

FTSE UK COMMERCIAL PROPERTY INDEX SERIES



UK MARKET COMMENTARY FROM MSS REAL ESTATE

The final quarter of 2011 showed a continuing trend of flat returns in the FTSE All UK Property Index extending back to the first half of the year. The total return over the three months to the end of December for the FTSE All UK Property Index (NAV) was 0.63%, this is less than the income return for the same period suggesting that declining capital values are being experienced within the index as a whole. The variation between the headline sectors during this period has become less pronounced than in previous quarters with a range of 0.41% to 0.85% for the FTSE UK Retail Property Index (NAV) and FTSE UK Office Property Index (NAV) respectively. For the full year to December, the FTSE UK Office Property Index (NAV) was the stand out performer with returns of 8.65% compared to 5.49% for the whole commercial property market as a whole as measured by the FTSE All UK Property Index (NAV).

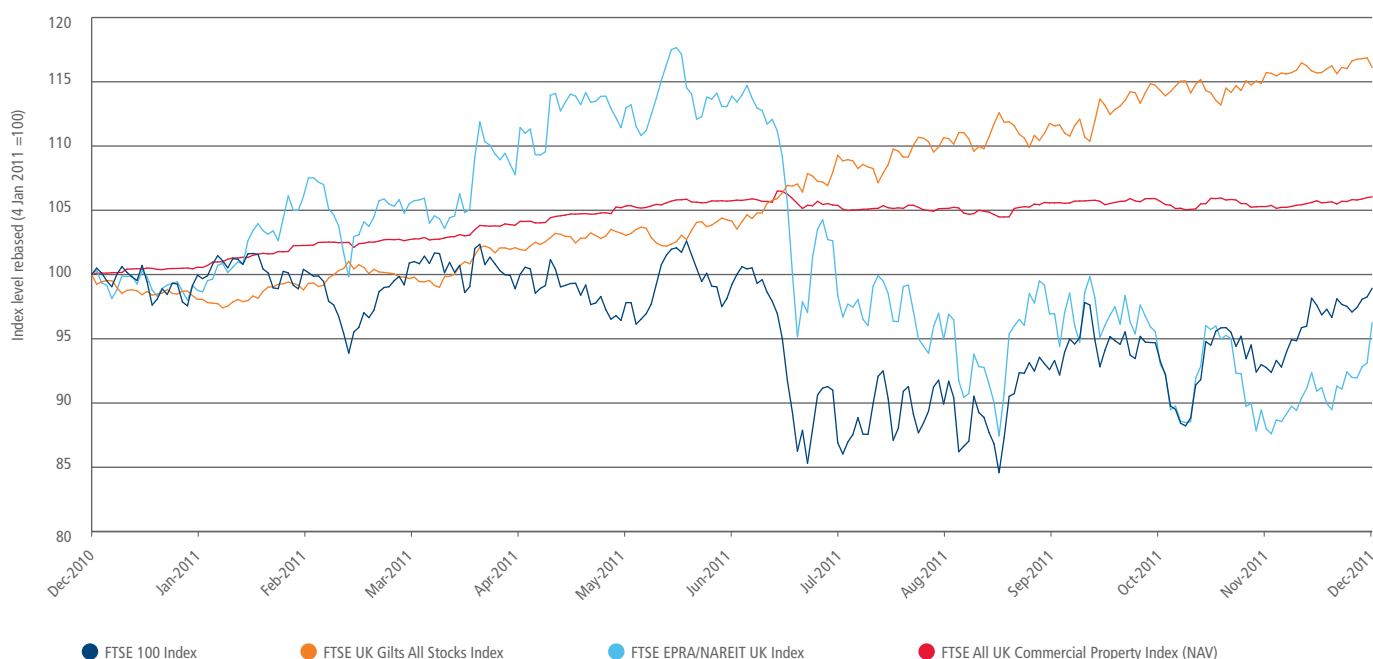
Mixed signals continue to emanate from all media sources on the strength and stability of the global economy. There is no doubt, however, that some of the largest question marks hang over the long term viability of the Eurozone and, despite remaining outside the single currency, the UK is undeniably linked economically to the Eurozone and has a vested interest in its recovery. With the 2 year anniversary of the coalition government coming into power approaching, figures are starting to show that the austerity measures implemented by the Chancellor are having the desired long term effect of reducing the debt to a sustainable level but the short term effects are less certain and with unemployment continuing to rise the economy is in danger of slipping back into negative GDP growth.

Although capital values appear to have stagnated and even fallen in most areas of UK commercial property, property as an investment class remains an attractive proposition when one considers the yield gap to secure income alternatives. With 5 year UK Gilts yielding 100 bps and an IPD initial yield of 6.22% the story is a compelling one for property. The biggest question for the year to come is how the market and the institutions will absorb the large amount of loan maturities expected from 5-7 year financing provided at the peak of the market and this could potentially have a great impact on capital values.

Considering the performance of the various asset classes in 2011, the secure income offered by Gilts has provided the strongest returns with the FTSE UK Gilts All Stocks seeing 15.57% for the whole year. At the other end of the spectrum, the two indices representing listed companies have had a volatile year reflecting the ongoing uncertainty and have both had negative returns over the 12 months of -7.94% and -2.18% for the FTSE EPRA/NAREIT UK TR and FTSE 100 TR respectively.

Source: FTSE, IPD, HM Treasury, MSS Real Estate

FTSE UK COMMERCIAL PROPERTY INDICES – 12 MONTH PERFORMANCE CHART (GBP TOTAL RETURN)



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

Index Name	Index Value	1M (%)	3M (%)	YTD (%)	12M (%)	3YR (%)	3YR (%pa)	3YR Volatility (%pa)	Sharpe-Ratio ¹
FTSE UK All Property Index (NAV)	4533.64	0.01	0.63	5.49	5.49	7.82	2.54	4.60	0.55
FTSE UK All Property Index (GAV)	4920.49	0.13	0.99	7.01	7.01	12.65	4.06	4.61	0.88
FTSE UK Retail Property Index (NAV)	4086.20	-0.01	0.41	3.86	3.86	0.78	0.26	6.75	0.04
FTSE UK Retail Property Index (GAV)	4435.48	0.10	0.77	5.35	5.35	5.31	1.74	5.77	0.30
FTSE UK Office Property Index (NAV)	5123.86	0.02	0.85	8.65	8.65	17.74	5.60	5.36	1.04
FTSE UK Office Property Index (GAV)	5563.77	0.14	1.21	10.21	10.21	23.08	7.17	5.36	1.34
FTSE UK Industrial Property Index (NAV)	4473.81	0.05	0.79	3.94	3.94	3.12	1.03	6.84	0.15
FTSE UK Industrial Property Index (GAV)	4849.20	0.17	1.15	5.44	5.44	7.60	2.47	6.84	0.36

SOURCE: FTSE Group and MSS Real Estate, data as at 30th December 2011

¹ Sharpe-ratio as historic (3-year annualised return - risk free at 1.07%) / volatility calculated by MSS Real Estate

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

Index Name	1M (%)	3M (%)	6M (%)	12M (%)	3YR (%pa)	5YR (%pa)	3YR Volatility (%pa)	Sharpe-Ratio ¹	Correlation with FTSE UK All Property Index (GAV) ²
FTSE UK All Property Index (GAV)	0.01	0.63	0.09	5.49	2.54	-2.78	4.60	0.55	1.00
FTSE EPRA/NAREIT UK Index	-5.10	-0.39	-20.83	-7.94	3.56	-13.99	32.53	0.08	0.01
FTSE 100 Index	1.25	9.40	-4.75	-2.18	11.95	2.40	20.89	0.52	0.06
FTSE Actuaries UK Conventional Gilts All Stocks Index	1.69	5.01	13.68	15.57	6.99	7.34	7.21	0.82	-0.01

SOURCE: FTSE Group and MSS Real Estate data as at 30th December 2011

¹ Sharpe-ratio as historic (3-year annualised return - risk free at 1.07%) / volatility calculated by MSS Real Estate

² Correlation calculated based on daily returns from 23rd June 2006 by MSS Real Estate

FTSE UK COMMERCIAL PROPERTY INDICES – VENDOR CODES

Index	Bloomberg	Thomson Reuters RIC	Thomson Reuters One
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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