

Commercial Property Returns in Deprived Areas



Scope of the Research

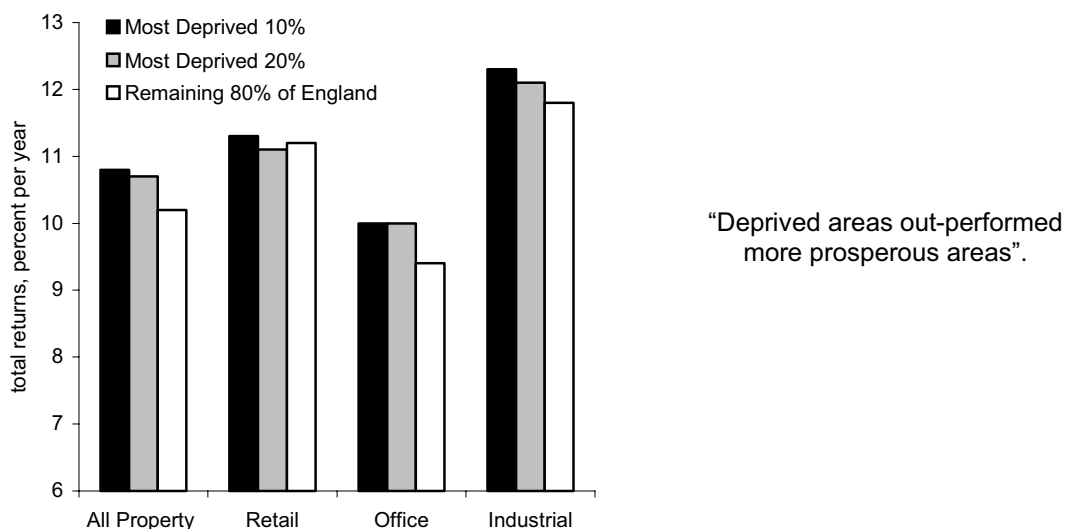
The report compares the investment performance of properties in deprived areas with those in the rest of England between 1980 and 2001. The research is based on valuations and financial data collected by Investment Property Databank and was prepared by IPD for Morley Fund Management and English Partnerships. The research covers all properties in deprived areas owned by investors who subscribe to IPD's benchmarking service, not just new developments which have benefited from urban regeneration policies. IPD's benchmarking service is based primarily on insurance and pension fund portfolios, but also includes the majority of large quoted property companies.

Sample

The 10% and 20% most deprived areas have been defined according to the ODPM's Indices of Deprivation for electoral wards in England in 2000. IPD has large samples of properties in deprived areas. At the end of 2001, IPD had records on 1,300 properties in the 10% most deprived areas, with a combined capital value of £10.4 billion. This sample accounted for 11.6% by value of the commercial properties in England in the IPD. The sample for the 20% most deprived areas covered 2,200 properties, with a combined capital value of £16.7 billion, representing 18.5% by value of English commercial properties in the IPD.

Investment Performance

Figure 1: Total Returns, 1980-2001, percent per year



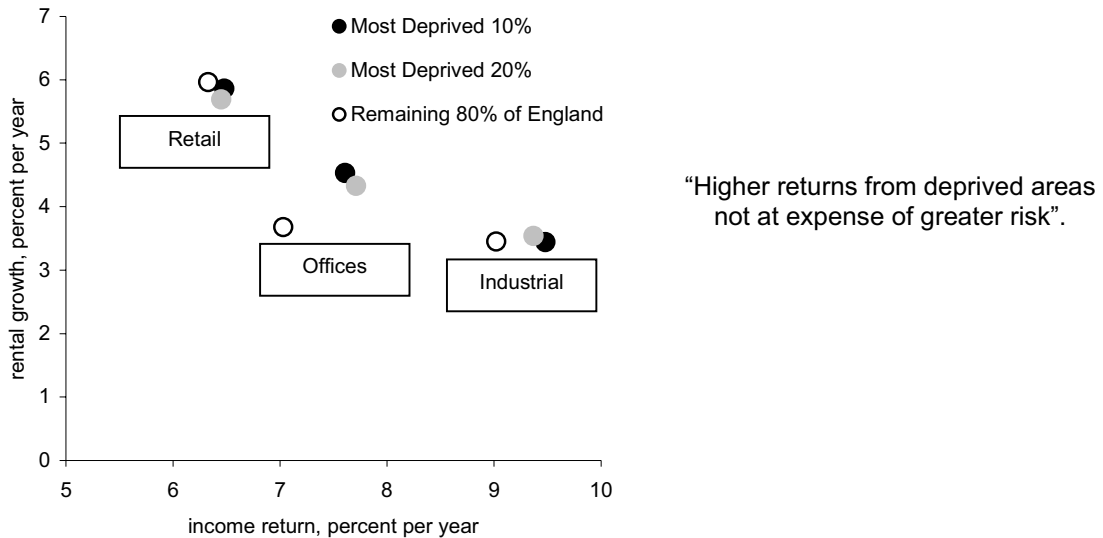
- Commercial properties in deprived areas have out-performed those in more prosperous areas over the long-term (Figure 1). All property total returns in the 20% most deprived areas averaged 10.7% per year between 1980 and 2001, against 10.2% per year for the 80% most prosperous areas of England.
- The long-term out-performance of deprived areas is evident in all three of the main property sectors (i.e. retail, office and industrial). The strong performance of deprived areas at the all property level is not therefore simply a function of structure, with a relatively high exposure to retail property and a relatively low exposure to offices.
- Shorter periods show a more mixed pattern, but the performance of commercial property in deprived areas has generally been as good as, if not better, than that of property in more prosperous areas.

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Investment Performance (continued)

Figure 2: Components of Performance, 1980-2001, percent per year



- The strong long-term performance of commercial property in deprived areas has been due to a combination of above average rates of income return and rental growth which has matched, or in the case of offices, exceeded that in more prosperous areas (Figure 2).
- Investors' fears that rental growth in deprived areas would lag behind that in more prosperous areas over the long term, reflected in higher equivalent yields, do not appear to have been justified.
- Another attractive feature of commercial property in deprived areas is that returns have been slightly less volatile than those in more prosperous areas, so that higher returns have not been at the expense of greater risk.
- The standard deviation in total returns for commercial property in the 20% most deprived areas was 7.8% between 1980-2001, against 9.5% for property in more prosperous areas. The more stable performance has been due to retail and office property in deprived areas, not industrials.

Standard Deviation in Total Returns, 1980-2001, percent

	Most Deprived 10% of Wards	Most Deprived 20% of Wards	Remaining 80% of England	All England
All Property	8.2	7.8	9.5	9.1
Retail	7.0	6.9	7.8	7.5
Office	10.5	10.6	11.2	11.0
Industrial	10.7	10.1	10.1	10.1

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Investment Property in Deprived Areas

Figure 3: Deprived Areas as a % of Total Capital Value in England

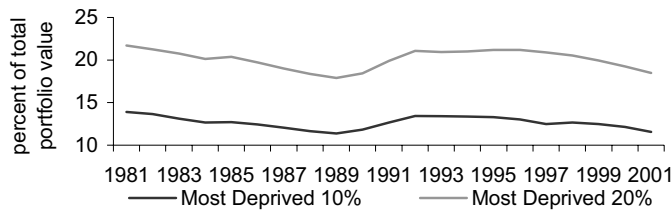
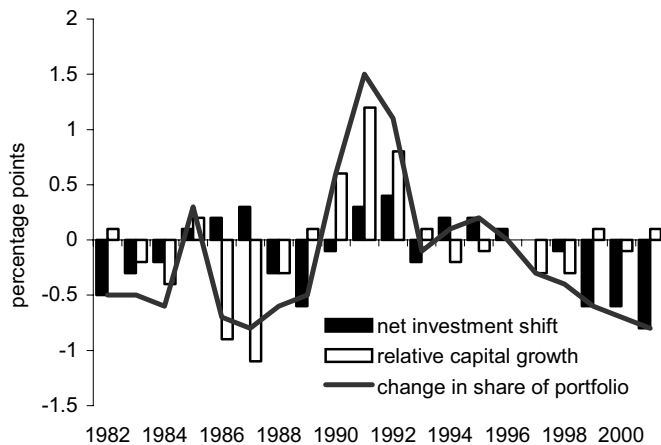


Figure 4: Change in Portfolio Share of Properties in 20% Most Deprived Areas



“New investment usually focussed in more prosperous areas”.

- The 10% most deprived areas accounted for 11.6% by value of the property investment portfolios monitored by IPD at the end of 2001. Properties in the 20% most deprived areas accounted for 18.5% by value of the property in the IPD sample.
- These shares have declined slightly over the long-term. At the end of 1981, the 10% and 20% most deprived areas accounted for 13.9% and 21.7% respectively, of property in the IPD sample by value (Figure 3).
- The decline in the importance of deprived areas has been due to higher levels of investment in more prosperous areas and not slower rates of capital growth (Figure 4). While the investors reporting to IPD have invested in deprived areas, it has been at a lower rate than their net investment in the rest of England.
- There is no evidence that property markets in deprived areas have significantly lower levels of trading and are less liquid than other locations. Turnover, defined as capital expenditure plus receipts divided by the mid-year value of holdings, averaged 20.4% per year between 1996 and 2001 in the 20% most deprived areas, compared with 22.9% in the rest of England.

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The Performance of Commercial Property in Deprived Areas

	Most Deprived 10% of Wards	Most Deprived 20% of Wards	Remaining 80% of England	All England
<i>Total Returns, 1996-2001, percent per year</i>				
All Property	12.1	11.7	12.2	12.1
Retail	11.8	11.3	11.3	11.3
Office	12.0	11.8	12.8	12.7
Industrial	13.8	14.2	13.7	13.8
<i>Total Returns, 1980-2001, percent per year</i>				
All Property	10.8	10.7	10.2	10.3
Retail	11.3	11.1	11.2	11.2
Office	10.0	10.0	9.4	9.4
Industrial	12.3	12.1	11.8	11.9

IPD Sample of Properties in Deprived Areas

	Most Deprived 10% of Wards	Most Deprived 20% of Wards	Remaining 80% of England	All England
Number of Properties	1,341	2,222	8,473	10,695
Capital Value, £ million	10,420	16,673	73,499	90,172
% of All England Value	11.6	18.5	81.5	100.0
<i>Sector Structure, % of Capital Value</i>				
Retail	60.1	58.8	40.2	43.6
Office	29.3	25.8	41.2	38.4
Industrial	9.5	13.9	15.0	14.8
Other Property	1.1	1.5	3.6	3.2
All Property	100.0	100.0	100.0	100.0
Average C. Value, £ million	7.8	7.5	8.7	8.4
Equivalent Yield, end year	7.8	7.9	7.9	7.9

Notes:

All the performance data in the Report has been compiled in accordance with IPD's standard definitions and conventions and is fully comparable with other IPD's series. For more information visit www.ipdindex.co.uk

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