

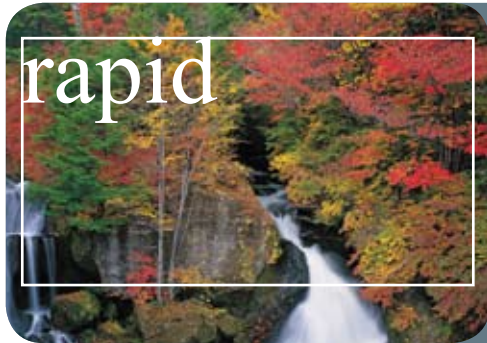
Issue 6: September 2009

rapid

Residential Auction Property Investment Data

- Levels of repossession sales at auction peak in Q4 08 but have been falling sharply since.
- Average UK house prices begins to rise in Q2 09
- Volume of residential auction sales as a proportion of all recorded sales rises from 1.2% to 4.7% in Q4 08 but has since dropped back to 4.1%
- Majority (86%) of purchasers at Allsop residential sales are currently private investors
- Average AST gross yields in all four RAPID geographical regions are rising and are currently 8.5%
- Long term ground rents (800 years+) identified as the single area of residential investment to show value rises in last two years.





Distressed sales

Graph 1 shows the number of distressed lots sold at auction on a quarterly basis since Q2 04. The figures have been split into four geographical regions.

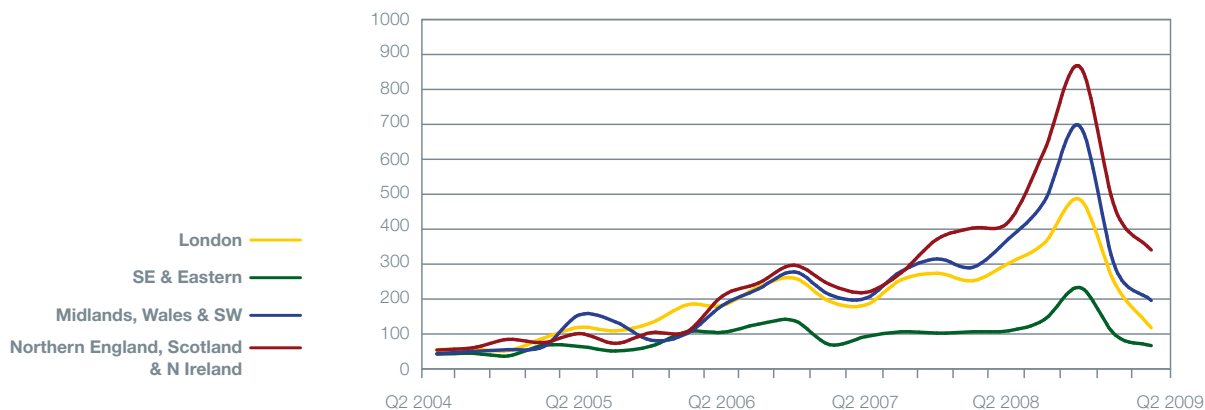
In Q2 04, distressed sales were barely noticeable in the auction rooms. Only 170 distressed lots were sold, the lowest number in London (36) and the highest in south east and eastern England (49). Distressed sales in all four areas peaked in Q4 08 but have been falling sharply since.

Towards the end of 2008 lenders were keen to dispose of significant volumes of repossessions unconditionally. As sales by private treaty became very difficult to achieve, auction - with its efficient and transparent means of disposal - became the most active property market.

However, in Q1 09 lenders began to face increasing pressure to assist owner-occupier borrowers and avoid the ultimate sanction of repossession where possible. By January '09, two of the largest lenders in the market, Lloyds TSB and HBOS, had merged and the enlarged Lloyds Banking Group had become 43% state owned. Northern Rock had already been nationalised in February '08. Drivers for strategic decisions in these organisations had shifted from the commercial to the political.

The appointment of a fixed charge receiver is now favoured by many lenders as an alternative to court order and repossession. These cases are however deemed to be "distressed" sales for the purposes of this research and are therefore incorporated within the figures in Graph 1.

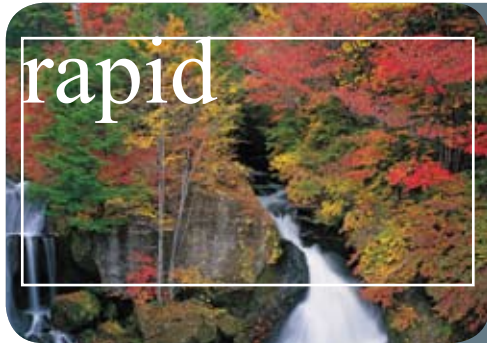
Graph 1 - Distressed lots sold in the four Rapid regions



Beginning in Q1 09 and continuing during Q2 09, the housing market began to show faint signs of recovery. The success rate of repossessions marketed and sold through traditional private treaty estate agency channels rather than at auction began to improve. Consequently, the flow of repossession stock offered at auction stemmed.

Measures introduced by Government in support of those at risk of repossession:

- £200m mortgage rescue scheme targeted at the most vulnerable households, on incomes of £60,000 or less a year who are entitled to be re-housed under homelessness legislation. Eligible households apply to their local authority either to sell an equity share or the entire interest in their home to a housing association and remain in occupation at a rent.
- On January 5 2009, changes came into effect on Income Support for Mortgage Interest (ISMI), cutting from 39 to 13 weeks - the time before homeowners who lose their jobs receive financial help with the interest payments on their mortgage. This is only available to homeowners who have an outstanding mortgage of less than £200,000.
- The Homeowner Mortgage Support Scheme (introduced in April '09) allows households which suffer an income shock to defer part of their payments for up to two years.

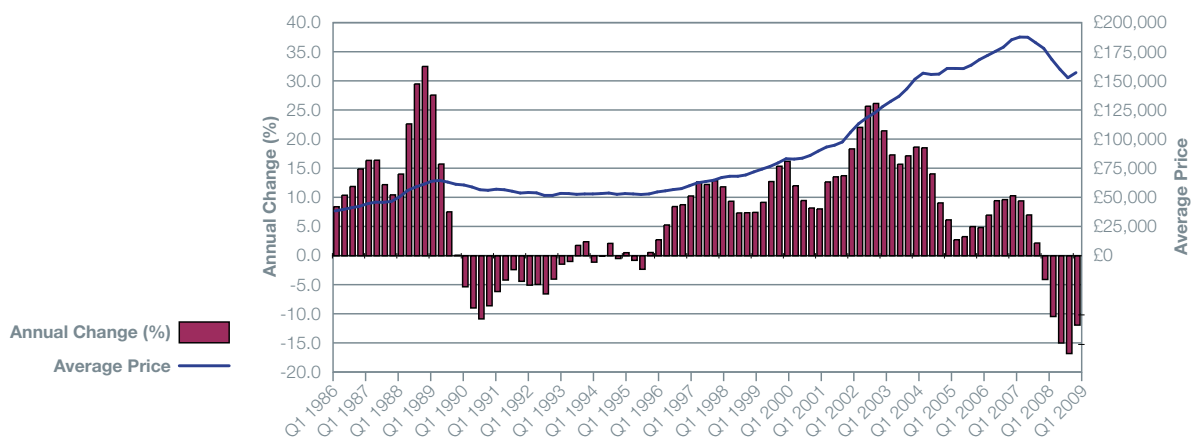


Distressed sales

Graph 2 demonstrates the correction reflected in the Nationwide House Price Index.

This shows that in Q2 09, the average sale price of a house in the UK began to rise (from £149,700 to £154,000) following steady falls from Q3 07 (peak £184,100).

Graph 2 - Nationwide House Price Index 1986 - 2009

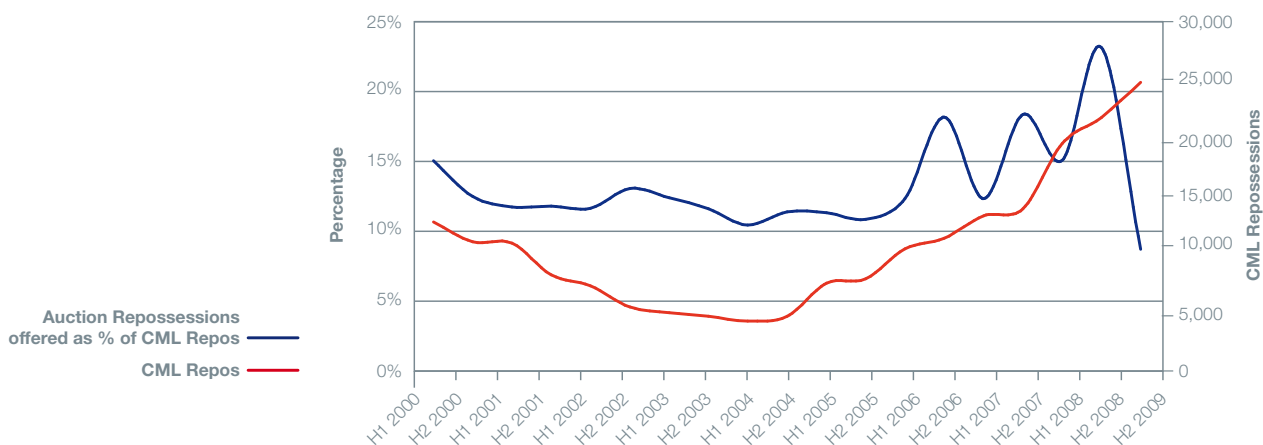


Prior to 2009, however, auction had been used increasingly as a means of selling repossessions.

Graph 3 shows how the level of repossessions offered at auction, when expressed as a percentage of all repossessions (as recorded by the Council of Mortgage Lenders), rose significantly from 10% in H1 04 to 22.5% in H2 08.

However, it should be noted that, whereas the number of repossessions recorded by the CML continues to rise, the proportion offered at auction has been falling dramatically since H2 08. Although the number of repossessions forecast in 2009 was reduced from 75,000 to 65,000, this is still a significant volume of potential sales. These have yet to feed through to the sale rooms and, with around 425,000 borrowers expected to be more than three months in arrears by the end of 2009, it would seem unlikely that this trend will not be reversed within the next 12 months.

Graph 3 - Number of repossessions offered at auction as a percentage of all CML repossessions



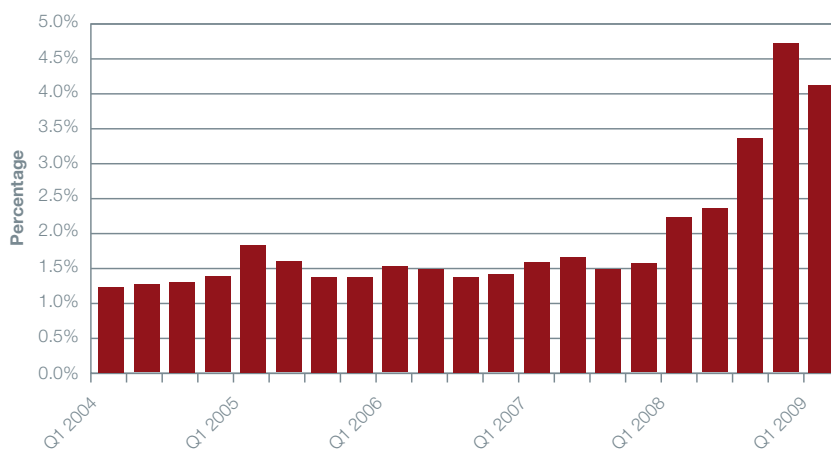


Investing at auction

Graph 4 also demonstrates this increased popularity of auctions.

Since Q1 04, the volume of residential auction sales expressed as a percentage of all sales recorded by the Land Registry increased from 1.2% to 4.7% in Q4 08. This trend has begun to reverse in '09 with the rate of private treaty sales improving and the proportion of sales at auction dropping back to 4.1%.

Graph 4 - Volume of residential auctions sales as a percentage of all sales recorded by the Land Registry



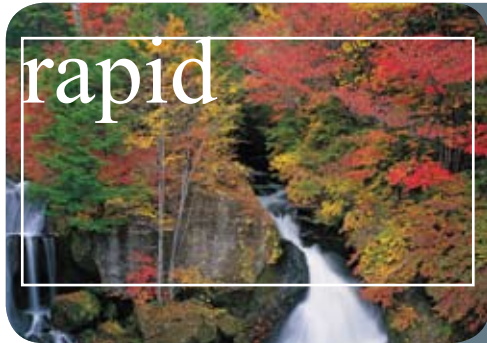
Graph 5 is based upon answers to the question 'are you purchasing for private occupation or investment' which was asked of all successful buyers at Allsop's residential auction sales since the start of the year.

Of those purchasers who provided an answer, the results show that the market so far this year has been dominated by the private investor. In June an overwhelming majority of purchasers (93%) bought for investment – up from 78% in February. In July the rate fell back slightly to 86%. The dominance of the private investor indicates that those with cash to invest are currently attracted to residential property at a time when prices are low compared to the peak in 2007. This is at a time when other investment vehicles, particularly returns currently receivable on cash deposits, are less attractive. The current market appears to view net returns from residential property as relatively rewarding and the prospect of capital growth highly likely in the medium term.

The results of our research also reflect the limitations of credit availability to many potential owner-occupiers when acquiring property. The reluctance of banks and building societies to lend higher proportions of loan to value continues although the situation is slowly improving.

Graph 5 - Percentage of Investment and Private Occupation Purchases at Allsop Auctions in 2009





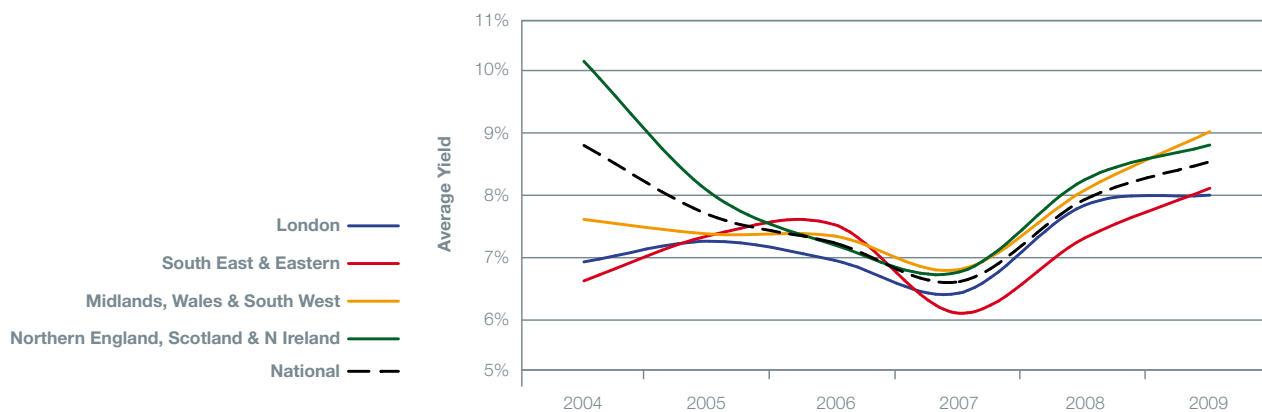
ASTs and ground rents

It is interesting to note that current AST gross yields in all regions are, on average, in excess of 8%. Although it is difficult to secure finance at a competitive margin above Base Rate or LIBOR, there remains a very clear gap between gross returns and the notional cost of borrowing.

Graph 6 provides a comparative analysis of gross yields for properties subject to an Assured Shorthold Tenancy achieved at auction in the four key RAPID geographical areas since 2004.

Returns in these regions were at their most diverse over this period in 2004, the highest average returns being in the north of England, Scotland and Northern Ireland at 10.08% and the lowest in the South East and Eastern region at 6.6%. Yields converged in these areas towards 2006 but have diverged since and continue to do so. Currently, gross returns are lowest in London at 7.96% and highest in the Midlands, Wales and South-West at 8.97%. Only in Northern England, Scotland and Northern Ireland have yields remained higher than the national average for virtually the entire period. Since yield and the prospect of capital appreciation are generally inversely related, it is assumed that, in this area of study, investors buy for income rather than growth.

Graph 6 - Average AST yields in 4 Rapid regions - annually



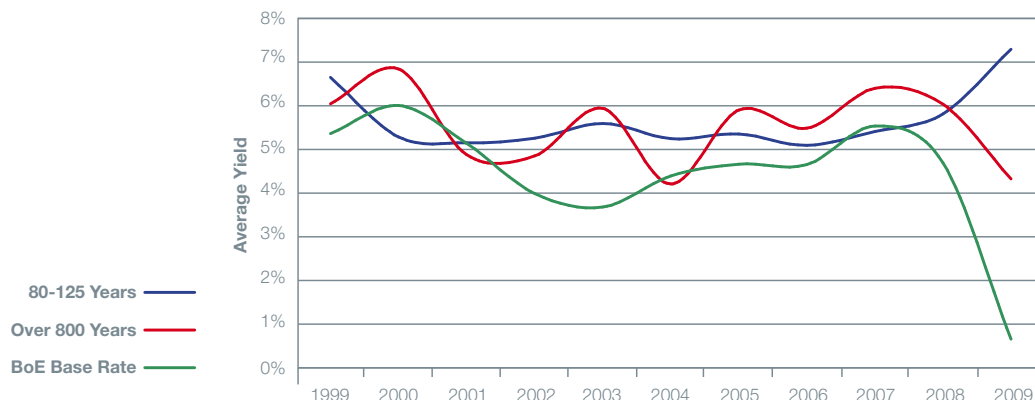
Graph 7 shows the performance of ground rent investments over the past 10 years.

The analysis splits those interests having between 80 and 125 years to run from those that have terms of 800 years or more unexpired.

Yields from ground rents in the former category have remained fairly steady over the period. However, from a low of 5.08% in 2006, average yields in the 80 to 125 year market have moved out latterly to 7.23% in 2009.

There has however been a more prevalent reaction to the recession in the 800+ year unexpired market with a notable fall in average yields from a peak of 6.36% in 2007 to 4.33% so far in 2009. This arguably reflects investors' preference for long term secure income in times of turbulence and identifies longer term ground rents as the only area in the residential investment market to show a rise in values over the last two years of economic uncertainty.

Graph 7 - Average ground rent investment yields v BoE base rate





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The prevalence of private investors in the residential auction rooms is indicative of renewed confidence in the sector. Despite the limited availability of finance, buyers are willing to invest their own cash. With average investment yields from assured shorthold tenancies at 8.5%, and rising, property is still an attractive alternative to cash savings. Although mortgage approvals are rising slowly, banks remain reluctant to offer lower rates of borrowing, preferring to take full advantage of the wide arbitrage in bank lending. And it appears that, for the foreseeable future at any rate, they will continue to use the opportunity presented by the current 0.5% base rate to improve their balance sheets by increasing cash reserves.

Although this strategy has been encouraged by the Financial Services Authority (FSA), private investors will necessarily be restrained by limited cash resources under these circumstances. Once these have been invested, there is a risk that further activity will be affected. Indeed, effective demand from owner occupiers, and first time buyers in particular, will continue to be restricted. Sustained recovery will be supported by, not only willing buyers and sellers, but, pivotally, willing lenders. It is hoped that the easing of lending restrictions will continue although this alone will not be sufficient. Until the rise in unemployment is tempered (7.8 per cent for the three months to June 2009), demand and confidence is unlikely to be fully restored.

A poor supply of quality stock will continue to be an issue for some buyers. Many housebuilders have suffered losses and have suspended development. Private sellers reluctant to crystallise losses may have postponed plans to move home in anticipation of a healthier climate. On a positive note, however, these restrictions on supply may serve to maintain prices in certain sectors for the time being.

But for those keen to buy, there will continue to be opportunities as forced sale situations come to market through the auction rooms. As the most efficient forum for delivering value for money to bidders and market value on the day for sellers, the sale room is expected to remain exceptionally active. And as ever, in an uncertain environment, it will remain one of the more reliable barometers of market sentiment.



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Source: Essential Information Group Ltd, Land Registry. Data sample has been taken from: 536 residential auctioneers across the UK, and from information compiled from a data set of around 236,000 individual auction lots for general analysis and 15,000 for AST analysis.