INVESCO Real Estate House View
European Market Outlook

This document is for Investment Professionals and Market Counterparties only and is not for consumer use. In the UK, from 1 November 2007, this publication is for Professional Clients and is not for retail clients' use.

AUTUMN 2007

For Further Information

Copies of our House Views from across the globe are available from the individuals indicated below:

Thomas Au
Head of Asian Investment Research
thomas_au@hkg.invesco.com

Lisa Nell
European Marketing Specialist
lisa_nell@ldn.invesco.com

Joyce Galvan
Research Analyst
joyce_galvan@invesco.com

Global Real Estate Research Team

Thomas Au
Head of Asian Invst Research
+852 3128 6663
thomas_au@hkg.invesco.com

Paul Kennedy, Ph.D., MRICS
Head of European Invst Research
+44 207 543 3525
paul_kennedy@ldn.invesco.com

Mark G. Roberts, CFA®
Head of US Investment Research
+1 972 715 7485
mark_roberts@invesco.com

Nicholas Buss, Ph.D.
Senior Research Analyst
+1 972 715 7454
nicholas_buss@invesco.com

Joyce Galvan
Research Analyst
+1 972 715 7437
joyce_galvan@invesco.com

Kim Politzer
European Research Manager
+44 207 543 3589
kim_politzer@ldn.invesco.com

Sara R. Rutledge
Research Analyst
+1 972 715 7448
sara_rutledge@invesco.com

Mike Sobolik, CFA®
Senior Research Analyst
+1 972 715 5807
michael_sobolik@invesco.com

Ellen Schwemmlein
Research Analyst
+49 89 20 60 61 14
ellen_schwemmlein@mun.invesco.com

Guy-Young Shin
Research Analyst
+33 1 56 62 43 23
guy-young_shin@par.invesco.com

Contents

1. Executive Summary 1

2. Introduction 5

3. Economics & Capital Markets 7

4. Real Estate Market Outlook 13

5. Summary & Conclusions 27

6. Country Summaries 29

7. Appendices 127

1. Executive Summary

The European economy remains robust and although growth is likely to slow, reflecting a slightly weaker global economy, it should remain either close to or above trend.

The period following the publication of our last European market outlook has been an eventful one. While demand for real estate remained strong, leading to downward pressure on yields and upward pressure on rents, developments in the US sub-prime sector enhanced uncertainty and raised concerns over the strength of the economic and real estate outlook.

Our analysis suggests that these concerns are largely overdone. The European economy remains robust and although growth is likely to slow, reflecting a slightly weaker global economy, it should remain either close to or above trend. In addition, both unemployment and inflation should remain under control.

Recent events may present as many opportunities as threats.

Given this environment it is difficult to see marked changes in interest rates. At the short-end of the curve we continue to expect the ECB to remove current policy accommodation over the short to medium-term, with rates likely to stabilise at around 4.5% sometime in 2008 (from 4% today).

In the UK, these changes probably mean that the base rate will peak at the current level of 5.75%. Further, given the recent reduction in the US Fed Funds rate and the challenges presented by events related to the UK mortgage bank Northern Rock, it is not unrealistic to expect interest rate cuts over the remainder of this year. However, our benign inflation forecast combined with the expected moderation in GDP growth suggests a long-term bond yield of around 4.5% for the euro zone and between 5.25% and 5.5% for the UK.

While the fall-out from the slowdown in the US housing market will damage both confidence and GDP growth in Europe we expect the impact to be relatively limited in both duration and extent. There are a number of reasons for our outlook. First, intervention by the main central banks, both in Europe and the US, should enhance liquidity and support both confidence and investment. Second, as demonstrated by the financial results of both Lehman Brothers and Goldman Sachs, recent events may present as many opportunities as threats. Third, and perhaps most importantly, there are good reasons to believe in the continued strength of the European economy, including:

- relatively high levels of intra-regional trade and robust domestic demand;
- a corporate sector with both relatively low debt levels (particularly in Germany) and robust investment intentions; and
- the global economy and demand for European exports should be supported by a continuation of the Asian expansion, particularly in China.

However, there are some risks. First, reduced liquidity may affect the financial services and construction sectors more than the overall economy. More marginally, export markets might be negatively affected by the combined impact of a manufacturing driven moderation in global GDP growth, lower demand from the US and a weaker US dollar verses the euro. In addition, developments in the capital markets have led to a reassessment of the pricing of risk across all asset classes, including real estate. Key risks are the UK (financial services), Ireland and Spain (construction) and Germany and the Netherlands (exports). More positively, the impact on European exports might be offset by the reduction in input prices associated with US dollar weakness (particularly oil).

Over the last six months the level of rental growth achieved by some European real estate markets has exceeded our expectations (e.g., Warsaw offices). In most cases these changes have not been offset by either improving supply or demand side conditions, suggesting weaker rental growth over the remainder of our forecast period. In addition, yields were either unchanged or fell, while at the same time long-dated government bond yields increased by around 60 bps. Effectively investors are being asked to pay a higher price for a less attractive cash flow and arguably may now need to exceed a higher hurdle rate.

However, our initial calculations may hide some upside. With regard to rental growth we expect lower take-up associated with current uncertainties, to be offset by reduced development activity. In addition, the attractiveness of investors' returns might be enhanced by lower required returns (due to a reduction in long dated bond yields) and higher current yields (as pricing adjusts to a re-assessment of risk). More marginally, the increasing dominance of large pan-European investment funds may lead to lower required returns and exit yields as investors reflect diversification benefits in their return hurdles. To reflect the impact of the above we have developed three scenarios which either disregard the above (Scenario One) or include some or all of the identified upside (Scenarios Two and Three).

We have divided the opportunities suggested by our forecasts into two groups. First, those markets expected to out-perform under our first and most conservative scenario. Second, those markets expected to out-perform under our more aggressive second scenario. Although further opportunities are suggested by the third scenario we have excluded them from the target list.

All of the opportunities are for prime quality assets. However, changes to both pricing and liquidity are likely to produce additional opportunities in secondary real estate as assets re-price relative to prime. In addition, high levels of risk aversion could improve returns available from reversionary, short-leasehold and other active management based investment opportunities, as investors adopt a conservative approach to the pricing of cash flow risks.

Over the last six months the level of rental growth achieved by some European real estate markets has exceeded our expectations.

We expect lower take-up associated with current uncertainties to be offset by reduced development activity.

Opportunities suggested by our analysis include:

Offices - Lyon, Lille, Marseille, Stockholm, Sofia, Moscow, St Petersburg, Kiev, *Paris (CBD, La Defense and Rive Gauche), Brussels, Barcelona, Copenhagen, Prague and Bratislava.*

Retail (high street, shopping centres and/or retail parks) – Paris, Lyon, Marseille, Brussels, Madrid, Barcelona, Warsaw, Prague, Bratislava, Sofia, St Petersburg, Kiev, *Lille, Lisbon, Helsinki, Stockholm, Budapest and Moscow.*

Logistics/industrial – Helsinki, Sofia, Moscow, St Petersburg, *Marseille, Madrid and Barcelona*.

Markets suggested by Scenario Two only are in italics.

2. Introduction

Forecasting real estate markets is a difficult undertaking at any point in time. However, the regular challenges of assessing the current and future inter-relationship of local and national economies and capital markets with relatively opaque real estate occupier and investor markets, are greatly increased during periods of uncertainty.

We have increased our coverage to 170 market sector combinations.

The forecasts and analyses presented in this report are affected by uncertainty at a number of levels.

- First, although a slowdown in the US housing market has been anticipated for some time, the scale and range of the consequences for global financial markets have taken most commentators by surprise. In addition to a reassessment of the price of risk, there has been an increase in the short-term lending rate, a reduction in long-term government bond yields and, perhaps more importantly, a fall in confidence.
- Second, the above changes have led commentators to question the outlook for US GDP growth and, in turn, the global economy. The recent deterioration in Japanese GDP growth has increased these concerns.

For European real estate markets the above changes raise a number of questions, including: Will a weaker US economy affect European GDP growth and, therefore, real estate occupier demand? Will changes to liquidity impact real estate occupier, development and investment markets? Will the re-pricing of debt based securities affect the value of real estate investments? Which markets will be the most exposed to any changes and which will provide a degree of insulation?

This report attempts to answer these and other related questions. In addition, it provides investment targets that, despite current challenges and the recent robust performance delivered by European real estate, are expected to deliver at least “appropriate” returns over the next five years.

We have assessed the outlook for European real estate markets based on three sets of assumptions. In part, this approach reflects the uncertainties highlighted above.

- Our first set of calculations (Scenario One) use the required return assumptions developed for our previous reports, updated for market conditions at the end of Q2 2007. We assume that, although investors may operate on a pan-European basis, their required returns do not reflect the risk reduction benefits potentially associated with portfolio diversification. These calculations also use 10-year government bond yields from the end of Q2 2007.

- Our second set of calculations (Scenario Two) adopts a lower required return based on the following two assumptions. First, as an increasing number of investors can now claim to be both pan-European and diversified we have estimated an appropriate risk premium deduction. Second, given the marked reduction in European government bond yields over the period since the end of Q2 2007, we have lowered our estimate of the current required risk-free rate both to reflect pricing in mid September 2007 and, more controversially, at the end of the forecast period.
- Our final set of calculations (Scenario Three) assumes that, in addition to the required return adjustments detailed above, our current yield estimates are too low and, therefore, our current capital value estimates are too high. To address this we have increased all current yields by 25 basis points (bps). This adjustment reflects pricing uncertainties associated with recent economic, capital market and real estate market developments. Given recent pricing changes it could be viewed as conservative, particularly in the UK.

Although all three scenarios reflect a justifiable outlook for European real estate markets, our view is that the combination of changes to the characteristics of the European real estate markets (e.g., the increasing dominance of large, potentially diversified investors) together with changes to pricing levels since the end of Q2 2007, means that Scenarios Two and Three are potentially more useful than Scenario One. We have adopted Scenario Two as our preferred option.

Our spring 2007 forecasting round covered 145 market sector combinations. For this round, we have increased our coverage to 170 market sector combinations by upgrading coverage of Portugal, Denmark and Finland and by initiating coverage of Norway, Romania, Bulgaria and the Ukraine.

The remainder of this report is divided into three sections. First, we review our economic and capital market assumptions. Second, we detail our real estate market forecasts under each of the three scenarios detailed above. The final section summarises the first two sections and draws some conclusions.

3. Economic & Capital Market Outlook

Although growth is likely to slow, reflecting a slightly weaker global economy, it should remain either close to or above trend. In addition, both unemployment and inflation should remain under control.

Although EU GDP growth moderated over the first six months of this year, robust domestic demand continued to support performance.

The view from end Q2 2007

In the fourth quarter of 2006 both the EU and the euro zone delivered impressive GDP growth of 0.9% quarter on quarter. For 2006 as a whole, economic activity expanded by 3% in the EU and 2.7% in the euro zone. This performance was more than 1% above 2005 and somewhat stronger than anticipated by most economists. The expansion was largely driven by domestic demand, supported by a marked improvement in capital expenditure. Despite falling unemployment and improvements to employment, private consumption growth was relatively modest over 2006, perhaps reflecting increasing interest rates. More positively, economic activity was supported by a positive net contribution from the external sector as the robust global economy offset the impact of a higher US dollar exchange rate.

The German economy continued to improve over 2006, delivering GDP growth of 2.7% driven by an improvement in investment, higher government expenditure and a positive contribution from net exports. The UK economy continued to perform strongly, delivering GDP growth of 2.8% as robust business demand and investment offset a slightly weaker consumer sector. In France, modest improvements to consumer spending combined with an increase in private investment offset a negative contribution from trade to produce GDP growth of 2.0%. Elsewhere, strong performance was delivered in Spain, Ireland, all the Nordic countries as well as in central Europe (excluding Hungary).

Although EU GDP growth moderated over the first six months of this year, robust domestic demand continued to support performance and offset the impact of higher interest rates and relatively limited consumer expenditure growth.

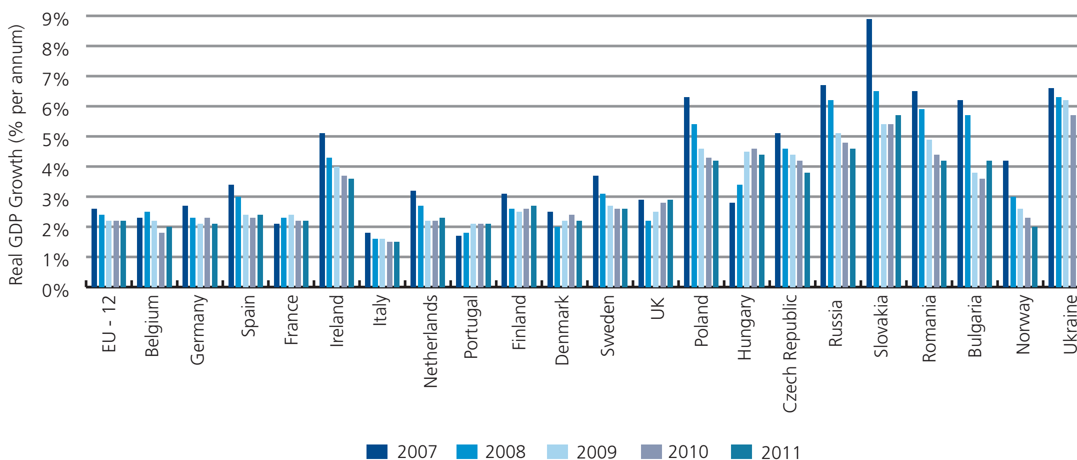
Our economic projections, which were completed before recent developments in the US economy and global capital markets achieved their current prominence, suggest that GDP growth should remain robust across the EU over 2007 before slowing to trend levels thereafter. The international environment is expected to remain supportive with a slight slowdown in activity being explained by a modest reduction in manufacturing. Global GDP growth is expected to slow from 5.4% over 2006, the fastest since 1973, to 5.2% this year and 4.9% in 2008. World trade growth is expected to slip a little from 9% during 2006 to between 8.5% and 7% over 2007 and 2008. Our forecasts are based on rapid growth in China which, combined with a continuing healthy recovery in the euro zone and Japan, is expected to offset weaker growth in the US.

Our US forecasts anticipate a slowdown this year to growth of just over 2%, largely as a result of the problems in the housing sector. Thereafter, we expect a gradual recovery to attractive but below trend growth of between 2.75% and 3% pa, based on improvements to both housing and business investment. In Japan, we expect growth to average just over 2% pa as business investment and exports remain strong and consumption starts to improve. Chinese GDP growth is expected to moderate but remain above 10% pa, based on robust exports and investment.

Figure 1 details our year-on-year country level GDP growth forecasts. While the general trend is downwards, the anticipated slowdown is relatively modest. In Spain, we expect the recent run of strong out-performance to end, largely due to a moderation in private investment. In Italy, despite improving levels of investment, limited growth in both consumption and government spending is likely to restrict growth. In central Europe, while growth is expected to remain markedly higher than the rest of the EU, lower investment levels are likely to limit out-performance. In Hungary, the success of the current austerity programme should enhance both investment and consumer spending from 2009 onwards.

GDP growth is expected to peak this year before reverting to trend.

Figure 1 - Real GDP Growth - 2007 to 2011

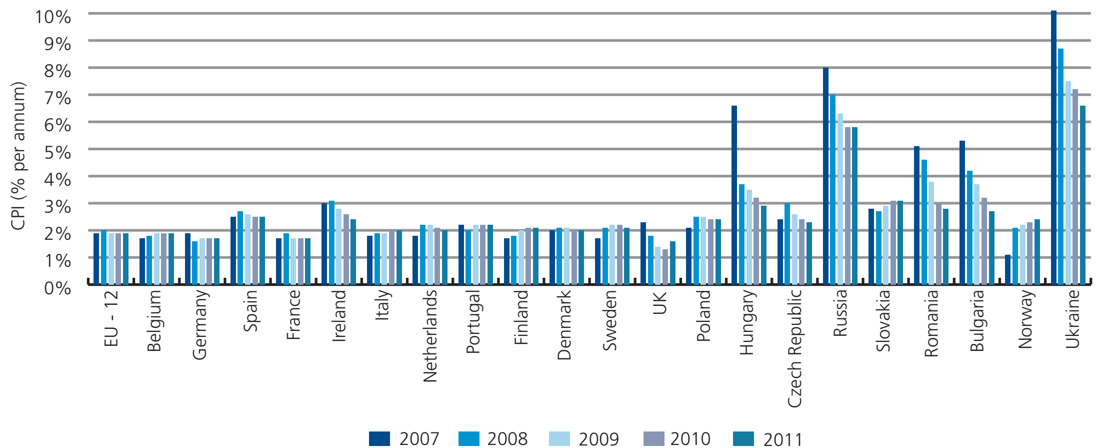


Source: Experian Business Strategies; INVESCO Real Estate (August 2007).

Figure 2 details our forecasts for CPI inflation. Despite low and falling unemployment and capacity utilisation data suggesting incipient shortages, consensus forecasts continue to point to relatively limited pricing pressures and, as a result, a low and stable CPI. These forecasts can be explained by continuing deflationary pressures associated with capacity expansion in China and other emerging markets. In addition, although oil and other commodity prices remain high they are likely to be at, or close to, their peak level and should remain broadly stable over the forecast period. Importantly, strong competition from emerging markets in both Asia and central Europe appears to be reducing the impact of low unemployment on wage levels.

Inflation is likely to remain under control.

Figure 2 - CPI Inflation - 2007 to 2011



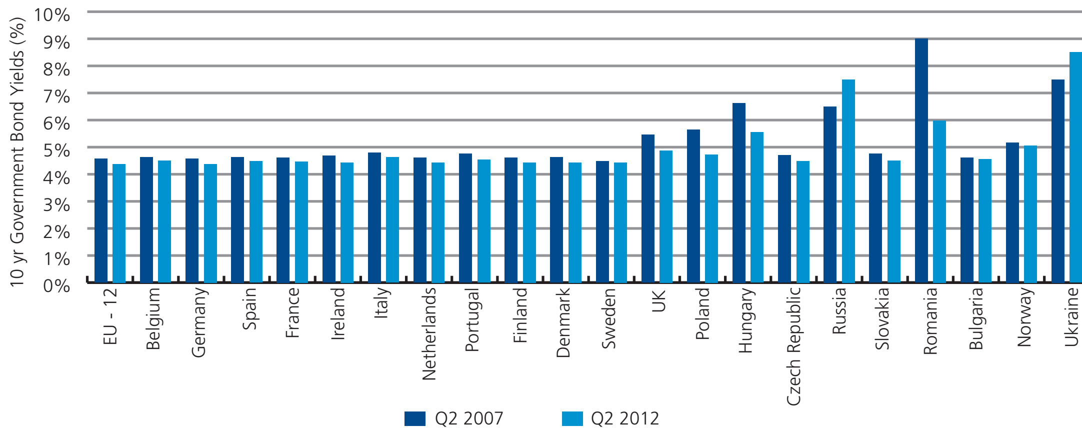
Source: Experian Business Strategies; INVESCO Real Estate (August 2007).

Long-dated bond yields increased by between 50 and 80 bps over the six months to the end of Q2 2007. Most of this change can be explained by the impact of higher short-term rates on the long end of the curve. Looking forward, the combination of limited inflationary pressures with trend GDP growth should allow monetary authorities to keep interest rates at close to equilibrium levels. For most of the markets we cover this means that we continue to expect long-term debt rates to remain broadly flat over the forecast period. In the UK, the marked reduction in inflation expected from 2009 onwards suggests that both long and short-term rates may fall below 5% (from a base rate of 5.75% at the time of writing and a long-term government bond yield of just under 5.5% at the end of Q2 2007).

In central Europe, long-dated government bond yields are expected to fall reflecting the continuation of the convergence process with the euro zone. In Hungary, changes should lag those expected in Poland, the Czech Republic, Slovakia and Bulgaria. This difference reflects our assumption that current economic difficulties in Hungary will lead to a more prolonged euro zone accession process than in the other countries. Our forecasts for Romanian bonds reflect an assumption that as inflationary pressures fall, long-dated government bond yields will start to discount the prospect of euro zone membership.

In Russia and the Ukraine, current local currency long-dated government bond yields are either less than or close to inflation rates. As a result, real yields in local currency are either negative or very low. Our forecasts reflect an assumption that over the forecast period yields are likely to revert to more logical levels as investors start to demand more attractive real returns, perhaps as a result of a

Figure 3 - 10-Year Government Bond Yields - Q2 2007 vs. Q2 2012



Source: Experian Business Strategies; INVESCO Real Estate (August 2007).

Long-dated bond yields are likely to remain around current levels.

reduction in exchange rate stability due to the impact of high inflation on purchasing power. We have assumed a 100 bps outward yield shift for both markets. In summary, our economic view, while far from exciting, remains robust and should support a reasonable level of occupier demand across all parts of the European real estate market. Our inflation forecasts remain broadly unchanged from previous forecast rounds and, when combined with our demand side forecasts, continue to suggest a relatively flat outlook for long-dated government bonds.

Our economic view, while far from exciting, remains robust and should support a reasonable level of occupier demand across all parts of the European real estate market.

Developments since the end of Q2 2007

It is encouraging to note that the forecasts discussed above already reflect a period of weakness in the US economy. However, our analysis assumed that the consequences of the slowdown would be largely confined to the US economy. Recent events associated with the “sub-prime” end of the US housing market and, specifically, the associated market in structured debt products, may mean that our initial analysis was too bullish.

The combination of rising default rates with complex financial products based on US housing debt, has led to uncertainty as to both the location and scale of potential losses associated with US housing market debt. In turn, this has caused financial institutions to reduce the availability of short-term financing.

In response, the US Federal Reserve, the European Central Bank and the Bank of England have intervened on a number of occasions to provide additional liquidity and to ensure the continued operation of the financial system. Despite this, short-term interest rates have increased

Markets appear to have realised that spreads demanded before the crisis were too low and that, as a result, a re-pricing was required.

Surveys of European companies continue to suggest high levels of capital investment despite the credit crisis.

dramatically and, reflecting increasing concerns about the potential impact of these developments on the global economy, investors have forced long-dated government bond yields down markedly (European bonds have fallen by around 30 to 40 bps since the end of Q2 2007).

Some high profile casualties of the crisis, such as two hedge funds operated by Bear Stearns, IKB (German Landesbank) and, more recently, the UK mortgage bank Northern Rock, have reinforced the sense of alarm and raised concerns that the crisis might spill over into the real economy in the US and, possibly, overseas. More recently, these concerns have been enhanced by weak performance from the Japanese economy.

With regard to the US, commentators have suggested that a reduction in the availability of debt combined with higher interest rates might impair both investment and consumer spending. In turn, these concerns have led to calls for the US Federal Reserve to cut the Fed Funds rate by as much as 100 bps. Although such a dramatic move is unlikely, reductions on top of the 50 bps cut on 18th September are possible.

In addition to reducing liquidity in the banking sector, the above changes have led to a reassessment of required risk premia for corporate paper. Markets appear to have realised that spreads demanded before the crisis were too low and that, as a result, a re-pricing was required. As suggested below, this change is already having an impact on real estate pricing, particularly for non-prime or secondary product.

Developments associated with the US sub-prime market have also affected global equity markets. The reduction in the availability of debt combined with higher interest rates, larger spreads and reduced confidence in the economic outlook has led investors to question the ability of companies to fulfil their investment plans. In turn, this has reduced confidence in earnings growth projections and, therefore, share prices. In addition, uncertainty about the scale and direction of the problem has enhanced nervousness, leading to greater volatility.

Implications for the European economy are harder to identify. It is clear that lower US interest rates are likely to lead to further US dollar deterioration against the euro and sterling and that this will increase the cost of European exports and reduce the cost of US imports into the EU. Although this change in competitiveness is likely to damage European GDP growth, the dominance of intra-European trade (72% of European trade is within the EU) should mitigate the effect. In addition, it is not unrealistic to expect further boosts to competitiveness from productivity improvements associated with continued economic and labour market reform in Germany and, more marginally, France.

Reduced availability of leverage may impair corporate investment and, therefore, limit earnings growth. However, surveys of European companies continue to suggest high levels of capital investment despite the credit

crisis. This resistance can be explained by relatively low levels of leverage amongst European businesses (particularly in Germany) combined with strong order books and confidence in the outlook for the global economy outside the US.

In summary, despite the concerns detailed above, there are good reasons to believe Europe should be able to overcome the challenges presented by the US sub-prime crisis. There are likely to be short-term financing, investment and confidence related impacts, but these should pass within a relatively short period of time as the US partially decouples from the rest of the global economy and Europe relies on domestic demand and exports to a robust Asia Pacific region. Key risks to this outlook might be in the UK, due to its financial links with the US; Germany and the Netherlands based on their export links; and Spain and Ireland due to their high levels of personal leverage and dependence on the construction sector.

There are good reasons to believe Europe should be able to overcome the challenges presented by the US sub-prime crisis.

4. Real Estate Market Outlook

Our real estate discussions start with an overview of Scenario One, which is based on economic and real estate market conditions as at the end of Q2 2007. These initial conclusions are then re-considered to reflect economic, capital market and real estate pricing changes since the end of Q2 2007.

Our spring 2007 forecasts suggested a more challenging environment with returns being delivered by income rather than capital appreciation from yield shift.

In addition, we consider the potential impact on our required return assumptions and, therefore, our exit yield calculations of the increasing number of pan-European and, more controversially, diversified real estate investors (Scenarios Two and Three).

The View from End Q2 2007 (Scenario One)

i. Real Estate

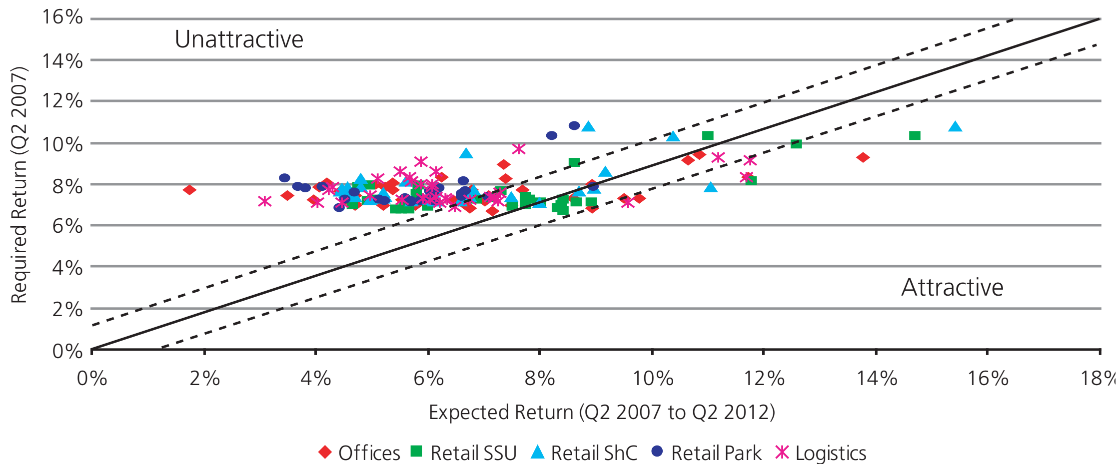
Our spring 2007 forecasts anticipated that at least 45% of the 145 market/sector combinations covered by our analysis would deliver total returns that either matched or exceeded our required return hurdle rate. This result led to the conclusion that, although the European real estate investment market still presented clear opportunities for appropriate performance, pricing had become challenging. Further, our spring 2007 calculations suggested that over the five-year forecast period, prime real estate yields were likely to remain flat or rise. This suggested a more challenging investment and asset management environment with returns being delivered by income rather than capital appreciation from inward yield shift.

With regard to occupier demand, our spring 2007 forecasts anticipated a similar GDP growth cycle to that highlighted in Figure 1. We also expected, with a few clear exceptions, supply side changes to have a relatively limited impact on market rental levels. As a result, rental growth was expected to be focused over the short-term, particularly in the office sector where the increasing business investment levels suggested higher growth than implied by aggregate economic performance. In the retail and logistics sectors, short-term growth was expected to be limited by the impact of higher interest rates and relatively modest consumer spending growth.

Over the six months to the end of Q2 2007, our forecasts broadly followed our expectations. Office rental levels continued to increase, in some cases exceeding our predictions (e.g., London West End, Warsaw and Lyon). Similarly, in the retail sector, although rental growth was generally subdued, some markets surprised on the upside (e.g., Berlin, Lille, Rome, Milan, Edinburgh and Bratislava), largely for "deal" or evidence-related reasons. In the logistics sector, only Greater London (Heathrow) and Edinburgh provided any surprise on the upside with rental growth in excess of our predictions.

Despite the expected and unexpected increases in rental levels, and only limited changes to our rental growth forecasts for the rest of this year and the remainder of the forecast period, yields either remained flat or, in some cases, fell over the six months to the end of Q2 2007. In effect, investors are being asked to pay higher prices for less attractive cash flows.

Figure 4 - Expected and Required Total Returns - Q2 2007 to Q2 2012 - **Scenario One**



Source: INVESCO Real Estate (September 2007)

"Appropriate" returns are still expected from a reasonable proportion of the European real estate market.

For example, although prime London West End rents increased by over 20% over the six months to the end of Q2 2007, yields remained unchanged at 3.75%. In central Paris, prime office market yields fell from 4% to 3.75% despite rental growth of almost 7% over the period. Similarly, in the main German office markets prime yields fell by between 25 and 50 bps despite rental growth of 4.5% in Hamburg and 3.3% in Munich. There are similar, although less marked, examples of this trend in the retail and logistics sectors.

Higher long-term bond yields mean that our required return assumptions have increased quite substantially since Spring 2007.

Our spring 2007 forecasts were based on Q4 2006 euro zone 10-year government bond yields of just under 4%. Over the first six months of this year, yields rose by over 70 bps before settling at 4.6% at the end of Q2 2007. In the UK, our spring 2007 forecasts were based on Q4 2007 UK 10-year government bond yields of 4.7%; by the end of Q2 2007 UK yields had increased by around 80 bps to 5.5%. Higher long-term bond yields mean that our required return assumptions have increased quite substantially since spring 2007.

The combination of lower current yields, with rental growth assumptions that have been reduced by strong performance over the six months to the end of Q2, and higher required returns, means that under Scenario One our revised forecasts are bound to be less optimistic than those presented in our last report.

As highlighted by Figure 4, most of the markets we cover are expected to deliver total returns below our hurdle rate. Under Scenario One, only 25% of the 170 markets we cover are expected to either equal or exceed our revised market specific required return assumptions. Adopting a more generous measure of an “acceptable” return (not more than 1% below the required return) 43% of markets can be viewed as potential investment targets.

Based on a reassessment of our development pipeline projections, we have adopted more aggressive vacancy forecasts for the French regional markets.

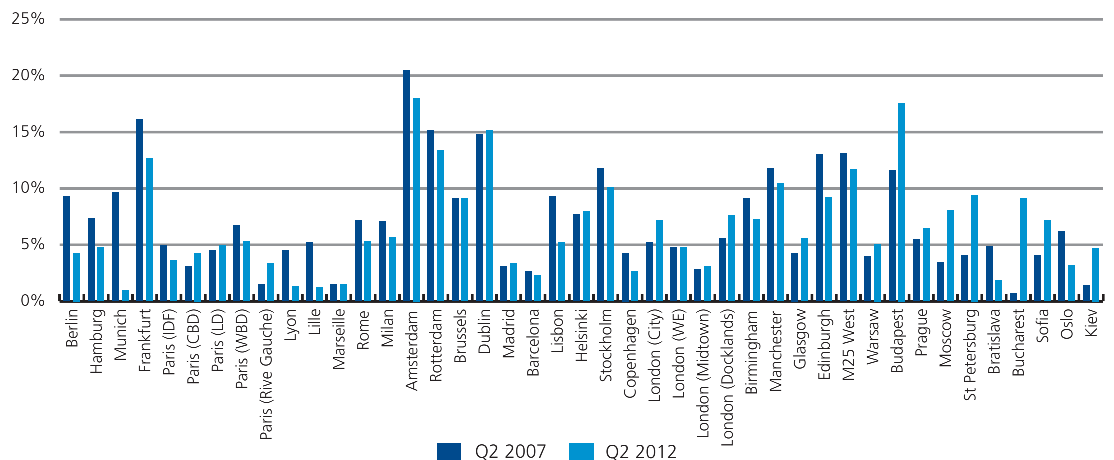
Office vacancy should remain broadly under control.

ii. Offices

Of the 42 office markets covered by our forecasts, 20 are expected to deliver total returns that are no more than 1% pa below our hurdle rate under Scenario One. This is similar to the proportion of office markets identified in our spring 2007 forecasts. We continue to expect appropriate returns from parts of the Paris office market, although we have downgraded the CBD, La Defense and the Rive Gauche from three to two "tick" markets. Outward yield shift combined with more modest rental growth and a higher starting rent has led to the Western Business Districts being downgraded from a three to a one "tick" market.*

Based on a reassessment of our development pipeline projections, we have adopted more aggressive vacancy forecasts for the French regional markets. (Figure 5 details our revised vacancy rate numbers across the European office markets and provides a comparison with our current vacancy estimates.) This change has caused us to increase both our rental growth and total return projections and, as a result, all three of the markets that we cover in the French regions are expected to deliver returns at least 1% pa higher than our hurdle rate. In addition, we continue to favour Brussels, primarily due to the relatively high current yield and reasonable rental growth expectations.

Figure 5 - Office Vacancy - Q2 2007 vs. Q2 2012

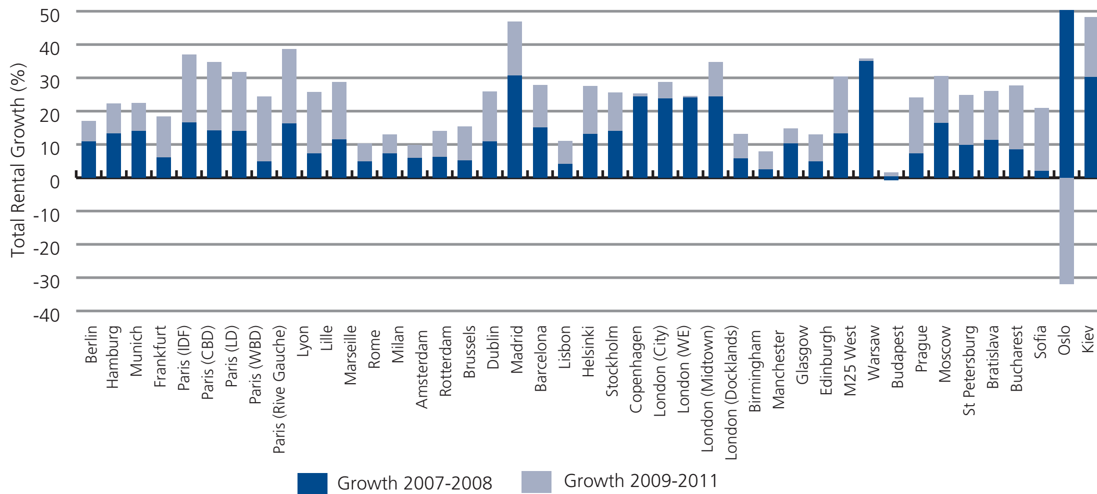


Source: INVESCO Real Estate; DTZ Research (September 2007)

Despite strong recent rental growth both Madrid and Barcelona are still expected to deliver attractive total returns as continued rental appreciation offsets the impact of outward yield shift. However, as with our spring 2007 forecasts we expect most rental growth to be delivered by the end of 2008 (Figure 6). This will lead to a deterioration of expected total returns over the next 12 to 24 months. Similarly, although Stockholm offices are still expected to out-perform, the front-loaded nature of our rental growth forecasts suggests a similar, but less marked, deterioration in expected total returns.

*For further details of our recommendations, please see pages 127-131.

Figure 6 - Office Growth Rental - 2007-2008 vs. 2009-2011



Source: INVESCO Real Estate (September 2007)

In London's West End, rental growth of over 20% during the first half of this year has reduced future rental growth prospects.

We have downgraded Warsaw due to strong rental growth over the six months to the end of Q2 2007.

Although we have maintained our positive outlook for the City of London's economy, under Scenario One, offices in central London are now unlikely to deliver appropriate returns. Changes to our development pipeline forecasts have led to a more compressed rental cycle and, although we have reduced our exit yield, lower rental growth and strong performance over the last six months have resulted in an expected return below the required level. In London's West End, rental growth of over 20% during the first half of this year has reduced future rental growth prospects. More positively, we continue to expect appropriate performance from offices in London's Docklands primarily due to the attractive current yield.

In central and eastern Europe, we have downgraded Warsaw due to strong rental growth over the six months to the end of Q2 2007; the impact of this on future rental growth prospects is clearly illustrated by Figure 6. Our forecasts for Budapest have become slightly more optimistic based on the expected economic recovery from 2009. We remain keen on Prague due to the combination of relatively low vacancy, a vibrant economy and low, but stable, yields.

Of the four markets added to our coverage for this forecasting round we are bullish on two and bearish on two. Kiev benefits from a vibrant economy (although inflation remains stubbornly high), a relatively restrictive supply side and high current yields. Our forecasts assume a slight outward yield shift (due to expected changes in the local bond market offsetting the impact of increasing investor interest) but an attractive income return and relatively robust rental growth. We are also positive on Sofia where the high current yield should offset the impact of rising vacancy and the robust economy should lead to attractive rental growth.

Economic conditions underlying the retail sector remain broadly positive as falling unemployment offsets the impact of rising interest rates.

More negatively, it is difficult to see appropriate returns from Bucharest given low current yields and clear supply side risks. Finally, our forecasts for Oslo suggest the reversal of recent substantial rental growth towards the end of our forecast period as the economy slows. As a result, available returns are likely to deteriorate substantially over the next 12 to 24 months.

iii. Retail

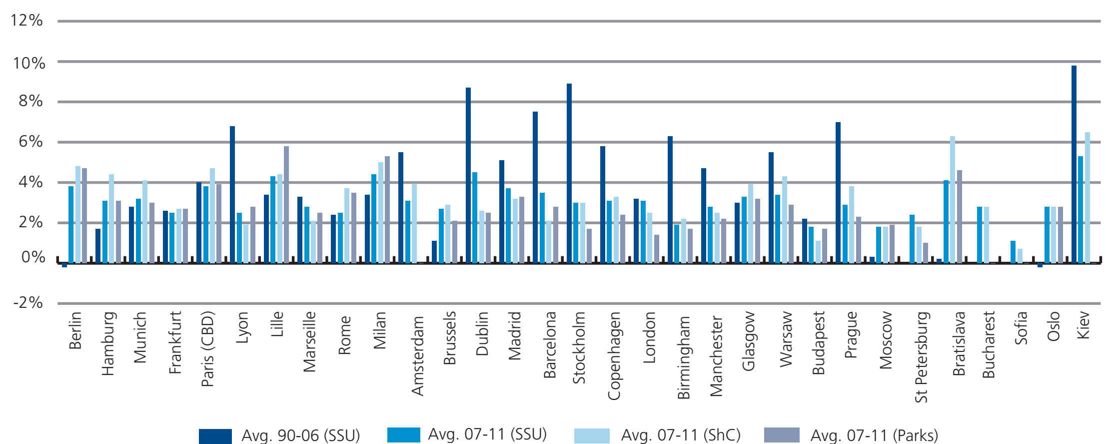
Economic conditions underlying the retail sector remain broadly positive as falling unemployment offsets the impact of rising interest rates, leading to stable consumer expenditure growth. Further, recent strong economic performance has helped to boost consumer confidence even in countries such as Germany, where domestic demand has been surprisingly weak. We continue to see potential upside in the outlook for the German retail sector, but have not reflected such in our numbers.

In general, our rental growth forecasts remain broadly unchanged from those presented in spring 2007. We continue to expect the retail sector to deliver rental growth at or slightly above the level of inflation (Figure 7). However, the sector continues to face structural problems such as price deflation; competition from both the internet and supermarket operators, which continues to put pressure on margins; and also from alternative areas of spending such as leisure pursuits, which divert expenditure away from the high street.

Where we have reduced our rental growth forecasts, this has typically been in response to strong growth over the past six months rather than any change in the economic outlook (e.g., Berlin, Milan and Rome). In these cases, rents are expected to remain broadly flat for the next few years as the markets adjust to the new rental levels.

We continue to expect the retail sector to deliver rental growth at or slightly above the level of inflation.

Figure 7 - Retail Rental Growth - 1990-2006 vs. 2007-2011



Source: INVESCO Real Estate; DTZ Research (September 2007)

The two biggest changes to our rental growth forecasts have been in St Petersburg and Barcelona. Our forecasts for St Petersburg have been upgraded to reflect our assumption that the inconsistency between limited recent rental growth and significant changes in occupier demand suggests substantial rental growth potential, which was previously excluded from our numbers. With Barcelona, we decided that there was little justification for the rental gap that was beginning to open up with Madrid. Barcelona is a more supply constrained market with a well-defined prime area and it also benefits from strong tourist trade. It should, therefore, see rental growth at least on a par with that of Madrid. As a result, we have boosted our forecast of rental growth in Barcelona, while the outlook for Madrid has softened.

Generally, we expect rental growth in shopping centres to slightly outpace that of standard shop units as the active management opportunities should enhance growth. However, we have scaled back our shopping centre forecasts to reflect the high levels of competition as new schemes are built at the next tier of the retail hierarchy. The UK is a good example of this with stable supply in the major cities covered by our forecasts following recent strong development activity, but high levels of new development coming on stream in medium-sized cities such as Bristol, Cardiff, Leicester and Liverpool.

We continue to forecast that in most markets rental growth in retail parks will lag behind that of high street shops and shopping centres. Demand for space is concentrated in relatively few operators, who tend to be cost sensitive, and in a number of locations rents have reached levels which raise issues about profitability (particularly for retailers operating in low margin businesses such as DIY).

We expect high street shop yields to move out by 10 to 20 bps over the next five years under Scenario One. Within the euro zone, this is in part driven by the general upward trend in 10-year government bond yields. However, our analysis also suggests that in some markets (e.g., Dublin and the UK regional capitals) yields have fallen to unsustainably low levels and we, therefore, expect them to move out as the market re-prices. The only locations where we now expect yields to harden further under Scenario One are the Spanish cities where performance is underpinned by strong rental growth, and Helsinki, Moscow, St Petersburg, Sofia and Kiev where current yields still have scope to harden (Figure 8).

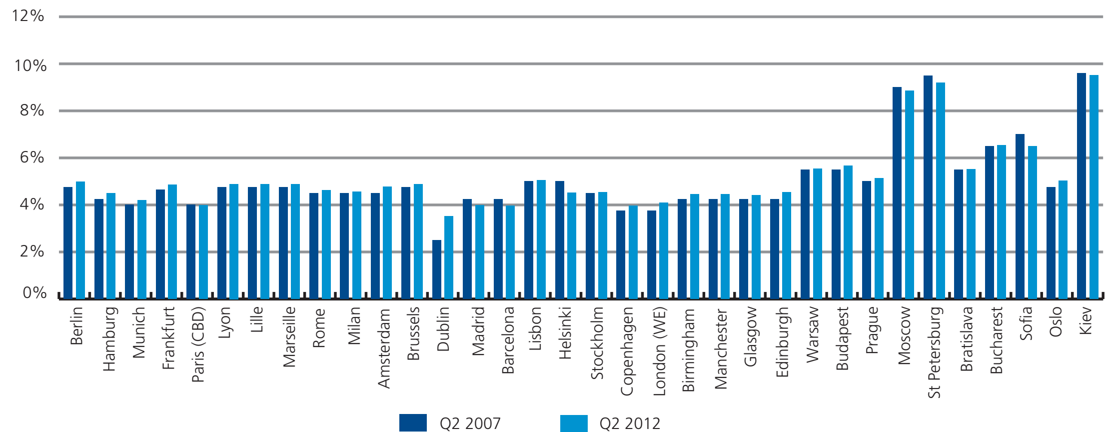
Shopping centre yields are forecast to move out slightly more than standard shop yields. In general, they are expected to increase by 20 to 30 bps under Scenario One. We have been more aggressive in our re-pricing of shopping centres in the current forecast than in our spring 2007 forecasts. This has been as a result of recent yield movements within the sector (Figure 9). We believe that yields have overshot and, therefore, there will need to be a correction in pricing. The only two centres where shopping centre yields are forecast to harden are Bratislava and Sofia.

The two biggest changes to our rental growth forecasts have been in St Petersburg and Barcelona.

We expect rental growth in shopping centres to slightly outpace that of standard shop units (SSUs).

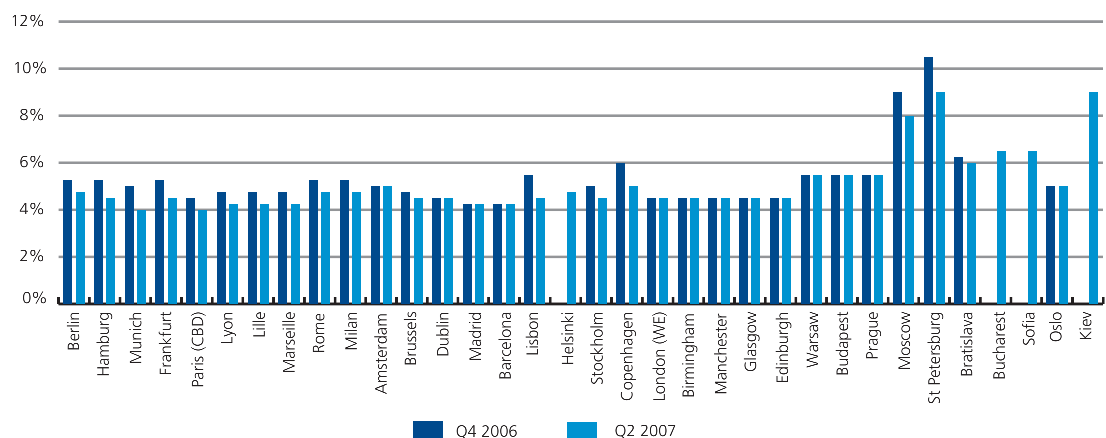
We believe that yields have overshot and, therefore, there will need to be a correction in pricing.

Figure 8 - Prime Retail SSU Yields - Q2 2007 vs. Q2 2012



Source: INVESCO Real Estate; DTZ Research (September 2007)

Figure 9 - Historic Prime Retail ShC Yields - Q4 2006 vs. Q2 2007



Source: INVESCO Real Estate; DTZ Research (September 2007)

There is a similar story for retail parks where, despite increasing evidence of rental weakness, yields have also continued to harden over the past six months. Here under Scenario One yields are forecast to move out by 30 to 50 bps in most markets and only in Bratislava are we forecasting a hardening of yields.

Standard shop units provide the strongest returns followed by shopping centres and then retail warehousing. For standard shops strong performance is expected from the French, Spanish and

Russian cities and also from Brussels, Helsinki, Stockholm, Sofia and Kiev. Weak performance is expected from the UK, Italy and Germany as well as Amsterdam, Dublin, Copenhagen, Budapest and Oslo.

Strong shopping centre performance is limited to Prague, Sofia and Kiev. Elsewhere only Paris, Brussels, Dublin Stockholm, Copenhagen, Warsaw, Bratislava and St Petersburg are forecast to achieve returns that even approach our required level. No retail parks are forecast to produce returns significantly in excess of the required level and only Bratislava, Dublin and Brussels are forecast to generate returns close to the required level. As with our office forecasts, all of these conclusions refer to Scenario One only.

Strong shopping centre performance is limited to Prague, Sofia and Kiev.

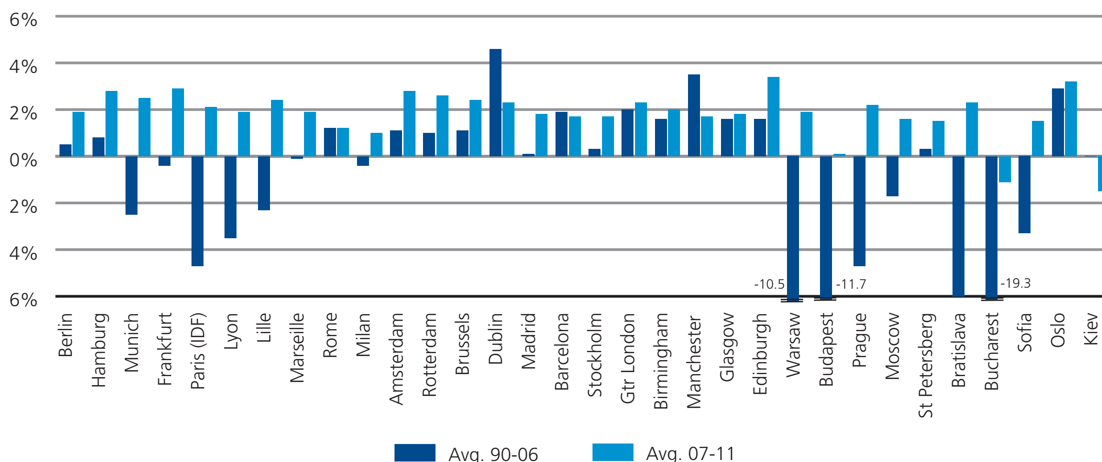
iv. Logistics/Industrial

The broad themes relating to industrial rental growth remain unchanged from our spring 2007 forecasts. We continue to expect rental growth in most locations but it is likely to remain weak (Figure 10). Over-supply does not appear to be a problem in most industrial markets but supply is relatively responsive to demand as build times tend to be short and tailored products remain popular. In addition, speculative development appears to have increased, driven by investor demand for yield, and this also reduces pressure on rents.

We continue to expect logistics rental growth to remain relatively modest.

The two locations where we have increased our rental growth outlook are Amsterdam and Rotterdam. This is related to the likely benefits these two locations will receive from a continuation of robust trade activity. In a number of locations where supply is proving very elastic, we have

Figure 10 - Prime Logistics/Industrial Rental Growth - 1990-2006 vs. 2007-2011



Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: Data for Warsaw, Budapest and Bucharest have been truncated.

reduced our rental growth forecasts. These include a number of the central and eastern European locations where cost sensitive occupiers continue to drive the market, and also the Spanish markets. Some forecasts have also been downgraded as a result of strong rental growth in the past six months (e.g., Edinburgh, Glasgow and London). In these cases, rents are expected to remain broadly flat for the next few years as the market acclimatises to the new rental levels.

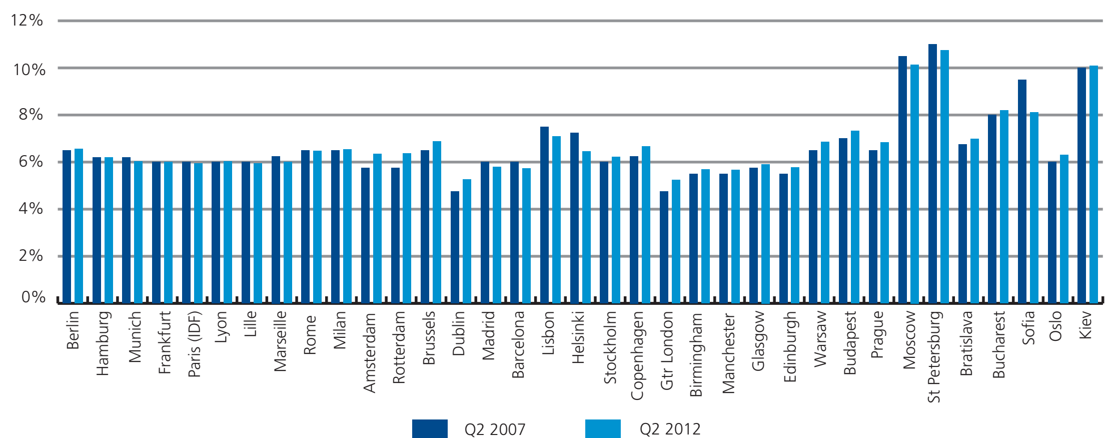
The two locations where we have increased our rental growth outlook are Amsterdam and Rotterdam.

Under Scenario One, we continue to expect logistics/industrial yields to be broadly stable with the prospect of further inward yield shift in a third of the markets that we monitor (Figure 11). This inward movement is being driven by income-focussed investors. Markets forecast to benefit from a reduction in yield include those in France, Spain and Russia as well as Lisbon, Helsinki, Sofia and Munich. However, in markets where yields have fallen below 6%, there is little to attract the income-focussed investor and, in these markets, yields are forecast to move out. The most dramatic outward yield shifts are forecast for Dublin and London where current yields have fallen below 5%.

Although industrial yields are expected to remain relatively stable, our expected return forecasts suggest that investors are paying an excessively high price for most logistics/industrial assets.

Although industrial yields are expected to remain relatively stable, our expected return forecasts suggest that investors are paying an excessively high price for most logistics/industrial assets. Therefore, Scenario One suggests that only four markets are forecast to produce total returns well in excess of the required level - Helsinki, Sofia, Moscow and St Petersburg. In these markets, yields are relatively high and return performance is being driven by inward yield shift. Most of the German, French and Spanish markets provide acceptable returns broadly in line with the required

Figure 11 - Prime Logistics/Industrial Yields - Q2 2007 vs. Q2 2012



Source: INVESCO Real Estate; DTZ Research (September 2007)

level, underpinned by stable yields. More negatively, total returns from the UK, Ireland, the Netherlands, Scandinavia, Belgium and most of the central and eastern European countries are expected to disappoint due to the combination of weak rental growth and outward yield shift.

v. Summary

Despite the cautious outlook suggested by Scenario One our forecasts continue to highlight a number of opportunities for total returns in excess of our required level. Table 1 identifies 24 markets that are expected to deliver total returns at least 1% pa in excess of our target level. As a result, despite the negative combination of low current yields, strong rental growth over the last six months and higher required returns, our "view from the end of Q2 2007" suggests that European real estate can still be viewed as attractive.

Most of the German, French and Spanish markets provide acceptable returns broadly in line with the required level, underpinned by stable yields.

Table 1 - Three "Tick" Target Markets (Scenario One)

	Scenario One: "Base" Case
Offices	Lyon, Lille, Marseille, Stockholm, Sofia,Moscow, St Petersburg and Kiev
Retail (all Sub-sectors)	Paris, Lyon, Marseille, Brussels, Madrid,Barcelona, Warsaw, Prague, Bratislava,Sofia, St Petersburg and Kiev
Logistics/Industrial	Helsinki, Sofia, Moscow and St Petersburg

Source: INVESCO Real Estate (September 2007).
Note: retail targets reflect either high street, shopping centres or retail parks. The table does not identify markets where more than one sub-sector is expected to out-perform.

Despite the cautious outlook suggested by Scenario One our forecasts continue to highlight a number of opportunities for total returns in excess of our required level.

Developments since Q2 2007

As highlighted in our economic section, developments between the end of Q2 2007 and the middle of September 2007 have been dramatic. As a consequence, it is worth considering their potential impact on our forecasts and target markets.

First, as highlighted above, we do not expect the fall-out from developments in the US economy to markedly damage European GDP growth. The strength of European businesses combined with limited levels of leverage, robust confidence and investment plans as well as the dominance of trade within the EU support this view.

We do not expect the fall-out from developments in the US economy to markedly damage European GDP growth.

As a result, substantial changes to the demand drivers of our aggregate rental growth forecasts are not required. However, on the supply side some changes may be justified. The combination of reduced availability of debt with increased uncertainty may cause developers to postpone their projects, thus improving the supply side of the rental growth equation, at least over the short-

We expect the ongoing re-pricing of risk in the securitised debt market to lead to a similar reassessment of real estate risk.

Current uncertainty appears to be resulting in a reassessment of appropriate yields, even for prime real estate.

term. In addition, while it does not appear logical to change our assumptions on aggregate demand levels, some adjustment to the timing of demand might be warranted. These changes are likely to offset each other suggesting that our Scenario One rental growth forecasts remain appropriate.

Second, one theme underlying our forecasts for sometime has been an expectation that risk premium spreads between prime real estate and other parts of the market had been compressed too far as investors sought to maintain their income returns in the face of recent yield compression. We expect the ongoing re-pricing of risk in the securitised debt market to lead to a similar reassessment of real estate risk. Over the short-term this will lead to lower returns from some non-prime assets (e.g., UK retail in second tier cities) as yield levels adjust. This change is already underway in the UK, particularly in the retail market, and there are clear signs of similar changes in other parts of the European real estate market.

Third, the marked reduction in bond yields over the period since the end of Q2 2007 as investors have sought refuge in the “safe haven” of government credit should be reflected in investors’ required returns.

Fourth, current uncertainty appears to be resulting in a reassessment of appropriate yields, even for prime real estate. In the City of London, for example, although evidence remains limited, prime yields appear to have increased by at least 25 bps since the end of the second quarter. These changes may also lead to an increasingly conservative approach to the pricing of risk events (e.g., lease renewals, breaks and reversions) suggesting opportunities for more bullish investors.

Finally, although uncertainty will lead to opportunities it may also result in a marked reduction in investment volumes. Faced with marking their assets to market to secure a sale or waiting for better times, it seems likely that a proportion of institutional investors will decide to wait. In addition to reducing market accessibility, this change is likely to limit transparency. More positively, this change may provide pan-European investors with a number of strong local market platforms an advantage over their smaller competitors.

Scenario Two - Diversification and Bond Yields

The forecasts reported in our previous reports as well as those presented above (as Scenario One) are based on the assumption that while some investors might claim to be both pan-European and diversified, pricing levels are still driven by investors who, due to their size and approach, are unable to rationally claim the risk reduction benefits associated with diversification and, importantly, reflect such benefits in their required returns. However, given the increasing dominance of large pan-European investors with diverse multi-billion euro portfolios, it is possible that this assumption might be too conservative and that both our required return estimates and exit yield estimates could be too high.

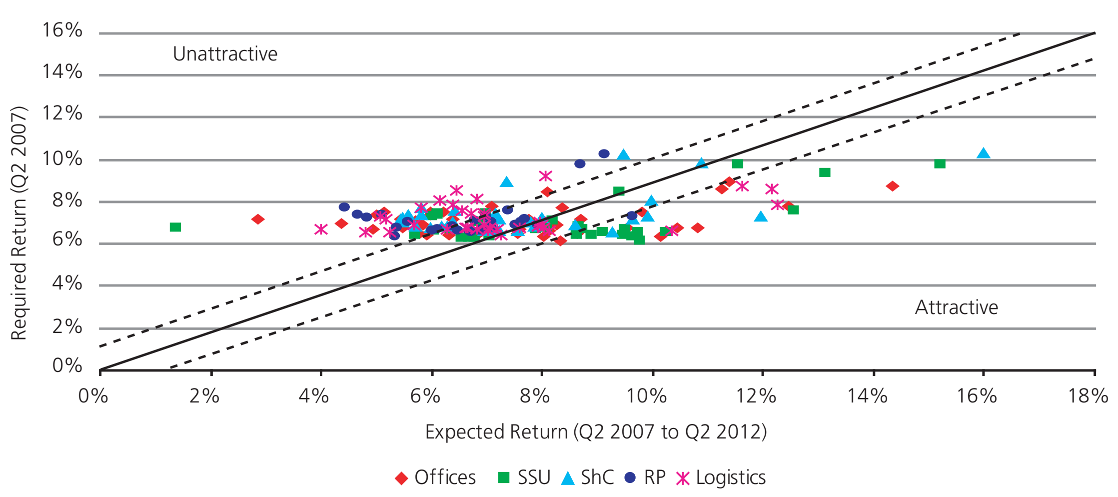
To quantify the potential impact of diversification on required risk premia, we used our pan-European portfolio model to assess the impact of a diverse portfolio on available total returns per unit of risk. This logical, if simplistic, analysis suggests that portfolio investors with substantial exposure to a broad range of European markets might be able to reduce their required returns by between 25 and 50 bps pa and still obtain the same returns per unit of risk available to a single asset investor.

Based on this analysis and the further assumption that in order to compete against other large portfolio investors, purchasers will be forced to pass on this benefit through lower purchase yields, we have deducted 25 bps from all our current and future required return estimates. In addition to the above change, we have deducted 25 bps from our estimate of the risk-free rate to reflect the impact of recent changes to long-dated government bond yields on investors' return requirements.

With the exception of the changes reported above, all other assumptions remained as per Scenario One. As highlighted by Figure 12, the revised numbers suggest that 38% of the 170 markets we cover are expected to either equal or exceed our revised market specific required return assumptions. Adopting a more generous measure of an "appropriate" return (not more than 1% below the required return) 72% of markets can be viewed as potential investment targets.

We have deducted 25 bps from our estimate of the risk-free rate to reflect the impact of recent changes to long-dated government bond yields on investors' return requirements.

Figure 12 - Expected and Required Total Returns - Q2 2007 to Q2 2012 - **Scenario Two**



Source: INVESCO Real Estate (September 2007)

Under Scenario Two, 72% of markets can be viewed as potential investment targets.

There are clear signs in some markets of outward yield shift.

Table 2 - Three "Tick" Target Markets (Scenario Two)

	Scenario One: "Base" Case	Scenario Two: "Diversification" Case Additional Markets
Offices	Lyon, Lille, Marseille, Stockholm, Sofia,Moscow, St Petersburg and Kiev	Paris (CDB), Paris (La Defense), Paris (Rive Gauche), Brussels, Barcelona, Copenhagen, Prague and Bratislava
Retail (all Sub-sectors)	Paris, Lyon, Marseille, Brussels, Madrid,Barcelona, Warsaw, Prague, Bratislava,Sofia, St Petersburg and Kiev	Lille, Lisbon, Helsinki, Stockholm, Budapest and Moscow
Logistics/Industrial	Helsinki, Sofia, Moscow and St Petersburg	Marseille, Madrid and Barcelona

Source: INVESCO Real Estate (September 2007).
Note: retail targets reflect either high street, shopping centres or retail parks. The table does not identify markets where more than one sub-sector is expected to out-perform.

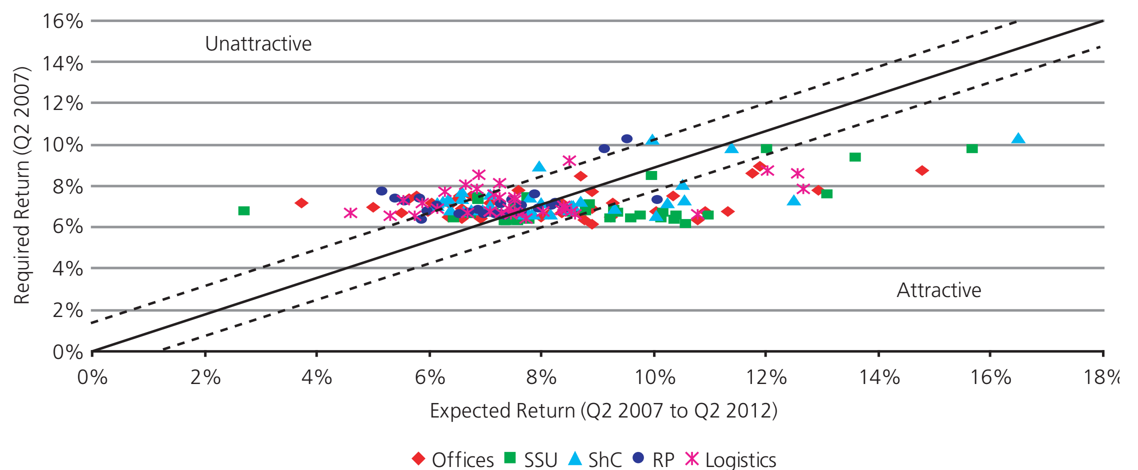
Table 2 shows the impact of these changes on the list of markets expected to deliver total returns that are at least 1% in excess of our hurdle level. In addition to the 24 markets identified by Scenario One, our adjusted calculations suggest a further 17 potentially attractive locations.

Scenario Three - Current Yields

Our third scenario combines the changes introduced for Scenario Two with adjustments to our current yield estimates. As highlighted above, there are clear signs in some markets of outward yield shift. Our calculations assume a uniform 25 bps increase across all markets.

Although this approach has the benefit of simplicity and reflects the typically lumpy nature of yield changes, it will impact low yielding retail markets more than relatively high yielding logistics/industrial

Figure 13 - Expected and Required Total Returns - Q2 2007 to Q2 2012 - **Scenario Three**



Source: INVESCO Real Estate (September 2007)

Table 3 - Three "Tick" Target Markets (Scenario Three)

	Scenario One: "Base" Case	Scenario Two: "Diversification" Case Additional Markets	Scenario Three: "Current Yield" Case Additional Markets
Offices	Lyon, Lille, Marseille, Stockholm, Sofia,Moscow, St Petersburg and Kiev	Paris (CDB), Paris (La Defense), Paris (Rive Gauche), Brussels, Barcelona, Copenhagen, Prague and Bratislava	Paris (Western Business Districts), Madrid, Helsinki, London (Docklands) and M25 West
Retail (all Sub-sectors)	Paris, Lyon, Marseille, Brussels, Madrid,Barcelona, Warsaw, Prague, Bratislava,Sofia, St Petersburg and Kiev	Lille, Lisbon, Helsinki, Stockholm, Budapest and Moscow	Berlin, Hamburg, Munich, Frankfurt, Milan, Bucharest, Dublin and Copenhagen
Logistics/Industrial	Helsinki, Sofia, Moscow and St Petersburg	Marseille, Madrid and Barcelona	Hamburg, Munich, Lille and Lisbon

Source: INVESCO Real Estate (September 2007).

Note: retail targets reflect either high street, shopping centres or retail parks. The table does not identify markets where more than one sub-sector is expected to out-perform.

Our forecasts continue to suggest a diverse range of investment opportunities in European real estate.

locations. For the same reason, high yielding markets in Russia and central and eastern Europe will benefit less than low yielding markets in mature western European locations (e.g., Paris offices vs. Sofia offices). There are also good arguments to suggest that a 25 bps change is conservative given on-going market developments.

As highlighted by Figure 13, the revised numbers suggest that 65% of the 170 markets we cover are expected to either equal or exceed our revised market specific required return assumptions. Again, adopting a more generous measure of an "appropriate" return (not more than 1% below the required return) 86% of markets can be viewed as potential investment targets.

Table 3 shows the impact of these changes on the list of markets expected to deliver total returns that are at least 1% in excess of our hurdle level. In addition to the 24 markets identified by Scenario One and the 17 identified by Scenario Two, our adjusted calculations suggest a further 17 potentially attractive locations. As a result, our list of three "tick" markets has increased from 24 in Scenario One to 58 in Scenario Three from a maximum of 110 markets (the three retail sub-sectors have been treated as one sector).

In addition to providing a broad range of potential targets for pan-European investors, the above analysis highlights the sensitivity of our assumptions to current yield and required return estimates. Given the subjectivity typically associated with yield estimates and the impact of diverse investor requirements on required returns, the additional information provided by Scenarios Two and Three is a useful complement to that provided by our base case or Scenario One.

5. Summary and Conclusions

The forecasts presented in this report have been produced at a time of hightened economic, capital market and real estate market uncertainty. Developments in the US economy have led to reduced capital market liquidity, increased concerns about the outlook for the global economy and heightened uncertainty around the appropriate pricing of risk.

The combination of trend GDP growth with limited inflationary pressures should lead to relatively low and stable long-dated government bond yields.

We expect the impact of developments in the US economy on European output to be relatively limited.

Our economic forecasts continue to point to a slowdown in the European economy with growth peaking this year before settling down to trend or potentially above trend growth. Although economies such as Spain, Ireland, Poland and the Czech Republic should continue to out-perform the EU average, the continuation of economic convergence is likely to reduce the differential. Inflationary pressures are still expected to fall as stable oil prices combine with continued price competition from both Asia and central Europe. The combination of trend GDP growth with limited inflationary pressures should lead to relatively low and stable long-dated government bond yields.

We expect the impact of developments in the US economy on European output to be relatively limited. Corporate balance sheets appear to be robust and, perhaps more importantly, recent changes do not appear to have dampened enthusiasm for capital investment. The outlook is also supported by low levels of corporate leverage, the dominance of intra-EU trade and a robust outlook for Asia. More negatively, there are clear risks associated with both volatility and the limited availability of debt.

The real estate implications of this change are likely to be as follows. Rental growth is unlikely to change markedly as any negative impact on demand is likely to be offset by more subdued supply side growth. Perhaps more importantly, the reassessment of risk in the capital markets will probably result in similar changes in the real estate market. Although this is unlikely to alter prime risk premia, it will change pricing for more risky assets. Lower long-dated government bond yields should lead to reduced required returns for real estate. Finally, increasing levels of uncertainty may lead to more conservative pricing of vacancy, leasing and refurbishment risks, perhaps providing opportunities for more confident investors.

Our first forecast scenario suggested that just over 40% of the 170 markets covered by our analysis were likely to deliver “appropriate” returns. However, this analysis was based on a number of potentially conservative assumptions. First, it used required returns that excluded the diversification benefits potentially associated with pan-European portfolio investment. Second, it did not reflect the reduction in the

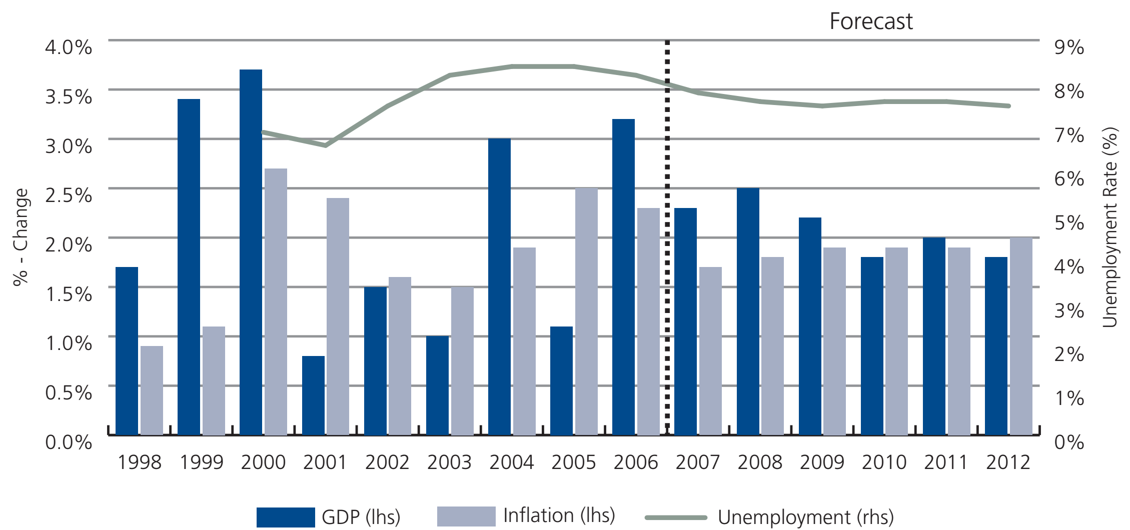
risk-free rate since the end of Q2 2007. Third, our calculations did not reflect any yield changes since the end of Q2 2007.

Taking all these potential changes into account, it is possible to increase the proportion of markets expected to deliver "appropriate" returns to over 70% of our coverage without including the impact of all the adjustments suggested in Scenarios Two and Three. Further opportunities are likely to be presented by the re-pricing of risk associated with recent events. As a result, despite strong performance over the last few years and the clear risks associated with recent developments in the US, the European real estate market continues to offer investors an attractive and diverse range of investment opportunities.

6. Country Summaries

1. Belgium

Figure 1 - Belgian Economics



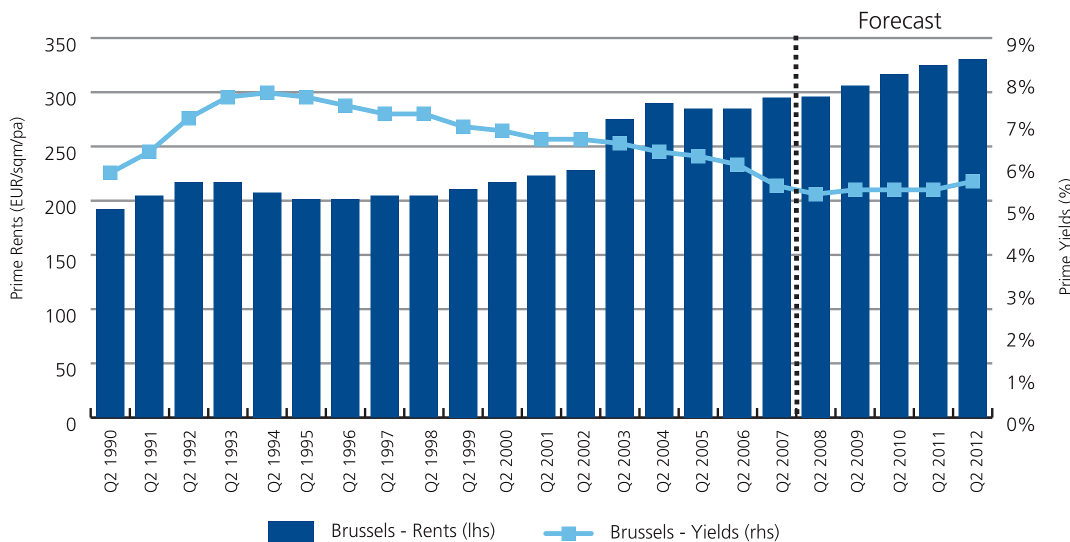
Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

GDP data for Q2 2007 suggest that the Belgian economy is beginning to slow although private consumption remains robust. Nevertheless, growth in 2007 and 2008 should continue to be strong as the economy is not limited by capacity constraints, and this will underpin a further reduction in unemployment. From 2009 growth is likely to slow as capacity becomes a bigger issue. Growth in consumer expenditure is expected to slow as a result of rising interest rates but the improving labour market should offset the impact of this slowdown. There is little evidence of any long-term inflationary problems within the Belgian economy, with recent increases due to higher excise duties on tobacco and environmental taxation.

We forecast that over the next five years GDP growth will average 2.1% pa, marginally below the euro zone average and that inflation will average 1.9% pa over the same period.

Figure 2 - Belgian Offices



Source: INVESCO Real Estate; DTZ Research (September 2007)

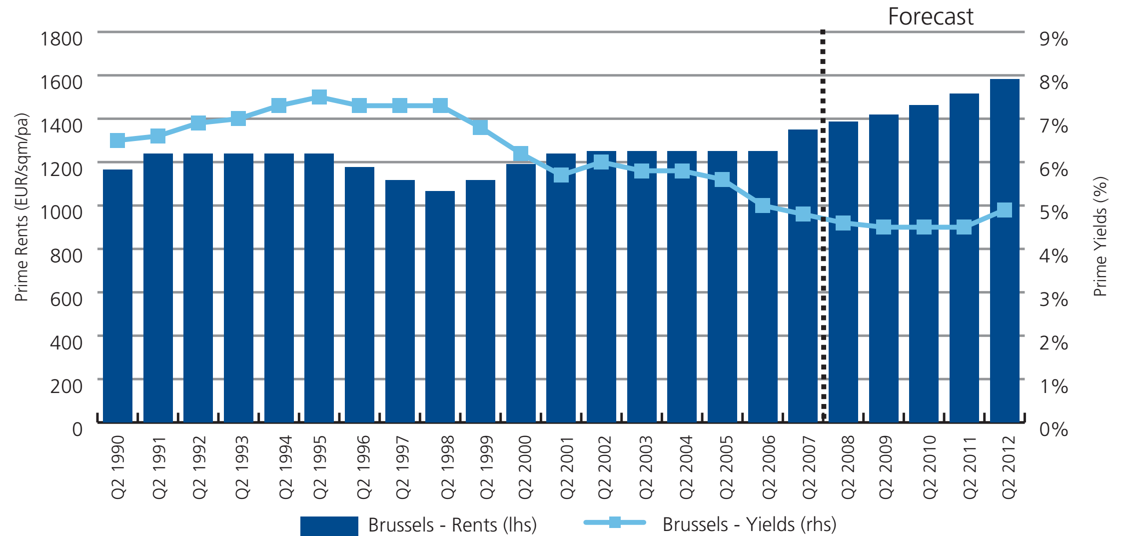
Offices

The private sector continues to be the key driver of office demand. The development pipeline is fairly strong and more than half of the new supply is expected to be speculative. Despite this, availability should be relatively stable as demand is expected to remain robust.

Strong competition between occupiers this year should account for significant rental growth; rents have already risen by 3.5% in the first half of the year. However, the pace of growth will slow as new space comes to market from 2009 onwards. Prime rents are expected to grow by an average of 2.3% pa over the five next years.

The Belgian investment market continues to be characterised by an increase in foreign investment activity. Increased investor competition has triggered yield compression. In Brussels, yields for a prime office building were 5.5% at the end of Q2 2007, down from 5.9% in Q4 2006. Under Scenario One yields are expected to be broadly stable over the five-year forecast horizon, exiting at 5.6% in Q2 2012. Consequently, expected total returns should be broadly in line with our required total return estimate. Under Scenarios Two and Three our forecasts suggest that Brussels offices are likely to deliver total returns in excess of our target rate.

Figure 3 - Belgian High Street Retail



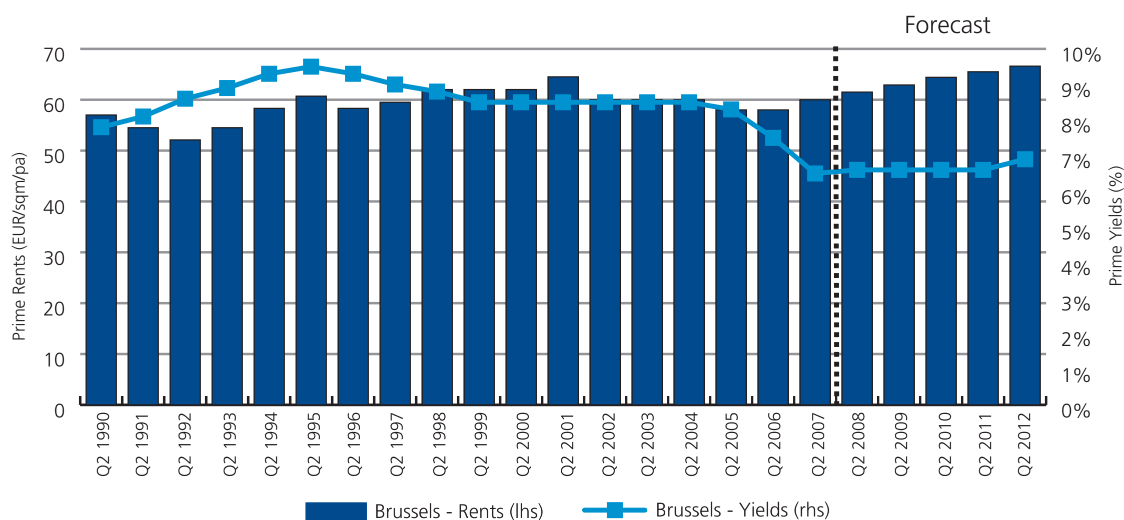
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

Following an excellent 2006 performance when rents grew by 8.0%, Belgian retail rents are expected to grow more slowly in 2007. In the first half of the year rents grew by 1.1%, supported by strong consumer and business confidence. Limited development in recent years has resulted in a shortage of good quality space and, although floor space is forecast to increase by 1.1% pa, this is still well behind the growth of the Belgian economy. We, therefore, forecast that rental values will grow by an average of 3.2% over the next five years.

Belgian high street retail yields were 4.8% at the end of Q2 2007, unchanged from Q4 2006. Investor interest remains strong and supply is limited. Given the robust outlook for rental growth we expect prime yields to fall over the next couple of years but to revert back to current levels by the end of the forecast period. Current shopping centre yields are 4.5% and these are forecast to move out to 4.8% in five years' time, while retail warehouse yields increase from 5.6% to 5.8%. Therefore, while high street shops are forecast to provide attractive returns even under Scenario One, shopping centre and retail warehouse returns are forecast to be broadly in line with the required level but deliver attractive returns under both Scenarios Two and Three.

Figure 4 - Belgian Logistics



Source: INVESCO Real Estate; DTZ Research (September 2007)

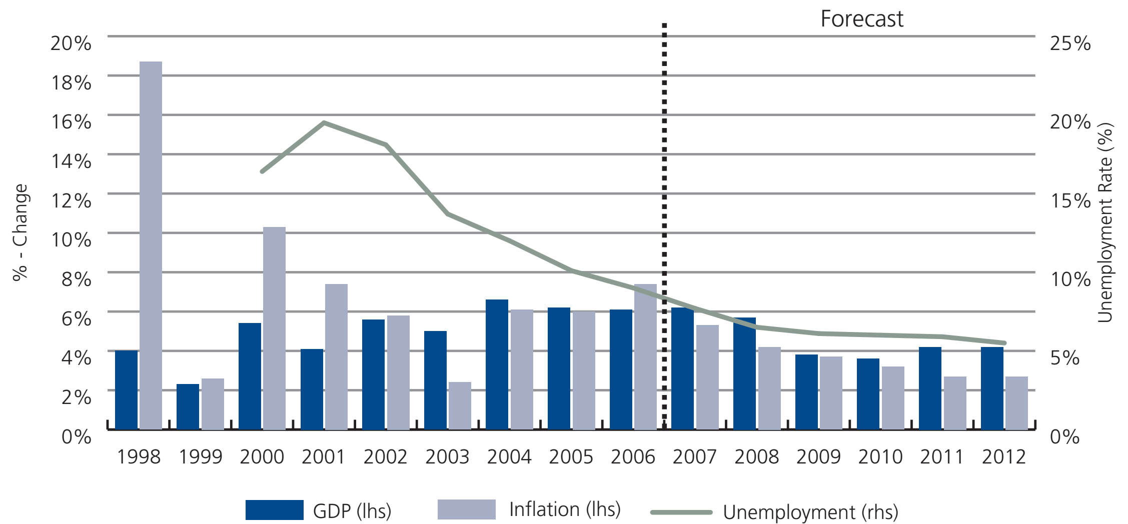
Logistics/Industrial

In Brussels, the shortage of available land is driving up land prices and this has fed through into rental growth of 3.4% in the first six months of 2007. This trend is expected to intensify as major logistics operators seek out large parcels of land for their needs. In addition, the European economic recovery is providing a strong boost to trade in Belgium, which has long been an open economy. Consequently, industrial rents should increase by 2.1% pa over the next five years.

Rising volumes of cross-border activity and a scarcity of high-grade investment product has resulted in a significant reduction in prime yields over the last two years. In H1 2007 prime yields fell from 7.25% to 6.5%. Our analysis suggests that yields have now overshot and we forecast that they will move out again over the next five years to around 6.9%. Total returns under Scenario One are expected to fall short of our required level. Under Scenarios Two and Three,, Brussels logistics are forecast to provide acceptable returns.

2. Bulgaria

Figure 1 - Bulgarian Economics

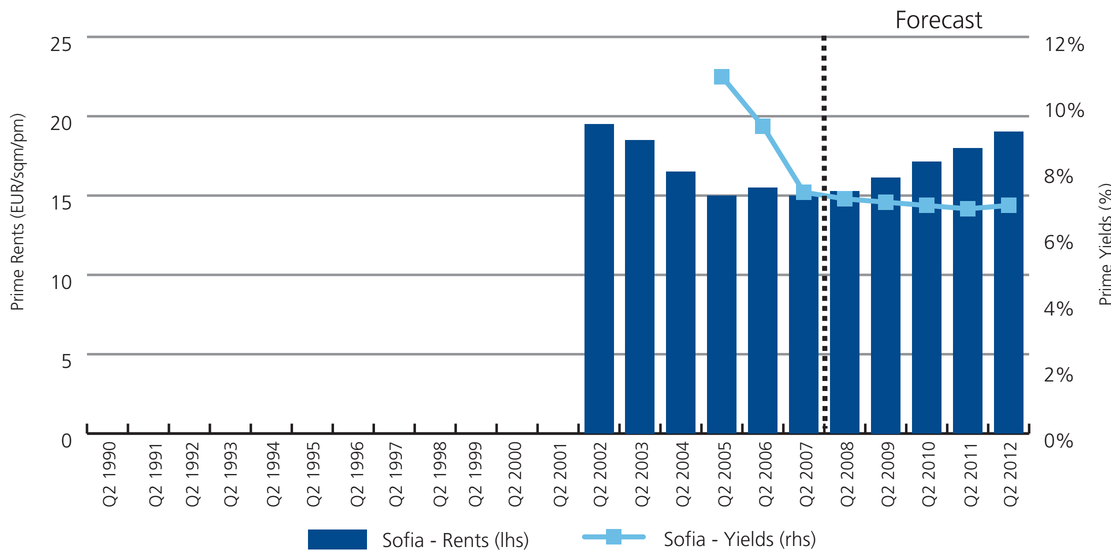


Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

Q1 GDP growth continued to suggest robust economic activity. Year-on-year growth of 6.2% was underpinned by buoyant domestic demand. Gross fixed investment growth was particularly strong. On the downside, concerns are growing that the government's plans to reduce taxation and raise spending could exacerbate the current account imbalance, which could have knock-on effects as a commitment to a large budget surplus is seen as crucial to external confidence in the Bulgarian economy. We expected GDP growth of 6.2% this year and, on average, growth of 4.5% pa over the next five years. Inflation remains quite high but is gradually decelerating. It is forecast to be 5.1% in 2007 and to trend down to around 3.6% in the medium to long-term.

Figure 2 - Bulgarian Offices



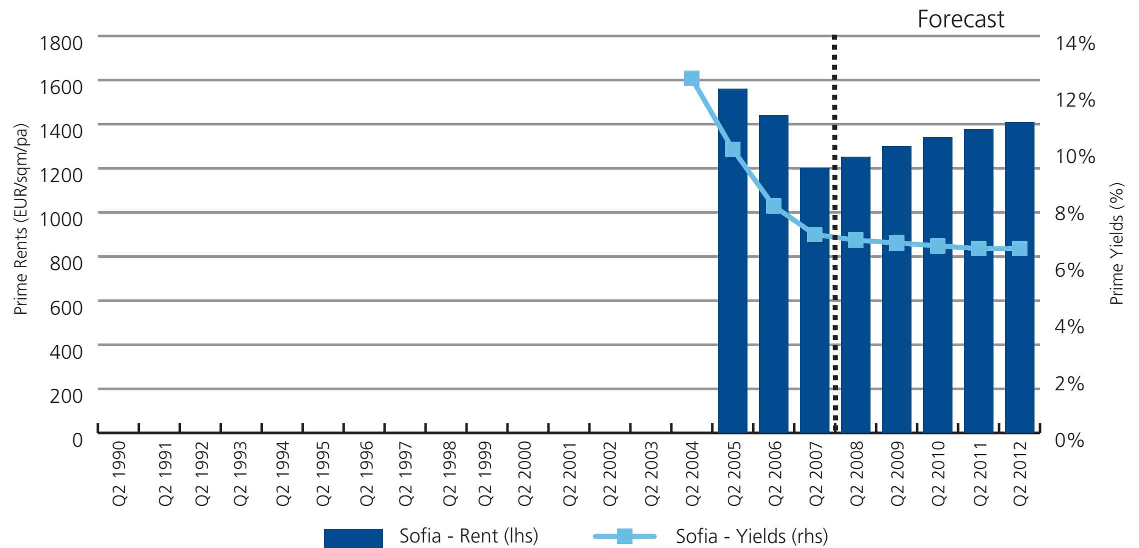
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

Sofia's office stock has grown by an average rate of 7% pa over the last few years. This rate of growth is forecast to continue, leading to a 40% increase in total stock over the next five years. Despite this, we expect the vacancy rate to fall in the short-term but to rise back over 5% by the end of 2011 based on robust demand. As the Sofia market is currently not very transparent, these data should be interpreted with caution. Office rents in Sofia are relatively low at €15.00 sqm m for prime space and when combined with expected changes to vacancy and economic improvements, support our forecast of rental growth of about 4.9% pa over the next five years.

Yields in Sofia are under pressure. EU membership has enhanced the market's attractiveness to foreign capital although, at present there are few institutional quality investment opportunities. In the first six months of 2007, yields fell by 75 bps to 7.25%. We believe that there is further scope for yields to harden and, at exit in five years' time, they are forecast to have fallen to 6.9% under Scenario One. Under all three scenarios, the combination of strong rental growth and inward yield shift from a relatively high current yield leads to total returns that are comfortably in excess of our target rate.

Figure 3 - Bulgarian High Street Retail



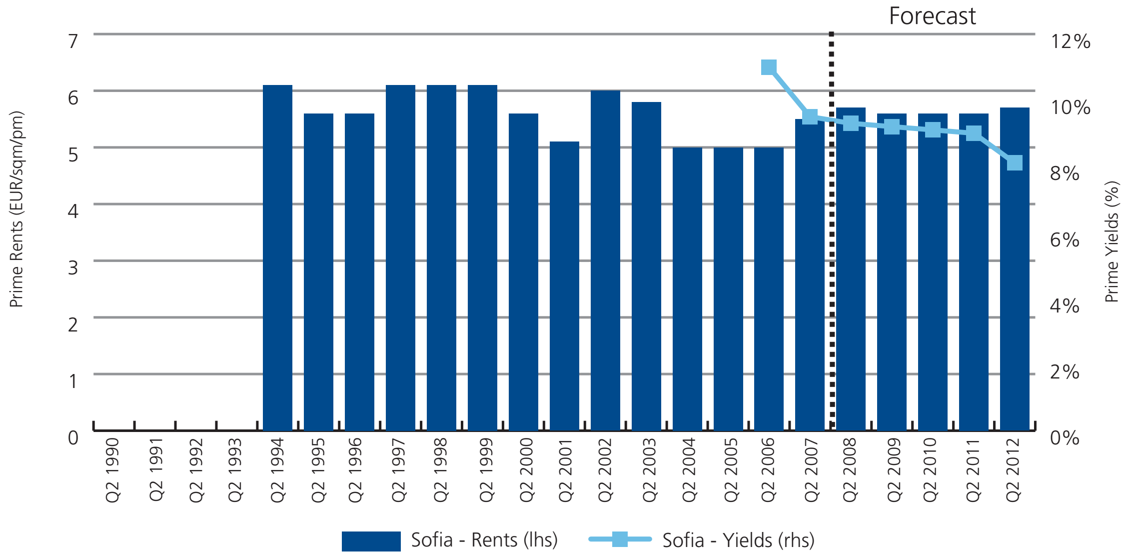
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

Prime rents in Sofia have been quite volatile over the past few years, which can be largely explained by development activity. This is likely to continue, with no developments scheduled for completion in 2008, but two large schemes scheduled for 2009. To model rental growth, we looked at the relationship to GDP growth as a proxy for purchasing power. Our resulting forecast suggests average rental growth for standard shops of 3.3% pa over the next five years, while shopping centre rents are forecast to grow by 2.7% pa as the market reaches saturation.

Standard shop yields are currently 7.0%, a 50 bps reduction from their level in Q4 2006. Shopping centre yields are lower at 6.5%.   We forecast that in five years' time both retail formats will achieve yields of 6.5%. With strong rental growth and inward yield shift, total returns for high street shops should comfortably exceed the target rate of return, while for shopping centres the stable yield profile of Scenario One results in total returns broadly in line with required levels. Under Scenarios Two and Three, shopping centres also provide attractive total returns in excess of the target level.

Figure 4 - Bulgarian Logistics



Source: INVESCO Real Estate; DTZ Research (September 2007)

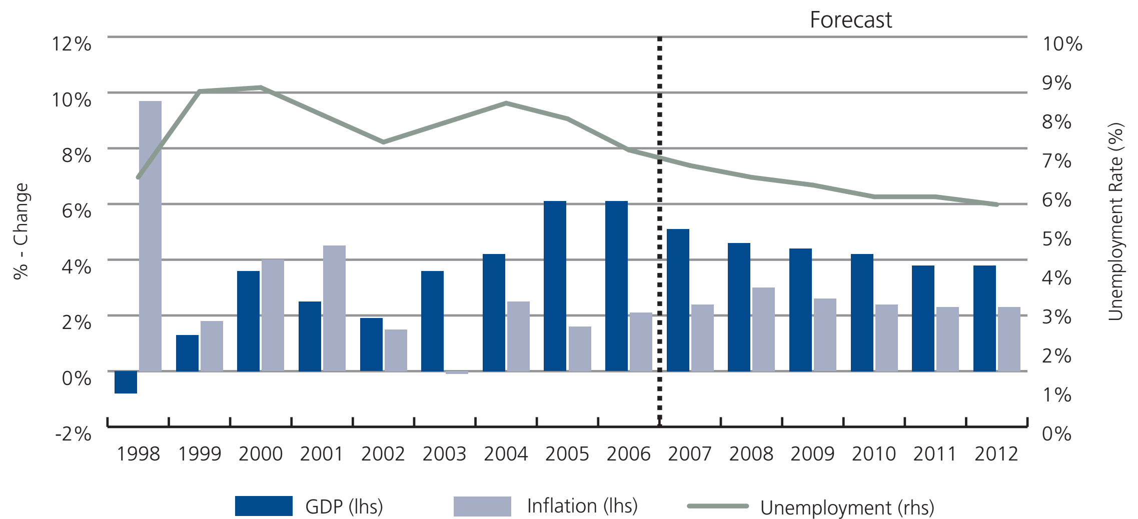
Logistics/Industrial

Rents for industrial space in Sofia have been broadly stable since mid-2004 at around €5.00 sqm m. Our data suggest that in H1 2007 rents increased by 10% to €5.50 sqm m, although the reliability of this suggested change is open to question. The demand for good quality space is gradually increasing but with very little speculative development, most occupiers choose build-to-suit solutions. Key tenant groups such as retailers and third party distributors are cost conscious and, therefore, pressure on rents is likely to remain weak. We forecast that rents will grow on average by only 0.6% pa over the next five years as the market absorbs the recent rent increase and supply remains very flexible.

Yields are currently 9.5%, which is relatively high but at present there have been few, if any, deals relating to institutional quality stock. This should change as speculative development increases and there is a gradual shift from the dominant position of owner-occupation. In Scenario One, we therefore expect yields to harden and to exit at 8.1% in five years' time. Despite poor rental growth prospects, the significant inward yield shift is sufficient to deliver strong total returns well above the required return suggested by all three scenarios.

3. Czech Republic

Figure 1 - Czech Economics



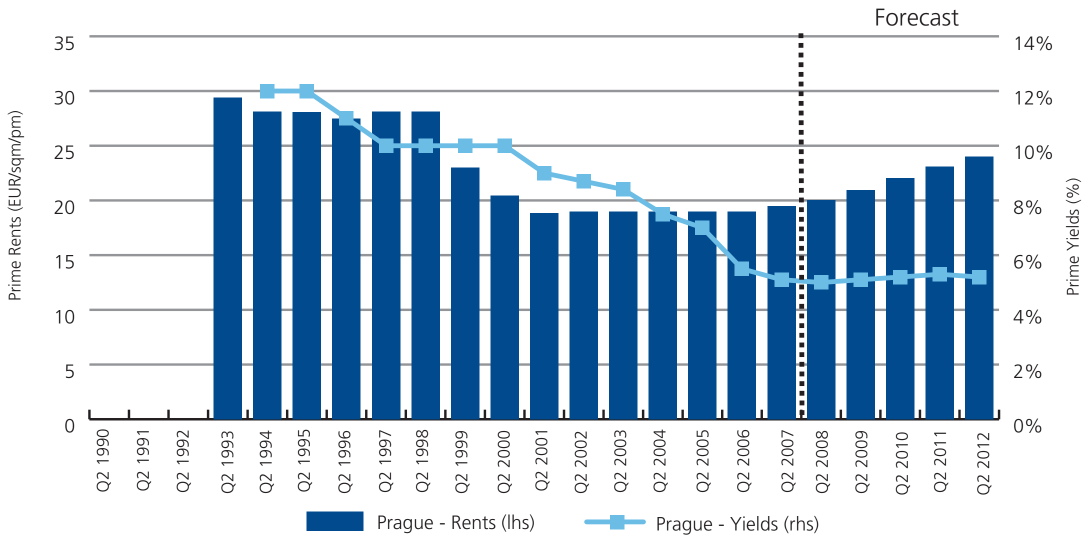
Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

GDP growth in the Czech Republic continues to out-perform the EU average. In 2006 economic growth was mainly driven by private consumption and investment. Private consumption is benefiting from a combination of a sustainable increase in purchasing power and a decreasing unemployment rate. The Czech economy will also benefit from increasing investment in infrastructure (via EU subsidies) and from national and international companies investing in new and/or improved production lines.

The main downside risk to the Czech economy remains its political governance. Although the government has regained its official status, the ruling party does not have a majority in the parliament and, therefore, further reforms could prove difficult to implement. We expect GDP growth to reach 5.1% in 2007 but to gradually slow to an average of 4.3% pa over the next five years. Our forecasts could be on the conservative side as preliminary data for Q2 2007 suggest that the Czech economy continues to expand at a much faster rate than expected. We expect inflation to reach 2.4% this year and 3.0% in 2008. After peaking in 2008, inflation should stabilise at around 2.3% pa. The rise in 2007 and 2008 is caused by accelerating prices, a strong koruna, a healthy fiscal position and robust domestic demand.

Figure 2 - Czech Offices



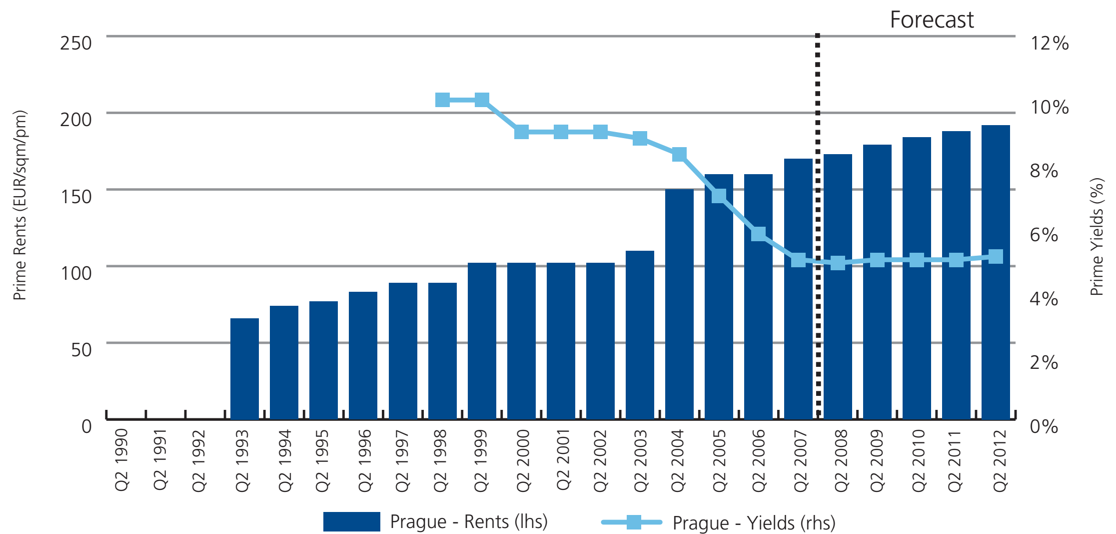
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

Gross take-up was very strong in 2006 and, as a result, the vacancy rate fell below 8% by the year-end. Continued strong take-up in the first half of 2007 has reduced the vacancy rate in Prague to 5.5% and prime rents have increased by 2.6%. However, development activity is increasing and a considerable amount of space is forecast to be delivered to the market in 2008, including speculative space. Despite this, strong economic growth should generate demand for office space and support rental growth. Over the next five years prime rents are forecast to grow by an average of 4.2% pa.

Prime yields decreased by 20 bps in H1 2007 and are now at 5.1%. Strong investor demand and the expectation of robust rental growth may push yields lower in the short-term but, by the end of our forecast period, we expect them to be broadly in line with current levels. Under Scenario One, healthy rental growth and stable yields should generate returns that are close to the required level, while Scenarios Two and Three suggest total returns well in excess of the required level.

Figure 3 - Czech High Street Retail



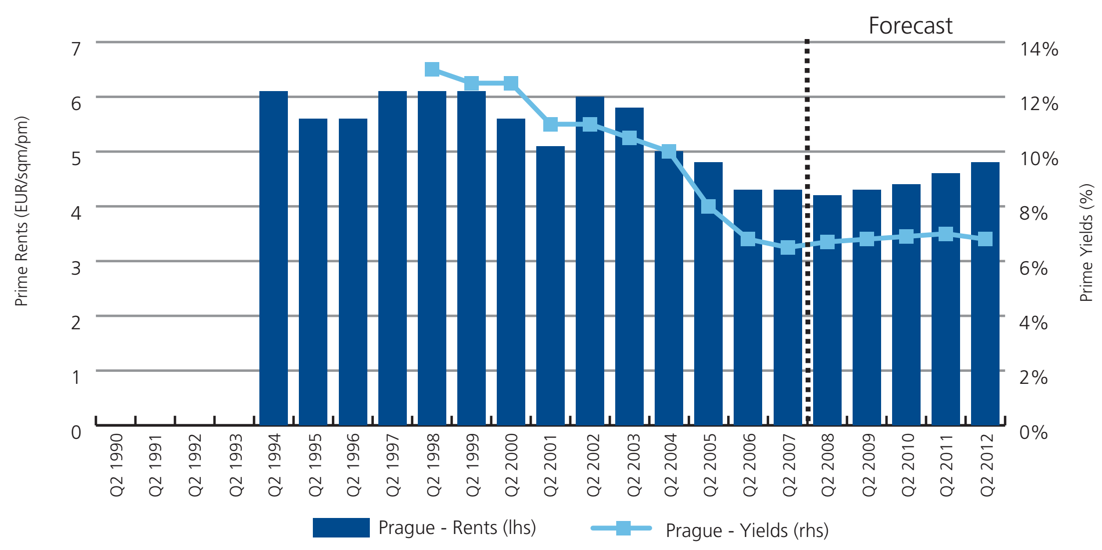
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

Following a rental boom between 2002 and 2005, retail rents in Prague have begun to settle, partly due to high levels of new supply that were delivered to the market in 2005 and 2006. Future stock growth will be more moderate and, therefore, we forecast that high street rents will grow by 2.5% pa on average and by 3.5% pa for shopping centres over the next five years. This rate of growth is below the strong historic growth level but, nevertheless, well above the inflation rate. Rental growth in the retail warehouse sector will be much weaker at 1.8% pa as plentiful supply reduces upward pressure on rents.

Strong investor demand has driven yields for high street retail down by 30 bps over the first six months of 2007. Prime yields are now at 5.0% for standard shop units, 5.5% for shopping centres and 6.25% for retail warehouses. For all three retail sub-markets we forecast that yields will remain broadly unchanged over the next five years. However, our recommendations vary by sub-sector largely due to the difference in rental growth outlook. Under Scenario One, standard shop units are forecast to produce returns broadly in line with our required level, shopping centres should generate returns that are well in excess of their hurdle rate, while the forecast returns for retail warehousing will fall short of the required level. Scenarios Two and Three suggest that returns from standard shop units could also be comfortably in excess of the required level, while retail warehouses could deliver acceptable returns.

Figure 4 - Czech Logistics



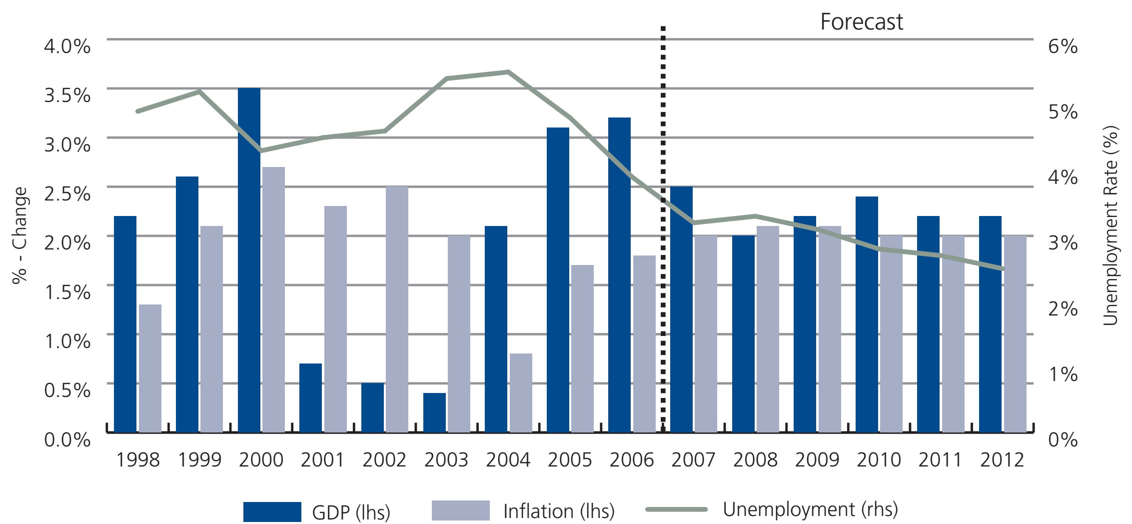
Source: INVESCO Real Estate; DTZ Research (September 2007)

Logistics/Industrial

Prime logistics/industrial rents in Prague have remained unchanged since the end of 2005. A flexible supply side is able to match occupier demand and, therefore, prevents rents from increasing significantly. However, given the continuing strength of the Czech economy, we expect moderate rental growth of 2.3% pa over the next five years, which is slightly below inflation. Despite the limited prospects for rental growth, investors continue to look for prime investment opportunities in Prague. However, over the past six months prime yields have remained stable at 6.5%. In the next five years we expect yields to move out moderately to 6.8%, driven mainly by weak real rental growth expectations. As a result, under Scenario One we expect a total return that is well below our required level return. Only under Scenario Three do our forecast returns come close to meeting the required level.

4. Denmark

Figure 1 - Danish Economics



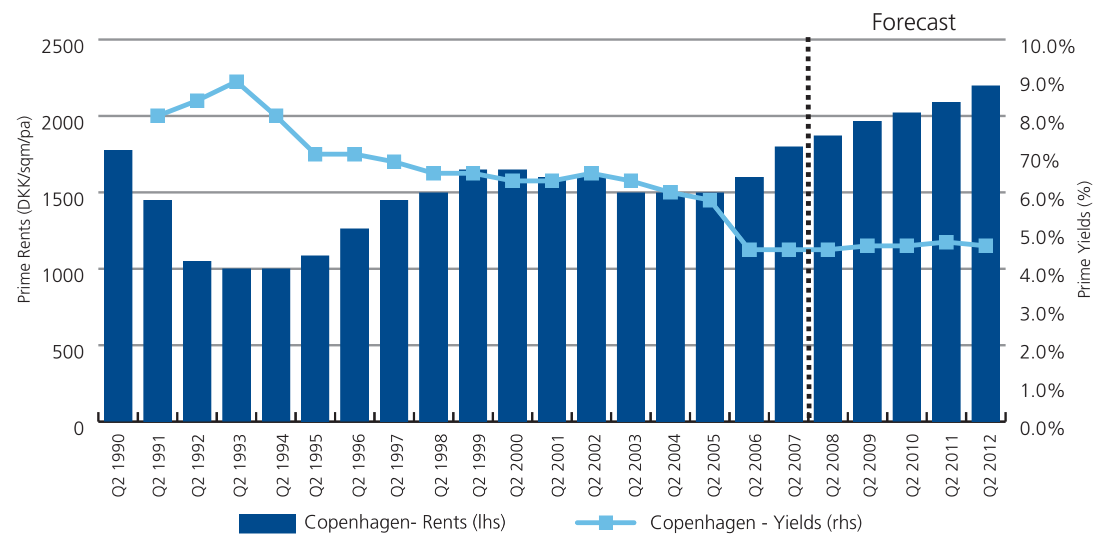
Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

After two years of exceptionally strong growth (3.1% in 2005 and 3.2% in 2006), the Danish economy is expected to slow in 2007 to 2.5% as rising interest rates and a cooling housing market depress private consumption and investment. In Q2 2007, GDP growth fell by 0.4% quarter-on-quarter, suggesting that the slowdown could be more dramatic than expected. However, government spending is forecast to rise in anticipation of an election at the end of the year and this may help to underpin growth.

A slowdown could be beneficial to the economy as it is currently suffering from significant capacity constraints and shortages of skilled labour in a broad range of sectors. Unemployment levels are low and, consequently, there are increasing wage pressures. Inflation stands at around 2% and is projected to remain at this level throughout 2007 and 2008, but could rise given the pressures in the labour market. Over the next five years we forecast that the Danish economy will grow by 2.2% pa on average.

Figure 2 - Danish Offices



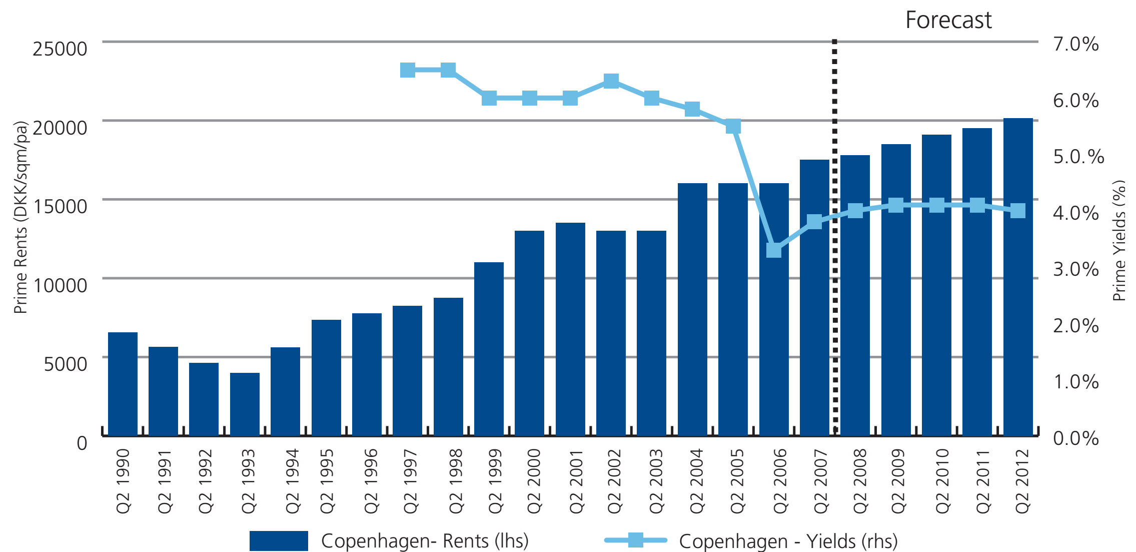
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

The current vacancy rate in Copenhagen is low at 4.3% and recent development has been limited. Most activity has been outside the traditional CBD in mixed use schemes at locations such as the New CBD (Waterfront), North Harbour and Ørestad. Occupiers wanting good quality space do not seem to be put off by non-CBD locations as Copenhagen is a relatively compact city with good transport links. Rents increased by 5.9% in H1 2007 and strong growth is forecast to continue into 2008 as there is little sign that development activity is increasing markedly. We, therefore, expect rents to rise by 4.1% pa on average over the next five years, despite the slowdown in GDP growth.

The investment market is dominated by local investors. Entry barriers are high with prime yields among the lowest in Europe. However, recent interest rate rises have dampened domestic demand and yields moved out from 4.0% at the end of 2006 to 4.5% at the end of Q2 2007. We expect marginal further outward pressure on yields over the next five years and our forecast exit yield is 4.6%. Strong rental growth will compensate for a low and increasing yield and we forecast that returns will be broadly in line with the required level under Scenario One. Scenarios Two and Three suggest that returns could significantly exceed the required level.

Figure 3 - Danish High Street Retail



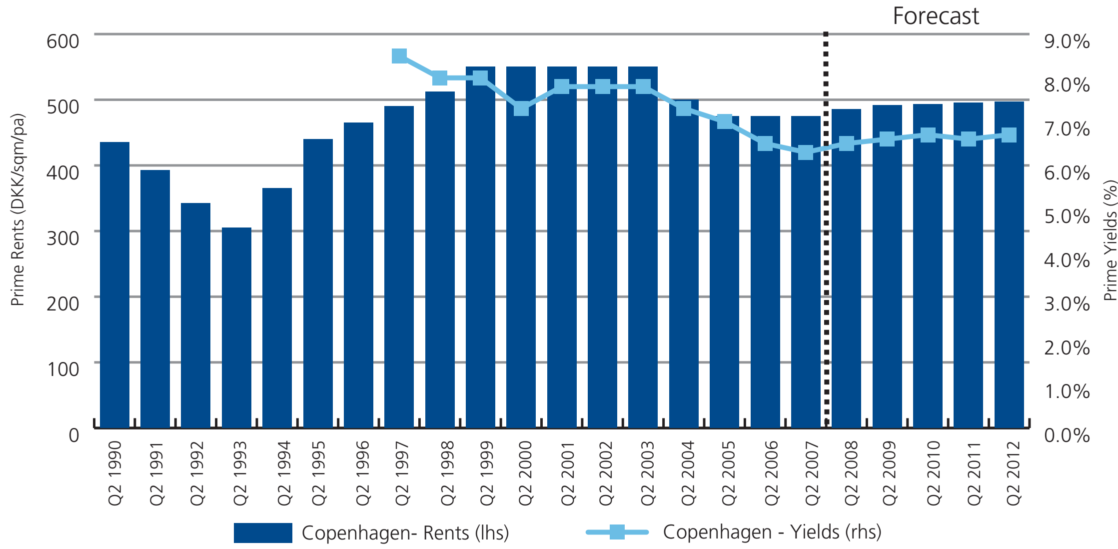
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

Driven by international retailer demand and robust consumer spending growth, prime standard shop units experienced strong rental growth in 2006 and this continued into 2007, with H1 growth of 5.8%. However, higher interest rates are forecast to limit consumer spending growth and this will eventually feed through into weaker rental growth at the end of the forecast period. On average, we forecast rental growth of 2.9% pa over the next five years. Rental growth in shopping centres is forecast to be slightly higher at 3.2%, while retail warehouse rental growth lags behind at only 2.0% pa.

The lack of available product has driven domestic investors to look for retail investment opportunities abroad and prime standard shop unit yields have drifted out from 3.5% at the beginning of the year to 3.75%. Our analysis suggests that yields are currently too low and in a rising bond rate environment there will be pressure on them to move up, despite reasonably good rental growth prospects. Therefore, the exit yield on standard shop units in five years' time is forecast to be 4.0% and expected returns are forecast to be well below the required level under Scenario One. Shopping centre returns are forecast to be close to required levels, but retail warehousing is also forecast to have returns that are well below the required return. Under Scenario Two all three retail sub-markets produce acceptable returns and under Scenario Three shopping centres should generate total returns well in excess of the required level.

Figure 4 - Danish Logistics



Source: INVESCO Real Estate; DTZ Research (September 2007)

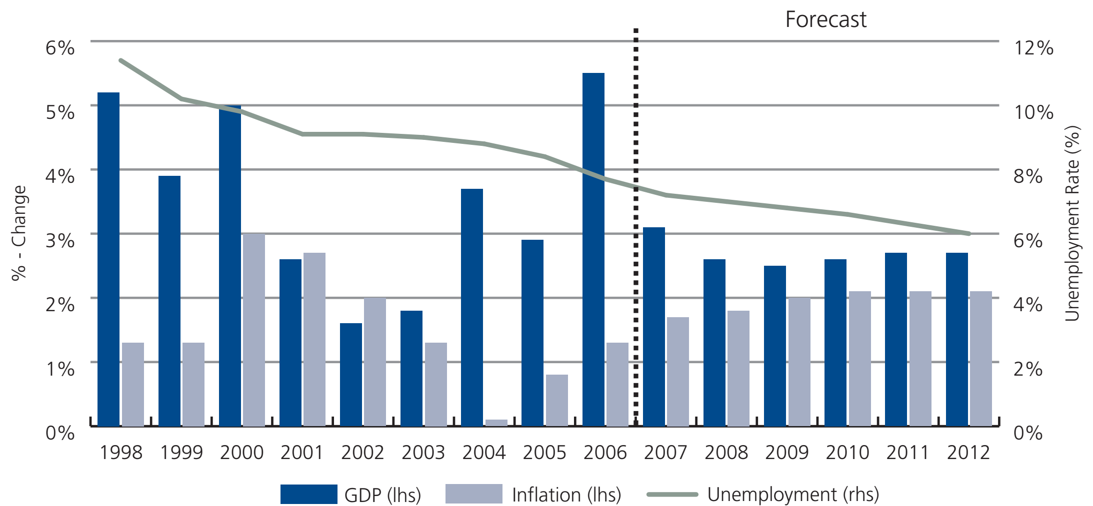
Logistics/Industrial

In H1 2007 logistics rents remained stable at €475 per sqm pa. However, confidence in the market has been dented by Lego's decision to relocate its pan-European distribution centre to the Czech Republic, driven by the need to cut costs. Capacity constraints in the economy may well force other Danish occupiers to consider relocation elsewhere in Europe. With demand likely to be weak, we expect rents to grow by only 0.9% pa over the next five years.

Yields have been under pressure as overseas investors are keen to acquire logistics space in Denmark and prime Danish logistics yields in some parts of the country may be as low as 5.5%. However, in Copenhagen yields tend to be higher due to the lack of institutional quality logistics space. They increased by 25 bps to 6.25% in H1 2007. We forecast that yields in Copenhagen will increase to 6.7% in five years' time and the combination of weak rental growth and outward yield shift will generate total returns that are well below our hurdle rate. Only in Scenario Three do forecast returns come close to required levels.

5. Finland

Figure 1 - Finnish Economics



Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

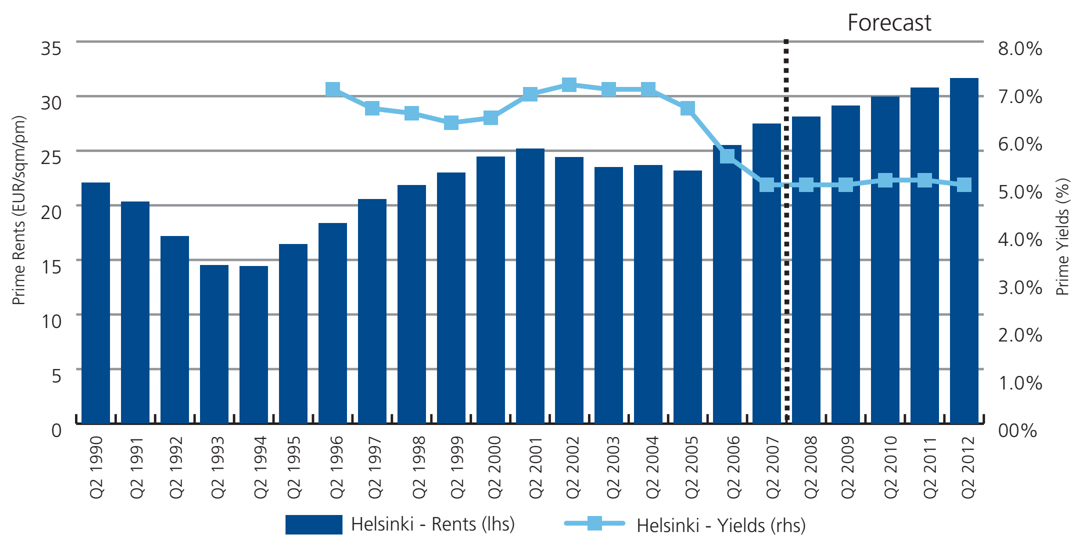
Economy

The Finnish economy remains one of the fastest growing in the euro zone. Q2 GDP growth was up by 4.1% year-on-year but has slowed when compared with a rate of 5.5% at the end of 2006. Part of the strength of the economy comes from global boom in demand for natural resources, but Finland is also recording strong manufacturing, service sector and consumer expenditure growth. Rising interest rates have begun to impact on consumer spending, but unemployment continues to fall and consumer confidence remains robust.

There are some concerns regarding the Finnish economy, not least the importance of the primary sector. In addition, there is evidence of capacity constraints and this is feeding through into wages and therefore productivity and competitiveness. As Finland is part of the euro zone, it may be a concern that euro zone interest rates prove inappropriate and the Finnish government will need to introduce fiscal tightening. We forecast that inflation will trend upwards from a low base of 1.3% in 2006 to 2.1% in the medium-term.

Our forecast of GDP growth of 3.1% this year now looks a little on the low side and the Consensus has increased to 3.4%, although even this looks light given recent performance. Over the five-year forecast horizon, growth is forecast to average 2.7%, which continues to be comfortably above the euro zone average.

Figure 2 - Finnish Offices



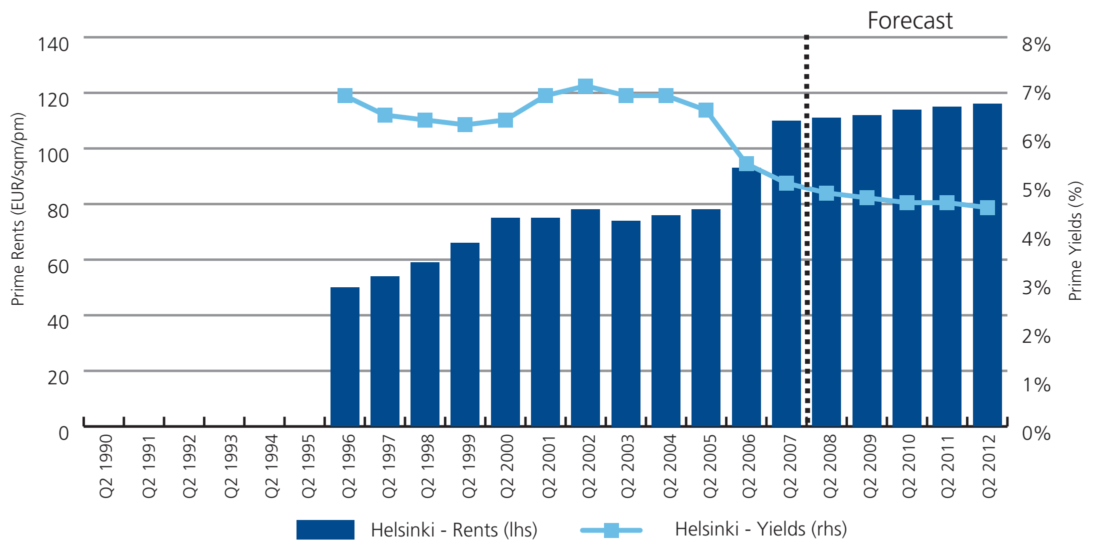
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

Prime rents in Helsinki grew by 5.8% in H1 2007 despite a relatively high vacancy rate of 7.7%. This is because a two tier market is developing with demand focussed on prime space, which is in relatively short supply, while buildings of lesser quality are proving hard to let. There is evidence that the development pipeline is beginning to respond to the pressures in the market and we expect supply and demand to remain broadly balanced with vacancy levels remaining around the 8% level throughout our forecast horizon. Prime rents are expected to grow by 2.9% pa over the next five years.

Yields fell by 25 bps to 5.0% over the first six months of this year. Given our expectation of robust investor demand from domestic and overseas investors, yields are likely to remain stable over the next five years. The combination of stable yields and real rental growth generates total returns which are broadly in line with the required return under Scenario One. Only under Scenarios Two and Three are returns forecast to significantly exceed the required rate.

Figure 3 - Finnish High Street Retail



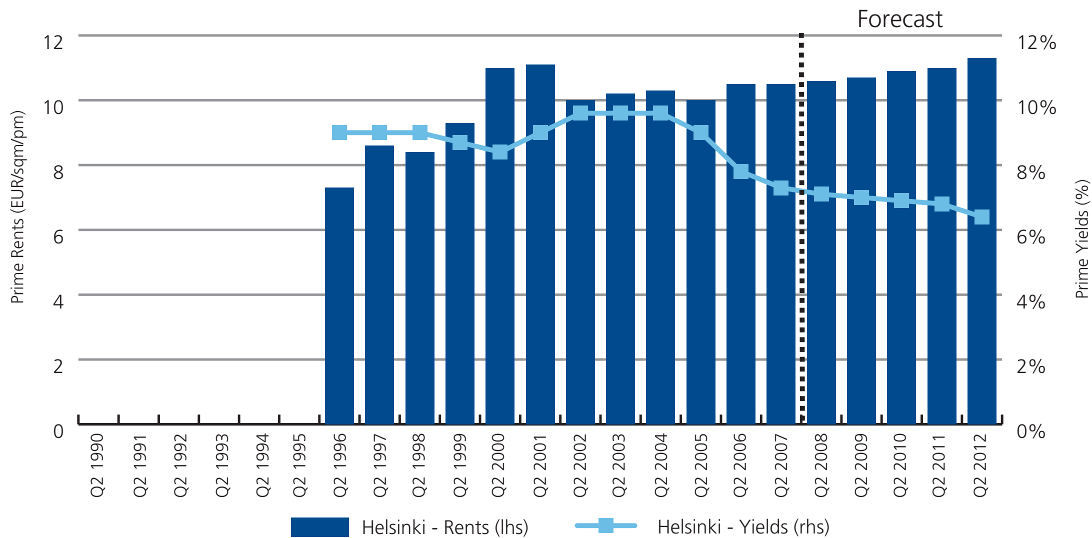
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

Strong consumer spending growth, limited supply and robust occupier demand underpinned rental growth of 10% in H1 2007. However, with rising interest rates beginning to have an impact on consumers' expenditure and an easing of demand from international retailers, the pace of growth is expected to slow. Within Helsinki city centre there is a considerable level of ongoing refurbishment and redevelopment and this may also act as a break on rental growth, although in the longer run it could enhance the quality of the city centre retail offering and generate more growth. Rents are, therefore, forecast to grow on average by 1.1% pa over the next five years.

Standard shop unit yields fell by 50 bps to 5.0% in the first six months of the year. Shopping centre yields are currently 4.75%. Ongoing investor interest in the Nordic economies is likely to lead to further yield compression. Under Scenario One we forecast that standard shop unit yields will have fallen to 4.5% in five years' time, but that shopping centre yields will have drifted out slightly to 4.9%. As a result, forecast returns for standard shop units are forecast to be broadly in line with required returns, but shopping centres are unlikely to deliver attractive total returns over the next five years. Under the assumptions of Scenario Two, returns on Helsinki standard shop units are forecast to exceed the required rate, but only under Scenario Three does the shopping centre sector generate total returns that are close to our required level.

Figure 4 - Finnish Logistics

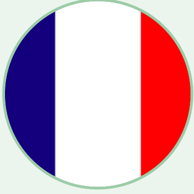


Source: INVESCO Real Estate; DTZ Research (September 2007)

Logistics/Industrial

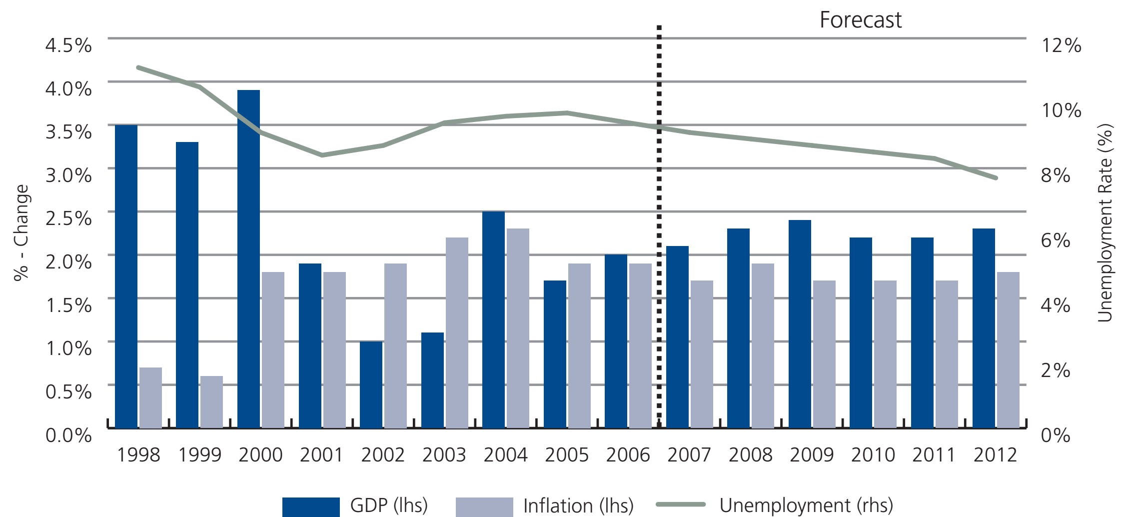
Logistics prime rents at €10.50 psm m are among the highest in Europe, but are broadly in line with other Nordic markets with the exception of Copenhagen. Over the first six months of 2007 prime logistics rents were unchanged. Helsinki's market has been boosted by its port, which connects Finland with the thriving economies of the Nordics, the Baltics and Russia. The completion of the new Vuosaari harbour, which is scheduled to be operational at the end of 2008, will further enhance Helsinki's status as a key logistics location in the Baltic region. However, supply is plentiful and development is able to respond swiftly to demand and, therefore, rents are forecast to grow by only 1.4% pa over the next five years.

Prime yields were down by 25 bps to 7.25% in H1 2007, but a lack of product has limited investment. However, with the development of the new harbour, developers and investors are being attracted to the market. Under Scenario One we forecast that yields will fall significantly to 6.4% by Q2 2012 as more institutional quality product attracts investors and yields converge with those in other European logistics markets. The strong yield compression means that Helsinki logistics are likely to deliver very attractive returns over the next five years under all three scenarios.



6. France

Figure 1 - French Economics



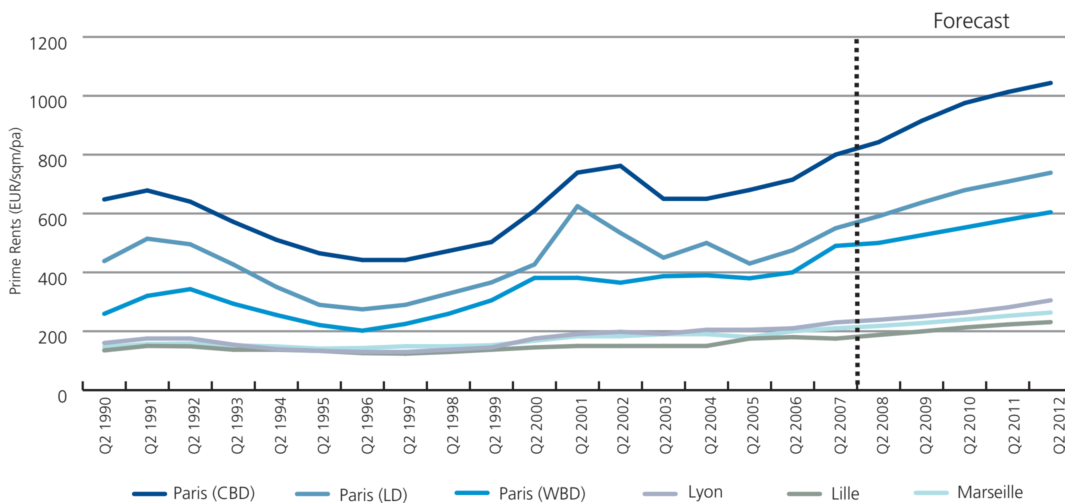
Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

The French economy is forecast to grow by 2.1% this year, broadly in line with the 2006 figure of 2% but below the euro zone average of 2.6%. The key driver of the French economy is consumer spending and French households' purchasing power is forecast to improve thanks to stronger wage growth, higher social benefits, lower unemployment, tax cuts and weaker inflation. With household confidence running high, we expect consumption to grow by 2.2% in 2007 and 2.4% in 2008. There are still several factors that continue to weigh on the economy: a slowdown in investment activity (3.2% anticipated in 2007 down from 3.7% in 2006) and poor export performance. But French exports should gradually benefit from the expected recovery in German household spending.

Over the past few years, the French economy has underperformed against many of its counterparts. President Sarkozy's proposed measures, based on demand stimuli, to revitalise France's economy could have a positive impact on growth. However, in a country where unions have a great deal of power, the new president's reforms may prove too ambitious, thus limiting economic upside.

Figure 2 - French Office Rents



Source: INVESCO Real Estate; DTZ Research (September 2007)

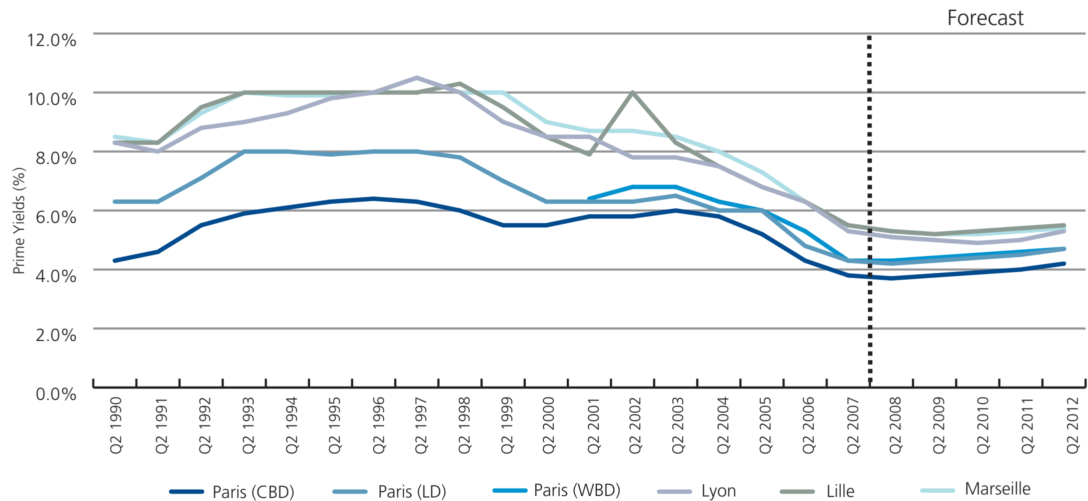
Offices

The French office market is well balanced thanks to solid economic and employment growth within the service sector. Demand remains robust and vacancy rates low. In Paris, strong demand combined with limited new office developments will lead to a further reduction in vacancy and continued pressure on rents. Therefore, we forecast that prime rents will increase on average by between 4.5% and 6.5% pa across the Paris sub-markets over the next five years, with growth peaking in 2009.

Rental growth is likely to be strong even in well supplied markets such as the Western Business Districts (WBD) as the aggregate vacancy rate for Ile de France remains low. In the regions, supply remains limited and, with little new supply due for completion over the next two years, vacancy is likely to fall further. When combined with robust levels of demand, our vacancy forecasts lead us to expect strong rental growth in French regional centres.

During H1 2007, prime yields in central Paris were driven down to 3.75%, largely due to demand from wealthy private investors. We forecast that as the rental growth cycle in the Paris market peaks, prime yields in Paris will drift out and, on exit in five years' time, yields will be 40 bps higher than the current level. However, strong rental growth will offset the impact of the outward yield shift and, with the exception of the WBD, Paris office markets are forecast to produce total returns broadly in line with our required returns. Yields in the regional markets are forecast to remain

Figure 3 - French Office Yields



Source: INVESCO Real Estate; DTZ Research (September 2007)

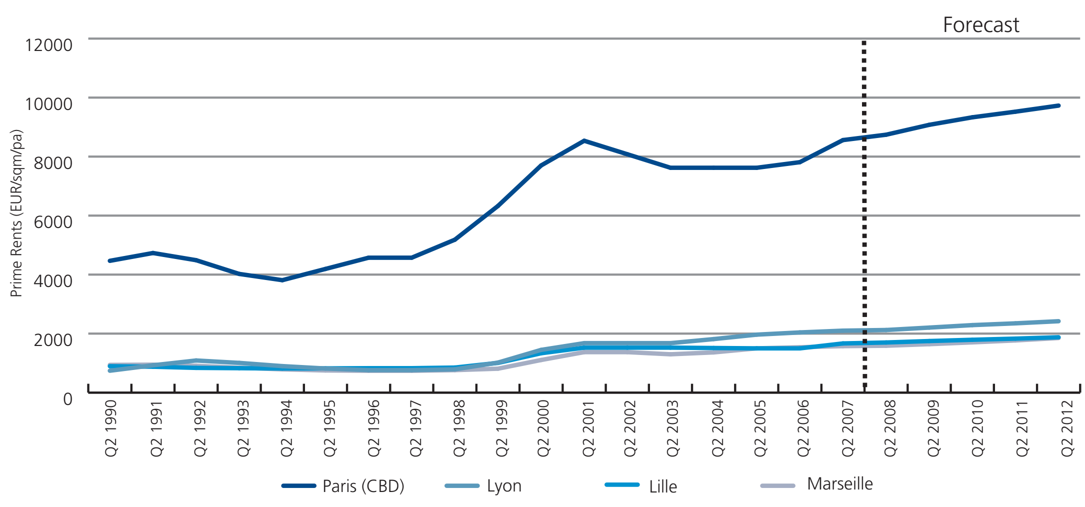
stable as the pattern of forecast rental growth is much less volatile. As a result, total returns in these markets should out-perform the required return by at least 130 bps pa under Scenario One. Under Scenarios Two and Three, all French office markets are expected to generate attractive returns well in excess of our required levels.

Retail

France is Europe's largest retail market in terms of stock. Both consumption and retail sales are expected to remain robust, suggesting strong occupier demand. However, retailers have become more demanding in terms of unit specification and location, but also more cautious of costs. This suggests that rents are likely to grow in the best locations, but may struggle for poorer quality units and more secondary locations. We forecast that rents for standard shop units will grow by between 2.4% and 3.3% pa over the next five years. In general, rental growth in shopping centres and retail parks is expected to be stronger than for standard shop units, as these markets continue to be constrained by strict planning regulations.

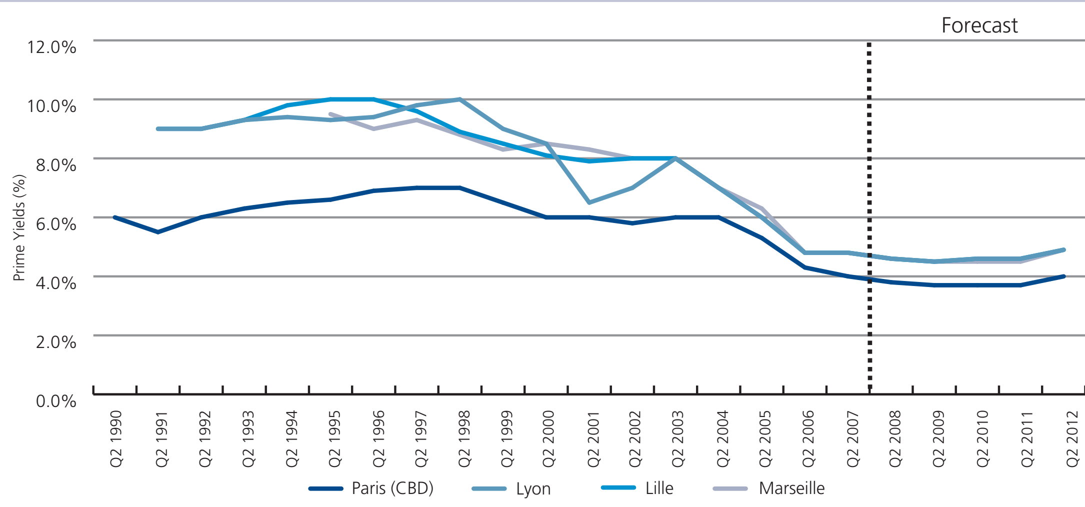
Buoyant investment activity has driven shopping centre and retail park yields down by 50 bps over the past six months to 4.0% to 4.25% and 4.5 to 4.75% respectively, but standard shop yields have remained stable following two years of significant inward movement. Under Scenario One, we expect standard shop yields to remain broadly flat while yields for shopping centres and retail parks look expensive and will increase by 20 to 50 bps over the next five years. Standard shops are forecast to generate returns well in excess of the required level, while shopping centres should

Figure 4 - French High Street Retail Rents



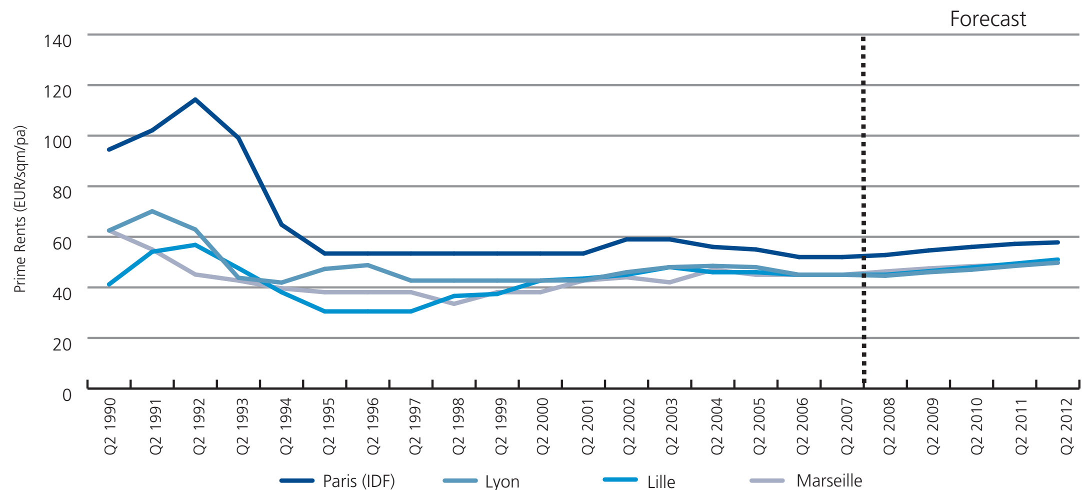
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Figure 5 - French High Street Retail Yields



Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Figure 6 - French Logistics Rents



Source: INVESCO Real Estate; DTZ Research (September 2007)

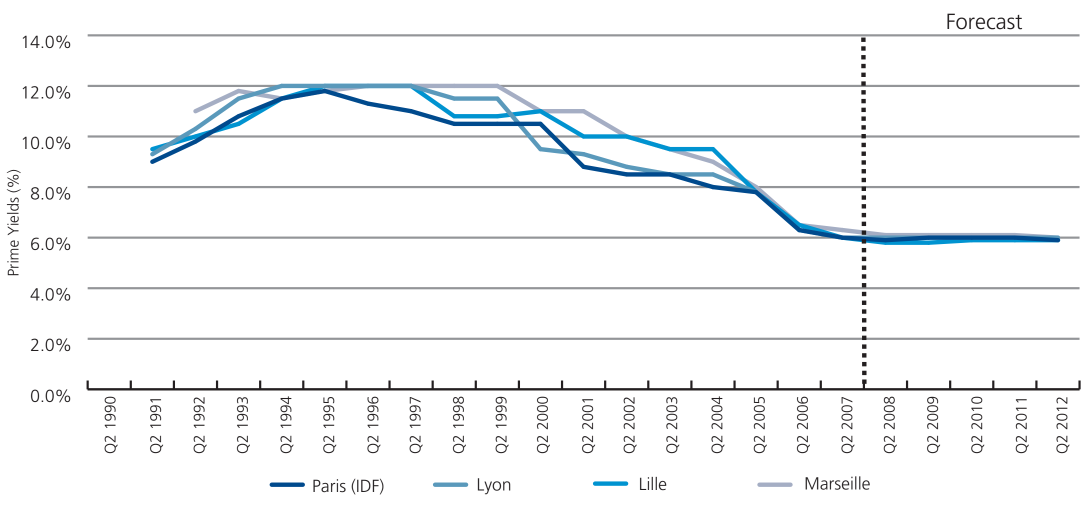
produce returns broadly in line with our required level, and retail parks will under-perform. Under Scenario Two, shopping centres also generate returns in excess of our required level; under Scenario Three, all three sub-markets produce strong returns.

Logistics/Industrial

The French warehouse market is essentially focussed on the North-South axis from Lille to Marseille and is broadly homogeneous in terms of both rents and yields. Although supply appears plentiful, it is dominated by poor quality older stock that needs to be redeveloped to fulfil the demand for good quality space. As a result, there is considerable development activity, which will improve the quality of supply. Despite robust occupier demand, rents have remained flat since the end of 2005. The prime rent is €52 sqm pa in the Ile de France and €45 sqm pa in the regional markets, which are strong hubs for logistics and distribution in France. Given the improvements expected for the French economy over the next five years, we expect rents to increase on average by 2% pa.

With prime yields of around 6%, French logistics/industrial space remains attractive to income focused investors. However, we believe that the repricing of the past few years has reached its end and, over the next five years, yields will remain broadly stable. The combination of steady rental growth and flat yields produce total returns, which are broadly in line with the required return under Scenario One. However, under Scenarios Two and Three both Lille and Marseille could generate total returns well in excess of our required level.

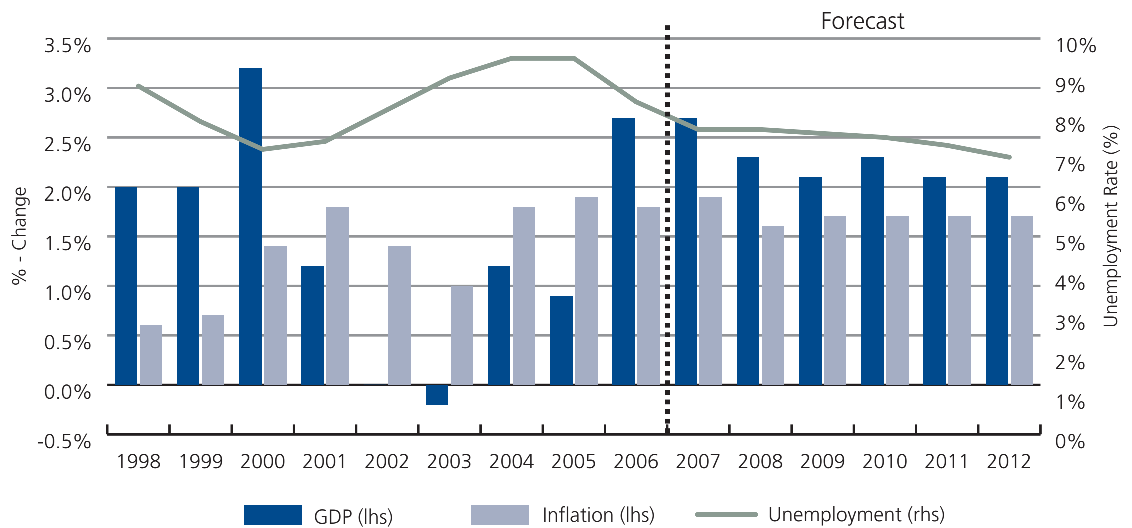
Figure 7 - French Logistics Yields



Source: INVESCO Real Estate; DTZ Research (September 2007)

7. Germany

Figure 1 - German Economics



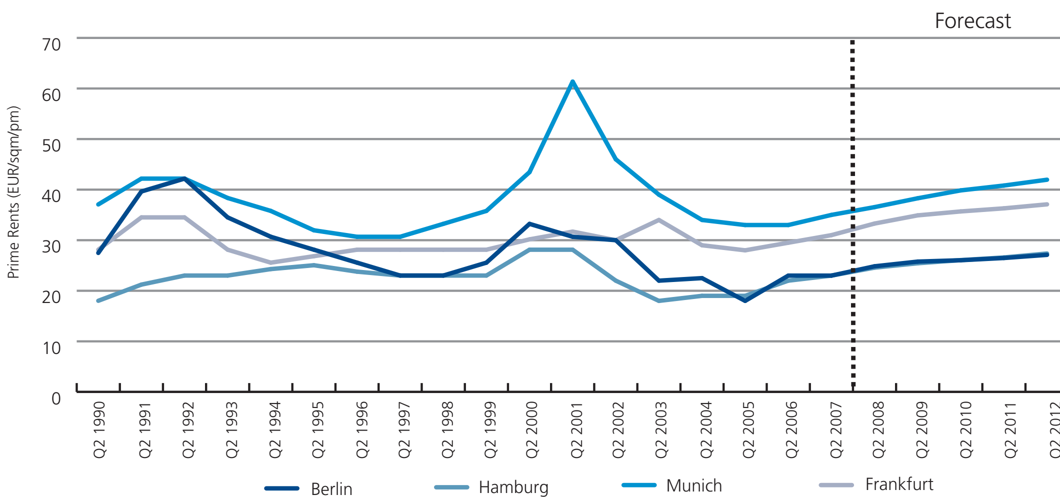
Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

GDP growth in Q2 was weaker than that of Q1, largely as a result of under-performance in the construction sector and the ongoing weakness of domestic demand. Nevertheless, the negative influence of January's VAT increase on consumer spending has been lower than expected. We are, therefore, projecting GDP growth of 2.7% for this year, which is ahead of our spring 2007 forecast, supported not only by improving consumer spending but also by strong investment growth.

As global economic growth slows in 2008, so will that of Germany. However, we now expect the German economy to achieve trend growth in excess of 2% over the next five years, well ahead of the average of 1.5% achieved since 1991. This change is mainly driven by improving private consumption, which in turn is a function of pay increases (in recent years wages have been falling in real terms) and increasing employment levels. However there are inflationary risks and recent interest rate rises may limit consumer expenditure growth.

Figure 2 - German Office Rents



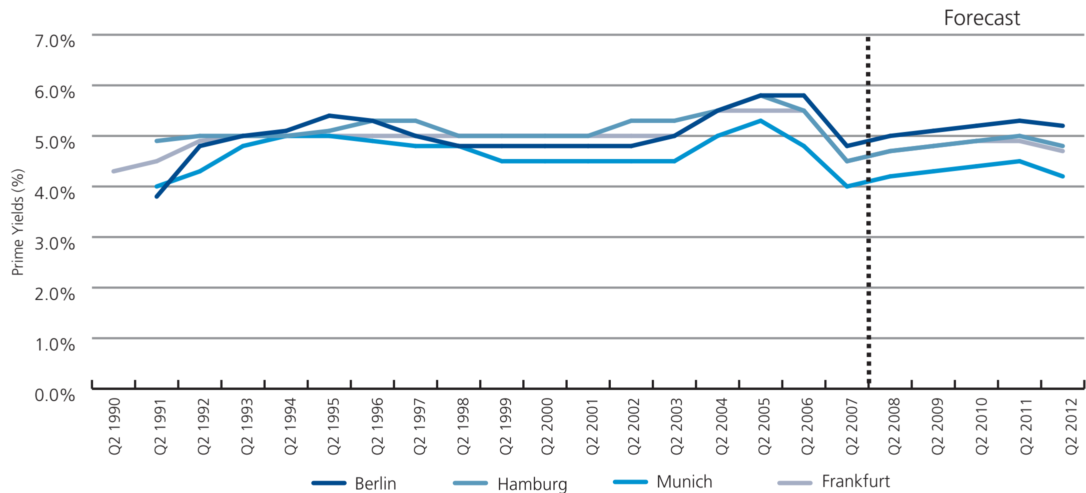
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

Office occupier demand and gross take-up is rising in Germany. It is focussed on new space in the CBD or other prime central locations (e.g., Hafencity, Hamburg). Net absorption is also increasing, as rising demand outstrips low development activity. However, while vacancy rates are decreasing in the city centre markets, the supply of second hand space and space in suburban sub-markets is stable or increasing. Munich is a clear example. In the inner city (CBD and city fringe), vacancy is very limited, whereas, the outer sub-markets ("Umland") are still suffering high vacancy rates, even for good quality space.

As anticipated by our spring 2007 forecasts, rents in H1 2007 increased in Hamburg and Munich and there are signs of pressure on rents in Frankfurt and Berlin. As a result, developers are now becoming active. Speculative development is expected to focus on the core locations, especially in Hamburg and Munich. Despite this, by 2011 vacancy rates in Berlin, Hamburg and Munich should all be below 5%. Although vacancy in Frankfurt is likely to remain above 10%, shortages in the core areas should lead to pressure on rental values. We, therefore, forecast prime rental growth in all four markets in the range of 3% to 4% pa with growth concentrated over the next couple of

Figure 3 - German Office Yields



Source: INVESCO Real Estate; DTZ Research (September 2007)

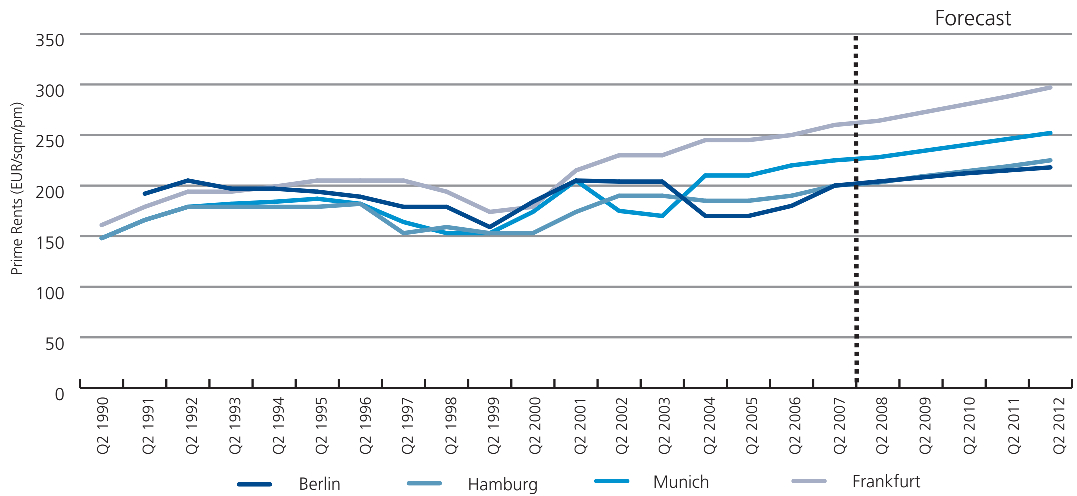
years in response to economic growth. The strongest growth will be achieved in Munich and Hamburg, but Frankfurt will remain the most expensive office location in Germany.

Investment activity in H1 2007 indicates that Germany is going to have another record year. Transaction volumes are ahead of levels achieved in H1 2006 and market activity continues to place yields under pressure. Yields fell in the first six months of the year by about 30 to 50 bps, leaving current prime yields at 4.0% in Munich, 4.5% in Frankfurt and Hamburg and 4.75% in Berlin. Under Scenario One we expect exit yields in five years' time to be 20 to 50 bps higher, pushed out by the higher bond yield environment and the unwinding of the rental growth cycle. The resulting expected total returns are all well below the required level, which suggests that only exceptional opportunities will be of interest within the German office market. However, Scenarios Two and Three suggest that acceptable returns may be available in all markets with the exception of Berlin.

Retail

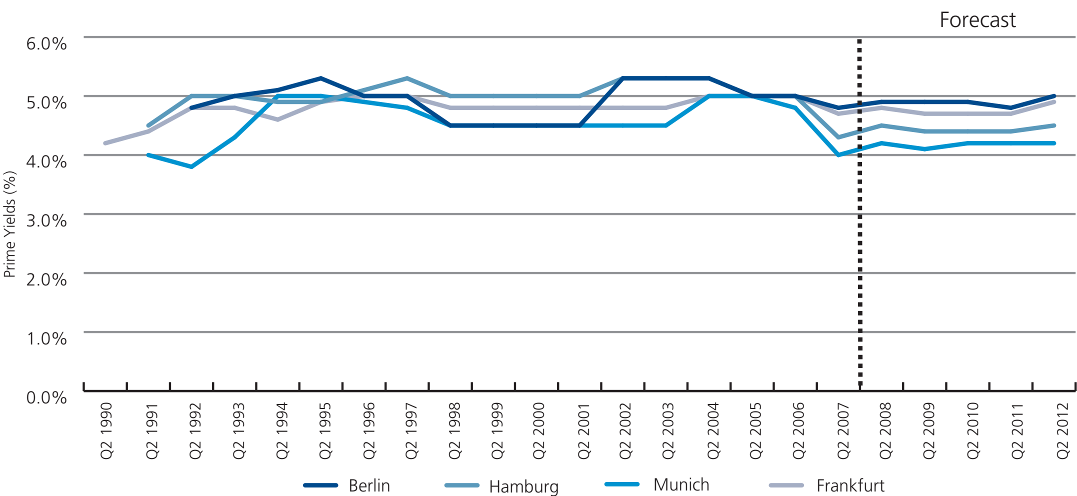
There is increasing evidence that the economy's upturn is now filtering through to consumer spending. Despite recent interest rates rises and increasing prices due to changes in VAT, consumer confidence continues to improve and, therefore, retail rents are forecast to grow. Additionally there are some developments and upgrading of key retail streets (e.g., Frankfurt (HochVier, Zeil refurbishment), Munich (Residenzpost)), which will improve the quality of space and support increasing rents. Although consumers' expenditure is forecast to improve, it still remains relatively weak throughout our forecast period and, therefore, we only expect modest rental growth for standard shops of between

Figure 4 - German High Street Retail Rents



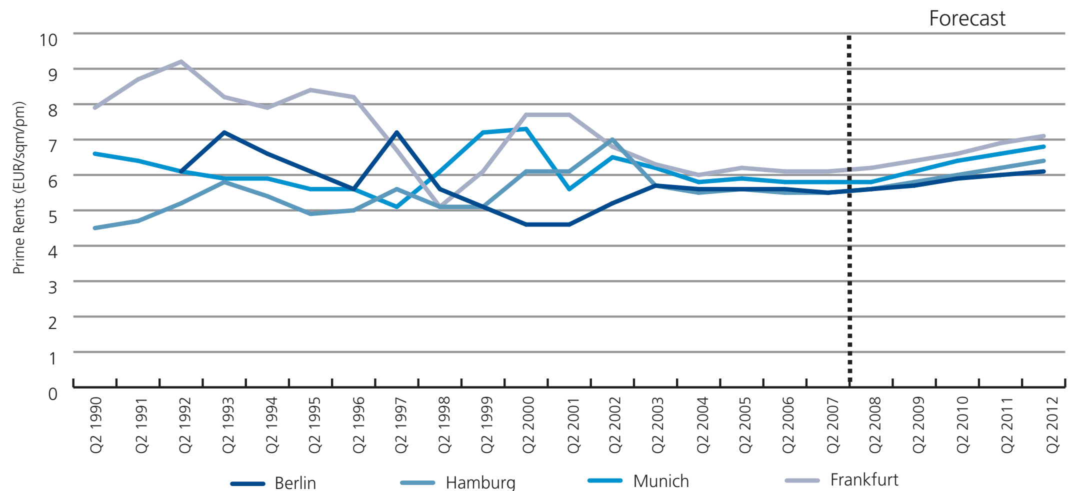
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Figure 5 - German High Street Retail Yields



Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Figure 6 - German Logistics Rents



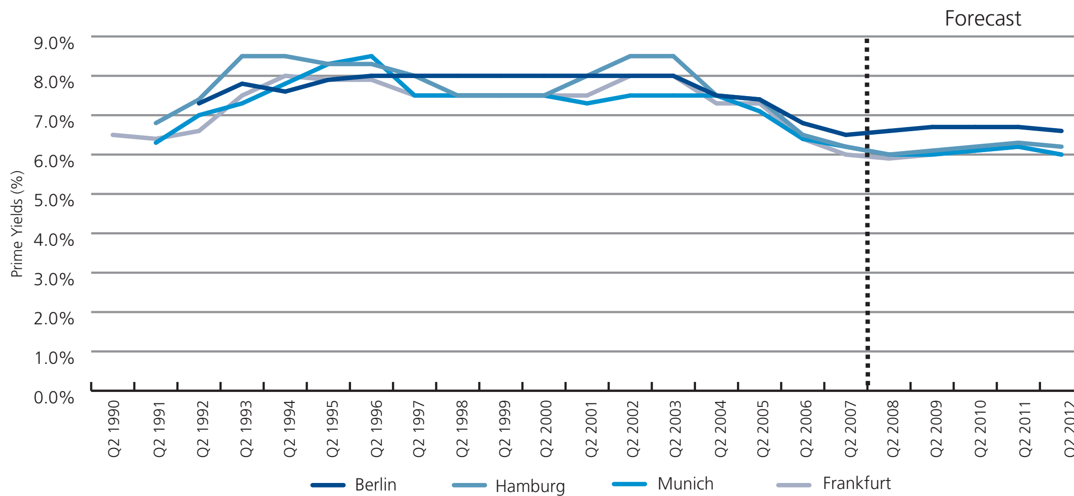
Source: INVESCO Real Estate; DTZ Research (September 2007)

1.8% and 2.7% pa over the next five years. Growth is weakest in Berlin where retail stock growth has been considerable in the past few years and the local economy is weaker.

The number of shopping centres in Germany is still growing. We, therefore, expect shopping centre rental growth to be more closely linked to that of standard shop units going forward. Demand for well situated retail parks with modern space continues to be good. However, as mentioned in our spring 2007 forecast, the discount format retailers that dominate demand are generally very cost sensitive. Therefore, strong rental growth is unlikely. Nevertheless, we expect an average rental growth of 2.5 to 3.0% pa, underpinned by economic growth.

Investment activity in the German retail market benefits from strong demand from non-domestic investors attracted by the improved economic outlook and the expectation of rental growth. Yields fell over the six months to the end of Q2 2007 by 10 to 30 bps. Shopping centre yields are 4.0% to 4.75% and are now on a par with standard shop yields. Retail warehouse yields are 5.75%. We expect yields to shift slightly outwards by about 20 to 30 bps for standard shop units and shopping centres. Yields for retail warehouses will increase slightly more, as rental growth may under-perform investor expectations. In Scenario One, expected returns fall well short of the required level. However, our assessment of the German retail market improves under Scenarios Two and Three. Under both scenarios all three German retail sub-markets provide returns which are at least in line with our required level and under Scenario Three both shopping centres and standard shop units provide returns well in excess of the required level.

Figure 7 - German Logistics Yield



Source: INVESCO Real Estate; DTZ Research (September 2007)

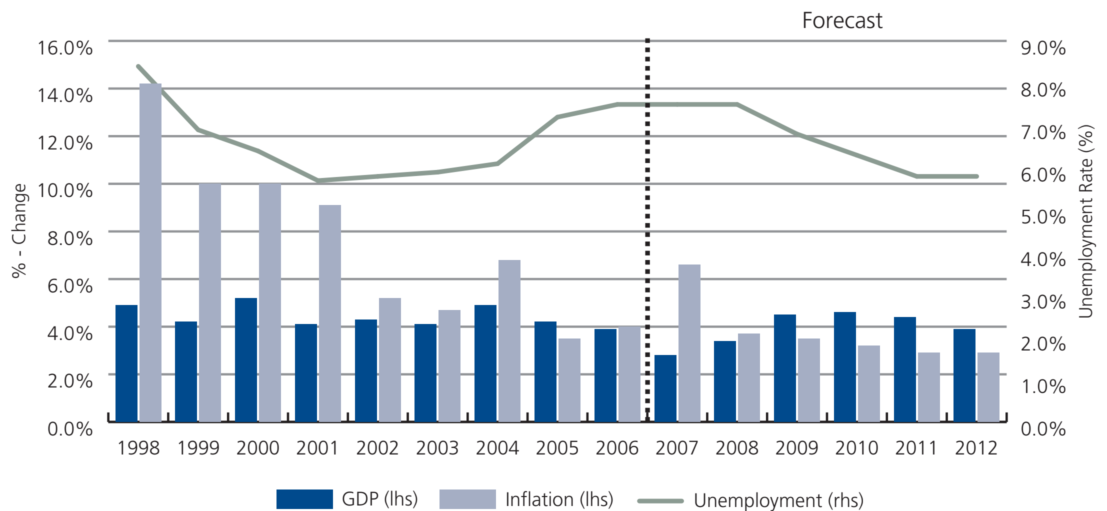
Logistics/Industrial

Although German logistic warehouse rents are low compared to the other European locations, there has been little evidence of rental growth. Historically, rental levels have been affected by strong competition between suburban municipalities. However, a stronger economy and the current low level of vacancy should result in increasing rents in the short-term. We expect rental growth of 2% to 3% pa over the next five years.

Yields remained stable during H1 2007, following a strong demand driven reduction in Q4 2006. Yields are currently between 6.0% and 6.5% and are expected to remain stable over the next five years. Our expected total returns range from 5.5% in Berlin to 7.1% in Munich. With the exception of Berlin, our forecast returns under Scenario One are close to our required levels. Under Scenarios Two and Three, Berlin also produces acceptable returns and in Scenario Three both Munich and Hamburg produce returns that are well in excess of the hurdle rate.

8. Hungary

Figure 1 - Hungarian Economics



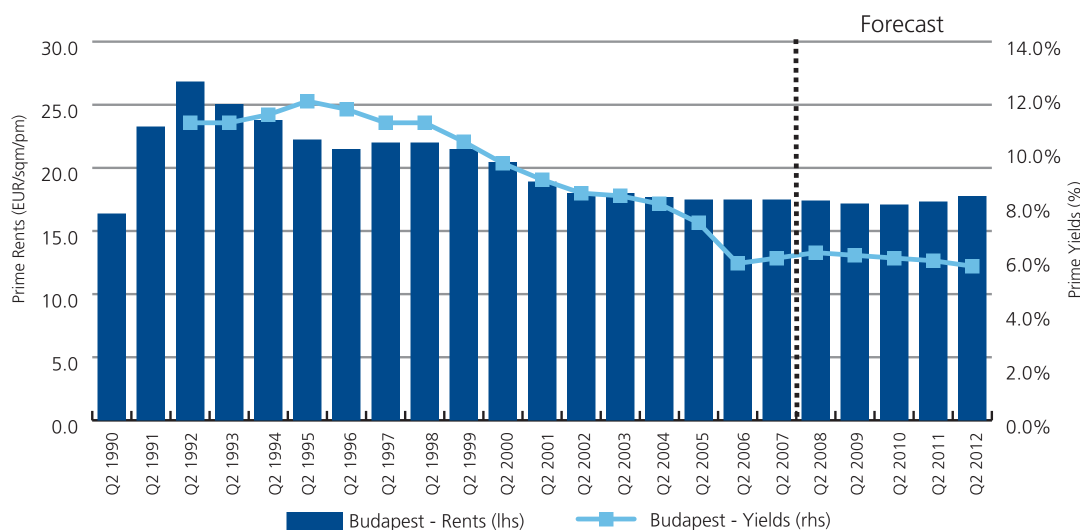
Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

Given current budgetary problems we are maintaining our forecast of relatively weak short-term GDP growth. Q2 GDP data continue to demonstrate the impact of the government's austerity measures: households are suffering from the tax increases and subsidy cuts put in place at the start of the year; the unemployment rate seems unlikely to fall this year and real wages are currently decreasing; as a result, private consumption is falling. Government consumption dropped significantly and the government slashed spending on infrastructure projects. More positively, the export sector remains strong and should achieve double digit growth in 2007.

Nevertheless, after another weak year this year with GDP growth forecast to be only 2.8%, we expect to see signs of recovery and GDP growth is forecast to recover to a level of around 4.4% at the end of our forecast period. This will be mainly driven by improving consumer spending and government spending growth, which are expected to recover to a healthy 3.6% pa and 2.0% pa respectively. After peaking this year at 6.6% due to fiscal policy changes, inflation should decline to 2.9% by 2011. Long-term interest rates are forecast to decrease to a more healthy level of 5.6% over the same period.

Figure 2 - Hungarian Offices



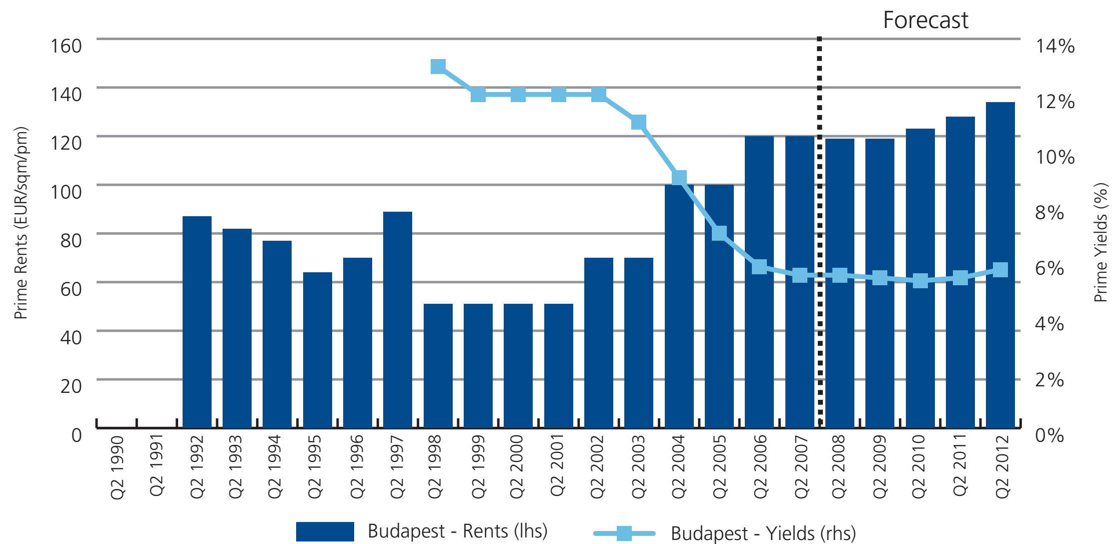
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

Vacancy decreased over the six months to the end of Q2 2007. Nevertheless, development activity is expected to total more than 250,000 sqm this year, most of it being delivered in the second semester. By end of 2007 we expect the vacancy rate to have risen above 15%. At the same time, demand is weak due to current economic problems. We envisage that the imbalance between supply and demand will last until 2009 when vacancy rates could peak at 25%. The effects on rental growth are obvious: rents are forecast to fall for the next two years and only start to rise slightly from 2010 onwards. On average prime rents are forecast to grow by only 0.3% pa over the next five years.

Current office yields in Budapest decreased by 10 bps to 6.0% in H1 2007. Despite the weak short-term outlook for rents, we expect yields to fall by a further 30 bps over the next five years, supported by falling local bond yields and strong investor demand, particularly as at the time of exit investors are likely to see the possibility of some rental upside. Nevertheless, with no rental growth expected for the next five years, total returns are expected to fall well short of our target level under Scenario One. Under Scenarios Two and Three, lower exit yields and a lower target rate of return combine to provide total returns that are closer to our required level.

Figure 3 - Hungarian High Street Retail



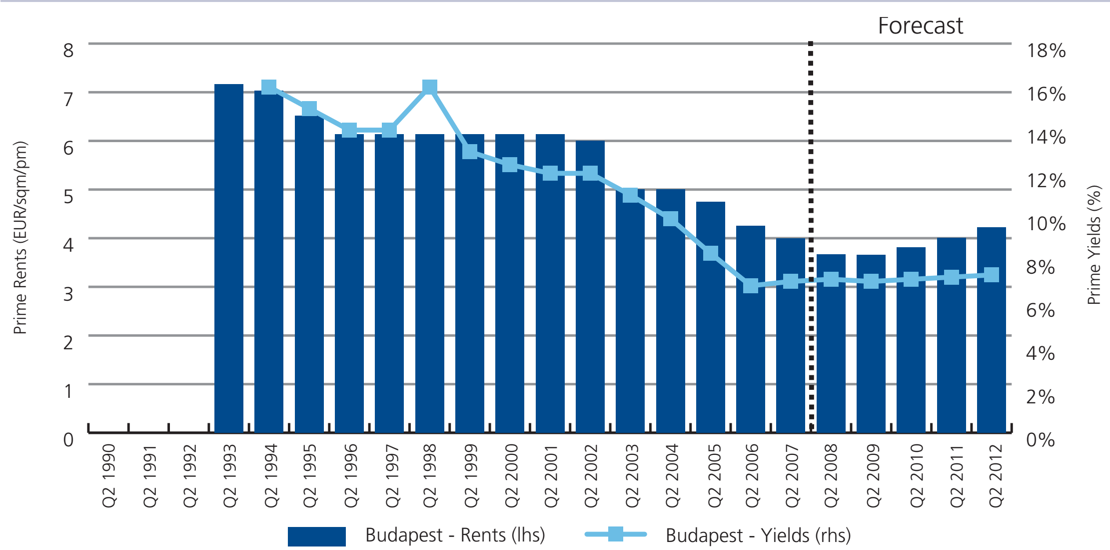
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

Over the next five years the rate of growth of Budapest retail stock is expected to slow significantly. The retail sector is suffering from weakness in household spending and this is likely to make developers more cautious. Standard shop rents have remained unchanged since the middle of 2006 but, given current economic weakness, we expect reductions over the short-term. From 2009, standard shop rental growth should become positive and the average rental growth over the five years is forecast to be 1.4% pa. Our forecasts for shopping centre and retail warehouse rental growth are somewhat weaker, averaging only 0.4% pa and 1.0% pa respectively.

Standard shop yields fell by 25 bps over the first half of 2007 to 5.5% and are on a par with shopping centres. Retail warehouse yields are higher at 6.25%. In Scenario One we expect a slight outward yield shift of 20 bps for standard shops over the next five years, and for shopping centre investments an outward shift of 40 bps to 5.9%. Retail warehouse yields are forecast to remain broadly unchanged. Both standard shops and retail warehouses deliver total returns that are in line with the required level, but the stronger outward yield shift for shopping centres results in disappointing returns. Under Scenario Two, a small inward yield shift and lower hurdle rate result in returns for standard shops that are comfortably above the required level; under Scenario Three shopping centres deliver a return that is close to our required level.

Figure 4 - Hungarian Logistics



Source: INVESCO Real Estate; DTZ Research (September 2007)

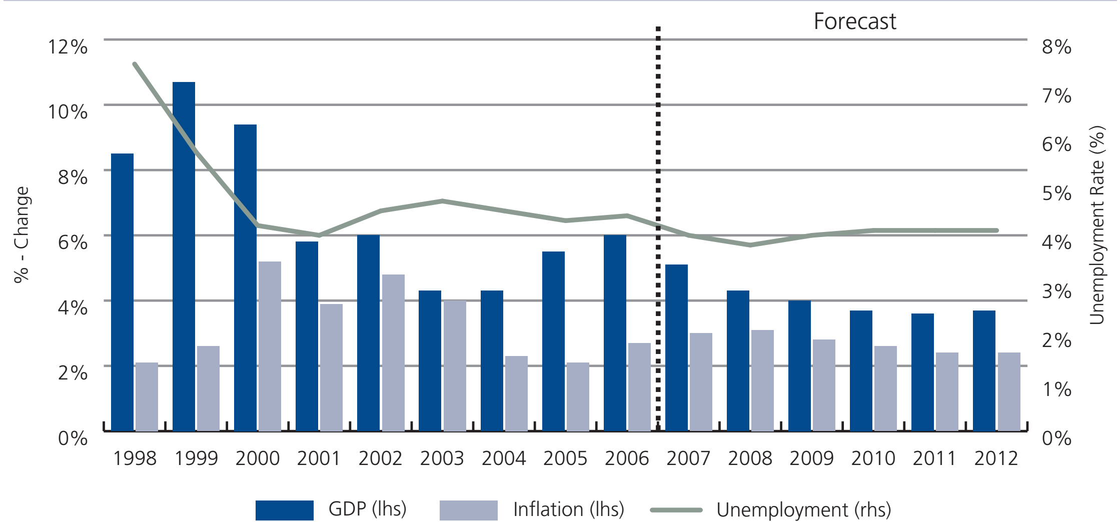
Logistics/Industrial

Rents for logistics decreased during H1 2007 by almost 6%, mainly as a result of increasing speculative development activity. We expect rents to fall by over 10% in 2007 as a whole and for this weakness to continue into 2008. Thereafter, a slowdown in speculative development should occur, partly driven by the impact of lower rental levels on the profitability of development. Combined with improving economic growth this should lead to rental growth close to inflation by the end of our forecast period. Our average rental growth forecast over the next five years is only 1.1% pa.

Over the last six months yields have remained flat at 7.0%. Under Scenario One we expect an outward yield shift to 7.3% within the next five years. The combination of limited rental growth and some modest outward yield shift suggests a total return that is well below our required return and leads to the conclusion that the Budapest logistics market is unattractive. This conclusion is not altered in either Scenario Two or Three.

9. Ireland

Figure 1 - Irish Economics

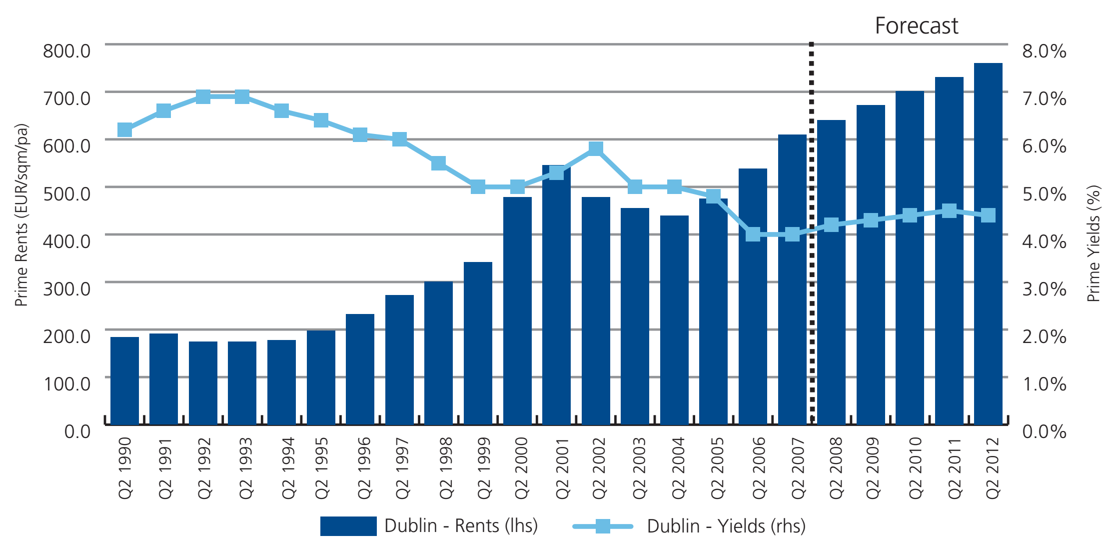


Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

The Irish economy had a good Q1 2007, recording year-on-year growth of 7.5%, with strong growth in the household, corporate and government sectors of the economy. We expect growth to slow over the remainder of the year, but to remain robust. The key area of risk is the housing market, where a fall in prices was recorded for the first time since 1996, when records began. The housing market ties into the overall economic performance of Ireland in a number of ways. Firstly, through housing wealth and its support of consumers' spending and secondly, through the construction sector, which accounts for roughly 20% of the economy and employs almost one in seven workers. The latest PMI data show that the construction industry is contracting and that this is feeding into the labour market, with increasing job losses being recorded. Finally, if unemployment rises, this will also dent consumer confidence and reign back GDP growth. However, despite these downside risks, we continue to forecast that the Irish economy will grow on average by 4.0% pa over the next five years, which is significantly faster than the euro zone average, although growth will continue to slow as Ireland's competitive advantages are gradually eroded.

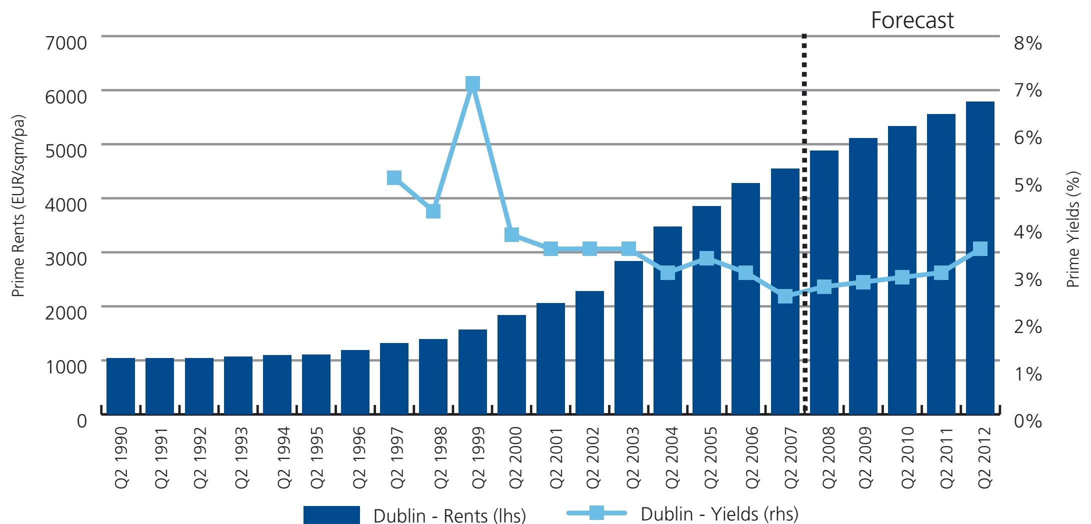
Figure 2 - Irish Offices



Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

Despite the forecast slowdown of economic growth, the financial and business services sector should continue to grow strongly and this should ensure continued strong demand for office space. However, at present supply is plentiful with a current vacancy rate of 14.8% in Dublin. Nevertheless, we forecast that prime rents will grow by 4.5% pa as supply is much tighter in the CBD than in the suburban markets. Current prime yields are 4.0% and we forecast that they will soften by 40 bps by the end of the forecast period. The combination of a very low and rising yield and a higher required return due to recent increases in the 10-year government bond yield, outweigh the benefits of healthy rental growth. Forecast returns under Scenarios One and Two are well below our hurdle rate, while Scenario Three provides a slightly more positive outlook.



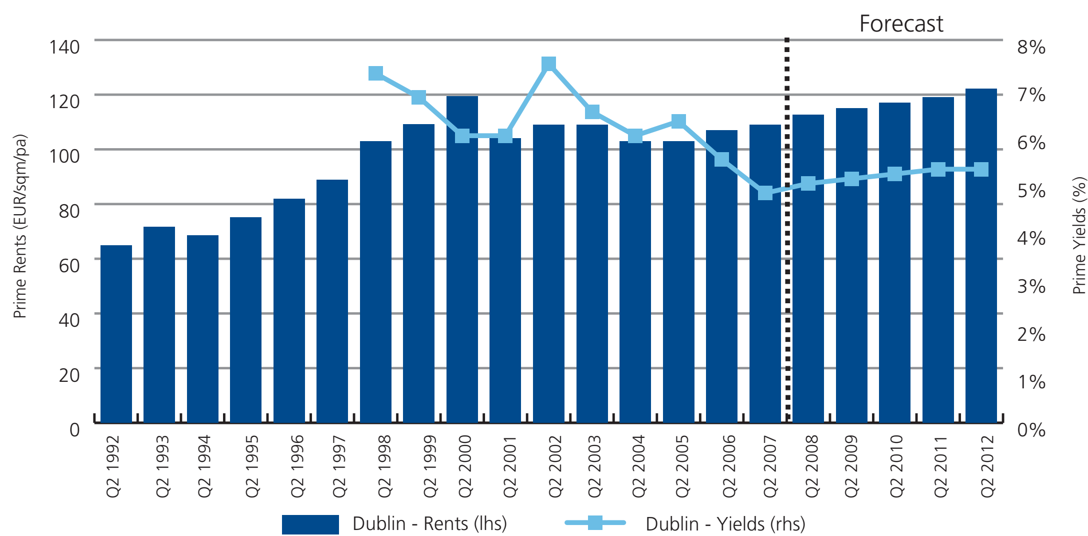
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

Strong consumer expenditure growth underpins our forecast that rents will grow by 4.9% pa over the next five years in Dublin. However, this growth represents a cooling of the retail market, which can in part be attributed to the forecast strong growth of retail floor space in shopping centres outside Dublin city centre. Restrictions on certain shop uses, recently introduced by Dublin City Council to preserve the character of Grafton Street, may also ease pressure on rents. Nevertheless, with prime retailing focussed on two key streets, shortages of good quality units of the right configuration is likely to continue to push rents up. Rental growth for shopping centre space is forecast to lag behind that for standard shop units as supply will be plentiful. There is already anecdotal evidence that competition for tenants is holding rental growth back. The story is similar for retail parks where there appears to be a real risk of oversupply. For both shopping centres and retail parks rental growth will barely keep pace with inflation.

The investment market is dominated by local investors and current yields for standard shop units are currently 2.5%. We are forecasting that these yields are likely to increase to 3.5% over the forecast period. As a result, under Scenario One total returns are forecast to be 0% pa as the low and rising yields result in capital losses over the five year forecast, which cannot be offset by rental growth. Retail warehousing is also forecast to generate returns that are below our required level as yields move out slightly and rental growth disappoints. Only shopping centres are forecast to provide returns that are close to the required rate, as yields are forecast to be stable. In Scenarios Two and Three the outlook for standard shops remains unchanged, while some upside is suggested for both shopping centres and retail parks.

Figure 4 - Irish Logistics



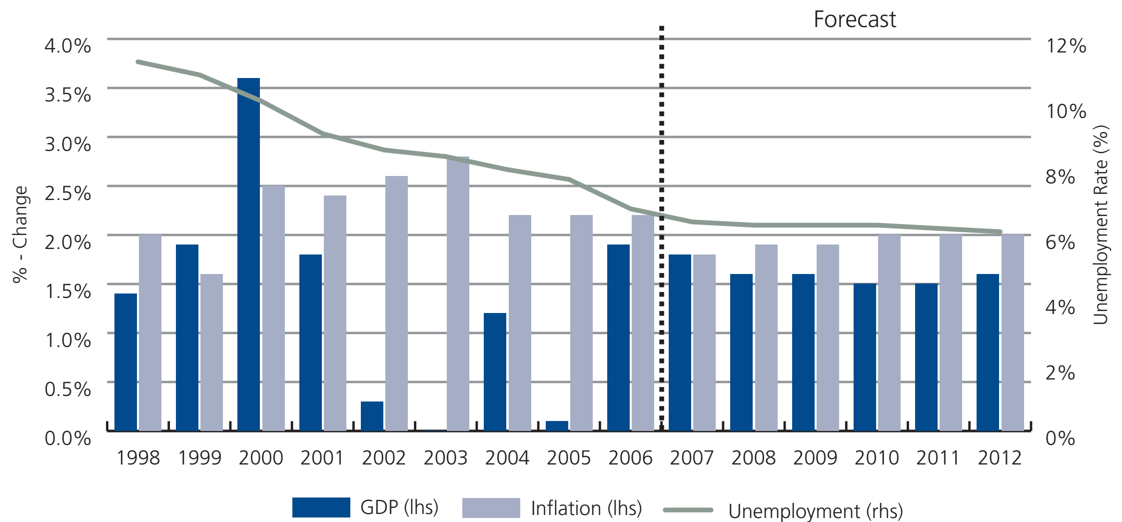
Source: INVESCO Real Estate; DTZ Research (September 2007)

Logistics/Industrial

With the improvement of the infrastructure around Dublin, the core industrial market has shifted from the south-west of the city to the area around the Port Tunnel. The robust economy has continued to generate good demand for space, particularly from retailers. However, there is no shortage of supply and, therefore, rents have increased broadly in line with local inflation. Looking ahead, rents are forecast to grow at 2.3% pa over the next five years, which is slightly below the level of inflation, but the slowdown can be attributed to the general slowing of economic growth in Ireland. Current prime yields are 4.75% and, in our assessment, are too low. We, therefore, expect them to move out in response to the increase in 10-year government bond yields. This outward yield shift will result in expected total returns of 3% under Scenario One, well below the hurdle rate. Scenarios Two and Three suggest the same negative conclusion.

10. Italy

Figure 1 - Italian Economics



Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

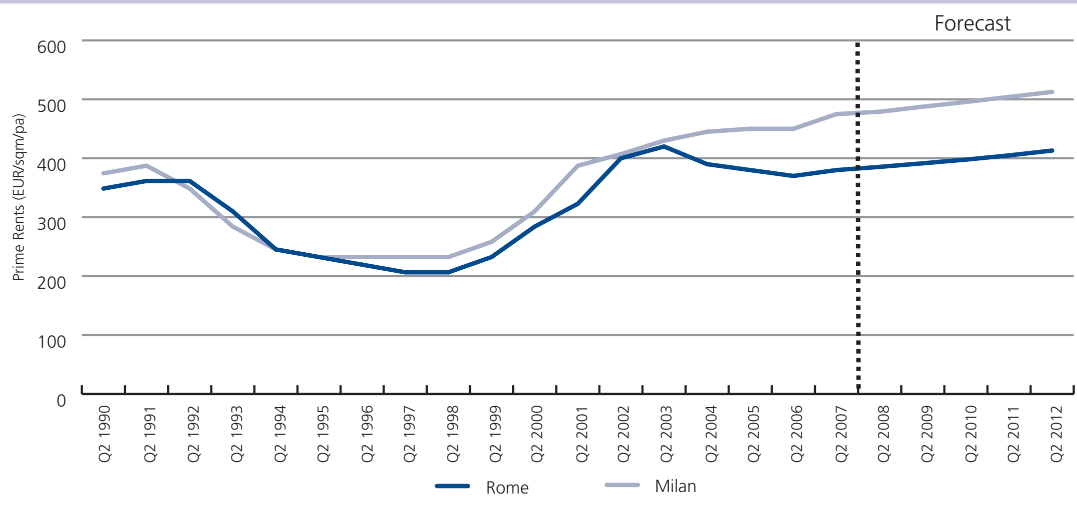
Economy

In 2006, Italy's economy recorded its best performance in five years, driven by the general improvement in the EU, particularly in Germany. Nevertheless, growth continues to disappoint. GDP growth in Q2 2007 was only 0.1% year-on-year, which was its weakest performance since Q4 2005. The service sector continued to grow but there was considerable weakness in the manufacturing and agriculture sectors, as producers' struggled with rising interest rates, a strong euro and high oil prices.

Our forecasts suggest that, with GDP growth of 1.9%, the Italian economy peaked in 2006. We expect growth of just 1.8% in 2007 and then trend growth of 1.6% over the following five years. Despite this, unemployment should continue to decrease as the economy benefits from a more flexible labour market, wage restraint, tax incentives and a reduction in illegal employment. Labour market improvements should feed through into improving consumer confidence, which offers some upside to our forecast of growth of 1.5% pa over the next five years for private consumption. However, inflation which is forecast to decline in 2007 to 1.8%, will rise again to 2.0% by 2012, which will be 10 bps above the estimated euro zone average.

Italian government debt continues to be too high and given the political environment, significant improvements are unlikely. As a result, local government bond yields are expected to continue to require a 25 to 30 bps yield premium over the German benchmark bond for the euro zone.

Figure 2 - Italian Office Rents



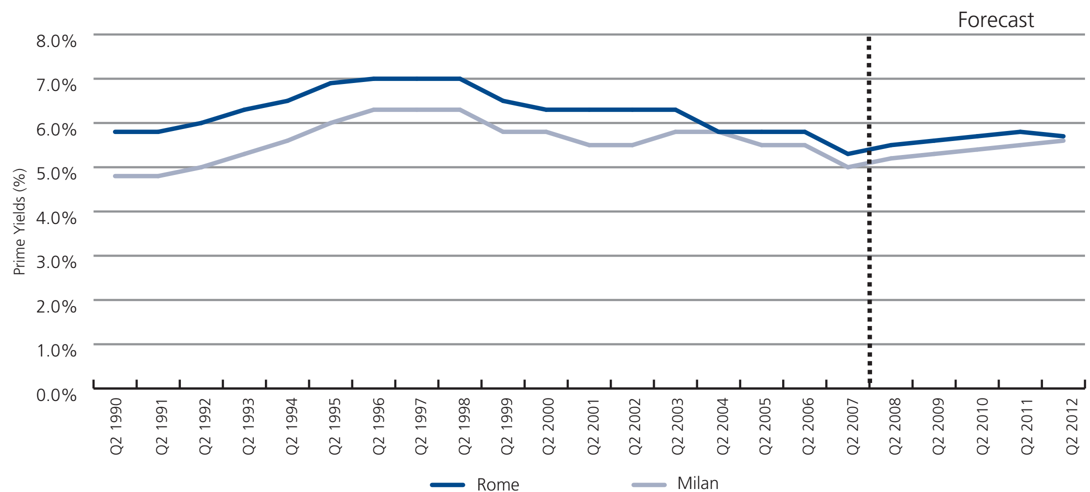
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

Letting activity in Rome's office market during H1 2007 was limited and focussed on small-to-medium sized units, while in Milan take-up accelerated and included two transactions of more than 10,000 sqm. As a result, the vacancy rate in Rome remained stable during the first six months of the year, whereas in Milan it decreased slightly. Nevertheless, in both markets there are considerable differences in the vacancy rate between sub-markets in Milan, and between different grades of space in Rome, with CBD and Class A-space most in demand. As a result, despite the weak economy, there is some rental pressure at the prime end of the market, especially in Milan, where rents increased by 5.6% over the six months to the end of Q2 2007, but also in Rome where rents were up by 2.7% over the same period. However, given the economic outlook it is difficult to see further rental upside and our expectations of future rental growth in Rome and Milan are modest. We expect rental growth of around 1.5% pa over the next five years.

Surprisingly, investor demand remains strong, with transaction volumes in the last six months up on the same period a year ago. Activity is still dominated by domestic investors. Current market yields remained stable during H1 2007 at 5.0% in Milan and 5.25% in Rome. Over the next five years we expect an outward yield shift of 40 bps in Rome and 60 bps in Milan, driven by the general increase in long-dated government bond yields. Given the outward yield movement, expected returns fall well short of the required level under Scenario One and lead to the conclusion that there will be only limited opportunities of interest in this market. Our conclusions do not change under Scenario Two, although Scenario Three suggests acceptable returns in Rome.

Figure 3 - Italian Office Yields



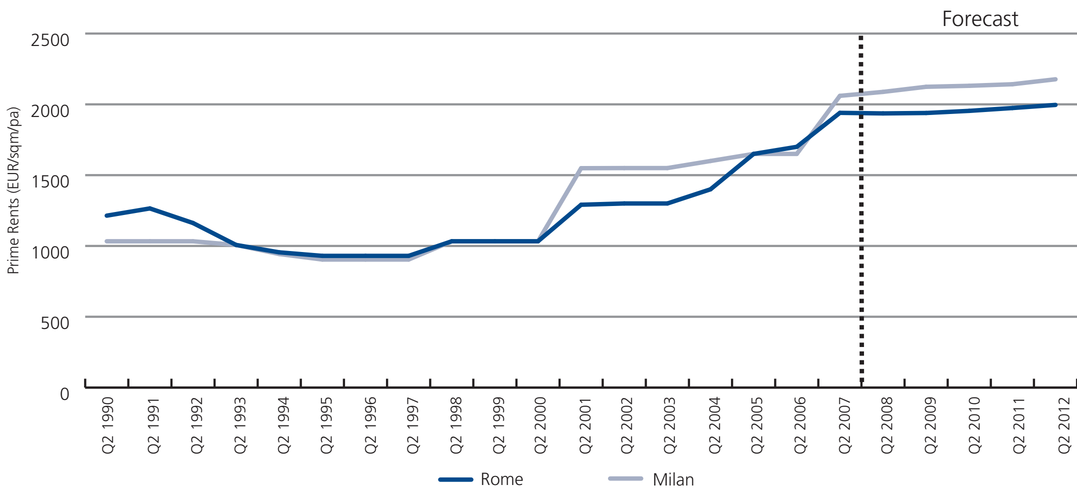
Source: INVESCO Real Estate; DTZ Research (September 2007)

Retail

Several deals in prime locations in both Milan and Rome resulted in new headline rents being achieved in high street locations during H1 2007. Prime retail rents also increased in part due to the continuing improvement in the quality of stock. We continue to expect that stock will increase both in volume and quality terms over the next five years. However, economic weakness and the need for the market to adjust to the new rental levels established earlier this year, result in our forecast of rental growth of only 0.5% to 1% pa on average for standard shops. Rents are forecast to grow by 1.5% to 2.0% pa for both shopping centres and retail warehouses, where ongoing shortages of good quality supply should help rents keep pace with inflation.

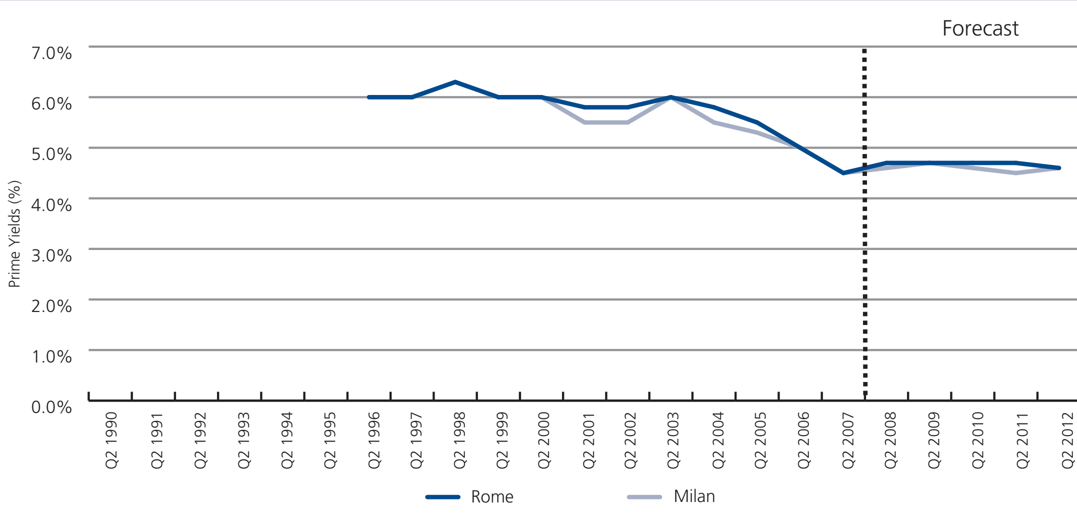
Prime standard shop yields remained stable in Rome at 4.5% and decreased 25 bps in Milan to 4.5% in H1 2007. Shopping centres and retail warehouse yields also hardened and were 4.75% and 5.25% respectively at the end of Q2 2007. We expect standard shop exit yields to be stable, but those for shopping centres and especially in retail warehouses to shift outwards. The expected total returns in all three retail sub-markets fall well short of the required total return, although Scenarios Two and Three suggest total returns that are close to the required levels across all retail markets.

Figure 4 - Italian High Street Retail Rents



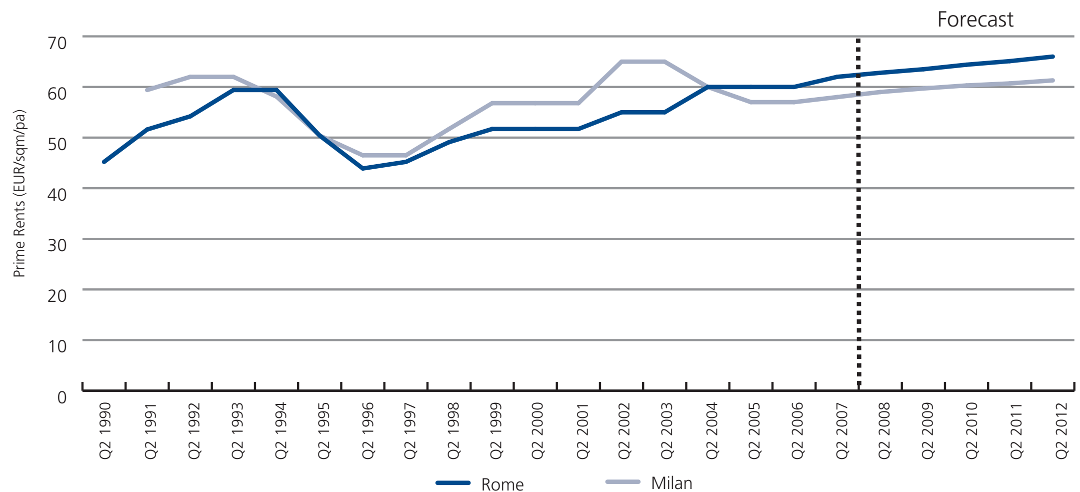
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Figure 5 - Italian High Street Retail Yields



Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Figure 6 - Italian Logistics Rents

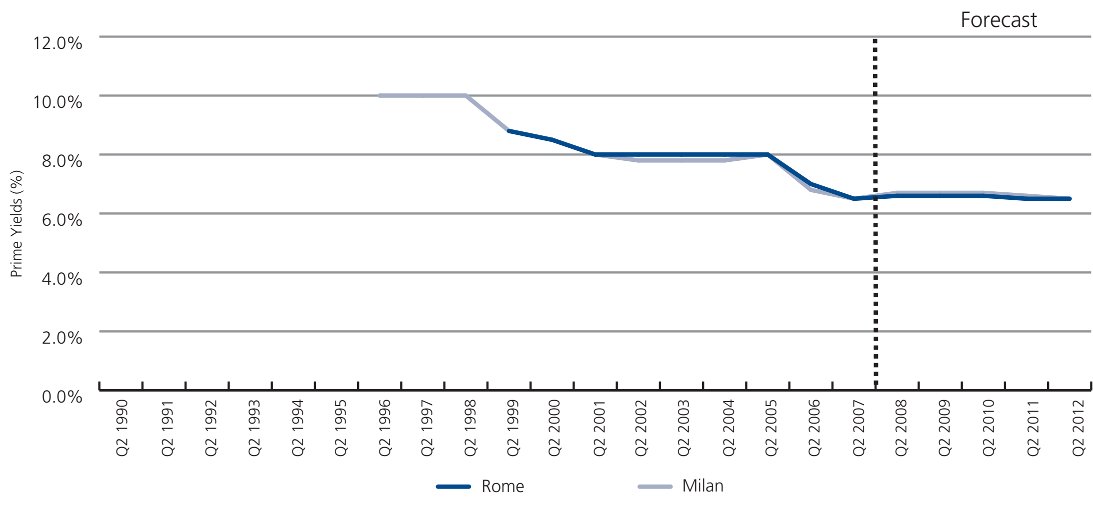


Source: INVESCO Real Estate; DTZ Research (September 2007)

Logistics/Industrial

After increasing in 2006, industrial rents remained unchanged over the first six months of 2007. In the area surrounding Rome, there is demand for logistics space to serve the Italian south, but this pressure is unlikely to be sufficient to drive rents forward. Rents are forecast to grow by a modest 1.0% to 1.25% pa over the next five years, well below the level of inflation. Despite the lack of rental growth, investor demand for industrial units is still high and supply is very limited. Prime industrial yields are currently 6.5%, having fallen from 6.75% at the end of 2006. Strong demand for income is likely to sustain yields at current levels over the next five years. Despite this, expected returns in Milan are forecast to be significantly below the required return, but in Rome, the outlook is more marginal. The lower required return suggested by Scenarios Two and Three results in both markets delivering expected returns broadly in line with the hurdle rate.

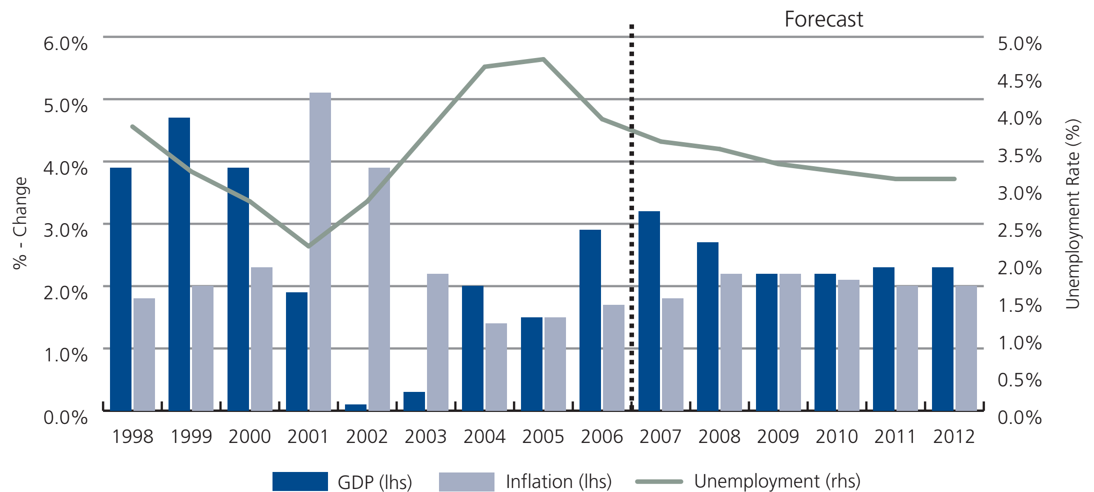
Figure 7 - Italian Logistics Yields



Source: INVESCO Real Estate; DTZ Research (September 2007)

11. Netherlands

Figure 1 - Dutch Economics

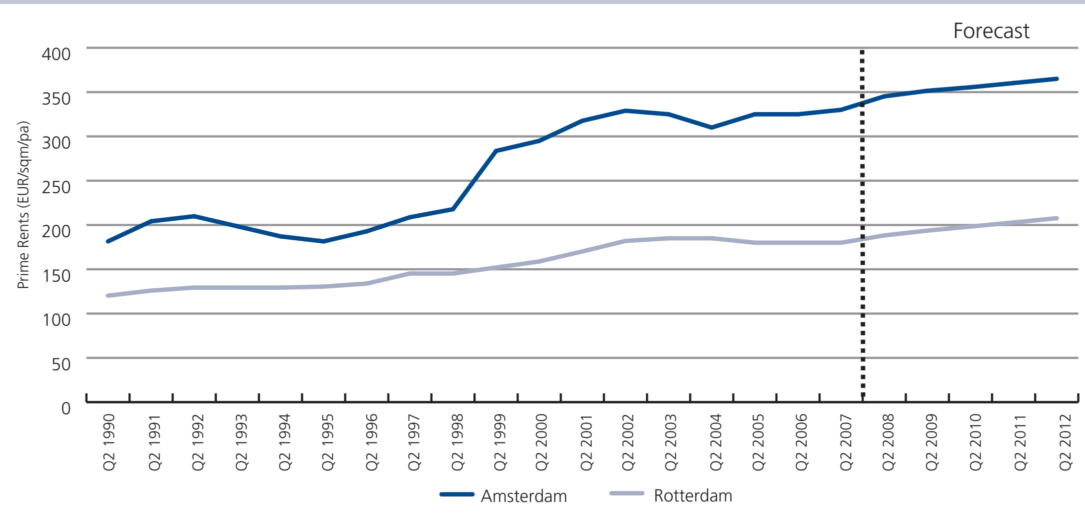


Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

The Netherlands recorded strong GDP growth in 2006 based on government spending, strong corporate investment activity and strong export growth. Despite a strong start in Q1 2007 (+0.7%) GDP growth slowed in Q2 2007 to 0.2% due to weaker domestic demand and negative net exports. As a result, actual growth may fall short of the forecast of 3.2%. Nevertheless, Dutch GDP growth will still be above the euro zone average over the next few years. A low and falling unemployment rate combined with rising wages will support consumer spending. This could be further enhanced as government debt appears to be under control, giving room for tax reductions and public investment. In the corporate sector, investment growth remains strong. Despite this, there will be a slowdown in growth next year as EU and global growth moderates and GDP growth is forecast to average 2.5% pa over the next five years. Inflation should fall to 1.8% this year but will then increase quite sharply in 2008 and will average 2.1% pa over the forecast period as very low levels of unemployment are expected to boost inflationary pressures.

Figure 2 - Dutch Office Rents



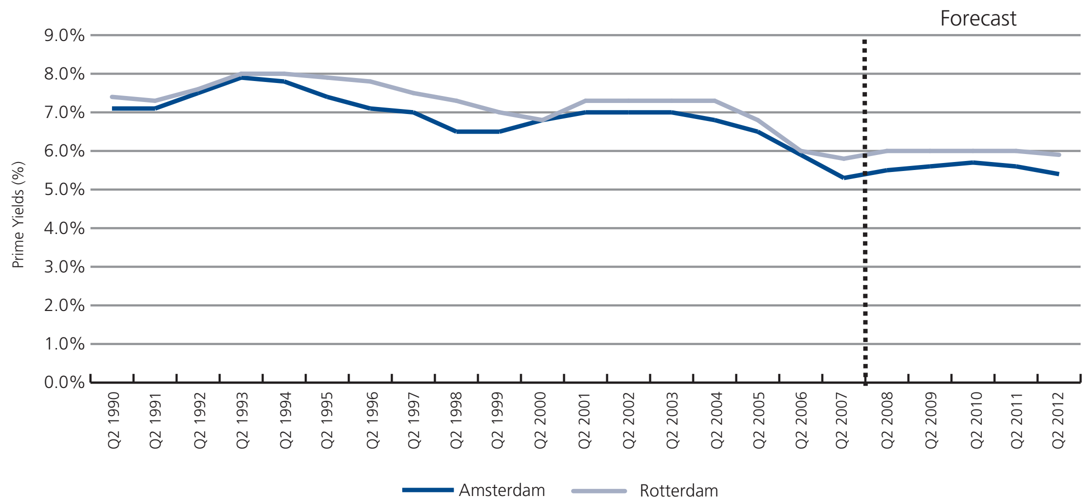
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

The recent strength of the Dutch economy is beginning to feed through into levels of office take-up, and vacancy rates at the prime end of the market. However, overall vacancy rates remain very high. With limited development, vacancy rates should fall in the short-to-medium term, but the high starting point and decentralised nature of the office market is likely to limit upward pressure on rents. As a result we forecast that rents will grow by only 2.0% pa in Amsterdam. In Rotterdam, we expect much stronger growth of 2.9% pa over the next five years.

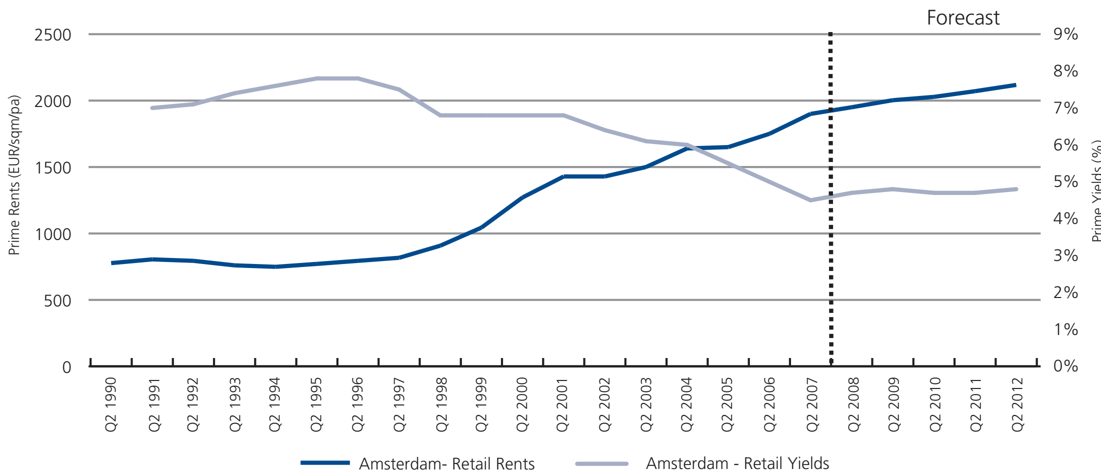
The Netherlands has begun to attract the attention of overseas investors, and ongoing high levels of investment activity have driven yields down by 25 bps to 5.25% in Amsterdam, while yields have stabilised at 5.75% in Rotterdam. Our forecasts suggest that this level of yield is sustainable going forward, and yields are therefore forecast to remain broadly stable over the next five years. However, under Scenario One, both Amsterdam and Rotterdam offices are forecast to generate total returns that fall well short of the required return. Only under Scenario Three do both Dutch office markets generate returns that are in broadly in line with the required return.

Figure 3 - Dutch Office Yields



Source: INVESCO Real Estate; DTZ Research (September 2007)

Figure 4 - Dutch High Street Retail Rents/Yields



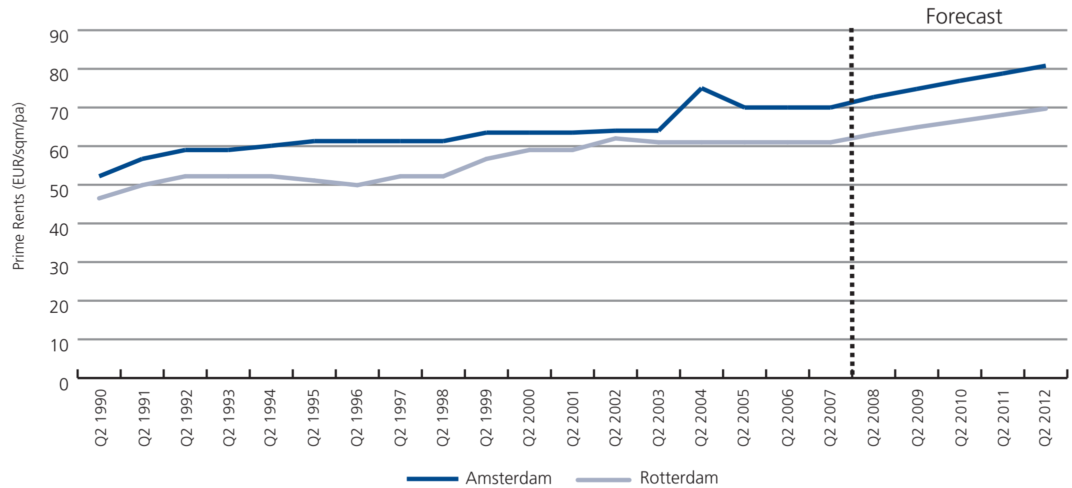
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

Amsterdam standard shop rents increased over the first six months of 2007 by an impressive 6%. Looking ahead, the reasonably strong outlook for consumer spending should underpin retail rental growth, although development of new space is increasing in Amsterdam in the medium-term, and this will dampen growth. At 2.2% pa, average annual rental growth will be lower than the historic long-run average. Shopping centre rents are forecast to follow a similar pattern, but the delivery of new schemes should increase the quality of shopping centre space, and active asset management should also ensure that rental growth in this sub-market is slightly higher than that for standard shops.

Yields fell by 25 bps in H1 2007 to 4.5% for high street retail, while shopping centre yields are currently 5.0%. Both high street and shopping centre yields are forecast to increase by 30 bps over the next five years and this outward yield shift, combined with weak rental growth, results in expected returns which are well below the required level. However, the change in assumptions for Scenario Two is sufficient to generate returns that are close to required levels for both sub-markets.

Figure 6 - Dutch Logistics Rents

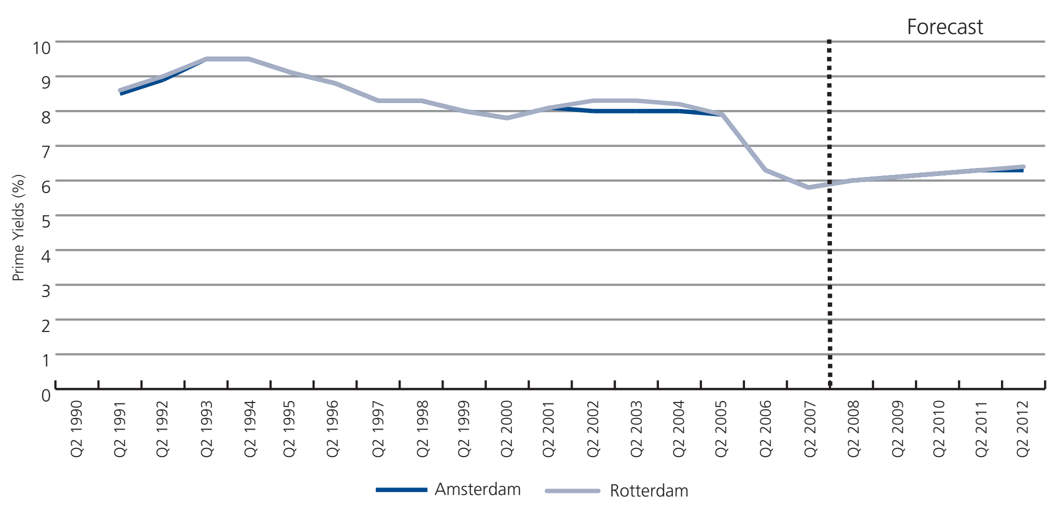


Source: INVESCO Real Estate; DTZ Research (September 2007)

Logistics/Industrial

Industrial rents in The Netherlands remained stable in H1 2007. New development is limited and demand is increasing as a result of recent economic improvements. Therefore, higher rents are becoming more likely, especially in areas of high demand such as Rotterdam where demand is linked to the port and Amsterdam where demand is linked to Schipol airport. Rents are forecast to grow by 2.5% to 3.0% pa over the next five years, which is more than 150 bps above the historical long-term average.

Figure 7 - Dutch Logistics Yields

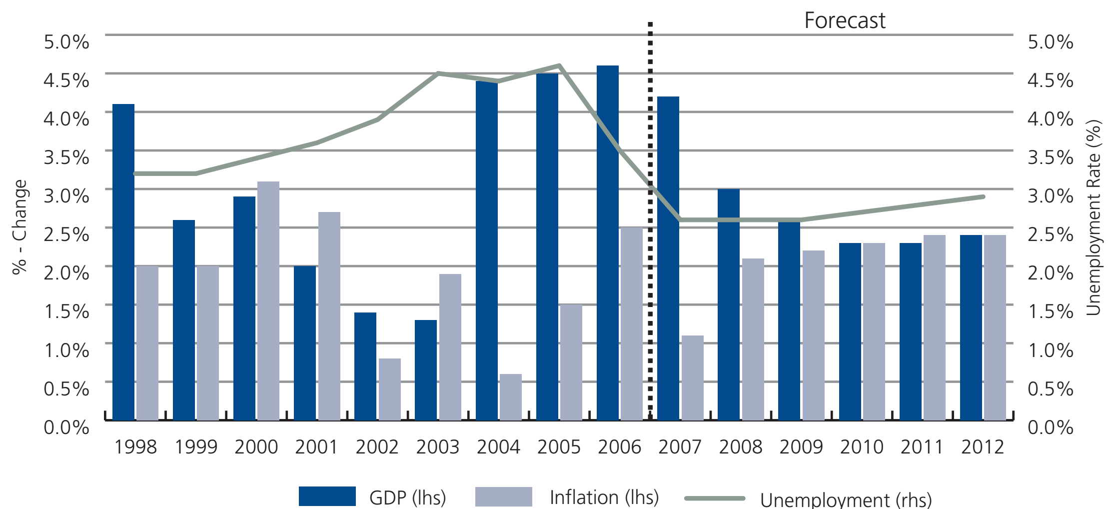


Source: INVESCO Real Estate; DTZ Research (September 2007)

Yields decreased by 25 bps in H1 2007, due to robust investor demand supported by high income levels and the improving Dutch economy, and now stand at 5.75%. However, with yields now below the 6% threshold, income focussed investors are unlikely to find Dutch industrial property as attractive and, therefore, we forecast that within the next five years yields will shift out to 6.3% to 6.4%, with change also being driven by the outward movement of bond yields. Scenarios Two and Three do not materially alter our view that there will be only a few opportunities of interest in these markets.

12. Norway

Figure 1 - Norwegian Economics



Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

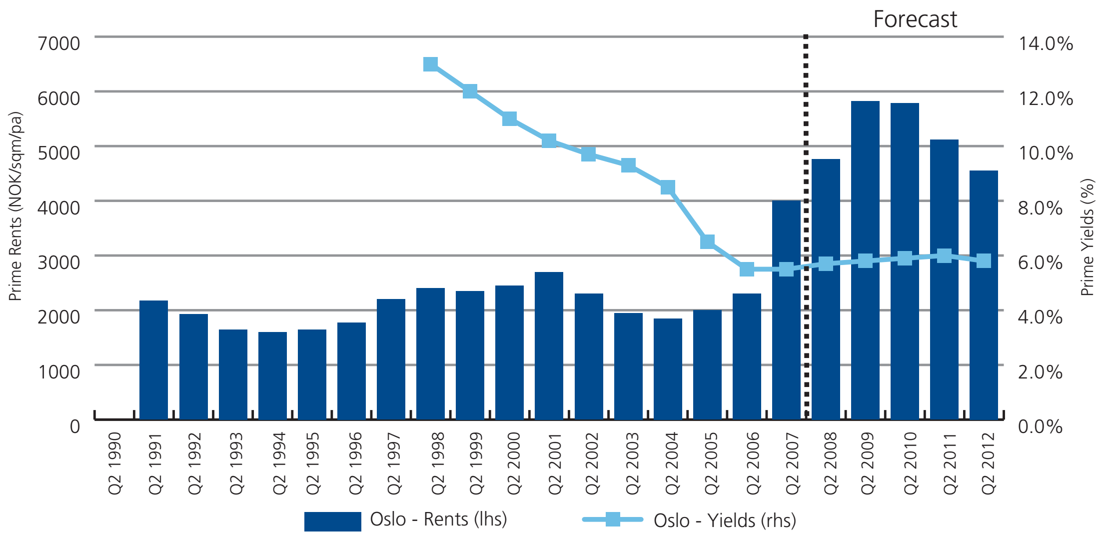
Economy

Norway continues to grow at a steady pace despite recent monetary tightening. Growth is being driven mainly by corporate investment and consumer spending. Q2 2007 GDP growth was slightly ahead of consensus as the corporate sector continued to invest strongly and expand production based on steady revenues and robust profitability. However, private consumption grew at a slower rate indicating that spending is sensitive to the recent rise in interest rates, despite low levels of unemployment and wage inflation.

The Norwegian economy has been able to sustain strong growth without inflation through sizeable labour migration inflows, together with sustained productivity growth. However, there are signs that the economy is facing capacity constraints. Inflation is forecast to remain low in 2007 at 1.1% but it is expected to pick up sharply in particular during 2008 to 2.1% and remain above 2% for the remainder of the forecast. Therefore, the Norges Bank is expected to increase interest rates further later in the year.

We expect another year of strong GDP growth in 2008, but there will be a further slowing and by the end of our five-year forecast period growth will be close to the euro zone average at 2.3%. On average growth will be 2.7% pa over the five-year forecasting horizon.

Figure 2 - Norwegian Offices



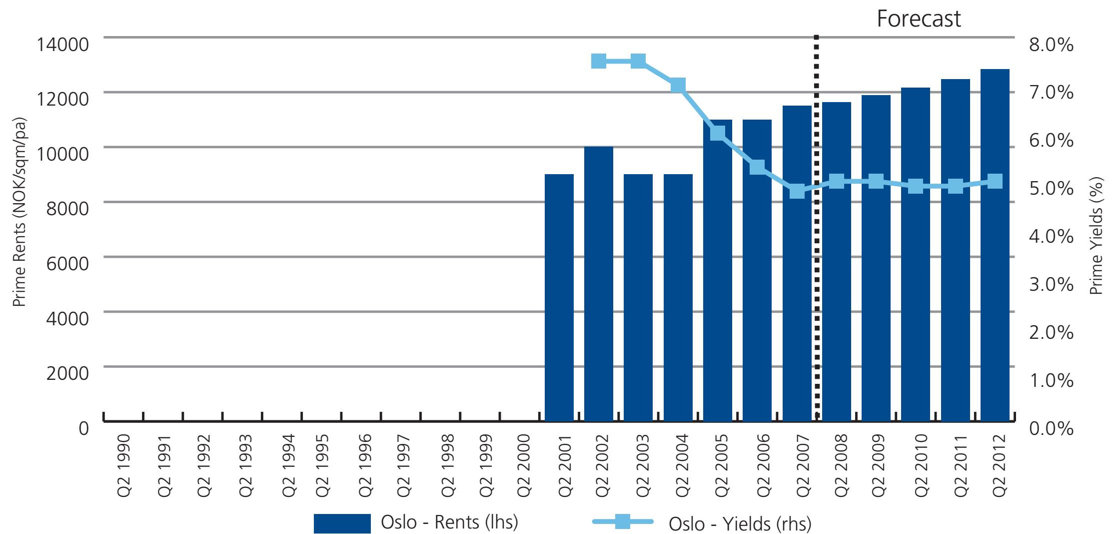
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

The office market in Oslo is likely to remain tight as employment growth boosts demand and prime office space remains scarce. The vacancy rate is forecast to fall from 7.5% at the end of 2006 to 2.5% by the end of 2007. Prime rents increased by a massive 48% in the first half of 2007, the strongest growth of any of the markets that we monitor. On average, we forecast that rents will increase by 2.6% pa over the next five years but we are forecasting a very strong rental cycle with another year of double digit rental growth in 2008 followed by at least three years of falling rents as development completions increase just as the economy begins to slow.

Prime yields have remained unchanged over the first six months of 2007 at 5.5%. In the short-term yields are likely to remain at this level, but as the rental cycle unwinds there will be upward pressure on yields and by the end of our five year forecast period yields are forecast to have drifted out to 5.8%. Given the low average rental growth level over the five years and increasing bond yields, total returns are forecast to be well below the level of the required return in Scenario One. Only Scenario Three leads to total returns that are close to our required level.

Figure 3 - Norwegian High Street Retail



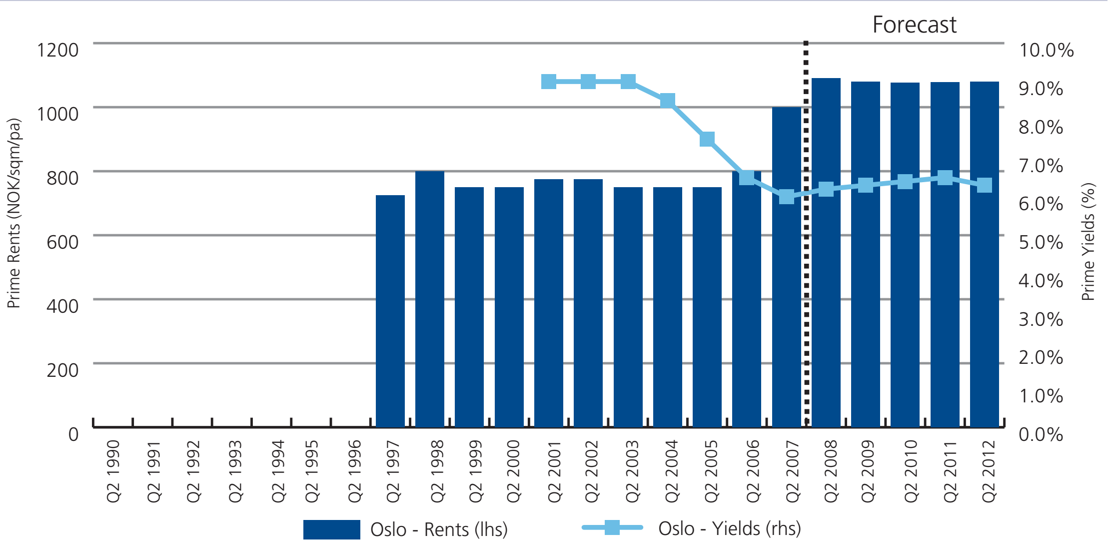
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

Retail rents in Oslo grew by 4.5% in the first half of 2007, underpinned by strong consumers' expenditure growth. Over the next five years rents are expected to grow by 2.2% pa, despite monetary tightening which may curb consumer spending. The main risk to rental growth is one of over supply. There are a considerable number of plans for shopping centre extensions and new retail warehousing projects which will dilute turnover.

Yields fell by 25 bps to 4.75% for standard shop units in the first half of 2007. Our analysis suggests that current yields are too low. We therefore forecast that they will rise slightly to 5% by Q2 2012. Prime yields for shopping centres are currently 5% and are also expected to increase by 20 bps over the forecast period. The combination of very limited real rental growth with a relatively low current yield and outward yield shift means that Oslo standard shop units and shopping centres are unlikely to deliver attractive returns over the next five years under Scenario One. However, the more aggressive assumptions of Scenarios Two and Three result in expected returns which are broadly in line with our required returns.

Figure 4 - Norwegian Logistics



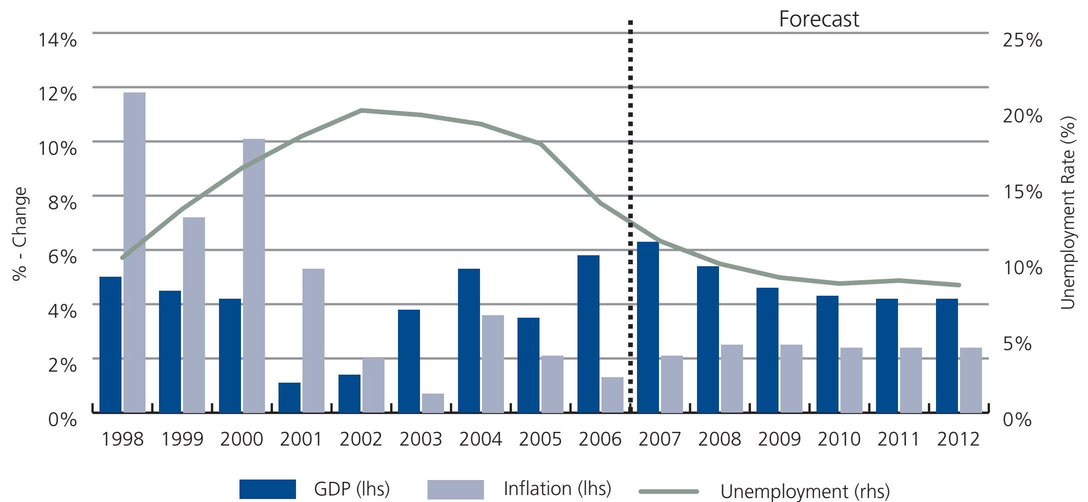
Source: INVESCO Real Estate; DTZ Research (September 2007)

Logistics/Industrial

Oslo industrial rents grew by 17.6% over the first half of 2007 and, with rents equating to more than €125 sqm pa, Oslo is now one of the most expensive logistics markets in Europe. On average prime rental growth is forecast to be 1.5% over the next five years, but after this year, rental growth will be minimal as the market takes time to adjust to the new rental levels. Prime yields fell by 25 bps to 6% in the first half of 2007. Yields are forecast to drift back out to 6.3% over the next five years. Under Scenario One, limited rental growth combined with a modest increase in yields will result in disappointing total returns. This conclusion does not change under Scenarios Two or Three.

13. Poland

Figure 1 - Polish Economics



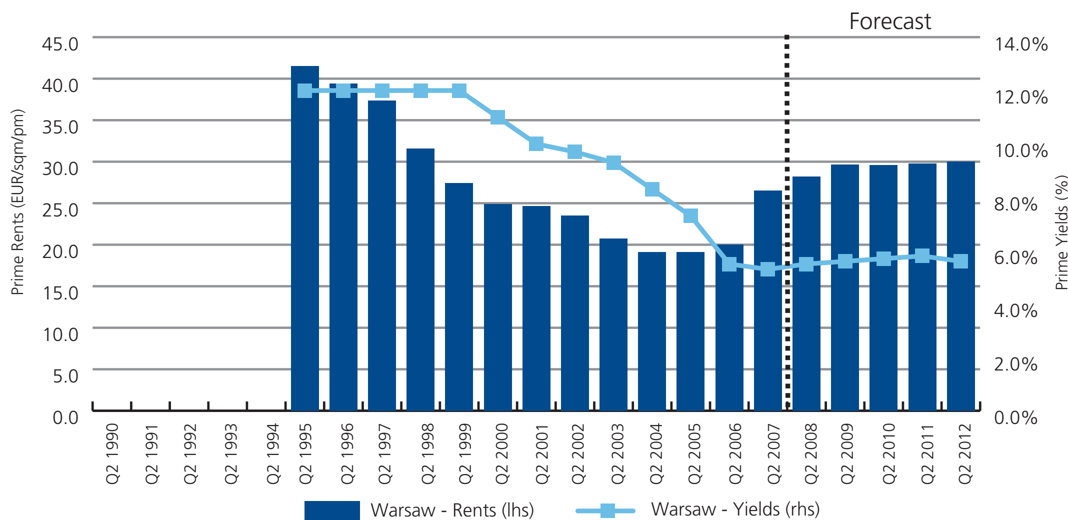
Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

GDP growth over the first half of 2007 was unexpectedly strong; as a result commentators have upgraded their expectations for the year as a whole. Strong performance is mainly being driven by investment, with Poland benefiting from inflows of EU structural funds and associated infrastructure improvements. Additionally, falling unemployment rates and increasing wage levels are supporting strong private consumption growth. However, the downside of this has been a worsening trade balance. A surprising development has been the strength of the service sector, which has been attributed to rising disposable income in the Polish economy. This has to be regarded as a positive development as it helps make economic growth more self-sustainable. We now expect GDP growth of 6.3% in 2007 and 5.4% in 2008. From 2009 on, GDP growth will decelerate slightly and reach a sustainable level of around 4.2% pa by 2011.

Despite strong economic growth, inflation has been lower than expected. Nevertheless there may be some upward pressure going forward. We expect inflation to be 2.1% in 2007, but for it to increase to an average of between 2.4% to 2.5% over the next five years. We do not expect Poland to join the euro before 2013, but bond rates should continue to benefit from the expectation of convergence and future membership.

Figure 2 - Polish Offices



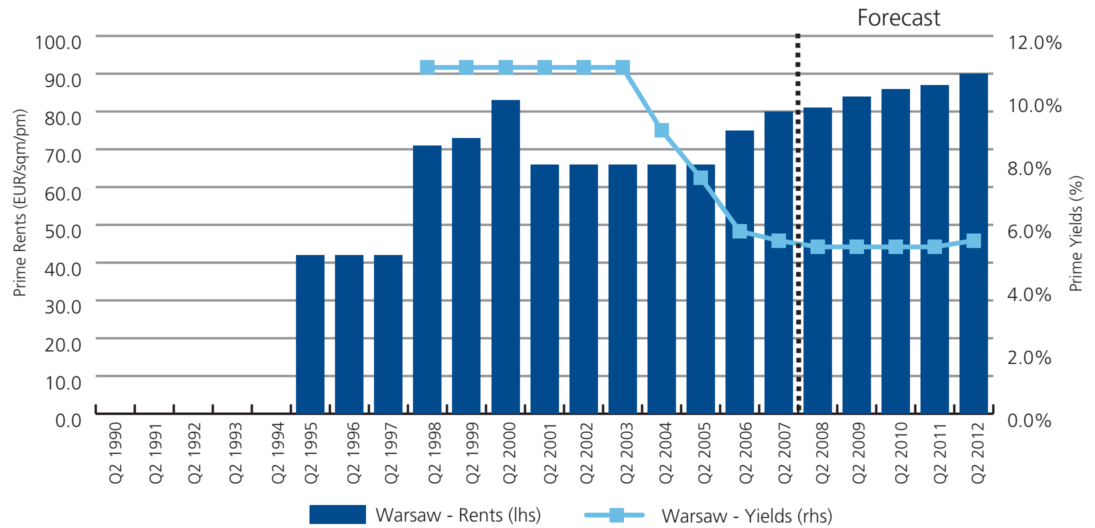
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

In the first half of 2007 the combination of strong demand with limited supply and a consolidating CBD led to prime rental growth of more than 20%. The strength of the economy, and the improving prospects for the service sector should continue to underpin strong levels of demand. Vacancy rates are forecast to remain at unsustainably low levels over the next two years, but the development pipeline will respond to the current ongoing strong rental growth, and supply will increase. In five years' time we forecast that vacancy rates will be around 4.7%. Consequently we expect a strong rental growth cycle, with another year of strong prime rental growth in 2008, followed by a period of little or no growth as increased development activity reduces pressure on rents. On average, rents are forecast to grow by 2.5% pa over the next five years.

Strong investor demand and limited institutional quality product continues to exert downward pressure on yields. Therefore, over the first six months of 2007 yields fell by 25 bps to 5.25%. However, as the rental cycle in Warsaw unwinds, we forecast that there will be upward pressure on yields and in five years' time we expect them to be around 5.6%. As a consequence, under Scenario One expected total returns are likely to be well below the required level. However, Scenarios Two and Three are more positive with returns closer to the required level.

Figure 3 - Polish High Street Retail



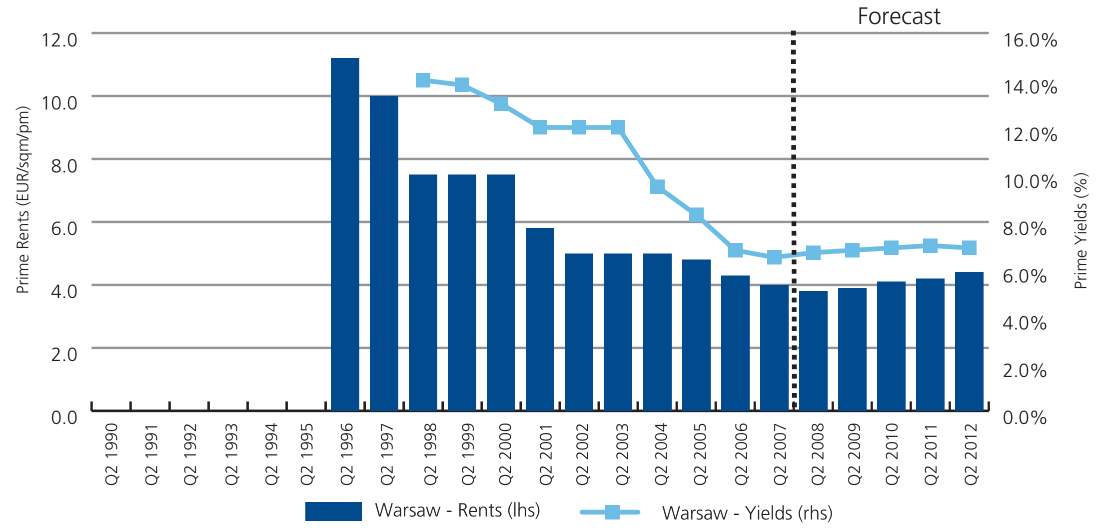
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

Rents for standard shop or high street retail units increased in the first six months of 2007 by about 7%, continuing the trend observed in 2006. Growth is being driven by good consumer expenditure growth and a general improvement in the quality of stock. Our forecasts suggest that this trend is set to continue. For standard shops, we expect rental growth to average 2.5% pa over the next five years and, for shopping centres, the comparable figure is 3.3% pa. Retail warehouse rents will continue to stagnate and will only achieve a 1.8% pa increase as the occupier here is more cost sensitive and supply is plentiful.

Retail yields are still under pressure with standard shop unit yields falling by 25 bps to 5.5%. Shopping centre yields are also 5.5% and yields for retail warehouses have remained stable, at 6.25%. We expect standard shop unit and shopping centre yields to remain broadly unchanged over the next five years, but retail warehouse yields are forecast to move out to 6.6%. Both standard shop and shopping centres are forecast to provide returns that are broadly in line with the required total return (7.2%), but retail warehouses are less attractive as the expected return falls well short of the required total return under Scenario One. Under Scenarios Two and Three standard shop units and shopping centres could generate returns significantly in excess of the required level, while retail warehouse returns are expected to deliver performance broadly in line with their hurdle rate.

Figure 4 - Polish Logistics



Source: INVESCO Real Estate; DTZ Research (September 2007)

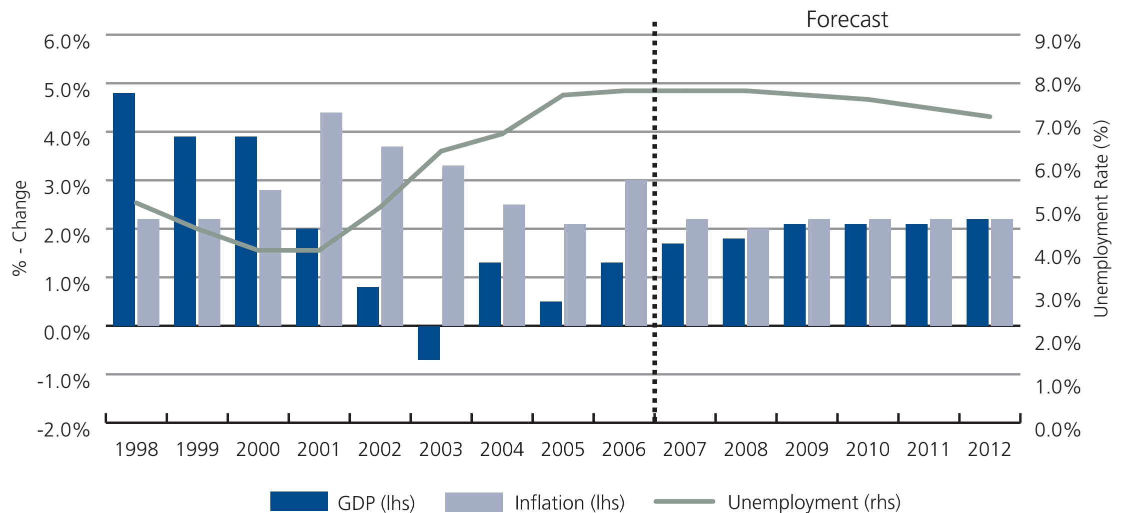
Logistics/Industrial

Rents for logistics space remained unchanged from their Q4 2006 level in H1 2007, despite robust economic growth and current low vacancy rates. The lack of upward pressure on rents appears to be related to the flexibility of the development pipeline and the cost sensitivity of occupiers. Nevertheless, the positive economic outlook should result in rental growth of about 1.9% pa on average over the next five years, with growth weighted towards the end of our five-year forecast horizon.

Yields for logistics properties fell by 25 bps to 6.5% in H1 2007. Our calculations suggest that this change was excessive and that yields should increase to 6.9% over the next five years. This increase in yields has a negative effect on capital values which is not offset by the weak forecast rental growth and, therefore, expected total returns fall well short of the calculated required total return under Scenario One. This conclusion does not change under Scenarios Two and Three.

14. Portugal

Figure 1 - Portuguese Economics

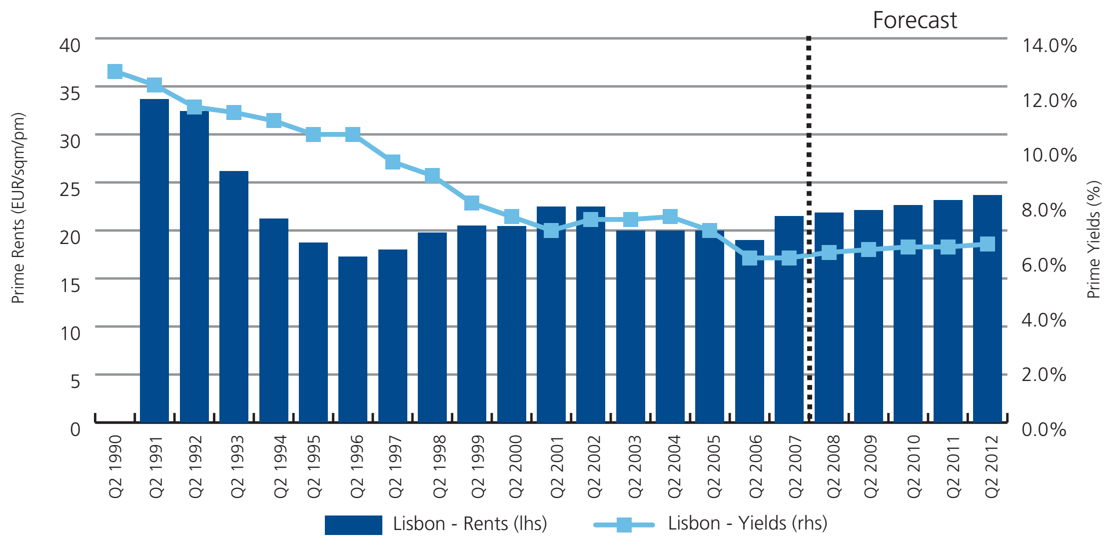


Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

The Portuguese economy has struggled for the past few years, but Q2 2007 GDP data suggest that there is room for some optimism. Consumer confidence is rising despite recent increases in interest rates and weak employment growth, and even more encouraging is the improvement in fixed investment, which suggests that firms have confidence in the Portuguese economy. Nevertheless, as the government continues on a path of fiscal discipline in order to bring the economy back in line with the Maastricht criteria, government spending is likely to contract. We forecast that GDP growth will be 1.7% this year, up from only 1.3% in 2006, and will average around 2.0% pa over the next five years as the economy continues to restructure and recover. Inflation is forecast to remain under control and average 2.2% pa.

Figure 2 - Portuguese Offices



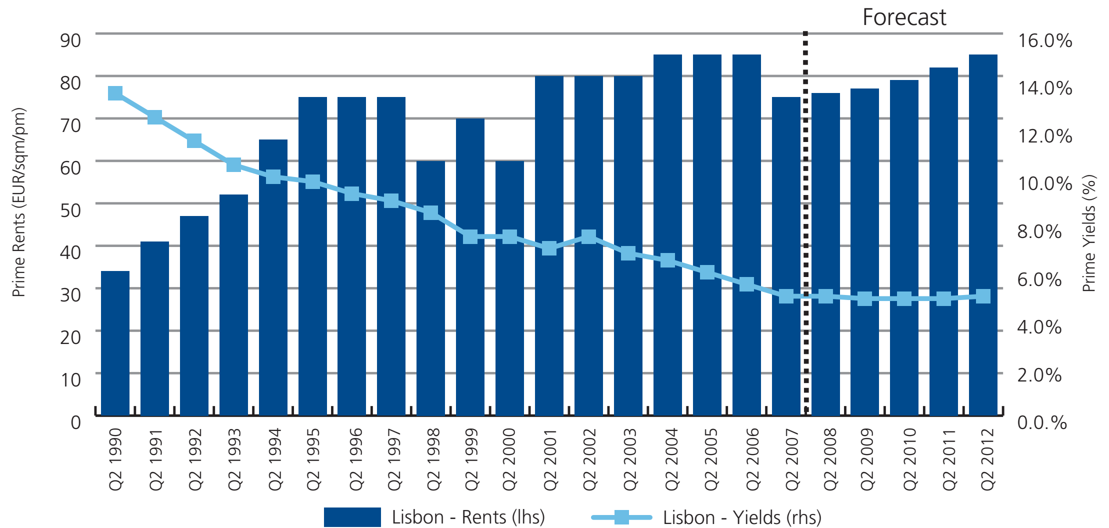
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

Despite a high vacancy rate of 9.3% and a weak economy, rents in Lisbon grew by 2.4% over H1 2007. Looking ahead, weaknesses in the economy are likely to continue to result in limited demand, but development is also forecast to be limited and therefore the vacancy rate will gradually fall to around 5%. Prime rents are, therefore, forecast to grow on average by 1.9% pa over the next five years.

Prime yields have remained stable at 6.0% for the past year, but our analysis suggests that this is too low. Therefore, in Scenario One we forecast that yields will be 6.5% at exit in five years' time and, consequently, that the Lisbon office market is unlikely to deliver attractive total returns over the next five years. Only under Scenario Three are forecast returns broadly in line with our required returns.

Figure 3 - Portuguese High Street Retail



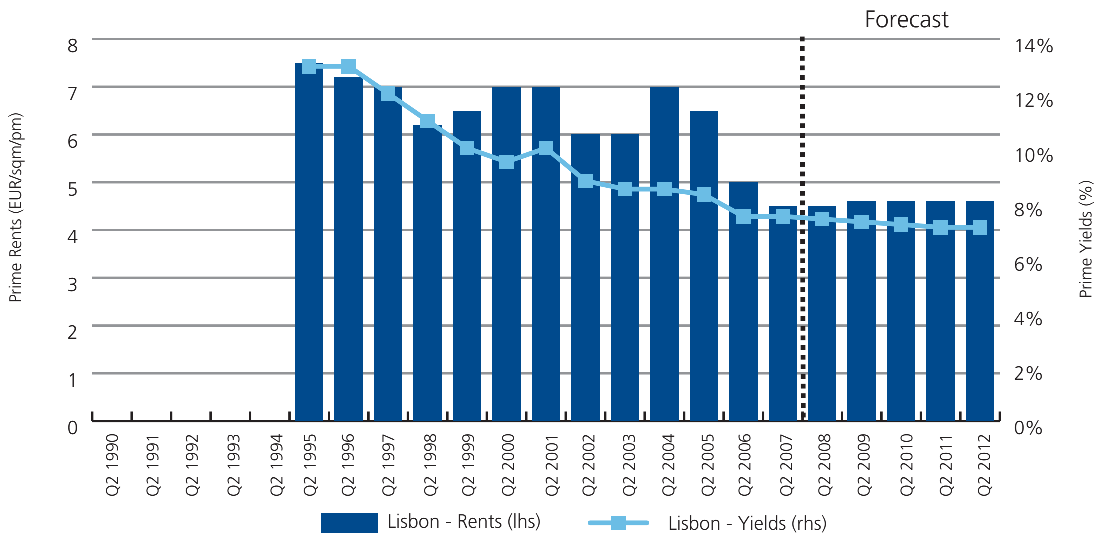
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

The combination of high levels of development and the recent weakness of the Portuguese economy resulted in a 10% fall in high street rents in 2006, but the first half of 2007 has seen stabilisation and rents remain unchanged on their end 2006 levels. Although we expect household spending to improve over the next five years, the potential scale of shopping centre and retail park development is still significant and is likely to act as a break on rental growth. On the plus side, Portuguese shoppers tend to prefer shopping in modern retail facilities and this development should continue to meet the demand for more modern stock from retailer and consumer alike. Reflecting this, rental growth is forecast to be 2.6% pa over the next five years for standard shop units and shopping centres, but only 1.8% for retail warehousing, where there is currently plentiful development activity

Prime standard shop yields in Lisbon were 5.0% at the end of Q2 2007, down from 5.5% at the end of 2006. Shopping centre yields were 4.5% and retail warehouse yields 5.75%. Under Scenario One we forecast that standard shop yields will remain broadly unchanged over the next five years, while shopping centre yields soften and exit at 5.0% and retail warehouse yields harden to 5.6% as development activity provides access to attractive good quality stock. Both standard shop units and retail warehousing are, therefore, forecast to produce total returns close to our target levels. Under Scenario Two, returns from standard shop units are forecast to significantly exceed our hurdle rate and, under Scenario Three, the same is true for retail warehousing. Shopping centres deliver returns well below the required rate in all three scenarios.

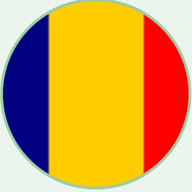
Figure 4 - Portuguese Logistics



Source: INVESCO Real Estate; DTZ Research (September 2007)

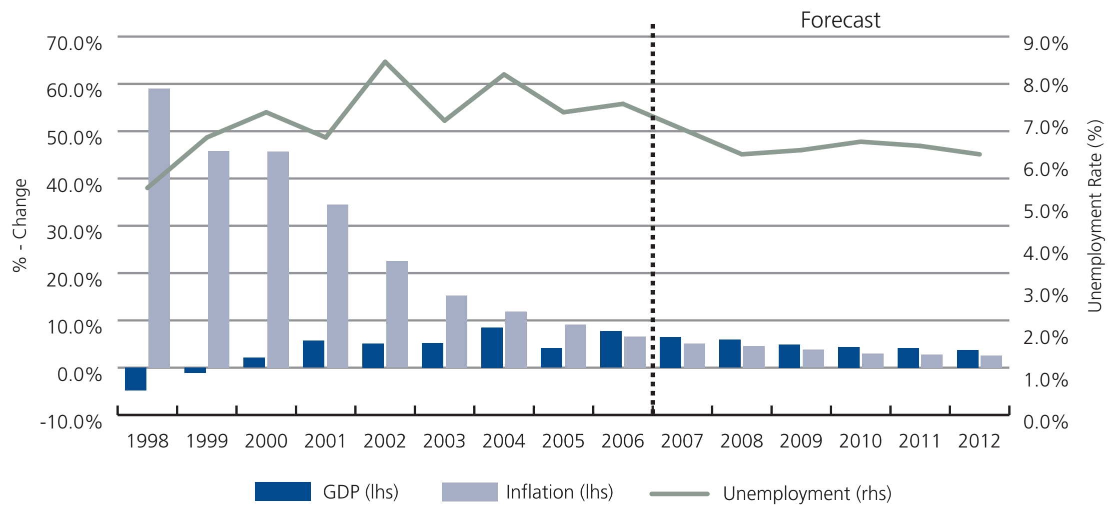
Logistics/Industrial

Following two years of dramatic negative rental growth, there are signs of rents stabilising. In the first half of 2007, there was no change in prime logistic rents. However, the weakness of the Portuguese economy is likely to limit demand and rents are expected to grow on average by only 0.3% pa over the next five years. Prime logistics yields are currently 7.5%, which is unchanged on the level at the end of 2006. Despite the weak expected rental growth, the high yield is likely to attract income focussed investors and, in Scenario One, we forecast that yields will fall to 7.1% over the next five years. As a result total returns will be close to the required level. Under Scenario Three, a more dramatic yield shift of 80 bps and a lower hurdle rate result in total returns that significantly exceed the required rate.



15. Romania

Figure 1 - Romanian Economics

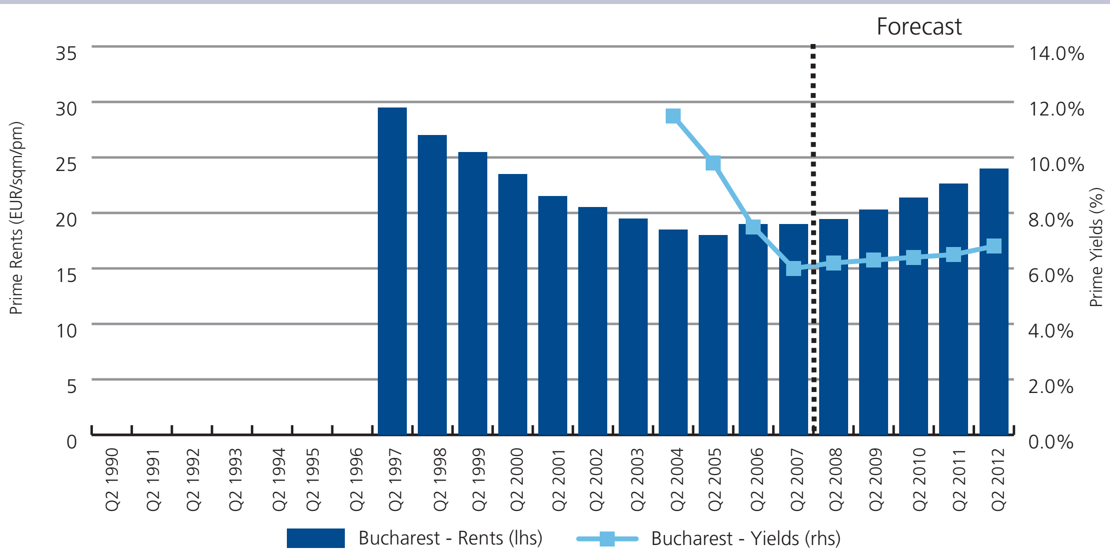


Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

Although Romania's political system has recently been plunged into turmoil, the economy has continued to grow at a healthy rate. Growth is being driven by domestic demand: investment activity is reasonably broad-based; consumer spending conditions have improved as wages continue to rise sharply; and taxes have fallen. In addition, in 2008 EU subsidies for a number of projects are expected to boost investment. The main threats to the economy are political instability, the current large trade deficit, the risk of a resurgence of inflation, and an investment programme that could see Romania breach the conditions of the Maastricht agreement, therefore jeopardising the timing of Romania's adoption of the euro. Nevertheless we are expecting GDP growth of 6.5% in 2007 and average GDP growth of 4.9% pa over the next five years underpinned by investment and private consumption growth of at least 10% pa.

Figure 2 - Romanian Offices



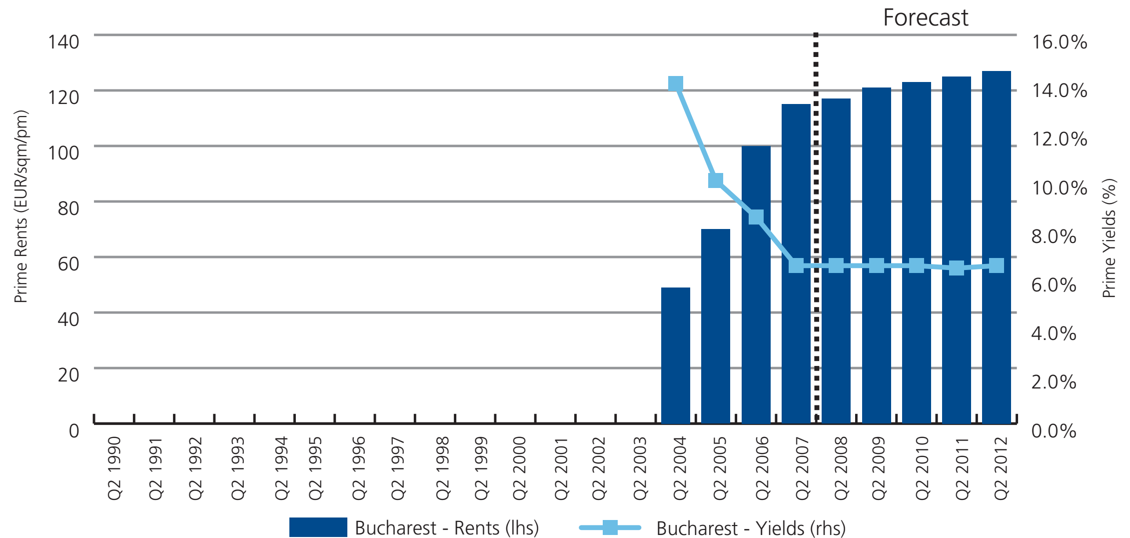
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

The current stock of office space in Bucharest is relatively low compared to other CEE capitals. This is despite average stock growth of about 21% pa since 2002. The rate of growth of stock is forecast to ease to about 9% pa during our forecast period. Nevertheless with around 300,000 sqm completions in 2007 and 350,000 sqm in 2008 supply will grow strongly in the next few years with stock doubling by 2011. The vacancy rate is currently stable and low, but with a number of big developments coming to the market in the next three years we expect it to increase. Prime rents have remained unchanged over the past 12 months and despite increasing vacancy, robust demand growth should support rental growth of at least 4.8% pa. Rental growth is likely to be focussed on the second half of the forecast period.

Since about 2004, there has been growing investor interest in the Romanian property market. Following EU accession in 2007, this interest increased further and has contributed to dramatic yield compression. Prime office yields fell by 30 bps to 6.0% in H1 2007. Under Scenario One, we forecast that yields will move back out by 80 bps as current yields seem unsustainably low given the risks associated with the market. Consequently, despite the attractive rental growth outlook returns are expected to fall short of the required level. Under the assumptions of Scenarios Two and Three forecast total returns are broadly in line with the target rate.

Figure 3 - Romanian High Street Retail



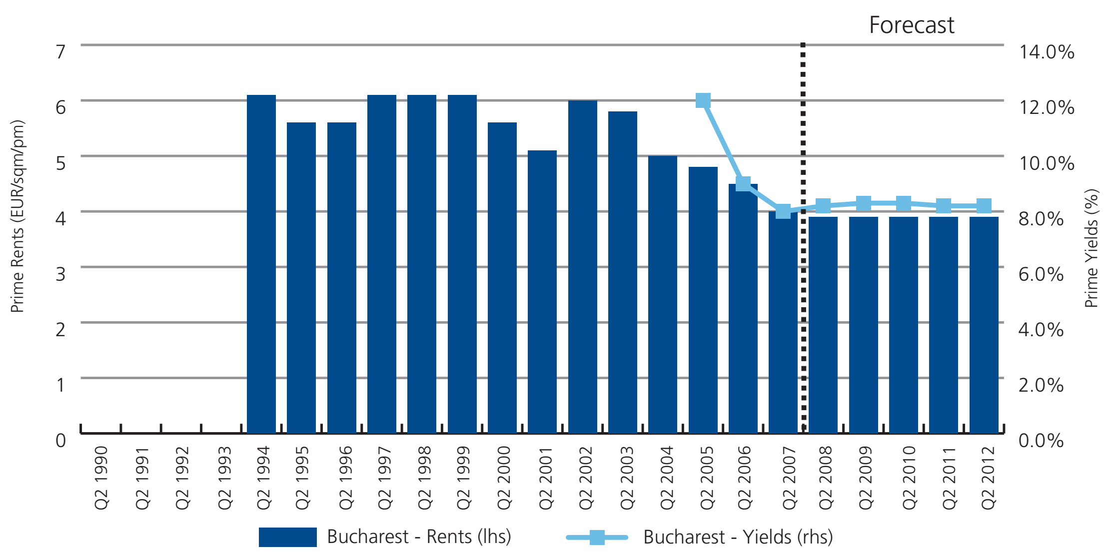
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

The retail market in Bucharest boomed in 2006 and rents increased by just under 30%. In the first six months of 2007, rents were up a further 4.5%. With robust rental growth and improving consumer confidence, development activity has been strong, with a focus on shopping centres, and more recently on retail warehousing. However, the market continues to be undersupplied. We expect rents for both standard shop units and shopping centres to grow at an average of 1.8% pa over the next five years. The growth is front loaded, and most of it will be achieved by 2009. After that high levels of development are likely to limit further growth.

As in the office investment market, demand for retail investments is strong and, as a result high street retail yields fell by 100 bps to 6.5% in the six months to the end of Q2 2007. Shopping centre yields are also currently 6.5%. Under Scenario One exit yields for standard shop units are expected to be broadly in line with current yields, but shopping centre yields are forecast to move out to 7.2% over the next five years. Standard shop units are therefore forecast to deliver returns that are broadly in line with our required returns, but returns from shopping centres are forecast to fall short of the required level. Adopting the assumptions of Scenarios Two and Three does not change these conclusions.

Figure 4 - Romanian Logistics



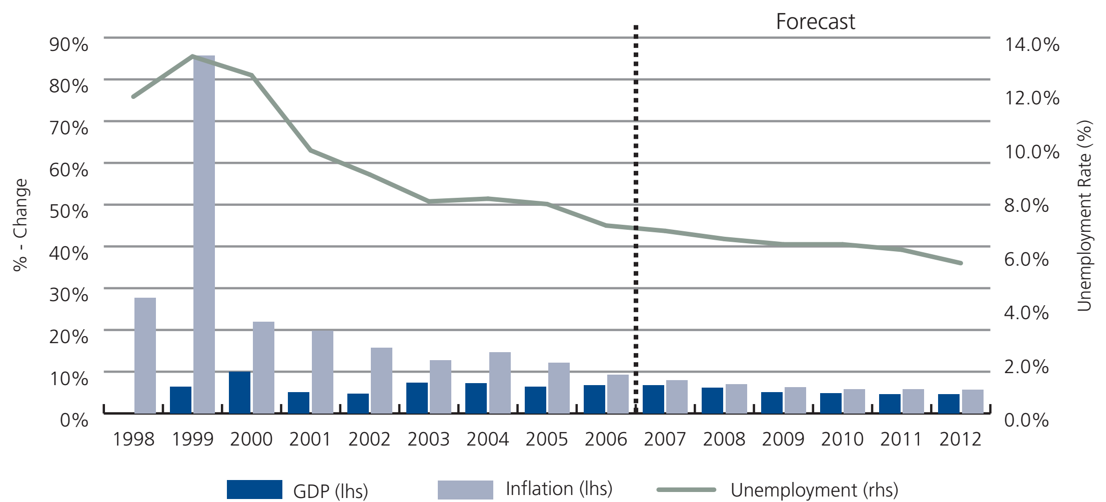
Source: INVESCO Real Estate; DTZ Research (September 2007)

Industrial

The current industrial stock of 300,000 sqm has been almost fully absorbed by the market and vacancy is very low, while demand for space is strong. The current development pipeline will result in a doubling of stock over the medium term, but the strength of demand is such that the risk of rising vacancy is low. However, in recent years prime rents for industrial space have been falling, largely due to the dominance of cost sensitive occupiers. Looking forward, this is unlikely to change and for 2007 as a whole we expect rents to fall by 7.1%, and over the five year forecast period average rental growth is forecast to be -0.3%. Yields fell by 50 bps to 8.0% over H1 2007. The weak rental growth outlook will allow yields to drift out slightly and at exit in five years time they are forecast to be 8.2%. Under Scenario One, we expect total returns of only 5.9% pa, which is well below the required level. This conclusion does not change under Scenarios Two and Three.

16. Russia

Figure 1 - Russian Economics



Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

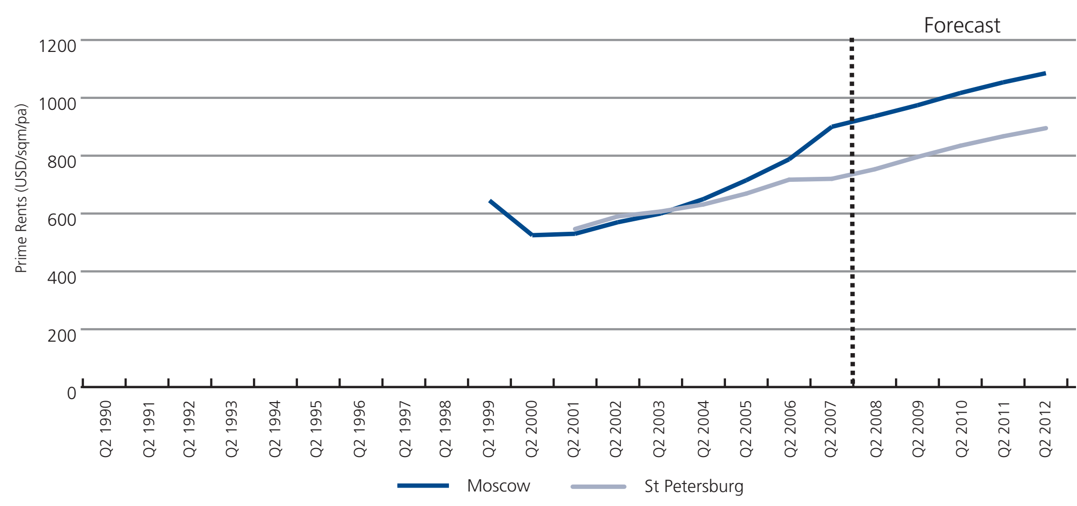
Economy

The Russian economy continues to deliver strong performance with GDP in Q1 2007 up 7.9% year-on-year. The main drivers of this strong performance were household consumption (due to rapid wage growth and low unemployment) and fixed investment (driven by a strong manufacturing sector). We are forecasting GDP growth of 6.7% in 2007, but the Q1 data suggest that GDP growth may well exceed our expectations.

In the next five years GDP growth will slow down slightly to average 5.5% pa mainly due to weaker export growth. Additionally, growth may be limited by infrastructure weakness and shortages of skilled labour.

After a surprise increase in inflation in June, which suggested that there may still be inflationary problems in Russia, falling food prices have brought inflation levels back down to the official target of 7% to 8%. In our forecast we expect inflation to average 8% in 2007, but the ongoing volatility of inflation is a concern. This may suggest that our mid-term inflation forecast of 6.2% pa is optimistic.

Figure 2 - Russian Office Rents



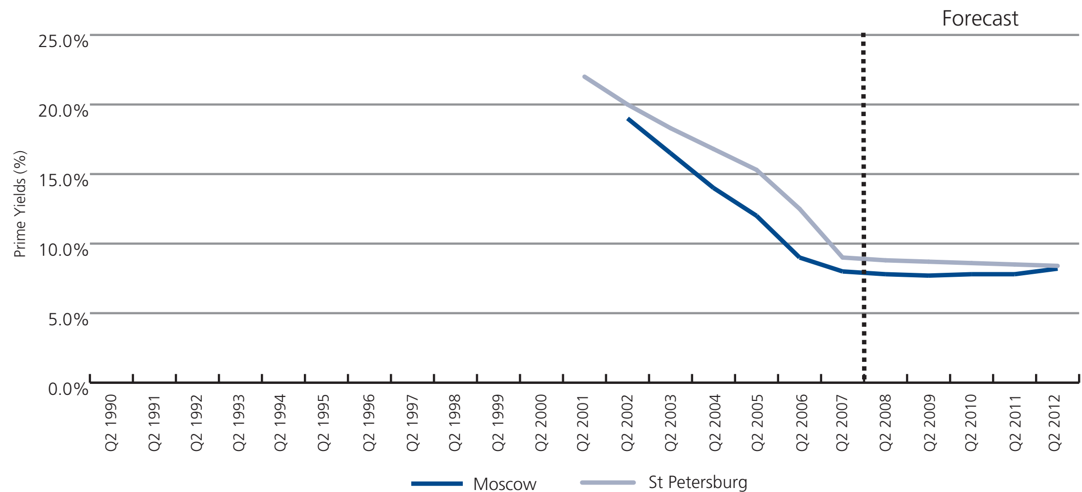
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

Demand for grade A space is now coming not only from foreign tenants but also from domestic companies. Limited development opportunities within the CBDs of both Moscow and St Petersburg are resulting in new developments of high quality space being focussed on the outskirts of the cities in new business parks. Development completions are running at high levels, but most new stock is not grade A space. However, strong demand is matching increasing supply and the vacancy rate remains broadly unchanged. This broad balance between supply and demand is expected to continue throughout the forecast period.

In Moscow, prime rents grew by 9% during the first half of this year; for the year as a whole we expect growth of just over 11%. However, with very high levels of development forecast, we expect rental growth to moderate and average 3.8% over the next five years. Rents in St Petersburg did not grow in the first half of 2007, but we do expect a slight increase of 1.5% in the second half of the year. The development pipeline is also strong, but we believe that average rental growth of 4.5% pa over the next five years is achievable. In both markets, the robust economic outlook continues to offset our concerns over the level of prime rents.

Figure 3 - Russian Office Yields



Source: INVESCO Real Estate; DTZ Research (September 2007)

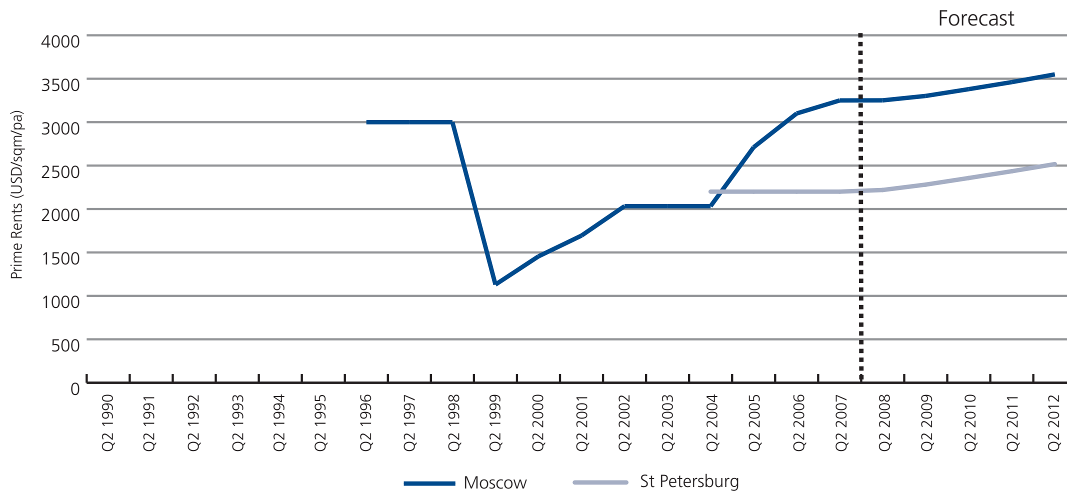
Yields in both markets are under pressure due to strong investor interest. In Moscow they remained unchanged at 8.0% in H1 2007, while in St Petersburg they decreased by 50 bps to 9.0%. We believe that there is scope for a further inward yield shift of 60 bps in St. Petersburg, leaving yields at 8.4% in five years' time. In Moscow, the potential for further yield movement is limited, and with rental growth slowing, we expect the exit yield in five years time to be 8.2%. The combination of high current yields and robust rental growth should generate total returns well in excess of the required level even under all three scenarios.

Retail

Standard shop unit rents increased in Moscow by only 1.6% over H1 2007, but remained stable in St. Petersburg. The emergence of a 'middle class' in Russia is generating increasing consumer demand, but developers are responding and therefore we forecast only moderate rental growth for standard shop units of 1.8% pa in Moscow and 2.7% in St. Petersburg over the next five years. Shopping centre and retail warehouses will grow on average by 1.0% to 2.0% pa.

Yields are under pressure as investor demand remains strong. In St Petersburg yields for standard shop units fell 50 bps to 9.5% and in Moscow they were down by 125 bps to 9.0%. Shopping centre yields are lower, at 8.0% in Moscow and 9.0% in St Petersburg and retail warehouse yields are 9.0% in both markets. In exit, yields are expected to remain broadly unchanged. Under Scenario One, St Petersburg

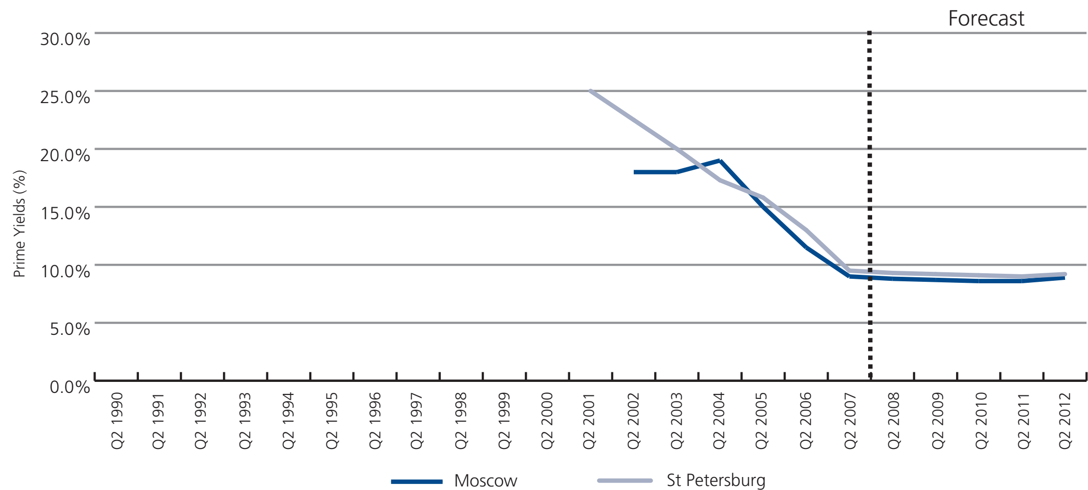
Figure 4 - Russian High Street Retail Rents



Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

is forecast to offer better investment opportunities than Moscow, with expected returns for standard shops exceeding the required level and shopping centre returns forecast to be broadly in line with required rates. In Moscow, expected returns for standard shops are broadly in line with the hurdle rate, but shopping centres generate returns that fall short of the required level. In both markets, retail warehousing is not expected to produce attractive returns. Under Scenarios Two and Three, St Petersburg shopping centres and Moscow standard shops should also deliver attractive returns, but only when we assume that current yields are higher, in Scenario Three, do retail warehouses generate returns that are in line with the calculated required return.

Figure 5 - Russian High Street Retail Yields



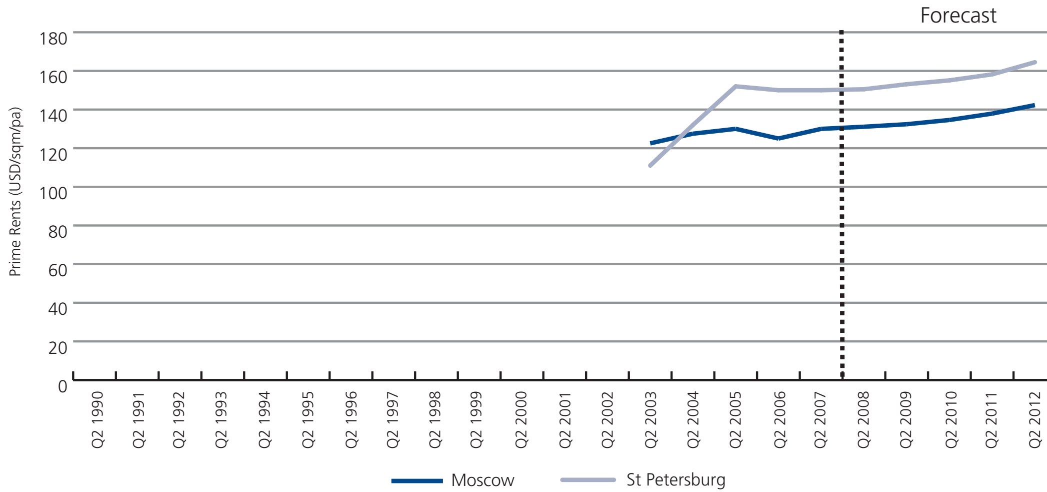
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Logistics/Industrial

Demand in the logistics market has increased due to strong retail sector growth and supply appears to be responding. Therefore rents have remained stable. Given rents are relatively expensive when compared with other locations, we do not believe that there is significant pressure for further growth as supply side flexibility should continue to offset demand side strength. Overall, we expect rents to grow by just under 2% pa on average in both Moscow and St. Petersburg over the next five years.

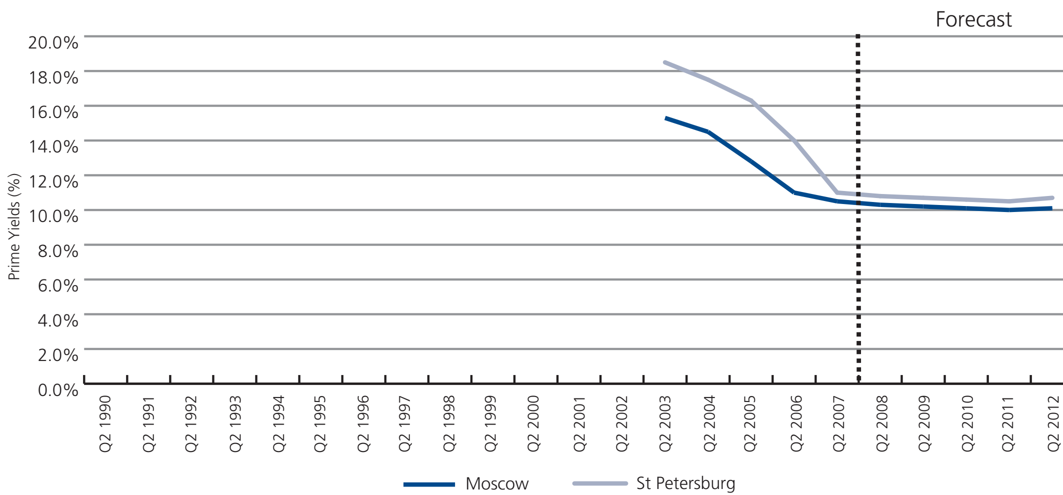
Yields fell in Moscow by 50 bps to 10.5% and remained stable at 11% in St. Petersburg in the first half of 2007. Ongoing investor demand should continue to exert pressure on yields and we expect exit yields to move in by 30 to 40 bps over the next five years. The hardening of yields will support good total returns and both markets are expected to significantly outperform our required returns even under Scenario One.

Figure 6 - Russian Logistics Rents



Source: INVESCO Real Estate; DTZ Research (September 2007)

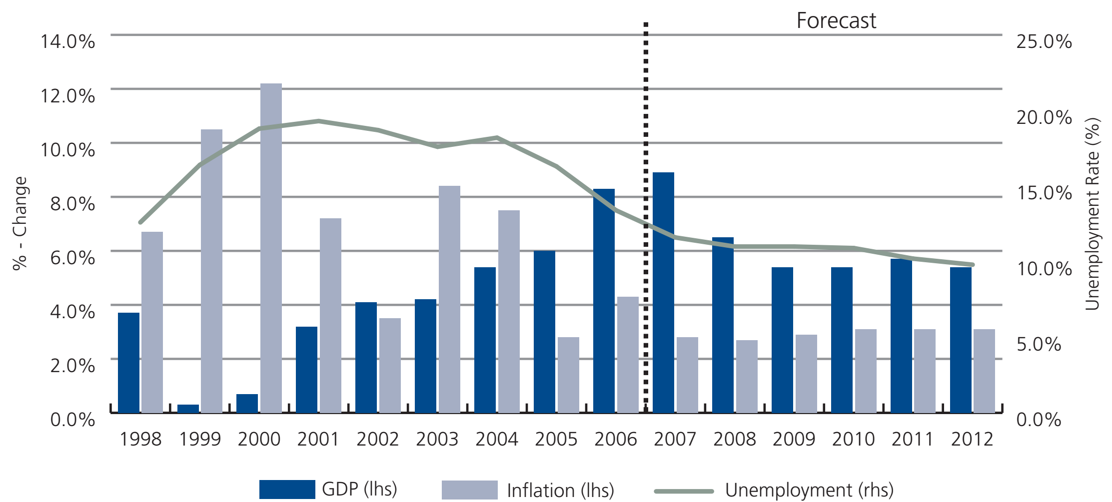
Figure 7 - Russian Logistics Yields



Source: INVESCO Real Estate; DTZ Research (September 2007)

17. Slovakia

Figure 1 - Slovakian Economics



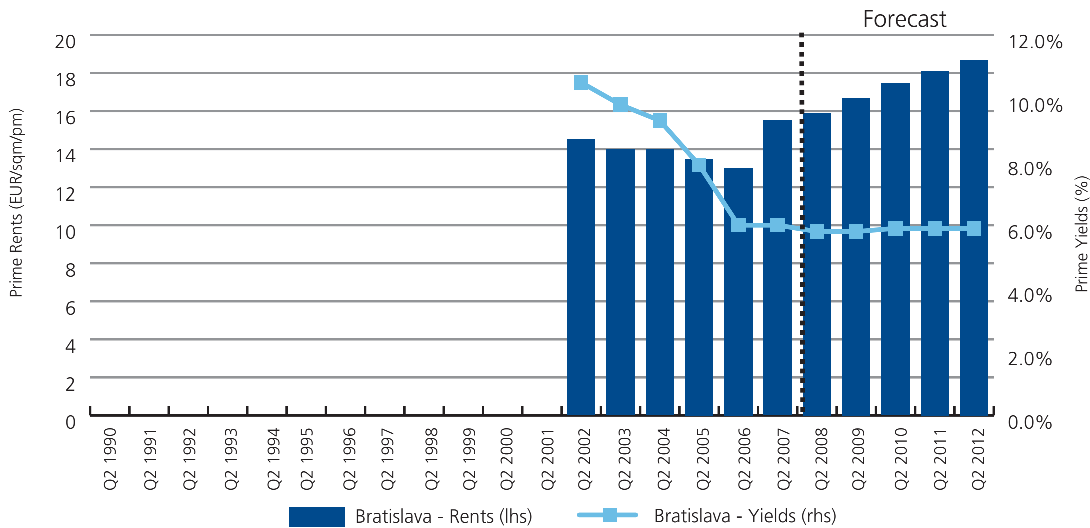
Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

The Slovakian economy is still booming and Q2 2007 GDP data showed no sign of a slowdown, with year-on-year growth of 9.2%. There is a steady and strong rate of domestic and non-domestic investment growth and private consumption is also growing rapidly. Manufacturing output is increasing strongly and is expected to continue to do so. Export growth is mainly driven by the automobile sector, but the entertainment electronic sector is also important. As the unemployment rate is falling and wages are rising, private consumption growth is forecast to grow by 6.3% in 2007. Last, but not least, government spending is growing strongly too. In 2007 we, therefore, expect GDP growth of 8.9%. There are concerns that the new government, which is viewed as being less market friendly than the previous admisitration, will soften or reverse some of the economic reforms enacted over the last few years, but as yet there have been no changes. The Slovakian koruna is stable and inflation, which was running at 4.3% in 2006, has fallen dramatically this year to an estimated level of 2.8% for 2007, but there are currently indicators that it could be well below this.

The country's economic outlook remains very positive, anchored by strong macroeconomic fundamentals and the government's commitment to euro zone entry. Within the next five years we expect a slow down of GDP growth, but in 2011 the GDP growth rate will still be well above 5% pa and on average growth will be 6.0% pa over the next five years.

Figure 2 - Slovakian Offices

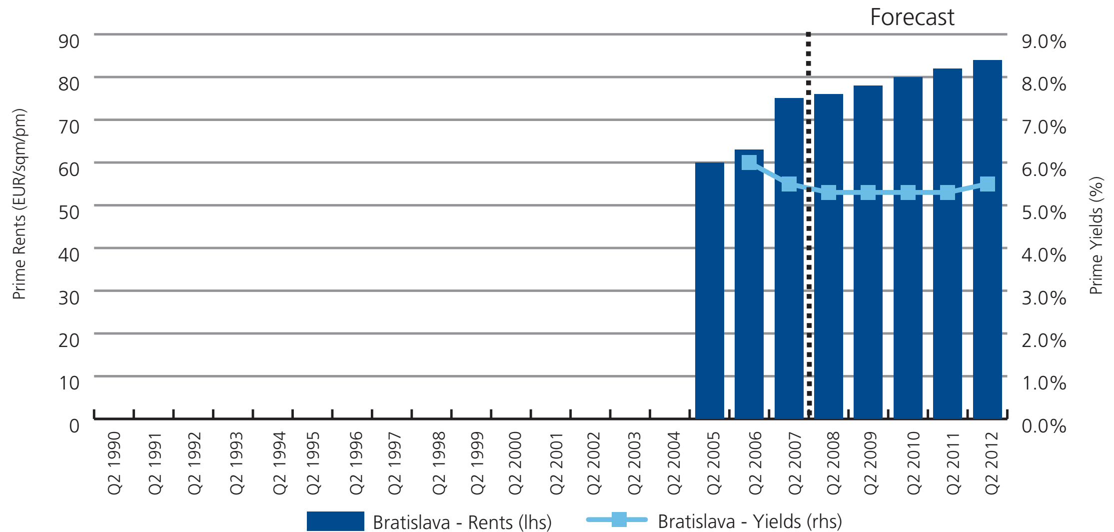


Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

The strong rental growth of 2006 has continued into 2007, though on a more modest level. In the first six months of the year rents in Bratislava increased by 3.3%. For 2007 as a whole we expect growth of 4.0%. Growth is driven partly by the ongoing demand for modern office buildings. Current development activity will result in an increase in vacancy rates to 11% by the end of this year, but we expect demand to be strong enough to absorb this supply. We, therefore, forecast an average rental growth of 4.2% pa over our five-year forecast period.

Yields remained flat at 6.0% in H1 2007. The exit yield in five years time is forecast to move in slightly to 5.9%, supported by a clear reduction in vacancy levels, robust rental growth, and falling bond yields as Slovakia adopts, or gets close to adopting, the euro. The expected total return is close to our calculated required return under Scenario One, and under Scenarios Two and Three forecast returns are expected to be well in excess of the required level.



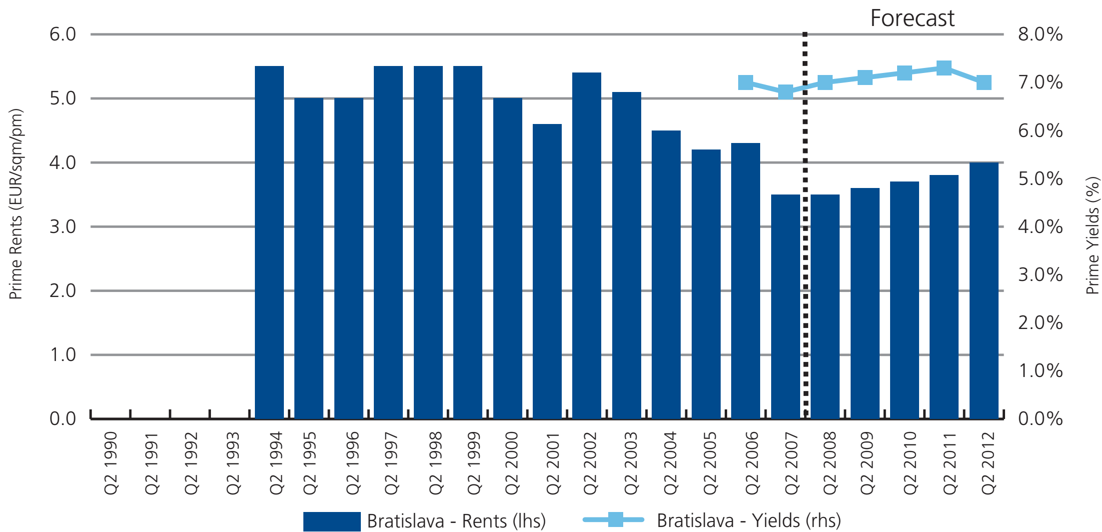
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

The retail sector is benefiting from the strong economy and standard shop rents have grown by 25% since the end of 2006. Following such strong growth, we now expect a period of stability. Therefore, despite the strong outlook for consumers' expenditure growth, we are forecasting that high street rental growth will average only 2.3% pa over the next five years. Shopping centre rental growth is forecast to average 4.6% pa as new development activity improves the quality of space. Retail warehouse rental growth should be a more modest 2.7% pa.

In H1 2007 yields for high street retail remained stable at 5.5%, with those for shopping centres at 6.0% and those for retail warehouses at 7.25%. On exit in five years' time we expect yields for standard shops to be broadly unchanged, whereas shopping centres and retail warehouse yields are forecast to move slightly inward to 5.7% and 7.1% respectively. Total returns for standard shops are expected to be around 7.7% pa, broadly in line with our calculated required total return of 7.4%, while in the shopping centre and retail warehouse sectors, total returns are forecast to significantly exceed the target level. Under Scenarios Two and Three all three sub-markets generate returns well in excess of the required level.

Figure 4 - Slovakian Logistics



Source: INVESCO Real Estate; DTZ Research (September 2007)

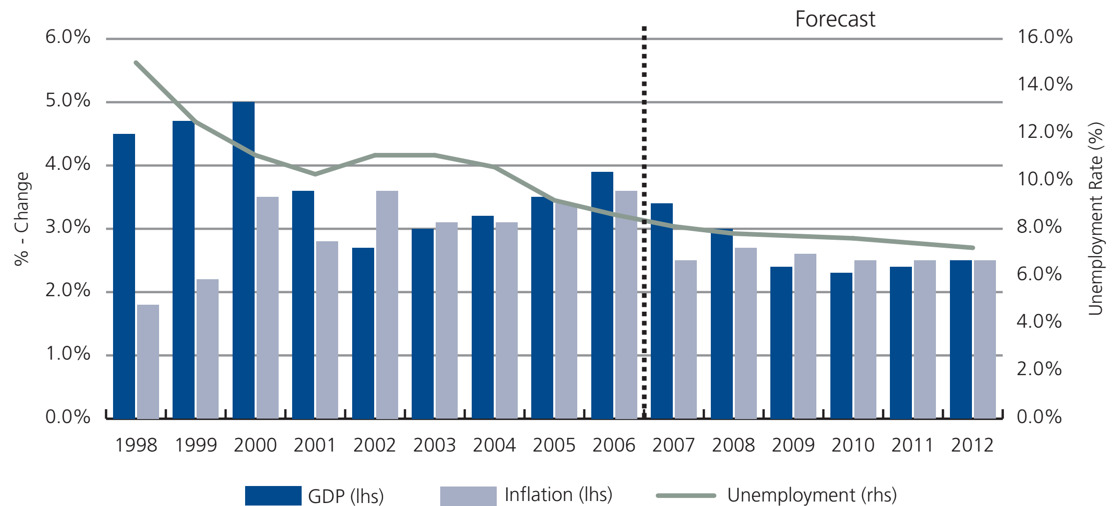
Logistics/Industrial

Despite current strong demand, Slovakian logistics rents did not increase over the past six months as the availability of investment and development capital enhanced supply side flexibility and occupiers remained highly cost sensitive. However, current rental levels in Bratislava are low when compared with other CEE markets. We therefore forecast that rental growth will average 2.5% pa over the next five years as strong economic growth puts upward pressure on rents.

Yields remained stable at 6.75% over H1 2007. Given relatively modest rental growth expectations we expect an outward yield shift of 20 bps over the next five years. The combination of limited rental growth and outward yield shift under Scenario One suggests a total return of 6.1%, which is clearly below the required total return of 8.6%. Logistics in Bratislava are, therefore, currently not an attractive investment market. Only under Scenario Three, where the current yield is increased to 7.0% and the required return is reduced to 8.1%, does the Bratislava logistics market generate returns that are broadly in line with required levels.

18. Spain

Figure 1 - Spanish Economics



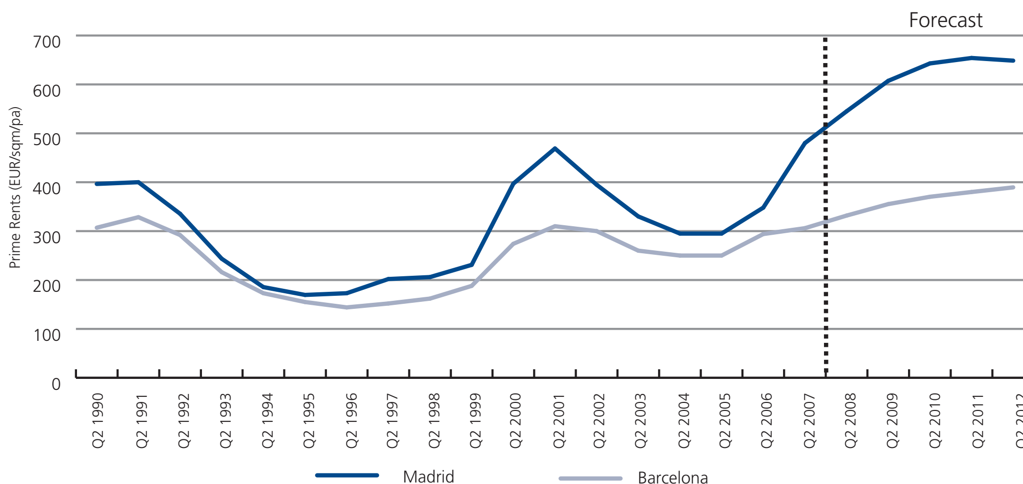
Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

The Spanish economy continues to out-perform the euro zone average even though GDP growth is expected to slow to 3.4% over 2007, down from 3.9% in 2006 as rising interest rates curb domestic demand. Higher interest rates have also had a positive impact on inflation, which was running at 3.6% in 2006, but is forecast to fall to 2.5% as less ebullient domestic demand and stable oil prices reduce pressure on prices. The key area of concern within the economy remains the property/construction sector, particularly given developments in the US housing market and the resultant deterioration in global liquidity. House price inflation has slowed significantly this year and there are concerns that Spain may be facing a sub-prime lending crisis of its own. With the economy highly dependent on the construction sector, a crisis in the housing market could have significant knock-on effects.

Nevertheless, domestic demand will remain a key driver of growth. Over our five-year forecast period we expect GDP growth to average 2.6% pa, which although well above the euro zone average reflects a slowing of growth as the economy continues to converge with the rest of the euro zone. Inflation will remain under control and unemployment is forecast to fall from 8.6% to 7.4% over the five years to 2011, supported by continuing job creation in the service sector.

Figure 2 - Spanish Office Rents



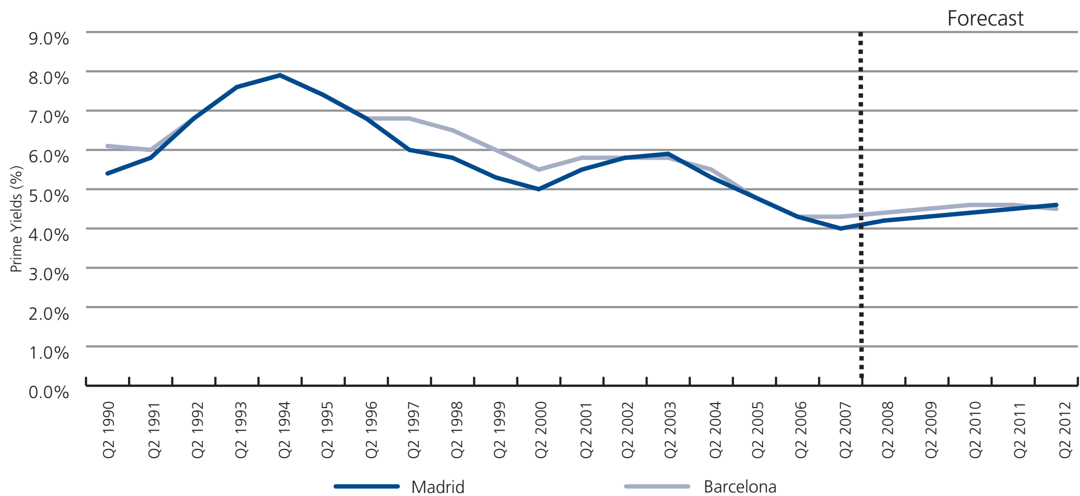
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

The strong growth witnessed in 2006 continued into the first half of 2007, with rents rising by 8.1% in Madrid and 2% in Barcelona. The combination of strong demand and shortages of supply has led to an acceleration of pre-letting activity. We continue to forecast a very strong rental growth cycle, particularly in Madrid where vacancy rates are forecast to fall to 1.5% in 2009. Although double digit rental growth is likely for another year, the development pipeline will respond to these increases and, by the end of the forecast period, rents are expected to fall slightly both in real and nominal terms. In Barcelona, growth is more steady as supply and demand remain more balanced and real growth is forecast for the whole of the five-year forecast horizon. On average, rents are forecast to grow by 6.2% pa over the next five years in Madrid and 4.9% pa in Barcelona.

Demand for institutional quality investment product remains high, but the availability of such product is currently limited and local investors still dominate the market. As expected in our spring 2007 report, yields have remained at 4.0% in Madrid and 4.25% in Barcelona since the end of 2006. However, as the rental cycle unwinds in Madrid, and bond yields increase, yields are forecast to drift out. We forecast that Madrid yields will have moved out to 4.6%, while Barcelona yields will increase to 4.5% by the end of our forecast period. Under Scenario One both markets should achieve total returns that are broadly in line with required returns. Barcelona is forecast to out-perform under Scenario Two. Both cities generate returns well in excess of the required level under Scenario Three.

Figure 3 - Spanish Office Yields



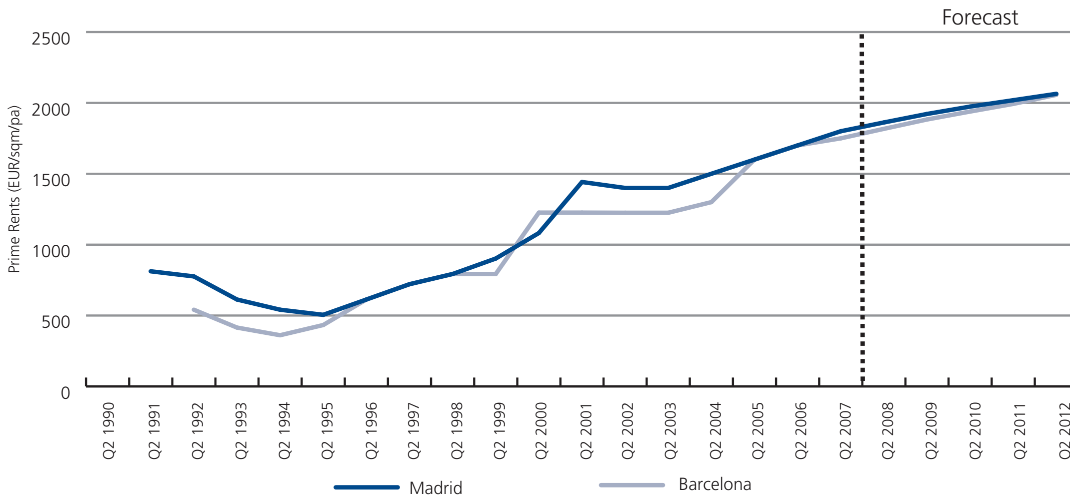
Source: INVESCO Real Estate; DTZ Research (September 2007)

Retail

Fuelled by consumer spending and tourism, Spanish standard shops have achieved strong retail growth over the last few years. However, higher interest rates and a weaker housing market are forecast to dampen consumer spending growth and, therefore, weaker rental growth is expected over the next five years. Over 2007 to 2012, prime rents are expected to increase by an average of 2.8% pa in Madrid and 3.3% pa in Barcelona. Growth in Barcelona is expected to exceed that in Madrid due to supply constraints and the strong tourist trade. Rental growth in both the shopping centre and retail warehousing sectors is expected to be weaker than that for standard shop units due to supply side expansion.

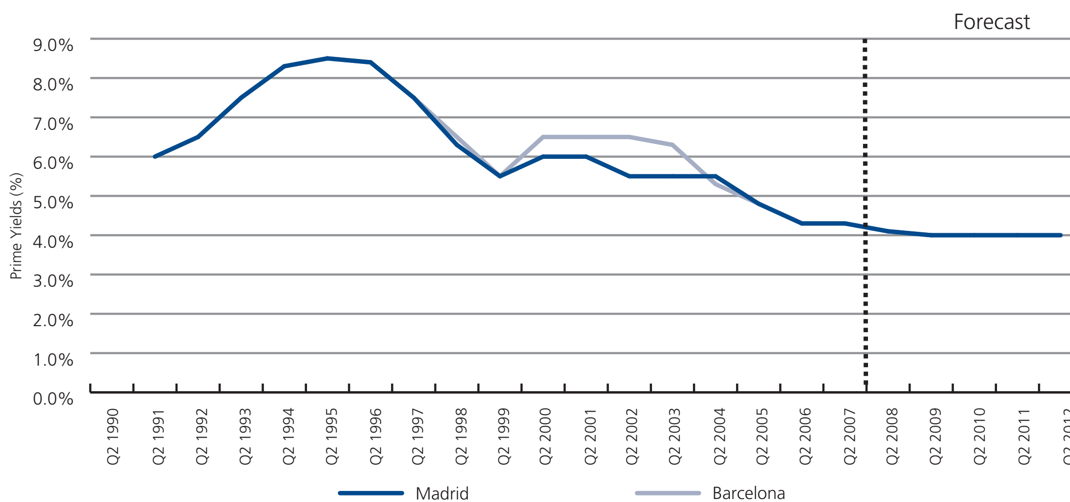
Yields hardened by a further 25 bps in H1 2007, driven by ongoing strong demand from investors. Prime standard shop yields are now 4.25%, as are shopping centre yields, while retail warehouse yields are 4.75%. We still believe there is scope for yields on standard shop units to move in and forecast that at exit in five years' time they will be 4.0%. Shopping centre yields are forecast to remain broadly unchanged, while retail warehouse yields are forecast to drift out by 10 to 30bps. Robust rental growth and inward yield shift should ensure that standard shops deliver total returns well in excess of the required level, even under Scenario One. The weaker rental growth profile and static or increasing yields produce disappointing expected returns in the shopping centre and retail warehouse sectors, and here returns will fall short of the hurdle rate. However, under Scenarios Two and Three, both sectors are forecast to provide returns broadly in line with the required level.

Figure 4 - Spanish High Street Retail Rents



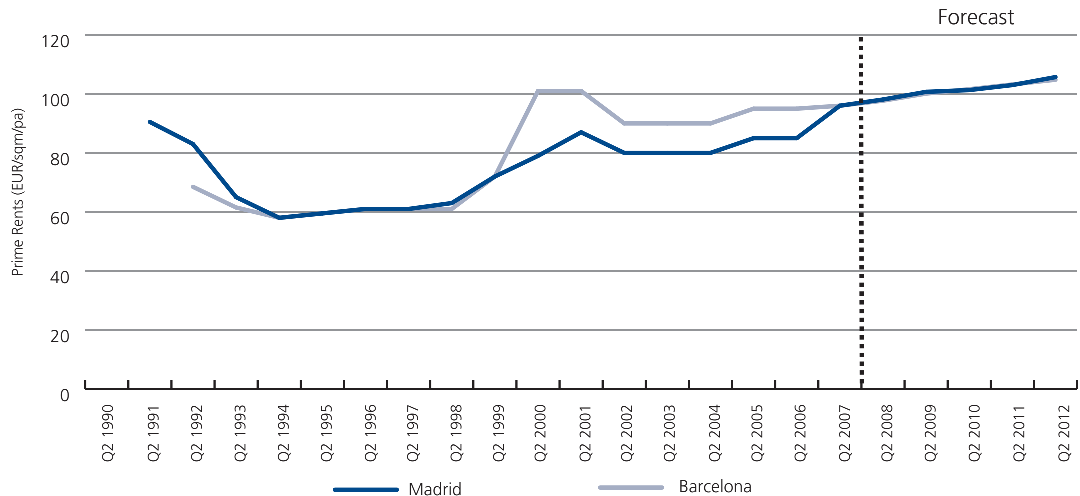
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Figure 5 - Spanish High Street Retail Yields



Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Figure 6 - Spanish Logistics Rents



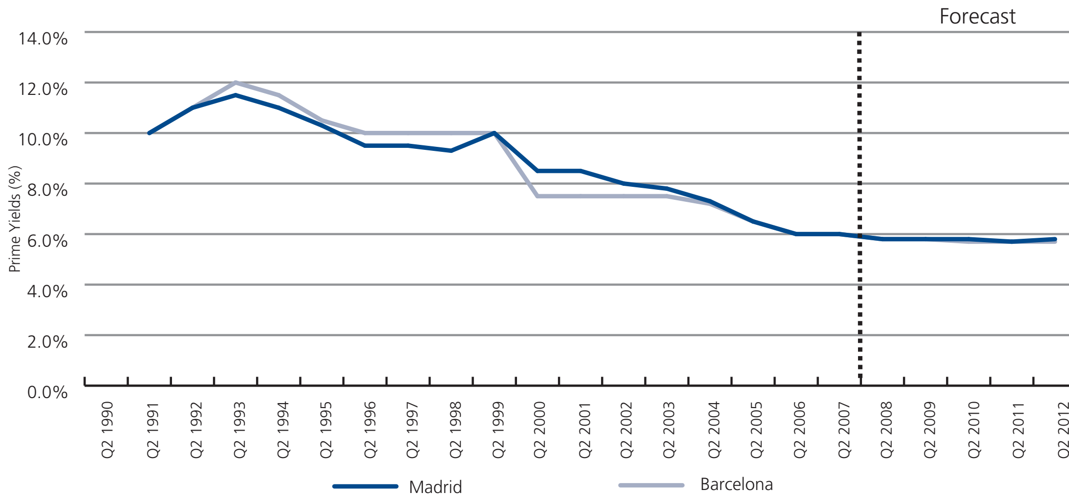
Source: INVESCO Real Estate; DTZ Research (September 2007)

Logistics/Industrial

Prime rents in both Barcelona and Madrid were €96 sqm pa at the end of Q2 2007. In Madrid, where rents used to be lower than in Barcelona, growing occupier demand has helped push rents up. According to King Sturge, Madrid now handles a third of all Spanish freight. However, in Barcelona shortages of space, which have pushed up rents and land prices, have driven out both occupiers and industrial developers. We expect rents in Barcelona to continue to be affected by competition from other locations over our forecast period, but high land values are likely to underpin some rental growth. On average rents are forecast to grow by 1.8% pa over the next five years. In Madrid, we expect strong rental growth to continue over the next two years but to slow in 2009 in response to development activity. Overall, rents are forecast to grow by 1.9% pa over the next five years.

Yields have remained stable at around 6.0% over the last year but with strong demand from income-focussed investors for higher yielding product, we forecast that there will be a further hardening. In five years time at exit we expect yields to be around 5.75%. Despite relatively weak rental growth, the higher current yield and further inward yield movement are sufficient to generate expected returns that are broadly in line with required returns under Scenario One. Assuming a further hardening of yields and a reduced required return, as in Scenario Two, produces expected returns that are well in excess of the required level.

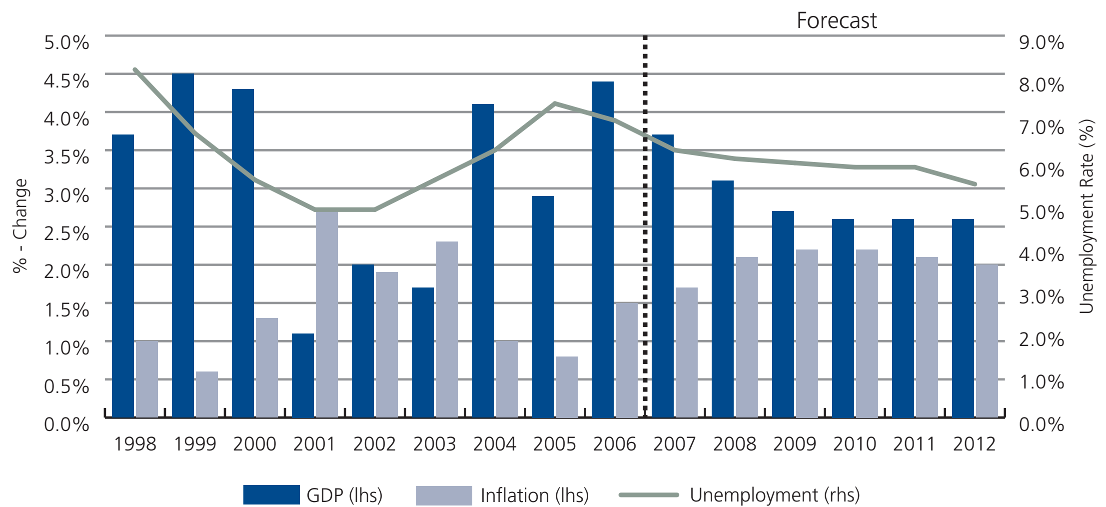
Figure 7 - Spanish Logistics Yields



Source: INVESCO Real Estate; DTZ Research (September 2007)

19. Sweden

Figure 1 - Swedish Economics



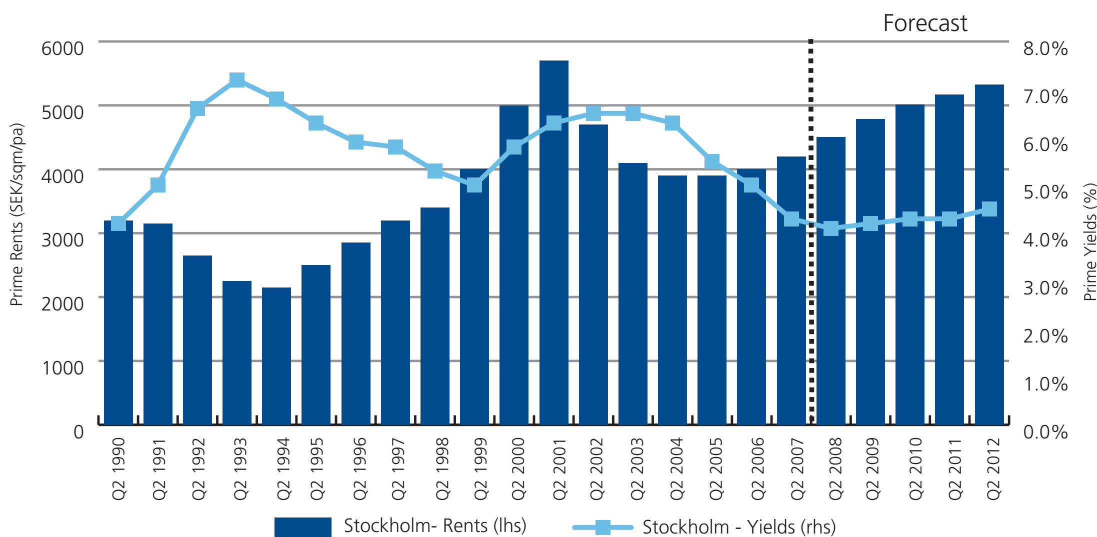
Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

Q1 GDP data suggest that the Swedish economy is beginning to slow from the very strong growth recorded in 2006. The slowdown has been as a result of a significant deterioration in the balance of trade and also a reduction in government expenditure growth. Further slowing is likely as recent interest rate rises start to impact on consumption. However, unemployment remains low and personal wealth has been boosted by strong increases in house prices and, therefore, the impact of higher interest rates is likely to be cushioned. In addition, the interest rate rises do not appear to have had an immediate impact on fixed investment, which continues to be supported by strong corporate profits and domestic demand. Overall, growth in 2007 is projected to be 3.7%, down from 4.4% in 2006, and will average 2.8% pa over the next five years.

The strength of economic growth and the tightness of the Swedish labour market have resulted in medium-term inflationary pressures. As a result, the Swedish Riksbank recently increased interest rates by 25 bps to 3.75%, the third increase this year, to ensure that inflation remains under control. We forecast that inflation will be 1.7% this year, up from 1.5% in 2006, but looking further ahead it is forecast to remain just above 2%, but broadly in line with the Riksbank target of 2%.

Figure 2 - Swedish Office



Source: INVESCO Real Estate; DTZ Research (September 2007)

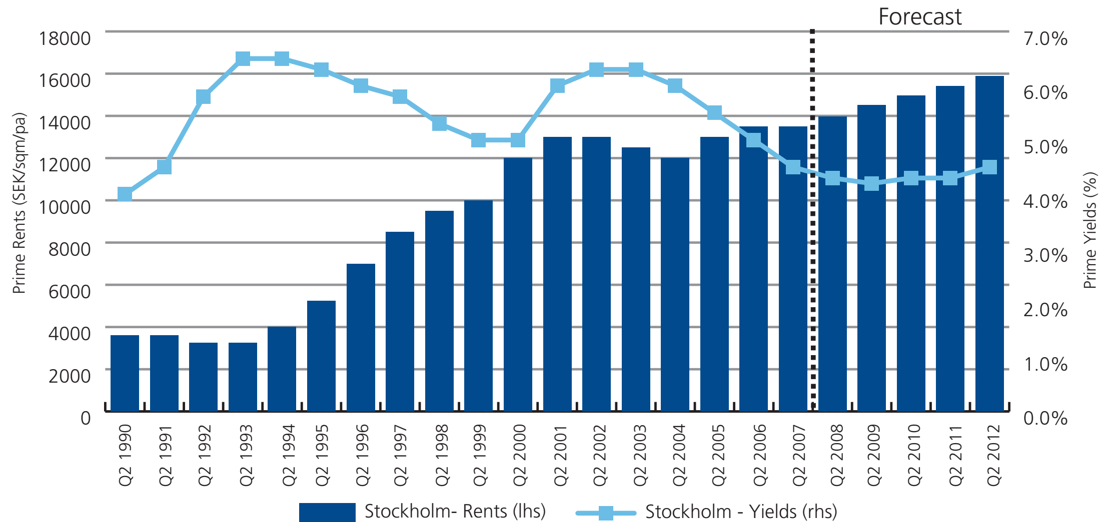
Offices

There is currently a mismatch between supply and demand within the Stockholm market. With the economy booming, demand is high but the development cycle is lagging behind and, although the current vacancy rate is still 11.8%, much of this space is poor quality, while demand is primarily for modern well-specified buildings in prime locations. Prime rents, therefore, grew by 2.4% in H1 2007 and further growth is expected in the second half of the year.

We forecast that over five years the vacancy rate will come down to 10% but much of this is structural vacancy and, therefore, masks ongoing shortages of prime space. Rental growth is expected to rise on average by 4.9% over the next five years with a peak in 2007-2008 before the development pipeline responds to improved market conditions.

International investors have been attracted to Swedish real estate by the strong economic outlook, and yields have fallen from 4.6% in Q4 2006 to 4.25% at the end of Q2 2007. We forecast that yields will drift back out over the next five years to 4.5% as they come under pressure from rising bond yields. However, strong rental growth will offset the impact of this yield movement and we forecast that required returns will be comfortably in excess of the required level even under Scenario One.

Figure 3 - Swedish High Street Retail



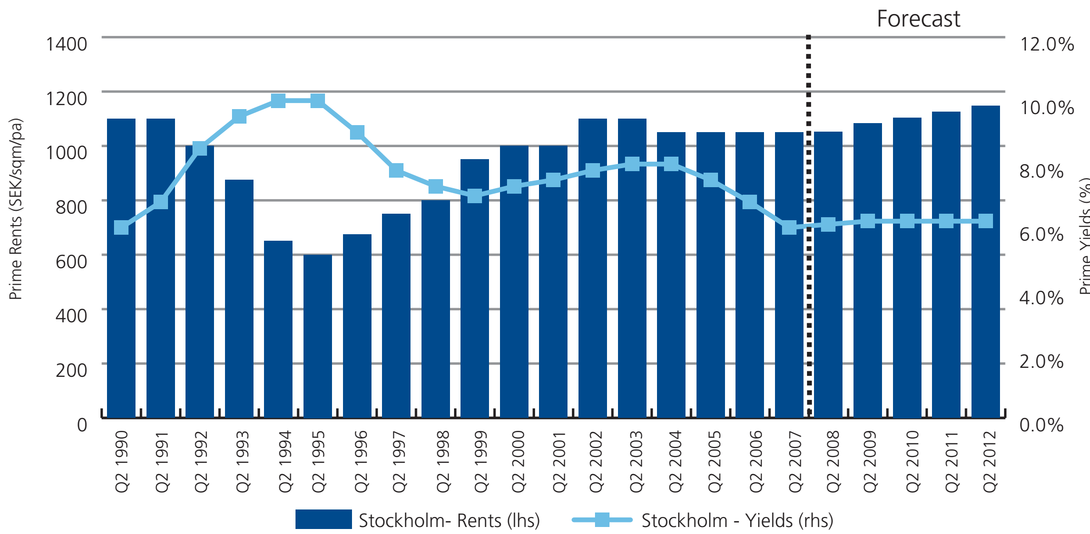
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Retail

Prospects for retail rental growth should be very good in Sweden given the extremely strong outlook for consumer spending in the short-to-medium term. Furthermore, the shortage of high quality retail units in city centre locations has resulted in additional upward pressure on rents. However at the end of H1 2007 prime rents were unchanged on levels at the end of Q4 2006. One of the possible breaks on rental growth is the relatively strong development pipeline for retail space in the city. Retail stock is forecast to grow at 2.9% pa over the next five years, which is marginally faster than GDP growth and is more than double the historic average for retail stock growth. Nevertheless, we believe that rental growth will be achieved by quality stock and that high street rents will grow by 3.3% pa on average over the next five years. Shopping centre rents are forecast to match this growth but retail warehouse rents are expected to lag behind.

Prime yields have been stable since the end of 2006 and for standard shops and shopping centres they are now 4.5%, while for retail parks yields are now 5.0%. While standard shop yields are forecast to remain stable, shopping centre yields are forecast to drift out by 20 bps and retail warehouse yields by 30 bps over the next five years. Under Scenario One, both standard shops and shopping centres should provide returns that are broadly in line with the required rate but retail warehouse performance will disappoint. Under Scenario Two, returns from standard shops are forecast to exceed the required rate, while retail warehouses generate an acceptable return. And under Scenario Three, shopping centres also produce returns in excess of the required level.

Figure 4 - Swedish Logistics



Source: INVESCO Real Estate; DTZ Research (September 2007)

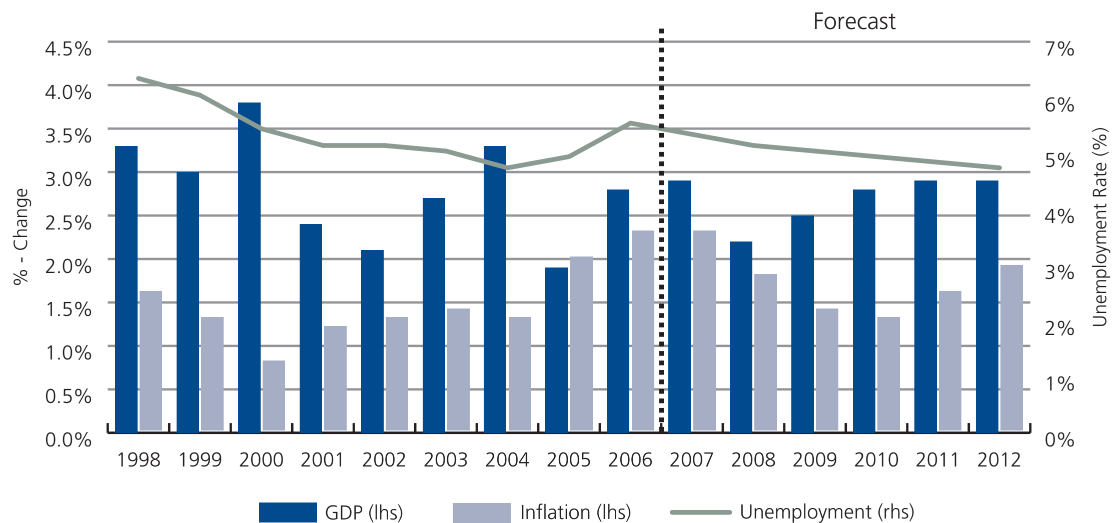
Logistics/Industrial

Prime logistics rents in Stockholm are relatively expensive in European terms and have remained unchanged for the past four years. However, the recent strength of the economy should generate stronger demand and optimism for the sector's prospects can be read into the fact that speculative development has recommenced. We are therefore forecasting that rents will grow by 1.8% pa on average over the next five years.

Prime yields have fallen by 25 bps to 6% in H1 2007 but with bond yields trending upwards, we forecast that yields will shift back out to 6.2% in five years time. Low rental growth and outward yield shift combine to generate total returns in the sector, which are forecast to be well below the required return under Scenario One. Under Scenarios Two and Three, this position improves and forecast returns are broadly in line with required returns.

20. UK

Figure 1 - UK Economics



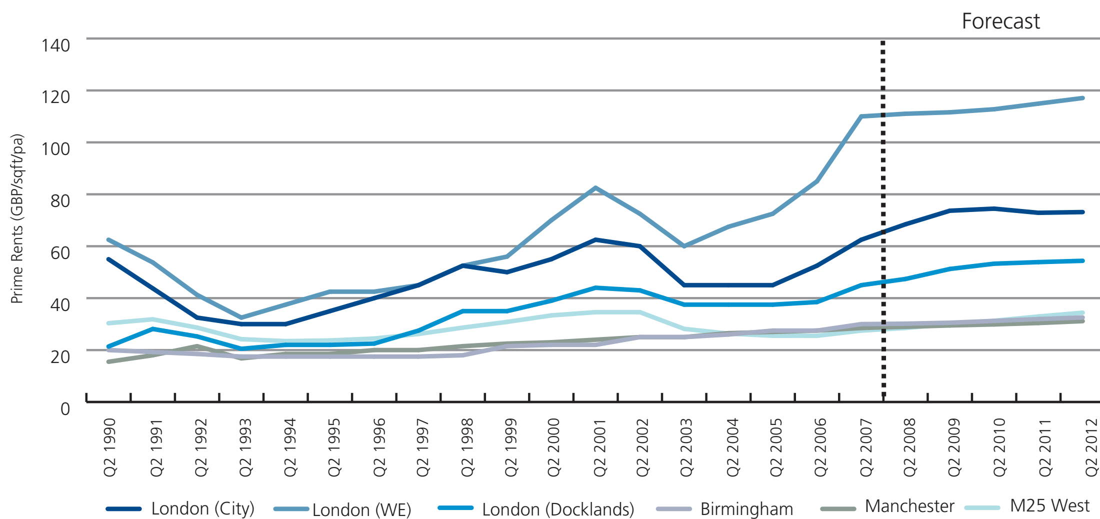
Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

Economy

Preliminary Q2 data pointed to continuing strength in the UK economy. Quarterly growth was 0.8%, ahead of the expected 0.7%, and was 3% up on the previous year. This is the sixth consecutive quarter where UK GDP has seen quarterly growth of 0.7% or more, above both its long-run trend growth rate of 2.5% pa and recent growth of around 2.75% pa. Growth was broadly based with financial and business services continuing to perform well and manufacturing making a positive contribution following a quarter of falling output at the beginning of the year. However, inflationary pressures remain a concern despite the surprise fall in July in inflation as measured by the CPI. Current credit market turmoil may have significantly reduced the probability of a further interest rate rise but, with the economy apparently operating at close to full capacity, it is also unlikely that interest rates will be cut substantially in the near future.

Our forecast suggests that GDP growth this year will be 2.9% but growth will slow next year to 2.2% as a consequence of a general slowdown in the global economy and weakness in the consumer sector as households continue to have to deal with indebtedness. Growth is then forecast to recover to above trend rates in 2010 and 2011 underpinned by the service sector and a gradual recovery in consumer expenditure.

Figure 2 - UK Office Rents



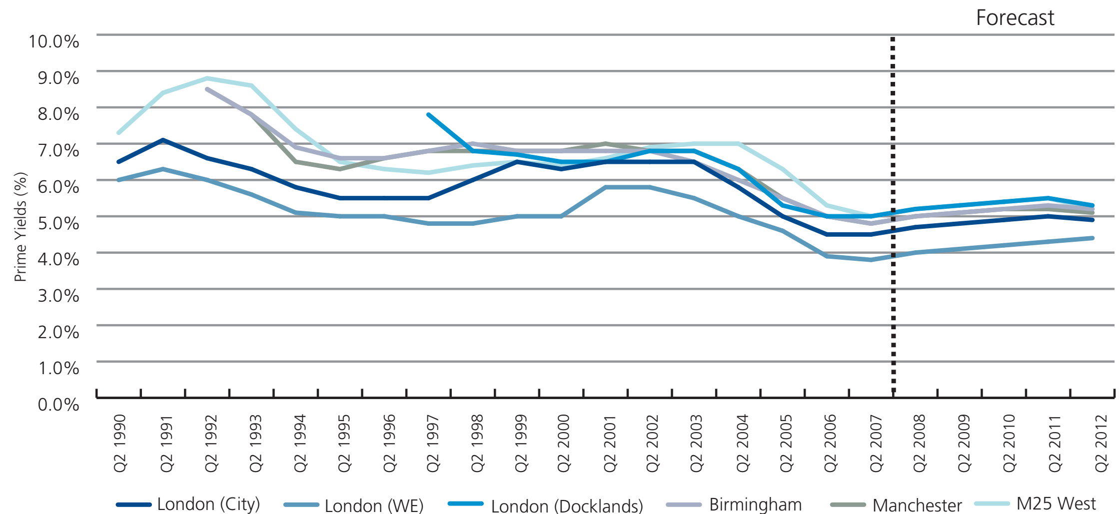
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

As expected, rental growth in the central London office markets continued to be strong in the first half of 2007 as a buoyant economy generated strong demand and good quality supply was limited. Rents in the City increased by 8.7%, in Docklands they were up by 12.5%, and the increase in the West End market was a massive 22.2%. The conditions remain for strong growth to continue in the short term, although recent turmoil in the credit markets could temporarily reduce demand across all central London locations. However, we do envisage an unwinding of the current strong cyclical upturn. In the West End, recent substantial rental growth will need to be digested, but while prime stock remains limited, rents are unlikely to fall. In the City, high levels of development completions, which are focussed in 2008/2009, will ease the current supply shortages and, as a result, we expect rents to peak in 2009 before falling slightly. Overall, rents are forecast to grow on average by 3.2% pa in the City, by 1.3% pa in the West End and by 3.9% pa in Docklands over the next five years.

In the regional office markets growth continues to be much less volatile with markets forecast to achieve rental growth close to the level of inflation. The exception is the M25 West market where the strong economic outlook for the South East region combined with a market that has lagged the current cycle, suggests average annual rental growth of around 5% pa.

Figure 3 - UK Office Yields



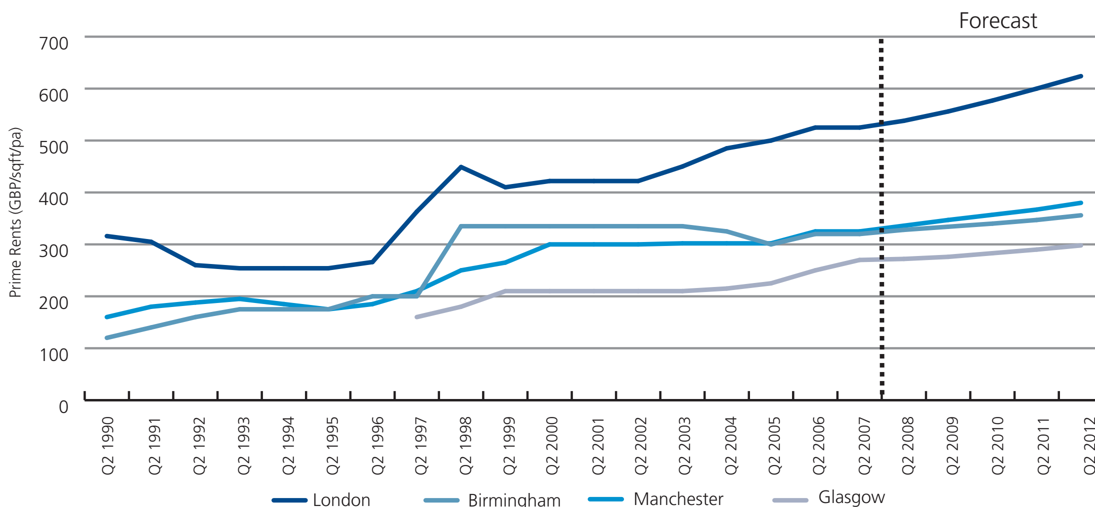
Source: INVESCO Real Estate; DTZ Research (September 2007)

With the unwinding of the rental growth cycle yields are forecast to soften. However, our rental growth forecasts suggest that 2011/2012 will mark the beginning of a new cycle and we therefore forecast that yields will begin to harden once more in 2011. City yields are forecast to peak at 5% before falling to 4.9% in 2011, while West End yields will increase to 4.4%. With 30 to 50 bps of outward yield shift and relatively weak real rental growth, our forecast returns for UK office markets are weak, ranging from 1.7% pa for West End offices, 4% pa for regional office locations up to 7.4% for M25 West. With the exception of the Docklands and M25 West markets, all other UK office markets are expected to produce returns significantly below the required level, which is currently in the region of 7.7% to 8.2% under Scenario One. Returns in Docklands and M25 West should be close to the required level, largely due to stronger, less cyclical rental growth. Under Scenarios Two and Three, both the City and Midtown markets deliver returns closer to our required level.

Retail

There continue to be structural concerns in the UK retail market. Consumption growth is forecast to lag GDP growth as consumers deal with high levels of indebtedness in a higher interest rate environment. When combined with the squeeze on retailer profitability due to rising costs, price deflation, competition from the internet and grocery retailers, and diversion of expenditure away from retailing and towards other leisure pursuits, it is clear that demand is likely to remain subdued. As a result, standard shop rental growth is forecast to run just ahead of inflation.

Figure 4 - UK High Street Retail Rents

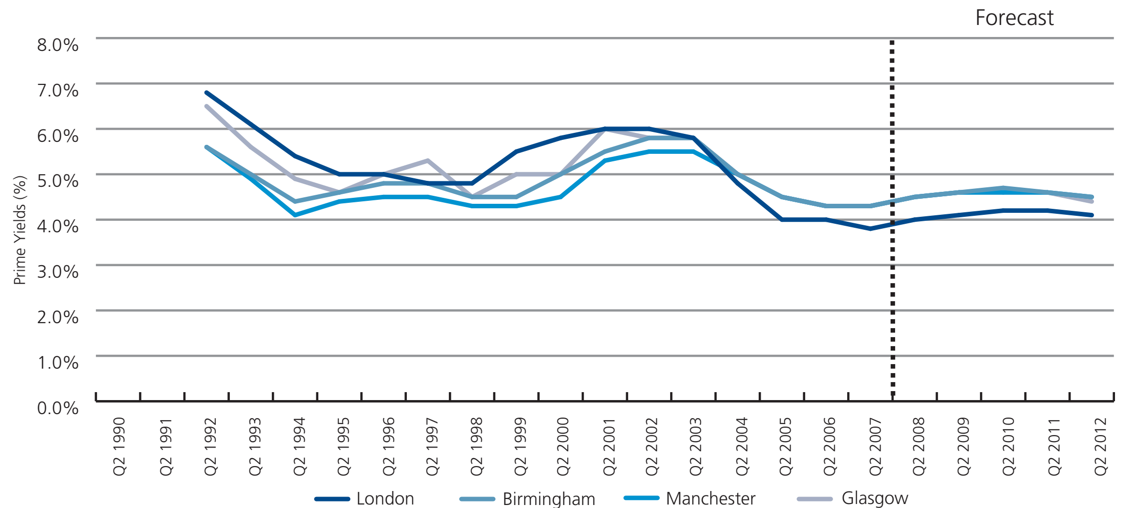


Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

The best opportunities for rental growth should be in the shopping centre market where asset management opportunities should be a positive factor. However, the strong development pipeline will increase competition within the sector and this is forecast to dampen growth. Rental growth is forecast to be weakest in the retail park market. Demand for space is concentrated in relatively few operators who tend to be cost sensitive and, in a number of locations rents have reached levels which raise issues about profitability, particularly for retailers operating in low margin businesses such as DIY. Bulky goods retail parks are likely to struggle to see any rental growth but parks with broader planning consents, where high street retailers can trade, should perform better.

We have already begun to witness some outward movement of yields, especially in the retail park sector, as investors reassess the likelihood of future rental growth. While our forecast of outward yield shift is fairly modest for high street shops, where lot size and fairly stable income growth continue to attract private investors, we are expecting shopping centre yields to move out by 50 bps and retail park yields to move out by at least 50 bps. The combination of weak rental growth and outward yield movements results in weak total return performance across all locations and sub-markets. Under Scenario One, forecast returns are all well below the hurdle rate, making the UK retail market unattractive. Although our outlook improves under Scenarios Two and Three, changes are modest.

Figure 5 - UK High Street Retail Yields



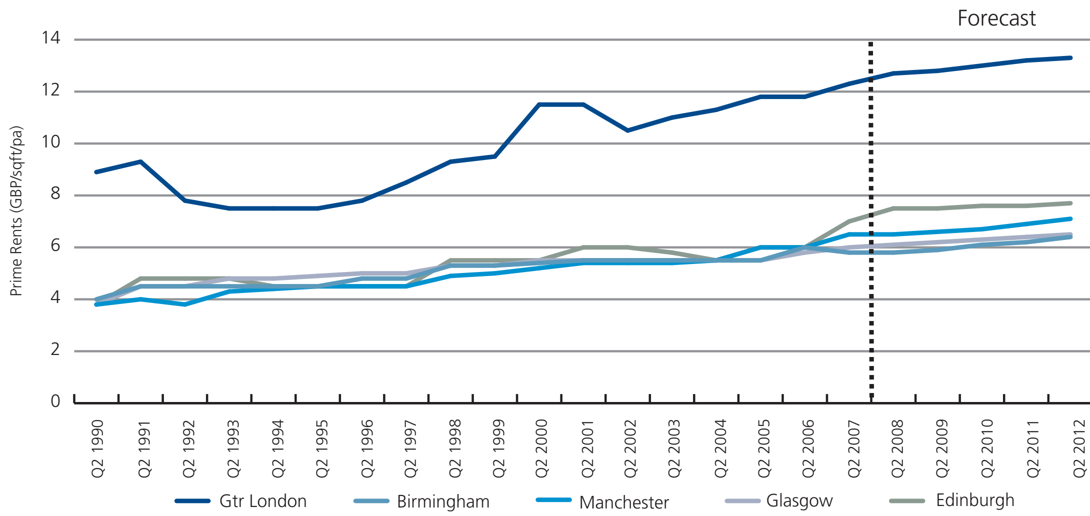
Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

Logistics/Industrial

Our logistics rental growth forecasts for the UK remain weak, with rents forecast to grow by only 1.5% to 2% pa over the next five years. Retailers are the key occupier group in this market and, with margins being squeezed, retailers and their third party distributors are continuing to look for ways to reduce storage and distribution costs. This, in turn, is resulting in limited upward pressure on logistics rents. There is little evidence of supply shortages although, in some key markets, land availability and prices are becoming an issue and may result in pressure on rents in the medium-term.

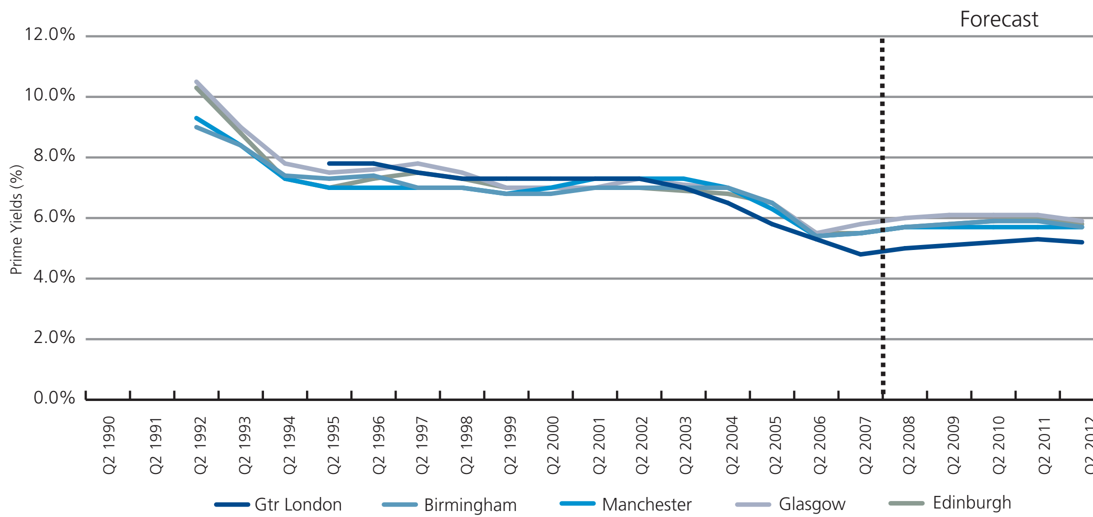
With current prime yields across the UK currently at 5.5% to 5.75%, the attraction of this market to income-focussed investors is limited and yields are forecast to drift out slightly. Returns are forecast to be around the 6% level, which is significantly below our required return in Scenario One. In London (Heathrow), where yields are now 4.75%, we forecast the biggest outward yield shift and, therefore, even weaker returns. Although returns improve under both Scenario Two and Three, as with the retail sector, changes are relatively modest.

Figure 6 - UK Logistics Rents



Source: INVESCO Real Estate; DTZ Research (September 2007)

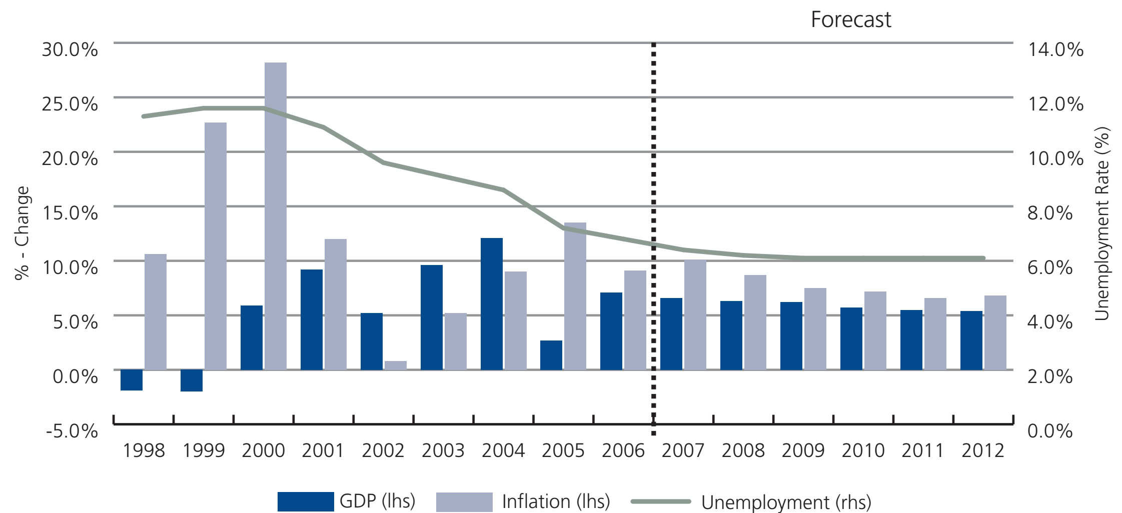
Figure 7 - UK Logistics Yields



Source: INVESCO Real Estate; DTZ Research (September 2007)

21. Ukraine

Figure 1 - Ukrainian Economics



Source: INVESCO Real Estate; Experian Business Strategies (August 2007).

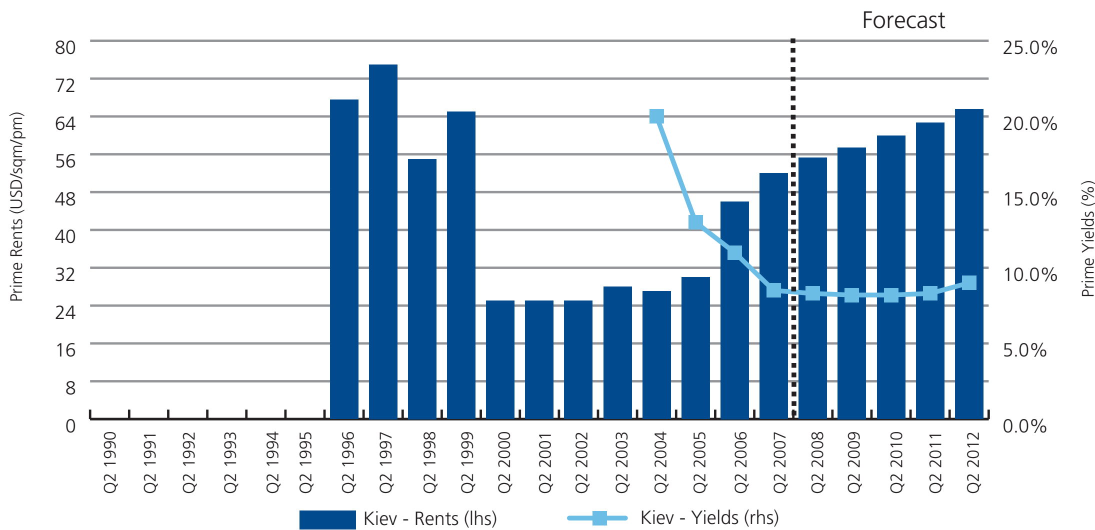
Economy

The Ukraine is the second biggest economy of the CIS after Russia. However, the unstable political situation, a slow bureaucracy, and corruption raise concerns about the country's suitability as a destination for investors' capital. More positively, its economy benefits from strong international connections and attractive export and import flows. And although some trade practices are currently restrictive, WTO membership should lead to reform.

The service sector is of growing importance to the Ukrainian economy, but the share of industry in GDP is still above the international average and output is very volatile as the most important sectors, such as the steel and chemical industries, are strongly affected by global economic conditions. Other sectors such as engineering and the food industry currently suffer from the worsening of the Ukraine's relationship with Russia, an important export partner.

Nevertheless, the outlook for the Ukrainian economy is positive. Unemployment is forecast to fall steadily; domestic demand is strong with consumer spending growth forecast to average 9.5% over the next five years; and GDP growth is expected to grow by 6.6% in 2007 and at an average growth rate of 5.9% pa between now and 2012. However inflation is very high; with the expected out-turn for 2007 at 10.1% trending down to 6.8% in 2012. The economic outlook for the Ukraine, therefore, needs to be analysed with caution.

Figure 2 - Ukrainian Offices



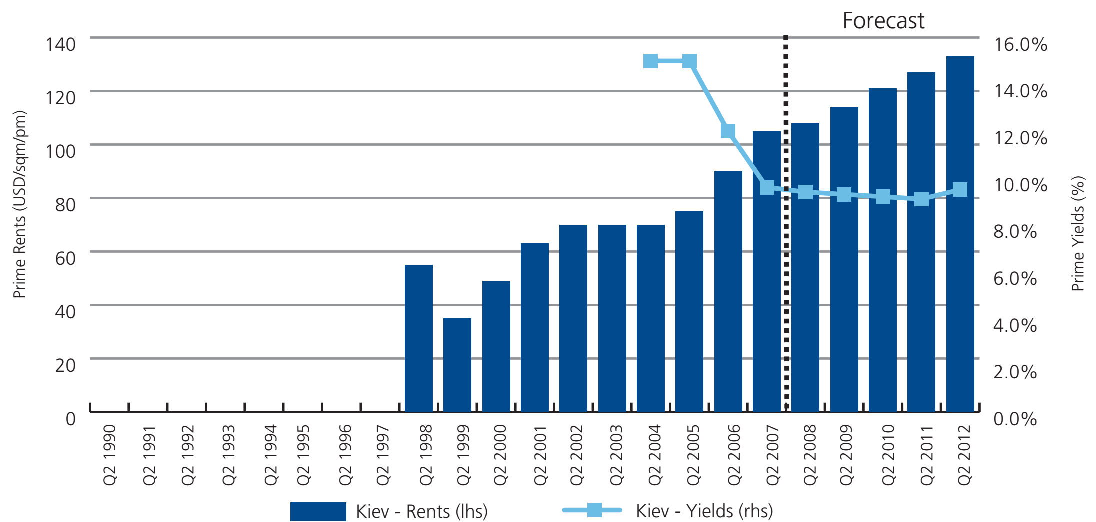
Source: INVESCO Real Estate; DTZ Research (September 2007)

Offices

With about 600,000 to 700,000 sqm of office stock, Kiev is currently a very small office market and growth in absolute terms is only around 130,000 to 150,000 sqm pa. However, if this rate of development is sustained, and this looks feasible given the expected strength of economic growth, office stock in Kiev will almost double in the next five years. The vacancy rate has been steadily declining since Q1 2005 and is now estimated to be at 1.4%. Given that the current development pipeline is not large in absolute terms and demand for office space is growing, we expect the vacancy rate to remain low throughout the forecasting period. Rents grew by 13% over the first six months of 2007 and we expect rental growth to reach 17% by the end of 2007. Average rental growth is forecast to be 4.7% pa over the next five years.

Following the Orange revolution in 2004 and 2005, interest in the property investment markets in Kiev increased. Investment demand is mainly focused on retail and office buildings in Kiev and some of the other main regional centres. However, a lack of investment grade stock is placing pressure on prime yields, which decreased by 150 bps to 8.5% in the first half of 2007. Investment orientated developments are now reaching completion and the outlook for rental growth is good, but despite this, exit yields are forecast to be under pressure to move out as local currency bond yields soften. In Scenario One, we therefore forecast that yields will move out by 50 bps to 9.0% in five years' time.

Figure 3 - Ukrainian High Street Retail



Source: INVESCO Real Estate; DTZ Research (September 2007)
Note: data refer to high street retail

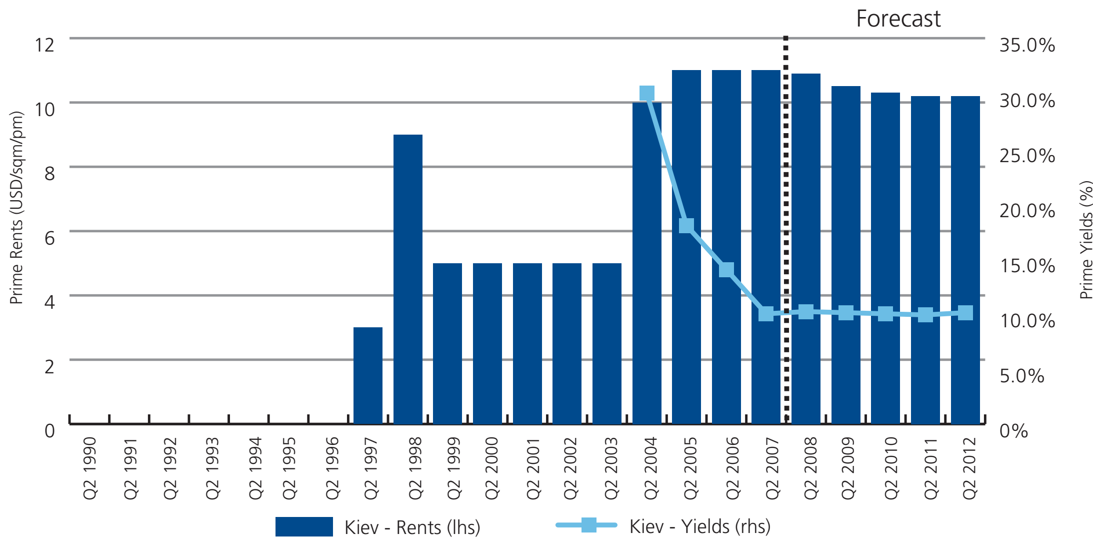
The high current yield and strong rental growth offset the impact of the outward yield shift and total returns at 10.8% are comfortably above the required return. Therefore, under all three scenarios the Kiev office market appears to offer attractive returns.

Retail

Retail stock in Kiev suffers from a high proportion of "old" space, which does not meet the standards required by tenants. At present the retail market is mainly concentrated in the Kiev CBD along with a few out-of-town retail centres. There are a number of developments currently under construction or planned, but most are not due to be completed until 2009. Vacancy rates are low, not only in the existing stock but also in current developments, as demand currently exceeds supply. Therefore, shortages of space, combined with strong consumer spending growth have resulted in rising rents. In the first half of 2007, prime rents rose by 5%. We expect average rental growth for standard shops of 4.8% pa over the next five years, with growth concentrated in 2008 and 2009 prior to new developments being completed. Shopping centre rents will fair even better, growing on average by 5.9% pa.

Standard shop yields fell by 90 bps to 9.6% in H1 2007 and shopping centre yields are currently lower at around 9.0%. Under Scenario One, we expect yields in both markets to remain broadly unchanged over the next five years. Total returns are expected to reach 14.8% pa for shopping centres and 14.7% pa for high street shops, above the required return of 10.8% and 10.3%, indicating that Kiev is currently a very interesting investment market. Scenarios Two and Three further amplify this conclusion.

Figure 4 - Ukrainian Logistics



Source: INVESCO Real Estate; DTZ Research (September 2007)

Logistics/Industrial

Despite the positive economic development and the growing demand for new logistics space, development activity was limited during 2006. However, in the first six months of 2007 activity has increased. As the current stock is of very low quality and construction is limited due to a shortage of land with appropriate zoning, a moratorium on the re-zoning of agricultural land for industrial purposes, and long planning lead times, there are significant shortages of good quality space. This situation is expected to ease from 2009/2010 onwards as new zones for logistics/industrial purposes are established.

Despite the tensions in the market between limited supply and healthy demand, rents were unchanged in the first six months of 2007, partly due to their relatively high starting point. This high level of rents, combined with cost sensitive occupiers, will reduce the potential for rental growth during our forecast period and we forecast that rents will decline by 1.4% pa over the next five years.

Yields fell by 40 bps to a level of 10.0% in the first six months of 2007 but in reality there is still no genuine institutional quality logistics investment market in the Ukraine. However, at 10% we believe that current yields are fairly assessing the risks associated with investing in good quality stock in the Kiev market, and we therefore forecast that yields will be broadly unchanged from this level over the next five years. As a consequence of falling rents, total returns are forecast to fall well short of required levels unless the more aggressive assumptions of Scenario Three are adopted.

All tables in this appendix are source: INVESCO Real Estate (September 2007); Experian Business Strategies (September 2007); DTZ Research (September 2007). See page 131 for notes to the tables.

Offices

	National GDP Growth p.a. Q2 2007 - Q1 2012	National Inflation p.a. Q2 2007 - Q1 2012	Current Vacancy (Q2 2007) (%)	Vacancy Trend	Current Prime Rent (Q2 2007) (€ sqm pm)	Prime Rental Growth 1992-2006 (%)	Prime Rental Growth Q2 2007 - Q1 2012 (%)	Current Prime Yield (Q2 2007) (%) (local definition)	Exit Prime Yield (Q1 2012) (%) (local definition)	Expected Total Return Q2 2007 - Q1 2012 (%)	Required Return (Q2 2007) (%)	Recom-mendation (Q2 2007)
Berlin	2.3%	1.7%	9.3%	Down	23	0.3%	3.3%	4.8%-5.0%	5.1%- 5.2%	4.0%-5.5%	6.7%-7.2%	✓
Hamburg	2.3%	1.7%	7.4%	Down	23	1.7%	3.5%	4.5%-4.8%	4.7%- 4.8%	4.7%-6.4%	6.5%-7.0%	✓✓
Munich	2.3%	1.7%	9.7%	Down	31	0.9%	3.7%	4.0%- 4.3%	4.1%- 4.2%	4.7%-6.6%	6.4%-7.0%	✓✓
Frankfurt	2.3%	1.7%	16.1%	Down	35	-0.1%	3.7%	4.5%- 4.8%	4.6%- 4.7%	5.2%-6.9%	6.4%-7.0%	✓✓
Paris (CBD)	2.2%	1.7%	3.1%	Up	67	1.2%	5.5%	3.8%- 4.0%	4.1%- 4.2%	6.7%-8.8%	6.3%-6.9%	✓✓✓
Paris (LD)	2.2%	1.7%	4.5%	Level	46	2.0%	6.1%	4.3%-4.5%	4.6%- 4.7%	7.5%-9.2%	6.5%-7.0%	✓✓✓
Paris (WBD)	2.2%	1.7%	6.7%	Down	41	3.7%	4.3%	4.3%-4.5%	4.6%-4.7%	5.8%-7.5%	6.5%-7.0%	✓✓
Paris (Rive Gauche)	2.2%	1.7%	1.5%	Up	44	3.9%	5.0%	4.3%-4.5%	4.5%-4.6%	7.1%-8.9%	6.2%-6.7%	✓✓✓
Lyon	2.2%	1.7%	4.5%	Down	19	1.9%	5.8%	5.3%-5.5%	5.1%-5.3%	9.8%-11.3%	6.8%-7.3%	✓✓✓
Lille	2.2%	1.7%	5.2%	Down	15	2.0%	5.7%	5.5%-5.8%	5.4%-5.5%	9.5%-10.9%	6.8%-7.3%	✓✓✓
Marseille	2.2%	1.7%	1.5%	Level	18	1.9%	4.6%	5.5%-5.8%	5.3%-5.4%	8.6%-10.0%	6.8%-7.3%	✓✓✓
Rome	1.6%	1.9%	7.2%	Down	32	0.6%	1.7%	5.3%-5.6%	5.6%-5.7%	4.6%-6.1%	7.0%-7.5%	✓
Milan	1.6%	1.9%	7.1%	Down	40	1.3%	1.5%	5.0%-5.3%	5.5%-5.6%	3.5%-5.0%	7.0%-7.5%	✓
Amsterdam	2.4%	2.1%	20.5%	Down	28	4.0%	2.0%	5.3%-5.5%	5.3%-5.4%	4.5%-6.0%	6.8%-7.3%	✓
Rotterdam	2.4%	2.1%	15.2%	Down	15	2.5%	2.9%	5.8%-6.0%	5.8%-5.9%	5.6%-6.9%	6.8%-7.3%	✓✓
Brussels	2.1%	1.9%	9.1%	Level	25	2.5%	2.3%	5.5%-5.8%	5.5%-5.6%	6.6%-8.0%	6.5%-7.0%	✓✓✓
Dublin	4.0%	2.7%	14.8%	Level	51	7.9%	4.5%	4.0%-4.3%	4.3%-4.4%	4.7%-6.6%	6.9%-7.4%	✓
Madrid	2.6%	2.5%	3.1%	Level	40	1.0%	6.2%	4.0%-4.3%	4.5%-4.6%	6.4%-8.4%	6.7%-7.3%	✓✓
Barcelona	2.6%	2.5%	2.7%	Level	26	0.2%	4.9%	4.3%-4.6%	4.4%-4.5%	7.1%-8.9%	6.9%7.4%	✓✓✓
Lisbon	2.0%	2.2%	9.3%	Down	22	-2.7%	1.9%	6.0%-6.3%	6.3%-6.5%	5.2%-6.5%	7.4%-7.9%	✓
Helsinki	2.7%	2.0%	7.7%	Level	28	2.3%	2.9%	5.0%-5.3%	4.9%-5.0%	6.5%-8.1%	6.6%-7.1%	✓✓
Stockholm	2.8%	2.1%	11.8%	Down	38	2.1%	4.9%	4.3%-4.5%	4.3%-4.5%	8.9%-10.8%	6.3%-6.9%	✓✓✓
Copenhagen	2.2%	2.0%	4.3%	Down	20	-0.2%	4.1%	4.5%-4.8%	4.5%-4.6%	7.0%-8.7%	6.6%-7.2%	✓✓✓
London (City)	2.7%	1.6%	5.2%	Up	84	-0.2%	3.2%	4.5%-4.8%	4.8%-4.9%	5.4%-7.1%	7.2%-7.7%	✓✓
London (WE)	2.7%	1.6%	4.8%	Level	147	1.9%	1.3%	3.8%-4.0%	4.3%-4.4%	1.7%-3.7%	7.2%-7.7%	✓
London (Midtown)	2.7%	1.6%	2.8%	Level	74	0.1%	2.5%	4.5%-4.8%	4.8%-4.9%	4.7%-6.4%	7.1%-7.7%	✓
London (Docklands)	2.7%	1.6%	5.6%	Up	60	4.5%	3.9%	5.0%-5.3%	5.2%-5.3%	6.8%-8.4%	7.2%-7.7%	✓✓
Birmingham	2.7%	1.6%	9.1%	Down	40	2.6%	1.7%	4.8%-5.0%	5.0%-5.2%	4.1%-5.7%	7.4%-7.9%	✓
Manchester	2.7%	1.6%	11.8%	Down	38	4.6%	1.8%	4.8%-5.0%	5.0%-5.1%	4.4%-6.1%	7.2%-7.7%	✓
Glasgow	2.7%	1.6%	4.3%	Up	37	3.3%	1.9%	4.8%-5.0%	5.1%-5.2%	4.1%-5.6%	7.4%-7.9%	✓
Edinburgh	2.7%	1.6%	13.0%	Down	37	0.9%	2.3%	4.8%-5.0%	5.2%-5.3%	4.2%-5.8%	7.5%-8.0%	✓
M25 West	2.7%	1.6%	13.1%	Down	37	-0.8%	4.6%	5.0%-5.3%	5.1%-5.2%	7.4%-8.9%	7.7%-8.2%	✓✓
Warsaw	4.8%	2.4%	4.0%	Up	27	-5.2%	2.5%	5.3%-5.5%	5.5%-5.6%	5.1%-6.6%	7.5%-8.0%	✓
Budapest	4.0%	4.0%	11.6%	Up	18	-4.5%	0.3%	6.0%-6.3%	5.6%-5.7%	6.2%-7.6%	7.8%-8.3%	✓✓
Prague	4.3%	2.5%	5.5%	Level	20	-3.4%	4.2%	5.1%-5.4%	5.1%-5.2%	7.7%-9.3%	7.2%-7.7%	✓✓✓
Bratislava	6.0%	2.9%	4.9%	Down	16	n/a	3.8%	6.0%-6.3%	5.8%-5.9%	8.9%-10.3%	7.5%-8.0%	✓✓✓
Bucharest	4.9%	3.9%	0.7%	Up	19	n/a	4.8%	6.0%-6.3%	6.6%-6.8%	7.3%-8.7%	8.5%-9.0%	✓✓
Sofia	4.5%	3.8%	4.1%	Up	15	n/a	4.9%	7.3%-7.5%	6.7%-6.9%	11.7%-12.9%	7.8%-8.3%	✓✓✓
Oslo	2.7%	2.0%	6.2%	Down	42	2.9%	2.6%	5.5%-5.8%	5.7%-5.8%	5.4%-6.8%	7.5%-8.0%	✓
Moscow	5.3%	6.6%	3.5%	Up	56	n/a	3.8%	8.0%-8.3%	8.0%-8.2%	10.7%-11.8%	8.6%-9.1%	✓✓✓
St Petersburg	5.3%	6.6%	4.1%	Up	45	n/a	4.5%	9.0%-9.3%	8.3%-8.4%	13.8%-14.8%	8.8%-9.3%	✓✓✓
Kiev	5.9%	8.0%	1.4%	Up	39	n/a	4.7%	8.5%-8.8%	8.9%-9.0%	10.8%-11.9%	8.9%-9.5%	✓✓✓

High Street Retail (SSU)

	National GDP Growth p.a. Q2 2007 - Q1 2012	National Inflation p.a. Q2 2007 - Q1 2012	Current Prime Rent (Q2 2007) (€ sqm pm)	Prime Rental Growth 1992-2006 (%)	Prime Rental Growth Q2 2007 - Q1 2012 (%)	Current Prime Yield (Q2 2007) (%) (local definition)	Exit Prime Yield (Q1 2012) (%) (local definition)	Expected Total Return Q2 2007 - Q1 2012 (%)	Required Return (Q2 2007) (%)	Recom-mendation (Q2 2007)
Berlin	2.3%	1.7%	200.0	-0.2%	1.8%	4.8% - 5.0%	4.8% - 5.0%	5.7% - 7.4%	6.3% - 6.8%	✓✓
Hamburg	2.3%	1.7%	200.0	1.7%	2.4%	4.3% - 4.5%	4.4% - 4.5%	5.4% - 7.3%	6.3% - 6.8%	✓✓
Munich	2.3%	1.7%	260.0	2.8%	2.7%	4.0% - 4.3%	4.1% - 4.2%	5.6% - 7.6%	6.3% - 6.8%	✓✓
Frankfurt	2.3%	1.7%	225.0	2.6%	2.3%	4.7% - 4.9%	4.7% - 4.9%	6.0% - 7.8%	6.4% - 6.9%	✓✓
Paris (CBD)	2.2%	1.7%	525.3	4.0%	2.6%	4.0% - 4.3%	3.0% - 4.0%	8.4% - 10.6%	6.2% - 6.7%	✓✓✓
Lyon	2.2%	1.7%	128.9	6.8%	2.9%	4.8% - 5.0%	4.8% - 4.9%	8.4% - 10.2%	6.7% - 7.2%	✓✓✓
Lille	2.2%	1.7%	102.3	3.4%	2.4%	4.8% - 5.0%	4.7% - 4.9%	8.0% - 9.8%	6.6% - 7.1%	✓✓✓
Marseille	2.2%	1.7%	96.7	3.3%	3.3%	4.8% - 5.0%	4.8% - 4.9%	8.7% - 10.4%	6.6% - 7.1%	✓✓✓
Rome	1.6%	1.9%	161.7	2.4%	0.6%	4.8% - 5.0%	4.5% - 4.6%	4.9% - 6.7%	6.6% - 7.1%	✓✓
Milan	1.6%	1.9%	171.7	3.4%	1.1%	4.8% - 5.0%	4.4% - 4.6%	5.6% - 7.4%	6.4% - 6.9%	✓✓
Amsterdam	2.4%	2.1%	158.3	5.5%	2.2%	4.8% - 5.0%	4.7% - 4.8%	4.7% - 6.4%	6.4% - 6.9%	✓✓
Brussels	2.1%	1.9%	112.5	1.1%	3.2%	4.8% - 5.0%	4.7% - 4.9%	8.4% - 10.1%	6.5% - 7.0%	✓✓✓
Dublin	4.0%	2.7%	379.2	8.7%	4.9%	2.5% - 2.8%	3.4% - 3.5%	0.0% - 2.7%	6.7% - 7.4%	✓
Madrid	2.6%	2.5%	150.0	5.1%	2.8%	4.3% - 4.5%	3.0% - 4.0%	8.3% - 10.4%	6.3% - 6.9%	✓✓✓
Barcelona	2.6%	2.5%	145.8	7.5%	3.3%	4.3% - 4.5%	3.8% - 4.0%	8.9% - 11.0%	6.6% - 7.1%	✓✓✓
Lisbon	2.0%	2.2%	75.0	5.9%	2.6%	5.0% - 5.3%	4.9% - 5.0%	6.9% - 8.6%	6.7% - 7.2%	✓✓✓
Helsinki	2.7%	2.0%	110.0	4.5%	1.1%	5.0% - 5.3%	4.4% - 4.5%	7.5% - 9.2%	6.4% - 6.9%	✓✓✓
Stockholm	2.8%	2.1%	122.0	8.9%	3.3%	4.5% - 4.8%	4.4% - 4.5%	7.8% - 9.6%	6.4% - 6.9%	✓✓✓
Copenhagen	2.2%	2.0%	196.8	5.8%	2.9%	3.8% - 4.0%	3.8% - 4.0%	5.0% - 7.2%	6.7% - 7.2%	✓✓
London (WE)	2.7%	1.6%	420.0	3.2%	3.5%	3.8% - 4.0%	4.0% - 4.1%	4.8% - 6.9%	7.3% - 7.8%	✓
Birmingham	2.7%	1.6%	197.3	6.3%	2.2%	4.3% - 4.5%	4.3% - 4.5%	5.0% - 6.9%	7.4% - 8.0%	✓
Manchester	2.7%	1.6%	216.7	4.7%	3.2%	4.3% - 4.5%	4.3% - 4.5%	5.8% - 7.8%	7.4% - 8.0%	✓✓
Glasgow	2.7%	1.6%	247.5	3.0%	2.0%	4.3% - 4.5%	4.3% - 4.4%	5.0% - 6.8%	7.4% - 7.9%	✓
Warsaw	4.8%	2.4%	80.0	5.5%	2.5%	5.5% - 5.8%	5.4% - 5.5%	7.8% - 9.4%	6.7% - 7.2%	✓✓✓
Budapest	4.0%	4.0%	120.0	2.2%	2.3%	5.5% - 5.8%	5.5% - 5.7%	7.3% - 8.9%	7.1% - 7.6%	✓✓✓
Prague	4.3%	2.5%	170.0	7.0%	2.5%	5.0% - 5.3%	5.0% - 5.1%	7.1% - 8.8%	6.7% - 7.4%	✓✓✓
Bratislava	6.0%	2.9%	75.0	n/a	2.3%	5.5% - 5.8%	5.4% - 5.5%	7.7% - 9.3%	6.9% - 7.4%	✓✓✓
Bucharest	4.9%	3.9%	115.0	n/a	2.0%	6.5% - 6.8%	6.4% - 6.5%	8.6% - 10.0%	8.5% - 9.0%	✓✓
Sofia	4.5%	3.8%	100.0	n/a	3.3%	7.0% - 7.3%	6.4% - 6.5%	11.8% - 13.1%	7.6% - 8.1%	✓✓✓
Oslo	2.7%	2.0%	120.5	-0.2%	2.2%	4.8% - 5.0%	4.9% - 5.0%	5.8% - 7.5%	7.0% - 7.5%	✓✓
Moscow	5.3%	6.6%	201.0	n/a	1.8%	9.0% - 9.3%	8.7% - 8.9%	11.0% - 12.0%	9.8% - 10.3%	✓✓✓
St Petersburg	5.3%	6.6%	136.1	n/a	2.7%	9.5% - 9.8%	9.1% - 9.2%	12.6% - 13.6%	9.4% - 9.9%	✓✓✓
Kiev	5.9%	8.0%	77.9	n/a	4.8%	9.6% - 9.9%	9.4% - 9.5%	14.7% - 15.7%	9.8% - 10.3%	✓✓✓

Shopping Centres

	National GDP Growth p.a. Q2 2007 - Q1 2012	National Inflation p.a. Q2 2007 - Q1 2012	Current Prime Rent (Q2 2007) (€ sqm pm)	Prime Rental Growth 1992-2006 (%)	Prime Rental Growth Q2 2007 - Q1 2012 (%)	Current Prime Yield (Q2 2007) (%) (local definition)	Exit Prime Yield (Q1 2012) (%) (local definition)	Expected Total Return Q2 2007 - Q1 2012 (%)	Required Return (Q2 2007) (%)	Recom-mendation (Q2 2007)
Berlin	2.3%	1.7%	40.0	-0.2%	3.1%	4.8% - 5.0%	4.8% - 5.0%	6.2% - 7.8%	6.7% - 7.2%	✓✓
Hamburg	2.3%	1.7%	50.0	1.7%	3.8%	4.5% - 4.8%	4.7% - 4.8%	6.1% - 7.8%	6.7% - 7.2%	✓✓
Munich	2.3%	1.7%	60.0	2.8%	3.7%	4.0% - 4.3%	4.2% - 4.3%	5.7% - 7.7%	6.7% - 7.2%	✓✓
Frankfurt	2.3%	1.7%	50.0	2.6%	2.5%	4.5% - 4.8%	4.7% - 4.8%	5.2% - 7.0%	6.8%- 7.3%	✓✓
Paris (CBD)	2.2%	1.7%	150.0	4.0%	3.6%	4.0% - 4.3%	4.1% - 4.2%	8.0% - 10.1%	6.6% - 7.1%	✓✓✓
Lyon	2.2%	1.7%	125.0	6.8%	2.2%	4.3% - 4.5%	4.5% - 4.6%	6.1% - 8.0%	7.2% - 7.7%	✓✓
Lille	2.2%	1.7%	125.0	3.4%	2.5%	4.3% - 4.5%	4.4% - 4.6%	6.7% - 8.6%	7.0% - 7.5%	✓✓
Marseille	2.2%	1.7%	125.0	3.3%	2.5%	4.3% - 4.5%	4.4% - 4.6%	6.7% - 8.5%	7.0% - 7.5%	✓✓
Rome	1.6%	1.9%	62.5	2.4%	1.8%	4.8% - 5.0%	5.1% - 5.2%	4.5% - 6.1%	7.0% - 7.6%	✓
Milan	1.6%	1.9%	65.0	3.4%	1.6%	4.8% - 5.0%	4.9% - 5.0%	5.0% - 6.6%	6.7% - 7.3%	✓✓
Amsterdam	2.4%	2.1%	66.7	5.5%	2.7%	5.0% - 5.3%	5.2% - 5.3%	5.2% - 6.8%	6.7% - 7.4%	✓✓
Brussels	2.1%	1.9%	100.2	1.1%	3.4%	4.5% - 4.8%	4.6% - 4.8%	7.5% - 9.3%	6.7% - 7.4%	✓✓✓
Dublin	4.0%	2.7%	358.3	8.7%	2.9%	4.5% - 4.8%	4.4% - 4.5%	6.8% - 8.7%	7.2% - 7.8%	✓✓
Madrid	2.6%	2.5%	80.0	5.1%	2.2%	4.3% - 4.5%	4.2% - 4.3%	5.9% - 7.8%	6.7% - 7.3%	✓✓
Barcelona	2.6%	2.5%	78.3	7.5%	1.6%	4.3% - 4.5%	4.2% - 4.3%	5.2% - 7.1%	7.0% - 7.6%	✓✓
Lisbon	2.0%	2.2%	82.5	5.9%	2.6%	4.5% - 4.8%	4.8% - 5.0%	4.4% - 6.1%	7.2% - 7.7%	✓
Helsinki	2.7%	2.0%	100.0	4.5%	1.1%	4.8% - 5.0%	4.8% - 4.9%	4.7% - 6.4%	6.9% - 7.4%	✓
Stockholm	2.8%	2.1%	64.6	8.9%	3.3%	4.5% - 4.8%	4.6% - 4.7%	6.7% - 8.5%	6.9% - 7.4%	✓✓
Copenhagen	2.2%	2.0%	55.0	5.8%	3.2%	5.0% - 5.3%	5.0% - 5.1%	6.6% - 8.2%	6.6% - 7.2%	✓✓
London (WE)	2.7%	1.6%	275.8	3.2%	2.9%	4.5% - 4.8%	4.8% - 5.0%	4.8% - 6.6%	7.7% - 8.3%	✓
Birmingham	2.7%	1.6%	218.8	6.3%	2.5%	4.5% - 4.8%	4.8% - 5.0%	4.6% - 6.3%	7.4% - 7.9%	✓
Manchester	2.7%	1.6%	218.8	4.7%	2.8%	4.5% - 4.8%	4.8% - 5.0%	4.8% - 6.6%	7.4% - 7.9%	✓
Glasgow	2.7%	1.6%	218.8	3.0%	2.7%	4.5% - 4.8%	4.9% - 5.0%	4.5% - 6.2%	7.3% - 7.8%	✓
Warsaw	4.8%	2.4%	60.0	5.5%	3.3%	5.5% - 5.8%	5.3% - 5.5%	8.7% - 10.3%	7.2% - 7.7%	✓✓✓
Budapest	4.0%	4.0%	120.8	2.2%	1.4%	5.5% - 5.8%	5.8% - 5.9%	5.6% - 7.1%	7.6% - 8.1%	✓
Prague	4.3%	2.5%	75.0	7.0%	3.5%	5.5% - 5.8%	5.3% - 5.5%	9.0% - 10.6%	7.3% - 7.8%	✓✓✓
Bratislava	6.0%	2.9%	35.0	n/a	4.6%	6.0% - 6.3%	5.6% - 5.7%	11.0% - 12.5%	7.3% - 7.8%	✓✓✓
Bucharest	4.9%	3.9%	80.0	n/a	2.0%	6.5% - 6.8%	5.0% - 5.3%	6.7% - 8.0%	9.0% - 9.5%	✓
Sofia	4.5%	3.8%	55.0	n/a	2.7%	6.5% - 6.8%	6.3% - 6.5%	9.2% - 10.5%	8.1% - 8.6%	✓✓✓
Oslo	2.7%	2.0%	90.0	-0.2%	2.2%	5.5% - 5.3%	5.2% - 5.2%	6.1% - 7.8%	7.4% - 8.0%	✓✓
Moscow	5.3%	6.6%	494.7	n/a	1.6%	8.0% - 8.3%	8.2% - 8.3%	8.9% - 10.0%	10.3% - 10.8%	✓✓
St Petersburg	5.3%	6.6%	166.7	n/a	2.0%	9.0% - 9.3%	9.1% - 9.2%	10.4% - 11.4%	9.8% - 10.4%	✓✓✓
Kiev	5.9%	8.0%	166.7	n/a	6.6%	9.0% - 9.3%	8.9% - 9.1%	15.4% - 16.5%	10.3% - 10.8%	✓✓✓

Retail Parks

	National GDP Growth p.a. Q2 2007 - Q1 2012	National Inflation p.a. Q2 2007 - Q1 2012	Current Prime Rent (Q2 2007) (€ sqm pm)	Prime Rental Growth 1992-2006 (%)	Prime Rental Growth Q2 2007 - Q1 2012 (%)	Current Prime Yield (Q2 2007) (%) (local definition)	Exit Prime Yield (Q1 2012) (%) (local definition)	Expected Total Return Q2 2007 - Q1 2012 (%)	Required Return (Q2 2007) (%)	Recom-mendation (Q2 2007)
Berlin	2.3%	1.7%	12.5	-0.2%	3.0%	5.8 - 6.0	6.1 - 6.2	5.7 - 7.0	6.7 - 7.2	✓✓
Hamburg	2.3%	1.7%	14.0	1.7%	2.3%	5.8 - 6.0	6.1 - 6.2	5.2 - 6.5	6.7 - 7.2	✓✓
Munich	2.3%	1.7%	15.0	2.8%	2.5%	5.8 - 6.0	6.0 - 6.1	5.9 - 7.2	6.7 - 7.2	✓✓
Frankfurt	2.3%	1.7%	14.0	2.6%	2.5%	5.8 - 6.0	6.0 - 6.1	5.6 - 6.9	6.8 - 7.3	✓✓
Paris (CBD)	2.2%	1.7%	15.8	4.0%	2.8%	4.5 - 4.8	4.8 - 4.9	5.7 - 7.4	6.6 - 7.1	✓✓
Lyon	2.2%	1.7%	14.2	6.8%	3.2%	4.8 - 5.0	5.0 - 5.1	6.7 - 8.3	7.2 - 7.7	✓✓
Lille	2.2%	1.7%	13.3	3.4%	3.8%	4.8 - 5.0	5.2 - 5.3	6.1 - 7.7	7.0 - 7.5	✓✓
Marseille	2.2%	1.7%	15.0	3.3%	2.9%	4.8 - 5.0	4.9 - 5.0	6.6 - 8.2	7.0 - 7.5	✓✓
Rome	1.6%	1.9%	19.2	2.4%	1.5%	5.3 - 5.5	5.5 - 5.6	4.7 - 6.1	7.0 - 7.6	✓
Milan	1.6%	1.9%	19.2	3.4%	2.0%	5.3 - 5.5	5.7 - 5.8	4.5 - 6.0	6.7 - 7.3	✓
Brussels	2.1%	1.9%	14.2	1.1%	2.6%	5.6 - 5.9	5.7 - 5.8	7.1 - 8.4	6.9 - 7.4	✓✓✓
Dublin	4.0%	2.7%	26.7	8.7%	2.8%	4.9 - 5.1	4.9 - 5.0	5.9 - 7.5	6.7 - 7.2	✓✓
Madrid	2.6%	2.5%	16.5	5.1%	2.4%	4.8 - 5.0	5.0 - 5.1	5.1 - 6.7	6.7 - 7.3	✓✓
Barcelona	2.6%	2.5%	16.2	7.5%	2.5%	4.8 - 5.0	4.7 - 4.9	6 - 7.7	6.8 - 7.3	✓✓
Lisbon	2.0%	2.2%	13.3	5.9%	1.8%	5.8 - 6.0	5.5 - 5.6	6.6 - 8.0	6.9 - 7.4	✓✓
Stockholm	2.8%	2.1%	16.6	8.9%	1.8%	5.0 - 5.3	5.2 - 5.3	4.4 - 5.9	6.3 - 6.9	✓✓
Copenhagen	2.2%	2.0%	14.6	5.8%	2.0%	6.3 - 6.5	6.2 - 6.3	6.1 - 7.3	6.6 - 7.2	✓✓
London (WE)	2.7%	1.6%	51.9	3.2%	1.6%	4.5 - 4.8	4.9 - 5.0	3.5 - 5.2	7.7 - 8.3	✓
Birmingham	2.7%	1.6%	44.6	6.3%	2.0%	4.5 - 4.8	4.9 - 5.0	3.7 - 5.4	7.4 - 7.9	✓
Manchester	2.7%	1.6%	38.6	4.7%	2.4%	4.5 - 4.8	4.9 - 5.0	4.1 - 5.8	7.4 - 7.9	✓
Glasgow	2.7%	1.6%	42.4	3.0%	2.0%	4.5 - 4.8	4.8 - 5.0	3.8 - 5.6	7.3 - 7.8	✓
Warsaw	4.8%	2.4%	10.6	5.5%	1.8%	6.3 - 6.5	6.5 - 6.6	6.1 - 7.3	7.1 - 7.7	✓✓
Budapest	4.0%	4.0%	10.0	2.2%	2.1%	6.3 - 6.5	6.3 - 6.4	6.7 - 7.9	7.6 - 8.1	✓✓
Prague	4.3%	2.5%	10.7	7.0%	1.8%	6.3 - 6.5	6.4 - 6.5	6.2 - 7.5	7.3 - 7.8	✓✓
Bratislava	6.0%	2.9%	10.0	n/a	2.7%	7.3 - 7.5	7.0 - 7.1	9.0 - 10.1	7.3 - 7.8	✓✓✓
Moscow	5.3%	6.6%	16.7	n/a	1.9%	9.0 - 9.3	8.9 - 9.0	8.6 - 9.5	10.3 - 10.8	✓
St Petersburg	5.3%	6.6%	16.7	n/a	1.1%	9.0 - 9.3	9.1 - 9.2	8.2 - 9.1	9.8 - 10.3	✓

Logistics/Industrial

	National GDP Growth p.a. Q2 2007 - Q1 2012	National Inflation p.a. Q2 2007 - Q1 2012	Current Prime Rent (Q2 2007) (€ sqm pm)	Prime Rental Growth 1992-2006 (%)	Prime Rental Growth Q2 2007 - Q1 2012 (%)	Current Prime Yield (Q2 2007) (%) (local definition)	Exit Prime Yield (Q1 2012) (%) (local definition)	Expected Total Return Q2 2007 - Q1 2012 (%)	Required Return (Q2 2007) (%)	Recom-mendation (Q2 2007)
Berlin	2.3%	1.7%	5.5	0.5%	2.0%	6.5 - 6.8	6.5 - 6.6	5.5 - 6.7	6.7 - 7.2	✓✓
Hamburg	2.3%	1.7%	5.5	0.8%	3.0%	6.2 - 6.5	6.1 - 6.2	6.5 - 7.7	6.4 - 6.9	✓✓
Munich	2.3%	1.7%	6.1	-2.5%	3.0%	6.2 - 6.5	5.9 - 6.0	7.1 - 8.4	6.8 - 7.4	✓✓✓
Frankfurt	2.3%	1.7%	5.8	-0.4%	3.1%	6.0 - 6.3	5.9 - 6.0	6.4 - 7.6	6.7 - 7.2	✓✓
Paris (IDF)	2.2%	1.7%	4.3	-4.7%	2.1%	6.0 - 6.3	5.8 - 5.9	6.2 - 7.5	6.6 - 7.1	✓✓
Lyon	2.2%	1.7%	3.8	-3.5%	2.1%	6.0 - 6.3	5.9 - 6.0	6.2 - 7.4	6.9 - 7.4	✓✓
Lille	2.2%	1.7%	3.8	-2.3%	2.5%	6.0 - 6.3	5.8 - 5.9	6.8 - 8.0	6.8 - 7.3	✓✓
Marseille	2.2%	1.7%	3.8	-0.1%	2.0%	6.3 - 6.5	5.9 - 6.0	7.2 - 8.4	6.9 - 7.4	✓✓✓
Rome	1.6%	1.9%	5.2	1.2%	1.3%	6.5 - 6.8	6.4 - 6.5	6.3 - 7.5	6.8 - 7.3	✓✓
Milan	1.6%	1.9%	4.8	-0.4%	1.1%	6.5 - 6.8	6.4 - 6.5	5.9 - 7.1	6.8 - 7.3	✓✓
Amsterdam	2.4%	2.1%	5.8	1.1%	2.9%	5.8 - 6.0	6.2 - 6.3	4.5 - 5.7	6.6 - 7.1	✓
Rotterdam	2.4%	2.1%	5.1	1.0%	2.7%	5.8 - 6.0	6.3 - 6.4	4.0 - 5.3	6.6 - 7.1	✓
Brussels	2.1%	1.9%	5.0	1.1%	2.1%	6.5 - 6.8	6.8 - 6.9	5.9 - 7.1	6.8 - 7.3	✓✓
Dublin	4.0%	2.8%	9.1	4.6%	2.3%	4.8 - 5.0	5.2 - 5.3	3.1 - 4.6	6.7 - 7.2	✓
Madrid	2.6%	2.5%	8.0	0.1%	1.9%	6.0 - 6.3	5.7 - 5.8	7.2 - 8.5	6.8 - 7.3	✓✓✓
Barcelona	2.6%	2.5%	8.0	1.9%	1.8%	6.0 - 6.3	5.6 - 5.7	7.3 - 8.6	6.6 - 7.1	✓✓✓
Lisbon	2.0%	2.2%	4.5	-3.3%	0.3%	7.5 - 7.8	7.0 - 7.1	7.3 - 8.4	7.0 - 7.6	✓✓
Helsinki	2.7%	2.0%	10.5	2.8%	1.4%	7.3 - 7.5	6.3 - 6.4	9.6 - 10.8	6.6 - 7.1	✓✓✓
Stockholm	2.8%	2.1%	9.5	0.3%	1.8%	6.0 - 6.3	6.1 - 6.2	6.0 - 7.3	6.7 - 7.2	✓✓
Copenhagen	2.2%	2.0%	5.3	1.6%	0.9%	6.3 - 6.5	6.6 - 6.7	5.0 - 6.2	6.9 - 7.4	✓
Gtr London	2.7%	1.7%	16.4	2.0%	1.7%	4.8 - 5.0	5.1 - 5.2	4.2 - 5.9	7.2 - 7.7	✓
Birmingham	2.7%	1.7%	7.7	1.6%	2.1%	5.5 - 5.8	5.6 - 5.7	6.1 - 7.5	7.5 - 8.0	✓✓
Manchester	2.7%	1.7%	8.7	3.5%	1.9%	5.5 - 5.8	5.5 - 5.7	6.1 - 7.5	7.3 - 7.8	✓✓
Glasgow	2.7%	1.7%	8.0	1.6%	1.5%	5.8 - 6.0	5.8 - 5.9	5.9 - 7.3	7.5 - 8.0	✓✓
Edinburgh	2.7%	1.7%	9.4	1.6%	1.9%	5.5 - 5.8	5.7 - 5.8	5.7 - 7.1	7.6 - 8.1	✓
Warsaw	4.8%	2.4%	4.0	-10.5%	1.9%	6.5 - 6.8	6.8 - 6.9	5.1 - 6.3	7.8 - 8.3	✓
Budapest	4.0%	4.0%	4.0	-11.7%	1.1%	7.0 - 7.3	7.2 - 7.3	5.5 - 6.6	8.1 - 8.6	✓
Prague	4.3%	2.5%	4.3	-4.7%	2.3%	6.5 - 6.8	6.7 - 6.8	5.7 - 6.8	7.8 - 8.4	✓
Bratislava	6.0%	2.9%	3.5	-6.0%	2.5%	6.8 - 7.0	6.9 - 7.0	6.1 - 7.3	8.1 - 8.6	✓
Bucharest	4.9%	3.9%	4.0	-19.3%	-0.3%	8.0 - 8.3	8.1 - 8.2	5.9 - 6.9	8.6 - 9.1	✓
Sofia	4.5%	3.8%	5.5	-3.3%	0.6%	9.5 - 9.8	8.0 - 8.1	11.7 - 12.7	7.8 - 8.4	✓✓✓
Oslo	2.7%	2.0%	10.5	2.9%	1.5%	6.0 - 6.3	6.2 - 6.3	4.3 - 5.5	7.3 - 7.8	✓
Moscow	5.3%	6.6%	8.0	-1.7%	1.8%	10.5 - 10.8	10.0 - 10.1	11.2 - 12.0	8.8 - 9.3	✓✓✓
St Petersburg	5.3%	6.6%	9.3	0.3%	1.9%	11.0 - 11.3	10.6 - 10.7	11.7 - 12.6	8.6 - 9.1	✓✓✓
Kiev	5.9%	8.0%	8.2	0.0%	-1.4%	10.0 - 10.3	10.0 - 10.1	7.6 - 8.5	9.2 - 9.7	✓

1. Current prime rents are headline and therefore exclude incentives.
2. Average prime rental growth is the average annual charge in headline rental values over the identified period.
3. Current prime yields are based on the appropriate market definition for a rack rented property; as a result they cannot be used for a direct comparison of available net initial returns.
4. Expected total returns are based on estimates of income return and capital growth over a five-year hold period. Returns are pre-tax and fund costs, ungeared, in local currency after transaction costs and operating expenses.
5. Recommendations are based on excess return (the difference between expected and required returns in local currency). Required returns represent INVESCO Real Estate's estimates of the appropriate total return given a suitable risk free rate and risk premium.

There are three categories:

✓ Only exceptional opportunities will be of interest (excess return is less than -1%)

✓✓ Most opportunities are expected to meet target returns (excess return is between -1% and 1%)

✓✓✓ Most opportunities are expected to exceed target returns (excess return is over 1%)

This publication is aimed at financial advisors, institutional and professional investors. It is not intended for and should not be distributed to, or relied upon, by the public. In the UK, from 1 November 2007, this publication is for Professional Clients only and is not for retail clients' use.

The views expressed herein are those of INVESCO Real Estate professionals based on current market conditions and are not necessarily those of other INVESCO professionals. The views expressed herein do not refer to any specific INVESCO product. Opinions and forecasts are subject to change without notice.

The value of property is generally a matter of a valuer's opinion. Property and land can be difficult to sell, so investors may not be able to sell such investments when they want to.The value of investments and the income from them can go down as well as up (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Past performance is not a guide to the future.

This brochure does not form part of any prospectus. This brochure contains general information only and does not take into account individual objectives, taxation position or individual financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

This brochure has been prepared by INVESCO Real Estate, a division of INVESCO Asset Management Limited (UK) and is issued:

- in the UK by INVESCO Asset Management Limited, authorised and regulated in the UK by the Financial Services Authority, 10 Mount Row, London, UK, W1K 3SD.
- in Jersey and Guernsey by INVESCO International Limited. 40 Esplanade, St Helier, Jersey, JE4 2PH. INVESCO International Limited is regulated by Jersey Financial Services Commission.
- in Germany by both INVESCO Asset Management GmbH, Bleichstraße 60-62, 60313 Frankfurt am Main, which is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht in Germany and also by INVESCO Real Estate GmbH, Maffeistrasse 3, 80333 Munich, Germany.
- in the Czech Republic by INVESCO Real Estate s.r.o. Praha City Center, Klimentska 46, 110 02 Prague 1, Czech Republic.
- in Austria by INVESCO Asset Management Österreich GmbH, Rotenturmstraße 16-18, A-1010 Wien.
- in Switzerland by INVESCO Asset Management (Switzerland) Ltd., Genferstrasse 21, CH-8002 Zürich.
- in France, the Netherlands and Sweden by INVESCO Asset Management S.A., 18, rue de Londres, F-75009 Paris, France.
- in Belgium by INVESCO Asset Management Belgium Branch, Avenue Louise 326, boîte 31, B-1050 Bruxelles.
- in Italy by INVESCO Asset Management SA Sede Secondaria, Via Cordusio 2, 20123 Milano, Italy.
- in Spain by INVESCO Asset Management Succursal en España, Calle Recoletos 15 – Piso1, 28001 Madrid, Spain.
- in Hong Kong by INVESCO Hong Kong Limited, 32nd Floor, Three Pacific Place, 1 Queen's Road East, Hong Kong, which holds a Hong Kong Securities and Futures Commision license number AAJ770.
- in the United States of America by INVESCO Institutional (N.A.), Inc. INVESCO Global Asset Management, Inc., INVESCO Private Capital, Inc. and INVESCO Senior Secured Management, Inc., 1360 Peachtree Street, One Midtown Plaza, Atlanta, Georgia 30309.
- in Australia by INVESCO Australia Limited (AN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, which holds an Australian Financial Services License number 239916.
- in Japan by INVESCO Asset Management (Japan) Limited, 25th Floor, Shiroyama Trust Tower 3-1, Toranomon 4-chome Minato-ku, Tokyo 105-6025, Japan which holds a Japan Financial Services Agency Investment advisers licence number 183.
- in Singapore by INVESCO Asset Management Singapore Limited, 6 Battery Road #15-02, Singapore 049909, which holds a Monetary of Authority Singapore license number CMS000150-1.
- in Taiwan by INVESCO Taiwan Limited, 10th Floor, 122 Tun Hua North Road, Taipei, Taiwan, which holds a Taiwan Financial Supervisory Commission license number DB000900.

INVESCO Real Estate
10 Mount Row, London W1K 3SD
Tel: +44 (0) 207 543 3500

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. Past performance is not an assurance of future results. This is not to be construed as an offer to buy or sell any financial instruments. As with all investments there are associated inherent risks. Please obtain and review all financial material carefully before investing. 3283-10/07