

**Fprop plc**

First Property Group plc

**Commercial Investment Real Estate**  
**Investing through the cycles**

---

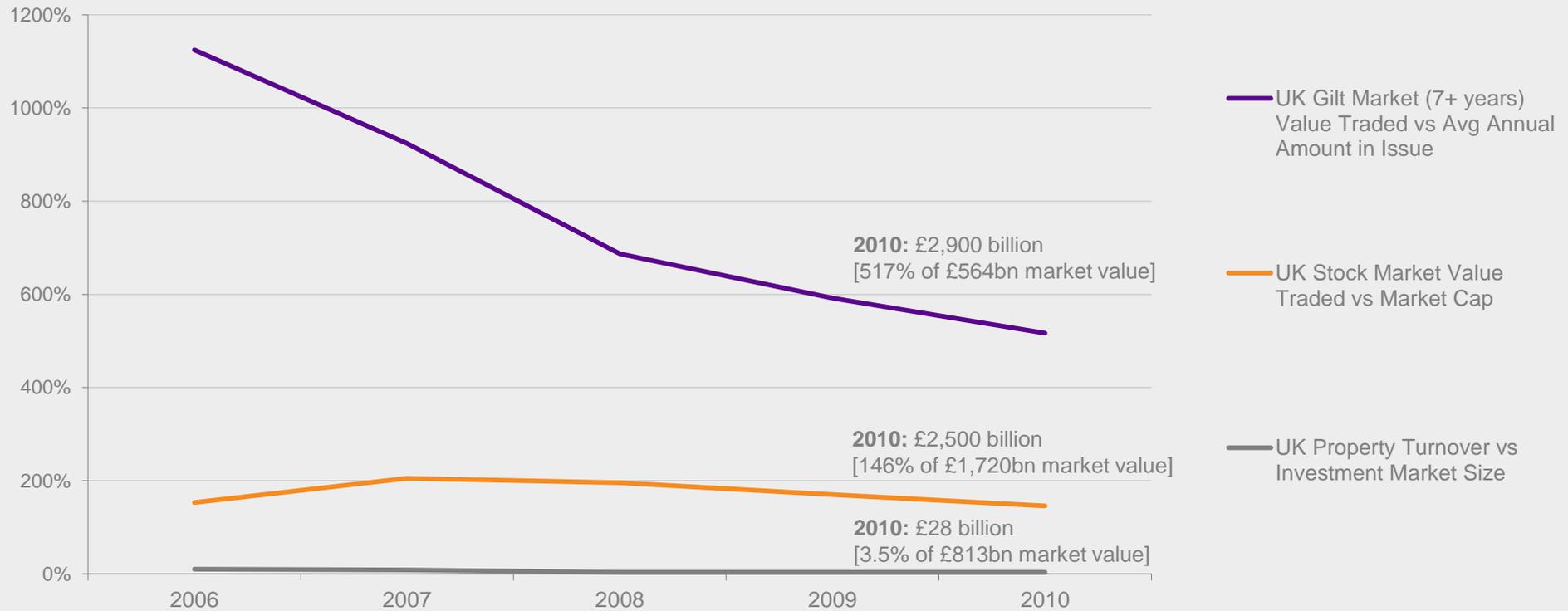
Liquidity: Property vs. Equities vs. Bonds	3
Costs of Buying Commercial Property	4
The Need for Yield	5
Income Return	6
Prime London vs. Prime Warsaw Yields	7
Obsolescence	8
Green Issues/ Sustainability	9
Inflation Hedge Debunked	10
Conclusions	11
First Property UK Track record	12



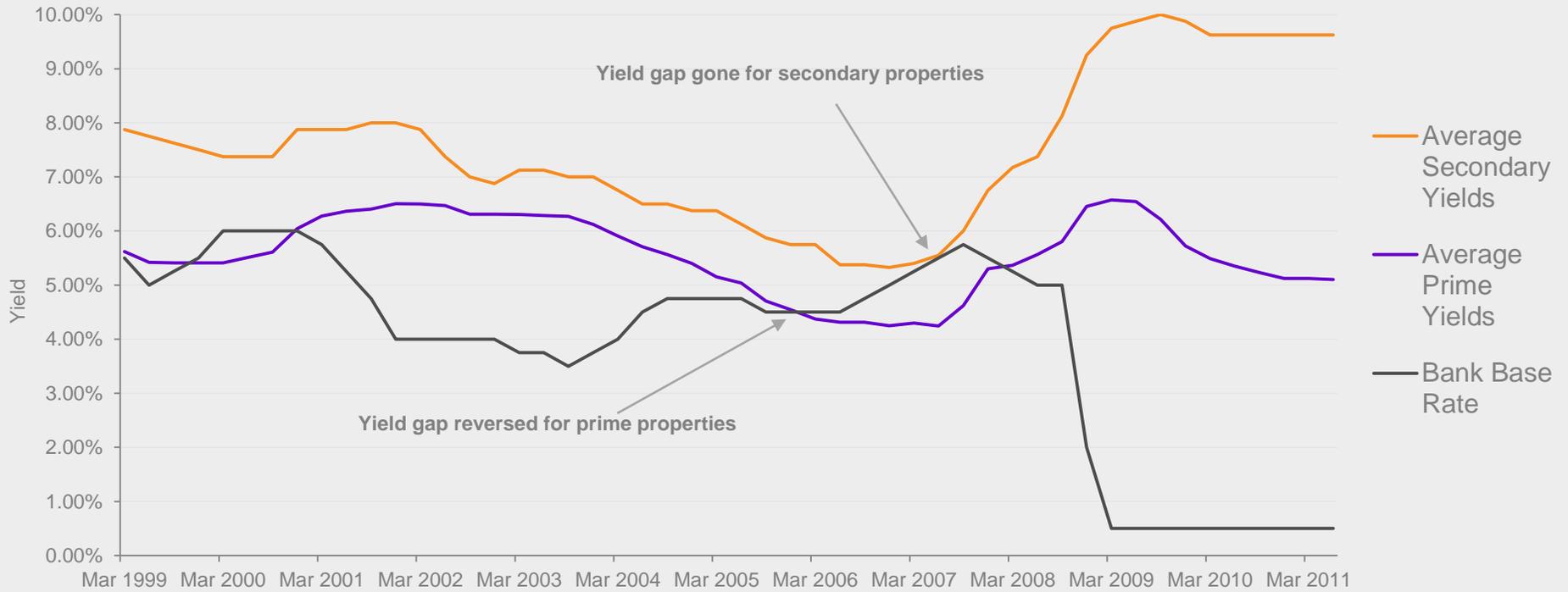
# Investing Through the Cycles

## Liquidity:

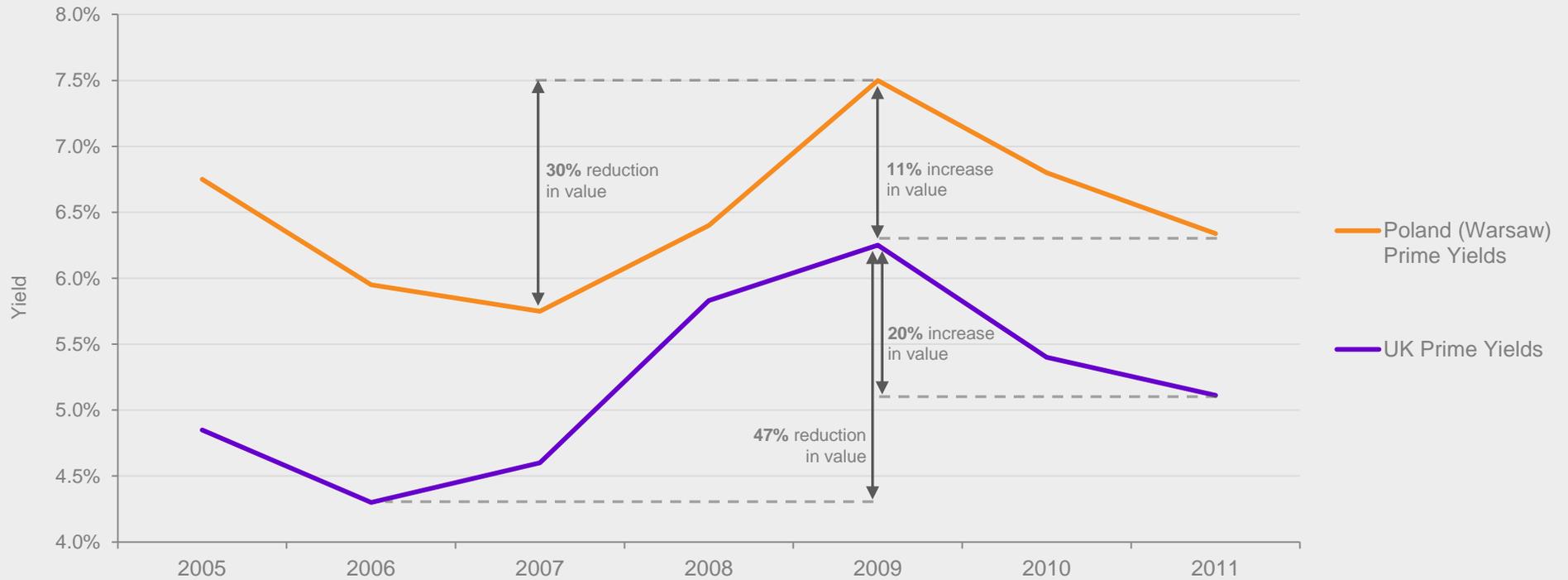
### Investment Property vs. Stock Market vs. Gilt market



- **The cost of trading property is relatively high:**
  - 4% stamp duty
  - 1% agent's fees
  - 0.8% legal and valuation fees
  - 5.8%
- **The cost of trading publicly quoted stocks is relatively low:**
  - 0.5% stamp duty
  - 0.25% broker's fees
  - 0.75%
- **Just to break even on an investment, a property's value must increase by at least 6%:**
  - But relying on capital gain for such an inherently illiquid asset may be risky.
- **Or over a 5 year hold period for UK prime Property, more than one year's income is lost in acquisition costs.**
- **These frictional costs have to be addressed.**



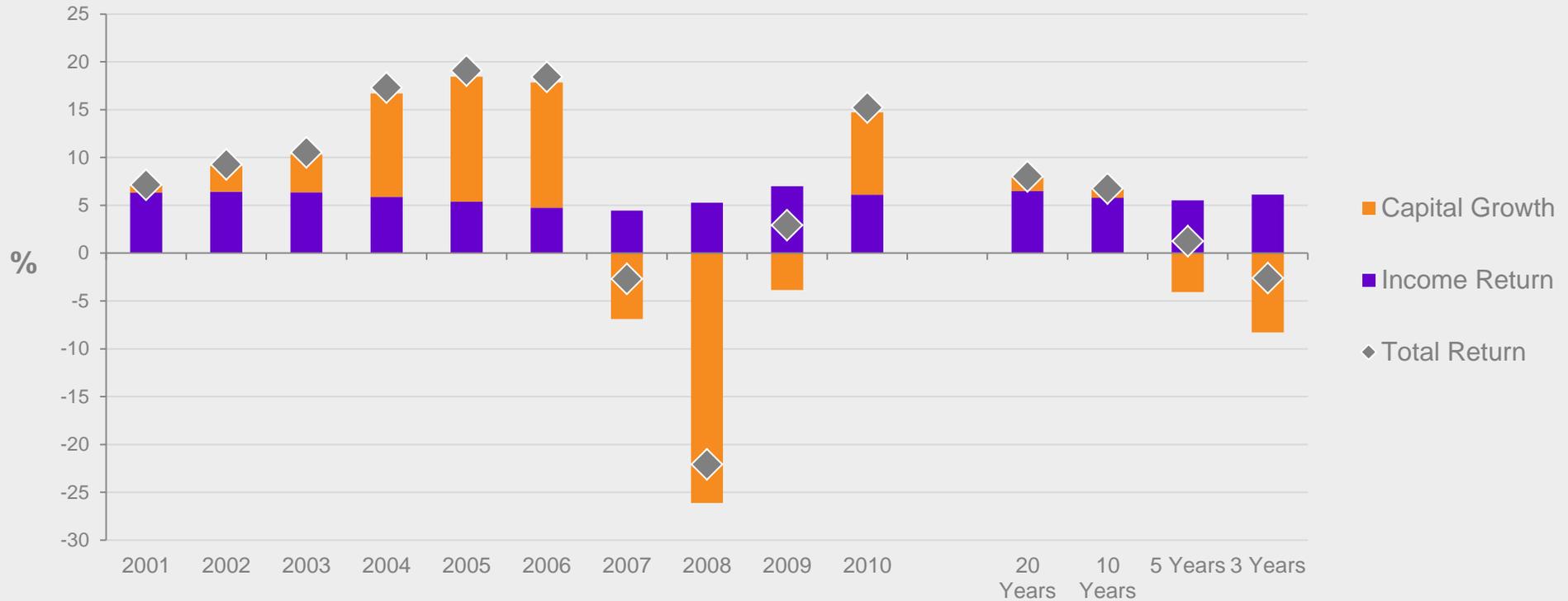
Source: CBRE, Bank of England  
 Yields are average of office and retail yields



Source: CBRE  
 UK Prime Yields are average of London office and UK prime retail yields.  
 Poland (Warsaw) Prime Yields are average of Warsaw office and retail shopping centre yields

# Investing Through the Cycles

## Income Return as % of Total Return



Source: Investment Property Databank (IPD) All Property UK Universe

Over the longer term income is the main driver of investment returns

- Simple buildings are best:
  - Retail warehousing;
  - Functional offices;
  - Warehouses.
  
- Need to keep costs/ rents low, especially in this environment. Simple/ cheap construction allows this.
  
- Old buildings in prime locations can be better than Class A buildings in prime locations.
  
- Often better to buy assets which have already aged, than brand new.
  
- The above dovetails with high yield approach.

- A lot of attention to this subject recently.
- It is in fact a small part of a property's costs.
- Key is overall cost to tenant: rent and services charges, not service charges alone.
- Service charges are a small percentage of overall tenant costs.
- The economic effects are of crucial importance, particularly at the moment.
- Regulatory changes may influence this but not likely.

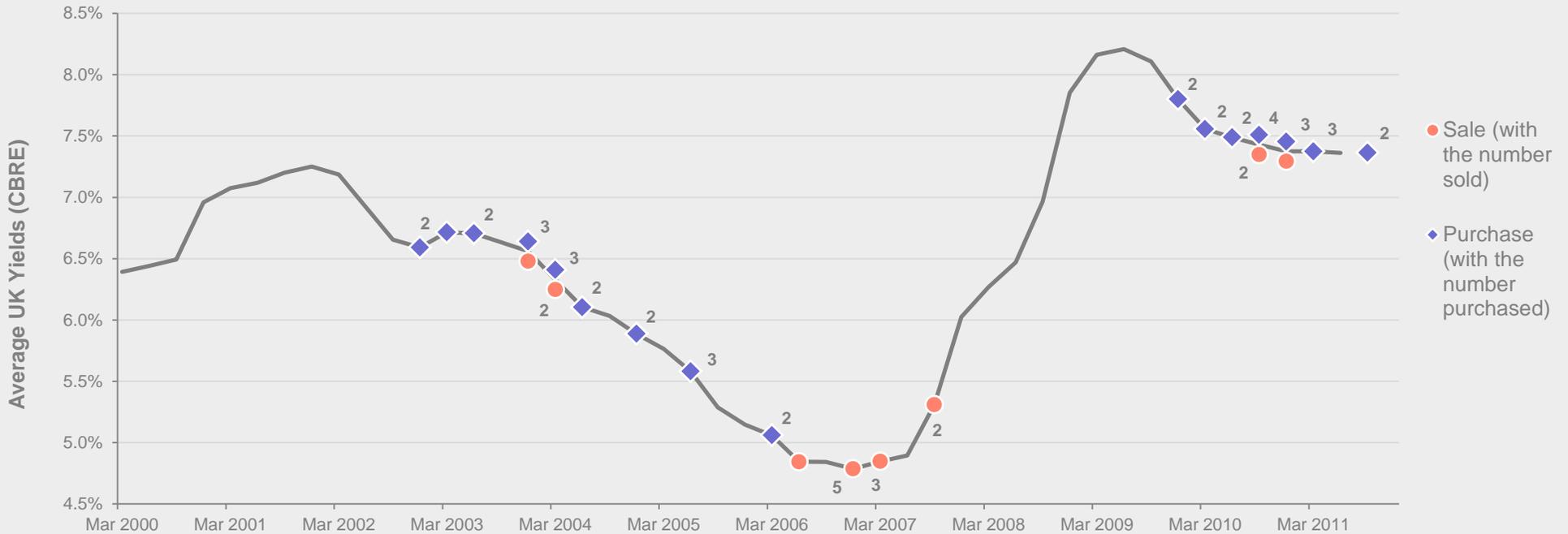
- Commercial property is not an obvious hedge against inflation.
- Supply side led inflation is BAD for property.
- Rampant demand led inflation is ultimately BAD for property.
- Mild demand led inflation is good for property.

- Property is illiquid and expensive to transact.
- The only sure way to overcome this illiquidity and expense is to target high yields.
- There must always be a gap between the cost of funds and the yield earned on property.
- Prime property is low yielding and can be very volatile. There is a bubble in UK prime property.
- Sustainable high yields are likely to be less volatile.
- High yields cushion capital value movements.
- State of the art properties can only depreciate. It can be better to buy buildings which have already gone through this process or are simple in nature.
- Green issues are of subsidiary importance when assessing returns.
- Property is not, per se, an inflation hedge.



# Investing Through the Cycles

## First Property UK Track Record



**N.B:** Where no number is provided only one property was transacted  
 Average UK yields are the average of prime and secondary office and retail yields (source = CBRE).