



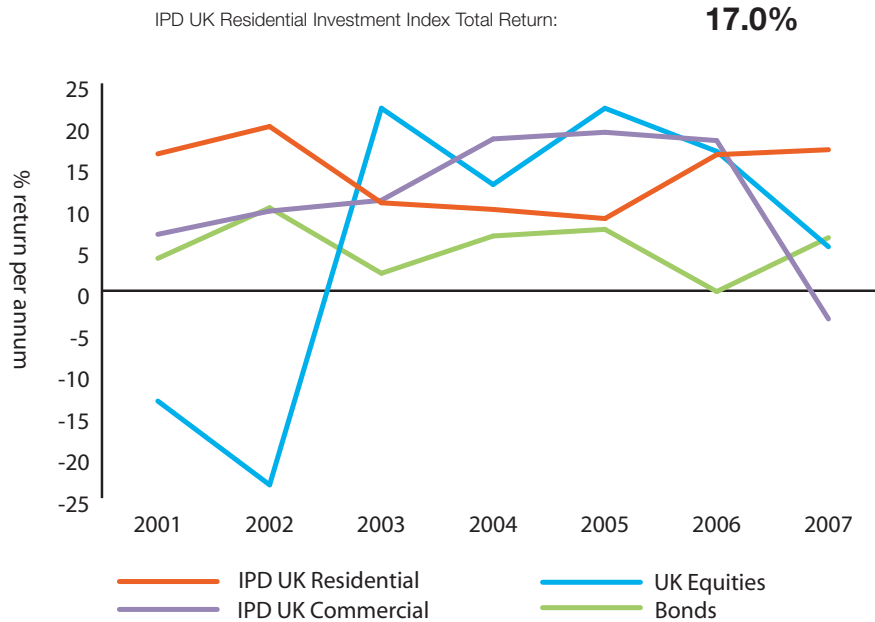
IPD UK Residential Investment Index

Results for the year to 31st December 2007

On the pulse of
the property world



IPD UK Residential Investment Index Performance



IPD UK Residential Investment Index Returns

	Total return 2000=100	Total return % 1 yr	Income return % 1 yr	Capital growth % 1 yr	Annualised total return %				
					2 yrs	3 yrs	4 yrs	5 yrs	7 yrs
IPD UK Residential	250.6	17.0	3.3	13.3	16.7	14.0	12.9	12.4	14.0
IPD UK Commercial	208.6	-3.4	4.6	-7.7	6.8	10.8	12.6	12.2	11.1

Comparative Data

Equities	137.2	5.3	-	2.0	10.9	14.5	14.1	15.6	4.6
Bonds	142.0	6.4	-	0.7	3.1	4.5	5.0	4.4	5.1

Data source: FTSE All Share Total Returns Index, FTSE 5 -15 Gilts Total Return Index, IPD Annual Digest

The IPD UK Residential Investment Index is sponsored by:

Allsop & Co, CBRE Hamptons, Cluttons, Colliers CRE, DTZ Debenham Tie Leung, Jones Lang LaSalle, King Sturge, Savills

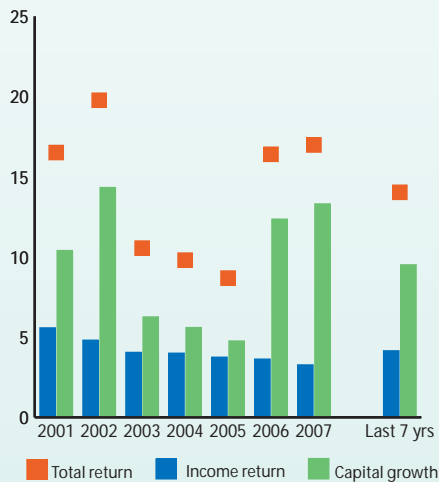
Disclaimer

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Market performance

Components of total return %



IPD UK Residential Investment Index

The IPD UK Residential Index is now in its seventh year. The Index accurately measures the total performance achieved by investors in UK residential property. The index is not a simple price index but also takes into account net income and expenditure on the assets. This holistic approach allows investors to draw like for like comparisons with returns from commercial property and other financial assets.

The IPD UK Residential Investment Index comprises assets let on modern residential leases, a combination of assured short hold tenancies, assured tenancies and corporate lets.

The Vacant Possession Value of properties let on modern leases at December 2007 was **£2.26bn**. All other residential interests including ground rents, statutory and protected tenancies and student accommodation, take the combined total during the year to 10,550 individually valued units with an investment value of almost £4bn. These non-market let units have been excluded from this index, but are available for analysis as part of IPD's residential benchmarking service

The Index excludes the impact of transactions and developments to give a measure of the underlying investment market performance.

UK Residential out-strips other asset classes in 2007

The total return in 2007 for large-scale residential landlords was **17.0%**. This strong total return performance came in 60bps higher than 2006 and continues to be driven by capital growth, as the softening owner occupied market in Q4 failed to erode the sustained gains experienced earlier in the year. This total return can be broken down into two components, capital growth and income return. The capital component of total return was 13.3% and the income component 3.3%.

Evidence of the tightening property market was apparent through rental growth, with All Market Let rental values appreciating by **6.8%** y/y. To put this into context rental growth in the previous year was over 4% lower at 2.7%.

The residential return of 17.0% came in over 20% ahead of the weaker, -3.4%, returns delivered to holders of commercial stock. This is the widest margin between the IPD commercial and residential indices since this index began (in 2001).

Further underlining the diversification potential of the sector, investment grade residential also performed markedly differently to UK equity and bond markets last year. Both delivered positive, but modest, returns of 5.3% and 6.4% respectively.

Over the full seven year history of this index, market let residential property has delivered a healthy **14.0%** average return per annum, ahead of commercial property's 11.1% y/y. The equivalent FTSE All-share and 5-15 Gilt rates came in at 4.6% and 5.1%. Averaged over 5 years, returns to commercial property are on a par with residential at 12.2% y/y, with residential returns taking their place between equities (15.6%) and bonds (4.4%) on the risk/returns spectrum.

Investment performance by asset class, % p.a.



Prime Central London leads growth

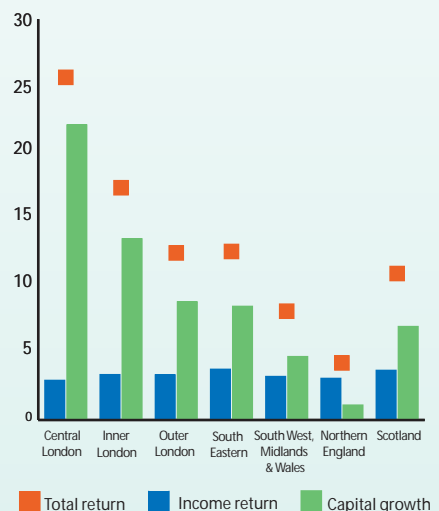
The familiar North – South divide became more evident through 2007, following strong performance from Central London (25.6%) and, to a lesser extent, Inner London (17.4%). However, regional returns have pulled back y/y, with Northern England and Scotland showing the greatest deceleration over the twelve months, from 11.7% to 4.3% and 24.3% to 11.0% respectively. Whilst income and capital returns were positive across all regions, the capital growth component was most modest in Northern England, with values moving on by just 1.1% y/y (sub inflation).

In a continuing trend, the range of regional returns in 2007 was largely driven by relative capital appreciation rates as opposed to income returns, which converged yet further on the 2006 figures. The difference in income return between the highest performing regions, South Eastern (3.8%) and Scotland (3.7%), and the lowest, Central London (3.0%), has now fallen to about 80 basis points. These income return variations are a far cry from the c.300bps spread seen at the start of the millennium.

2007 saw rental values growing twice as quickly as in 2006, with nominal rents moving on across all regions. Overall, this was led by Central London, which saw double figure rental growth for the first time since 2001.

Through the full Index history, the difference between the highest and lowest performing segments has averaged 4.4% per annum. Over this seven year period, Central London market lets have returned the 'weakest' returns at 12.0% per annum, with Scotland leading at 16.4% per annum.

Total returns by region in 2007 %



Values, rents and yields

% Return per year, standing investments only				
Total return	1 yr	3yrs	5yrs	7yrs
Central London	25.6	16.4	12.1	12.0
Inner London	17.4	15.6	11.8	14.1
Outer London	12.5	11.8	10.4	13.1
South Eastern	12.6	11.6	10.7	13.7
South West, Midlands & Wales	8.1	8.6	11.2	13.6
Northern England	4.3	8.7	12.7	15.7
Scotland	11.0	15.8	16.8	16.4
All Market Lets	17.0	14.0	12.4	14.0
Income return	1 yr	3yrs	5yrs	7yrs
Central London	3.0	3.1	3.1	3.2
Inner London	3.4	3.6	3.8	4.2
Outer London	3.4	3.7	3.8	4.2
South Eastern	3.8	4.1	4.4	4.9
South West, Midlands & Wales	3.3	3.5	3.6	4.0
Northern England	3.1	3.6	3.9	4.6
Scotland	3.7	3.9	4.3	5.0
All Market Lets	3.3	3.5	3.7	4.2
Capital growth	1 yr	3yrs	5yrs	7yrs
Central London	22.1	13.0	8.8	8.5
Inner London	13.6	11.6	7.8	9.6
Outer London	8.8	7.9	6.4	8.6
South Eastern	8.5	7.1	6.1	8.5
South West, Midlands & Wales	4.7	4.9	7.4	9.3
Northern England	1.1	4.9	8.5	10.6
Scotland	7.0	11.5	12.0	10.9
All Market Lets	13.3	10.1	8.4	9.5

Gross and net yields %		
Gross yield	2002	2007
Central London	5.4	4.0
Inner London	6.8	4.8
Outer London	6.8	5.3
South Eastern	7.1	5.5
South West, Midlands & Wales	6.6	5.2
Northern England	8.8	5.4
Scotland	9.5	4.8
All Market Lets	6.8	4.7
Net yield	2002	2007
Central London	3.1	2.6
Inner London	4.2	3.1
Outer London	4.5	3.2
South Eastern	5.3	3.6
South West, Midlands & Wales	4.2	3.1
Northern England	5.3	3.1
Scotland	5.5	3.5
All Market Lets	4.4	3.0

Further information

IPD can also provide figures on returns using a much more detailed segmentation of the market, as well as gross and net yields, income growth and void rates for different regions and property types. For further information on the full extent of IPD's data on the residential investment market, please contact us at residential@ipd.com.

Rents, capital values and vacant possession values

The average annual gross rent paid by residential tenants in investment grade property in 2007 was £12,400, up from £10,700 in 2006. After vacancies and irrecoverable costs have been accounted for the average received income, per property, drops to £7,900. The average gross rent in Central London, at £29,700, was double that seen in the rest of London and over four times the levels seen outside the South East.

The regional capital values split at the year end followed a similar pattern to 2006 with a heavier weighting towards London and the South East in terms of the percent of capital employed, despite an even distribution in terms of the number of contributing assets. The difference between capital and vacant possession values reflects the traditional practice of valuers applying a discount for an incumbent tenant. The average discount applied at the end of 2007 was in line with the long term average at 7.7%.

Voids reduced significantly through the year to 5.9%, 156bps below the level seen in 2006. As expected, those sub-markets experiencing the largest reduction in voids also saw the greatest acceleration in rental growth.

Net and gross yields

The difference between gross and net yield reflects income lost due to irrecoverable operating costs and voids. The source of irrecoverable operating costs are broken down into their constituent parts including costs of management, service charge expense, maintenance, utilities and write offs (amongst others), allowing participants in the Residential Service to accurately measure and benchmark their performance in each region or segment. In line with previous years, 2007 saw **36%** of gross income lost due to voids and irrecoverable costs.

2007 saw the average gross yield on residential property pull back 45 basis points, to 4.7%, on the previous year. Once void periods and operating costs had been deducted from gross income, the net yield stood at 3.0%, generating a level of receivable income below the Bank of England's base rate. Both gross and net yields have fallen over the last seven years as a combination of market sentiment and the influence of the buy-to-let market has generally enabled rising capital values against a backdrop of stable, or falling, gross and net income levels. In some contrast to this, 2007 has seen the return of above inflation open market rental value growth.

Profile and methodology

Market Lets Databank Profile - to end 2007

	No. of properties	Vacant possession values (£m)	Capital value (£m)	% of capital value	Average capital value (£k)	Average discount to VPV	Average gross income (£k)	Average void rate % ¹
Central London	1,312	1,028.5	978.1	46.9	745.5	4.9	29.7	3.8
Inner London	699	211.4	190.6	9.1	272.7	9.8	13.1	8.3
Outer London	1,890	471.4	426.3	20.4	225.5	9.6	12.0	6.9
South Eastern	1,434	221.4	196.2	9.4	136.8	11.4	7.5	5.1
South West, Midlands & Wales	1,243	147.6	130.1	6.2	104.7	11.8	5.5	6.4
Northern England	805	95.4	83.6	4.0	103.9	12.4	5.6	10.0
Scotland	531	76.3	73.9	3.5	139.2	3.1	6.7	5.7
All Market Lets	7,922	2,260.0	2,086.8	100.0	263.4	7.7	12.4	5.9

¹ Void rates are expressed as a percentage of gross income

Index construction

The IPD Residential Investment Index measures returns to direct investment in residential property. In common with all other IPD indices, it shows annual time weighted returns calculated by chain linking monthly returns to capital employed for market standing investments. Standing investments are properties held from one valuation to the next. This means that any properties bought, sold, under development, or subject to major refurbishment between valuations are excluded.

The IPD Residential Investment Index is compiled from valuation and management records for individual units collected from investors by IPD. All valuations used in the Residential Investment Index are conducted by qualified valuers working to RICS guidelines.

IPD Residential Investment Index and benchmark

The IPD Residential Investment Index measures ungeared returns on direct investment in properties held through the year without major alteration or capital injections. The IPD Residential Universe Benchmark result shown in IPD reports to individual investors includes the additional contributions made by transactions, development and active management. Please contact us for more information about benchmarking.

Definitions

The total return calculation employed by the IPD Residential Investment Index is the same as that used in other IPD services. In any

given month, total return is the overall return on capital employed, and is the sum of capital growth and income return. Income return is income receivable, net of income written off, property management and irrecoverable costs divided by capital employed in that month. Capital growth is the change in capital value from one month to the next, net of any capital flows, divided by the capital employed. Annual returns are derived by compounding returns over 12 individual months.

As in the IPD UK Annual Index of commercial property, valuations used in performance measures are Investment Values. Vacant Possession Values, employed widely in the residential property market, are an indication of freehold market value without an incumbent tenant. Investment values traditionally stand at a discount to VPV.

Yield measure calculations

The residential yield measures, gross and net yield, differ in calculation from those employed in the IPD analysis of commercial property. Yield measures calculated for use with commercial properties are spot measures and represent the position as at a single point in time.

Residential yield measures are calculated using income flows for the period expressed as a percentage of year-end investment value. As such they are not pure spot measures and not strictly comparable with yields that are. The calculations have been specified in accordance with standard practice in the residential investment market. Gross yield is gross income, before the deduction of income lost due to void periods and irrecoverable

operating costs, expressed as a percentage of year end investment value. Net yield is gross income net of income lost due to voids and irrecoverable operating costs, expressed as a percentage of year-end investment value.

Although it has historically been used as a performance measure by residential investors, residential net yield should not be confused with income return, which is the income component of total return.

Regions

Central London includes the City, Midtown, and West End.

Inner London is the Inner London Education Authority area, excluding Central London. In terms of postcodes, it includes all of NW1, NW8, W2, W11, W6, W14, W8, SW5, SW6, SW10, SW11 and SW8, as well as parts of SE11, SE1, E1, EC1, N1, EC2 and E14.

Outer London is the remainder of London within the old London boroughs, excluding Central and Inner London.

South Eastern comprises South East and Eastern standard government regions.

South West, Midlands and Wales comprises the South West, the West Midlands, the East Midlands regions and Wales.

Northern England includes Yorkshire and Humberside, the North West and Northern standard government regions.

Scotland is the standard government region

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