

The comments below reflect our views as at 30 September 2003 and underlie our approach to the valuation of the portfolio.

General

Investment demand, based largely upon the level and certainty of property's income returns, has remained strong. This has come from both domestic and overseas buyers, ranging from Property companies and other 'Professional' investors, to private individuals. The scope to add value and the underlying value of 'bricks and mortar' has added to property's appeal. Favourable interest rates have encouraged debt financed purchases and disillusionment with other asset classes has generated demand from a range of cash buyers.

Although there have been concerns over certain occupational markets (mainly City and South East provincial offices), these have been mitigated in investors' minds by the security afforded by longer 'upward only' lease income.

Offices

Over much of 2003 the outlook for many traditional City occupiers has been constrained by the slowdown in various economies and financial markets. Consequently take-up has been low and rental values have fallen.

There is a substantial supply of available City office space, but only about a third of this is 'Grade A' and in historical terms there is relatively little new development scheduled. This reflects a far more cautious approach on the part of developers and their banks.

Looking forward to recovery some investors consider that the prices of short-term income, 5-6 years unexpired, offer good value as prices reflect current rent levels. At the other extreme, yields for longer income streams, more 'bond' like property investments, have held firm at around 6%. One positive sign is the increase in viewings recently reported by letting agents. So far these are mostly from cost conscious tenants, looking to benefit from the competitive terms on offer.

A high quality managed environment in a core location, such as Broadgate, which is effectively fully let, should therefore be well placed to benefit in both rental and capital terms when demand increases.

In the West End yields are generally lower. This is principally because the occupier market comprises a wider range of business sectors, making it less volatile. Supply is also more limited due to clearer geographical boundaries and a planning regime that is geared to a greater proportion of residential use. This has favoured Regent's Place,

the Company's main holding here, as there are few buildings which can offer floorplates of the size and quality provided there. As a result it has attracted high calibre tenants, such as Abbey, who have entered into long-term lease arrangements. This combination is particularly sought after by investors, and its investment value has benefited accordingly.

Retail

Consumer spending has remained robust. This has been based on house price growth, full employment, and low interest rates. Retail sales across most sectors have continued to grow.

Demand for shopping centre investments has produced the most significant yield shift within the sector. They combine the opportunity to create value by active management, as illustrated within British Land's holdings by the increases in rental values at several centres, with the traditionally low volatility of high street shops. The latter have attracted keen prices, particularly in towns and cities where there is felt to be latent rental growth. In all locations small lot sizes continue to attract strong interest from private buyers.

Out of town, retail warehousing has again been the best performing property sector. This has arisen principally from improving rental values. Yields have remained broadly at their existing low levels, reflecting keen demand from a wide pool of investors. The consensus is that rents will continue to rise strongly. This is due to occupier interest from an ever-increasing range of retailers set against an extremely restrictive supply of buildings. The planning controls that have created this situation are likely to become even tighter. This can only increase the appeal of the existing stock to both occupiers and investors alike.

Supermarket values have increased again. This reflects a general demand for long let, secure income streams, but also strong underlying residuals, the scope for rental improvements, and the scarcity of such investments. Investors' expectations will also have been boosted by a recent supermarket rent review at Trafford, where the Expert determined a figure well in excess of historical food-store rental levels.



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