

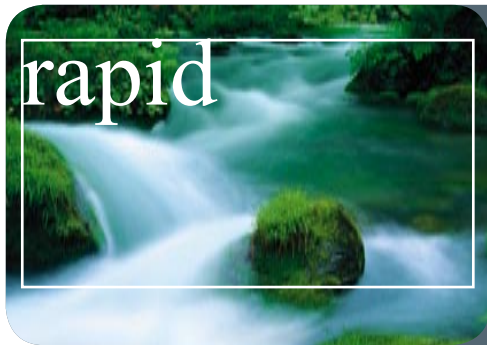
Issue 5: March 2009

rapid

Residential Auction Property Investment Data

- Average AST yields exceed 8% as net savings rates plummet.
- Gross income returns from ASTs on average 142 basis points above typical BTL mortgage rates in January 2009.
- Price falls on 3 bedroom houses at auction of up to 32% in South West and on 2 bedroom flats up to 27% in East Midlands since H1 07.
- Volume of new build flats offered at auction rises to 628 in Q4 08 with most marked increases in London. Falls from prices paid average 46% across the UK.
- Although measured capital gains not anticipated before 2011, fundamental case for longer term investment in residential is now persuasive.





Investment comparisons

Returns from property will be affected by outgoing (typically 30% to 35% of rental income) and rental voids. Savings rates already show total returns and will be unaffected by capital value movements.

ASTs are terminable fixed term agreements whereas ATs provide security of tenure for life

Traditionally valued as a proportion of vacant possession value according to the age and circumstances of the tenant, regulated investments have suffered as the prospects of capital appreciation have become more distant and investors anticipate falls in vacant possession values, at least in the short term.

Average Assured Shorthold Tenancy Yield — Blue line
 Average Assured Tenancy Yield — Orange line
 Average Regulated Yield — Green line
 Average Ground Rent Yield — Red line
 Savings Rates — Black line

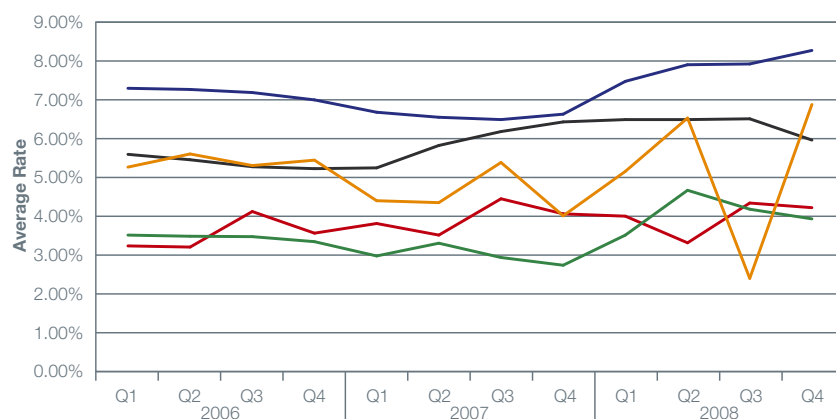
Graph 1 shows a national gross yield comparison of four property investment types sold at auction since Q1 06 and contrasts these with the best net savings rates available over the same period*.

Of these four investment types, Assured Shorthold Tenancies (ASTs) have provided the highest gross income returns throughout and yields have been rising since Q4 07. In Q4 08, they showed an average yield of 8.3%. In contrast, net savings rates are falling and were less than 6% at the end of last year – and they have fallen substantially further since.

Assured Tenancy (AT) investments, however, have shown lower gross returns than both savings and AST properties, reflecting the greater security of income provided by this type of tenancy.

The most secure investments on the graph, ground rents and regulated tenancies, were showing similar gross returns in Q1 06 (3.23% and 3.51% respectively) and in Q4 08 (4.22% and 3.93%). Regulated tenancies have, however, experienced greater investment value volatility.

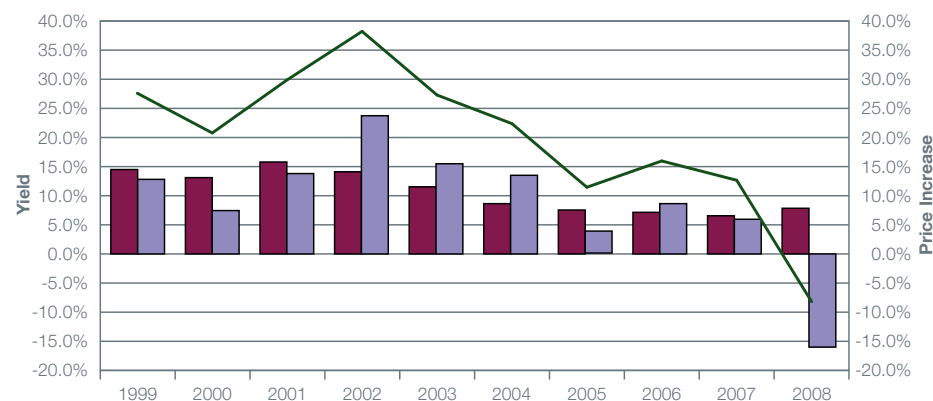
Graph 1 - Average yield and savings rate comparisons



Graph 2 demonstrates how AST investments have performed over the last ten years by showing average yields at auction and average annual house price movements.

The green line shows the combined effect of rental and capital value movements over the period. Total returns peaked in 2002 as increases in average house prices rose by 23.9%. Whilst gross rental returns remain positive today (7.9% in 08), capital growth is now negative (-16.1% at the end of last year). The combination of these factors resulted in negative average total returns on ASTs sold at auction in 2008.

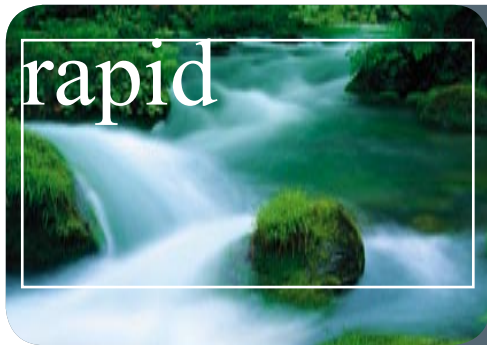
Graph 2 - Rental return and capital growth – last 10 years



The average buy-to-let mortgage rates shown are those available from principal lenders including Alliance & Leicester, Britannia, Northern Rock, Royal Bank of Scotland and Woolwich. They do not take into account mortgage arrangement fees and other charges.

Average Assured Shorthold Tenancy Yield — Maroon bar
 Average Annual Price Increase — Purple bar
 Overall — Green line

*according to moneysupermarket.com



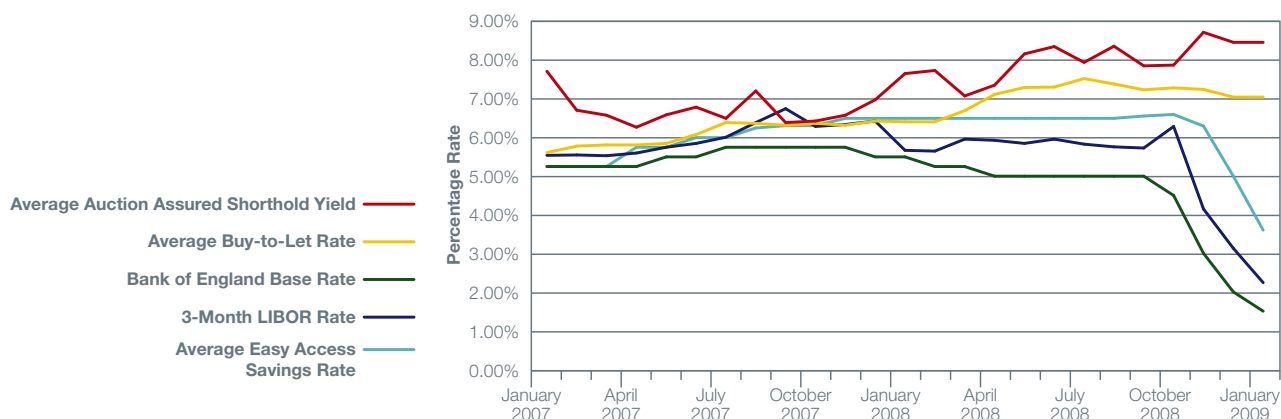
Investment comparisons and price falls

House price increases are taken from the blended average of indices provided by the Halifax, the Nationwide Building Society and HM Land Registry.

Graph 3 compares gross AST yields at auction over the last two years with the cost of borrowing and the best available savings rates.

It shows that between April and November 2007 there was a relative confluence of yields and borrowing rates - indeed, in September 2007, average AST yields were actually less than the inter bank lending rate (LIBOR). It was at this time that capital values reached their peak. The windfall gains that typified the prosperity of the preceding years had compensated for these fine margins. From the beginning of 2008, however, as the credit crunch evolved rapidly into full recession, all rates diverged and continue to do so. Whereas lending rate changes have been frequent and immediate since September 2008, the property market by comparison has proved slower to respond. As at January 2009, traditional forms of saving had become increasingly less attractive as building society and bank rates fell sharply to 3.6%, tracking the Bank of England Base Rate and LIBOR. Over the two years analysed, the average buy-to-let mortgage (BTL) rate rose steadily from 5.61% to 7.05% pa. Available loan to value ratios also fell considerably. Whilst gross AST yields now show a gap of 142 basis points above typical buy-to-let mortgage rates, outgoings and capital depreciation may result in negative total returns in the short to medium terms as highlighted by Graph 2.

Graph 3 - 2007-2009 rate comparisons



These maps provide illustrations of how values have fallen at auction since the peak of H1 2007. For simplicity, the study is confined to average prices achieved for three bedroom houses and two bedroom flats within eleven geographical areas.

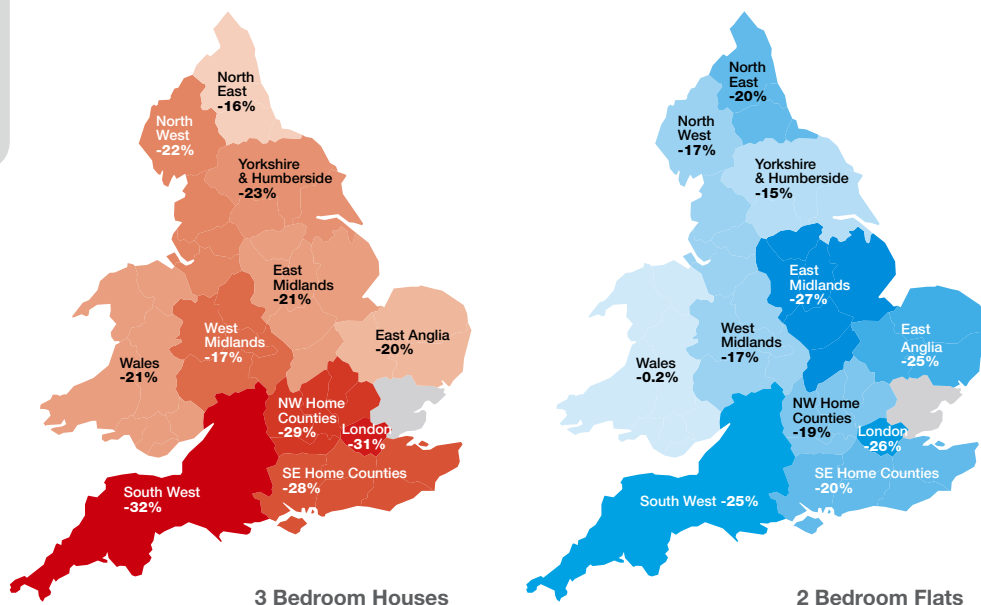
Map of Value Falls since H1 2007

3 Bedroom Houses

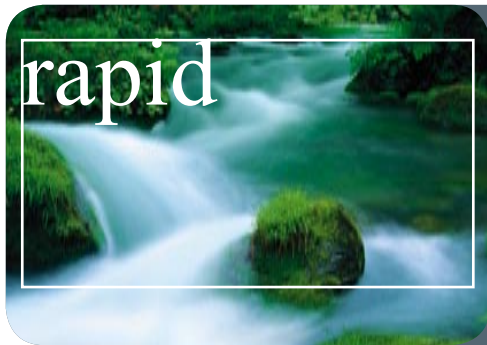
Highest falls **32%** South West
 Lowest falls **16%** North East

2 Bedroom Flats

Highest falls **27%** East Midlands
 Lowest falls **0.2%** Wales



Insufficient data available for Scotland and Ireland



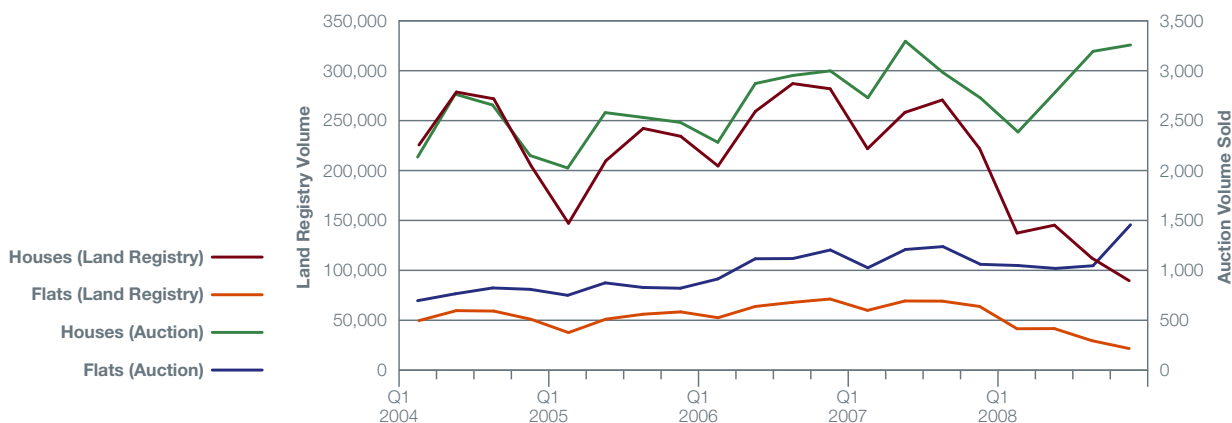
Recession Recovery

Graph 4 shows the number of transactions completed in the residential sector since Q1 04 at auction and recorded by the Land Registry (which also includes sales at auction). These have been apportioned to flats and houses.

As has been widely publicised in the media, the total number of Land Registry sales have fallen dramatically since the first half of 2007. Within this reduced transaction pool, however, the number of auction sales has significantly increased – now amounting to a large proportion of the market (from 1.28% in 2000 to 2.23% in the year to Q3 08). For example, the number of flats sold at auction annually has increased by 40% since 2000. Over the same period the number of houses sold has increased by 30%.

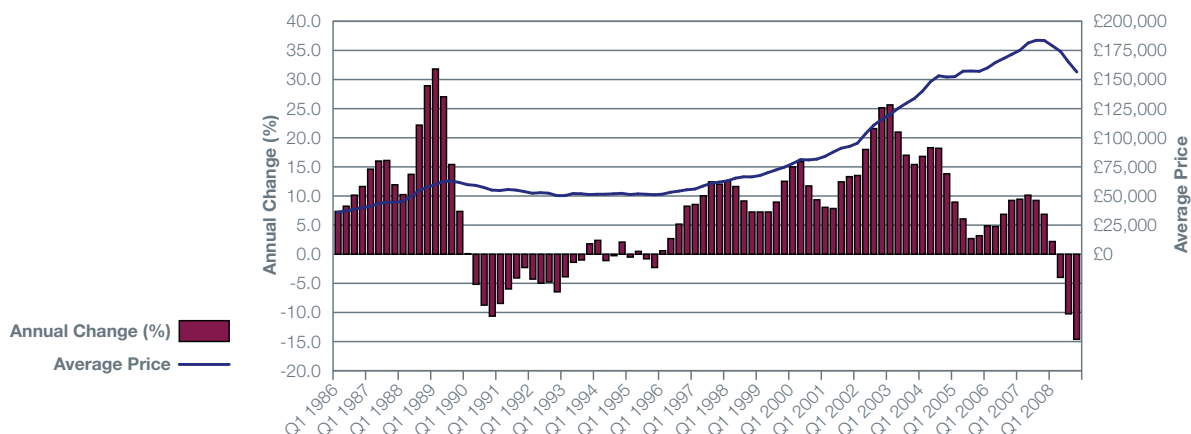
Residential market activity is expected to focus increasingly on the auction room during 2009 as the drought of mortgage finance and stagnation in the traditional private treaty market continues to stifle transactional volumes in that sector. According to recent research*, the average length of time taken to sell a property by private treaty increased from 3.9 months in Q4 07 to 5.5 months in the Q4 08. In comparison, because the exchange of contracts occurs at the moment the hammer falls, auctions deliver a total marketing and completion period of only four to six weeks. The method continues to attract in increasing numbers cash buyers and those with limited dependency on finance.

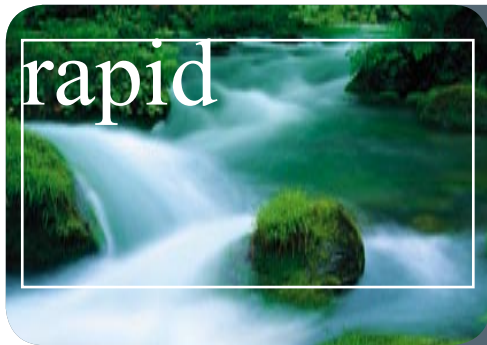
Graph 4 - Volume of Transactions at Auction and Land Registry



Graph 5 demonstrates the pattern of recovery following the last recession. Falls in house prices occurred from Q2 90. Values did not start to rise again until Q1 96, some six years later.

Graph 5 - Nationwide House Price Index 1986 - 2008





New build study

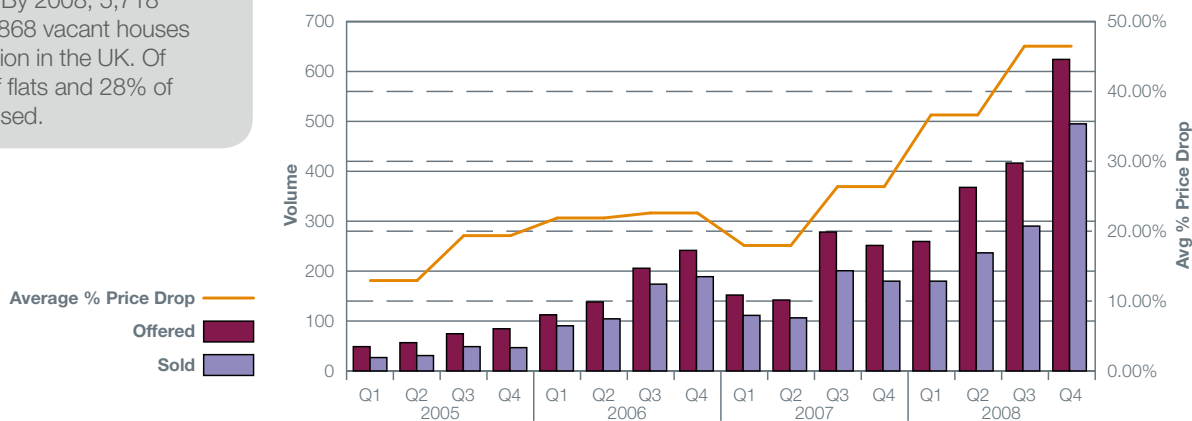
Historically, recessionary conditions have brought new property types to auction. For example, in 1989, vacant houses and flats were seldom introduced to auction buyers. Indeed, demand in the room was confined to professional investors seeking income driven investments. But from 1990, as the number of repossessions swelled, so did auctioneers' catalogues. The numbers of vacant homes offered under the hammer grew and so did the popularity of auctions as a medium of property exchange. By 2008, 5,718 vacant flats and 15,868 vacant houses were offered at auction in the UK. Of these totals, 46% of flats and 28% of houses were distressed.

Graph 6 demonstrates the rising volumes of new build flats (predominantly located in city centres) being offered and sold at auction.

The increase has been particularly marked since Q2 07, when 143 were offered, and Q4 08 by which time the figure had risen to 628. Over this period, the average negative difference between the price paid at auction and the purchase price initially paid for the same property and recorded at the Land Registry increased from just under 18% to over 46%.

Prior to the credit crunch, new build flats at auction were fairly hard to come by. The increase is almost exclusively due to the failure of buy-to-let investments resulting from lack of, or costly, funding, and rents falling short of investors' original expectations. This has been exacerbated by investors increasing inability to prop up their purchases with personal funds.

Graph 6 - Sales of new build flats at auction 2005 – 2008

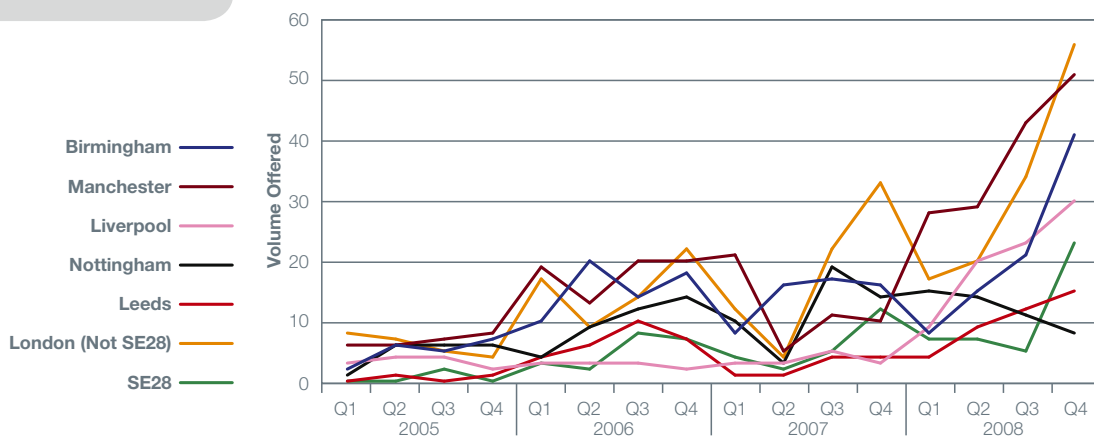


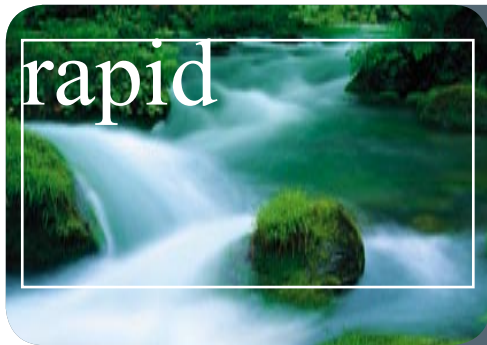
*Thamesmead is a "new town" built on the southern bank of the River Thames, 9.4 miles (15.1 km) east of Charing Cross. It is located in the London Boroughs of Bexley and Greenwich. Originally planned to have 100,000 residents, it is now estimated to be on target for a final population of around 50,000 people.

Graph 7 analyses the increased supply of new build flats in six major UK cities; London, Birmingham, Manchester, Liverpool, Nottingham and Leeds. Since Q1 05, 23% of all London new build flats offered at auction have been in located in Thamesmead, SE28* and these have been separated to avoid the distortion of our analysis.

London has shown the greatest increases in this sector since Q2 08. In Q4 08, 79 new build flats in the capital were offered at auction, of which 23 (29%) were in SE28. The next highest totals were in Manchester (51 lots offered), Birmingham (41) and Liverpool (30).

Graph 7 - New build flats offered at auction in major cities





Outlook



Gary Murphy Allsop
Tel: 020 7344 2619
gary.murphy@allsop.co.uk



Chris Berriman Allsop
Tel: 020 7344 2639
chris.berriman@allsop.co.uk



David Sandeman EIG
Tel: 01737 226150
david@eigroup.co.uk

Despite the recessionary climate, the fundamental case for longer term investment in the residential sector remains persuasive, although timing will play a significant part in future returns. The Base Rate now stands at an historic low of 0.5% and further cuts have not been ruled out. Property prices are continuing to fall to increasingly affordable levels and tenant demand in many areas is being sustained. For most borrowers however, it is the availability, not the cost, of adequate finance that is restraining effective demand.

True, our research shows that property has generally yielded negative total returns during 2008, but this is also evidence that the bottom of the market is drawing closer. Today, for those experiencing financial pressure to sell, speed to market is all important. The old adage that 'the first loss is your best loss' remains true in a declining market as early sales will avoid greater losses later. Buyers, on the other hand, are recognising the emerging merits of property investment with a medium term horizon over derisory returns from savings and volatile share values.

The question remains – how long will investors have to wait for renewed capital gains? Inter bank lending and consumer confidence is unlikely to be restored until the toxic assets poisoning the global financial markets are decontaminated. That means early sales in the property market at the best price available, however unpalatable the consequences to the banks. Only when these losses are crystallised will recovery gather pace. We expect to see house prices soften further with falls of up to 15% during 2009. 2010 will hopefully be a year of consolidation.

Those who are able to buy this year and hold on to self financing assets in the medium term should look forward to capital gains from 2011. However, a new era of tighter regulation in the banking sector will encourage more prudent lending. So, as confidence becomes more widely restored, the rate of improvement is likely to be more measured than the rapid rate of decline.



Allsop Residential Division

Moreau House, 116 Brompton Road
Knightsbridge, London SW3 1JJ

Tel +44 (0)20 7437 6977

Fax +44 (0)20 7344 2691

www.allsop.co.uk



Essential Information Group

1A Church Street, Reigate
Surrey RH2 0AA

Tel +44 (0)870 112 30 40

Fax +44 (0)870 112 30 50

www.eigroup.co.uk

Why Invest?

The fundamentals that underpin the case for residential investment are becoming widely recognised. Housing is a basic need and the aspiration to ownership is an intrinsic part of British culture. In the medium to long term values will rise. Average gross yields from assured shorthold tenancy investments at auction now exceed 8%. Total returns will be strengthened by capital growth when recovery gathers pace. In the meantime, the difficulties facing the larger housebuilders will ensure that the supply of new stock will falter. And until the banks resume lending, many occupiers will have no alternative than to rent thus further strengthening the case for buy-to-let. Now is the time to invest.

Allsop is the number one auction house and one of the top five property consultancies in the UK.

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Source: Essential Information Group Ltd, Land Registry. Data sample has been taken from: 517 residential auctioneers across the UK, and from information compiled from a data set of around 205,000 individual auction lots for general analysis and 21,930 for AST analysis.