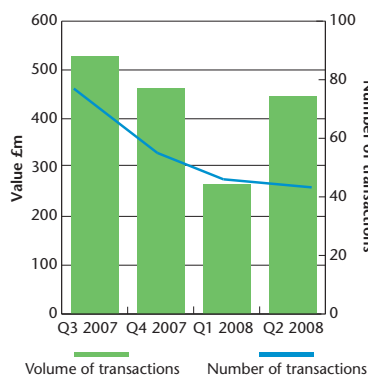


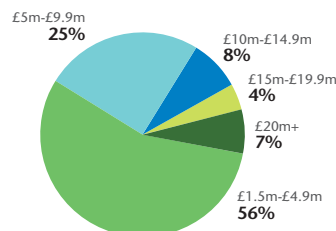
High Street Retail Investment H1 2008

Figure 1
High street retail transactions



Source: Knight Frank LLP
Note: Analysis excludes lot sizes under £1.5m and auction transactions

Figure 2
Transactions by lot size



Source: Knight Frank LLP

Outlook

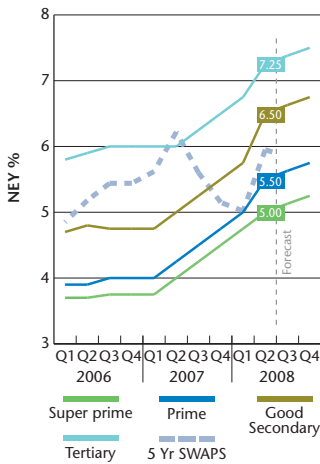
- Although buoyed by the occurrence of a number of large transactions in Q2, the volume of activity in H1 2008 remains subdued. The cost and availability of finance has frozen out a significant proportion of debt-backed investors and while the disparity between the price expectations of purchasers and vendors persists, we do not expect the number of transactions to increase significantly in H2 2008.
- A notable trend during H1 2008 has been the lack of quality retail product on the market and this is expected to continue during H2. Yields have moved out steadily over the past 18 months and, consequently, vendors who bought prime assets in recent years have been reluctant to sell. Those prime assets which have been brought to the market have tended to be marketed selectively to a small number of targeted investors.
- Encouragingly, there continues to be investor demand for high street retail product in top 20 town locations which display healthy occupational demand and solid rental growth prospects. A number of investors with strong equity positions, including some UK funds, have requirements for prime retail stock, attracted to assets reflecting yields up to 100 basis points softer than a year ago.
- Due to tougher trading conditions and the uncertain outlook for the economy, landlords are increasingly using incentives such as 12-18 month rent-free periods to attract new retailers to vacant premises. A key development in July was the formation of a consortium of 16 major UK retailers demanding the right to pay rents on a monthly rather than quarterly basis.

H1 2008 Summary of key high street retail investment transactions

Address	Price (£m)	NIY (%)	NEY (%)	Date	Purchaser
24-28 Bridlesmith Gate, Nottingham	6.65	5.29	5.60	Feb 08	CBRE Investors
1-7 Market Street, Leicester	4.70	5.86	5.86	Mar 08	Private Irish
54-60 Broad Street, Reading	28.23	4.85	5.45	Apr 08	BP Pension Fund
23/23a Petty Cury, Cambridge	4.28	4.85	4.85	Apr 08	Private
71-81 High Road, Sutton	11.80	6.39	6.39	May 08	Standard Life
29-30 Peascod Street, Windsor	3.30	5.25	5.75	May 08	Private local
Liberty Island Site, 208-222 Regent Street, London	96.60	3.98	4.10	Jun 08	Private Overseas
51/55 Above Bar Street, Southampton	8.65	5.75	5.75	Jun 08	BP Pension Fund
130 High Street, Cheltenham	8.28	4.90	5.00	Jun 08	Private

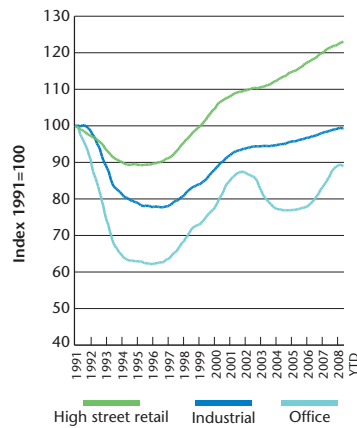
Source: Knight Frank LLP

Figure 3
High street retail yields



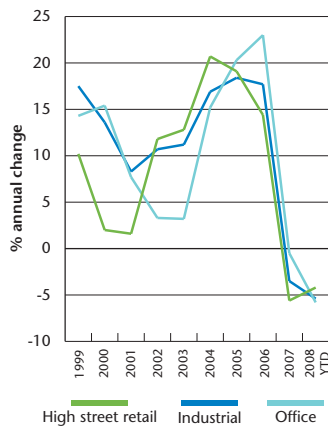
Source: Knight Frank LLP
 Super Prime (e.g. Cambridge, Oxford, Kingston)
 Prime (e.g. Manchester, Leeds, Cardiff)
 Note: Assumes a rack-rented freehold interest with 10yrs unexpired to a multiple retailer

Figure 4
Rental value growth index



Source: IPD

Figure 5
Total returns



Source: IPD

H1 2008 Market Commentary

- A total of 90 high street retail assets with a lot size in excess of £1.5m were transacted in H1 2008 with a total sales volume of £713m. While the number of transactions in Q1 and Q2 were virtually equal, by value, volumes in Q2 were up 68% on the previous quarter due to five major transactions in excess of £20m.
- The largest transaction in H1 was the purchase of the Liberty Island site, 208-222 Regent Street, London by a private overseas buyer for £96.6m reflecting a net initial yield of 3.98%. The size of this deal was exceptional in the current market and contributed to a high average lot-size of £10.2m in Q2 compared with a more representative £5.1m in Q1.
- Prime high street yields at end Q2 stood at 5.50%, although yields for 'super' prime retail at centres such as Cheltenham, Cambridge and Oxford have remained more resilient, standing at 5.00% NEY at the end of Q2. Secondary and tertiary yields experienced the strongest outward shift and further outward movement is expected this year for properties in these locations as banks and valuers continue to take a more pessimistic view of weaker locations and other factors such as short unexpired terms and poor covenant strength.
- The situation for prospective debt-backed purchasers deteriorated in Q2 2008, with 5 year SWAP rates moving out sharply to reach 6.3% in mid June. Encouragingly, rates subsequently moved back in to stand at circa 5.6% at the end of the July, while the three month LIBOR also fell to circa 5.8%.
- With regard to the health of the occupational market, official retail sales figures from National Statistics reveal that May's sudden and unexpected 3.5% surge in retail sales was more than reversed by June's record -3.8% fall. However, set against ever gloomier consumer confidence surveys, sales are up 2.2% compared with 12 months ago. Further evidence reveals marked variations in fortunes exist between sectors, with homewares struggling while fashion sales proving more resilient.
- IPD figures reveal that while rental growth in high street retail is slowing, recording 1.5% growth in the 12 months to June 2008, it is holding up relative to the other main sectors. During the three months to June- high street retail rents increased, albeit marginally, by 0.3% while offices and industrial property recorded negative growth. Taking a long-term perspective, rental growth in high street retail also significantly outperforms both offices and industrial property (see Fig 4).
- Total returns for high street retail fell by -4.2% during the first six months of 2008 reflecting the continued outward yield shift across UK commercial property as a whole. However, the decline has been relatively less severe than it has for offices and industrial, which have fallen by -5.8% and -5.4% respectively. Historically, returns in the retail sector have tended to recover before those of the other main sectors (see Fig 5).

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