Largest ever quarterly capital growth in Q4, delegates told

London, 4th February 2010: UK commercial property markets ended the final quarter of the decade with the largest ever recorded quarterly capital growth, at 8.1%, delegates at the **IPD UK 2009 Results Launch** were told yesterday morning.

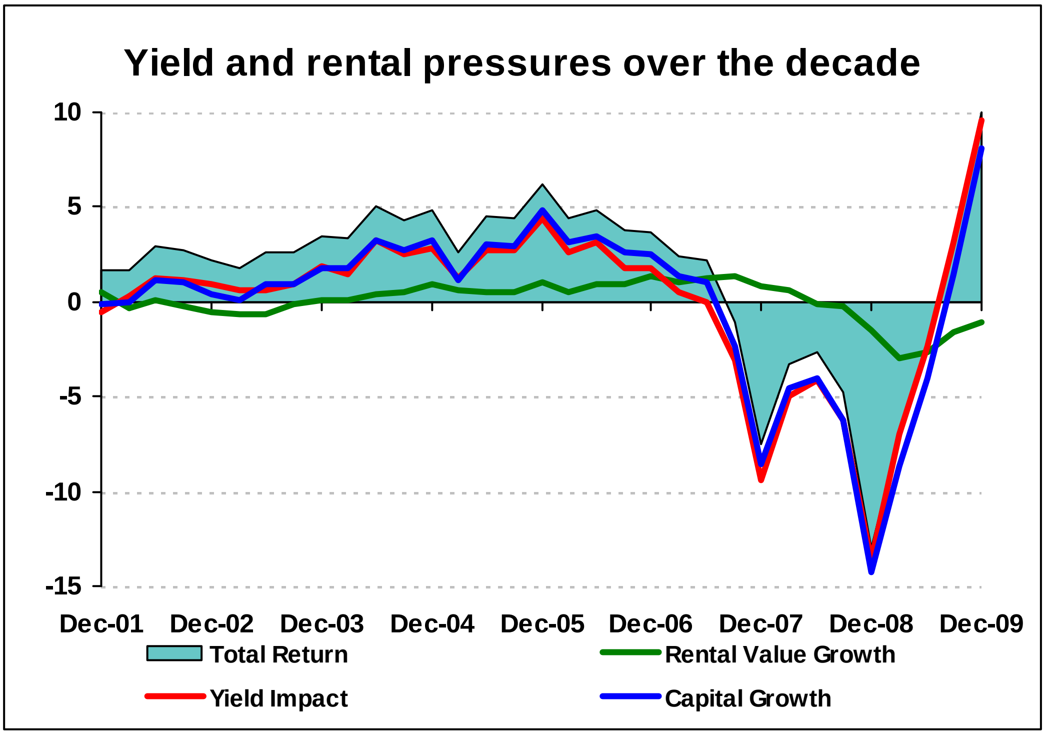
According to the IPD UK Quarterly Property Index, the return to positive capital growth – a cumulative 9.8% over the second half of 2009 – was sufficient to lift the annual total returns to 3.4%, including a final quarter 10.0% total return.

Counter-intuitive market indicators

At the breakfast briefing – held at Sloane Square's Cadogan Hall – **IPD co-founding director Ian Cullen** explained to delegates the nature of the dramatic year of two halves. He said: "When the dust finally settled on the oscillations of last year, what emerged was a picture of rents and yields going in counter-intuitive directions – that is, simultaneously, record breaking positive yield contributions in the context of some of the worst rental decline we have ever seen."

In the Q&A session which followed Cullen's market analysis, panellist **Duncan Owen, chief executive officer at Invista** echoed the irregularity of current market trends. He said: "Rents and yields should not go down at the same time – it is a little bit like defying gravity and when it has happened in previous cycles that I have experienced, it has ended in tears in the subsequent period."

Over last year, the reversal of yield pressure proved the decisive influence on capital growth. Cullen explained: "It is almost as if property investment has become detached from the real economy, and is instead driven exclusively by highly volatile shifts in capital flows which are immediately reflected in a truly amazing yield reversals; flipping from the decade's most damaging to most beneficial impact in a matter of months." See the chart below.



Source: IPD UK Quarterly Property Index

After the unprecedented 9.6% fourth quarter yield contribution, the annual figure for 2009 settled at 2.8%, while rental values fell by 8.1% – the steepest decline in the history of the Quarterly Index.

The office market, yet again, lived up to its billing as the most cyclically-sensitive sector "showing much more positive rental pressure on the upside, driven by scarcity of central London office space in 06 and 07, while suffering downward pressure most acutely in the falling market of 08 and 09," Cullen told delegates. Rental value growth for all segments, however, remained negative at the year end.

There was considerable variation in annual returns across market segments, but the biggest differences were within the retail sector - from best at +11.5% (Retail Warehouses) to worst at -6.5% (Shopping Centres). This 18 percentage point returns spread between the two segments has been beaten only in 1993.

Global property derivatives: encouraging year end

Following the UK 2009 Results, Cullen delivered the IPD Global Property Derivatives trading volumes for the fourth quarter, as published on Monday February 1st.

As reported earlier this week, the final quarter of 2009 saw 99 separate trades worth just under £1bn, bringing the annual total to just over £3bn - the lowest annual turnover level since 2005. Nonetheless, the fourth quarter completed a full year of continuous steady growth in activity.

Ahead of the briefing **Nick Scarles, Chairman of the IPF PDIG and Grosvenor's Group Finance Director,** said: "It is reassuring to see a fourth quarter of continuing increase in derivative volumes; but the milestone was PRUPIM kickstarting sector activity with its £100m of sector trades with RBS. Sector trades open the market to a wider group of end users, who have been held back by the inability to trade in the sectors in which they specialise as well as portfolio manages seeking to fine tune their sector exposures."

Economic perspective and Q&A session

The breakfast briefing – chaired by **Kevin Aitchison, CEO at ING Real Estate** – also included an economic outlook by the **Financial Times' John Plender** and a Q&A session on the UK market with **DTZ's Robert Peto**, vice-chairman of capital markets and RICS president-elect, **Great Portland Estates' chief executive Toby Courtauld** as well as Invista's Owen.

Chairman Aitchison set the tone for debate suggesting the domestic economic recovery relies on a several major "changes, challenges and hurdles ahead of us." He asked: "When will the tenant market improve; when is rental growth going to come back; what will be the impact of the general election and what about interest rates?"

The rental theme resurfaced in the Q&A by DTZ's Peto. He told delegates: “The pressures on occupiers are not going to go away anytime soon, so we have a rental problem for the foreseeable future. Currently yields are positive – a big signal to buy which has been acted upon – but this is arguably because there is nowhere else investors feel comfortable putting their money. As a result, insurance companies and pension funds have been increasing their allocations to real estate.

“There is still relatively little equity or debt available at the moment which, at some point, could direct us into a ‘cost/push’ position.”

Answering a delegate question on rising void rates across the UK, Great Portland Estates’ Courtauld argued the capital had shown signs of an improvement. He said: “On void rates, London has now turned a corner: the central London average is slightly north of 10%, in the city it is higher, in the West End it is under 10%. From our own portfolios we have seen vacancies reduce – we are seeing demand rising.

“But I would also argue that London is a market where investors do not rely on rental growth: what matters is where the capital coming from and yields. You take a view and get in and you get out again.”

In his global macro economic overview, the FT’s John Plender reminded delegates: “This time last year, most people were in a state of manic depression; yields by historic standards were out of whack – with property cheap, particularly for international investors who benefited from the depreciation in sterling. But the prospects for property are always intimately bound up with the state of the economy.”

An analysis of the investment landscape, driven by global capital flows was, he argued, was required to put the state of the UK commercial property into its proper context.

The next opportunity to discuss the progress in global property derivatives will be at next month's **IPD Property Derivatives Conference** at Thomson Reuters Building on March 22nd 2010.

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Notes to editors:

IPD is a global information business, dedicated to the objective measurement of commercial real estate performance. As the world's number one provider of real estate performance analysis for funds, investors, managers and occupiers, IPD offers a full range of services including research, reporting, benchmarking, conferences and indices. IPD operates in more than 20 countries including most of Europe, the US, Canada, South Africa, Australia, New Zealand and Japan. For further information visit www.ipd.com and for IPD's News Centre visit www.ipd.com/news

Launched in September 2005, the **Property Derivatives Interest Group** (PDIG) is part of the IPF. Its aim is to enhance the knowledge and understanding of property derivatives amongst key members of the property and financial services industries, in order to encourage the further development of an orderly and liquid market. PDIG is managed by a Steering Group, comprising a number of key individuals from the banking, broking, property and specialist financial industries.

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