

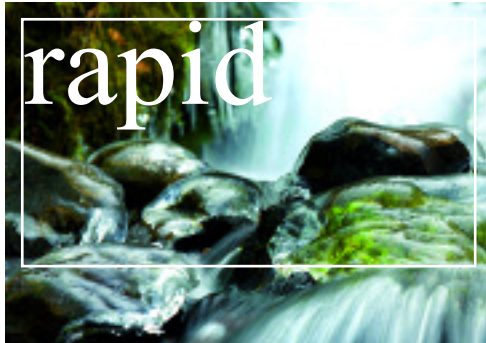
Issue 2: September 2007

rapid

Residential Auction Property Investment Data

- Rising trend of distressed sales going to auction
- Percentage of lots offered at auction on behalf of distressed sellers rising dramatically
- Over the past year London has seen a fall in distressed sales going to auction
- Falling rental returns with a national average of 10.2% in 2007





Distressed Sales

What is RAPID?

RAPID stands for Residential Auction Property Investment Data.

It is a joint initiative between Allsop, a leading property consultant and the UK's largest property auction house, and the Essential Information Group (EIG), the leading provider of property auction results and information in the UK.

What does RAPID do?

RAPID analyses the data recorded in relation to residential auction disposals. This data is drawn from over 146,000 lots which in total raised £13.2 billion* covering England, Wales and Scotland. Such is the scale of the property auction industry now that Allsop and EIG identified the need for a regular source of detailed data and analysis. Up to 50 individual fields of data have been recorded by EIG for each transaction and Allsop, as one of the leading firms in the residential investment sector, is able to analyse sales results in numerous ways.

The data is derived from purely residential property uses and does not include, for example, mixed use buildings.

What does RAPID not do?

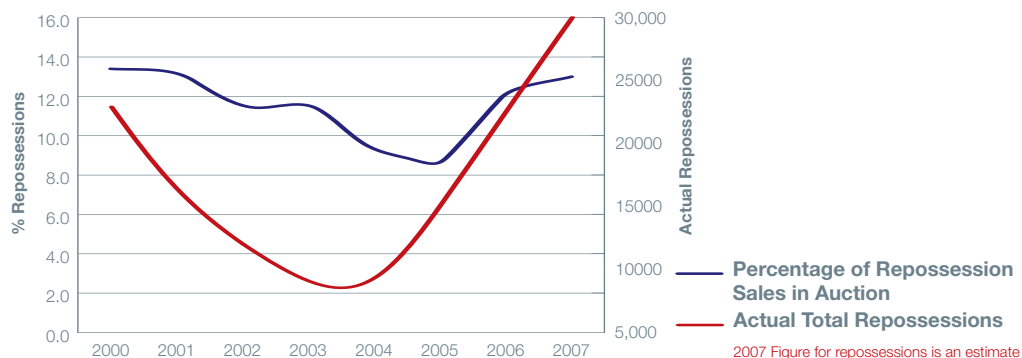
RAPID does not profess to provide a residential investment index. Its primary function is data collection, interpretation and analysis. Investment indices track the performance of the same sample data, for example, company shares (FTSE 100) or a relatively static group of property portfolios (IPD). By definition, auctions will see different properties traded at each sale. Consequently, RAPID should be regarded as presenting data and interpreting trends rather than as an industry index.

* Since EIG started 17 years ago

Distressed Sales by Auction

Graph 1 shows the volume of distressed sales at auction over the last seven years expressed as a percentage of the total number of repossessions in the UK over the same period (source: Council of Mortgage Lenders (CML)). There were 22,900 repossessions in 2000. In the same year, 3,074 distressed lots were offered at auction (13.4%). In 2004, the number of repossessions fell to almost a third of this level, with 9.2% being offered at auction. Last year, 22,700 were repossessed and 2,754 distressed lots (12.1%) went to the room. From figures released so far by the CML for 2007, this trend can be seen to be increasing with estimates indicating a total of 30,000 repossessions with 13.1% going to auction.

Graph 1

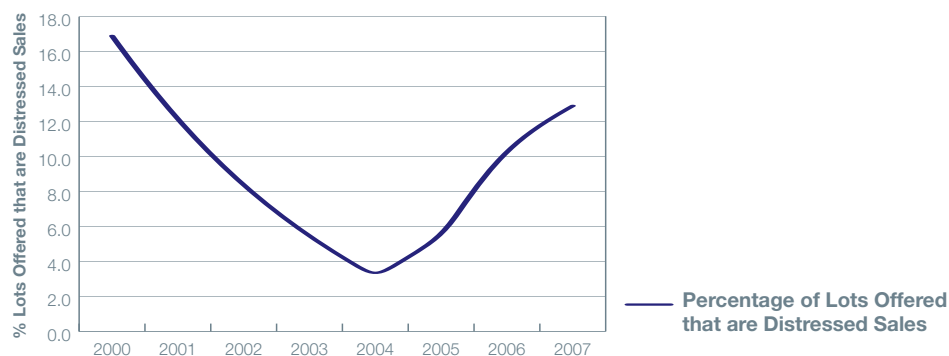


Lots Offered that are Distressed Sales

Graph 2 shows the percentage of lots offered at auction since 2000 on behalf of distressed sellers. From a low of 3.1% in 2004, when base rates were at a near low of 4%, the curve is rising dramatically. In 2006, over one tenth of all residential auction lots offered in the UK were distressed. Extrapolation gives a total of around 13% for 2007.

This national average differs from the experience of Allsop. Over the last full year's sales (seven in total) 2,633 lots were accepted for auction of which 796 (30%) were distressed.

Graph 2





Distressed Sales

We define distressed sales as those conducted on behalf of sellers such as mortgagees, receivers and liquidators. In all graphs for Distressed Sales, the figures for the second half of 2007 are extrapolated from the figures from the same period in 2006.

We define the four geographical areas as follows:

- Area 1 London
- Area 2 Outer London, South East and Eastern
- Area 3 Midlands, Wales and South West
- Area 4 Northern England and Scotland

(The sample of available data from Northern Ireland has been excluded due to its small size).

Graph 4 continued

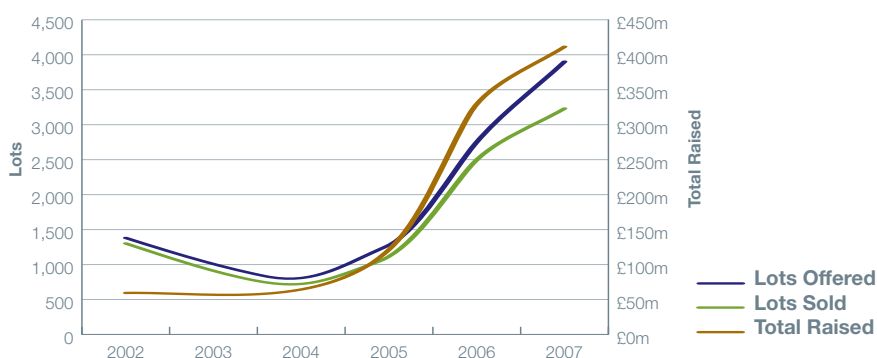
Buy-to-let loans are failing as a result of borrowers' inability to meet outgoings out of rental income. Many investors are highly geared having taken advantage of high loan-to-value products, many aggressively marketed by the lenders over the past few years. Risks such as rental voids, rising interest rates, and general monthly costs, such as insurance, maintenance and rising Council Tax, have been underestimated by new entrants keen to exploit what they saw as an attractive alternative to traditional pension savings.

These issues are compounded by the fact that many fixed rate mortgage arrangements are now coming to an end. Those borrowers who have enjoyed low repayments are likely to face steep increases in monthly outgoings.

Despite the fact that London has enjoyed very healthy house price growth (in Q1 and Q2 2007, according to the Land Registry the average house price in London increased by 10.7% to £354,529) these factors are likely to lead to a rise in distressed sales in the capital over the course of the next year.

Distressed Sales at Auction

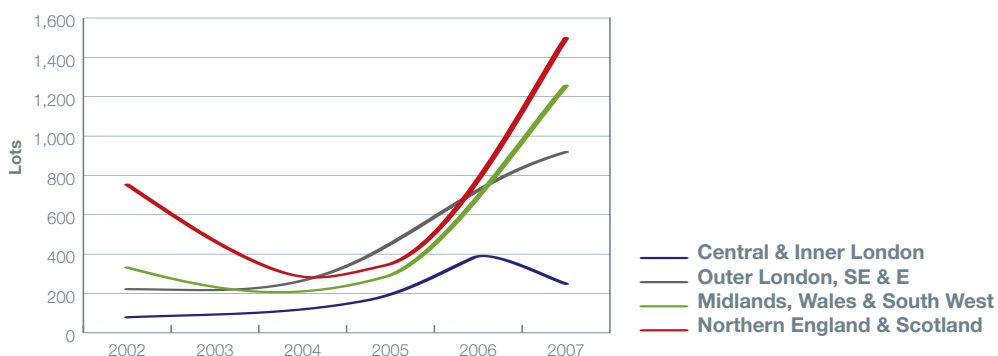
Graph 3



Graph 3 shows that distressed sales (by total lots offered, sold and amount raised) at auction across the UK began to rise sharply in 2004 and are continuing to rise in 2007. The rate of increase, however, declined in 2006. This is clearly linked to a steady series of quarter point base rate increases starting in 2003.

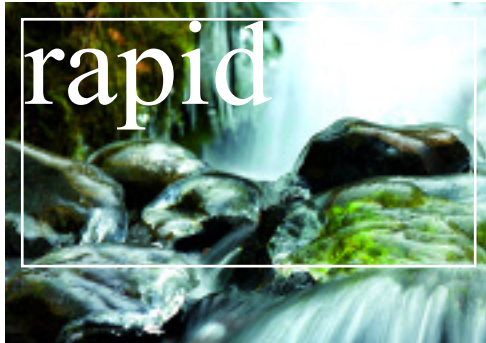
Distressed Sales Offered at Auction by Region

Graph 4



Graph 4 shows the total number of distressed lots offered at auction since 2002 broken down into the four geographical areas. Whilst all areas show a low in 2003 and 2004, consistent with graphs 1 and 2, it is clear that, when broken out of the total, distressed sales in London (Area 1) have remained relatively static. Indeed they have shown a material fall over the past year. It is clear that the upward trend in distressed auction sales relates only to those lots located out of the capital and in particular those in Areas 3 and 4.

It should be noted that these distressed sales include both domestic repossessions and failed buy-to-let investments. Lenders report that one of the main reasons for the rise in home loan failures is related not directly to the principal mortgage loan but to financial difficulties arising from high levels of other debt, such as overdrafts, loans for luxury items, credit cards etc. Recent research from accountants Grant Thornton (August 2007) shows that for the first time in the history of the UK economy, the amount of consumer debt (£1,345bn) now exceeds GDP.



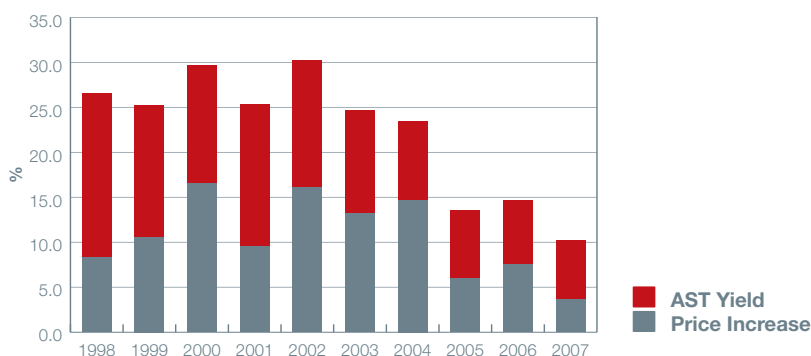
Rental Return and Capital Growth

Both graphs show falling rental returns over this ten year period with the National average now more closely reflecting that of London.

National AST Yield & House Price Increase

Investors in residential property have historically been attracted to this asset class by the prospects of positive net rental returns and annual capital growth. This has become known as total return.

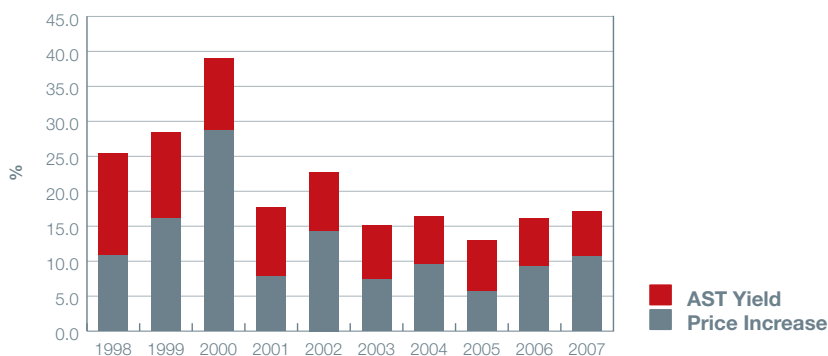
Graph 5



The auction sales data analysed by RAPID relates to a continually changing sample, unlike residential property investment indices such as IPD which track the performance of largely the same properties. Consequently, construction of a reliable indicator of total returns from investments sold at auction is not strictly possible. However, in Graph 5 we have combined UK AST yields at auction with the increase in house prices (from HM Land Registry) from the preceding year. This provides an indication of capital growth and annual returns enjoyed by auction investors over the past ten years. It is clear that, whilst for the first half of this period combined returns have fluctuated within a relatively narrow band (25.2% to 30.4%), in the last five years there has been a steady decline (from 24.7% to 10.2%).

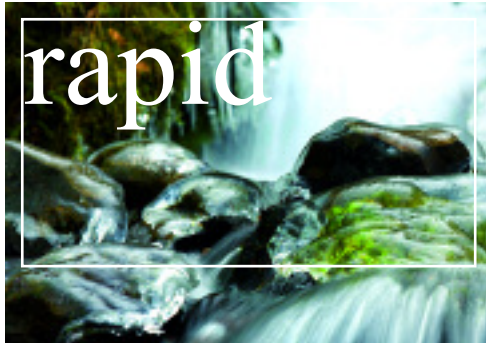
London AST Yield & House Price Increase

Graph 6



Graph 6 shows the same data for London over the last ten years. Conversely, the late 90's saw a steep rise in the combined returns which was attributable to a massive 28.7% London average house price rise in 2000, leading to a combined return of 39.0%. However, since 2001, there has been comparatively more stability in combined returns (17.7% in 2001 to 16.1% in 2006). This was due to steadier average house price increases (5.7% to 14.3% over the period). The figure of 17.1% for 2007 is based only on Q1 and Q2 figures. With the recent turmoil in the stock markets, general unease and interest rate rises, this figure is unlikely to increase dramatically for the second half of the year.

Graphs 5 & 6 The figures for 2007 are based only on Q1 and Q2.



Ground Rents and Outlook

Outlook

As we reported in our first issue of RAPID, and as can now clearly be seen from this issue, the recent increase in the number of distressed sales going to auction is set to continue. Half of the 450 lots in Allsop's September two day auction were distressed sales. However, this is not indicative of a market crash. Comparisons with the recession of the early 90's are ill founded. Fundamentally, the economy is still strong and confidence in the property market remains high. Interest in the first residential catalogues to appear in the market following the summer has been exceptionally keen. Those who have the means to buy foresee a slightly softer market in which to do so. There will certainly be plenty of choice. Sellers, however will need to adopt a more realistic approach to pricing as the market adjusts to changing conditions. As always at auction, generation of competition will be key to achievement of best price.

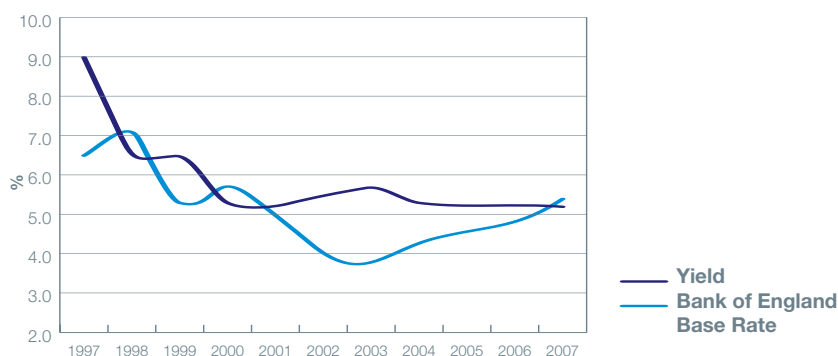
In some areas yields will be too 'thin' to support viable buy-to-let activity. It is likely that in some blocks or areas where there has been a high incidence of buy-to-let investment these difficulties may affect many landlords simultaneously. If this results in high levels of re-possession there is a risk that values and saleability will be adversely affected.

Distressed lots will find a ready market amongst purchasers who regard such investments as long term and who are in a position to purchase with lower gearing. This will be a welcome trend for many who have in the past year found the auction room to be over heated and a difficult place to buy. Seasoned investors are likely to return en masse to the room as buying opportunities emerge.

Ground Rents

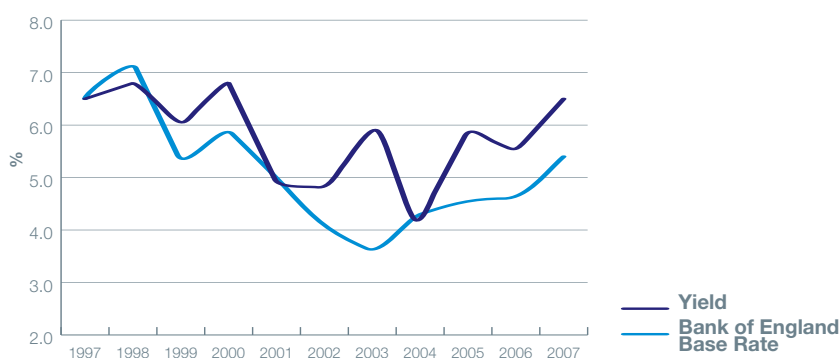
The performance of ground rent investments provides a guide to longer term investor confidence. Graphs 7 and 8 demonstrate yields from those on 80 to 125 years and over 990 years respectively.

Graph 7



Graph 7 shows a close correlation to base rates. In 1997, the average multiplier on ground rents in this range of terms was 11.1 years' purchase (YP). By 2007 it had risen to 19.6.

Graph 8



There is less correlation to base rates in the case of long dated reversions in Graph 8.

Ten years ago yields from 990+ years were 6.5%, the same as the base rate, but significantly lower than those from 80 to 125 years investments (9.0%). However, in 2007 yields from 990+ were 6.5%, about 1% above the base rate, but showing a slight convergence with yields from 80 to 125 years investments (5.2%).

(Note: These results do not take account of differences in value due to insurance or management commissions and other similar refinements. We feel, however, that due to the fairly even spread of different variations likely to have occurred over this sample, the YP figure represents a reliable average).

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Source: Essential Information Group Ltd, Land Registry.

Data sample has been taken from:
355 residential auctioneers across the UK, and from information compiled from a data set of around 146,000 individual auction lots for general analysis.