OCTOBER 2009

RICS REPORT

VALUATION AND SALE PRICE REPORT 2009

The 2009 report of the annual comparison of valuations against sale prices of commercial property in France, Germany, the Netherlands and UK, carried out for the Royal Institution of Chartered Surveyors by Investment Property Databank

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For further information please contact:

IPD
Rebecca Graham
Senior Research Analyst
IPD
1 St John's Lane
EC1M 4BL

T +44 (0)20 7336 9235
E rebecca.graham@ipd.com
W www.ipd.com

Shan Lee
Research Analyst
IPD
1 St John's Lane
London
EC1M 4BL

T +44 (0)20 7336 9345
E shan.lee@ipd.com
W www.ipd.com

RICS
Stephen Brown
Head of Research
RICS
Parliament Square
London SW1P 3AD

T +44 (0)20 7334 3725
E sbrown@rics.org
W www.rics.org

On the pulse of the property world

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Foreword

Challenging times for valuers

RICS and IPD are proud to present the RICS Valuation and Sale Price Correlation Report 2009 which studies data from the IPD index for the UK, France, Netherlands and Germany. 2009 is the sixth year that RICS has commissioned this study, and we are delighted to have the involvement of three new sponsors, CB Richard Ellis, Knight Frank and BNP Paribas Real Estate, who have helped contribute to the analysis within the report.

Valuations are key to performance measurement and pricing within the property industry. This report provides a vital analysis of the performance of the valuation profession in the four biggest European commercial property markets, by tracking the difference between valuations and actual sales. The difficult market circumstances which prevailed during 2008, the period covered by this report, have provided a prime opportunity to explore the performance of valuations in extremely volatile conditions, where valuers and valuations have found themselves in the headlines perhaps more than ever before.

There is no doubt that the last year has presented a real test to the skills of property valuers worldwide. Equally, those who own, lend upon or occupy property assets feel more dependant than ever on receiving the best valuation advice. To accompany this year's results we have also taken the opportunity to explore some of the challenges facing the valuation profession today.

What is Market Value?

The definition of market value, which can be found in both the International Valuation Standards and the Valuation Standards issued by RICS, is:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

The words "willing seller and willing buyer" are just five words out of the forty which make up that definition but understanding how to interpret what they mean is fundamental to the correct application of the basis. The supporting explanatory text in the standards makes it clear that a "willing seller" in the context of the definition is:

"...neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the property at market terms for the best price attainable in the market after proper marketing, whatever that price may be."

In other words, it is no consequence that the actual owner of the property is not prepared, or "willing" to sell into a falling market. The preferences of the actual owner are irrelevant to the process of establishing market value. The seller in the market value definition is one who is actively in the market and looking to sell at the best price that can be achieved on the date of valuation.

It is the nature of markets that values rise and fall with the passage of time. The property market is not isolated from this cycle. Indeed, due to the inelasticity of supply and demand, the rises and falls are often more dramatic than for other asset classes. Unfortunately suggestions that there are no willing sellers in a falling market are sometimes made by commentators who have little understanding of how markets operate. This is no more correct than saying that there are no willing buyers in a rising market.

Those who have questioned rapidly downward valuations over the last year must remember that valuers must track the market as it is, not as they would like it to be. Some commentators have sought to blame valuers and valuations for the bubble and the bust. However, it is important not to blame the heart monitor for the heart attack and despite the pain that has been experienced in recent times, realistic valuation provides part of the essential transparency that a robust global economy relies upon.

Market Volatility and Inactivity

It is a characteristic of a fall in normal market activity that prices become more volatile. The conditions that prevailed for much of 2008 undoubtedly have tested valuers. It is relatively straightforward to value something when there are many concurrent transactions in the sector, but what do you do when the flow of transactions stops? Likewise, it takes little skill to gently project an established trend upwards or downwards but, as any rifleman will testify, hitting a rapidly moving target takes greater skill than one that is static.

The job of the valuer is to understand the market in which they operate. When transactions are thin on the ground this means understanding the collective mindsets of would-be buyers and sellers and of the fundamental economic drivers of that market. It means understanding why property that is being offered is not selling and at what price level buyers would enter the market. A market valuation is a proxy for a price, and prices in the real world are not established by what has gone before but by buyers' and sellers' future needs and expectations. The valuer has to understand and replicate those needs and expectations and reproduce them in their valuation model.

No one should pretend that valuation in an inactive market or when values are moving fast is a simple task, but even though empirical transactional evidence may be lacking, a figure arrived at using a robust rationale based on thorough market understanding is generally more reliable than one based on a stale comparable transaction. Cynics may complain that valuers are now valuing on sentiment rather than fact. This misses the fundamental point that real prices in real markets reflect sentiment, and that market sentiment is itself a fact that should be reflected in the valuation.

Valuing in thin and volatile markets can be compared to landing a plane in the fog. The skilled pilot must still take responsibility for hitting the runway, using his skill and judgement to interpret the information available. The days when the valuers could justify their fee through being custodians of a list of done deals should have long gone. Understanding of the dynamics of the market, the mood of participants in that market and the analytical skills to interpret that information is the key skill set now required.

Uncertainty

Discussions about valuation "accuracy" often miss the point that any valuation is a hypothesis, i.e. it is an estimate of a transaction that has not actually happened. Even a valuation to support a concurrent sale has to look beyond the circumstances of the actual sale agreed in order to validate it, or otherwise as the case may be. Like any hypothesis it can only be the most probable of a range of possible outcomes.

However, most valuers will realise that the degree of certainty that can attach to a valuation will vary depending on either the nature of the asset or the nature of the market. The financial crisis has also raised awareness of the need for those relying on valuations to understand the certainty that can be attached to them. No less a body than the G20 called during 2009 for standard setters to look at means of disclosing the certainty that can be attached to any valuations reported in published financial statements.

What is becoming clear is that users are not particularly keen on a simple quantitative indication of the degree of certainty or probability attaching to a valuation, but do expect to understand the basics of the approach taken in preparing the estimate and any key assumptions made. As a result, we are seeing bodies such as the International Accounting Standards Board updating their standards to require enhanced disclosures on valuation approaches and assumptions.

RICS has of course long recognised that valuation credibility depends upon clients clearly understanding the principles and assumptions adopted by valuers and the need to properly convey this information to clients underpins much of the Red Book. On the specific issue of valuation certainty, as far back as 2003 RICS introduced GN5 into the Red Book which requires valuers to disclose an "abnormal uncertainty" and which gives guidance on the conditions when this might arise and how this may be reported. The Guidance Note did come into its own last year and many auditors have been actively checking to see that appropriate qualitative advice on the market background and degree of certainty that can be attached is provided in support of valuations included in company financial statements.

Future Challenges

Property owners and occupiers are faced with more regulation than ever before. Stricter environmental legislation, more rigorous financial reporting requirements or enhanced capital requirements for lending institutions all will have an impact on valuation. It is vitally important that valuers should have an appreciation of the regulatory changes which are likely to affect the demand for property now and in the future combined with understanding modern construction techniques and environmental trends.

The consequence for the profession of failing to respond to changes in client and public expectations is inevitable decline in the long term. There is a bright future for those valuers who understand the dynamics in their market and anticipate or always respond to change. They will need the support of their professional bodies to obtain the education and training they need to take advantage of new opportunities.

RICS stands for the very best in valuation globally. Consumers of valuation across the globe can rely on RICS qualified valuers to provide the very best advice because:

- Their valuations must comply with International Valuation Standards
- They are bound by the highest professional and ethical standards through the RICS Red Book and rules of conduct
- RICS is the world's most sought after qualification in property valuation, denoting technical and market expertise
- RICS has international regulatory reach over its members.

01 Introduction

The IPD Valuation and Sale Price research study has been running for over 20 years and was first undertaken as a collaborative study with RICS in 2003, in response to the Carsberg report recommendations. This advised that the relationship between achieved sale prices and previous valuations should be monitored on an annual basis. The analysis in this year's report covers the markets of France, Germany, the Netherlands and the UK and addresses several key questions:

1. How much do sale prices differ from previous valuations?
2. Are differences random or are sale prices consistently above or below the latest valuation?
3. How much did the results differ across the four European markets and across property types within each country?

A European overview is followed by an individual summary for each country (see sections 3-6). Raw data tables are located in Appendices 1-4, followed by a detailed explanation of the methodology at the end of the report (see Appendix 5).

A summary of the main measures referred to throughout this report:

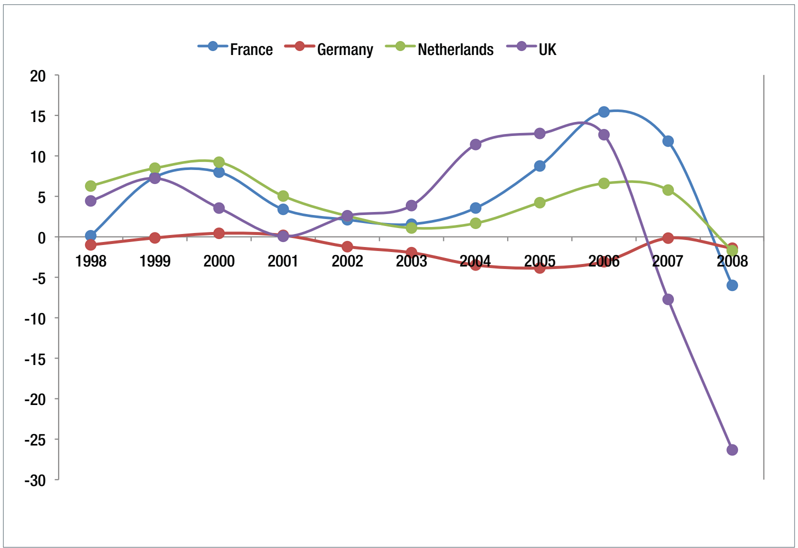
- Preceding Market Adjusted Valuation
  - The most recent valuation in the IPD database, which must have been recorded a minimum of three months prior to the sale date. This is then adjusted for market movements in values by applying capital growth rates up to the third month before the sale. Finally, capital expenditure between the last actual uninfluenced valuation month and the updated valuation month is added to the updated valuation.

- Average Price-Valuation Differences:
  - Average Absolute Difference – the average difference between an asset's sale price and its preceding Market Adjusted Valuation regardless of whether the adjusted valuation is above or below the sale price.
  - Average Direction Difference – the simple difference between an asset's sale price and its preceding Market Adjusted Valuation.
  - Differences are analysed on both an un-weighted and value-weighted basis with the latter assigning greater importance to more valuable assets.

02 European overview 2009

In 2008, capital values fell across the four major European real estate markets with some countries experiencing a more severe correction. None more so than the UK which saw the sharpest decline of -26.3% p.a., followed by France where capital growth of -6.0% p.a. was recorded in 2008 (Figure 1). The falls experienced by the Netherlands and Germany were more subdued at -1.7% p.a. and -1.4% p.a. respectively. In the past, there has been evidence to suggest that current market trends are strongly related to the difference between the sale price of an asset and its preceding valuation.

Figure 1: Capital growth, % All property

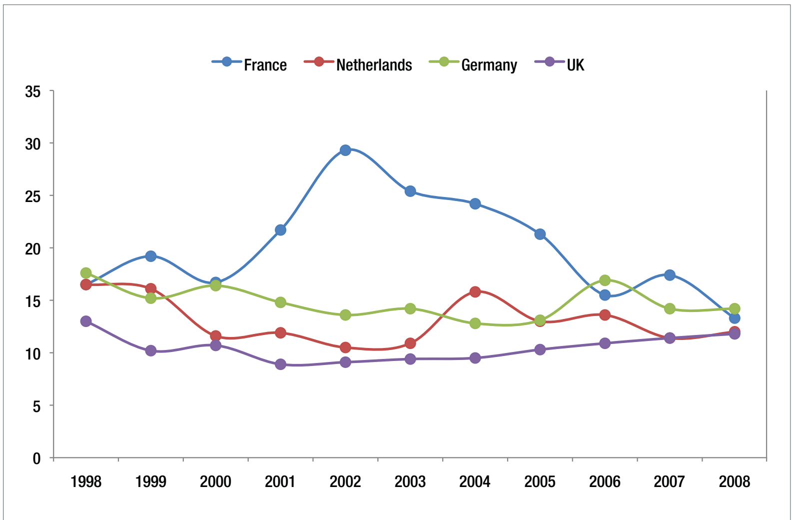


The absolute difference measures the disparity between a sale price and its preceding Market Adjusted Valuation in absolute terms. In 2008, the sale prices of assets in Germany were the most different to their previous valuations on both an un-weighted and weighted basis. There were some similarities across the countries with larger, more valuable assets sold at prices closer to their preceding Market Adjusted Valuations compared to smaller, less valuable assets. This is indicated by the weighted Average Absolute Difference being lower than the equivalent un-weighted Difference (Table 1).

Table 1: Valuation Price Absolute Differences, % 2008

	France	Netherlands	Germany	UK
Un-weighted Average Absolute Difference	13.3	12.0	14.2	11.8
Weighted Average Absolute Difference	11.7	8.7	12.3	9.6

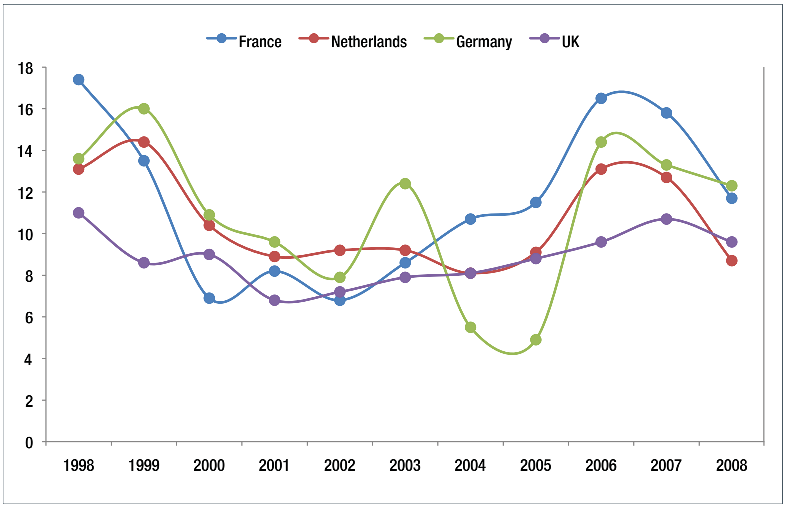
Figure 2: Un-weighted Average Absolute Differences, % All Property



Both the Netherlands and UK experienced a slight divergence between the sale prices of assets and their preceding valuations on an un-weighted basis, with average absolute differences up from 2007. Of the four countries, the UK has seen its assets sold at prices closest to their preceding Market Adjusted Valuation in the majority of years since 1998.

European overview 2009

Figure 3: Weighted Average Absolute Differences, % All Property

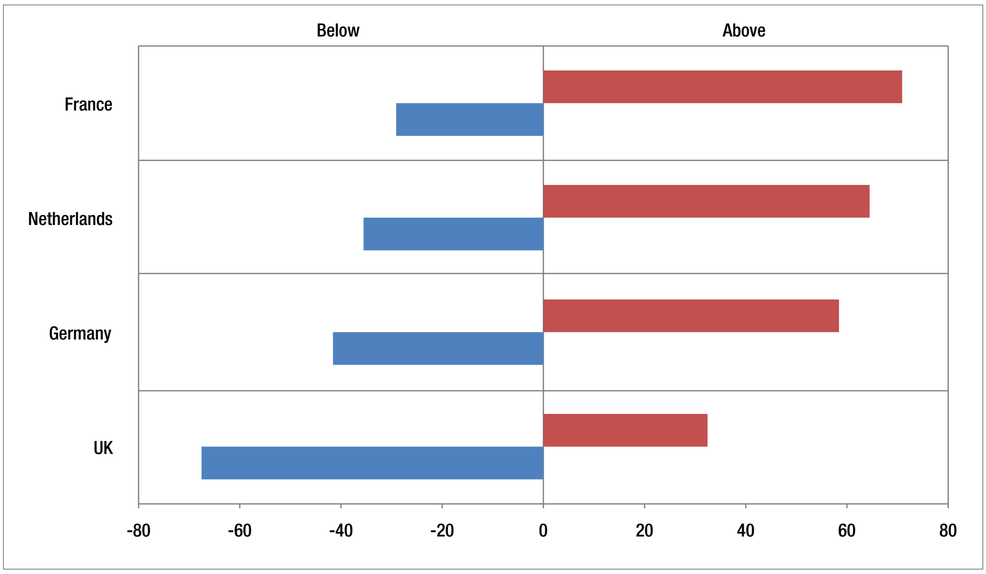


Across the board, average absolute differences on a weighted basis were lower, indicating that the larger, more valuable assets were sold at prices closer to preceding Market Adjusted Valuations than smaller assets. Since 2006, sale prices have been moving closer to preceding valuations and in 2008, the Netherlands saw its second lowest weighted difference since 1998.

The highest transaction levels in Germany and the Netherlands occurred in the first quarter of 2008, possibly suggesting an attempt by investors to offload stock in anticipation of the global economic crisis hitting their respective property markets. In the UK, the majority of sales took place in the first half of 2008 with the last quarter of the year accounting for just 15% of all sales and in France, it was the latter half of the year.

All countries bar the UK saw the majority of assets continuing to be sold above valuation in 2008 (Figure 4). Despite the French property market experiencing a more sizeable downward shift in capital values than Germany and the Netherlands, 71% of assets sold in France achieved a price above their preceding Market Adjusted Valuation (the highest proportion amongst the four countries). At the other end of the scale was the UK with only 32% of assets sold at prices above their preceding Market Adjusted Valuations. This comes as no surprise given that, by the end of 2008, the UK property market had already plummeted to unprecedented depths. Whilst its European counterparts were still enjoying positive market returns in 2007, the downturn in the UK property market had already begun. In spite of this, 58% of UK assets sold in 2007 achieved a price above valuation.

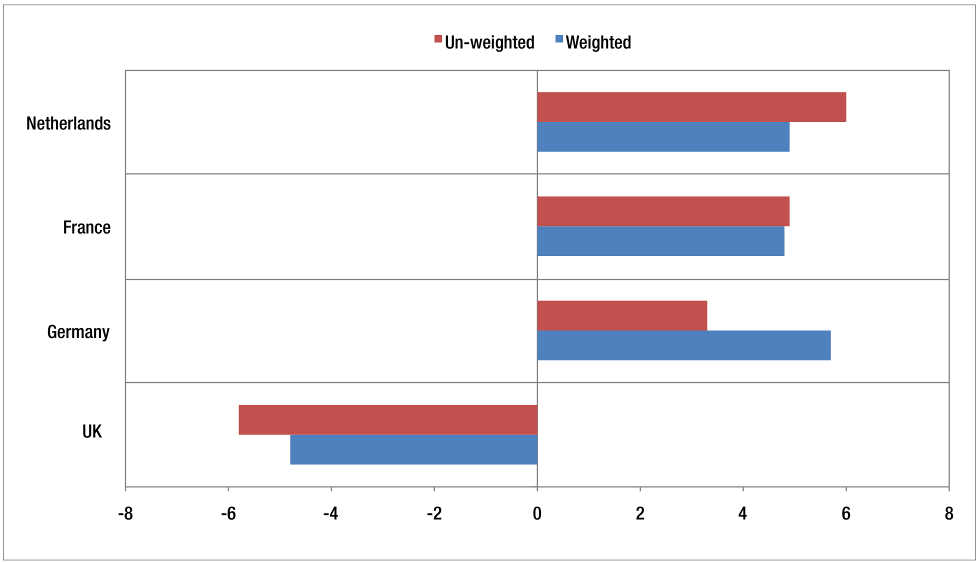
Figure 4: Proportion of sales sold above/below their preceding Market Adjusted Valuation 2008, % All Property



The direction difference indicates whether assets were on average sold at a higher or lower price than their preceding Market Adjusted Valuation. Ranking the countries by their average un-weighted direction differences reveals that although France had the highest proportion of assets sold above valuation, it was assets in the Netherlands that realised the highest un-weighted direction differences with sale prices on average 6.0% above valuation. Meanwhile, sales in the UK were achieving 5.8% below their preceding Market Adjusted Valuation.

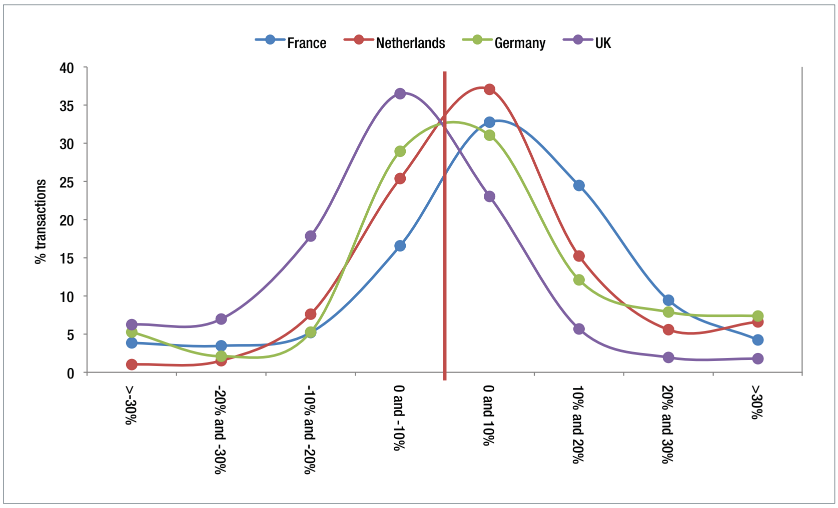
In 2008, both Germany and the UK saw their larger, more valuable assets sold at a premium over smaller, less valuable assets. In Germany, the larger assets sold on average for 5.7% above valuation compared to 3.3% on an un-weighted basis (the biggest un-weighted versus weighted difference of all the countries considered). The Netherlands and France saw smaller assets fetching a premium, albeit a relatively small one, over valuation; a contrast to 2007 when larger assets sold for much higher than the preceding Market Adjusted Valuation, particularly in France.

Figure 5: Average Direction Differences 2008, % All Property



Compared to 2007, the spread of sale prices around preceding Market Adjusted Valuations was much tighter in all four countries in 2008 with a higher proportion of transactions sold for within 10% of the preceding Market Adjusted Valuation (Figure 6). The Netherlands displayed the tightest spread with 85% of properties sold for within 20% of the preceding valuation. Germany had a greater tendency to be skewed towards higher sale prices and the UK, towards lower sale prices.

Figure 6: Distribution of Transactions by Average Un-weighted Direction Difference Bands, % 2008



European overview 2009

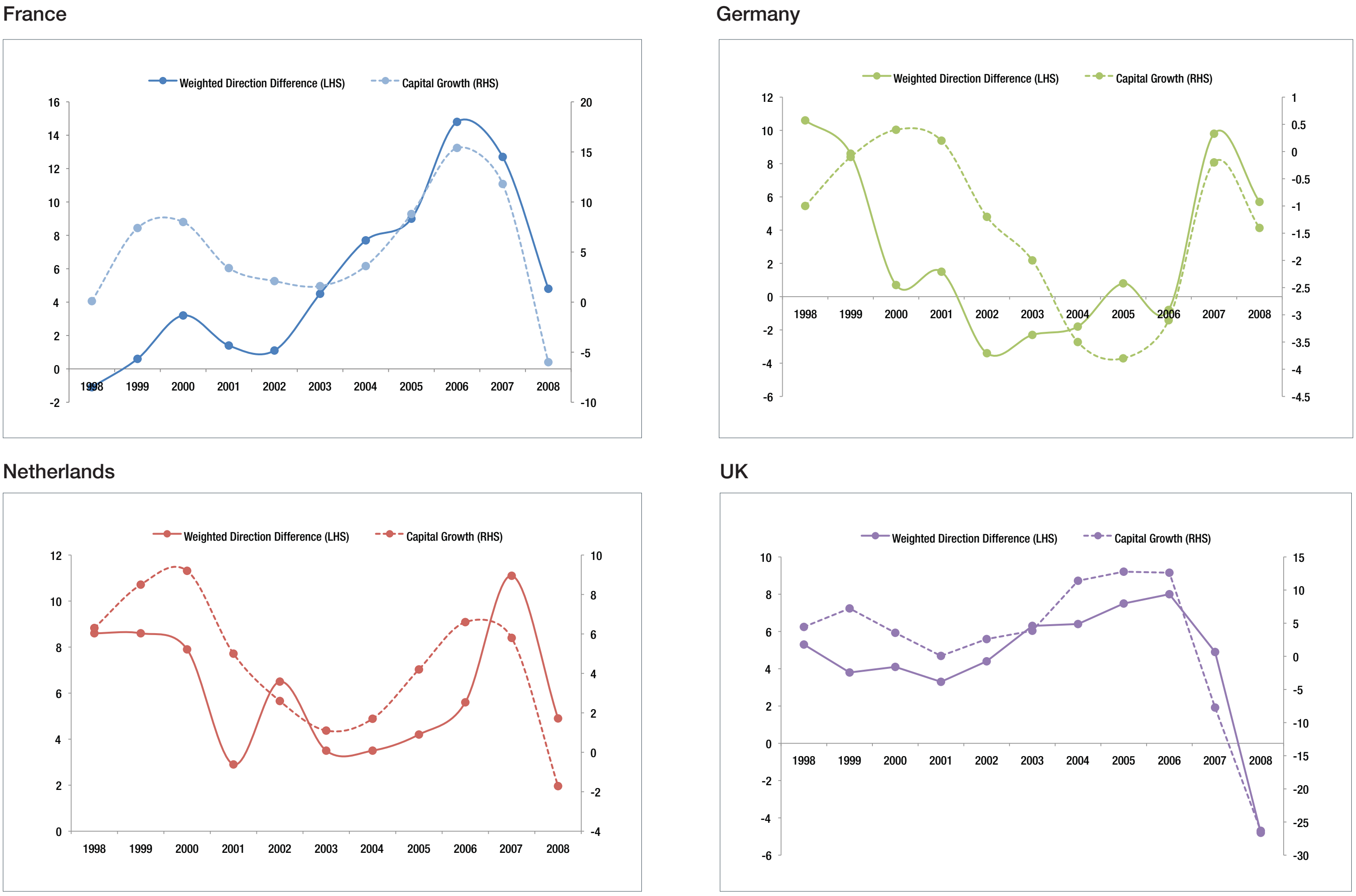
Table 2 further emphasises how much the distribution of sale prices has shifted. 31% of assets in the UK were sold with a discount of at least 10%, compared to just 12% in 2007. The proportion within +/- 20% of the preceding Market Adjusted Valuation was very similar across countries with only 8% separating the top and bottom countries. In 2007, this spread was considerably higher at 21%.

Table 2: Distribution of Transactions by Average Un-weighted Direction Difference Bands, % 2008 (2007)

	+/- 10%	+/- 20%	<10%	>10%
France	49 (40)	79 (64)	13 (13)	38 (47)
Netherlands	62 (50)	85 (82)	10 (3)	27 (47)
Germany	60 (48)	77 (73)	13 (11)	27 (41)
UK	60 (60)	83 (85)	31 (12)	9 (28)

2008 saw the continuation of a recurring trend over the last ten years where the weighted Average Direction Difference has shown a strong relationship to capital growth acceleration or deceleration. The magnitude of the Average Differences tends to be affected by a rapidly turning market resulting in a greater divide between sale prices and preceding Market Adjusted Valuations or 'valuation lags'. Germany has been the main exception to this but the German property market has also been much less volatile than the other countries. A breakdown of the average weighted direction differences by German fund type can be found in the German country summary.

Figure 7: Average Weighted Direction Differences and Capital Growth, % All Property



2008 has most certainly brought about a change in the relationship between sale prices and preceding Market Adjusted Valuations with an overall decrease in the gap between the two. Across the countries, patterns are still largely similar but some key differences were observed. France now has the highest proportion of properties sold above their preceding Market Adjusted Valuation as well as at prices over 10% higher than the preceding valuation. Sales prices were closest to preceding Market Adjusted Valuations in the Netherlands and the UK has had a tumultuous year with assets on average sold at a discount to previous Market Adjusted Valuations.

Table 3: Summary by Country (ranking of 1=best), 2008

	France	Netherlands	Germany	UK
Capital Growth, %	-6.0	-1.7	-1.4	-26.3
Ranking of weighted Average Absolute Difference	3	1	4	2
Ranking of weighted Average Direction Difference	1	3	4	1
Ranking of percentage of sale prices within +/-10% the preceding Market Adjusted Valuation	4	1	2	3
Ranking of percentage of sale prices within +/-20% the preceding Market Adjusted Valuation	3	1	4	2

03 France

"In 2008, volumes invested in the commercial property market in France halved. This led to a negative capital growth of -6.0%, although the total return index remained almost stable at -0.9% thanks to strong indexation of the passing rents, translating into a positive income return of +5.4% over the year.

Year-end valuations proved challenging as investment yields were rising and rental values were expected to diminish in early 2009. The lack of transactions meant valuers had to rely on limited market evidence. They decided therefore to adopt a prudent stance.

As very few landlords were forced to sell, most of them decided to weather the storm by holding on to their investments until the market bottoms out. Opportunities arose however, as some investors took advantage of this bear market to close on opportunistic deals."

Jean-Claude Dubois MRICS
President, BNP Paribas Real Estate Valuation

France – country summary

- IPD recorded 519 sales in France in 2008, representing 7% of all properties in the French IPD databank. The second half of the year saw a higher number of transactions, representing 58% of the total (Figure 8). By sector, office experienced the largest withdrawal with 293 sales.
- Despite negative capital growth in 2008 of -6.0%, just over 70% of the sales were at a price above Market Adjusted Valuation (the preceding valuation adjusted for capital growth and capital expenditure). See Figure 9.
- In absolute terms 49% were sold for prices up to +/-10% different to their preceding Market Adjusted Valuation in 2008 (Figure 10). Over the last 6 years, the proportion of sales that were sold at a price within +/- 20% of their preceding Market Adjusted Valuation has been declining steadily, but in 2008 it increased significantly to 79%.
- The average weighted absolute difference between sale price and Market Adjusted Valuation has declined since 2006 and in 2008 was 11.7% (Figure 11). The average un-weighted difference was 13.3% in 2008. A greater un-weighted than weighted absolute difference indicates that more valuable assets were sold at a price closer to their preceding valuation.
- Both the un-weighted and weighted average direction differences declined significantly in 2008 (Figure 12). The un-weighted average direction difference, or average gap between sale prices and their Market Adjusted Valuations, was 4.9%, falling from 7.8% in 2007.
- On a weighted basis the average gap between sale prices and their Market Adjusted Valuations was 4.8% (Table 4). The extremely small disparity between the weighted and un-weighted direction difference indicates that larger properties did not achieve the premium price they had consistently experienced over the last 10 years.
- By sector, industrial had the highest un-weighted and weighted Average Absolute Difference. Larger properties in this sector achieved a greater premium over valuation than smaller properties. The retail sector had the highest un-weighted and weighted Average Direction Difference.

Figure 8: Distribution of Total Sales recorded in 2008 by Month, %

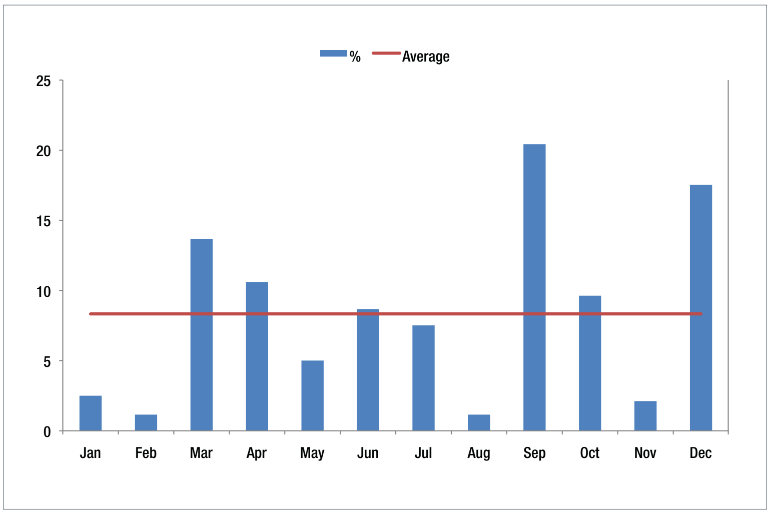


Figure 9: Un-weighted Direction Differences by Band, 2008

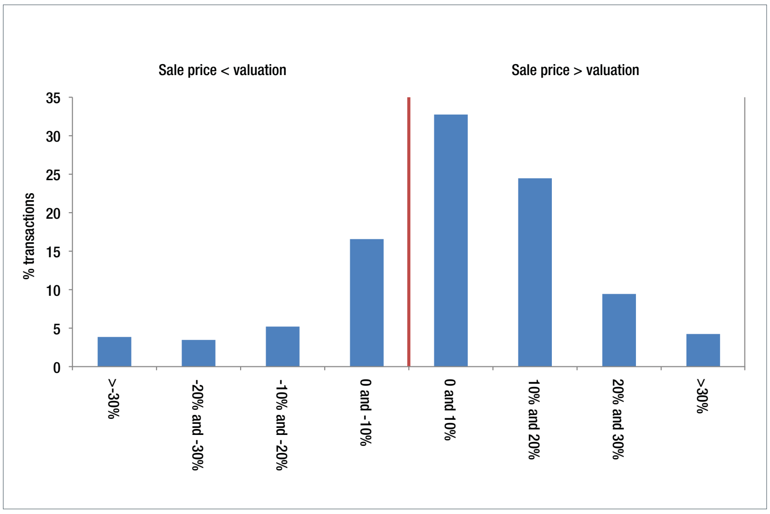


Figure 10: Proportion of Transactions within 10, 15 and 20% Bands

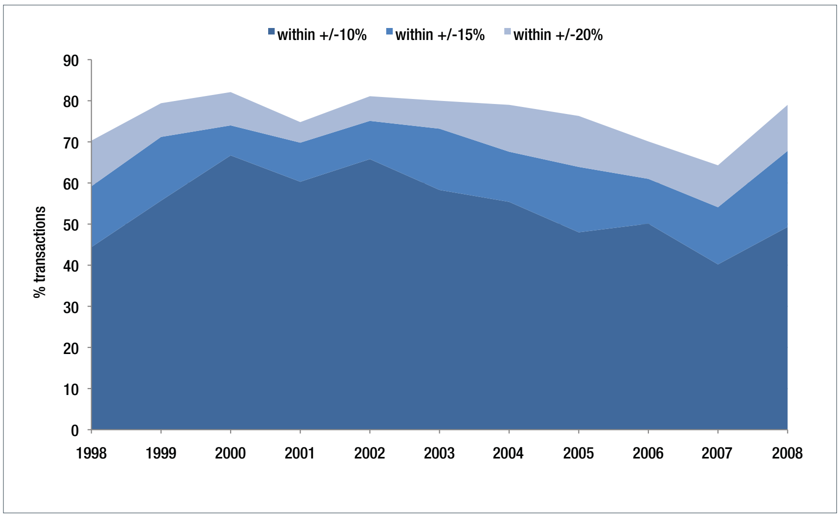


Figure 11: Average Absolute Differences and Capital Growth, %

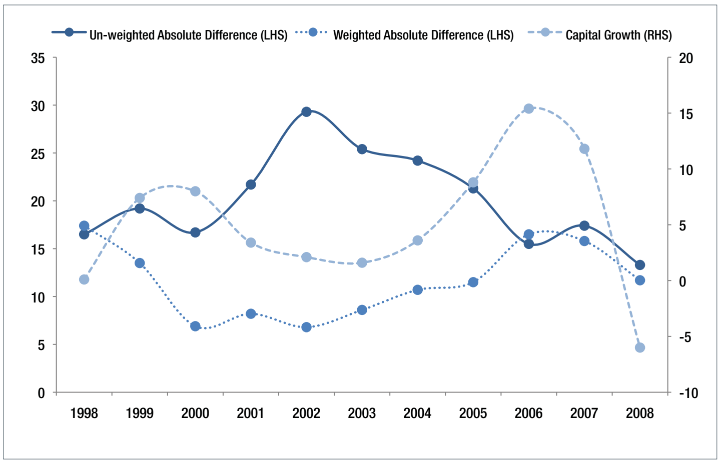


Figure 12: Average Direction Differences, %

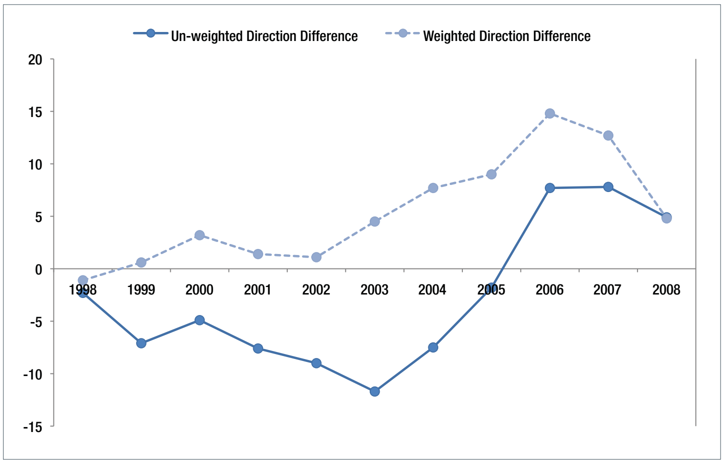


Table 4: Valuation Price Differences

	2008, %
Un-weighted Average Absolute Difference	13.3
Weighted Average Absolute Difference	11.7
Un-weighted Average Direction Difference	4.9
Weighted Average Direction Difference	4.8

04 Germany

"In 2008 valuers faced a particularly challenging task in Germany with relatively little transactional evidence, particularly in the latter half of the year as the impact of the credit crunch deepened.

The German market proved more resilient to the impact of the financial crisis than several other European countries with prime stock generally performing better than secondary or tertiary.

According to IPD retail was the only sector with assets sold on average at a price below the preceeding Market Adjusted Valuation. This may be partly due to prevailing economic conditions and also by the exit from the German retail market of overseas investors who had helped drive yields down over recent years."

Daniel Woodhouse MRICS
Director of Valuation, Knight Frank LLP

Germany – country summary

- IPD recorded 190 sales in Germany in 2008, representing 5% of all properties in the German IPD databank. The first quarter of 2008 accounted for 58% of all sales (Figure 13). By sector, office experienced the largest withdrawal with 94 sales.
- With capital values falling a further 1.4% in 2008, the proportion of sales that were at a price above the Market Adjusted Valuation (the preceding valuation adjusted for capital growth and capital expenditure) fell to 58% in 2008 compared to 76% in 2007. See Figure 14.
- In absolute terms 60% were sold for prices up to +/-10% different to their preceding Market Adjusted Valuation in 2008 (Figure 15). The proportion of sales that were at a price within +/- 20% of their preceding Market Adjusted Valuation has been rising since 2006 and stood at 77% in 2008.
- The average absolute difference between sale price and Market Adjusted Valuation has remained fairly constant in recent years and in 2008 was 12.3% on a weighted basis; a slight fall compared to 2007 (Figure 16). Un-weighted, the difference was higher at 14.2% indicating that larger assets were sold at a price closer to their preceding valuation.
- Both the un-weighted and weighted average direction differences declined significantly in 2008 (Figure 17). The un-weighted average direction difference, or average gap between sale prices and their Market Adjusted Valuations, was 3.3% falling from 7.5% in 2007.
- On a weighted basis, the average gap between sale prices and their Market Adjusted Valuations was higher at 5.7% indicating that larger assets continued to achieve a premium over valuation (Table 5).
- By law, properties in German open-ended funds generally have to sell at a price close to or above their previous valuation. The premium over valuation achieved by open-ended funds reached a new high in 2007 but disappeared in 2008 with properties on average being sold for a touch under their preceding valuation (Figure 18). Other fund types still saw their assets sold on average at 7.6% above the preceding valuation, suggesting increased redemption levels in open-ended funds.
- By sector, office had the highest un-weighted and weighted Average Absolute Difference. Larger properties in this sector achieved a greater premium over valuation than smaller properties. Retail was the only sector with assets sold on average at a price below the preceding Market Adjusted Valuation.

Figure 13: Distribution of Total Sales recorded in 2008 by Month, %

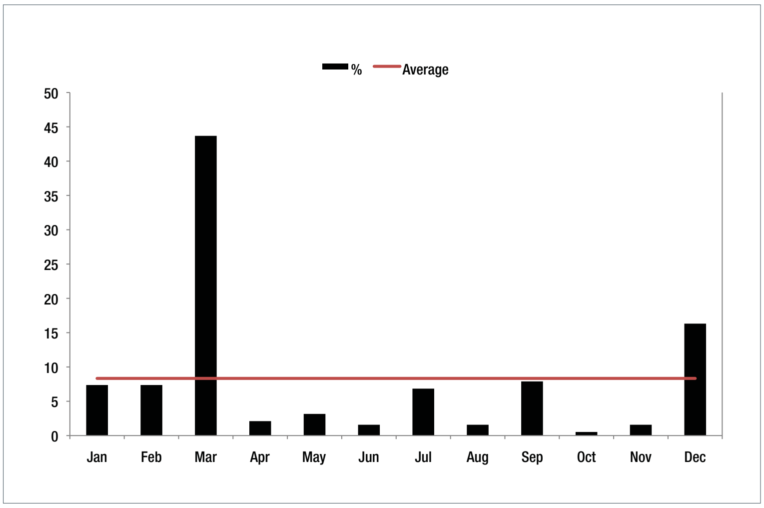


Figure 14: Un-weighted Direction Differences by Band, 2008

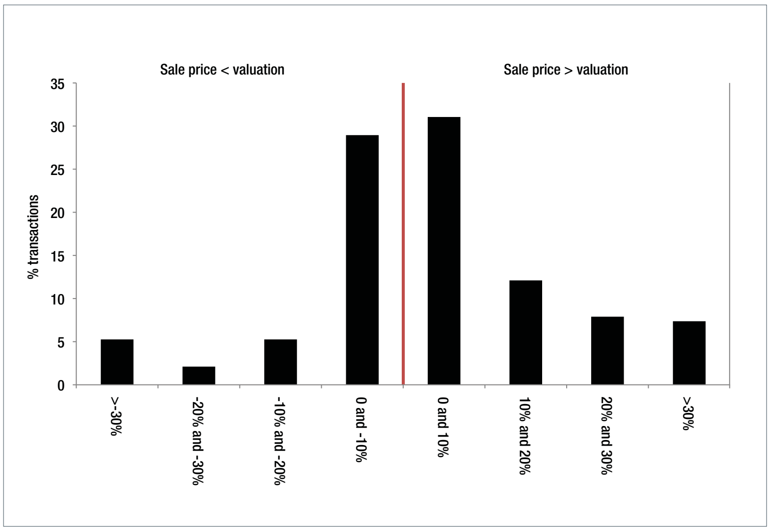


Figure 15: Proportion of Transactions within 10, 15 and 20% Bands

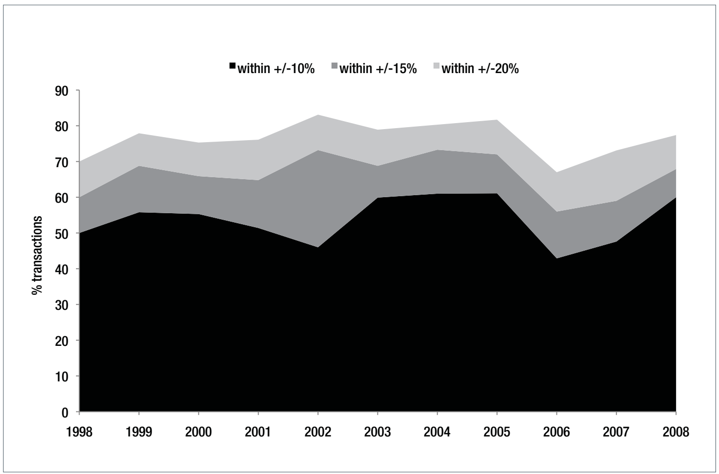


Figure 16: Average Absolute Differences and Capital Growth, %

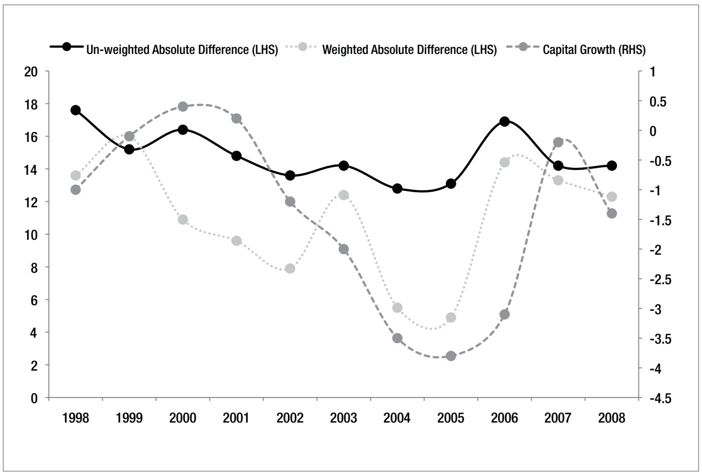


Figure 17: Average Direction Differences, %

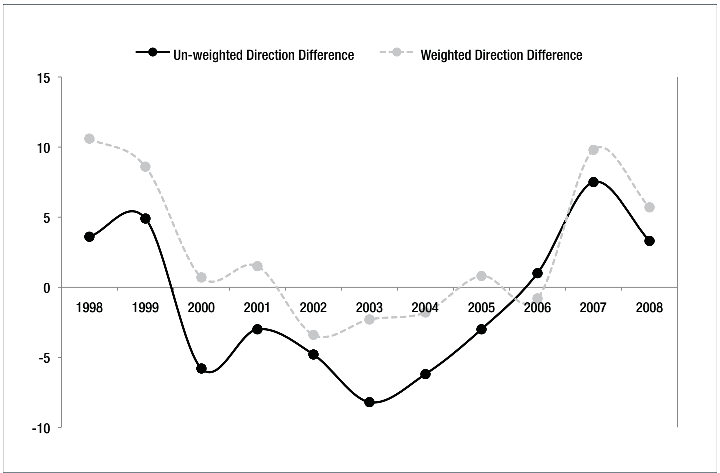


Figure 18: Weighted Average Direction Differences - Open-ended Funds vs. Other Funds, %

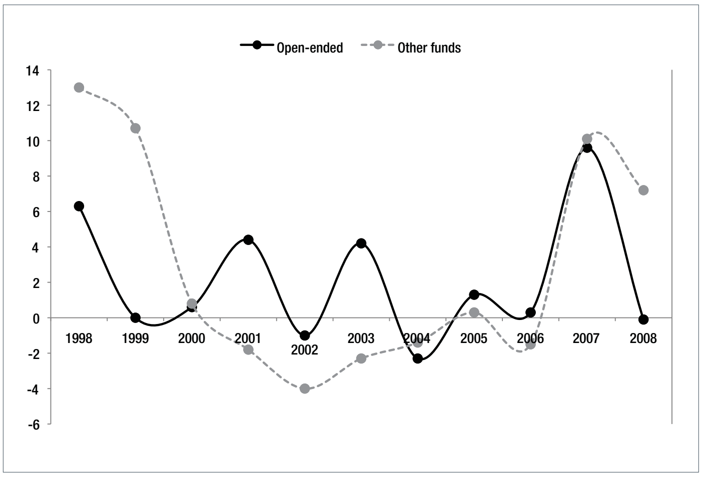


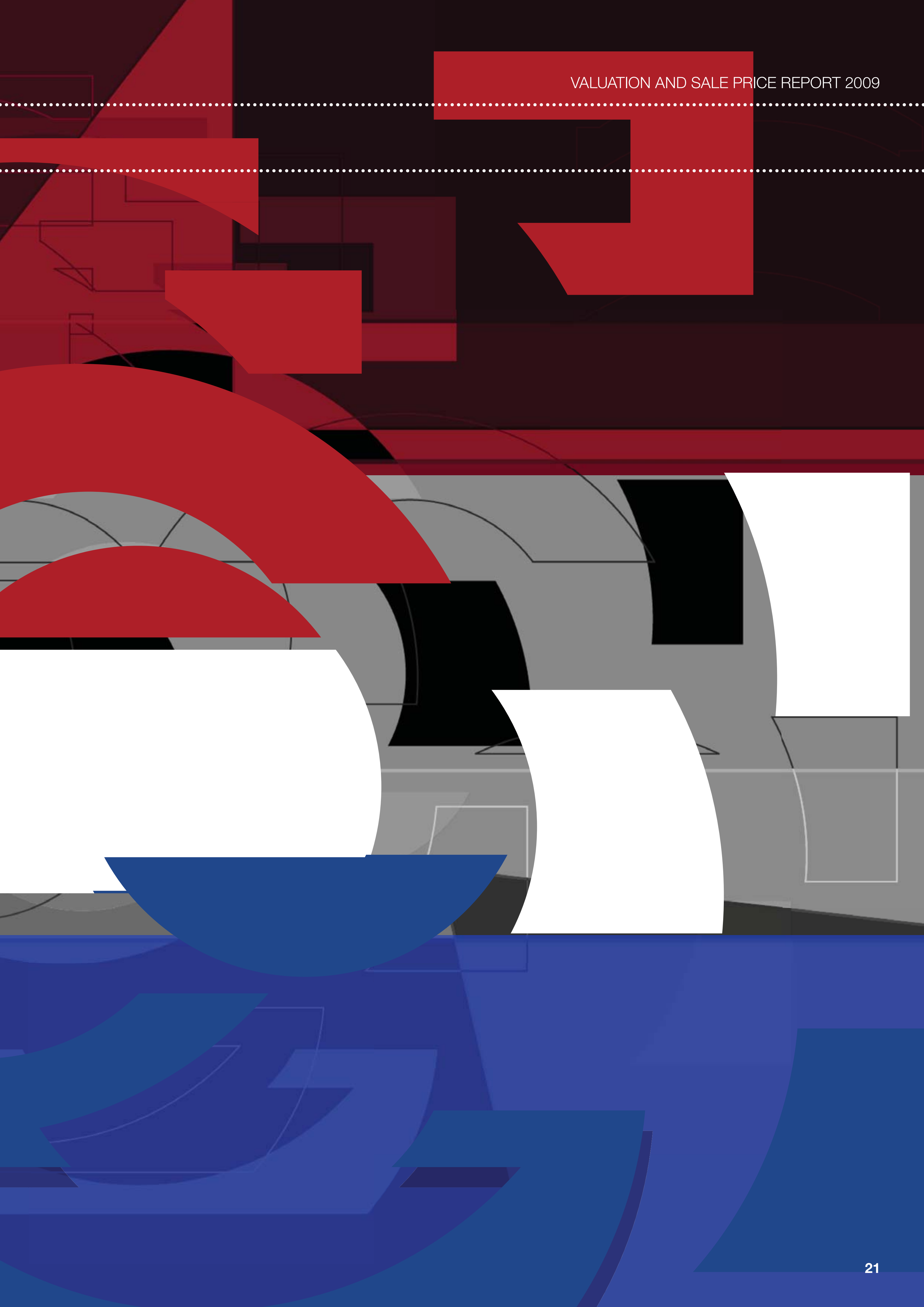
Table 5: Valuation Price Differences

	2008, %
Un-weighted Average Absolute Difference	14.2
Weighted Average Absolute Difference	12.3
Un-weighted Average Direction Difference	3.3
Weighted Average Direction Difference	5.7

05 Netherlands

"This report reflects 2008 as a difficult year for the Dutch property market. At the beginning of the year sale activity was still reasonable, mainly through some owners exiting the market and also buyers obliged to complete prearranged transactions. Beyond the first quarter however the lack of investment activity became dramatically evident. The traditionally more stable Dutch market followed Europe into the financial and property crisis through the rest of the year, with the index ending the year in negative territory. It is no surprise to see in this report that fewer properties were sold above Market Adjusted Value than in 2007."

Mark Fidler MRICS
Executive Director, Valuation Advisory, CB Richard Ellis



Netherlands – country summary

- IPD recorded 197 sales in Netherlands in 2008, representing 4% of all properties in the Dutch IPD databank. Transaction levels at the start of 2008 were higher overall with 42% of all sales taking in place in the first quarter (Figure 19). By sector, residential experienced the largest withdrawal with 87 sales.
- In the previous year, 78% of properties were sold at a price above Market Adjusted Valuation (the preceding valuation adjusted for capital growth and capital expenditure). This proportion fell to 64% in 2008 in a year when capital growth had entered into negative territory (-1.7% p.a.). See Figure 20.
- In absolute terms, 62% were sold for prices up to +/-10% different to their preceding Market Adjusted Valuation in 2008, representing the highest y/y increase in the last decade (Figure 21).
- The average weighted absolute difference between sale price and Market Adjusted Valuation fell sharply in 2008 at 8.7% whereas the average un-weighted difference increased slightly to 12.0% in 2008 (Figure 22). A greater un-weighted than weighted absolute difference indicates that more valuable assets were sold at a price much closer to their preceding valuation.
- Both the un-weighted and weighted average direction differences declined in 2008 (Figure 23). The un-weighted average direction difference, or average gap between sale prices and their Market Adjusted Valuations, was 6.0% in 2008.
- On a weighted basis the average gap between sale prices and their Market Adjusted Valuations was lower at 4.9% (Table 6). Over the last decade, the larger assets have generally managed to achieve a greater premium over valuation.
- By sector, residential had the highest un-weighted Average Absolute Difference followed closely by industrial but residential was lowest amongst the sectors on a weighted basis. Larger properties in this sector were sold at prices just over 2% of the preceding valuation; a stark contrast to the 12.9% seen in 2007. A small number of industrials were sold in 2008 but all of these assets sold for a price above their preceding Market Adjusted Valuation.

Figure 19: Distribution of Total Sales recorded in 2008 by Month, %

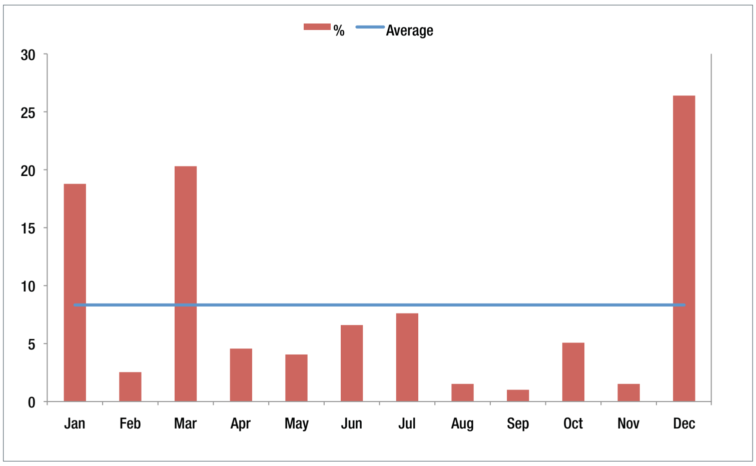


Figure 20: Un-weighted Direction Differences by Band, 2008

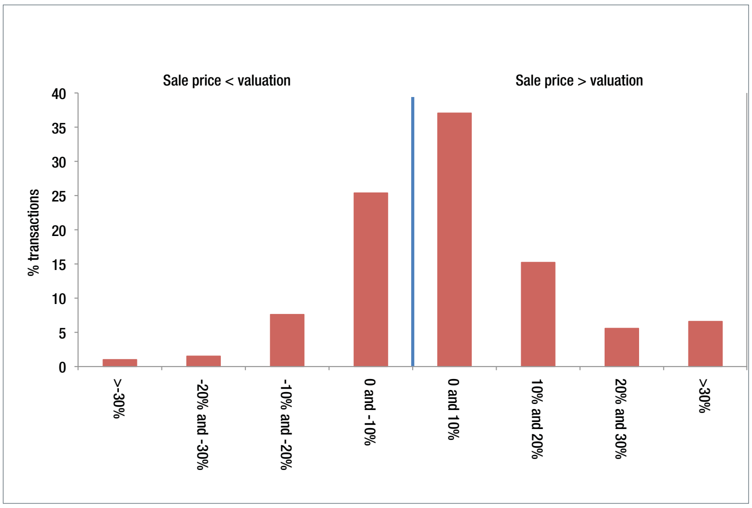


Figure 21: Proportion of Transactions within 10, 15 and 20% bands

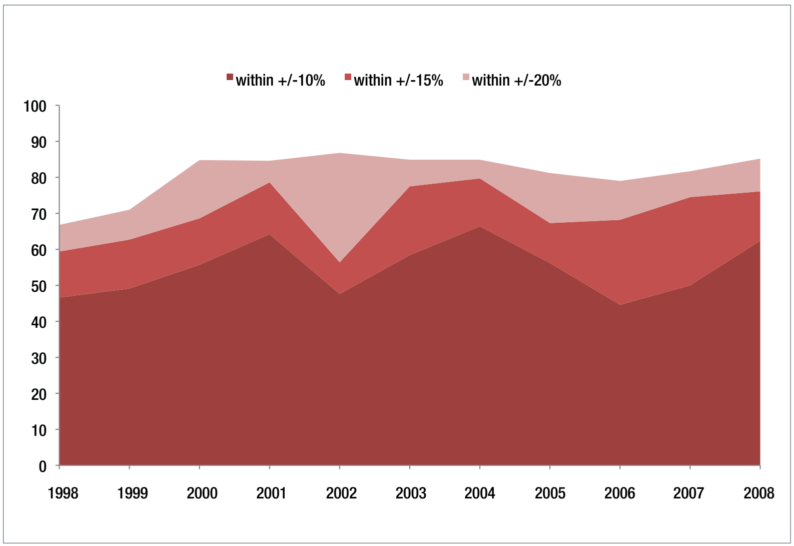


Figure 22: Average Absolute Differences and Capital Growth, %

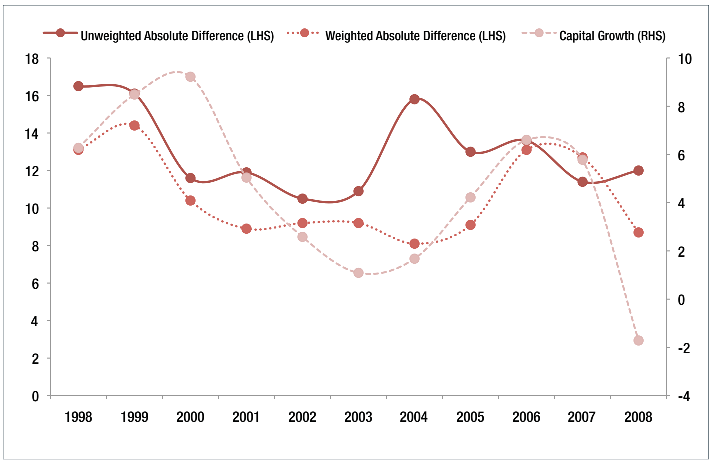


Figure 23: Average Direction Differences, %

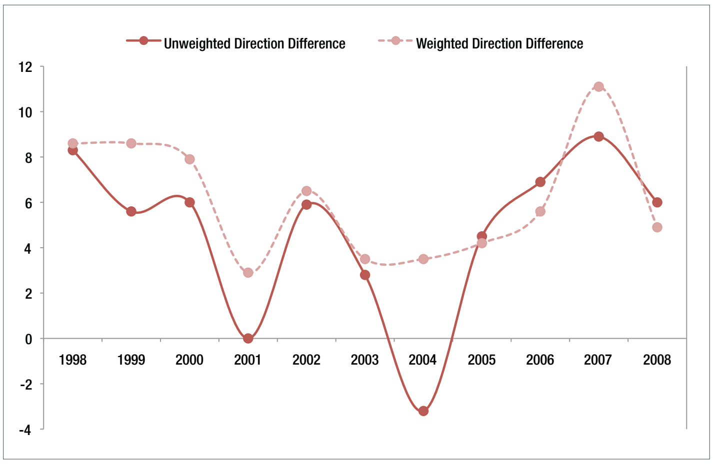


Table 6: Valuation Price Differences

	2008, %
Un-weighted Average Absolute Difference	12.0
Weighted Average Absolute Difference	8.7
Un-weighted Average Direction Difference	6.0
Weighted Average Direction Difference	4.9

06 United Kingdom

"We approached the 2009 Valuation and Sale Price Correlation Report with some trepidation; after all, it looked at valuation accuracy in 2008, the year in which major banks were bankrupted or nationalized, credit collapsed, liquidity in real estate transactions of all types fell to an all time low, and values as recorded in the IPD Monthly Index fell by no less than 26% in twelve months, with nearly 15% in just the last three months of the year. How accurate could our valuations have been in such unprecedented circumstances?

In fact, the report provides considerable reassurance. Accuracy levels were only slightly down on previous years, and compare well with other European markets. We seem to have coped well with the very rapid pricing readjustment – helped, no doubt, by the fact that at one stage we were updating our Unit Linked Fund valuations every two weeks – providing a robust basis for the recovery which is currently in progress. But would we want to go through a year like that again? No thank you!"

Peter Parson MRICS
Director, CB Richard Ellis Ltd, Valuation Advisory

United Kingdom – country summary

- IPD recorded 1233 sales in the UK in 2008, representing 10% of all properties in the IPD databank. Transaction levels in the first quarter of 2008 were above average and accounted for 37% of all sales taking in place in 2008 (Figure 24). By sector, retail experienced the largest withdrawal with 541 sales.
- With capital growth of -26.3% in 2008, (the lowest level since index inception), the majority of properties (68%) were sold at a price below Market Adjusted Valuation (the preceding valuation adjusted for capital growth and capital expenditure). See Figure 25.
- The proportion of properties sold for prices up to +/-10% different to their preceding Market Adjusted Valuation remained relatively unchanged at 60% in 2008 (Figure 26).
- The average weighted absolute difference between sale price and Market Adjusted Valuation fell to 9.6% in 2008 whereas the average un-weighted difference increased slightly to 11.8% in 2008 (Figure 27). A greater un-weighted than weighted absolute difference indicates that more valuable assets were sold at a price much closer to their preceding valuation.
- Both the un-weighted and weighted average direction differences turned negative in 2008 as assets were being sold at a price less than their preceding Market Adjusted Valuation (Figure 28). The un-weighted average direction difference, or average gap between sale prices and their Market Adjusted Valuations, was -5.8% in 2008.
- On a weighted basis the average gap between sale prices and their Market Adjusted Valuations was lower at -4.8% (Table 7). Over the past few years, the more valuable assets have managed to achieve a greater premium, albeit a small one over valuation.
- By sector, retail had the highest un-weighted Average Absolute Difference though there was little to separate the sectors with differences ranging from 10.7% to 12.0%. Industrial was highest on an absolute weighted basis. All sectors experienced negative average direction differences (sale prices below their preceding Market Adjusted Valuation) but it was the larger industrial assets that had the smallest difference.

Figure 24: Distribution of Total Sales recorded in 2008 by Month, %

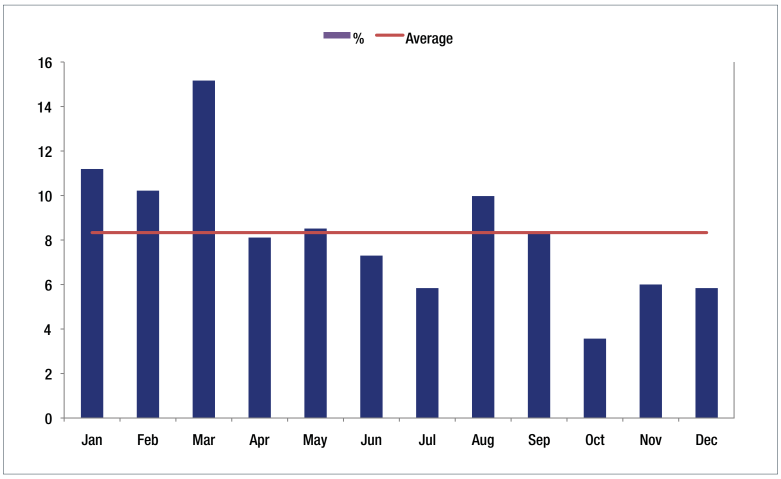


Figure 25: Un-weighted Direction Differences by Band, 2008

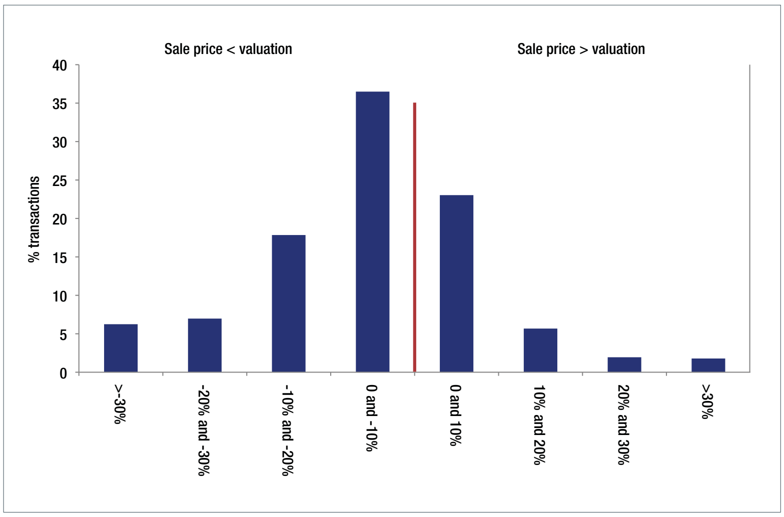


Figure 26: Proportion of transactions within 10, 15 and 20% bands

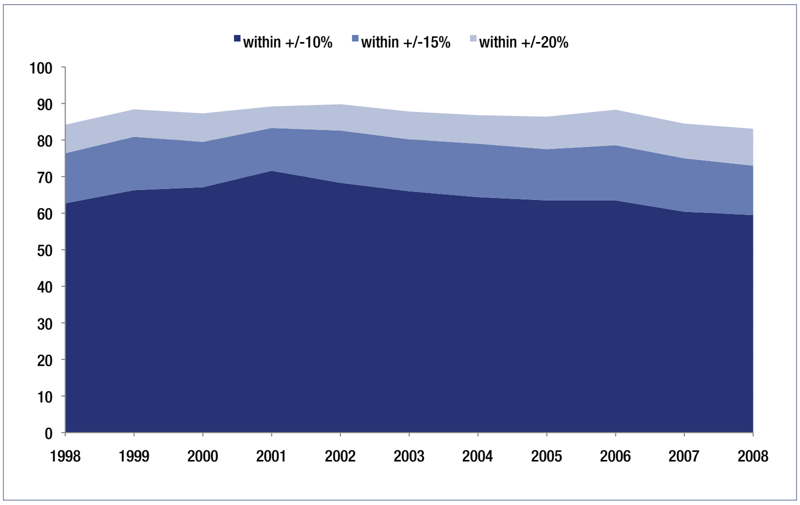


Figure 27: Average Absolute Differences and Capital Growth, %

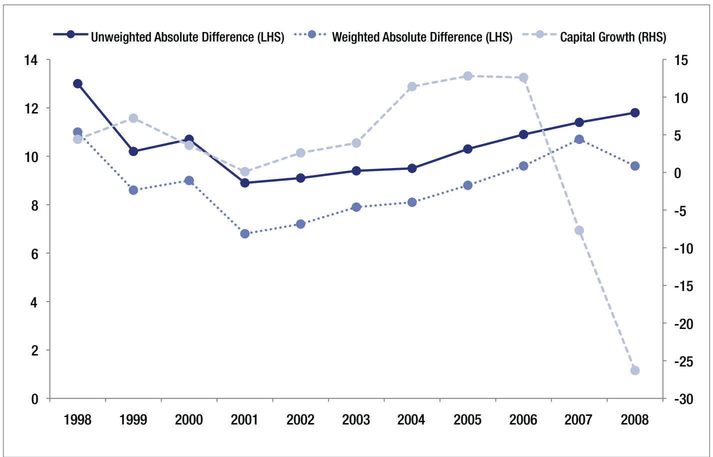


Figure 28: Average Direction Differences, %

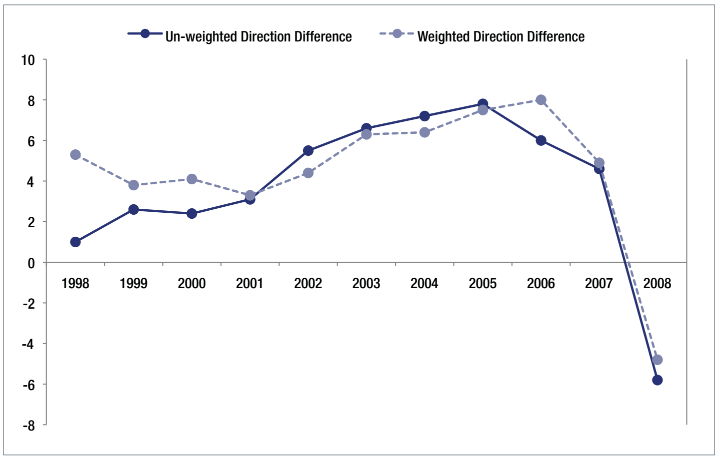


Table 7: Valuation Price Differences

	2008, %
Un-weighted Average Absolute Difference	11.8
Weighted Average Absolute Difference	9.6
Un-weighted Average Direction Difference	-5.8
Weighted Average Direction Difference	-4.8

Appendix 1 - France

Table 1: Sample Sizes

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	27	97	123	262	366	355	370	402	485	527	519
Retail	-	-	-	22	28	33	34	48	60	55	69
Office	-	33	51	112	148	120	152	171	213	280	293
Industrial	-	-	-	32	41	35	56	42	68	97	44
Residential	11	40	47	81	120	144	117	114	121	81	88
Other	-	-	-	15	29	23	11	27	23	14	25

Table 2: Un-weighted Average Absolute Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	16.5	19.2	16.7	21.7	29.3	25.4	24.2	21.3	15.5	17.4	13.3
Retail	-	-	-	21.0	19.7	9.7	39.2	19.4	14.3	19.9	13.7
Office	-	19.5	7.2	17.2	9.2	10.5	10.4	15.2	17.5	16.7	11.6
Industrial	-	-	-	13.6	25.6	16.6	7.5	13.2	17.6	21.4	17.9
Residential	25.0	25.3	27.8	31.0	27.8	45.4	46.1	36.2	11.0	12.1	16.7

Table 3: Un-weighted Direction Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	-2.3	-7.1	-4.9	-7.6	-9.0	-11.7	-7.5	-1.8	7.7	7.8	4.9
Retail	-	-	-	-2.0	-1.0	2.4	-26.9	5.1	10.5	11.8	8.7
Office	-	-3.9	0.6	-9.1	0.2	0.8	3.6	1.3	6.3	7.5	5.5
Industrial	-	-	-	0.0	-10.5	1.2	3.5	6.6	10.4	7.8	4.6
Residential	-6.0	-14.4	-11.5	-12.9	-15.2	-30.8	-22.8	-15.6	6.2	5.0	0.3

Table 4: Weighted Average Absolute Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	17.4	13.5	6.9	8.2	6.8	8.6	10.7	11.5	16.5	15.8	11.7
Retail	-	-	-	5.7	8.5	10.3	9.6	8.7	9.8	23.1	12.9
Office	-	12.7	6.0	8.3	6.8	7.3	9.4	11.1	18.5	14.4	10.2
Industrial	-	-	-	9.1	15.2	10.8	5.2	6.7	16.7	20.1	28.4
Residential	22.1	12.4	8.3	8.3	4.9	9.9	16.2	15.7	10.6	10.4	15.1

Table 5: Weighted Direction Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	-1.1	0.6	3.2	1.4	1.1	4.5	7.7	9.0	14.8	12.7	4.8
Retail	-	-	-	3.5	1.4	6.5	2.4	1.6	8.3	22.0	11.5
Office	-	8.5	2.2	0.5	2.5	5.5	6.5	9.1	16.6	11.7	7.3
Industrial	-	-	-	-3.2	-1.0	2.8	2.5	5.7	14.8	13.7	-0.7
Residential	-5.9	-3.6	4.9	3.0	-1.3	2.6	13.4	11.7	9.1	7.9	-7.9

Table 6: Average Absolute Proportion within +/- 10%, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	44.4	55.7	66.7	60.3	65.8	58.3	55.4	48.0	50.1	40.2	49.3
Retail	-	-	-	54.5	57.1	66.7	61.8	43.8	60.0	25.5	49.3
Office	-	39.4	80.4	67.0	73.6	67.5	61.8	51.5	42.7	41.1	55.6
Industrial	-	-	-	59.4	48.8	60.0	75.0	47.6	45.6	27.8	34.1
Residential	18.2	65.0	53.2	59.3	67.5	50.0	37.6	42.1	63.6	64.2	35.2

Table 7: Average Absolute Proportion within +/- 15%, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	59.3	71.1	74.0	69.8	75.1	73.2	67.6	63.9	61.0	54.1	67.8
Retail	-	-	-	63.6	57.1	75.8	70.6	56.3	68.3	36.4	62.3
Office	-	63.6	84.3	75.9	85.1	85.0	75.7	71.9	57.3	55.4	75.1
Industrial	-	-	-	75.0	68.3	68.6	83.9	64.3	54.4	43.3	56.8
Residential	45.5	77.5	63.8	66.7	74.2	65.3	48.7	56.1	70.2	75.3	52.3

Table 8: Average Absolute Proportion within +/- 20%, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	70.4	79.4	82.1	74.8	81.1	80.0	78.9	76.4	70.1	64.3	79.0
Retail	-	-	-	72.7	60.7	87.9	88.2	68.8	73.3	45.5	73.9
Office	-	69.7	94.1	80.4	90.5	88.3	86.8	84.8	67.5	67.5	86.0
Industrial	-	-	-	78.1	82.9	82.9	91.1	76.2	64.7	52.6	70.5
Residential	54.5	82.5	72.3	70.4	77.5	71.5	60.7	69.3	83.5	81.5	63.6

Appendix 2 - Germany

Table 1a: Sample Sizes

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	30	77	85	142	313	247	300	257	617	483	190
Retail	1	12	14	15	12	24	37	42	169	106	37
Office	7	33	24	39	80	37	61	50	250	213	94
Industrial	-	-	-	-	-	-	-	-	-	-	-
Residential	15	12	35	61	188	145	140	123	124	94	47
Other	2	3	5	3	7	5	11	14	64	66	11

Table 1b: Sample Size by fund type, % of all Property Counts

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Open-ended	16.7	27.3	22.4	17.6	7.3	0.8	25.7	21.0	12.2	36.3	15.3
Other	83.3	72.7	77.6	82.4	92.7	99.2	74.3	79.0	87.8	63.7	84.7

Table 2: Un-weighted Average Absolute Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	17.6	15.2	16.4	14.8	13.6	14.2	12.8	13.1	16.9	14.2	14.2
Retail	-	14.8	20.3	28.2	22.6	12.5	12.4	6.9	18.9	12.4	10.2
Office	-	18.3	13.9	10.8	9.4	14.1	9.2	9.9	17.9	12.7	16.0
Industrial	-	-	-	-	-	-	-	-	-	-	-
Residential	20.6	18.1	14.3	14.5	12.9	12.9	16.2	15.7	11.6	22.0	13.4
Other	-	-	-	-	-	-	13.8	10.4	16.4	11.2	16.9

Table 3: Un-weighted Direction Differences, % 1998-2007

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	3.6	4.9	-5.8	-3.0	-4.8	-8.2	-6.2	-3.0	1.0	7.5	3.3
Retail	-	-8.5	-20.2	-10.6	-20.9	-4.7	-6.0	0.1	4.9	8.0	-2.1
Office	-	9.7	-1.0	-2.8	-2.8	-1.7	-2.5	-0.9	-4.2	3.2	3.6
Industrial	-	-	-	-	-	-	-	-	-	-	-
Residential	8.3	10.2	0.2	-1.0	-2.4	-9.6	-8.8	-5.3	3.0	17.5	4.9
Other	-	-	-	-	-	-	-5.6	4.2	2.8	6.7	12.4

Table 4: Weighted Average Absolute Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	13.6	16.0	10.9	9.6	7.9	12.4	5.5	4.9	14.4	13.3	12.3
Retail	-	6.9	6.6	17.0	15.4	12.5	6.8	4.1	15.7	18.1	8.2
Office	-	21.8	13.0	7.0	6.0	10.5	3.1	3.3	14.0	10.5	14.3
Industrial	-	-	-	-	-	-	-	-	-	-	-
Residential	10.7	15.5	10.9	11.9	9.9	11.4	11.6	7.2	7.9	21.7	11.1
Other	-	-	-	-	-	-	4.7	2.5	17.0	12.3	10.3

Table 5: Weighted Direction Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	10.6	8.6	0.7	1.5	-3.4	-2.3	-1.8	0.8	-0.8	9.8	5.7
Retail	-	0.0	-6.5	-4.2	-14.7	1.8	-1.6	2.2	5.5	16.1	-1.1
Office	-	15.2	3.2	0.8	-2.7	3.6	-0.7	0.8	-6.2	6.2	7.0
Industrial	-	-	-	-	-	-	-	-	-	-	-
Residential	6.7	4.3	5.0	1.7	-2.3	-8.1	-4.5	-1.3	2.4	20.2	9.6
Other	-	-	-	-	-	-	-1.3	2.2	4.3	8.9	8.8

Table 6: Average Absolute Proportion within +/- 10%, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	50.0	55.8	55.3	51.4	46.0	59.9	61.0	61.1	42.9	47.6	60.0
Retail	-	75.0	64.3	33.3	58.3	58.3	67.6	83.3	35.5	52.8	70.3
Office	-	48.5	62.5	64.1	66.3	54.1	67.2	70.0	41.6	53.5	57.4
Industrial	-	-	-	-	-	-	-	-	-	-	-
Residential	40.0	50.0	54.3	47.5	37.2	65.5	47.9	52.8	57.3	18.1	57.4
Other	-	-	-	-	-	-	72.7	71.4	45.3	59.1	54.5

Table 7: Average Absolute Proportion within +/- 15%, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	60.0	68.8	65.9	64.8	73.2	68.8	73.3	72.0	56.1	59.0	67.9
Retail	-	91.7	64.3	46.7	66.7	70.8	78.4	92.9	49.1	64.2	83.8
Office	-	60.6	62.5	71.8	83.8	59.5	77.0	76.0	52.8	66.2	62.8
Industrial	-	-	-	-	-	-	-	-	-	-	-
Residential	46.7	58.3	68.6	62.3	71.8	72.4	64.3	65.9	75.0	31.9	66.0
Other	-	-	-	-	-	-	72.7	85.7	56.3	63.6	63.6

Table 8: Average Absolute Proportion within +/- 20%, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	70.0	77.9	75.3	76.1	83.1	78.9	80.3	81.7	67.1	73.1	77.4
Retail	-	91.7	71.4	46.7	66.7	79.2	89.2	92.9	60.4	77.4	89.2
Office	-	69.7	75.0	87.2	87.5	73.0	83.6	88.0	65.6	77.0	72.3
Industrial	-	-	-	-	-	-	-	-	-	-	-
Residential	60.0	66.7	77.1	75.4	84.0	80.7	72.9	78.9	83.9	52.1	78.7
Other	-	-	-	-	-	-	81.8	85.7	64.1	81.8	72.7

Appendix 3 - Netherlands

Table 1: Sample Sizes

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	148	228	210	369	487	418	286	361	296	318	197
Retail	9	67	59	130	150	89	44	71	107	35	64
Office	53	79	43	101	76	70	60	101	94	147	35
Industrial	10	22	7	25	24	7	5	25	6	6	8
Residential	66	56	92	94	213	235	168	148	86	119	87
Other	10	4	9	19	24	17	9	16	3	11	3

Table 2: Un-weighted Average Absolute Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	16.5	16.1	11.6	11.9	10.5	10.9	15.8	13.0	13.6	11.4	12.0
Retail	-	11.0	10.3	7.5	9.5	7.6	9.0	12.6	18.4	14.3	11.3
Office	11.7	12.4	10.5	6.3	7.6	7.5	7.0	11.0	10.4	8.9	10.0
Industrial	-	18.4	-	5.5	10.7	-	-	12.0	3.6	6.9	12.3
Residential	21.1	25.0	13.4	24.3	12.5	13.4	21.2	14.1	11.9	12.9	12.9
Other	-	-	-	17.7	8.8	9.9	-	18.2	-	21.2	-

Table 3: Un-weighted Direction Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	8.3	5.6	6.0	0.0	5.9	2.8	-3.2	4.5	6.9	8.9	6.0
Retail	-	4.6	7.5	5.2	4.0	4.6	8.3	8.6	8.4	11.7	6.0
Office	9.2	4.7	6.6	-1.2	6.0	1.2	-0.4	-2.3	5.4	5.8	6.4
Industrial	-	-1.8	-	3.8	4.3	-	-	-4.1	-1.6	2.9	12.3
Residential	6.0	12.8	4.7	-7.4	7.3	2.5	-8.3	7.8	8.3	11.1	5.2
Other	-	-	-	2.7	6.1	5.6	-	12.8	-	20.4	-

Table 4: Weighted Average Absolute Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	13.1	14.4	10.4	8.9	9.2	9.2	8.1	9.1	13.1	12.7	8.7
Retail	-	15.8	6.4	8.2	6.9	7.1	11.5	10.2	19.0	19.4	9.4
Office	8.6	11.8	10.6	6.2	5.6	6.3	5.8	7.0	10.5	10.9	8.5
Industrial	-	11.7	-	5.1	10.2	-	-	4.9	2.4	10.9	12.1
Residential	18.1	19.8	12.1	14.3	12.5	12.0	8.4	11.0	11.8	13.8	7.9
Other	-	-	-	14.2	7.3	8.0	-	15.8	-	12.4	-

Table 5: Weighted Direction Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	8.6	8.6	7.9	2.9	6.5	3.5	3.5	4.2	5.6	11.1	4.9
Retail	-	12.9	3.9	6.1	4.4	5.3	10.6	6.0	4.5	18.2	6.3
Office	7.7	8.8	8.7	-1.5	4.4	1.8	1.1	3.5	5.4	9.1	6.1
Industrial	-	6.1	-	4.0	3.0	-	-	1.0	0.8	7.1	12.1
Residential	7.7	8.1	9.2	6.5	9.6	4.2	2.0	4.6	7.5	12.9	2.6
Other	-	-	-	6.5	5.2	-2.3	-	10.5	-	8.8	-

Table 6: Average Absolute Proportion within +/- 10%, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	46.6	49.1	55.7	64.2	47.6	58.4	66.4	56.2	44.6	50.0	62.4
Retail	-	58.2	55.9	72.3	46.7	67.4	65.9	46.5	29.0	34.3	57.8
Office	54.7	62.0	60.5	79.2	69.7	77.1	75.0	73.3	51.1	60.5	60.0
Industrial	-	45.5	-	84.0	62.5	-	-	76.0	100.0	50.0	50.0
Residential	36.4	23.2	52.2	35.1	37.1	48.1	64.3	47.3	52.3	43.7	68.2
Other	-	-	-	47.4	62.5	58.8	-	43.8	-	27.3	-

Table 7: Average Absolute Proportion within +/- 15%, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	59.5	62.7	68.6	78.6	56.5	77.5	79.7	67.3	68.2	74.5	76.1
Retail	-	80.6	71.2	84.6	56.7	89.9	75.0	63.4	48.6	60.0	78.1
Office	79.2	73.4	74.4	86.1	77.6	88.6	91.7	81.2	84.0	85.0	71.4
Industrial	-	50.0	-	96.0	70.8	-	-	80.0	100.0	100.0	62.5
Residential	42.4	32.1	62.0	60.6	46.0	68.9	76.8	59.5	73.3	68.1	78.4
Other	-	-	-	63.2	66.7	76.5	-	50.0	-	36.4	-

Table 8: Average Absolute Proportion within +/- 20%, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	66.9	71.1	84.8	84.6	86.9	84.9	85.0	81.2	79.1	81.8	85.3
Retail	-	89.6	89.8	91.5	68.0	95.5	88.6	80.3	62.6	65.7	89.1
Office	83.0	83.5	88.4	90.1	84.2	90.0	93.3	90.1	91.5	91.8	88.6
Industrial	-	59.1	-	96.0	83.3	-	-	84.0	100.0	100.0	87.5
Residential	54.5	37.5	78.3	70.2	52.1	79.1	81.0	77.0	84.9	77.3	81.6
Other	-	-	-	63.2	70.8	82.4	-	62.5	-	36.4	-

Appendix 4 - United Kingdom

Table 1: Sample Sizes by Sector

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	1274	1648	1114	1318	1340	1216	984	1006	1020	903	1233
Retail	654	881	584	795	792	610	410	446	439	371	541
Office	419	519	361	327	341	339	302	263	300	273	328
Industrial	201	248	169	196	207	267	262	273	248	213	314

Table 2: Sample Sizes by PAS Segment

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Standard Retail - South East	302	349	225	315	268	178	146	149	146	129	178
Standard Retail - Rest of UK	262	418	269	371	371	316	160	182	178	144	235
Shopping Centres	26	45	16	35	44	16	27	33	28	21	30
Retail Warehouses	64	69	74	74	109	100	77	82	87	77	98
Offices - City	39	45	37	33	35	43	44	25	25	34	54
Offices - West End	63	78	55	50	72	74	50	40	59	65	68
Offices - Rest of South East	185	197	145	120	133	131	126	122	127	90	100
Offices - Rest of UK	132	199	124	124	101	91	82	76	89	84	106
Industrials - South East	96	121	85	86	93	107	113	114	85	90	125
Industrials - Rest of UK	105	127	84	110	114	160	149	159	163	123	189
Other	-	-	-	-	-	-	10	24	33	46	50

Table 3: Un-weighted Average Absolute Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	13.0	10.2	10.7	8.9	9.1	9.4	9.5	10.3	10.9	11.4	11.8
Standard Retail - South East	13.8	10.4	14.3	10.3	10.5	10.4	9.2	10.9	8.3	9.1	12.7
Standard Retail - Rest of UK	9.8	7.7	8.7	7.3	7.8	9.1	9.5	8.7	7.7	7.8	12.0
Shopping Centres	13.0	6.8	5.3	5.0	6.4	5.2	8.7	4.6	10.0	8.0	7.8
Retail Warehouses	12.0	9.3	7.0	5.7	7.3	9.2	9.2	8.4	8.5	9.5	11.8
Offices - City	14.5	16.6	14.5	8.5	13.4	10.1	7.9	18.9	16.2	9.9	10.1
Offices - West End	17.0	21.8	11.4	12.3	11.3	12.5	12.4	15.0	15.2	15.8	12.9
Offices - Rest of South East	11.0	10.8	9.9	8.6	8.7	9.8	10.3	10.8	9.6	12.6	13.9
Offices - Rest of UK	11.0	10.9	10.9	9.0	12.4	8.0	8.4	10.0	10.3	8.9	10.4
Industrials - South East	27.2	10.9	8.6	12.2	8.8	7.7	6.9	9.3	10.4	15.8	12.0
Industrials - Rest of UK	9.6	8.0	13.0	10.0	7.7	9.4	11.8	11.3	13.0	11.3	9.8
Other	-	-	-	-	-	-	5.9	11.7	31.7	22.1	17.4

Table 4: Un-weighted Direction Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	1.0	2.6	2.4	3.1	5.5	6.6	7.2	7.8	6.0	4.6	-5.8
Standard Retail - South East	-3.0	4.0	1.5	2.4	7.2	6.9	7.7	7.8	6.3	2.5	-6.9
Standard Retail - Rest of UK	0.4	1.3	0.2	1.2	4.5	6.9	7.2	7.1	5.4	0.2	-7.4
Shopping Centres	2.6	0.9	4.3	3.1	3.6	3.9	7.5	4.1	9.3	-2.2	-5.7
Retail Warehouses	10.9	3.6	3.5	3.9	4.5	5.6	7.4	7.7	5.5	3.2	-9.0
Offices - City	11.3	14.5	5.8	5.4	9.2	6.6	5.7	18.0	16.2	5.8	-6.6
Offices - West End	14.5	-7.6	10.3	9.2	7.7	11.9	11.8	13.7	14.8	10.3	-4.5
Offices - Rest of South East	0.5	1.2	3.8	5.5	6.3	6.7	5.6	8.6	6.6	7.2	-8.4
Offices - Rest of UK	2.4	3.3	4.4	6.9	5.0	7.1	6.8	6.8	5.7	2.1	-4.2
Industrials - South East	-7.1	4.8	5.0	2.7	5.2	6.7	5.0	7.2	5.8	9.5	-1.2
Industrials - Rest of UK	2.5	4.0	-3.6	0.5	4.4	3.6	9.0	6.8	2.0	1.0	-4.6
Other	-	-	-	-	-	-	3.6	8.1	0.7	20.0	-3.6

Table 5: Weighted Average Absolute Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	11.0	8.6	9.0	6.8	7.2	7.9	8.1	8.8	9.6	10.7	9.6
Standard Retail - South East	15.3	9.6	8.9	8.2	8.9	8.7	8.5	16.4	9.9	11.8	9.3
Standard Retail - Rest of UK	8.3	7.2	8.3	6.6	6.9	8.1	7.7	7.7	6.7	7.2	7.7
Shopping Centres	12.5	5.6	6.5	4.2	6.5	4.7	8.4	3.4	8.7	7.7	6.8
Retail Warehouses	12.7	8.7	6.3	5.1	7.1	9.0	8.9	6.4	7.3	8.9	11.6
Offices - City	12.2	14.2	12.6	5.1	6.2	8.6	7.2	8.7	10.2	6.9	7.5
Offices - West End	10.8	9.1	10.5	8.6	8.1	10.4	9.1	15.7	13.9	11.7	10.9
Offices - Rest of South East	7.7	7.1	9.6	8.4	7.3	7.4	10.3	10.9	10.1	12.6	12.0
Offices - Rest of UK	8.7	8.5	8.6	8.2	7.7	5.9	4.6	8.1	10.4	7.5	9.8
Industrials - South East	14.9	12.4	7.7	8.4	7.3	7.5	5.7	12.5	8.7	21.9	13.7
Industrials - Rest of UK	7.3	6.5	11.1	9.5	6.7	7.3	10.9	8.7	10.4	9.1	10.1
Other	-	-	-	-	-	-	4.8	11.3	15.7	12.4	12.0

Appendix 4 - United Kingdom

Table 6: Weighted Direction Differences, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	5.3	3.8	4.1	3.3	4.4	6.3	6.4	7.5	8.0	4.9	-4.8
Standard Retail - South East	-0.8	4.5	5.6	2.7	6.8	6.4	6.4	15.7	8.7	7.0	-5.1
Standard Retail - Rest of UK	3.9	3.2	0.6	0.7	4.4	6.6	5.5	6.5	4.5	0.9	-4.9
Shopping Centres	7.0	0.6	6.0	1.8	0.9	2.4	7.6	3.2	8.6	-4.0	-4.3
Retail Warehouses	11.8	4.8	3.5	3.2	4.3	7.8	8.0	5.4	4.7	2.3	-9.5
Offices - City	9.0	12.8	4.1	1.1	5.2	7.2	5.0	8.2	10.2	1.6	-5.3
Offices - West End	8.1	2.4	8.8	6.9	7.1	9.7	8.1	14.2	13.3	6.5	-4.9
Offices - Rest of South East	2.9	2.0	5.6	6.7	5.4	5.2	7.3	9.9	8.3	9.0	-4.8
Offices - Rest of UK	3.4	1.4	2.6	6.7	5.9	4.9	3.3	5.3	7.3	3.4	-3.8
Industrials - South East	2.3	7.7	5.5	4.2	4.3	6.8	3.2	10.6	6.5	17.6	1.9
Industrials - Rest of UK	3.1	3.8	-2.1	-0.2	3.6	3.4	9.2	7.5	5.8	0.1	-5.1
Other	-	-	-	-	-	-	1.3	10.5	13.4	11.4	1.3

Table 7: Average Absolute Proportion within +/- 10%, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	62.7	66.3	67.1	71.6	68.3	66.0	64.4	63.5	63.5	60.4	59.5
Standard Retail - South East	61.3	62.8	63.1	65.7	61.6	61.2	65.8	59.1	74.0	63.6	56.2
Standard Retail - Rest of UK	68.7	74.2	71.4	76.5	73.6	63.9	63.1	67.0	74.2	74.3	62.6
Shopping Centres	38.5	80.0	81.3	85.7	70.5	87.5	70.4	87.9	57.1	71.4	76.7
Retail Warehouses	54.7	58.0	79.7	85.1	71.6	67.0	63.6	67.1	67.8	63.6	57.1
Offices - City	56.4	33.3	51.4	72.7	65.7	72.1	75.0	44.0	32.0	67.6	66.7
Offices - West End	36.5	56.4	54.5	50.0	62.5	50.0	44.0	47.5	37.3	46.2	44.1
Offices - Rest of South East	69.2	70.6	68.3	71.7	66.9	65.6	61.9	59.8	64.6	48.9	53.0
Offices - Rest of UK	67.4	64.8	57.3	71.0	64.4	75.8	75.6	63.2	64.0	70.2	54.7
Industrials - South East	54.2	57.9	67.1	64.0	69.9	71.0	73.5	71.1	61.2	47.8	61.6
Industrials - Rest of UK	71.4	70.9	78.6	74.5	71.1	69.4	55.0	63.5	60.1	59.3	67.2
Other	-	-	-	-	-	-	90.0	50.0	42.4	43.5	54.0

Table 8: Average Absolute Proportion within +/- 15%, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	76.5	80.9	79.5	83.3	82.6	80.2	79.1	77.5	78.6	75.0	73.0
Standard Retail - South East	77.5	77.9	75.1	76.8	76.9	79.2	79.5	72.5	84.2	86.0	73.0
Standard Retail - Rest of UK	79.8	86.6	80.7	86.5	85.7	79.4	81.3	80.2	87.6	84.7	73.6
Shopping Centres	65.4	88.9	81.3	97.1	93.2	100.0	77.8	93.9	78.6	85.7	83.3
Retail Warehouses	67.2	78.3	89.2	93.2	88.1	91.0	80.5	80.5	82.8	75.3	77.6
Offices - City	66.7	55.6	62.2	84.8	80.0	79.1	86.4	60.0	64.0	79.4	83.3
Offices - West End	55.6	78.2	78.2	72.0	77.8	64.9	64.0	50.0	49.2	56.9	60.3
Offices - Rest of South East	77.3	82.2	82.8	85.0	79.7	77.1	73.0	77.9	81.9	70.0	68.0
Offices - Rest of UK	80.3	76.9	75.0	82.3	81.2	86.8	85.4	77.6	80.9	82.1	75.5
Industrials - South East	74.0	77.7	77.6	80.2	81.7	76.6	86.7	84.2	77.6	60.0	69.6
Industrials - Rest of UK	85.7	86.6	90.5	86.4	86.0	82.5	73.8	79.9	76.1	75.6	76.7
Other	-	-	-	-	-	-	90.0	70.8	54.5	54.3	60.0

Table 9: Average Absolute Proportion within +/- 20%, % 1998-2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
All Property	84.2	88.3	87.3	89.2	89.8	87.8	86.9	86.5	88.3	84.5	83.0
Standard Retail - South East	85.4	88.0	83.1	86.3	85.8	85.4	88.4	79.9	90.4	93.0	80.3
Standard Retail - Rest of UK	87.8	92.1	90.3	91.9	92.2	88.3	85.0	92.3	92.7	91.7	81.7
Shopping Centres	80.8	93.3	100.0	97.1	93.2	100.0	96.3	100.0	92.9	90.5	90.0
Retail Warehouses	76.6	89.9	93.2	93.2	94.5	93.0	85.7	89.0	93.1	92.2	85.7
Offices - City	71.8	64.4	67.6	93.9	82.9	88.4	95.5	72.0	76.0	85.3	85.2
Offices - West End	69.8	84.6	85.5	78.0	84.7	75.7	74.0	67.5	69.5	67.7	82.4
Offices - Rest of South East	85.4	88.8	88.3	90.0	89.5	88.5	86.5	86.9	90.6	77.8	79.0
Offices - Rest of UK	84.8	83.4	85.5	87.1	86.1	90.1	89.0	86.8	87.6	91.7	89.6
Industrials - South East	82.3	87.6	87.1	86.0	90.3	86.9	93.8	88.6	89.4	70.0	80.8
Industrials - Rest of UK	89.5	92.9	92.9	90.9	93.9	89.4	81.9	89.3	90.8	88.6	87.3
Other	-	-	-	-	-	-	90.0	70.8	60.6	63.0	72.0

Appendix 5 - Methodology and measures

The analysis is based upon the sale price and valuation records from the IPD Databank. The basis of the methodology remains unchanged and no historic figures were restated. The same methodology was applied across France, Germany, the Netherlands and the UK.

There are three stages to producing the results.

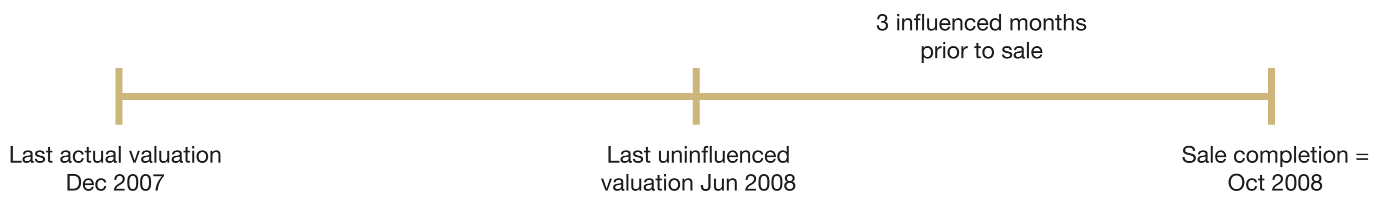
Firstly, each sale must be carefully considered for inclusion and a number of sales each year are excluded from the analysis where the sale or valuation could be identified as being unrepresentative. Sale observations were excluded if they fell into any of the following categories:

- Sales of assets under development.
- Sales where the sale price was below a certain amount (£10,000 in the UK and €12,500 in France, Germany and the Netherlands).
- Properties that had experienced an exceptional event between the last valuation and sale date.
- Properties that had a large amount of capital expenditure between the last valuation and sale date.
- Properties that were bought and sold within the same year.
- Properties that were sold as part of a portfolio.

Secondly, the first preceding valuation is selected from the IPD records that is not within 3 months of the sale date. The valuations made in the 3 months prior to the sale month are excluded on the grounds that a valuer would have become aware of the progress of the impending sale and would rationally have taken this into account when assessing the market value. This period has in the past been called the 'influence window' and means that a simple comparison of the last preceding valuation and sale prices would be misleading. Although this analysis adopted a 3 month window a survey conducted by Paul McNamara (1998) suggested that the period can vary from segment to segment and from country To country[1]. The last actual uninfluenced valuation could therefore lie anywhere from 4 months before sale to 15 months before sale. In the UK, annually, quarterly and monthly valued properties were included. In France, Germany and the Netherlands, only annually valued properties were available for the analysis.

Figure 29 helps explain the valuation selection process for an annually valued property.

Figure 29 Understanding valuation selection



[1]McNamara, P (1998). *Exploring Liquidity: Recent Survey Findings. Paper presented to the 7th IPD Conference, Brighton, November.*

Thirdly, the last actual valuation is adjusted for market movements in values so that the results reflect more than the change in market capital values between valuation and sale date.

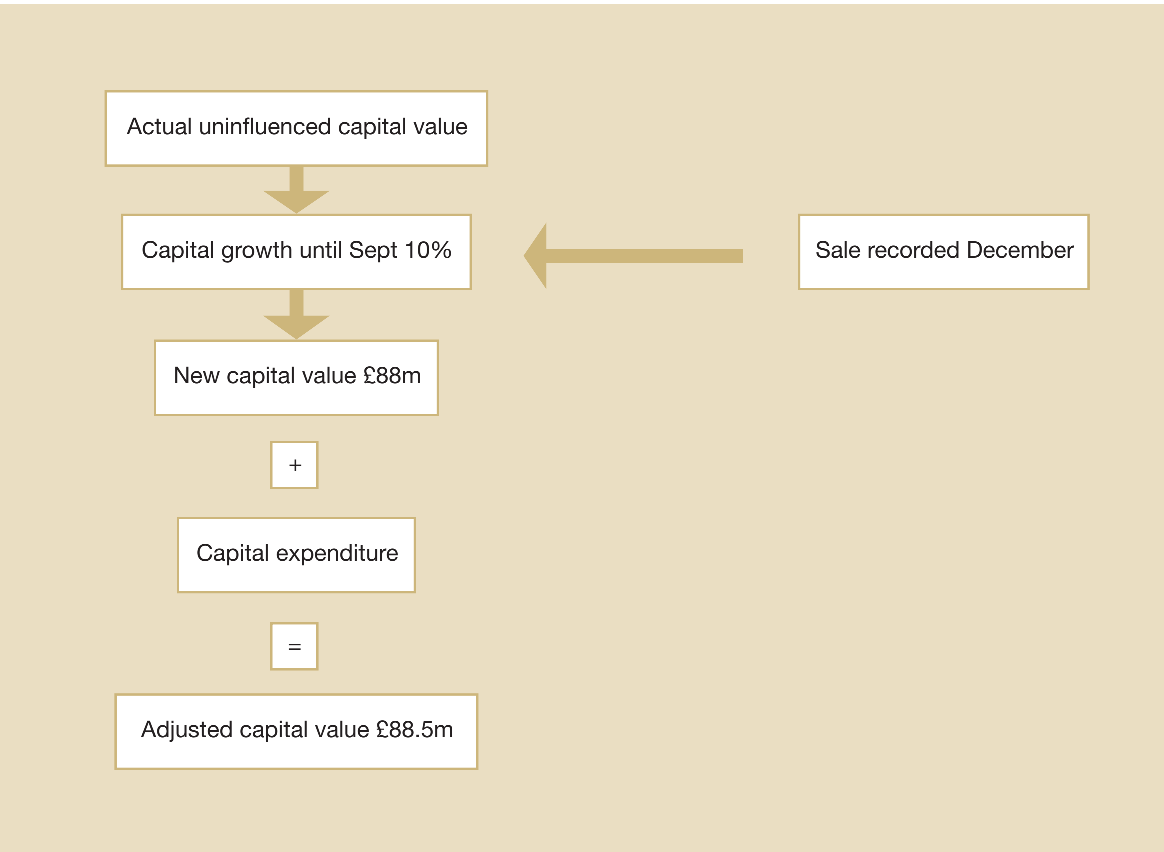
The market movement adjustments applied were segment level IPD capital growth rates for each individual country. The adjustment made for each valuation was based upon the broad property type and region/location of the individual asset. The UK capital growth figures were available at a monthly frequency (based on the IPD UK Monthly Index) but for France, Germany and the Netherlands, annual capital growth figures had to be apportioned into monthly amounts.

Capital growth was not applied right up to the sale month but up to the third month before sale. This makes the assumption that this would be around the time that the sale price would have been agreed. Figure 30 shows an example of the process of applying capital growth to the last actual uninfluenced valuation up to a sale agreement month.

Figure 30 Understanding market movement adjustment

Finally, capital expenditure between last actual uninfluenced valuation month and the updated valuation month was added to the updated valuation. Figure 31 provides an example.

Figure 31 Applying capital growth



Appendix 5 - Methodology and measures

Average Absolute Difference

This measure records the absolute difference between the Market Adjusted Valuation and the sale price regardless of whether the adjusted valuation is above or below the sale price. In other words, this measure ignores whether the difference between the two values is positive or negative.

The Average Absolute Difference indicates how different on average the typical sale price is from the preceding Market Adjusted Valuation.

Average Direction Difference

This measure records the simple difference between the Market Adjusted Valuation and the sale price and so does take into account whether the Market Adjusted Valuation is above or below the sale price and allows positive and negative figures to cancel each other out.

If the Average Direction Difference is positive it indicates that a premium over valuation is typically achieved when selling properties.

The following table shows how these measures are used in practical terms.

Table 9.1 Absolute and Direction Difference

	Sale Price (m)	Valuation (m)	Difference
Property 1	1,000,000	500,000	50%
Property 2	1,000,000	1,500,000	-50%
Average absolute difference			50%
Average direction difference			0%

Value weighted and un-weighted

Value weighted measures attach greater importance to the results for more valuable properties, as measured by the sale price. Un-weighted measures treat each sale as equally important.

If the average un-weighted absolute difference is greater than the weighted absolute difference this shows that the sale prices of more valuable properties are closer to the preceding Market Adjusted Valuation than smaller properties.

The following table shows how these measures are used in practical terms.

Table 9.2 Value weighted and Un-weighted Absolute Differences

	Sale Price (m)	Valuation (m)	Difference
Property 1	1,000,000	500,000	50%
Property 2	10,000	15,000	-50%
Portfolio	1,010,000	515,000	
Unweighted average (+/-) of both properties			0%
Value weighted average (+/-) of both properties			49%

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Europe (excluding United Kingdom)
Rue Ducale 67
1000 Brussels
Belgium

T +32 2 733 10 19
F +32 2 742 97 48
ricseurope@rics.org

Asia
Room 1804
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

T +852 2537 7117
F +852 2537 2756
ricsasia@rics.org

Americas
60 East 42nd Street
Suite 2918
New York, NY 10165
USA

T +1 212 847 7400
F +1 212 847 7401
ricsamericas@rics.org

Oceania
Suite 2, Level 16
1 Castlereagh Street
Sydney
NSW 2000
Australia

T +61 2 9216 2333
F +61 2 9232 5591
info@rics.org.au

United Kingdom
Parliament Square
London SW1P 3AD
United Kingdom

T +44 (0)870 333 1600
F +44 (0)207 334 3811
contactrics@rics.org

Africa
PO Box 3400
Witkoppen 2068
South Africa

T +27 11 467 2857
F +27 86 514 0655
ricsafrica@rics.org

Middle East
Office F07, Block 11
Dubai Knowledge Village
Dubai
United Arab Emirates

T +971 4 375 3074
F +971 4 427 2498
ricsmiddleeast@rics.org

India
48 & 49 Centrum Plaza
Sector Road
Sector 53, Gurgaon – 122002
India

T +91 124 459 5400
F +91 124 459 5402
ricsindia@rics.org

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