

QUARTERLY



PROPERTY REPORT NOVEMBER 2007 WWW.ATHANOR-INVESTMENTS.COM

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Welcome to our November 2007 Quarterly Property Report. This report provides our views on the UK and selected European property markets including Germany. It also provides an update on our property investments, the Cubic Property Fund and newsworthy items.

01 MARKET COMMENTARY

United Kingdom

Two quality new acquisitions

Since our last Quarterly Report in July 2007 a new property was acquired for investors in Team Valley, Newcastle. In addition, a newly developed shopping centre in Oxley Park, Milton Keynes, with Tesco as the anchor tenant on a 15 year lease, is in the process of being acquired directly from the developer.

UK economy continuing to grow

According to the October 2007 RICS UK Economic Brief, data released in October showed that despite the recent drama in financial markets, the UK economy ploughed on regardless, growing at 0.8% for the quarter. This raised the annual rate of growth to 3.3%, above expectations of 3.1%.

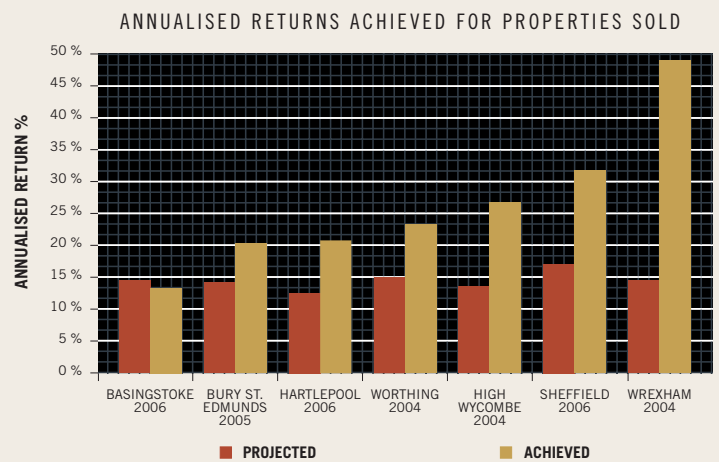
Bank rate expected to be cut by MPC

The impact of the credit crunch on many of the global economies, including the UK, is a reduction to the forecasted economic growth for 2008. The reduced economic growth forecast of some 2%, together with 3 consecutive months of sub 2% inflation, is expected to lead the Monetary Policy Committee to a cut in the bank rate (currently at 5.75%). As an indication of the general downward trend, the 10 year swap rate has decreased from 5.94% to 5.19% during the 4 months ending 19 November 2007.

Property value growth to come from rental growth

The outlook for the next 1 to 2 years is that property value growth will come from rental growth rather than the high capital growth experienced over the past few years. During this quarter, good rental increases of between 16% and 36% were achieved by tenants in our Warrington, Cromer and Colchester properties.

KEY STATISTICS



SAMPLE QUALITY TENANTS



Improved buying environment

With the rise in interest rates starting to reverse, the tightening of credit considered to be a short-term situation in the UK, and large property funds under pressure to sell some of their smaller non-core assets, we are presented with an improved environment for acquiring properties. Our recent acquisitions are evidence of this.

Historical performance and environmental factors provide for positive outlook

With our properties typically targeted to be held for 5 years before they are sold, expectations of the market conditions in 5 years time should be considered rather than focusing on the current conditions. The Olympics to be held in London in 2012 is a positive factor for this period. Investors in commercial property will note from the historical trend that there has been a continued growth in cumulative returns over the past 35 years, achieved during a variety of different market conditions, with dips being of short duration.

Cubic Property Fund

The Cubic Property Fund completed its first anniversary of public trading on 1 October 2007 and achieved a NAV per share of £11.17. This represents a healthy 11.7% growth for the year, achieved with the high quality portfolio of 27 properties. Since the last Quarterly Report, the Fund acquired 3 properties in Germany and two properties in the UK. All 5 acquisitions brought significant additional value to the Fund.

The Fund is well poised to continue on its growth path, enabled by:

- **rental income growth**, with 51% of rental income coming up for review in the next 2 years;
- **active management opportunities** currently in progress;
- **diversification** into Germany and Poland; and
- the proven ability to take advantage of **good buying opportunities** available in the current market.

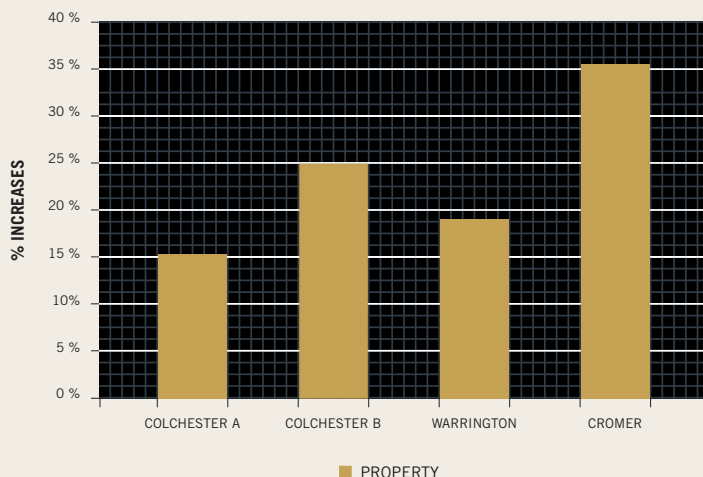
Germany and Selected European Countries

According to data from the Federal Statistics Office, Germany's GDP rose 2.5% from last year during the third quarter, up 0.7% from the last quarter. The German retail association has also indicated a positive retail outlook for the next year.

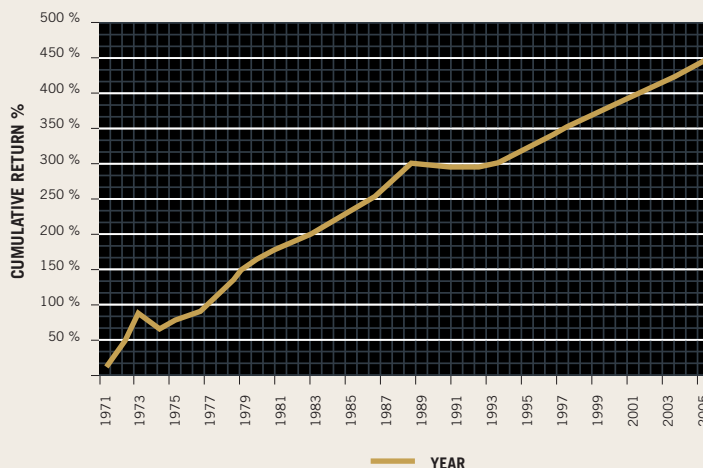
In addition to the 3 retail properties acquired by Cubic in Germany during this quarter, an acquisition in Poland is currently in progress. We continue to identify quality projects in the broader European Union.

KEY STATISTICS

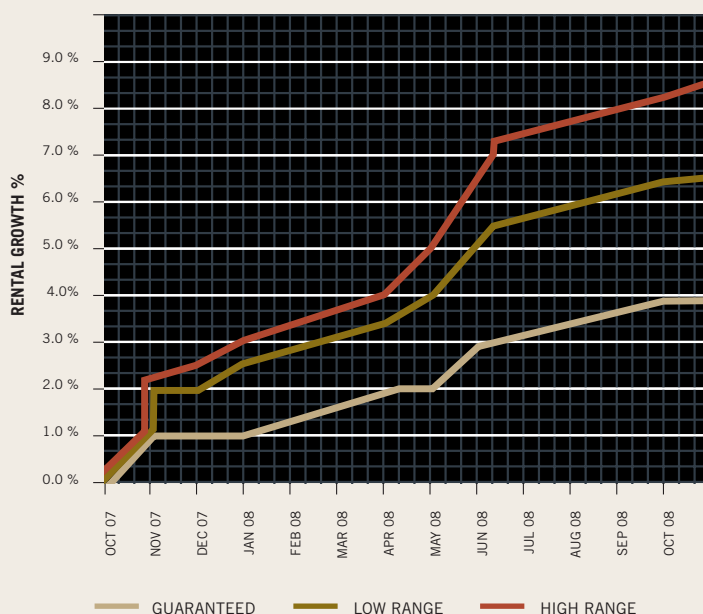
SAMPLE RENTAL INCREASES ACHIEVED THIS QUARTER



HISTORICAL PERFORMANCE OF UK COMMERCIAL PROPERTY OVER THE PAST 35 YEARS



CUBIC'S ESTIMATED CUMULATIVE RENTAL GROWTH FOR NEXT YEAR



02 PROPERTY SUMMARY

PROPERTY NAME	LOCATION	ACQUISITION DATE	TENANTS
Colchester	28-29 Head Street, Colchester	October 2002	Odeon Cinemas Mitchell and Butlers
Benbow House	Southwork Bridge, London	November 2003	Pizza Express Starbucks
Palmer & Harvey	Midkent Business Park, Kent	March 2004	Palmer & Harvey
Paddington	Praed Street, Paddington, London	September 2004	SeeWoo Carphone Warehouse Superdrug Flight Centre Hamptons Tesco Wells Palmer Quest Estates Stanley Betting The Post Office Core Organics The Headmasters
Canterbury	28 / 29 High Street, Canterbury	October 2004	Post Office Prezzo Plc
Exeter	65 / 67 High Street, Exeter	January 2005	Harvey World Travel
Newport	170/173 Commercial Street, Newport	May 2005	Signet Group H Samuel Barrats Orange Retail Ltd 02 (UK) The Card Factory
Dartford	36 Westgate Road, Dartford	September 2005	Dreams Plc
British Nuclear Fuels plc	1100 Daresbury Park, Cheshire	July 2005	British Nuclear Fuels Plc
Workington	1-4 Ritz Shopping Centre, Workington	November 2005	Superdrug Savers Arcadia Group t/a Dorothy Perkins Adams Property Holdings
Norwich	19-25 Red Lion Street, Norwich	January 2006	Nando's Chickenland Mr. Shoes Thai Wellbeing
Burgess Hill	Woodlands Court, Albert Drive, Burgess Hill	January 2006	Ericsson
Luminar Leisure	Luminar Leisure, Q2 Deltic Avenue, Rooksley, Milton Keynes	February 2006	Luminar Leisure
Derby	15/16 Market Place, Derby	June 2006	Nando's Chickenland Done Brothers Cash Betting
Cromer	Cromer Retail Park, Holt Road, Cromer	June 2006	Argos MFI Properties Carpetright
Swindon	5 Regent Street, Swindon	November 2006	Clinton Cards
Warrington	JJB Bank Street, Warrington, Cheshire	November 2006	JJB Sports
Hastings	207 -212 Queens Road, Hastings	May 2007	Barclays Bank Thomas Cook Retail Phones 4 U Dollond & Aitchison
Taunton	Belvedere Retail Park, Station Road, Taunton	July 2007	Laura Ashley Johnson Cleaners UK Bathstore.com
Team Valley	Olas House, Team Valley	September 2007	Gateshead Council

Notable Achievements since last Report

COLCHESTER: Successful negotiations have resulted in good rental increases for both tenants.

PADDINGTON: Units 2, 6 and 12 have been let to The Headmasters, The Post Office and Core Organics, respectively. Development on the opposite side of the basin has commenced and Paddington is being referred to as the new 'Canary Wharf' – find out more in the Newsworthy section of this report.

LUMINAR LEISURE: Luminar Leisure recently reported strong business performance. Find out more under the Newsworthy section of this report.

WARRINGTON: Rental increase negotiations were successful.

CROMER: Rental increase negotiations were successful.

HASTINGS: Rental increase negotiations were successful.

03 NEWSWORTHY ITEMS

RICS Economic Brief Published: October 2007

Data released this month showed that despite the recent drama in financial markets, the economy ploughed on regardless, indeed it actually accelerated. According to the Office for National Statistics, the UK economy grew at its fastest annual pace in more than three years between July and September.

Gross Domestic Product (GDP) grew by 0.8% from the previous quarter, raising the annual rate of growth to 3.3% during the period, above expectations of 3.1%, and the strongest rate since the second quarter of 2004. Growth was driven by expansion in the service sector, particularly in hotel, restaurant and retail businesses. This higher growth is one reason why the future of the labour market looks to be a solid one. Already the picture is pretty good. Employment in the economy increased by 132,000 jobs in the year to August, an increase 0.3%. This has pushed unemployment down: the number of people claiming unemployment benefit has fallen in 14 out of the last 15 months. The number of people made redundant fell by 15% in the year to the second quarter and is now at its lowest level since the figures started being collected in the second quarter of 1997.

People seem set to continue to find work in coming months. In 2007 Q3, the number of job vacancies (a leading indicator of future changes in unemployment) was at its highest level since records began in 2001. Furthermore, employment is a lagging indicator of economic activity. Growth in economic output tends to generate additional jobs only after a lag.

Bank holds interest rates at 5.75% Economics Editor, By Chris Giles Published: November 09 2007

Interest rates were left on hold at 5.75 per cent yesterday as the majority of members on the Bank of England's monetary policy committee decided the risks of a sharp economic slowdown were not serious enough to warrant a cut. Business reaction was generally supportive, with the Bank's wait-and-see attitude praised by the CBI employers' organisation, the Institute of Directors and the EEF manufacturing organisation. The decision had been widely expected by economists and financial market participants, although they had frequently changed their minds about the likely path for interest rates over the past three months. Ian McCafferty, chief economist of the CBI, said: "The Bank must remain vigilant for economic slowdown but unless the outlook for the global economy deteriorates or we see a weakening in consumer and business confidence, conditions are unlikely to justify a cut until the spring."



THE LYCEUM,
28-29 HEAD STREET, COLCHESTER



LUMINAR LEISURE,
MILTON KEYNES



PADDINGTON BASIN,
WEST END QUAY, LONDON W1



JJB SPORTS PLC,
WARRINGTON



CROMER RETAIL PARK,
HOLT ROAD, CROMER



QUEENS ROAD,
HASTINGS

But the National Association of Estate Agents was much more critical of the MPC's decision after Halifax, the mortgage lender, yesterday reported that house prices fell for the second month in a row in October. Peter Bolton King, chief executive of the NAEA, said: "Consumers are crying out for reassurance: many housing market reports, including the NAEA survey, clearly indicate that the housing market is slowing down on a monthly basis and agents have expressed concern." The Halifax reported a monthly fall of 0.5 per cent, bringing annual house price inflation down to 8.9 per cent. While this is clearly out of line with other indices, the Halifax's estimate of the past year's house price inflation is now close to that of the FT house price index and other measures. After initially expecting a rise and then a cut at November's meeting, economists had convinced themselves that no change was the most likely outcome, because the MPC would have to balance strong economic momentum, with the risk of a downturn and global inflationary pressure.

Third quarter economic growth, for example, was estimated by the office for National Statistics at an above average rate of 0.8 percent and the Bank has never cut rates with such momentum still in the economy. By leaving rates on hold, the MPC put more weight on slightly historic but strong whole-economy figures than on more peripheral economic data published this week. Industrial production, the purchasing managers index of services sector output, the British Retail Consortium's retail sales index and the house price index from Halifax have all been weaker than expected. The Bank wants to see the economy slow, to keep inflationary pressures in check, and will judge over coming months whether the slowdown most economists expect is sharper than desired.

Most economists believe the economy will slow more than the Bank wants and predict an interest rate cut as early as December if corroborating evidence becomes much clearer than it is. The Bank will set out its inflation and growth projections in its quarterly Inflation Report on Wednesday.

Paddington to become the next Canary Wharf
Financial Times, By: Jim Pickard
Published: September 22 2007

Not so long ago the area surrounding Paddington station in west London was a derelict postindustrial landscape, where few would linger after nightfall. But a 1.8m sq ft development scheme of offices and flats is set to seal the area's transformation into the Canary Wharf of west London.

A consortium backed by the Reuben brothers, two London-based billionaires, is beginning work shortly on six buildings around Paddington Basin, the end of the Grand Union Canal which winds its way down from Birmingham. They will include a 43-storey residential tower – the tallest in the West End, where traditionally it has been hard to obtain planning permission for skyscrapers. Called Merchant Square, it will have 559 flats and more than 600,000 sq ft of office space. The project is part of an estimated 8m sq ft of development round the railway station, much of which has already been built. An estimated 30,000 people will eventually work there. Some already see the area as a counterfoil to Canary Wharf, which helped to transform the fortunes of London's docklands when it was built at the Isle of Dogs in the 1980s and 1990s.

The brothers, who have invested heavily in UK property, became involved in Paddington after they took part in the takeover of Chelsfield, the developer that had been Pearcroft's partner on the project. European Land itself already has a record in the Paddington area. Two years ago it built 230 apartments at the neighbouring "Paddington Walk" and two office blocks totaling 475,000 sq ft. These buildings, The Waterside and The Point, were let as headquarters for Marks and Spencer and Orange in moves that would have seemed outlandish a few years earlier. "Orange and Marks and Spencer coming here were pivotal; it is no longer seen as a pioneering move to come to the area since," says Howard Wright, managing director of European Land. "There have been a couple of false dawns for this part of the basin but the momentum has now been achieved."

The progress in the Paddington area is in contrast to other "regeneration" areas of London, such as King's Cross and Elephant & Castle, where progress has been slow. A lack of space



LLOYDS TSB BANK,
26-28 REGENT STREET, WREXHAM



LLOYDS TSB BANK,
41-43 SOUTH STREET, WORTHING



BELVEDERE RETAIL PARK,
TAUNTON



13-16 CHURCH STREET,
HIGH WYCOMBE



PALMER & HARVEY,
MID KENT BUSINESS PARK, KENT



MARINA WAY CENTRE,
HARTLEPOOL

in more established parts of the West End, where vacancies are at record lows, has spurred developers to take a bet on Paddington. Development Securities, a rival property group, is building 250,000 sq ft of office space on top of the Crossrail terminal at the station. The group has already created nearly 350,000 sq ft of space in two buildings let to tenants including Prudential King Fisher and Chiltern.

Revamped Luminar aims to return £41m
Financial Times, By: Lucy Warwick-Ching
Published: August 18 2007

Luminar, the nightclub operator, aims to return £41m to shareholders after selling around 100 properties this year as it attempts to revamp its business. The group, which operates Liquid and Oceana nightclubs, has sold some venues and refurbished others. In January it sold 67 Chicago Rock Cafe and Jumpin Jaks themed bars and 31 other units to focus on late-night dancing venues. The group said the return was worth 60.2p per share and comes on top of the £36m of a planned £70m threeyear buy-back that it has already returned.

"Our intention has been to return significant amounts of cash to shareholders," said Alan Jackson, chairman. Under the scheme, shareholders would receive 10 new shares for every 11 existing shares in the group and one B share for every share. Simon French, analyst at Numis, said: "2008 is very much a transitional year for Luminar as it moves to operating a majority of branded units, where there are opportunities for sales uplifts, gross margin improvements and lower labour costs as a percentage of sales. "Although there is no comment on current trading, we expect the group to be continuing to enjoy double-digit like-for-like sales growth, despite the smoking ban." The group's decision to buy back shares follows buy-backs in the leisure industry this week as share prices have fallen. Carnival bought back 200,000 shares at \$20.75 and was trading at \$21.33 yesterday. Enterprise Inns bought 913,379 shares at 568p, and closed at 574 1/2p. Greene King, which bought back 402,943 shares at 946p, closed at 962p. Luminar's shares rose 11.5p to 674p, giving the company a market value of £459m.

Poland sets out agenda to free up business
Financial Times By: Jan Cienski and Stefan Wagstyl in Warsaw
Published: October 23 2007

Poland's new government plans to slash bureaucracy and sell state-controlled companies immediately after the new parliament gets to work, said one of its leading economic advisers. "In the first working session of parliament we will present our economic liberalisation programme," Adam Szejnfeld, Civic Platform's economic policy spokesman and a potential candidate to be minister of the economy, said in an interview with the Financial Times.

Civic Platform won Sunday's parliamentary election leaving Donald Tusk, its leader, as the likely prime minister. The party intends to make a clean break with the often desultory economic programme of its predecessors from the Law and Justice party (PiS). PiS, under the leadership of Jaroslaw Kaczynski, the prime minister, showed little interest in the economy, slowed privatisation, was unenthusiastic about the Euro and undertook few concrete economic reforms.

"We really have to start from scratch because so little was done over the past two years," said Mr Szejnfeld. "Our programme is to take politics and politicians entirely out of the economy." The new government will try to sell off most of the 1,200 companies still controlled by the state, retaining only strategic concerns such as oil and gas pipelines and power transmitters. Unlike in the past, no share will be retained in state hands. Although Mr Szejnfeld was careful not to be too specific, early priorities will be power generators and coalmines, both sectors demanding enormous investment the state is reluctant to make. Civic Platform's programme, including privatisation, has wide support from business. Jacek Socha, a partner in PwC, the professional services firm, and a former treasury minister, called for a rapid resumption of privatisation, saying governments that delayed sell-offs often



1-4 RITZ SHOPPING CENTRE,
 WORKINGTON, CUMBRIA



28/29 HIGH STREET,
 CANTERBURY



WOODLANDS COURT,
 ALBERT DRIVE, BURGESS HILL



PADDINGTON BASIN,
 WEST END QUAY, LONDON W1



5 REGENT STREET,
 SWINDON



WH SMITH,
 15 CORNHILL, BURY ST EDMUNDS

saw the value of their companies decline. He urged the new government to use the Warsaw Stock Exchange as the main means of privatisation to encourage the growth of Poland's capital markets by increasing the supply of stocks.

"We can make Warsaw the leading regional financial market in central Europe," he said. The government will also scrutinise managers placed in senior corporate jobs by PiS in the past two years. Those appointed because of political ties, who have little experience, "should start looking for other work", said Mr Szejnfeld. The party is committed to revamping public finances, introducing a flat corporate and personal tax rate of 15-16 per cent, reforming social security and health spending and increasing employment. Poland has the lowest labour participation rate in the European Union. Mr Szejnfeld added that the government would move to adopt the euro "as soon as possible", saying 2012 was a realistic entry date.

The ambitious reform programme can be passed only with the help of a coalition government because with 209 seats in the 460-member parliament, Civic Platform does not have a majority. The party begins talks this week with the smaller Peasants party, which has 31 seats. However, the Peasants are leftists, ambivalent over privatisation, the flat tax and early Euro adoption. Mr Szejnfeld said: "There are more common points than differences.

German Economy Accelerates On Domestic Demand
Financial Times By: Steve Goldstein
Published: November 2007

London (Dow Jones) – The German economy accelerated in the third quarter, with Europe's biggest economy relying on a domestic push to offset a surge in imports that negated the country's traditional strength in engineering exports. German GDP rose 2.5% during the third quarter from last year, or up 0.7% from the last quarter, according to data from the Federal Statistics Office on Wednesday. Germany's economy grew at a 0.3% quarterly rate in the second quarter. The growth came on capital formation in machinery and equipment and in construction. A moderate increase in household consumption also helped.

A marked increase in imports offset exports from Daimler (DAI), Siemens (SI) and BMW, the statistics office said. France, too, reported third-quarter economic figures, and also reported 0.7% quarterly growth. France's Insee statistics agency didn't report year-on-year figures, but the Eurostat statistics agency, which compiles economic data for all of Europe, estimated it grew at an annualized pace of 2.1%. Like Germany, imports in France surged. The Euro's rally means that European consumers can buy more American and Japanese goods for less. The Euro area as a whole grew 0.7% in the third quarter from the second quarter, or up 2.6% year-on-year, said Eurostat. Spain's economy grew 3.8% – slower than the 4% rise of the second quarter – and Italy's economy rose 1.9%. Holland's economy jumped 4.1% on a surge in gas production.

Despite the health of the quarterly economic data, some investors are growing pessimistic on the fortunes of Europe amid the credit crunch. Data released Tuesday showed investor sentiment in Germany dropping to a near 15-year low. Similar polls of purchasing managers at manufacturers in Germany and the rest of Europe also have dropped, though not as sharply. "The downside risks to economic activity in Germany, as in the euro zone as a whole, are obvious in the current market environment," said analysts from the Bank of Scotland. "But it remains unclear that this will develop into a full-blown credit crunch and it is particularly useful that Germany is benefiting from strong job creation seen over the past two years or so." Meanwhile in Britain, the Bank of England, in its quarterly inflation report, said the risks to economic growth are on the downside, while the risks to inflation are balanced. The U.K. central bank expects inflation to pick up next year on higher energy and import price inflation, but then ease back as capacity moderates, settling around the 2% target in the medium term. The key risks to the outlook are: the implications of financial market developments for credit conditions, asset prices and spending; the prospects for world growth and prices; and the evolution of wages and inflation expectations. The central bank based its inflation forecast on expectations of a rate cut in the first quarter of 2008, followed by another in the third quarter.



36 WESTGATE ROAD,
DARTFORD, KENT



BRITISH NUCLEAR FUELS PLC,
1100 DARESURY PARK, CHESHIRE



PADDINGTON BASIN,
WEST END QUAY, LONDON W1



ALLIANCE & LEICESTER,
26-28 HIGH STREET, SHEFFIELD



BENBOW HOUSE,
LONDON SE1

German business confidence bounces back

By Ralph Atkins in Frankfurt

Published: November 27 2007

German industry has shown its resilience in the face of the global credit squeeze with business confidence in Europe's largest economy rising unexpectedly this month, according to a closely-watched survey released on Tuesday.

The increase in the Munich-based Ifo's business climate index will damp speculation that the European Central Bank might be forced to cut its main interest rate next year. It suggested that economic growth was only gradually slowing – despite the euro's rise to record levels and higher borrowing costs.

Still, the ECB has responded to mounting tensions in credit markets by announcing on Tuesday that it will inject an extra 30bn above normal requirements in euro money markets this week as part of its regular operations. The Frankfurt-based institution, like the US Federal Reserve, has pledged to continue intervening until at least the start of next year.

The ECB draws a clear distinction between money market operations aimed at ensuring functioning markets, and its monetary policy. Its hawkish instincts will be heightened by preliminary German inflation figures highlighting mounting price pressures that are likely to push the eurozone rate for November even further above the ECB's target of a rate "below but close" 2 per cent.

Eurozone inflation, which reached 2.6 per cent in October, could reach 3 per cent by the end of the year, analysts believe. Germany's inflation is likely to have risen to 2.9 per cent, from 2.7 per cent in October.

The latest Ifo result supports the ECB's view that growth across the eurozone will remain robust, albeit not as buoyant as over the past year. Hans-Werner Sinn, Ifo president, said that the results showed Germany's economy slowing "only gradually" from a high level. The 7,000 responses to the Ifo survey showed businesses had raised their assessment of current conditions but become slightly more pessimistic about the next six months.

Nevertheless, the relatively small increase in the Ifo index – from 103.9 in October to 104.2 in November – after six consecutive months of falls is unlikely to ease fears, including at the ECB, that the outlook might worsen significantly.



19-25 RED LION STREET,
NORWICH



65/67 HIGH STREET,
EXETER



MARINA WAY CENTRE,
HARTLEPOOL



170/173 COMMERCIAL STREET,
NEWPORT



15-16 MARKET PLACE,
DERBY



CROMER RETAIL PARK,
HOLT ROAD, CROMER