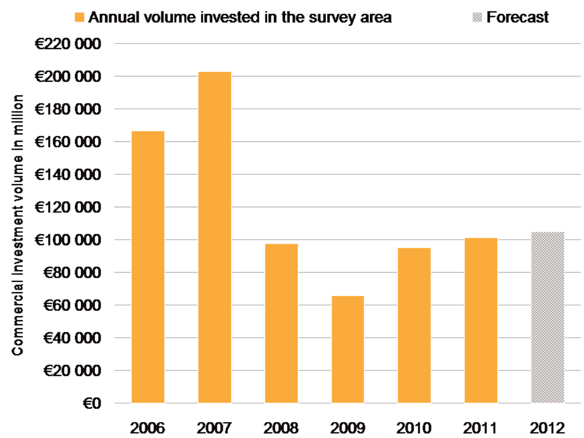
European investment bulletin

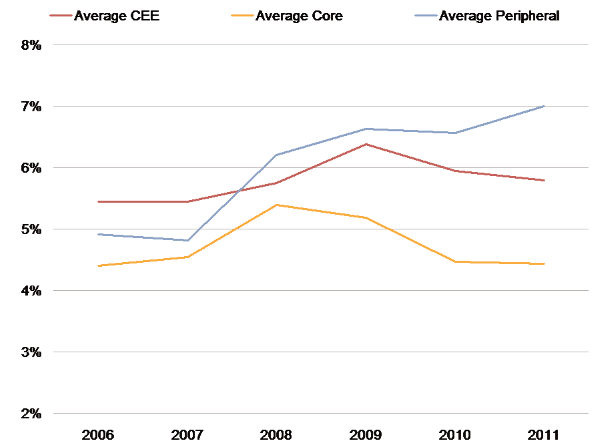
March 2012

Investment volume set to rise by 4% this year



Source: Savills / Focus Economics

Prime office yield spread is widening between Europe's core and periphery



Source: Savills

"Rising capital flows and interest from risk-embracing investors combined with distressed opportunities offered by peripheral countries and banks, may well be the start of a market turnaround."

Lydia Brissy - European Research

- In most countries the reported lack of financing has restrained investments. However in some core markets including the UK, Germany and France domestic and international equity has supported volumes.
- In 2011 the investment volume in our survey area was up by 6% and totalled €101bn. The top three markets accounted for nearly 80% of the total European volume.
- Defensive strategies have steered investors towards retail assets notably shopping centres, but still the bulk of investors are targeting offices. The share of office investments represented 47% of the total commercial turnover in Europe.
- The prime office CBD yield is 5.76%. This average is hiding a growing divergence between Core markets (-3bps yoy), CEE countries (-16bps yoy) and Peripheral countries (+44bps yoy). The growing appetite for shopping centres put downward pressure on yields (-19bps yoy).
- In 2012 investment activity will remain predominantly focused in core markets but as we are approaching the bottom of the cycle in the higher risk markets, some opportunities may emerge for investors with a long-term investment horizon.
- In the majority of countries surveyed in this report we expect prices in 2012 to stabilise whereas in a few peripheral countries yields will continue to rise.

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European investment market outlook

Mild recession in 2012 preceding feeble recovery

The downswing spiralling between weak sovereign debtors, fragile financial markets and slowing economy does not appear to have ended yet. Whereas Europe was undergoing a glance of momentum towards the end of last year, the deteriorating business and consumer confidence, the resurgence of the sovereign debt crisis and weaker global economy than expected have all eventually weighted negatively on growth. In 2012 the euro area will undergo a mild recession with GDP growth expected to be -0.3% and zero for the EU.

Weak financial market hanging over investment markets

Credit growth decelerated at the end of 2011 resulting from both weakening demand and tightening credit conditions according to the ECB. Financial institutions are under tight pressure to adjust balance sheets and secure liquidity provision. Liquidity injected by the ECB in December last year and in February as well as new policy measures may not be sufficient for banks to expand lending and to avoid recourse to significant deleveraging. Evidence of a continued credit deceleration is building up.

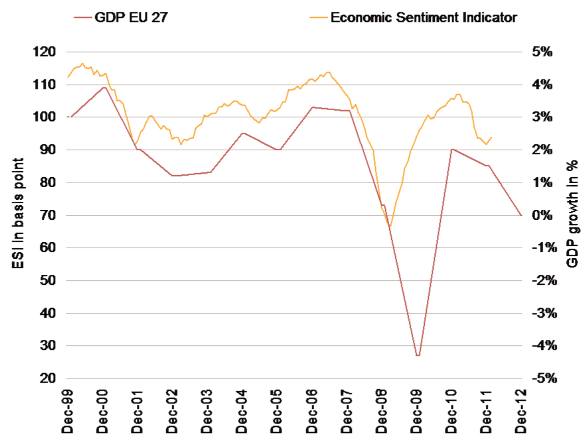
Two-tier market: Core vs periphery

In most countries the reported lack of finance has restrained investments. However in some core markets including the UK, Germany, and France the level of liquidity accumulated in the past years was sufficient for the investment activity to remain dynamic, often in line with the average ten year turnover. The main strangle for all markets is currently the lack of opportunities. In 2011 the investment volume in our survey area was up by 6% and totalled €101bn, of which the top three markets accounted for nearly 80% of the total European volume. We recorded a surge of activity in CEE countries, notably Poland in the second half of the year. At the other end of the spectrum, in most peripheral countries investment volumes in 2011 were down compared to the previous year.

Private domestic investors dominate but international interest is growing again

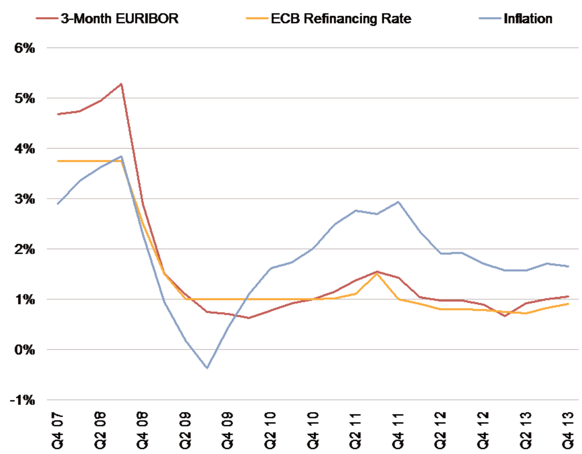
Domestic investors were once again at the forefront in 2011. Fierce competition between market players is leading investors to primarily focus on their home country, where local market knowledge gives them a strong competitive advantage. Nevertheless, the relative weakness of European currencies is attracting international investors, notably from north America. The share of cross-border investments increased by 39% in 2011, representing 20% of the total amount, according to RCA. Acquisitions from Middle Eastern investors are decreasing whereas Asian investors are slowly becoming more active. In total more than €4 billion was

Business sentiment improving amid decelerating growth



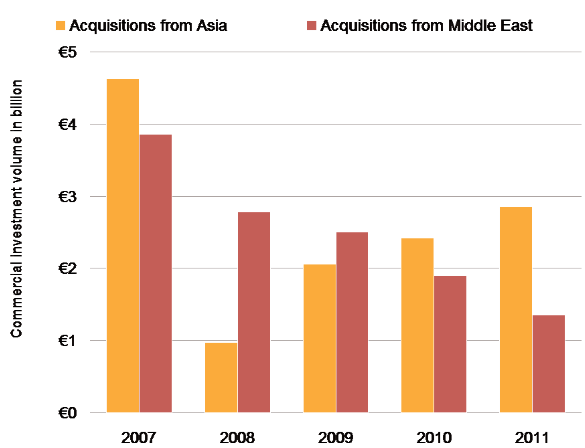
Source: European Commission

Inflation and short term rate to remain under control



Source: Focus Economics

Aquisitions fron Asia rose by 18% in 2011



Source: Real Capital Analytics

European investment market outlook

invested by these two groups into Europe, of which 81% was invested in the UK. However their appetite for German and CEE properties has recently increased.

Conservatism remains the key trend but risk is increasingly tempting

Defensive strategies have steered investor towards retail assets notably shopping centres, but the bulk of investors are targeting offices that are well located and preferably fully let on a long term basis. The share of office investments represented 47% of the total commercial turnover in Europe. However, some markets have witnessed evidence of a growing appetite for risk, demonstrated by the increasing number of forward fundings, and fuelled by the rising number of distressed sales and bank disposals.

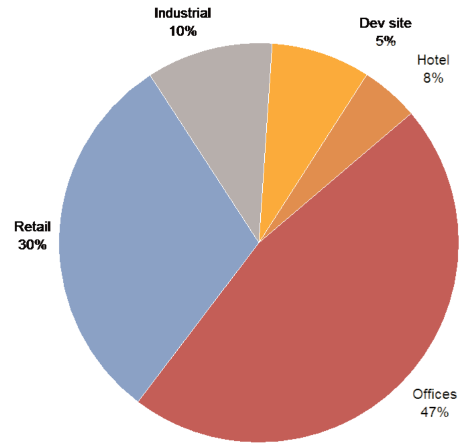
Yield spreads are widening

The average prime office CBD yield moved down by 6bps compared to last year. It stands at 5.76%, in line with the long term average, which is 5.78%. However, this average is hiding a growing divergence between Core markets where yields remained aggressive (-3bps yoy), CEE countries looking increasingly attractive to international investors (-16bps yoy) and peripheral countries (+44bps yoy) where the current economic uncertainty is affecting investors' sentiment. A growing appetite for shopping centres is puting downward pressure on yields. The average prime European shopping centre yield declined by 19bps over the past twelve months and stands at 6.60%. During the same period, the average prime industrial warehouse yield trended up from 7.52% to 7.63%, widening the gap between industrial properties and retail and office assets.

Outlook for 2012-2013 – Market turnaround?

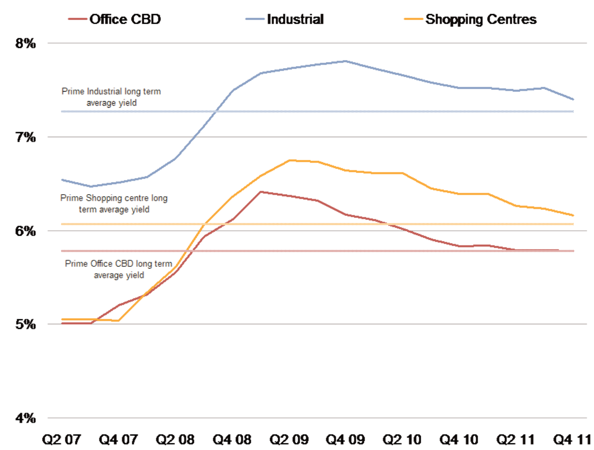
Credit availability in the EU is bound to remain anaemic in 2012. Investment activity will therefore remain predominantly focused in core markets where equity is available and waiting to be invested and where yield spreads to government bonds are wider. However, as we are approaching the bottom of the cycle in the higher risk markets, some opportunities may emerge for investors with a long-term investment horizon. Under financial strain, banks and insurance companies will become the main sellers as they need to dispose of distressed loans whilst acquisitions from public funds are likely to increase. Europe may attract more global capital flows. This will heavily depend on the outcome of the EU debt-crisis and the stability of the Euro. We believe the resurgence of risk-embracing investors will revive the industrial market, which has become increasingly attractive compared to other assets. In the majority of countries surveyed in this report we expect prices to stabilise, whereas in a few peripheral countries yields will continue to rise.

Offices and retail made up 77% of the total commercial volume invested in 2011



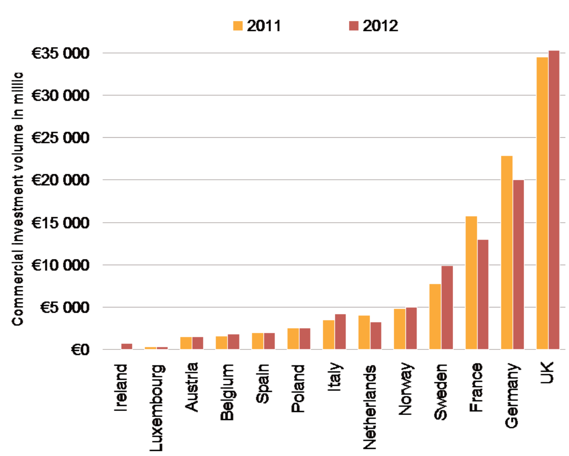
Source: Real Capital Analytics

Average prime office yields are stabilising at their long term average level



Source: Savills

Investment volumes are expected to rise slightly in most countries

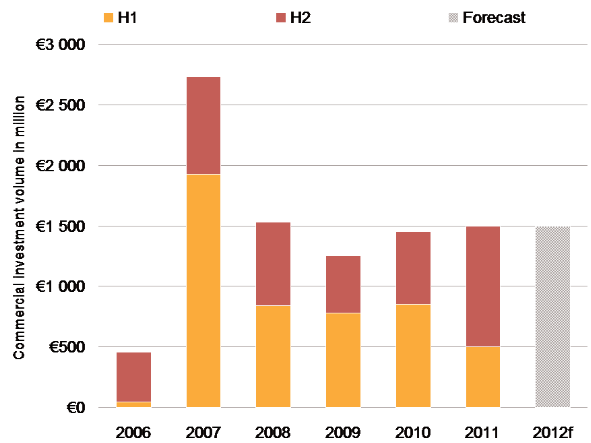


Source: Savills

Austria, Belgium, France

Austria

Commercial property sales totalled €1.5bn, €50m above the amount recorded in 2010. But following a promising first half year the Austrian real estate investment market experienced a decline in investment activity. After the outbreak of the sovereign debt crisis some transactions under negotiation were either put on hold or postponed into 2012. Investors' interest in commercial real estate has since then been primarily concentrated on the absolute top segment – office and retail properties in prime locations and preferably fully, long-term let. Buyers are primarily Austrian private investors and foundations. The largest transactions include the sale of Office Campus Gasometer to Bank Austria Real Invest, the acquisition by Deka of the BIZ ZWEI office building, the purchase of the BBRZ offices and a portfolio deal involving three of Austria's most renowned hotels. Prime yield remained stable at 5.40% for offices and at 6.00% for shopping centres.

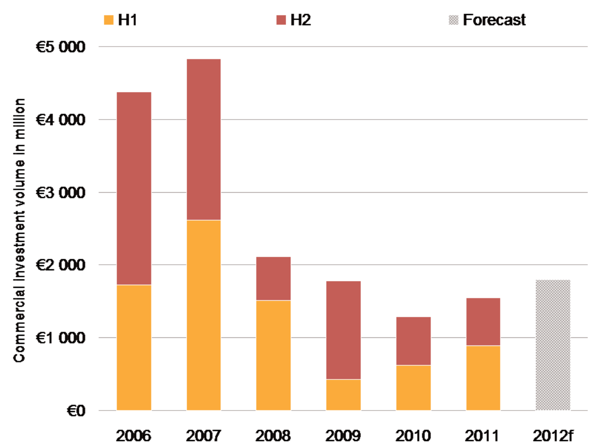


Source: EHL Immobilien Gmbh

2010 - 2011	↗	+3.0%
2011 - 2012f	→	0.0%

Belgium

The investment market performed relatively well in 2011. Investment volume in Belgium totalled €1.7bn and was 33% above 2010. In 2011 investors remained focused on offices which accounted for 60% of the investment turnover (excl. own occupation and development). Significant investments are attributed to institutional investors (33% of total volume), and Belgian REITs (24%). The main buyers remained domestic players (63%), followed by German investors (20%) which made a strong come-back. Other international investors adopted a "wait-and-see" attitude face to the uncertainty in the Eurozone and to the lack of quality investments. In a weakening macro-environment where risk free rates have proven a certain degree of volatility, we are expecting investors to remain cautious, particularly on short-term let office assets for which we anticipate prime yields to move upward to 6.25% this year.

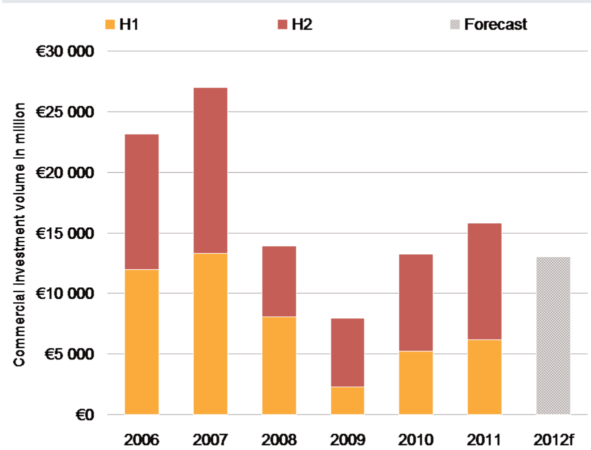


Source: Savills

2010 - 2011	↗	+21.0%
2011 - 2012f	↗	+16.0%

France

In spite of the resurgence of the financial crisis, the investment volume totalled €15.8bn in 2011, which is the third best amount reached in the past ten years. An acceleration of the market took place from the middle-year, underpinned by the withdrawal of the tax benefit on capital gains (namely 210E) scheduled for the end of 2011. This has prompted owners to dispose of their assets and has led to a strong turnover during Q4 with nearly €6bn of investments completed. However the market remained limited by the lack and the cost of lending. Activity was mainly fuelled by equity-rich investors targeting secured assets. The prime office yield remained stable at 4.50% for the fifth consecutive quarter. Yields in shopping centres and retail parks moved out to 6.00% and 7.00% respectively. In 2012 we believe the investment volume will be between €12bn and €13bn, still restrained by the lack of finance and the lack of prime products.



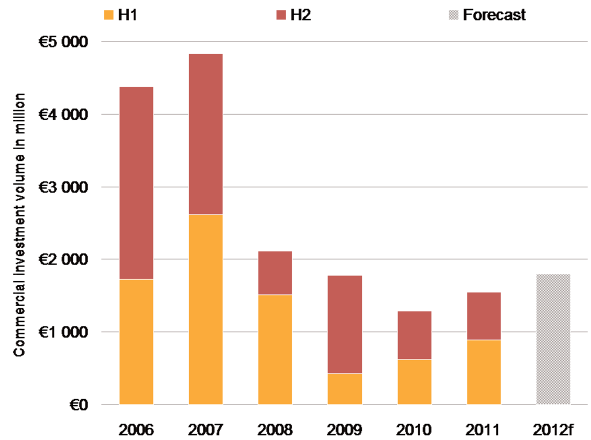
Source: Savills

2010 - 2011	↗	+19.0%
2011 - 2012f	↘	-18.0%

Germany, Greece, Ireland

Germany

Investment volume reached €22.6bn last year, a 20% increase on 2010. Overall retail generated a volume of over €11bn, making up almost half of the total transactions in 2011 and representing an increase of 60% on 2010. This is due to the higher rental stability of retail properties as well as stable and good consumer sentiment. More than 40% of the total single asset volume went to three destinations, Munich (16%), Berlin (13%) and Frankfurt (12%). Most active buyers were private equity funds, REITs / listed property companies and closed-ended funds. Only a third of investment was non-domestic. However, the net balance of international investments was about zero with approximately €7.5bn invested and disinvested. Financing will be the predominant issue this year but if interest remains strong investment turnover will exceed €20 billion in 2012 with continued demand from both domestic and foreign investors.

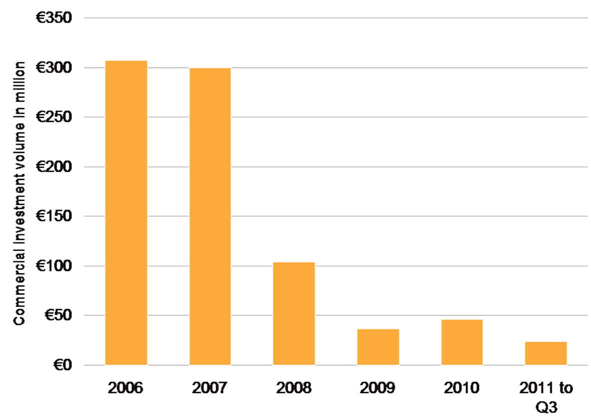


Source: Savills

2010 - 2011	↗	+19.0%
2011 - 2012f	↘	-13.0%

Greece

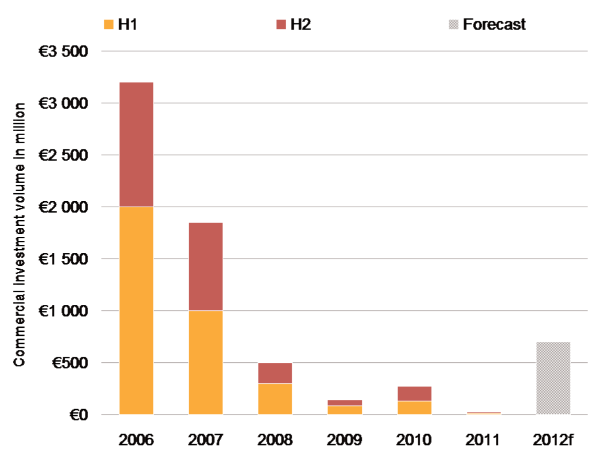
The on-going speculation about Greece´s bankruptcy and its Eurozone membership creates a major uncertainty for the economy and has caused instability in the investment markets. However, the long-awaited agreement with private debtors (PSI) is expected to remove the fear of sovereign default. The uncertainty about the correct pricing compounded with a lack of funding has halted many potential transactions. High risk has pushed achievable property yields to pre/Euro levels although evidence remains minimal. Nevertheless, the country has come under pressure to improve the land registry and to explore the potential of redeveloping government owned assets. A number of projects in this front will come to light within 2012. This will lead to prime investment opportunities, especially in the area of leisure and tourism. Already, private and sovereign funds from Russian, Middle East and Israel are investigating opportunities in the market.



Source: Real Capital Analytics

Ireland

Budget 2012 announced positive news for the Irish market. Stamp duty has been reduced to 2% on commercial property and Capital Gains Tax (CGT) will not apply to newly purchased assets during 2012 if they are held for seven years. The market was largely stagnant in 2011; the annual turnover reached €25m, with one retail deal making up almost 20% of that. Concerns regarding the rent review issue led investors to price assets off ERV throughout 2011 to factor in a potential downward rent review, while vendors were pricing off the passing rent, creating a price differential between vendors and investors. An increase in stock in 2012 will create sales activity but the quality of stock will be an important factor as well as price transparency. Turnover of €750-€1bn could be achieved in 2012.An estimated €100m of deals will have completed by the end of Q1.



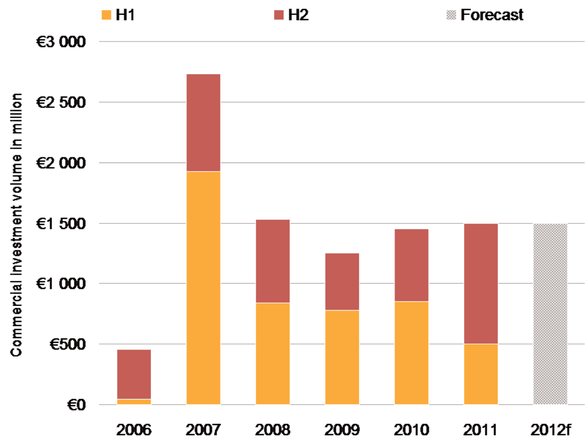
Source: Real Capital Analytics / Savills (forecast)

2010 - 2011	↘	-91.0%
2011 - 2012f	↗	+2700%

Italy, Luxembourg, Netherlands

Italy

2011 closed on a positive note, with an increase in investment volume of over 16% with respect to 2010. One of the characteristics of 2011 was an increased focus on the retail sector. The proportion of retail assets almost doubled on a yearly basis, to just under 60% (compared to under a third of total investment volume in 2010). Office sector investment, on the other hand, slowed slightly although still making up an important portion of the year's marketplace (30% of total annual investment volume, compared to under half in 2010). In the final months of 2011 office yields remained constant across most Milan submarkets or at worst increased slightly. At the end of 2011, retail yields remained stable for shopping centres and retail warehouses or subject to slight increases. Similar trends of ongoing yield stability are expected across all sectors into the coming months.

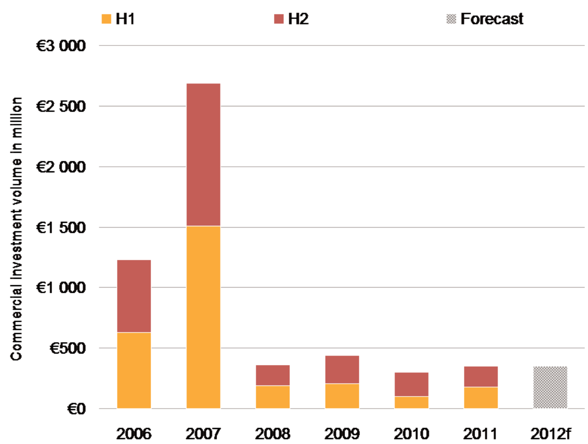


Source: Savills

2010 - 2011	↗	+16.0%
2011 - 2012f	↗	+20.0%

Luxembourg

The demand for core products in the CBD remained high in 2011 whereas investment appetite for properties in the periphery was low. The investors' reluctance to take risk and the lack of centrally located, well-let and high quality properties reduced investment activity in 2011. The investment market recorded a low €350m volume, up 17% compared to 2010 which was particularly poor. The main transactions were on developments at 35% and owner occupation at 30% of the total. Major players were local private investors, and family funds. Institutional investors were almost absent from the market but are ready to be active and to purchase core products. The prime yield remained stable at 6.00%.

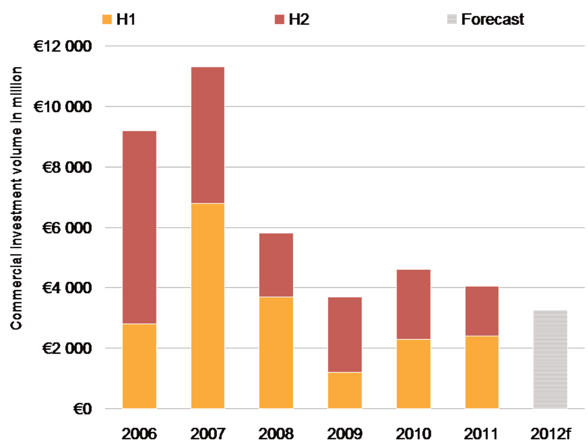


Source: Savills

2010 - 2011	↗	+17.0%
2011 - 2012f	→	0.0%

Netherlands

The investment volume in 2011 totalled €3.4bn, from €4.6bn in 2010. The office and retail markets were the largest investment markets accounting for 39% and 28% of the total volume respectively, followed by the industrial/logistics market. Interest in alternative assets such as housing, hotels, parking and student housing is growing. Institutional investors and large national and international funds remained focused on prime property, offering the best risk/yield-ratio. Private investors, responsible for the largest share in the total market activity, focused on smaller assets. Acquisitions from German funds amounted to €1bn and within the office market they were responsible for 37% of the total transacted volume. We believe the overall liquidity problem may result firstly in forced sales and secondly in weaker demand, with sharp price corrections anticipated as a knock-on-effect. In 2012 we expect the investment turnover to be around €3.5bn with very few portfolio sales and lower average transaction size.



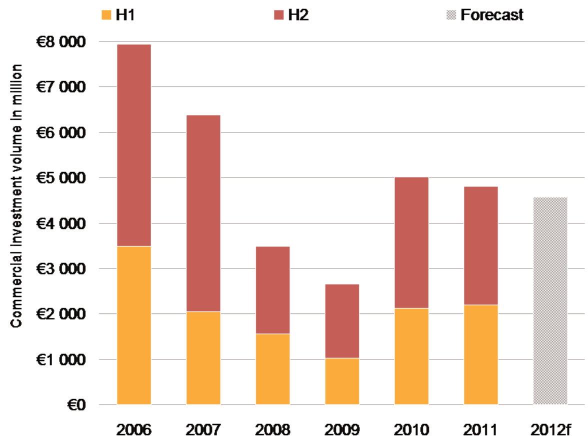
Source: Vastgoedmarkt / Savills

2010 - 2011	↘	-12.0%
2011 - 2012f	↘	-14.0%

Norway, Poland, Spain

Norway

In 2011 the investment volume totalled NOK 35bn, down by 10% compared to 2010. Norwegian close-ended funds were the most active buyers followed by insurance companies. They represented more than half of the total investments. Investors are still mainly focusing on secured assets, well-let to good covenants for 10 years on average as well as development projects. Some 140 transactions with a value of over NOK 50m were closed. The prime office yield currently stands at 5.25%. The market is constrained by limited bank lending. In 2012 we believe the investment volume to be at similar level than with a value of over recorded last year. However, this will depends on the future prospects of the Eurozone and the financial turmoil in Europe.

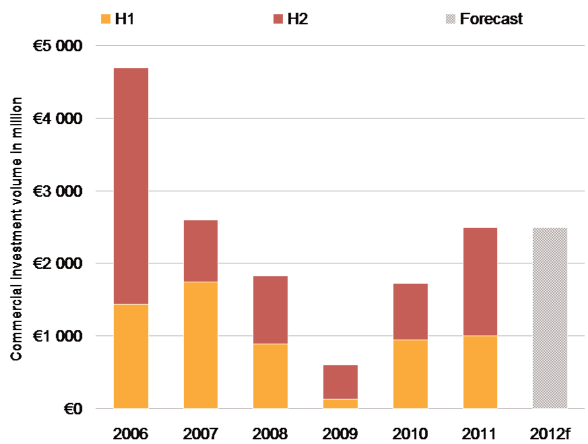


Source: Heilo Eiendom AS

2010 - 2011	↘	-10.0%
2011 - 2012f	↗	14.0%

Poland

The investment volume exceeded €2.5bn last year, 45% up on 2010. Investment activity accelerated throughout the year, with almost 60% of all investments closed in H2 2011. The retail sector accounted for 46% of the 2011 volume. Offices represented 45% of the total and were almost entirely located in Warsaw. Some activity was also noted in the hotel sector. Austrian and German buyers remained the most active investors. Nevertheless, increased interest from American and Dutch investors was also observed. German investors were mostly interested in prime offices in Warsaw, whereas American and Dutch investors only closed retail deals. Prime yields remained relatively stable , with the prime CBD yield in Warsaw at 6.20% and the prime shopping centre yield at 6.00%. We expect that investor sentiment for prime assets will remain positive in 2012 bringing the investment volume to a similar level to 2011.

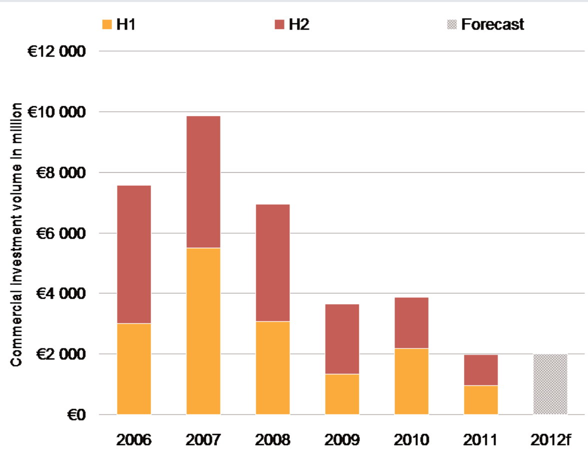


Source: Savills

2010 - 2011	↗	+45.0%
2011 - 2012f	→	0.0%

Spain

Spanish investment volume in 2011 reached its lowest point since 2000. The annual amount transacted was almost €2bn, 49% below the level recorded in 2010. Investor confidence felt the pinch given the economic turmoil in the financial markets, the sovereign debt crisis and the heavily affected Spanish economic indicators. Non-domestic investors were more restrained, due to their strong aversion to risk. On the other hand, difficult access to credit, which has become particularly expensive, also caused investment activity weakness. The hotel market contributed to almost 30% of the annual volume and doubled the percentage reached the previous year. This result reflects improved sentiment in Spanish tourism. In the short term forecasts are not optimistic. The dependence on financing will continue to stifle activity. Those players with equity (ie. domestic investors) will dominate the market, but their investment capacity is limited to volumes around €30m.



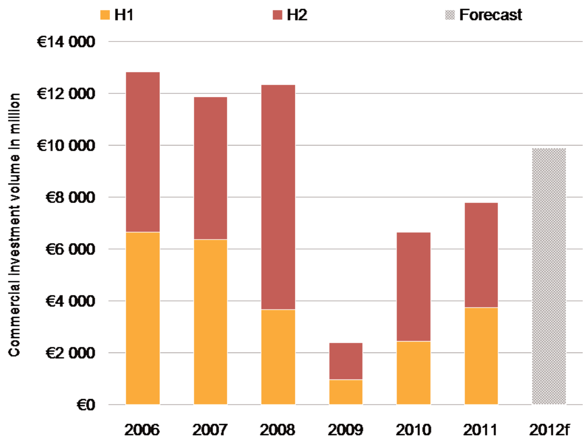
Source: Savills

2010 - 2011	↘	-49.0%
2011 - 2012f	↗	+1.0%

Sweden, UK

Sweden

2011's investment volume was SEK76bn, 10bn higher compared to 2010. However, during H2 2011 investment activity slowed significantly due to the renewed financial turmoil in southern Europe. Despite strong interest from international investors the market remained dominated by domestic investors. One exception is the retail segment where international investors represented more than one-third of buyers. Prime yields remained stable throughout the second half of 2011. We expect that during the first half of 2012 investors will compete for bank financing as the market is well supplied with equity, which would indicate that prime yields will remain fairly stable. Secondary and tertiary properties are likely to encounter a difficult period due to problems in securing financing for these types of assets. Prime offices, retail and public properties will continue to be the preferred asset types.

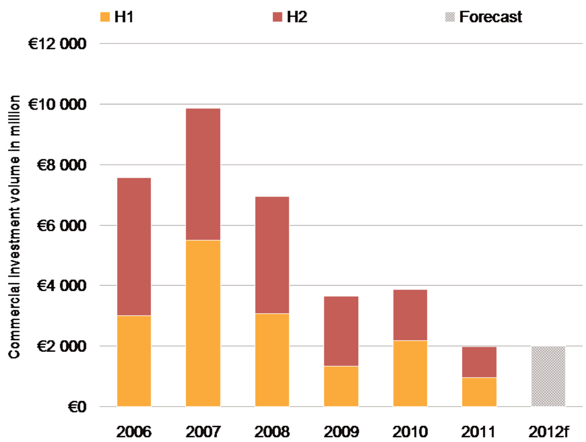


Source: Savills

2010 - 2011	↗	+17.0%
2011 - 2012f	↗	+27.0%

UK

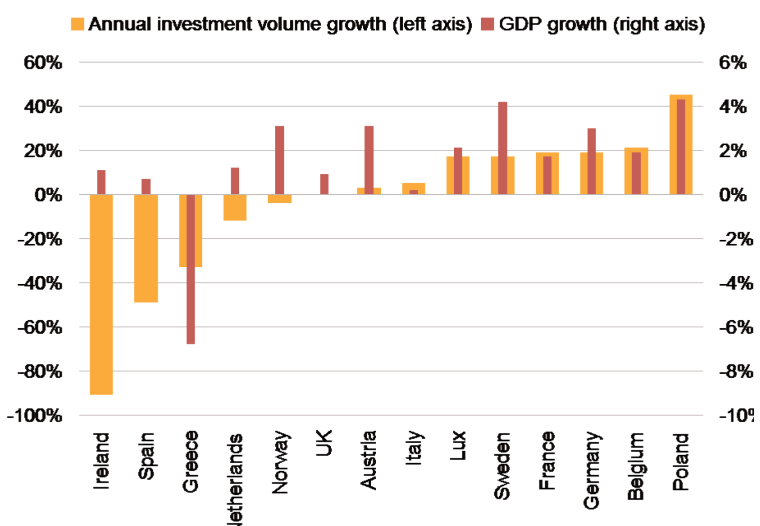
The total investment volume for the UK in 2011 was almost identical to that of 2010 at £34bn. However, 2011 was very much a year of two halves, with investor sentiment weaker in the second half of the year than the first. This is entirely due to rising concerns about sovereign default in the Eurozone. London remained the favoured cross-border investment destination for risk-averse investors. The office investment turnover in London last year was just under £12bn. Prime yields in the UK were broadly stable, with the average prime all property yield ending the year at 5.57%. We expect that 2012 will see continuing strong demand for and limited selling of prime assets and this will continue to support prime yields at their current levels. Eurozone and domestic economic turbulence will drag on secondary and tertiary rental growth prospects, and we expect that this will result in rising secondary and tertiary yields.



Source: Savills

2010 - 2011	→	0.0%
2011 - 2012f	↗	+18.0%

Annual investment volume and GDP growth between 2010 and 2011



Source: Savills / European Commission

Key data

GDP growth, rental growth[1], prime yields[2 3] and yield change[4]

Cities	GDP growth 2011	Office rental growth	Office yield	Office yield change	Industrial rental growth	Industrial yield	Industrial yield change	SC[5] rental growth	SC yield	SC yield change
Amsterdam	1.2%	0%	5.75%	25	0.0%	6.75%	-25	0.0%	6.75%	25
Athens	-6.8%	-17.9%	8.25%	25	-11.1%	10.00%	150	-20.0%	8.00%	50
Berlin	3.0%	0.4%	4.90%	-10	5.6%	NA	NA	11.1%	4.90%	-10
Brussels	1.9%	0.0%	5.85%	-40	0.0%	7.50%	-25	0.0%	5.50%	-25
Dublin	0.9%	-17.3%	8.50%	125	0.0%	9.50%	50	-5.0%	9.00%	75
Dusseldorf	3.0%	-1.4%	4.50%	-20	4.8%	6.60%	-30	0.0%	5.30%	-70
Frankfurt	3.0%	0.0%	4.80%	0	1.4%	6.50%	0	0.0%	4.90%	NA
Hamburg	3.0%	2.2%	4.70%	-30	4.7%	6.80%	-10	-2.0%	NA	NA
London[6]	0.9%	7.9%	3.75%	0	0.0%	6.25%	0	4.5%	5.50%	-25
Luxembourg	1.1%	14.3%	6.00%	0	NA	NA	NA	NA	NA	NA
Madrid	0.7%	-5.5%	5.50%	50	NA	NA	NA	0.0%	6.50%	0
Milan	0.2%	4.0%	5.75%	-25	NA	NA	NA	0.0%	6.5%	50
Munich	3.0%	4.6%	4.25%	-5	5.6%	6.90%	NA	NA	5.50%	-30
Oslo	3.1%	3.3%	5.25%	-55	9.1%	6.80%	0	9.1%	6.00%	-25
Paris	1.7%	6.7%	4.50%	0	8.0%	7.25%	0	0.0%	5.00%	-25
Stockholm	4.2%	4.4%	5.00%	0	2.9%	6.75%	25	2.5%	5.25%	-25
Vienna	3.1%	9.5%	5.38%	-2	0.0%	7.50%	-25	-4.0%	6.00%	0
Warsaw	4.3%	4.0%	6.20%	-30	NA	NA	NA	6.7%	6.00%	-25

Source: Savills / European Commission

Note 1: Rental growth is annual and calculated in local currencies
Note 2: Prime yields refer to modern, minimum 1,000 sqm, fully let, standard leased building
Note 3: N= Net, G= Gross
Note 4: Prime yield change is annual - in basis points
Note 5: SC = Shopping Centres
Note 6: London West-End for the office market

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