

Hermes Property Unit Trust

Quarterly Update - September 2004



Overview

In the first half of 2004 the Trust's unitholder return matched benchmark, but a slow third quarter for the Trust has seen unitholder returns for the calendar year to date fall behind benchmark. Third quarter performance has been reduced by a relatively high level of cash being held following disposals and transaction costs associated with investment activity. Over the nine months to September 2004, the Trust recorded a return of 12.3% against a benchmark of 13.2% represented by the HSBC/APUT Balanced PUTs Index.

The property portfolio itself remains well diversified, holding good quality assets but with an increasing structural tilt towards those sectors that we believe will perform strongly in the short to medium term. During the fourth quarter we expect positive news on a number of longer term initiatives and these will contribute towards calendar year performance.

Fund Activity

Since the June valuation date, a number of transactions have been concluded with sale receipts totalling almost £39 million and purchases of approximately £18 million. Sales included retail warehouse investments at Kings Lynn and Wolverhampton and a South East office investment at Bracknell. Purchases have included a tactical acquisition of a retail unit in Hemel Hempstead; the purchase of the Bourne Retail Park, Salisbury where we have commenced construction

of a new unit prelet to Wickes; and the investment of a first tranche of funds into the West End of London PUT (WELPUT). At the time of writing a final tranche was due to be invested imminently, taking the Trust's net investment into WELPUT to £15 million.

Strategy and Outlook

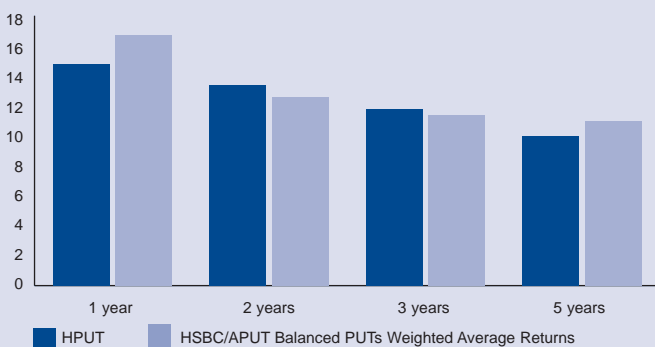
We are on track to meet the Trust's strategic weightings set at the start of 2004: a passive down-weighting in the retail sector to neutral against benchmark, and increased exposure to Central London and provincial office markets, sub-sectors we believe will perform strongly in the next three to five years. There have been no changes to this strategy during the quarter.

Trust Matters

There are two matters to note. First, with effect from October, the date of valuation of the Trust's assets and publication of unit prices has been moved to a single day. This will usually be the 25th of each month, and further information on trading of units is set out overleaf. Secondly, with effect from 1st October, and following advice from an independent consultant, the Committee of Management has approved an increase in investment and trust management fees paid to Hermes. The Committee believes that the new level of fees remains highly competitive. If you would like further information please contact the property manager.

Unitholder Performance As at September 2004

Unitholder % Return



Source: Hermes Property Asset Management and HSBC Pooled Property Funds Survey September 2004

Portfolio Structure Comparison As at September 2004

Sector Weighting % total portfolio value



Source: Hermes Property Asset Management and HSBC Pooled Property Funds Survey September 2004
Note: excludes cash

Key Statistics As at September 2004

Gross value of property assets	£448.5m
Net asset value	£478.8m
Directly held properties	33
Indirect Property vehicles	5
Offer Price	£4.562
Bid Price	£4.314
Net asset value per unit	£4.448
Number of unitholders	146
Distribution per unit (Quarter to 29 September 2004)	6.02p
Distribution per unit (Year to 29 September 2004)	23.95p
Yield on offer price	5.3%
12 Month return to Unitholders	14.8%
Quarterly Return	3.5%
Bid/offer spread	6.0%

Source: The Property Manager - September 2004

Top 10 Holdings by Value Band As at September 2004

Property	Sector	Lot Size
Maybird Centre, Stratford-upon-Avon	Retail Warehouse	Over £40m
Broadway 2, Bexleyheath	Retail Unit	£25m to £30m
7 Bishopsgate, London EC2	Office	£20m to £25m
New Bond Street Centre, Weymouth	Shopping Centre	£15m to £20m
Arcadia, Hayes Road, Southall	Industrial / Warehouse	£15m to £20m
2 Cavendish Square, London W1	Office	£15m to £20m
The Broadway, Wimbledon SW19	Retail Unit	£15m to £20m
Holford Industrial Estate, Birmingham	Industrial Warehouse	£15m to £20m
Royal Buildings, Manchester	Retail Unit	£10m to £15m
Fife Leisure Park	Leisure	£10m to £15m

Source: The Property Manager - September 2004

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Distributions

Net income is distributed quarterly on 15 February, 15 May, 15 August and 15 November for the periods ended 25 December, 25 March, 24 June and 29 September respectively, or as close as practicable to those dates. Income accrues monthly to unitholders to each Registration date (usually 26th of each month). Distributions are made net of Income tax and management expenses.

Purchase of Units

Units may be purchased at Offer price on twelve Subscription dates annually. These are normally 26 January, 26 February, 26 March, 26 April, 26 May, 25 June, 26 July, 26 August, 30 September, 26 October, 26 November and 26 December or the next following business day. The minimum investment is 1,000 units and applications must be in multiples of 1,000.

The Offer price is calculated as the fair value of a unit, based on an independent valuation of the Trust's assets, plus the estimated acquisition costs of property. This currently stands at 4.7%.

Redemption of Units

Unitholders wishing to redeem their units must notify the Committee of Management in writing, to take effect at the next following Notice Date,

The Structure of the Hermes Property Unit Trust

The Committee of Management

The Committee of Management is the legal operator of the Trust though has delegated the Property and Trust Management to Hermes from whom it is wholly independent. The Committee is authorised and regulated by the Financial Services Authority.

The members of the Committee are as follows:

Chairman – David Gamble BCom
Formerly Chief Executive of British Airways Pensions Investment Management. A former member of the Investment Committee of the NAPF and NAPF Property Committee. A director and trustee of IBM (UK) Pension Funds and Investment Adviser to Family Assurance and other funds.

Deputy Chairman - David Ives MA (Oxon)
Adviser to local authority superannuation funds and Trustee and Adviser to various private sector funds.

Simon Melliss BA FCA
Appointed Group Finance Director Hammerson in 1995. Held senior finance roles at Reed International and Sketchley before joining Hammerson in 1991.

Phillip Nelson BSc, FRICS
Founder member in 1982 and Chairman of Nelson Bakewell Property

Important Notes for Investors

The Hermes Property Unit Trust is categorised as an unregulated collective investment scheme. The Trust is not authorised, or otherwise approved by the Financial Services Authority (FSA) and, as an unregulated scheme, cannot be marketed to the general public in the UK. For the avoidance of doubt, any offer or promotion of units in the Trust is not directed at private customers. Pursuant to the Financial Services and Markets Act 2000 (the "Act"), the only categories of persons in the UK to whom this document may be distributed are those set out in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 and the FSA Handbook. The transmission of this document to any other person in the UK is unauthorised and may contravene the Act. Additionally units in the Trust may only be held by funds which are exempted from capital gains tax. Nothing in this document should be construed as investment advice.

Units in the Trust are not within the wider or narrower range of investments under the Trustee Investments Act 1961.

Investors must satisfy themselves that they have adequate investment powers and should note that units in the Trust constitute an investment which is not readily realisable for the purposes of the FSA rules.

In order to comply with the Financial Services and Markets Act 2000 (Promotion of Collective Investment Scheme) (Exemptions) Order 2001 and the FSA Handbook, when offering units in the Trust to smaller Exempt Funds, typically those with assets under £10m, special care should be taken to ensure that an investment in the Trust is suitable and information should be sought regarding the applicant's circumstances and investment objectives.

The main aim of the Trust is to generate, for its unitholders, a combination of capital appreciation and income from real property assets.

For enquiries contact:

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being 26 March, 25 June, 30 September and 26 December. The Committee of Management will notify those unitholders of the Bid price of units within six weeks of the Notice Date. In normal circumstances the redemption proceeds will be paid to unitholders on the next following Notice Date. In exceptional circumstances the Committee of Management may defer the redemption of some or all of the units for up to nine months.

The Bid price is calculated as the fair value of a unit, based on an independent valuation of the Trust's assets, less the estimated selling costs of property. This currently stands at 1.3%.

Transfer of Units

The Trust Manager may be able facilitate the early encashment of units by unitholders wishing to dispose of some or all of their units should there be known purchasers of units. The manager makes no charge for this service.

The transfer price would be agreed between the parties in such circumstances, and the transfer would be effective on the next following Registration date. The buyer will be required to pay Stamp Duty Reserve Tax at 0.5% of the consideration to the Trust.

Consultants. Other appointments have included Directorships with London First, Investment Property Forum, membership of the Advisory Board of the Estates Gazette and of the Advisory Editorial board of Property Week. Trustee of Investment Property Forum Educational Trust.

Paul Oldham MA
Investment Adviser to British Steel Pension Fund and Superannuation Fund of the London Borough of Barnet. Director of the Reliance Mutual Insurance Society.

Phillip Rose MA (Law)
Head of Real Estate at ABN Amro. Investment career includes Morgan Grenfell, Ord Minnett Securities and Lend Lease Global Investments Ltd. Appointed COO TrizecHahn Europe in 1999.

About Hermes

Hermes Property Asset Management (HPAM) is the dedicated property subsidiary of Hermes Pensions Management Limited (HPML). With assets of over £47 billion (at 30th September 2004), HPML is the wholly owned by the largest pension scheme in the UK, the BT Pension Scheme, thus giving its property investment perspective a unique alignment with other long-term investors.

HPAM in turn is one of the largest property managers in the UK, with over c.£6.1 billion of net assets (rising to c.£8.1 billion with debt included). With effect from January 2001 Hermes was appointed by the independent Committee of Management as the Property and Trust Manager.

Investors are reminded that as the value of the investments may fluctuate in price and the income from units may go down as well as up and there is no assurance that investors will get back the amount invested. Past performance is not necessarily a guide to future returns.

Property valuation is based on a valuer's opinion.

While units in the Trust may ordinarily be redeemed, investors should be aware that the Committee of Management has the right to defer the operation of any redemption notice in the circumstances listed in the section on "Disposal of Units by Redemption", and in such circumstances investors may not be able to readily realise their investment.

Units in the Trust are intended to represent a medium to long term investment and should not be regarded as a short term holding. The Trust is not an authorised unit trust scheme for the purposes of the Financial Services and Markets Act 2000 and the Income and Corporation Taxes Act 1988.

The Trust is constituted by an amended and restated trust deed (the "Trust Deed") between the Committee of Management and the Trustee. The Trust Deed ensures control by the unitholders through their power to appoint the members of the Committee of Management. The Committee of Management may, subject to the approval of unitholders, remove the Trustee. Copies of the Trust Deed may be inspected or obtained from the offices of the Trust Manager at a price not exceeding £10 per copy.

All figures, unless otherwise stated, are sourced from Hermes.