IPD Index News
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On the pulse of the property world

Uniformity unwinds in direct and indirect markets, says IPD

IPD published the following indices and formal statements over the period under review:

- IPD Japan Monthly Indicator – September 2009
- IPD UK Monthly Index – December 2009
- IPD UK PPFI – Q4 2009
- IPD Australia PPFI – December 2009
- IPD Ireland Quarterly Index – Q4 2009
- IPD Global Derivatives Trading Volumes – Q4 2009

UK and Ireland: fundamentals diverge over 2009

British and Irish commercial real estate markets, two of the three mature property markets to be most severely re-priced since the credit crunch[1], diverged from their aligned downward trend last year. While the UK delivered positive annual total returns of 2.2%, fuelled by an almost bullish cumulative 8.8% rebound in capital growth over the latter part of 2009, Irish annual returns remained negative each quarter delivering -23.3% over the year.

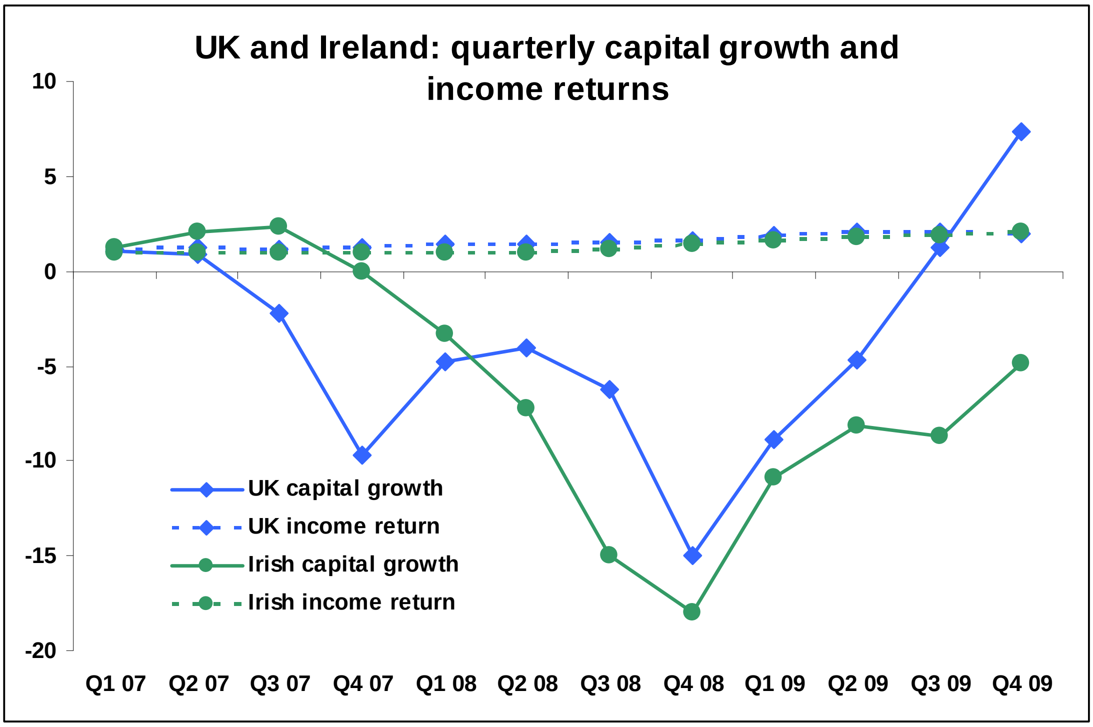
The ray of light, as far as Irish investors were concerned, was the easing in capital depreciation across all sectors in the final quarter, despite a weakening in rental growth and continued yield expansion. Irish capital growth, at -4.9%, was the shallowest depreciation since Q1 2008.

As the chart below illustrates, the UK market experienced its first quarterly capital depreciation six months ahead of Ireland, while Britain's return to positive capital growth began in August 2009. Notwithstanding the five-month recovery, capital values in the UK are still down by -39.2% from their June 2007 high to the end of

[1] The United States completed the trio of most severely affected real estate markets, having capital depreciation of -21.3% over the first three quarters of 2009. The IPD US Property Quarterly Indicator for Q4 2009 is published February 16th.

2009. By comparison, Ireland's commercial real estate capital values have more than halved – down -55.6%.

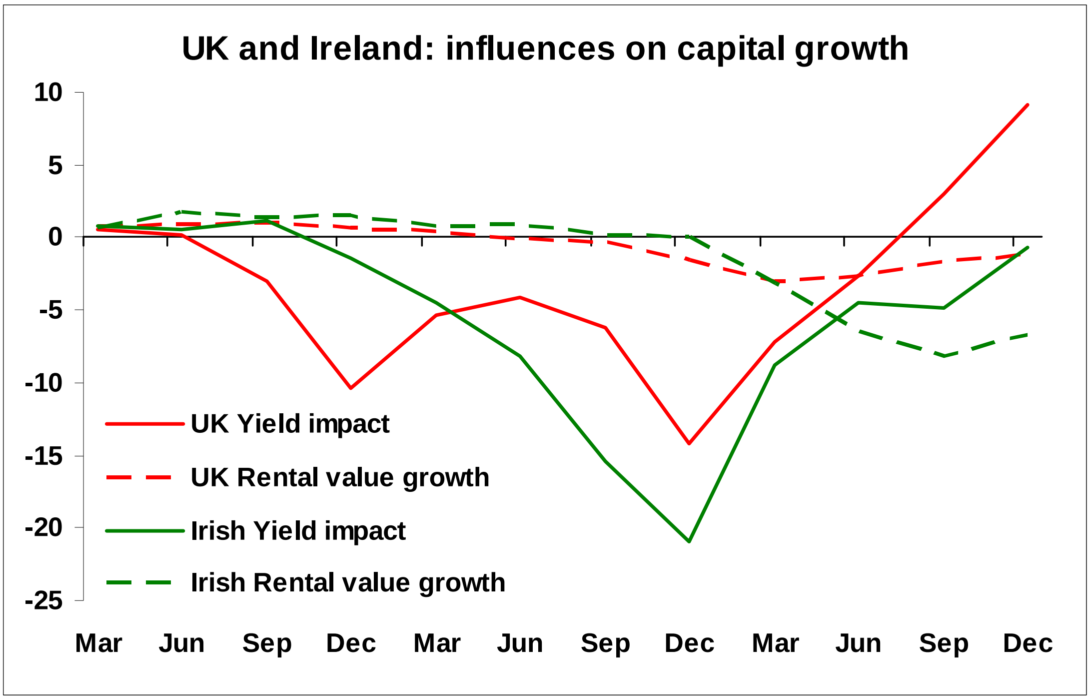
The chart also shows income returns, a function of the relationship between capital values and rents with income returns increasing as capital values fall faster than rental income, have been stable and in line with one another across both markets.



Source: IPD UK Monthly Index (three-month rolling figures) and SCS / IPD Irish Quarterly Index

Capital depreciation in both markets was driven first by yield pressure, followed by a weakening rentals growth. The distinction between the two markets is the inflexion points: the twin drivers of negative capital growth – rising yields and falling rents – began to take hold first in the UK, but fell, ultimately, steeper in Ireland.

The UK property market has seen the return of capital growth because yields have began to compress again and the pace in rental weakening has eased. But the UK is by no means out of the woods yet: rental growth is still falling (see chart below), while the vacancy rate, measured as a loss of rental income in the Databank and expressed as a percentage, ended last year at 12.1%.



Source: IPD UK Monthly Index (three-month rolling figures) and SCS / IPD Irish Quarterly Index

In Ireland, while yield pressure has softened, annual rental value growth fell by -22.4% last year, driven by weakening in the domestic economy. The impact of weakening rental values on capital values, however, is to some extent muted by the length of unexpired leases.

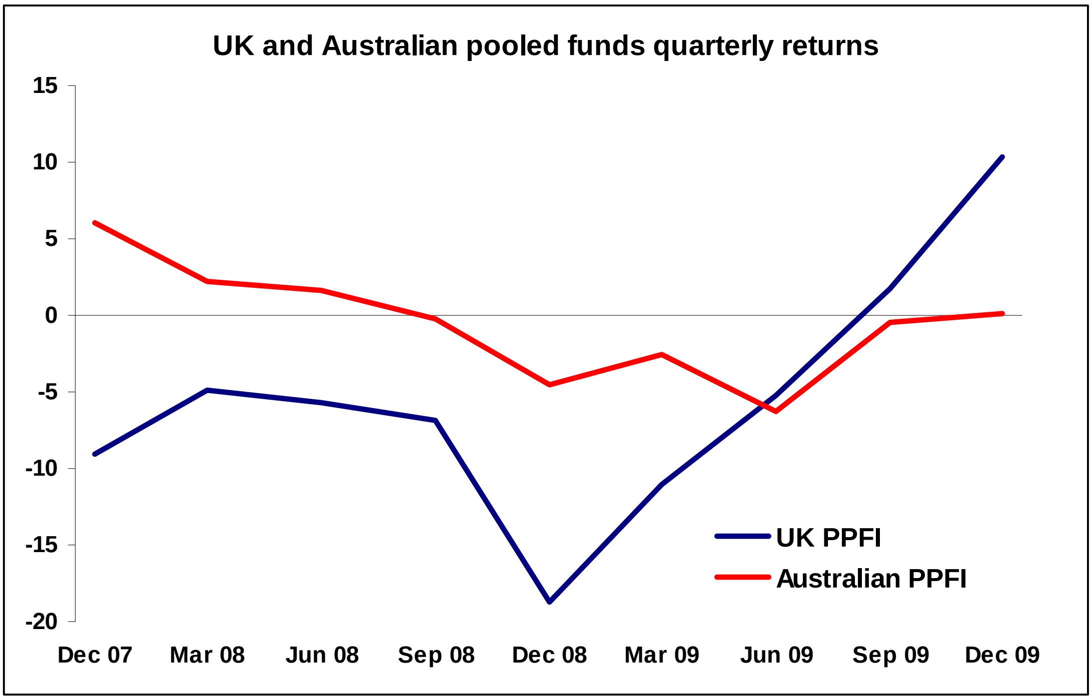
PPFI: UK and Australian pooled funds show recovery signs

Within indirect real estate, UK and Australian unlisted pooled funds both showed encouraging signs of recovery at the end of the 2009, albeit insufficient to deliver positive annual total returns, according to IPD's Pooled Fund Property Indices.

UK pooled funds delivered -5.4% over 2009, while Australia's market returned -9.0%, after leverage and fees. In the case of the former, this negative annual performance masks the dramatic reversal of fortunes in the final quarter, at 10.4% –

the largest quarterly performance in the UK PPFI's 20-year history. By comparison, Australian unlisted funds delivered a positive 0.1% return over the fourth quarter, according to the Mercer/IPD Australia Pooled Property Fund Index. This is the first positive quarterly return that has been recorded since August 2008.

In both markets – two of the world's largest for unlisted funds – the sectors appear to be moving beyond the trough of the property investment cycle, consistent with positive signs emerging from both macro economies, evidence of stabilising market fundamentals and an easing in yield pressure.



Source: IPD UK PPFI and Mercer/IPD Australia PPFI

Global property derivatives: slow year but pick up over Q4

The total volume of global property derivatives traded on IPD indices over the final quarter of 2009 were up to 99 trades worth just under £1bn. While the value of trades was the highest quarter of last year, the total volume over the year, at just over £3bn, was the lowest annual figure since 2005.

The annual trading volumes compare to £7.7bn in 2008 and £8.3bn in 2007. Over the final quarter, the average deal size executed was worth £10m.

In the UK, in which the vast majority of deals are traded, 88 trades worth £907m were executed, while France contributed seven trades worth £44m and Germany saw three trades worth £15m – a modest pick up after two successive dormant quarters.

The aggregate total value of trades executed on IPD indices since recording began in the Q4 2004 now stands at £24 billion over 2,441 trades. The outstanding notional amount is now £11.4 billion.

Japan: capital re-pricing continues
Japanese commercial real estate returned -8.2% on an annualised basis to the end of the third quarter 2009, according to the IPD Japan Monthly Indicator. The annualised total return is comprised of a -12.7% capital return and a 5.2% income return.

While all sectors are still falling the rates of decline differ, with the Retail sector seeing the greatest easing in capital depreciation. The returns to the end of the third quarter are preliminary, with more final results are confirmed until the end of August 2009.

At the sector level, annualized total return in the Office sector to August 2009 is -8.5%. The annual capital return for Offices on the six-month annualised basis to August 2009 was -14.2%, while Retail and Residential were -10.4% and -13.1%, respectively.

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Notes to editors:
All performance indicators are based on the indices listed at the top of this document.

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