Emerging Trends in Real Estate® Europe

2010

PricewaterhouseCoopers

Urban Land Institute

Emerging Trends in Real Estate® Europe 2010

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Urban Land Institute

PricewaterhouseCoopers

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Contents

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Bulgaria: Rossitza Stoykova

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Executive Summary

Emerging Trends Europe participants are cautiously optimistic about the prospects for their industry in 2010. Europe's economies are recovering and transactional markets are thawing, but there are major uncertainties overshadowing these positive trends.

Concerns centre on two specific issues: whether the withdrawal of government stimulus packages will choke off a fragile economic recovery in Europe, and how the financial system will deal with both the large amount of real estate debt on banks' balance sheets and the commercial mortgage–backed securities that are maturing.

In 2010, economic growth will be subdued throughout Europe and unemployment will remain high. Capital values of real estate are bottoming out and in some cases, like the United Kingdom, rising sharply in anticipation of recovery. However, the fundamentals of the real estate market are still deteriorating and will remain under pressure.

There is substantial equity available for European real estate in 2010, primarily from conservative institutions like insurance companies, sovereign wealth funds, and private property vehicles. However, they are very selective about what they will buy, focusing on prime income-producing property.

Private property vehicles are sitting on a large amount of equity earmarked for European real estate: around US$35 billion. But there is widespread disillusionment with the fund format amongst investors, and those seeking to raise fresh equity in 2010 will find it difficult. The publicly traded real estate companies' fortunes are taking a turn for the better. Their shares have rebounded sharply and they are well positioned to take advantage of buying opportunities in 2010.

The squeeze on debt available for European real estate is easing, but credit remains tight in 2010. Banks are still deleveraging and deciding what to do with their damaged loan books. Larger deals will require banks to club together or syndicate the loan, and relationship banking is back. Underwriting continues to be strict, with low loan-to-values and copious covenants.

It is not yet clear how Europe's financial system will cope with refinancing the large amount of real estate debt that is due to mature over the next five years. However, it is unlikely that European banks will opt for large discounted disposals of distressed loans and assets; they are more likely to work them out over time. Alternative debt providers like insurance companies, pension funds, and opportunistic new lending platforms may help in the process.

Investors seek safety, concentrating on core and core-plus assets in mainstream commercial property sectors. Higher-yielding niche sectors are temporarily relegated to the watch list for most.

Green issues are now very much to the fore in most of Europe. New energy-efficiency regulations and concerns over oil prices and global warming are shaping business decisions. Nongreen stock is in danger of accelerated obsolescence and retrofitting will be a major concern for the industry.

In terms of individual cities, much of the sentiment of the 2009 survey has continued to hold true. Munich and Hamburg held the top two spots for investment prospects in the 2009 survey. This year, they remain the top prospects for existing portfolio performance, with many respondents seeing Germany as being more stable than other countries, both in terms of property markets and the broader economy. The view that German markets were less frothy when times were good and therefore do not have as far to fall remains as prevalent as it did in 2009. For new property acquisitions, two broad views on the market appear regularly in the interviews for this year's report: "We will be concentrating on the markets we know" and "the deeper, liquid markets—the U.K., France, and Germany." This is a sentiment shared by both investors and lenders. The key issue across Europe is the availability of assets to acquire.

The majority of interviewees comment that they will be shying away from development in the short term. The top-ranked cities are a mix of those that feature at the top of the rankings for investment, together with two longer-term prospects, Istanbul and Warsaw. Istanbul, which is first, and Warsaw, which is fourth, are favoured for their economic growth prospects.

Most major property types are regarded as offering "fair" or "modestly poor" prospects for existing property performance. Apartments for rent take the lead, followed by retail, mixed use, residential for sale, office, industrial/distribution, and hotels in that order. Looking at the subsectors, city offices are taking the lead.

By and large, investors are more confident about the prospects for new acquisitions than for existing property performance. All categories were rated "fair," except for industrial/distribution, which is considered "modestly poor."

Fears about the occupier markets caused respondents to put development opportunities on the back burner. Apartments for rent managed to just cross the line into the "fair" category; all other property sectors are deemed to provide "modestly poor" opportunities. Cap rates have undergone an adjustment and shifted outwards, but the market seems to have hit bottom. For 2010, yields for most sectors are expected to firm up.

Preface

A joint undertaking of the Urban Land Institute (ULI) and PricewaterhouseCoopers, *Emerging Trends in Real Estate® Europe* is a trends and forecast publication now in its seventh edition. The report provides an outlook on European real estate investment and development trends, real estate finance and capital markets, property sectors, metropolitan areas, and other real estate issues.

Emerging Trends in Real Estate® Europe 2010 represents a consensus outlook for the future and reflects the views of more than 645 individuals who completed surveys and/or were interviewed as part of the research process for this report. Interviewees and survey participants represent a wide range of industry experts—investors, developers, property companies, lenders, brokers, and consultants. ULI and PricewaterhouseCoopers researchers personally interviewed 269 individuals, and survey responses were received from 380 individuals whose company affiliations are broken down as follows:

Private Property Company or Developer	29.2%
Real Estate Service Firm	27.1%
Institutional/Equity Investor or Investment Manager	19.8%
Other	8.6%
Bank, Lender, or Securitised Lender	7.4%
Publicly Listed Property Company or REIT (including SIIC, SICAFI . . .)	5.6%
Homebuilder or Residential Land Developer	2.4%

A list of the interview participants in this year's study appears at the end of this report. To all who helped, the Urban Land Institute and PricewaterhouseCoopers extend sincere thanks for sharing valuable time and expertise. Without the involvement of these many individuals, this report would not have been possible.

Waiting for the Fire Sale

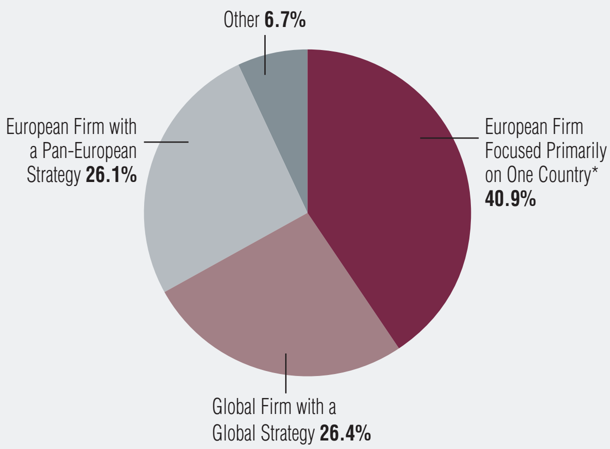
"Expect a long, slow haul."

Europe's real estate industry is cautiously picking itself up and surveying the road ahead. "It's looking positive, but we are taking small steps." Credit is easing, values are steadying, and deals are being done. "Not being in free fall is an improvement." Many *Emerging Trends* respondents are optimistic, expecting better profitability in 2010. There's talk of prudent buying, launching new funds, and even teeing up some development. However, their mood is cautious. "Another year when we need to remain absolutely diligent about everything to do with our business."

Europe's economic recovery is weak and fragile. Unemployment remains high, consumer spending restrained. Tenants ask for rent reductions, and negotiations with bankers are "mentally gruelling." "2010 will be choppy."

Real estate players fear "temporary improvement followed by what may be Armageddon"—that Europe's economy will go into meltdown when governments stop their stimulus programmes. And they know that eventually—though not necessarily this year—interest rate rises, tax increases, and spending cuts are on the cards. "The key question is: Will the other shoe drop—will there be tenant defaults?"

EXHIBIT 1-1
Survey Responses by Geographic Scope of Firm



* See breakdown of countries below:

Russia	12.0%	Italy	7.2%
Spain	11.2%	Portugal	6.4%
United Kingdom	10.4%	Belgium	4.8%
Germany	9.6%	Greece	4.0%
Turkey	8.8%	France	3.2%
The Netherlands	8.0%	Nine other countries	14.4%

Source: *Emerging Trends in Real Estate Europe 2010* survey.

When's the Fire Sale?

"There's a huge problem coming over the hill." Everyone in European real estate—investors, bankers, developers, and brokers—is apprehensive and understandably so. The scale of real estate debt that needs refinancing is colossal. There is €781 billion of commercial real estate loans sitting on Eurozone banks' balance sheets, plus some £250 billion (€278 billion) in the U.K. banking system. And that is not counting the "scary" €95 billion of European commercial mortgage–backed securities (CMBS) out there.

A big bulge of this debt is coming to maturity over the next four years: £112 billion lent by banks in the U.K. and €65 billion of CMBS. (There are no estimates available for the rest of Europe.) Helped by large dollops of government aid, banks have been postponing Judgement Day. It has been "extend and pretend": rolling over debt that breaches loan-to-value covenants but is still paying interest.

This works as an emergency patch. Quite a lot of real estate debt may indeed be salvageable, given time and a fair wind. "Europewide rental incomes have held up, occupancy levels are not so distressed, and borrowers can continue to service debt. It is plausible for banks to say that they can continue to roll over a loan."

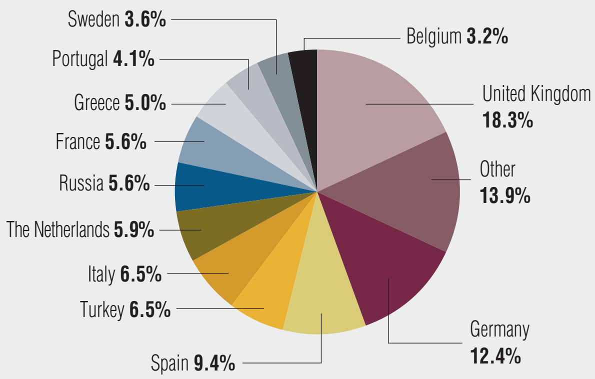
Nevertheless, a large amount of commercial real estate lending is badly holed or completely underwater. The European Central Bank estimates that Eurozone banks will write off €37.7 billion worth. Most worrying are the loans where high leverage was piled onto poor-quality property in 2006–2007, when property values were at their highest. CBRE reckons that there is £79 billion of this debt in the U.K. "The definition of real estate got inflated—a lot of land disguised as real estate got back into the system and as the value burned off it, there is nothing left. Ashes to ashes, land to land."

"How banks unravel the debt will have a big impact on the market." Will they get tough, hold a fire sale in 2010, and get on with life? Dumping property risks pushing prices down yet further, maximising losses and battering already bruised balance sheets. Or will banks hang on, dribbling out distressed assets and extending loans in the hope that they can work out the problems over time? In this case, they will have much less capital for new lending, not only to real estate but also to other sectors of the economy.

Some of the *Emerging Trends* interviewees think that Europe's banks will start to offload real estate in 2010. "Banks are feistier as they seem to have gone past the most difficult phase and are now playing hardball. The most difficult time for property players to manage cash flow/gearing issues is ahead of us, not behind us."

But most believe that a fire sale is not on. "The banking system is too fragile for the banks to mark-to-market on real estate." Sales would crystallise losses, triggering pressure for them to beef up their capital bases. "The instinctively right thing is to take your time, to do it in a thoughtful way," says a fund manager, noting that during the 1990s, Sweden's strategy of hiving bad real estate loans into a state-run bank "worked very well." Indeed, Ireland is copying the Swedish solution and has set up the National Asset Management Agency, a "bad bank," to buy €77 billion of toxic real estate loans.

EXHIBIT 1-2
Survey Responses by Country



Source: *Emerging Trends in Real Estate Europe 2010* survey.

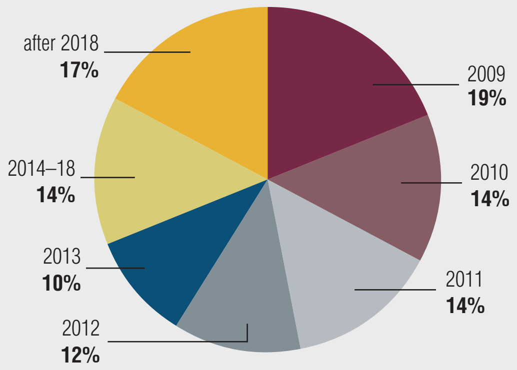
EXHIBIT 1-3
European CMBS Loan Maturities 2009–2018

Year	United Kingdom	Germany	France	Netherlands	Italy	Other
2009	1.56	0.05	0.42	0.00	0.00	0.05
2010	1.81	1.03	0.25	1.44	0.00	0.44
2011	4.20	6.91	1.10	0.35	0.00	0.67
2012	6.56	3.63	2.35	1.64	0.07	0.90
2013	3.92	13.55	1.57	0.46	0.50	1.32
2014	3.85	4.87	0.78	1.00	0.36	0.34
2015	2.34	0.29	0.11	0.09	0.21	0.24
2016	1.99	0.88	0.58	0.62	0.14	0.75
2017	1.19	0.54	0.00	0.00	0.42	0.17
2018	0.00	0.00	0.00	0.00	0.07	0.00

Source: Fitch Ratings, November 2009.

Note: Billions of Euros.

EXHIBIT 1-4
U.K. Commercial Real Estate Loan Maturities



Source: U.K. Commercial Property Lending Market Report, midyear 2009. De Montfort University.

The "hold on" contingent argues that European banks traditionally avoid fire sales and are not under pressure to get rid of distressed assets. "They have taken write-offs, set up internal bad banks, and will work through their portfolios." "Banks don't want to become real estate companies. They will get into bed with people for workouts if they don't have the management to do it themselves."

At least with bank debt, the rights of different parties and procedures for foreclosing are pretty clear cut. Not so with CMBS. When these complex and often ill-documented structures go sour, it can turn into a free-for-all between bondholders and special servicers and amongst different tranches of bondholders. "No one knows how to deal with CMBS yet." That issue will pop up in 2011, when the bulk of CMBS begins to mature.

Meanwhile, there is a daunting mountain of real estate to refinance just as European banks are being asked to shrink their balance sheets. "It is a deeply, deeply worrying mismatch. Are there enough players to provide additional equity?" Cash-laden institutions, sovereign wealth funds, and "opportunistic lending platforms" may help fill some of the gap.

"If the debt market remains stable, if structural adjustments happen in the course of time, the consequences are manageable," says a German interviewee. That's a big "if."

The Road Ahead

"It will be a long, slow crawl back up the hill, and how much values recover will depend on where Europe ends up economically against global competition." The following is what interviewees expect in 2010:

No more quick wins: Good old-fashioned property skills are back in demand. Real competence and experience will count again as heavy asset management, repositioning, and cyclical plays are the major investment themes.

Cash calls: There will be large institutional and retail inflows into property as investors go for income. Plus, real estate offers potential upsides: income protection should inflation take off and the prospect of longer-term capital gains if and when property values recover.

Debt drought: Credit stays tight as banks decide what to do with their property-laden loan books. Loan-to-values are low, underwriting is strict, and lenders are focused on income.

CMBS: Securitisation might reemerge in 2010, but as simple, easy-to-understand structures backed by strong covenants. Existing issuance is on the critical list. German *Pfandbrief* and other covered bonds gain traction as a funding mechanism.

Interest rates: Most of Europe's real estate players think that interest rates will stay low in 2010. But they worry about what will happen when central banks start to ratchet them up. Higher borrowing costs would hit consumers and businesses, threatening to choke off economic recovery.

REITs' revival: Investors like the liquidity, transparency, and corporate governance of REITs. Plus, REITs have the basic bread-and-butter skills needed to create value from real estate in a leverage-light world.

Ground control: "Plain, old-fashioned" direct investing makes a comeback as big equity players—insurance companies, pension funds, and sovereign wealth funds—decide they want more control over their assets. Separate accounts and small clubs flourish; big pooled funds lose popularity.

Funds consolidate: "Investors have issues with fund managers." The private equity business is restructured as external managers are culled and new money is doled out sparingly. Some will not survive; others will be sold or will merge. "Rather than loads of half-baked businesses, there will be half as many better-baked businesses." Funds will be smaller, their missions more tightly specified.

Asian adventures: Those who aspire to global diversification are heading east. "Europe needs to figure out how to participate in global growth and come to terms with the reality that it's not going to revolve around Europe and the U.S. anymore."

Economic Backstory

Europe's economic recovery is underway, but it will be sluggish and uneven. In 2010, unemployment remains high, credit stays tight, consumer demand continues to be subdued, and investment is low.

According to *Emerging Trends* interviewees, the recovery will be variously "U-shaped," "W-shaped," "wok-shaped," "Nike swoosh–shaped," or even "square root–shaped."

EXHIBIT 1-5

European Economic Growth

	Percentage Real GDP Growth			
	2010*	**2009***	**2008**	**2007**
Poland	2.2	1.0	4.9	6.8
Austria	2.1	0.8	2.0	3.1
Russia	1.5	-7.5	5.6	8.1
Czech Republic	1.3	-4.3	2.7	6.1
Sweden	1.2	-4.8	-0.2	2.6
Denmark	0.9	-2.4	-1.2	1.6
Finland	0.9	-6.4	1.0	4.2
France	0.9	-2.4	0.3	2.3
United Kingdom	0.9	-4.4	0.7	2.6
Netherlands	0.7	-4.2	2.0	3.6
Switzerland	0.5	-2.0	1.8	3.6
Turkey	0.5	-4.3	4.1	6.0
Portugal	0.4	-3.0	0.0	1.9
Germany	0.3	-5.3	1.2	2.5
Italy	0.2	-5.1	-1.0	1.6
Belgium	0.0	-3.2	1.0	2.6
Greece	-0.1	-0.8	2.9	4.0
Spain	-0.7	-3.8	0.9	3.6
Hungary	-0.9	-6.7	0.6	1.2
Ireland	-2.5	-7.5	-3.0	6.0

Sources: International Monetary Fund, Moody's (www.economy.com).

* Projections.

The real estate industry wants to know how governments plan to wean their economies off the massive state support they have injected. "If quantitative easing and fiscal stimulus are the heroin, what's the methadone?" asks an interviewee. "Politicians haven't figured out how to pay for all of this." As the International Monetary Fund warns, if support programs are withdrawn too early or too brusquely, it risks derailing the recovery.

Central banks also face a difficult balancing act. If they keep monetary policy loose and interest rates too low for too long, they risk inflation and asset bubbles. If they tighten up too soon or too quickly, they risk deflation and renewed recession. The European Central Bank is phasing out its emergency liquidity measures, and others will follow suit. But most observers and analysts expect European interest rates to stay low throughout 2010, as do *Emerging Trends*' respondents.

For their part, households and businesses—including those in real estate—are beginning to believe that the worst is over. Surveys indicate that confidence is rising across the Eurozone, but not yet enough to boost spending in the high streets.

Germany and France are leading Europe's recovery. The "motor of the euro economy," export-oriented Germany had a "rough ride," but now benefits from the pick-up in global trade. However, with the strong euro dampening exports, gross domestic product (GDP) growth will be modest in 2010. Meanwhile, rising unemployment worries *Emerging Trends*' German interviewees. "When the *Kurzarbeit* [the government's short-time work scheme] is terminated and the first jobs are lost, only then will we be heading for the trough." The German government is also concerned and has introduced a €6.1 billion package of tax cuts to support the economy. Over the longer term, our interviewees are convinced that "Germany will recover into a stronger position than ever before."

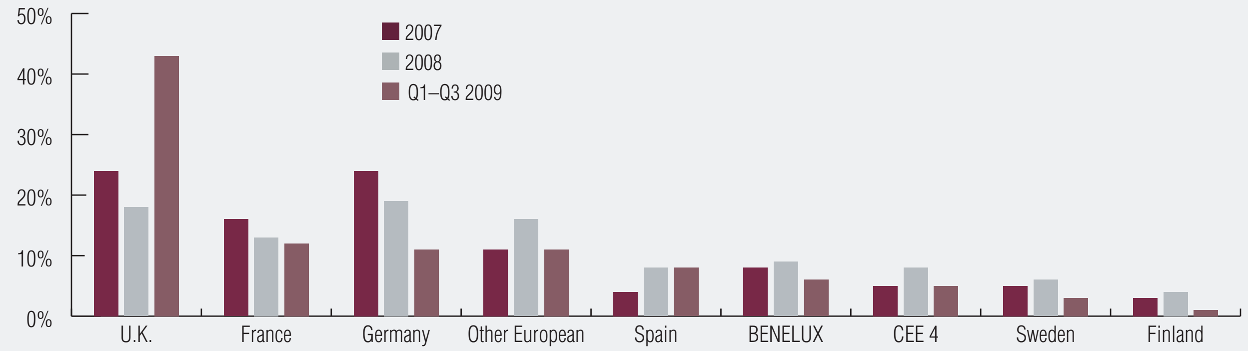
France's downturn has been shallower than most, partly because Europe's second-largest economy is less export-driven and has a large public sector: nearly one-quarter of French workers are employed by the state. Consumer spending is holding up well and exports are rising; manufacturing is ticking up. But French unemployment is 10 percent and our respondents wonder: "What will create jobs and drive recovery?" If France's massive state spending is cut down, its economy could go off-piste again. President Nicolas Sarkozy has said that he will not raise taxes in 2010, but France's public finances are in a dire state. "Everything they are doing appears to be a temporary fix."

"Italy will go on doing what Italy does." Growth will be anemic in 2010 as the strong euro hits the competitiveness of Italian exports. At over 100 percent of GDP, Italy's public sector debt is amongst the highest in the Eurozone and the government is planning new revenue-raising measures to tackle it. These include the *scudo fiscale*, a tax amnesty allowing Italians who hold undeclared capital abroad to repatriate it and avoid prosecution if they pay a 5 percent levy. "Much of the returning capital will flow into the real estate market." International investors are less enthusiastic. "Italy is in poor shape and the government is not capable of addressing the issues." "There are too many obstacles—a country that takes a minimum of five years to give you your VAT [value-added tax] back!"

"The Netherlands will be at the back of the queue." Also heavily dependent on exports, the Dutch economy will see muted growth in 2010. The country went into recession with a tight labour market, so at 3.9 percent, Dutch unemployment is the lowest in the Eurozone, but consumers remain cautious. With local elections due in March, the ruling coalition proposes modest spending cuts in 2010.

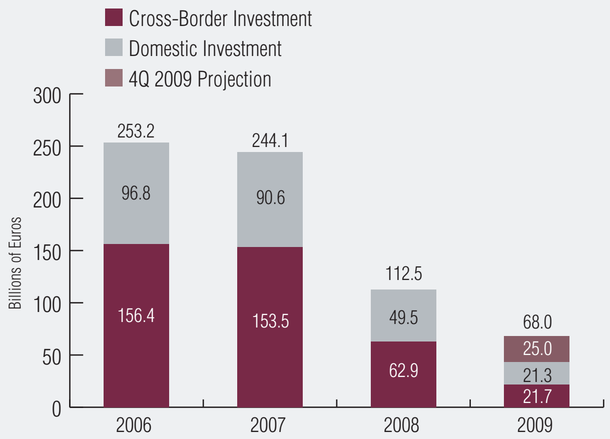
The U.K., Ireland, and Spain lag their western European cousins. All are still dealing with the painful fallout from burst property and credit bubbles. In Ireland's case, its brutal economic downturn is easing, but GDP is still forecast to shrink by 2.5 percent in 2010. There is more austerity in store for 2010 as government spending is slashed,

EXHIBIT 1-6
European Cross-Border Real Estate Investment by Country of Origin



Source: Jones Lang LaSalle.
CEE4 = Czech Republic, Poland, Hungary, and Russia.

EXHIBIT 1-7
European Direct Real Estate Investment



Source: Jones Lang LaSalle.

Notes: Cross-border investment activity is defined as any direct transaction that involves a foreign buyer or seller.

EXHIBIT 1-8
Respondents' Global Real Estate Portfolio by World Region and Year

	2009	2010	In Five Years*
Europe	83.9%	83.9%	79.3%
Asia Pacific	7.9%	7.3%	9.1%
United States/Canada	5.9%	6.2%	8.0%
Other	2.4%	2.7%	3.6%

Source: *Emerging Trends in Real Estate Europe 2010* survey.

* Projected.

public sector pay is cut, and welfare benefits are reduced. This could prolong Ireland's recession.

"Spain is now so distressed that it's looking interesting again." Overleveraged and overly dependent on construction, Spain's economy is still in recession. Residential and commercial property markets continue heading south in 2010; unemployment is 19.4 percent and, amongst the young, an eye-watering 44 percent. Billions of euros are being spent on public works and welfare programmes.

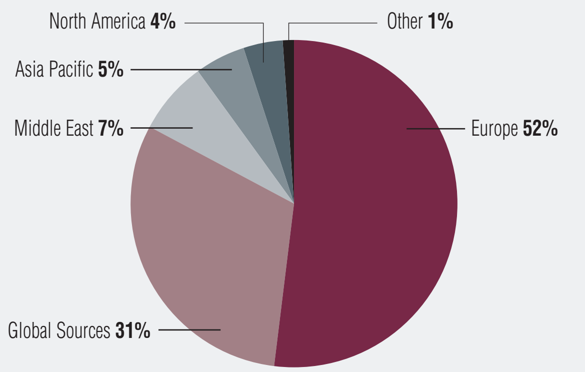
The U.K.'s economy is slowly pulling out of its tailspin. "The glide path is upward but not very steep." Heavily indebted consumers and a fragile financial sector are a drag on growth. An election looms this spring, but whichever party wins, *Emerging Trends*' respondents expect higher taxes, higher inflation, higher unemployment, and a higher burden of public debt. "We are going to find 2010 an extremely uncomfortable year."

Norway and Sweden are leading the Nordic region out of recession. Norway was relatively untouched by the financial meltdown and its economy has been underpinned by a large stimulus package. Investment in its oil industry also supports demand. Sweden, the region's largest economy, suffered a worse downturn than its neighbours, partly because of the banking sector's exposure to the Baltic countries. It is out of recession, but there is considerable slack to take up. The outlook for Denmark and Finland is also improving, but it will be "a quiet year in the Nordics."

In contrast, emerging Europe faces another tough year. It has been knocked back by the flight of foreign capital, and inward investment is likely to remain low for some time. The bright spot in this region is Poland, which has avoided

EXHIBIT 1-9

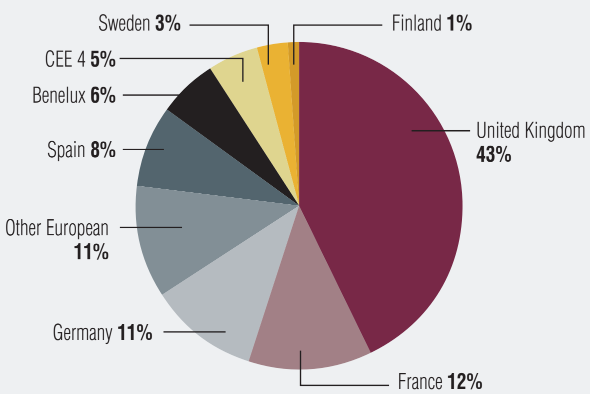
Cross-Border Investment in Europe by Source: Q1–Q3 2009



Source: Jones Lang LaSalle.

EXHIBIT 1-10

Cross-Border Real Estate Investment by Destination: Q1-Q3 2009



Source: Jones Lang LaSalle.

recession entirely. Its economy is less reliant on exports and employment has held up better than expected, supporting domestic demand. Forecasts indicate that Poland will outperform the rest of Europe in 2010, but at 2.5 percent, GDP growth will be subdued. The Polish government has postponed its plan to join the Eurozone in 2012, as it deals with a large deficit.

The Czech Republic is also on a good track, emerging from a relatively short and shallow recession. But Hungary is a "basket case." Relying on a loan from the International Monetary Fund to keep afloat, the country is on an austerity programme to trim its budget deficit and is unlikely to pull out of recession until 2011.

"Russia has been a bit more volatile than other economies." Having seen GDP growth yo-yo between 8.5 percent and –7.5 percent in three years, Russia is now pencilled in to deliver 1.5 percent growth in 2010. While this will be one of the better performances in Europe, it is low for Russia. Weak oil prices are not helping its energy-exporting economy and the government will be pumping €6.1 billion in to stimulate it in 2010. "For those who understand and are willing to take the risk, Russia is the best play."

Turkey has weathered the storm better than most. Its banking system is solid and the economy is rebounding, helped by single-digit interest rates and tax breaks that boosted domestic spending. "Turkey will emerge as a new logistics hub between Europe and the East." However, its bid to join the European Union seems to be fading.

Where's Value?

Global diversification may have hit a small road bump, but *Emerging Trends*' respondents are still en route to rebalance portfolios. In particular, they want to increase their exposure to the Asia Pacific region. This region has weathered the financial crisis in much better shape than either Europe or the United States and is regarded as the engine of global growth. "Our first choice short term is Australia. It has the best macro picture. Longer term, it's Asia—Beijing and Shanghai," says an international investor.

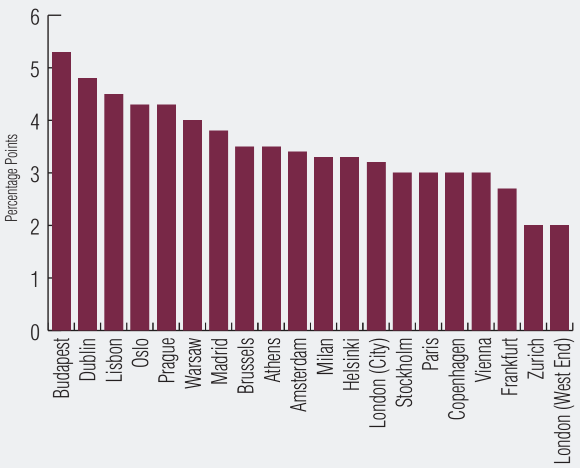
But last year, buyers stayed home. Direct investment in European real estate halved to €68 billion, just a quarter of its 2006 peak. Leveraged buyers were vaporised by the credit crunch, while cross-border deals tanked as investors everywhere focused on their domestic problems—and opportunities. Overseas buyers, who have been a significant force in European markets over the last four years, accounted for about half the cross-border capital.

Those who venture out play safe, concentrating on the big, liquid, "priced-to-buy" markets. "The U.K. is top of everybody's list. France and Germany will surprise on the upside." Last year, the United Kingdom scooped up 43 percent of all cross-border investment in Europe as euro- and dollar-denominated buyers swooped in to take advantage of low prices and cheap sterling. "It's buy one, get three free."

The spotlight is on the U.K., where the sheer amount of money chasing an extremely limited supply of prime assets has tightened yields in central London, to near-boomtime lows in some deals. The pressure is also pushing up prices of retail and industrial property and spilling over into secondary stock. This rapid snap back stuns some. They think pricing isn't taking into account the still-deteriorating occupational markets, where rents are falling. "You've got a lot of hotheads out there, bidding stuff up."

EXHIBIT 1-11

European Office Market Financing Spread

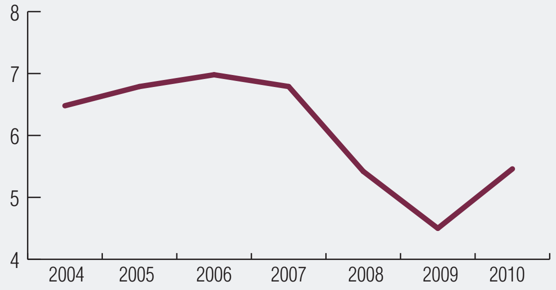


Sources: CBRE, JCRA.

Note: As of Q3 2009. Spread is between prime office yields and five-year swap rates.

EXHIBIT 1-12

Real Estate Firm Profitability Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: 5 = fair, 6 = modestly good, 7 = good.

Opinion is divided as to whether this is a bubble or not. "It's hard to beat central London, especially the City, because rents have adjusted hugely. We could see growth in prime rents in 2010, and yields are still relatively high," says a fund manager. Others think London is for "lemmings." "There is now a glut of overseas investors trying to jump into this market thinking they will get distressed prices when they have already missed the boat."

Germany also gets mixed reviews. Opinions range from "strong fundamentals" to "mildly negative" and "cautious—there's less price transparency." Views differ on different cities and on whether the German economy offers reassuring stability or low growth prospects. This year, Munich comes out on top of the *Emerging Trends* league of city prospects, scoring first for standing investments and second for new acquisitions and development. Frankfurt, in contrast, is lower down, reflecting worries about its finance-heavy tenant base.

There is more unanimity about France or, more specifically, Parisian offices. "Fundamentals look solid. Values have bottomed out at the prime end, rents are stabilising, and there is little new supply." "Paris is stronger than London as it is less heavily reliant on financial services and has a wider industry base."

Central and eastern Europe (CEE) has dropped off most investors' list altogether: "too many people nursing too many wounds." The exception is Warsaw, which is judged to be in relatively good shape. "Poland is the strongest and most stable market in CEE." Meanwhile, Moscow's fall from grace has been particularly steep, tumbling to 24th place from sixth in the rankings of European cities' prospects this year. But "Moscow will have opportunities if you take a longer-term view."

Similarly, Turkey's young demographics and growth prospects mean that Istanbul has its fans. It is number one for development prospects in 2010, with one caveat: the high ranking may be reflecting the preferences of the relatively large group of domestic Turkish players in this year's survey.

Safety First

2010 is all about safety and stock selection. Virtually everyone is fixated on prime and core-plus property. "There's no need to climb up the risk curve because you get a damn good return on core." "Investments done now will look good in ten years' time."

Moreover, there is precious little debt for anything that is remotely risky. "We finance only core investments at the moment," says a European banker whose loan book used to be 50 percent development and "would like to come back to that market."

Quality of location, building, and tenant is the overriding consideration. Centre city offices, high street retail, and shopping centres are the top commercial investment picks for 2010. However, residential investments also are highly rated, and expected to turn in a better performance than commercial property in 2010.

As one investor puts it: "Buy good income with decent assets, lock in decent financing, and you have got a very good income stream, which, medium term, may benefit from an inflationary bubble. It's not the market bottom, but it's a reasonable play."

But for many, 2010 is a year of stabilisation and asset management: "Work like the devil to stay at the same level as last year." They have loans to renegotiate and properties to let; they expect some tenants to default and others to push for rent reductions. On the plus side, property prices have hit bottom in most European markets: "No further impairment in the portfolio is expected."

Niche Plays

Although mainstream real estate sectors are favoured, *Emerging Trends*' respondents are not entirely abandoning the more offbeat types of real estate. Student housing, self-storage, retirement homes, social housing, health care facilities, infrastructure, car parking, agricultural land, and garden centres all have their fans. "Our alternatives fund is doing very well," confides an investment manager.

But many believe that prospects for alternatives are poor. They don't want to go "off-piste" when they can find value in more conventional real estate. It is "back to the basics and core competences." Moreover, bankers do not always view niches kindly. "It's a hugely problematic area. Leverage is even lower than in secondary property."

Most see potential in the kind of property that caters to Europe's aging population. "Hospitals, sheltered accommodation, private clinics will have an upside in the future." A few of *Emerging Trends*' respondents are already active in this market; others are about to enter. "We are considering launching a fund specialised in health care." The rest are keeping a watching brief: "The market is not sufficiently large or organised."

Similarly, seniors' housing and residential care homes are judged to be interesting, but not necessarily today. For some, these segments are too small and "not something everybody can afford." Government policy will influence how this niche develops. "Who is going to pay? Clearly there's a lack of supply, but you need to be reasoned about risks," an interviewee asks.

Social housing appears to have a small following, notably in Italy. The sceptics think that "its success will depend on the future relative tax advantages granted by the Italian government, if any." In contrast, the student housing market is more established. Some already invest in it—"7 percent yield"—and others view it with mild interest.

"Nonsexy" public sector property is gaining popularity. "The deep core buyers may be tempted to come back into leases with local councils or governments where they have 33 years of fixed-income streams from schools or hospitals." Infrastructure, which also provides low-risk, long-dated income, appears to be splitting off. "It is a different alternative asset class, more private equity than real estate."

Mixed-use real estate that helps restructure cities is reckoned "to make a lot of sense" and perform well. "But it is a very difficult product for investors to understand."

None of the *Emerging Trends* interviewees is enthusiastic about leisure this year. Highly dependent on discretionary spending, it is not performing particularly well in these belt-tightening times. "It is a difficult sector," says an investor.

Going Green

Given the bad times that Europe's real estate industry is going through, it is slightly surprising to find that green issues are "absolutely" moving up its agenda, "from 20 to 80 on a scale of 100. Nobody wants to be with the last 20 percent."

This year, a big majority of *Emerging Trends* survey participants are green converts. Typical comments include: "immense concern," "impossible to neglect if you want to stay in the race," "no longer a freakish trend," and "it should become part of the DNA of our businesses."

An international developer puts it thus: "You can save your tenants money by having an energy-efficient building. That allows you to lower the risk of default and makes the service charges more attractive. We don't build anything without considering the green applications. Not least, this is because I'd like my children to be able to enjoy these buildings and the world as I have enjoyed it."

Undoubtedly, the industry's focus was sharpened by the European Union introducing compulsory energy efficiency ratings for buildings last year. This, and Europe's dependence on oil, has concentrated minds. For the first time since *Emerging Trends* started canvassing views on the subject, there is evidence that green issues are influencing investment decisions.

"We walked away from a deal in France that possibly did not meet efficiency standards," reports an investor. "We would not buy anything new that is not top-of-the-line in terms of green ranking," says another. "Green is no longer hype, but a selection criterion for investments."

Global warming is also entering explicitly into the investment equation. "We passed on a hotel in the Maldives," reports an investor. Another has set a deadline to reduce CO_2 emissions by 20 percent. "Every new building in our portfolio has gas, solar, or terrestrial heat. There is not a single new building with an oil heating system," says a Swedish interviewee.

The push for more energy-efficient, sustainable buildings is coming from occupiers and investors. "It is absolutely at the top of their agenda. They ask first about our green credentials—we have to jump that hurdle just to advise them," says a European CEO of a global property consultancy. "We have tenants that want carbon credits for offsets and a company that wants to use Seine River water for cooling its building."

True, big-brand corporates are more concerned about environmental issues than smaller occupiers. Also, to date there is little hard evidence that tenants in Europe are willing to pay more rent for green buildings. But there are some interesting portents. In the Netherlands, for example, there is talk of incorporating green building and sustainability factors into the nationwide points system that determines rents for social housing.

There are also plans for investment funds that focus specifically on eco-sustainable assets, although the financial crisis caused at least one of these launches to be aborted. But they are still in the pipeline, and there is even talk of "dark green funds" featuring green buildings with green tenants.

More and more, Europe's real estate industry is convinced that "nongreen is a form of obsolescence." For investors, prime now encompasses environmental qualities. They believe that eco-friendly buildings will command a premium over environmentally unfriendly ones. "Sustainability is increasingly expected by the occupiers, important for the long-term occupancy, and, therefore, important for sustainable value."

Developers and landlords ignore this message at their peril. "If you don't deliver green buildings, you won't find takers." "We are not buying any properties now which we believe are not sellable in ten years' time," says a core investor.

This divide will create a two-tier market, polarising buildings that meet the new corporate standards and those that don't. Owners of "semiobsolete" properties face difficulty leasing them unless they spend on greening them. Some are getting ahead of the game: one investor is analysing the entire international portfolio, identifying what fails to meet environmental standards in every country and starting methodically to fix it, "from left to right."

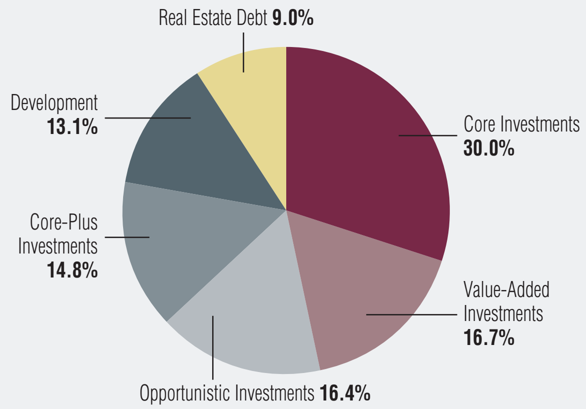
Indeed, the biggest headache for the industry is the existing stock. "There's far too much focus on solar panels, windmills, and new buildings and not enough on retrofit. It's just not sexy," complains a fund manager. "Real estate provides for 40 percent of the CO_2 production worldwide, so policy makers will impose penalties for those who have not or will not adjust," predicts another. A consistent standard is needed: "At the moment there are too many labels promoting green and meaning different aspects."

Not everyone is happy about the new regime. "These environmental regulations are adding £20,000 to the cost of building a basic house. They are a real millstone for residential developers."

And, there are still very noticeable differences in how seriously environmental issues are taken in different European markets. The larger western ones, with more mature investment markets, are heavily green. Germany, the Netherlands, and the Nordic countries are in the vanguard, with the U.K. and France catching up. In southern Europe and eastern Europe, environmental issues are not as big. In Russia, developers say they have trouble getting green features approved by the authorities, "who have never seen them before."

EXHIBIT 1-13

Strategic Investment Allocation Preferences for 2010



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Top Tips

Keep it simple: Go for "plain-vanilla real estate investments that everybody understands."

Best buys: Core is king. Stick to core and core-plus investments in large, liquid markets. Buy city centre offices, high street retail, shopping centres, and residential for rental. Avoid industrial and distribution facilities, hotels, and out-of-town offices.

Best places: Munich, London, Hamburg, and Paris for new purchases; Istanbul, Munich, Hamburg, and Warsaw for development.

Development: For those with the stomach for risk, buy land and start building up a pipeline of projects. Residential for rental or sale and mixed use are the best sectors.

Go for debt: Buy a bank or set up a lending platform. Now is a great time to lend on real estate, if you have the right skill set and no legacy issues. Values are low and "the gap between cost of funds and loan margins is as good as it gets." Or, buy distressed debt at a discount.

Green is good: Real estate is on the front line in the battle against climate change. "There is now a clear realisation that environmental and social responsibility is connected to economics. It has become an action issue."

People power: In tough times, human capital counts as much as financial. "There is a saying that you should come out of a recession with better assets than when you went in. We are investing heavily on not only good-quality assets but also recruiting quality human capital," says an interviewee. Or, as another puts it: "The real sustainability of business is people."

Real Estate Capital Flows

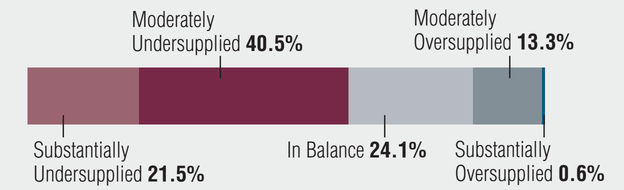
"There's a great deal of money out there that's feeling much more confident and looking for a home." That may be true of equity, but for debt it's a different story. "Debt will be rationed for a long time and the price will be high."

The European real estate industry expects capital to "dribble" back into the market in 2010. It is more optimistic about equity, however, with a large majority of those surveyed by *Emerging Trends* saying there is enough, or almost enough, to meet the market's needs. The problem is the substantial undersupply of debt.

Banks hold the key to 2010. They control both sides of the real estate equation: "Their 'extend and pretend' strategy is removing the pressure on existing borrowers to sell, and on the other side they are very reluctant to finance new deals unless for absolutely prime assets."

EXHIBIT 2-1

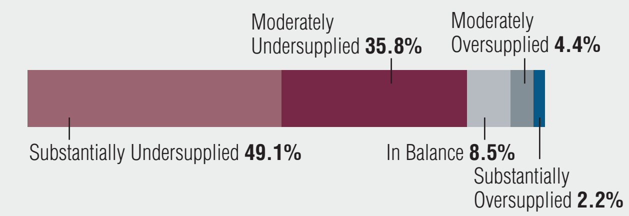
Real Estate Equity Capital Market Balance Prospects for 2010



Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 2-2

Real Estate Debt Capital Market Balance Prospects for 2010



Source: *Emerging Trends in Real Estate Europe 2010* survey.

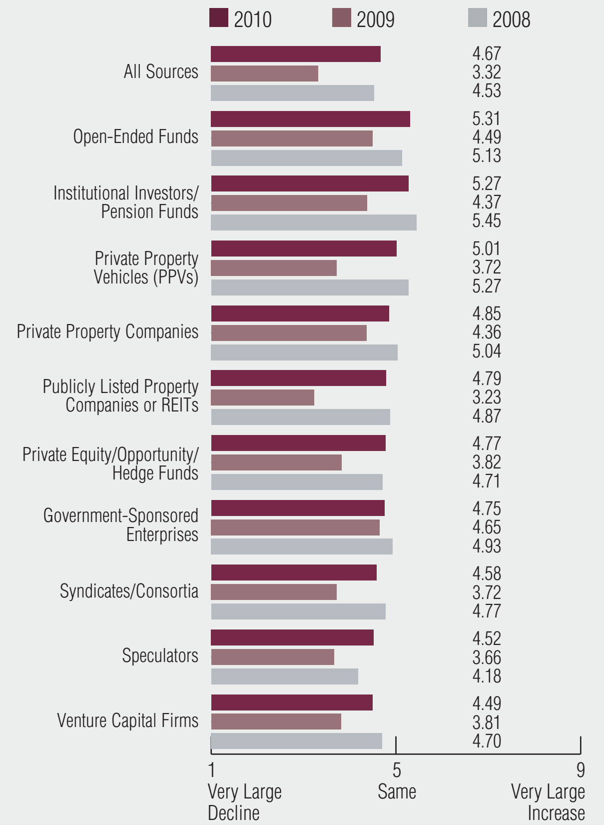
Equity Makes a Comeback

"Equity vastly exceeds opportunities. There are large pools of committed and uninvested capital." Only 21.5% of those surveyed think that equity will be substantially undersupplied in 2010. But equity is very, very choosy about what it wants.

After a grim 2009 when investors sat on the sidelines and waited for markets to stabilise, they are prepared to buy real estate. Heading the queue are the classic sources of equity: insurance companies, pension funds, and open-ended funds: institutions that shun leverage and still have cash coming into their coffers. "German open-end funds will be winners in 2010. The money is just dropping in."

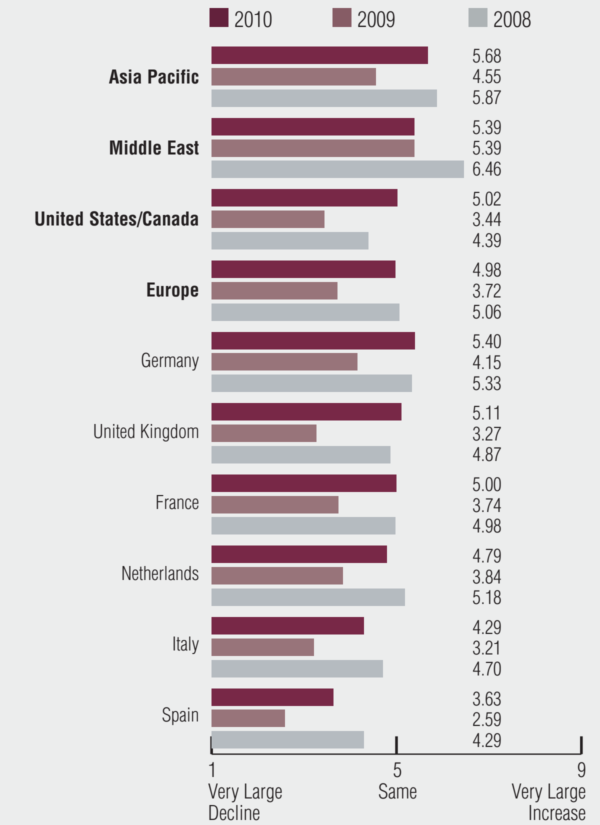
Private property vehicles also are on the prowl. Though many were beaten up by the credit crunch and survive thanks to bankers' forbearance, the newer ones are sitting on an estimated US$35 billion of dry powder. The difficulty for them is

EXHIBIT 2-3
Change in Availability of Equity Capital for Real Estate by Source Type



Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 2-4
Change in Availability of Equity Capital for Real Estate by Source Location



Source: *Emerging Trends in Real Estate Europe 2010* survey.

spending it. They hope that 2010 will flush out more game, as banks get tougher with their borrowers and force sales.

Real estate investment trusts (REITs) and listed property companies also will have a good 2010. They have mended their balance sheets with sales and rights issues, reorganised their finances, and are cautiously looking for opportunities. Their real estate skills are now back in fashion.

Individual investors also stage a comeback in 2010, but with a difference. These are not the debt-fuelled cowboys of the go-go years, but the super-cautious superwealthy, the middling wealthy, and family offices. “Real estate looks an attractive asset class for high-net-worth individuals when interest rates are so low.” “We see a lot of high-net-worth individuals investing in tickets of between €5 million and €20 million.”

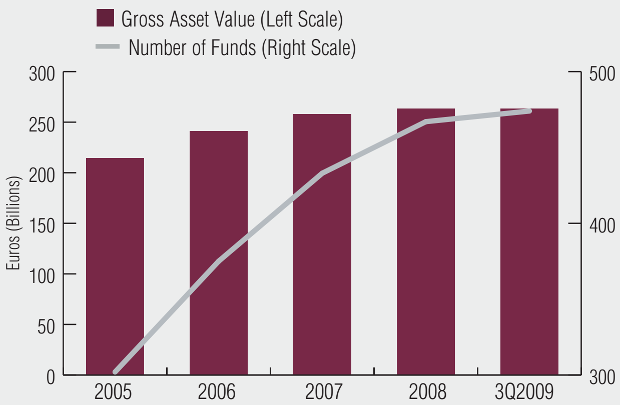
Institutions Go for Gold

Traditional institutional investors—“plain-vanilla insurance and pension funds”—are in for a real estate bonanza. In a capital-constricted world, they have equity and the will to spend it.

Although real estate provided “significantly less diversification than one [had] hoped for” when the financial system went into meltdown, institutions are still positive about the asset class. They scent recovery, seek income, and fear inflation. “Buying core assets today is a winning proposition over the next ten years.” European pension funds are bumping up their allocations; foreign ones are going global.

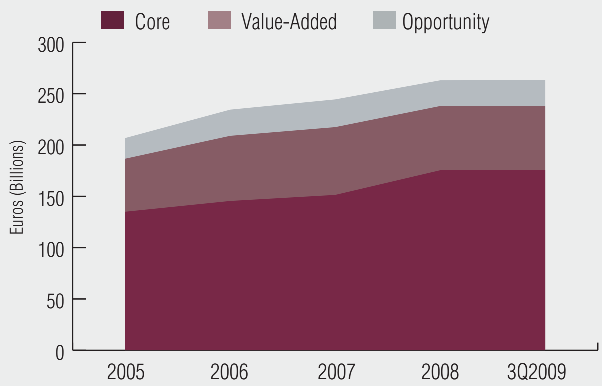
With the denominator effect now working in favour of real estate, institutional investors find themselves lightweight as equities and bonds have reflated more rapidly. “They are rushing to reverse this.” Plus, the inflows of pension contributions and premiums need to find a home. “They are piling on cash, but that can’t last forever,” especially when cash yields next to nothing.

EXHIBIT 2-5
Growth of Private Property Vehicles in Europe



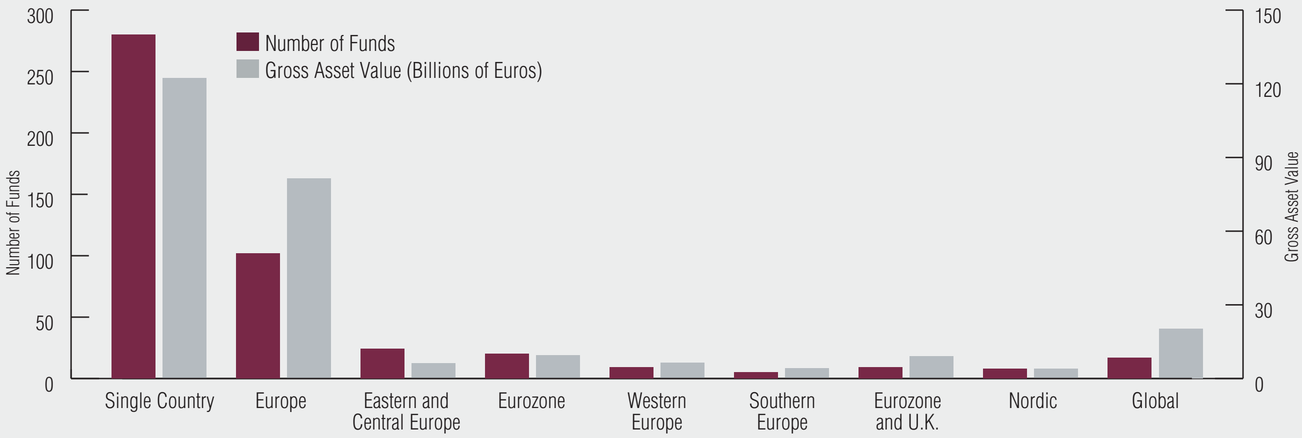
Sources: Investors in Non-listed Real Estate Vehicles (INREV) 2009; INREV/Investment Property Databank 2005–2008.

EXHIBIT 2-6
Private Property Vehicles by Type of Fund



Sources: Investors in Non-listed Real Estate Vehicles (INREV) 2009; INREV/Investment Property Databank 2005–2008.

EXHIBIT 2-7
Private Property Vehicles by Target Location



Source: Investors in Non-listed Real Estate Vehicles (INREV), December 2009.

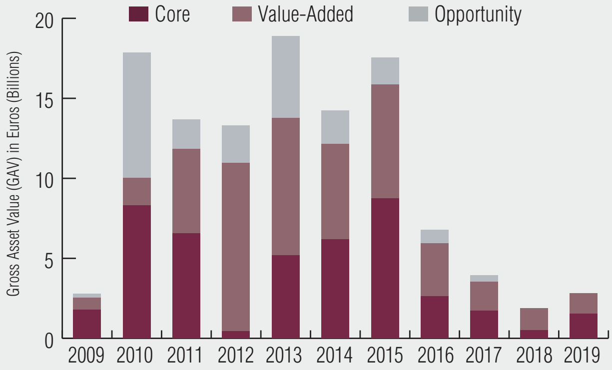
But these organisations are not nimble. It will be a slow flow, not a flood, of money into real estate. "Expect more capital to be available, but not hugely." The financial crisis has shaken investors out of their comfortable assumptions about risk, diversification, liquidity, and structures. "Institutions are in a recovery phase: they haven't quite got their mind around asset allocations or how they want to invest in real estate."

"We are ready to invest again, but can be patient. We are not under any pressure to move too soon," says a major U.K. insurer. The pace also depends on whether the right kind of stock—safe, core, and core-plus real estate—is available at the right price. Institutional investors will have to work hard to spend their money in 2010.

Overwhelmingly, they focus on core and core-plus in more mature and liquid markets: "secure cash flows that earn 100 to 150 basis points above bonds." "Anything that vaguely smells of risk or takes a bet on the future is difficult."

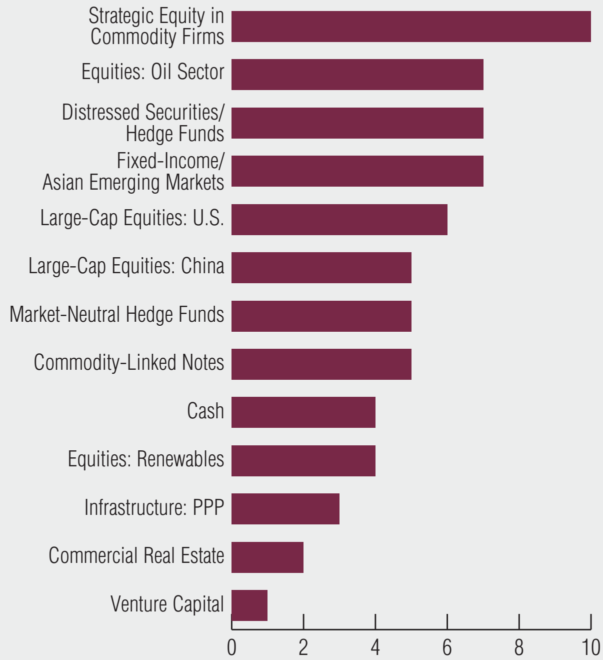
This "wall of money" chases limited stock. Yields rebound, making core and core-plus assets too expensive for some. "There's a danger that investors are losing sight of occupier market fundamentals in the U.K." Some braver institutions leapfrog into assets higher up the risk curve: "We see devel-

EXHIBIT 2-8
Private Property Vehicles in Europe by End Year and Fund Type



Source: Investors in Non-listed Real Estate Vehicles (INREV) .

EXHIBIT 2-9
Sovereign Wealth Funds Consensus Demand Meter Q4 2009



Source: Sovereign Wealth Fund Institute, December 2009. The Consensus Demand Meter tracks what sovereign wealth funds are demanding over the next three quarters on a score of 10 (attractive to majority of large portion of SWFs) to 1 (SWFs will most likely try to lower exposure).

opment as an opportunity as so many competitors have fallen by the wayside."

Crucially, institutional investors have reset their attitude towards risk, and not just about bricks and mortar. They've learnt some hard lessons about leverage, illiquidity, alignment, and due diligence. As their equity in private property vehicles has evaporated, so has some of their enthusiasm for this format. "Indirect funds have lost their promise and failed to deliver. Even in good times, they were not worthwhile compared to direct investments," says a Dutch pension fund manager.

Disillusioned and angry, larger investors are culling external managers and going it alone, in joint ventures or teaming up with like-minded institutions. They compare notes and blacklist fund managers who haven't been transparent and open, who haven't been diligent in communicating and trying to solve problems.

"Club deals are in; some are talking about separate accounts. Blind pools and blank-check acquisition deals are out." "New forms of strategic alliances will arise, in order to be able to close deals at a minimum risk."

The big players will use funds for foreign diversification, or when they lack specialist expertise, but shun large pooled vehicles if possible. "The age of the unlisted vehicle with 20 to 30 limited partners has gone. It makes for uncomfortable bedfellows when things get tough. I've been in funds where LPs' attitudes range from, 'Let's sue the manager to Hell and back,' to 'Let's put more money in and solve the problem,' " says the real estate head of a European insurer.

Small institutions, which don't have the luxury of investing directly, will stick with pooled vehicles for real estate. But they too will go through the fine print of fund prospectuses with a magnifying glass. Control and alignment of interests are major issues. "Investors want to get closer to deals and due diligence."

And large or small, institutional investors will be very, very fussy about who gets their equity. "We will be more selective about managers, gearing levels, what the story is."

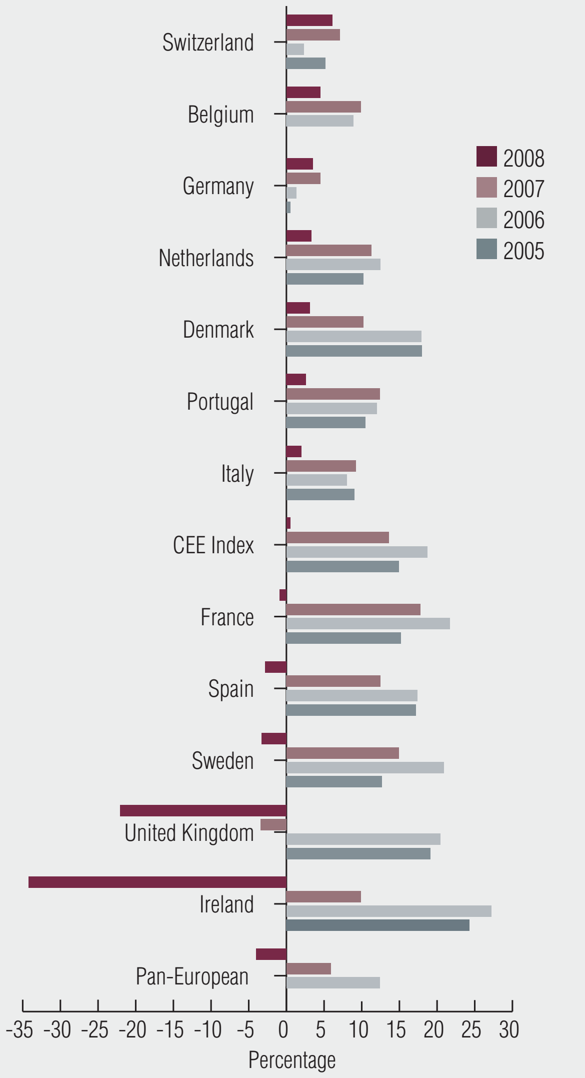
State Capitalists

"Sovereign wealth funds [SWFs] are still interested in real estate, but it is not clear what they are going to do." These big beasts are rethinking their strategies, and adapting them to the new financial terrain.

They are rebalancing their portfolios, changing allocations, and restructuring their organisations. Commercial real estate is quite low on their list of targets in 2010, according to the Sovereign Wealth Fund Institute's consensus demand meter, which measures investment intentions on a scale of 1 to 10. (See chart.)

EXHIBIT 2-10

Real Estate Total Returns for Selected Countries



Source: Investment Property Databank (IPD).

Note: In local currencies.

Their focus is on natural resources, equities, and distress. And while SWFs are not abandoning developed economies like Europe's, they are allocating more to emerging markets. They are also under political pressure to do more at home. The Middle Eastern funds in particular are rethinking how they invest their sovereign wealth.

Like others, these "state capitalists" have soured investments to sort out. But with oil prices stabilised, exports recovering, and stock markets rebounding, SWFs will be spending more freely. "The Asians are already looking strong and we can expect others to be back in 2010." And there are a lot of them: 55 and counting.

Taken as a group, SWFs have some €3 trillion of assets under management. But not all SWFs are large and not all invest in real estate internationally. There are only about ten with serious global portfolios, mostly the larger Middle Eastern and Asian funds that are old hands at real estate.

Others are joining in; new entrants include China Investment Corporation, Qatar Investment Authority, Oman Investment Fund, Australia's Future Fund, Libya Investment Authority, and Norway's Government Pension Fund. The first five put their markers down last year, splashing out on some big-ticket purchases, most in London.

SWFs have the reputation of being big-game trophy hunters in real estate, but this is simplistic. They use private property vehicles for opportunistic and value-added investments, they buy listed real estate securities, they develop, and now they are getting into niche strategies like real estate debt and distressed assets.

The big players are upping their game: expanding in-house teams, recruiting seasoned professionals from investment banks and private equity houses to head up their real estate activities. For them, control of assets is a big issue. "SWFs got burnt badly and now want to put it out themselves." Expect to see them investing more directly, partnering up with other SWFs and in joint ventures with like-minded investors and developers.

Open-Ended Funds

Equity-rich, open-ended real estate funds are in a good position to snap up some of their favoured assets in 2010. They top the list of equity providers for 2010 in the *Emerging Trends* survey. "German open-ended funds have much lower IRR targets than the closed funds and are collecting cash."

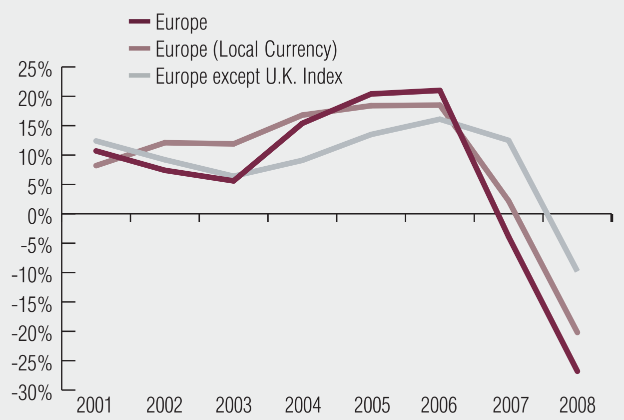
Spending, rather than collecting, money is the headache for open-ended funds in 2010. Unless owners can be persuaded to part with more core or core-plus property at the right price, funds will be hard-pressed to put their equity to work.

Indeed, heavy inflows from both retail and institutional investors have prompted some German and U.K. fund managers to restrict new entrants, for fear that they would not be able to spend the money on suitable stock.

A caveat: these funds are at the mercy of investors, whose mood is volatile. Having stabilised and seen investors return in 2009, most of the 45-strong German open-ended sector lifted redemption bans and started to spend, both at home and selectively elsewhere: buying office buildings in London and Paris, Italian shopping centres, and Dutch logistics facilities.

EXHIBIT 2-11

Private Equity Institutional Real Estate Funds: Total Returns

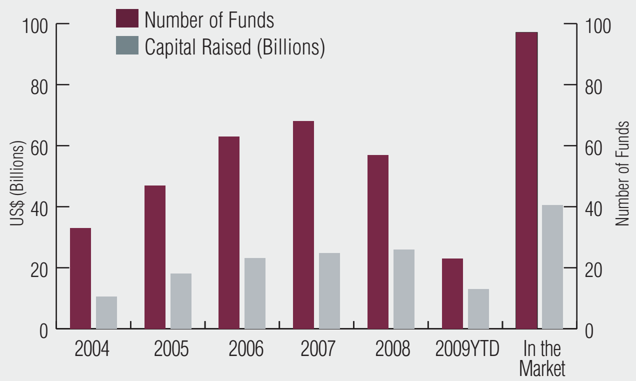


Source: INREV.

Note: Core and value-added only; does not include opportunity funds.

EXHIBIT 2-12

Europe-Focused Fundraising 2004–2009



Source: Preqin, December 2009.

But in the third quarter of 2009, cash again began to flow out of the German funds as investors took fright over potential new writedowns in portfolio values. And in November investors pulled out another net €632 million, forcing three funds to close down to redemptions temporarily. One, which had reopened only two months earlier, saw the equivalent of nearly 40 percent of its value melt away in withdrawals.

At the same time, those with a broader retail investor base received strong inflows and even had to temporarily suspend intakes to avoid breaching their liquidity ceilings. "Real estate is interesting for private investors, particularly against the backdrop of the possibility of rising inflation."

The ebb and flow of institutional capital is particularly problematic for these retail German open-ended funds, since these investors treat them as cash accounts, pulling out monies to cover more pressing needs elsewhere. The BVI, Germany's asset managers' association, is trying to get legislation amended to mitigate these haemorrhages. It wants a 12-months' notice period for withdrawals by institutional investors, and the ability to temporarily introduce 90-day notice periods for private investors.

In the United Kingdom, open-ended funds are perking up. The mark-to-market of their portfolios was brutal, but quick and transparent. After a 45 percent fall in value, the U.K. property market has officially hit bottom and is picking itself up again, so funds' assets are reflating. Cash is flowing in from both retail and institutional investors; new funds will be launched in 2010.

France's OPCIs (*organismes de placement collectif immobiliers*) are also proving popular with institutional investors. Given the green light in 2007, they are now a 30-strong sector holding some €6 billion of real estate.

Funds Under Fire

"It's a slow grind." Private real estate funds face a tough year. "Darwinian principles are coming into play: survival of the fittest. The very big and the very small and niche players are likely to survive better."

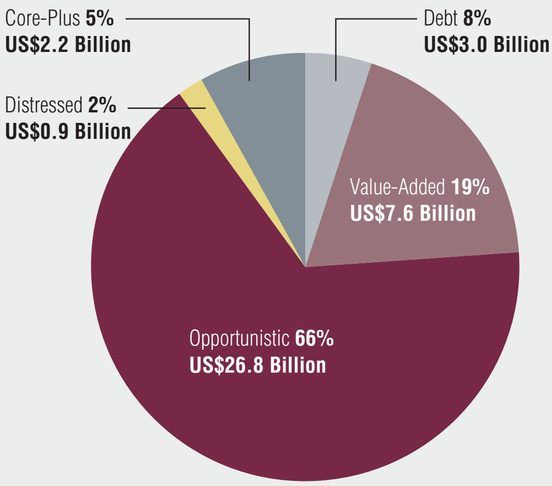
The evolutionary cull is already underway. Global investment banks are selling off their real estate fund management businesses, while other groups divest themselves of European platforms, and some managers and funds migrate to new homes. Capital will move from poor performers to those with better track records; some will have to close down.

Survivors are gingerly picking their way through the rubble of the market meltdown. Some €17 billion of assets are held by funds that are due to end in 2010, but a large proportion is choosing to extend or roll over the fund. "Unwinding problem assets will be a two- to three-year plan." Investors are reluctant to commit fresh equity; INREV found that a third of them and half of fund-of-funds managers had turned down requests.

"There's a lot of pain to still go through, deleveraging." Banks tolerate loan covenant breaches, but negotiating with them is "mentally gruelling." "Banks are incredibly slow. They only deal if you're falling off a cliff and they are not uniformly sensible," says a fund manager. "We have given keys back in some cases," admits an opportunity fund manager who is "very tough" about putting more equity into existing investments.

EXHIBIT 2-13

Targeted Commitments of Europe-Focused Funds on the Road by Strategy



Source: Preqin, December 2009.

Fund managers worry about their economies, the fragility of the financial system, occupational demand for property, and their investments. Capital values are stabilising, but the outlook for European property markets in 2010 "doesn't look that brilliant." "Falling rents and weak demand do not help our business."

That said, life goes on. "We're stabilising existing portfolios, quietly bidding on new situations. We will be a net buyer," says an international fund manager. "We're very cautiously identifying possible opportunities to invest the small amount of capital we have."

Those fortunate fund managers and vehicles that do not have legacy problems are optimistic. "There's a lot of capital around and few players—we're chasing opportunities," says an international fund manager who sat on his hands during the boom years and did a couple of "solid sensible deals, nothing too big" in 2009.

He is not alone. "There is an enormous amount of private equity out there. The number and volume of funds are much higher than during the last crisis." Private real estate funds have a US$35 billion mountain of dry powder for Europe, from equity raised in 2008–2009 and unspent. Most of it is aimed at the opportunistic end of the spectrum, waiting for banks and distressed owners to clear out their stock. This is taking longer than expected. "In 2010, everything will be quiet. There will be the occasional deal, but not on a large scale."

"Few deals will get done. We are focusing on raising money and positioning ourselves for the 2011–2012 period when sellers will start to capitulate," predicts a global opportunity fund manager.

Last year, fundraising for private real estate vehicles focusing on Europe hit a US$4.9 billion nadir as investors sat on the sidelines, nursing their losses and waiting for markets to bottom. But, anticipating the green shoots of recovery, managers are trying to drum up a whopping US$42.6 billion for new vehicles—nearly double the amount they snagged at the 2008 peak.

They face an uphill struggle. Traumatised by their losses, investors are more demanding, while the competition for their equity remains intense. Funds take longer to close and raise less than targeted; some will have to throw in the towel. "Capital has gone from being cheap to dear. The market for blind pools is difficult or nonexistent; business will take three to five years to come back, and be 50 percent of what it was."

"The big boys are looking more at club deals because they want to be sitting across the table from equally big players." Sovereign wealth funds and institutional high-rollers want to know who their fellow players are; they don't want to join games with people who will fold when more equity is needed. "We are in funds with investors who don't honour their commitments. In the future, we will do due diligence on co-investors in the funds we underwrite."

The opportunity fund model is under particular stress. In an environment where debt is scarce, they will struggle to achieve the 20 percent returns they target. Says an opportunity fund manager: "Any new opportunistic product has to say, 'Let's use less leverage, let's be honest with ourselves about the returns we can achieve, and let's take less risk.' "

Predicts an investor: "We're in for a massive change. Real estate funds will be smaller, more targeted, less leveraged, and more independent." Alignment, track record, and a storyline are of paramount importance. "Managers have to rethink what is a good structure."

Some prominent investors go further and say that the closed-ended private fund model is "broken and has to be repaired." They are angry—angry about misuse of leverage, about "mission creep," about fee structures.

"The relationship between the limited partners, the general partner, and the advisers will change. There is a lot of mistrust about GPs and even LPs." Investors will require more co-investment from fund sponsors/managers. They want prenuptial agreements specifying liquidity cushions, exit strategies, and no-fault divorces from general partners. "A fair distribution of power in case of problems will have to be struck."

Limited partners will also demand more control. "Our fund managers had to get used to us moving in on them," confides one investor, who wants "significantly more intensive reporting and having a say about refinancing, buying, and selling decisions." "We would have accepted a discretionary fund in the past, but would look at this differently today," says another investor.

"That won't last. Do they think they could have made a better job of it than the fund manager? They're not even trained to do it," scoffs a fund manager.

Fees also are in the firing line. "There will be a structural change, with investors requiring the ability to block fees. Fees will be cost or cost-plus with a promote." "We stopped taking fees, input new money in the form of sweat equity into our own funds, and spend much time showing investors what we do," admits the manager of a global opportunity fund.

Although investors talk tough, their current markdown of private real estate funds is likely to herald a hiatus rather than a longer-term shift away from these vehicles. "The third-party-managed fund structure will survive," predicts one manager who admits he has a vested interest in the matter. "There will be a point when investment management skills will be necessary again and people still subscribe to blind pool funds."

REITs Bounce Back

"Publicly listed vehicles are the flavour of the month." REITs are making a comeback. They've shored up their balance sheets, their share prices are up, and they expect to see action in 2010. "The listed vehicle format has shown its strength during the credit crunch. Transparency, corporate governance, and liquidity have value for investors."

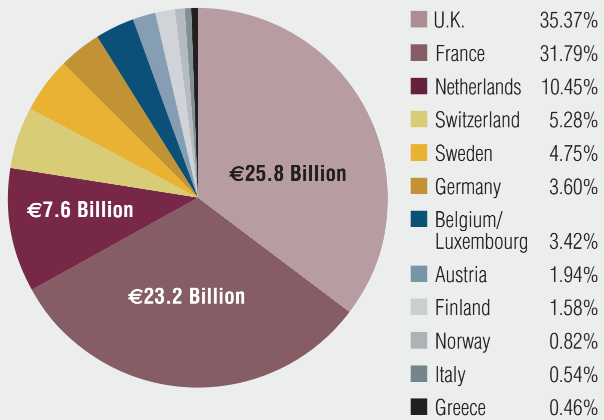
With portfolio values stabilising, U.K. REITs—Europe's largest public real estate sector—are anticipating the property market's recovery. "We have high expectations that we will start development. We want to be early in this area so we can be best placed when rents improve." REITs and other listed property companies raised £5.3 billion last year via deeply discounted rights issues and placings. "We will invest the equity raised in 2009 and complete developments started in 2006 and 2007 or mothballed in 2008," says one.

REITs are also on standby to help banks work out their problem properties. "The sheer scale of bank portfolios will require additional resources." Big public property companies have the know-how, the teams, and an important edge: transparency and respectability. For banks, especially ones in which the government has a stake, selling assets to private opportunity funds may not be a politically acceptable option. This is especially true if the fund is perceived as a foreign "vulture" profiting from domestic distress.

"REITs have better operating skills than private equity houses and they have shown that they have access to equity capital," notes a banker. "There are opportunities to be had by working with banks," agrees a U.K. REIT, adding, "We won't be looking to manage things for others. We want our capital to work for us."

EXHIBIT 2-14

EPRA/NAREIT Europe Index Market Capitalisation

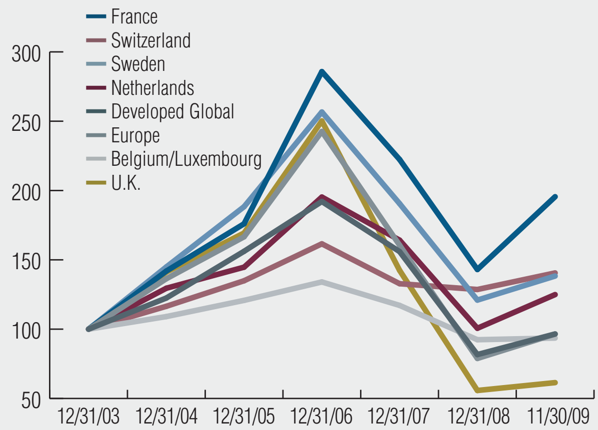


Sources: European Public Real Estate Association (EPRA), National Association of REITs (NAREIT), FTSE.

Note: All market caps in euros. Data as of November 30, 2009.

EXHIBIT 2-15

EPRA/NAREIT Real Estate Stock Price Indices

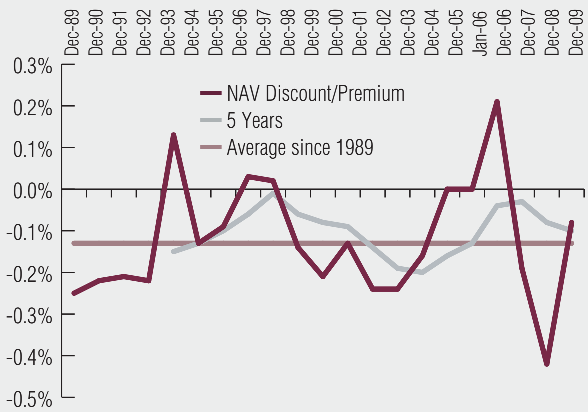


Sources: European Public Real Estate Association (EPRA), National Association of REITs (NAREIT), FTSE.

All returns in euros.

France's REITs also expect a busy 2010. Not as hard hit on valuations and more conservatively leveraged than their U.K. counterparts, French SIICs have not raised fresh equity, but have righted themselves by selling assets, paying dividends in shares, and refinancing their debt. "Capital structures have improved and now they are looking at how to realise growth."

EXHIBIT 2-16
FTSE/EPRA Europe Index: NAV Discount/Premium



Source: FTSE/EPRA.

However, the stock market has already factored in the public property sector's improved prospects. Last year, quoted companies' share prices staged a remarkable recovery; EPRA/NAREIT's European index rose by 22 percent. In 2010, their shares may drift, having already priced in any growth. "Capital is being diverted into REITs in lieu of direct market opportunities. I see a slight correction in 2010."

And 2010 may turn difficult. Across Europe, occupational demand remains fragile. CEOs worry that "the weak economic environment due to high government debt will impact the property fundamentals." "An increase in vacancy could be an issue. Lease renegotiation could become more difficult to manage." "Consumer trust is starting to decline, meaning that retailers are beginning to feel the pain."

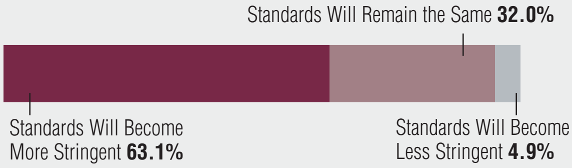
In Spain, the quoted real estate sector is still working through its problems. Overleveraged and overcommitted to development, larger players stay afloat thanks to debt-for-equity or debt-for-asset deals with their banks, whilst smaller ones file for creditor protection.

The government has given the go-ahead for a Spanish version of REITs—*sociedades anónimas cotizadas de inversión en el mercado inmobiliario*, or SOCIMIs—to launch in 2010. It hopes these vehicles will help revive Spain's traumatised housing market. Critics claim that SOCIMIs are a "decaffeinated" version of REITs.

This is because they pay corporate tax at a lower-than-standard 18 percent, whereas most other European REITs are not taxed. "SOCIMIs will be a good revitalising instruments, but not in the short term."

Elsewhere in Europe REITs are stalled. Germany still only has two, and Italy one.

EXHIBIT 2-17
Equity Underwriting Standards Prospects for 2010



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Debt: Back to Business

"The banking environment is difficult, but not hopeless." *Emerging Trends*' interviewees report that they can borrow once more, albeit on lower loan-to-values (LTVs) and higher margins. "Banks are doing club deals again; syndications are possible up to €400 million to €500 million in Europe." "The next step is when healthy competition starts and margins start coming down."

But 2010 will see "a trickle rather than a torrent" of debt going into European real estate. The lending universe remains small and conservative. "The problem is that banks are so gun shy, they are getting out when they should be getting in. They are not providing liquidity when the market is crying out for it and prepared to pay for it."

Will it be enough? "We need more liquidity, more confidence. I can't see debt spreading out to support a broadly based recovery of the investment market."

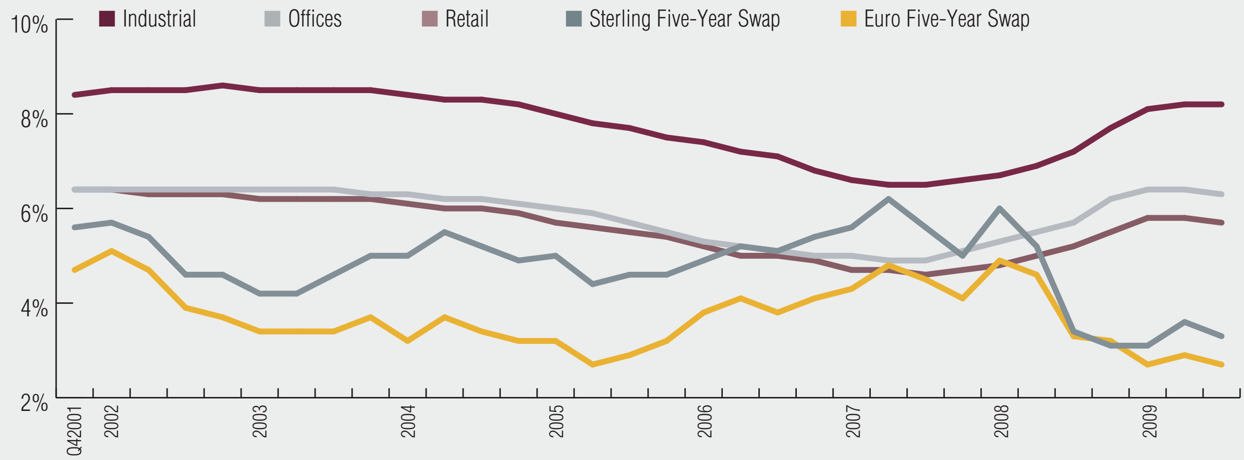
Global investment banks are out of action; the few surviving cross-border European lenders are constrained. "German banks that can raise money as *Pfandbrief* are back for a bit of the market." Others are "still preoccupied doing their homework": zombie banks. Of those that remain in business, most concentrate on their home market. "Commercial banks are lending, but for small amounts."

EXHIBIT 2-18
Debt Underwriting Standards Prospects for 2010

Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 2-19

European Property Yields vs. Five-Year Interest Rate Swaps



Sources: CBRE, JC Rathbone Associates.

"The debt market will take a long time to recover. As far as commercial banks are concerned, it is more likely to be the 'extend and pretend' game." Under pressure to recapitalise, banks focus on refinancing, renegotiating, and amending their existing loans. "They're loving every negotiation, these banks. Any excuse to roll over a loan is an excuse to charge bigger fees," complains a fund manager.

It will be very difficult to get fresh loans in 2010. "Terms are aggressive, the process is awkward, and culturally the banks expect to punish their clients for the problems the industry has had," reports the CEO of a "financeable" company.

Lending terms are unlikely to loosen in 2010. Loan-to-value ratios stay at 50 to 65 percent for core property; interest cover ratios are tight. Margins have settled at 200 to 250 basis points in most western European markets "and one needs to be prepared to pay the full set of fees."

"We are able to generate a return on equity of 10 percent before tax and loan provisions from our lending," says a German bank. "This is the bottom line for lending business; hence, we believe that today margins and fees are at an acceptable level."

That said, the credit crunch has changed the geography of spreads. "There are substantive differences between countries as a result of country ratings," says a banker. In Russia, the crisis has made new credit "practically unaffordable" as margins zoomed up by 300 to 600 basis points; in Turkey, they have hit 600 to 1,000 basis points "if you are lucky enough to find debt available."

However, in western Europe, borrowers say they can live with higher margins because, with LIBOR and Euribor bobbing around the sub–1 percent mark, their overall interest cost is not much more expensive than the precrunch one. "For high-quality, well-secured income streams one can get to an all-in cost of debt of 5 percent, which gives you a good basis to make money." "Pricing is not the issue. LTV and other covenants and getting less recourse are more critical."

Lenders are stringent: "more controls, checklists, compliance." "More lawyers are involved in the interpretation of financing documents." Lenders are also extremely picky about the properties they back. "A lot depends on the stability of the income stream, length of leases, and the quality of tenants." Development finance remains scarce to nonexistent.

And, it pays to know your bankers. "Those who shopped for the cheapest loan are being given the cold shoulder." "I lost 90 percent of my financing contacts, and those who are left do not take in new requests. They only want me to pay down debt," wails a borrower.

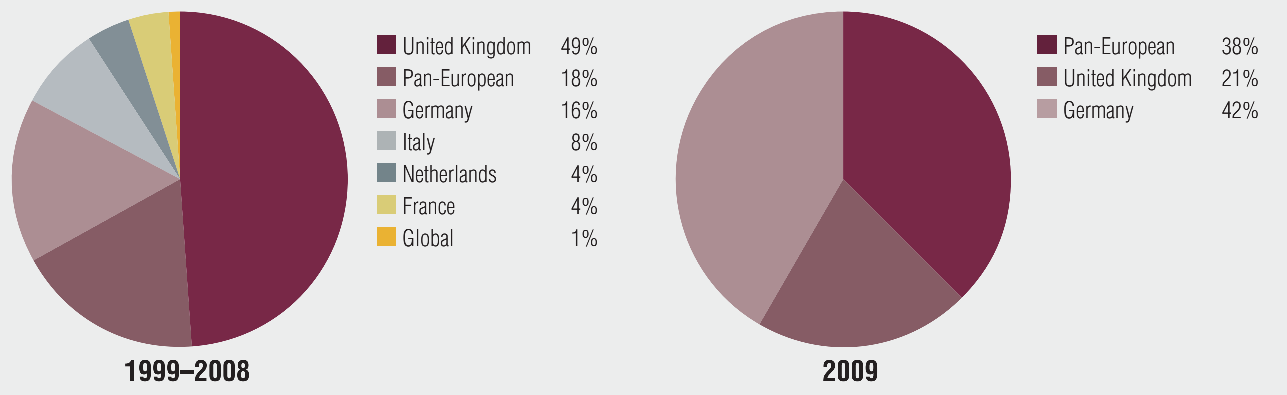
Debt Facilitators

"The capital gap will create new players." In a world where fewer banks lend smaller amounts on stricter terms, "insurance companies, mezzanine lenders, and other players will be active."

"German insurance companies are entering the markets for funding." This reprises a traditional role for European insurers, who in the past were a major source of long-term mortgage finance for commercial real estate. Others also see opportunities in Europe: a U.S. insurance company has bought into a European platform it hopes to develop for senior and mezzanine lending.

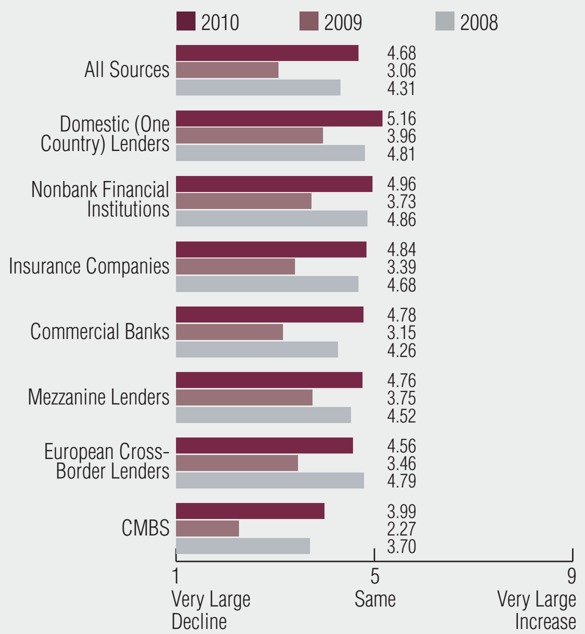
Private equity is another burgeoning source of debt. The credit crunch has spawned a mini-industry of funds offering

EXHIBIT 2-20
European CMBS Issuance by Collateral Location



Source: Commercial Mortgage Alert.

EXHIBIT 2-21
Change in Availability of Debt Capital for Real Estate



Source: *Emerging Trends in Real Estate Europe 2010* survey.

owners and developers an alternative and/or supplement to bank finance—using money raised from institutional investors looking for yield. Preqin estimates that existing debt funds have US$1.9 billion of "dry powder" targeting the European market, and there is another batch on the road, hoping to raise a further US$3 billion. "We are doing one senior debt fund and one junior one," says an institutional fund manager.

Different players target different slices of the capital stack. Some see opportunities in safe, low loan-to-value senior debt. Others aim higher up the stack. "We are considering opportunities to act as nonbank or mezzanine lenders." Another group targets distressed debt.

All are frustrated by the lack of deals: "We don't know where to invest the debt we do have." In 2010, the logjam will start to break up, as the investment market revives and banks start to bump borrowers off their balance sheets. But some players may have to rethink their pricing.

"There is space for mezzanine, but not at 15 to 20 percent IRR in Europe—more like 10 to 12 percent."

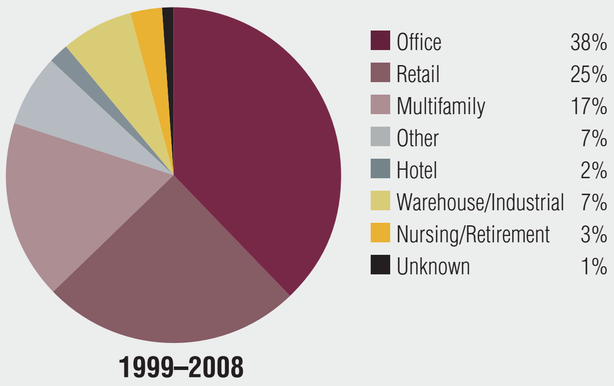
Sceptics doubt whether these surrogates will be able to plug the debt hole. "Insurance companies or other nonbank financial institutions may act as substitute lenders, but they will do this selectively and will not be able to replace the banking function in a sufficient magnitude."

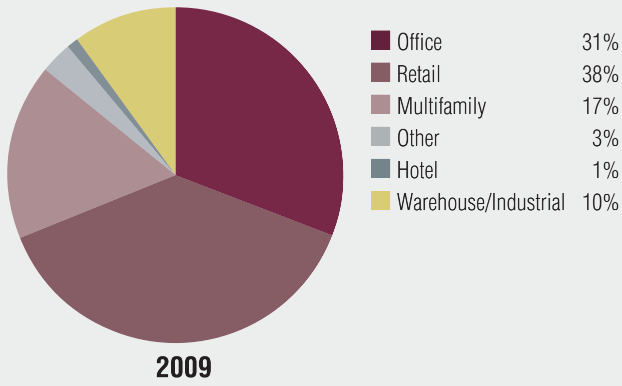
CMBS Resuscitated

Commercial mortgage–backed securities (CMBS) are registering some vital signs, but they "will not make a meaningful comeback until the current mess is sorted out." Unlike those in the United States, Europe's real estate markets never became securitisation junkies, but there is €5 billion of CMBS due to mature in 2010. Another €61 billion falls due between 2011 and 2014.

"CMBS workouts will take at least five years." That's the rose-tinted view. "It is scary to see how much is coming due, and the question is, how much will be recycled?" The bearish view is that Europe's real estate debt mountain of CMBS and bank lending combined is so large that it will need government aid.

EXHIBIT 2-22
European CMBS Issuance by Property Type





Source: Commercial Mortgage Alert.

So far, less than 5 percent of European CMBS loans have missed payments, but a growing number are breaching their loan-to-value covenants. Borrowers will find it difficult to repay the mainly bullet debt. This is particularly true in the U.K., where property values have fallen most sharply, but most of the CMBS due over the next five years is in mainland Europe, where markets are still adjusting.

"It's the classic example of a product that no longer has a lender. Leveraged buyers will be required, and they will only do that at a price that gives them exceptional opportunities and exceptional returns."

As part of their moves to pump liquidity into the financial system, the European Central Bank (ECB) and the Bank of England include CMBS in their repo facility: banks can package up loans to provide collateral that is eligible for short-term financing from the central banks. Last year, around 15 to 20 CMBS issues used these facilities. However, the ECB is winding down its programme in 2010, towards an end date of March 2011. The criteria are being tightened, making deals more difficult and expensive.

Optimists think securitisation will return shortly, though in a plain-vanilla form. "CMBS will come back, maybe in 2011, in smaller lots and more recourse-based, small portfolios with assets that you can identify and cash flows that are identifiable." "Longer term, CMBS is needed for larger deals. It will be initially expensive and simple structures."

There were three new public CMBS deals in 2009, the first issuance in 18 months. But these are simple structures that rely entirely on the tenant credits underlying them—a major retailer and the U.K. government. Investors see these as a substitute for corporate bonds, but with higher yields and more security. "CMBS will not return in 2010 apart from single-borrower, strong-covenant, single-tranche issuances."

The return of "easy-to-understand" CMBS may help refinance some existing bank debt, but today's underwriting is much more stringent. "There will still be a component that will not be refinanced."

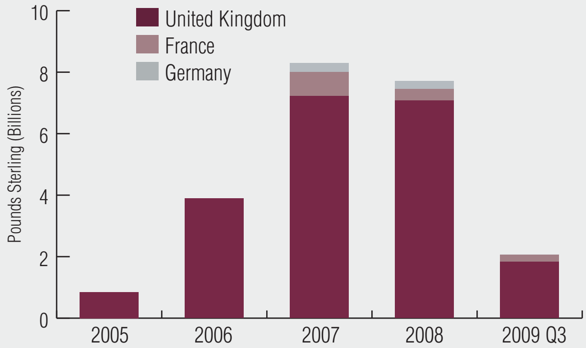
Derivatives Subside

Europe's fledging derivatives market is back to Earth with a bump. It survives the fall, but it will take time to get airborne again.

Trading volumes are sharply down, dropping by 75 percent in 2009 in the case of the U.K., while the German market shut down. Important players—50 percent of trades were interbank—are out of action, others have downsized, and some who were going to take the plunge have stepped back. Investors are spooked by the banking meltdown and counterparty risk: Lehman Brothers was heavily involved in property derivatives.

There are some encouraging signs: a handful of property hedge funds and institutions continue to trade and several *Emerging Trends* interviewees are planning to get into the market in 2010. "We are looking at using derivatives more because there are fewer transaction costs and more speed and flexibility." If more fund managers and other "hard-core property folk" get involved, it will help the market to recover traction.

EXHIBIT 2-23
European Real Estate Derivatives Traded



Source: Investment Property Databank (IPD).

Moreover, there is now a U.K. property index futures contract that can be traded on the Eurex derivatives exchange. Since this is a standardised instrument that doesn't involve counterparty risk and comes in bite-sized chunks of £50,000, fans are hoping that it will help boost interest and activity in derivatives.

The synthetic market in real estate should benefit from the increased focus on risk management. "Institutions can use derivatives to manage their exposure when they're getting all these cash inflows. It's the perfect moment to use them, when the market should be lifting off." It would also make sense for banks to use derivatives to hedge losses on their large real estate portfolios.

Markets to Watch

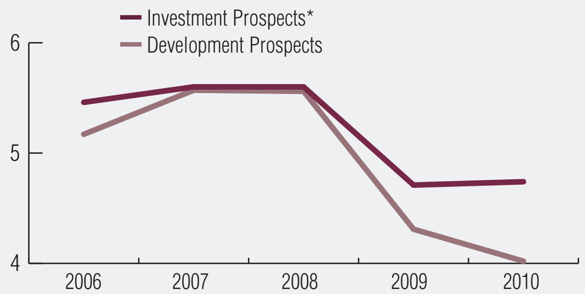
After a very gloomy prognosis last year, this year interviewees are showing signs of cautious optimism. In the 2009 report, investment and development prospects were expected to decline across the board—no city showed improvement in either category. This year, sentiment regarding investment prospects has stabilised and although sentiment regarding development continues to decline, it is a less dramatic fall than that witnessed last year.

Cautious optimism is not universal, however. Some interviewees remain resolutely gloomy, with one commenting on the market, "If it were a horse we should shoot it." Many respondents expect some of the key themes from 2009 to continue into 2010. Bearish views regarding the economy are still widespread and interviewees are concerned about the continuing impact that this will have on the occupier side of the equation. Many interviewees are worried that unemployment will continue to rise in 2010 and that this will result in increasing vacancy. As one interviewee commented, "The highest risk for 2010: a second downswing of the economy, which would have a big impact on the leasing market." The concern that rents will continue to decline is very widely held and there is general agreement that a strong focus on asset management will be required. As one respondent put it, "Tenants are kings: the market will be driven by tenants."

The view that performance will be highly dependent on managing fundamentals and very specific to the individual asset has made many respondents this year nervous about ranking cities—there is a widespread belief that the quality of the tenant is more important than the city or asset type.

During the interviews for the 2009 report, conducted as the crisis unfolded, it became apparent that the views of respondents varied depending upon whether they were considering the prospects for existing portfolios of assets or looking at opportunities to invest. In the case of the former, the more stable markets that had fallen the least were the more attractive. In the case of the latter, those markets that had corrected the most sharply present the best opportunities. For this reason, this year we asked respondents to rate the investment prospects for individual cities separately for each of these situations. However, as capital values have begun to stabilise, the differences in sentiment between the prospects for existing properties and acquisition opportunities have become less marked, and there is now stronger correlation between the cities under both measures.

EXHIBIT 3-1
Average City Prospect Ratings



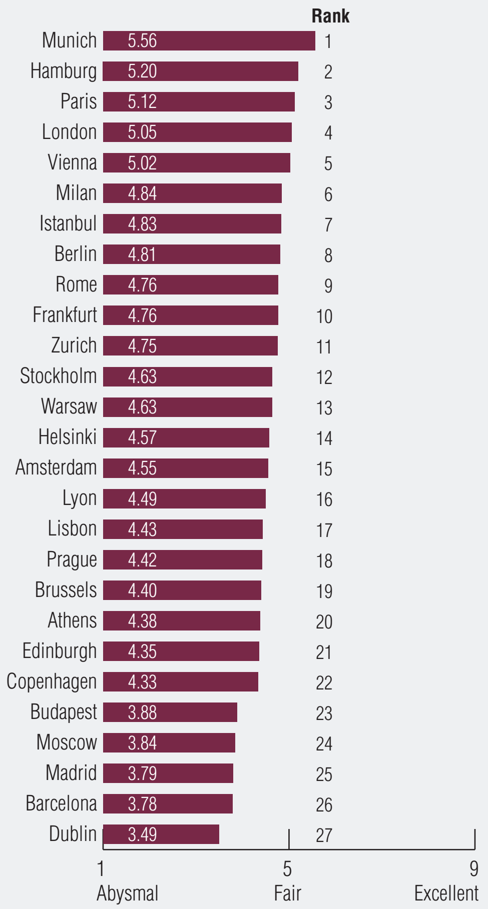
Source: *Emerging Trends in Real Estate Europe* surveys.

Note: 4 = modestly poor, 5 = fair, 6 = modestly good, 7 = good.

* Investment prospects are the average of scores for existing property performance and new property acquisitons in exhibits 3-2 and 3-3.

EXHIBIT 3-2

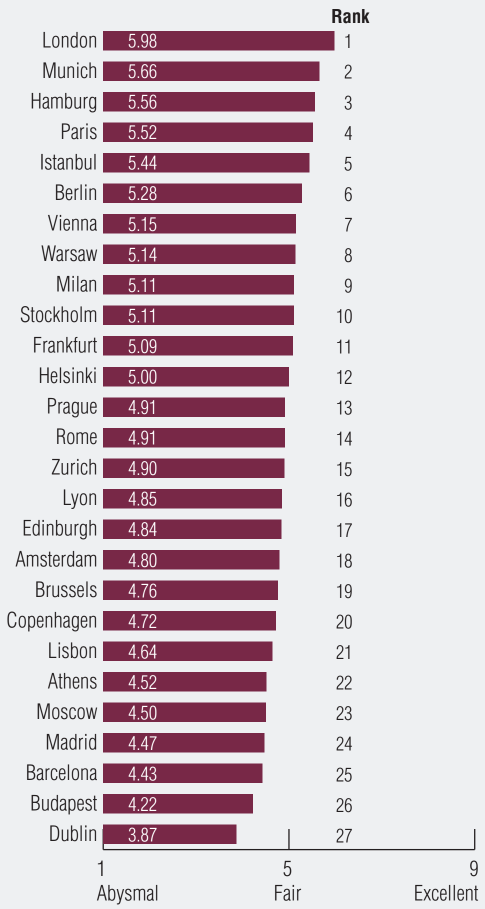
City Investment Prospects: Existing Property Performance



Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 3-3

City Investment Opportunities: New Property Acquisitions



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Existing Property Performance

Although some respondents remain very pessimistic, the general view across Europe is that the worst is over in terms of falling capital values. As one interviewee commented, "Most of the pain for existing investments has already been felt. Opportunities are now starting to emerge." A recurring theme from the interviews is a sense of relief from having come through 2009 in reasonable shape. As one interviewee put it, "2009 was a 'survival year'—had to step back from growth plans, manage internal efficiencies to keep capabilities intact. 2010 will be a stabilisation year." Another commented, "2009 was a year we battened down the hatches and focused on keeping our costs low while trying to maintain our occupancy rates."

In terms of individual cities, much of the sentiment of the 2009 survey has continued to hold true. Munich and Hamburg held the top two spots for investment prospects in the 2009 survey. This year, they remain the top for prospects for existing portfolios, with many respondents seeing Germany as being more stable than other countries, both in terms of property markets and the broader economy. The view that German markets were less frothy when times were good and therefore do not have as far to fall remains as prevalent as it did in 2009. As one local interviewee commented, "German markets seem to be [amongst] the most stable ones for commercial properties; there has been little volatility."

There are, however, concerns about the broader German economy. Although Germany was already in recession at the time of the interviews for last year's survey, there was a general view that it would be less affected by recession than other countries. Many continue to express this view in the interviews for this year's survey. However, others also expressed concern about the robustness of Germany's economy. A number of German respondents were worried that the *Kurzarbeit* programme (state-subsidised part-time work) was concealing the true level of unemployment and that there will be significant economic pain when the programme comes to an end. Not all respondents think that all German cities are equally lacking in volatility. As one observer remarked, "The big six markets in Germany are still stable, maybe except Frankfurt."

As markets stabilise, London and Paris also scored well in this category—holding third and fourth spot, respectively—although concerns regarding the economic prospects were again an issue for many respondents. This was particularly the case for London. At the other end of the table, the bottom three for investment prospects in 2009 (Barcelona, Madrid, and Dublin) remain the bottom prospects for existing portfolios for 2010.

New Property Acquisitions

Two broad views on the market appear regularly in the interviews for this year's report: "We will be concentrating on the markets we know" and "the deeper, liquid markets—the U.K., France, and Germany." This is a sentiment shared by both investors and lenders. Both groups are also very focused on cash flow. As one fund manager commented, "We look for an income-producing asset that we are able to buy well and not necessarily take the value-add activities or risk that we would have taken two or three years ago." Whether the strategy is to buy prime or secondary, investors comment that they are "buying income."

The key issue across Europe is the availability of assets to acquire. Sellers are felt not yet to be under compelling pressure to sell, so there is an expectation gap between buyers and sellers. The banks are felt by many to be the source of the answer to the availability of assets. As one investor comments, "The one big question mark is what the banks are doing with their properties—I think this is one of the keys for the next few months, if not years." Views differ as to whether or not the banks will be the trigger of extensive disposals. Some interviewees believe that weakening cash flows from occupiers will put pressure on banks to take actions, whilst others believe that lenders will continue to sit tight and "extend and pretend."

As has been noted already, as capital values have begun to stabilise, the differences in sentiment between the prospects for existing properties and acquisition opportunities have become less marked. The same four cities held the top four positions for new property acquisitions as for existing property performance, but in a slightly different order. For this category, London ranked top, with investors citing the dramatic falls in capital values and the weakness of the pound making prices look attractive. However, there was a widespread concern—particularly from U.K.-based respondents—that a bubble was developing and that "capital markets are far ahead of fundamentals."

Development

As previously noted, although sentiment regarding development continues to decline, it is a less dramatic fall than last year. The majority of interviewees comment that they will be shying away from development in the short term. A minority of respondents are considering reentering a less cluttered market, with one interview observing that the competition is "lying by the wayside." The top-ranked cities are a mix of those that feature at the top of the rankings for investment, together with two longer-term prospects, Istanbul and Warsaw. Istanbul, which is first, and Warsaw, which is fourth, are favoured for their economic growth prospects. In terms of the league tables, both cities also benefitted from the general lack of enthusiasm for development. Any city garnering positive responses was propelled up the table and there were some positive fans of both Istanbul and Warsaw.

EXHIBIT 3-4
City Development Prospects

Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 3-5
Leading European City Investment Prospects

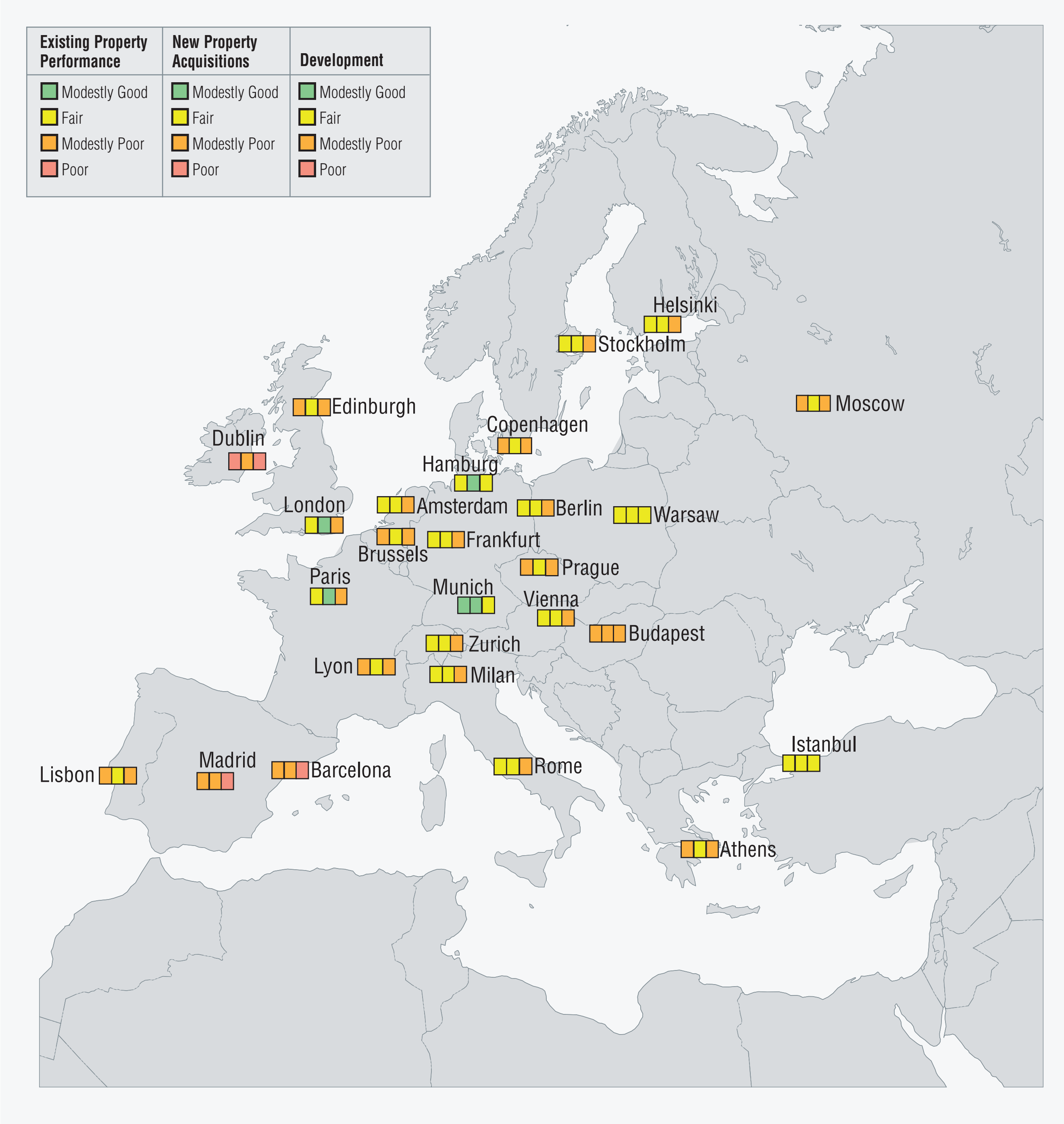
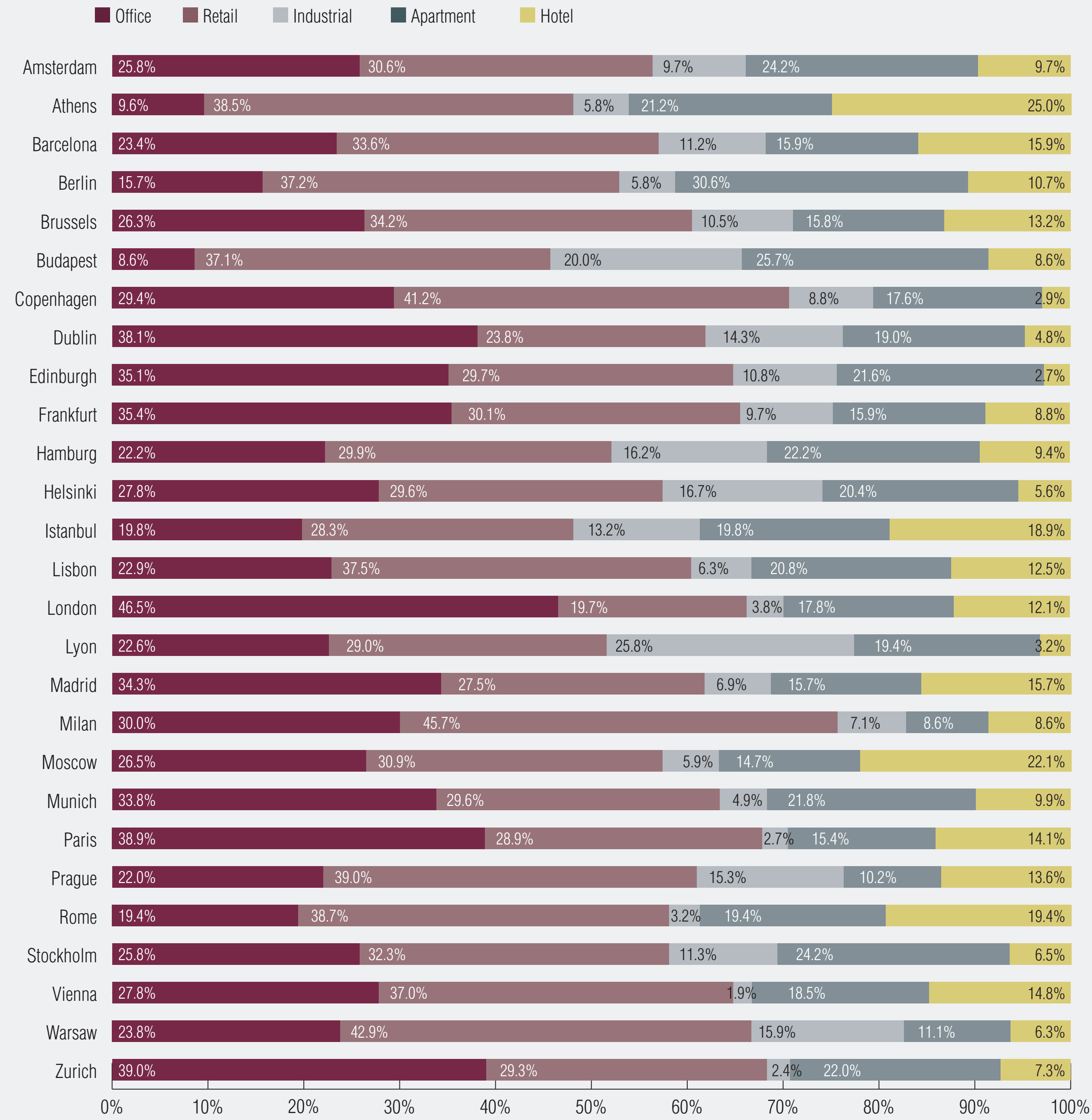


EXHIBIT 3-6

Best Sectors for Acquisitions by City



Source: *Emerging Trends in Real Estate Europe 2010* survey.

The Cities

Munich

As previously indicated, German cities are regarded favourably by respondents for existing investments as they are seen as being more stable. This is true for both international and local investors. German investors rated Munich and Hamburg ahead of other German cities, citing in both cases the broadly based local economy giving a diverse tenant mix: "For offices, Munich and Hamburg are top of the list," and Munich has the "strongest office market and diversified economic base." For Munich, sentiment regarding investment properties shows a slight improvement on the previous year, with no material distinction between existing assets and new acquisitions. Sentiment regarding development is unchanged. The city is ranked first for existing investments and second for new acquisitions and for developments.

Hamburg

The general observations regarding Germany hold equally true for Hamburg and it is regarded as having many similarities to Munich. One interviewee comments that like Munich, it has a "diversified economic base and is not overbuilt," whilst another observes that "Hamburg has narrowed the gap to Munich in terms of attractiveness as a place of living." Sentiment regarding investment properties shows no change on the previous year. Returns on new acquisitions are expected to outperform existing assets. Hamburg is ranked second for existing assets and third for new purchases. Prospects for development are believed to have declined slightly in comparison with 2009. However, sentiment regarding development has fallen less than for other cities, causing Hamburg to rise from sixth last year to third this year for this category.

Paris

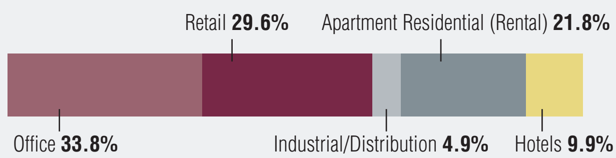
The city is seen as having a broader economic base than London and is less dependent on the financial services sector. As one investor commented, "It is seen as being less volatile than the U.K. and there are still good opportunities there despite there being limited stock on the market. This is likely to continue into 2010. This market is displaying similar characteristics to London at the present time." Another observes that "Paris is the next choice after London—France has a more robust economy than others," and yet another: "Paris [is] more stable than London; not priced as efficiently as London." A number of interviewees comment on the strength of the occupier market. One notes that "Paris has demonstrated with a low level of vacancy that it remains one of the most interesting markets

EXHIBIT 3-7

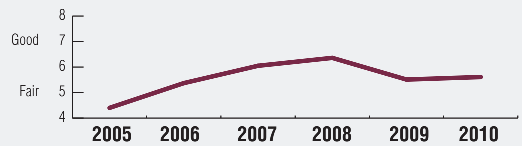
Munich Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Good	5.56	1st
New Property Acquisitions	Modestly Good	5.66	2nd
Development Prospects	Fair	4.84	2nd

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

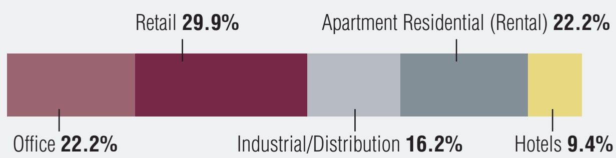
Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

EXHIBIT 3-8

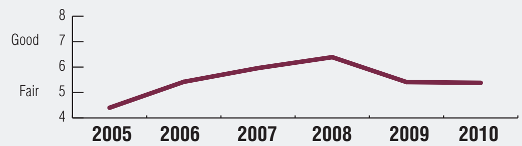
Hamburg Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	5.20	2nd
New Property Acquisitions	Modestly Good	5.56	3rd
Development Prospects	Fair	4.53	3rd

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



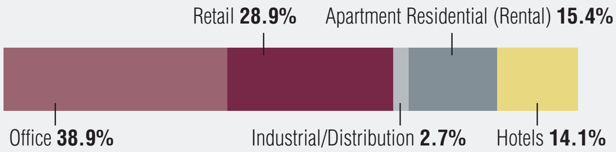
Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

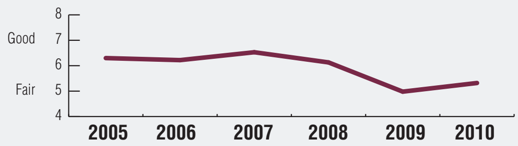
EXHIBIT 3-9
Paris Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	5.12	3rd
New Property Acquisitions	Modestly Good	5.52	4th
Development Prospects	Modestly Poor	4.13	11th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



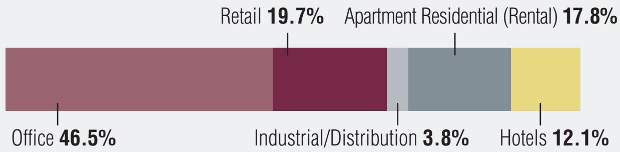
Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

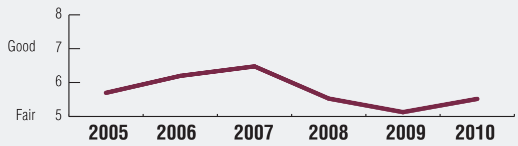
EXHIBIT 3-10
London Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	5.05	4th
New Property Acquisitions	Modestly Good	5.98	1st
Development Prospects	Modestly Poor	4.45	5th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

in Europe," and another comments that "employment legislation keeps headcount and space requirements up."

Prospects for investment property are felt to have improved since 2009, particularly for new acquisitions. "Paris is not too overbuilt, though rentals will devalue a little bit." Paris was ranked seventh for investment assets in 2009 and rises to third for existing property performance and fourth for new acquisitions. Sentiment regarding development has improved fractionally, but with the decline in the expectations regarding other cities, Paris has risen from 22nd to 11th in the rankings.

Up until 2007, when London and Paris were consistently ranked first or second, in the survey, interviewees used to comment that the transparency and liquidity of the markets attracted investors who would not consider other markets. This view seems to be returning, with one respondent commenting, "London and Paris are the two markets that have the strongest interest from non-European investors."

London

Sentiment regarding London has improved significantly. "The U.K. market has corrected very quickly—especially London, where Middle Eastern and Asian money has come in." In 2009 it was ranked fifth for investment prospects, having risen from 15th in 2008. For 2010 sentiment has improved further still, with the city ranked fourth for existing properties and first for new opportunities. For acquisitions, the main focus is offices, with nearly half of respondents citing this as the preferred asset type. There is a widespread concern that for prime properties "the best of the opportunity has already passed in London." Indeed, a number of investors express concern at the exuberance of the rebound, commenting that "a capital markets–led recovery is leading to a bubble in pricing in the face of continuing weak fundamentals," and "London is overheating due to a lack of supply of commercial and residential property, relative to available equity to invest."

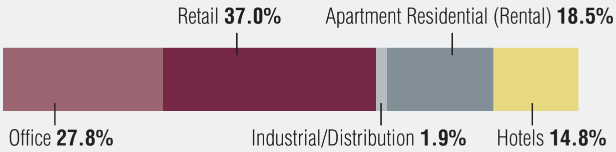
Others note that this recovery is taking place "only in a very small segment of the market, only the top-quality segment, perhaps 5 percent of the market," and that there are in practice "only very few transactions taking place."

The return of confidence in London has been sufficient for investors to again be considering development, with one saying, "Somebody is going to shoot me, but now is the time to do some development in the City—not much good stock available once existing is absorbed," and another: "We have high expectations that we will start development next year." The rating for this increases from 3.9 last year to 4.5 this year. With confidence in development elsewhere falling, this propels London from 23rd place for development in 2009 to fifth place in 2010.

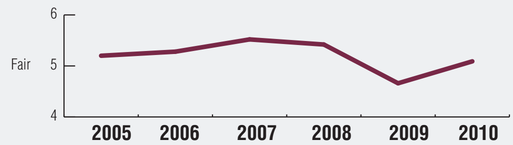
EXHIBIT 3-11
Vienna Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	5.02	5th
New Property Acquisitions	Fair	5.15	7th
Development Prospects	Modestly Poor	4.25	7th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



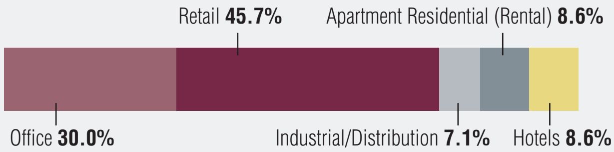
Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

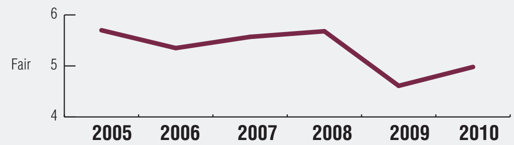
EXHIBIT 3-12
Milan Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.84	6th
New Property Acquisitions	Fair	5.11	9th
Development Prospects	Modestly Poor	4.15	10th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

Vienna

Vienna is perceived as having many of the same characteristics as the German cities and attracts positive ratings from German investors who have ranked the city more highly than other respondents. This has resulted in a slight improvement in sentiment regarding investment property performance and sentiment remaining stable in respect to development. As sentiment regarding other cities has declined, Vienna has risen from mid-table mediocrity to fifth for existing property performance and seventh each for new acquisitions and development.

Milan

Milan, and Italy more generally, polarise opinion. Sentiment regarding Milan has improved regarding investment prospects and the city has risen from 18th in 2009 to sixth for existing properties and ninth for new opportunities. However, a number of interviewees questioned the relative stability of the Italian market, speculating that it may be that bad news is being deferred. Many overseas investors express concern regarding transparency, some in fairly blunt terms. Others, however, see opportunities arising from the distress, with a reduction in the level of competition. One local investor commented, "The sector is also facing a reduction in the number of the players across the real estate value chain; in terms of investors, as of today, the Italian listed companies are out of the market."

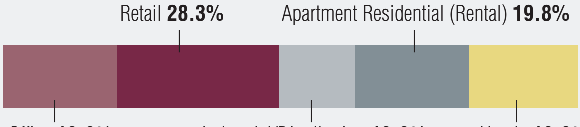
Several respondents commented on the lack of truly prime assets in Italy. Much of the office stock in Milan and Rome is located in the historic centre of the cities and is described by a number of respondents as "obsolete." Bureaucratic and practical difficulties in development are regarded as having prevented oversupply. In the short term, this lack of prime, income-producing properties is seen as a brake on investment as "there are few assets that appeal to the sovereign wealth funds and pension funds." On the other hand, the best properties in Milan and Rome can maintain good rents: "In the centre of these cities, there is a limited choice of high-quality buildings. This reduces the possibility of rent fall. 'You have to take what you find' and there is little margin for negotiation for rental prices with the building owner." In the longer term, this shortage of top-quality property may also represent a development opportunity as the property stock needs to be upgraded.

For acquisitions in Milan, the main focus is retail, with nearly half of respondents citing this as the preferred asset type. There were few transactions in 2009, and views differ as to whether or not this will change materially in 2010. For development, its rating and ranking remain pretty much unchanged in comparison with 2009.

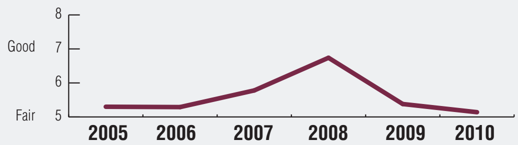
EXHIBIT 3-13
Istanbul Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.83	7th
New Property Acquisitions	Fair	5.44	5th
Development Prospects	Fair	5.13	1st

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



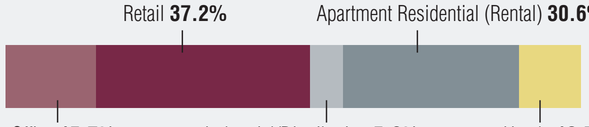
Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

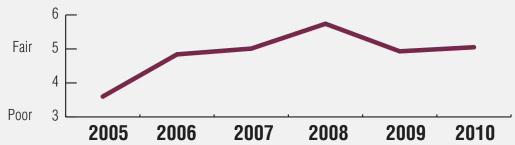
EXHIBIT 3-14
Berlin Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.81	8th
New Property Acquisitions	Fair	5.28	6th
Development Prospects	Modestly Poor	4.12	12th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

Istanbul

In 2009, sentiment regarding Istanbul remained strong and it was ranked third for investment prospects and first for development. There was a view last year that Istanbul would be less affected by the economic problems besetting the rest of Europe: “Economic troubles haven’t had the same impact on Istanbul’s commercial real estate as they have with other European locations.” This year, sentiment has weakened, particularly for existing properties, and Istanbul has fallen to seventh for existing properties and fifth for new acquisitions. An interviewee comments that the “investment community is very reluctant about Turkey.” Investors recognise that 2009 was a tough year, but the view is that the situation is stabilising. As one investor commented, “Nothing will be worse than 2009, but we do not expect a quick recovery in the market.” The long-term economic prognosis for Turkey generally and Istanbul specifically is extremely positive. As one international investor observes, it is a “large city with young population.” It is for this reason that investors rank Istanbul first for development, as was the case in 2009. The enthusiasm of local investors was generally greater than that of cross-border investors.

Berlin

The city continues to benefit from the generally positive sentiment regarding Germany. In 2009, it was ranked ninth, equal with Frankfurt. Sentiment has improved slightly for 2010, lifting it above Frankfurt to eighth for existing property performance and sixth for new opportunities. The prospects for development have declined fractionally, but as other cities have declined further, Berlin has risen up the rankings slightly, moving from 15th to 12th. Residential property is favoured. As one interviewee comments, “Berlin is an interesting market for residential, ‘It is hip to live in Berlin.’ ” This is reflected in the investment recommendations, with 31 percent of respondents citing residential as the preferred asset type, the highest proportion for any of the cities covered by the survey.

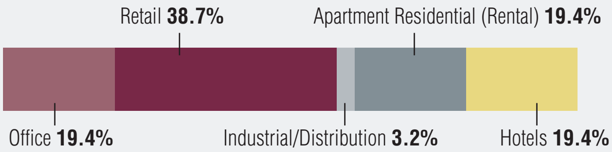
Rome

The general perception of the Italian market outlined in respect to Milan holds equally true for Rome, the key difference for the latter being the importance of the state to the local property market. In Rome, many of the buildings are rented to government and government-related entities. Views differ as to whether this is a positive or a negative. One respondent comments, “Rome has always been more stable, due to the enormous percentage of offices related to its capital city status,” whilst another takes a slightly different view: “Rome can be considered more risky because the

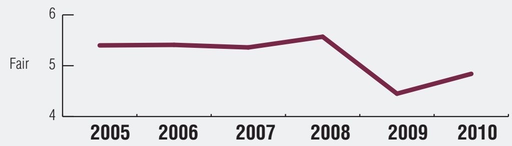
EXHIBIT 3-15
Rome Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.76	9th
New Property Acquisitions	Fair	4.91	14th
Development Prospects	Modestly Poor	4.07	15th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



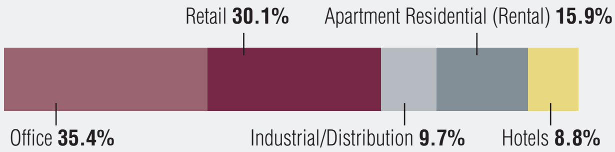
Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

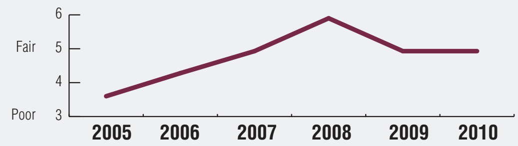
EXHIBIT 3-16
Frankfurt Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.76	10th
New Property Acquisitions	Fair	5.09	11th
Development Prospects	Modestly Poor	4.07	14th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

cost-cutting governmental policy will lead to an increase in the vacant space in a situation of modest demand from the business sector." As with Milan, the prospects for existing properties are rated pretty much the same as for new opportunities. In other cities, new acquisitions generally receive a higher rating than existing property, so that in the league tables Rome ranks higher for existing properties than it does for new acquisitions, ninth for the former and 14th for the latter. It ranks 15th for development, down slightly on 2009.

Frankfurt

As already mentioned, Frankfurt does not share fully in the generally positive sentiment regarding Germany. As one interviewee commented, "Frankfurt is still suffering." Respondents' key concern is the exposure to the financial services sector. It is regarded as having "dynamics similar to London" and interviewees express concern about falling rents and vacancy for offices. Some see selective opportunities arising from the distress. One respondent comments, "I would put both a question mark and an exclamation mark at the same time for Frankfurt." One investor comments on an opportunity not widely highlighted: "Frankfurt is dramatically undersupplied with residential." In 2009, Frankfurt was ranked ninth, equal with Berlin for investment prospects. Sentiment for Berlin has improved slightly for 2010, lifting it above Frankfurt to eighth for existing property performance and sixth for new opportunities, whilst Frankfurt has slipped to tenth for existing property performance and 11th for new opportunities. It rises slightly from 17th to 14th for development.

Zurich

Having risen most rapidly up the rankings in 2009, Zurich slips back in 2010, ranking 11th for existing property performance, 15th for new acquisitions, and sixth for development. It is regarded as "still strong and stable," but has fallen back as sentiment regarding other cities has recovered.

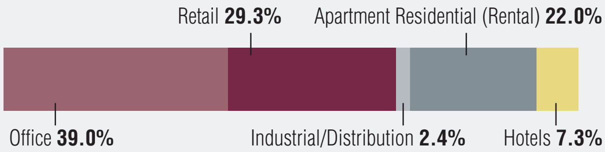
Stockholm

One interviewee predicts "decreasing rents and increasing vacancies," whilst others believe that the occupier market has bottomed out. Generally, the situation is "not as bad as predicted." One interviewee is concerned that the population of investors may be limited: "The international demand for investing in Sweden/Stockholm will not increase and the national players will not get any financing." In terms of overall rankings, Stockholm remains largely unchanged from last year—12th for existing properties, tenth for acquisitions, and ninth for development.

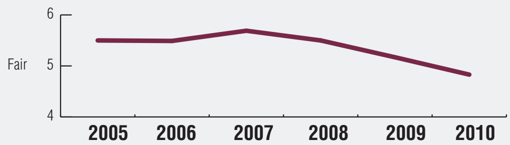
EXHIBIT 3-17
Zurich Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.75	11th
New Property Acquisitions	Fair	4.90	15th
Development Prospects	Modestly Poor	4.41	6th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



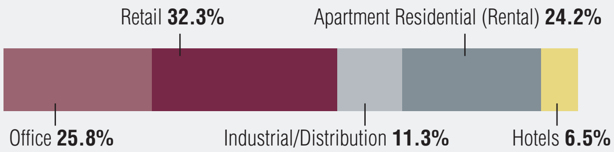
Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

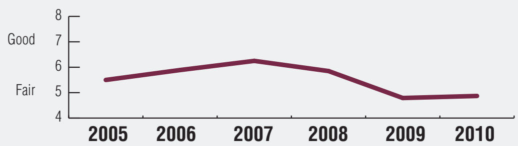
EXHIBIT 3-18
Stockholm Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.63	12th
New Property Acquisitions	Fair	5.11	10th
Development Prospects	Modestly Poor	4.18	9th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



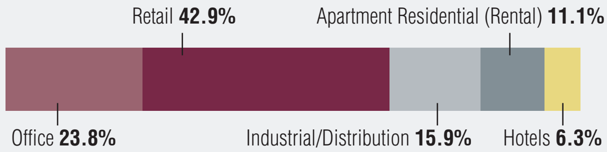
Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

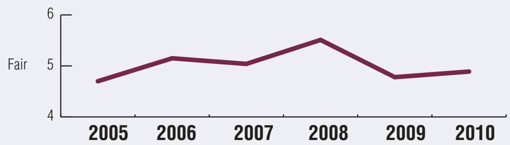
EXHIBIT 3-19
Warsaw Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.63	13th
New Property Acquisitions	Fair	5.14	8th
Development Prospects	Fair	4.53	4th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

Warsaw

The shift in sentiment to more transparent and more liquid markets has left central and eastern Europe generally out of favour. Warsaw is cited by many respondents as a possible exception: "Central Europe—nervous except for Poland, which has a big domestic market and seems to be holding up well." And another: "Warsaw is a possible exception to general CEE gloom—a larger, more secure transparent market." For existing properties, one investor notes that "Warsaw has not really given us a headache." The positive view is driven by Poland's economic performance, coupled with a good stock of assets to acquire. As one investor observes, "The quality of buildings is rather good in Poland; growth forecasts are more positive than elsewhere," and another: "Poland is the only market in the EU with positive growth." Despite the positive news, there are concerns on the occupier side requiring a focus on asset management, with interviewees noting that "rents are falling," "demand for office space is down sharply," and "retailers are trying to link rents closer to the złoty."

Warsaw ranked 13th for investment prospects last year and retains this position for existing property performance for 2010. Sentiment is stronger for new acquisitions, for which it is ranked eighth, with a particularly emphasis on retail, with 43 percent of respondents citing this as the preferred asset type.

There is also positive sentiment regarding development, for which the city rises up the rankings from seventh last year to fourth this year. One interviewee comments that "sites are coming back onto the market, a good time to think about developments," whilst others particularly favour residential, a typical observation being that "the Warsaw residential market is recovering—it depends on financing, which is coming back."

Helsinki

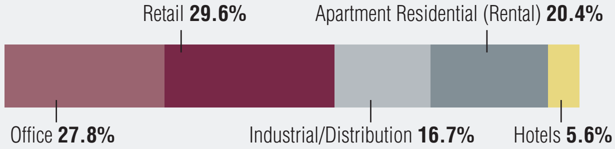
In 2009, many investors were optimistic that Finland would weather the economic crisis better than other countries, and Helsinki was ranked seventh for investment and fifth for development. As is the case for a number of other smaller markets, it seems this year to have drifted off the radar screen. It does not elicit any particularly strong views from respondents, but slides down to the middle of the rankings for all categories—14th for existing properties, 12th for acquisitions, and 16th for development.

EXHIBIT 3-20

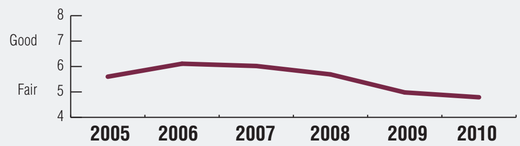
Helsinki Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.57	14th
New Property Acquisitions	Fair	5.00	12th
Development Prospects	Modestly Poor	4.02	17th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

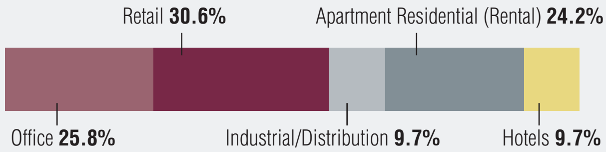
Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

EXHIBIT 3-21

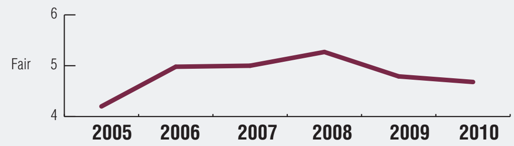
Amsterdam Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.55	15th
New Property Acquisitions	Fair	4.80	18th
Development Prospects	Modestly Poor	3.79	19th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

Amsterdam

Amsterdam is another smaller market that has fallen in the rankings this year, as investor sentiment has turned to larger, more liquid markets and to core asset types. Even in 2009, there was a view that the city was difficult for offices, and the investment recommendations were for other asset types. This sentiment continues this year, with interviewees observing an oversupply of offices in the city.

Lyon

After being the greatest faller in the rankings in 2009, Lyon has recovered slightly this year, with positive sentiment regarding France overcoming concerns regarding secondary cities. Investors favour the broadly diversified economic base of the city. For new acquisitions, there is a recommendation of 26 percent for industrial and distribution, the highest proportion for this asset subclass of any of the cities covered by the survey.

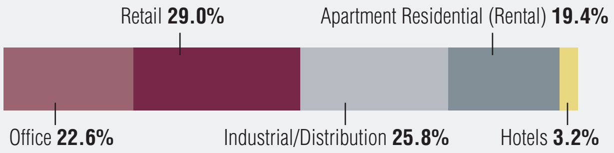
Lisbon

Another of the smaller markets that suffer from the current interest in larger, more liquid markets, Lisbon is neither large nor does it have the scent of blood in the water to attract opportunistic investors. There is little positive or negative comment from respondents, and it remains in the lower reaches of the rankings as in 2009.

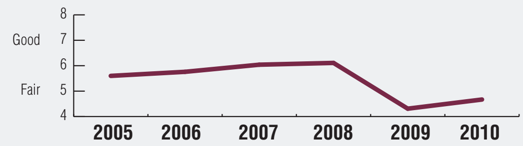
EXHIBIT 3-22
Lyon Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	4.49	16th
New Property Acquisitions	Fair	4.85	16th
Development Prospects	Modestly Poor	3.77	20th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



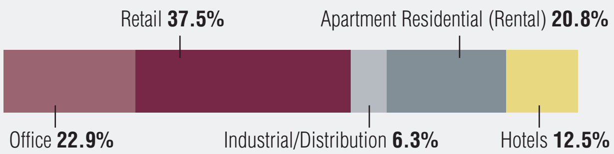
Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

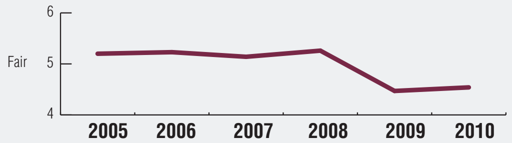
EXHIBIT 3-23
Lisbon Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	4.43	17th
New Property Acquisitions	Fair	4.64	21st
Development Prospects	Modestly Poor	3.80	18th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



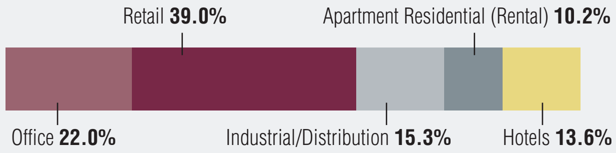
Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

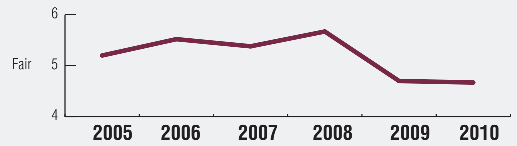
EXHIBIT 3-24
Prague Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	4.42	18th
New Property Acquisitions	Fair	4.91	13th
Development Prospects	Modestly Poor	4.02	16th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

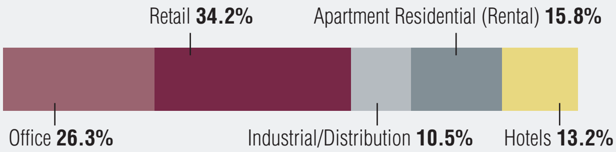
Prague

As indicated already, the shift in sentiment to more transparent and more liquid markets has left central and eastern Europe generally out of favour. Prague is not felt to have the positive economic story of Warsaw: “Prague is having a tough time.” It remains more or less where it was in the rankings last year for investment, but slides down the table from tenth to 16th for development. Despite the general pessimism, some international investors are positive. “In the first half of 2010, investments will be made in Prague, which is expected to remain an interesting market.”

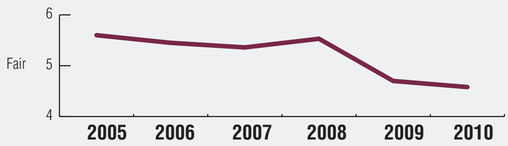
EXHIBIT 3-25
Brussels Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	4.40	19th
New Property Acquisitions	Fair	4.76	19th
Development Prospects	Modestly Poor	3.60	22nd

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



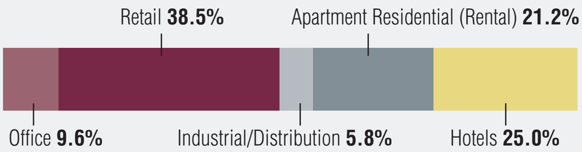
Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

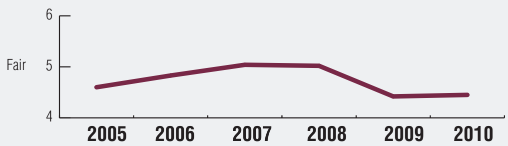
EXHIBIT 3-26
Athens Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	4.38	20th
New Property Acquisitions	Fair	4.52	22nd
Development Prospects	Modestly Poor	4.10	13th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

Brussels

Brussels is consistently average. For the last five years, it has hovered around the middle of the rankings—sometimes towards the upper end of average, sometimes towards the lower end. This year, with larger markets in favour and smaller ones not, it is at the lower end of average.

Athens

Relatively few international investors expressed a view regarding Athens, and where they did, they were generally less supportive than local respondents. Both local and international players expressed reservations about the short-term economic prospects for Greece. Two areas of opportunity were identified by respondents: In the short term, opportunities from distress, with overleveraged developers expected to find survival through 2010 a challenge; and in the longer term, opportunities from tourism. The investment recommendations were for retail, residential, and hotels, although respondents added the caveat that this would be highly selective.

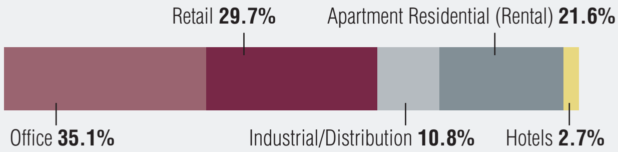
Edinburgh

There was some positive sentiment regarding the city. One interviewee commented, “We are also positive about secondary cities that are main towns, such as Edinburgh and Cardiff, because they are considered primary locations by sovereign wealth funds and pension funds.” The more com-

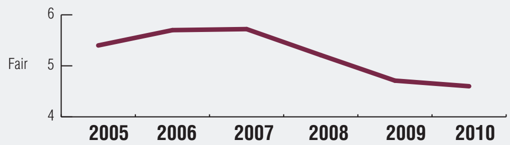
EXHIBIT 3-27
Edinburgh Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	4.35	21st
New Property Acquisitions	Fair	4.84	17th
Development Prospects	Modestly Poor	3.76	21st

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

mon view was one of concern regarding the high-profile troubles of the city's banking sector: "Edinburgh is overly exposed to financial services without the benefits of being a world centre for this. The exposure to the two big Scottish banks is a worry." Having fallen dramatically in the rankings in 2008, sentiment had started to recover last year. The concerns regarding the financial sector push it back down towards the bottom of the table for 2010.

Copenhagen

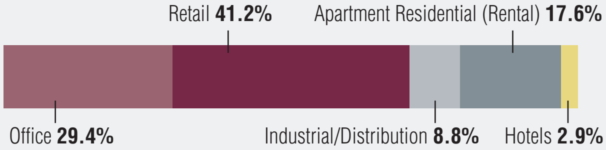
As in 2008 and 2009, Copenhagen remains at the lower end of the rankings. In general, the concerns expressed by interviewees are no different from those expressed about other cities: "We will see growth in unemployment in Denmark"; "vacancy is increasing primarily in retail, but also office is hurt"; "the troubled Danish banking system." But Copenhagen also suffers from the swing in sentiment from smaller markets to larger, more liquid ones.

EXHIBIT 3-28

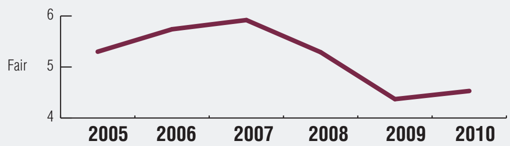
Copenhagen Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	4.33	22nd
New Property Acquisitions	Fair	4.72	20th
Development Prospects	Modestly Poor	3.59	23rd

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

Budapest

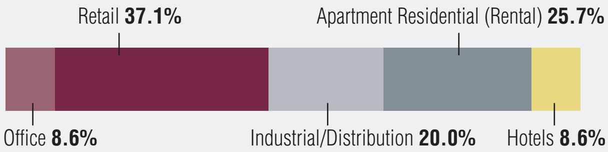
As in 2009, Budapest falls below the other central European cities, with interviewees expressing concern regarding the state of the Hungarian economy. One commented, "Budapest—the market suffers from a profound financial and economic crisis," and another: "Budapest is the market I'm most worried about: high vacancy rates in the office market and a difficult economic situation." Others were even more forthright in their views. As it did in 2009, Budapest remains close to the bottom of the rankings for all of the categories. However, amongst the general gloom there are some signs of light: there are a few international investors who are starting to see opportunities. As one interviewee commented, "Budapest, with a strong tenant mix and leases signed not too long ago at a yield of 7 to 8 percent, could be an interesting investment."

EXHIBIT 3-29

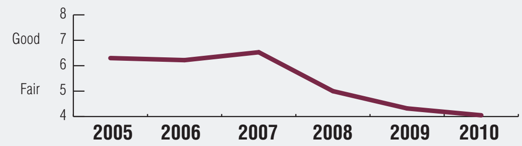
Budapest Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	3.88	23rd
New Property Acquisitions	Modestly Poor	4.22	26th
Development Prospects	Modestly Poor	3.58	24th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

Moscow

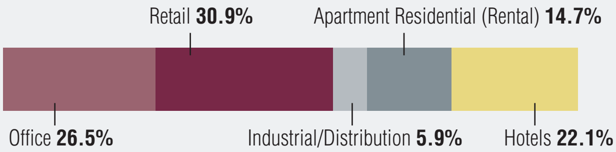
Moscow has continued its fall from favour that started last year. In 2008, it was the highest-ranked city for investment, with one investor commenting at that time, "Prices also have gone crazy, but will stay high as long as oil stays high." By last year, oil prices were falling and some respon-

EXHIBIT 3-30

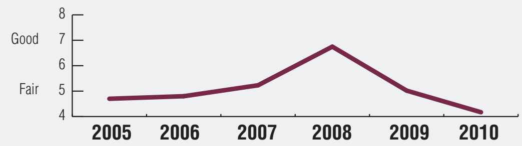
Moscow Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	3.84	24th
New Property Acquisitions	Fair	4.50	23rd
Development Prospects	Modestly Poor	4.20	8th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

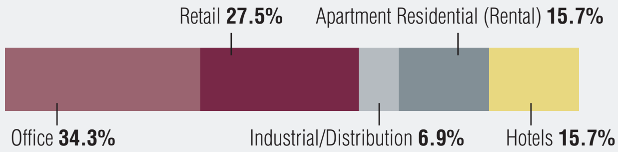
Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

EXHIBIT 3-31

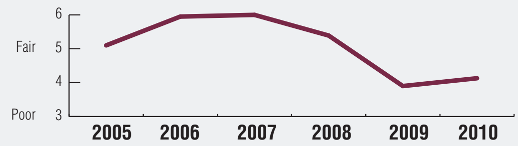
Madrid Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	3.79	25th
New Property Acquisitions	Modestly Poor	4.47	24th
Development Prospects	Poor	3.07	27th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

dents were expressing misgivings about the economy. Others remained bullish, with one interviewee last year remarking, "Russia is continuing to do well in terms of economic growth, and will remain number one in Europe over the next five-year period." Moscow last year was ranked sixth for investment prospects and fourth for development. This year, sentiment for investment properties has fallen dramatically and it is ranked 24th for existing assets and 23rd for acquisition opportunities. One investor commented that "the office sector in Russia for 2010 is pretty much burnt down and vacancy rates are very high," and another: "Next year, we will see high vacancy rates in Moscow—the sector in Moscow has not seen that vacancy rate for a decade." Some have fared better than others, with one respondent noting that "there will be a lot fewer players, after a number of bankruptcies."

Looking to the longer term, there is greater optimism, particularly from local investors, who see a long-term recovery in commodity prices driving economic and occupier recovery. Sentiment regarding development has remained relatively stronger, thus ensuring a fall only to eighth from fourth last year. The overall sentiment can be summed up by one international investor: "Russia is a big marketplace and a place to be in the future, but has enormous political and social issues."

Madrid

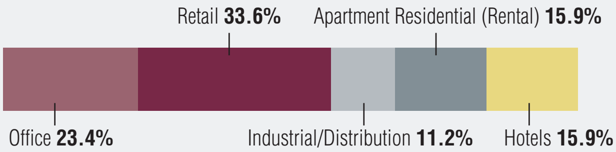
Concern regarding the Spanish economy was widespread. One investor commented, "There has been a sharp fall in GDP, above the European average, despite the greater stability of the Spanish financial markets," and another: "The outlook is difficult, even if growth resumes, with unemployment so high, it's like going into a race with a big backpack full of stones." Both local players and foreign investors are predicting higher vacancy rates and lower rents, although one observed that "Madrid is economically under pressure, but does not have a structural supply issue." There was slightly more optimism regarding acquisition opportunities, with some investors commenting that the distress would create opportunities: "Increased activity because sellers will have to sell." Others expressed the view that whilst opportunities would be forthcoming, it was too early to go back into the market. "Spanish cities are knocked out for some time, but Madrid and Barcelona will come back."

The consensus view is that development will be off the agenda for some time, with the most pessimistic saying for three or four years. Sentiment for the performance of existing properties remains the same as the rating for investment property in 2009. The sentiment for acquisition opportunities is better, lifting Madrid one place to 24th for this category. The outlook for development has declined, dropping Madrid to 27th out of the 27 cities that are ranked in the survey.

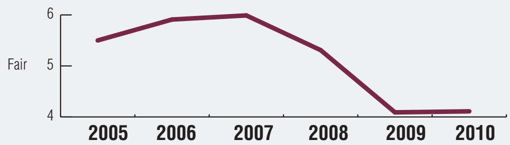
EXHIBIT 3-32
Barcelona Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	3.78	26th
New Property Acquisitions	Modestly Poor	4.43	25th
Development Prospects	Poor	3.21	25th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



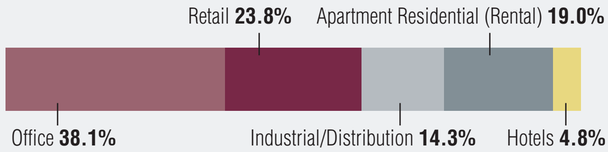
Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

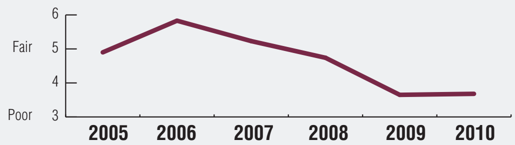
EXHIBIT 3-33
Dublin Real Estate Market

	Prospects	Rating	Ranking
Existing Property Performance	Poor	3.49	27th
New Property Acquisitions	Modestly Poor	3.87	27th
Development Prospects	Poor	3.11	26th

2010 Acquisitions Recommendation of Survey Respondents



Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Investment prospects for 2010 are the average of scores for existing property performance and new property acquisitons from above.

Barcelona

As with Madrid, respondents' concerns are driven by fears over the deteriorating economic situation and rising unemployment in particular. The ratings for investment property—both existing and new acquisition opportunities—are almost identical to those for Madrid. Although the rating for development is marginally better than for Madrid, the outlook is still regarded as poor.

Dublin

In 2009, Dublin was rated lowest of the 27 cities evaluated, for both investment and development, with one investor last year commenting, "Ireland's a real struggle, a bubble that's popped." Despite a slight improvement in sentiment for investment, it remains in 27th spot for the performance of existing assets. Prospects for new acquisitions are slightly better, and some overseas investors are positive about the opportunities. As one investor commented, "Ireland has strengths that people are not seeing and end up focusing on its major downsides." Unfortunately, there are insufficient respondents sharing this view to lift it from bottom place. Although sentiment regarding development prospects has declined a little since 2009, sentiment elsewhere has fallen further, lifting Dublin above Madrid and out of bottom place.

Property Types in Perspective

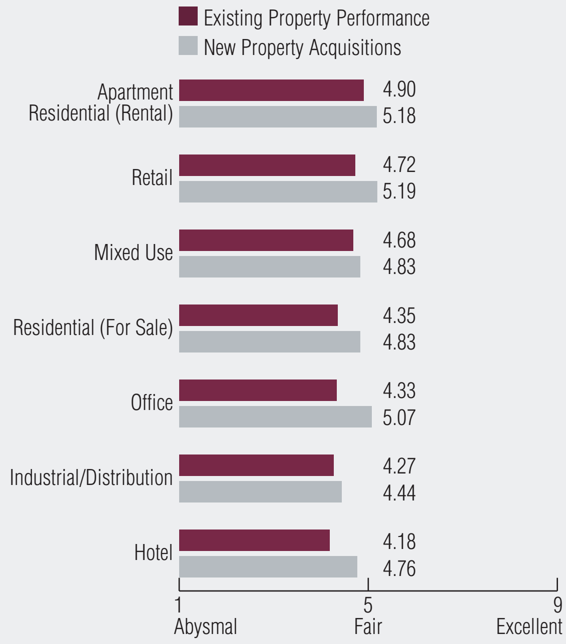
"We see a push towards quality."

"Sectors are not the key question right now," says one participant. What matters is quality in terms of both assets and markets. "We see a push towards quality." Though there are "very few investment transactions," "investor appetite for well-leased, prime real estate [is] still alive." While "at the peak you were not able to pay for prime properties," such investments are now available at affordable prices. This indicates that location and tenants are a prerequisite for any investment activity. "We are fleeing to the larger, more liquid, more mature, more transparent markets, [favouring them over] the smaller, less liquid markets," says one interviewee, and another: "We only go into markets which we know well and those with sufficient liquidity." The second driver of the investment market is the occupier. "The most important thing is to keep the tenant. There should never be empty spaces, as this speeds up the fall in prices and makes it more difficult to win new tenants."

In terms of property types, "offices and retail are the main things we would like to concentrate on." This is echoed by these comments: "Focus on office and retail" and "strategic sector: office and retail." It has to be noted, however, that the current market is still suffering from inertia and "commercial property investment activity remains weak," not least due to a lack of debt finance available.

Looking at the performance prospects of the main property types, the ratings for offices, industrial/distribution, and hotels weakened, while retail and mixed use are roughly in line with last year's marks (Exhibit 4-1). Overall, apartments for rent are taking the lead (4.9 points) in the performance outlook on existing properties. Together with apartments for sale (4.4 points), these sectors were the only ones that were awarded higher performance ratings than last year.

EXHIBIT 4-1
Investment Prospects for Major Property Sectors



Source: *Emerging Trends in Real Estate Europe 2010* survey.

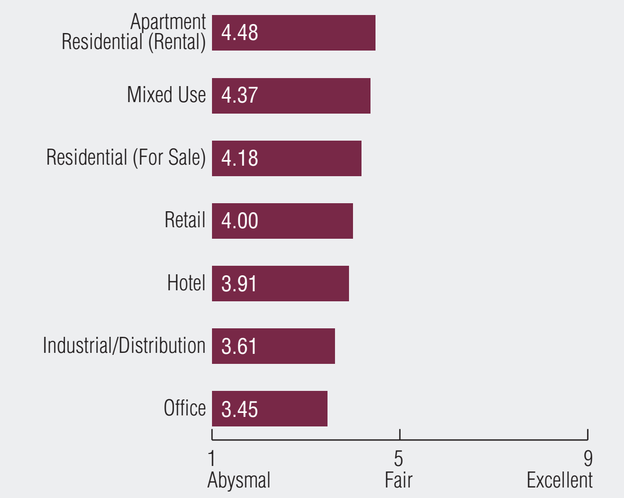
EXHIBIT 4-2

Investment Prospects for Major Property Sectors and Subsectors

Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 4-3

Development Prospects for Major Property Sectors



Source: *Emerging Trends in Real Estate Europe 2010* survey.

Retail is now runner-up (4.7 points), very closely followed by mixed-use properties (4.7 points). The performance of the three top categories is considered "fair," while residential for sale, offices, industrial/distribution, and hotel assets are expected to register a "modestly poor" performance with ratings of 4.3 and 4.2, respectively.

Turning to the performance prospects for subsectors, city offices are taking the lead with a rating of 5.0 points, with "fair" prospects. Street retail (4.8 points), shopping centres (4.7 points), and retail parks (4.6 points) are broadly in line with last year's ratings while warehouse distribution has softened (4.4 points). Suburban/out-of-town offices are expected to show "poor" performance (3.4 points).

By and large, investors are less confident about the prospects for their existing portfolios than they are for new acquisitions. The latter ratings are on average 0.4 higher (Exhibit 4-2). All categories bar one are deemed to deliver "fair" prospects. Apartments for rent and retail take the top spots (5.2 points) followed by offices (5.1 points), while residential for sale, mixed use, and hotels were assigned 4.8 points. The outlook for industrial/distribution is considered "modestly poor."

The deteriorating ratings in the commercial property sectors are a reflection of the apprehension felt about a downturn in the letting markets. "We have seen a clear adjustment of yields; what we don't see at all yet is an adjustment in the occupier markets. I am absolutely certain, that apart from the yield correction which has happened this year, we shall see a correction of rents." The "end-user market is something everybody needs to be wary of—if there is less demand for space, logic says that rental values will fall. I am not sure that the investment community has got to grips with that." "Tenant demand will fall more in the coming months." "As properties need to be occupied, the greatest challenge is in the occupational market," says one respondent, and another: "The lettings markets will be difficult in 2010." "Tenants are kings. The market will be driven by tenants." Property owners are responding to these concerns by saying, "Letting will be our key activity in 2010 and it will hold the highest priority," and "our focus will be on asset management activities and securing a stable cash flow for our portfolios."

Given the fears about occupier markets, new development has been put on the back burner. Except for residential for rent (4.5 points), which manages to just cross the line into the "fair" category, prospects for development are regarded as "modestly poor" for all property types. In

EXHIBIT 4-4
Development Prospects for Major Property Sectors and Subsectors

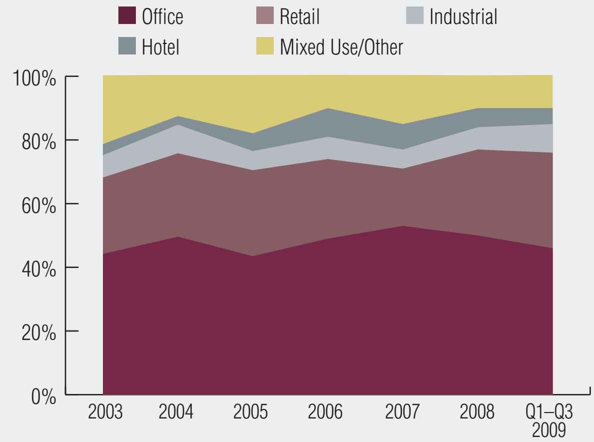
Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 4-5
Prospects for Prime Yields

	Prime Yields Nov. 2009 (Percentage)	Expected Prime Yields Dec. 2010 (Percentage)	Expected Prime Yield Shift (Basis Points)
Apartment Residential (Rental)	6.52	6.30	-22
Retail	7.43	7.26	-17
Shopping Centres	7.53	7.32	-21
Retail Parks	7.80	7.68	-12
Street Retail	7.16	6.95	-21
Office	7.57	7.28	-29
Central City Office	7.21	7.05	-16
Suburban/Out-of-Town Office	8.49	8.33	-16
Mixed Use	8.13	8.06	-7
Hotel	7.99	8.14	+15
Industrial/Distribution	8.84	8.66	-18
Warehouse Distribution	8.62	8.39	-23
Manufacturing	9.14	9.01	-13

Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 4-6
European Direct Real Estate Investment by Property Type



Source: Jones Lang LaSalle European Research.

the subsectors, manufacturing and suburban/out-of-town offices are not considered valid development propositions; with ratings of 3.2 and 2.9 points, they hold no more than "poor" prospects. Not only do these sectors not warrant new development, there is also a huge question mark hanging over existing stock as this interviewee notes: "We have seen some very large transactions in secondary and tertiary locations or in primary locations in secondary and tertiary cities in the past, the equity in them is gone, the exit into the capital market has been abandoned, it is as yet unclear what happens to them."

By and large, cap rates have undergone an adjustment and shifted outwards (Exhibit 4-5). In 2009, the adjustment was much greater than participants had anticipated in their forecast for 2009. Compared to the yield increases, expected yields are now 100 to 150 basis points higher for the different segments. Now the market seems to have hit the trough. For 2010, cap rates for most sectors are expected to stabilise or to decrease slightly.

With a cap rate of 6.52 percent, rented apartments remain the most expensive property type. Price rises are expected over the coming 12 months with a cap rate reduction of 21 basis points. The category remains the most expensive one. Apartments for sale are considered less of a buy, with cap rates moving up by 38 basis point to 7.33 percent. Together with hotels, they are the only categories that are expected to see further falls in values. Yields for street retail (7.16 percent) are almost on par with central city offices (7.21 percent). This demonstrates continued demand for core assets. Over the next 12 months, these properties are expected to become more expensive, with yield reductions of 15 and 20 basis points, respectively.

EXHIBIT 4-7

Best Acquisition Opportunities by Sector and City in 2010

	Office	Retail	Industrial	Apartment	Hotel	Highest Percentage for Any Sector in City	Best Sector for Acquistions in City
London	**12.7%**	4.8%	3.3%	**7.3%**	**7.9%**	12.7%	Office
Hamburg	4.5%	**5.4%**	**10.3%**	**6.8%**	4.5%	10.3%	Industrial
Paris	**10.1%**	**6.6%**	2.2%	**6.0%**	**8.7%**	10.1%	Office
Berlin	3.3%	**6.9%**	3.8%	**9.6%**	**5.4%**	9.6%	Apartment
Lyon	2.4%	2.8%	**8.7%**	3.1%	0.8%	8.7%	Industrial
Istanbul	3.6%	4.6%	**7.6%**	**5.5%**	**8.3%**	8.3%	Hotel
Munich	**8.3%**	**6.5%**	3.8%	**8.1%**	**5.8%**	8.3%	Office
Barcelona	4.3%	**5.5%**	**6.5%**	4.4%	**7.0%**	7.0%	Hotel
Frankfurt	**6.9%**	**5.2%**	**6.0%**	4.7%	4.1%	6.9%	Office
Madrid	**6.1%**	4.3%	3.8%	4.2%	**6.6%**	6.6%	Hotel
Moscow	3.1%	3.2%	2.2%	2.6%	**6.2%**	6.2%	Hotel
Athens	0.9%	3.1%	1.6%	2.9%	**5.4%**	5.4%	Hotel
Warsaw	2.6%	4.2%	**5.4%**	1.8%	1.7%	5.4%	Industrial
Rome	2.1%	3.7%	1.1%	3.1%	**5.0%**	5.0%	Hotel
Prague	2.3%	3.5%	4.9%	1.6%	3.3%	4.9%	Industrial
Milan	3.6%	4.9%	2.7%	1.6%	2.5%	4.9%	Retail
Helsinki	2.6%	2.5%	4.9%	2.9%	1.2%	4.9%	Industrial
Amsterdam	2.8%	2.9%	3.3%	3.9%	2.5%	3.9%	Apartment
Stockholm	2.8%	3.1%	3.8%	3.9%	1.7%	3.8%	Apartment
Budapest	0.5%	2.0%	3.8%	2.3%	1.2%	3.8%	Industrial
Vienna	2.6%	3.1%	0.5%	2.6%	3.3%	3.3%	Hotel
Lisbon	1.9%	2.8%	1.6%	2.6%	2.5%	2.8%	Retail
Zurich	2.8%	1.8%	0.5%	2.3%	1.2%	2.8%	Office
Edinburgh	2.3%	1.7%	2.2%	2.1%	0.4%	2.3%	Office
Brussels	1.7%	2.0%	2.2%	1.6%	2.1%	2.2%	Industrial
Copenhagen	1.7%	2.2%	1.6%	1.6%	0.4%	2.2%	Retail
Dublin	1.4%	0.8%	1.6%	1.0%	0.4%	1.6%	Industrial

Source: *Emerging Trends in Real Estate Europe 2010* survey.

Note: Survey respondents were asked to choose—for any city where they were active—one property sector that offers the best acquisition opportunities in 2010. Any result of 5 percent or more appears in bold for easy reference.

Residential

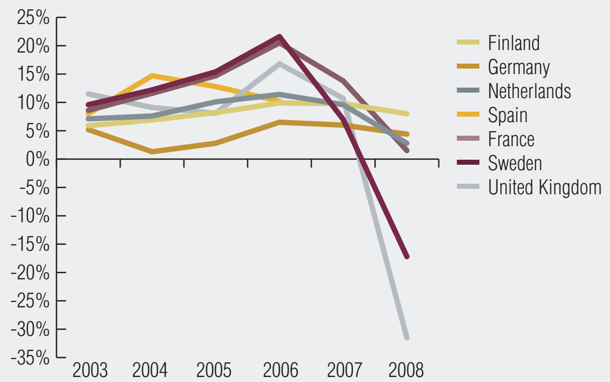
The "residential sector in Europe should be fine as long as people don't lose their jobs and have the money to keep paying their rent." The sector is "surprisingly strong, and will remain so." Owners of housing stock "were able to reduce vacancy rates, rents are rising, and arrears remained stable. This will continue in 2010—vacancy will be reduced further." Given these comments, it is not surprising that apartments for rent are viewed as the best-performing sector in 2010. This could, however, be merely the result of the weakness in the residential for-sale sector. The "short-term prospects [are] good as there is a market for [rented apartments] due to lack of financing to buy [owned] apartments." On the other hand, this might lead to problems in the medium term: "A vast majority of the unsold stock is being offered for lease. This increase in availability may turn into a decrease in rental levels."

Despite these caveats, both institutional and private investors are keen to get invested in the sector. "Institutions are looking for reasonably sized transactions." "We buy residential to rejuvenate our residential portfolio—not because the yield expectation is spectacular, but at the moment a residential investment at 4.5 percent is more attractive than a government bond." Large and medium-sized transactions were notable by their absence, but "the market for small-ticket trading in the order of €3 million to €10 million is alive and kicking. Regional investors are buying to consolidate their positions in local markets and they are prepared to pay reasonable prices," observes one interviewee. Yields for rented apartments are expected to firm up by about 40 basis points to 6.3 percent.

Inflation fears are also generating interest in the residential sector. "Due to inflation fears, there is a big demand for [for-sale] apartments in some markets that were not affected by a housing bubble [e.g., Germany]." There will be "increasing demand in good- and medium-quality locations, because private investors like family offices and high-

EXHIBIT 4-8

IPD Residential Property Total Returns for Selected Countries



Source: Investment Property Databank (IPD).

All returns in euros.

EXHIBIT 4-9

Apartment Residential (Rental)

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.90	2nd
New Property Acquisitions	Fair	5.18	3rd
Development	Modestly Poor	4.48	1st

Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 4-10

Residential (For Sale)

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	4.35	9th
New Property Acquisitions	Fair	4.83	8th
Development	Modestly Poor	4.18	4th

Source: *Emerging Trends in Real Estate Europe 2010* survey.

net-worth individuals will be looking for this type of product, not least due to inflation fears in the medium term."

Residential for sale is hovering in the middle of the league table and deemed to put up a "modestly poor" performance. The rating moved up from last year, but uncertainties about potential homebuyers are also evident as the following comment suggests: "The residential market will face a relatively long decline as people will refrain from large purchases in times of uncertainty. This negative attitude will [affect] both the rental and sale sides of the residential market."

In previous years, niche segments in the residential markets caught investors' imagination, but they are clearly not a major investment theme in 2010. "Nursing and rest houses are a potentiality in the long run; now there is no critical mass, the market is extremely fragmented." "It is a class of the future—you are going to have more and more people getting older and you need retirement homes and all this will grow. It is still not a very big organised market—if you look at the major countries, you don't have a lot of things trading—so today we don't really look at this." "It is too much of a niche, a market which is welfare related. It is not something everybody can afford." Particularly in markets with a low homeownership ratio, prospects are limited. "In Germany, I am not too optimistic about senior housing. Normally, you would sell your house and buy your way into a residence, [but] if you have always been renting, you don't have that extra money."

Student housing has also been pushed into the future. "I do see some potential in student housing. We are not exposed to that yet—not necessarily something for 2010, but also not something I would ignore."

Development

According to the survey, rented apartments are deemed to offer the best chances for development among the property types, but the outlook remains "modestly poor." Development of the for-sale apartment sector is hampered by the lack of mortgage financing available to homebuyers. "There should be certain growth due to the returning accessibility of mortgages."

Best Bets

Cities that offer the best apartment acquisition opportunities, according to the survey, are Berlin, Munich, London, Hamburg, Paris, and Istanbul, in that order. "It is hip to live in Berlin," says one interviewee, a view shared by other participants. Matching sector to city prospects, almost one in ten respondents regards Berlin as a top location for residential investment (Exhibit 4-7). The other large German cities are also considered to offer good prospects as there has been "practically no new developments in the sector." "Hamburg, Munich, Stuttgart are all undersupplied with attractive residential units of high quality." Demand for affordable housing in Germany is also "likely to rise as the redistribution of income at the macro level will lead to [growth in] the number of low-income households."

While prospects in the U.K. housing market are bleak, London is considered to play in a different league. "Rents may pick up slightly in London/South East and values are expected to rise." "The 2010 outlook is positive for London residential. Values will pick up."

Markets to Watch

In Poland, market conditions in the residential sector are expected to improve, since "no investment [was] started in 2009. Therefore, we expect an upturn in the market in the next two years." "Price rises are expected from 2011 onwards, however, not to the extent as in 2006–2007."

The housing market in Frankfurt is one of mixed fortune. "I would put both an exclamation [point] and a question [mark] to Frankfurt." There is clearly a "lack of quality space in the inner city," says one respondent, and another: "Frankfurt is dramatically undersupplied with residential." But slim opportunities to increase rents coupled with high construction costs limit the chances of economic success when it comes to residential development. "If there is money to be made, it is in site development."

Avoid

In Spain, oversupply needs to be absorbed. "Some of the stock will never be sold given its location. The coastal residential unit sales will take longer than urban units." For the time being, there is "no new construction until existing stock is absorbed." "Rents have not dropped dramatically. However, [as] some vacant residential buildings [for sale] will be rented in the future, rents will decrease." "Banks are selling some of their schemes with 20 to 30 percent discount with very good financing conditions." First-time buyers are active "since the sellers started to drop prices." Some forward-thinking players are embarking on land development to ensure a steady development pipeline once the situation improves.

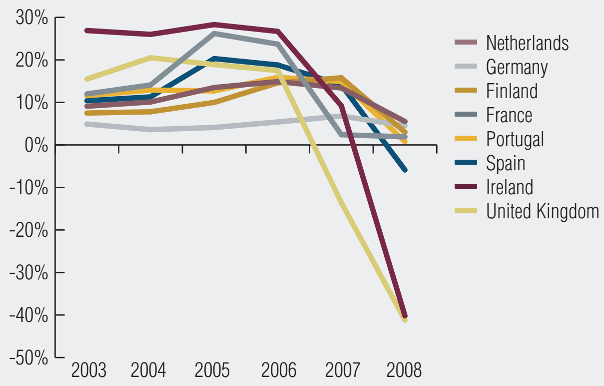
Retail

"The retail sector's prospects are relatively good, probably the best of [the] commercial property types." "Very good prospects for quality retail products—i.e., well positioned and with sound tenants." "Quite positive expectations" and the "retail market manages quite well in the current market conditions. Rents are relatively stable."

These comments reflect a degree of faith in the sector; however, considerable worries in terms of unemployment and loss of consumer confidence are in the offing. "Due to rising unemployment, consumption will remain low in all the established economies; therefore, prospects for the retail sector are rather negative." Even though in general terms consumption holds up, "we have to be worried about this and how long it is going to last." "In general, vacancy rates are relatively low and the prospects of retail markets are generally good. Nevertheless, rents will remain under pressure for another two to three years as retail sales are affected by higher unemployment. "Retail will see a longer, but less intense, downturn than the office market." "If there

EXHIBIT 4-11

IPD Retail Property Total Returns for Selected Countries



Source: Investment Property Databank (IPD).

All returns in euros.

are more people out of work, more people having less money, turnover in shops is going down, rents [are] going down, and shopping centre values [are] going down. I don't think we have seen that yet." "Tenants are suffering. Sales are only slightly decreasing, but at the detriment of margins."

Not all retail formats will be hit to the same extent. "Generally, we took the view a few months ago that the retail market represented a reasonable bet in relation to offices, because particularly in mid-range retail people need to go on shopping, people need to meet basic needs, people need to buy food. That middle market was possibly a good sustainable story even in very difficult times, touch wood that has proven workable so far." This view is shared by other survey participants. "Stores more focused on the primary necessities of life will feel less of the recession." "People always need food—it is just a question of where they buy it," and if "you have discounters in your portfolio, it will hold up pretty well." "People will continue to consume, discounters will work." The factory outlet business will achieve a good operating performance as "people still spend money, just in different places."

Concern about the luxury segment is voiced. "I think we are seeing trouble at the higher end of the retail market at the luxury end." "High-end goods and shops suffer." "High-end [goods are] possibly more difficult, luxury segment may suffer."

Looking at the subsectors, street retail receives higher marks than shopping centres and retail parks. "High-street assets represent still a good opportunity of investment since the prices are sensibly decreasing. It's a really good period to go for it," says one interviewee. "High-street retail will work," a view shared by this participant: "Potential in high streets in bigger cities." For the existing stock performance, street retail collects 4.8 points, while prospects

EXHIBIT 4-12
High Street Retail Prime Property Yields

City	2009 Q3 (Percentage)	2008 Q3 (Percentage)	Year-over-Year Change (Basis Points)
Bucharest	12.00	8.00	400
Moscow	12.00	9.00	300
Budapest	7.75	6.25	150
Lisbon	7.50	6.75	75
Glasgow	7.00	5.75	125
Warsaw	7.00	5.75	125
Edinburgh	6.75	5.75	100
Oslo	6.75	6.25	50
Prague	6.75	5.50	125
Dublin	6.50	4.50	200
Birmingham	6.25	5.75	50
Manchester	6.25	5.65	60
London City	6.00	5.50	50
Madrid	6.00	5.50	50
Rome	5.90	5.75	15
Helsinki	5.80	5.30	50
Stockholm	5.80	5.00	80
Athens	5.75	5.00	75
Lille	5.75	5.25	50
Lyon	5.75	5.25	50
Milan	5.50	5.00	50
Paris	5.50	4.75	75
Brussels	5.25	4.75	50
Copenhagen	5.00	4.25	75
Geneva	5.00	4.75	25
Berlin	4.90	4.90	0
Vienna	4.70	4.00	70
Zurich	4.70	4.70	0
Amsterdam	4.65	3.85	80
Dusseldorf	4.60	4.60	0
Frankfurt	4.60	4.60	0
Hamburg	4.50	4.50	0
Munich	4.50	4.25	25
London West End	4.25	4.25	0

Source: CB Richard Ellis.

for new acquisitions are rated slightly higher at 5.1 points. Shopping centres receive similar ratings of 4.7 points and 5.0 points, respectively.

"Shopping centres remain defensive investments." "Good and moderate potential in neighbourhood shopping centres." "Still appetite for prime shopping centres, limited supply." Location and management quality are key performance determinants. "There is a big gap between the good-quality centres and middle quality, the market is very differentiated by quality." "The dominant centres are doing well, no substantial reductions, [but] shopping centres that are not doing well [either] due to location or in terms of concept will be affected more severely," so we are witnessing the "survival of the fittest."

EXHIBIT 4-13
Retail

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.72	5th
New Property Acquisitions	Fair	5.19	2nd
Development	Modestly Poor	4.00	6th

Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 4-14
Street Retail

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.84	3rd
New Property Acquisitions	Fair	5.05	5th
Development	Modestly Poor	4.26	3rd

Source: *Emerging Trends in Real Estate Europe 2010* survey.

Retail parks are considered the weakest retail segment. "Retail parks have no future since consumers lack spending power." "Retail parks are a no-go." "Large-scale retail is not performing well." "Large-scale retail parks will suffer." For both new property acquisitions and existing properties, the performance outlook is "fair" at best.

"Today for prime shopping centres, [yields] would be 6 percent–plus, and then you go up depending on what country or what city you are talking about." According to survey participants, street retail is the most expensive retail format with a yield of 7.16 percent, followed by shopping centres with 7.53 percent and retail parks with 7.8 percent. In 2010, yields for street retail and shopping centres are expected to firm up by 20 basis points and a lesser improvement for retail parks.

Development

Given the uncertainties about economic development in general and consumer confidence in particular, development opportunities are not very high up on the agenda of our survey participants. In some markets—Moscow, for instance—land prices have come down. That makes new development more viable in theory, but the lack of debt finance puts a serious stop to any kind of new development.

Best Bets

Cities that offer the best retail acquisition opportunities, according to the survey, are Berlin, Paris, Munich, Barcelona, Hamburg, Frankfurt, Milan, and London, in that order. The outlook is "reasonably good for German retail." Berlin attracted the highest number of votes, but Munich, Frankfurt, and Hamburg are also viewed positively. Some observers regard the German market as having "too much retail space per capita, there will be no growth in retail space. Leasing will remain stable at ten-year averages and better quality will win the competition." But "the market accepts good products, always bearing in mind that it is difficult to close big-ticket transactions." Initial yields for shopping centres are 6 to 6.5 percent. "This is the level we had before the bubble, compared to the bond market you have got a premium."

Markets to Watch

Among the new economies in eastern Europe, Poland stands out as a country that is likely to experience an earlier recovery than its neighbours. "It is our impression in Poland they are not hit in the same way as are other [markets]." "Activity levels are really quite good; retail offers possibilities."

EXHIBIT 4-15

Shopping Centres

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.73	4th
New Property Acquisitions	Fair	5.00	6th
Development	Modestly Poor	3.94	8th

Source: *Emerging Trends in Real Estate Europe 2010* survey.

Avoid

Southern Europe has also been crossed off the wish list. "Spain [is] a write-off for ten years." "Spain and Portugal are overheated, some shopping centres will die." Central and eastern Europe (CEE) stirs up similar sentiments: "CEE? Forget it—sell stock or have a long horizon." "The investment community is very reluctant about Turkey and Bulgaria, not to mention markets like Ukraine and Russia, which are completely dead."

In terms of per-capita retail turnover, the U.K. leads continental Europe by a wide margin. "More unemployment and more taxation are going to reduce retail spending." This will create difficult trading conditions for retailers. "There won't be many winners and there will be quite a few losers." London is seen as a comparatively safe haven, but the "rest of the U.K. [is] worrying."

EXHIBIT 4-16

Retail Parks

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.56	7th
New Property Acquisitions	Fair	4.93	7th
Development	Modestly Poor	4.00	7th

Source: *Emerging Trends in Real Estate Europe 2010* survey.

Anything that does not stand the location test will be difficult, hence a "poor outlook for secondary locations, C-locations, and properties on the periphery." "Secondary shopping centres and retail parks will have high vacancy rates," and "secondary will suffer very much or even close [its] activity."

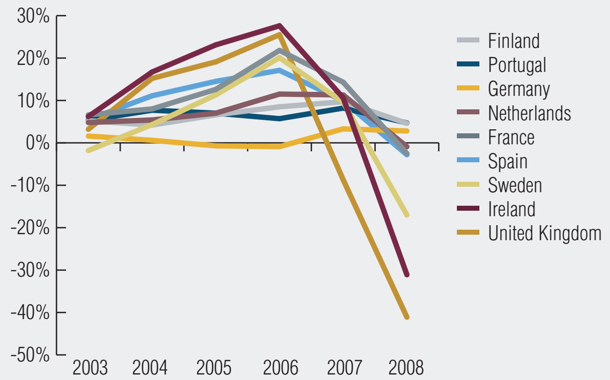
Office

The office sector is "one of the sectors that still work even during a crisis period." While this statement points to enthusiasm in office properties, a caveat applies: "provided they are in prime locations." Investors "will focus only on the high-quality assets, already rented to very good tenants and based in the best central locations." "Prime targets and areas will perform relatively well." "Flight to prime assets." "Flight to well-located, good-quality buildings." "Central city offices will be good." On the flip side of the quality coin, "everything that is not prime, in terms of both location and quality, will take much longer to recover," and "very low appetite for second-class assets."

Values have taken a hit, and "significant yield correction has happened in most markets." "Adjustments in value in most markets are around 30 percent down." Talking about London and Paris, one respondent says: "I think we would not look today at those cities less than 6 percent–plus, which is a 50 percent difference in yields." Some regard the correction on London offices as an exaggeration; future expectations suggest that "yields should stabilise in December 2009 and decrease in 2010 for prime assets."

Major worries over the occupier markets are voiced. "The office sector is possibly the most fragile or vulnerable to further downturn, based on the hypothesis that unemployment will increase and therefore office demand

EXHIBIT 4-17
IPD Office Property Total Returns for Selected Countries



Source: Investment Property Databank (IPD).

All returns in euros.

EXHIBIT 4-18
Office Prime Property Yields

City	(Percentage) 2009 Q3	2008 Q3	Year-over-Year Change (Basis Points)
Moscow	12.00	8.50	350
Budapest	8.00	6.25	175
Dublin	7.50	5.50	200
Lisbon	7.25	6.25	100
Oslo	7.00	6.25	75
Prague	7.00	6.00	100
Edinburgh	6.85	6.35	50
Warsaw	6.75	5.75	100
Barcelona	6.50	5.50	100
London (City)	6.50	6.00	50
Madrid	6.50	5.50	100
Athens	6.25	6.25	0
Brussels	6.25	5.50	75
Amsterdam	6.15	5.65	50
Helsinki	6.00	5.50	50
Milan	6.00	5.50	50
Rome	6.00	5.75	25
Copenhagen	5.75	5.25	50
Paris	5.75	4.85	90
Stockholm	5.75	5.00	75
Berlin	5.50	5.25	25
Frankfurt	5.40	5.30	10
Dusseldorf	5.30	5.25	5
Geneva	5.25	5.25	0
London (West End)	5.25	5.00	25
Hamburg	5.10	5.00	10
Munich	5.00	4.80	20
Zurich	4.75	4.50	25

Source: CB Richard Ellis.

EXHIBIT 4-19
Office Vacancy/Availability Rates

City	2009 Q3	2008 Q3
Dublin	21.6%	11.1%
Budapest	19.4%	12.0%
Moscow	17.3%	7.8%
Amsterdam	16.3%	15.7%
Frankfurt	12.8%	12.4%
Brussels	10.8%	–
Prague	10.6%	5.9%
Madrid	10.5%	6.9%
Helsinki	10.0%	7.9%
Berlin	9.8%	9.5%
Barcelona	9.6%	5.8%
Lisbon CBD	8.3%	7.2%
Hamburg	8.2%	7.5%
Munich	7.8%	7.2%
Copenhagen	7.4%	3.6%
London (CL)	7.2%	3.0%
Warsaw	7.1%	2.4%
Île-de-France	6.5%	4.9%
Milan	6.3%	6.0%
Paris CBD	4.1%	–
Vienna	3.7%	4.9%

Source: CB Richard Ellis.

must fall." The "economic downturn reaches office markets with a time lag: if you regard 2009 as the year of an economic downturn, it has not yet affected the office market." "Companies are looking for flexible workplaces for their employees and the average square metres per employee will decrease, so the office space needed will decrease." Due to the "return of M&A activity, you are seeing high vacancy in a lot of markets." Other participants take a more sanguine stance: "Office markets in Europe are generally in reasonable shape. Occupier markets are weaker than two years ago, [there are] higher vacancy rates, but not to the extent that letting markets are completely dead." "There will be lettings against the backdrop of consolidation processes; some occupiers will take advantage of their strong position to extend their leases, but on different terms. Alternatively, they may look for new, more efficient space and lower gross rents in energy-efficient buildings."

Overall, letting will become a more tedious affair. "Lease renegotiation could become more difficult to manage." "Now you try to keep your tenants in your property, even if this means that you have to make concessions in terms of rents and to renew leases at markedly lower rent levels."

Top rents have come down and "rents have bottomed out. In markets with ongoing strong development this point has not quite been reached, but in markets where there is little new development we clearly have hit the bottom." "Rents have probably gone down 20 percent from the top and might have another 10 percent to go." Ultimately, quality wins the day. "If the properties are in the right location and of the right quality, there is always a chance to find a tenant; properties of lesser quality are threatened by vacancy." For high-quality investments occupier demand is stable and "will remain at ten-year averages in the medium term."

While survey participants voted central city offices the best investment sector for both existing buildings and new acquisitions, suburban/out-of-town offices are placed at the bottom of the league table. Rated 5.6 points, prospects for new acquisitions are deemed "modestly good," while existing property performance prospects are only fair. "Existing portfolios will underperform. However, good buying opportunities on the investment side may arise." Suburban/out-of-town offices have fallen out of favour. For existing properties, the rating of 3.4 pushes the sector into the "poor" performance category; for new acquisitions, the rating is 4.0 and thus considered "modestly poor."

EXHIBIT 4-20

Office

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	4.33	10th
New Property Acquisitions	Fair	5.07	4th
Development	Poor	3.45	12th

Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 4-21

Central City Office

	Prospects	Rating	Ranking
Existing Property Performance	Fair	5.02	1st
New Property Acquisitions	Modestly Good	5.59	1st
Development	Modestly Poor	4.12	5th

Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 4-22

Suburban/Out-of-Town Office

	Prospects	Rating	Ranking
Existing Property Performance	Poor	3.42	14th
New Property Acquisitions	Modestly Poor	4.03	13th
Development	Poor	2.88	14th

Source: *Emerging Trends in Real Estate Europe 2010* survey.

Development

"There's not a lot of new stuff coming onto the market, though. Pre-leases are very valuable right now, and a requirement for financing." At the same time, "the development pipeline is drying up completely." Hence, "anticyclical project developments make sense, but you have to fund it entirely with equity. That is difficult." For developers, new office buildings hold a competitive edge in terms of space and energy efficiency over older stock. "This should trigger corporate users to exchange old buildings for newer buildings."

Development prospects for the sector deteriorated compared with last year. For central city offices, they are now rated "modestly poor"; out-of-town/suburban offices are considered to hold only "poor" prospects.

Best Bets

Cities that offer the best office acquisition opportunities, according to the survey, are London, Paris, Munich, Frankfurt, and Madrid, in that order. As investors are flocking towards large, liquid markets, it doesn't come as a surprise that the survey participants consider London and Paris the most-favoured markets. In London, values have adjusted. "The warning lights are still flashing, but new development activity has ground to a halt, so there still is supply for the next one or two years coming on stream in quite significant amounts. But beyond that, it starts to become more sensible." "Over six months, the market will tighten and there will be a big spike in rentals as a result of shortage of space."

Solid fundamentals are the driving force for bargain hunters in Paris. "Paris seems in a good position compared to other major cities in Europe." "Prime locations in Paris will hold values; however, [there are] greater opportunities and higher yields just outside of Paris where you have good transport links." "France has reduced the supply of new development/buildings very quickly, which is good. Volume will remain low."

Proceed with Caution

While interest in central and eastern Europe has generally waned, the Warsaw office market may be an exception to the rule. "Poland remains an attractive country for BPO [business process outsourcing] companies." "In case [of an] economic recovery next year, we can expect rent increases in [Warsaw's] CBD in 2011–2012 as there is no supply there." "Rents decreased significantly in 2009," but the decreases are expected to stop in 2010 as there are fewer projects in the pipeline and "demand from prospective tenants is expected to increase" in line with improvement in the overall economic situation.

Avoid

"Avoid business parks and fringe locations." "More vacancy and a decrease in the value of portfolios in B and C locations." "Office centres outside cities will be difficult." "The value of old properties will be under more and more pressure in 2010 since there will be no tenants for these buildings." Only the bravest and most adventurous players are pondering the question: "Is quality the only thing that matters or are you willing to buy secondary quality on the view that, on a five-year position, inflation is coming? Therefore, I gotta have some of this."

Mixed Use

With mixed use having been in the spotlight in recent years, particularly in the context of urban renewal schemes, this year's survey participants were much less inclined to comment on it. This may be attributed to the fact that mixed use mainly relates to new development and to a lesser extent to existing schemes. The sector may offer value as these comments suggest: "In terms of cities being renovated, being restructured from the inside, these mixed-use projects make a lot of sense." "In most cases, well-designed, mixed-use projects raise the quality of the area and are therefore valued by investors."

As noted earlier, liquidity is looking for core-type investments, with office and retail being most attractive. In general, mixed-use products are a "very difficult product for investors to understand." Selling a mixed-use scheme as a whole may thus be difficult; breaking it up into core components may prove more effective, as the following remark suggests: "I do believe that mixed-use projects make sense, but they probably make sense as a development project that gets split in ownership. I am not sure that the same person should own all of it at the same time." "Appetite for mixed use depends on the way the product is sold. If it's possible to decouple units and sell mono-functional blocks, there won't be a problem. Quality of the surroundings will be important."

Some respondents sound a note of caution. "Mixed use, mixed picture," so the verdict of one interviewee. "We think only a small part of the total investment on them will have success in the future. Nevertheless, to hope getting a good return on this kind of asset, we think the developers should choose locations near to retail parks or commercial centres." For others, "regeneration schemes will remain unviable."

In the relative ranking of the sectors, mixed use fell from third position last year to sixth place for existing properties and for new acquisitions to ninth place, with "fair" performance expectations for both.

Yields are expected to soften slightly. For 2010, the forecast for mixed-use yield is 8.16 percent, compared to 8.06 percent in 2009.

Given the deteriorating conditions in the occupier markets in general, getting new schemes off the ground in the near future may not be an easy endeavour. "For our developments, we need prelets of 60 percent; this allows us to service the debt." Despite taking up the position as runner-up for new developments (4.4 points), it holds only "modestly poor" prospects.

Some urban renewal schemes are currently underway. For example, in Germany the redevelopment of former railway sites in Frankfurt and Munich is taking shape. Development of sites in the neighbourhood surrounding the new Central Station in Berlin is scheduled to commence in 2010. While these schemes are office-led, in the Netherlands some construction on some retail-led developments has started.

EXHIBIT 4-23
Mixed Use

	Prospects	Rating	Ranking
Existing Property Performance	Fair	4.68	6th
New Property Acquisitions	Fair	4.83	9th
Development	Modestly Poor	4.37	2nd

Source: *Emerging Trends in Real Estate Europe 2010* survey.

Industrial/Distribution

"Logistics firms are the early-warning system," says one observer, "because the lease agreement, construction time, and adjustments of supply happen much faster than in the office sector," explains another. "This sector suffers most at present," but "core investments will work."

Two aspects are of key importance. First, "the location is a main factor and the property should be located in a strong industrial cluster." "The focus is more on the prime end of the range, e.g., major ports and airports are still attractive; more peripheral areas are likely to struggle." "Anything that is not in a port or on the edge of a big city centre or is slightly older is going to suffer a lot."

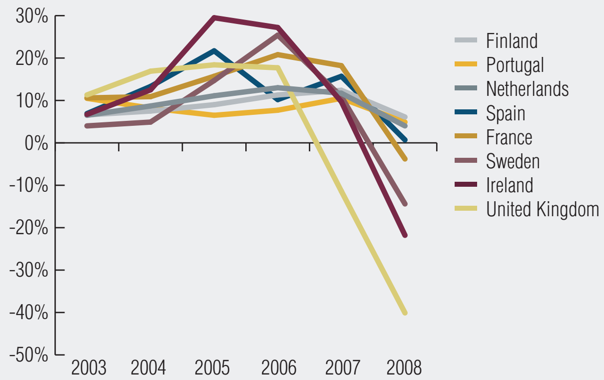
EXHIBIT 4-24
Industrial Prime Property Yields

City	2009 Q3 (Percentage)	2008 Q3 (Percentage)	Year-over-Year Change (Basis Points)
Moscow	14.00	11.00	300
Bucharest	10.50	8.50	200
Budapest	9.50	7.50	200
Dublin	9.00	6.25	275
Bratislava	8.75	7.50	125
Prague	8.75	7.50	125
Warsaw	8.75	6.75	200
Lisbon	8.25	7.25	100
Madrid	8.25	6.75	150
Paris	8.25	7.00	125
Stockholm	8.25	7.75	50
Athens	8.15	7.50	65
Glasgow	8.00	7.50	50
Milan	8.00	7.25	75
Rome	8.00	7.25	75
Amsterdam	7.90	7.10	80
Birmingham	7.75	7.50	25
Copenhagen	7.75	6.50	125
Edinburgh	7.75	7.00	75
Manchester	7.75	7.50	25
Oslo	7.75	7.00	75
Brussels	7.60	7.00	60
Vienna	7.60	6.50	110
Berlin	7.50	7.25	25
Dusseldorf	7.25	6.75	50
Frankfurt	7.25	6.75	50
Hamburg	7.25	6.75	50
Helsinki	7.25	6.60	65
Munich	7.25	6.75	50
Zurich	7.00	6.00	100

Source: CB Richard Ellis.

Second, buildings need occupiers. “Prerequisite for any transaction is a long-term lease agreement.” Logistics are “an interesting investment market and could continue to be interesting, provided yields and locations are right, have to be let or prelet.” If these criteria are met, “we see a lot of interest.” “Yields have changed: 18 months ago, people paid 6.25 to 7 percent; today, investors wouldn’t touch deals at 8.25 percent for the same product.” But investment activity is being helped by the fact that logistics properties are often smaller in size and it is easier to get them financed.

EXHIBIT 4-25
IPD Industrial Property Total Returns for Selected Countries



Source: Investment Property Databank (IPD).

All returns in euros.

The gap between office yields and logistics has widened. Some regard this as a temporary phenomenon: “Yield spreads between office and logistic will narrow again; I don’t think that a gap of more than 3 percent is justified.” Yields for warehouse distribution are expected to improve by 23 basis points to 8.4 percent by the end of 2010.

Development

Some observers expect “a big increase in vacancy in industrial/distribution.” As “occupier demand is muted,” new developments require a prelet. In some markets oversupply needs to be absorbed, so “you only build if you have got a tenant—developments on spec are rare.”

In terms of location, “there is a chance for new distribution centres in dependence of even stronger just-in-time production processes.” “There will be a few new logistic hubs—you need to own the operator rather than being chased by the few international operators.” This view is echoed by this comment: “The industrial sector will raise investments only from specialised operators. Nonspecialised operators will quit this sector.” “[The] prospects in 2010 and 2011 are very poor indeed; [the market] will come back, but at a much lower rent level.” It is difficult to make out the winners, rather “it is a moving feast and there are no particular consistencies across the European map. Every country’s logistics system is a little different. We always have one eye on the unexpected and we remain truly opportunistic.”

EXHIBIT 4-26
Industrial/Distribution

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	4.27	11th
New Property Acquisitions	Modestly Poor	4.44	12th
Development	Modestly Poor	3.61	11th

Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 4-27
Warehouse Distribution

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	4.38	8th
New Property Acquisitions	Fair	4.60	11th
Development	Modestly Poor	3.86	10th

Source: *Emerging Trends in Real Estate Europe 2010* survey.

EXHIBIT 4-28
Manufacturing

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	3.73	13th
New Property Acquisitions	Modestly Poor	3.93	14th
Development	Poor	3.15	13th

Source: *Emerging Trends in Real Estate Europe 2010* survey.

The category includes two subsectors: warehouse distribution and manufacturing. The former is held in higher esteem (4.4 points) than the latter (3.7 points), but both are considered "modestly poor" performers. New property acquisitions of warehouse distribution are expected to offer better value and are rated as holding "fair" prospects (4.6 points.)

Manufacturing

"This market is suffering." Due to the decline in manufacturing as a result of outsourcing processes, the subsector has long been seen as one of the least-attractive ones. New property acquisitions are viewed as "modestly poor" and the outlook for new developments is no more than "poor." Yields are expected to move up marginally to 9 percent in 2010.

Best Bets

Ranking the cities in terms of sector prospects shows Hamburg as the leading light for industrial distribution. While struggling as "the production sector stepped on the brake, with positive signs from China, India, and Asia, exports can become a driver for the German economy, [so the] sector will benefit."

Survey participants are also attributing positive perspectives to Lyon, Istanbul, Barcelona, Frankfurt, Warsaw, Helsinki, and Prague. In Spain, the favourable outlook is not so much driven by positive economic development, "but Spanish companies have started outsourcing distribution, so as they downsize and restructure, [it] creates demand."

Avoid

In Poland, "demand decreased significantly, tenants are offered huge incentives." The industrial market is experiencing "still-significant vacancy, so the owners will focus on renting the available space rather than building new [space]. The only activity expected is on the build-to-suit market; very limited other development."

"[The] industrial sector and logistics, especially [in Russia], are facing severe challenges due to the dramatically decreased volume of industrial exports." Therefore, any signs of improvement in the logistics market depend on an economic recovery, which is not expected to start before 2011. As in other markets, "there will be more built-to-suit rather than speculative investments."

"Logistics represents one of the worst real estate sectors" in Italy. Facing oversupply, "the market is suffering, because of the decline of manufacturing. Most of the production has been transferred abroad." "There is an oversupply of new logistic premises. It is a sector with tight margins."

Hotels

"The hotel market has been [affected] by the global recession and is bouncing along the bottom as transaction volumes remain very thin. In the first six months of 2009, the volume of transactions was similar to that of the same period in 2002, one of the worst periods." "Very, very quiet on the transaction front." "It has always been the slightly more adventurous investors who got into hotel ownership and whilst there has been a huge element of education

EXHIBIT 4-29
Hotel

	Prospects	Rating	Ranking
Existing Property Performance	Modestly Poor	4.18	12th
New Property Acquisitions	Fair	4.76	10th
Development	Modestly Poor	3.91	9th

Source: *Emerging Trends in Real Estate Europe 2010* survey.

over the last five years to widen interest in the sector, if we want some real stability we need to attract people like the pension funds and the longer-term investors." It may be a while off for these investors to arrive, particularly as hotel assets are now viewed as a risky asset class. "We think that this kind of asset is really becoming more risky. On one side, the new rent contracts are variable and based on the return of the hotel itself; and on the other, a strong knowledge on the hotel manager's quality is required." "Contracts are such that the hotel manager transfers the entrepreneurial risk to the investor." "Hotels are doing quite badly, so that there are several renegotiations of the contracts where the rents are calculated as a percentage of sales, with an increase in the risk for the owner." "We don't terribly like the risk, as a whole it is not our sector."

"Values have fallen 30 to 40 percent," and the hotel sector "is seen [as being] in big crisis," hence "our objective is getting out of the hotel sector." Trading conditions for hotel operators will remain difficult. "2010 will be a hard year." "[The] hotel industry is late in the real estate cycle. Therefore, recovery will not take place before 2011," and "negative forecast for 2010. Recovery as from 2011 expected."

This seems to suggest that the hotel sector offers an opportunistic play: "bottom of the cycle, interesting time to look at them and buy them." "There are opportunities. Returns are now sensible and there are distressed situations." For the time being, these seem to be more of a theoretical nature. "Partly due to the low interest rates, banks didn't have to pull the plug on many loans. Because of that, the bid/ask spread is very high—people aren't prepared to sell at discounts when they see what the purchase price was even two years ago."

In the ranking for the main sectors, hotels dropped from second place last year right down to the bottom spot. Rated 4.2 points, performance expectations are "modestly poor." New hotel acquisitions receive a higher rating of 4.8 points and prospects are considered "fair." Yields are expected to increase by 15 basis points, evidencing the poor outlook for the category.

Opinions on the relative performance of the different hotel categories span a wide range. For some, "the top end of the market—i.e., four- and five-star hotels—suffers a lot." "The best return [forecasts] for hotels are for the medium-level categories, while luxury and low-budget ones are generating profits." "Best values will be among three- to four-star portfolios." "Volume business will fare best. However, there will be interest in opportunities all through the spectrum." Others expect a polarisation. "The two-star segment will grow, four-star will do well, three-star will become extinct." "Middle market is getting killed." "Budget hotels are performing well, so they will also in 2010." Weaker chains will face a tough time, "due to a lack of access to booking systems."

Best Bets

Cities that offer the best hotel acquisition opportunities, according to the survey, are Paris, Istanbul, London, Barcelona, Madrid, Moscow, Munich, Berlin, Athens, and Rome. "London and Paris are the two markets that have the strongest interest from non-European investors. Whilst there is interest in other significant cities, these two are head and shoulders above the others in terms of interest." "Top-end hotels in London are doing fine. Super top end is holding up."

Proceed with Caution

Tourist hotels in Spain are expected to benefit from economic recovery in other parts of Europe. While occupancy rates showed a "decrease of 10 percent, the high dependence on U.K. and German [visitors means that] they will recover in line with their economies." Barcelona is facing "oversupply in the luxury sector. Tourism will be reduced in the next years, with direct impact in the sector. Cost-cutting policies in companies will have direct negative impact on the urban sector. Lower rates and lower occupancies. 2010 will not be better than 2009."

"The Moscow hotel market looks a bit shaky. Not really much happening. Hotels are clearly one of the most problematic areas anywhere in Russia, primarily in Moscow. A lot of activity was directed at the more glamorous stuff of which there was oversupply." At the same time, there is a shortage of hotels in the lower segments. "The recession is adjusting behaviour to do something far more sensible in terms of hotels, but again that is the most positive spin you could put on it."

This budget segment may also be an interesting investment proposition in Poland. "People are travelling in Poland and they want to stay in cheap roadside hotels. In the medium term, that is quite a sustainable model. In all of central Europe, any strategy that looks at trying to focus on growing spendable income at the lower level comparative to the West in our view is quite an interesting one."

Avoid

"Berlin [is] massively oversupplied in the last five years; the crazy thing is people still want to buy hotels." "Berlin is a difficult market—family-owned hotels will die." Some of the smaller capitals and secondary cities have been dropped from investors' radar screen. Cases in point are Lyon, Edinburgh, Copenhagen, and Dublin.

Interviewees

Aberdeen Immobilienkapitalanlagegesellschaft mbH
Thomas Beyerle

Aberdeen Property Investors
Alessandro Bronda
Bob Reidsma
Andrew Smith

Acciona Inmobiliaria
Isabel Antúnez

AFIAA Investment AG
Brauwers Hans

AFI Europe Romania
Reuven Havar

AG Capital
Georgi Pavlov

Aguirre Newman
Jaime Pascual-Sanchiz de la Serna

Allianz Real Estate
Olivier Piani

Altera Vastgoed NV
Cyril van den Hoogen

AMB Generali Immobilien GmbH
Bernhard Berg

Annexum
Huib Boissevain

Apellas Asset Management GmbH
Ulrich Weber

ASR Vastgoed Vermogensbeheer
Dick Gort

Assoimmobiliare
Gualtiero Tamburini

Atrium Ljungberg
Anders Nylander

Aviva Investors
John Buckley
John Gellatly

AXA Investment Managers Schweiz AG
Rainer Suter

AXA Real Estate Investment Management
Dennis Lopez
Kiran Patel
Hermann Montenegro
Pierre Vaquier

Banca IMI SpA
Pietro Mazzi
Roberto Ponte

Banco de Sabadell
Cirus Andreu Cabot

Barclays Capital
Chiara Altamura

Beacon Capital
Jean-Marc Besson

Beni Stabili Gestioni SGRpA
Valentino Benedetti

Beni Stabili SpA
Luca Lucaroni

Benson Elliot Capital Management
Philipp Braschel
Marc Mogull

The Blackstone Group
Peter Stoll

BNP
Evelyne Methia

BNP Paribas Real Estate
Michele Cibrario

BNP Paribas Real Estate Holding GmbH
Javier Gomez

Boultbee
Bo Falk

Bouwfonds REIM
Jean Klijnen

BPF Bouwinvest
Dick van Hal

British Land PLC
Charles Maudsley

Brookfield Europe
David Collins

CA Immobilien Anlagen AG
Mg. Wolfhard Fromwald

Calyon
Guillermo Bergareche

Capital Group
Valentina Stanovova

Capital & Marketing International Ltd.
Christophe G. de Taurines

Capital & Regional
Hugh Scott-Barratt

CapMan Real Estate
Jorma Lehtonen

The Carlyle Group
Robert Hodges
Wulf Meinel

Castellum AB
Hakan Hellstrom
Henrik Saxborn

Catalyst Capital
Fabrice de Clermont-Tonnerre
Peter Kasch

CBRE
Mike Strong

CBRE Investors
Chris Gilchrist-Fisher
Thibault de Valence

CB Richard Ellis Professional Services SpA
Francesco Abba

Central Properties
Sergey Egorov

CIT
Martin Roberts

Citi Property Investors
Roger Orf

Close Asset Management Ltd.
Peter Roscrow

CMS Cameron McKenna LLP
Steven Shone
Vladislaw Sourkov

Coalco Development
Will McFarren

Colonial
Juan Ceñal

Colony Capital
Serge Platonow

Commerz Real AG
Carl-Christian Siegel

Compagnie La Lucette
Thomas Guyot

Cordea Savills
Justin O'Connor
Piergiulio Dentice di Accadia
Cristiano Ronchi

Corio
Gerard Groener

Credit Suisse
Carla Giannini
Ian Marcus
Rainer Scherwey

Cushman & Wakefield
Harry Farthing
Brixius Kell
Mark Stiles
Jef Van Doorslaer
Eric van Leuven

De Alliantie
Arnold Pureveen

Deka Bank
Matthias Danne
Mark Titcomb

DELA Vastgoed
Pieter Loeffen

Deutsche Pfandbriefbank
Luis Chapa Martinez de Irujo
Harin Thaker

Development Solutions
Alexei Blanin

DKB Immobilien AG
Wolfgang Schnurr

DTZ
Patrice Genre
Jean-Pierre Lequeux
Nicolas Ollier

ECE Projektmanagement GmbH & Co. KG
Karsten Hinrichs
Alexander Otto

EHL Immobilien GmbH
Andrea Dissauer

Euroche GmbH
Charles Pridgeon

Eurocommercial Properties NV
Jeremy Lewis

Eurohypo AG
Patrick Lesur
Max Sinclair

Europa Capital Partners
Nic Fox
Charles Graham

Europolis Real Estate Asset Management GmbH
Thomas Erdmann
Helmut Neubauer

Eurosic
Jean-Eric Vimont

FastPartner
Daniel Gerlach
Sven-Olof Johansson

Ferrovial Inmobiliaria
Alvaro Echániz

FGH Bank
Frans Overdijk

First Atlantic Real Estate SGR SpA
Cristina Bianchi

Foncière des Régions
Philippe Le Trung

Foncière Paris France Sa
Didier Brethes
Jean-Paul Dumortier

Forum Partners
Andrew Walker

Gabetti Property Solutions Agency
Giorgio Lazzaro

GCI
Paul Raingold

GE Real Estate
Fabio Donato
Karol Pilniewicz
Lennart Sten
Rainer Thaler
François Trausch

Générale Continentale Investissements
Paul Raingold
Raphael Raingold
Sharon Raingold

Generali Deutschland Immobilien GmbH
Bernhard Berg
Barbara Deisenrieder

Generali Immobilier
Philippe Depoux

Generali Immobiliare Italia SGR SpA
Giovanni Maria Paviera

Giffels Management Russia
David Simons

Global Finance
Branimir Dilkovski

Goldman Sachs International
Edward Siskind

Goodman
Michael O'Sullivan
Daniel Peeters

Grainger Trust Plc
Andrew Pratt

Grosvenor
Mark Preston

Groupama Immobilier
François Netter

Grupa Wan
Miroslaw Bojanczyk
Lechoslaw Mitula

Gruppo Statuto
Marco Stoppelli

Hamburg Trust Grundvermögen und Anlage GmbH
Joachim Seeler

Heijmans Vastgoed
Max Schep

HEITMAN
Christopher Voutsina

Heitman European Private Equity
Vera Wagner

Henderson Global Investors
Guy Morrell
Patrick Sumner

Hermes Real Estate Investment Management Ltd.
Tatiana Bosteels

Highcross Strategic Advisers Ltd.
Peter Gubb

Hines
Manfredi Catella
Lee Timmins
Michael Topham

Hochtief Projektentwicklung GmbH
Lars N. Follmann

Humlegården
Thorsten Åsbjer

HVS Consulting & Valuation – London
Tim Smith

Hypo Real Invest AG
Herwig Teufelsdorfer

The IBUS Company
Pepijn Morshuis

Ilmarinen Mutual Pension Insurance Company
Esko Torsti

Immobilien Kapitalanlage AG
Kurt Rossmüller

Immoeast AG
Manfred Wiltschnigg

ING Real Estate Development
Menno Maas
Patrick Meutermans

ING Real Estate Finance
Hein Brand

ING Real Estate Investment Management
Kevin Aitchison
Hans Copier
Maurice Voskuilen

Internos Real Estate Investors
Jonathan Short

Is Gayrimenkul Yatirim Ortakligi A.S.
Turgay Tanes

IVG
Bernhard Veithen
Oliver Voß

JER Partners
Chester Barnes
Christopher Zeuner

Jones Lang LaSalle
Olivier Bastin
Mark Jagger
Tomasz Trzóslo

Jones Lang LaSalle Hotels
Mark Wynne Smith

JP Morgan Asset Management
Peter Reilly

Kaufman & Broad
Philippe Misteli

KBC Real Estate NV
Hubert De Peuter

Klepierre
Frederic de Klopstein

Kungsleden AB
Thomas Erséus

Land Securities Group PLC
Martin Greenslade

LaSalle Investment Management
Amy Aznar
Simon Marrison

Layetana
Santiago Mercade

Lazard & Co.
Anne T. Kavanagh
Giacomo Liberti

Leasinvest Real Estate
Jean-Louis Appelmans

Legal & General
Bill Hughes

LSI Project Investments NV
Ernst Kramer

Marbleton Advisers (Cyprus) Ltd.
Jonathan Hodnett

Mayland Real Estate Sp. z o.o.
Paumelle Fabrice

MEAG Munich Ergo AssetManagement GmbH
Stefan Krausch

Mesena Servicios Gestión Inmobiliaria S.A. (BANESTO)
Pedro Arechabaleta

MGPA
Alex Jeffrey

Mn Services
Herman Gelauff

Morgan Stanley
Struan Robertson
Donato Saponara

Multi Corporation
Eric van Duren

NCC Property Development AB
Joachim Hallengren

NIBC
Jan-Jaap Meindersma

Nieuwe Steen Investments
Johan Buijs

NS Poort
Jaap Reijnders

Orion Capital Partners
Aref Lahham

OVG
Coen van Oostrom

Oxford Properties
Paul Brundage
Randy Hoffman
Trevor McIntyre

Palatium Investment Management
Neil Lawson-May
Paul Rivlin

Park Hill Capital
Audrey Klein

Patron Capital
Pedro Barceló

PingProperties BV
Robert Kohsiek

Pinnacle Real Estate Innovation
Martin Carr

Pirelli & C. Real Estate SGR SpA
Rodolfo Misitano

Polish Properties
Chris Grzesik

Polis SGR
Paolo Berlanda
Gustavo Tani

Pradera
Colin Campbell

Pramerica
Phil Barrett

Property Partners
Vincent Bechet

Protego
Iain Reid

Prudential Property Investment Managers Ltd.
David Jackson
Paul McNamara
Rob Tidy

Prudential Real Estate Investors
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ULI–the Urban Land Institute
1025 Thomas Jefferson Street, NW
Suite 500 West
Washington, DC 20007
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