

PROPERTY INVESTMENT STRATEGY

1. Introduction

1.1 This report presents an investment strategy for the main property portfolio of the Fund discussing the broad categories of investment to be targeted by the Fund.

1.2 This property investment strategy is built on the Fund's overall investment policy for property:

"Property is a good diversifying asset. However, by restricting itself to UK property the Fund limits its ability to access the benefits of growth in the world economy. While UK property investment is likely to continue to be direct it is likely that it will be easier to gain the relevant exposure to appropriate overseas property through buying unitised products." (Investment Allocation Strategy approved by Pension Committee Dec 2010).

1.3 At its simplest property is an investment in a piece of land or a building giving the investor a return as rental income and/or capital value growth. Capital growth may come through time holding the asset and/or be driven by asset management initiatives and development.

1.4 Property investment returns are attractive to pension funds in that they provide a combination of a bond-like rental income return (modest risk-return) and an equity-like capital growth component (higher risk-return). The IPD UK Monthly Index over 20+ years has recorded an overall return of 9.3% per annum, of which 7.2% is income return and 2.1% capital return. The rental income component of the return has typically been stable while the capital growth element has proved to be volatile.

1.5 Risks and returns in property investment come both at a market level and from individual asset choice. The choice of country and region and the choice of property sector influence the risks and returns being run. High growth economies offer the potential of property values increasing in line with higher rates of growth in GDP, but they may also represent higher risk with anticipated future growth already factored in prices being paid. At an individual asset level, there are asset specific risks and opportunities. The property manager has the opportunity to add value through initiatives to improve buildings and manage the tenant roster. Asset specific events, such as the loss of an important tenant, illustrate the risks at an asset level.

2. The Fund's Property Investment Strategy by category

2.1 The Fund's investment strategy envisages 10% to 20% of the value of the Fund being invested in diversified property, being UK and overseas, and using both direct and indirect routes.

2.2 This paper does not propose what overall property allocation should be put in place. This is a role for the Investment Panel after reviewing the risk and return profiles of all investment classes.

But the following considerations are relevant:

- With bond coupons historically very low, the property rental return of over 5% per annum is an attractive return, especially if based on leases with some inflation linkage.
- Having gone through the boom and bust of 2005 to 2009, property values now appear to have stabilised and returned to their long-term trend values.

With the current investment climate generally supportive of property investment, a mid-range allocation of 15% has been assumed for this paper.

Return characteristics of property investments

2.3 The two components of property investment returns (rental income and capital growth) are very different.

2.4 The bond-like rental income return is stable and reliable showing little volatility. Over 25 years the rental component of the IPD UK monthly index it has never exceeded 10% per year nor dropped below 5% per year.

2.5 Rental income also has a linkage with inflation. In some leases, this may be expressed contractually with rents increasing with inflation, albeit with caps and collars to the increases. With others, the triennial rent reviews will tend to follow inflation, but this is not always the case. In difficult economic times, rents tend to fall on re-letting. It is also expensive to hold property empty. For example, in the UK business rates are payable by the landlord on vacant properties. This drives landlords of properties typically in secondary locations with little tenant demand, to let them at whatever price they can just to avoid business rates. This fulfils the objective of releasing as much property as possible for occupation, but means that rental income and consequent capital values become much more volatile in secondary locations.

2.6 The equity-like capital growth component of property returns is very variable and volatile. Real property prices do not show the rapid price fluctuations of quoted equities, but on a longer time scale, price movements can be just as severe. The 2.1% per annum long term UK capital growth component quoted in the introduction hides years of boom and bust. Extraordinary growth of 20% to 30% per year was recorded on 1987, 1988, 1994 and 2005 to 2007. These periods were followed by busts with years of falling prices. In 2008 and 2009 values fell -20% to -30% each year.

2.7 Asset management and development activity can drive property returns in a manner less correlated with general property market/index returns, but such activity also involves an acceptance of the risks attached to such activities.

2.8 Capital values of commercial property fluctuate significantly depending on the security of the rental income. Like bonds, prices depend on the covenant strength of the issuer and the length of the lease contract. Unlike bonds, the rental income can be turned on and off as leases are issued and terminate.

The value of an office block in a secondary location, for example, can fall as much as 30% if a tenant decides not to renew a lease. Correspondingly it will rise again if a new long-term tenant is signed up. A typical private equity property strategy is to seek out buildings that are vacant or with short leases, then refurbish some parts, re-let and re-gear the leases, then sell realising the capital appreciation embedded in the new longer leases.

- 2.9 In practice, property investment can be structured to create a range of different risk/reward profiles from stable bond-like annuity income performance to volatile equity-like development returns.

Country property risks and returns

- 2.10 Different countries display very different property returns. This may be part timing in that volatility in capital values tends to move in cycles between optimism and pessimism, so the starting point of the measure can influence the return.
- 2.11 There is also a linkage with the economic prosperity of the country. Property prices are affected by macro-economic factors such as GDP and the availability of credit and investment as well as country-specific factors. Among the various macroeconomic factors, GDP is important with research by the Bank of International Settlements suggesting it is "a dominant influence on commercial property prices".
- 2.12 Property Total Returns by country have been tracked by IPD indices (in local currency) for some time, for example as follows:

Country	Total Return pa	Over
	% p.a.	
South Korea	11.0%	7 years
France	6.28%	10 years
UK	5.52%	10 years
Japan	4.98%	8 years to 2010
US	4.56%	10 years
Germany	2.87%	10 years

The figures are presented to illustrate the variability of country returns between countries. Figures are presented for South Korea as a proxy for developing economies with faster growing GDPs as it is the only emerging country for which an IPD index is available.

- 2.13 UK Property returns have been comparable with returns in all the major developed economies, but in recent years have lagged property returns seen in faster developing economies, as illustrated by the example of South Korea. It does not follow that buying properties in countries with higher GDPs will

necessarily produce higher property returns. For example, the faster growth in rental income expected in a higher growth country may already be factored in the property valuations there. If that growth rate is not sustained, then property values might well suffer disproportionately. The variability of returns emphasises the need to create a diversified portfolio of country returns with the opportunity to be over-weight in regions where property values are expected to grow the fastest.

- 2.14 In terms of price volatility, the UK Property market has shown the most volatility of any of the markets in terms of prices rising during the credit-fuelled boom of 2005 to 2007. Other markets show less of a valuation bubble, with the German market not showing any bubble effect at all.
- 2.15 Property or Real Estate usually involves owning physical property directly or indirectly in the countries concerned. Political and administrative stability and the rule of law are therefore also important considerations and unlike traded stocks, markets and pricing in the market can be very opaque.
- 2.16 Jones Lang Lasalle publish a detailed scoring of countries' transparency of their property markets based on ratings for performance measurement, market fundamental data, governance of listed vehicles, regulatory and legal processes, and transaction process. Countries are banded as highly transparent, transparent, semi-transparent, low and opaque (See Annex 1).
- 2.17 If a manager is looking to invest in property internationally, transparency scoring is a tool that may be used to determine a universe of investible countries with acceptable political and administrative risk.
- 2.18 When considering property investment overseas, the tax position also needs to be taken into account as it may be very different from the UK. Property taxes differ between countries for all investors, for example, rates of stamp duty taxes. With foreign ownership of property being a sensitive political issue, some countries impose irrecoverable withholding taxes and other levies on property income going to foreign investors (e.g. the US FIRPTA tax rules and Australian capital gains tax on property). These taxes would not be incurred on an equivalent investment in the UK, so a balance must be struck between the benefits of diversification and additional costs involved.
- 2.19 Investing outside the UK in property just as for all other investment classes involves taking currency risk as the assets will be denominated in local currencies. This paper assumes that currency risks will be appraised and managed on a Fund-wide basis, not separately for the property portfolio.

Property investment structures

- 2.20 Property investment and divestment is expensive. Acquisition costs are typically up to 5% of the cost of a property and selling costs can be 2%, so it is not an investment class to be traded into and out of in the short term.
- 2.21 As with quoted equities, property can be held directly or indirectly. Unlike equities, given the size of the individual lot, direct ownership of property is only really open to larger investors, such as the Fund.

2.22 Indirect exposure to property can be through private funds or listed vehicles. Private funds can be open-ended or closed with a pre-determined life span and are valued according to the net asset value (NAV) of their properties. The value of listed vehicles is determined by the market so while correlated with the net asset value, it is subject to another level of volatility reflecting investor sentiment at the time to the market, to property in general and to the company particular.

2.23 Direct and indirect investment routes both have a place in a portfolio of property assets depending on circumstances. The following table sets out some of the factors to take into account when deciding on the route to follow:

Direct investment	
Advantages	Disadvantages
<p>Control, over acquisitions, disposals, management initiatives, risk profile, gearing.</p> <p>Cost effective and tax efficient (management costs less than 0.5% per year)</p>	<p>Requires more in-house management</p> <p>Requires scale to achieve acceptable diversification.</p> <p>Need to source and appoint professional advisers directly.</p> <p>May require establishing own foreign holding company structures.</p>
Indirect investment	
Advantages	Disadvantages
<p>Buying into existing portfolio (open ended or secondary acquisition of closed fund). Brings quick allocation to countries/markets selected, diversification of buildings and tenant covenants, possible acquired at a discount to net asset value.</p> <p>Expertise and professional resources of fund manager.</p> <p>Greater diversification of buildings and tenants.</p> <p>Little in-house management burden</p> <p>Can commit smaller sums</p>	<p>Existing portfolios may have legacy issues, e.g. potentially onerous covenants agreed when competing to purchase.</p> <p>Lack of liquidity, closed end funds are illiquid for life of fund (upto 10 yrs) except as a secondary sale (often only possible at a discount to NAV. Open ended funds can be locked up, redemptions can take years.</p> <p>Lack of control.</p> <p>Possible lack of alignment of interests of different investors.</p> <p>Funds flows drive timing of acquisitions and disposals. Pressure from investors to get commitments invested. Most saleable (i.e. attractive) assets may be sold to meet redemptions.</p> <p>Closed end funds need to dispose of</p>

	<p>properties in a fixed window in time.</p> <p>Costs, higher management costs and less tax efficient (management costs in range 1% to 2.5% per annum). Funds may also have significant performance fees or carry of structured as private equity.</p> <p>Exposure to gearing without control except broad range permitted in fund regulations.</p>
--	---

- 2.24 The use of listed investment companies for indirect investment may remove the issues of illiquidity but brings in significant volatility in returns dependent on market sentiment. In the long term, listed company returns are comparable to private fund returns, but actual returns may be greatly influenced by the timing of the investment.

The Investment Strategy

- 2.25 The aim of the Property Investment Strategy is to deliver solid, reliable property returns to the Fund through a diversified portfolio of investments. It aims not only to reduce volatility by seeking exposures across property sectors and geographies but also offer the prospect of higher returns through appropriate diversification and specialist/opportunity investment.
- 2.26 It is proposed that the aim of the property portfolio should be to deliver an absolute return to the Fund rather than track a particular property benchmark. Such an approach promotes long term value decision-making over shorter term drivers to meet a particular index benchmark performance. However, the volatility of returns means that evaluation of performance against an absolute return benchmark is most meaningful when undertaken over longer periods of time.
- 2.27 For performance reporting purposes, it is proposed that an absolute benchmark of 8% per year is used, the same as for the infra-structure investment allocation. In judging the results of individual constituents of the property portfolio, especially in the shorter term, then specialist property benchmarks may be used.
- 2.28 As the absolute benchmark reporting will only become meaningful after a number of years, it is proposed the performance of the property portfolio is also measured against the existing broad IPD UK property index. This performance measure will also measure the value of adding diversity into the property portfolio beyond the existing direct UK portfolio.
- 2.29 The portfolio construction will be influenced not only by the net returns available, but also by the correlation and volatility of returns across sectors and geographies. The value leakage between gross and net returns needs to

be taken into account because it varies significantly depending on the investment route chosen

Proposed property allocations

- 2.30 It is proposed that the mainstay of the property allocation should be to a core property portfolio with additional investments seeking some diversification and higher returns. Where core strategies might have an IRR of 6-8% per annum, the specialist income/opportunity strategies would be expected to return IRRs of 8-12% per annum:

	Banded ranges	Example £m
Value of Fund		5000
Percentage allocation to property		15%
Total Property Allocation		<u>750</u>
Diversified Core Portfolio	Range	
	70%	525
	to	to
	80%	600
Specialist / Opportunity Portfolio	Range	
	20%	150
	to	to
	30%	225

This combination of core and specialist holdings offers the prospect of at least achieving the 8% per annum absolute return benchmark proposed if not exceeding it.

3. The Diversified Core Portfolio

- 3.1 The Diversified Core Portfolio is proposed to be between 70% and 80% of the property allocation.

Definition of Core Property

- 3.2 Property professionals place property in bands in terms of its risk and return characteristics as Core, Core +, Value Added and Opportunity. This describes the quality of construction, the location, the length of lease and quality of the tenant. For the Fund's portfolio Core is taken to be Core and Core + property.
- 3.3 Core property is the very best property in leading locations typically with tenants with high quality covenants holding long leases. Core + properties

are similar properties but in slightly less favourable locations, slightly shorter leases and weaker tenant covenants.

- 3.4 Rental yields are lowest with Core properties, but they may be considered as being the safest stores of value and offering the prospects of both steady rental and capital growth, making them appropriate mainstream investment assets for a pension fund seeking long term secure growth. Some long leases have explicit inflation linkage.
- 3.5 Even with core property, the property investment manager needs to be active and pursue asset management opportunities within the portfolio to maximise the value of the properties.

Existing Core Portfolio

- 3.6 The Fund currently has a £434m direct UK property portfolio comprising 44 properties managed by Knight Frank under an advisory mandate. It is invested in Core and Core + property and represents around 9% of the Fund. With projects underway and under late-stage consideration the portfolio will increase to £460m. Since inception in 1988, it has performed to its IPD benchmark.
- 3.7 In addition the Investment Panel has approved £125m for investment in two European core property funds, Invesco £50m and M&G £75m. To date £40m has been invested/committed to M&G, £25m through secondary purchases (reducing the entry cost) and £15m committed to new units (as yet uncalled). A commitment to Invesco has yet to be made.

Proposed Core Portfolio

- 3.8 The proposed core portfolio represents 70% to 80% of the Fund. Taking the mid-range at present, this represents a portfolio of £563m.
- 3.9 To create a diversified core portfolio, the Fund needs to seek diversification both across geographies and across property sectors. Management of the portfolio involves targeting geographies and sectors most likely to produce the consistent long-term absolute returns required by the Fund. Given the high cost of property acquisition and disposal, investments are anticipated to be for the long term.
- 3.10 In seeking returns across geographies, the Fund needs to look to country core property returns that show little correlation between themselves and the prospects of returns in excess of the UK. M&G, for example, run their European Property Fund and an Asian core property fund. The Asian fund is marketed on the basis that it provides core property returns that show little correlation with the core property returns of UK and Europe.
- 3.11 Diversification may also be gained by looking across property sectors. The present portfolio is based on a mix of commercial property (offices, industrial premises, retail, retail parks, logistics and hotels). Other property sectors, for example, residential and agricultural, offer the prospect of stable returns not so correlated with commercial property. Residential property investment returns have been particularly stable compared with the volatility of

commercial property values through the global financial crisis. Residential property investment has long been a significant part of overseas core property funds and the present return to longer term renting in the UK is opening up this sector to institutional investment again.

- 3.12 A possible route to achieving diversification across property sectors and geographies is through the use of derivatives rather than acquiring actual property. There are a number of brokers offering or looking to offer derivatives that pay property index returns. At the moment there are some total UK market instruments and proposals to launch property sector specific instruments. The difficulty with property derivatives is that they tend to be traded in very low volumes so can suffer illiquidity, though this is less of concern if held to maturity. While there may not be an immediate role for property derivatives in the Fund, it is an area that should be kept under review, particularly if country property return derivatives became available.
- 3.13 The total value leakage between gross and net returns is also an important factor that needs to be taken into account when building a diversified core portfolio. It gives UK investment and direct investment, in particular, an intrinsic advantage over indirect funds, which suffer higher management costs and tax charges. Taking recent results, the UK Direct portfolio produced a gross return of 5.6% per annum and a net return of 5.00% per annum. Based on recent accounts from the Invesco and M&G European Property Funds, in order for the Fund to receive the same net annual return of 5.00%, the Invesco European Property Fund would have to have to achieve an annual gross return of 7.33% and the M&G European Fund a 6.8% annual gross return (Annex 2). With core returns expected in the 6% to 8% per annum range, the 1% to 1.5% annual gross return differential that an indirect overseas fund must achieve just to match the direct UK portfolio is a significant challenge to the fund manager.
- 3.14 One way that a manager may boost returns is through the use of gearing. If you can buy a quality real estate asset with a long lease and a good tenant covenant at a rental yield of 7% per annum, then if you can fund a part of the acquisition with debt paying say 4% per annum then gearing of this sort appears attractive provided volatility of returns stays within acceptable bounds.
- 3.15 Gearing is commonplace in property funds to boost returns:

Fund	Gearing Loan to Value (LTV)	Annual return on gross asset value	Annual return on net asset value
M&G European	23%	6.1%	6.6%
Invesco European	37%	3.9%	4.5%
M&G Asian	17%	7.5%	7.8%
Invesco Core US	10%	5.6%	5.8%

The above table shows that property fund managers' use of gearing recovers about half the intrinsic cost disadvantage of fund structures compared with direct investment discussed above.

- 3.16 If investing in indirect funds, exposure to some gearing is inevitable. To minimise the risks involved, the Fund should only invest in property funds with limited gearing (to a proposed maximum of 50%).
- 3.17 The risk (and opportunity) in gearing is that movements in capital values are magnified. For example, if the property market moves by 10%, while an ungeared investment will increase or decrease in value by 10%, a fund with 50% gearing will rise or fall by 20%. In view of the increased volatility brought by gearing, the Fund currently does not have any leverage in its direct UK portfolio. However, such gearing does offer experienced managers a way of achieving out-performance against property benchmarks.
- 3.18 The Fund's current property holdings, being around £450m in its direct UK portfolio and £125m approved for investment in two core European property funds represents the full proposed allocation to core property. The 80:20 split between direct UK investment and indirect overseas investment is appropriate given the intrinsic advantage of UK direct. The diversification to only core Northern European property means that the Fund is unable to benefit from diversification into markets less correlated with the UK and those developing countries with higher forecast GDPs or from diversification into other property sectors such as an exposure to residential property.
- 3.19 It is proposed that the Fund build a diversified core property portfolio based on the existing UK direct core account surrounded by fund investments offering exposure to core property returns in other sectors and overseas countries favouring those with less correlation with the UK and those with prospects of returns higher than expected in the UK. A property manager able to adjust fund weightings between regions and countries may be appropriate to take account of changing circumstances. CBRE, for example, run a global multimanager core property product, presently returning 9% per annum net to investors. The existing approved European core funds could have a place in the portfolio, but the scale of the allocation would need to be reduced in order to include other funds offering some alternative geographical diversification and exposure.
- 3.20 The investment mandate of the existing direct UK portfolio will need to be set as an absolute return mandate to be achieved from continuing investment in a wide range of UK property. The UK property investment mandate procurement process currently in its planning stage will incorporate the overall property strategy as well as prudential limits as to the level of risk that the UK portfolio may take in terms of lot size, single tenant exposure, construction risk, development and acquisition of vacant properties. The new UK direct investment mandate is planned to be a discretionary mandate with an advisory-board style consultation mechanism as used by many indirect property funds.

- 3.21 It is proposed that investment due diligence be commissioned to assist the Fund is designing its core property portfolio with a view to creating a diversified portfolio minimising correlation of returns between components where possible and constructing a portfolio able to deliver the 6% to 8% annual absolute returns required.

4. Specialist / Opportunity Portfolio

- 4.1 The proposed investment strategy sees between 20% and 30% of the property investment allocation being invested in specialist or opportunity funds or other similar vehicles seeking a higher return overall than core property in the range 8% to 12% per annum. Taking the mid-range and current Fund value this represents an amount of around £187m.
- 4.2 The higher returns flow from investments in properties perceived as riskier or from asset management and development initiatives. A number of investment groups have achieved these higher returns consistently over many years. For example, the Blackstone Group has run opportunistic property funds since 1991. Eight funds over 20 years, typically over \$1bn invested in each have returned a net IRR to investors of 16% per annum. Returns for different vintages range from 9% to 40%.
- 4.3 Blackstone and similar specialist managers may invest in value add, opportunity or distressed property. For example, a run-down office block may be bought, refurbished, remarketed and re-let with better quality tenants on longer leases, thereby achieving a significant valuation uplift. This type of investment opportunity needs specialist knowledge and experience and is best accessed through private equity-style funds or listed property development companies
- 4.4 Investors may also look at very specialist sector investments, for example, hotels, student accommodation, health-care facilities, and care-home facilities. These types of investments typically generate higher income distributions but perhaps at the cost of a depreciating specialist infra-structure. The specialist knowledge and management required means that these types of investments are again best accessed through indirect routes.
- 4.5 Specialist hotel funds, for example, search out key quality hotels in the best locations. The lease terms are typically geared to the hotel's performance and include covenants regarding levels of refurbishment expressed as a percentage of turnover. For example, Invesco has two funds with nearly €800m invested. It concentrates on hotels in key locations, such as airports, which are focused on the business traveller. Revenues from such locations are likely to be reliable. In 2011, Invesco's hotel fund returned a net 11.3% (income 7% and capital growth 4.3%) while the core portfolio returned 9.3% in the same period.
- 4.6 The illiquid nature of indirect property investment funds does mean that there can be distressed fund opportunities. Where an investor wishes to redeem its holding, but is either in a closed end fund of a fixed life or in an open end fund which has a significant redemption queue, then opportunities do arise to

acquire units at a significant discount to net asset value. Provided that the Pension Fund is confident in the underlying property holdings of the distressed fund, the discount to net assets on acquisition can provide a significant boost to performance and more than offset the intrinsic cost disadvantage of funds generally. Investment groups such as Partners have used this strategy very successfully to produce some impressive results.

4.7 Many investment managers are currently marketing property debt funds to replace the loans previously sourced with banks. These funds have not been considered here as they have been covered in the Fund's credit investment allocation.

4.8 It is proposed that investment due diligence be commissioned to assist the Fund in building out a portfolio of specialist/opportunity property investments with a view to achieving an absolute return in the range 8% to 12% per annum, with some funds expected to exceed the 12% return. The type of structure envisaged would be:

25%	Global value-add property	e.g. Blackstone
25%	UK value-add	e.g. Moorfield
25%	Global opportunity property	e.g. Partners Group
25%	Specialist income	e.g. Invesco Hotel fund

As many of the funds available are closed end private-equity style funds, consideration will also need to be given to spreading investment across fund vintages. The investment due diligence is expected to define the composition of the specialist/opportunity allocation and propose a short-list of possible funds for approval by the Investment Panel, on which fund-specific due diligence would then be commissioned.

LCPF Property Strategy

Property Market Transparency Index**Country Property Market Transparency Ratings 2012 (Jones Lang Lasalle)**

Ranking		Transparency Score	Ranking		Transparency Score
Highly Transparent Markets			Semi Transparent Markets		
1	United States	1.26	29	Taiwan	2.6
2	United Kingdom	1.33	30	Brazil - Tier 2	2.75
3	Australia	1.36	31	Turkey	2.76
4	Netherlands	1.38	32	China - Tier 1	2.83
5	New Zealand	1.48	33	Greece	2.84
6	Canada	1.56	34	Israel	2.85
7	France	1.57	35	Philippines	2.86
8	Finland	1.57	36	Slovakia	2.9
9	Sweden	1.66	37	Russia - Tier 1	2.9
10	Switzerland	1.67	38	Indonesia	2.92
Transparent Markets			39	Thailand	2.94
11	Hong Kong	1.76	40	Romania	2.96
12	Germany	1.8	41	South Korea	2.96
13	Singapore	1.86	42	Puerto Rico	2.96
14	Denmark	1.86	43	Mexico	2.97
15	Ireland	1.96	44	Russia - Tier 2	2.98
16	Spain	2.06	45	Chile	3.01
17	Belgium	2.07	46	China - Tier 2	3.04
18	Norway	2.08	47	UAE - Dubai	3.05
19	Poland	2.11	48	India - Tier 1	3.07
20	Italy	2.16	49	India - Tier 2	3.08
21	South Africa	2.18	50	India - Tier 3	3.15
22	Austria	2.22			
23	Malaysia	2.32			
24	Czech Republic	2.34			
25	Japan	2.39			
26	Hungary	2.53			
27	Brazil - Tier 1	2.54			
28	Portugal	2.54			

LCPF Property Strategy

Comparison of fund cost structures

	Invesco Year ended 30-Sep- 12	M&G Year ended 31-Jul-12	Internal Portfolio 31-Mar- 12
Income Return	5.04%	4.57%	4.70%
Capital Return	1.28%	-0.14%	0.30%
Net Return to investors	<u>6.32%</u>	<u>4.43%</u>	<u>5.00%</u>

Analysed as:

Property Valuation increase/(decrease)	5.14%	-1.00%	0.30%
Rental income return	5.60%	7.02%	5.30%
Gross return	<u>10.74%</u>	<u>6.02%</u>	<u>5.60%</u>
Amortisation of acquisition costs	1.00% *	n/a	n/a
Return leakage/cost	3.42%	1.59%	0.60%
Net return to investors	<u>6.32%</u>	<u>4.43%</u>	<u>5.00%</u>
Total cost as a percentage of gross return	31.84%	26.41%	10.71%
Gross return required to match UK net return	7.33%	6.80%	5.60%

*: Invesco amortises its acquisition costs over 5 years through NAV, others charge acquisition costs