MARKETBEAT

EMEA PROPERTY INVESTMENT REPORT

A CUSHMAN & WAKEFIELD PUBLICATION

Q1 2011

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Market Summary

European commercial property investment activity hit €28.4bn in the first quarter of 2011, 25% up on the opening quarter of 2010.

Activity was down 30.7% on a quarter over quarter basis but this was no great surprise given that the closing 3 months of 2010 had been the strongest quarter since Q1 2008 as investors felt under real pressure to close deals before the year end.

Yield levels meanwhile stabilised in many markets, falling by just 4 basis points across the region in the opening quarter after a 13bp fall in Q4 2010.

Yields overall are now 63 bp down on their 2009 highs but the degree of compression has varied significantly by market and region, with Central & Eastern markets benefiting more than most Western areas and this continuing to date – with CEE yields falling 17bp in Q1 versus a 2 bp fall in the West.

In most areas however, this year has started well, with momentum carried over from 2010. With more supply also emerging, the fall in activity in the opening quarter compared to Q4 2010 is unlikely to mark the start of a trend. Indeed, rather than being a sign of a fall in demand or confidence, the slower start to 2011 may be more a reflection of the time it takes investors to get comfortable with anything other than a perfect deal and the protracted length of time involved in securing funding – with yet more hoops being added for the banks and their borrowers to jump through.

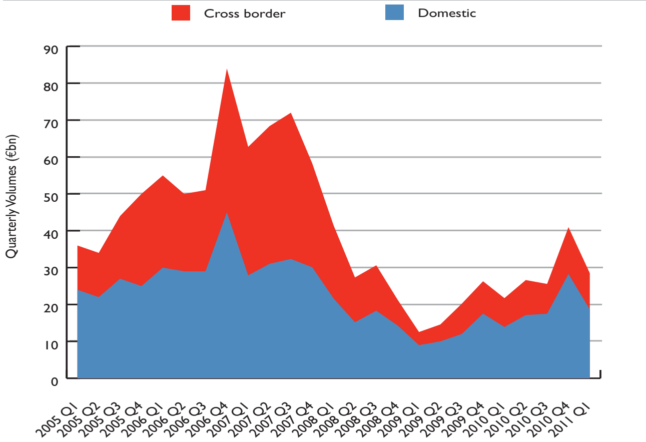
Indeed, for the market as a whole, equity rather than debt is still clearly the driving force and while there are areas of improved finance supply, these are still small compared to the volume of debt needed for new deals let alone re-financings.

Some markets are reporting an increase in the number of investors pushing deals through on an equity-only basis and then looking to finance the deal afterwards to make sure delays don't jeopardise their chances of securing the deal. An alternative route being pursued by some others is to try to defer part of the purchase price to help secure financing.

While the availability of affordable debt may still be an issue, the banks are making a positive impact on the market nevertheless with bank-controlled or bank-forced sales definitely leading to more stock coming available.

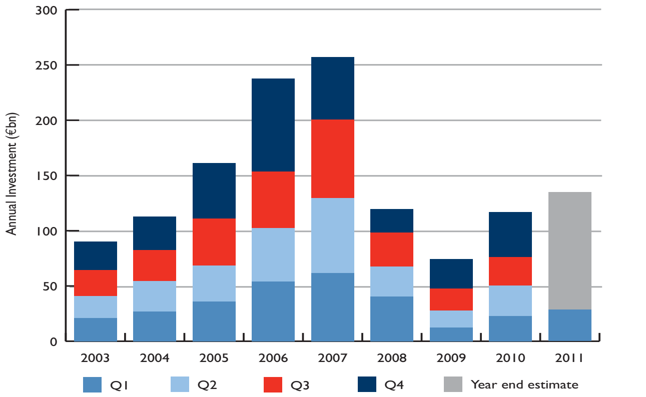
As a result, trading levels are likely to increase in the months ahead, with a lot of investors, buyers and sellers, keen to test the market before the summer rather than wait to see how conditions might look at the end of the year.

COMMERICAL PROPERTY INVESTMENT IN EMEA BY QUARTER



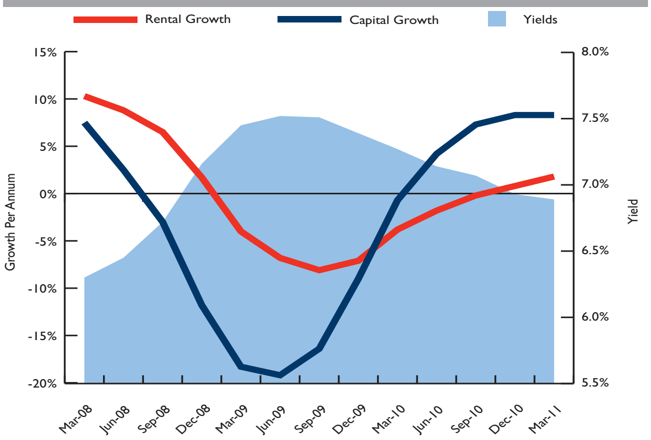
Source: Cushman & Wakefield, KTI, RCA and Property Data

THE INVESTMENT OUTLOOK



Source: Cushman & Wakefield, KTI, RCA and Property Data

PRIME PROPERTY PERFORMANCE IN EUROPE - ALL SECTORS



Source: Cushman & Wakefield

Our current expectations are in fact for a strong out-turn for trading over the year as a whole, with total investment to hit around €135bn but every possibility of that being beaten if the occupier market continues to firm up at the pace seen over the past 2 quarters.

Prime rental growth across all sectors in Europe stood at 1.8% in the year to March but growth in the first quarter was at an annualised rate of 3.1%, led by emerging eastern markets and by the office and industrial sectors more than retail. This was the fourth quarter of positive growth and the strongest 3 month period since Q2 2008.

Investment Trends

The big winner in the market at the moment has been the retail sector, which saw a 73% increase on the same quarter of 2010. The €12.2bn invested represented 42.9% of market activity versus just 28% in the final quarter of last year.

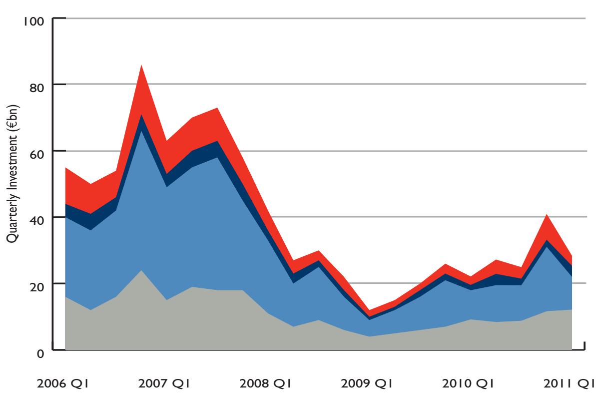
At the same time offices saw a 49% fall in activity over the last two quarters, taking a relatively low 35% market share, while industrial picked up to nearly 12% from just 8% last year as higher yields and a recovering manufacturing market brought more investors forward.

Foreign buyers across EMEA took nearly 35% of the market in Q1 meanwhile, up from 31% in the final quarter of last year, and they were an important source of added demand in a number of countries which bucked the downward trend in activity between Q4 and Q1, including Belgium, the Czech Republic and the Ukraine amongst others. Domestic buyers are growing more competitive in a number of other areas however, which bodes well for greater activity over the coming months.

Investors in general have remained focussed on core markets – with the UK, France and Germany actually seeing their share of activity increase from 61% in Q4 to 65% in the opening 3 months of this year. At the same time however, investors have not been too rocked by macro events in Japan, the Middle East or North Africa and have if anything looked further up the risk curve, albeit still in search of prime property.

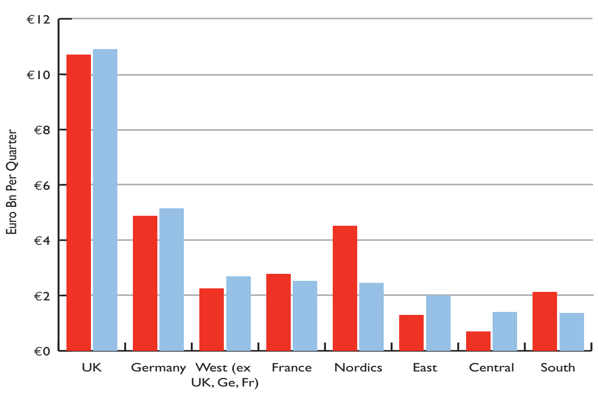
Buyers are still sensitive to the prices they are being asked to pay meanwhile and this is one reason they are looking at a wider range of markets. The Nordics are a strong target for many for example but pricing tightened quickly in late 2010 and the region had seen a weaker level of activity in recent months, notably in Denmark and Norway. In fact, the market share of second tier countries – the next 5 largest after the big 3, such as Sweden and Italy - shrank from 23.6% in Q4 to 15.3% in the opening quarter as investors started to include other markets in their search area.

PROPERTY INVESTMENT BY SECTOR



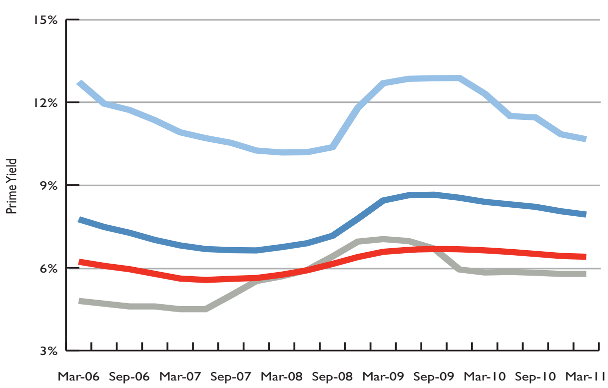
Source: Cushman & Wakefield, KTI, RCA and Property Data

TOP INVESTMENT TARGETS



Source: Cushman & Wakefield, KTI, RCA and Property Data

YIELD TRENDS BY REGION



Source: Cushman & Wakefield

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This search for new opportunities has not been limited to mature markets, with a range of countries being targeted. In the West this includes Belgium and Switzerland, in Central Europe, Hungary and the Czech Republic had a strong quarter, while more emerging markets such as Romania, Bulgaria, Croatia and the Ukraine were also a lot busier. In Russia and Turkey meanwhile, activity could not keep pace with the busy final quarter of 2010 but it was still one of the strongest quarters for 2-3 years in both countries and the outlook is for further increases in turnover.

The Middle East had a relatively good opening quarter, with non-domestic buying triggering a modest 15% increase in activity over Q4 2010. This of course is highly noteworthy given the uncertainty created by recent events but while reform may lead to medium term gains for investment in the region, in the short term a slowing in activity must be expected and indeed some investment will be deflected to other regions.

Market by market across EMEA meanwhile, investors are proving flexible in responding to supply and pricing. The UK and Germany have been buoyed by higher retail investment while France and Poland have seen increased office market activity and a number of markets, particularly to the east, have seen increased industrial demand. This reflects the fact that investors must look at local conditions before deciding on the right style and sector for investment rather than pick the sector regardless of location. However, while for the risk averse, prime retail will remain a sector to turn too, on average across Europe, given the importance of manufacturing and corporate investment in this stage of the recovery, better rental growth looks likely from the office sector and some categories of industrial property should also perform well over the coming year.

TABLE | MARKET VALUES

	Rental Growth (yr to March 11)				Yield Levels (Q1 2011)				
	Retail	Office	Industrial	Trend - All Sector	Shopping Centres	Shop Units	Office	Industrial	Trend - All Sector
Austria	0.6	2.1	0	↗	6.10	4.50	5.35	7.50	→
Bahrain	-16.7	-30.8	-10.8	↘	na	12.0	11.0	12.0	↗
Belgium	9.8	1.9	1.6	↗	5.50	5.00	6.20	7.75	→
Bulgaria	-27.8	-12.2	-11.1	↘	9.00	9.00	10.00	13.0	↘
Czech Republic	0	-1.6	0	→	6.25	6.25	6.50	8.25	↘
Denmark	-1.0	-1.8	0	→	6.00	4.50	5.00	7.00	→
Finland	24.5	-0.5	-10.0	↗	5.00	5.00	5.50	7.25	↘
France	1.0	1.9	4.7	↗	4.75	4.50	4.50	7.00	↘
Germany	1.4	1.3	0	↗	5.00	4.10	4.95	6.60	↘
Greece	-19.0	-6.2	-16.2	↘	7.50	7.35	8.10	10.0	↗
Hungary	-3.2	-0.4	-6.7	→	7.00	7.00	7.25	9.00	↘
Ireland	-13.0	-13.5	-23.9	↘	7.65	6.45	7.50	8.65	↗
Italy	0.9	1.6	-2.2	→	6.25	5.00	5.25	8.00	↘
Luxembourg	0	11.1	n/a	→	n/a	5.75	5.90	n/a	→
Netherlands	6.1	0	0	↗	6.50	4.70	6.05	7.70	→
Norway	8.0	5.5	-5.0	↗	6.00	5.75	5.75	6.75	↘
Poland	-1.9	-0.7	-2.0	→	6.50	8.50	6.40	8.00	↘
Portugal	0	0	6.7	→	6.75	6.50	7.00	8.50	↗
Romania	-10.8	-6.2	0	↘	9.00	9.25	9.00	9.50	→
Russia	5.1	22.8	15.0	↓	9.50	n/a	9.00	10.50	↓
Slovakia	-11.1	6.3	-6.8	↘	7.25	7.25	7.25	8.75	↘
Spain	-0.9	-5.8	-3.6	→	6.00	4.75	5.75	7.75	→
Sweden	6.9	12.3	9.7	↓	5.25	5.00	5.00	6.75	↘
Switzerland	0	0	0	→	5.50	4.50	4.50	6.75	→
Turkey	12.6	0.3	0	↗	8.25	7.50	8.00	9.15	↘
UAE	-15.2	-26.4	-20	↘	na	12.50	9.00	12.00	→
Ukraine	0	5.0	-8.5	→	14.00	17.00	16.00	17.00	→
UK	-0.6	8.7	0	↗	5.50	4.00	4.00	6.0	→

Note: Yields are headline levels for the prime market in each country and are quoted on their local market basis. Those shown in red are calculated net, to include transfer costs of tax and legal fees. Rental growth reflects value movements in a sample of locations across each country.
Source: Cushman & Wakefield

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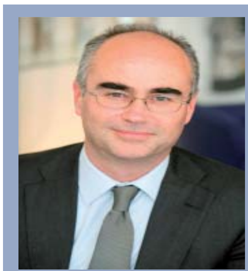

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THE RESEARCH GROUP

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