Jones Lang LaSalle
Real value in a changing world

Monthly *Commentary*

European Valuation Advisory – June 2011

Economic Update

- UK Swap Rates: 5 Year 2.37%, 10 Year 3.39% (21/06/11)
- Euro Swap Rates: 5 Year 2.75%, 10 Year 3.34% (21/06/11)
- **GDP increase** by 0.8% in both the Eurozone and EU27 during the first quarter of 2011, compared with the previous quarter. The growth differential in GDP between the leaders and laggards is widening. Annual growth was 7.0% in Sweden, and Germany approached 5.0%. Conversely, Spain continued to grow slowly at just 0.8%.
- Eurozone's 3 month latest **interest rate** is 1.43%, with 10 year government bonds currently at 3.02%.
- **Annual inflation** is expected to be 2.7% for May 2011 in Eurozone, down from 2.8% in April – the first decline for nine months. With inflation continuing to be above the target 2%, there is a growing expectation of a further ECB interest rate rise in July.
- The EU27 **external current account recorded a deficit of €32.8bn** in the first quarter of 2011, compared with a deficit of €27.7bn in the first quarter of 2010 and a deficit of €18.2bn in the fourth quarter of 2010.
- The Eurozone seasonally-adjusted **unemployment rate remains stable** at 9.9% in April 2011, unchanged compared with March. Spain has the highest unemployment rate at 20.7%.
- Eurozone's seasonally adjusted **industrial production grew** by 0.2% in April 2011, compared with March 2011. EU27 grew by 0.1% for the same respective time frame. In comparison to April 2010, Eurozone's figures for industrial production grew by 5.2%, whilst EU27 grew 4.7%.
- European retail sales contracted in May to the lowest level since October 2010. A gauge of euro-area retail sales fell to 48.8 from 52.2 in April. The index is based on a survey of more than 1,000 executives and a reading above 50 indicates month-on-month expansion.
- In particular, Italian retail sales declined at the fastest pace in 11 months in May, while monthly increases in Germany and France were the weakest in seven and three months respectively. Eurozone's retail trade declined 1% in March from a month earlier, the biggest drop since April 2010, on higher oil prices and government austerity measures, according to the European Union's statistics service in Luxembourg.
- **Greek sovereign debt yields rose** amid continuing worries over the country's debt crisis after it suffered a credit rating downgrade of three notches from B1 to Caa1 from Moody's. The Greek 10-year bond yield rose 10 bps to 16.25%. However, a steeper rise in yields was avoided because of rising hopes that Athens would be offered more rescue loans and expectations that the government was preparing to announce plans to speed up privatisation. Greece signed up to a €110bn bail-out last May and, as well as working to secure the latest portion of that, is discussing a second rescue deal that could total some €65bn to tide it over through 2013.
- The **Markit Final Eurozone Manufacturing** PM rose to a nine-month high of 57.3 in January, up from 57.1 in December and above the earlier flash estimate of 56.9. The PMI has remained above the 50.0 no-change mark, signalling growth for 16 consecutive months and indicated a revival in the rate of expansion at the end of last year and into 2011 following a slowdown last autumn. Growth continued to be led by Germany, followed closely by Austria and then the Netherlands.

Property Market

- In Q1 2011, there was $94 billion in direct commercial real estate investment worldwide, up 40% from a year ago, according to Jones Lang LaSalle's latest Global Capital Flows report. Cross-border direct commercial real estate investment volumes reached $37bn (€26bn) in Q1 2011, up 25% from a year ago, Inter-regional volumes (capital moving between the Americas, EMEA and Asia-Pacific) rose to $26bn, a 70% increase over Q1 2010. This emphasises real estate investor's appetite for acquiring foreign assets and far exceeds the 40% gain across the total market in the first quarter.
- Spain, the Republic of Ireland and the US have seen the largest reported increases in distressed property listings in the past three months, according to the latest RICS Global Distressed Property Monitor. RICS found that two third of the countries surveyed are expecting an increase in distressed property listings for the second quarter of 2011. The outlook remains negative in Spain, Ireland, Hungary and Italy as poor economic conditions continue to weigh on the real estate markets in these countries. Poland and Russia saw the largest drop in the levels of distressed property coming to the market during the first quarter of 2011.

Investment Performance

- European listed real estate, as represented in the GPR 250 Europe Index, finished 3.4% higher in May. This follows on from a total return of 3.6% in April. The best performing country indices were Switzerland 7.5%; Norway 6.9%; the UK 4.8%; France 4.6% and Finland 3.4%. The Swedish index recorded a return of 1.6%, followed by the Netherlands 1.5%; Italy (Beni Stabili) 1.1%; Israel (Gazit Globe) 0.8% and Belgium 0.7%. Negative returns were recorded for Germany -0.1%; Austria -1.8%; Poland (GTC) -4%; Turkey (Is REIT) -7.7%. The weakest performer by far was Spain -23.4%. (Source: Property EU)
- Modest growth continues with 0.1% month-on-month increase in May 2011 for the IPD UK Monthly Property Index. The Index shows that capital values are still increasing but at a modest rate compared with the end of 2009/start of 2010.

Office Headlines

- Jones Lang LaSalle has released a new report which identifies key trends influencing EMEA Corporate Occupier Market Conditions:
  1. **Positive outlook for GDP growth but high variance across the region.** Markets posted annual GDP growth of sub 5% over the next five years, but recent debt-bailout negotiations serve as a reminder of lingering sovereign debt risks.
  2. **Corporate occupiers adopting a more confident, forward looking stance** as The European Commission Confidence Indicator is continuing its upward progression.
  3. **Activity levels healthy with new requirements and expansionary demand in evidence**, with 2.6 million sq m let across Europe in Q1 2011. Take-up volumes in Moscow, Prague and Warsaw were particularly strong.
  4. **A more competitive market for office space is therefore forecast**, with demand driven by lease events and consolidation. Increased expansionary demand was notably in the Nordic, Germany and France in Q1.
  5. **Marginal outward movement in European vacancy rates as more surplus space is released.** The biggest increase in vacancy was recorded in Rotterdam (+1.7%), followed by Amsterdam and Budapest (both +0.5%).
  6. **'Flight to quality' becoming ever harder to realise.** Grade A vacancy supply over Q1 2011 is well below the long term average.

7. **Development pipeline offers little respite and will place more pressure on occupiers.** Over Q1, only approximately 900,000 sq m of new space was completed in Europe, roughly a third less than the five year average.
8. **Markets continue to move towards landlord favourable conditions**, with prime rents growing modestly quarter-on-quarter across EMEA. Debt problems in Spain (Barcelona -1.3%, Madrid -0.9%), Portugal (Lisbon stable) and Ireland (Dublin stable) continue to be a drag on office rents in these economies.

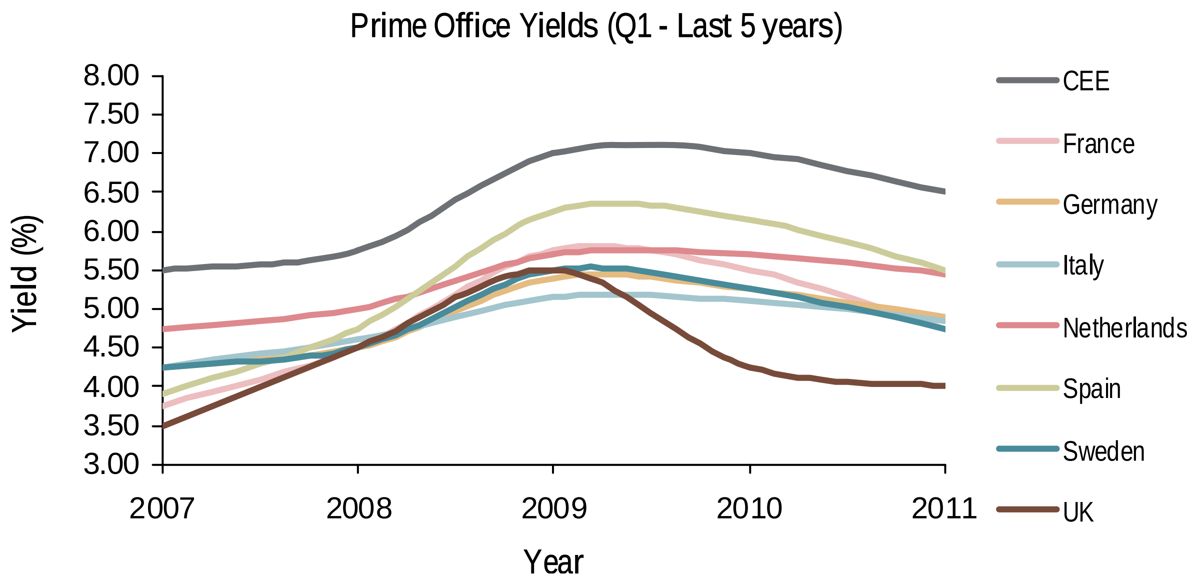
- The latest **EMEA Offices Interface is available online**, please click here.
- According to Jones Lang LaSalle Research, April saw £564 million of transactions, taking the 12 month running total to £6.94 billion - 19% above the 10 year average. Many property companies, institutions and opportunity funds are looking for product that provides refurbishment / redevelopment opportunities in 2013/14, to take advantage of the forecasted rental growth, and dwindling supply of quality office accommodation.

Recent significant transactions reported in the press include:

- **Deutsche Bank's Headquarters, London, UK** – Special servicer Hatfield Philips has announced that Mitsubishi Estate Company (MEC) paid £95m (€107m) for Deutsche Bank's City of London headquarters. The transaction was initially announced last week but the investment volume was not disclosed at the time. Located in the City of London, the 20-storey tower comprises 13,645 sq m of high-quality office space, which is let in its entirety to Deutsche Bank on two leases expiring in 2015. (Source: Property EU). Jones Lang LaSalle advised the vendor on the sale of 6-8 Bishopsgate in the City of London.
- **Antic Cami office development, Barcelona, Spain** – London-based pan-European private equity real estate firm Benson Elliot has bought a 20,000 sq m prime office development in Barcelona from Spanish Banco Sabadell in a joint venture with local partner Urban Input for €80m. The project is scheduled for a 2013 completion and is likely to be the only prime office space to come on line in the next two years. The three-building complex, Antic Cami, is located in 22@, the city's central modern business district, and will be the city's first LEED-certified office building. (Source: Property Investor Europe)
- **Alder Castle office building, London, UK** – Germany's Aberdeen Immobilien Kapitalanlagegesellschaft's frozen Degi International open-ended real estate fund has sold an office building in London to an unnamed institutional investor for £60m (€70m). The investment volume was in line with the asset's assessed market value. Completed in 1999, the Alder Castle scheme at Noble Street was acquired by Degi International in November 2003. It comprises 8,600 sq m of fully-let office accommodation. (Source: Property EU)
- **Office building in Leopold district, Brussels, Belgium** – Hamburg-based closed-end fund manager Hesse Newman has acquired an office building in the Leopold district of Brussels from an unnamed party for around €62m. The property is let to the EU Commission through 2020 and is earmarked for Hesse Newman's new Classic Value 3 fund, which will be marketed to investors in the second quarter of 2011. The property offers 12,800 sq m of total lettable area spread over nine floors, with two small retail spaces and a five-storey parking lot with 276 spaces. (Source: Property EU)
- **Office building in Foro Buonaparte, Milan, Italy** – Hines Sgr has announced the sale of an office building located at Foro Buonaparte 16 in Milan to an unnamed buyer for around €55m. The acquisition was made on behalf of Hines' Monte Paschi Hines Real Estate Crescita fund for a price 30% higher than the acquisition investment volume back in May 2009. Completed in the early 1900s, the historic property previously housed the Italian headquarters of Citigroup and currently offers around 10,000 sq m of office space across nine floors. It was acquired by the fund in May 2009. (Source: Property EU)
- **Office building in Via Viola, Rome, Italy** – AXA Real Estate Investment Managers has announced the sale of an office building on Rome's Via Viola on behalf of its frozen AXA Immoselect open-ended fund. The sales price is higher than the asset's market value of around €46m and significantly above the price paid by AXA to buy the

property back in 2003. The building offers around 18,000 sq m of office accommodation in the Italian capital city. (Source: Property EU)

- Mixed-use scheme, Vienna, Austria – German investor HIH Global Invest has made its first acquisition in Vienna with the purchase of a mixed-use scheme from Austrian listed property group Immofinanz for just over €29m. The deal is in line with HIH's strategy to diversify its portfolio through acquisitions abroad. The building provides around 13,000 sq m of office and retail space as well as 117 parking spaces in a two-storey underground garage in the 11th district of Vienna. (Source: Property EU)



Prime Office Yields				
Region	Q1 2011	Yield Shift (3 months)	Yield Shift (12 months)	Short Term Outlook
CEE	6.50%	-25 bps	-50 bps	⇔
France	4.75%	0 bps	-75 bps	⇔
Germany	4.90%	0 bps	-35 bps	⇘
Italy	4.85%	-10 bps	-25 bps	⇘
Netherlands	5.45%	0 bps	-25 bps	⇔
Spain	5.50%	0 bps	-65 bps	⇔
Sweden	4.75%	0 bps	-50 bps	⇔
UK	4.00%	0 bps	-25 bps	⇔

NB: CE covers Czech Republic, Hungary, Poland and Romania | Source: Jones Lang LaSalle

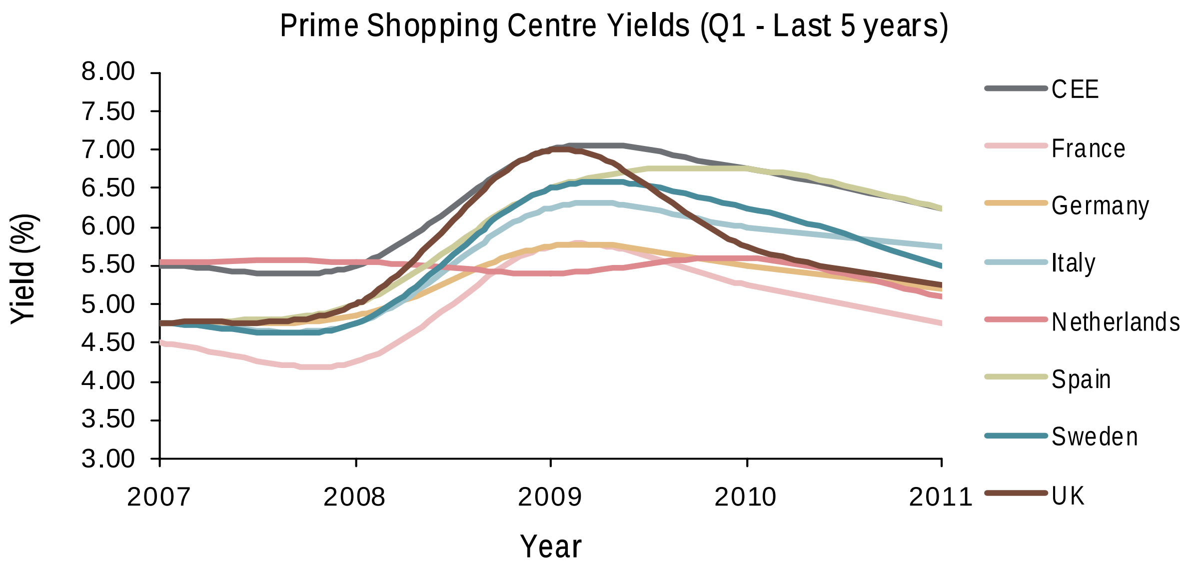
Retail Headlines

- Retail prime rents are continuing to grow worldwide. London's West End is still one of the world's most expensive retail destinations as retailers focus on the major fashion capitals, pushing global rents in prime locations even higher. EMEA experienced a marginal increase over the last quarter.
- In general, there is still downward pressure on rents in secondary markets. Overall rents in EMEA grew by just 0.5% as concern about the Southern European economies increased and high unemployment continued to affect consumer expenditure growth. In spite of the challenging trading conditions, occupier demand for prime pitches in key European cities is still strong and this includes markets that are facing some of the most challenging economic conditions such as Ireland and Spain. (Source: Shopping Centre)
- Poland's market size (38 million people, 60 cities population 50,000 people or more), the sound condition of their economy, coupled with the fact that Poland features by far the best Shopping Climate Index of all CEE3, are all positive fundamentals for new brand entry or existing brand expansion in the country. The Polish retail market is now well prepared for new entrants.
- In addition to the existing shopping centre supply of 7.2 million sq m in Poland, approximately 0.5 million sq m is set to come to the market during 2011 and 2012, which puts Poland as one of the European frontrunners in this respect. Rents have dropped slightly following the economic slowdown of H2 2008 to 2010, which indicates a perfect timing to secure high quality shopping centre space at reasonable rates.
- Walmart is setting up a London team to launch into Europe. The $193bn US retail giant, will bring a team close to Heathrow airport to look at opportunities for European mergers or takeovers. Walmart, which also owns UK supermarket chain Asda, first entered mainland Europe in 1997 when it bought German hypermarket chain, Wertkauf, but the move was not as profitable as hoped and it pulled out by selling the chain in 2006. (Source: The Independent)
- Developer Wing has begun construction of the first 'green' shopping centre in Hungary. Located in Budapest's XII district, Hegyvidék Centre will be topped with an active green roof of approximately 1,000 sq m. Rainwater will be recycled for the irrigation of plants and for use in hand-wash basins and toilet cisterns. Much of the building's hot water will be provided using solar collectors. A bicycle storage facility will serve to promote environmentally friendly transport. The centre is built using environmentally friendly technological systems with the aim of achieving a 'very good' rating under the BREEAM environmental accreditation scheme. (Source: Property EU)

Recent significant transactions reported in the press include:

- Three Karstadt Department Stores, Germany – German property company Quantum Immobilien KAG has bought three Karstadt department stores from the Highstreet Consortium's portfolio for around €250m. The properties are located in Hamburg and Münster and will be added to Quantum's new Prime Retail Germany fund. They offer over 142,000 sq m gross floor area and close to 900 parking spaces. The Highstreet consortium comprises Goldman Sachs' Whitehall Funds (51%), Deutsche Bank's RREEF funds (24%), Milan-based Prelios, (12%), Generali (11%) and the Borletti Group. (Source: Property EU)
- Galeria Mokotow Shopping Centre, Poland – Unibail-Rodamco has signed a preliminary agreement to acquire the remaining 50% in Galeria Mokotow, Warsaw. The acquisition from listed CEE real estate developer Globe Trade Centre (GTC) values the shopping centre at about €475m. The sale will generate €110m in cash for GTC, helping strengthen the company's financial position and facilitate future developments. Completed in 2000, Galeria Mokotow is a prime retail and entertainment centre located in Warsaw comprising 62,300 sq m of gross lettable area including a multiplex cinema. Unibail-Rodamco will continue to manage the centre, which is fully let and generated €24.8m in rental income last year. (Source: Property EU)

- Mailbox Shopping Centre, UK – Brockton Capital and Milligan have bought the Mailbox in Birmingham city centre for £127.1m. In one of the largest investment deals this year in the UK, the 640,980 sq ft Mailbox complex in Birmingham city centre has been bought from its developers Alan Chatham and Mark Billingham. Occupying 4.8 acres of Birmingham's city centre, the mixed-use development counts the BBC, Network Rail, Harvey Nichols, Emporio Armani and Thomas Pink among its tenants. The estate also includes 144 apartments and two hotels, all let on long ground leases. (Source: Shopping Centre). Brockton was advised on the acquisition by Jones Lang LaSalle.
- Two Shopping Centres, Czech Republic – Austria's Ca Immo and Germany's Union Investment have sold two shopping centres in the Czech Republic for a total of around €96m, in the largest retail property deal in the country since 2008. The buyer is an unnamed Czech investor. The Olympia shopping mall in Teplice and the Mladá Boleslav scheme in the Central Bohemian region are fully let and offer 32,000 sq m and 22,000 sq m of space respectively. Anchor tenant in both centres is the international supermarket chain, Ahold. (Source: Property EU)
- Baronen Shopping Centre, Sweden – ING Real Estate Investment Management (ING REIM) has announced the acquisition of Baronen, a prime shopping centre property in central Kalmar in Sweden from the estate of Gustaf De Geer. The investment volume of just under €45m reflects an initial yield of slightly below 7%. The property will be added to the ING Real Estate Nordic Property Fund (NPF), a semi-open ended balanced core plus fund investing in Sweden, Finland and Denmark. (Source: Property EU)



Prime Shopping Centre Yields				
Region	Q1 2011	Yield Shift (3 months)	Yield Shift (12 months)	Short Term Outlook
CEE	6.25	-25 bps	-50 bps	⬂
France	4.75	0 bps	-50 bps	⬄
Germany	5.20	-5 bps	-30 bps	⬂
Italy	5.75	-25 bps	-25 bps	⬄
Netherlands	5.10	-10 bps	-50 bps	⬄
Spain	6.25	-25 bps	-50 bps	⬄
Sweden	5.50	0 bps	-75 bps	⬄
UK	5.25	-25 bps	-50 bps	⬄

NB: CEE covers Czech Republic, Hungary, Poland and Romania and represents the lowest yield achievable in the region | Source: Jones Lang LaSalle

Logistics Headlines

- According to Jones Lang LaSalle, take-up of warehouse and logistics space (above 5,000 sq m) in Germany rose by 63% to 1.2m sq m in the first quarter compared to Q1 2010. This was the best result in recent years and both enquiry volumes and the improved economic climate suggest that the trend will be maintained. Q1 2011 take-up was characterised by large deals, including lettings to Amazon at Rheinberg and Graben of 110,000 sq m each, accounting for 15% of the total.
- US listed firms ProLogis and AMB Corporation have announced the completion of their merger, forming a giant industrial property specialist with about $46bn (€34bn) of assets under management. The combined portfolio encompasses 56 million sq m of modern distribution facilities located in key gateway markets and logistics corridors in 22 countries. The new group, named ProLogis, will be co-led by Hamid Moghadam, AMB's former CEO, and Walter Rakowich, ProLogis' former CEO, through to end-December 2012. At that point Rakowich will retire and Moghadam will become sole CEO. (Source: Property EU)
- Global logistics developer-operator Gazeley has announced plans to develop a new logistics park on a 25 hectare site in Brescia, northern Italy. Phase I of the Magna Park Manerbio is expected to accommodate up to three build-to-suit facilities totalling 80,000 sq m. Also in Italy, Gazeley said it has signed a new 15-year lease with Walcor, a privately owned Italian chocolate producer, for a new 25,600 sq m warehouse and distribution centre in the Cremona area (100 km east of Milan). Construction on site started in March and is due to be completed in December 2011. (Source: Property EU)
- Warehouse and industrial property developer Giffels Management Russia announced a management buyout of the company in a transaction valued at $99.3m, the largest warehouse transaction in Russia this year and the first involving international parties since the economic crisis. Moscow-based Giffles Management Russia operates Class-A logistics and industrial space, with 76,550 sq m completed and some 440,000 sq m under development at its flagship South Gate Park project in the Moscow Region. Source: Property Investor Europe)
- German logistics and industrial reality specialist Alpha Industrial is to develop Logistikpark München Ost at Pliening, to the east of Munich. The project will feature 32,000 sq m of logistics space on a total property size of 44,000 sq m. Alpha Industrial will invest €26.5m in the purchase and development of the plot. (Source: Property EU)

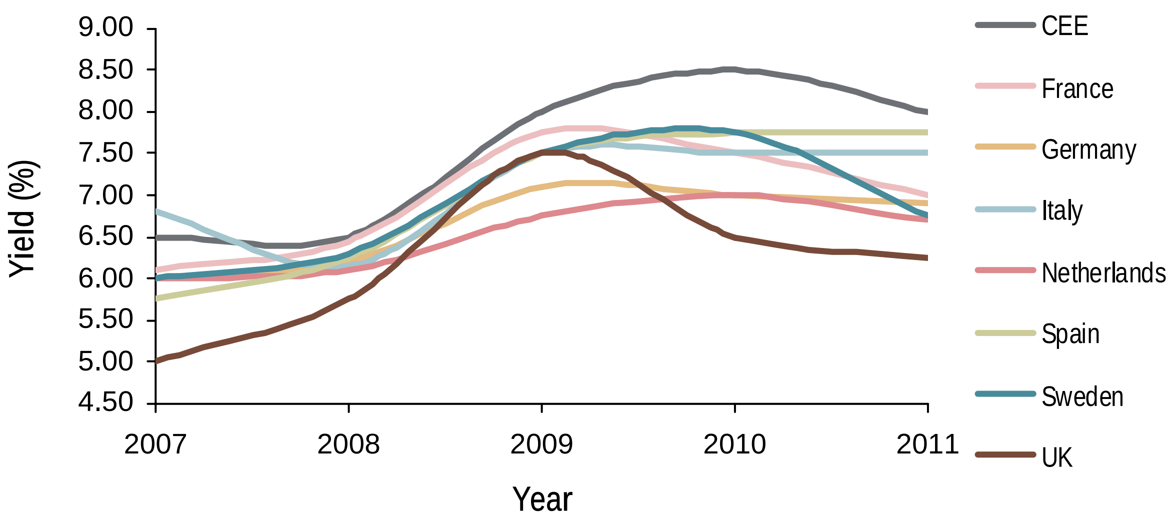
Significant transactions and properties on the market reported in the press include:

- France – French REIT/SIIC Gecina has sold a portfolio of 21 logistics assets for €113.7m to Carval Investors - part of Minneapolis-headquartered conglomerate Cargill - and Constructa Asset Management for a net exit yield of 6.2%. The portfolio includes 19 properties in France and has a total floor space of 395,000 sq m. The sale amounts to 26% of Gecina's logistics portfolio. The deal was struck in February and the exclusion of the assets from the first quarter results reduced the vacancy rate on logistics to about 23% at the end of March from nearly 33% at end-2010. (Source: Property Investor Europe)
- Sweden – Specialist electrical retailer and services company Dixons Retail has exchanged contracts with a syndicate of investors advised by Ness Risan & Partners for the sale and leaseback of the company holding its Nordic distribution centre in Jönköping, Sweden. The transaction price, to be paid on completion, is expected to be SEK 600m (€67m) in cash and compares to a book value of the asset at end of May 2011 of SEK 214.5m. The property is a modern distribution centre in the Torsvik industrial area and offers a lettable area of almost 100,000 sq m. (Source: Property EU)
- Austria – A subsidiary of Immofinanz has sold its 30% stake in the Austrian self-storage business arm, SelfStorage-Dein Lager Lagervermietungs GmbH, to local operator MyPlace SelfStorage Holding for around €34m. The closing is scheduled for end July 2011. The purchase price is also substantially higher than the carrying amount and the acquisition cost. Immofinanz bought the interest back in 2005. SelfStorage-Dein Lager

focused on the development of a portfolio of self-storage facilities in Vienna and other Austrian cities. (Source: Property EU)

- Germany – InfraRed Capital Partners has acquired two logistics facilities in Germany from Redevco Services Deutschland for an undisclosed amount. The properties are earmarked for the company's InfraRed European Active Real Estate Fund. The properties, offering a total area of 28,000 sq m, are located in the Unterschleissheim district of Munich and in Hamburg's Allermöhe industrial area. (Source: Property EU)

Prime Logistics Warehouse Yields (Q1 - Last 5 years)



Prime Logistics Warehouse Yields				
Region	Q1 2011	Yield Shift (3 months)	Yield Shift (12 months)	Short Term Outlook
CEE	8.00	-25 bps	-50 bps	⬂
France	7.00	0 bps	-50 bps	⇔
Germany	6.90	0 bps	-10 bps	⬂
Italy	7.50	0 bps	0 bps	⬂
Netherlands	6.70	0 bps	-30 bps	⇔
Spain	7.75	0 bps	0 bps	⇔
Sweden	6.75	0 bps	-100 bps	⇔
UK	6.25	0 bps	-25 bps	⬂

NB: CEE covers Czech Republic, Hungary, Poland and Romania | Source: Jones Lang LaSalle

Real value in a changing world

Sources:

Bloomberg - www.bloomberg.com
Eurobrief - www.icsc.org
Europe RE - www.europe-re.com
EuroStat - www.epp.eurostat.ec.europa.eu
Financial Times - www.ft.com
Markit Economics - www.markiteconomics.com
Property Investor Europe - www.pie-mag.com
Property EU - www.propertyeu.info
Shopping Centre - www.shopping-centre.co.uk
The Economist - www.economist.com
The Independent - www.independent.co.uk

Glossary:

- Eurozone – includes Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.
- EU27 - Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Republic of Ireland, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.
- The Eurozone Manufacturing PMI® (Purchasing Managers' Index®) is produced by Markit and is based on original survey data collected from a representative panel of around 3,000 manufacturing firms. National data is included for Germany, France, Italy, Spain, the Netherlands, Austria, the Republic of Ireland and Greece. These countries together account for an estimated 90% of Eurozone manufacturing activity.
- The GPR Europe Index focuses on 56 listed property companies throughout Europe.

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