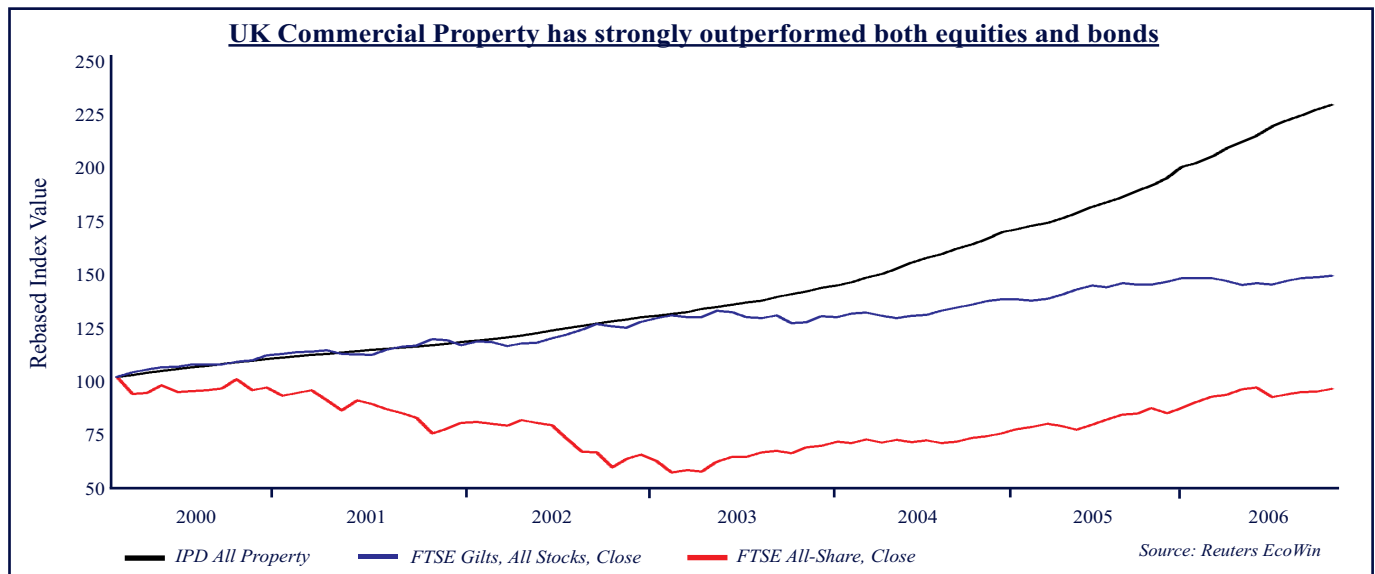


UK COMMERCIAL PROPERTY – HIGH-RISE VALUATIONS WILL COME BACK DOWN TO EARTH

Commercial property has been the best performing major UK asset class over the last six years (see below). Strong capital growth has driven down property yields and we now believe that the asset class looks unattractive on valuation grounds. We therefore recommend that our clients begin to reduce exposure to this sector by taking some profits where applicable.



Evidence of Overvaluation:

- Commercial property (both in the UK and internationally) has now become the asset class of choice for many advisers, private investors and now corporate pension funds. This has resulted in fund closures (to avoid diluting existing investors' holdings), the imposition of large bid/offer spreads and some listed property funds trading at premiums to net asset value. Paradoxically, these actions may have spurred investor enthusiasm further, giving property exposure a 'scarcity value'.
- High prices are prompting increased supply in the commercial property market. Construction of City office space is up by 80% in 2006 compared to 2005. Much of this is speculative, that is, the builders have no tenant signed up to take the additional space. We believe that (a) this new supply will eventually act to slow rental increases and commercial property returns and (b) the likely introduction of Real Estate Investment Trusts ("REITs") in 2007 may also have been priced into the market.
- Some property investors are disposing of City commercial property assets. This may be an indication that they believe returns are unsustainable at current levels. As well as the now famous 'Gherkin' being put up for sale by Swiss Re., other assets for sale include a £1.8bn portfolio owned by Simon Halabi and the Lion Plaza office block in Old Broad Street.

Special circumstances may lead to individual properties continuing to increase in value. The strong run in the value of UK commercial property in general may continue in the short term. We believe, however, that the fundamentals will reassert themselves in the medium term and that, as this takes place, investors in commercial property will suffer a period of poor returns.

This note is for general guidance only and represents our current understanding of law and HM Revenue and Customs practice as at 5 October 2006. We cannot assume legal liability for any errors or omissions and detailed advice should be taken before entering into any transaction. The value of investments and any income therefrom can go down as well as up and you may not get back the full amount you invested. Levels and bases of, and reliefs from, taxation are those currently applying but are subject to change and their value depends on the individual circumstances of the investor. Saunderson House Limited is authorised and regulated by the Financial Services Authority.