

THE EURO-ZONE COMMERCIAL PROPERTY ANALYST

Q3 2011



Europe's fiscal crisis will dent the occupier market recovery



- As Europe's fiscal crisis rumbles on, economic growth in the euro-zone will slow then grind to a halt in 2013.
- Occupier demand will be subdued, triggering a fresh slowdown in rental growth and further falls in peripheral markets.
- Stable interest rates will allow bond yields to remain low • But yield compression will now be the exception not the rule.



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For details of the economic forecasts that underpin the commercial property forecasts in this document please refer to our publication, "Economic Drivers of European Commercial Property", Q3 2011.

For details of our forecasts for non-euro-zone commercial property markets, referred to in this publication, please see "The Non-euro European Commercial Property Analyst", Q3 2011.

Forecasts for UK commercial property markets are consistent with the forecasts presented in our dedicated UK Commercial Property Service. That service also contains far more detailed forecasts than we present in our European Commercial Property Service.

The Euro-zone Commercial Property Overview

- July's rescue package for Greece has cut sharply the risks of a near-term catastrophe, but it is unlikely to be a permanent resolution to the euro-zone fiscal crisis. Our macroeconomic forecasts envisage that as the crisis rumbles on and questions about the future of the single currency intensify euro-zone GDP growth will grind to a halt in 2013.
- Despite that, on both a two-year and a five-year view, our latest forecasts for commercial property total returns are not very different from our previous *Analyst*. Our current forecasts are summarised in Charts 1 to 8.
- Typically we have lowered our 2012 and 2013 forecasts in line with our cautious views on the wider economy. But in many cases returns in the second quarter were stronger than we had expected. Our forecasts for 2015, included for the first time, also tend to boost the five-year average. But, in our new forecasts the gap between the markets with the best and worst returns has widened in all sub-sectors.

Investment market outlook

- Investors appear to have become a little more cautious in the most recent quarter. Although overall investment volumes held up well, there was a sharp drop in flows going to the most indebted economies. Signs that the fiscal crisis is spreading also typically had a detrimental impact on yields in those weaker peripheral markets. But even in the core markets, yield compression was relatively rare.
- If we are right that the economic slowdown now becoming evident will prove deeper and longer lasting than most people expect, those trends are likely to become ingrained.
- That said, we would not rule out some further marginal falls in property yields in the markets

with the strongest economic fundamentals. Our view that bund yields will move lower will mean that property income returns continue to look attractive and that demand for prime or near-prime assets in these markets will remain strong. But the recognition that at some point interest rates must normalise should prevent yields from falling sharply.

Occupier market outlook

- Our macroeconomic forecasts envisage that GDP growth will remain at or fall below trend in all euro-zone member states in 2012 and 2013. Germany, Finland, Austria and the Netherlands should be among the strongest performers and we think the outlook for occupier demand, while soft, is nevertheless brightest in these markets.
- However, with no end to the recessions in Greece and Portugal in sight and even Spain and Italy at risk of contracting output in 2013, rental values in many peripheral economies are unlikely to have found a floor.

Winners and losers

- Our forecasts imply little scope for a strong recovery in capital values. Thus markets with a strong income return will tend to outperform in the medium term. That tends to favour industrial markets over office and retail and suggests that once capital values stop falling, peripheral markets such as Ireland, Greece and Portugal will do well. But over the next two to three years, those markets will be the weakest.
- Among the larger core markets, the Netherlands fares well on our forecasts. Germany also delivers solid if unspectacular returns as her modest correction in yields and rental values offers less scope for a recovery despite its solid macro fundamentals.

The Commercial Property Outlook – Summary Charts

Chart 1: Forecast All-Property Total Returns (2011-12 Average, %y/y)



Chart 2: Forecast All-Property Total Returns (2011-15 Average, %y/y)

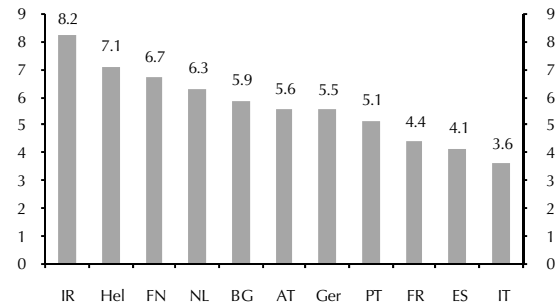


Chart 3: Forecast Retail Property Total Returns (2011-12 Average, %y/y)



Chart 4: Forecast Retail Property Total Returns (2011-15 Average, %y/y)

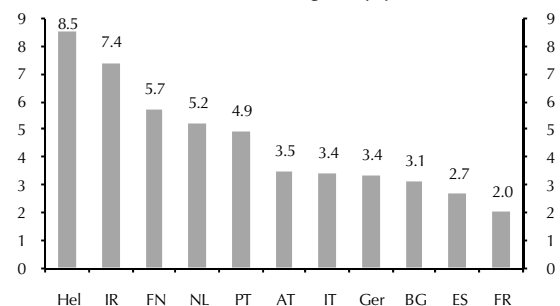


Chart 5: Forecast Office Property Total Returns (2011-12 Average, %y/y)

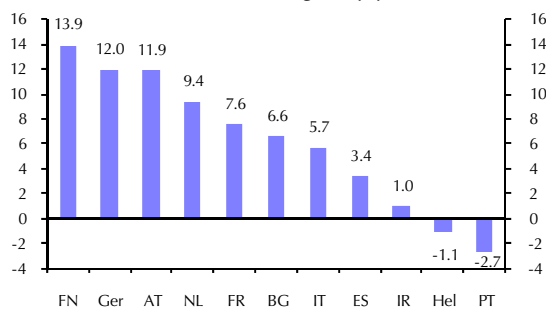


Chart 6: Forecast Office Property Total Returns (2011-15 Average, %y/y)

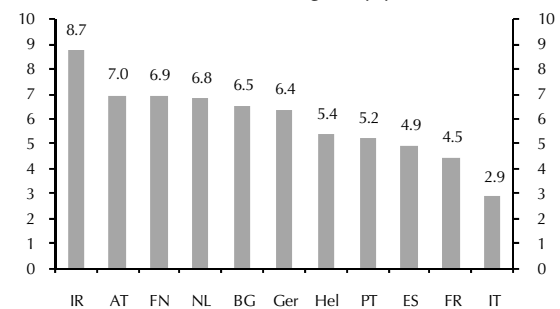


Chart 7: Forecast Industrial Property Total Returns (2011-12 Average, %y/y)

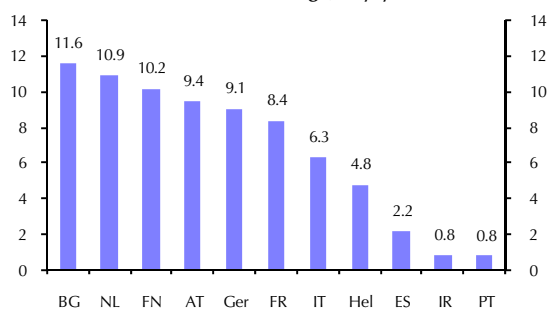
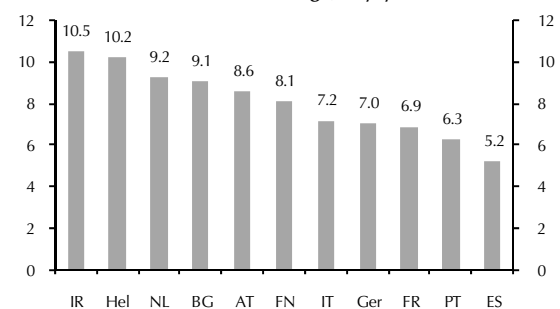


Chart 8: Forecast Industrial Property Total Returns (2011-15 Average, %y/y)



Source – Capital Economics

The Euro-zone Investment Market Outlook

- Agency sources offer conflicting views on the strength of investment demand across Europe in the second quarter. DTZ reported a small rise while both JLL and CBRE reported a fall. Regardless, the big picture is that, while well above their early 2009 lows, investment volumes are still relatively soft. (See Chart 1.)
- The balance of evidence suggests that domestic rather than cross-border investment remained dominant. That would be consistent with the idea that the sovereign debt crisis has made investors more cautious. So too does the flow of investment among the euro-zone member states. As ever, in cash terms France and Germany dominated the data. (See Chart 2.) But while the value of transactions in both markets held up well, in Italy and Iberia transactions fell by 37% and 47% respectively.
- Property yields will remain under conflicting pressures for the foreseeable future. Growing survey evidence that the economic recovery is losing steam highlights the poor outlook for occupier demand, as does the lingering risk of a euro-zone break-up. And surveys suggest that, if anything, lending standards to firms are still tightening. (See Chart 3.) That will do nothing to reduce the risks of tenant failure.
- But what about our forecast that 10-year bund yields will drop to 2.5% or lower? (See Chart 4.) With property yields unchanged, those bond forecasts imply that the property/bond yield spread will surpass its credit crunch high in many markets. In the absence of a fresh recession or a major financial market shock, that seems unrealistic. Accordingly, while the knowledge that interest rates can only rise from here should act as a restraint, we would not rule out small further yield falls in the most attractively priced markets or those where the occupier fundamentals are best.

Chart 1: Pan-European Investment Transactions (Euro Billions)

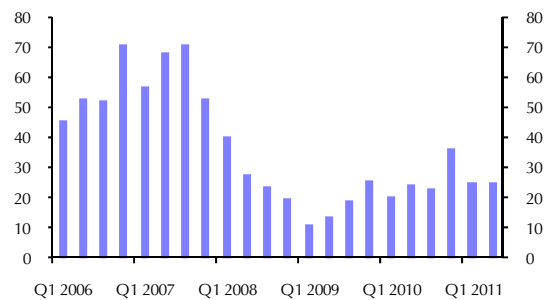


Chart 2: Commercial Property Investment Transactions in Selected Economies (Euro Millions)

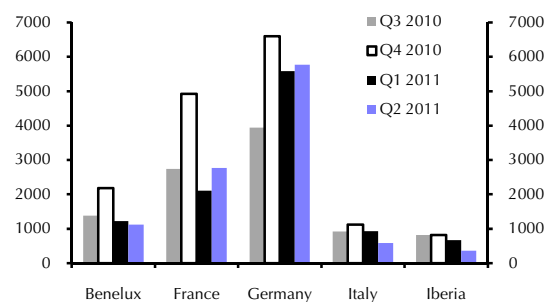


Chart 3: European Lenders Reporting a Tightening in Credit Standards to Enterprises

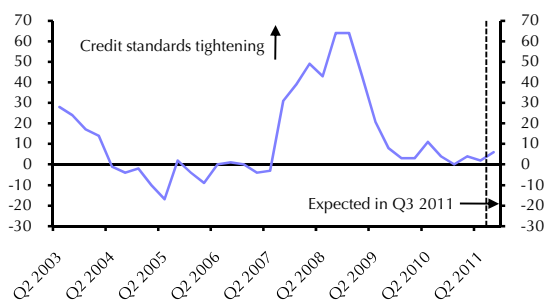
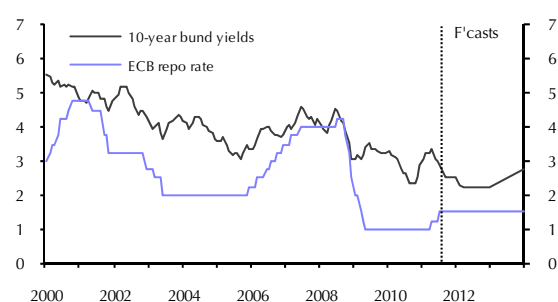


Chart 4: Euro-zone Official Interest Rates and 10-Year German Bund Yields (%)



Sources – Various Agents, Thomson Datastream, ECB, Capital Economics

Euro-zone Commercial Property: Comparative Yields by Sector

Retail property					Office Property					Industrial property				
	Latest yield	Change on qtr	Spread over			Latest yield	Change on qtr	Spread over			Latest yield	Change on qtr	Spread over	
			10-year bunds	Dividend yield				10-year bunds	Dividend yield				10-year bunds	Dividend yield
	Q2 %	bps	bps	bps		Q2 %	bps	bps	bps		Q2 %	bps	bps	bps
Austria (Vienna)	4.48	0	150	125	Austria (Vienna)	5.30	0	232	207	Austria (Vienna)	7.66	0	469	443
Belgium	4.66	0	168	143	Belgium	6.56	0	358	333	Belgium	7.08	-32	411	385
Brussels	4.56	0	159	133	Brussels	6.15	0	318	292	Brussels	6.85	-46	388	362
Antwerp	4.88	0	190	165	Antwerp	7.50	0	452	427	Antwerp	7.63	0	465	440
Finland (Helsinki)	5.31	0	233	208	Finland (Helsinki)	5.35	0	237	212	Finland (Helsinki)	7.39	0	441	416
France	4.58	0	160	135	France	4.86	-6	188	163	France	7.05	0	408	382
Paris	4.46	0	148	123	Paris	4.60	-5	162	137	Paris	7.05	0	408	382
Lyon	5.14	0	216	191	Lyon	6.06	-12	308	283	Lyon	7.07	0	409	384
Germany	4.67	-4	170	144	Germany	4.96	-6	198	173	Germany	6.79	-14	381	356
Frankfurt	4.57	0	159	134	Frankfurt	4.96	-5	198	173	Frankfurt	6.53	-16	355	330
Munich	4.49	0	152	126	Munich	4.86	0	188	163	Munich	6.60	-11	362	337
Berlin	4.87	-4	189	164	Berlin	5.01	-12	204	178	Berlin	7.06	-13	408	383
Hamburg	4.45	-9	148	122	Hamburg	4.93	0	195	170	Hamburg	6.48	-16	351	325
Greece (Athens)	7.23	0	425	400	Greece (Athens)	7.42	0	445	419	Greece (Athens)	9.25	0	627	602
Ireland (Dublin)	6.44	25	346	321	Ireland (Dublin)	7.59	25	461	436	Ireland (Dublin)	9.29	49	631	606
Italy	4.82	-15	170	159	Italy	5.47	-6	198	224	Italy	7.69	0	381	446
Rome	4.78	-22	181	155	Rome	5.58	0	261	235	Rome	7.73	0	475	450
Milan	4.89	0	192	166	Milan	5.26	-18	228	203	Milan	7.62	0	465	439
Netherlands	4.72	0	174	149	Netherlands	5.91	6	293	268	Netherlands	7.27	-16	429	404
Amsterdam	4.62	0	164	139	Amsterdam	5.98	11	301	275	Amsterdam	7.23	-29	426	400
Rotterdam	4.85	0	188	162	Rotterdam	5.82	0	284	259	Rotterdam	7.32	0	434	409
Portugal (Lisbon)	6.97	0	399	374	Portugal (Lisbon)	7.50	50	453	427	Portugal (Lisbon)	8.21	0	523	498
Spain	5.09	0	212	186	Spain	5.79	0	282	256	Spain	8.01	17	504	478
Madrid	5.07	0	209	184	Madrid	5.73	0	275	250	Madrid	7.88	0	490	465
Barcelona	5.38	23	240	215	Barcelona	5.91	0	294	268	Barcelona	8.28	49	530	505

Sources: Thomson Datastream and Various Agents

The Euro-zone Investment Market Outlook – by Sector

- There was little movement in euro-zone property yields in the second quarter. (See Table on Page 5) Yet on a longer perspective, at the all-property level the declines in yields in Paris, Helsinki and Lyon have been three or four times those reported in Munich, Brussels or Vienna. (See Chart 1.)
- But that does not mean that property in Vienna necessarily offers more value than Helsinki. After all, how far property yields have fallen will partly reflect how far they rose during the correction. And property/bond yield spreads, a simple measure of valuation, are higher in Helsinki than in Vienna. (See Chart 2.)
- However, it may be better to compare current property/bond yield spreads in each market with their normal levels. After all, we would expect spreads to differ according to investors' perceptions of each market's liquidity risk and transparency, as well rental value forecasts.
- In the **retail** sector, Paris and Vienna stand out as the most expensive markets on this basis, but Brussels and Helsinki are not far behind. In each case, yields spreads are below or within 25bps of their average level. (See Chart 3.)
- The uncertain economic outlook would seem to suggest that there is little scope for yields to drop further. Yet, on the other hand, retail property performed relatively well during the recession. And, if we are right that bond yields will fall by a further 50bps to 75bps, between 15bps and 30bps of that fall may be reflected in retail property yields in markets such as Germany, the Netherlands and Finland where the consumer spending outlook is relatively good. (See Chart 4.)
- But the weak outlook for Spain suggests that, at best, yields are likely to remain static over the next year or two. Meanwhile, there seems scope for yields to rise further in Lisbon and Athens. With NAMA stepping up the pace of property sales and retrospective cuts to rents on existing leases not yet ruled out, our forecast of a modest further rise in Dublin yields may be too sanguine.
- In the **office** markets, Paris, Lyon, Rotterdam and Helsinki stand out as looking relatively expensive. The German markets and Vienna look attractively priced by comparison. (See Chart 5.) In Spain and Portugal, office yields look more realistically priced than retail but the opposite is true in Athens.
- In the absence of widespread fresh falls in rental values, falling bond yields should help to drag prime office yields lower in the most competitively priced markets. We expect the German markets, Vienna and Amsterdam to lead. But we have pencilled in flat yields in Paris, Milan, Madrid and Dublin and some small rises in Athens and Lisbon. (See Chart 6.)
- Alongside Brussels and Lyon, German **industrial** property/bond yield spreads are closest to normal levels. (See Chart 7.) That suggests that there is little value left in these markets, especially given the emerging signs of an economic slowdown.
- There may still be scope for industrial yields to edge lower in the Netherlands, Antwerp, Helsinki, Paris and Vienna. But we doubt German yields or those in Brussels will drop further. Italy's lack of competitiveness points to stable yields at best. Of the remaining peripheral economies, current yield spreads suggest Lisbon is most at risk of further rises in yields. (See Chart 8.)

Commercial Property Yields by Sector

Chart 1: Change in All-Property Yields from their Peak, Q2 2011, (Basis Points)

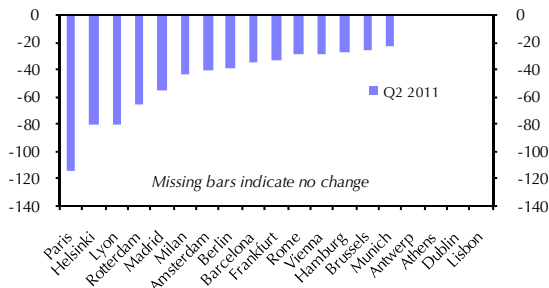


Chart 2: Spread between All-Property and 10-Year Bond Yields, Q2 2011 (Basis Points)

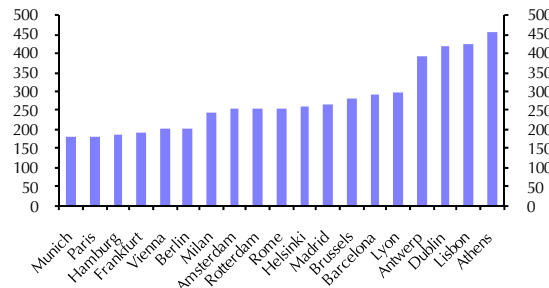


Chart 3: Spread between Retail and 10-Year Bund Yields (Difference from Long-Run Average, Basis Points)

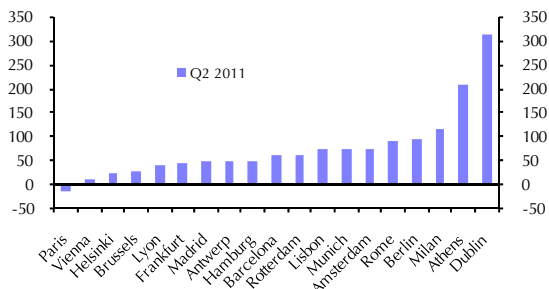


Chart 4: Forecast change in Retail Yields Q2 2011 v Q4 2012 (Basis Points)

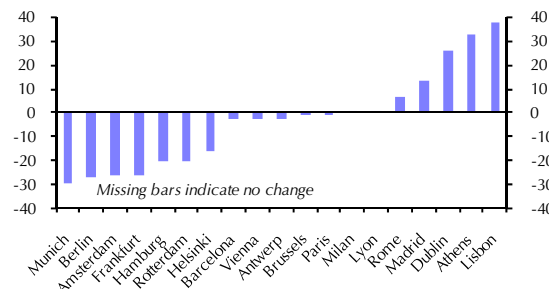


Chart 5: Spread between Office and 10-Year Bund Yields (Difference from Long-Run Average, Basis Points)

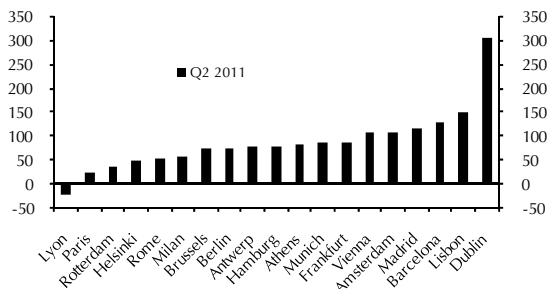


Chart 6: Forecast change in Office Yields Q2 2011 v Q4 2012 (Basis Points)

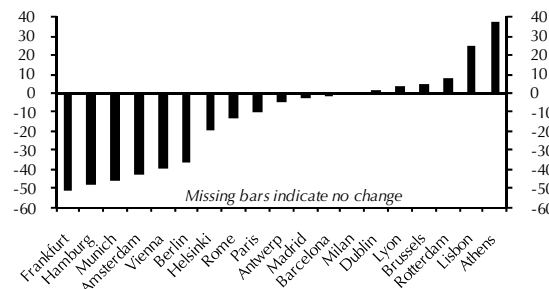


Chart 7: Spread between Industrial and 10-Year Bund Yields (Difference from Long-Run Average, Basis Points)

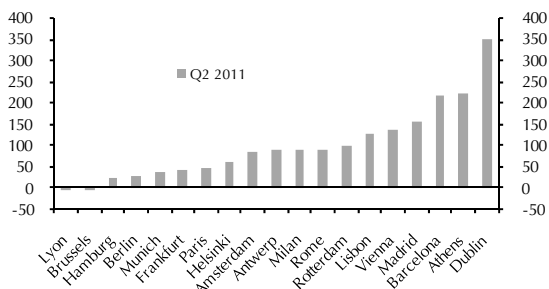
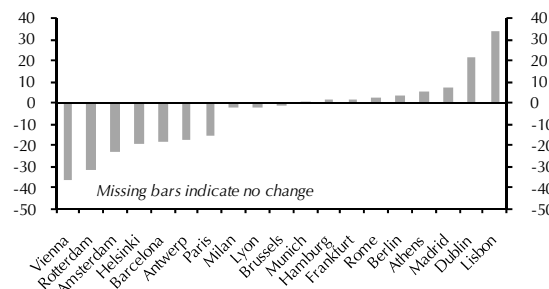


Chart 8: Forecast change in Industrial Yields Q2 2011 v Q4 2012 (Basis Points)



Sources – Thomson Datastream, Various Agents and Capital Economics

Retail Occupier Markets

- The short-term prospects for retail rental value growth across euro-zone member states are mixed. We continue to think that growth will be weakest in Greece and Ireland and strongest in Finland, Austria and Germany.
- There have been no new shopping centre supply data since our previous *Analyst*. However, taking 2010 as whole, at between 2% and 3% of existing stock, shopping centre completion volumes were low in most euro-zone retail markets, especially in France and Portugal. Meanwhile, in Ireland no new shopping centre floorspace was delivered. At 4% of stock or more, completions in Belgium, Greece and Austria were above average. (See Chart 1.)
- At the end of 2010, shopping centre development pipelines were typically 300,000sqm or less. But, as might be expected given the size of these economies, there was substantially more space under construction in Spain, France and Italy. (See Chart 2.)
- Even measured relative to existing stock, however, shopping centre pipelines in Spain and Italy look comparatively large. On this measure, only Portugal and Greece have more space under construction. At 3% of stock or less, pipelines are smallest in the Netherlands, Belgium, Germany and Finland. (See Chart 3.)
- As well as having relatively small pipelines, Germany and Belgium also have relatively low current provisions of shopping centre space. By contrast, even though the pipeline in the Netherlands is quite small, it has a very high provision of shopping centre space, as do Austria and Ireland. (See Chart 4.)
- But the outlook for retail occupier demand is weaker in Ireland, Greece and Portugal than anywhere else. In each economy, we expect consumer spending to contract by between 1% and 4% per year for at least the next three years. That points to further falls in retail rental values both this year and next. (See Chart 5.)
- We also think it is unlikely that retail rental values in Italy or Spain will increase over the next few years as occupier demand remains very fragile. Weak consumer confidence in Italy suggests that consumer spending growth will slow over the coming months. In Spain, meanwhile, falling real incomes and house prices suggest that last year's consumer revival will go into reverse. Prospects are a little better in France but a sharp slowdown in spending growth in the second half of this year will keep rents stable for the foreseeable future. (See Chart 6.)
- We are more optimistic about the rest of the euro-zone. Although a fragile banking sector in Austria suggests that the outlook for domestic demand is not particularly bright, there have already been signs of retail rental growth. The same is true in the Netherlands, but as rents there are now higher than their pre-recession highs, we suspect that the recovery will rapidly lose momentum as the pace of economic growth slows. Meanwhile, healthy public finances and a strong banking sector in Finland and high consumer confidence and a strong labour market in Germany suggest that their retail markets will outperform. (See Chart 7.)
- While the near-term outlook for retail rental value growth is mixed, we think the medium-term prospects are a little more uniform. In most markets, we expect rents to increase by an average of between 2% and 3% per year from 2013 onwards. (See Chart 8.)

Retail occupier market charts

Chart 1: 2010 Shopping Centre Completions (% of Existing Stock)

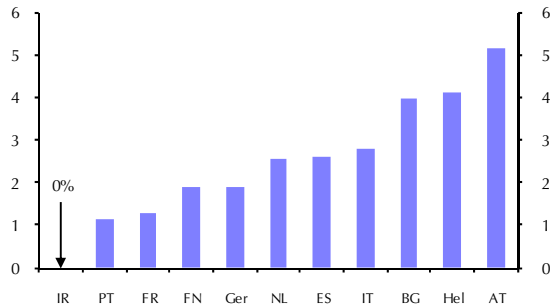


Chart 2: Shopping Centre Development Pipelines (000s Sqm)

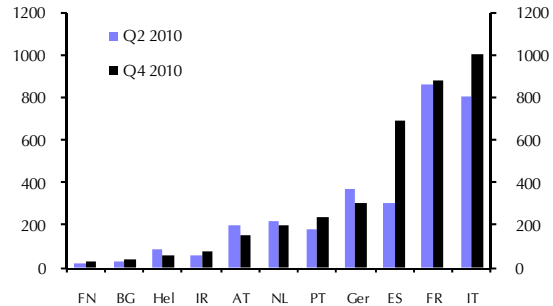


Chart 3: Shopping Centre Development Pipelines (% of Existing Stock)

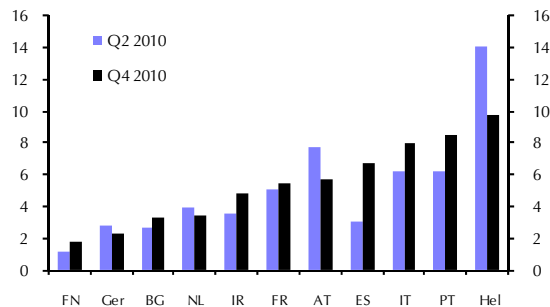


Chart 4: Existing Shopping Centre Stock Plus Pipeline (Sqm per 1,000 Population)

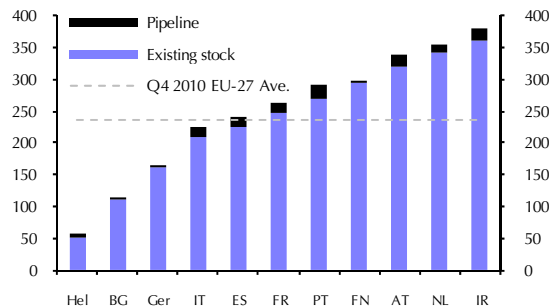


Chart 5: Rental Value Growth Forecasts (Greece, Ireland & Portugal, %/y)

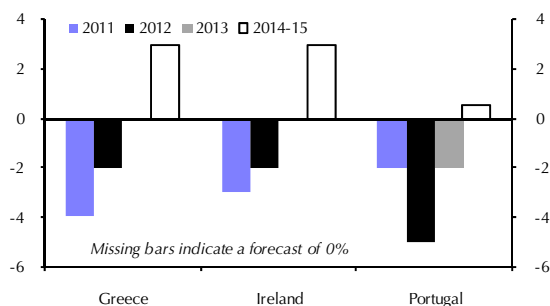


Chart 6: Rental Value Growth Forecasts (France, Italy & Spain, %/y)

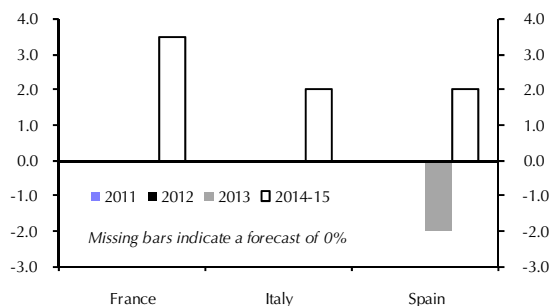


Chart 7: Rental Value Growth Forecasts (Austria, Belgium, Germany, the Netherlands & Finland, %/y)

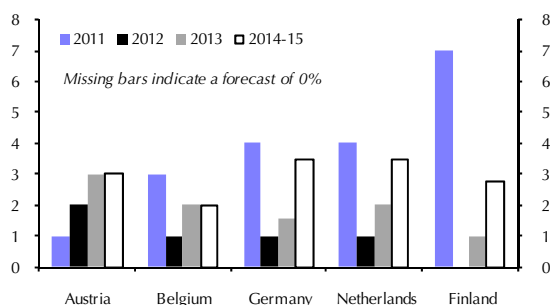
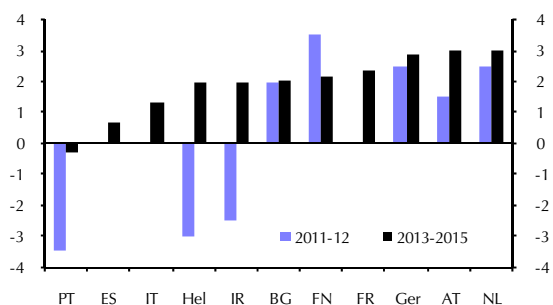


Chart 8: Rental Value Growth Forecasts (2011-12 & 2013-15 Averages, %/y)



Sources – Cushman & Wakefield and Capital Economics

Office Occupier Markets

- We do not expect employment growth to be particularly strong anywhere in the euro-zone over the next few years. Hence, despite office development pipelines looking small, soft occupier demand suggests that office rental growth will remain subdued.
- The recovery in office occupier demand remains patchy and potentially fragile. Compared to the first half of 2010, the picture of take-up across the euro-zone is mixed. Office markets in the Netherlands, Spain and particularly Belgium, Portugal and Greece, have seen a sharp slump in occupier activity. But the opposite is true in France, Germany and Ireland. (See Chart 1.) Dublin's steep rise in take-up is flattered by base effects.
- Consistent with the improvement in occupier demand, office vacancy rates in Germany and France fell relatively sharply in the second quarter. But, in many markets, vacancy rates are still rising. (See Chart 2.)
- At a little over 5%, office vacancy rates are lowest in Austria and France, but they are also relatively low in most German cities and in Milan. In many of the remaining cities, however, vacancy rates are at least 10% and are far higher in Spain, the Netherlands, Frankfurt and Dublin. (See Chart 3.)
- More positively, the office development pipeline for Western Europe is historically low. For the next couple of years, annual development completions across the region as a whole are forecast to be the lowest since 1998, a trend that is uniform across the euro-zone. Only in Vienna and Milan do the office pipelines amount to more than 3% of existing stock. (See Chart 4.)
- Even so, given that office occupier demand is still soft, tight supply is unlikely to exert much upward pressure on rental values. We expect employment to fall sharply this year in Ireland, Spain, Portugal and Greece. And further substantial job losses are likely in Greece and Portugal in 2012 and 2013. This suggests that demand for office space will weaken further in all four markets and that office rental values have yet to find their floors. (See Chart 5.)
- Having recovered last year, occupier demand in Brussels has slumped recently. Given the softening outlook for employment, office rents will stagnate at best in Brussels both this year and next. Sentiment towards Italy is likely to remain soured as the fiscal crisis drags on. And as employment slows and GDP growth grinds to a halt, office rents in Italy are likely to edge lower. Office rents in France have already risen a little this year, but if we are right that employment growth will come to a standstill by next year, rental growth is unlikely to be sustained. (See Chart 6.)
- Nor is employment growth likely to accelerate in the Netherlands. Together with a very high vacancy rate, this will cause rental value growth to slow next year. Indeed, we only expect office rental values to rise meaningfully next year in Finland. Beyond then, Germany's strong labour market will support above-average rental growth. (See Chart 7.)
- However, we do expect *all* euro-zone office markets to see some degree of rental value growth over the medium term. Given their more solid macroeconomic fundamentals, Germany and France may lead the way. By contrast, Greece and Portugal are likely to lag behind. (See Chart 8.)

Office Occupier Market Charts

Chart 1: Change in Office Take-Up (H1 2011, %/y)

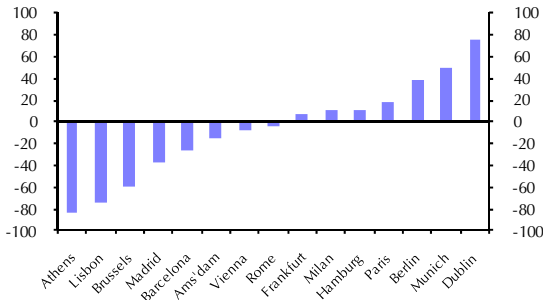


Chart 2: Change in Office Vacancy Rates (Q2 2011, Bps q/q)

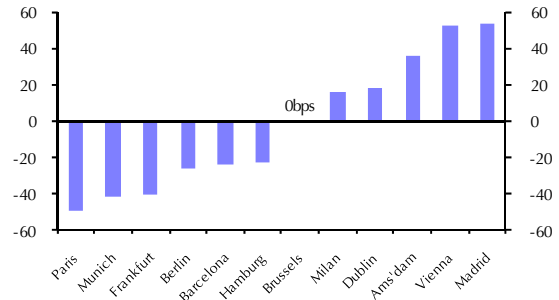


Chart 3: Office Vacancy Rates (Q2 2011, %)

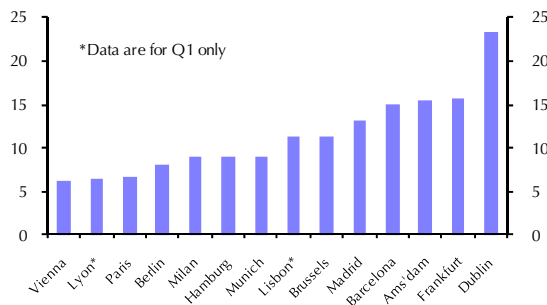


Chart 4: Office Development Pipelines to End-2012 (% of Existing Stock)

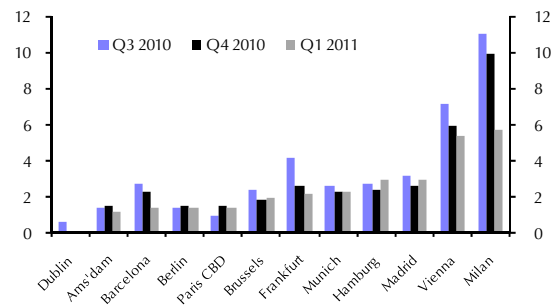


Chart 5: Rental Value Growth Forecasts (Ireland, Greece, Portugal & Spain, %/y)

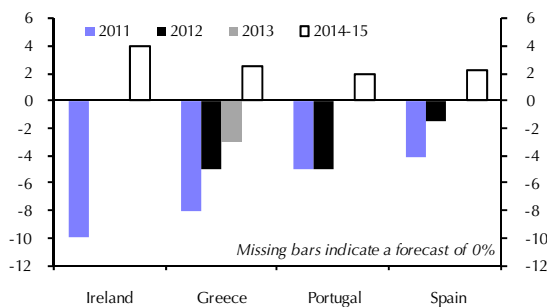


Chart 6: Rental Value Growth Forecasts (Italy, Belgium & France, %/y)

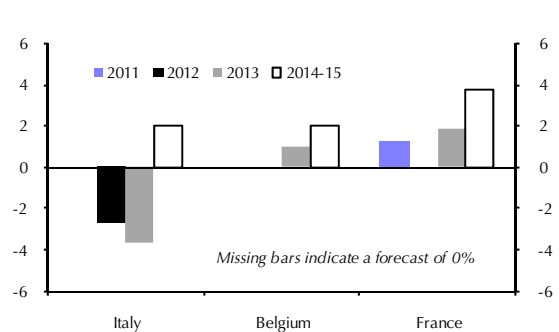


Chart 7: Rental Value Growth Forecasts (Germany, the Netherlands, Austria & Finland, %/y)

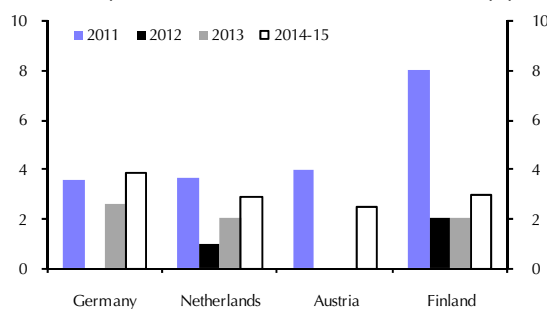
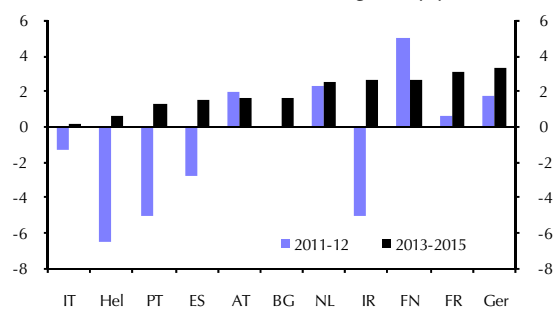


Chart 8: Rental Value Growth Forecasts (2011-12 & 2013-15 Averages, %/y)



Sources – Various Agents and Capital Economics

Industrial Occupier Markets

- Our fears of a sharp slowdown in euro-zone manufacturing output are starting to be borne out. Therefore, our view remains that most euro-zone industrial markets will fail to see any rental growth until 2012 or 2013.
- There was a mixed start to the year in euro-zone industrial occupier markets. On an annual comparison, take-up in Belgium in the first quarter rose by more than 250%, a figure admittedly flattered by the very weak take-up in 2010. Even so, first quarter activity in Belgium was higher than for some time. Italy and Germany also saw a marked rise in take-up, but activity declined in France, Spain and the Netherlands. (See Chart 1.)
- Indeed, take-up in France, Spain and the Netherlands was well below average. However, surprisingly perhaps, take-up in Germany and Italy, as well as in Belgium, was higher than average. (See Chart 2.) It should be noted, though, that demand is driven by occupiers capitalising on lower rents to upgrade space and optimise networks. Given that industrial recoveries across the region are rapidly running out of steam, we do not expect a surge in expansionary demand in the near future.
- Relative to the size of each economy, there is a wide divergence in the volume of industrial space under construction among the major euro-zone industrial markets. Per €1,000 of 2010 GDP, there is currently 400sqm or more of industrial space under construction in the Netherlands and Germany. In Belgium that figure is more than 650sqm. But pipelines are more subdued in Italy and France, while in Spain currently nothing is being built. (See Chart 3.)
- However, given that supply pipelines are mostly owner-occupied or pre-let, they are not a huge concern. Italy, where a large proportion of the pipeline is being built speculatively, is the major exception. In addition, compared to annual average completions, pipelines do not look large anywhere. (See Chart 4.)
- In common with office and retail markets, we think that the outlook for industrial rental value growth is weakest in Ireland, Spain, Greece and Portugal. Given the extremely large falls in industrial rents already seen in Ireland, we think that rents are likely to stabilise next year. The same factor will not support industrial rents in Spain, Portugal or Greece. But in Spain, the empty development pipeline will help to limit the extent of further falls in rental values. (See Chart 5.)
- Industrial rental values in Austria fell slightly at the start of the year. We do not expect that to be reversed either this year or next. Although German manufacturing has rebounded impressively over the past couple of years, the recovery is petering out. That said, German industry has less spare capacity than most, so we would not rule out some modest rental growth next year and beyond. Meanwhile, Italy's speculative development pipeline suggests that new supply may prevent rents from rising until 2014. (See Chart 6.)
- The outlook for rents in France is similar. Weak occupier demand will outweigh the potentially positive impact of low supply. We think that industrial rental prospects are brighter in Finland and Belgium. But in Belgium, the large volume of industrial space under construction may cause rental growth to slow next year. (See Chart 7.)
- Over the medium term, we do not expect industrial rental values to increase rapidly anywhere. Most markets will see annual growth of about 2% or less. (See Chart 8.)

Industrial Occupier Market Charts

Chart 1: Industrial Take-Up (Q1 2011, %y/y)

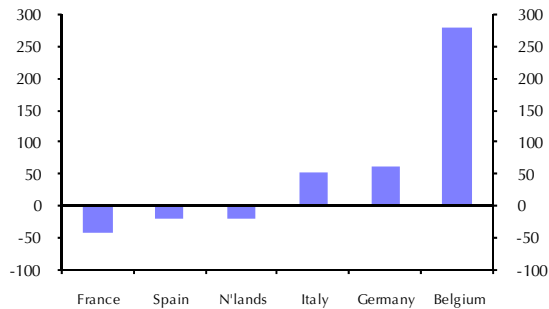


Chart 2: Industrial Take-Up (Q1 2011 vs. 5-year Average)

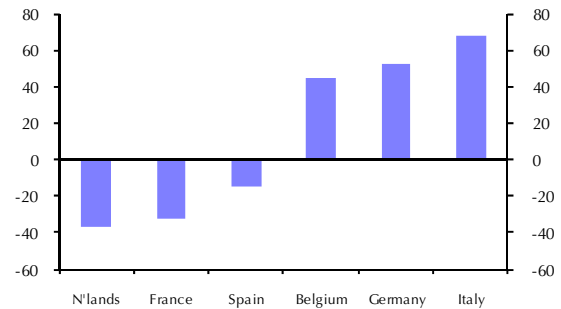


Chart 3: Industrial Space Under Construction (Q1 2011, Sqm per 1,000 Euros of 2010 GDP)

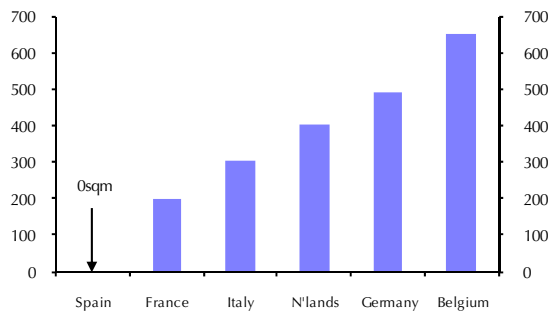


Chart 4: Industrial Space Under Construction (000s Sqm)

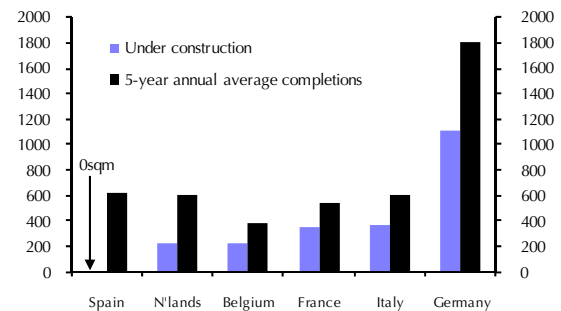


Chart 5: Rental Value Growth Forecasts (Spain, Greece, Ireland & Austria, %y/y)

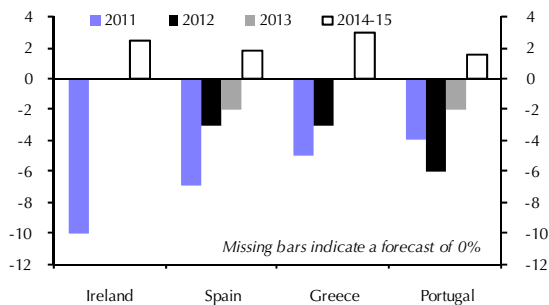


Chart 6: Rental Value Growth Forecasts (Italy, Portugal, Germany & the Netherlands, %y/y)

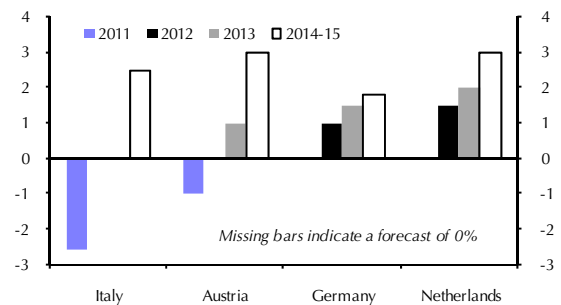


Chart 7: Rental Value Growth Forecasts (Belgium, France & Finland, %y/y)

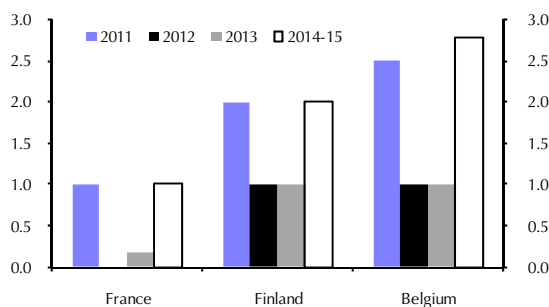
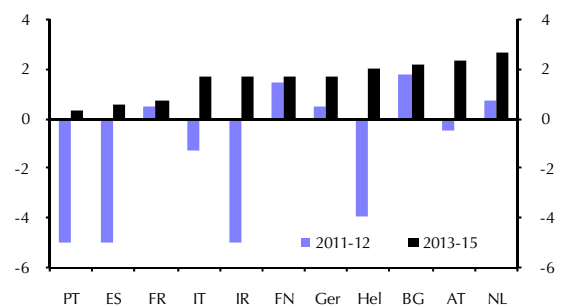


Chart 8: Rental Value Growth Forecasts (2011-12 & 2013-15 Averages, %y/y)

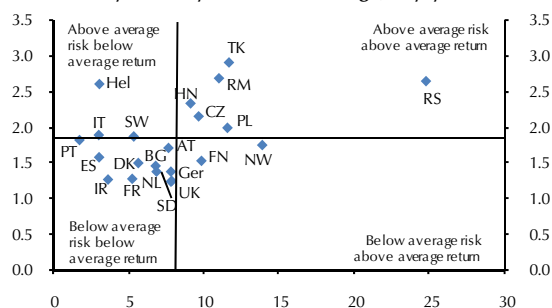


Sources – Various Agents and Capital Economics

Euro-zone Property Markets in a Wider European Context

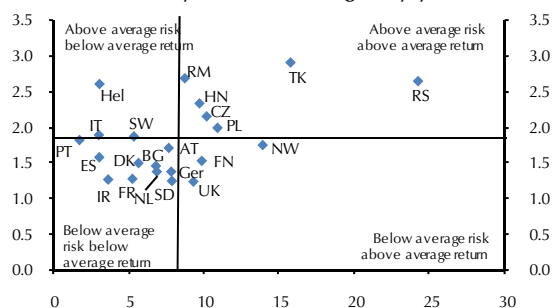
- Taking the years 2011 to 2013 together, we think that all-property total returns will typically be highest in Emerging European markets, led by Russia. However, we think that Norway and Sweden will also deliver above-average returns. Property markets in the euro-zone's peripheral economies will underperform. (See Table 1 on Page 15.)
- Indeed, over the next two to three years, with very weak occupier market fundamentals, we do not expect annual returns to average more than 3% to 4% in Ireland, Greece, Spain, Italy or Portugal. We are not much more optimistic about the prospects for France. There, we think that rental growth is likely to stall as economic growth weakens and there seems to be little chance of yields falling any further. But other markets that have been slower to recover now seem to have more upside potential. We think that Finland's relatively solid economy and healthy banking sector will support outperformance.
- Outside the euro-zone, relatively strong economic growth in Russia, Turkey and Poland, as well as in Norway and Sweden suggests that there is greater potential for rental values to increase in these markets. Relatively high income returns will provide a further boost to total returns in Russia and Turkey. Note that in Russia yields have fallen by 160bps so far this year. That has already provided a *huge* boost to total returns in 2011, so much so that it has lifted the 2011-13 average. We expect returns to slow in 2012 and 2013 to about 14% a year. At the other end of the spectrum, we still expect Denmark and Switzerland to deliver the lowest returns outside the euro-zone.
- Taking JLL's global transparency index as a proxy for property investment risk, the Norwegian property market appears to offer the best risk/reward trade-off, followed by Poland. By contrast, Greece offers the worst risk/reward trade-off. (See Chart 1.)
- But the picture changes when considering returns in local currencies. Following strong gains recently, we expect most Emerging European currencies to weaken against the euro over the next year or two. The zloty is the only exception. In markets where headline rents are recorded in euros, this will boost returns in local currency terms. Similarly, our view that the dollar will strengthen against the Turkish lira will push local currency returns in Turkey higher. (See Chart 2.)

Chart 1: Risk v Forecast Total Returns in Headline Currency by Country (2011-13 Average, %y/y)



Sources – JLL and Capital Economics

Chart 2: Risk v Forecast Total Returns in Local Currency by Country (2011-13 Average, %y/y)



Euro-zone* Commercial Property in a Wider European Context

TABLE 1: HEADLINE CURRENCY TOTAL RETURNS BY SECTOR 2011-2013, %

Retail	Office	Industrial	All-property				
Russia	19.6	Russia	26.6	Russia	25.4	Russia	24.8
Norway	13.9	Norway	14.1	Norway	12.3	Norway	13.9
Poland	12.9	Turkey	12.1	Turkey	12.3	Turkey	11.7
Romania	12.4	Poland	11.2	Poland	11.4	Poland	11.6
Sweden	10.5	Finland	10.5	Hungary	11.2	Romania	11.0
Turkey	10.3	Romania	10.2	Romania	10.5	Finland	9.9
Finland	9.1	Czech Republic	10.0	Belgium	10.4	Czech Republic	9.7
Hungary	8.9	UK	9.7	Czech Republic	10.2	Hungary	9.1
Czech Republic	8.8	Austria	8.6	Sweden	9.9	Sweden	7.9
UK	6.8	Germany	8.3	Netherlands	9.4	UK	7.8
Germany	6.6	Hungary	8.2	Switzerland	9.2	Germany	7.8
Netherlands	6.3	Sweden	7.3	Denmark	9.2	Austria	7.7
Austria	6.3	Netherlands	7.0	Austria	9.1	Netherlands	6.9
Switzerland	5.8	Belgium	7.0	Finland	8.5	Belgium	6.8
Belgium	5.4	Denmark	6.2	UK	8.4	Denmark	5.6
Greece	4.6	France	5.5	Germany	7.9	Switzerland	5.3
Denmark	4.2	Switzerland	4.8	Greece	7.7	France	5.2
France	3.8	Ireland	4.0	France	6.6	Ireland	3.6
Italy	3.6	Spain	3.8	Italy	5.9	Greece	3.0
Ireland	2.9	Italy	1.9	Ireland	5.4	Spain	3.0
Portugal	2.0	Greece	0.9	Spain	2.8	Italy	3.0
Spain	1.8	Portugal	0.8	Portugal	2.7	Portugal	1.7

TABLE 2: LOCAL CURRENCY TOTAL RETURNS BY SECTOR 2011-2013, %

Retail	Office	Industrial	All-property				
Russia	19.4	Russia	25.9	Russia	24.7	Russia	24.3
Turkey	14.3	Turkey	16.2	Turkey	16.3	Turkey	15.8
Norway	13.9	Norway	14.1	Norway	12.3	Norway	13.9
Poland	12.2	Czech Rep	10.6	Hungary	11.8	Poland	10.9
UK	10.6	Poland	10.5	Poland	10.7	Czech Rep	10.2
Sweden	10.5	Finland	10.5	Czech Rep	10.6	Finland	9.9
Romania	10.0	Hungary	8.8	Belgium	10.4	Hungary	9.7
Hungary	9.5	Austria	8.6	Sweden	9.9	UK	9.3
Czech Rep	9.3	Germany	8.3	Netherlands	9.4	Romania	8.7
Finland	9.1	UK	8.0	Switzerland	9.2	Sweden	7.9
Germany	6.6	Romania	8.0	Denmark	9.2	Germany	7.8
Netherlands	6.3	Sweden	7.3	Austria	9.1	Austria	7.7
Austria	6.3	Netherlands	7.0	Finland	8.5	Netherlands	6.9
Switzerland	5.8	Belgium	7.0	Romania	8.2	Belgium	6.8
Belgium	5.4	Denmark	6.2	Germany	7.9	Denmark	5.6
Greece	4.6	France	5.5	Greece	7.7	Switzerland	5.3
Denmark	4.2	Switzerland	4.8	UK	7.4	France	5.2
France	3.8	Ireland	4.0	France	6.6	Ireland	3.6
Italy	3.6	Spain	3.8	Italy	5.9	Greece	3.0
Ireland	2.9	Italy	1.9	Ireland	5.4	Spain	3.0
Portugal	2.0	Greece	0.9	Spain	2.8	Italy	3.0
Spain	1.8	Portugal	0.8	Portugal	2.7	Portugal	1.7

* euro-zone countries in blue
Source – Capital Economics

The Medium-term Outlook for Euro-zone Property Markets

- We believe that the euro-zone sovereign debt crisis will intensify, bringing growth in the region to a standstill in 2013. (See Chart 1.) A break-up of the euro-zone at some point remains a high risk. In the immediate aftermath, such an outcome would add to the downside risks for growth. But if the euro-zone remains intact, the negative impetus from fiscal policy should be easing by late 2013 and our working assumption is that a recovery will then get underway.
- Even so, by then there will be a huge amount of spare capacity in the economy. Thus a return to growth may be slow to deliver a boost to rents. On the other hand, development will have been negligible, so good quality property will be in short supply. Thus, our forecasts assume moderate rental value growth in all sectors in 2014 and 2015. (See Chart 2.)
- While the timing remains uncertain, at some point evidence of a building recovery will lead the ECB to go further in terms of returning interest rates to more normal levels. All else being equal, the accompanying rise in bond yields will put upward pressure on property yields. But with property/bond yield spreads set to remain elevated over the next year or two and the rental value outlook improving, property yields are unlikely to rise anything like as far as bond yields. (See Chart 3.)
- In our view, that does not paint an attractive picture for capital values in 2014 and 2015. Broadly speaking, the upward drift in bond yields is likely to offset the positive effect on capital values of rental value growth. (See Chart 4.) But there are huge uncertainties here. Both rents and yields have the capacity to exert a more positive or a more negative impact than we have assumed.

Chart 1: Euro-zone GDP Growth

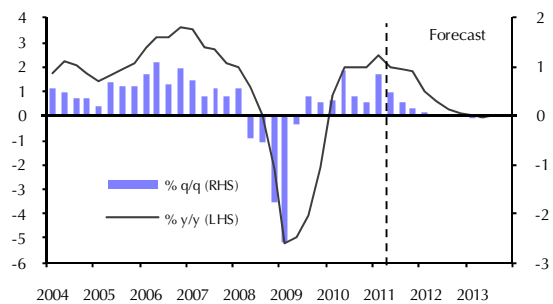


Chart 2: Euro-zone Rental Value Forecasts (%/y/y)

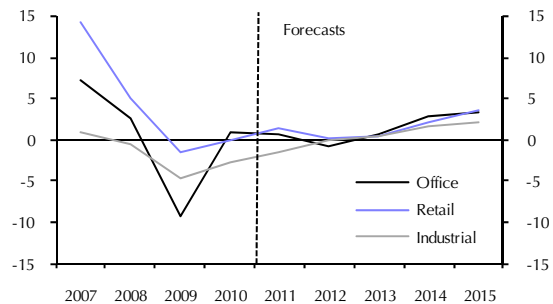


Chart 3: Euro-zone Prime Property Yields and 10-Year German Bund Yields (%)

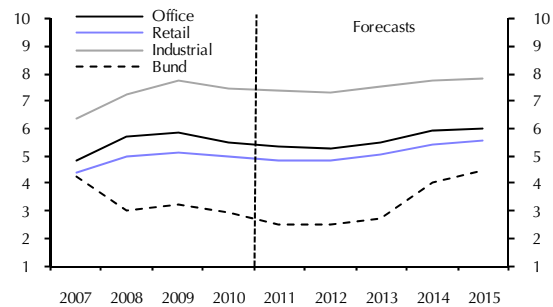
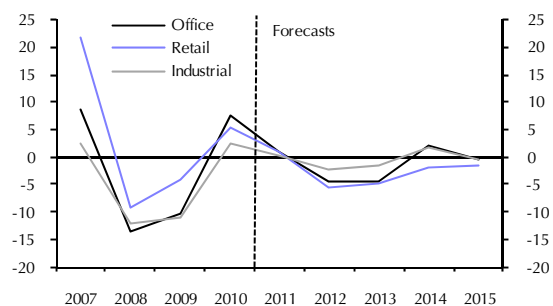


Chart 4: Euro-zone Prime Capital Value Growth (%/y/y)



Sources – Thomson Datastream, Various Agents, Capital Economics

Detailed Forecast Tables by Country, Sector and Currency

Table A1: All-property

	2010	2011	2012	2013	2014	2015	Average 2011–15
Austria							
Rental growth	1.5	2.7	0.8	1.2	2.4	3.0	2.0
Yields	5.0	4.9	4.7	4.8	5.2	5.4	5.0
Capital value growth	5.9	5.0	4.4	-1.0	-5.4	-0.5	0.5
Total return	11.0	9.9	9.2	3.9	-0.1	4.9	5.6
Belgium							
Rental growth	2.3	0.9	0.3	1.2	2.0	2.1	1.3
Yields	6.2	6.1	6.1	6.2	6.4	6.7	6.3
Capital value growth	4.8	1.1	0.4	0.4	-2.3	-1.9	-0.4
Total return	11.0	7.3	6.6	6.5	4.2	4.8	5.9
Finland							
Rental growth	3.1	7.1	1.3	1.6	2.7	2.9	3.1
Yields	5.7	5.5	5.4	5.6	6.0	6.4	5.8
Capital value growth	14.7	11.4	3.4	-1.6	-5.3	-3.0	1.0
Total return	20.4	16.9	8.7	3.9	0.7	3.3	6.7
France							
Rental growth	3.9	0.9	0.0	1.1	2.7	3.9	1.7
Yields	5.1	4.9	5.0	5.2	5.7	5.8	5.3
Capital value growth	17.3	5.3	-0.6	-4.0	-5.4	0.2	-0.9
Total return	22.5	10.2	4.4	1.2	0.2	6.0	4.4
Germany							
Rental growth	1.7	3.8	0.3	2.3	3.4	3.9	2.7
Yields	5.0	4.7	4.5	4.9	5.4	5.5	5.0
Capital value growth	5.1	9.1	4.8	-4.6	-6.8	0.1	0.5
Total return	10.1	13.8	9.4	0.3	-1.4	5.6	5.5
Greece							
Rental growth	-9.4	-6.1	-3.6	-1.5	1.4	4.1	-1.1
Yields	7.5	7.7	7.9	7.7	7.5	7.3	7.6
Capital value growth	-18.3	-8.8	-5.6	0.3	4.0	7.6	-0.5
Total return	-10.8	-1.2	2.3	8.0	11.6	14.9	7.1
Ireland							
Rental growth	-20.0	-6.6	-1.0	0.0	3.3	3.5	-0.2
Yields	6.8	7.2	7.3	7.1	6.7	6.4	6.9
Capital value growth	-17.5	-11.5	-2.4	3.1	9.8	7.4	1.3
Total return	-10.7	-4.3	5.0	10.2	16.5	13.9	8.2
Italy							
Rental growth	1.5	-0.3	-1.3	-1.8	2.1	2.4	0.2
Yields	5.6	5.5	5.5	5.9	6.3	6.3	5.9
Capital value growth	4.4	1.6	-0.6	-8.9	-4.2	0.6	-2.3
Total return	10.0	7.1	4.9	-3.0	2.0	6.9	3.6
Netherlands							
Rental growth	1.2	3.7	1.0	2.0	2.8	3.2	2.5
Yields	5.5	5.4	5.3	5.6	5.9	6.0	5.6
Capital value growth	10.1	5.9	2.7	-4.3	-2.6	1.7	0.7
Total return	15.6	11.3	8.0	1.4	3.3	7.7	6.3
Portugal							
Rental growth	-0.6	-3.0	-5.1	-1.5	0.4	1.6	-1.5
Yields	7.0	7.4	7.6	7.6	7.4	7.3	7.4
Capital value growth	0.9	-8.2	-7.7	-1.5	2.4	3.5	-2.3
Total return	7.9	-0.8	-0.2	6.1	9.8	10.8	5.1
Spain							
Rental growth	-7.0	-2.6	-0.9	-0.9	1.4	3.0	0.0
Yields	5.7	5.7	5.7	6.0	6.2	6.3	6.0
Capital value growth	-0.1	-2.1	-1.7	-4.5	-3.1	2.2	-1.8
Total return	5.6	3.6	4.0	1.4	3.2	8.5	4.1

Source – Capital Economics

All-property Rankings: Next Two Years and Next Five Years

Chart A1: Initial Yields by Country (Q2 2011, %)



Chart A5: Initial Yields by Country (End-2015, %)

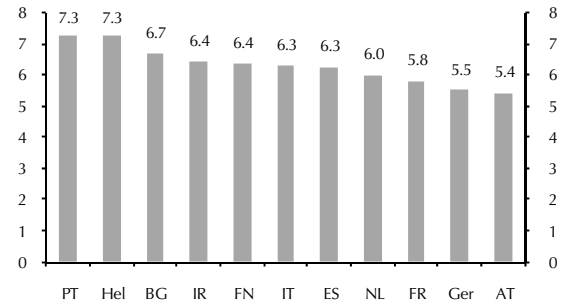


Chart A2: Rental Value Growth by Country (2011-12 Average, %/y)

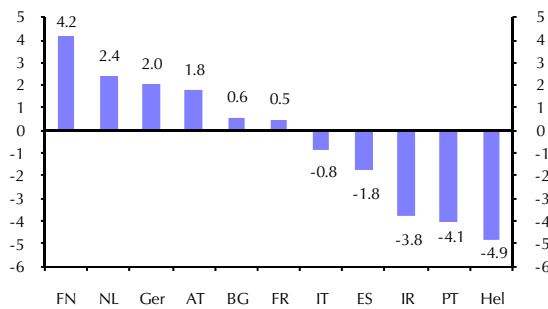


Chart A6: Rental Value Growth by Country (2011-15 Average, %/y)

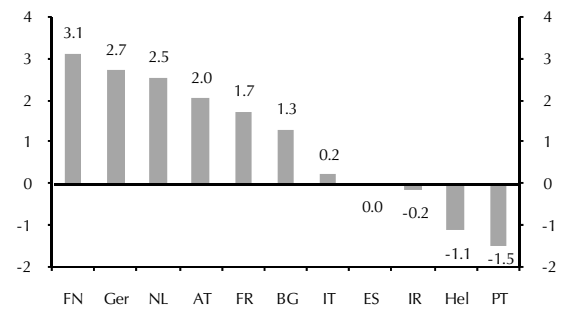


Chart A3: Capital Value Growth by Country (2011-12 Average, %/y)

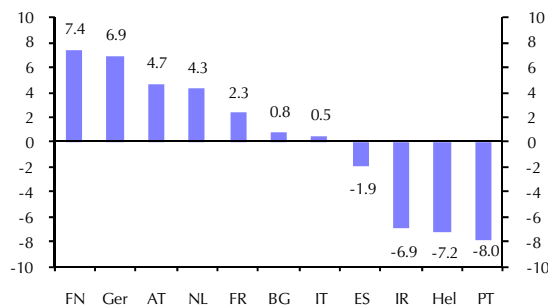


Chart A7: Capital Value Growth by Country (2011-15 Average, %/y)

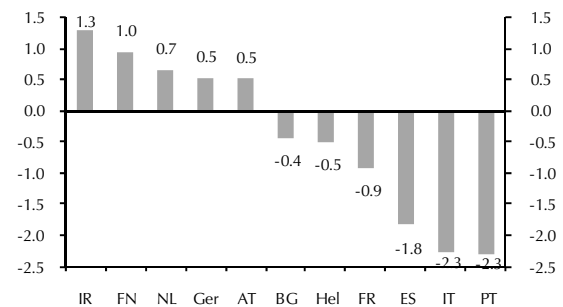


Chart A4: Total Return by Country (2011-12 Average, %/y)

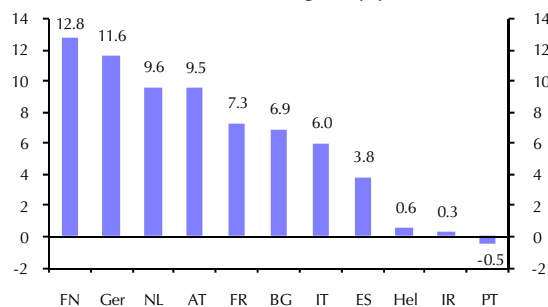
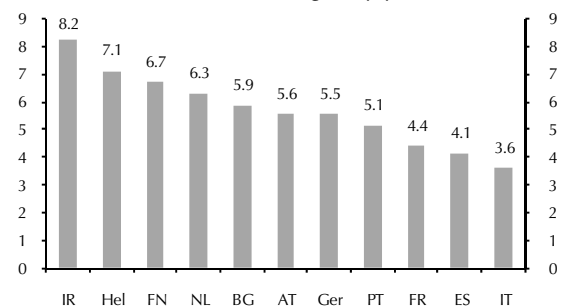


Chart A8: Total Return by Country (2011-15 Average, %/y)



Source – Capital Economics

Table A2: Retail Property

	2010	2011	2012	2013	2014	2015	Average 2011-15
Austria							
Rental growth	2.0	1.0	2.0	3.0	3.0	3.0	2.4
Yields	4.5	4.5	4.5	4.5	5.1	5.4	4.8
Capital value growth	7.1	1.6	2.0	1.9	-9.1	-2.7	-1.3
Total return	11.6	6.0	6.5	6.4	-4.0	2.7	3.5
Belgium							
Rental growth	4.6	3.0	1.0	2.0	2.0	2.0	2.0
Yields	4.7	4.6	4.6	4.8	5.3	5.7	5.0
Capital value growth	12.2	3.3	1.0	-2.3	-7.2	-4.3	-1.9
Total return	16.9	8.0	5.6	2.6	-1.9	1.4	3.1
Finland							
Rental growth	2.6	7.0	0.0	1.0	2.5	3.0	2.7
Yields	5.4	5.2	5.2	5.3	5.9	6.2	5.5
Capital value growth	13.8	11.7	1.0	-0.9	-8.8	-2.0	0.2
Total return	19.2	16.9	6.1	4.3	-2.9	4.2	5.7
France							
Rental growth	0.9	0.0	0.0	0.0	2.0	5.0	1.4
Yields	4.7	4.6	4.6	4.8	5.3	5.4	4.9
Capital value growth	13.3	2.7	0.0	-5.2	-6.7	0.0	-1.8
Total return	18.0	7.3	4.6	-0.4	-1.4	0.0	2.0
Germany							
Rental growth	2.8	4.0	1.0	1.6	3.0	4.0	2.7
Yields	4.7	4.6	4.4	4.8	5.3	5.5	4.9
Capital value growth	4.7	8.1	4.4	-6.7	-6.7	-6.7	-1.5
Total return	9.5	12.7	8.9	-1.9	-1.4	-1.4	3.4
Greece							
Rental growth	-15.3	-4.0	-2.0	0.0	3.0	3.0	0.0
Yields	7.1	7.4	7.6	7.3	7.0	6.7	7.2
Capital value growth	-29.9	-7.9	-3.9	3.4	7.4	7.6	1.3
Total return	-22.8	-0.5	3.6	10.7	14.4	14.3	8.5
Ireland							
Rental growth	-27.6	-3.0	-2.0	0.0	3.0	3.0	0.2
Yields	6.1	6.5	6.7	6.5	6.1	5.9	6.3
Capital value growth	-23.7	-9.1	-4.9	3.1	9.8	6.5	1.1
Total return	-17.6	-2.6	1.8	9.6	15.9	12.4	7.4
Italy							
Rental growth	1.4	0.0	0.0	0.0	2.0	2.0	0.8
Yields	5.0	4.9	4.9	5.2	5.5	5.6	5.2
Capital value growth	1.4	3.1	-0.3	-7.1	-3.0	-1.8	-1.8
Total return	6.4	8.0	4.6	-1.8	2.5	3.8	3.4
Netherlands							
Rental growth	1.9	4.0	1.0	2.0	3.0	4.0	2.8
Yields	4.7	4.6	4.5	4.8	5.2	5.4	4.9
Capital value growth	11.9	6.5	3.9	-5.4	-3.4	0.1	0.3
Total return	16.7	11.1	8.4	-0.6	1.7	5.5	5.2
Portugal							
Rental growth	0.0	-2.0	-5.0	-2.0	0.0	1.0	-1.6
Yields	6.8	7.1	7.4	7.4	7.2	7.1	7.2
Capital value growth	1.1	-5.7	-8.2	-2.0	2.1	2.4	-2.3
Total return	7.9	1.4	-0.9	5.4	9.3	9.5	4.9
Spain							
Rental growth	-4.7	0.0	0.0	-2.0	1.0	3.0	0.4
Yields	5.2	5.1	5.3	5.7	6.1	6.2	5.7
Capital value growth	3.6	1.7	-2.5	-9.9	-5.6	1.3	-3.0
Total return	8.8	6.8	2.7	-4.2	0.5	7.6	2.7

Source – Capital Economics

Retail Sector Rankings: Next Two Years and Next Five Years

Chart A9: Initial Yields by Country (Q2 2011, %)

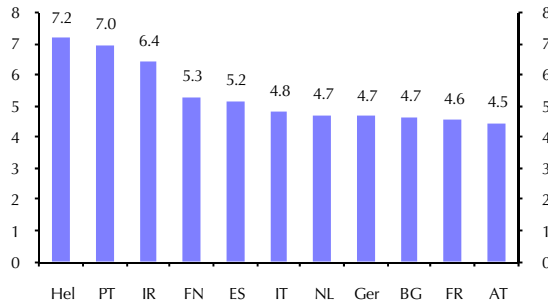


Chart A13: Initial Yields by Country (End-2015, %)



Chart A10: Rental Value Growth by Country (2011-12 Average, %/y)

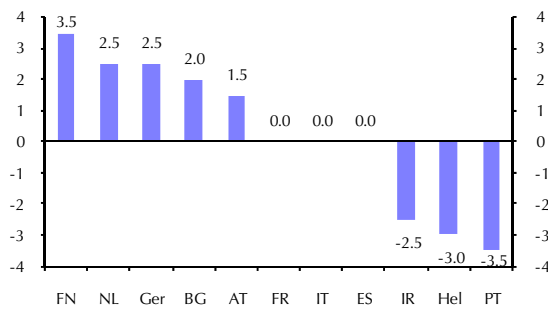


Chart A14: Rental Value Growth by Country (2011-15 Average, %/y)

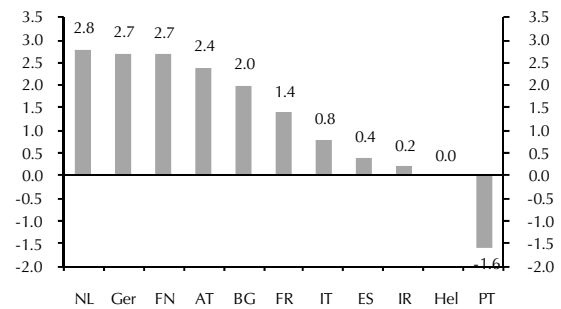


Chart A11: Capital Value Growth by Country (2011-12 Average, %/y)

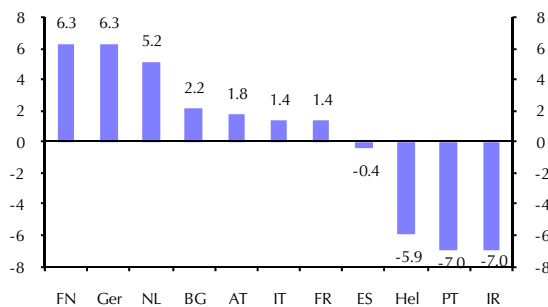


Chart A15: Capital Value Growth by Country (2011-15 Average, %/y)

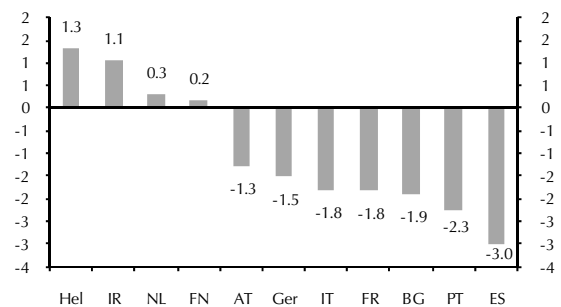


Chart A12: Total Return by Country (2011-12 Average, %/y)

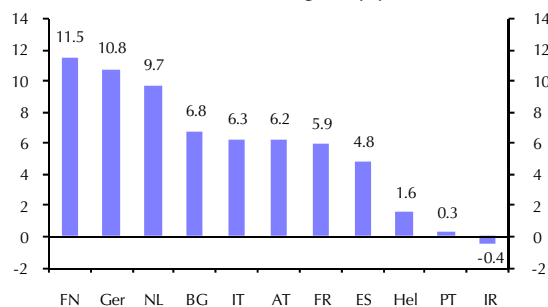
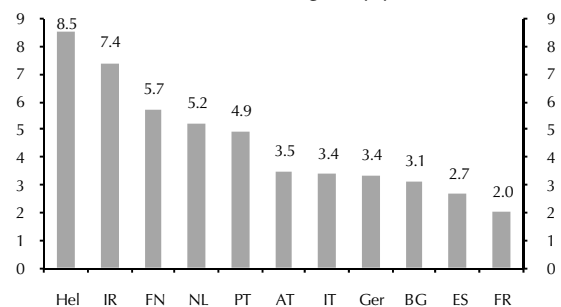


Chart A16: Total Return by Country (2011-15 Average, %/y)



Source – Capital Economics

Table A3: Office Property

	2010	2011	2012	2013	2014	2015	Average 2011-15
Austria							
Rental growth	1.1	4.0	0.0	0.0	2.0	3.0	1.8
Yields	5.4	5.2	4.9	5.1	5.3	5.4	5.2
Capital value growth	4.9	7.5	6.1	-3.0	-2.8	1.1	1.8
Total return	10.2	12.7	11.0	2.1	2.5	6.5	7.0
Belgium							
Rental growth	3.4	0.0	0.0	1.0	2.0	2.0	1.0
Yields	6.6	6.6	6.6	6.6	6.7	7.0	6.7
Capital value growth	2.5	-0.2	0.2	1.2	-0.6	-1.3	-0.1
Total return	9.1	6.4	6.8	7.8	6.1	5.7	6.5
Finland							
Rental growth	4.0	8.0	2.0	2.0	3.0	3.0	3.6
Yields	5.5	5.3	5.2	5.4	5.8	6.2	5.6
Capital value growth	16.6	12.4	5.0	-1.8	-4.2	-4.5	1.4
Total return	22.1	17.7	10.1	3.5	1.6	1.7	6.9
France							
Rental growth	6.2	1.3	0.0	1.9	3.7	3.9	2.2
Yields	5.0	4.7	4.8	5.0	5.5	5.7	5.2
Capital value growth	19.5	6.7	-1.1	-3.6	-5.3	-0.1	-0.7
Total return	24.5	11.4	3.7	1.4	0.2	5.6	4.5
Germany							
Rental growth	1.0	3.6	0.0	2.6	3.7	4.0	2.8
Yields	5.1	4.8	4.5	4.8	5.4	5.5	5.0
Capital value growth	5.5	9.6	5.1	-3.9	-6.9	2.9	1.4
Total return	10.5	14.3	9.6	1.0	-1.5	8.4	6.4
Greece							
Rental growth	-3.7	-8.0	-5.0	-3.0	0.0	5.0	-2.2
Yields	7.4	7.6	7.8	7.8	7.7	7.5	7.7
Capital value growth	-10.8	-10.2	-7.4	-3.0	1.3	7.8	-2.3
Total return	-3.3	-2.6	0.4	4.8	9.0	15.3	5.4
Ireland							
Rental growth	-12.4	-10.0	0.0	0.0	4.0	4.0	-0.4
Yields	7.3	7.6	7.6	7.4	7.0	6.8	7.3
Capital value growth	-10.4	-13.2	0.0	2.7	9.9	7.9	1.5
Total return	-3.1	-5.6	7.6	10.1	16.9	14.6	8.7
Italy							
Rental growth	2.3	0.0	-2.6	-3.6	2.0	2.0	-0.5
Yields	5.6	5.5	5.4	5.9	6.4	6.4	5.9
Capital value growth	7.8	1.4	-0.9	-11.6	-6.0	2.0	-3.0
Total return	13.3	6.9	4.5	-5.8	0.4	8.4	2.9
Netherlands							
Rental growth	0.5	3.6	1.0	2.0	2.7	3.1	2.5
Yields	5.8	5.7	5.7	6.0	6.3	6.3	6.0
Capital value growth	9.3	5.7	1.7	-3.8	-2.3	2.6	0.8
Total return	15.1	11.5	7.4	2.3	4.0	9.0	6.8
Portugal							
Rental growth	-0.9	-5.0	-5.0	0.0	1.0	3.0	-1.2
Yields	6.9	7.7	7.8	7.8	7.6	7.4	7.6
Capital value growth	2.1	-14.6	-6.2	0.0	3.0	5.8	-2.4
Total return	9.0	-7.0	1.5	7.8	10.6	13.2	5.2
Spain							
Rental growth	-8.1	-4.1	-1.5	0.0	1.6	3.0	-0.2
Yields	5.8	5.8	5.8	5.8	6.0	6.1	5.9
Capital value growth	-2.1	-3.7	-1.0	-1.1	-1.7	2.7	-1.0
Total return	3.7	2.1	4.7	4.7	4.4	8.8	4.9

Source – Capital Economics

Office Rankings: Next Two Years and Next Five Years

Chart A17: Initial Yields by Country (Q2 2011, %)

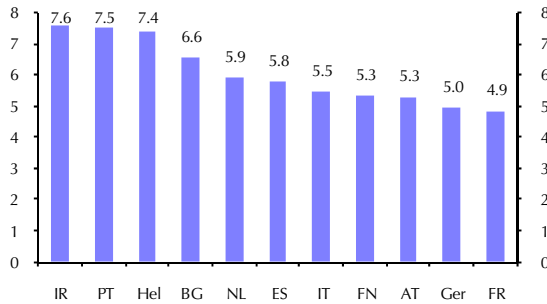


Chart A21: Initial Yields by Country (End-2015, %)



Chart A18: Rental Value Growth by Country (2011-12 Average, %/y)

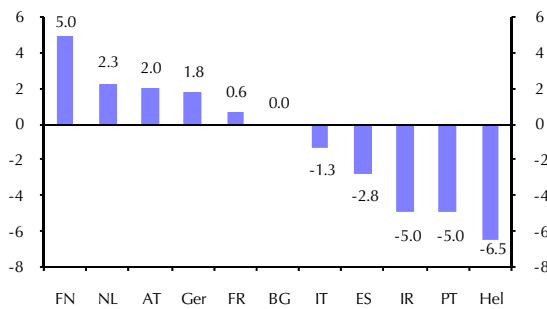


Chart A22: Rental Value Growth by Country (2011-15 Average, %/y)

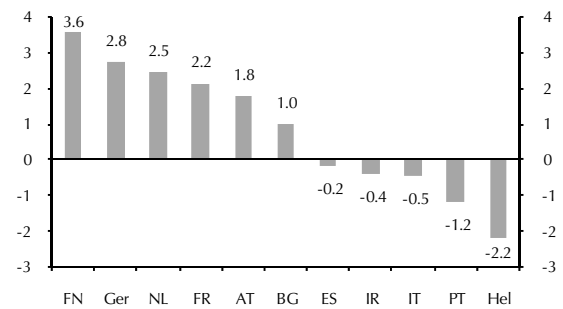


Chart A19: Capital Value Growth by Country (2011-12 Average, %/y)

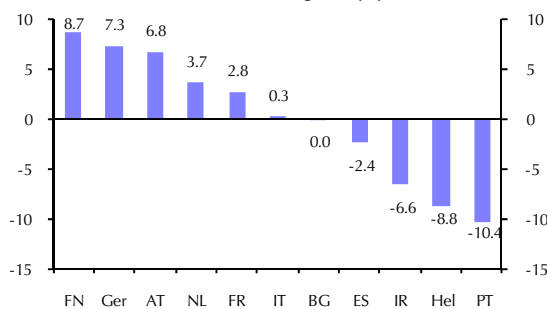


Chart A23: Capital Value Growth by Country (2011-15 Average, %/y)

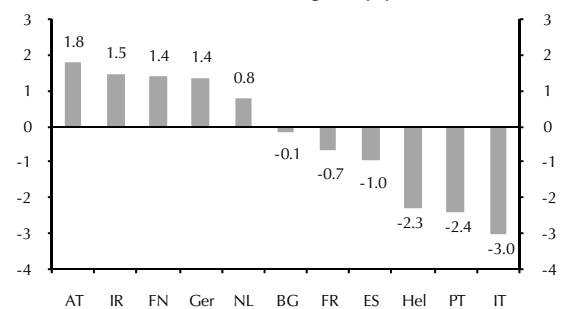


Chart A20: Total Return by Country (2011-12 Average, %/y)

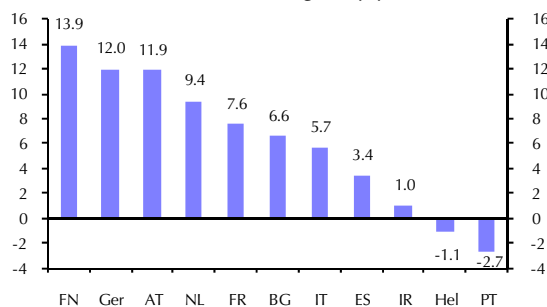
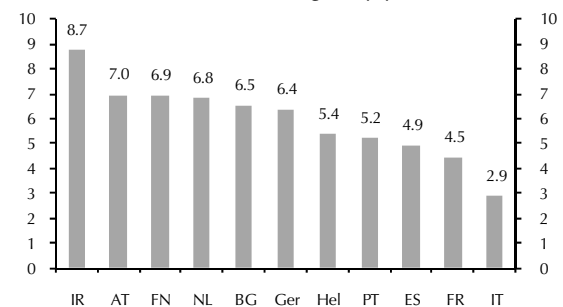


Chart A24: Total Return by Country (2011-15 Average, %/y)



Source – Capital Economics

Table A4: Industrial Property

	2010	2011	2012	2013	2014	2015	Average 2011-15
Austria							
Rental growth	-2.0	-1.0	0.0	1.0	3.0	3.0	1.2
Yields	7.7	7.6	7.3	7.3	7.5	7.7	7.5
Capital value growth	0.0	-0.2	4.1	1.0	0.3	0.3	1.1
Total return	7.6	7.4	11.4	8.3	7.8	8.0	8.6
Belgium							
Rental growth	-6.0	2.5	1.0	1.0	2.3	3.3	2.0
Yields	7.4	7.0	7.0	7.0	7.3	7.5	7.2
Capital value growth	-2.7	8.5	0.6	1.1	-1.5	0.9	1.9
Total return	4.7	15.5	7.6	8.1	5.8	8.4	9.1
Finland							
Rental growth	-0.8	2.0	1.0	1.0	2.0	2.0	1.6
Yields	7.4	7.2	7.2	7.5	7.8	7.8	7.5
Capital value growth	6.4	4.9	1.0	-2.4	-2.6	2.0	0.6
Total return	13.8	12.1	8.2	5.1	5.2	9.8	8.1
France							
Rental growth	-0.2	1.0	0.0	0.2	1.0	1.0	0.6
Yields	7.1	7.0	6.9	7.2	7.6	7.6	7.3
Capital value growth	14.9	1.5	1.3	-4.1	-3.2	2.6	-0.4
Total return	21.9	8.5	8.2	3.1	4.3	10.2	6.9
Germany							
Rental growth	-0.2	0.0	1.0	1.5	1.6	2.0	1.2
Yields	7.0	6.8	6.8	7.0	7.3	7.5	7.1
Capital value growth	3.4	3.5	1.0	-1.5	-2.7	-0.7	-0.1
Total return	10.5	10.3	7.8	5.5	4.7	6.8	7.0
Greece							
Rental growth	-13.2	-5.0	-3.0	0.0	2.0	4.0	-0.4
Yields	9.2	9.3	9.3	8.9	8.7	8.5	8.9
Capital value growth	-24.5	-6.0	-3.0	4.5	4.3	6.4	1.3
Total return	-15.3	3.3	6.3	13.4	13.0	14.9	10.2
Ireland							
Rental growth	-17.1	-10.0	0.0	0.0	1.0	4.0	-1.0
Yields	8.7	9.5	9.5	9.0	8.3	7.8	8.8
Capital value growth	-18.3	-17.4	0.0	5.6	9.4	10.8	1.7
Total return	-9.6	-7.9	9.5	14.6	17.7	18.6	10.5
Italy							
Rental growth	-1.5	-2.6	0.0	0.0	2.5	2.5	0.5
Yields	7.7	7.7	7.7	7.9	8.2	8.2	7.9
Capital value growth	0.1	-2.7	-0.1	-2.9	-0.6	2.5	-0.8
Total return	7.8	5.0	7.6	5.0	7.6	10.7	7.2
Netherlands							
Rental growth	1.2	0.0	1.5	2.0	3.0	3.0	1.9
Yields	7.4	7.2	7.0	7.2	7.4	7.4	7.2
Capital value growth	3.4	3.1	4.4	-0.8	0.2	3.0	2.0
Total return	10.8	10.3	11.4	6.4	7.6	10.4	9.2
Portugal							
Rental growth	-3.9	-4.0	-6.0	-2.0	1.0	2.0	-1.8
Yields	8.1	8.3	8.6	8.6	8.4	8.3	8.4
Capital value growth	-3.9	-6.6	-8.7	-2.0	2.8	3.9	-2.1
Total return	4.2	1.7	-0.2	6.6	11.2	12.1	6.3
Spain							
Rental growth	-11.3	-7.0	-3.0	-2.0	1.0	2.7	-1.7
Yields	7.8	8.0	8.0	8.2	8.4	8.4	8.2
Capital value growth	-8.3	-8.7	-3.0	-4.2	-1.6	2.7	-3.0
Total return	-0.5	-0.7	5.0	4.0	6.8	11.1	5.2

Source – Capital Economics

Industrial Rankings: Next Two Years and Next Five Years

Chart A25: Initial Yields by Country (Q2 2011, %)



Chart A29: Initial Yields by Country (End-2015, %)

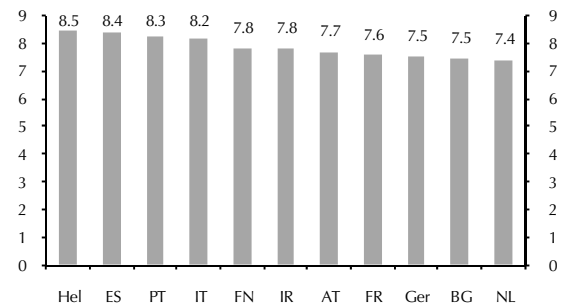


Chart A26: Rental Value Growth by Country (2011-12 Average, %/y)

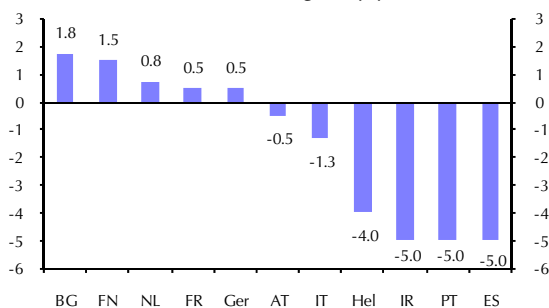


Chart A30: Rental Value Growth by Country (2011-15 Average, %/y)

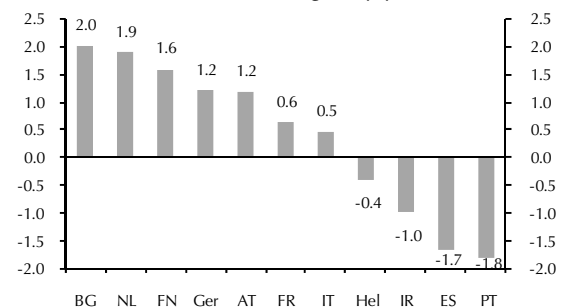


Chart A27: Capital Value Growth by Country (2011-12 Average, %/y)

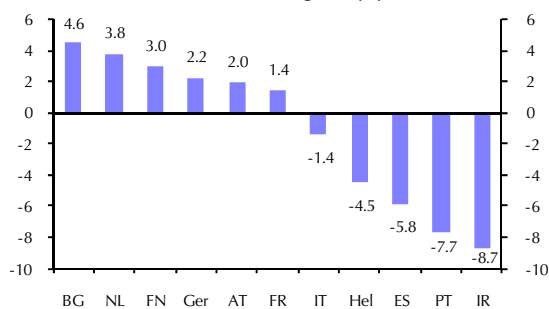


Chart A31: Capital Value Growth by Country (2011-15 Average, %/y)

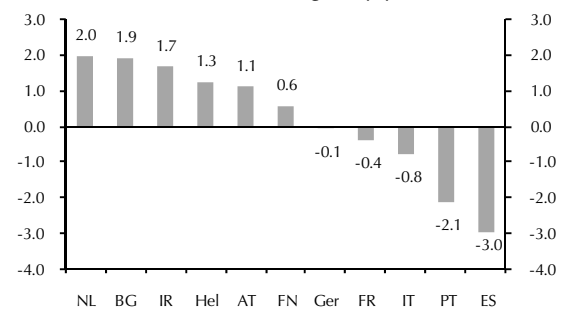


Chart A28: Total Return by Country (2011-12 Average, %/y)

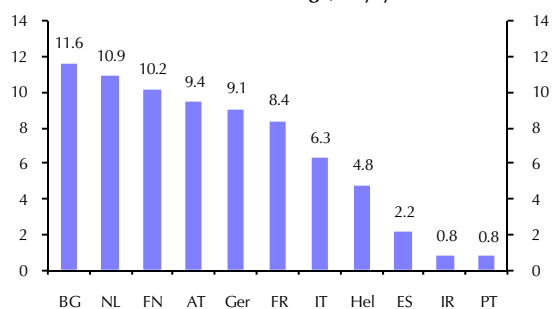
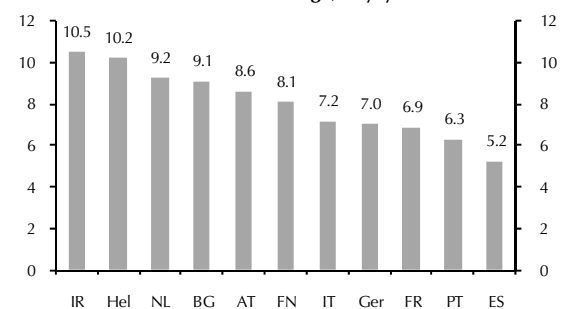


Chart A32: Total Return by Country (2011-15 Average, %/y)



Source – Capital Economics

Table A5: Total Returns in Alternative Currencies

% y/y	All-Property				Retail Property			
	2010	2011	2012	Average 2013-2015	2010	2011	2012	Average 2013-2015
Austria								
In EURO	11.0	9.9	9.2	2.9	11.6	6.0	6.5	1.7
In GBP	6.0	12.6	4.8	-2.0	6.6	8.6	2.2	-3.1
In US\$	2.0	15.2	1.7	-4.9	2.6	11.2	-0.8	-6.0
Belgium								
In EURO	11.0	7.3	6.6	5.2	16.9	8.0	5.6	0.7
In GBP	6.1	9.9	2.4	0.1	11.6	10.6	1.5	-4.1
In US\$	2.1	12.4	-0.6	-2.8	7.4	13.2	-1.6	-7.0
Finland								
In EURO	20.4	16.9	8.7	2.7	19.2	16.9	6.1	1.9
In GBP	15.1	19.7	4.5	-2.2	13.9	19.8	1.9	-2.9
In US\$	10.7	22.5	1.4	-5.1	9.6	22.5	-1.1	-5.7
France								
In EURO	22.5	10.2	4.4	2.6	18.0	7.3	4.6	1.9
In GBP	17.0	12.9	0.2	-2.2	12.8	9.9	0.4	-2.9
In US\$	12.6	15.5	-2.7	-5.1	8.5	12.5	-2.6	-5.7
Germany								
In EURO	10.1	13.8	9.4	2.2	9.5	12.7	8.9	0.8
In GBP	5.2	16.6	5.0	-2.6	4.6	15.5	4.5	-4.0
In US\$	1.3	19.3	1.9	-5.5	0.6	18.1	1.4	-6.8
Greece								
In EURO	-10.8	-1.2	2.3	11.5	-22.8	-0.5	3.6	13.2
In GBP	-14.7	1.2	-1.7	6.2	-26.1	1.9	-0.4	7.7
In US\$	-17.7	3.4	-4.5	3.1	-28.7	4.1	-3.3	4.5
Ireland								
In EURO	-10.7	-4.3	5.0	13.5	-17.6	-2.6	1.8	12.6
In GBP	-14.5	-2.0	0.9	8.0	-21.2	-0.2	-2.2	7.1
In US\$	-17.6	0.2	-2.0	4.8	-24.1	2.0	-5.0	3.9
Italy								
In EURO	10.0	7.1	4.9	2.0	6.4	8.0	4.6	1.5
In GBP	5.1	9.7	0.8	-2.8	1.7	10.6	0.4	-3.4
In US\$	1.2	12.2	-2.2	-5.7	-2.1	13.2	-2.6	-6.3
Netherlands								
In EURO	15.6	11.3	8.0	4.1	16.7	11.1	8.4	2.2
In GBP	10.4	14.0	3.7	-0.8	11.4	13.8	4.0	-2.7
In US\$	6.3	16.6	0.6	-3.7	7.2	16.4	0.9	-5.6
Portugal								
In EURO	7.9	-0.8	-0.2	8.9	7.9	1.4	-0.9	8.1
In GBP	3.2	1.5	-4.0	3.7	3.2	3.8	-4.7	2.9
In US\$	-0.6	3.8	-6.8	0.7	-0.6	6.2	-7.4	-0.1
Spain								
In EURO	5.6	3.6	4.0	4.4	8.8	6.8	2.7	1.3
In GBP	1.0	6.1	0.0	-0.6	3.9	9.4	-1.3	-3.5
In US\$	-2.8	8.5	-3.0	-3.5	0.0	11.9	-4.2	-6.3

Source – Capital Economics

Table A5 (Cont'd): Total Returns in Alternative Currencies

% y/y	Office Property				Industrial Property			
	2010	2011	2012	Average 2013-2015	2010	2011	2012	Average 2013-2015
Austria								
In EURO	10.2	12.7	11.0	3.7	7.6	7.4	11.4	8.0
In GBP	5.4	15.4	6.6	-1.3	3.0	10.0	7.1	2.9
In US\$	1.4	18.1	3.4	-4.2	-0.8	12.5	4.0	-0.1
Belgium								
In EURO	9.1	6.4	6.8	6.5	4.7	15.5	7.6	7.4
In GBP	4.3	8.9	2.6	1.4	0.1	18.3	3.5	2.3
In US\$	0.4	11.4	-0.4	-1.6	-3.5	21.0	0.5	-0.7
Finland								
In EURO	22.1	17.7	10.1	2.3	13.8	12.1	8.2	6.7
In GBP	16.7	20.6	5.8	-2.7	8.9	14.8	4.0	1.7
In US\$	12.3	23.4	2.6	-5.6	4.9	17.4	1.0	-1.2
France								
In EURO	24.5	11.4	3.7	2.4	21.9	8.5	8.2	5.9
In GBP	18.9	14.1	-0.4	-2.5	16.6	11.1	4.0	0.9
In US\$	14.4	16.8	-3.4	-5.3	12.2	13.7	1.0	-2.0
Germany								
In EURO	10.5	14.3	9.6	2.6	10.5	10.3	7.8	5.7
In GBP	5.6	17.1	5.3	-2.2	5.6	12.9	3.6	0.7
In US\$	1.6	19.9	2.1	-5.0	1.7	15.5	0.6	-2.3
Greece								
In EURO	-3.3	-2.6	0.4	9.7	-15.3	3.3	6.3	13.8
In GBP	-7.5	-0.3	-3.5	4.6	-18.8	5.7	2.3	8.5
In US\$	-10.9	2.0	-6.2	1.6	-21.7	8.0	-0.6	5.3
Ireland								
In EURO	-3.1	-5.6	7.6	13.9	-9.6	-7.9	9.5	17.0
In GBP	-7.2	-3.3	3.5	8.4	-13.4	-5.8	5.4	11.4
In US\$	-10.6	-1.2	0.5	5.1	-16.5	-3.7	2.4	8.2
Italy								
In EURO	13.3	6.9	4.5	1.0	7.8	5.0	7.6	7.7
In GBP	8.3	9.5	0.4	-3.7	3.1	7.4	3.5	2.7
In US\$	4.2	12.0	-2.6	-6.5	-0.6	9.9	0.5	-0.3
Netherlands								
In EURO	15.1	11.5	7.4	5.1	10.8	10.3	11.4	8.1
In GBP	10.0	14.2	3.1	0.1	6.0	13.0	7.1	3.0
In US\$	5.9	16.8	0.1	-2.8	2.1	15.5	3.9	0.0
Portugal								
In EURO	9.0	-7.0	1.5	10.5	4.2	1.7	-0.2	10.0
In GBP	4.2	-4.8	-2.4	5.3	-0.3	4.1	-4.0	4.8
In US\$	0.4	-2.7	-5.2	2.2	-3.9	6.4	-6.7	1.7
Spain								
In EURO	3.7	2.1	4.7	5.9	-0.5	-0.7	5.0	7.3
In GBP	-0.9	4.5	0.6	0.9	-4.7	1.6	1.0	2.3
In US\$	-4.5	6.9	-2.3	-2.1	-8.2	3.9	-1.9	-0.6

Source – Capital Economics

Country Abbreviations

Euro-zone ¹

Austria	AT
Belgium	BG
Finland	FN
France	FR
Germany	Ger
Greece	Hel
Ireland	IR
Italy	IT
Netherlands	NL
Portugal	PT
Spain	ES

Non-euro Europe

Czech Republic	CZ
Denmark	DK
Hungary	HN
Norway	NW
Poland	PL
Romania	RM
Russia	RS
Sweden	SD
Switzerland	SW
Turkey	TK
United Kingdom	UK

¹: data limitations mean that we do not cover other euro-zone economies.

For more details of our methodology and assumptions please refer to *European Commercial Property Focus, "Forecasting European Commercial Property – Our Approach" 26th November 2008*

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If you would like more information about Capital Economics and what we could do for you, then please contact us at the addresses given overleaf.

About Roger Bootle, Managing Director

Roger Bootle is one of the City of London's best known economists. As well as being Managing Director of Capital Economics, he is also Economic Adviser to Deloitte, a Specialist Adviser to the House of Commons Treasury Committee and an Honorary Fellow of the Institute of Actuaries. He was formerly Group Chief Economist of HSBC and, under the previous Conservative government, he was appointed one of the Chancellor's panel of Independent Economic Advisers, the so-called "Wise Men".

He has written many articles and several books on monetary economics. Roger's latest book, *The Trouble with Markets*, analyses the deep causes of the recent financial crisis and discusses the threats to capitalism arising from it. His previous book, *Money for Nothing*, correctly anticipated the financial crisis and has been widely acclaimed. This followed the success of *The Death of Inflation*, published in 1996, which became a best-seller and was subsequently translated into nine languages. Initially dismissed as extreme, *The Death of Inflation* is now widely recognised as prophetic. Roger is also joint author of the book *Theory of Money*, and author of *Index-Linked Gilts*.

Roger is a regular columnist for *The Daily Telegraph* and appears frequently on television and radio.





This document has been prepared by:

Roger Bootle
Kelvin Davidson
James Purvis
Ed Stansfield

For any enquiries, please contact your local office:

North America

2 Bloor Street West, Suite 1740
Toronto, ON, M4W 3E2
Canada
Telephone: **+1 416 413 0428**
Facsimile: **+1 416 413 1342**

Europe

150 Buckingham Palace Road
London SW1W 9TR
United Kingdom
Telephone: **+44 (0)20 7823 5000**
Facsimile: **+44 (0)20 7823 6666**

Asia

#26-03
16 Collyer Quay
Singapore 049318
Telephone: **+65 65 95 5190**
Facsimile: **+65 65 95 5199**

Email: publications@capitaleconomics.com

Website: www.capitaleconomics.com