

UK COMMERCIAL PROPERTY INDEX SERIES



MARKET COMMENTARY

The third quarter of 2009 saw a noticeable slowdown in the fall of the FTSE All UK Property Index (TR GAV) recording -0.83% compared to -3.38% in the previous quarter. Of the datasets, industrial property delivered the worst figures with a -4.83% fall over the three months to September 2009, whilst retail recorded positive growth of 0.21% for the first time since July 2007. The overall 12 month total return has improved from -26.6% in June to -23.7%.

Going into the final quarter of 2009, it is expected that the ONS will announce positive GDP growth for Q3, signifying that the worst of the recession may be over. This forecast is supported by empirical evidence such as moderating declines in manufacturing and the continued rise in household savings. Despite this, the lag indicator of unemployment continues to rise and has now reached 7.9%, a 14 year high. In response, interest rates have been held at 0.5% for the sixth month running in September and the quantitative easing program is set to continue with a budget of £175bn; high debts throughout the country in both the government and consumer balance sheets are on-going cause for concern.

The UK commercial property market appears to be finding a floor; although rental growth continues to fall, the decline appears to be easing with evidence of firming yields at the prime end helping to contribute to a positive total return within some sectors. Amongst asset classes, industrial property continues to be the worst affected with vacancy rates still increasing as occupier demand retreats. Investor sentiment appears to be improving with prime yields estimated at 7.03%, although the demand for secondary property remains weak giving rise to a two-tiered market.

In other markets, the FTSE EPRA/NAREIT performed the strongest over the quarter with a 32.13% return although its volatility continues to be very high at 50.2% over the last 12 months. The FTSE 100 recorded similarly positive results whilst UK Gilts continue to steadily appreciate at 3.07%. Over the 12 month period, UK Gilts are still outperforming the other markets at 11.2%, although the recent upsurge in the FTSE 100 translated to a healthy return of 9.5% for the 12 months. Source: FTSE

YEAR-TO-DATE PERFORMANCE CHART (TR/GBP/%)



Source: FTSE Group, data as at 28th September 2009

INDEX VALUES

Index Name	TRI	1M (%)	3M (%)	YTD (%)	12M (%)	3Y (%)	3Y (%pa)	3Y volatility (%)	Sharpe-Ratio ²
FTSE ALL UK PROPERTY INDEX (NAV)	3567.32	0.34	-1.21	-15.10	-25.07	-32.37	-12.20	4.72	-3.44
FTSE ALL UK PROPERTY INDEX (GAV)	3749.72	0.50	-0.83	-14.15	-23.66	-28.91	-10.73	4.72	-3.12
FTSE UK RETAIL PROPERTY INDEX (NAV)	3369.91	0.67	-0.17	-16.89	-27.69	-36.11	-13.85	7.11	-2.51
FTSE UK RETAIL PROPERTY INDEX (GAV)	3540.51	0.79	0.21	-15.94	-26.59	-32.88	-12.42	6.19	-2.65
FTSE UK OFFICE PROPERTY INDEX (NAV)	3745.77	1.09	-1.09	-13.92	-22.52	-28.99	-10.77	5.99	-2.46
FTSE UK OFFICE PROPERTY INDEX (GAV)	3926.3	1.18	-2.51	-16.02	-22.24	-25.57	-9.36	6.00	-2.23
FTSE UK INDUSTRIAL PROPERTY INDEX (NAV)	3745.16	-3.25	-5.20	-13.67	-22.50	-29.00	-10.77	9.01	-1.64
FTSE UK INDUSTRIAL PROPERTY INDEX (GAV)	3933.71	-3.10	-4.83	-12.71	-21.34	-25.43	-9.30	9.00	-1.48

SOURCE: FTSE Group, data as at 28th September 2009

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 CP AP (GAV TR)	0.50	-0.83	-4.18	-23.66	-10.77	2.33	4.73	-3.12	1.00
FTSE EPRA/NAREIT UK £ TR	-0.49	32.13	57.29	-27.31	-23.26	-3.07	37.97	-0.72	-0.03
FTSE 100 TR	4.76	21.90	33.69	9.54	-1.07	6.55	26.96	-0.19	0.06
FTSE UK Gilts All Stocks	0.18	3.07	1.71	11.22	6.11	6.33	6.99	0.30	-0.01

Source: FTSE Group data as at 28th September 2009

1 Performance inclusive of backcast history

2 Sharpe-ratio as historic [(3-year annualised return - risk free at 4.0%) / volatility]

3 Correlation calculated based on daily returns from 2/06/2006

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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