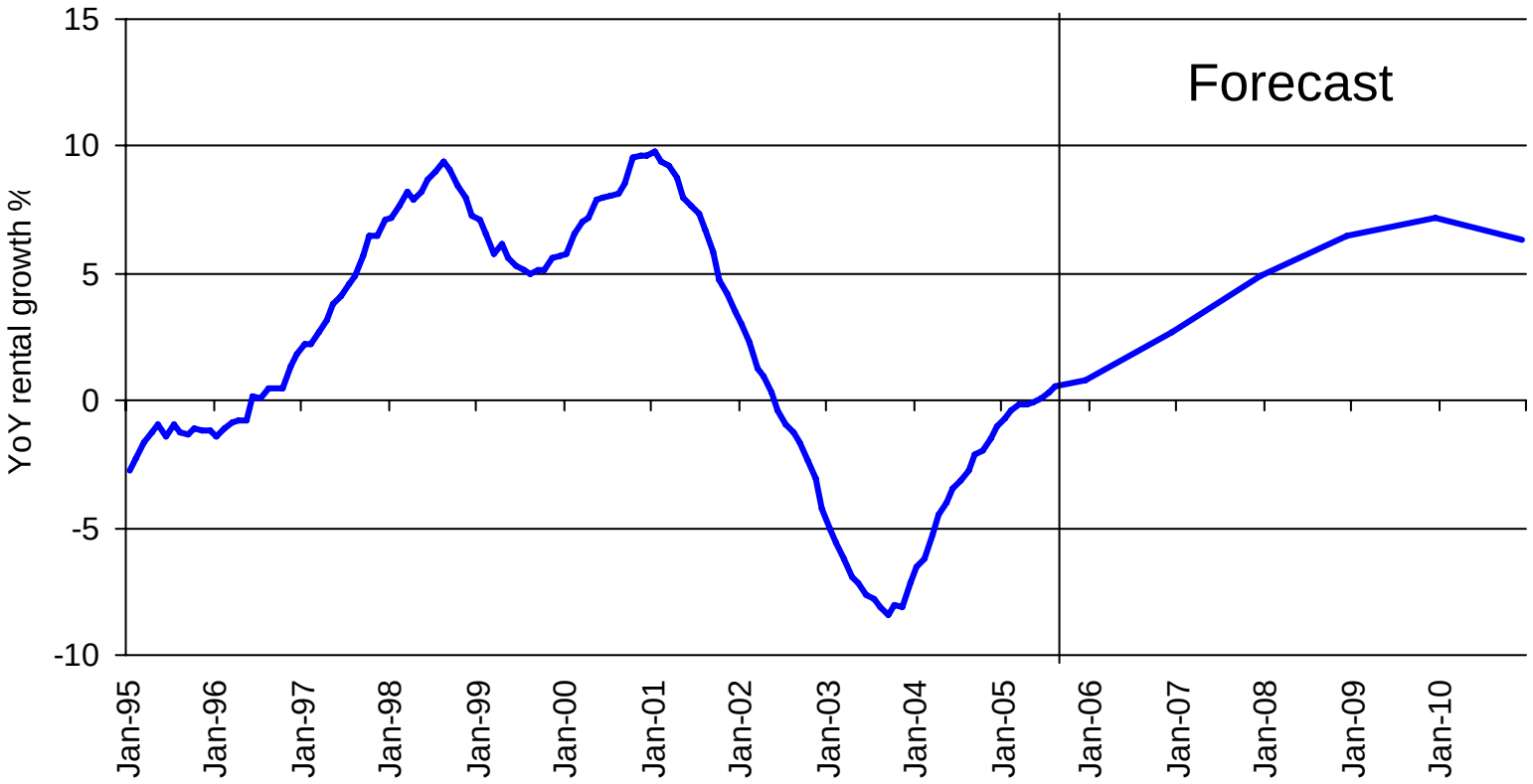
overview

- where are we now and where are we going?
  - office leasing
  - retail leasing
  - distribution leasing
  - investment market
- challenges for the industry

where are we now?

“still searching for recovery in some leasing markets, while wondering if the investment boom can continue”

UK office rents starting to show positive growth



Source: IPD, Savills

office leasing market

- demand is recovering
- vacancy rates are falling, particularly on Grade A space
- still a marked split between London/SE and the rest of the UK
- development pipelines are restrained, but developer fervour is increasing

retail leasing market

- retail sales growth slowing
- price of goods still falling
- … but strong increases in other costs (including rent)
- focus on expansion not margin improvement

distribution leasing market

- retailers looking to cut costs
- corporate consolidation taking place (Deutsche Post/Exel)
- EU Working Time Directive driving demand for smaller warehouses nationally…
- … but large warehouses still very popular

investment markets

“investor demand has been driving pricing. volumes are high and yields low”

the investment market

- record volumes of deals achieved in all sectors 2004. 2005 could be higher
- in some, liquidity has started to improve in 2H 2005 but buyers still exceed sellers
- margin between prime and secondary yields still closing…
- … but some evidence that rate of yield hardening has slowed

the next five years, and beyond…

“return to rationality in the investment markets, and all change in sector performance”

office leasing markets the next five years

- leasing activity to recover to average levels in London & SE, but not boom
- vacancy to fall steadily, Grade A shortage to emerge in some markets from 2006
- CBD markets strong, OOT weak
- rental growth to accelerate towards the end of the period
- all eyes on the development cycle

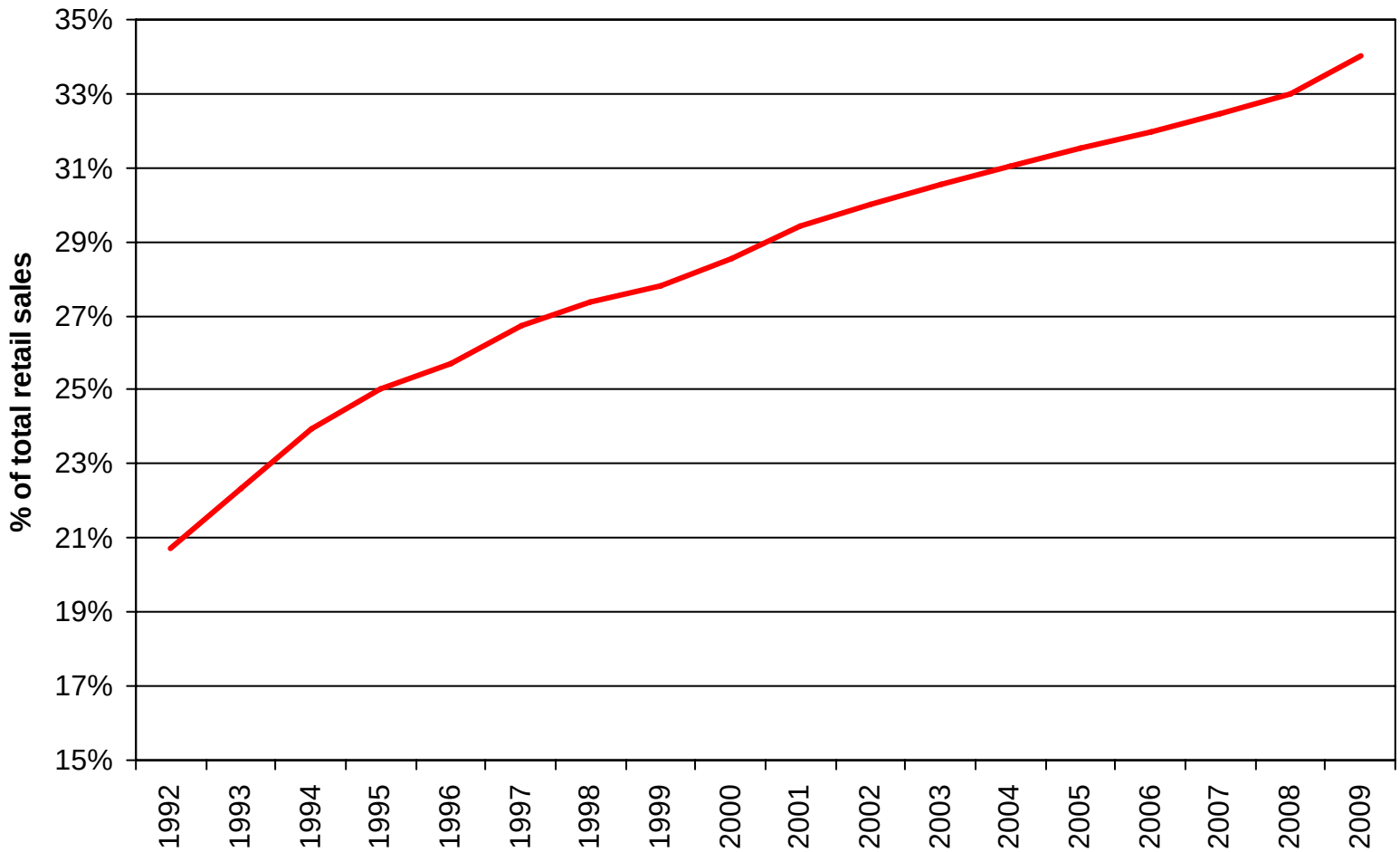
office leasing markets longer term issues

- staff attraction and retention will drive occupier requirements
- hot-desking and home working unlikely to grow as much as forecast
- churn to increase so flexibility of space is key
- expect more demand for shorter leases
- net growth in office space to slow (or stall)?

retail leasing markets the next five years

- spending growth to slow, but not fall
- spending on services more resilient than goods
- retailer focus to switch from growth through expansion to growing margins
- expansion more location specific

… Britain's love of shopping out-of-town to continue



Source: Verdict

retail leasing markets longer term issues

- more blurring between retail and leisure
- intensive asset management will be the key to success
- shorter leases will be offered
- poorer-performing locations will no longer be tolerated by retailers – retail deserts?

distribution market outlook

- road transport to continue to dominate
- demand strongest in well-connected, low cost locations

investment market short term issues

- investor demand to remain strong
- further downward pressure on yields inevitable
- transition from retail to office investments
- offices to be the best performing sector from 2007

investment market longer term issues

- speculative office development boom?
- Stamp Duty Land Tax?
- REITs?
- derivatives?

and finally…

challenges for the real-estate industry & advisors in particular

challenges ahead for UK advisors

- staffing – more competition, more financial biased
- remuneration – more!
- consolidation of mid-sized players
- niche will survive
- acquisition market at 12’oclock
- europe – expansion difficult

predictions

- 5 big US players will reduce to 4
- 1 new major UK Prop-Co to invest in Europe
- commercial players to increase focus on residential
- increasing competition from other advisors (banks & accountants)?
- more principal to principal deals in emerging markets