



UK Quarterly Property Snapshot

The economy

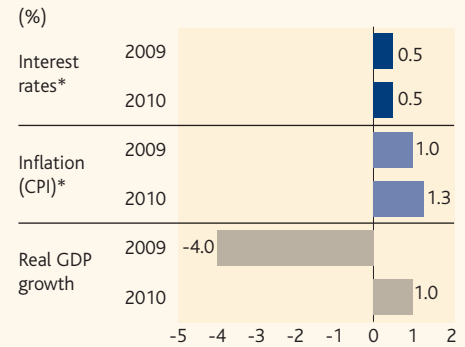
Recent performance

- The global economy weakened sharply in Q1, recording the biggest quarterly contraction in the post-war period. Financial globalisation has, for now, gone into reverse, with lenders withdrawing to their home markets, transmitting the credit crunch into every region of the globe. This downward cycle is most evident in the collapse of global trade and manufacturing activity.
- The ongoing banking crisis and severe weakness in the economy forced the Bank of England to slash interest rates to just 50 basis points in March. Interest rates are at the lowest level ever recorded in Bank history, but the threat of deflation has led to the introduction of quantitative easing, which is aimed at raising liquidity levels in the economy.
- UK real GDP data showed that output fell by a massive 1.9% in Q1 2009, which has only been previously exceeded in 1979. The overall downturn is deeper, so far, than the initial phases of either the early 1980s or mid-1970s recessions.
- The unemployment rate rose by 0.2% in April to 4.7%, although is off the record-setting pace of February of a 0.4% rise. Unemployment is over two million for the first time in a decade, while employment has dropped. The Midlands, the North and Wales have suffered the sharpest falls in employment due to dependence upon industrial activities. Job losses have been moderate so far in London and the South East.
- Home prices fell in April by 15% from a year earlier. The pace of price declines has eased, as new buyer enquiries at estate agents have increased with falling mortgage rates. Despite recent improvement, mortgage lending activity remains close to historically low levels.
- Inflation dropped to 3% in March, and is back within the government mandated target range. Sterling depreciation has pushed up imported goods prices sharply, and is now feeding partly through to the consumer. However, domestic inflation pressures are weak, with wage inflation in March very weak as bonuses have collapsed, while underlying pay growth is also low.

Outlook

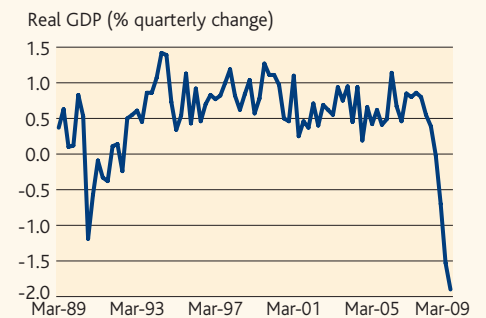
- Gilt yields and long term government bond yields have fallen to very low levels as a result of quantitative easing and significant interest rate cuts. The monetary policy employed has, at the same time, created beneficial conditions for property investment, leaving the sector looking relatively good value.
- Business surveys indicate that GDP in Q2 2009 will fall by a lesser amount than Q1, as manufacturing output and business investment begin to taper-off at low levels. GDP is expected to fall by 4% in 2009. The economy is then expected to grow by 1% in 2010, which is still some way behind the long term trend rate.
- Sterling's fall should lead to greater expenditure switching to domestic output, as imports are more expensive, while exports will get a lift by late 2009. Unprecedented interest rate cuts of 400 basis points since last autumn have yet to show through significantly in the economy. However, lending for home purchases has risen in 2009, albeit from very low levels, while mortgage and corporate borrowing rates have dropped by at least 150 basis points since November.

Economic forecasts



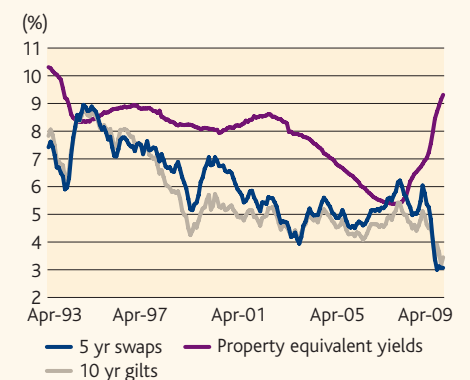
Source: Aberdeen Property Investors, EcoWin Reuters
*year end

GDP trend falls below early 1990s slump



Source: Aberdeen Property Investors, EcoWin Reuters

UK property looking better value relative to gilts



Source: Aberdeen Property Investors, EcoWin Reuters

UK Quarterly Property Snapshot

Property market overview

Recent performance

The pace of capital value decline has slowed sharply in spring 2009, with capital values already having fallen by more than 45% since the start of the downturn. Prime property values have started to stabilise. Secondary property capital values continue to fall, albeit at a slower pace. Investors currently prefer the safer haven of prime property, as the economy continues to weaken and the risk of tenant failure increases.

The pace of rental decline continues to increase, as the recession has deepened. Rents are falling by 8% and 6% on an annualised basis in the retail and industrial sectors respectively. The office sector is experiencing a sharper decline at an annualised 22%, with a much faster rate of decline of over 30% on an annualised basis in central London.

Although UK yields now look high, transaction levels have not picked up substantially as yet for institutional property, although investor demand has started to improve again. However, in the auctions market, which deals with the smaller lot sizes typically purchased by private investors, transaction levels have improved significantly. With UK equivalent yields having risen to 9.3% in April 2009, and cash yields having dropped to close to zero, commercial property is seen as being very attractive, especially for secure income streams.

Retail

- All retail sub-sectors are now experiencing rental decline. Void levels are rising, as tenant failures increase and the rate of rental decline will pick up further as a consequence. Retailers closely linked to the housing market have been hit hardest, with problems compounded by the effects of reduced bank credit facilities and the inability to obtain supplier insurance. Nevertheless, the supermarket sector is trading well, with the discount food retailers in particular reporting exceptionally strong sales growth.
- Prime yields for standard shop units in the best towns have stabilised at 6%, after increasing by over 200 basis points in the last two years. Yields on secondary retail units have continued to rise, albeit at a slower pace.

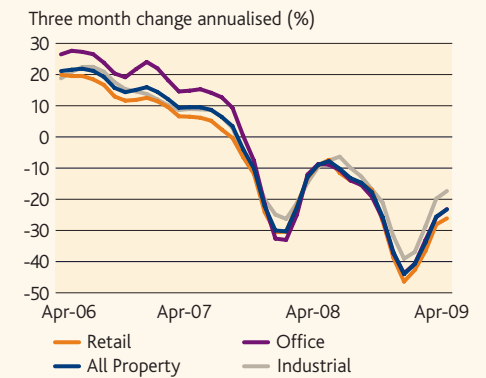
Office

- Rents are falling fastest in central London, at an annualised pace of over 30%. The City has experienced the strongest speculative development boom in recent years. There is still 5.4 million square feet under construction, of which only 0.9 million square feet has been pre-let. However, rental decline is much more muted elsewhere in the South East at 12% annualised, and 7% in the 'Rest of UK'. Development levels have generally been much more subdued outside the City.
- Prime yields are also stabilising in the office sector, after increases of 250 basis points over the past two years. Demand is increasing from overseas investors, particularly the German open-ended funds, for assets let on long leases. Yields for secondary units are continuing to increase, with little investor demand for property on short leases, in weaker quality locations, or with poorer quality tenants.

Industrial

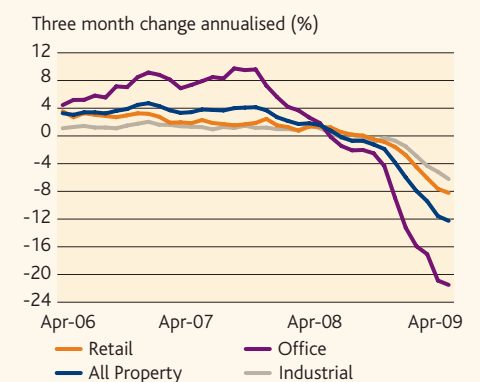
- Rents are currently falling at a rate of 6% on an annualised basis to April 2009. Availability levels have reached all time highs, driven by large-scale speculative development in recent years. However, given concerns of oversupply, the absence of development finance, an economy in recession and the impact of empty rates legislation, development starts have dropped to historic lows, in common with other sectors.
- Prime yields are also stabilising at 8% for prime distribution units and 8.25% for prime industrial estates in London.

Total return



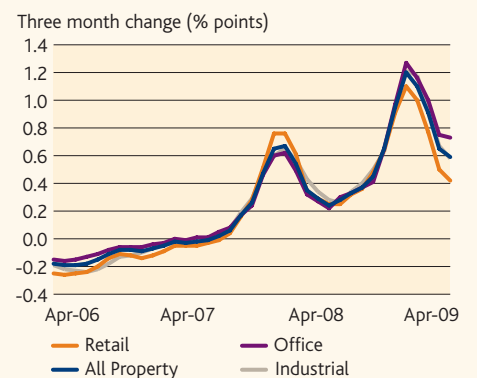
Source: IPD Monthly Index, April 2009; Aberdeen Property Investors

Rental value growth



Source: IPD Monthly Index, April 2009; Aberdeen Property Investors

Yield shift



Source: IPD Monthly Index, April 2009; Aberdeen Property Investors

UK Quarterly Property Snapshot

Sector prospects

Outlook

Total returns for 2009 are estimated to be approximately -15%, driven by a capital return of -22%. However, the bulk of this capital fall is projected to occur in the first half of the year, with capital values having fallen already by 9% in the first quarter. However, the pace of capital decline is now slowing sharply and will continue to do so.

The prospects for the occupier market remain very weak. Rental decline will continue to accelerate across all sectors. Central London offices will experience the most rapid rental decline, reflecting high levels of development, increasing availability and minimal demand.

Nevertheless, high yields and income returns are starting to encourage investors to re-enter the market. 'All Property' equivalent yields have reached 9.3%, the highest since 1993. This reflects a record premium of almost 600 basis points over 5 year swaps and 10 year gilt yields, the highest in history.

A five year annualised average 'All Property' total return of 6.7% is projected from the end of March 2009. Capital values are expected to stabilise by the end of 2009. Rental growth, on the other hand, is not projected to resume until 2012.

Overseas investor demand is anticipated to continue picking up. UK property already looks very attractive in an international context, compounded by a fall in sterling of over 25% against both the euro and the dollar over the past year. UK yields stand at a premium to most continental European yields, while the UK has the added benefit of a more liquid and transparent market.

Central London offices are projected to be worst performing segment over the next five years, driven by a sharp underperformance in 2009 and 2010, as rents fall sharply. However, both performance and rental growth rebound strongly post 2011. Retail and industrial are anticipated to be the strongest performers over five years.

Retail

- The retail sector is anticipated to marginally outperform 'All Property' over the next five years. Supermarkets, which are less dependent on discretionary spending, have very low vacancy rates and long leases, and the best 'Open A1' retail parks are anticipated to outperform.
- In a downturn, the retail sector has historically been defensive, particularly at the prime end, as rents are less cyclical than for offices, and central London offices in particular.

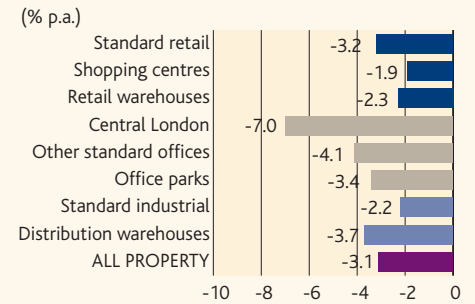
Office

- The office sector is forecast to underperform 'All Property' over the next five years. The best performing segments are projected to be the 'Rest of South East' and Office Parks markets, boosted by their higher income returns, and a lower level of rental decline over the next couple of years.
- While central London offices underperform substantially over the next two years, over five years, the disparity in performance between central London offices and 'All Property' is much smaller. London is expected to see stronger rental growth at the back end of the forecast period, from an exceptionally low rental base in historic terms.

Industrial

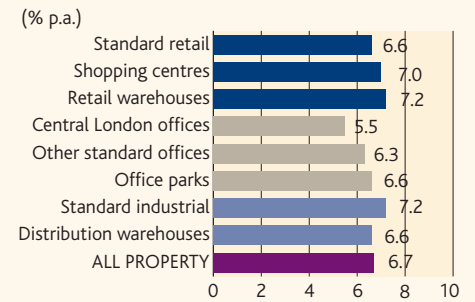
- Over the next five years, standard industrial property returns are projected to outperform the 'All Property' average.
- Lower falls in rental levels and a stronger income return help support the stronger performance of the industrial sector over three and five years. However, while industrial is less volatile, rental growth in the office and retail sectors is anticipated to recover more strongly towards the end of the forecast period.

Five year rolling average rental value growth (to March 2014)



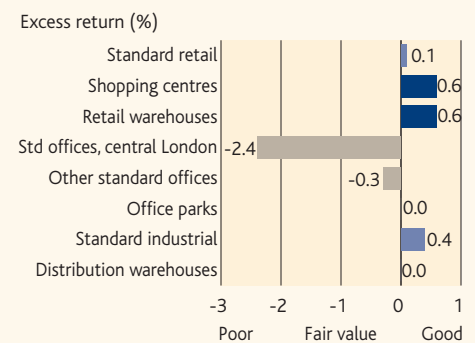
Source: Aberdeen Property Investors

Five year rolling total returns (to March 2014)



Source: Aberdeen Property Investors

Market pricing over five year horizon, average p.a.



Source: Aberdeen Property Investors

UK Quarterly Property Snapshot

Investment policy

The table below shows Aberdeen's recommended positions, relative to benchmark, in order to achieve outperformance over a three year period.

Sector	Strategy
Standard retail	Neutral
Shopping centres	Overweight
Retail warehouses	Overweight
City offices	Underweight
West End offices	Underweight
Rest of South East offices	Overweight
Rest of UK offices	Underweight
Office parks	Underweight
Industrial	Overweight
Other	Neutral

Source: Aberdeen Property Investors

Important information

FOR PROFESSIONAL USE ONLY

This document is strictly for information purposes only and should not under any circumstances be considered as an offer or solicitation to deal in the property market. Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the reader acting on any information, opinion or estimate contained in this document.

The information contained herein, including any expressions of opinion or forecast have been obtained from or based upon sources believed by us to be reliable, but is not guaranteed as to accuracy, adequacy or completeness.

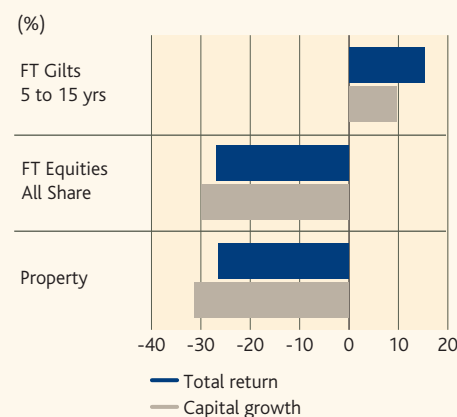
Some of the information in this document may contain projections or other forward looking statements regarding future events or future financial performance of countries, markets or companies and actual events or results may differ materially. Any research or analysis used in the preparation of this document has been procured by the company for its own use and may have been acted on for its own purpose. Aberdeen Property Investors does not accept responsibility for any loss arising from the use hereof.

The value of investments and any income from them may go down as well as up; they can be affected by exchange rate movements between currencies and it is possible that investors may not get back the full amount invested. Physical property assets are illiquid in nature and, under adverse market conditions, the sale of such assets may take a considerable time. Delays in selling underlying assets may lead to similarly lengthy constraints being placed on the sale of shares by investors in a fund. Past performance is no guarantee of future performance.

No part of this document may be copied or duplicated in any form or by any means or redistributed without the written consent of Aberdeen Property Investors.

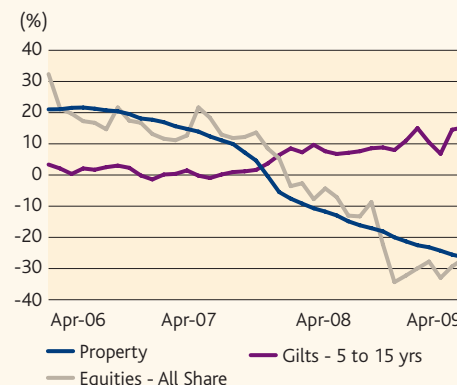
© 2009 Aberdeen Property Investors. All rights reserved.

Asset classes – 12 month total return and capital growth (to end April 2009)



Source: Aberdeen Property Investors, IPD

Asset classes – 12 month rolling total return (to end April 2009)



Source: Aberdeen Property Investors, IPD

Contact details

John Danes - Head of UK Research and Strategy

Telephone: +44 (0)20 7463 6740

Email: john.danes@aberdeen-asset.com

Louise Boustani - UK Retail Analyst

Telephone: +44 (0)20 7463 6761

Email: louise.boustani@aberdeen-asset.com

Website: www.aberdeenpropertyinvestors.com