

THE UK REAL ESTATE MARKET

OVERVIEW – THE UK REAL ESTATE MARKET IN THE FIRST QUARTER OF 2008

The credit crunch continues to impact the world's financial markets with volatility increasing in all asset classes. It is against this backdrop that the UK commercial property market continues to be re-priced lower, albeit at a slower pace than the end of 2007.

The economy grew by 2.9%/y in Q42007, with consumer confidence remaining subdued and weaker household spending the key contributor to a softening economy. The recent falls in residential house prices were extended into March and sentiment as measured by Nationwide reveals expectations of a 1% fall in values over the next six months.

Property yields currently sit at 5.4% (approximately 80 bps higher than a) their floor in June 07 and b) current bond rates); the jury is still out as to whether this yield premium is sufficient considering reservations about the medium term health of the occupational market, and the current disconnect between LIBOR and the base rate.

The direct property market is currently less active than previously, as many participants (institutional and retail investors) remain on the sidelines. Preliminary figures from Property Data in February suggest transaction volumes of £2.2 billion for the month, its lowest level since 2004. However, there are signs that foreign buyers and opportunist funds view UK commercial property as being near to fair value and are ready in the wings. This should provide something of a floor to pricing levels.

In the listed property sector (REITS), this sentiment is illustrated by share prices being at significant discounts to NAV. There is some concern over fund managers' ability to refinance current debt levels at attractive prices.

FTSE UK COMMERCIAL PROPERTY INDEX – Q1 2008



The FTSE All UK Commercial Property Index fell a total of 4.2% (gross) in the first quarter of 2008, showing that UK commercial property correction is still under way, however at a slower pace than the fourth quarter of 2007, when All Property returned a total of -5.6%.

On a monthly basis, FTSE All UK Commercial Property Index experienced gross total returns of -1.7% for January, -1.5% for February and -1.1% for March 2008. The FTSE All UK Commercial Property Capital Index returned -2.0% in January, -1.9% in February and -1.5% in March, totaling a fall in capital values of -5.32% for the first quarter of the year.

The Office sector remained the best performing sub-index with quarterly total returns of -2.7% (GAV), compared to -4.8% (GAV) for Retail and -6.43% (GAV) for Industrial. Nevertheless, some market commentators have a view that Office could revert to become the worst performer in 2008 as a consequence of weaker demand for City offices and new developments due to be finished over the course of the year, which will increase the floorspace supply in the City.

The FTSE UK Commercial Property Index shows that for Q1 2008, commercial property performance outperformed equities (FTSE 100 Index -10.5%) but was beaten by Gilts (FTSE UK Gilts All Stocks +1.4%) and property equities (FTSE EPRA/NAREIT +1.3%). Over the past 3 years the results are FTSE All Property +11.6% pa, FTSE 100 8.9% pa and FTSE UK Gilts 5.1% pa. Also on a risk-adjusted basis the FTSE UK Commercial Property Index shows the low volatility of commercial property returns (3.0% against 18.1% for large-cap equities) and a Sharpe ratio of 2.9 based on past 5-year performance, which is almost six times greater than equities at 0.5.



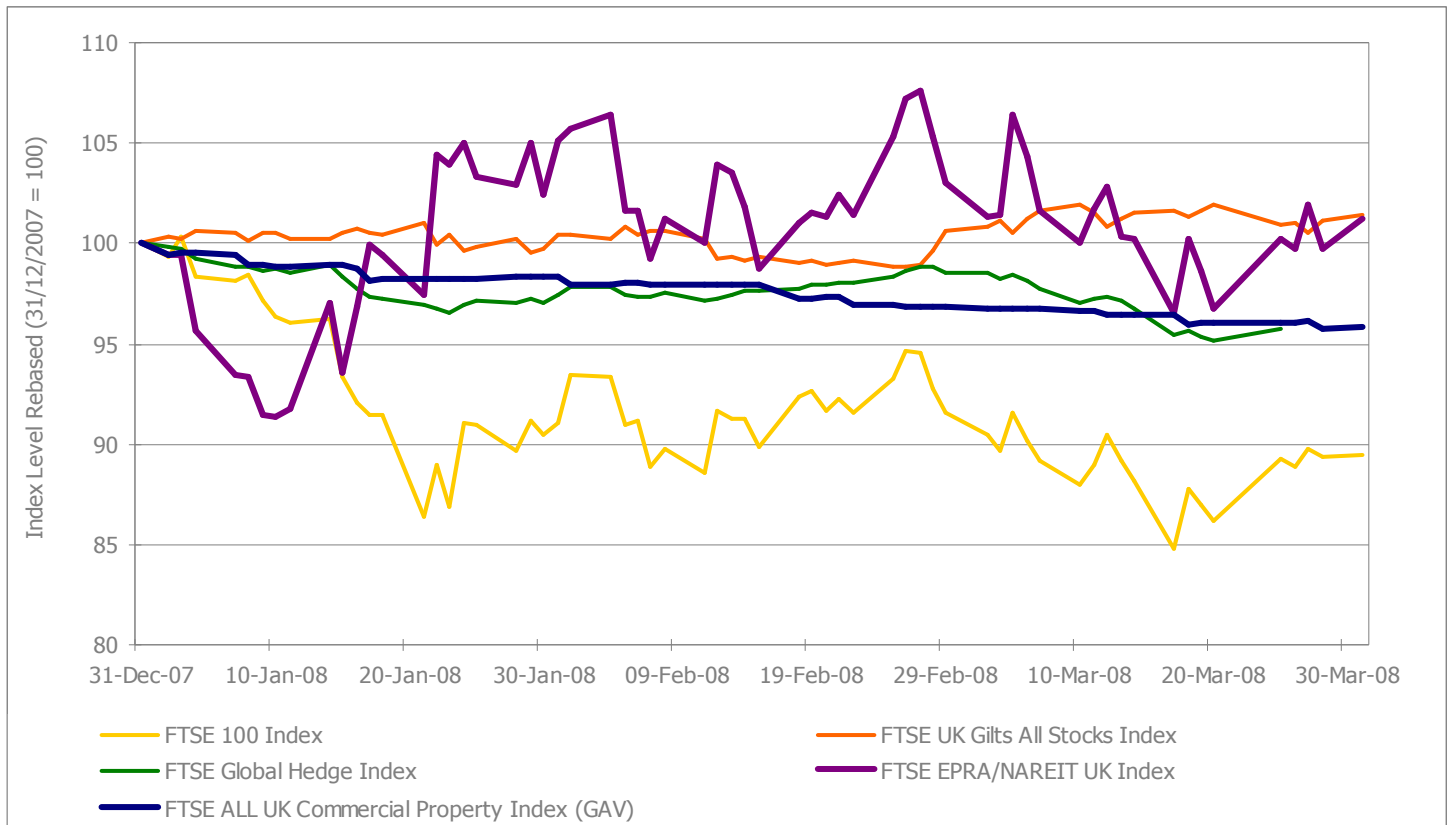
The first quarter of 2008 has shown a mixed image. In January, the UK market rebounded 5.1% after a significant slide in 2007, making it one of just a few European markets that ended up in positive numbers. Unsurprisingly, UK stocks led the European performers in January. Invesco Property Income Trust (+33%) headed up the list of regional and Global performers. Midlands based St Modwen jumped 24% and Helical Bar (+20%) finished not too far behind. Helical Bar announced that it plans to purchase assets for the first time since 2005 after falling prices made acquisitions more attractive. Industrial specialist Brixton surged ahead 19% and Daejan advanced 17%.

EPRA

In February, the UK market fell back 2%. UK Government offices specialist Mapeley, however, led the European performers in February. The company added 28% on the back of speculation that Fortress would take it over. The company announced: "Discussions are at an early stage and there can be no certainty that any offer will be made, or as to its terms." UK stock Teesland Advantage Property ended February down 17%, and subsequently held up the European performers. The Telegraph reported that the private equity group Cinven had approached Land Securities about a takeover of its Trillium arm. The deal could raise around £1.5 billion. Further, the reports during the month stated that Macquarie may also table a bid. Land Securities said in a statement that it will "evaluate the benefits of a sale of its Trillium business against the merits of a demerger." Land Securities ended February 82bps lighter.

In March, the UK market also ended up in negative territory, with a firm loss of more than 7%. Primary cause was, again, Mapeley, as take-over talks were ended and Mapeley fell by its most since its IPO, dropping the shares to a 6-month low.

3-MONTH PERFORMANCE CHART (TR/GBP/%)



Source: FTSE Group, data as at 31 March 2008

FTSE UK COMMERCIAL PROPERTY INDEX VALUES

Index Name	TRI	3M (%)	12M (%)	3Y (%)	3Y (%pa)	12M volatility* (%)	Sharpe-Ratio**
FTSE ALL UK PROPERTY INDEX (NAV)	5149.21	-4.56	-8.11	32.91	9.94	2.97	1.83
FTSE ALL UK PROPERTY INDEX (GAV)	5288.84	-4.20	-6.72	38.84	11.55	2.96	2.38
FTSE UK RETAIL PROPERTY INDEX (NAV)	4950.57	-5.19	-10.71	24.85	7.67	3.42	0.93
FTSE UK RETAIL PROPERTY INDEX (GAV)	5084.81	-4.83	-9.36	30.42	9.25	3.41	1.39
FTSE UK OFFICE PROPERTY INDEX (NAV)	5456.73	-3.11	-8.95	44.19	12.96	5.48	1.54
FTSE UK OFFICE PROPERTY INDEX (GAV)	5604.70	-2.75	-1.69	50.62	14.61	5.41	1.87
FTSE UK INDUSTRIAL PROPERTY INDEX (NAV)	5359.48	-6.78	-9.14	41.45	12.24	6.23	1.24
FTSE UK INDUSTRIAL PROPERTY INDEX (GAV)	5504.81	-6.43	-7.76	47.75	13.88	6.36	1.48

FTSE EPRA/NAREIT UK INDEX VALUES

Index Name	TRI	Market Cap (£m)	Dividend Yield (%)	3M (%)	12M (%)	12M volatility* (%)
FTSE EPRA/NAREIT UK INDEX	2,558.88	30,846.80	3.31	1.25	-32.91	17.8
FTSE EPRA/NAREIT UK REITS INDEX	661.3	25,877.16	0	1.83	-30.17	17.2
FTSE EPRA/NAREIT UK NON-REITS INDEX	561.62	4,969.64	0	-1.47	-43.85	21.13
FTSE EPRA/NAREIT UK NON-RENTAL INDEX	882.46	1,377.50	0	-6.84	-32.83	20.16
FTSE EPRA/NAREIT UK RENTAL INDEX	848.39	29,469.30	3	-3.90	-35.03	25.44
FTSE EPRA/NAREIT UK SPECIALTY INDEX	819.51	403.1	0.76	-7.60	-36.67	25.78
FTSE EPRA/NAREIT UK RETAIL INDEX	983.93	7,600.81	2.96	-0.48	-29.9	22.88
FTSE EPRA/NAREIT UK RESIDENTIAL INDEX	756.34	398.73	1.5	19.72	-35.13	29
FTSE EPRA/NAREIT UK INDUSTRIAL INDEX	833.32	3,084.96	3.89	9.17	-32.01	28.9
FTSE EPRA/NAREIT UK OFFICE INDEX	956.06	3,312.64	4.18	7.42	-36.57	28.1

Source: FTSE Group, data as at 31 March 2008

* Volatility calculated daily from 29/12/2006, using sqrt(250)

** Sharpe-ratio as historic 3 year annualised return - risk free at 4.5% divided by volatility of 12 monthly on daily basis

COMPARATIVE PERFORMANCE (TOTAL RETURNS, GBP)

Index Name	3M (%)	12M (%)	3Y (%pa) ¹	5Y (%pa) ¹	Volatility ² (12M/%)	Sharpe-Ratio ³	Correlation with FTSE UK Commercial Property
FTSE ALL UK COMMERCIAL PROPERTY INDEX (GAV)	-4.20	-6.72	11.55	13.12	2.98	2.88	1.00
FTSE EPRA/NAREIT UK INDEX	1.25	-32.91	6.39	19.55	26.76	0.56	0.08
FTSE HEDGE	-4.26	-3.49	2.46	5.24	4.92	0.15	0.04
FTSE 100 INDEX	-10.49	-6.26	8.88	13.37	18.13	0.49	0.07
FTSE UK GILTS ALL STOCKS INDEX	1.43	7.58	5.11	4.52	4.71	0.00	-0.11

Source: FTSE Group

¹ Performance inclusive of backcast history

² Volatility calculated daily from 22/06/2006, using sqrt(250)

³ Sharpe-ratio as historic 5 year annualised return - risk free at 4.5% divided by volatility on daily basis p.a.

VENDORS CODE

Index Name	Bloomberg	Reuters	Thomson
FTSE ALL UK COMMERCIAL PROPERTY INDEX (GAV)	FTMSAGTR	.TFTP101S	FTUPALG
FTSE ALL UK COMMERCIAL PROPERTY INDEX (NAV)	FTMSANTR	.TFTP100S	FTUPALN
FTSE EPRA/NAREIT UK REITS INDEX	ENUKR	.FTENUKRL	FEUKRTL
FTSE EPRA/NAREIT UK NON-REITS INDEX	ENUKNR	.FTENUKNRL	FEUKNRL

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