CB RICHARD ELLIS

A Guide to the CB Richard Ellis Rent and Yield Monitor

# Rent Index and Average Yields

Quarter 1 2007

SUMMARY OF CHANGES Q1 2007:

- RETAIL WAREHOUSES PERFORMANCE TO REFLECT FASHION, OPEN A1 AND BULKY GOODS PARKS
- REVERSAL TO NOMINAL EQUIVELENT YIELDS
- REVIEW OF CENTRAL LONDON OFFICE MARKETS

## The Rent And Yield Monitor

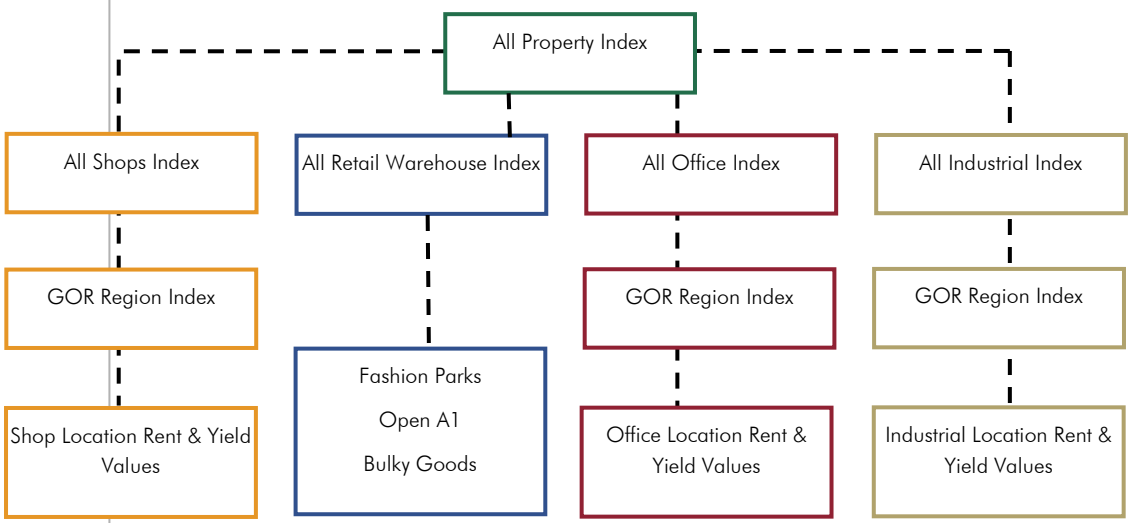
The CB Richard Ellis Rent and Yield Monitor comprises the Rent Index and Average Yield series. These data series are compiled using the market method of construction. They take into account open market rental values and yields as they apply to a representative sample of locations. This method effectively appraises new lettings and is not constrained by the need for comparative transactions required to value an individual property. Hence, the Rent and Yield Monitor provides a current view of the market and is best used for indicating market pressures.

## Rental Values

Rental values represent the open market rental value of a rack rented property of a standard specification at the relevant date: Quarter End

## Average Yields

Average yields are calculated on nominal equivalent yield basis. The yields are compiled assuming a rack-rented property of a standard specification at the relevant dates (as above).




To provide an improved representation of all retail warehouse rents and yields, CB Richard Ellis have used in-house valuation records across a selection of prime fashion, Open A1 and bulky goods parks dating back to 2000 to compile a new weighted retail warehouse index. Prior to 2000, retail warehouse rents and yields reflect the bulky goods market.

As of Q1 2007, yields reported in the CB Richard Ellis Rent & Yield Monitor will be nominal equivalent yields, replacing the previous quoted true equivalent basis.



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# PROPERTY DEFINITIONS

## High Street Shops

- Rental values are based on Zone A's for a unit:
  - Located in the prime 100% trading pitch of the location
  - Let on full repairing and insuring terms

## Central London Offices

- Headline rent for new or recently refurbished building of Grade A specification
- 930 sq m (10,000 sq ft) building/unit in best position
- let on full repairing and insuring terms

## Provincial Offices

- Headline rent for new or recently refurbished building
- Highest specification and size appropriate for the town
- Let on full repairing and insuring terms

## Industrials

- Mostly units of standard construction with area of 930 sq m (10,000 sq ft) – 1860 sq m (20,000 sq )
- Site cover of 40% - 45%
- Eaves height minimum of 8 m (26ft)

## Retail Warehouses

- Fashion Parks: >100,000 sq ft (GLA), with Open A1 consent, containing at least 10 units, with 5 or more fashion / footwear occupiers, built and managed as an entity with shared parking.
- Open A1 Parks: >50,000 sq ft (GLA), which must have Open A1 consent and at least 3 units of which 1 must be an A1 occupier, built and managed as an entity with shared parking.
- Bulky Goods Parks: - 50,000 sq ft (GLA) which must have a Restricted / Bulky (i.e. not Open A1) consent, with at least 3 units, built and managed as an entity with shared parking.

# SAMPLE

The sample currently consists of c650 locations comprising the main UK commercial property markets and a representative sample of smaller locations. The sample includes c300 shop locations (including the top shopping locations as identified by the CB Richard Ellis National Survey of Shopping Patterns), c215 office locations, c115 industrial locations and c60 retail warehouse locations.

# REGIONAL DEFINITIONS

The regions are based on the Government Office Regions (GOR):

Greater London, South East, Eastern, South West, East Midlands, West Midlands, Wales, North West, Yorkshire & Humberside, North East and Scotland.

In addition the London Office Index is sub-divided into the following markets (based on postcodes):

City (EC1-EC4, part E1, N1 & SE1)
West End (mainly W1 and SW1)
Mid Town (mainly WC1 and WC2)
Southbank (SE1)
Fringe London
Suburban London
Docklands (E14)
A map of these sub-markets is available on request.

# INDEX CONSTRUCTION METHODOLOGY

## Rent Index

The CB Richard Ellis rent index is a weighted growth index, measuring change in rental value at a regional, sector and all property level. The index is historical in structure (see figure 1) and is compiled from the bottom up.

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# INDEX CONSTRUCTION METHODOLOGY

Weights are employed in the index for two reasons:

- Generally, the larger the town the bigger the capital value. The weighting system, therefore, gives greater weight to the bigger towns which are fewer than the smaller towns but of greater institutional value.

  Similarly, the value of institutional property ownership varies across region and sector. The weights at these levels, therefore, ensure that the indices mirror a standard property portfolio as represented by the IPD annual universe.

- The weights are updated annually, reflecting changes recorded by the IPD Universe.

The regional indices are formed from the weighted average growth of all the individual rent points. Each location is weighted by reference to its previous capital value in order to reflect its relative importance within the region. The current level of the index is then determined by chain-linking the average weighted growth of all locations within a region to the previous level of the index. Hence, the regional index formula can be expressed as:

$$IR_t = IR_{t-1} * \left(1 + \left[ \frac{\sum \left( \frac{R_t}{R_{t-1}} - 1 \right) * CV_{t-1}}{\sum CV_{t-1}} \right] \right)$$

Where

IRt = the Regional Index at time point t

Rt = rent at time point t

CVt = capital value at time point t

The sector level indices represent the weighted average growth of the regional indices. IPD year-end capital values in percentage terms have been used as weights to reflect the relative importance of each region within the sector group. Hence, the sector index formula can be expressed as:

$$IS_t = IS_{t-1} * \left(1 + \left[ \frac{\sum \left( \frac{IR_t}{IR_{t-1}} - 1 \right) * W_t}{\sum W_t} \right] \right)$$

Where

ISt = the Sector index at time point t

IRt = region index value at time point t

Wt = IPD region weight at time point t

The All Property Index represents the weighted average growth of the sector indices. IPD year-end capital values in percentage terms have been used as weights to reflect the relative magnitude of each sector within property. Hence, the All Property Index formula can be expressed as:

$$IA_t = IA_{t-1} * \left(1 + \left[ \frac{\sum \left( \frac{IS_t}{IS_{t-1}} - 1 \right) * W_t}{\sum W_t} \right] \right)$$

Where

IAt = the All Property Index at time point t

ISt = regional index value at time point t

Wt = IPD sector weight at time point t

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# Average Yields

The CB Richard Ellis Average Yield adopts the same hierarchical structure as the rent index. At each level of the hierarchy a weighted average yield is calculated at each time.

The Average Yields are formed from the weighted average of all the locational yields within a given region. Each location is weighted by reference to its previous capital value in order to reflect its relative importance within the region. Hence, the regional Average Yield formula can be expressed as:

$$AR_t = \frac{\left(\sum Y_t * CV_{t-1}\right)}{\sum CV_{t-1}}$$

Where

Art = the Average Regional Yield at time point

Yt = location yield at time point

CVt = location capital value at time point

The sector level average yields represent the weighted average of the regional average yields. IPD year-end capital values in percentage terms have been used as weights within the sector group. Hence, the sector index formula can be expressed as:

$$AS_t = \frac{\left(\sum AR_t * W_t\right)}{\sum W_t}$$

Where

ASt = the Average Sector Yield at time point t

ARt = Regional average yield at time point t

Wt = IPD Regional weight at time point t

The All Property Average Yield represents the weighted average of the sector average yields. IPD year-end capital values in percentage terms have been used as weights to reflect the relative magnitude of each sector within property. Hence, the all property average yield formula can be expressed as:

$$AA_t = \frac{\left(\sum AS_t * W_t\right)}{\sum Wt}$$

Where

AAt = the Average All Property Yield at time point t

ASt = Sector average yield at time point t

Wt = IPD sector weight at time point t

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