MARKETBEAT

AN OVERVIEW OF THE UK PROPERTY MARKET

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

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Global Real Estate Solutions

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A review of market trends and price movements in the UK property market, including analysis of yields and rents for retail, office and industrial property.

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PAGE SUMMARY

FORECAST MARKET RETURNS (ALL SECTORS)

	2010	*2011*	*2012*
ERV Growth	-0.9%	0.1%	1.7%
Total Returns	15.5%	7.3%	8.1%

UK PROPERTY INVESTMENT

UK all property total returns, as measured by the IPD Monthly Index, continued to steadily flatten out last quarter, ending the period at 9.1% for the year. This completed a 12 month period of steadily slowing performance since the highs of the market, 24.2%, seen in July 2010.

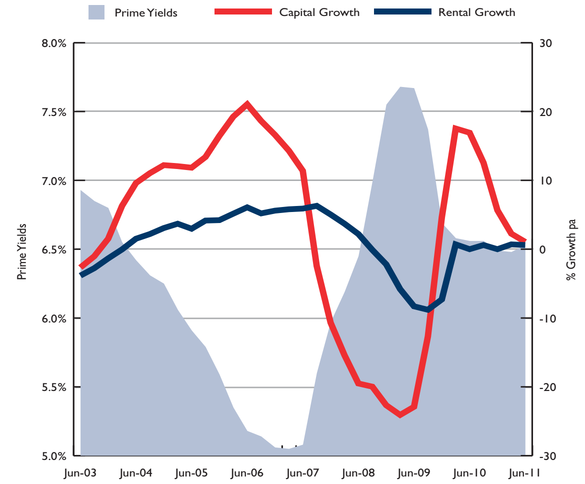
Indeed, continuing the trend from Q1, there was very little capital appreciation over the second quarter, with the yield re-pricing phase seemingly coming to an end but rental growth remaining relatively flat. The annual rate of capital growth was 2.0% in the year to June, down from 6.9% at the end of Q4 2010. Meanwhile, there has been little or no movement in income returns, which have hovered around the 7.0% mark since the start of the year and, which when compared with 10 year bond yields of less than 3%, are looking ever more attractive to a raft of income hungry investors.

What is more, amid the turmoil seen in Eurozone countries over the sovereign debt crisis, the UK is increasingly being perceived as a safe haven. This coupled with the Bank of England (BOE) indicating that inflation is likely to remain above target until 2013, has seen investors flocking to the Gilt market, driving down risk-free yields to near historic lows. In direct contrast, prime yields have remained stable, averaging 5.7% across all sectors, and the premium offered by property has edged higher to 230 bps.

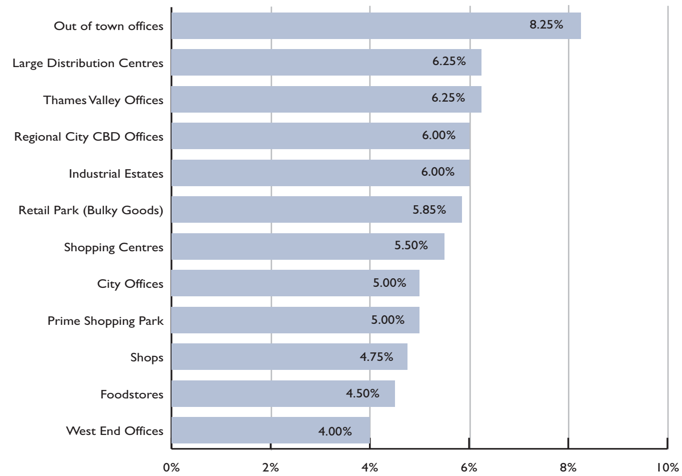
In terms of investment activity, demand has remained robust, with competition to secure the best assets still intense. However, the anticipated increase in offerings failed to materialise following the Easter/bank holiday period, which dampened activity over the quarter as a whole. As a result investment volumes are estimated to have dropped to just under £7bn, 30% lower than Q1. Given the relative dearth of supply in the prime market, secondary markets have experienced somewhat of a revival however, albeit with a heavy focus on near prime rather than weaker secondary markets. There is more interest coming from UK funds and property companies for second tier or short income London offices in particular. Second-tier retail warehouse parks and industrial units are also seeing more interest than was the case at the start of the year, although this has been largely confined to London and the South East.

Whilst lending conditions have improved and new sources of debt have emerged recently, the supply of new credit is still slow to materialise and a significant improvement in lending terms is unlikely in the short term. Many European banks continue to focus on domestic market activity, while UK lenders remain in restructuring mode, with any lending activity reserved for core assets. Investment banks in general have remained inactive due to their reliance on the still quiet CMBS market, although there are signs that activity may be returning to this market. At the same time however, while the fall in swap rates over recent weeks is benefitting new borrowers, it is also hitting breakage costs for existing borrowers and this may delay some property being sold or having its debt restructured.

PRIME PROPERTY PERFORMANCE ALL SECTORS



PRIME HEADLINE INVESTMENT YIELDS TO JUNE 2011



PRIME RENT & YIELD MOVEMENTS TO JUNE 2011

Prime Sample of 75 Centres (20 in Central London)

Rental Growth to Jun 11	*3 Years (pa)*	*1 Year*	*1 Quarter*
Shops	-2.5%	1.5%	0.8%
Industrial	-0.5%	-0.8%	0.1%
Offices (all UK)	-3.9%	5.0%	1.0%
Offices - Central London	-5.7%	10.9%	2.0%

Average Prime Yields	*Jun 09*	*Jun 10*	*Jun 11*
Shops	6.72%	5.75%	5.69%
Industrial	8.30%	7.07%	6.99%
Offices (all UK)	7.98%	6.84%	6.91%
Offices - Central London	6.85%	5.45%	5.45%

SECTOR TRENDS

The slowdown in capital appreciation across the market can, in particular, be attributed to a 50 basis point (bp) fall in retail sector growth over the quarter, to just 0.3%. Industrial values declined 30bps to slip into negative territory for the first time since November of last year. Office values climbed 40 bps over the quarter meanwhile, boosted by a strong performance from the West End, balancing the weakness of parts of the regional office market.

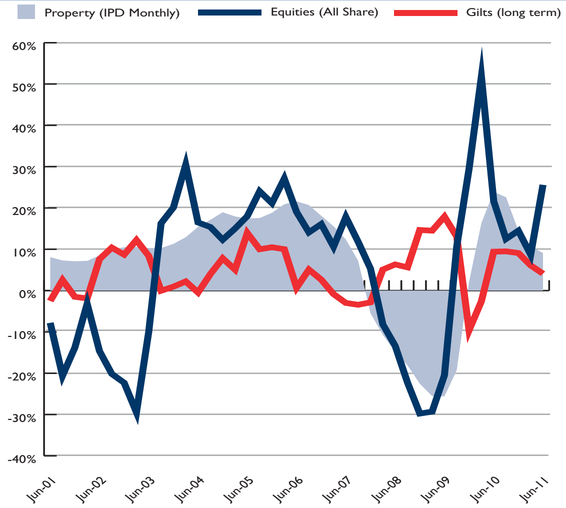
Despite this relative pattern and the well-documented issues facing the retail sector - including a glut of profit warnings, store closures and administration proceedings - high street demand has in fact stabilized somewhat. Nevertheless the market is clearly polarised between London and the rest of the UK. London is benefiting from strong demand from international retailers seeking to establish a foothold in prime areas. Annualised total returns for the retail sector are still in the high single digits at 8.9%, underpinned by sustained strong performances from retail warehouses (9.9%) and shopping centres (7.9%). However, London aside, investors are cautious and selective in their acquisitions.

Although weaker than in quarter one, offices remained the strongest performing sector, with total returns of 9.8%, derived from the highest sector capital appreciation at 2.7%, and an income return of 6.9%. For the second quarter in a row, the office sector was the only one to achieve positive annual rental growth. Nevertheless, rental growth is still largely confined to the Central London market, with the West End continuing to significantly outperform all other sub-sectors, with growth of 7.8% in the 12 months to June. Occupier trends are still hesitant, with lease expiries a key driver of demand to date and fewer discretionary movers than expected.

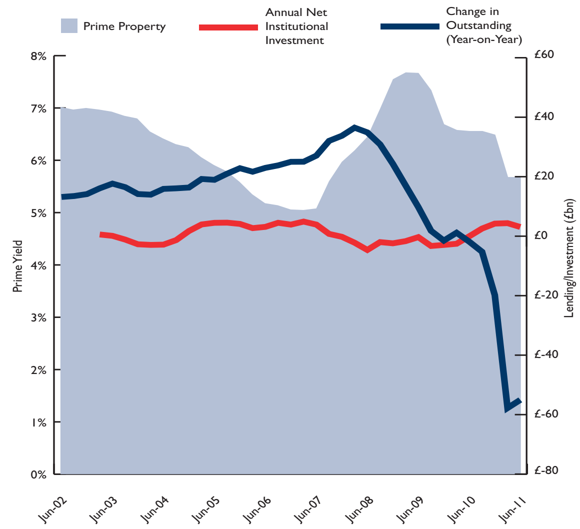
Outside of London, rents for anything other than the best locations remain under pressure, with confidence fragile and occupiers risk averse. There are some positive signs emerging, with take-up in some key regional markets such as Glasgow improving, investment demand for well leased prime assets is up, while there is some increased interest in assets which appear underpriced in second tier cities.

The industrial sector continued to be the weakest performer over the quarter, with 8.1% annualised total returns. There has been little change in income returns, which have remained relatively static at 7.8%, while capital growth experienced further deceleration to end the quarter at 0.3%. Investment activity is still weak due to a shortage of quality assets and, while the supply of stock is improving, much of it is still secondary, often in portfolios released by the banks, and in many cases does not meet investor requirements. Active demand is generally focused on prime stock, with a high level of unsatisfied requirements, particularly in the South East.

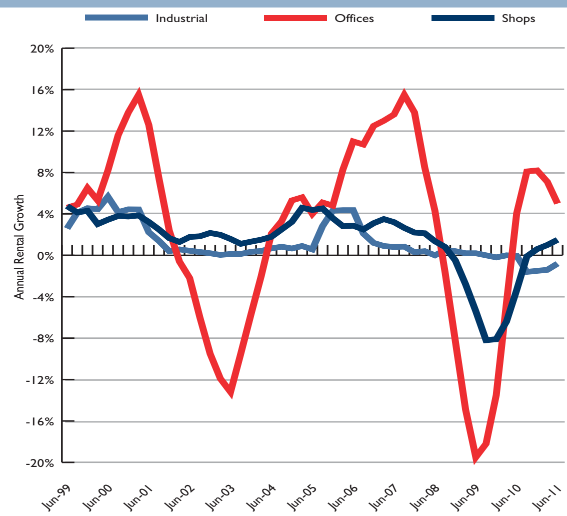
INVESTMENT PERFORMANCE COMPARED



NET INVESTMENT & CHANGE IN OUTSTANDING BANK LENDIING TO PROPERTY

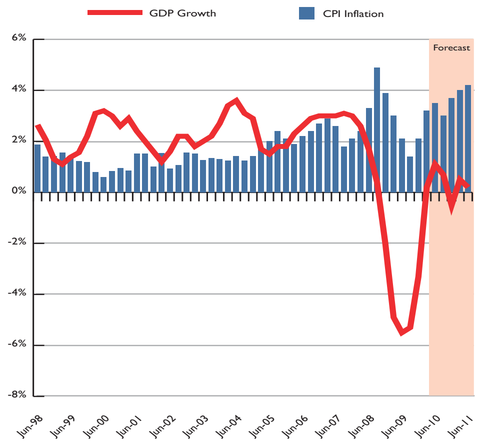


PRIME RENTAL GROWTH BY SECTOR



ECONOMIC OVERVIEW

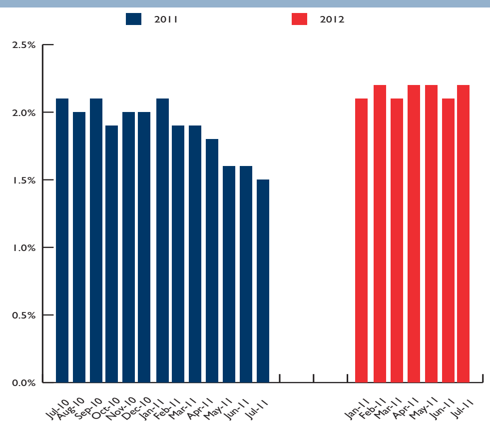
ECONOMIC ACTIVITY



The outlook for the UK economy remains mixed, although momentum should slowly gather more pace as we move through the second half of the year, fuelled by the low interest rate environment, continued strong export demand, a weak Pound and signs of increasing levels of business investment. All in all however, it has been a weaker first half to the year than expected, with modest GDP growth of 0.7% in the six months to June and faster expansion constrained by domestic events as well as one off global events such as the Japanese earthquake.

The UK economy is continuing to undergo a rebalancing process, whereby there is a greater focus on growth being led by exports and investment and away from growth driven by consumers and government. Whilst the headline balances for the three PMI surveys (manufacturing, services, and construction) slipped back in April and May, some observers seem to miss that they are still pointing to expansion not contraction, but at a milder rate than before. Many manufacturers are still expecting to increase their output in the coming months and the corporate sector is becoming an increasingly important contributor to the recovery, with business investment having recovered by more than 12% from its late-2009 trough. Firms have the resources to invest, having built up strong financial surpluses in recent years, and the recovery in capital spending should gain momentum if confidence strengthens.

CHANGING FORECASTS FOR GDP GROWTH



ECONOMIC SUMMARY

%	2008	2009	2010	2011F	2012F
GDP Growth	-0.1	-5.0	1.3	1.5	2.2
CPI Inflation	3.6	2.2	3.3	4.4	2.6
Consumer Spending	0.6	-3.4	0.8	-0.1	1.6
Corporate Investment	-5.0	-15.1	3.0	1.2	6.1
Manufacturing Output	-2.9	-10.8	3.6	3.3	2.9
Interest rates – 3 month	5.5	1.2	0.8	0.9	1.5
Interest rates – 10 year	4.6	3.6	3.6	3.5	4.0

Consensus Economic Forecasts & Cushman & Wakefield Research Group

On the domestic front, retail sales fell sharply in May, which more than reversed the boost the high street received from the Royal Wedding bank holiday and April warm weather, in a further sign of the difficult times facing consumers. The decline in sales volumes was driven predominantly by a drop in supermarket volumes, down 3.5% y-o-y, with smaller stores hit harder than larger ones, and household goods stores which fell for a fourth consecutive month, down 6% y-o-y. Non-store retailing again saw the largest volume growth between May 2010 and May 2011 with an increase of 19%. Nevertheless, in the three months to June, which is a broader measure to level out monthly fluctuations, sales grew 0.2% compared with the previous three months, implying a broadly flat underlying trend over the past several months.

On a more positive note, this is not a jobless recovery. UK unemployment fell by 88,000 in the three months to April, representing the biggest drop since the summer of 2000, while the unemployment rate declined from 7.9% to 7.7%. However, wage growth is likely to remain stagnant around the 2% level for some time yet, with no evidence to suggest that higher inflation is becoming entrenched in the economy. Headline inflation is now at 4.5%, although it may approach 5% over the next few months as the time lag of higher oil prices feeds through. Interestingly, core inflation, which excludes food and energy prices, dropped back from 3.7% in March to 2.8% in June and goes some way to justifying the Bank of England's (BOE) decision to leave base interest rates unchanged at 0.5%.

UK BORROWING COSTS

	Sep 10	Dec 10	Mar 11	Jun 11	Year Hi/Low
3 Month Libor	0.73%	0.78%	0.82%	0.83%	0.82/0.65
5 year Swap Rate	2.09%	2.71%	2.98%	2.87%	3.23/1.97
10 year Swap Rate	3.04%	3.63%	3.80%	3.73%	3.82/3.04
15 Year Swap Rate	3.47%	3.98%	4.14%	4.07%	4.37/3.42
25 Year Swap Rate	3.67%	4.07%	4.23%	4.18%	4.40/3.65

PROPERTY DERIVATIVES

The second quarter was a difficult time for the property derivative market, with much of the financial community seemingly locked in a state of inertia, amid much uncertainty surrounding sovereign debt issues in the US and Europe. Additionally, activity is being constrained by ambiguity over the expected regulatory changes in the sector.

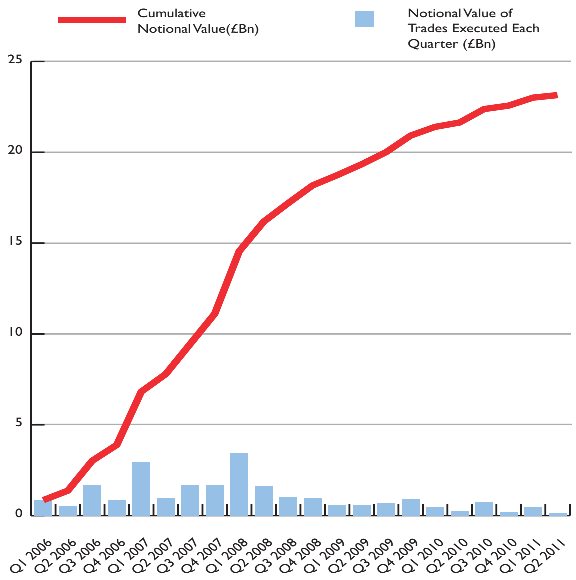
As a result of all this, trading volumes fell back significantly to £145m from £459m in the previous quarter, with over 90% of trades being executed by the end user market. Total returns, as measured by the IPD UK All Property Total Returns Index, were 2.0%, led by income returns of 1.5%, while capital value growth slowed to 0.5%, from 0.8% in Q1.

In pricing terms, the 1 year swap continued to strengthen, to end the quarter at 6.9%, up from 5.1% in mid April. There were two key drivers behind this price move. Firstly, optimism over the outlook for the property market, especially the Central London market, has continued to push pricing upward, as investors increasingly view UK property as a safe haven, with secure income streams. Secondly, there has been an absence of sellers in the market, mainly due to the All Property contract failing to offer the flexibility required by many property managers to effectively hedge portfolios.

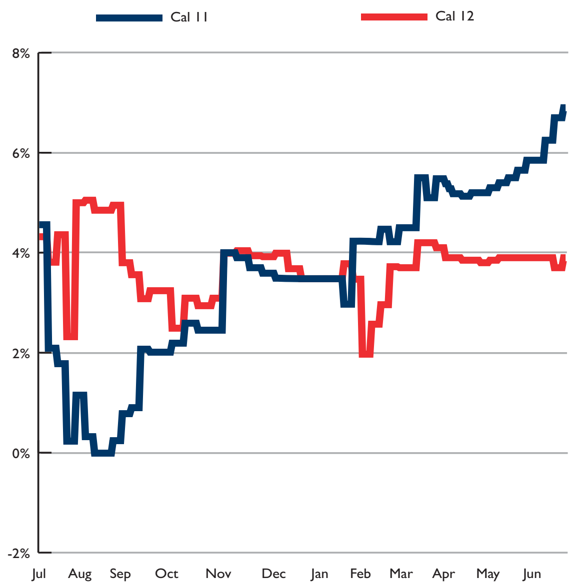
Further out the curve, the market is still implying capital depreciation over the next few years in both the commercial and residential indices, as the uncertain economic outlook and austerity measures prolong weak market confidence. Whilst marginally more positive than last quarter, the calendar/implied total returns contracts continue to hover around the 5% level. The exception to this is the Cal 12 contract, which is still underperforming all other contracts, implying total returns of 3.9% in 2012, before recovering thereafter.

Finally, in what is believed to be significant milestone in the evolution of the property derivatives market, Eurex has recently introduced calendar futures contracts at the sector level. These include contracts for All Office, All Retail and All Industrial, while various sub-sector contracts such as City Offices, Shopping Centres, Retail Warehouses, Industrial South East and potentially West End and Mid Town Offices, are due to be launched in Q4 2011. This development is expected to boost trading volumes, as not only will managers now be able to hedge and buy exposure, they will also benefit from reduced counterparty risk, full price transparency, low set up costs and standardised contracts.

DERIVATIVES MARKET VOLUMES



IMPLIED CALENDAR RETURNS (JUNE 2010 - JUNE 2011)



FINANCE FOR PROPERTY

Against expectations, the availability of credit to commercial real estate increased in Q2 2011, with further improvement expected in the second half of the year according to the latest Bank of England Credit Conditions Survey. Generally, banks remain cautious, with deleveraging a key focus, but other lenders are showing an increased willingness to provide financing, although this is reserved for assets in premium locations, backed by strong covenants and experienced management teams with good track records.

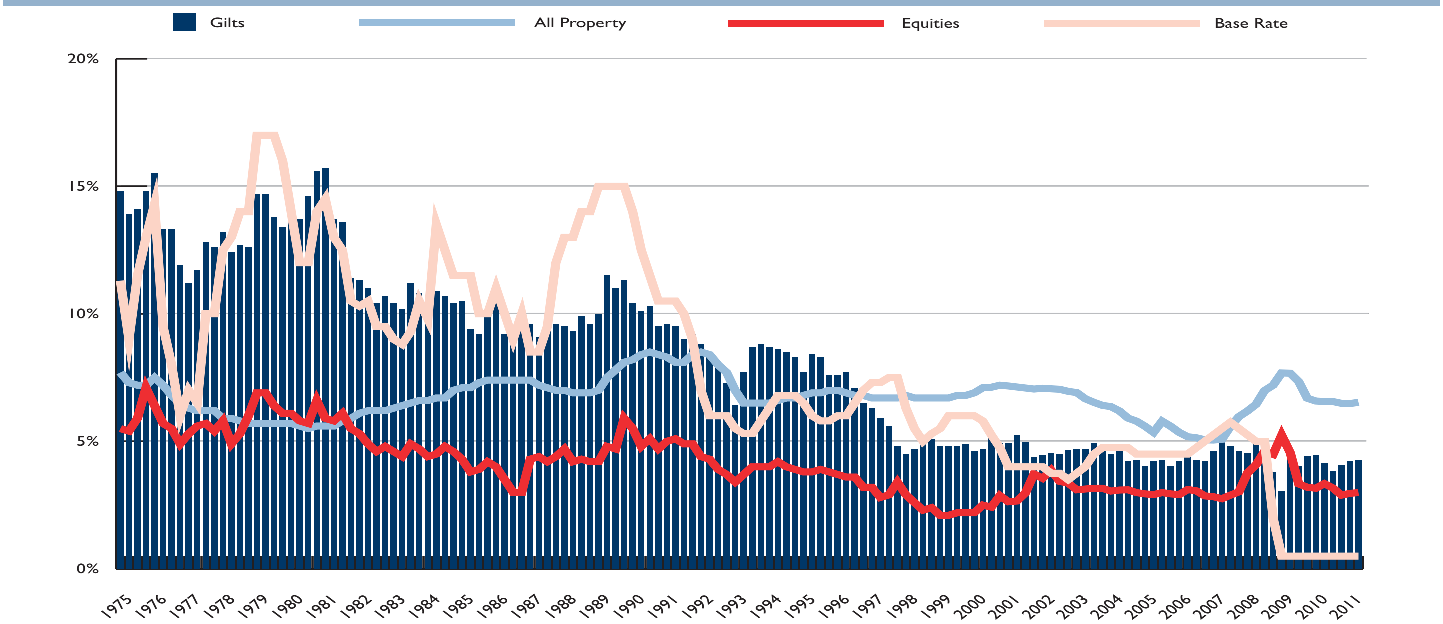
In contrast to the first quarter of the year, interest rate expectations have become increasingly dovish and based on a 65% LTV ratio, the typical “all in” cost of funds stands at approximately 4.5-5% for a 5 year term, which remains attractive against the all-property IPD initial yield (June monthly index) of 6.27%. Interest rate hikes may be inevitable, but there is huge volatility in market expectations of when they will occur, with interest rate futures currently pricing in a first hike in summer 2012. The BOE’s decision to leave interest rates unchanged thus far, and willingness to accept above target inflation in the short term, has seen pension funds becoming increasingly concerned over the erosion of real wealth in their portfolios. Consequently, it is of little surprise that a recent Towers Watson survey found that pension funds are steadily increasing their allocations to real estate, which has traditionally been perceived as a partial hedge to rising prices.

Mezzanine debt is becoming more appealing to borrowers as increased competition has pushed pricing down to more realistic levels. With many traditional lenders reducing their property exposure, institutions are identifying opportunities to plug the funding gap. M&G Investments, one of Europe’s largest institutional investors, recently closed its mezzanine debt fund and is looking at opportunities to help borrowers reduce execution risk by offering them a single source for both senior and junior debt.

In a positive sign for capital markets, investors appear to be gradually recovering their appetite for commercial mortgage backed securities (CMBS). Following the credit crisis, a significant number of commercial property loans securitised by UK banks were not distributed to bond investors - as was previously the case - but instead were retained to use as collateral in sourcing liquidity from the Bank of England. Deutsche Bank’s issuance of a CMBS to partially fund Blackstone’s £480m acquisition of Chiswick Park was widely seen as the first true securitisation of debt backing a commercial property investment in recent years.

However, while this deal represents an important benchmark, it is unlikely to trigger a return to the heady days of 2007 for the securitisation market. Serious concerns remain over the risks posed by the high degree of leverage used by borrowers in the past and the lack of refinancing available. Of the £56bn of UK CMBS outstanding, £19bn is due to be repaid in the period from 2011 to 2014. Many of the loans, originated near the peak of the market, will fail to refinance when due and, as a result, there will be further debt restructuring and liquidations of the underlying properties.

YIELD & INTEREST RATE MOVEMENTS



INDUSTRIAL

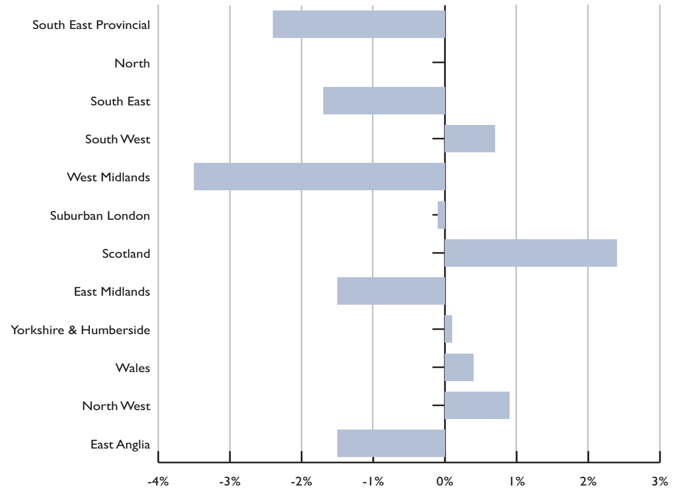
Despite the uncertain economic outlook, a more positive sentiment is beginning to emerge in the industrial occupier sector. Enquiries were up over the quarter, when compared with the same period last year. Some previously shelved requirements are being dusted down and re-activated, with the majority of occupiers tending to look for space in the 10,000-50,000 sq ft bracket. In the big box market, demand from retailers and large supermarkets has remained steady, as the growth in internet retailing has continued unabated. Interestingly for the first time in 6 months, there have been a number of enquiries for stock in the 500,000 sq ft plus bracket, driven largely by the retail sector.

Nevertheless, there remains a big disconnect between occupier requirements and the type of stock available, with many companies having to continue to pursue build-to-suit strategies as a result. Whilst there is some evidence of pre-lets, these are very location and user specific, although greater consideration is being given to sites with high historic land values. There have been some sporadic signs of speculative development, most notably in the West London and Thames Valley markets, but these are unlikely to mark a return to the heady days of 2007. One such development is ING REIM's Nexus Heathrow, which is one of the first speculative leasehold warehouse schemes to be undertaken in West London since the downturn.

Rents in general remained static over the quarter, with one exception being Enfield, which experienced further rental growth of 3.5% during the quarter, while the occupational market in Heathrow continues to tighten and rents have remained under pressure. Incentives have largely remained unchanged for smaller stock, with tenants typically receiving 6-12 months' rent free for every 5-year term certain - more if the property is poorly located or specified, or has been void for a long time. For larger properties, the rent free package is still a minimum of 12 months for every 5-year term certain.

Investment activity continued to decline, with total volumes of approximately £499m in Q2, according to Property Data. This was significantly lower than the £1.3 billion transacted in the same period last year and is indicative of the trend occurring across all property sectors at the moment – demand for investment grade product in core locations remains vigorous but the hurdle to higher levels of activity remains the lack of supply. Yields for 20 year leased prime distribution units are stable at 6.25%, while prime inner M25 estates yields are unchanged at 6%. The secondary market continues to attract interest from PropCo's and opportunity funds, but the sector remains price sensitive, with investors only keen on stock that offers genuine asset management opportunities and high yields. Despite a decent flow of stock coming to the market - from the banks in particular - much of it does not fit investor requirements and as such, yields for "best in class" stock remain static at 7.25%.

ANNUAL CHANGE IN INDUSTRIAL RENTS AS AT JUNE 2011



PRIME INDUSTRIAL RENTS AS AT JUNE 2011

(2,000 sq.m unit)	*Rental Level*		*Yearly Growth*		*Short-term Trend*
	£/sq.ft/yr	*€/sq.m/yr*	*5 year*	*1 year*	
London-West	12.50	149	0.4	2.0	Stable
London-East	7.00	83	-0.7	-3.4	Stable
London-Croydon	8.50	101	0.0	0.0	Stable
Manchester	5.50	66	0.0	0.0	Stable
Birmingham	5.50	66	-1.7	-8.3	Stable/Down
Bristol	7.75	92	2.1	10.7	Stable
Leeds	5.00	60	-1.9	-4.8	Stable/Down
Newcastle	4.25	51	-4.1	0.0	Stable/Down
Cardiff	5.50	66	0.0	0.0	Stable
Edinburgh	7.50	89	1.4	0.0	Stable
Glasgow	6.25	74	1.7	4.2	Stable

PRIME INDUSTRIAL YIELDS AS AT JUNE 2011

	Yield		*10 Year Record*		*Short-term Trend*
	Current	*Last Quarter*	*High*	*Low*	
London-West	6.00	6.00	7.25	4.75	Stable
London-East	6.75	6.75	8.00	5.50	Stable
London-Croydon	6.50	6.50	7.75	5.00	Stable
Manchester	6.50	6.50	7.75	5.25	Stable
Birmingham	6.25	6.50	8.00	5.00	Stable
Bristol	6.50	6.50	8.00	5.25	Stable
Leeds	6.75	6.50	8.25	5.25	Stable
Newcastle	7.00	7.00	8.50	5.75	Stable
Cardiff	7.00	6.75	8.50	5.50	Stable
Edinburgh	7.00	6.75	8.25	5.00	Stable
Glasgow	7.00	6.75	8.00	5.50	Stable

OFFICES

The occupational market has seen little change since the start of the year, with only intermittent signs of activity. Confidence is fragile and occupiers remain risk averse and resistant to capital expenditure, with active demand generally thin overall. The majority of activity continues to be focused on CBDs in the key regional centres, with patchy demand for Grade B and out-of-town stock. Lease re-gears are still favoured over relocation strategies, while landlords continue to offer generous concessions to retain tenants.

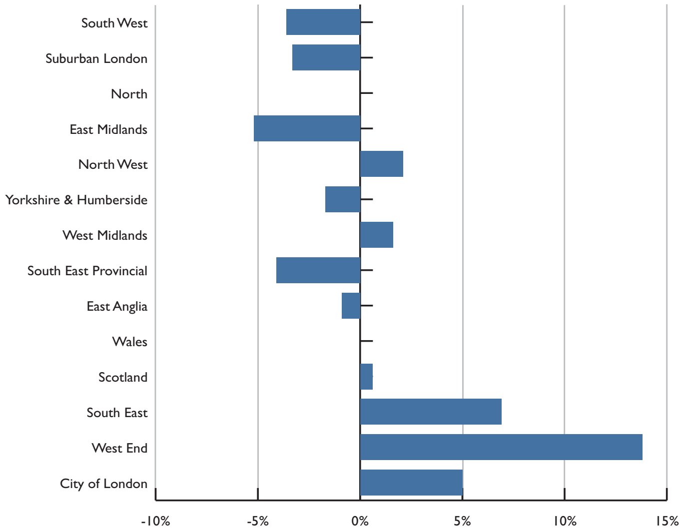
There are some positive signs emerging, but whether these are part of a stronger underlying trend remains to be seen. In Glasgow, out-of-town take up was very robust at 200,000 sq ft in Q2, the highest it's been since June 2007. Amazon boosted their presence in Scotland, taking 60,000 sq ft in Edinburgh, having already invested in a major distribution centre in Dunfermline at the start of the year. Sentiment in the Thames Valley market remains positive, underpinned by strong growth in the Telecoms Media and Technology (TMT) sector. Nationally, the availability of prime Grade A stock marginally declined, but it has not been enough to trigger any further increase in speculative development. Developers are still cautious over the economic outlook, while the availability of financing remains limited.

Investment activity slowed in the second quarter, with deal volumes of approximately £432m, according to the latest figures from Property Data. This was significantly weaker than Q1, and represents only 36% of the total traded in the same period last year. Whilst investor demand has remained good for the best stock - particularly in the Thames Valley and in the South - there is still an acute shortage of prime product in the market, which is dampening activity. Prime yields are static at 6% for the Tier 1 office segment, as investors continue to pursue opportunities in centres which are perceived to be stable and offer reasonable prospects for growth.

Overseas investors are still showing a willingness to invest in the UK office market, while UK institutions and PropCo's remain keen on opportunities for prime assets. Key deals during the quarter included Grenfell Island, Maidenhead that British Land purchased for £74 million (7.5% NIY) - which also contained a cinema - and RREEF Spezial Invest acquisition of 1 Longwalk Road in Stockley Park for £26.4m (7.2% NIY).

Demand in the secondary market continues to come from entrepreneurial UK investors and opportunity funds, who are pursuing more selective acquisition strategies. In many cases, these investors are seeking to re-position buildings in centres where a lack of supply is anticipated going forward. This trend has been quite noticeable in the South East and Thames Valley regions in particular. However, outside these centres, the outlook is gloomier as yields continue to drift out, while in some cases, assets have attracted zero interest.

ANNUAL CHANGE IN OFFICE RENTS AS AT JUNE 2011



PRIME OFFICE RENTS AS AT JUNE 2011

	Rental Growth		*Yearly Growth*		*Short-term Trend*
	£/sq.ft/yr	*€/sq.m/yr*	*5 Year*	*1 Year*	
Croydon	20.00	249	0.0	-2.8	Stable
Reading	29.00	346	3.9	1.8	Stable
Manchester	30.00	358	1.0	5.3	Stable
Birmingham	28.50	340	-0.7	3.6	Stable
Bristol	27.50	328	1.5	5.8	Stable
Leeds	25.00	298	0.0	-3.8	Stable
Newcastle	22.00	262	1.9	0.0	Stable
Cardiff	21.00	250	2.6	0.0	Stable
Edinburgh	27.00	322	0.0	0.0	Stable
Glasgow	29.00	346	3.0	0.0	Stable

PRIME OFFICE YIELDS AS AT JUNE 2011

	Yield		*10 Year Record*		*Short-term Trend*
	Current	*Last Quarter*	*5 Year*	*1 Year*	
Croydon	6.75	6.75	8.25	5.00	Stable
Reading	6.25	6.50	7.75	5.00	Stable
Manchester	6.00	6.00	7.25	4.50	Stable
Birmingham	6.00	6.00	7.25	4.50	Stable
Bristol	6.25	6.25	7.50	4.50	Stable
Leeds	6.50	6.50	8.50	4.75	Stable
Newcastle	6.75	6.75	7.75	4.75	Stable
Cardiff	7.00	7.00	8.00	5.00	Stable
Edinburgh	6.00	6.00	7.25	4.50	Stable
Glasgow	6.00	6.00	7.25	4.50	Stable

CENTRAL LONDON OFFICES

It has been a relatively mixed bag for the Central London office market in Q2, with the West End performing better than what is now a more cautious City market, despite some signs of improved demand for H2. Take-up in the City & Docklands was subdued in the second quarter, with less than 600,000 sq ft signed, 53% lower than at the same point last year and significantly below the 10 year average.

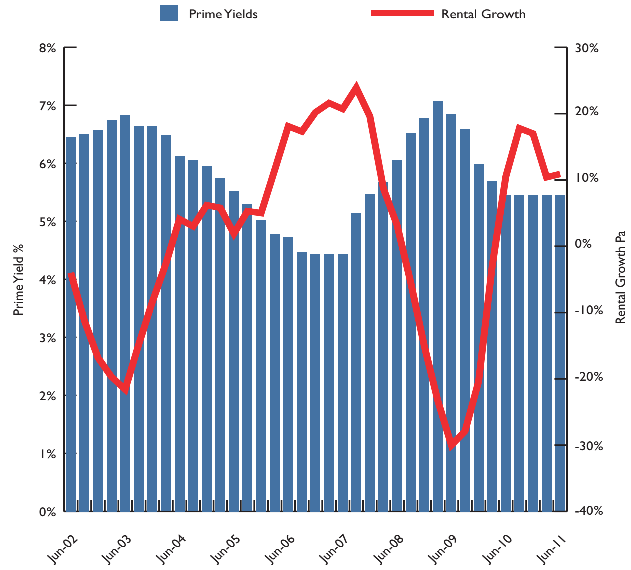
Much of the demand that is evident is coming from smaller occupiers seeking sub 20,000 sq ft units and for the second quarter in a row, there were no completed lettings over 50,000 sq ft. Lease events have been a key driver of activity and this should continue due to the large volume of lease expiries over the next few years. Once again, City leasing activity was led by Financial Services, while Professional Services accounted for 25% of all lettings. City prime rents have been unchanged at £55.00 sq.ft for four consecutive quarters although some landlords on prime schemes are quoting above this level. Supply continues to be constrained by the lack of new stock coming to the market, a consequence of the little speculative development undertaken in 2009/2010. Nevertheless, this is likely to change, with a number of schemes starting on site over the last quarter, while Arab Investments announced that they are to recommence construction at The Pinnacle. With this announcement, there is now over 4.5 million sq ft under construction in the City due to complete over the next few years.

The City investment market is still buoyant, with volumes of over £1.92 billion completed over the quarter, up 4% on Q1 2011. Sentiment remains strong, with a further £1.38 billion currently under offer, and this should support current levels of activity moving forward. There have been some significant deals, with the sale of Aviva Tower for £288.25 (net initial yield 5.4%), the largest transaction completed in Q2. Administrations are still the biggest source of supply, although UK investors also tended to be net sellers of offices during the quarter. The City prime yield has stabilised and remains unchanged at 5%.

In contrast to occupier activity in the City and Docklands, quarterly take up levels in the West End market are heading back towards peak levels, with over 814,000 sq ft leased in the three months to June. This is an increase of 35% on the first quarter and brings activity in the first half of the year to 1.4 million sq ft. Active demand improved 12%, driven by continued robust requirements from the TMT sector.

West End investment volumes recovered strongly in Q2, with a total of £1.75 billion of transactions. High net worth overseas buyers retained a keen interest in prime stock and accounted for just fewer than 40% of transaction volumes in the first half of the year. Domestic and overseas funds, REIT's and PropCo's remain interested in value-add or refurbishment/re-development opportunities. Supply of prime product is still thin and as a result there has been a rise in interest for secondary and short term income property opportunities. Prime office yields were also unchanged on the quarter at 4%.

CENTRAL LONDON OFFICE PERFORMANCE



PRIME CENTRAL LONDON OFFICE RENTS AS AT JUNE 2011

	Rental Level		Yearly Growth		Short term Trend
	£/sq.ft/yr	€/sq.m/yr	5 year	1 year	
Mayfair	100.00	1,223	2.0	17.6	Stable/Up
Victoria	60.00	733	0.0	14.3	Stable/Up
City Core	55.00	673	1.8	4.8	Stable/Up
City Fringe	42.50	520	5.2	6.3	Stable/Up
Holborn	47.50	581	2.1	0.0	Stable/Up
Paddington	52.50	642	4.1	10.5	Stable/Up

PRIME CENTRAL LONDON OFFICE YIELDS AS AT JUNE 2011

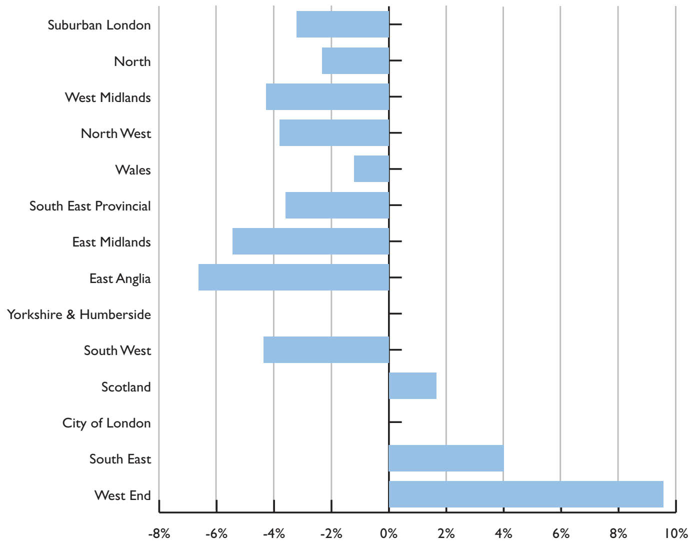
	Yield		10 Year Record		Short term Trend
	Current	Last Quarter	High	Low	
Mayfair	4.00	4.00	6.00	3.50	Stable
Victoria	5.25	5.25	6.50	4.25	Stable
City Core	5.00	5.00	6.50	4.25	Stable
City Fringe	6.00	6.00	9.00	5.00	Stable
Holborn	5.50	5.50	7.00	4.50	Stable
Paddington	5.50	5.50	7.25	4.75	Stable

OFFICE SUPPLY & DEMAND

	Supply (mn sq.ft.)			Take Up (mn sq.ft)		
	Jun 10	Mar 10	Jun 11	Q2 2010	Q1 2011	Q2 2011
City & Docklands	11.53	13.07	12.79	1.17	0.82	0.55
West End	7.03	5.47	4.81	0.94	0.60	0.81
Thames Valley	3.78	3.47	3.45	0.26	0.29	0.07
Edinburgh	2.19	1.90	1.82	0.11	0.11	0.15
Glasgow	4.48	5.00	5.01	0.27	0.12	0.28

RETAIL

ANNUAL CHANGE IN SHOP RENTS AS AT JUNE 2011



HIGH STREET - CENTRAL LONDON

It remains a different story in and outside London, with the capital seeing much better trading and property market performance. Demand for Central London retail remains robust, particularly in the prime thoroughfares in the West End, with many international retailers again seeking to establish a foothold in prime areas. Some of the largest US brands have continued to target London including Forever 21, which opened its first store on Oxford Street recently. There has also been strong demand from established UK names who continue to pursue expansion such as Jack Wills.

Supply in key thoroughfares in the West End is particularly tight, with no immediate signs of improving, although stock in administration may eventually start to filter through. As a result of this limited supply, Central London has seen some significant premium values for the sale of existing leasehold interests, particularly in Oxford Street, Regent Street and Bond Street. Consequently, the growth in prime rents is expected to be maintained, with incentives unchanged at between 3-6 months' rent free.

In terms of investment, demand is at an all time high, particularly from overseas private investors. Whilst rental growth prospects are part of the story, arguably of more importance is the wealth preservation qualities of prime retail assets. Additionally, income returns are attractive when compared with the alternatives, including very low cash deposit rates, while continued weakness in the Pound is also boosting the sector. As a result of this, record prices are being paid on Bond St, while yields elsewhere remain under downward pressure.

HIGH STREET - REGIONAL

At the regional level, demand is more subdued, although there is still a reasonable level of activity in the better regional centres and market towns in Greater London and the South East. Supply marginally increased over the quarter, with prime rents static overall. Indeed, in the 12 months to June, the only two regions to experience rental growth were Scotland at 1.65% and the South East at 4.01%.

The investment market continues to be heavily skewed towards the prime end of the market, with any noteworthy demand for secondary stock yet to materialise. The occupational market for secondary properties remains a concern for investors and accordingly, the yield gap between the prime and secondary sectors has widened to 200bps plus. Whilst the prime market experienced significant yield compression in the past 12-18 months, investors appear unwilling to bid yields lower, despite limited supply. Prime yields are unchanged at 4.75% for the second consecutive quarter and are likely to remain stable as we move into the second half of the year. UK funds and institutional investors continue to dominate market activity.

PRIME RETAIL RENTS AS AT JUNE 2011

Note: Zoning practice differs between cities	*Rental Level*		*Per Annum Growth*		*Short term Trend*
	Zone A £/sq.ft/yr	*€/sq.m/yr*	*5 Year*	*1 Year*	
London-West End*	965	6,901	8.2	4.3	Stable
London-City	220	1,213	-2.5	0.0	Stable
London-Croydon	200	1,103	-5.5	-11.1	Stable
Manchester	250	1,490	-5.1	-3.8	Stable
Birmingham	250	1,378	-4.8	-9.1	Stable
Bristol	150	894	-4.1	-6.3	Stable
Leeds	250	1,490	-3.9	0.0	Stable
Newcastle	250	1,378	-5.1	-3.8	Stable
Cardiff	225	1,240	-5.3	2.3	Stable
Edinburgh	200	1,639	-1.0	5.3	Stable
Glasgow	250	2,049	0.0	0.0	Stable

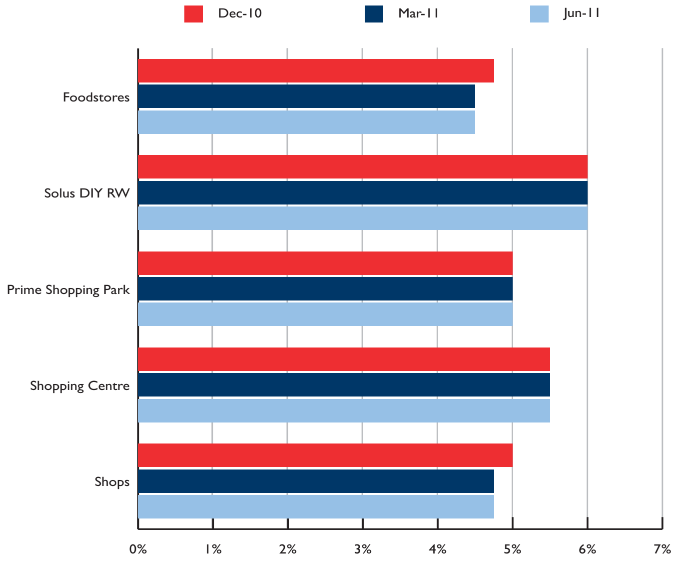
* Bond Street

PRIME YIELDS AS AT JUNE 2011

	Yield		*10 Year Record*		*Short term Trend*
	Current	*Last Quarter*	*High*	*Low*	
London-West End	3.00	3.00	5.25	3.00	Stable
London-City	5.50	5.50	6.50	4.75	Stable
London-Croydon	6.00	6.00	6.75	4.25	Stable
Manchester	5.25	5.25	6.75	4.25	Stable
Birmingham	5.75	5.75	6.75	4.25	Stable
Bristol	5.50	5.50	6.75	4.50	Stable
Leeds	5.25	5.25	6.25	4.25	Stable
Newcastle	5.25	5.25	6.25	4.00	Stable
Cardiff	5.25	5.25	6.50	4.00	Stable
Edinburgh	5.50	5.50	7.00	4.00	Stable
Glasgow	5.00	5.00	6.75	4.00	Stable

RETAIL

HEADLINE PRIME YIELDS IN THE RETAIL SECTOR



SHOPPING CENTRES

The occupational market has continued to witness reasonably strong demand, with the major regional centres remaining attractive to department stores and the national multiples brands seeking larger stores to optimise their retail operations. The sector is also seeing strong demand from international retailers such as Uniqlo, who are looking to expand into new markets. Whilst the supply of new developments is limited, Westfield Stratford remains on schedule to open in September, which will add 1.9m sq ft to the market. It is now more than 90% leased or committed and epitomises occupier demand for well located prime schemes. Prime shopping centre rents are down on an annual basis, but have now largely stabilised.

Investment demand for prime shopping centres held up over the quarter, with a broad range of institutions, REIT's and opportunity funds continuing to show interest for 5.5-6.5% stock. Supply has improved and there are approximately 25 schemes now on the market, with the vendor profile split 50/50 between banks and other willing vendors. However, much of this is in the secondary market, with very little prime stock to satisfy outstanding requirements. Consequently, prime yields have remained stable at 5.5%. Secondary yields are currently in 7-10% range, but may drift out over the summer on the back of recent increases in supply and thus a movement to more realistic pricing. However, investors still remain selective in this sector, with schemes that offer asset management initiatives, robust tenant demand and competitive pricing, generating the most interest. On a final note, there are indications of a returning development market, with Land Securities announcing new retail developments projects worth £275m.

OUT-OF-TOWN RETAIL

The occupational market continues to be governed by uncertainty, with many occupiers constrained by inflationary cost pressures, while profit margins are being squeezed further by flat or declining like-for-like sales volumes. Retailers within the bulky goods sector are under sustained pressure from the supermarkets and the non-store retailing sector, with vacancy rates expected to rise. The electrical/technology sector faces significant challenges with Game Group, DSG and Comet all recently issuing profit warnings. Nevertheless, void rates in the open A1 sector remain stable at approximately 2% in the prime parks, with demand driven by foodstores and retailers such as Hobbycraft, who remain focused on acquiring "non fashion" open A1 space.

Investment activity was muted over the quarter, due to a fall off in new stock coming to the market, and as investors pursued a more selective acquisitions strategy. Prime yields on all categories of retail warehousing remained unchanged in the three months to June, with the prime shopping park yield currently at 5%. UK Funds and REIT's continue to dominate the market, with the sale of the Morfa Retail Park in Swansea to The Crown (5.81% initial yield), the largest deal over the quarter. In general the majority of transactions completed in the first half of the year have been for similar bulky goods schemes, with investors continuing to chase long term secure income streams in prime locations.

PRIME RETAIL WAREHOUSE RENTS AS AT JUNE 2011

	Bulky Goods		*Open Consent*	
	£/sq.ft/year	*€/sq.m/year*	*£/sq.ft/year*	*€/sq.m/year*
London (Croydon)	32.50	387	37.50	447
Manchester	25.00	298	35.00	417
Birmingham	30.00	358	48.00	572
Bristol	19.00	226	32.00	381
Leeds	35.00	417	48.00	572
Newcastle	22.50	268	35.00	417
Cardiff	18.00	215	22.50	268
Edinburgh	20.00	238	37.50	447
Glasgow	20.00	238	35.00	417

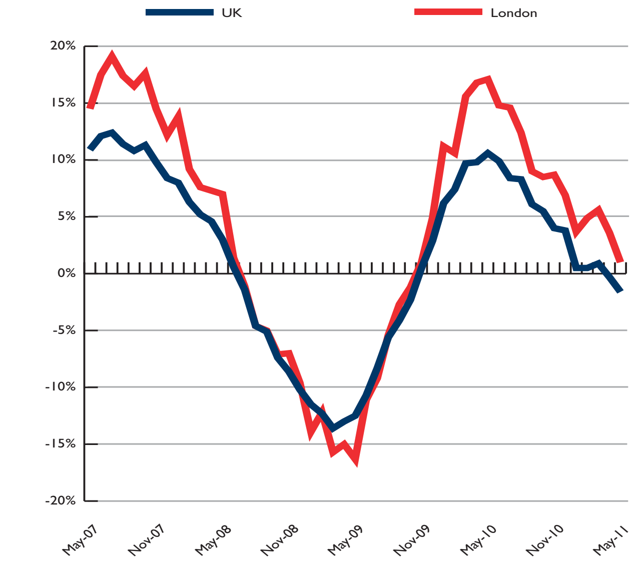
Rents are based on our opinions of open market letting for a hypothetical 7,500 sq.ft unit at prime location.

PRIME YIELDS AS AT JUNE 2011

	Yield		*10 Year Record*		*Short term Trend*
	Current	*Last Quarter*	*High*	*Low*	
Shopping Centres	5.50	5.50	7.00	4.50	Stable
RWP Bulky Goods	5.85	5.85	9.00	4.50	Stable
RWP Open Consent	5.25	5.25	7.25	4.00	Stable
RWP Shopping Park	5.00	5.00	6.75	3.75	Stable
Solus DIY RW	6.25	6.25	8.50	4.50	Stable
Foodstores	4.50	4.50	6.00	4.25	Stable

RESIDENTIAL

UK ANNUAL HOUSE PRICE INFLATION (ALL DWELLINGS)



Source: Department for Local Communities and Local Government

The underlying performance of the housing market remained weak in Q2, amid lingering concerns over the outlook for the UK economy and the availability of mortgage finance. According to data from the Nationwide House Price Index, house prices in the three months to June were 0.3% higher than in the previous three months, although this still left house prices down 1.1% year-on-year. In general, the residential market has drifted downwards in real terms over the past six months and, with economic growth likely to be slow and disjointed in the months ahead, demand is expected to remain subdued.

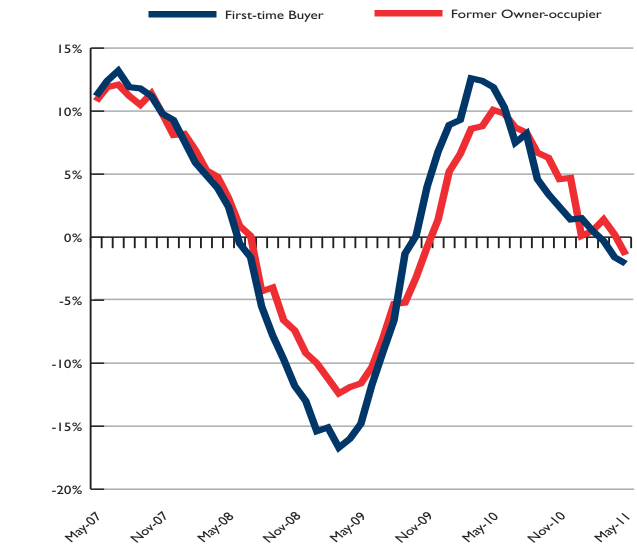
However, there have been some encouraging indications of economic health over the quarter. The manufacturing and services sectors, although weaker than the previous quarter, remain in expansionary territory, while the labour market continues to strengthen. Overall, approximately 300,000 jobs have been added to the economy in the last year, and with business investment expected to remain robust, this should equate to further job creation in the second half of the year. Nevertheless, this and the low level of interest rates has to be balanced against the near stagnant level of wage growth and with real incomes eroded by high inflation and further austerity measures, household confidence remains brittle.

As has been the trend all year, new buyer enquiries were unchanged, while new seller instructions also ended the quarter broadly flat after rising in both April and May. In general, transactions are taking longer and are more difficult to conclude. The low interest rate environment has so far resulted in very few distressed sales, while there remains a big disconnect between buyer and seller expectations on price.

Mortgage lenders remain downbeat and have not increased the availability of secured credit to households in the last three months. Payment defaults are expected to rise again in the second half of the year, according to the latest report from the Bank of England (BOE). Despite the number of defaults in Q2 remaining broadly unchanged, actual losses made rose for the third quarter in a row. On a more positive note, the chances of an interest rate rise by the BOE have greatly diminished since April, with the minutes from the May meeting showing voting committee members shifted from a 6-3 vote to 7-2 vote in favour of leaving base rates unchanged at 0.5%. Nevertheless, the balance of lenders expecting a rise in the default rate of secured loans over the next quarter, rose to its highest level since the end of 2009 in June.

In contrast to the national picture, London continues to buck the trend and is the only part of the country where house prices are rising. Whilst London is not immune to the financial barriers faced by the rest of the country, its position as a leading global economic hub has driven demand and underpinned confidence. Additionally, the growth of the private rented sector and rapid recovery in capital values, coupled with continued relative weakness in the Pound, has boosted demand from overseas investors for prime residential property in particular. The acute shortage of homes for sale across the capital should continue to support robust capital growth going forward, with a ripple effect in outlying districts.

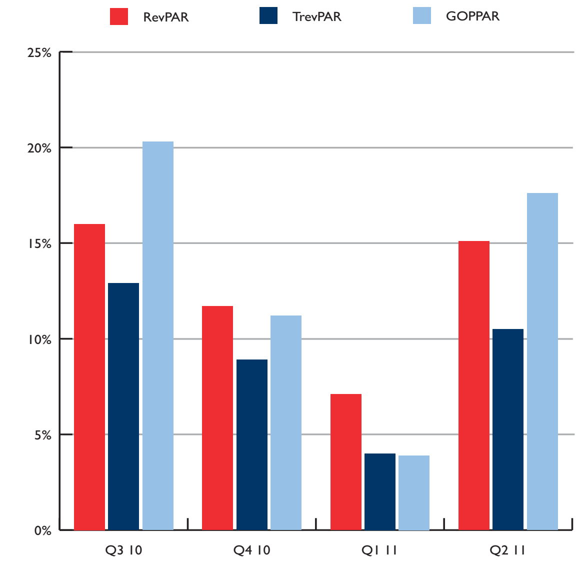
UK ANNUAL HOUSE PRICE INFLATION (BY BUYER)



Source: Department for Local Communities and Local Government

HOSPITALITY

LONDON HOTEL PERFORMANCE (YEAR ON YEAR CHANGE)



Source: TRI Hospitality Consulting

Surprisingly, the Royal Wedding in April failed to deliver the anticipated boost to the hotel sector in London, with demand for full service accommodation weaker than expected. Nevertheless, year-on-year (y-o-y) profitability levels soared over the quarter, as the capital played host to various sporting, cultural and political events, while commercial demand returned to more robust levels. Revenue per available room (RevPAR) surged 15.1% y-o-y in June, on the back of strong demand and higher prices according to the latest TRI Hospitality statistics. Accordingly, profitability as measured by gross operating profit per available room (GOPPAR) saw an increase of 17.6% y-o-y in June.

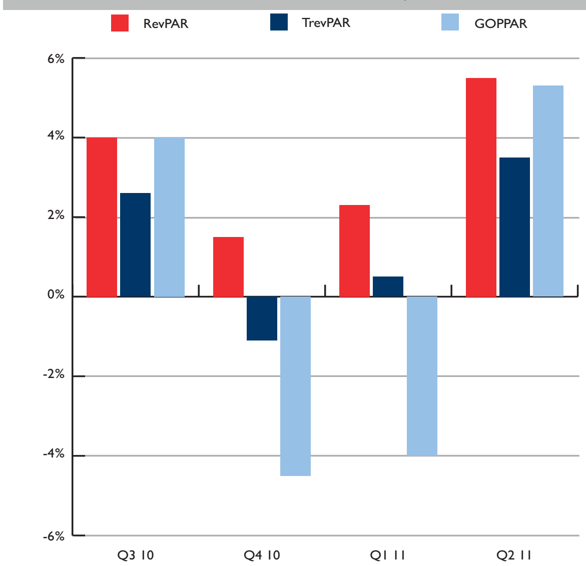
Regionally, trading conditions appear to be stabilising, with a stronger performance posted by provincial hoteliers towards the end of the quarter. Despite this, the year-to-date profit per room remains approximately 1.7% lower than the same period last year. In a very challenging market, hoteliers are increasingly looking to boost turnover through discounting, while there has also been a notable increase in sales and marketing and property and maintenance expenditure, in an attempt to consolidate market share. Average room rates have remained relatively static, but it is evident that falling real incomes and stagnant wage growth continues to dampen consumer sentiment.

The hotel investment outlook improved further in Q2, as activity levels continued to gain momentum into the second half of the year. The investment market has been helped by recovering liquidity levels, improved hotel trading performance and banks' willingness to speed up workout programs. Up until now, banks have largely resisted placing hotel assets in administration, favouring strategies to restructure debt and/or reset covenants as an alternative. Nevertheless, there has been a noticeable increase in the number of assets going into administration, with Von Essen Hotels and a portfolio of 42 Marriott hotels among the more high profile casualties in the last quarter. In line with overall investment patterns in the UK, overseas investors continue to dominate the market for trophy assets or distressed sales.

On the development side, there is still a feeling of apprehension in the regions over the outlook for the UK economy and the operating environment of the hotel market, with a number of potential hotel developments and transactions still postponed. In contrast, the development outlook in London is very different, with a spate of top quality hotels, including the W Hotel, Corinthia Hotel and Renaissance St. Pancreas, all opening their doors in the first half of the year.

Encouragingly, based on a recent report by Visit Britain (the national tourist agency), the UK is well on its way to restoring its appeal as a holiday destination for international tourists. In the three months to May, there was an 11% increase in overseas visitor numbers from the previous three months, who spent approximately £4bn. Whilst much of this can be attributed to the Royal Wedding in April and the Champions League Final in May, there is evidence to suggest that these results are part of a stronger underlying trend. For example, Heathrow Airport reported record passenger numbers of 6.1 million in June, which equates to underlying growth of around 3.8% y-o-y.

PROVINCES HOTEL PERFORMANCE (YEAR ON YEAR CHANGE)



Source: TRI Hospitality Consulting

MARKETBEAT

RENTS & YIELDS BY REGION

JUNE 2011											
Rental Growth	*EA*	*EM*	*N*	*NW*	*S*	*SE*	*SW*	*W*	*WM*	*YH*	*GB*
Retail											
Base	5.9%	5.3%	4.9%	5.3%	5.3%	6.2%	5.2%	4.8%	5.4%	6.1%	5.9%
10 Years	-0.7%	-2.4%	-1.6%	-2.1%	0.4%	2.3%	-1.5%	-2.6%	-1.6%	0.0%	0.9%
5 Years	-3.4%	-6.5%	-5.5%	-5.4%	-0.6%	1.7%	-4.7%	-6.8%	-4.7%	-3.2%	-0.7%
3 Years	-6.2%	-10.7%	-9.2%	-9.0%	-3.1%	1.3%	-9.9%	-10.8%	-9.4%	-6.5%	-2.5%
1 Year	-6.6%	-5.4%	-2.3%	-3.8%	1.6%	4.0%	-4.4%	-1.2%	-4.3%	0.0%	1.5%
6 Mths	-4.3%	0.0%	0.0%	0.0%	1.6%	2.2%	-5.2%	0.0%	0.0%	0.0%	1.1%
1 Qtr	-2.6%	0.0%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	0.0%	0.8%
Office											
Base	6.0%	6.2%	6.6%	6.4%	6.2%	5.4%	6.0%	5.5%	6.6%	5.2%	5.5%
10 Years	0.7%	1.7%	4.1%	2.4%	1.3%	0.0%	1.6%	1.4%	0.8%	2.1%	0.5%
5 Years	3.3%	-0.2%	1.8%	2.4%	2.0%	1.5%	-0.2%	0.9%	0.6%	1.0%	1.4%
3 Years	2.0%	-2.2%	0.0%	-0.4%	0.4%	-5.0%	-3.3%	0.9%	-2.5%	-1.5%	-3.9%
1 Year	-0.9%	-5.2%	0.0%	2.1%	0.6%	7.6%	-3.6%	0.0%	1.6%	-1.7%	5.0%
6 Mths	2.8%	-2.1%	0.0%	1.0%	0.0%	3.1%	-0.3%	0.0%	-0.8%	1.7%	2.3%
1 Qtr	-0.9%	0.0%	0.0%	0.0%	0.0%	1.4%	-0.8%	0.0%	-0.8%	3.9%	1.0%
Industrial											
Base	4.5%	4.7%	5.0%	4.7%	5.1%	4.9%	5.0%	4.9%	5.1%	4.7%	4.8%
10 Years	1.0%	0.0%	0.8%	0.7%	2.8%	0.2%	0.4%	1.4%	0.2%	0.6%	0.6%
5 Years	1.3%	0.0%	-0.8%	0.5%	3.2%	-0.8%	0.0%	0.7%	-0.3%	-0.2%	-0.1%
3 Years	1.5%	-0.5%	-1.4%	0.5%	1.5%	-1.3%	0.2%	0.1%	-1.1%	-1.2%	-0.5%
1 Year	-1.5%	-1.5%	0.0%	0.9%	2.4%	-1.7%	0.7%	0.4%	-3.5%	0.1%	-0.8%
6 Mths	-2.9%	0.0%	0.0%	0.0%	2.4%	0.6%	2.5%	0.0%	-1.8%	0.0%	0.3%
1 Qtr	1.6%	0.0%	0.0%	0.0%	-2.3%	0.2%	2.5%	0.0%	-0.9%	0.0%	0.1%
Average Prime Yields											
Retail											
Jun-10	5.58%	5.92%	5.94%	6.29%	5.67%	5.48%	5.80%	6.50%	6.15%	5.94%	5.75%
Sep-10	5.58%	5.92%	5.94%	6.21%	5.67%	5.47%	5.80%	6.50%	6.15%	5.94%	5.74%
Dec-10	5.58%	5.92%	5.94%	6.13%	5.67%	5.45%	5.75%	6.50%	6.15%	5.88%	5.72%
Mar-11	5.50%	5.83%	5.94%	6.08%	5.67%	5.41%	5.75%	6.42%	6.15%	5.88%	5.69%
Jun-11	5.50%	5.83%	5.94%	6.08%	5.75%	5.41%	5.75%	6.42%	6.15%	5.81%	5.69%
Office											
Jun-10	7.67%	7.50%	6.50%	6.25%	6.25%	6.73%	7.50%	6.75%	7.08%	6.92%	6.84%
Sep-10	7.83%	7.75%	6.50%	6.38%	6.25%	6.73%	7.63%	6.75%	7.08%	7.00%	6.88%
Dec-10	7.75%	8.00%	6.75%	6.38%	6.25%	6.77%	7.69%	7.00%	7.17%	7.00%	6.93%
Mar-11	7.75%	8.00%	6.75%	6.38%	6.25%	6.77%	7.69%	7.00%	7.17%	7.00%	6.93%
Jun-11	7.67%	8.00%	6.75%	6.38%	6.17%	6.76%	7.69%	7.00%	7.08%	7.00%	6.91%
Industrial											
Jun-10	7.00%	6.83%	7.81%	7.08%	7.17%	6.85%	7.10%	7.33%	7.05%	7.06%	7.07%
Sep-10	7.00%	6.83%	7.81%	7.08%	7.17%	6.85%	7.10%	7.33%	7.05%	7.06%	7.07%
Dec-10	6.75%	6.58%	7.56%	6.83%	7.17%	6.60%	6.85%	7.08%	6.80%	6.81%	6.83%
Mar-11	6.75%	6.58%	7.56%	6.83%	7.17%	6.60%	6.85%	7.08%	6.80%	6.81%	6.83%
Jun-11	6.75%	6.50%	7.69%	7.25%	7.33%	6.70%	7.10%	7.33%	6.80%	7.13%	6.99%

GEOGRAPHICAL KEY FOR ALL GRAPHICS			
EA = East Anglia	S = Scotland	W = Wales	SL = Suburban London
EM = East Midlands	SE = South East	WM = West Midlands	C of L = City of London
N = North	SE (ex-L) = South East (ex London)	Y&H = Yorkshire & Humberside	GB = Great Britain
NW = North West	SW = South West	WE of L = West End of London	

RESEARCH SERVICES

Cushman & Wakefield research staff are located throughout the world with the EMEA service co-ordinated in London, the Americas in New York and Asia in Shanghai.

Research provides a strategic advisory and supporting role to clients and other departments within the firm with extensive and continuously updated information systems covering property, economic, corporate and social trends.

Consultancy projects are undertaken on a local and international basis. We provide in-depth advice and analysis, producing detailed market appraisals on current and future trends for developers, investors and occupiers. We also advise on location and investment strategies and portfolio performance. Typical projects include a mix of the following:

- Location analysis, ranking and targeting for occupation or investment
- Future development activity and existing supply/competition
- Demand analysis by retail/industry sector
- Rental analysis, forecasts & investment & portfolio strategy
- Floorspace audits, tenant-mix assessment & catchment/expenditure analysis
- Retailer, occupier and consumer surveys
- Pedestrian flow analysis & local employment studies.

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