

FTSE UK COMMERCIAL PROPERTY INDEX SERIES



UK MARKET COMMENTARY FROM MSS REAL ESTATE

The property returns demonstrated by the index series for the final quarter of 2010 exceeded expectations with continuing signs of capital growth. The FTSE UK All Property NAV (TR) returned 2.26% for the three months of the final quarter, almost exactly matching the 2.27% returns in the previous quarter (Q3). UK offices continue to be the stand-out performers with the FTSE UK Office Property NAV (TR) returning 3.73% for the quarter. This mirrors the general pattern for the year where the office index has significantly outperformed the other sectors. In the 12 months of 2010, the FTSE UK Office Property NAV (TR) returned 19.29% compared to 13.70% and 12.02% for the FTSE UK Retail Property NAV (TR) and the FTSE UK Industrial Property NAV (TR) respectively.

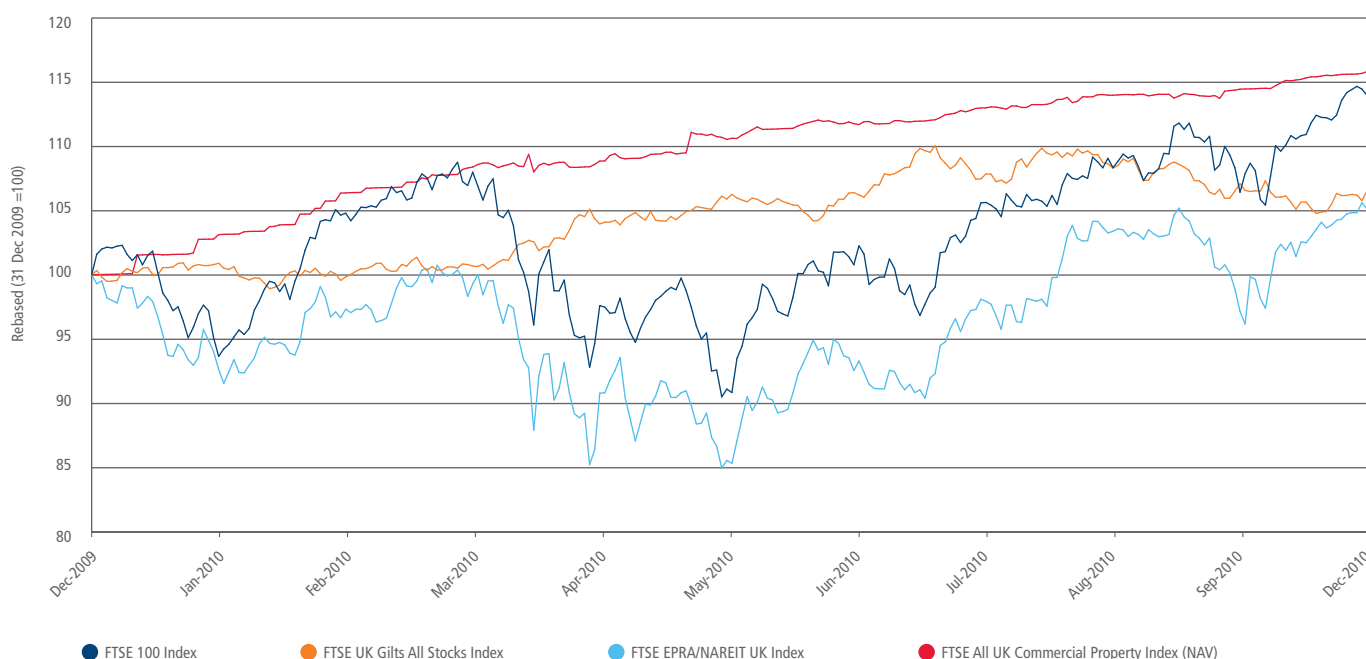
As anticipated in the previous newsletter, both the cold weather and the sovereign debt crisis have had negative effects on Europe in the final quarter of 2010. Ireland's debt mountain has become the latest target of market and media attention alike. Whilst China and the rest of the developing world steam ahead, Europe and the USA seem somewhat stagnated as they try and pull themselves away from the grips of recession. Although analysts expect that UK GDP growth for 2010 will be positive at somewhere close to 2.0%, this figure is below many original estimates at the start of the year and despite high public sector borrowing and quantitative easing, the UK still runs the risk of slowing down in 2011.

Following the rapid recovery in property values in the first half of 2010 as prime yields tightened sharply, it was expected that the second half of 2010 would see a marked slowdown. In reality, prime yields have continued to fall as both domestic and foreign investors look to take advantage of the large yield gap over fixed income securities. This has led to fears of a prime property mini-boom as yields approach their pre-crisis levels. With secondary yields remaining largely unmoved since the start of the recession it is clear that something has to give in 2011.

The relatively low volatility of the FTSE UK All Property GAV Index has been perfectly demonstrated over the calendar year for 2010. Despite recording worse returns than both the FTSE 100 TR Index and the FTSE EPRA/NAREIT UK TR Index for the final quarter of 2010, the steady increasing returns throughout the year have ensured that FTSE UK All Property GAV Index has been the best performer within the leading indices. With returns of 17.53% for 2010, the FTSE UK All Property GAV Index outperformed the FTSE 100 TR Index by nearly 5% which had returns of 12.62%. The FTSE EPRA/NAREIT UK TR and FTSE UK Gilts All Stocks returned 4.94% and 7.20% respectively for the year. Considering the 3 year volatility of these four leading indices, the FTSE UK All Property GAV Index has been the least volatile as shown in the table below. Source: FTSE, HM Treasury.

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FTSE UK COMMERCIAL PROPERTY INDICES – YEAR TO DATE PERFORMANCE CHART (GBP TOTAL RETURN)



FTSE UK COMMERCIAL PROPERTY INDICES – VALUES AND PERFORMANCE (GBP TOTAL RETURN)

Index Name	Index Value	1M (%)	3M (%)	YTD (%)	12M (%)	3Y (%)	3Y (%pa)	3Y volatility (%)	Sharpe-Ratio ¹
FTSE UK All Property Index (NAV)	4297.57	1.15	2.26	15.85	15.85	-20.35	-7.30	5.11	-1.44
FTSE UK All Property Index (GAV)	4598.23	1.27	2.63	17.53	17.53	-16.71	-5.91	5.11	-1.16
FTSE UK Retail Property Index (NAV)	3934.16	1.10	1.32	13.70	13.70	-24.65	-9.00	7.31	-1.24
FTSE UK Retail Property Index (GAV)	4210.06	1.22	1.69	15.39	15.39	-21.21	-7.63	6.42	-1.19
FTSE UK Office Property Index (NAV)	4715.88	1.40	3.73	19.29	19.29	-16.27	-5.74	6.34	-0.91
FTSE UK Office Property Index (GAV)	5048.22	1.53	4.10	21.05	21.05	-12.41	-4.31	6.34	-0.69
FTSE UK Industrial Property Index (NAV)	4304.21	0.75	1.95	12.02	12.02	-25.14	-9.19	8.21	-1.12
FTSE UK Industrial Property Index (GAV)	4599.2	0.88	2.32	13.52	13.52	-21.83	-7.87	8.21	-0.96

SOURCE: FTSE Group and MSS Real Estate, data as at 31st December 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 (GBP TOTAL RETURN)

Index Name	1M (%)	3M (%)	6M (%)	12M (%)	3Y (%pa) ¹	5Y (%pa) ¹	3Y Volatility (%)	Sharpe-Ratio ²	Correlation with FTSE UK All Property Index (GAV) ³
FTSE UK All Property Index (GAV)	1.15	2.26	4.58	15.85	-7.30	0.13	5.09	-1.44	1.00
FTSE EPRA/NAREIT UK Index	7.73	7.55	21.07	4.94	-13.37	-7.19	37.02	-0.47	-0.01
FTSE 100 Index	6.81	6.90	21.61	12.62	0.92	5.16	27.33	-0.11	0.06
FTSE Actuaries UK Conventional Gilts All Stocks Index	-0.13	-2.08	1.45	7.20	6.12	5.15	7.46	0.28	-0.03

SOURCE: FTSE Group and MSS Real Estate data as at 31st December 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 23rd June 2006 by MSS Real Estate

FTSE UK COMMERCIAL PROPERTY INDICES – VENDOR CODES

Index	Bloomberg	Reuters	Thomson
FTSE UK All 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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