

Press Release



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UK COMMERCIAL PROPERTY MARKET CONTINUES TO RECOVER BUT MOMENTUM SLOWING AS IMBALANCE BETWEEN DEMAND AND SUPPLY BECOMES LESS PRONOUNCED

According to the latest research report produced by Invista Real Estate Investment Management (“Invista” / the “Company”), capital market returns are expected to ease over the next 12 months, however there may be a number of shifts within the market, reflected by peaks and troughs, as alternative sectors and regions of the UK perform quite differently.

Buyers have continued to loosen their investment criteria, with increasing interest outside of prime, well-located, long-let, properties having driven yields down across the less prime end of the market. Nevertheless, secondary property yields remain, for now, anchored by the downside risk implied by the ongoing fragile economic outlook. Fortunes could change however, should base rates and gilt yields significantly rise over the next two to three years, hitting lower-yielding assets harder than those in the secondary markets.

Total returns over the six months to end March 2010 of 15.7% were the shortest recorded since April 1994. Capital values rose 4.3% in total over the first quarter of 2010 – the third consecutive quarter of positive growth, albeit at a lesser rate than in the fourth quarter of 2009. Activity and confidence in the investor market have steadily picked up since the autumn of 2009, however the occupier market remains weak, with rental values having fallen for the eighth consecutive quarter in the first quarter of 2010. Despite this, commercial property still produced a total return of 6.0% over the first quarter of 2010, with the positive returns driven primarily by income and the impact of falling yields. (Source of data is the Monthly IPD Index May 2010).

Whilst the UK economy has begun a modest recovery, employment is expected to continue to fall over the next 12 months and, consequently, occupational demand is expected to remain weak. As a result, in the majority of markets, rents are expected to continue to fall. Over the next 12 months, government bond yields are likely to rise slightly and property yields should remain flat for much of this period. Total returns are expected to be around 7.5% over the 12 months to end May 2012, but the risk lies very much on the downside. Should government bond yields come under severe pressure either from a lack of investor confidence, or as a result of bank rates rising more quickly than expected, upward pressure on property yields could depress returns in the short term.

Jeremy Marsh, Senior Property Analyst at Invista, commented: *“We believe that UK commercial property market returns are set to ease in the coming 12 months, but we are unlikely to see as dramatic a slowdown as we did in the mid-1990s. Although market rental value growth is*



expected to be anaemic at best, the historically high margin between property and government bond yields should protect performance in the short to medium term. Nevertheless, the risk is almost all on the downside, with the possibility of sharp rises in government bond yields the most significant threat.”

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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, Continental Europe and Asia, and has a total of £5.4 billion of assets under management as at 31 May 2010. Invista Real Estate manages a total of 23 funds as at 31 May 2010, 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, Guernsey and Hong Kong and operations in Luxembourg and Singapore.

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

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