

THE NON-EURO-ZONE COMMERCIAL PROPERTY ANALYST

Q3 2011



Yield compression to halt as the recovery falters



- GDP growth will slow in all non-euro-zone economies, but prospects are brightest in Sweden, Norway and Poland.
- Fears over the pace of recovery and the need to offset the impact of tighter fiscal policy will keep interest rates low.
- But the scope for further yield compression is very limited
- Income will be the primary driver of total returns.



Final responsibility for the content of
this review rests with Capital Economics Ltd.

Design by Bobby Gunthorpe

© Capital Economics 2011

Disclaimer: While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Capital Economics Limited and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or investments.

THE NON-EURO EUROPEAN COMMERCIAL PROPERTY ANALYST



Q3 2011

Contents

The non-euro European commercial property overview	2
The non-euro European investment market outlook	4
Retail occupier markets	8
Office occupier markets	10
Industrial occupier markets	12
Non-euro European property in a wider European context	14
The medium-term outlook for non-euro European property markets	16
Detailed forecast tables by country, sector and currency	17
Country abbreviations	28

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 euro-zone commercial property markets, referred to in this publication, please see *“The Euro-zone 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 Non-euro European Commercial Property Overview

- Taking 2011 and 2012 together, the prospects for all-property returns in Norway and Sweden now look brighter than at the time of the previous *Analyst*. In part this reflects stronger-than-anticipated moves in rental values and yields in the first half of the year, but it is also consistent with the relatively robust outlook for economic growth and occupier market demand in these economies. As a result of these changes, Norway and Sweden are expected to deliver some of the strongest returns over the next two years.
- Yet, if we are right, most Emerging European markets will overtake them in the later stages of the forecast horizon. The UK will also compare favourably on a five-year view. The huge returns in Russia are distorted by the sharp yield falls already seen this year, which we do not think will be extended. Stripping this out, annual average returns are likely to be between 12% and 14%. Our forecasts are summarised in Charts 1 to 8 on Page 3.

Investment market outlook

- Recent reports suggest that investment activity in the Nordic states as well as Central and Eastern Europe has held up well, while activity in the UK has slowed. But as economic growth forecasts are scaled back, investors are likely to become less, not more, adventurous. We expect the bulk of investment activity to be narrowly focused on prime assets in Poland, Sweden, Norway and the UK.
- The weak outlook for economic growth should mean that any increases in interest rates in Scandinavia are modest, while we expect interest rates in most of Emerging Europe, the UK and Switzerland to be kept on hold. This

should mean that bond yields also remain low until the end of next year. This could allow some very limited yield compression, especially in Norway, Sweden and Poland. But high property/bond yield spreads are likely to be a feature of the next two years as income security concerns persist.

- While the timing is hugely uncertain, in the medium term, property yields are more likely to rise than to fall as bond yields begin to anticipate a normalisation of monetary policy.

Occupier market outlook

- To date, the economic recovery has made little dent in vacancy rates. And with economic growth likely to fall below the trend rate over the next year or two, the pace of rental value growth is likely to moderate in all markets. However, unless we are completely underestimating the extent of the slowdown, the risks of renewed falls in rental values are small.
- In the short term, we think that rental value growth generally will be strongest in Norway, Sweden and Poland, though over the medium term, the scale of rental value falls seen during the corrections in Romania and Russia creates some scope for catch-up.

Winners and losers

- Our forecasts do not envisage much scope for medium-term capital value growth in the non-euro-zone markets. Thus, income will be the key driver of total returns. That will tend to mean that Emerging European industrial returns are among the highest on a five-year view. We expect the Swiss and Danish markets to underperform.

The Commercial Property Outlook – Summary Charts

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

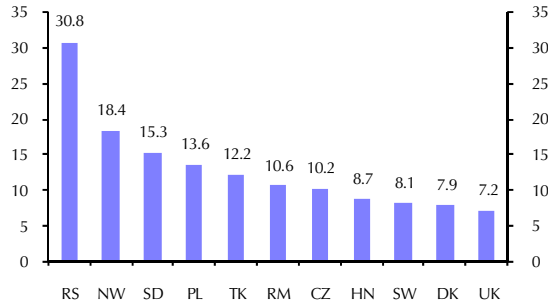


Chart 2: Forecast All-Property Total Returns (2011-15 Average, %y/y)

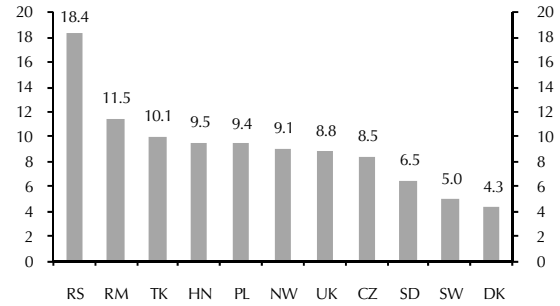


Chart 3: Forecast Retail Property Total Returns (2011-12 Average, %y/y)

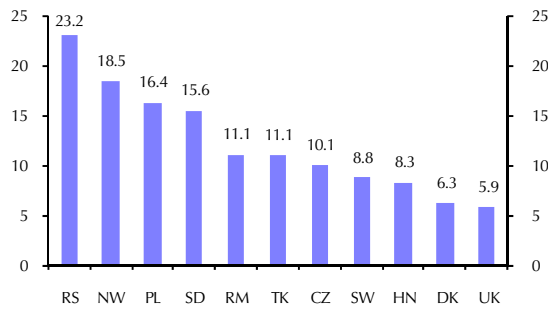


Chart 4: Forecast Retail Property Total Returns (2011-15 Average, %y/y)

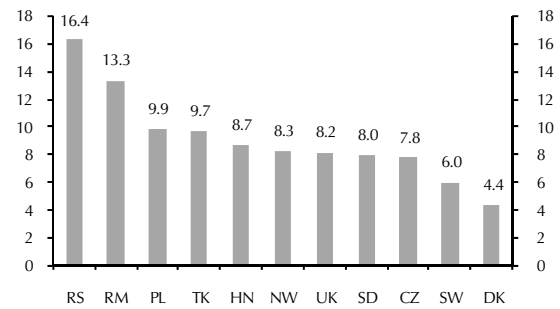


Chart 5: Forecast Office Property Total Returns (2011-12 Average, %y/y)

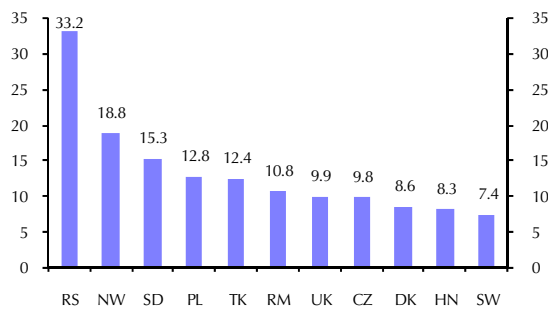


Chart 6: Forecast Office Property Total Returns (2011-15 Average, %y/y)

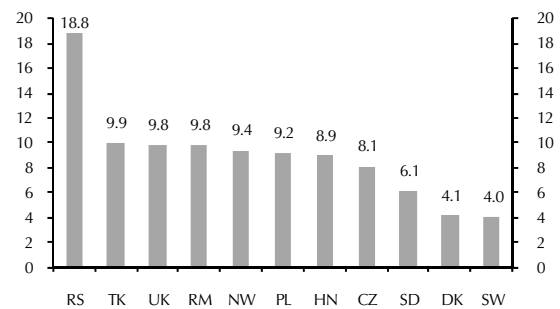


Chart 7: Forecast Industrial Property Total Returns (2011-12 Average, %y/y)

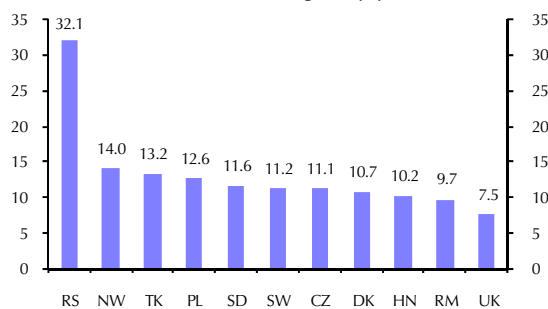
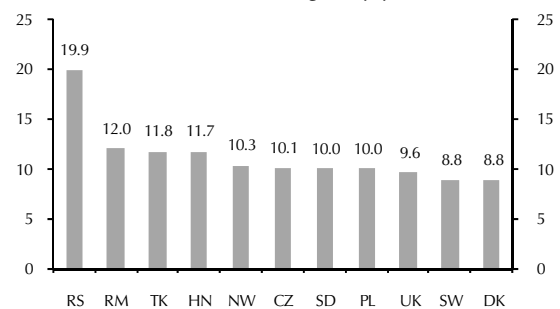


Chart 8: Forecast Industrial Property Total Returns (2011-15 Average, %y/y)



Source – Capital Economics

The Non-euro European Investment Market Outlook

- With the exception of Moscow, prime commercial property yields in non-euro-zone markets were either stable or fell only modestly in the second quarter. (See Chart 1.) But bond yields also typically dropped by 30bps or 40bps, leaving property in most markets marginally better value on a comparative yield basis. Yields fell in all sectors of the Moscow market. (See Table on Page 5.)
- Investment activity in the UK cooled sharply in the second quarter. (See Chart 2.) This could reflect valuation concerns, the lack of suitable stock for sale or worries about the recovery. By contrast, investment in the Nordic region was strong, reversing the previous quarter's fall. And across Central and Eastern Europe, investment remained at, or a fraction above, the levels seen in the second half 2010.
- We expect US, UK and German bond yields to edge down over the next 18 months. (See Chart 3.) Given our belief that Bunds and Treasuries are the best measure of risk-free rates for Emerging European property markets where prime rents are typically denominated in euros or dollars, that implies some modest scope for yield compression.
- However, July's bail-out package for Greece will not end the sovereign debt crisis. Over recent weeks, the costs of insuring against default in Emerging Europe have risen. (See Chart 4.) If we are right and the crisis rumbles on, these concerns will intensify and Emerging European currencies may come under pressure. While occupier fundamentals are likely to prove more resilient in Sweden and Norway, bond yields will be less supportive. In short, the scope for further yield compression in any non-euro zone property market looks limited.

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

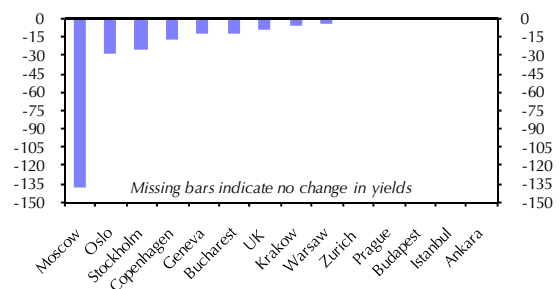


Chart 2: Commercial Property Investment Transactions (Euro Million)

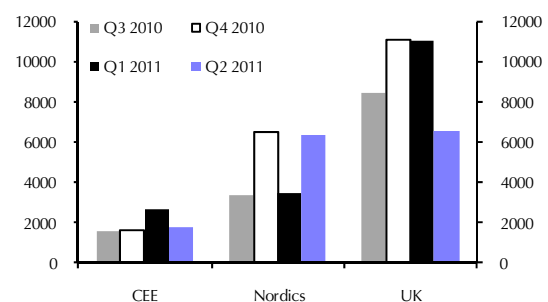


Chart 3: 10-Year Government Bond Yields (%)

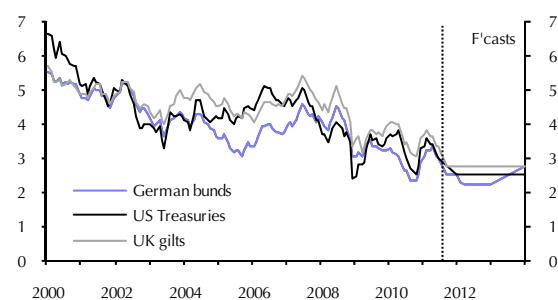
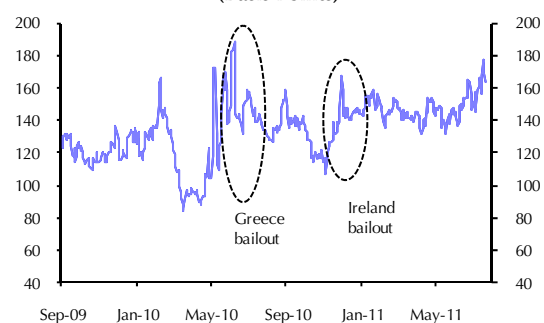


Chart 4: Polish 5-Year Credit Default Swap (CDS) Premium (Basis Points)



Sources – Thomson Datastream, Various Agents

Non-euro-zone European Commercial Property: Comparative Yields by Sector

Retail Property						Office Property						Industrial Property					
Latest yield	Qtly shift	Spread over:			Div'd yield	Latest yield	Qtly shift	Spread over:			Latest yield	Qtly shift	Spread over:				
		10-year bonds						10-year bonds					10-year bonds				
Q1%	bps	Nat'nal	Bunds/UST*	bps	Q1%	bps	Nat'nal	Bunds/UST*	bps	Q1%	bps	Nat'nal	Bunds/UST*	bps			
Czech Republic (Prague)	6.46	0	262	349	26	Czech Republic (Prague)	6.54	0	270	357	34	Czech Republic (Prague)	8.21	0	437	524	201
Denmark (Copenhagen)	4.75	0	157	152	369	Denmark (Copenhagen)	4.73	-24	154	150	367	Denmark (Copenhagen)	7.38	0	419	415	632
Hungary (Budapest)	7.04	0	-27	407	396	Hungary (Budapest)	7.50	0	19	452	442	Hungary (Budapest)	9.00	0	169	603	592
Norway (Oslo)	4.97	-25	160	174	226	Norway (Oslo)	5.49	-32	212	226	278	Norway (Oslo)	6.68	0	331	345	397
Poland	6.89	-16	107	392	423	Poland	6.76	0	94	378	410	Poland	8.01	0	219	503	535
Warsaw	6.26	-15	44	328	360	Warsaw	6.53	0	71	356	387	Warsaw	8.01	0	219	503	535
Krakow	8.30	-20	248	533	564	Krakow	7.25	0	143	427	459	Krakow	8.01	1	219	503	535
Romania (Bucharest)	9.54	0	n/a	656	729	Romania (Bucharest)	8.47	-25	n/a	550	622	Romania (Bucharest)	9.88	0	n/a	690	763
Russia * (Moscow)	9.04	-129	393	607	783	Russia * (Moscow)	8.14	-136	303	517	693	Russia * (Moscow)	9.92	-173	481	694	871
Sweden (Stockholm)	4.81	-25	191	158	233	Sweden (Stockholm)	4.64	-24	174	141	216	Sweden (Stockholm)	6.84	0	401	361	443
Switzerland	4.49	-8	286	126	160	Switzerland	4.55	0	292	132	166	Switzerland	6.84	-9	520	361	395
Zurich	4.35	0	272	112	146	Zurich	4.45	0	282	122	156	Zurich	7.21	0	558	398	432
Geneva	4.75	-25	312	152	186	Geneva	4.75	0	312	152	186	Geneva	6.10	-27	447	287	321
Turkey *	8.51	0	-109	552	644	Turkey *	8.59	0	-101	560	652	Turkey *	10.30	0	70	731	823
Istanbul *	7.77	0	-183	480	570	Istanbul *	8.08	0	-152	510	601	Istanbul *	10.33	0	73	735	826
Ankara *	10.50	0	90	752	843	Ankara *	10.00	0	40	702	793	Ankara *	10.25	0	65	727	818
UK +	6.03	-5	265	280	275	UK +	6.18	-12	280	295	290	UK +	7.03	-8	365	380	375

Sources: Thomson Datastream, Bloomberg, various Agents and Capital Economics

* denotes that the comparison is against US Treasuries, otherwise the comparison is against bunds.

+ UK figures are IPD rather than agency data on prime yields

The Non-euro European Investment Market Outlook – by Sector

- A simple comparison of all-property/bond yield spreads in the second quarter of 2011 suggests that Emerging European markets are typically more attractively priced than their Western counterparts. (See Chart 1.)
- A similar conclusion stems from a comparison of property yields today with the lows recorded in mid-2008, immediately prior to the most recent correction. (See Chart 2.)
- That said, property/bond yield spreads should vary across markets according to investors' perceptions of the differing liquidity and transparency risks as well as the outlook for rental value growth. As a result, it may be better to compare property/bond yield spreads today with their average or normal levels.¹
- In the **retail** market, such a comparison suggests that many Emerging markets, notably Moscow and Istanbul, but also Prague, offer less value than markets such as Stockholm or Geneva. (See Chart 3.) However, the short history of data for Russia and Turkey, together with the fact that yields in these markets have not fallen below their 2008 lows, makes us wary of concluding that they are overvalued.
- Nevertheless, if we are right that consumer spending in Russia will soon begin to slow, any further falls in Moscow yields over the next 18 months are likely to be very moderate. In Turkey, too, with the risks of a hard landing increasing, we expect yield compression to be limited to Ankara, where yields have not fallen anything like as far as in Istanbul.
- Among the other Emerging European markets, economic fundamentals as well as valuations suggest that Warsaw has the most scope for further yield compression. In Western markets, retail yields in Oslo and Stockholm could move 20bps to 30bps lower, but elsewhere they are likely to hold steady. (See Chart 4.)
- In **office** markets, property/bond yield spreads are typically within 30 basis points of normal levels, the main exceptions in both directions being Emerging markets. (See Chart 5.) That suggests that there may be marginally less scope for yield compression over the next year or two than in retail markets.
- Given their relatively strong economic fundamentals, we would not rule out yield falls of between 20bps and 30bps in Oslo, Stockholm and Poland. Elsewhere, we find it hard to argue against a period of broadly stable yields. (See Chart 6.)
- In **industrial** markets, leaving Moscow and its limited history aside, Oslo and Geneva stand out as looking most fully priced, while Copenhagen and Warsaw look among the least expensive. (See Chart 7.)
- In our view, the high levels of spare capacity in the UK, Hungary and Romania mean it is too soon to look for a recovery in industrial yields. Poland's stronger growth outlook points to larger falls in yields in Warsaw than in Copenhagen. A modestly larger fall in yields in Zurich would help restore past yield differentials with Geneva. (See Chart 8.)

¹ UK figures shown here use IPD data. Thus, they are not strictly comparable with the agency data for prime yields used for other markets. Our UK forecasts are discussed in more detail in our dedicated *UK Commercial Property Service*.

Commercial Property Yields by Sector

Chart 1: All-Property/Bond Yield Spreads, Q2 2011, (Basis Points)

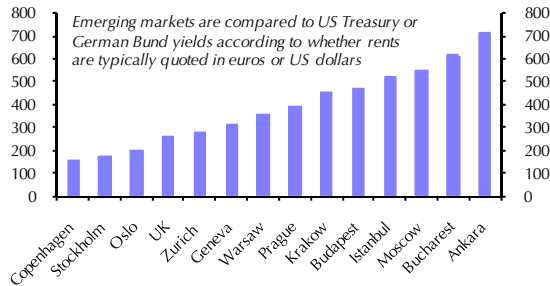


Chart 2: All-Property Yields, Q2 2011 v mid-2008 Low (Basis points)

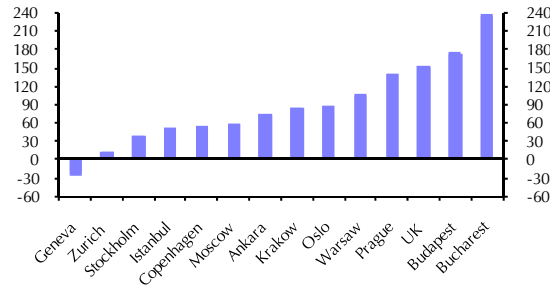


Chart 3: Spread Between Retail and 10-Year Bond Yields (Difference from Long-Run Average) Basis Points

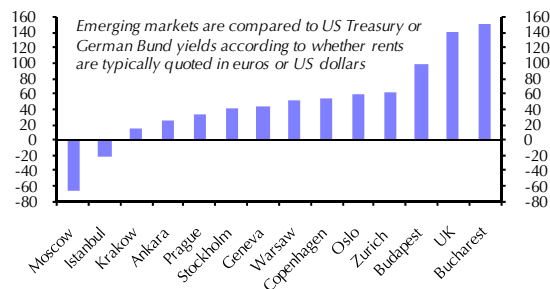


Chart 4: Forecast Change in Retail Yields Q2 2011 v Q4 2012 (Basis Points)

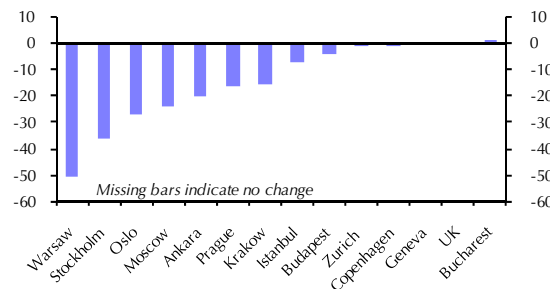


Chart 5: Spread Between Office and 10-Year Bond Yields (Difference from Long-Run Average) Basis Points

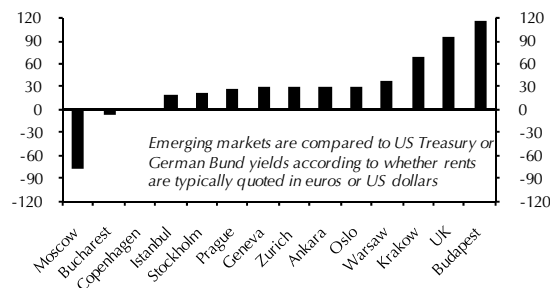


Chart 6: Forecast Change in Office Yields Q2 2011 v Q4 2012 (Basis Points)

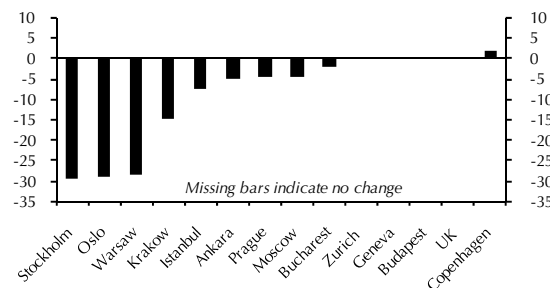


Chart 7: Spread Between Industrial and 10-Year Bond Yields (Difference from Long-Run Average) Basis Points

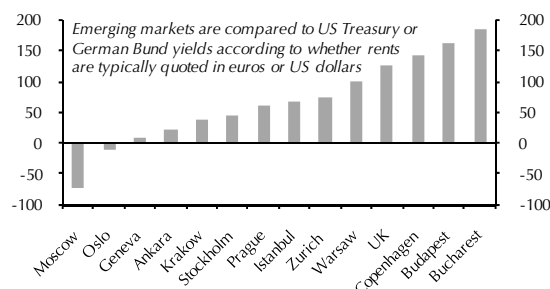
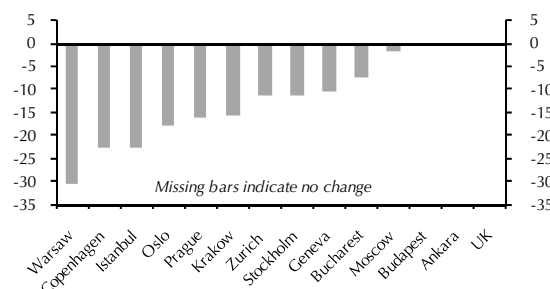


Chart 8: Forecast Change in Industrial Yields Q2 2011 v Q4 2012 (Basis Points)



Sources – Thomson Datastream, Various Agents, Capital Economics

Retail Occupier Markets

- We expect most non-euro-zone European retail markets to see some degree of rental growth this year. Near-term prospects appear brightest in Sweden, Poland and Norway.
- Taking 2010 as a whole, relative to existing stock, shopping centre completion volumes amounted to 2% or less in developed non-euro-zone markets. But at 7% of stock or more, completions were far more significant in Turkey, Romania and Russia. (See Chart 1.)
- Moreover, the latest data show that in absolute terms shopping centre development pipelines are not only far larger in Turkey and Russia than elsewhere, but are also rising. Similarly, growing optimism about the Polish retail sector helped to boost the development pipeline in the second half of 2010. Meanwhile, pipelines in the Nordics and Hungary look very modest. (See Chart 2.)
- When measured relative to existing stock, shopping centre pipelines in the UK and the Nordics also look small. But in Poland, Hungary, the Czech Republic and Romania, retail pipelines are between 8.5% and 11.5% of stock. However, in Russia and Turkey, if delivered, shopping centre pipelines will boost the stock by a quarter and a third respectively by the end of 2012. (See Chart 3.)
- Even then, however, Russia and Turkey would both still only have about 100sqm of gross lettable area per 1,000 people. That is 40% of the EU-27 average. On this basis, Romania and Hungary look similarly undersupplied. (See Chart 4.) But against an uncertain demand backdrop, rapid growth in the stock of retail property will tend to act as a brake on rental value growth.
- The very weak outlook for consumer spending in the UK means that retail rents will end 2011 below where they started. We also see little prospect of rental value growth in Hungary and Romania. In both economies, consumer spending will grow both this year and next, but this will do little to reverse the falls seen over the previous two years. Thus, retail occupier demand will remain subdued. (See Chart 5.)
- Elsewhere, we are more upbeat about the prospects for rental growth this year. However, domestic demand will remain sluggish in Denmark and the Czech Republic. Thus we have pencilled in only modest rental growth this year. The near-term outlook is brighter in Turkey and Russia, where private consumption growth may be above trend both this year and next. However, we have lowered our 2012 and 2013 rental growth forecasts for Turkey to reflect the growing risk of a hard landing. (See Chart 6.)
- Meanwhile, we think that retail rental value growth will be stronger in the remaining Nordic markets and in Poland. Domestic demand in all three economies looks set to remain robust. In Switzerland, retail rental values have already risen quite strongly in the first half of this year. But we do not expect that to be sustained and see growth grinding to a halt in 2012. (See Chart 7.)
- Over the medium term, we think that most non-euro-zone European retail markets will see rental growth of between 2% and 3% per year. But we think that Romania, Sweden and Russia might outperform. (See Chart 8.) In Romania's case, this, in part, reflects the sheer scale of rental decline during the downturn.

Retail Occupier Market Charts

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

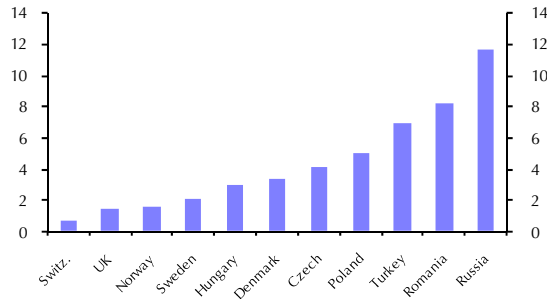


Chart 2: Shopping Centre Development Pipelines (000s Sqm)

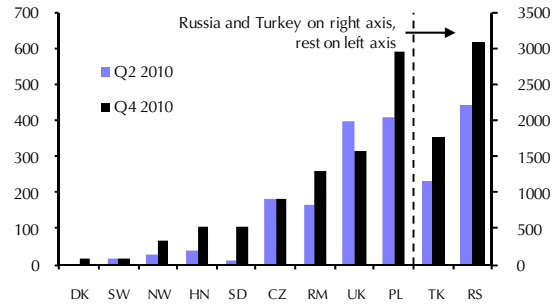


Chart 3: Shopping Centre Development Pipelines (% of Existing Stock)

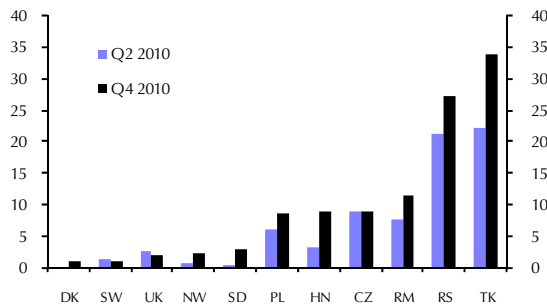


Chart 4: Existing Shopping Centre Stock Plus Pipeline (Sqm per 1,000 Population)

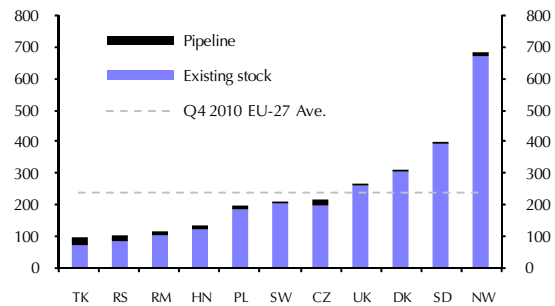


Chart 5: Rental Value Growth Forecasts (UK, Hungary & Romania, %/y)

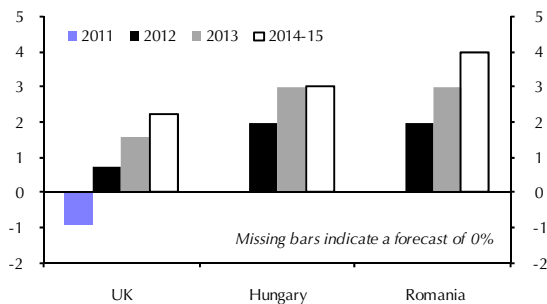


Chart 6: Rental Value Growth Forecasts (Denmark, Czech Republic, Turkey & Russia, %/y)

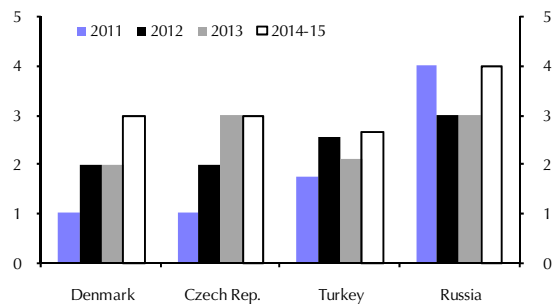


Chart 7: Rental Value Growth Forecasts (Sweden, Poland, Switzerland & Norway, %/y)

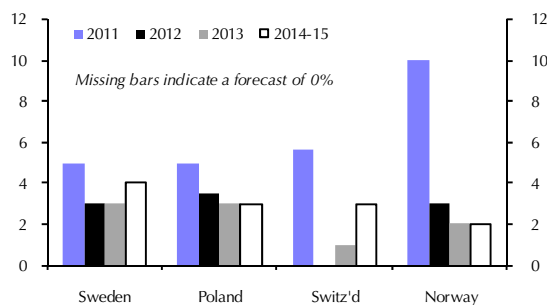
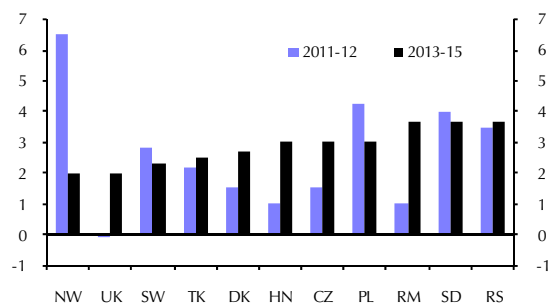


Chart 8: Rental Value Growth Forecasts (2011-12 & 2013-15 Averages, %/y)



Sources – Cushman & Wakefield, Capital Economics

Office Occupier Markets

- Many non-euro-zone European office markets have already recorded some rental value growth. This is encouraging, but we suspect that most markets will struggle to sustain the recent momentum as GDP and employment growth slow.
- Compared to activity levels in the second half of 2010, office take-up in the first half was mixed. For example, take-up in Zurich, Bucharest and Prague increased markedly, but it declined sharply in Geneva and London's City market. (See Chart 1.)
- A similarly mixed picture emerges when comparing take-up in the first half to the same period in 2010. On this comparison, the Warsaw office market saw the largest increase in take-up, with activity more than doubling. Take-up in Budapest also rose quite strongly on an annual comparison, while Zurich and Geneva saw the biggest drops. (See Chart 2.)
- Despite the mixed picture of office occupier demand, vacancy rates mostly fell in the second quarter. The most substantial fall, of 355bps, was in Bucharest. But vacancy rates in Oslo, London City, Prague and Copenhagen all fell by between 90bps and 110bps. Zurich and Moscow bucked the trend, their vacancy rates rising by about 10bps and 40bps respectively. (See Chart 3.)
- Even after the latest rise, however, the vacancy rate in Zurich remains low. But the same cannot be said for Moscow where 15.4% of the stock of office space is now empty. This is especially concerning given the huge office development pipeline there. The same is true in Bucharest where, taken together, the development pipeline plus the current vacancy rate equate to roughly 35% of the existing stock. (See Chart 4.)
- Unfortunately, we think the outlook for office occupier demand is poor in Hungary, while Romania will not be much better. Employment growth is likely to be less than 1% this year in both economies, and is unlikely to improve materially before 2014. Against a backdrop of ample supply, we do not think that rents will begin to rise until 2012 or 2013. Office rents in Denmark rose a little in the second quarter, but given that the economy has fallen back in to recession, we suspect that growth may soon slow again. (See Chart 5.)
- Similarly, office rents in Switzerland have risen a little since the turn of the year. But the weak outlook for the Swiss labour market suggests that this growth is unlikely to be extended. Office rental growth looks more ingrained in the Czech Republic and, thanks to the Central London market, the UK. (See Chart 6.) Turkish office rents should continue to increase moderately next year, but that growth may slow in 2013 if we are right that the economy will suffer a hard landing.
- The prospects for office rental value growth are stronger in the remaining Nordic markets as well as in Poland and Russia. However, we expect this year's impressive growth rates to moderate in 2012 and beyond as the economic and labour market recoveries lose momentum. (See Chart 7.)
- The build up of spare capacity over the next year or so argues against sharp recoveries in employment growth. That points to only modest rental value growth in the medium term. (See Chart 8.)

Office Occupier Market Charts

Chart 1: Change in Office Take-Up (H1 2011 vs. H2 2010, %)

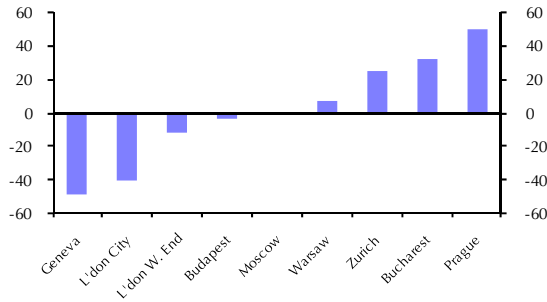


Chart 1: Change in Office Take-Up (H1 2011 vs. H1 2010, %)

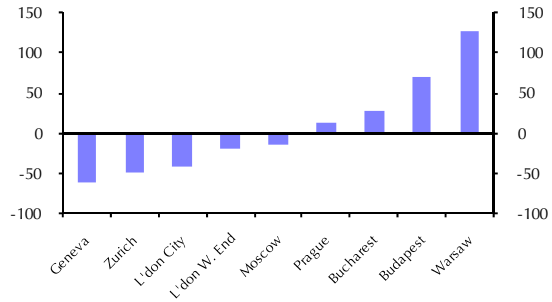


Chart 3: Change in Office Vacancy Rates (Q2 2011, Bps q/q)

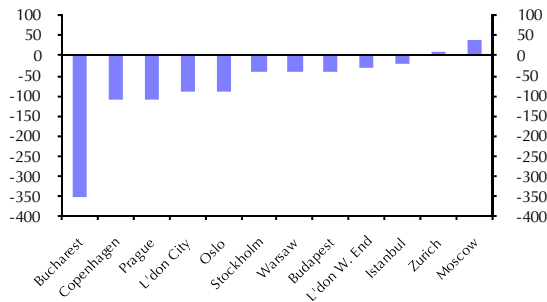


Chart 4: Office Market Vacancy Rates and Pipelines to End-2012 (% of Existing Stock)

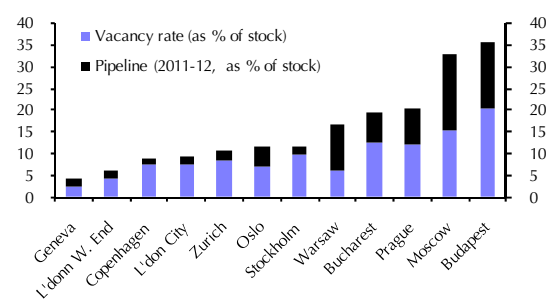


Chart 5: Rental Value Growth Forecasts (Romania, Hungary & the UK, %y/y)

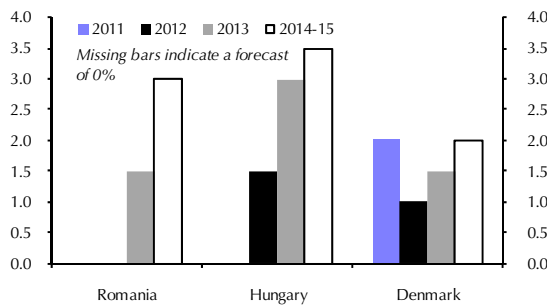


Chart 6: Rental Value Growth Forecasts (Denmark, Czech Republic, Switzerland & Turkey, %y/y)

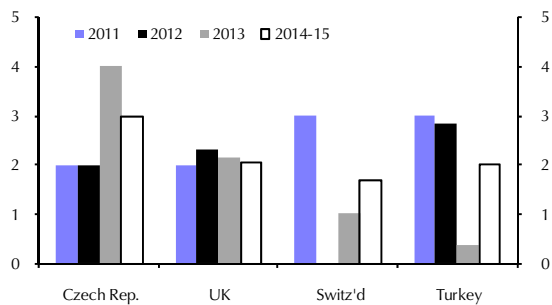


Chart 7: Rental Value Growth Forecasts (Poland, Sweden, Norway & Russia, %y/y)

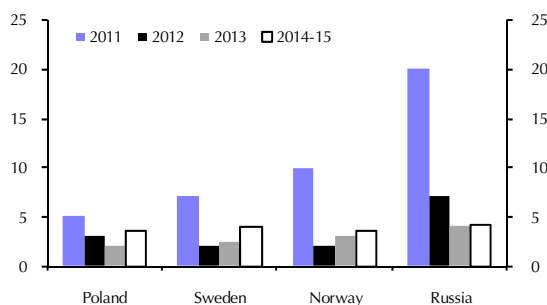
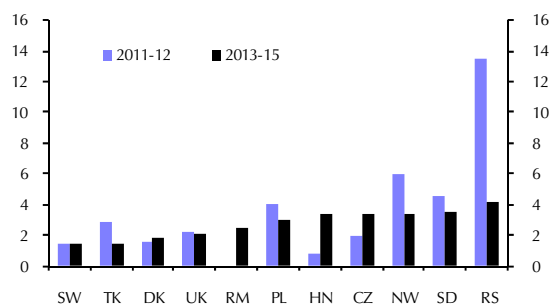


Chart 8: Rental Value Growth Forecasts (2011-12 & 2013-15 Averages, %y/y)



Sources – Various Agents, Capital Economics

Industrial Occupier Markets

- Most non-euro-zone European industrial markets should record some rental value growth this year. But as industrial recoveries fade over the next year or so, the pace of rental value growth is likely to slow.
- For the non-euro-zone European markets where data are available, industrial take-up in the first quarter of 2011 was generally between 10% and 20% lower than in the same period last year. Hungary was the only exception. (See Chart 1.)
- Compared to a five-year average, take-up data look a little more encouraging. Only in the UK, was take-up notably low. (See Chart 2.) However, just as in the euro-zone, industrial take-up in non-euro-zone markets is mostly driven by occupiers capitalising on lower rent levels to upgrade space and optimise networks. There is little expansionary demand. If we are right that industrial recoveries will continue to lose momentum, that picture is unlikely to change in the near future.
- Relative to the size of the economy, at about 220sqm per €1,000 of 2010 GDP, Hungary has the smallest amount of industrial floorspace under construction in the region. On this measure, the UK's pipeline is also relatively small. But, at 605sqm and 785sqm respectively, the figures for Poland and Russia are high. However, on this measure, the Czech Republic has by far the largest development pipeline (See Chart 3.)
- Nevertheless, even if all the space under construction in the Czech Republic is delivered in one year, that would represent a significantly lower volume of completions compared to recent averages. The same is true for all other markets where data are available. (See Chart 4.)
- Even so, the recoveries in industrial production have yet to reverse fully the falls in output seen during the recession. That suggests there is excess capacity in the sector which, in turn, suggests an above-average level of empty or underutilised stock.
- If we are right that GDP growth will remain well below trend in Romania and the UK this year, we cannot rule out further falls in industrial rental values in those markets. We think a period of stagnation is more likely in Hungary and Poland. (See Chart 5.)
- Elsewhere, we think there is scope for industrial rental values to increase this year. Occupier demand in the highly-open Czech economy, for example, has benefited from the strength of Germany's manufacturing sector. Similarly, strong GDP growth in Sweden has already resulted in quite strong industrial rental value growth. Although above-trend rates of domestic demand growth in Sweden should help to cushion rental values from slowing external demand, the already high level of rents in Sweden will mean that rental growth slows in the second half of this year and in 2012. (See Chart 6.)
- Industrial rents in Turkey, Russia and Norway have also risen quite strongly in recent quarters, meaning that growth in 2011 as a whole is likely to be stronger than elsewhere. But in each case, moderating economic growth will mean the pace of rental growth slows. (See Chart 7.)
- Over the medium term, industrial rental value growth is likely to average 2.5% or less in many non-euro-zone European markets. But we expect slight outperformance in Poland, Russia, Sweden, the Czech Republic and Norway. (See Chart 8.)

Industrial Occupier Market Charts

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

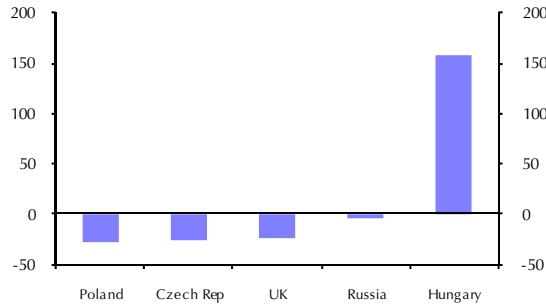


Chart 2: Industrial Take-Up (Q1 2011 vs. 5-year Average)

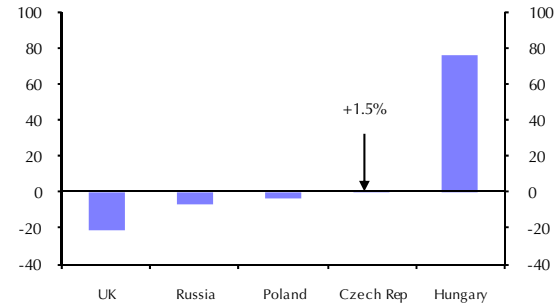


Chart 3: Industrial Space Under Construction (Q1 2011, Sqm per 1,000 Euros of 2010 GDP)

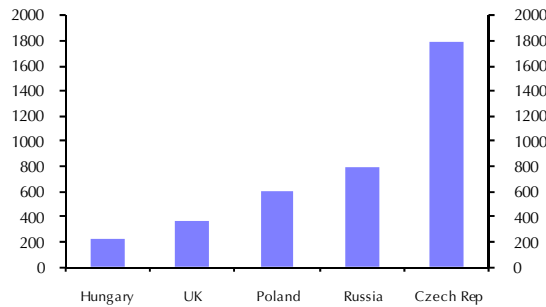


Chart 4: Industrial Space Under Construction (000s Sqm)

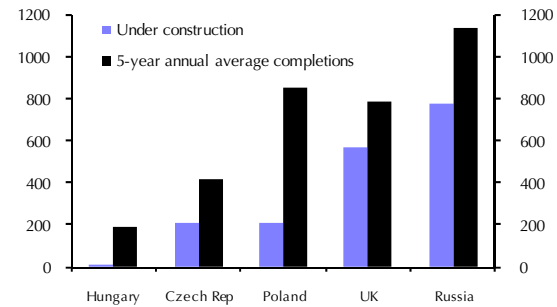


Chart 5: Rental Value Growth Forecasts (Romania, the UK, Hungary & Poland, %/y)

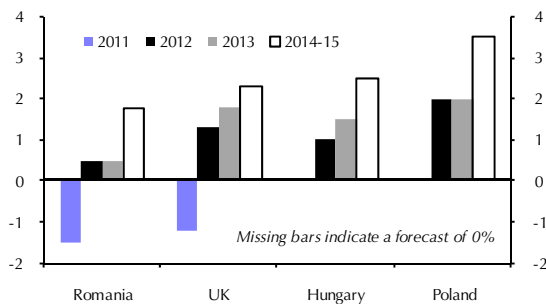


Chart 6: Rental Value Growth Forecasts (Denmark, Czech Republic, Sweden & Switzerland, %/y)

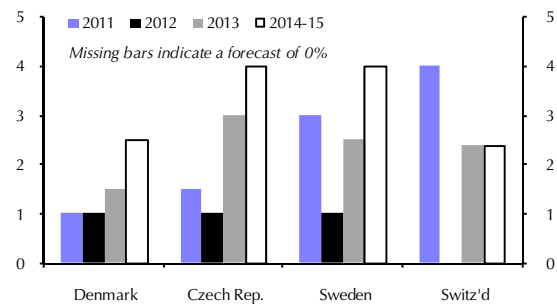


Chart 7: Rental Value Growth Forecasts (Turkey, Norway & Russia, %/y)

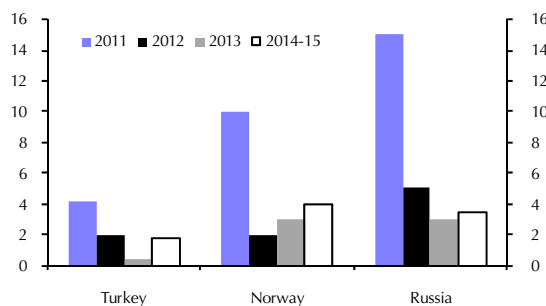
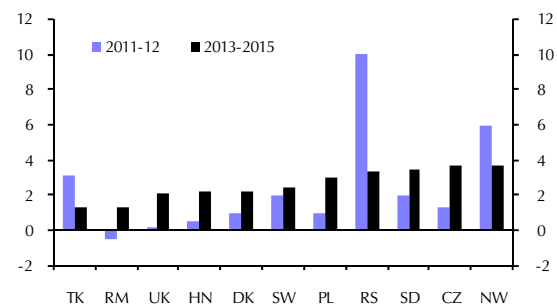


Chart 8: Rental Value Growth Forecasts (2011-12 & 2013-15 Averages, %/y)



Sources – Jones Lang LaSalle, Capital Economics

Non-euro European Property in a Wider European Context

- Within Europe, taking the years 2011 to 2013 together, we think that all-property returns will typically be highest in Emerging Europe, led by Russia. Norway and Sweden also look set to deliver above-average returns. But property markets in the euro-zone's peripheral economies will underperform. (See Table 1 on Page 15.)
- Indeed, relatively strong economic growth in Russia, Turkey, Poland, Norway and Sweden suggests that there is greater scope 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 already 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. In 2012 and 2013, we expect returns to slow to about 14% per year. At the other end of the spectrum, we still expect Denmark and Switzerland to deliver the lowest returns outside the euro-zone.
- Within the euro-zone, 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, where we think that rental growth is likely to stall as economic growth weakens and so there is little chance of yields falling further from their low levels. 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.
- 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)

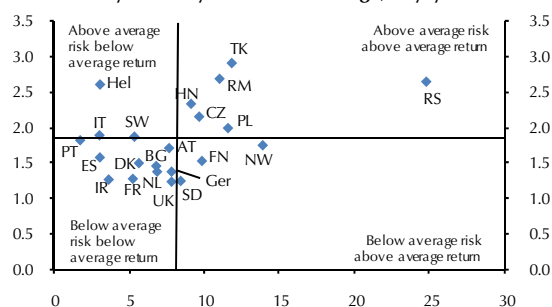
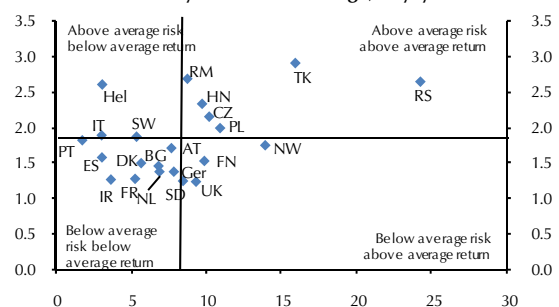


Chart 2: Risk v Forecast Total Returns in Local Currency by Country (2011-13 Average, %y/y)



Sources – JLL and Capital Economics

Non-euro European* 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	11.8
Romania	12.4	Poland	11.2	Poland	11.4	Poland	11.6
Turkey	11.0	Finland	10.5	Hungary	11.2	Romania	11.0
Sweden	10.5	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	8.4
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	8.0	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	15.0	Turkey	16.2	Turkey	16.3	Turkey	15.9
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	8.4
Germany	6.6	Romania	8.0	Denmark	9.2	Germany	7.8
Netherlands	6.3	Sweden	8.0	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 Non-euro European Property Markets

- Economic growth is likely to be sub-trend in both 2012 and 2013. (See Chart 1.) Thereafter, we assume that growth will recover. The further growth dips below trend in the short term, the more potential there will be for a stronger recovery before policymakers apply the brakes. In Emerging Europe, that suggests that the Czech Republic and Romania may have the most upside potential. In the West, the same is true of the UK and Denmark.
- Yet even if that potential is delivered, commercial property rental value growth is likely to be stronger in markets where economic growth has held up better in the short term. These economies will be operating with a lower degree of spare capacity and thus less surplus space. Among Emerging markets, therefore, we believe that Russia and Poland have the best medium-term rental value growth prospects, while Norway and Sweden should lead the way in the West. (See Chart 2.)
- A return to more normal growth patterns is also likely to trigger a rise in bond yields as financial markets start to price in tighter monetary policy. All else being equal, that will put upward pressure on property yields, especially in markets such as Norway and Sweden, where yields have fallen the furthest in the recovery from the recession. (See Chart 3.)
- With the impact of rising rental values being offset by the upward drift in yields, there will be little, if any, capital value growth. Thus, income returns will drive total returns with the result that Emerging markets fare better than Western markets. (See Chart 4.) The UK, where we believe that bond yields can normalise without necessarily triggering a rise in property yields, may be the exception. But there is a risk that our UK forecasts are too sanguine.

Chart 1: GDP Growth forecasts
(Deviation from Trend Growth, Percentage Points)

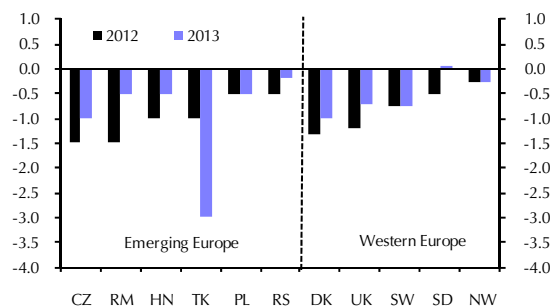


Chart 2: All-Property Prime Rental Value Growth Forecasts
(%y/y) (2014-15 Average)

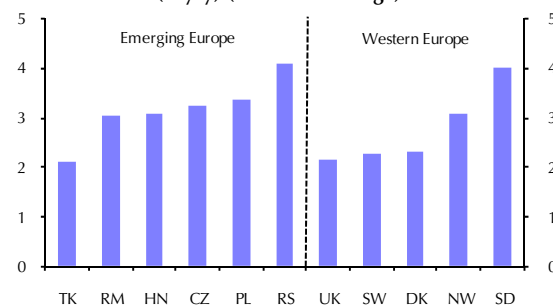


Chart 3: Forecast Changes in All-Property Yields
(Basis Points)

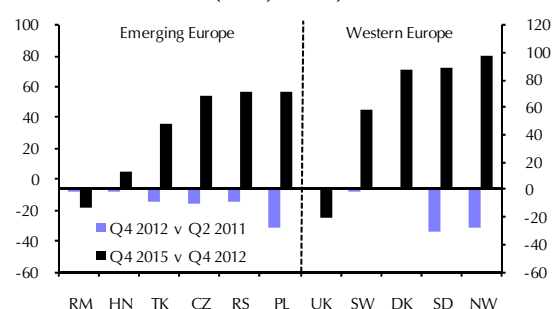
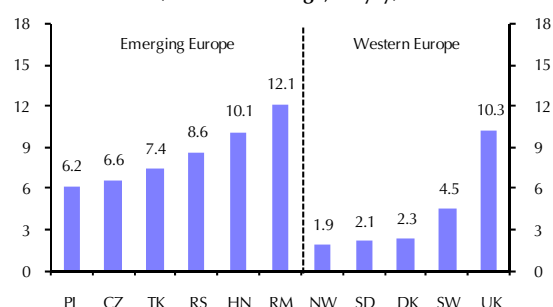


Chart 4: All-Property Total Returns Forecasts
(2014-15 Average, % y/y)



Sources –Thomson Datastream and Capital Economics

Detailed Forecast Tables by Country, Sector and Currency

Table A1: All-property

Data are in headline currencies	2010	2011	2012	2013	2014	2015	Average 2011- 15
Czech Republic (EUR)							
Rental growth	0.9	1.6	1.8	3.4	3.0	3.5	2.6
Yields	7.0	6.8	6.8	6.9	7.2	7.5	7.1
Capital value growth	6.2	4.6	2.2	1.6	-0.7	-0.7	1.4
Total return	13.3	11.4	9.0	8.6	6.5	6.8	8.5
Denmark (DKK)							
Rental growth	-0.3	1.7	1.3	1.7	2.3	2.3	1.9
Yields	5.0	4.8	4.8	5.1	5.4	5.7	5.2
Capital value growth	9.7	4.8	1.4	-4.0	-4.0	-2.5	-0.8
Total return	14.7	9.6	6.2	1.1	1.4	3.2	4.3
Hungary (EUR)							
Rental growth	-2.2	0.0	1.5	2.6	2.9	3.3	2.1
Yields	7.7	7.7	7.7	7.7	7.8	7.8	7.8
Capital value growth	3.8	0.5	1.5	2.2	1.3	3.3	1.8
Total return	11.6	8.2	9.2	9.9	9.1	11.1	9.5
Norway (NOK)							
Rental growth	3.5	10.0	2.3	2.7	3.1	3.1	4.2
Yields	5.8	5.2	5.1	5.3	5.7	6.1	5.5
Capital value growth	13.5	22.0	4.5	-0.4	-5.0	-3.1	3.6
Total return	19.3	27.2	9.7	4.9	0.7	3.0	9.1
Poland (EUR)							
Rental growth	0.5	4.5	3.0	2.2	2.8	4.0	3.3
Yields	7.0	6.8	6.6	6.7	7.2	7.4	6.9
Capital value growth	9.3	7.5	6.3	0.8	-3.7	1.5	2.5
Total return	16.4	14.3	12.9	7.5	3.5	8.8	9.4
Romania (EUR)							
Rental growth	-5.2	-0.4	0.8	1.8	2.4	3.6	1.6
Yields	9.4	9.1	9.1	9.0	9.0	9.0	9.1
Capital value growth	-1.1	2.2	0.8	2.9	3.1	3.2	2.4
Total return	8.2	11.3	9.9	11.9	12.1	12.2	11.5
Russia (USD)							
Rental growth	11.1	15.8	5.9	3.7	3.9	4.3	6.7
Yields	10.1	8.5	8.4	8.4	9.0	9.2	8.7
Capital value growth	37.2	38.2	6.4	4.6	-3.2	2.3	9.7
Total return	47.4	46.7	14.9	12.9	5.8	11.5	18.4
Sweden (SEK)							
Rental growth	5.7	6.6	2.2	2.6	4.0	4.0	3.9
Yields	4.9	4.5	4.4	4.9	5.1	5.3	4.8
Capital value growth	20.3	16.1	5.6	-7.4	-0.4	-5.6	1.6
Total return	25.2	20.6	10.0	-2.5	4.6	-0.4	6.5
Switzerland (CHF)							
Rental growth	0.5	4.4	0.0	1.0	2.3	2.3	2.0
Yields	4.7	4.6	4.6	4.9	5.1	5.1	4.8
Capital value growth	3.7	7.1	0.0	-5.1	-1.8	0.7	0.2
Total return	8.4	11.6	4.6	-0.2	3.2	5.9	5.0
Turkey (USD)							
Rental growth	1.8	2.8	2.7	0.9	0.8	3.4	2.1
Yields	8.8	8.7	8.7	8.5	8.8	9.1	8.7
Capital value growth	8.1	4.4	2.7	2.6	-2.2	-0.9	1.3
Total return	16.9	13.1	11.3	11.1	6.5	8.2	10.1
UK (GBP)							
Rental growth	-0.4	0.0	1.3	1.8	2.1	2.3	1.5
Yields	6.1	6.1	6.2	6.1	6.0	5.9	6.1
Capital value growth	8.3	0.1	1.1	2.4	3.5	3.7	2.2
Total return	15.2	6.6	7.7	9.1	10.2	10.3	8.8

Source – Capital Economics

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

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

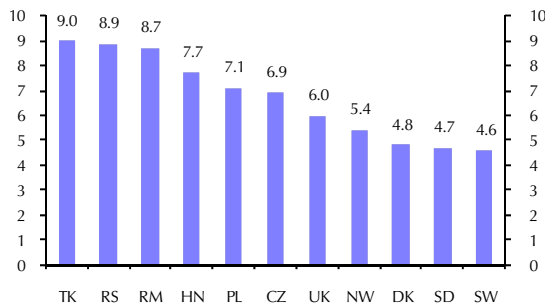


Chart A5: Initial Yields by Country (End-2015, %)



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

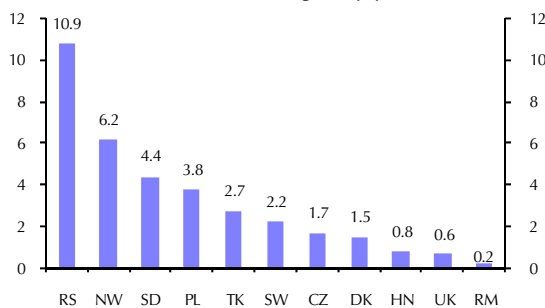


Chart A6: Rental Value Growth by Country (2011-15 Average, %/y)

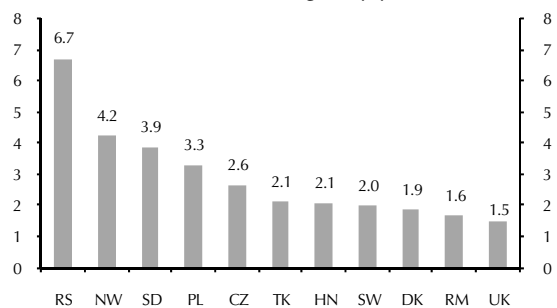


Chart A3: Capital Value Growth by Country (2011-12 Average, %/y)

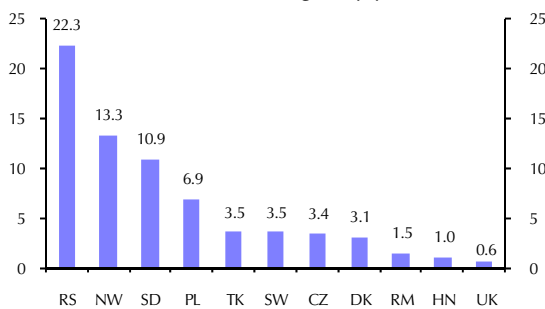


Chart A7: Capital Value Growth by Country (2011-15 Average, %/y)

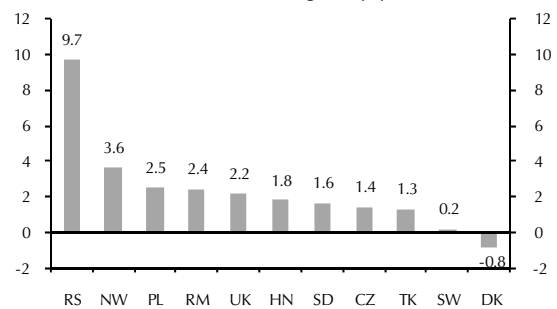


Chart A4: Total Return by Country (2011-12 Average, %/y)

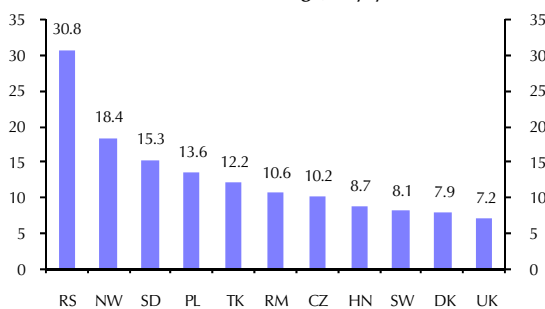
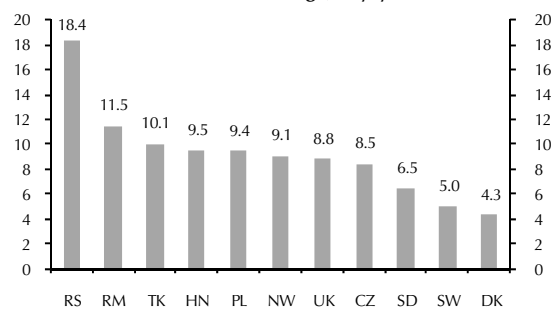


Chart A8: Total Return by Country (2011-15 Average, %/y)



Source – Capital Economics

Table A2: Retail Property

Data are in headline currencies	2010	2011	2012	2013	2014	2015	Average 2011- 15
Czech Republic (EUR)							
Rental growth	0.0	1.0	2.0	3.0	3.0	3.0	2.4
Yields	6.6	6.3	6.3	6.5	6.8	7.0	6.6
Capital value growth	5.6	5.5	2.0	-0.2	-1.5	0.1	1.2
Total return	12.2	11.8	8.3	6.3	5.3	7.1	7.8
Denmark (DKK)							
Rental growth	0.0	1.0	2.0	2.0	3.0	3.0	2.2
Yields	4.8	4.8	4.8	5.1	5.3	5.5	5.1
Capital value growth	5.3	1.1	2.0	-5.0	-0.9	-0.7	-0.7
Total return	10.1	5.8	6.8	0.1	4.4	4.8	4.4
Hungary (EUR)							
Rental growth	-3.1	0.0	2.0	3.0	3.0	3.0	2.2
Yields	7.0	7.0	7.0	7.0	7.3	7.3	7.1
Capital value growth	6.6	0.6	2.0	3.0	-0.6	3.0	1.6
Total return	13.6	7.6	9.0	10.0	6.7	10.3	8.7
Norway (NOK)							
Rental growth	0.0	10.0	3.0	2.0	2.0	2.0	3.8
Yields	5.3	4.9	4.7	4.8	5.2	5.6	5.0
Capital value growth	6.5	21.1	6.3	-0.1	-5.8	-5.3	3.2
Total return	11.8	26.0	11.0	4.7	-0.6	0.3	8.3
Poland (EUR)							
Rental growth	-0.9	5.0	3.5	3.0	2.0	4.0	3.5
Yields	7.2	6.7	6.5	6.7	7.1	7.4	6.9
Capital value growth	7.2	13.1	6.5	-0.8	-3.0	-0.9	3.0
Total return	14.4	19.8	13.0	5.9	4.1	6.6	9.9
Romania (EUR)							
Rental growth	-10.6	0.0	2.0	3.0	4.0	4.0	2.6
Yields	9.7	9.6	9.6	9.3	9.0	9.0	9.3
Capital value growth	-6.5	1.1	2.0	5.8	7.5	4.0	4.1
Total return	3.1	10.6	11.6	15.1	16.5	13.0	13.3
Russia (USD)							
Rental growth	6.7	4.0	3.0	3.0	4.0	4.0	3.6
Yields	10.7	9.0	8.8	8.8	9.0	9.0	8.9
Capital value growth	24.3	23.3	5.3	3.6	1.1	4.0	7.5
Total return	35.0	32.3	14.1	12.3	10.1	13.0	16.4
Sweden (SEK)							
Rental growth	6.1	5.0	3.0	3.0	4.0	4.0	3.8
Yields	5.1	4.6	4.5	4.8	5.1	5.3	4.9
Capital value growth	19.4	15.7	6.5	-4.5	-2.1	0.1	3.1
Total return	24.5	20.3	10.9	0.3	3.0	5.4	8.0
Switzerland (CHF)							
Rental growth	2.6	5.6	0.0	1.0	3.0	3.0	2.5
Yields	4.6	4.5	4.5	4.8	4.9	4.9	4.7
Capital value growth	3.8	8.6	0.0	-5.0	-0.2	3.0	1.3
Total return	8.4	13.1	4.5	-0.2	4.8	7.9	6.0
Turkey (USD)							
Rental growth	4.2	1.8	2.6	2.1	2.0	3.3	2.4
Yields	8.5	8.4	8.4	8.4	8.6	9.0	8.5
Capital value growth	15.2	2.7	2.7	2.4	-0.5	-1.5	1.1
Total return	23.7	11.1	11.1	10.8	8.1	7.4	9.7
UK (GBP)							
Rental growth	-1.4	-0.9	0.7	1.6	2.1	2.4	1.2
Yields	6.7	6.7	6.7	6.6	6.5	6.4	6.6
Capital value growth	9.3	-1.0	0.3	2.2	3.7	3.9	1.8
Total return	16.1	5.2	6.6	8.7	10.1	10.3	8.2

Source – Capital Economics

Retail Sector Rankings: Next Two Years and Next Five Years

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

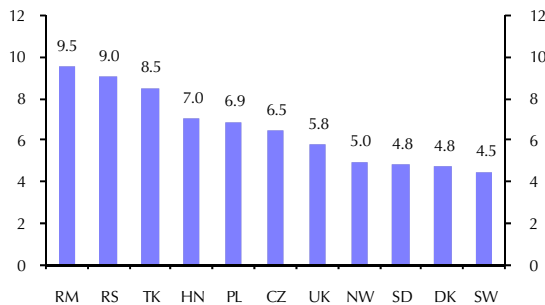


Chart A13: Initial Yields by Country (End-2015, %)



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



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

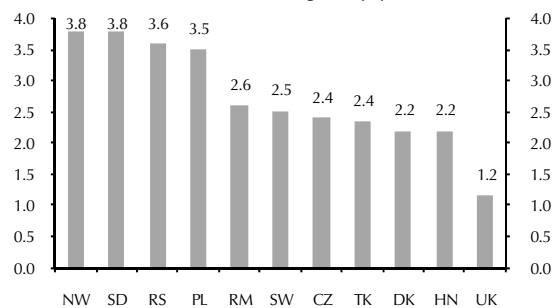


Chart A11: Capital Value Growth by Country (2011-12 Average, %/y)

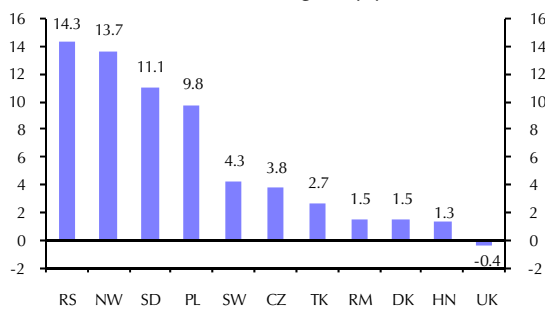


Chart A15: Capital Value Growth by Country (2011-15 Average, %/y)

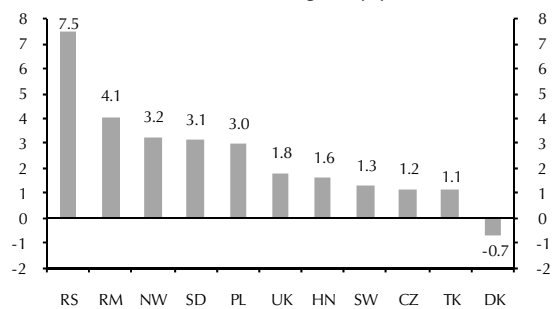


Chart A12: Total Return by Country (2011-12 Average, %/y)

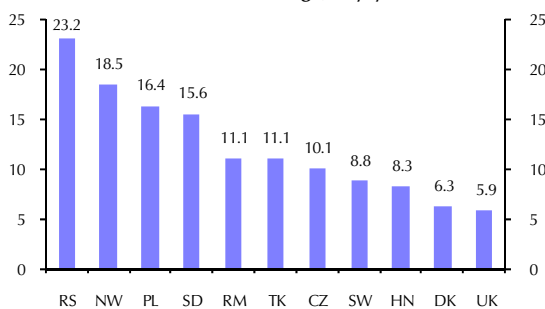
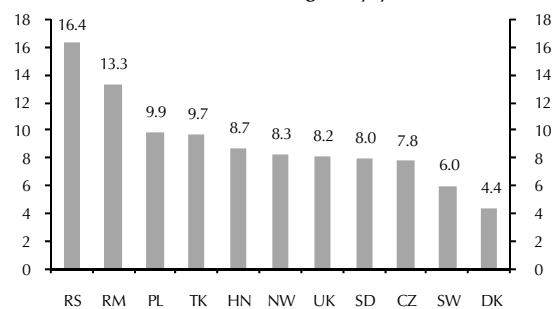


Chart A16: Total Return by Country (2011-15 Average, %/y)



Source – Capital Economics

Table A3: Office Property

Data are in headline currencies	2010	2011	2012	2013	2014	2015	Average 2011- 15
Czech Republic (EUR)							
Rental growth	0.0	2.0	2.0	4.0	3.0	3.0	2.8
Yields	6.7	6.5	6.5	6.5	6.8	7.2	6.7
Capital value growth	5.5	4.6	2.0	4.0	-0.8	-2.8	1.4
Total return	12.2	11.1	8.5	10.5	5.9	4.4	8.1
Denmark (DKK)							
Rental growth	-0.4	2.0	1.0	1.5	2.0	2.0	1.7
Yields	5.0	4.8	4.8	5.0	5.4	5.7	5.1
Capital value growth	11.9	6.6	1.0	-3.6	-5.6	-3.4	-1.0
Total return	16.9	11.4	5.8	1.4	-0.2	2.3	4.1
Hungary (EUR)							
Rental growth	-0.8	0.0	1.5	3.0	3.0	4.0	2.3
Yields	7.5	7.5	7.5	7.7	7.9	7.9	7.7
Capital value growth	3.6	0.0	1.5	0.3	0.4	4.0	1.2
Total return	11.1	7.5	9.0	8.0	8.3	11.9	8.9
Norway (NOK)							
Rental growth	5.8	10.0	2.0	3.0	3.5	3.5	4.4
Yields	5.9	5.3	5.2	5.4	5.9	6.3	5.6
Capital value growth	18.1	23.2	4.0	-0.8	-5.3	-2.3	3.8
Total return	24.0	28.5	9.2	4.6	0.6	4.0	9.4
Poland (EUR)							
Rental growth	3.6	5.0	3.0	2.0	3.0	4.0	3.4
Yields	6.8	6.7	6.5	6.6	7.1	7.2	6.8
Capital value growth	12.3	5.9	6.5	1.3	-4.3	2.5	2.4
Total return	19.1	12.6	13.0	7.9	2.7	9.7	9.2
Romania (EUR)							
Rental growth	-4.9	0.0	0.0	1.5	2.0	4.0	1.5
Yields	8.8	8.5	8.5	8.5	8.8	9.0	8.6
Capital value growth	-0.5	4.6	0.0	0.9	-0.9	1.1	1.1
Total return	8.4	13.1	8.5	9.4	7.8	10.1	9.8
Russia (USD)							
Rental growth	12.8	20.0	7.0	4.0	4.0	4.4	7.9
Yields	9.7	8.1	8.1	8.0	8.8	9.0	8.4
Capital value growth	43.9	43.2	7.0	5.3	-4.9	1.5	10.4
Total return	53.5	51.3	15.1	13.3	3.8	10.5	18.8
Sweden (SEK)							
Rental growth	5.5	7.0	2.0	2.5	4.0	4.0	3.9
Yields	4.9	4.5	4.4	4.9	5.1	5.3	4.8
Capital value growth	20.5	16.3	5.5	-8.1	-0.1	-7.0	1.3
Total return	25.4	20.8	9.9	-3.2	4.9	-1.7	6.1
Switzerland (CHF)							
Rental growth	-0.8	3.0	0.0	1.0	1.7	1.7	1.5
Yields	4.7	4.6	4.6	4.9	5.1	5.3	4.9
Capital value growth	3.6	5.7	0.0	-5.3	-3.3	-1.3	-0.8
Total return	8.3	10.3	4.6	-0.4	1.8	4.0	4.0
Turkey (USD)							
Rental growth	1.5	3.0	2.8	0.4	0.4	3.6	2.0
Yields	8.7	8.5	8.5	8.3	8.6	9.0	8.6
Capital value growth	7.3	5.2	2.6	3.0	-3.1	-1.1	1.3
Total return	16.0	13.7	11.2	11.4	5.5	7.9	9.9
UK (GBP)							
Rental growth	1.8	2.0	2.3	2.2	2.0	2.1	2.1
Yields	7.0	6.8	6.8	6.8	6.7	6.6	6.7
Capital value growth	9.2	4.5	2.3	2.9	3.4	3.5	3.3
Total return	16.0	11.2	8.7	9.4	9.8	9.9	9.8

Source – Capital Economics

Office Rankings: Next Two Years and Next Five Years

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

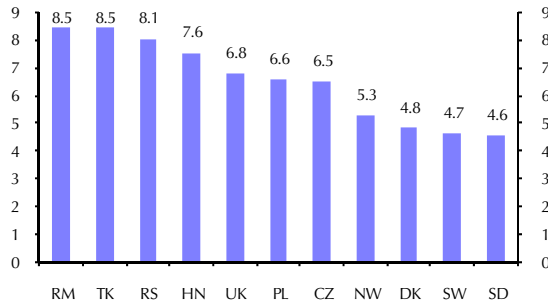


Chart A21: Initial Yields by Country (End-2015, %)



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

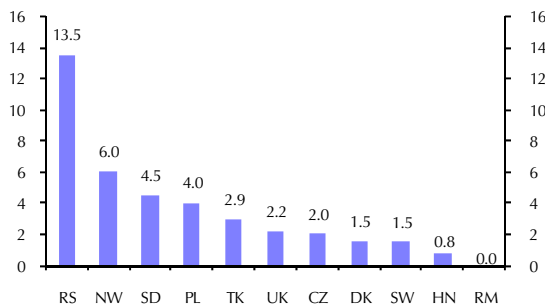


Chart A22: Rental Value Growth by Country (2011-15 Average, %/y)



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

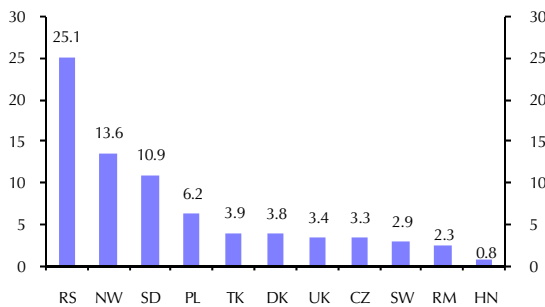


Chart A23: Capital Value Growth by Country (2011-15 Average, %/y)

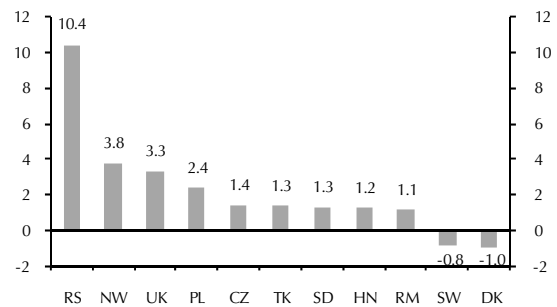


Chart A20: Total Return by Country (2011-12 Average, %/y)

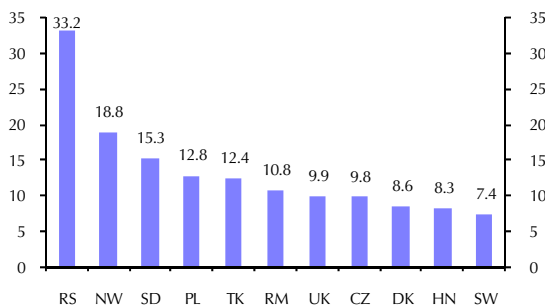
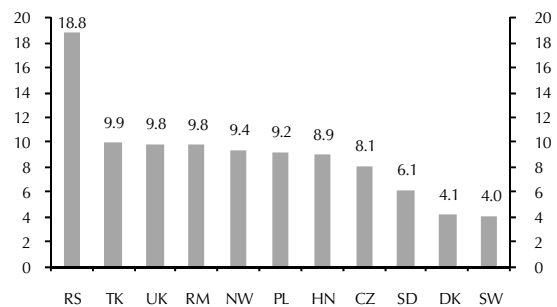


Chart A24: Total Return by Country (2011-15 Average, %/y)



Source –Capital Economics

Table A4: Industrial Property

Data are in headline currencies	2010	2011	2012	2013	2014	2015	Average 2011- 15
Czech Republic (EUR)							
Rental growth	3.8	1.5	1.0	3.0	3.0	5.0	2.7
Yields	8.3	8.2	8.1	8.3	8.5	8.8	8.4
Capital value growth	9.0	3.2	2.9	-0.1	0.6	2.0	1.7
Total return	17.4	11.4	10.9	8.2	9.1	10.8	10.1
Denmark (DKK)							
Rental growth	-4.8	1.0	1.0	1.5	2.0	3.0	1.7
Yields	7.5	7.4	7.2	7.4	7.5	7.6	7.4
Capital value growth	-3.2	3.1	3.8	-1.3	0.0	1.6	1.4
Total return	4.3	10.4	11.0	6.1	7.5	9.2	8.8
Hungary (EUR)							
Rental growth	-3.3	0.0	1.0	1.5	2.5	2.5	1.5
Yields	9.1	9.0	9.0	8.8	8.5	8.5	8.8
Capital value growth	-0.2	1.4	1.0	4.4	5.5	2.5	3.0
Total return	8.9	10.4	10.0	13.2	14.0	11.0	11.7
Norway (NOK)							
Rental growth	-2.5	10.0	2.0	3.0	4.0	4.0	4.6
Yields	6.7	6.5	6.5	6.6	6.7	7.0	6.7
Capital value growth	8.3	13.0	2.0	2.2	1.7	-0.5	3.7
Total return	15.0	19.5	8.5	8.8	8.4	6.5	10.3
Poland (EUR)							
Rental growth	-6.6	0.0	2.0	2.0	3.5	3.5	2.2
Yields	8.3	7.9	7.7	7.8	8.1	8.4	8.0
Capital value growth	-2.6	5.1	4.4	1.3	-0.8	-0.2	2.0
Total return	5.7	13.1	12.1	9.1	7.3	8.2	10.0
Romania (EUR)							
Rental growth	1.9	-1.5	0.5	0.5	1.0	2.5	0.6
Yields	9.9	9.8	9.8	9.6	9.3	9.0	9.5
Capital value growth	3.2	-0.7	0.5	2.6	4.3	5.9	2.5
Total return	13.0	9.1	10.3	12.2	13.6	14.9	12.0
Russia (USD)							
Rental growth	9.6	15.0	5.0	3.0	3.0	4.0	6.0
Yields	12.0	9.9	9.9	10.0	10.5	10.5	10.2
Capital value growth	29.4	39.4	5.0	2.0	-1.9	4.0	9.7
Total return	41.4	49.3	14.9	12.0	8.6	14.5	19.9
Sweden (SEK)							
Rental growth	11.6	3.0	1.0	2.5	4.0	4.0	2.9
Yields	7.2	6.8	6.8	7.0	7.2	7.2	7.0
Capital value growth	19.4	9.4	0.3	-0.4	1.8	4.0	3.0
Total return	26.5	16.2	7.1	6.6	9.0	11.2	10.0
Switzerland (CHF)							
Rental growth	0.8	4.0	0.0	2.4	2.4	2.4	2.2
Yields	7.0	6.7	6.7	7.0	7.4	7.5	7.1
Capital value growth	3.1	8.9	0.0	-1.6	-0.2	1.8	1.8
Total return	10.1	15.6	6.7	5.4	7.2	9.3	8.8
Turkey (USD)							
Rental growth	1.1	4.2	2.0	0.4	0.6	3.0	2.0
Yields	10.1	10.2	10.1	10.2	10.3	10.4	10.2
Capital value growth	-2.2	3.1	2.9	0.2	-0.6	2.0	1.5
Total return	7.9	13.4	13.1	10.3	9.7	12.4	11.8
UK (GBP)							
Rental growth	-1.5	-1.2	1.3	1.8	2.3	2.3	1.3
Yields	7.6	7.6	7.6	7.6	7.5	7.4	7.5
Capital value growth	3.5	-1.3	1.3	2.3	3.7	3.4	1.9
Total return	10.9	6.0	9.0	10.1	11.6	11.2	9.6

Source – Capital Economics

Industrial Rankings: Next Two Years and Next Five Years

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

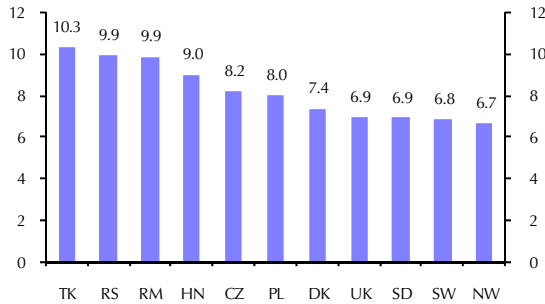


Chart A29: Initial Yields by Country (End-2015, %)



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

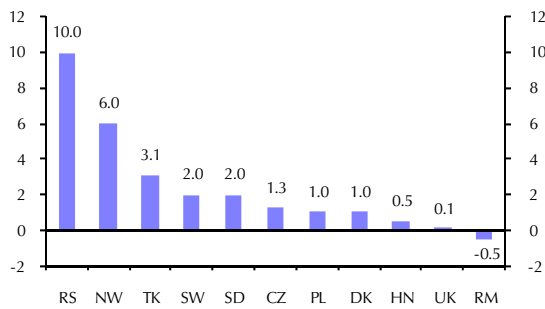


Chart A30: Rental Value Growth by Country (2011-15 Average, %/y)

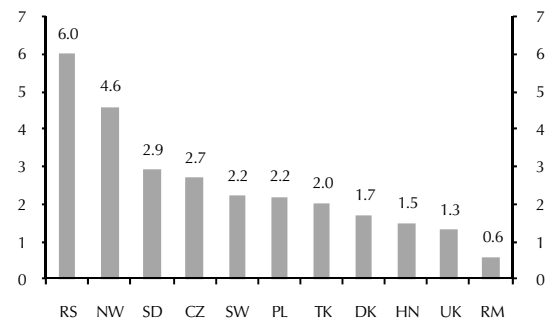


Chart A27: Capital Value Growth by Country (2011-12 Average, %/y)

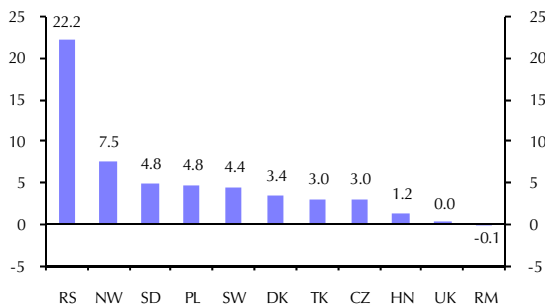


Chart A31: Capital Value Growth by Country (2011-15 Average, %/y)



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

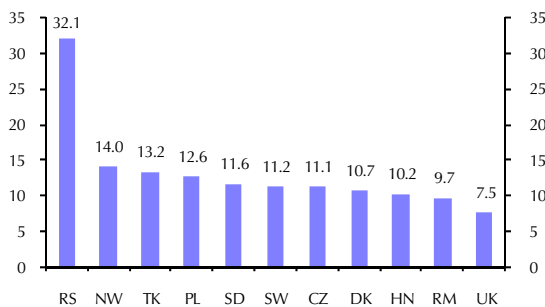
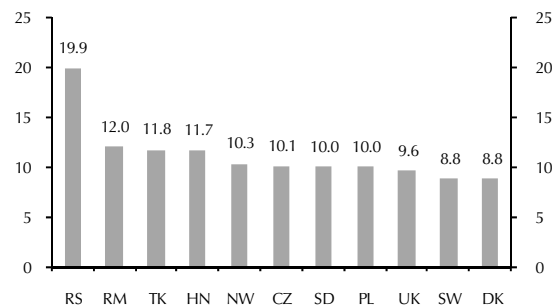


Chart A32: Total Return by Country (2011-15 Average, %/y)



Source – Capital Economics

Table A5: Total Returns in Alternative Currencies

	All-Property				Retail Property			
	2010	2011	2012	Average 2013-15	2010	2011	2012	Average 2013-15
Czech Republic								
In CZK	9.1	10.8	7.0	8.7	8.1	11.3	6.3	7.6
In EURO	13.3	11.4	9.0	7.3	12.2	11.8	8.3	6.2
In GBP	8.3	14.1	4.8	2.2	7.2	14.5	4.1	1.2
In US\$	4.3	16.7	1.7	-0.8	3.3	17.2	1.0	-1.8
Denmark								
In DKK	14.7	9.6	6.2	1.9	10.1	5.8	6.8	3.1
In EURO	14.8	9.7	6.2	1.9	10.2	5.9	6.8	3.1
In GBP	9.7	12.4	2.0	-3.0	5.3	8.5	2.5	-1.9
In US\$	5.6	15.0	-1.1	-5.9	1.3	11.0	-0.5	-4.9
Hungary								
In HUF	10.9	8.1	11.1	10.1	12.9	7.5	10.9	9.0
In EURO	11.6	8.2	9.2	10.1	13.6	7.6	9.0	9.0
In GBP	6.7	10.8	5.0	4.9	8.7	10.2	4.8	3.8
In US\$	2.8	13.3	2.0	1.8	4.7	12.7	1.7	0.8
Norway								
In NOK	19.3	27.2	9.7	2.9	11.8	26.0	11.0	1.4
In EURO	4.7	19.4	3.5	0.8	-1.9	18.3	4.7	-0.6
In GBP	0.0	22.3	-0.6	-4.0	-6.3	21.2	0.6	-5.4
In US\$	-3.7	25.2	-3.5	-6.9	-9.8	24.0	-2.4	-8.3
Poland								
In PLN	11.0	14.9	10.2	6.6	9.1	20.4	10.3	5.5
In EURO	16.4	14.3	12.9	6.6	14.4	19.8	13.0	5.5
In GBP	11.3	17.1	8.5	1.6	9.4	22.6	8.5	0.5
In US\$	7.1	19.7	5.3	-1.3	5.4	25.4	5.4	-2.4
Romania								
In RON	9.2	11.5	9.9	9.7	4.1	10.9	11.6	12.4
In EURO	8.2	11.3	9.9	12.1	3.1	10.6	11.6	14.8
In GBP	3.6	13.9	5.7	6.8	-1.2	13.2	7.3	9.4
In US\$	-0.1	16.4	2.7	3.7	-4.8	15.7	4.3	6.2
Russia								
In RUB	49.7	35.1	24.7	10.1	37.1	21.9	23.9	11.8
In EURO	35.8	53.7	7.3	2.0	24.5	38.5	6.6	3.5
In GBP	29.9	57.4	3.2	-2.4	19.2	41.8	2.6	-0.9
In US\$	47.4	46.7	14.9	10.1	35.0	32.3	14.1	11.8
Sweden								
In SEK	25.2	20.6	10.0	0.6	24.5	20.3	10.9	2.9
In EURO	17.3	17.7	0.4	-1.6	16.7	17.3	1.2	0.6
In GBP	12.1	20.5	-3.6	-6.5	11.5	20.2	-2.8	-4.3
In US\$	7.8	23.4	-6.4	-9.4	7.3	23.0	-5.7	-7.1
Switzerland								
In CHF	8.4	11.6	4.6	3.0	8.4	13.1	4.5	4.2
In EURO	-7.5	-3.5	-4.5	3.0	-7.4	-2.3	-4.6	4.2
In GBP	-11.6	-1.2	-8.3	-2.0	-11.5	0.0	-8.4	-0.9
In US\$	-14.9	1.1	-11.0	-4.9	-14.9	2.4	-11.1	-3.8
Turkey								
In TRY	17.6	22.2	14.5	8.6	24.4	20.0	14.2	8.8
In EURO	7.8	18.3	4.0	0.6	14.0	16.2	3.8	0.6
In GBP	3.2	21.1	0.1	-3.8	9.1	19.0	-0.2	-3.8
In US\$	16.9	13.1	11.3	8.6	23.7	11.1	11.1	8.8
UK								
In EURO	19.8	3.8	11.6	14.5	21.3	3.2	11.3	14.9
In GBP	15.2	6.6	7.7	9.9	16.1	5.2	6.6	9.7
In US\$	9.7	9.0	3.7	4.8	11.1	8.4	3.3	5.2

Source – Capital Economics

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

	Office Property				Industrial Property			
	2010	2011	2012	Average 2013-15	2010	2011	2012	Average 2013-15
Czech Republic								
In CZK	8.1	10.5	6.5	8.4	13.1	10.8	8.9	10.7
In EURO	12.2	11.1	8.5	6.9	17.4	11.4	10.9	9.3
In GBP	7.2	13.8	4.3	1.8	12.3	14.0	6.7	4.2
In US\$	3.3	16.4	1.2	-1.2	8.2	16.5	3.6	1.2
Denmark								
In DKK	16.9	11.4	5.8	1.2	4.3	10.4	11.0	7.6
In EURO	17.0	11.5	5.8	1.2	4.5	10.5	11.0	7.6
In GBP	11.8	14.2	1.6	-3.7	-0.1	13.1	6.7	2.5
In US\$	7.6	16.8	-1.5	-6.5	-3.7	15.7	3.6	-0.5
Hungary								
In HUF	10.4	7.4	10.8	9.4	8.2	10.3	11.8	12.7
In EURO	11.1	7.5	9.0	9.4	8.9	10.4	10.0	12.7
In GBP	6.2	10.0	4.8	4.3	4.2	13.0	5.8	7.3
In US\$	2.3	12.5	1.8	1.3	0.5	15.5	2.8	4.2
Norway								
In NOK	24.0	28.5	9.2	3.1	15.0	19.5	8.5	7.9
In EURO	8.8	20.6	3.0	1.0	1.0	12.3	2.5	5.8
In GBP	4.0	23.6	-1.0	-3.8	-3.4	15.0	-1.5	0.7
In US\$	0.1	26.4	-3.9	-6.7	-7.0	17.6	-4.4	-2.3
Poland								
In PLN	13.5	13.2	10.3	6.8	0.9	13.6	9.5	8.2
In EURO	19.1	12.6	13.0	6.8	5.7	13.1	12.1	8.2
In GBP	13.8	15.3	8.6	1.8	1.1	15.7	7.8	3.1
In US\$	9.6	18.0	5.4	-1.1	-2.5	18.4	4.7	0.1
Romania								
In RON	9.4	13.3	8.5	6.8	14.1	9.3	10.3	11.2
In EURO	8.4	13.1	8.5	9.1	13.0	9.1	10.3	13.6
In GBP	3.7	15.7	4.3	4.0	8.2	11.6	6.1	8.3
In US\$	0.0	18.3	1.3	1.0	4.3	14.0	3.1	5.1
Russia								
In RUB	55.9	39.3	25.0	9.2	43.6	37.6	24.6	11.7
In EURO	41.4	58.5	7.5	1.2	30.5	56.3	7.4	3.6
In GBP	35.3	62.3	3.3	-3.1	25.0	60.0	3.4	-0.7
In US\$	53.5	51.3	15.1	9.2	41.4	49.3	14.9	11.7
Sweden								
In SEK	25.4	20.8	9.9	0.0	26.5	16.2	7.1	8.9
In EURO	17.5	17.8	0.3	-2.2	18.7	13.4	-2.1	6.5
In GBP	12.2	20.7	-3.7	-7.1	13.5	16.1	-5.8	1.5
In US\$	8.0	23.5	-6.6	-9.9	9.3	18.7	-8.6	-1.5
Switzerland								
In CHF	8.3	10.3	4.6	1.8	10.1	15.6	6.7	7.3
In EURO	-7.5	-4.7	-4.5	1.8	-5.6	0.2	-2.4	7.3
In GBP	-11.6	-2.4	-8.3	-3.1	-9.7	2.6	-6.1	2.2
In US\$	-14.9	-0.1	-11.0	-6.0	-13.0	4.9	-8.9	-0.8
Turkey								
In TRY	16.7	22.9	14.3	8.3	8.5	22.4	16.2	10.8
In EURO	7.0	19.0	3.8	0.2	-0.4	18.6	5.7	2.7
In GBP	2.4	21.8	-0.1	-4.1	-4.5	21.3	1.7	-1.7
In US\$	16.0	13.7	11.2	8.3	7.9	13.4	13.1	10.8
UK								
In EURO	21.5	8.7	13.5	15.7	16.1	3.9	13.3	16.4
In GBP	16.0	11.2	8.7	9.7	10.9	6.0	9.0	11.0
In US\$	11.3	14.2	5.4	6.0	6.3	9.1	5.2	6.6

Source – Capital Economics

Country Abbreviations

Non-euro Europe

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

Euro-zone ¹

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

¹: data limitations mean that we do not cover Luxembourg or Slovenia

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

Capital Economics Ltd

Capital Economics is an independent economic consultancy based in London, Toronto and Singapore. We specialise in macro-economic analysis and the relationship between the macro economy and individual business sectors. We are retained by both financial and industrial & commercial companies to provide regular analysis and advice on the state of the world's leading economies and the economic prospects facing business sectors. Our clients range from some of the world's largest banks to boutique property investors. They include retailers, pension funds, insurance companies, fund managers, merchant banks, stockbrokers, house-builders, property developers, construction companies, building societies and specialist lenders.

In addition to our retained relationships we also undertake research projects commissioned by companies, government agencies, and trade associations. Recent research projects have included studies on personal finances in an era of low inflation and low interest rates, VAT and the construction industry, the use of property in business, the impact of the euro on the UK savings market and the impact of deflation on pensions and pension funds.

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