

Press release



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UK COMMERCIAL PROPERTY YIELDS COULD BE SET TO STABILISE

**– PRIMARY AND SECONDARY MARKETS SET TO FURTHER DIVERGE,
AS INVESTOR APPETITE BEGINS TO RETURN FOR RISK ADVERSE ASSETS SUPPORTED
BY RELATIVELY STABLE RENTAL INCOME STREAMS –**

According to the latest research report produced by Invista Real Estate Investment Management (“Invista” / the “Company”), the stabilisation of UK commercial property yields could now be set to stabilise which in Invista’s opinion relies chiefly upon the success of the Government and Bank of England actions and their impact on steadying the financial markets and reducing corporate bond yields.

Whilst domestic institutional investors continue to show concern over the effect of poor economic growth and occupational demand on the property sector, waiting for the yield margins to tighten and sentiment in the borrowing markets to improve, foreign and private investors appear to be ahead of the curve in providing the jump-start required for liquidity to return to the commercial property investment market. Such investors appear to be attracted by the high-yield margins, which are emphasised further by the weakness of the Sterling. However, this trend hinges on the actions of the Government and Bank of England over the coming months to review the corporate bond market structure and ease the illiquidity premiums substantially.

Over the coming months, Invista also expects that two of the key attractions of UK commercial property, as a real investment asset, may increase in importance. These are namely, the relatively stable income stream it produces, resulting from the UK lease structure and diversity of its tenant base, and its appeal as a physical asset. With the quality of asset becoming key to determining performance over the next 12 months, Invista maintains its preference for prime, well-located properties. Furthermore it predicts that transactional yields on secondary properties will continue to move out, whilst the yields on prime property may have started to reach their turning point, reflecting a substantially revised investor appetite for the higher level of risk associated with the former property type.

In the last quarter of 2008, industrial property proved to be the most defensive asset, outperforming the rest of the sector with a return of -12.1%, against falls of -12.7% and -13.7% recorded for the office and retail markets, respectively. In addition, conditions in the occupational markets are expected to worsen in the near term, as the current economic downturn continues to put downward pressure on sales and profits with an increased risk of tenant default. However, Invista predicts that rental falls are unlikely to repeat the lows experienced in the early 90s, owing to relatively favourable economic fundamentals, with lower inflationary pressures and bank rates, combined with restricted supply lines.



Mark Long, Head of Investment Strategy and Research at Invista, commented: "In a normally functioning market, the current UK commercial property yields would in our opinion be considered good value. However, given the current exceptional economic climate there is still room for doubt and therefore we believe that market volatility reflects the great uncertainty, felt amongst banks and consumer alike, in the Government and Bank of England's ability to restore liquidity, confidence and positive growth to the wider economy.

"We believe that in contrast to the 1990's, the modest levels of supply in 2009-2010 could be an important factor in mitigating the scale of rental declines and severity of this property cycle, and that foreign and private investors may now take the lead in providing the jump-start required for liquidity to return to the commercial property investment market."

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About Invista Real Estate Investment Management

Invista Real Estate Investment Management is the largest UK listed real estate fund management group. The Group manages both commercial and residential property across the UK and continental Europe, and has a total of £6.3 billion of assets under management as at 31 December 2008. Invista Real Estate manages a total of 23 funds as at 31 December 2008, some of which are for the largest UK providers of savings and investment products such as Clerical Medical, Halifax and St. James's Place. Invista Real Estate also manages a number of collective investor funds, including real estate investment trusts and open ended funds such as Invista Foundation Property Trust and Invista European Real Estate Trust which are listed on the main market of the London Stock Exchange as well as the fund of specialist funds, the Invista Property Portfolio Fund. Invista Real Estate has offices in London, Paris and Guernsey and employs over 100 people.

For more information on Invista Real Estate or the funds it manages visit www.invistarealestate.com.

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