



## Legal & General Commercial Property – an update for 2009

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### The Property Funds range:

- Life Property Fund
- Pensions Property Fund
- UK Property Trust

### Market update

2008 was an unprecedented year for financial markets, with every asset class except government bonds and cash experiencing major falls in value. Against this backdrop, the UK commercial property market fell at a faster rate than ever before, in response to an exceptional set of circumstances.

Severe restrictions on credit availability have led to a reduction in the provision of debt to a sector for which leverage was one of the main drivers of price increases. The economic downturn has also led to investors repricing the risk of tenants defaulting and a reduction in expectations for rental growth. As commercial property becomes increasingly global, this trend has been a feature of all of the main international property markets, including the UK.

The UK commercial property sector has seen a greater effort by independent valuers to ensure that portfolios are more accurately reflecting their market price. While this has increased the speed of valuation declines, it is worth noting that even the most severe monthly decline to date has been -5.1%\* in November 2008 – benign in comparison to falls in other asset classes. This contrast reflects the relatively low volatility of commercial property. Alongside less turbulent returns, property's historic virtue as a diversifier, and the relatively high costs of entering the market, reinforce commercial property's place as a long-term 'hold' in a balanced portfolio.

### A high income yield

A silver lining of the current, rather grey situation is that income yields are higher and therefore more attractive than they have been for over a decade.

Historically, the yield on commercial property has averaged 1.7%\* above that of government bonds. Over the last couple of years, yields have been compressed to well below that level, but the premium has now returned to above this average – income yields currently stand at around 8% per year\*. With cash reserves, no redemption queues, and a knowledge of the UK commercial property market that is second-to-none, Legal & General's Property Funds are ideally placed to take advantage of these conditions.

On a positive note, we are currently witnessing demand for new funds from investors seeking to capitalise on the situation. It is Legal & General Property's view that very favourably priced opportunities in UK real estate are emerging, particularly in relation to risk free bonds and cash, whilst avoiding the volatility in the equity markets at present.

\* Source: IPD

**Note: Total returns from wrapped products will be lower than those generated by the underlying assets.**

**This is not a consumer advertisement. It is intended for professional financial advisers and should not be relied upon by private investors or any other persons.**

## Outlook for 2009

At Legal & General Property, we have been continuing to win new mandates from corporate pension funds and their actuaries who wish to invest in our commercial property funds. Whilst it is likely that capital values will decline during the first half of 2009, we will be advising these new clients to invest in our property funds over the course of the year ahead, so as to capture the bottom of the market and be well positioned to benefit from a future recovery.

We are aware of many other major market players with capital to spend who share our views about the innate attraction of the UK's commercial property market at its current levels.

The current downturn has in part, been driven by investors switching from commercial property to cash. When this capital is reinjected into the market, it will have a very positive impact on both sentiment and pricing.

## Why Legal & General Property?

Legal & General's experience of investing in commercial property across the cycles gives us an insight into the best strategies to employ in a downturn. Legal & General Property believes that its commercial property portfolios are well placed to ride out current market conditions because our strategy at such times, focuses on a diversified selection of prime quality properties that have:

- Low void rates.
- High quality tenants with good commercial credit ratings.
- Strategic locations, in areas where economic growth is forecast to be above average.

## In summary

Legal & General Property continues to provide its investors with:

- Exceptional risk management.
- A stable investment manager.
- A continued focus on investment performance.

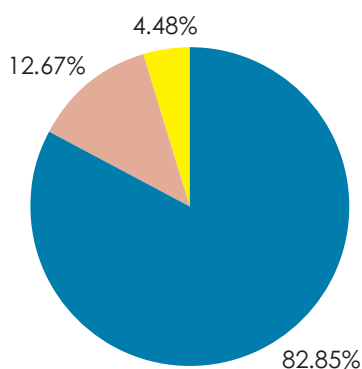
## Life Property Fund - as at 31 December 2008

Fund Manager: Trevor Nelson

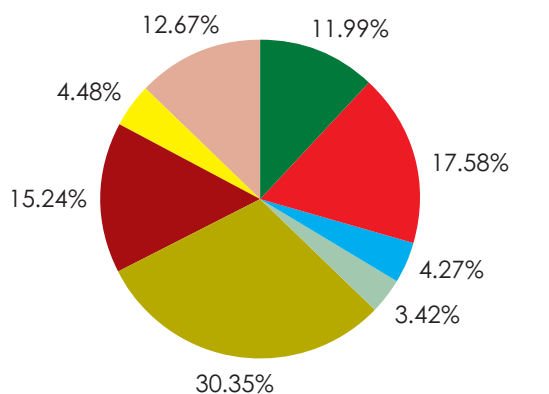
Fund size: £1318m

Average lease length: 11.49 years

### ASSET MIX



### PROPERTY PORTFOLIO

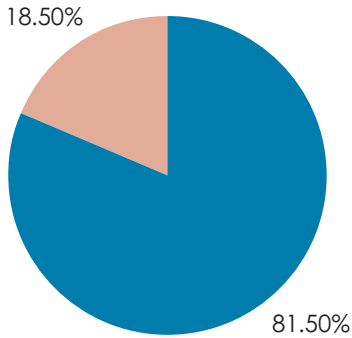


Source: Legal & General Investment Management

## Pensions Property Fund – as at 31 December 2008

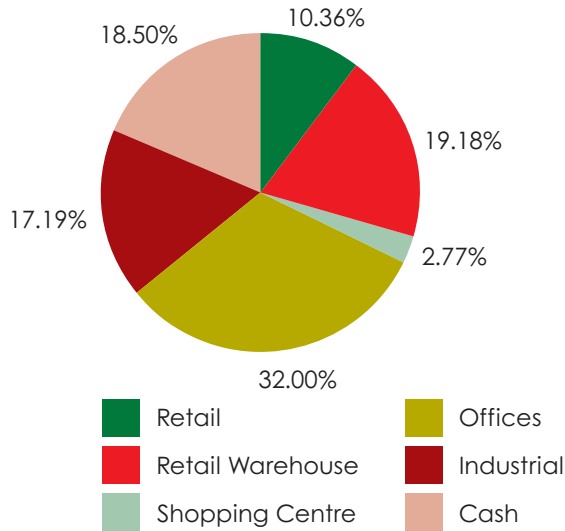
Fund Manager: Duncan Miller  
 Fund size: £758m  
 Average lease length: 9.8 years

### ASSET MIX



- Property
- Cash

### PROPERTY PORTFOLIO



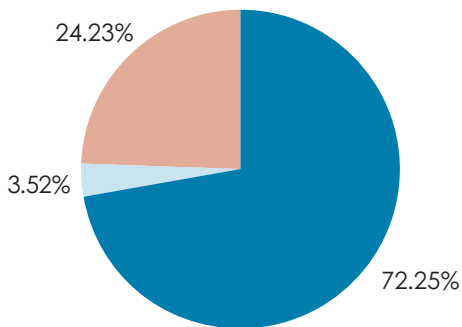
- Retail
- Retail Warehouse
- Industrial
- Cash
- Shopping Centre
- Offices

Source: Legal & General Investment Management

## UK Property Trust – as at 31 December 2008

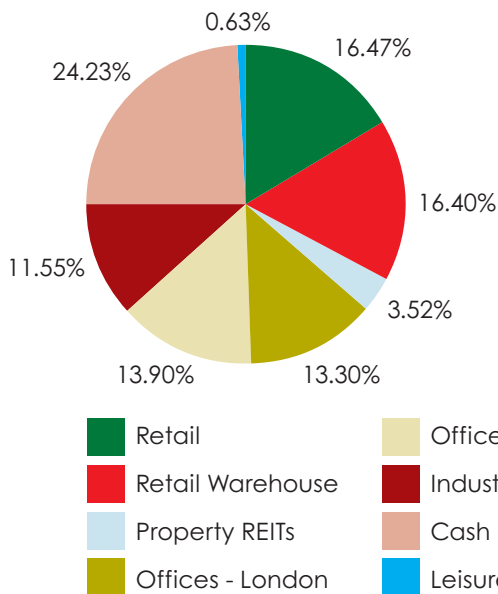
Fund Manager: Michael Barrie  
 Fund size: £190m  
 Average lease length: 9.47 years

### ASSET MIX



- Direct Property
- Property REITs
- Cash

### PROPERTY PORTFOLIO



- Retail
- Retail Warehouse
- Industrial
- Property REITs
- Offices - London
- Cash
- Leisure
- Offices – Regional

Source: Legal & General Investment Management

Past performance is not a guide to future performance. The value of investments and any income from them is not guaranteed and will fluctuate. Investors could get back less than they invest.

The value of property is a matter of valuer’s opinion rather than fact and in exceptional circumstances it may be necessary to defer encashment of units.

**The views expressed are those of Legal & General Investment Management.**

**The life and pension funds are unit linked insurance funds of Legal & General Assurance Society Limited.**

**The unit trust is a fund of Legal & General (Unit Trust Managers) Limited. Investment management of all funds is carried out by Legal & General Investment Management.**

**All the companies are authorised and regulated by the Financial Services Authority.**

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