

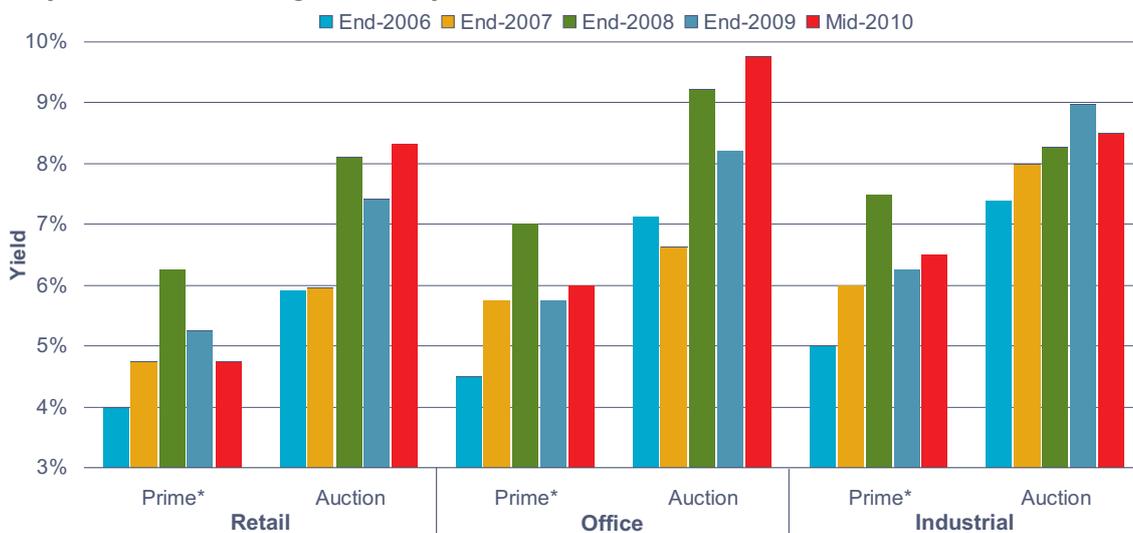
Commercial Auctions Market Review

September 2010

“Demand from cash rich buyers remains strong but with more stock expected to be released in the next 6 months and economic uncertainty continuing, caution is still evident. Motivated sellers are therefore encouraged to work with auctioneers to close the gap between buyer/seller expectations before the increased stock levels impact on pricing.”

Simon Parker, Head of Commercial Auctions

Prime yields versus average auction yields



Source: Essential Information Group (EIG) website

* Recorded by Savills Investment

- We have been providing the Commercial Auction Market Review since February 2009. The headline then was “Committed sellers with correctly priced stock will find success in the current market”. That sentiment remains the same but the recovery remains tentative.
- The market is dominated by high net worth defensive investors looking for secure income first and location second. These are likely to remain the main buying force in the auction market over the next 12 months and this mirrors the wider investment market.
- The difference between prime yields and average auction yields has slipped to circa 350 basis points over the last 3 years as the prime market has been fuelled by fund demand, whereas the auction market has found its buyers from private individuals and property companies. The prime auction results have mirrored private prime yields where investment buyers seek location and covenant strength.
- The outlook involves: a likelihood of more distressed assets coming to the market particularly in the secondary and tertiary sectors as banks and receivers release more stock, although while interest rates remain low, the market will not be flooded;
- Continued demand from defensive buyers and more entrepreneurial buyers seeking opportunities. The void rate dropping (page 3) should give investors confidence for the future;
- Continued difficulties for funding for anything other than prime assets, although Ian Leader of Savills Private Finance reports “funding is available for 70% of purchase price. Whilst lenders are still cautious, there does appear to be stronger appetite recently and this trend should continue for the foreseeable future.”

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UK Commercial Auctions

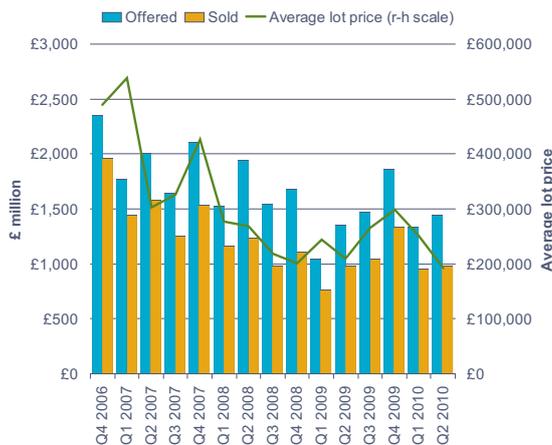
Sale price difference to guide price



Source: EIG / Savills (Using 1,800 commercial property sales since August 2009).

- Small lot sizes have seen higher achieved prices in relation to guide as there are more buyers in this market and sellers are reaping the rewards of realistic guides.
- Larger lots tend to be commercial investments where the pricing is more accurate as the investment market at this level is inhabited by professional buyers and sellers and the price is a reflection of portfolio valuation, which is under more scrutiny.
- Average sale price for lots offered at auction is 15.7% over the guide price proving that when motivated sellers set realistic reserves they are rewarded with successful sales.

UK commercial auction results



Source: EIG website

- Around 2,800 lots were offered during the first half of 2010, raising £427 million, which was up on the 2,400 lots offered during the same period in 2009.
- The national success rate achieved in 2010 has been 69%. This is below the 72% achieved in 2009.
- Average lot value has fluctuated but on a downward trend since Q4 2007. This is as likely to be stock selection by auctioneers as much as falling values.
- There appears to be little correlation between sale results and the time of year, which refutes the market perception that the December sale is the most difficult.
- Anecdotally, there are far more sellers in the market offering 6 week completions to buyers to allow added time for funding difficulties.

Auction success rates

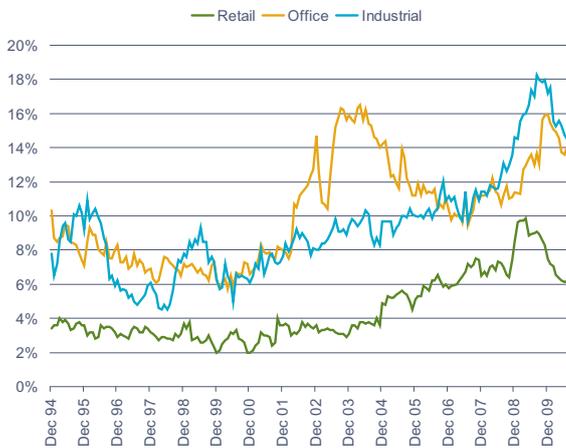


Source: EIG website (* Sectoral data taken)

- The auction market has been adept at keeping pace with the market pricing over the last 18 months. The July round of London auctions saw a dip on the success rate due to nervousness from investors and sellers aspirations not reflecting the mood of the market.
- Savills avoided this dip by targeting local buyers and offering properties on behalf of motivated sellers with a primary concern of achieving a sale. Auction remains the most cost effective way of achieving a sale in a limited time.
- Retail remains the largest sector with 84% of the commercial market in lot numbers raising £198 million this year. However, Savills' Auction Survey in April 2010 identified that buyers were less sector specific in the current market and more focused on property fundamentals of location and covenant.

UK All Property & Investment

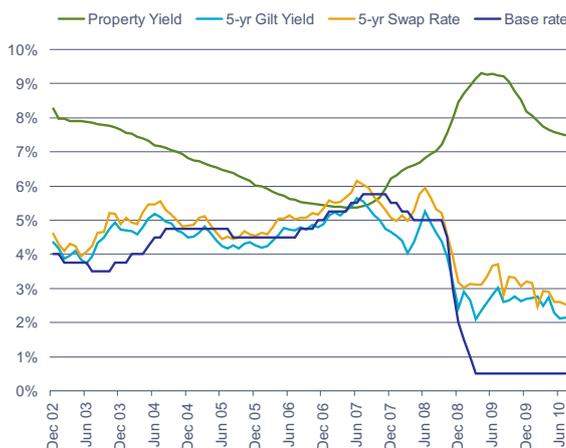
Voids rates have trended down in last 6 months



Source: Investment Property Databank

- The recovery in the UK economy remains tentative, but has shown promising signals for the second quarter of this year.
- Using the latest GDP growth for Q2 of 1.2%, the recovery in UK GDP has been 2.1% since the 'bottom' in Q3 2009. However, there is some way to go before the recessionary 6.4% reduction in UK GDP is fully recovered.
- Void rates peaked around the middle of last year and have gradually come down across all sectors since. This is good news for investors.
- The retail sector has moved considerably lower and is now back below pre-recessionary levels, but still above the long-run average.

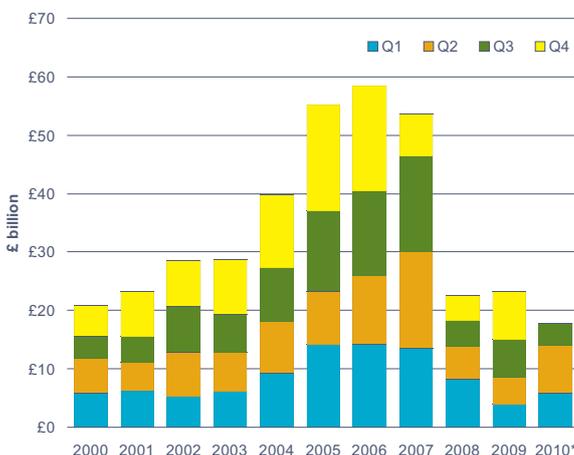
Property yields continue to level-out in July



Source: Investment Property Databank / FT / Bank of England

- At 7.5%, the UK property yield is now 180 basis points lower than the April 2009 peak, which followed the worst recessionary quarter in Q1 2009.
- The Bank of England maintains a cautionary stance and have recently downgraded their GDP growth expectations for next year.
- Latest inflation figure for the end of June show that prices continue to rise more slowly. This is the third month in a row. However, inflation remains above the target level.
- The forthcoming rise in VAT and relatively weak Sterling will ensure that inflation remains above the 2% target. The prospect for an interest rate rise remains, but the policy committee believe that the current strategy will see the 2% target attained in the medium-term.

The forecast for 2010 is a 12% annual rise



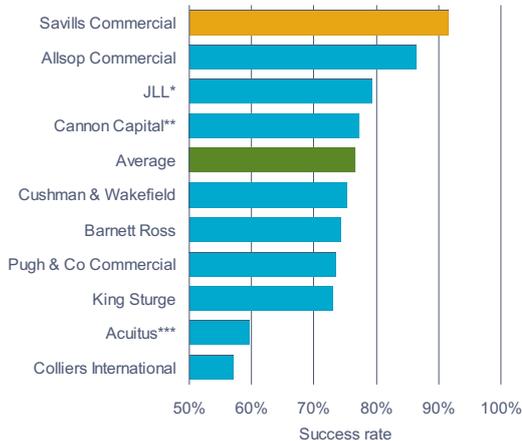
Source: Property Data (*July and August for Q3 only)

- The first two quarters of this year are much higher than that recorded in the same period in 2009. The first half of 2010 totalled £14bn versus a first half 2009 total of £8.5bn. This was a 65% increase.
- However, the second half of this year will show a lower level compared to the first half. This will be primarily driven by a lack of stock.
- Overall, Savills expect to see the 2010 total investment volume to be around £26bn. This would be a 12% rise on the 2009 total of £23.3bn.
- To end-August 2010, UK institutions and overseas investors are main net buyers this year; other financials & banks and occupiers main net sellers.

Notes & Contacts

Notes: Savills believe that it is interesting to look at the commercial auction data on a sectoral basis. Consequently, the property data count for bespoke regional Essential Information Group (EIG) auctions data, taken from their website, is relatively low for particular sectors during some quarters. A degree of caution should be exercised in comparing results between quarters.

Success rates for commercial auctioneers in 1H 2010



2010 Auction dates*	Catalogue closes
Monday 11th October	Closed
Monday 13th December	Monday 8th November
2011 Auction dates*	Catalogue closes
Monday 28th February	Monday 24th January
Tuesday 10th May	Tuesday 5th April
Monday 11th July	Monday 6th June
Monday 17th October	Monday 12th September
Monday 5th December	Monday 31st October

* Dates subject to change. Please check on-line or with the Auctions team.

Source: EIG / Savills

* Last sale was March 2010

** First sale was March 2010

*** First sale was May 2010

For a current catalogue order on-line at www.savills.co.uk/auction

For further market information or to enter a lot please call a member of the Auctions team on 020 7877 4711 or log on to www.savills.co.uk/auction



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