

# UK COMMERCIAL PROPERTY INDEX SERIES



## MARKET COMMENTARY

The FTSE UK Commercial Property Index fell again in February 2008, returning a total of -1.52% (GAV) for the month. This compares with -1.68% and -3.2% for January 2008 and December 2007, suggesting that the speed of the present market correction may have started to slow down. The FTSE UK Commercial Property Capital Index fell a further 1.88% in February and is now 10.67% below its peak in August 2007.

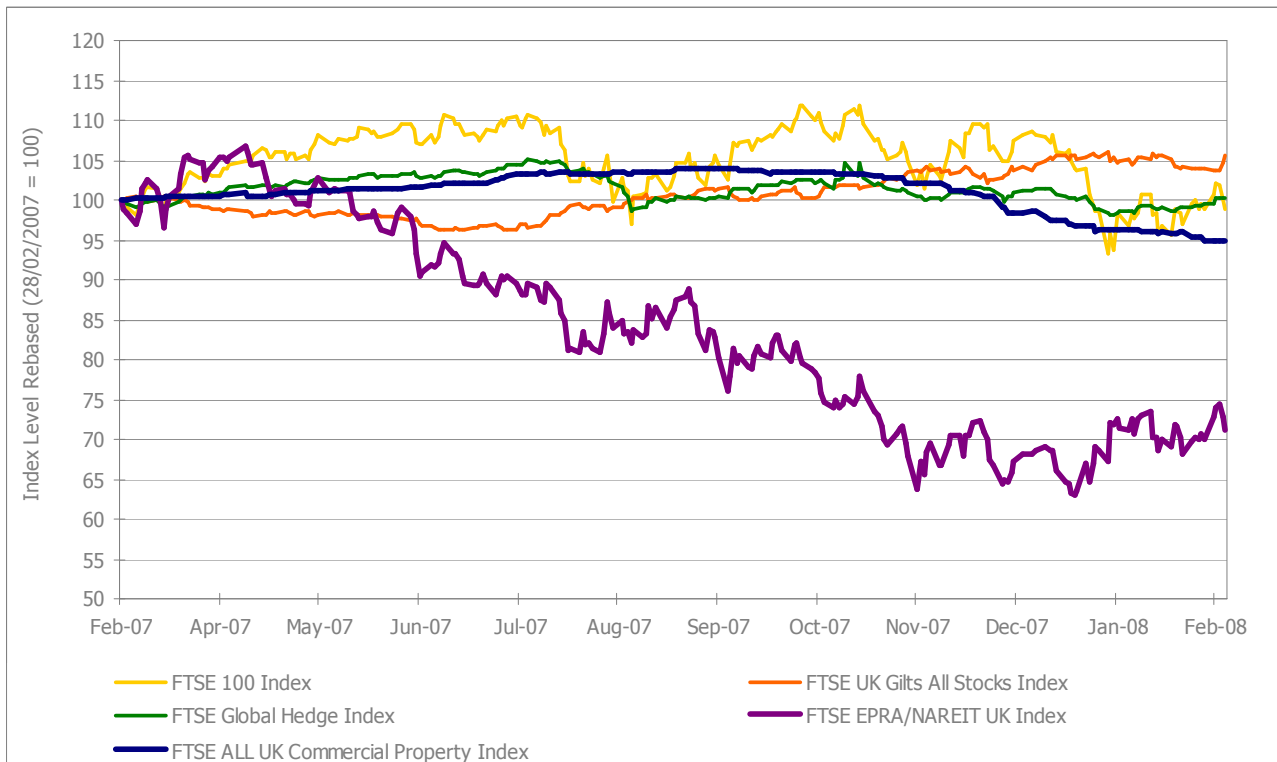
UK equities (FTSE 100) and FTSE hedge recovered +0.5% and 1.2% month-on-month respectively in February outperforming property equities (-2.0%), and bonds (+0.3%). This may indicate that the market still does not perceive that the phase of re-pricing of property shares is complete. Commentators argue that the re-pricing of debt, and recently reported portfolio write downs, will continue to put pressure on the market as the reporting season gathers pace.

Over the 12-month period ending 29 February 2008, Gilts continued to outperform other asset classes in the UK, delivering 5.7%, versus commercial property -6.6%, property shares -28.8% and FTSE 100 equities -1.3%.

Using compounded returns, over a period of five years; UK property shares experienced an annualised total return of 18.4%, outperforming FTSE 100 equities (13.8%), Gilts (3.0%) and direct commercial property investments (12.5%). The return discrepancy between the two sectors of the UK commercial property market may indicate that property shares are still not "cheap" and there is still some scope for downward correction.

The volatility of property shares increased from 19.88% in 2006 to 27.21% in 2007, whilst direct commercial property exhibited slightly diminishing volatility (2.92% in 2006 to 2.76% in 2007). As a result, the more optimistic risk/return profile of direct commercial property should attract some of the global capital looking for opportunities in real estate.

## PERFORMANCE CHART (TR/GBP%)



## INDEX VALUES

Index Name	TRI	1M (%)	3M (%)	YTD (%)	12M (%)	3Y (%)	3Y (%pa)	12M volatility* (%)	Sharpe-Ratio**
FTSE ALL UK PROPERTY INDEX (NAV)	5211.36	-1.64	-6.55	-3.41	-6.59	36.86	11.03	2.97	3.70
FTSE ALL UK PROPERTY INDEX (GAV)	5345.86	-1.52	-6.20	-3.17	-5.17	43.27	12.73	2.96	4.28
FTSE UK RETAIL PROPERTY INDEX (NAV)	5002.92	-1.73	-5.97	-4.19	-9.59	27.97	8.57	3.42	2.49
FTSE UK RETAIL PROPERTY INDEX (GAV)	5132.04	-1.62	-5.61	-3.95	-8.22	33.97	10.24	3.41	2.99
FTSE UK OFFICE PROPERTY INDEX (NAV)	5528.99	-1.26	-6.74	-1.83	-1.83	49.30	14.29	5.48	2.60
FTSE UK OFFICE PROPERTY INDEX (GAV)	5671.69	-1.14	-6.39	-1.59	0.21	56.29	16.05	5.41	2.96
FTSE UK INDUSTRIAL PROPERTY INDEX (NAV)	5412.36	-3.56	-8.42	-5.86	-3.85	45.12	13.22	6.23	2.11
FTSE UK INDUSTRIAL PROPERTY INDEX (GAV)	5552.05	-3.45	-8.07	-5.63	-2.39	51.92	14.96	6.36	2.35

SOURCE: FTSE Group, data as at 29 February 2008

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

\*\* Sharpe-ratio as historic 3 year annualised return - risk free at 4.3% divided by volatility of 12 monthly on daily basis

## DERIVATIVES PRICING

All Property	Dec08	3y	5y	7y	10y	All Office	3y	5y	7y	10y
Swap Price	-1300/ -1000	135	88	67	52	Swap Price	172	111	85	65
Forward Price Cash Settled		1.20	1.33	1.47	1.71	Forward Price Cash Settled	1.21	1.34	1.48	1.72
Property EAR (%)		6.26	5.87	5.65	5.51	Property EAR (%)	6.56	6.03	5.76	5.57
ATM European Call Options (%)		14.98	18.51	21.34	24.00					

Source: Santander Global Banking and Markets, data as at 29 February 2008

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## COMPARATIVE PERFORMANCE (TOTAL RETURNS, GBP)

	1M (%)	3M (%)	6M (%)	12M (%)	3Y (%pa) <sup>1</sup>	5Y (%pa) <sup>1</sup>	Volatility <sup>2</sup> (12M/%)	Sharpe-Ratio <sup>3</sup>	Correlation with FTSE UK CP
FTSE All UK Commercial Property Index (GAV)	-1.57	-6.24	-8.73	-5.22	12.70	14.11	3.01	3.70	1.00
FTSE EPRA/NAREIT UK	-2.01	0.82	-18.71	-28.84	5.37	18.36	26.14	0.59	0.08
FTSE Hedge	1.21	-0.84	-0.19	0.16	3.47	5.78	4.83	0.58	0.04
FTSE 100	0.47	-8.06	-5.56	-1.27	9.40	13.78	17.53	0.62	0.07
FTSE UK Gilts All Stocks	0.29	2.40	5.06	5.66	4.99	3.00	4.58	0.00	-0.11

Source: FTSE Group

<sup>1</sup> Performance inclusive of backcast history

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

<sup>3</sup> Sharpe-ratio as historic 5 year annualised return - risk free at 3.0% divided by volatility on daily basis p.a.

## 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 Index Values	ALLXFTMS		

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