

Issue 3: March 2008

rapid

Residential Auction Property Investment Data

- New build flat price falls at auction average 26% as levels of distressed stock rise across UK.
- First time buyers and established investors return to the market.
- New build city centre flat oversupply: market likely to remain difficult.
- AST yields recover across UK as Central and Inner London weather volatile Buy to Let sector.





Lots Sold by Type

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 169,000 lots which in total raised £15.05 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.

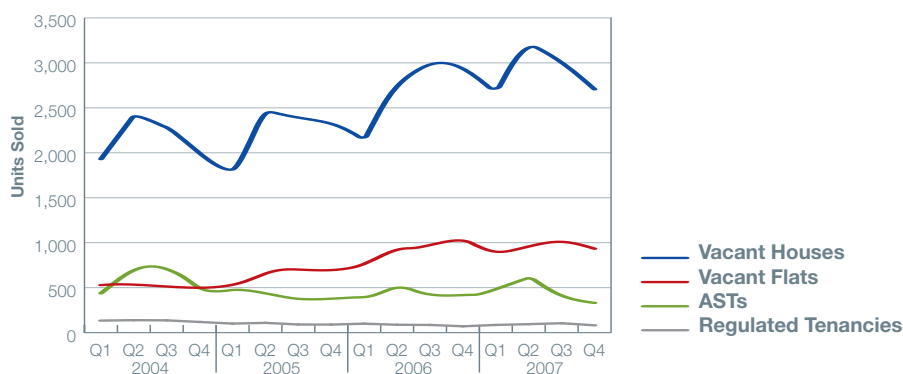
The data is derived from purely residential property uses and does not include, for example, mixed use buildings.

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.

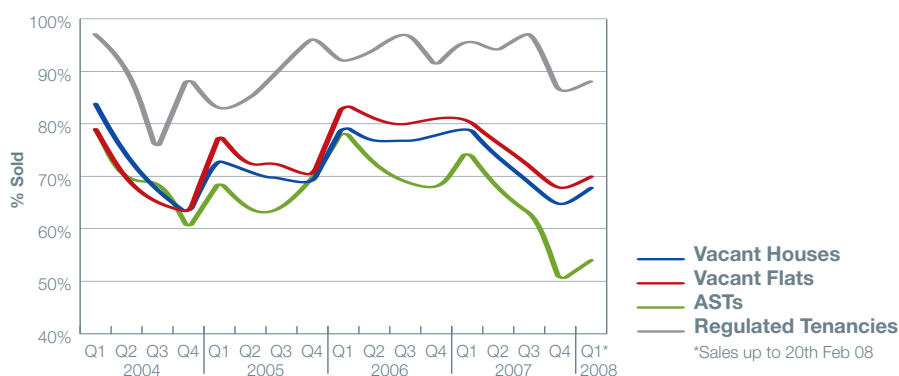
* Since EIG started 18 years ago

Graph 1



Graph 1 shows the number of lots sold between Q1 '04 and Q4 '07 within four different categories, Vacant Houses, Vacant Flats, Assured Shorthold Tenancy Investments (ASTs) and Regulated Tenancy Investments. By far the greatest number sold over the period are vacant houses. For all but the first three quarters, vacant flats form the next largest category. In both cases, volumes sold have increased steadily; from 1,920 vacant houses in Q1 '04 to 2,696 by Q4 '07 (+140%) and from 533 to 938 (+176%) vacant flats. The rate of increase in the numbers offered to the market however was significantly greater than that applicable to lots in the same category that were actually sold. Numbers of vacant houses offered rose from 2,289 to 4,225 (+184%). Volumes of vacant flats offered rose from 678 to 1,395 (+206%). Consequently, success rates fell from 84% to 64% for houses and from 79% to 67% for flats.

Graph 2



The volume of ASTs offered in the market has remained within a steady band but success rates have suffered dramatically since Q1 '07, falling from 75% to 50% by the end of the year. This reflects increased volatility in the Buy to Let markets. During the first half of the year, sales results were affected by the recent rises in interest rates (five 0.25% rises between August '06 and July '07). Sales in the latter half of the year were hit by the turmoil in the global financial markets and consequent "credit crunch".

Regulated Tenancy Investments, although relatively few in number (1,832 offered in total between Q1 '04 and Q4 '07), have been extremely good sellers (average success rate 91% sold over the period). This reflects the specialist nature of this market and the long term approach taken by those operating within it.



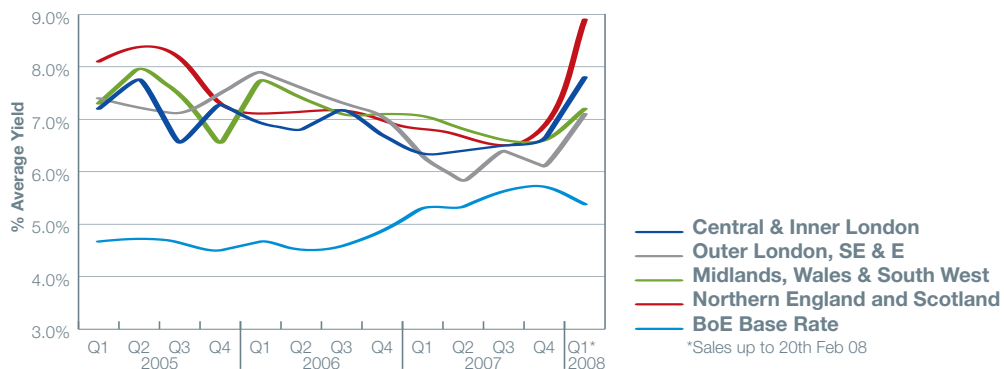
AST Yields

We define the four geographical areas as follows:

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

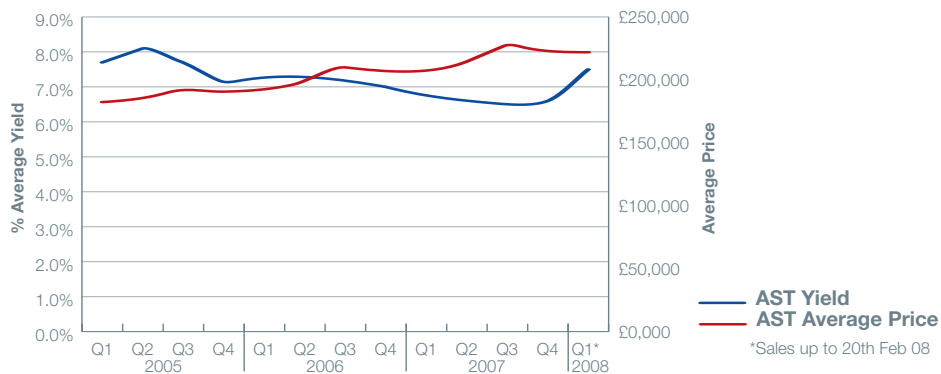
(The sample of available data from Northern Ireland has been excluded due to its small size).

Graph 3



In RAPID Issue 1, we noted that in 2006 AST yields in all four geographic areas converged to within a narrow band of 6.9% to 7.5%. Since then, the market for AST investments drove down yields in all areas. Yields in area 2, Outer London, South East and Eastern saw the sharpest falls, bottoming out at 5.8% in Q2 '07. Latest evidence (Graph 3) shows that 2008 has seen AST yields begin to rise again quite significantly in all four areas despite two 0.25% interest rate cuts since December '07. Currently, area 4, Northern England and Scotland, shows the highest average yield at 8.9%. Confidence in the market has not been restored by rate cuts. The wider implications of global uncertainty and tighter lending criteria will have a greater bearing on buyer sentiment.

Graph 4



Graph 4 shows that AST yields are beginning to rise. Prior to this, the buoyancy in the Buy to Let market resulted in a steady fall in yields from a high of just over 8% in Q2 '05 to 6.5% in Q3 '07.

So the dynamics in the Buy to Let market have changed. Tighter lending criteria will restrict the numbers of new entrants to this market and the supply of available stock to the private rented sector is now beginning to slow. As lenders become more selective and prescriptive, first time buyers may have no alternative than to rent for the time being. Existing borrowers who have enjoyed years of low fixed rate repayments may decide to sell and rent rather than face severe increases in monthly outgoings. A stricter supply of, and increased demand for, rental accommodation will favour existing investors and those with sufficient cash and access to finance as rents rise as a consequence.



New Build

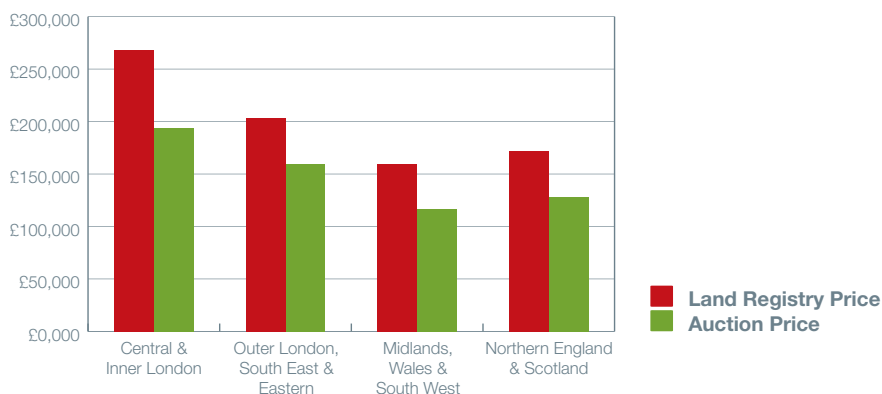
New build flats in town and city centres have been particularly affected by the recent changes in the residential market. Many developers specifically tailored apartments to attract the Buy to Let market. Investors were offered incentives such as cash refunds or guaranteed initial rental returns. Investment clubs also widely promoted new build Buy to Let to members along these lines. Land Registry figures may not reflect buyer incentives and therefore may overstate "value" in these cases.

Lenders, keen to win market share, designed mortgages to appeal to investors, often offering high loan to value products at reduced initial rates of interest. But with limited tenants available for the large numbers of units coming to the market, rental values were inevitably affected and many investors suffered voids almost immediately.

This combination of factors has resulted in new build flats coming to auction as repossessions on behalf of mortgagees.

Differences between Land Registry price and subsequent auction price

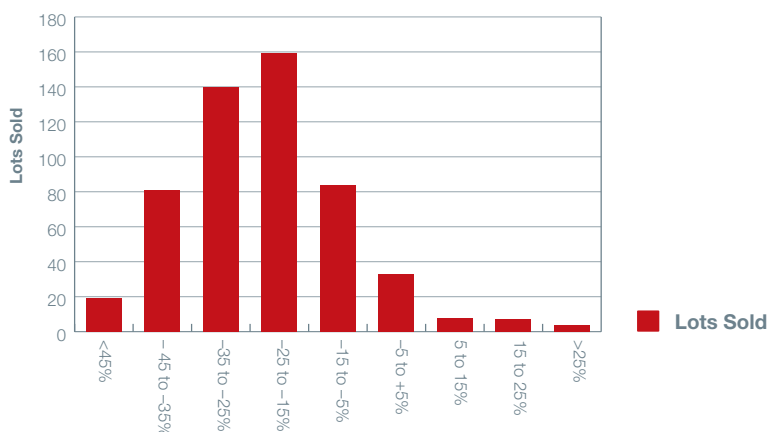
Graph 5



Graph 5 shows the average differences within four geographic areas between the original Land Registry price and the subsequent sale price for all new build flats sold at auction between January 2005 and February 2008. The average time between Land Registry entry and sale in this sample set is 23 months. The average drop across all four geographic areas is -26%. From this sample set, out of a total of 535 cases at least 82% were known to be distressed. Only 20 (3.7%) were resold at a higher price (average +11%).

The largest average percentage falls were within area 1, Central and Inner London (-28%). More particularly, from the sample set, the areas to the east and south east of London are believed to have been the worst affected. We cannot identify how much of this may have been 'mortgage fraud' driven.

Graph 6



We define distressed sales as those conducted on behalf of sellers such as mortgagees, receivers and liquidators.

Graph 6 shows the numbers of units within different price band fluctuations. The largest sample set comprises those flats which have experienced falls of between -15% and -25%.

Distressed Sales and Outlook

Outlook

Immediately after the 2007 summer recess, residential auction results were affected by the events in the financial markets. The uncertainty which followed caused buyers to exercise caution and success rates fell. But as vendors began to adjust expectations and reserve prices were adjusted to match demand, it became clear that conditions were not as bleak as many feared. Towards the end of the year catalogues grew in size and success rates for many auctioneers were restored. Although there have been price corrections, there are certainly no signs of recession. Whilst distressed sales are expected to increase, there remains keen competition within different sectors. Not surprisingly, speculators, sensing renewed opportunity, have returned to the sale rooms. First time buyers who have until now found it difficult to enter the market, are encouraged by the volume of choice available at sensible price levels.

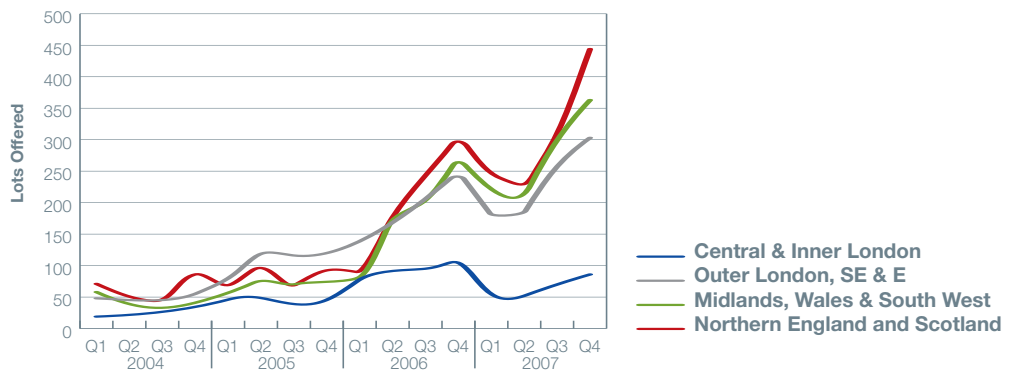
It is true to say that catalogues largely comprise stock from motivated vendors who need to sell; banks, building societies, Registered Social Landlords (RSLs), local authorities and public bodies. As the year goes on, those who do not need to sell may choose not to do so. The high street private treaty market currently shows much less activity than the auction market as a result. Although interest rates are falling, lenders will adopt much stricter criteria and house buying will be squeezed. The rental market should improve as a consequence and available stock will gradually be reabsorbed.

The new build city centre flat market will remain difficult as over supply is greater in this area. This is likely to affect developers who continue to hold stock as well as the investors who have bought it. Those able to continue to hold until the market shows signs of improvement are likely to do so. Auction results are evidence of market value and, with average falls of 26% from purchase price (Land Registry data), we anticipate that recovery in this sector will not be seen this year.

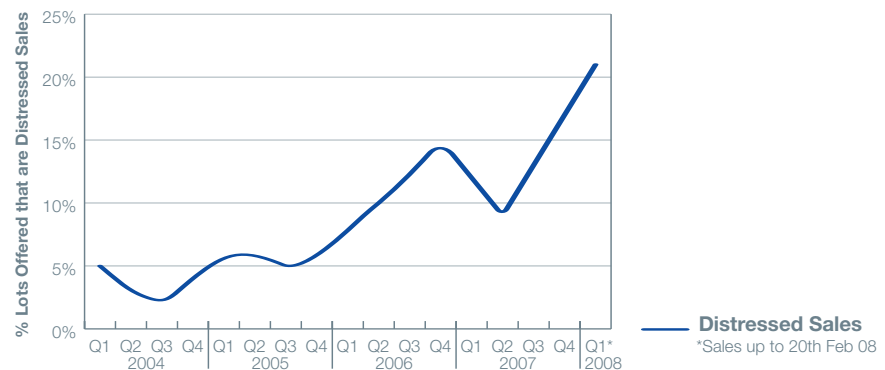
Distressed Volumes at Auction

Graph 7 shows the relative volumes of distressed sales over the four geographic areas from Q1 '04 to Q4 '07. In RAPID Issue 2 (September 2007), this data was analysed and, in all areas outside Central and Inner London, sales were rising steeply. Only in London were volumes declining (from a peak in Q4 '06). Six months later this has changed. Since Q3 '07, all areas of the UK, including the capital are experiencing rising distressed sales. The greatest increases continue to be seen in area 4, Northern England and Scotland.

Graph 7



Graph 8



Graph 8 shows that, despite a fall between Q4 '06 and Q2 '07, the proportion of lots offered by auctioneers that are distressed sales (mortgagees and receivers) is now rising steeply. The average percentage of distressed lots to totals offered nationwide is 22%. Allsop has experienced higher levels than the national average at between 38% and 50% of catalogues since Q3 '07.

Repossession numbers are widely predicted to grow significantly in 2008 from a level of 27,100 in 2007 (source: Council of Mortgage Lenders (CML)). It is anticipated that the majority of these cases will be failed owner occupier home loans. CML has reported that the number of Buy to Let loans outstanding rose by 23% in 2007 taking the total to around 1 million. They now account for 10.3% of all mortgages in the UK.

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Source: Essential Information Group Ltd, Land Registry.

Data sample has been taken from:
325 residential auctioneers across the UK, and from information compiled from a data set of over 169,000 individual auction lots for general analysis.