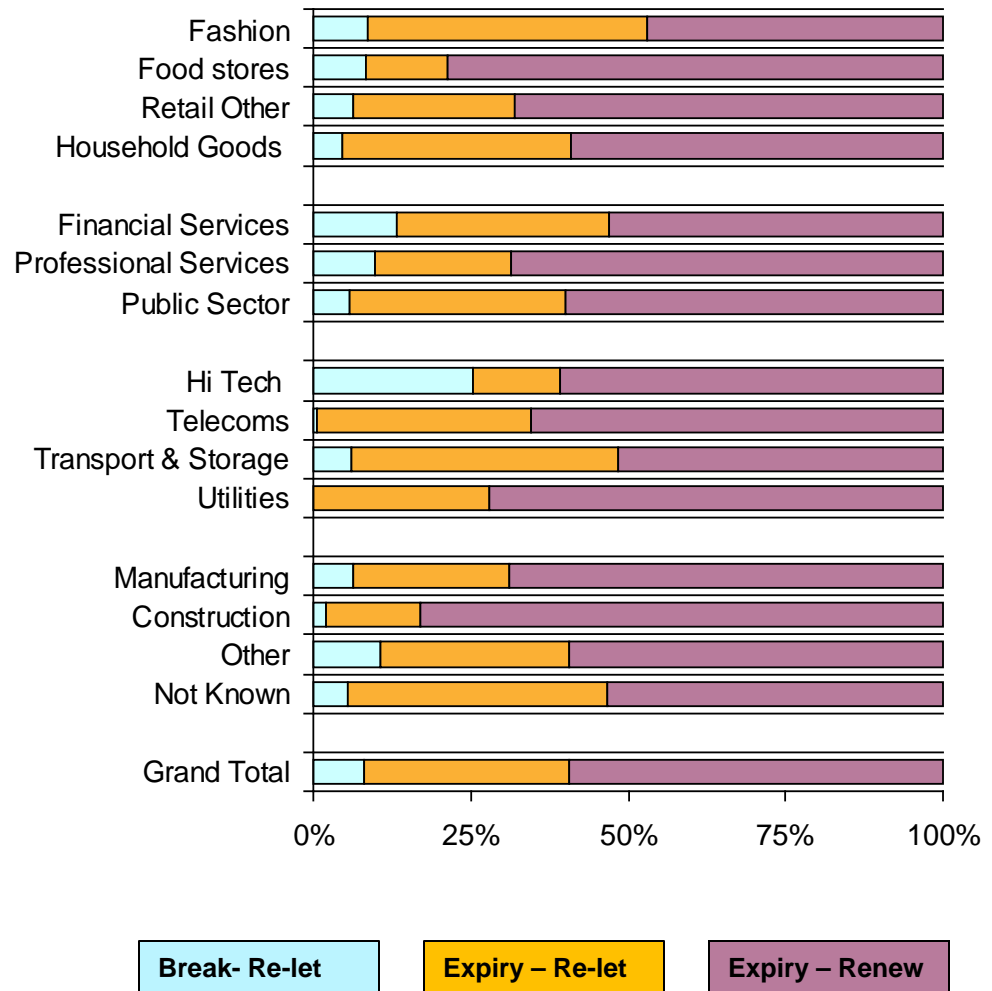


Who occupied space in 2008?

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- In 2008 21m sq ft with £166 million rent has been absorbed by new tenants
- Construction, manufacturing and food stores renewed 80% of lease agreements
- One fourth of Hi-tech and Financial Services moved to new locations, result of exercised option

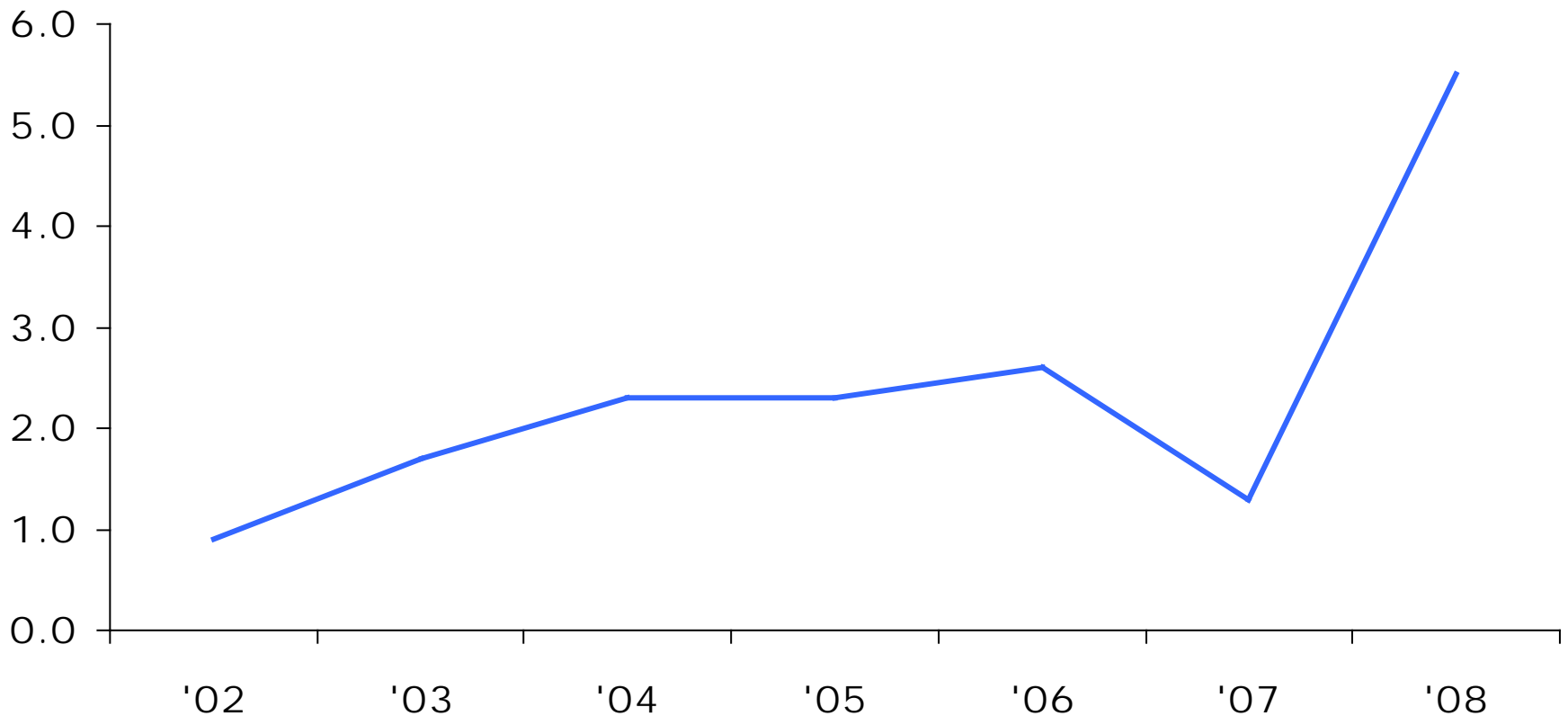


Rate of tenants entering liquidation / receivership soars in 2008

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Tenants rated 0 or 1 y Dunn & Bradstreet, weighted by ERV, %





Trends - 8th Quarter of the slump

- Continued rental value falls and yield rises
- Inflexion point in rental cycle past in Central London Offices
- Fall in West End office yields
- 'Domestic' facing markets still trending downwards

Investment

- Is the market still 'weighed down' by redemptions in equity?
- What of redemptions in real estate debt?

Pricing

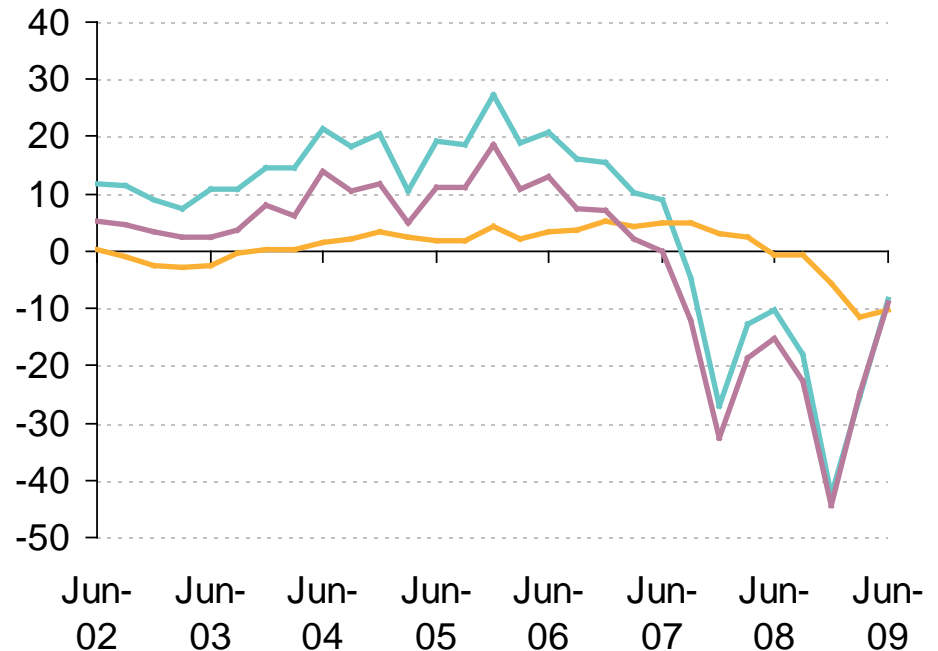
- Market passed peak point of relative value to other main asset classes?

Trend – all property performance % per year

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- All the “boom” gains already lost and more ...
- A continuous fall in yield Dec 2001 to Jun 2007: unbroken rise in yield from June 2007 to June 2009.
- At June 2009, capital values were down -12% on Dec 2001 & -42% from the peak in June 2007.



Quarterly performance at annual rate:

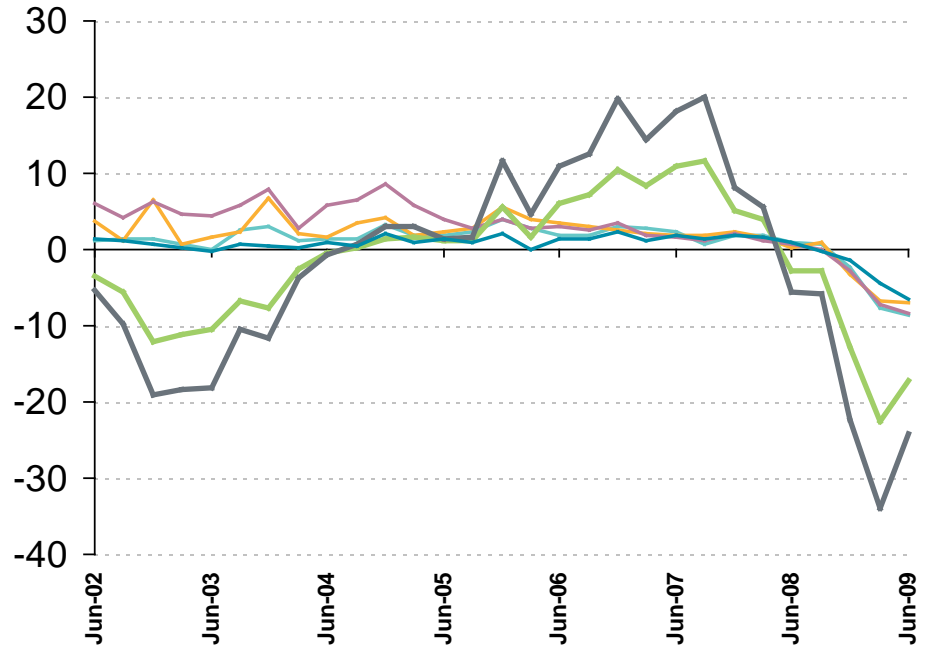
— Total Return — Rental Value Growth — Yield Impact

Trend – segment rental growth % pa

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- The inflexion point in the rental cycle for Central London offices has passed.
- Further quarterly acceleration in rate of rental falls for retails and industrials.



Quarterly rental value growth at an annual rate:

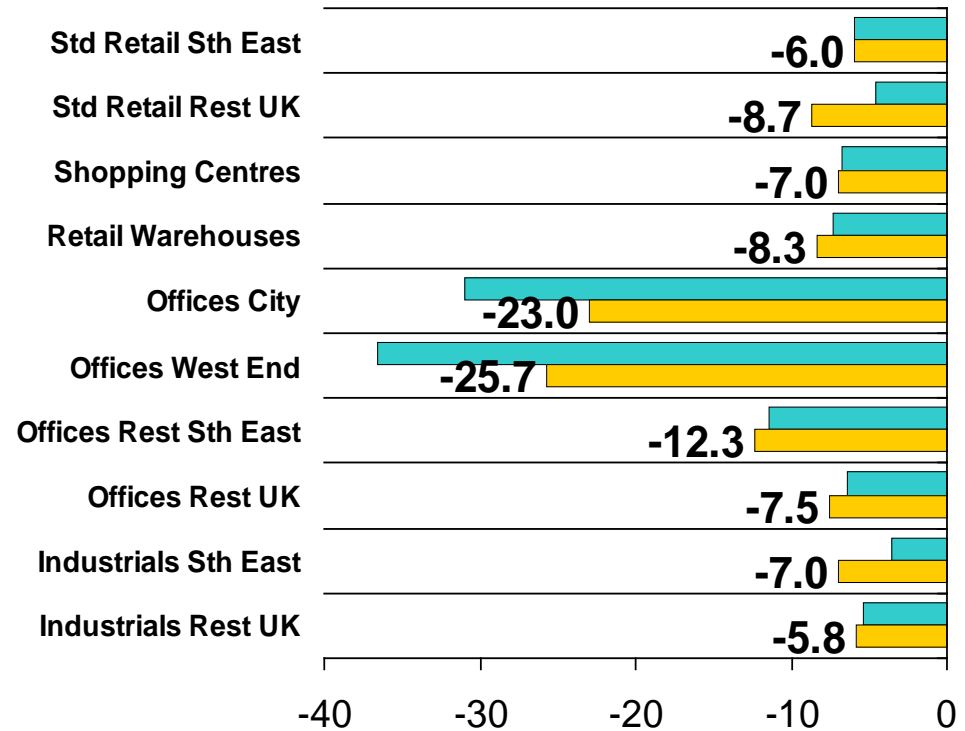


Trend – inflexion point in West End & City office rental growth

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- Bars show the rental value growth in the 2nd quarter compared with the result for the 1st quarter.
- The rates of rental value falls were faster in all segments bar West End & City offices.



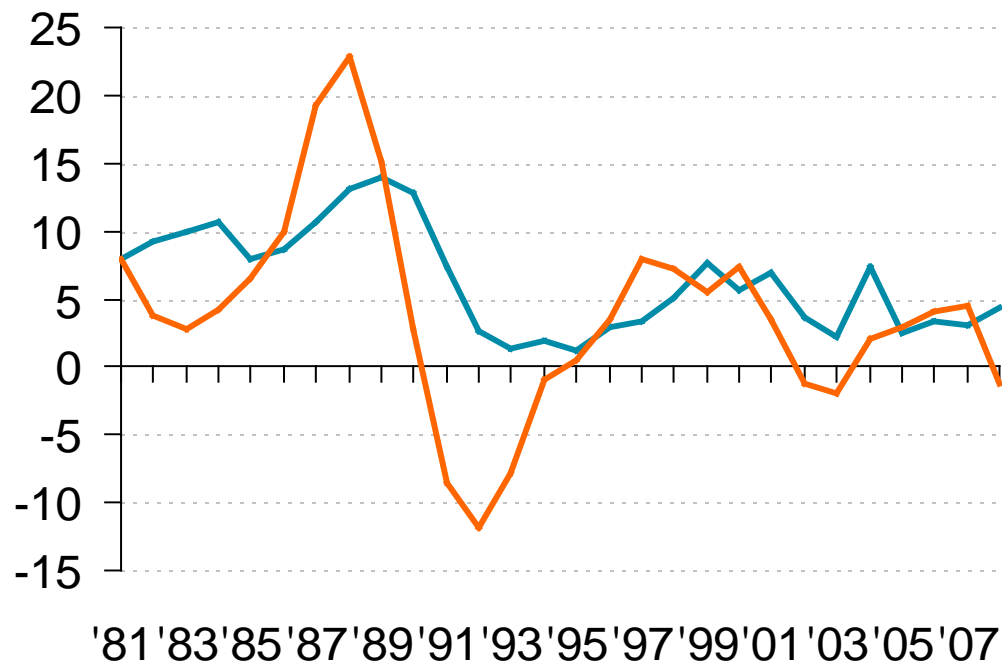
Rental value growth at annual rate over:

■ 1st Quarter

■ 2nd Quarter

Ave change in net income and rental value (% y/y) 1981 to 2008

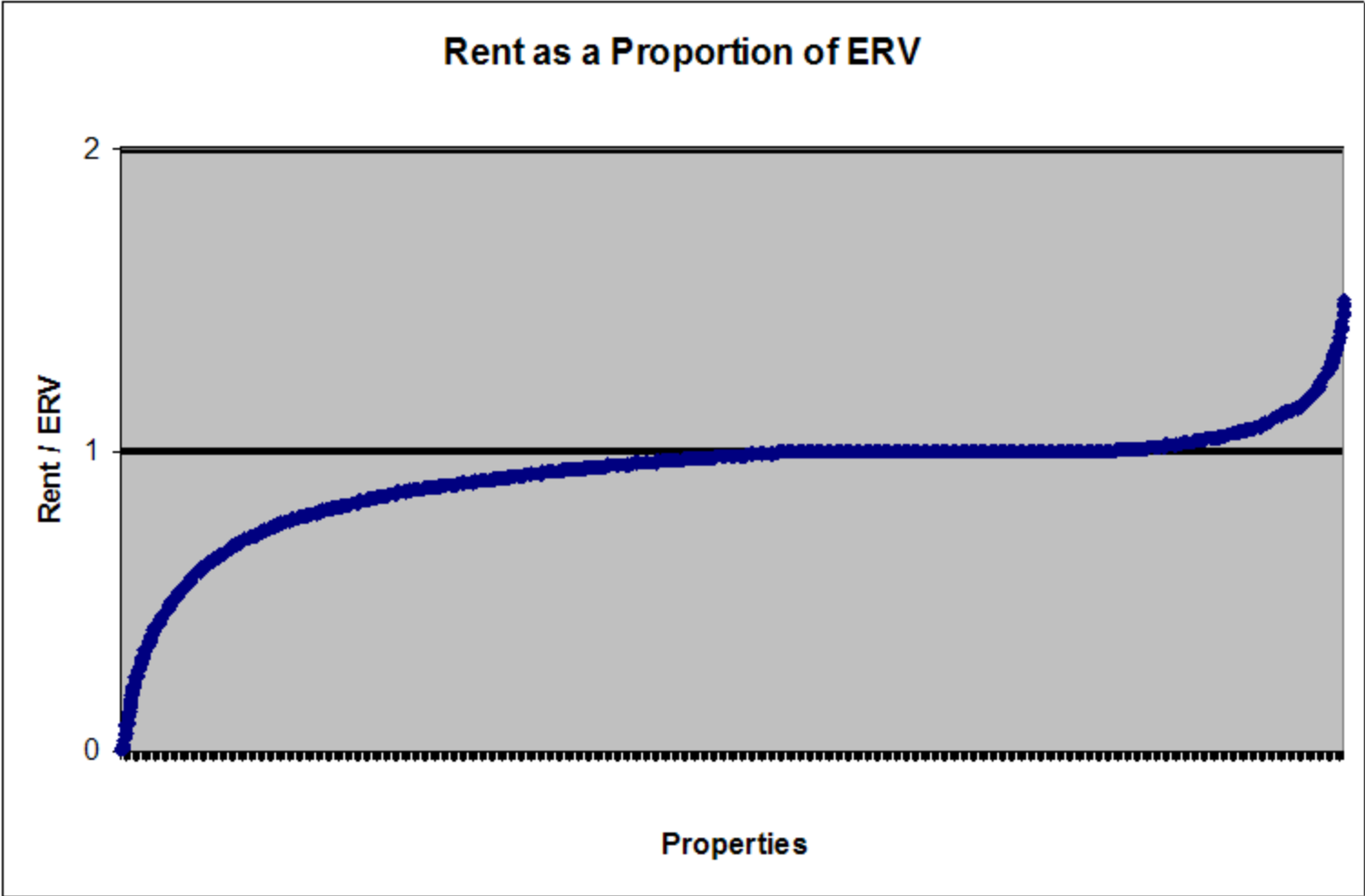
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— Net Income Growth — Rental Value Growth

Rent versus ERV

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Occupied end-2008: income flexibility in 2009

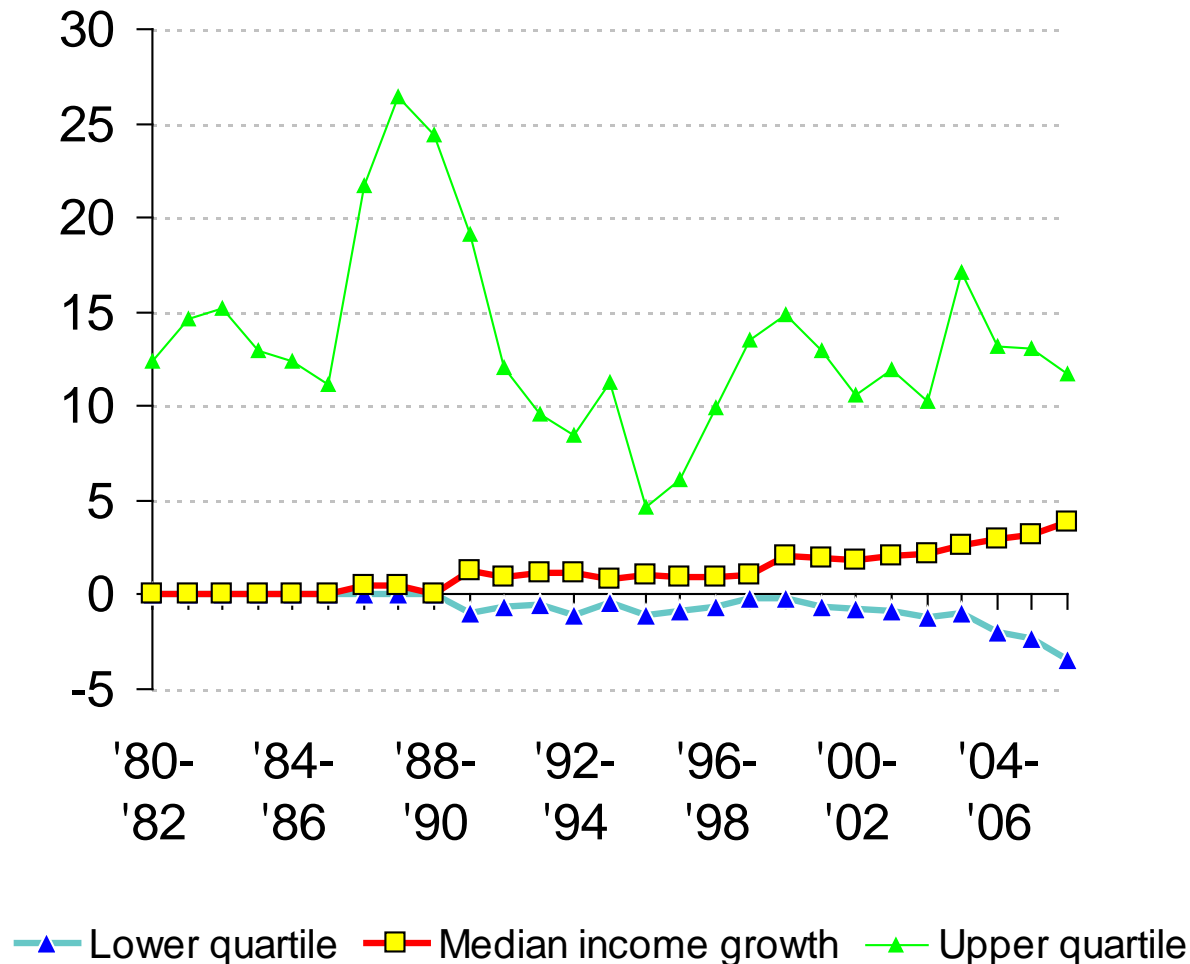
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* all breaks ignored on expiries
all breaks exercised on unexpired leases

The inter-quartile range of net income change across individual assets , % over 2 years

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Falling lease terms – more flexibility for occupiers

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The proportion of existing leases, %

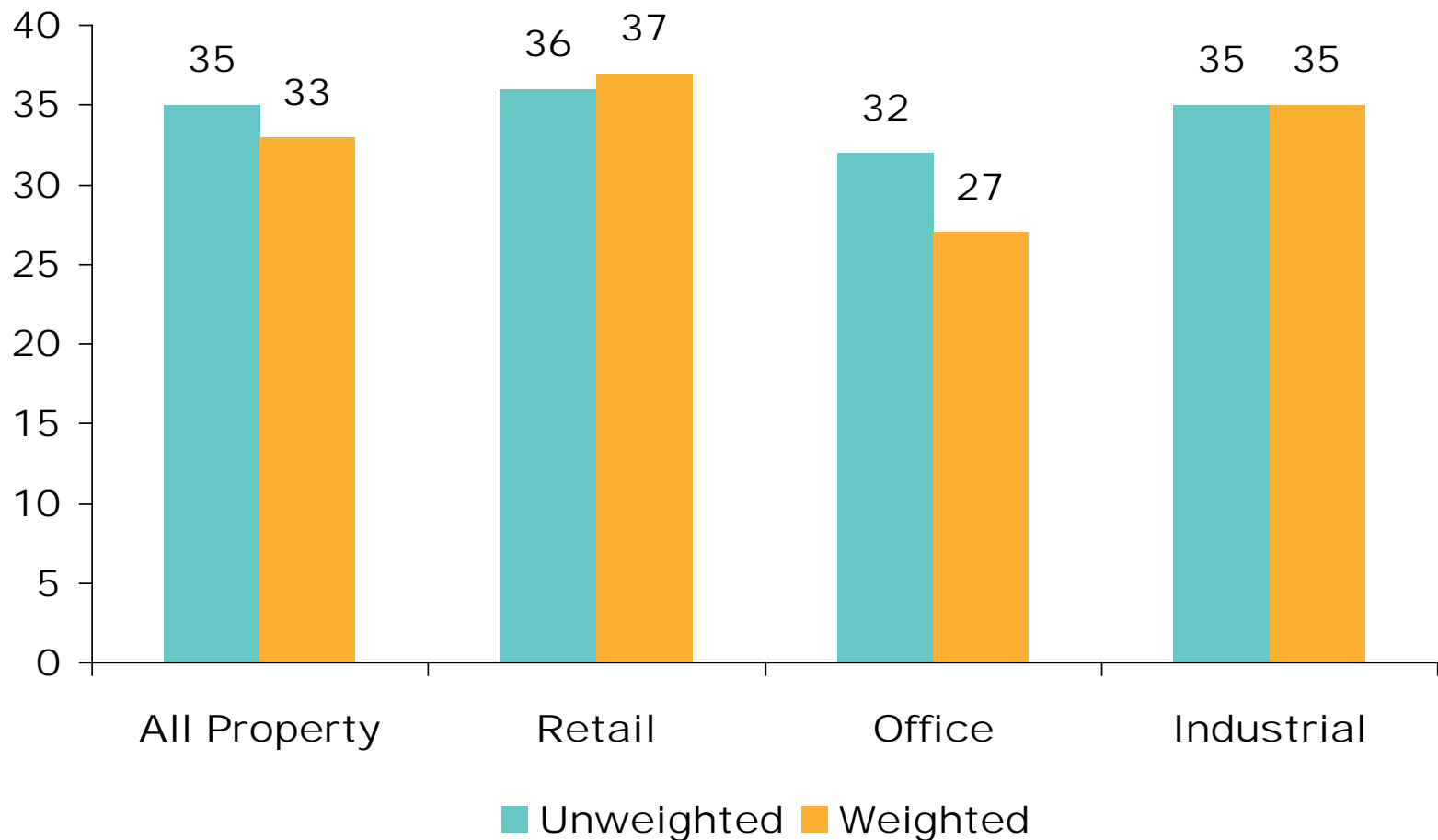
	<i>lease term unexpired, years</i>			
	<i><5</i>	<i>5-10</i>	<i>10-20</i>	<i>20+</i>
1992	32.6	12.3	33.8	21.4
2008	62.5	21.7	12.4	3.5

Similar lease renewal rates across the sectors

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Lease renewal rate, by sector, %

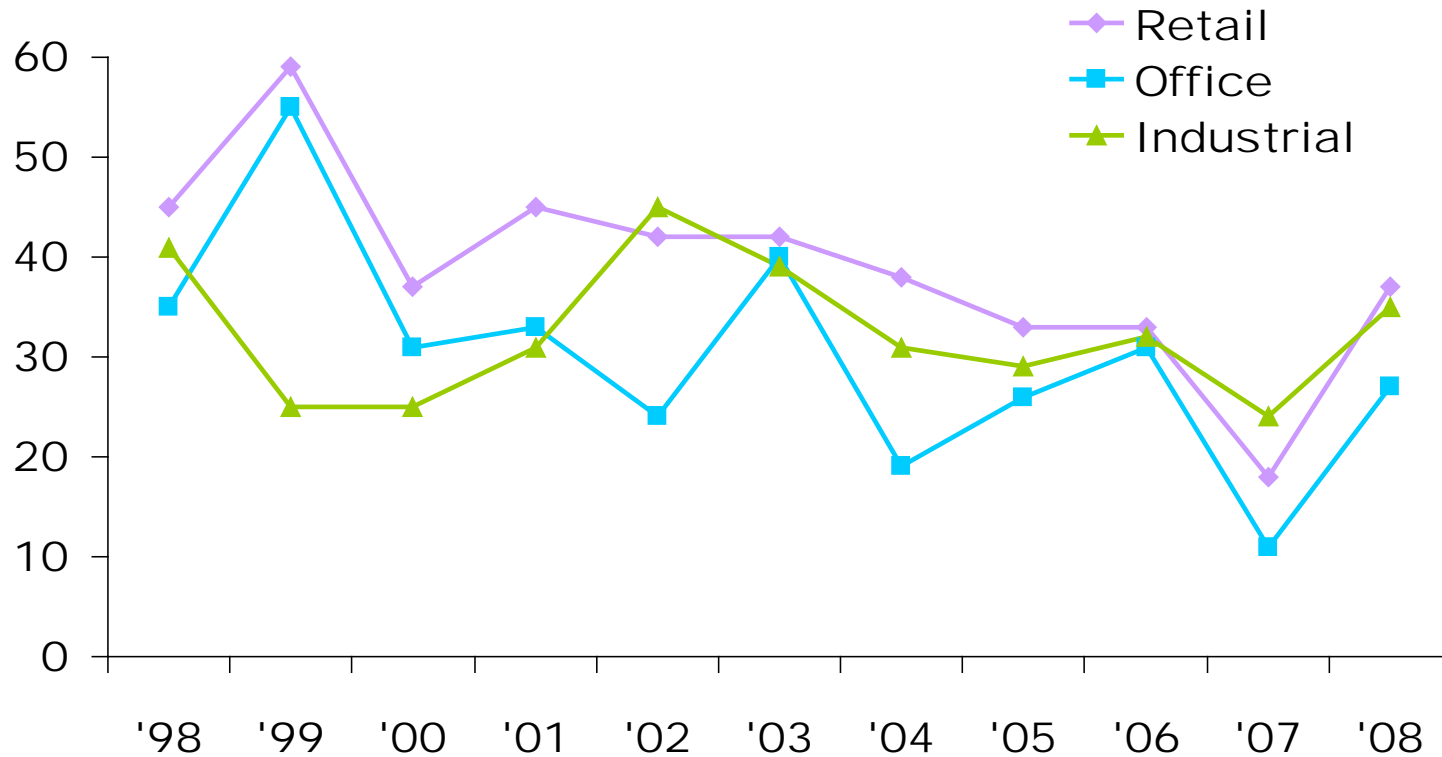


Tenant retention rates almost back in line with the long run average

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Lease renewal at calendar year end, weighted by ERV, 1998-2008, by sector, %

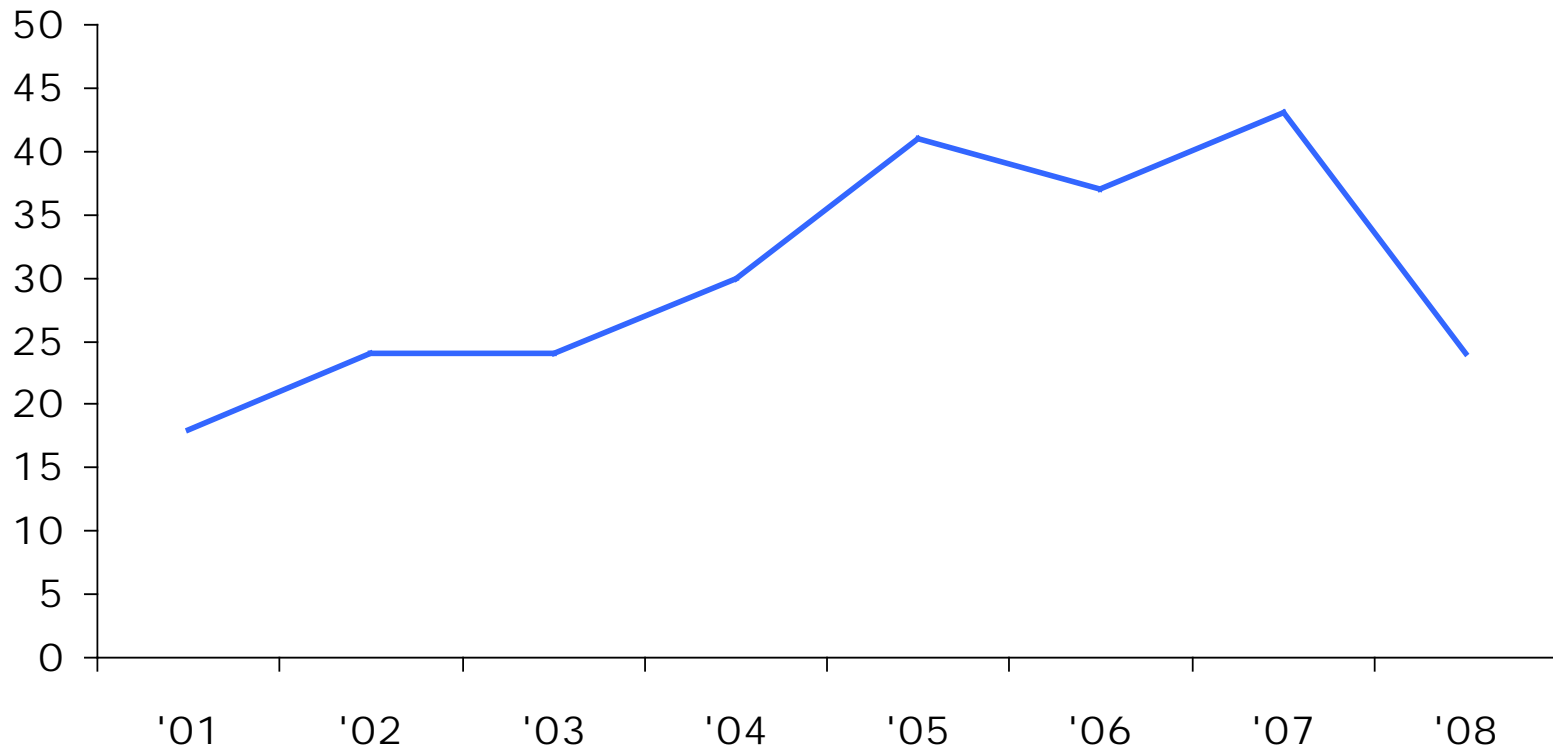


Significantly reduced incidence of breaks in 2008

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Propensity to break, weighted by ERV, %



Propensity to break in 2008

Weighted by ERV at end of previous year

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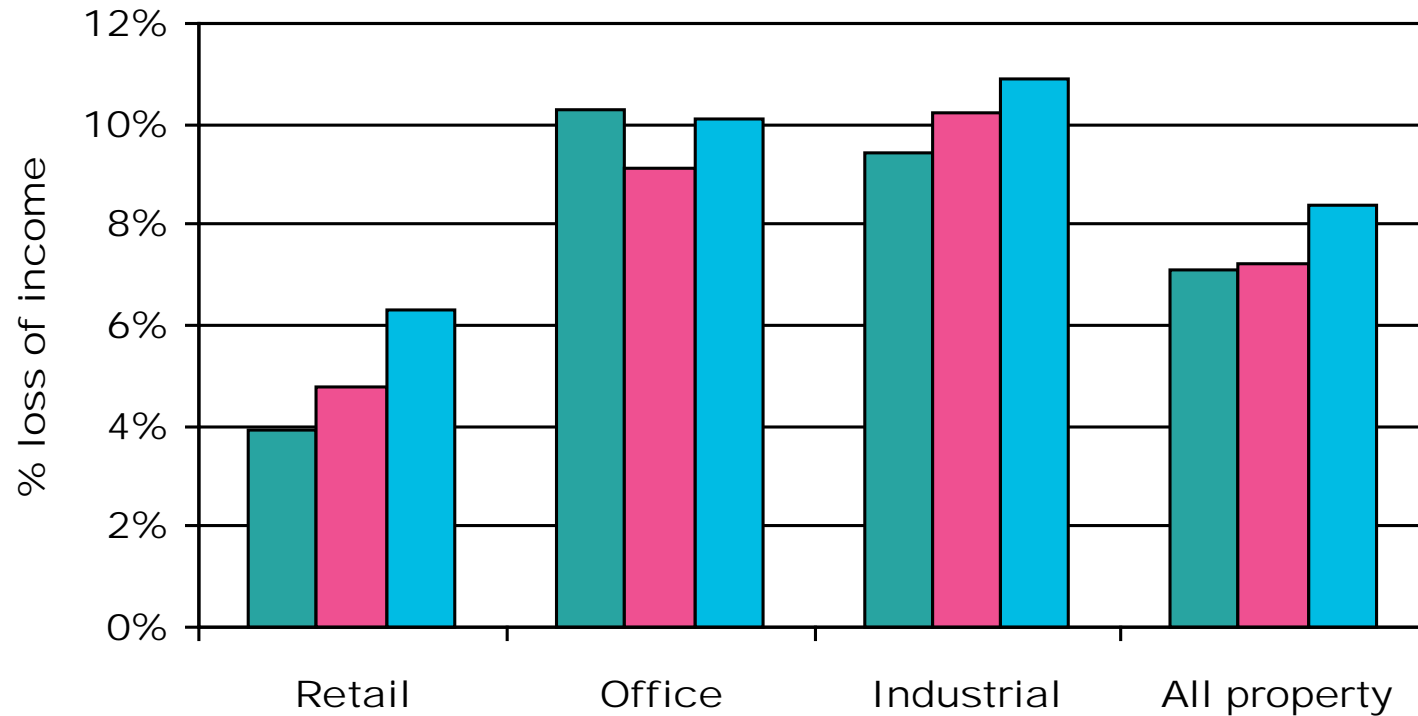


Voids in investment portfolios?

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Void ERV as % of total ERV

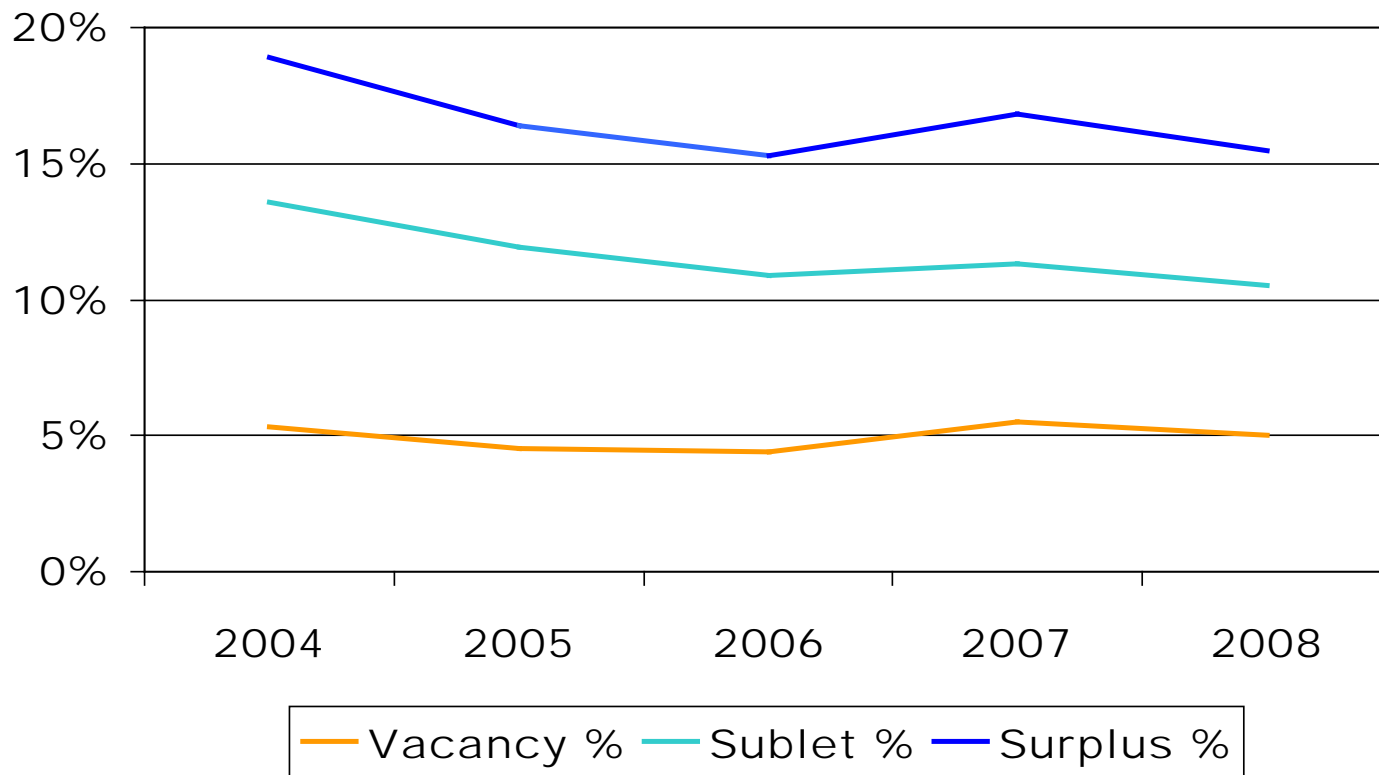


Source: IPD Annual Index

■ 2006 ■ 2007 ■ 2008

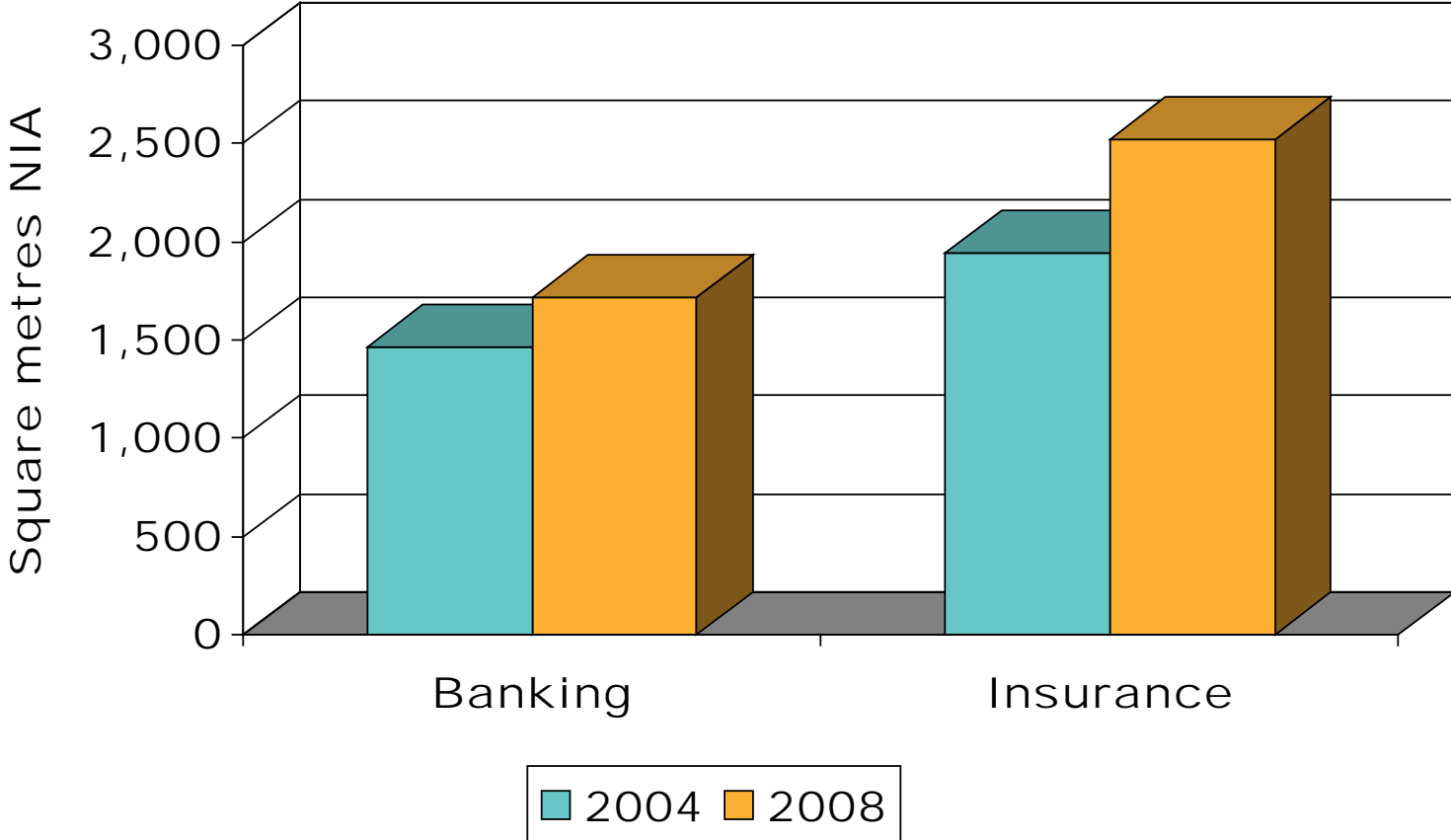
Voids in occupied office estates

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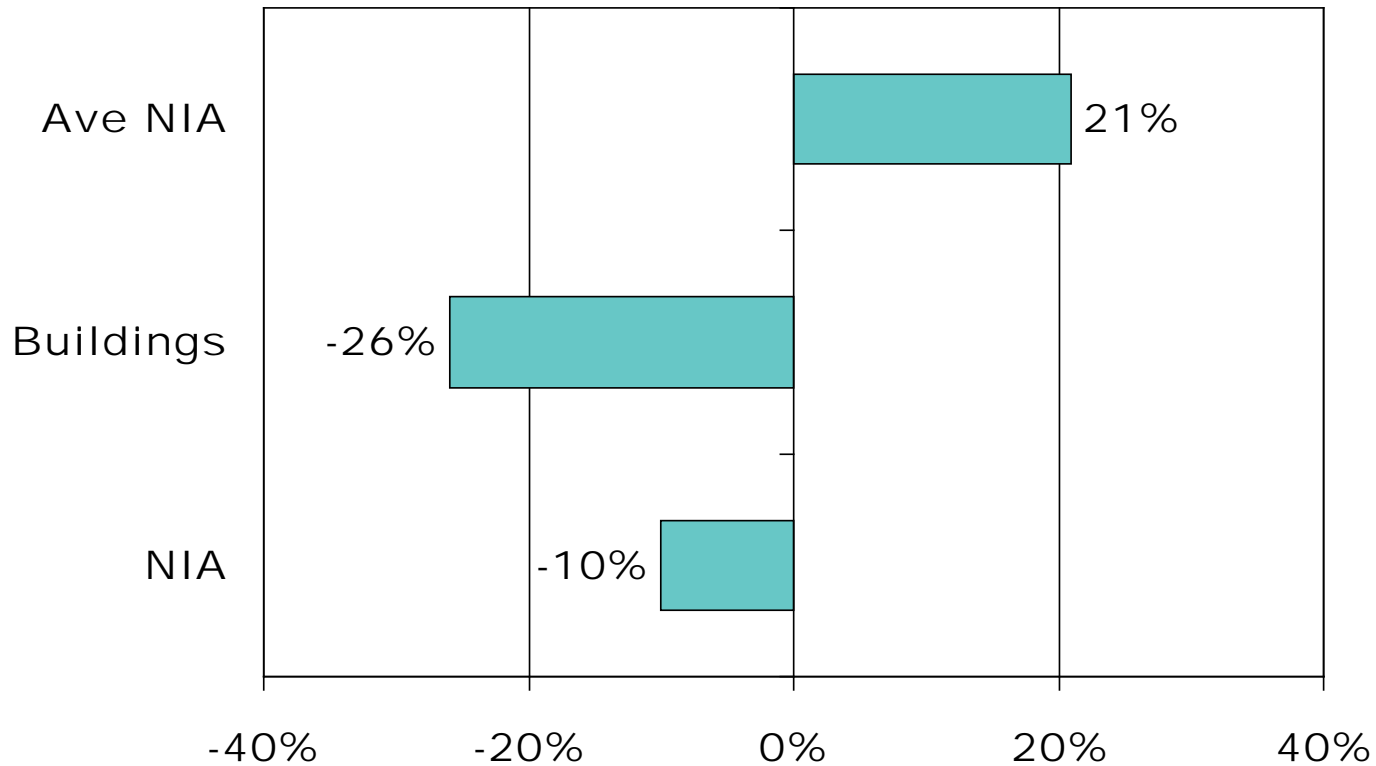
Average office size in banking and insurance sectors

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Consolidation in banking and insurance sectors

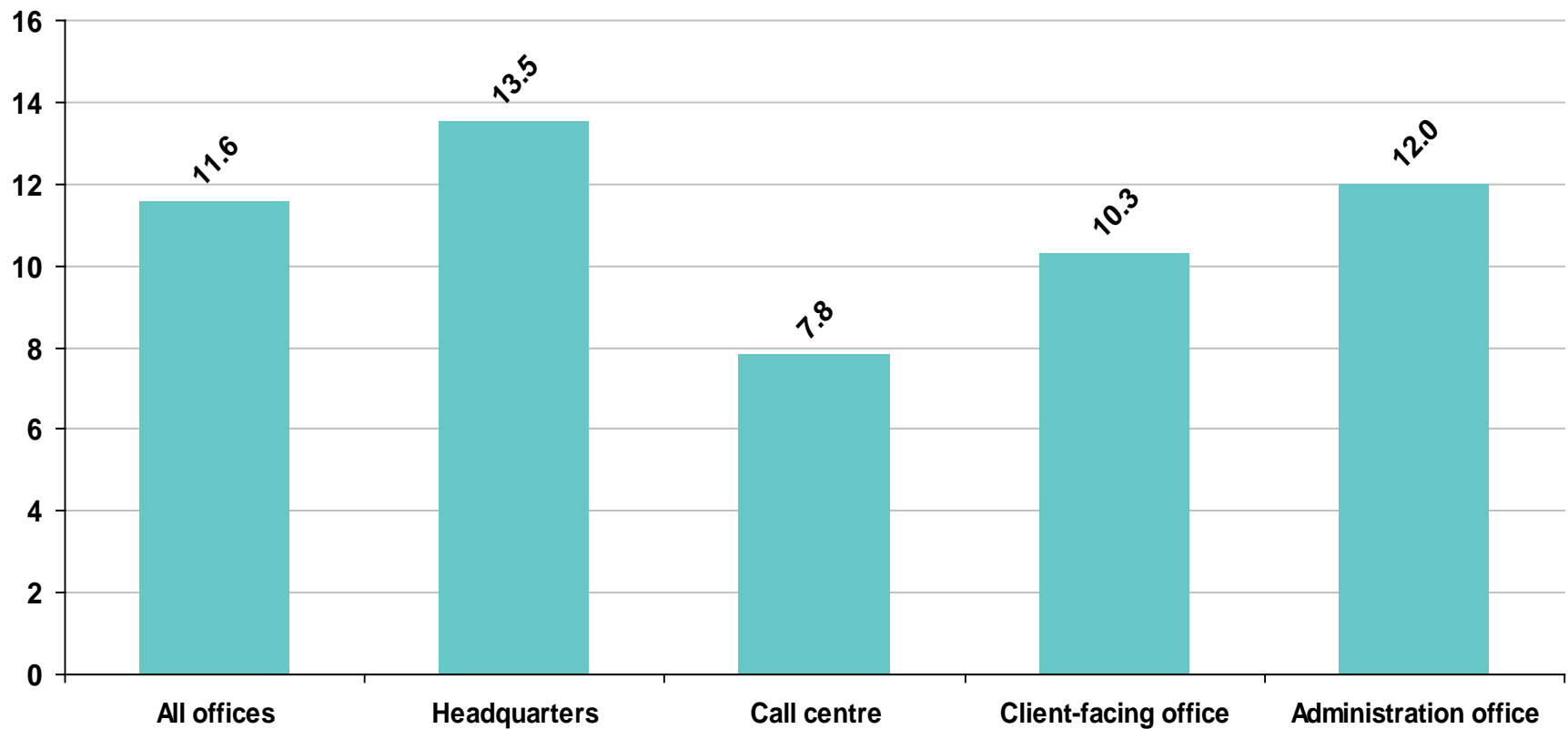
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Office space efficiency

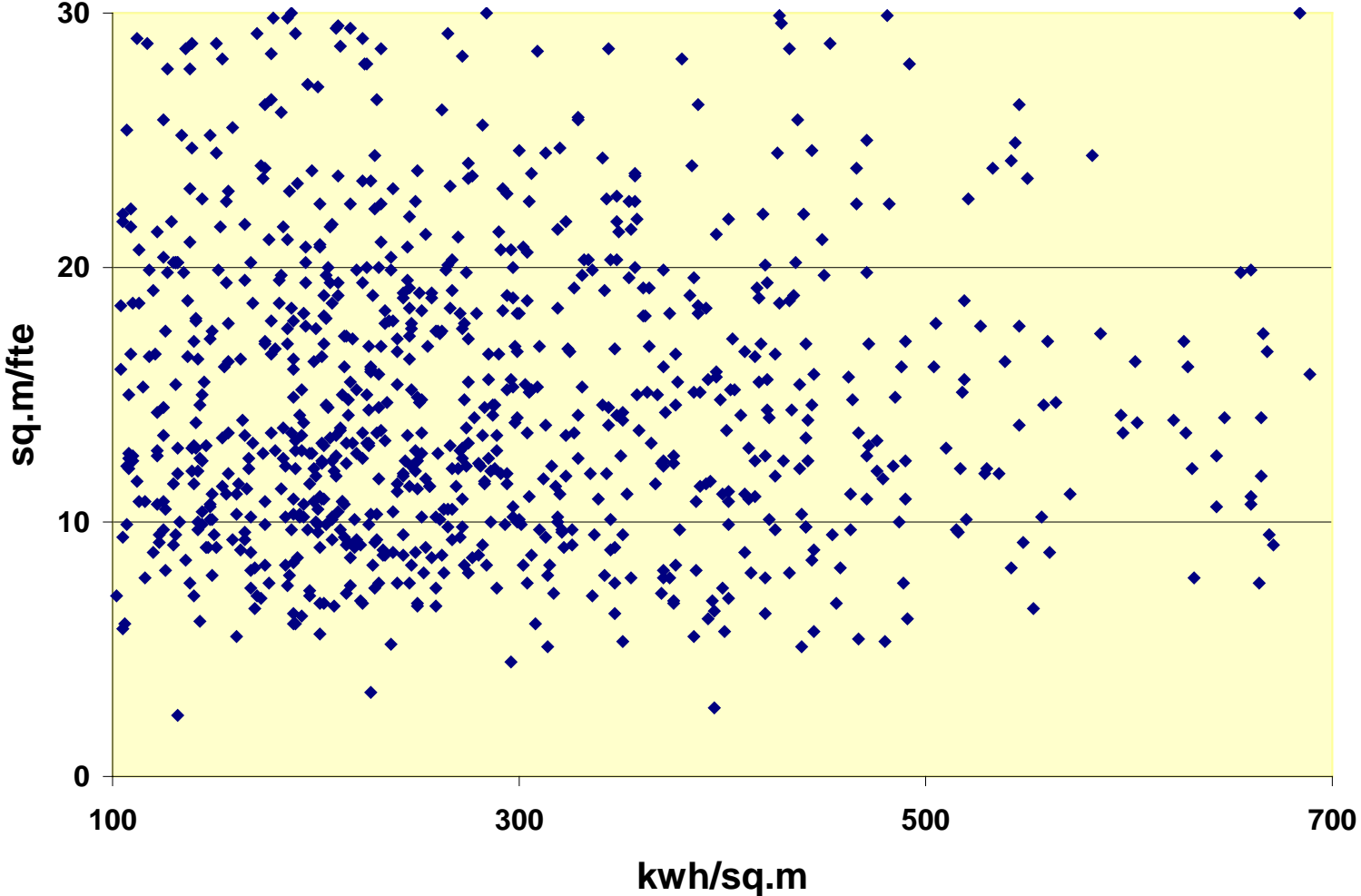
Operational offices (m² per occupant FTE)

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The carbon problem

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- A very different landlord tenant relationship ... for the time being
- In the short term, occupiers with money have a lot of influence
- Significant consolidation
- Lower costs
- Less space
- Less carbon
- Better quality

Thank you for your time

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