Q4 2010

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European Property Indicators

Europe's uneven economic recovery continues, but the risks of a Euro crisis remain.

Occupier markets have stabilised, with London and Paris leading the way in rental growth.

Investor demand has improved, but investors remain wary of risks and the limited potential for further prime yield compression.

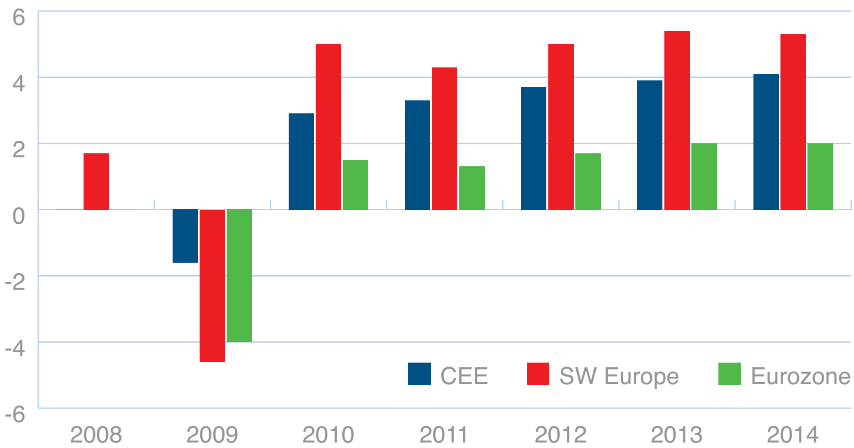
Economics

The European economy faced a difficult end to 2010, with the creeping sovereign debt crisis overshadowing more positive developments elsewhere. Ireland was forced to follow Greece and accept a large IMF/EU bailout to stabilise its economy, while concerns about Portuguese and Spanish bond spreads refuse to go away. By contrast, Germany and France continued to see a strong export-led recovery on the back of the healthy rebound in world trade.

Europe's economic recovery has been progressing, but its unevenness is an increasing worry. The outlook for Germany, France and other northern European countries remains stable, but Ireland, Spain, Greece and Portugal are now expected to see falling output in 2011, when overall the rate of Eurozone growth is set to decline slightly.

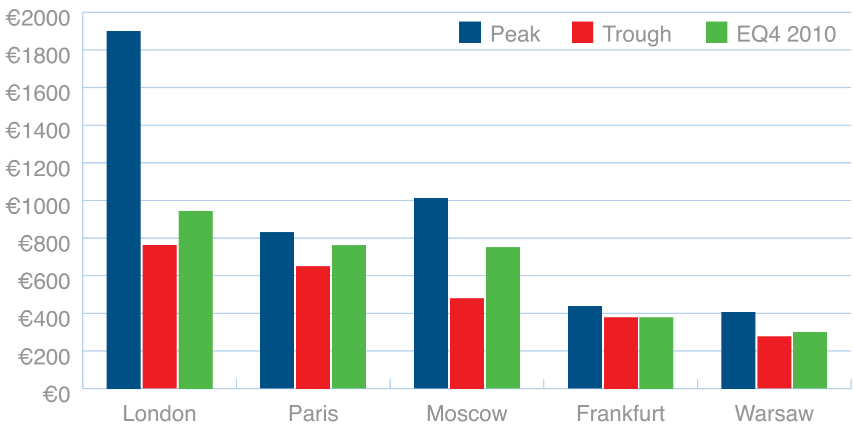
Outside of the core, prospects are brighter. The UK and parts of Scandinavia are expected to out-perform the western European average in 2011, while, in the CEE, Poland and the Baltics see the strongest growth rates. However, beyond this year, even if further fiscal crises are averted, policy challenges lie ahead. In the Eurozone, inflation is already creeping higher, and a single interest rate will need to accommodate very different recoveries.

GDP growth forecast, % per annum



Source: Business Monitor International

Prime office rents: peak - trough €/m²/year



Source: King Sturge Research

Office Markets

London, Paris and Moscow recorded the strongest rental growth over Q4, and all three markets delivered double digit growth over the year. However, rents remain well below their pre-recession peaks in these centres. Stockholm also saw strong growth in Q4, driven by robust economic growth and declining grade A availability.

Demand for prime Central London office space continued to improve in Q4. Over 2010 as a whole, Central London take-up rose by over 50% compared to 2009. Furthermore, the supply squeeze has boosted the number of pre-lets, with international finance, media and insurance companies most active. Prime rents continued to rise in Q4, with West End rents up 7.1% and City rents up 1.9%.

By contrast, there are a number of markets where demand for office space remains subdued and Dublin, Madrid and Athens all saw rents fall in Q4.

In most of CEE, occupier activity has remained fairly stable and rental levels are mainly static. Sofia and Belgrade reported a decrease in prime rental levels during 2010.

Industrial Markets

Occupier demand in industrial / logistics markets has been on a gradually rising trend and certain markets have posted a strong rebound. For example, in the UK, new logistics space take-up in 2010 was double that recorded in 2009.

Underlying demand drivers, such as world trade and manufacturing output, have bounced back strongly, and freight volumes at Europe's major seaports and airports have increased. Eurozone manufacturing ended 2010 on a strong footing with business sentiment rising.

Many occupiers across Europe have taken advantage of favourable market conditions to acquire new facilities on competitive terms. However, with virtually no speculative development taking place across Europe, the availability of new space is steadily falling. Whilst the availability of secondhand space is high, the majority of this does not meet current user requirements.

Europe still shows a mixed picture in terms of rental growth. A number of CEE markets, such as Bucharest and Warsaw, saw some rental growth in Q4, as did Moscow. However, in virtually all these markets prime rents are still below where they were a year ago. In Western Europe prime rents remained largely stable.

Retail Markets

Whilst retail fundamentals improved in a number of markets, the overall picture is mixed. Increasing unemployment and austerity measures across Europe are affecting consumer spending. The Eurozone unemployment rate increased to 10.1% in November 2010, while EU-27 retail sales growth for November dropped to 0.8% per annum, down from 1.4% in October.

Major retail centres such as London, Paris and Milan continued to see healthy levels of occupier activity. Oslo and Copenhagen also recorded some rental growth in Q4 2010. The availability of prime high street units in these locations remains tight and leasing activity was up on previous quarters. Overall, demand for new retail space in Europe is mainly driven by international food and fashion operators. However, in many markets smaller, independent, retailers continue to struggle.

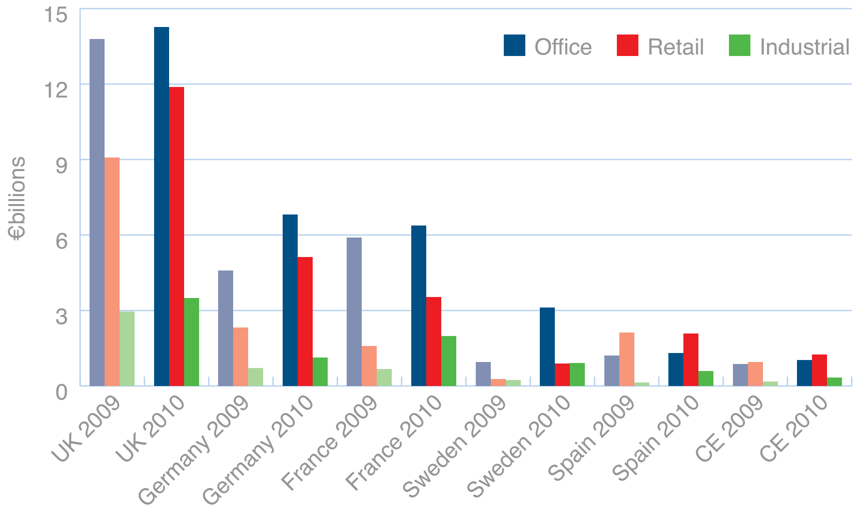
In most CEE markets, prime rents now seem to have bottomed out. However, in some locations such as Sofia and Bucharest, prime rents have fallen by as much as 30% - 50% from their peak levels of early 2008.

Investment

Whilst investors remain cautious about the economic recovery and wary of the potential for a Euro crisis, the level of investment activity continued to pick up in Q4 2010. Overall, some €25bn was transacted in Q4 across Europe, the highest quarterly level recorded since Q3 2009, according to preliminary data from RCA.

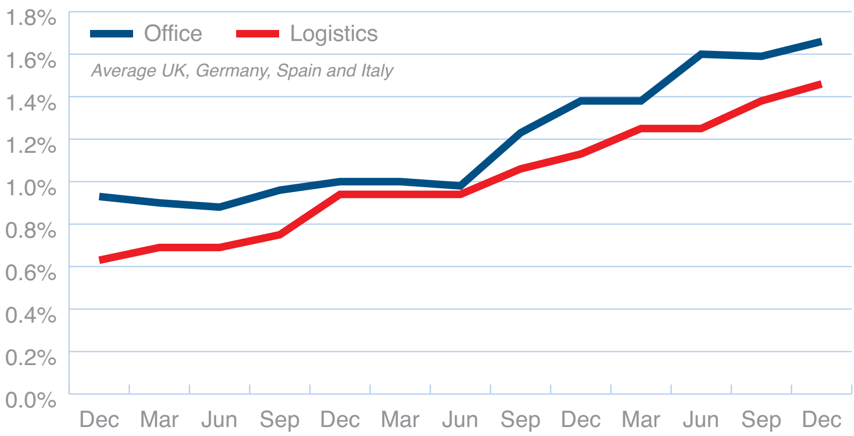
Over 2010 as whole, some €83.3bn was transacted, a significant improvement on 2009 (€65.9bn), but still well below the 2007 peak. Sweden experienced a strong recovery in 2010, with a three-fold increase in transactions.

Top 5 largest European investment markets 2010 & Central Europe



Source: Real Capital Analytics *Q4 2010 statistics are preliminary*

Yield gap - prime v secondary



Source: King Sturge Research

Investor demand has remained focused on prime, long-lease assets with strong covenants, and as a result, prime yields across all property sectors saw considerable compression over the year. However, in most parts of Europe prime yields now seem to have stabilised, with the exception of Greece where prime yields softened across all subsectors over the year.

Whilst investment activity continues to increase, there is little interest in secondary stock, and the gap between prime and secondary yields has increased significantly.

Outlook

Occupier demand should hold up across the sectors as the economic recovery continues, albeit at a relatively sluggish pace for this stage of the cycle.

Available supply will tighten in certain markets across all sectors, due to the near moratorium on speculative construction over the past two years. For example, London, Paris and Moscow are all seeing a shortage of available grade A offices. In these markets there will be an opportunity for landlords to recycle and refurbish secondary stock and return it to the market in the next two years.

Prime office and retail locations in London, Paris, Moscow and some Nordic centres should see some further rental uplifts in 2011. Very few locations are likely to see a return to rental growth in the industrial/ logistics sector this year, although this could happen where supply is now very tight, eg around London and South East England.

Prime office and high street retail yields seem to have bottomed out in most Western European markets and we expect these to remain fairly stable in the next six to 12 months. Any further yield compression is likely to be marginal, although certain CEE markets could see some further downward movement as the perception of risk for these markets declines.

We expect prime industrial yields to remain stable in the short term. Whilst this sector did not experience the same level of yield compression as offices and retail during 2010, it also saw a less severe yield correction during the downturn.

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	Office						Warehousing						High Street Retail					
	Prime rent (Q4 2010)	Annual rental change	Short term outlook	Prime yields	Annual yield change	Short term outlook	Prime rent (Q4 2010)	Annual rental change	Short term outlook	Prime yields	Annual yield change	Short term outlook	Prime rent (Q4 2010)	Annual rental change	Short term outlook	Prime yields	Annual yield change	Short term outlook
Amsterdam	300	0.0%	→	5.50%	-1.00%	↘	60	0.0%	→	7.75%	-0.25%	→	2,100	0.0%	↗	4.75%	-0.75%	→
Athens	312	-7.1%	↓	8.00%	0.50%	↗	60	0.0%	↓	9.00%	0.25%	↑	2,400	-20.0%	↓	6.75%	0.75%	↑
Belgrade	186	-6.1%	→	9.25%	0.00%	→	48	-33.3%	→	10.50%	0.00%	→	1,080	0.0%	→	7.25%	0.00%	→
Bratislava	198	0.0%	↗	7.00%	-1.00%	↘	47	2.6%	→	8.25%	-0.75%	→	480	0.0%	→	7.00%	-0.50%	→
Brussels	260	0.0%	→	6.15%	-0.10%	↓	45	0.0%	→	7.25%	-0.25%	→	1,600	0.0%	→	5.00%	-0.50%	→
Bucharest	240	0.0%	→	9.50%	0.00%	→	48	-5.9%	→	10.50%	0.25%	→	840	-12.5%	→	9.25%*	-0.25%	→
Budapest	230	6.5%	→	7.75%	-0.75%	↗	42	0.0%	→	9.50%	-0.25%	↗	1,080	-10.0%	↘	7.35%	-0.15%	↗
Copenhagen	201	-6.3%	→	5.00%	0.00%	→	70	-4.5%	→	7.25%	0.00%	→	2,213	3.1%	→	4.75%	-0.25%	→
Dublin	325	-18.8%	↗	7.25%	-0.25%	→	65	-27.8%	↘	9.00%	1.00%	→	3,150	-19.2%	→	6.25%	0.00%	→
Frankfurt	378	-3.1%	→	5.25%	-0.25%	→	66	0.0%	→	7.25%	-0.50%	→	2,880	4.3%	→	4.75%	-0.25%	→
Geneva	1,003	4.2%	↗	4.25%	-0.50%	→	120	-6.3%	→	6.00%	-0.50%	→	7,218	5.9%	n/a	3.50%	-0.25%	→
Helsinki	285	-3.7%	↗	5.80%	-0.45%	↘	104	-5.5%	↗	7.70%	-0.05%	↘	1,480	0.7%	↗	5.60%	-0.15%	↘
Istanbul	362	0.0%	→	7.50%	-1.25%	↘	59	0.0%	→	9.00%	0.00%	→	900*	0.0%	→	8.00%	-0.75%	↘
London	942	15.4%	↗	4.25%	-1.25%	↘	163	0.0%	→	5.75%	0.00%	→	7,037	0.0%	→	4.75%	-0.25%	↘
Luxembourg	420	0.0%	↘	5.50%	-0.75%	↘	96	0.0%	→	8.00%	0.00%	→	960	0.0%	→	5.25%	-0.50%	↘
Madrid	354	-1.7%	→	5.75%	0.00%	↘	72	-14.3%	→	8.25%	-0.25%	↘	2,640	0.0%	→	5.15%	-0.35%	→
Milan	450	-11.8%	→	5.00%	-0.25%	→	48	-20.0%	→	7.25%	-0.75%	→	6,800	0.7%	↗	5.00%	0.00%	→
Moscow	755	42.9%	↗	10.00%	3.00%	↓	91	9.1%	↑	11.50%	-2.50%	↓	3,773	11.1%	↗	10.50%	-1.50%	→
Oslo	371	0.0%	↗	5.75%	-0.50%	↘	128	-9.1%	↗	6.75%	-0.50%	↘	1,918	7.1%	↗	5.75%	-0.50%	↘
Paris	760	16.9%	↗	4.85%	-0.90%	↓	50	-3.8%	↗	7.15%	-0.85%	↘	6,300	0.0%	↗	4.65%	-0.60%	↓
Prague	252	0.0%	→	6.75%	-0.25%	↘	54	0.0%	↗	8.25%	-0.50%	↘	2,040	0.0%	→	6.00%	-0.75%	↘
Sofia	216	-18.2%	↘	8.50%	-0.25%	↘	54	-18.2%	→	10.25%	0.25%	↘	840	-17.6%	↘	8.75%*	-0.25%	→
Stockholm	433	5.4%	↑	5.00%	-0.50%	↓	88	2.6%	↗	7.00%	-0.25%	↘	1,556	0.0%	↗	5.00%	-0.25%	↘
Vienna	265	0.0%	→	5.25%	-0.25%	→	102	0.0%	→	7.00%	0.00%	→	3,000	0.0%	→	4.50%	-0.25%	→
Warsaw	312	4.0%	↑	6.25%	-0.50%	↘	48	-2.4%	↗	8.25%	-0.25%	↘	960	0.0%	→	6.25%*	-0.50%	↘
Zagreb	192	-5.9%	↘	8.50%	0.00%	→	72	-4.0%	→	9.50%	0.25%	→	900	-6.3%	↗	8.25%	0.00%	↘

Source: King Sturge, data as at end of December 2010.

↑ *up* ↗ *stable/up* → *stable* ↘ *stable/down* ↓ *down*

Note: Prime rents refer to the typical open-market headline rent which is expected to be consistently achieved, for a standard sized unit in a building of the highest quality, situated in the best location in a market. The short-term outlook is our view for the next six months.

Rental growth is based on local currencies.

** Data refers to prime shopping centres.*

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