

November 28th 2008

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## REITA QUARTERLY PROPERTY INVESTMENT PERSPECTIVE:

### ***62% OF EXPERTS SEE DETERIORATION IN FUNDING IN PAST FEW WEEKS BUT OPPORTUNITIES MAY EXIST FOR INCOME INVESTORS***

Reita ([www.reita.org](http://www.reita.org)), the education and awareness campaign for property investment and REITs, today released its quarterly 'Property Investment Perspective', showing that 62% of property experts believe that the availability of funding from banks and their willingness to refinance property loan books has deteriorated in the last few weeks.

On a more positive note, however, the 'Reita Expert Panel'<sup>1</sup> expected returns from REITs and property securities to be slightly better than from direct property over the next 12 months and, with future dividend yields likely to be around 6%, there are signs of interest from long-term income investors.

Dave Butler, head of external affairs at Reita, explains:

"One of the keys to an improvement in the property market is the return of liquidity but, despite recent action by governments around the world, less than 10% of the members of our expert panel reported any improvement in the availability of funding or willingness to refinance property loan books. On the contrary, more than 60% of the members reported a deterioration in the banking situation in the weeks leading up to the survey, with "LTVs lower, margins higher and no German banks in the game" and "got worse from an extremely bad position" being two of the typically terse verbatim comments we received as feedback".

AXA Real Estate IM	Fidelity International	Investment Property Forum	Primary Health Properties PLC
British Land Co PLC	Goldman Sachs International	Invista REIM Holdings plc	Rugby Estates Inv. Trust PLC
British Property Federation	Grainger plc	J P Morgan Cazenove	SEGRO
Brixton plc	Hammerson plc	KPMG LLP	SNL Financial
Deloitte	Henderson Global Investors	Land Securities Group plc	Standard Life Investments
Derwent London PLC	Highcroft Investments PLC	Lehman Bros	TAP Income Trust
DLA Piper	ING Real Estate IM	London Stock Exchange	Warner Estate

<sup>1</sup>The **Reita Expert Panel** includes representatives from 24 of the leading property and investment organisations, including some of the largest UK REITs, EPRA, NAREIT and the London Stock Exchange. The panel is surveyed on a quarterly basis about the key issues facing the property investment industry today.

### **NAV Discounts & Yield Predictions – listed sector to recover first**

Overall, the Reita expert panel expected returns from REITs and property securities to be slightly better than from direct property over the next 12 months, with more than 60% indicating better returns and only 23% expecting worse. The experts commented that they expected recovery to be ‘in the listed sector first, with potential for fast recovery compared to the direct market’.

Patrick Sumner, chair of Reita and leading the quarterly review, explains:

“At current prices, property stocks are trading at a discount to NAV of more than 40%, which appears to discount all the expected further falls in value, if not more. However, it is notoriously difficult to judge the timing of the bottom of either the direct property market or the property securities market, except in retrospect, and in October and November we have seen the securities market hit new lows.

“The gross dividend yield on UK REITs is more than 7% on an historic basis. Estimates of future yield are subject to some uncertainty, but are likely to be above 6%. Some REITs will cut or cancel their dividends, while others should even be able to increase them”. (Source: Henderson Global Investors, as at 20 November 2008).

“Most analysts and investors expect to see further price weakness, but there are signs of interest from long-term investors who are happy with the yield available. In a low interest rate environment, when dividends from mainstream companies are more at risk than those based on long-term rental income streams, REITs are coming into their own.”

### ***Commercial Property Market Recovery: H2 2009 prediction doubled***

The number of experts predicting the property market will bottom out in H2 2009 has doubled in the past six months, according to this latest survey.

Nearly 60% of the Reita expert panel now expect the commercial property market to hit bottom in the second half of next year, compared to only 23% which predicted this in the May quarterly research. The remaining 27% of experts believe the worst will not be seen until 2010.

***Investor Sentiment: Twice As Many Now See Significant Deterioration***

In the last Reita quarterly study (August 2008) 32% of the expert panel predicted a 'significant' deterioration of investment conditions. This figure has now more than doubled, with almost 70% of the expert panel opting for this more pessimistic assessment.

In total, more than 80% of the experts felt investment sentiment and conditions had deteriorated, up from 75% reported last quarter.

These views are backed up by evidence from IPD, whose monthly index of direct commercial property performance continued its negative trend with a fall in capital values of 3.8% in the three months to the end of October, the worst ever monthly performance.

At the end of October the IPD Capital Growth index showed a 27.5% fall in capital values from its peak in June 2007, and the three commercial sectors (retail, office and industrial) have all suffered similar falls. Equivalent yields have risen from 5.4% to 7.6% over the same period and initial yields from 4.6% to 6.3%.

***Since our last review...***

Rental values have begun to fall, with offices leading the way down, and are now at the same level as a year ago. More than 60% of the Reita expert panel are now expecting the tenant driven aspects of the market to deteriorate significantly over the next 3 months, with many highlighting the impact of a tough Christmas on retailers and significant failures expected in February and March.

Gross income (the contracted rent actually received), however, continues to grow as leases are reviewed or renewed at market rents, but the rate of growth is moderating (growth rates were only at +2.8% in October compared to a year previously).

Patrick Sumner explains:

“If this recession is like that of the early 1990s, when rental values fell for four years, then gross income will not actually fall, although growth may disappear. One of the notable areas of difference in this recession is that we do not have anything like the scale of over-building to contend with.

“REITs continue to suffer from very weak investor sentiment and are down 46% this year in price terms. Non-REITs however are down 66%. Volatility remains high, and short-selling persists, with around 10% of the stock of the major companies typically on loan.”

**Full copies of the Reita Quarterly Market Briefing can be found at [www.reita.org](http://www.reita.org)**

**ENDS**

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**Notes to Editors**

**About Reita**

The **reita.org** portal provides expert knowledge, education and tools for professional financial advisers, other financial specialists and private investors, and represents the UK's first dedicated educational resource for information on REITs and quoted property investment. Its success has been recognised through various awards including 'Property Industry Innovation of the Year' (Property Week) and 'Best Online Educational Initiative for Financial Advisers' (IFA Online).

**1. The current members of Reita are:**

<p><b>UK REITs</b>  The British Land plc  Brixton plc  Derwent London  Hammerson plc  Highcroft Investments PLC  Land Securities plc  Primary Health Properties PLC  Rugby Estates Investment Trust PLC  SEGRO  Warner Estate</p> <p><b>Quoted property companies</b>  Grainger plc  The Advantage Property Income Trust Ltd</p>	<p><b>Fund managers</b>  AXA Real Estate Investment Managers  Fidelity International  Henderson Global Investors  ING Real Estate Investment Management  Invista REIM Holdings plc  Standard Life Investments</p>
<p><b>Investment banks/advisers</b>  Deloitte  Goldman Sachs International  JP Morgan Cazenove  KPMG  Lehman Brothers</p>	<p><b>Industry bodies</b>  British Property Federation (BPF)  Investment Property Forum (IPF)</p> <p><b>Other organisations</b>  London Stock Exchange  SNL Financial</p> <p><b>Legal firms</b>  DLA Piper</p>

**2. Reita executive committee members are:**

- Patrick Sumner, Head of Property Equities, Henderson Global Investors (Chairman)
- Richard Cotton, Managing Director, Corporate Finance, JP Morgan Cazenove
- Peter Couch, Director, Equity Release, Grainger plc
- Edmund Craston, Managing Director, European Head of Real Estate Investment Banking, Lehman Brothers
- Peter Hicks, Head of IFA Affairs, Fidelity International
- Liz Peace, Chief Executive, British Property Federation
- Francis Salway, Group Chief Executive, Land Securities
- Sue Forster, Executive Director, IPF
- Nick Ritblat, Immediate Past President, BPF
- Andrew Wallace, Main Market & REITS Product Manager, London Stock Exchange
- Duncan Owen, CEO, Invista REIM Holdings plc / Philip Gadsden, Deputy CEO, Invista REIM Holdings plc