

FTSE UK COMMERCIAL PROPERTY INDEX SERIES



UK MARKET COMMENTARY FROM MSS REAL ESTATE

The performance of the indices across all sectors for the third quarter of 2010 showed continuing signs of a slowing in property total returns. The FTSE All UK Property NAV returned 2.27% (TR) for the 3 months to 30th September, with UK offices as the best performer of the sectors with a NAV total return of 2.38%. UK industrial returns were noticeably lower than the other sectors with only 1.80% for the 3 months, a large proportion of which is made up by income returns. The variation between sectors on a year-to-date basis is very similar; the FTSE UK Industrial Property Index NAV has returned 9.88% since the start of 2010 compared to 12.22% and 15.00% for retail and offices respectively. The All UK Property Total Return NAV for this period is 13.28% with the high returns at the start of the year slowing down considerably in the third quarter.

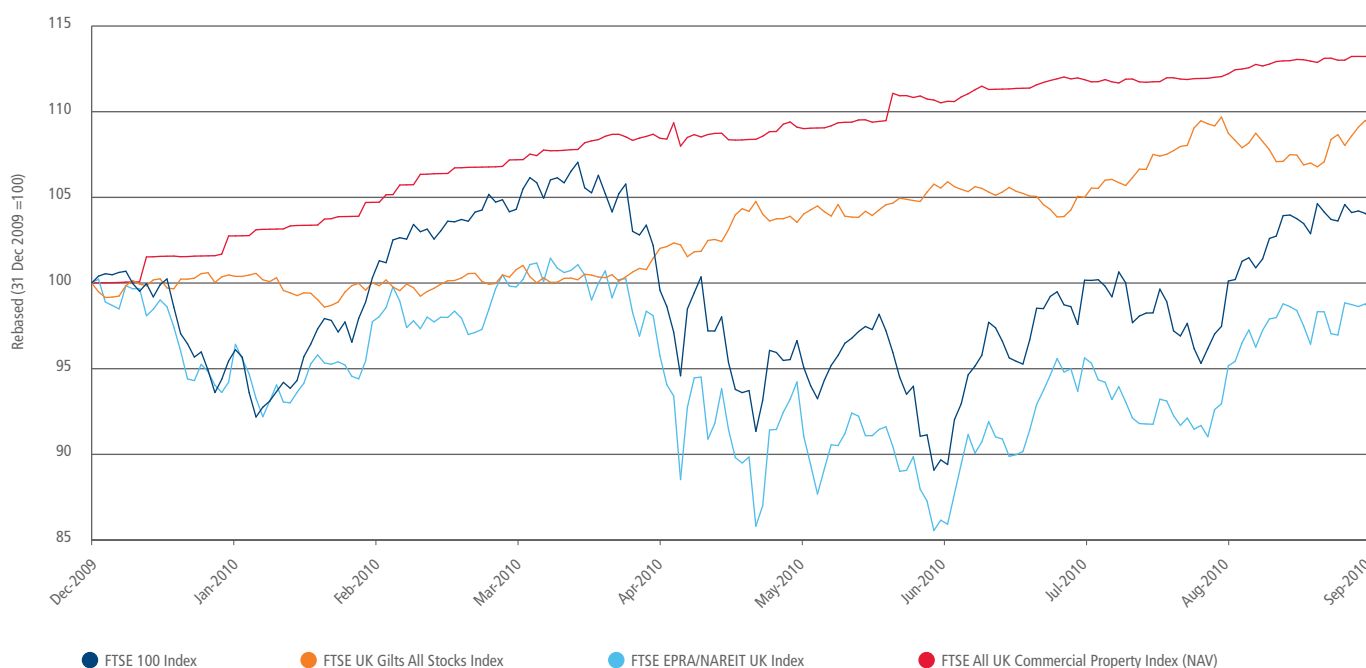
There is a common consensus that a number of underlying issues such as the sovereign debt crisis in some European countries have been overlooked in the summer months and the winter may well present tough times for many, not just due to the cold weather. That said, the stubborn UK economy which has to date refused to join the Euro in many ways appears relatively stable; leading economic indicators continue to point to a recovery with unemployment on the fall and further GDP growth expected for Q3. Additionally, the instability of some other leading global currencies may help to revert international investors' interest to the UK economy.

Since it became clear that a global depression had been averted, property investors were quick to capitalise on a renewed confidence in the economy. Prime yields have quickly returned to near their long-run average but many expect the rally to be over with little prospect for capital growth in the coming months. Additionally, concerns over tenant demand in the secondary end of the spectrum have left secondary yields practically stationary since the trough of the market over a year ago with investors placing a heavy risk premium on such assets.

Of the leading indices, the FTSE All UK Property Index had the worst performance for Q3 with a GAV return of 2.64% compared to the FTSE 100 TR of 13.76% and the index of listed property companies, FTSE EPRA/NAREIT UK TR, returning 12.56%. The strong quarterly performance of these two indices is countered by poor returns earlier in the year and in the 12 months to 30th September the FTSE All UK Property Index GAV returned 19.48%, well above the other indices. This variation is highlighted by the low relative volatility of the FTSE All UK Property Index and the diversification it provides through a low correlation with equities.

Source: FTSE, HM Treasury. 

FTSE UK COMMERCIAL PROPERTY INDICES – YEAR TO DATE PERFORMANCE CHART (TR/GBP/%)



Source: FTSE Group, data as at 30th September 2010

FTSE UK COMMERCIAL PROPERTY INDICES – VALUES

Index Name	TRI	1M (%)	3M (%)	YTD (%)	12M (%)	3Y (%)	3Y (%pa)	3Y volatility (%)	Sharpe-Ratio ¹
FTSE ALL UK PROPERTY INDEX (NAV)	4202.52	1.07	2.27	13.28	17.75	-26.73	-9.82	5.03	-1.96
FTSE ALL UK PROPERTY INDEX (GAV)	4480.25	1.19	2.64	14.51	19.48	-23.37	-8.47	5.03	-1.69
FTSE UK RETAIL PROPERTY INDEX (NAV)	3882.89	1.06	2.33	12.22	15.22	-30.91	-11.57	7.36	-1.58
FTSE UK RETAIL PROPERTY INDEX (GAV)	4140.02	1.18	2.70	13.47	16.93	-27.73	-10.23	6.48	-1.59
FTSE UK OFFICE PROPERTY INDEX (NAV)	4546.21	1.20	2.38	15.00	21.37	-24.14	-8.78	6.32	-1.39
FTSE UK OFFICE PROPERTY INDEX (GAV)	4849.17	1.32	2.75	16.27	23.19	-20.62	-7.39	6.32	-1.18
FTSE UK INDUSTRIAL PROPERTY INDEX (NAV)	4221.93	0.82	1.80	9.88	12.73	-29.34	-10.90	8.40	-1.30
FTSE UK INDUSTRIAL PROPERTY INDEX (GAV)	4495.02	0.94	2.18	10.95	14.27	-26.20	-9.61	8.40	-1.15

SOURCE: FTSE Group, data as at 30th September 2010

¹ Sharpe-ratio as historic [(3-year annualised return – risk free at 4.04%) / volatility] calculated by MSS Real Estate

FTSE UK COMMERCIAL PROPERTY INDICES – COMPARATIVE PERFORMANCE (TOTAL RETURNS, GBP)

Index Name	1M (%)	3M (%)	6M (%)	12M (%)	3Y (%pa) ¹	5Y (%pa) ¹	3Y Volatility (%)	Sharpe-Ratio ²	Correlation with FTSE UK CP ³
FTSE UK AP (GAV TR)	1.19	2.64	6.42	19.48	-8.47	2.06	5.20	-1.64	1.00
FTSE EPRA/NAREIT UK £ TR	5.68	12.56	-1.54	1.37	-19.70	-7.39	38.10	-0.62	-0.01
FTSE 100 TR	6.37	13.76	-0.60	11.84	-1.16	5.38	27.60	-0.19	0.07
FTSE UK Gilts All Stocks	-0.53	3.60	8.25	7.25	8.38	5.66	7.42	0.59	-0.03

Source: FTSE Group data as at 30th September 2010

¹ Performance inclusive of backcast history

² Sharpe-ratio as historic [(3-year annualised return – risk free at 4.04%) / volatility] calculated by MSS Real Estate

³ Correlation calculated based on daily returns from 23/06/2006 by MSS Real Estate

FTSE UK COMMERCIAL PROPERTY INDICES – VENDOR CODES

Index	Bloomberg	Reuters	Thomson
FTSE All UK Property Index	FTMSAGTR	.TFTP100S	FTUPALG
FTSE UK Retail Property Index	FTMSRGTR	.TFTP111S	FTUPRTG
FTSE UK Office Property Index	FTMSOGTR	.TFTP121S	FTUPOFG
FTSE UK Industrial Property Index	FTMSIGTR	.TFTP131S	FTUPIDG
All Indices Values	ALLXFTMS		

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