EUROPEAN REAL
SnapShot!

Advisory / Real Estate / Autumn 2012

Current developments in the key real estate markets in Europe

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KPMG
cutting through complexity

Autumn 2012

Prime Time for Property Investors?

Thank you for reading this latest edition of KPMG's Real SnapShot! This publication gives you an overview and deeper insight into the real estate markets across Europe: from the UK to the Balkans, from Spain to Russia and from the Nordic region to Italy.

Although the different local markets are very fragmented and are subject to domestic dynamics that influence their respective investment cycles, they do have some significant factors in common.

Above all, all real estate investments are linked to the capital markets which do not only affect the availability of funding for real estate investments and developments, but also have a significant impact on the so-called service market that drives demand for space in real property. Between these two economic drivers there is construction activity, which, on one hand, depends on financing parameters and, on the other, requires demand for the take-up of the production.

The Eurozone-Crisis and the uncertainty over global economic development are currently hanging like the sword of Damocles over the economic segments that drive both the real estate investment and tenancy markets. In addition, there are the regulatory factors that lead to a shift in capital availability.

Regardless of whether a market is considered a safe haven or belongs to the peripheral or emerging regions, the transformation of the financial sector takes its toll on the real estate market. The reduction in the labour force of financial institutions does not only lead to a decrease in office space requirements, but also affects purchasing power and the related demand for retail space. Uncertainty over economic development and increasing unemployment rates in some regions is causing a shift in the demand for the quality of residential space. On top of this, new regulations for the financing of real estate limit the availability of funds for real estate investments from traditional lenders.

Overall, asset allocations have seen a shift in investments towards tangible assets, with real estate being preferred.

With this in mind, the real estate markets of the countries covered in this edition share some common[1] aspects: large-scale office tenants are hesitant to move, have become more cost sensitive and tend to optimize the use of space. Landlords show a greater willingness to provide incentives for rent renewals. Relocations are principally geared towards prime space in prime locations. Retail activity in secondary areas and properties is low and demand is focused on prime locations. This demand is driven by global brands in all countries or by large retail chains in certain areas. Global demand leads to global price levels and supports the value of trophy properties, irrespective of the local economic environment. Liquidity is key to residential properties. Even in the suffering economies, central locations with prime standards show significantly low vacancy rates. However, caution should be exercised in the higher priced residential segment, as demand is not keeping up with production due to the economic environment.

This flight to core investments is also reflected in the financing of real estate. Lending has become more restrictive due to regulations and increased risk aversion. Traditional lenders are focused on income producing properties and have significantly reduced their loan-to-value ratios while increasing their criteria for financial sustainability.

As a result of these factors, investor sentiment is focused on low risk, central locations, and premium space in all investment segments: It's prime time!

This offers opportunities to slightly less risk adverse investors or lenders. New providers for real estate financing have already entered a number of markets. Private equity and sovereign wealth funds have been investing in developments that are sustained by local demand and local developers carefully achieve success in secondary markets with products that meet regional needs.

A broad and deep understanding of the complexity and interaction of the regional real estate markets requires a combination of knowledge and expertise in the local real estate clusters and the global financial markets. KPMG Real Estate has professional experience and an understanding of real estate and the related financial factors as well as disposing of an extensive database in all regional submarkets. Through both our pan-European and global network of interdisciplinary experts we offer – as a "One Stop Shop" – the full spectrum of real estate related services for challenging local and international mandates. We offer our clients added value in all areas related to real estate based on our extensive and comprehensive advice.

Stefan Pfister
Partner, Head of Real Estate Europe / EMA

[1] with a few local, specific exeptions

All-encompassing Real Estate Advisory from one source

In order to realize your chances, to optimize results and to minimize risks in the fragmented real estate markets you need to cut through complexity. KPMG Real Estate supports you with an all-encompassing, interdisciplinary approach in your ability to stay in control over the wide-ranging factors influencing your real estate related business activities.

Please contact us on a non-binding basis with all real estate related questions you may have.

We will put the team together that offers you the best solutions to meet your goals. KPMG provides you with local, national, international and global knowledge and expertise to enhance your success. Don't hesitate to ask for our list of references!

M&A/Capital market

- Structuring and execution of transactions (Lead Advisory)
  - Asset deals: Acquisition and disposal of properties and portfolios
  - Share deals: Mergers, spin-offs, IPOs, private placements
- Arrangement of indirect investments, such as funds or trusts
- Fund raising for specific projects
- Debt advisory

Investment Advisory

- Investment advisory for national or international indirect real estate investments
- Structuring of real estate investments within portfolios
- Qualitative and quantitative analysis of investment products
- Monitoring und investment controlling, portfolio performance measuring

Strategy/Organization

- Strategy development and implementation
  - Business planning/business modeling
  - Corporate/public real estate management
  - Asset and portfolio management
- Analysis of organization and processes; organizational development, internal control system (ICS)
- Performance management/MIS/investment monitoring
- Risk management and financial modelling

Valuation/Due Diligence

- DCF-valuations of properties and real estate portfolios or companies
- Independent valuation reports for financial statements
- Valuations for acquisitions or disposals
- Feasibility studies and valuation of real estate developments
- Transaction-focused due diligence and process management

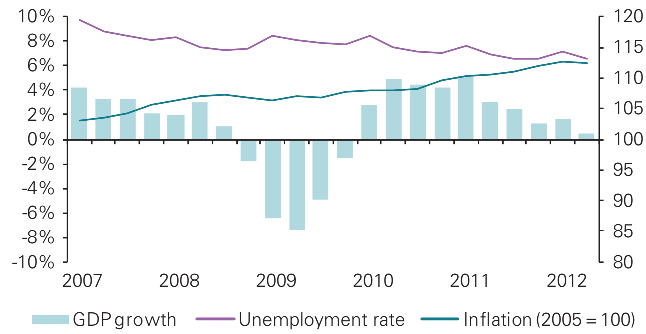
Germany

Ending the year on a high note, but will it last?

Macroeconomic overview

Contrary to the recorded difficulties in the majority of the Eurozone, the German economy has remained robust over the past two years. This is evident from the reasonable economic data.

Economic Indicators



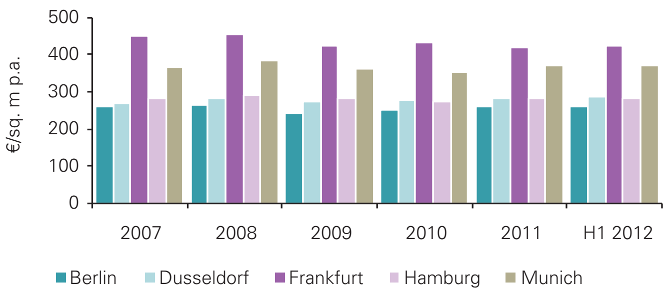
Source: Destatis

There are currently initial signs of a downturn in the economic situation in Germany. The ifo Business Climate Index decreased in August 2012 for the fourth consecutive month, and thus suggests a downturn in business sentiment amongst German companies, a reduction in orders, a loss in momentum in exports and a reduction in economic growth. As a result, the economic outlook for the coming year has already been revised downwards, which is an indication that Germany may no longer be able to escape the weak European environment.

Office market

Prime office rents increased in four of the top five locations during the first six months of 2012. The only exception is Munich where the prime office rent decreased slightly (-0.3%).

Office Prime Rents

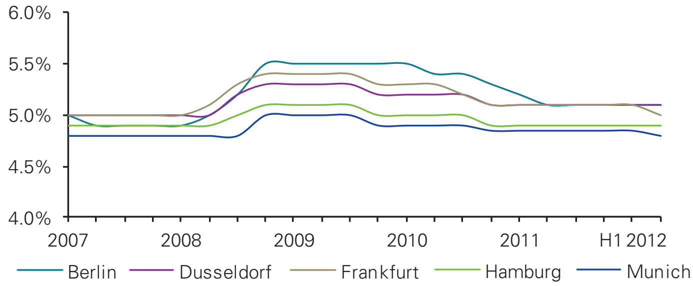


Source: Thomas Daily archive

Prime rents in the office markets are at their 2007 level, which was the period before the real estate market correction (2008/2009).

The reason for the increase in prime rents is the continued focus on modern office space in central locations. In addition, a lack of space in these sought-after locations means that owners are able to withdraw incentives normally required to attract new tenants. On the other hand, agents are beginning to notice the first typical signs of a weakening demand. The intensive review of lease contracts in particular is currently slowing down the decision-making process.

Office Prime Yields



Source: CBRE

Despite the limited availability of attractive investment opportunities in the core segment, prime office yields range from 4.8% (Munich) to 5.1% (Berlin and Dusseldorf) in the top five locations and have remained mostly stable in H1 2012.

With the exceptions of Dusseldorf and Berlin, prime yields have also returned to their 2007 levels. It remains to be seen whether yields will remain stable in H2 2012 under the growing pressure of a lack of supply of prime office buildings. It is possible that the proposed sales of office buildings by open-ended funds in liquidation will satisfy the strong demand for core investments and maintain yields at a stable level.

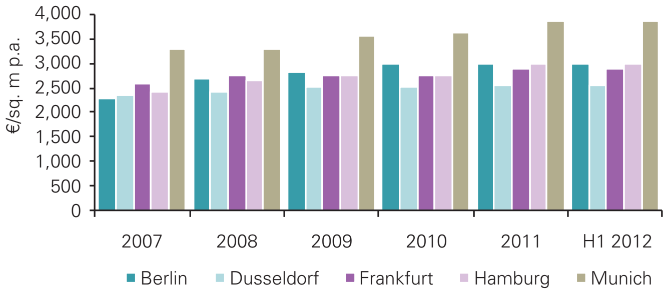
Office buildings were once again the most popular commercial asset class and accounted for 40% of the commercial transaction volume in H1 2012.

Retail market

During the first half of 2012, the growth of the German economy slowed slightly compared with the year before. The reduced public investment was compensated by increased private consumption. The GfK Consumer Climate Index gained a few points in the first half of 2012, which is evidence of consumers' positive outlook. The relatively low unemployment rate and a number of collective wage agreements reached in 2011 brought more security to the market.

Since 2007, prime retail rents have risen steadily in the top five locations and remained stable in the first six months of 2012. This upward trend is due to solid demand and a limited supply of available retail space. In general, average rents have increased in secondary as well as primary locations. With the exception of Berlin, it is anticipated that prime rents will remain at a constant level in H2 2012.

High Street Retail Prime Rents

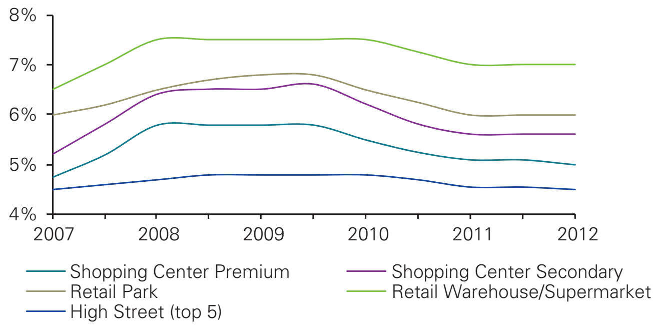


Source: Brockhoff

Total take-up decreased in terms of volume and the number of lease contracts concluded. This is due to a shift in demand within the size categories. Demand for space > 2,000 sq. m has weakened, and retail space with between 500 sq. m and 1,000 sq. m has become the most sought-after size category.

Over the past two years, retail properties have been at the top of investors' shopping lists and accounted for the largest share of the commercial transaction volume; however by the end of the first six months of 2012, retail investments were responsible for approx. EUR 3.2bn, which is a decrease of 47% on the H1 2011 figure.

Retail Prime Yields by Type of Use



Source: CBRE

Yields have remained stable, despite the continued shortage of attractive investment opportunities in the core segment. Only yields for shopping centres and high street properties have been unable to withstand the pressure and have reduced by 10 bps since H1 2011.

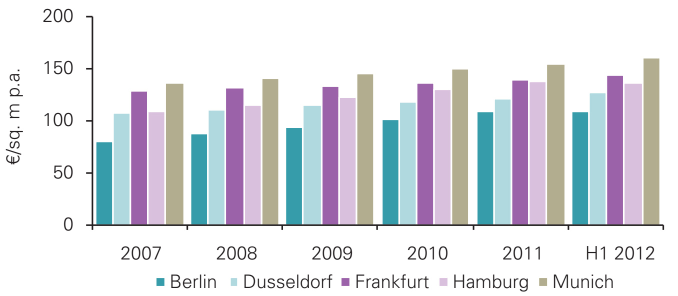
Housing market

The continued stable economy, fall in the unemployment rate and peak values in key employment indicators provide a solid basis for the residential market in Germany. In contrast to cities affected by re-urbanisation, the effects of an ageing population, outward migration and a reduction in the number of households are predominantly observed in structurally weak areas.

2011 is the second consecutive year to see a rise in the number of planning permissions and completions of residential developments. Approx. 90,000 permissions were granted in H1 2012 and 230,000 permissions in 2011. These figures are above the average of the past five years. Although sufficient to meet the estimated need of 180,000 new residential units, regional differences must be considered, as the surplus demand for apartments does not appear to have been correctly addressed across Germany's major cities.

In Germany's major cities, vacancy rates are still declining and have reached the fluctuation level. Tenants now tend to remain in their apartments longer due to the shortage of available apartments. This lack of availability means that tenants are also having to become less selective in their choice of apartment in order to find a new home.

Asking Rent Level in selected Locations



Source: Empirica

With a rise of nearly 37% over the past five years, Berlin's asking rents increased most strongly compared with the other top five locations. Munich remains Germany's most expensive city, but the gap between it and the other locations is beginning to reduce.

Affordable housing continues to be a political issue in Germany and is subject to different regulations. Rent reviews in existing tenancy agreements are regulated by the German Civil Code (BGB) and therefore these rents normally do not reach the level of asking rents.

The transaction volume in the first half of 2012 has already topped the 2011 total transaction volume. It is the second best result ever recorded for the first six months of a year. There was strong investor demand for residential investments in Germany, especially in its capital Berlin, and there are still some major deals in the pipeline which should be completed by the end of this year.

With regard to the discussions surrounding a real estate price bubble for freehold apartments in Germany, the German Association of Pfandbrief Banks (Verband der Pfandbriefbanken) states that the current price trend is based on factors such as demographic trends, income level and the employment rate, and concludes that there is no sign of a price bubble with the exception of a small number of localized, excessively high prices.

Despite the low registered figures for foreign investors, they are back in the market and have been involved as bidders in most of the major residential portfolio deals.

Real estate debt market

In Germany, there are concerns about a credit crunch. This is due to the introduction of Basel III, which requires banks to increase their capital backing. These concerns are being viewed by experts differently. The withdrawal of major property financiers from the market, such as Eurohypo and West-Immo, supports that fear. There is also still a risk that banks will use unattractive terms and conditions to avoid granting loans.

The increase in equity capital requirements by at least 50%, together with the withdrawal of 100% mortgages in the private housing sector, could help reduce the volume of debt.

It is clear from current banking practice that financing will not be made available to everyone and this means that the situation will remain tense. Banks prefer to grant loans on core investments, especially attractive residential estates, modern shopping centres and retail parks. However, loans will become more expensive, have shorter terms and be subject to stricter control. As not all banks will be in a position to grant larger loans, financing may only be possible by means of club deals.

Some insurance companies are now entering the market, as the Solvency II directive means that they are able to reduce their equity capital requirements. This is currently affecting only the private loan sector. In the commercial loan sector, however, it is now possible to obtain financing from Allianz and a consortium of banks.

Gaps in financing may be filled by specialist credit funds; however as these funds do not possess a banking license, they rely on close cooperation with the banks.
Overall, the debt market is currently in a period of transition and is looking for a new strategic focus.

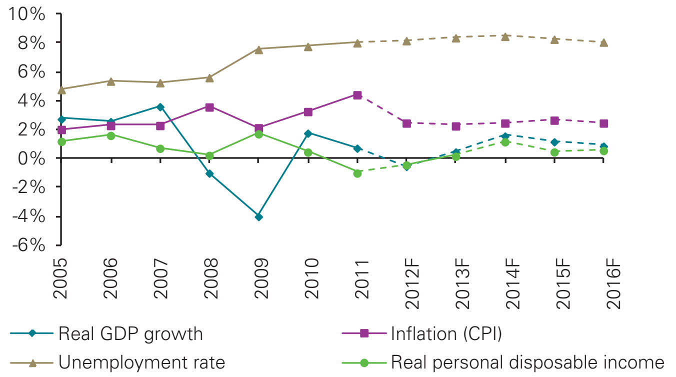
United Kingdom

No news is not necessarily good news

Macroeconomic overview

The UK economy remains in an uncertain position. The economy has returned to technical recession, having contracted in the last three quarters. Growth forecasts have recently been revised downwards: GDP is forecast to decline by 0.5% for 2012. Furthermore, from 2013-16, average annual growth of only 1.1% is expected.

Economic Indicators



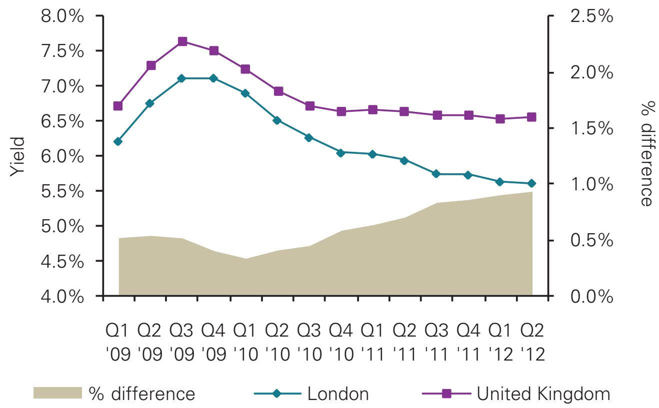
Source: Economist Intelligence Unit

In reaction to the economy's decline, the Bank of England has announced the provision of cheap funding for banks for the purpose of lending to households and businesses and also a further round of quantitative easing.

Facing growing public deficits and debt levels, the coalition government continues to pursue an austerity program. Slower-than-expected economic growth and the impact of the Eurozone debt crisis continue to put the government's other aim, economic recovery, under pressure leading to many calls for a change of course.

The UK economy faces a protracted period of subdued activity, high unemployment and declining living standards. The outlook for the UK is also tied closely to developments in the Eurozone.

UK Property Yields – London versus the UK



Source: Real Capital Analytics, KPMG analysis

The uncertain economic climate has impacted in the UK real estate investment market. Overall transaction volumes have fallen by c.16% in H1 2012 versus the same period in 2011, or 23% versus H2 2011. Whilst yields have remained broadly flat for the UK, yields for prime properties in London have continued to decline, widening the gap between London and the rest of the UK further.

Office market

Offices remained the best performing sector in the UK for the first half of 2012. Broadly flat capital values accompanied by rental growth resulted in total returns of around 6% (vs. 9% in 2011). Transaction volumes continued to fall in the office market in H2 2012, driven by economic uncertainty and a lack of prime stock.

The picture varied considerably across the UK with Central London accounting for an exceptional 75% of office transactions in the UK (as commented in previous editions, the longer term average is 50%-55%). Rental growth of c.1% and flat yields in Central London contrasted with rental falls and a weakening of yields in most of the rest of the UK.

Take-up continued to improve in central London and the key regional CBDs although there were signs of this trend reversing in July 2012. New supply coming onto the market continues to be limited driving the modest rises in rental prices. It is expected that in light of the ongoing economic uncertainty, occupiers will continue to delay committing to new space in the coming months. However, a high number of lease expiries in 2013 will drive occupier demand. With the majority of new supply accounted for by pre-lets and very low levels of speculative development, continued modest rental growth in prime markets is expected.

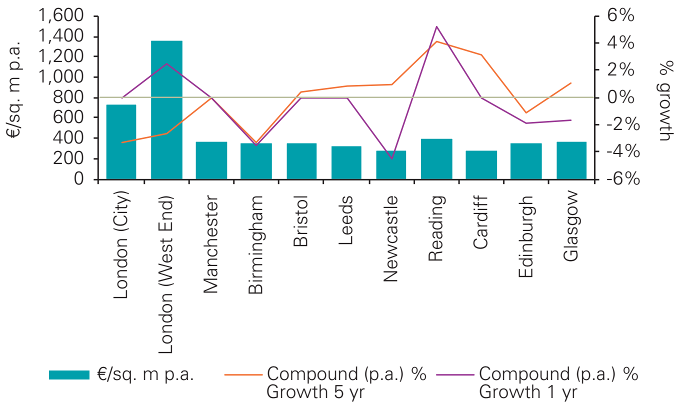
United Kingdom

Office Yields								
		Dec-10	**Mar-11**	**Jun-11**	**Sept-11**	**Dec-11**	**Mar-12**	**Jun-12**
London	West End	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
	City	5.35%	5.25%	5.25%	5.00%	5.00%	5.00%	5.00%
M25/South East	Prime	6.25%	6.25%	6.25%	6.00%	6.00%	6.00%	6.00%
Regional cities	Prime	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Provincial	Good secondary	7.75%	7.75%	7.75%	7.75%	8.00%	8.00%	8.25%
	Secondary	10.50%	10.50%	10.50%	10.50%	11.00%	11.50%	12.00%

Source: CBRE

We anticipate demand in the regions to continue to weaken, putting downward pressure on rents, particularly for secondary and tertiary grade properties.

UK Prime Office Rents



Source: Cushman & Wakefield

Retail market

The retail sector remained the worst performing sector in the UK. Negative capital value growth of -1.3% and -1.6% for Q1 and Q2 2012 respectively resulted in zero overall total returns for H1 2012. The market remains polarised, with demand for prime central London retail properties at an all time high, driven by overseas investor demand and limited supply. Yields on prime regional high street shops and shopping centres have generally held firm.

Activity in the secondary markets has been extremely limited. The main concerns for investors are vacancy and re-letting prospects, with secondary retail in particular suffering from numerous insolvencies, administrations and portfolio consolidation which has increased available supply. Retailers are seeking to rationalise portfolios, withdrawing from weaker locations to focus on fewer, more profitable ones, rendering much secondary/tertiary space obsolete. Consequently, the outlook for secondary yields remains negative.

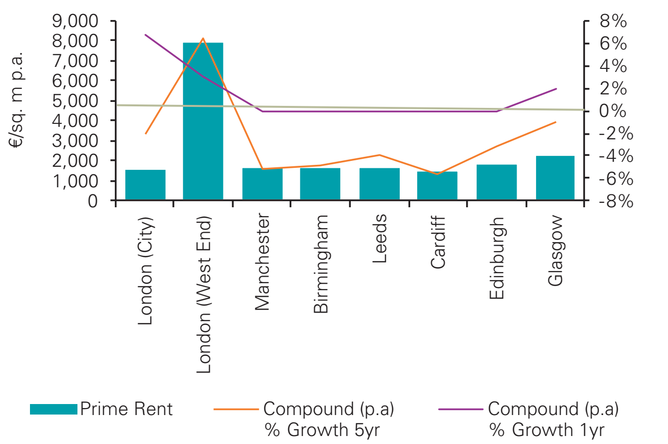
UK Retail Property Activity

Source: Real Capital Analytics

Prime rents for high street shops are up 0.5% in the last year across the UK, with London continuing to see rapid growth of 10%. Rents for shopping centres have fallen by around 1.4%, and prime retail warehouses by about 0.5%.

The anticipated boost in sales from the Queen's jubilee failed to materialise and initial indications are that the Olympics has also not had the full anticipated positive impact on sales. The economic outlook remains weak and disposable incomes remain under pressure. As such, we anticipate rents and capital values in the UK will continue to fall, with only prime London and certain regional centres defying this trend.

Prime Retail Rents (High Street Shops) – June 2012



Source: Cushman & Wakefield

Housing market

Average UK house prices have fallen in each of the last 3 quarters as the effects of a return to economic recession are felt. On average, house prices have fallen by 2.7% in the year to July 2012, the sharpest fall since 2009.

Whilst falls were posted across all regions, the prime central London market defied this trend, with prices growing by 10.3% in the year to July 2012. This takes the total growth of prime London properties since the trough of the market in 2009 to a staggering 49%.

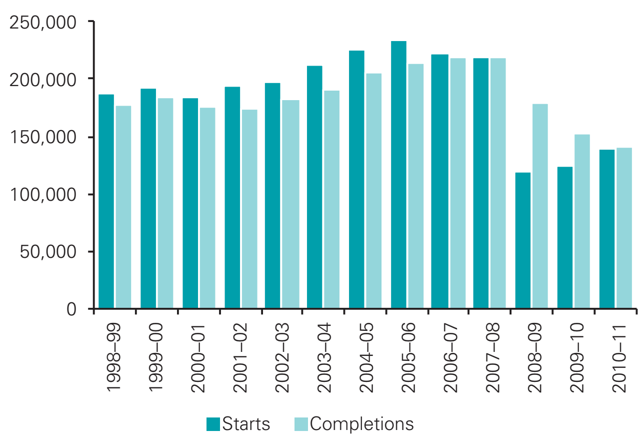
Transaction volumes remain low at around 50,000 units a month in England and Wales, compared to an average of around 100,000 units a month from 2000 to 2007.

The first stages of the Bank of England's "funding for lending" scheme started in August, which may stimulate some transactional activity. Under the scheme, around £80bn will be offered as cheap loans to banks if they lend the money to homebuyers and small businesses.

Average rents across the UK have risen by 2.3% over the last year but only 0.9% in London (including falls in rents for prime London properties). In London, rental declines appear to be driven by weakness in employment, particularly within financial services, and reductions in relocation budgets by corporates. A surge in new developments in central London and ongoing economic uncertainty are likely to continue this trend. Elsewhere, rents continue to be driven by limited availability of finance to buy properties, forcing more people into the rented sector.

Continued falls in house prices are anticipated. However, these are likely to be mitigated by a continued lack of supply, with housebuilding figures remaining at historic lows.

UK Housebuilding Starts and Completions



Source: Department for Communities and Local Government

Real estate debt market

The availability of debt remains a key force in the investment market. The weak economic climate, the slowdown in the occupier market, and increasing regulatory pressure are likely to continue to unnerve banks. Maximum LTV ratios offered by lenders on senior debt in the UK have fallen back to around 60% with only exceptionally well located properties with strong covenants achieving higher LTV ratios of around 65%. The number of active lenders to the real estate market continues to fall. However, non-traditional sources of lending have emerged. Insurance companies, in particular, are being driven by the wording of Solvency II which appears to incentivise providing senior debt over direct real estate investment to set up lending capabilities. Recent examples include Aviva and Legal and General who provided loans to Big Yellow Group and UNITE Group respectively.

However, such new debt tends to be on long-dated terms (15 years plus), and primarily available against prime assets. As such, it is arguably available to those who need it least and will do little to fill the funding gap for opportunistic investors.

There is likely to be a shortfall in the supply of debt as a result of existing facilities which cannot be refinanced on current terms - by some estimates this may be over £100bn. The most recent De Montfort University report on UK commercial property lending estimated that 18.5% of all outstanding debt had a loan-to-value ratio between 81% and 100% in June 2011, and a further 24% had a loan-to-value ratio exceeding 100%.

A strong investment case

The Nordic Region

The Nordic Region consists of the four countries: Sweden, Norway, Finland and Denmark. These four countries share a common history, a similar language base, and a similar political and economic environment, but there are also differences. Finland is part of the Eurozone, while the other countries have retained their national currency, the Krona. Historically, Finland is closely linked to Russia and the Baltic States and has a distinct language, although most Finns understand Swedish (or Scandinavian as we could call it). Norway is not part of the EU and generates most of its income from oil and gas in the North Sea, and although Denmark is not part of the Eurozone, it was a founding member of the EMS (European Monetary System); the Danish Krona is closely linked to the Euro (no free float). Historically, Denmark is influenced by Germany.

Macroeconomic overview

All four countries are relatively strong compared to other EU countries and are all rated AAA by the agencies (Fitch, Moody´s and S&P). Therefore the Region is currently seen as a safe haven for real estate investors.

Sweden

Sweden is expected to grow by 0.7% this year, which has been revised up from 0.4% thanks to a strong start to 2012. Recession is unlikely, as sound public finances should allow for a stimulus in the event that the Eurozone outlook deteriorates further. Investment turnover in Sweden is declining due to lower investment volume in the office segment. Interest from foreign investors has reduced significantly as a result of the higher exchange rate on the SEK. Investment volume in Q2 2012 was recorded at SEK 16bn, which was lower than Q1 2012 and Q2 2011.

Norway

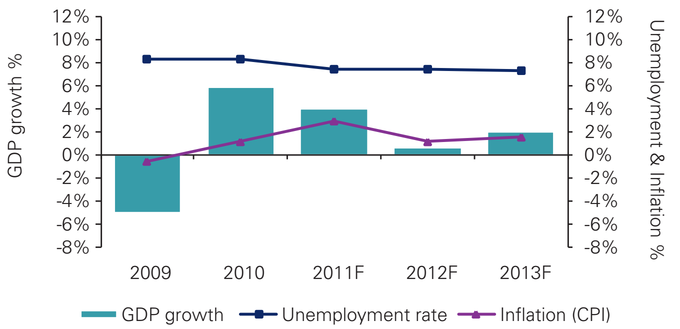
Norway's GDP is forecast to grow by 3.3% in 2012, with domestic demand making the most significant contribution to this expansion. Consumption is expected to be especially strong at 3.2% in 2012, while exports are likely to slow throughout the year due to weak demand from the Eurozone and a further strengthening in the NOK against the Euro. Alarmingly high and rising house prices and a possibility, low as it is, of a Greek exit, are the main threats to our forecast.
The investment volume has declined to NOK 3bn in Q2 2012, which is lower than Q1 2012 and Q2 2011. The actual volume is spread fairly over the segments (office, retail, residential and industrial/logistics).

Finland

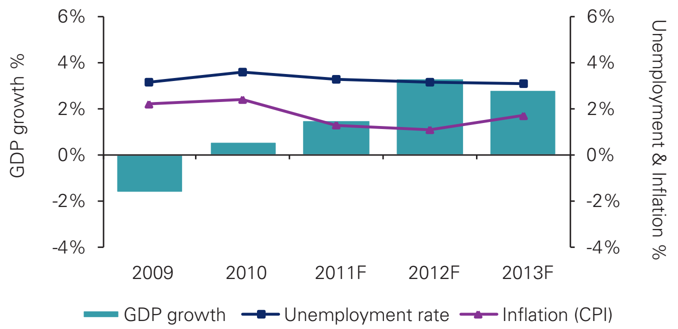
The Finnish economy is expected to expand by 0.9% this year, with downward risks stemming from the Eurozone crisis. In the event of multiple exits by peripheral economies, there will be room for a stimulus, as public indebtedness is very low. However, the economy would most probably be pushed into recession, just like all other members of the EMU. However, stabilisation in the Eurozone is by far the most probable outcome and in such

Economic Indicators

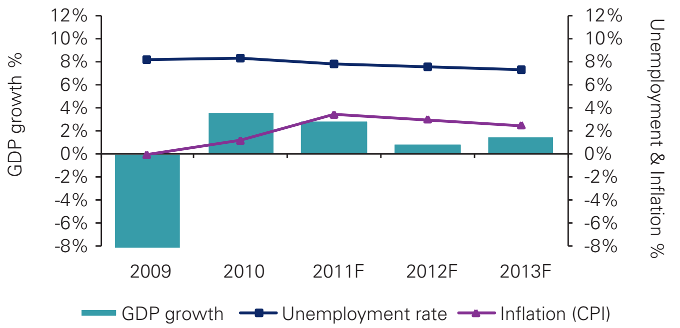
Sweden



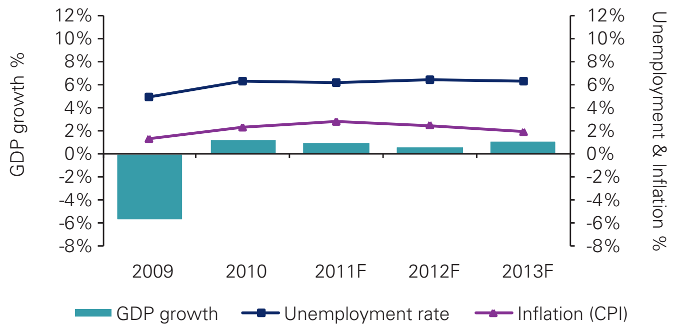
Norway



Finland



Denmark



Source: Cushman & Wakefield

an event, exports and private consumption are expected to grow, while investment will fall.
The investment volume increased in Q2 2012 to EUR 550m, substantially up on the volumes recorded in Q1 2012 and Q2 2012. Retail represented over 50% of the total transaction volume.

Denmark

Denmark's economic growth is likely to be subdued in 2012, despite a relatively strong start to the year. Consumer spending has shown signs of weakening, with retail sales and consumer confidence falling in April. Industrial production shrank to a two-year low in May and exports are being constrained by ongoing uncertainty in the Eurozone. However, investment should generate growth of at least 0.6% this year, unless the relatively unlikely scenario of a Greek exit becomes reality.

The investment volume was recorded at almost DKK 8bn in Q2 2012, which is an increase compared to Q1 2012 and Q2 2011. Transactions are being boosted by major residential transactions and strong interest from foreign investors. Prime office portfolios and shopping malls are enjoying strong demand, but there is a lack of suitable properties.

Office market

Sweden

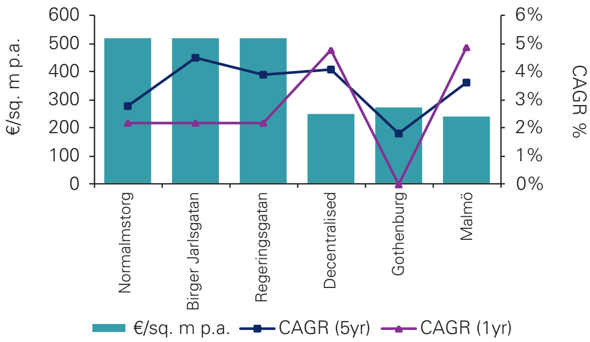
The slow pace of the economy has affected business sentiment and there is less drive to move or expand offices. The letting market saw a low level of activity in Q2, and over the later summer months it is expected that there will be the usual seasonal lull. Larger occupiers are increasingly less likely to relocate and most lettings recorded during this quarter were of space with less than 5,000 sq. m.
Availability has remained virtually unchanged since the previous quarter, with only the decentralised area of Stockholm seeing an increase due to some additions to overall supply. Stockholm CBD has a very low vacancy rate of less than 5% and it is especially difficult to find large floor plates.
As a result, those seeking more space may take up pre-lets in new buildings, with almost all of the current space under construction being done on a pre-let basis.

Norway

Norway's high employment growth has put upward pressure on demand. Tenant interest in good-quality, efficient spaces in prime locations remains high, with a particular focus on the "green" profile of an office building.
These specific requirements have seen many contracts include significant upgrades and incentives in order to keep up with occupier preferences and match demand. Strong demand helped to decrease Oslo's vacancy rate, which now stands at just over 7%. There remains a high volume of new building activity in Oslo's suburban markets, although the inner city still suffers from a lack of good-quality space. The vast majority of the development pipeline is pre-let, which is helping to balance out supply levels.

Prime Office Rents

Sweden

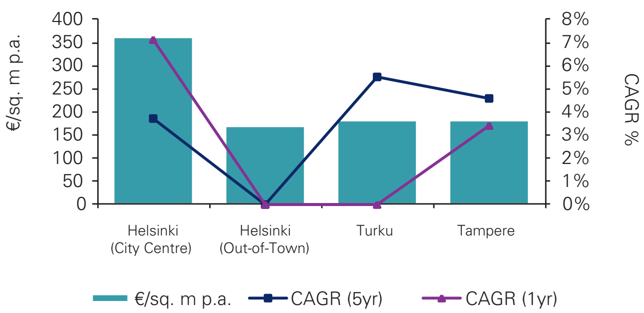


Norway

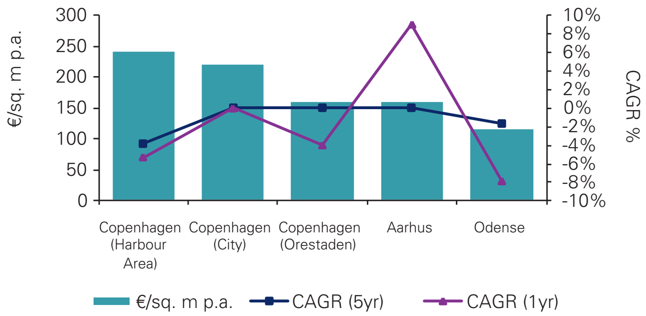
Prime Office Rents – June 2012			
Market (Submarket)	**€ sq. m p.a.**	**CAGR (5yr)**	**CAGR (1yr)**
Oslo	563.0	5.8%	18.1%

CAGR = Compounded annual growth rate

Finland



Denmark



Source: Cushman & Wakefield

Nordic Region

Finland

In Helsinki, there continues to be a limited number of new developments in the CBD in particular, creating a shortage of supply, although the remainder of the wider Helsinki market is more balanced between demand and supply.
However, because occupational activity remains unevenly distributed within the submarkets, it is primarily focused towards the CBD; this feeds higher vacancy rates and puts increasing downward pressure on rents in some of the decentralised and secondary submarkets.
There is around 100,000 sq. m of space currently in the development pipeline. Certain areas, such as Leppävaara, Keilaniemi and Otaniemi, continue to gain momentum due to the increasing development activity. In addition, the areas surrounding the new metro line leading from Helsinki to the west of the city are expected to attract a considerable amount of development in the foreseeable future.

Denmark

Take up levels were positive over the quarter with a letting volume of over 500,000 sq. m. However, absorption was lower than the previous quarter and this is partly due to the shorter lease terms (between 5-7 years) that are available, allowing a quicker turnaround of tenants. With economic growth easing there remains an air of caution around the market, with lettings taking longer to conclude.
Vacancy fell slightly in Greater Copenhagen over the quarter, moving from 10.0% to a rate of 9.9%, although this figure is still considered relatively high. Developers remain cautious, which is demonstrated by a fully pre-let development pipeline, and this has helped to curb growing vacancy in Greater Copenhagen.

Retail market

Sweden

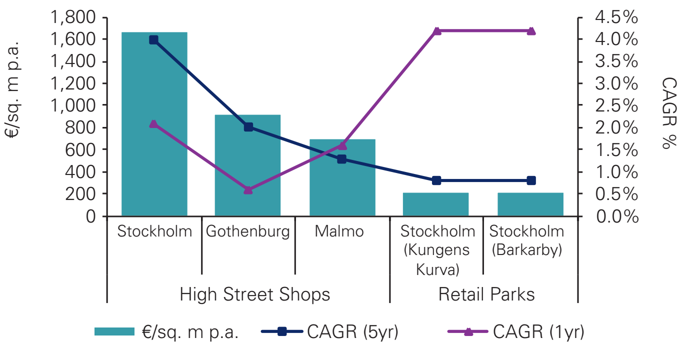
Occupier demand in Q2 remained unchanged. Foreign retailers continue to dictate activity as they seek to establish a presence in the market, with prime locations of particular interest. There is, however, a distinct shortage of quality high street space holding back leasing activity, with rents and premiums paid still high. Prime rents over the quarter were unchanged, although rises were observed across the sector when compared with the corresponding period last year.
The supply of retail space is increasing slightly, especially in the Malmoe region where new shopping centres are coming onto the market.

Norway

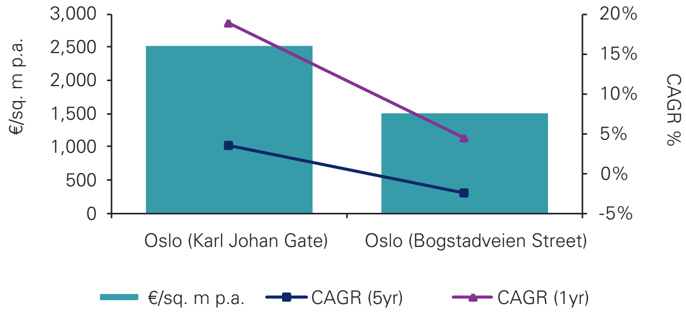
Demand for prime space remains healthy, with strong interest from domestic and international retailers alike. High street and retail warehouse rents edged up over the quarter. Indeed, on Karl Johan Gate in Oslo, rents grew by 5.6% relative to Q1 and have risen by almost 20% year-on-year. Shopping centre rents held firm after coming under upward pressure in the first quarter.
Shopping centre provision across the country is expected to increase by more than 260,000 sq. m before the end of 2013. This

Prime Retail Rents

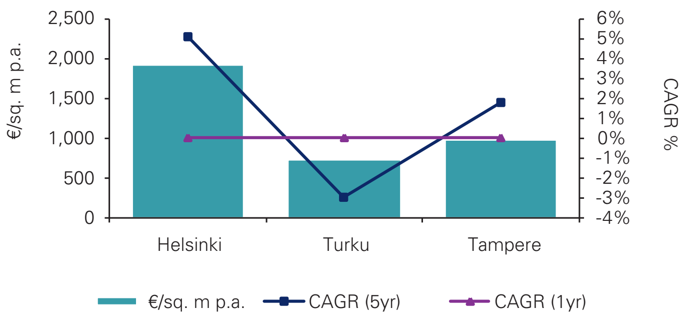
Sweden



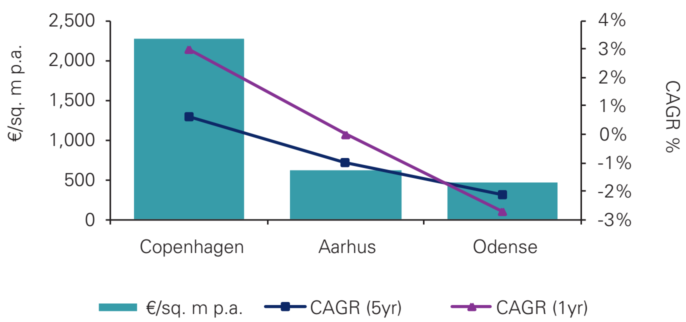
Norway



Finland



Denmark



Source: Cushman & Wakefield

includes three new shopping centres, although there are no new schemes in the pipeline in Oslo.
Major extensions to Strommen Storsenter in Lillestrom and Vestkanten in Loddefjord are also under construction and due to be completed later this year.
Next year will see the completion of the third and fourth phases of Sorlandssenteret in Kristiansand S; upon completion, Sorlandssenteret will be the largest scheme in the country. Jekta Storsenter in Tromso is also being extended by more than 30,000 sq. m.

Finland

Demand for high-quality retail space is strong; several brands are looking to expand their presence in Finland, with particularly strong interest in Helsinki CBD.
However, occupier activity is constrained by limited availability; no new shopping centres were delivered in Helsinki in recent months and low vacancy is reported on the high streets. The only new supply delivered in the first half of the year was the first phase of the Willa Centre in Hyvinkää. Rents were unchanged across all retail segments over the quarter.
Across Finland, almost 230,000 sq. m of new shopping centre space is currently under construction and scheduled for completion before the end of 2013. While no new schemes are being built in Helsinki, several centres in and around the capital are being extended, and supply in the Helsinki-Uusimaa region should increase by 60,000 sq. m before the end of next year. Elsewhere, the largest new shopping centres in the pipeline are Veturi in Kouvola (48,000 sq. m) and Matkus in Kuopio (33,000 sq. m), both scheduled for completion later this year.

Denmark

Occupier demand for the prime area of Copenhagen and prime regional shopping centres remains strong, while interest for non-regional shopping centres continues to decline.
Overall, the occupier market is still affected by low consumer sentiment and turnover, allowing only the strongest retailers to actively look for prime space. Despite this cautious retail environment, several foreign brands are still interested in opening flagship stores in the capital, eager to take advantage of what can now be described as a tenants' market.
While prime rents across the country remained largely unchanged over the quarter, the most sought-after high streets in Copenhagen witnessed rises on an annual basis, in some cases exceeding double digits.

Housing market

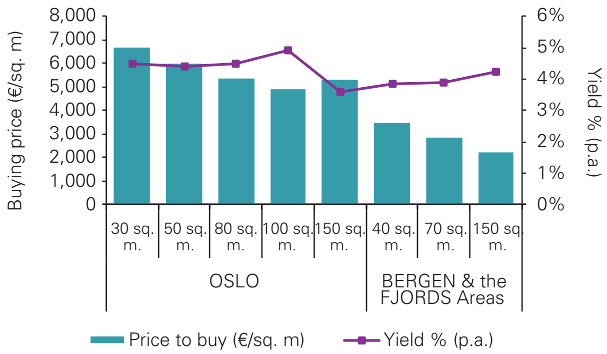
Sweden

In Greater Stockholm, average house prices fell by 4.4% during 2011 (-6.6% in real terms) to SEK 3,643,000 (EUR 409,473), with a large fall in the last quarter when prices fell 7.9% (-8.6% in real terms).
Regions with large falls in house prices included Sodermanland, which experienced an 8.9% drop during 2011, followed by Varmland and Ostergötland with 8.6% and 7.4% price falls, respectively.

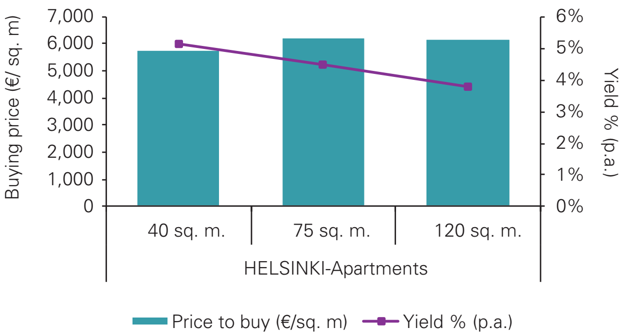
Price and Yield Housing market

Sweden

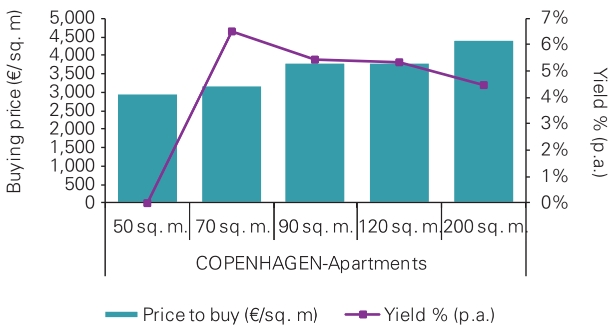
Norway



Finland



Denmark



Source: Cushman & Wakefield

Vasterbotten registered the highest house price increase among Swedish regions in 2011, at 4.4%. Gotland (3.5% rise) and Uppsala (2.8% rise) also saw a moderate growth in house prices.

The drop in house prices was partly influenced by the Riksbank's seven increases in its key interest rate since July 2010, to 2% (the rate prevailing between July 2011 and October 2011). These increases were introduced in response to strong GDP growth in 2011 (3.9%) and high lending for house purchases. The economy has slowed since then and in response, the Riksbank's key interest rate has been lowered to 1.5%.

It is likely that house prices in Sweden will slide or at best remain stable in 2012 according to Riksbank Central Bank Governor, Stefan Ingves.

Norway

Norway's market began recovering in early 2009, after house prices fell from mid 2007 to 2008.

In Oslo, house prices rose by 10.9% (9.6% in real terms) y-o-y to Q1 2011, and 5.9% (5.2% in real terms) q-o-q.

Bergen registered the highest annual house price increase with 12.2% (10.6% in real terms) y-o-y to Q1, Stavanger and Trondheim also rose 10.4% (8.8% in real terms) and 9.2% (7.7% in real terms), respectively. Western Norway recorded the highest annual price growth among Norway's regions, at 10.7%.

Northern Norway registered the lowest house price growth at 3.4% y-o-y.

Finland

Terraced house prices rose by just 0.5% (-2.4% inflation-adjusted) to EUR 1,991/sq. m over the year to May 2012, with a greater "real" fall in Greater Helsinki (-2.9% inflation-adjusted) to EUR 3,106/sq. m than in the rest of the country (-1.8% inflation-adjusted) to EUR 1,695/sq. m.

Prices of apartments rose by 2.3% y-o-y (-0.6% inflation-adjusted) to EUR 2,215/sq. m in May 2012, with a stronger performance in Greater Helsinki (a rise of 3%) to EUR 3,432/sq. m.

In the rest of the country, the average price of apartments rose by 1.6% (-1.4% inflation-adjusted) to EUR 1,620/sq. m.

Finnish house prices are expected to remain flat in 2012, according to the Danske Research Team.

Denmark

House prices in Denmark have fallen, with a national price drop of 7.5% for single family dwellings during 2011 (-9.9% inflation-adjusted), according to StatBank Denmark.

The housing market is expected to remain depressed over the next two years. Property prices are projected to fall by about 10% by 2013, according to the Copenhagen-based Economic Council.

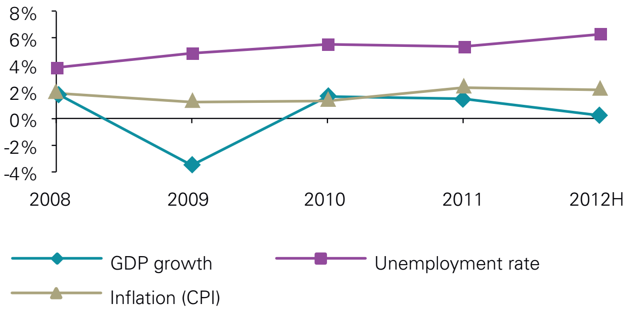
On the other hand, buy-to-let properties are showing remarkable strength, and are attracting strong investor interest as many Danes tend to rent rather than buy in a falling market. Investors see continued strong demand in Copenhagen and Aarhus for rental apartments, with the option to sell if and when demand changes from rent to buy.

Are the 7 lean years on the way?

Macroeconomic overview

The Dutch economy is no longer in recession and the picture in 2012 is more positive than previously anticipated. According to new figures from the Dutch Statistics Office, economic growth in the first quarter of this year reduced by 0.3% compared to the previous quarter. Year-on-Year, the economy shrank by 0.8%.

Economic Indicators



Source: Dutch Statistics Office

The inflation rate was recorded at 2.1% in June 2012. Historically, from 1997 to 2012 it averaged 2.1% reaching an all time high of 4.5% in April 2001 and a record low of 0.2% in July 2009. The inflation rate refers to a general rise in prices measured against a standard level of purchasing power.

The unemployment rate was last reported at 6.3% in June 2012. From 2003 to 2012 the unemployment rate has averaged 5.3%, reaching an all time high of 7.0% in February 2005 and a record low of 3.4% in August 2008.

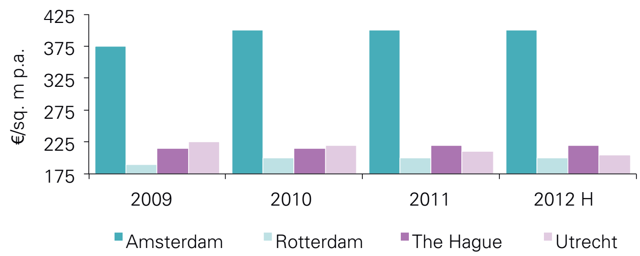
The Gross Domestic Product (GDP) grew by 0.2% between the final quarter of 2011 and the first quarter of 2012. From 1988 to 2012 growth in the GDP has averaged 0.6%, reaching an all-time high of 2.0% in June 1996 and a record low of -2.2% in March 2009. The Netherlands has a prosperous and open economy, which heavily depends on foreign trade. The economy is noted for stable industrial relations, moderate unemployment and inflation, a sizable current account surplus and an important role as a European transportation hub.

The anticipated GDP reduction of 0.75% for 2012 has not changed since the Central Economic Plan (CEP) for 2012 was published. The Central Planning Bureau (CPB) expects to see a slight recovery between 2013 and 2017 with average growth of just 1.5% p.a. Potential growth is lower than in previous cabinet periods and results from of an aging population (labour supply). In the current scenario, it is anticipated that GDP will reach the 2008 level in 2014. GDP will not have grown since the onset of the financial crisis (6 years) and very little "catch-up growth" is anticipated for the period between 2013 and 2017.

Office market

The office sector was largely inactive going into Q2 2012. Indeed, with few new entrants into the occupier market, movement was sustained by relocations rather than expansions. Tenant activity consisted mostly of relocations, extensions, the conclusion of subleases and consolidations, in attempts to cut costs and utilise space more efficiently. As a result, rents held firm over the quarter in both the prime and secondary markets; however, letting incentives have increased to an average of around 15% and are highly dependent on the location.

Office Prime Rents



Source: DTZ Zadelhoff

The sales volume of Dutch companies is expected to decrease by 1% (in line with the economic contraction) in 2012, mainly due to a decline in business investment, shrinking government budgets and rising unemployment. Further government cuts will increase pressure on industries which are dependent on the government as a major client, such as engineering firms and employment agencies. With many of these cuts due to be introduced from 2013, business service providers' and consulting agencies' sales are not expected to grow, but to stabilise.

The number of office jobs has fallen sharply in recent years, with a pronounced reduction in jobs in financial services to 222,000 in early 2012, which is a fall of over 10% since the peak in 2007. Structural developments will cause a further downturn in demand for workplaces over the next few years, with a reduction in the labour force of almost 5% over the next 20 years. New forms of working continue to be introduced and these should lead to a permanent reduction in the volume of office space required per employee.

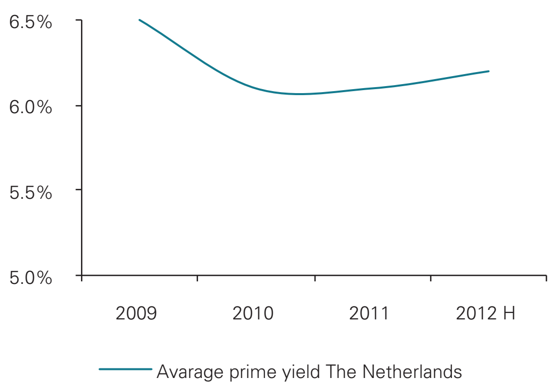
At present, demand remains strong for good-quality space in prime locations of major cities, particularly in Amsterdam. Overall, the total office stock has remained stable, primarily as a result of a decrease in the volume of speculative construction and the current trend of refurbishing and converting vacant office buildings for other uses. An example of this is the increase in hotel development activities in Amsterdam. Vacancy remains a problem in cities outside the Randstad agglomeration. Tenants are exploiting the current market situation to change their office locations and thus to relocate to offices which meet their current requirements.

The Netherlands

Due to the current economic situation and supply in the market, there are no major new developments. Rental levels in good locations should therefore remain stable.

The office investment market was characterised by major transactions in the first quarter. This included the sale of a distressed office portfolio and several prime office buildings. Despite reasonable transaction volumes, overall investment activity was low, with a few large-scale sales contributing to the majority of the transaction volume realised; however, few companies can envisage growth opportunities and therefore the uptake of office space in the first quarter was driven in particular by replacement demand. The second quarter of 2012 saw strong office investment, although at a reduced level compared to the first quarter. Prime yields rose over the quarter in most of the decentralized Amsterdam submarkets, as well as in the regional areas of Rotterdam, The Hague and Utrecht.

Office Prime Yields



Source: CBRE

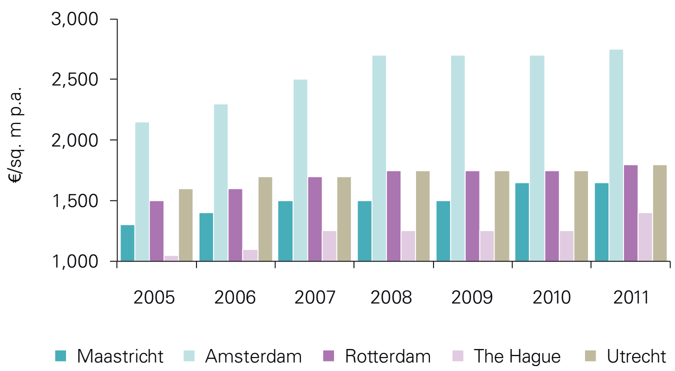
The market appears to be stable at present. Due to a distinct and sustained lack of transaction activity, there is no upward pressure on prices. Yields therefore remain virtually unchanged. This is true at least for the upper end of the market. The price gap between good and poorer quality properties is widening.

Retail market

The already troubled non-food retail segment continues to suffer. Due to poor consumer confidence and declining purchasing power, the situation is not expected to change for some time. The announced cutbacks and VAT increase have put further pressure on the domestic market. The erosion of purchasing power has had a negative impact on private consumption.

Pressure is taking its toll on retailers, with a further rise in the number of bankruptcies in the retail sector registered since last year, which has already exceeded the number recorded in 2009.
Whilst activity has remained relatively stable in major cities, secondary retail locations are coming under increased pressure. Despite a lack of confidence, interest in prime locations in major cities remains high, with international retailers still in search of opportunities. On the other hand, national retailers remain relatively inactive.

Prime High Street Rents



Source: DTZ Zadelhoff

Internet sales have grown significantly and are claiming an expanding market share in certain areas of the retail sector, such as consumer electronics, clothing and shoes. Shopping behaviour has significantly changed in recent years and this is leading to the emergence of new shopping concepts.

The real estate market is now more clearly split between prime and secondary pitches. Although the vacancy rate currently lies at around 6.3% (source: Locatus) on a national level, the rate for prime pitches in major centres is much lower. Shopping malls in cities lacking a strong regional function are now facing a sharp rise in vacancy rates. Recent research shows that the number of square metres of retail space has increased, which has intensified this problem even more.

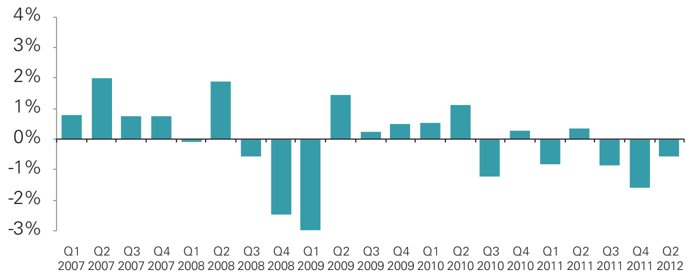
Most tenant interest is coming from international retailers, looking for larger sized units in the centres of major cities.

In addition, investors are becoming more selective about what they regard as good retail investments. Activity in the investment market remained subdued in the second quarter, with a fall in the total transaction volume to just above EUR 104m. Investments in 2012 have slowed significantly with several small transactions taking place, but no significant shopping centre deals were concluded in the second quarter. Yields for secondary properties are increasing, but remain stable in prime locations.

Retail Prime Yields by Type of Use

Source: CBRE

Quarterly Sale Price Changes in the Residential market

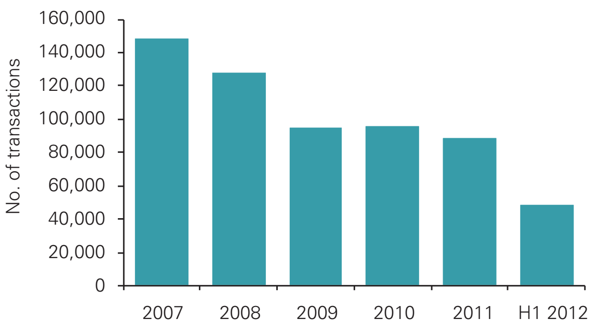


Source: NVM

Housing market

The second quarter of 2012 saw an improvement in the housing market: there were 20.2% more homes sold compared to the previous quarter, although the average sales price has decreased slightly by 0.7%. According to the Dutch Association of Estate Agents (NVM), the average sales price of residential real estate was EUR 215,000. The Association observed that many people brought forward their purchases of new homes in the second quarter, as there were uncertainties about transfer tax. It also noticed that people put their house onto the market for sale at lower prices.

Transaction Volume in the Dutch Housing Market



Source: NVM

There are two reasons for the increase in the number of transactions: firstly, the previous quarter was characterised by political and economic turmoil; and secondly, purchasers have delayed their decisions in order to benefit from reduced transfer tax. Before the announcement of the Spring Agreement at the end of April, it was unclear whether the temporary reduction in transfer tax would be extended after July. The decision has since been made to extend this policy, thus retaining transfer tax at its current level of 2.0%.

House prices fall, with a reduction of 6.3% registered over the past year.

According to information from residential agents, there were 175,000 residential units for sale on the market during the quarter; however, it is estimated that there are around 233,000 homes on the market in total. Although this is an increase of 2.6% compared to the previous quarter, traditionally more houses are placed on the market during this period (8.0%).

The average house price is currently at its lowest level since the onset of the crisis with an overall fall of 12.9%.

Affordability, which is measured by house prices and mortgage rates, is at its most attractive level for years; nonetheless, financing a house purchase is increasingly difficult. Banks are still in trouble and therefore continue to impose strict financing conditions.

Resilient market despite the economic slowdown

Macroeconomic overview

According to the Luxembourg national statistics office (Statec), the first quarter of 2012 saw GDP fall considerably by 1.5%, compared to the fourth quarter of 2011. The financial sector, fundamental to the Luxembourg economy, contributed to this negative performance, mainly as a consequence of a decrease in bank lending. The downward trend has been evident in most of the economic sectors in early 2012, except in business services which maintained steady growth.

Due to recent unfavourable developments in the local and global economic environment, Statec revised its GDP forecasts for Luxembourg significantly downwards, from 1.0% to 0.1% in 2012 and from 2.4% to 1.7% in 2013 in July.

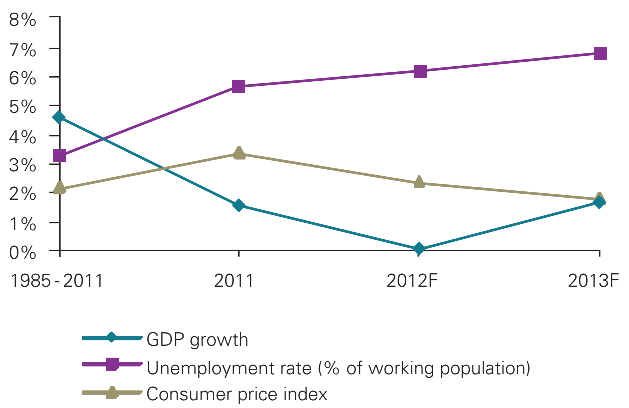
The first half of 2012 was marked by a deterioration of the Eurozone's situation, both in terms of the economy and politics, as several countries are still trapped in budgetary issues and no consensual solution at the European level has been found to tackle the debt crisis. Luxembourg's economy has been particularly affected by the recent European turmoil, as its activities are focused on the Eurozone, and as a result of the increased regulation of the financial sector.

The unemployment rate in Luxembourg, although lower than the 11.1% figure for the Eurozone in May 2012, is historically high. According to Statec, unemployment is 6.1% as of June 2012, compared to an average of 4.2% in 2008.

The public deficit, which has so far been kept at a moderate level (0.6% of GDP in 2011), is expected to increase to 1.8% of GDP in 2012 and 3.2% in 2013.

Inflation has been slowing down from 3.4% on average in 2011 to 2.7% on average since the beginning of this year. It is expected to decrease further by the end of the year, with the main driver being the global fall in commodities prices.

Economic Indicators



Source: Statec

Office market

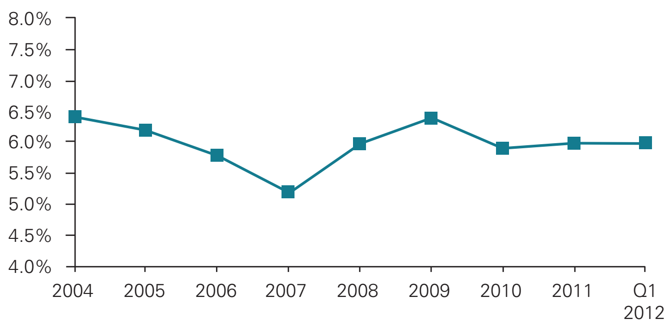
Luxembourg has a total supply of 3,491,000 sq. m of office space, 31% of which is less than five years' old. Luxembourg City accounts for over 74% of the total supply; 11% is located in neighbouring towns.

There was a total of 12,000 sq. m of completions during the first half of 2012. An additional 63,000 sq. m should be completed by the end of the year, which would bring the total volume of completions for 2012 to 75,000 sq. m, far below the average of 118,000 sq. m achieved over the last five years. Forecasts for 2013 are more optimistic but are still limited compared with the five year average, as only 92,000 sq. m is expected to be completed.

The surge in transactions already observed during 2011 continued during the first half of 2012. Take-up started slowly at the beginning of the year, with a total volume of 24,300 sq. m during the first quarter, but it doubled to 48,500 sq. m during the second quarter. The average area leased during the first half of 2012 was over 800 sq. m; a significant increase compared with the average area leased during the same period in 2011 of less than 700 sq. m. Transactions were concentrated in the most sought-after areas, with 80% taking place in the Central Business District (CBD), Kirchberg and the area of the central station.

These locations also have very low vacancy rates: 3.6% in the CBD, 2.8% in Kirchberg and 2.3% in the area of the central station. Overall, the vacancy rate for offices in Luxembourg stood at 6.2% in the second quarter of 2012; at the same level as at year-end 2011. Given the slowdown in the supply pipeline, this figure is expected to decrease further by the end of the year, heading towards the ten year average of 4.8%.

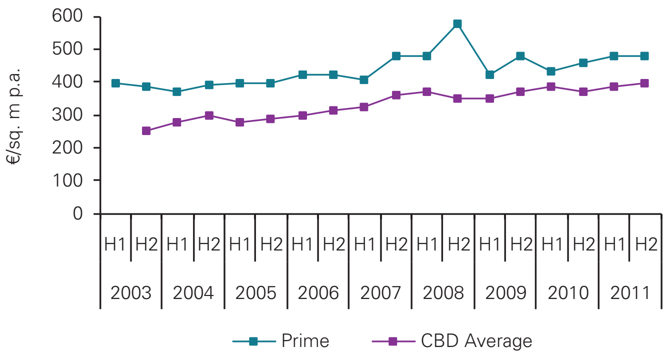
Office Prime Yields



Source: DTZ

Prime rents remained stable at EUR 480/sq. m p.a. in the CBD compared to the year-end 2011. Prime yields have also remained unchanged since the end of 2011, at 6.0%. Letting incentives are being reduced in the central districts, as the fall in vacancy rate is giving owners greater freedom in lease negotiations.

Office Rents



Source: DTZ

Retail market

High Street

The High Street retail market can be divided into two main areas of Luxembourg City consisting of Grand-Rue and Rue Philippe II. Both streets are pedestrian areas located in the city centre.

Retail sales in Luxembourg have remained fairly stable and retailer demand continues to be high in the prime areas. The prime rent for retail units increased to EUR 1,320/sq. m p.a. in 2011, compared with the 2010 prime rent of EUR 1,200/sq. m p.a.

Shopping Centres

There are several shopping centres in Luxembourg, which are located in the city and in the outskirts.

The two oldest shopping centres include City Concorde, which is the largest with a Gross Leasable Area (GLA) of 42,000 sq. m and is located in Bertrange, and the third largest, La Belle Etoile, located nearby City Concorde with a GLA of 35,000 sq. m.

The second largest is BelvalPlaza, which is part of the 120 ha revitalisation project taking place in the Belval area in the South of Luxembourg. This shopping centre opened in 2008 and offers a GLA of 36,000 sq. m.
The fourth largest is Auchan in Kirchberg, which is the financial and European district of Luxembourg City. It offers a GLA of 23,000 sq. m.
In addition, development of the Royal Hamilius project in the very centre of Luxembourg City, which will offer 36,000 sq. m, is expected to commence by the end of the year. This will add around 16,000 sq. m of retail space to the market and aims to expand the high street retail area of Luxembourg City by providing more retail and office space for rent. The project, which is expected to be completed in 2017, will increase the retail area of the city centre by 25% and will reduce the upward pressure on prices in the location.

This ambitious project aims to create fully integrated space in the city centre with a combination of offices, retail and residential uses, services and a restructured transport network. The property will be of a high architectural quality and energy efficient. It will incorporate large pedestrian areas and improve the status of the city centre as an attractive commercial destination that is able to compete with foreign cities.

Shopping Centres	GLA (sq. m)
City Concorde	42,000
Shopping Centre Belval Plaza	36,000
Shopping Centre La Belle Etoile	35,000
Centre Commercial Auchan	23,000
Royal Hamilius project	16,000

Source: JLL

Housing market

Rental

The growth in rental prices for both houses and apartments in Luxembourg accelerated considerably during 2011. House rental prices rose by 7.9% and apartment rental prices increased by 10.1%. Before this, prices had remained relatively stable.

Rental prices for houses in Luxembourg City grew by 8.4% in line with the overall growth rate observed in Luxembourg; however, the increase in apartment rental prices in the capital city was lower than the Luxembourg figure, at a rate of 8.2%.

The rise in rental prices is linked to a drop in available supply in 2011, with 17,400 offers published over the year compared with the 20,500 offers published in 2010.

The residential rental market is largely concentrated in the Centre-South region which accounted for more than 60% of offers in 2011.

Luxembourg City accounted for 18% of house rental offers and 45% of apartment rental offers over the period.

Luxembourg Residential Market – 2011	Average price / rent (€)	sq. m price / rent (€)	Annual price increase
Luxembourg (country)			
Price			
Houses	597,785	3,375	2.3%
Apartments	364,682	4,115	5.6%
Rent			
Houses	2,424	144	7.9%
Apartments	1,168	192	10.1%
Luxembourg City			
Price			
Houses	781,793	4,371	11.5%
Apartments	454,790	5,301	7.2%
Rent			
Houses	3,068	168	8.4%
Apartments	1,304	228	8.2%

Source: Observatoire de l'habitat 06.2012, Luxembourg Government

Investment

The 2011 annual growth rate for house sale prices slowed down to 2.3% compared to the 5.5% growth achieved in 2010. In contrast to this, sale price growth for apartments accelerated to 5.6% over 2011 compared to only 2.6% in 2010.

In Luxembourg City, sale prices for both houses and apartments increased significantly more than the national average, by 11.5% and 7.2% respectively. Average sq. m sale prices in the capital are EUR 4,371/sq. m for houses and EUR 5,301/sq. m for apartments, which is significantly above the national average, of EUR 3,375/sq. m and EUR 4,115/sq. m respectively.

The total volume of capital invested in the acquisition of apartments in Luxembourg soared by 15.8% in 2011. A more conservative increase of 7.8% is observed for house investments.

Annual Residential Sale and Rental Market Prices Evolution

Source: Observatoire de l'habitat (June 2012), Luxembourg Government

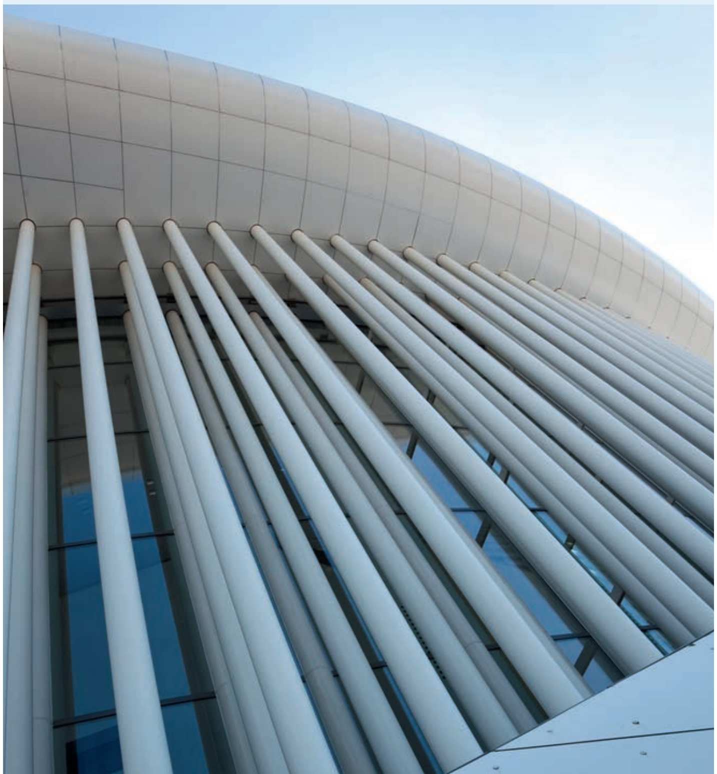
Real Estate debt market

Given the relative small size of the Luxembourg market, information regarding debt financing of real estate is fairly scarce. Some characteristics are however worth mentioning.

It is common practice in Luxembourg to finance real estate investments by issuing real estate certificates via Special Purpose Vehicles (SPV) holding real estate assets. These can be either bearer certificates or registered certificates and are considered to be a form of debt financing, despite the fact that they are not repaid at a fixed rate and not remunerated by a fixed income; rather their remuneration is based on rental income less expenses, and on the capital gain generated when the assets are sold. The characteristic of these securities, which allow them to be adapted to meet the requirements of debt, is that the holder of the certificate does not participate in the ownership of the assets: the holder's status is only that of a creditor.

The proceeds received by the certificate issuer from its real estate assets are partly distributed to the certificate holders. Payments can take the form of either a repayment of principal which is not tax deductible for the company and is not taxable for the certificate holders, or an interest payment which is tax deductible for the company and taxable as capital income for the certificate holders. Proceeds from the sales of assets are primarily distributed as repayments of principal. Any residual proceeds are distributed as interest payments.

In addition to this particular financing structure, real estate investors in Luxembourg can adopt various other debt financing methods, which include collaterized debt, for which the most common practice in Luxembourg is the pledging of collateral.



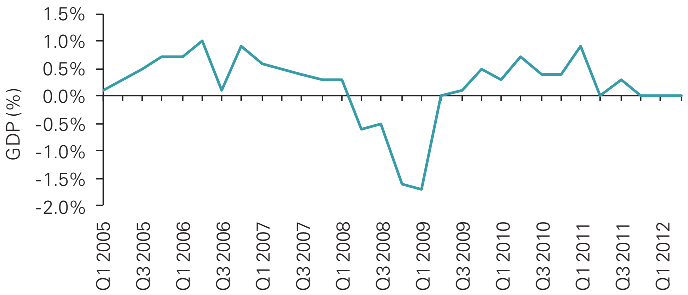
France

Commercial market remains resilient while residential market begins to lose momentum

Macroeconomic overview

While France has demonstrated resilience in the face of the European economic crisis, it cannot claim to be completely unaffected. According to the National Institute for Statistical and Economic Studies (INSEE), GDP growth has flat-lined at 0% over the past three quarters. The consensus outlook for 2012 is that GDP growth could reach only 0.2% compared to stronger 2011 figures of 1.7%. Unemployment has also continued to rise from 9.8% at the end of 2011 to 10% at the end of Q1 2012.

GDP Growth

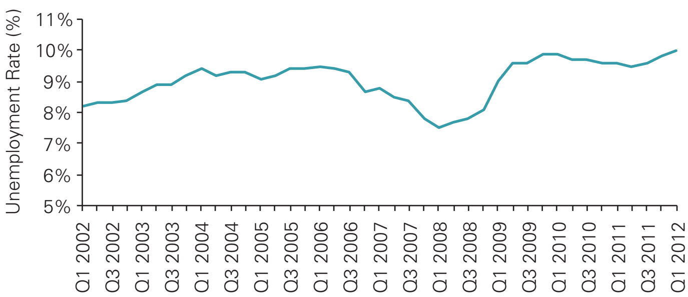


Source: INSEE

Inflation

Source: INSEE

Unemployment rate



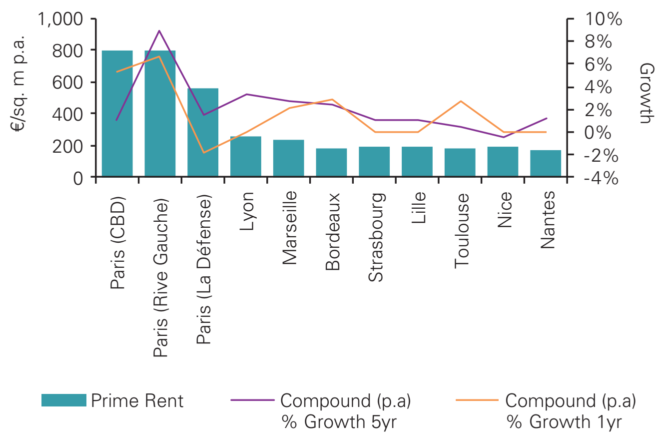
Source: INSEE

Despite poor economic growth, unemployment concerns and the ongoing European debt crisis, the commercial real estate investment market was upheld in H1 2012, with total investments of EUR 6.6bn. Bearing in mind that the situation is unlikely to improve rapidly over the coming months, total investment for the full year is expected to range between EUR 13bn and EUR 15bn, lower than the 2011 figure of EUR 16.5bn.

Office market

The office market continues to be the most popular commercial real estate market segment in France, representing 74% of total investments in H1 2012 with over EUR 4.9bn invested. However, take-up in the Greater Paris Region, the most prominent office market in France (84% of total office investment), slowed down in H1. Take-up totalled only 960,000 sq. m in H1 2012 compared to 1,175,000 sq. m a year earlier, a drop of 18%. This decrease was driven by a fall in the number of large transactions for areas greater than 5,000 sq. m. Whilst starting well in the first three months of the year, this segment slowed down significantly in Q2, accounting for only 26% of the market compared to 39% in Q1.

Prime Office Rents



Source: Cushman & Wakefield

Despite the fall in take-up, the supply of available office stock has remained stable at approx. 3.6 million sq. m, which puts the vacancy rate for the Greater Paris Region as a whole at 6.8%. In Central Paris, the supply of high-quality space has become increasingly scarce, with vacancy rates falling 14% over the past two years, reaching a level of 4.5% and nearing the 10 year low of 3.8%.

In H1 2012, prime office rents in the Paris Central Business District (CBD) rose from EUR 760/sq. m at the end of 2011 to EUR 800/sq. m. The continued scarcity of available high-quality space in this area is expected to maintain pressure on rents. On the other hand, prime rents in the La Défense business district are falling and now stand at EUR 560/sq. m compared with the prime rent of EUR 576/sq. m registered at the end of 2011. Yields across all districts remained flat over 2011 and consensus is that they should remain stable over the coming months.

Office Yields

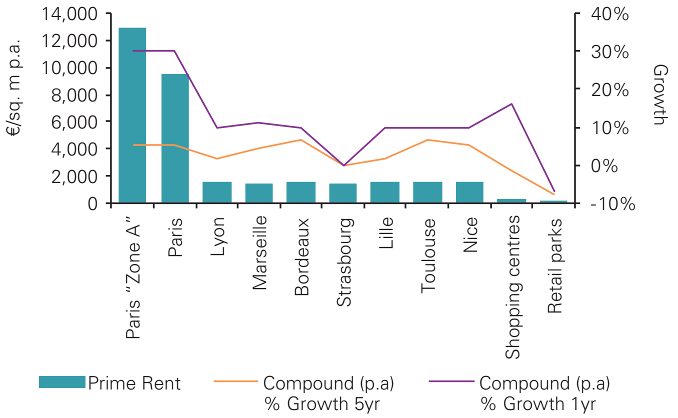
		Q2 2012	Q1 2012	FY 2012	10 Year High	10 Year Low
Paris	CBD	4.5%	4.5%	4.5%	6.3%	3.8%
	Rive Gauche	5.3%	5.3%	5.3%	6.8%	4.5%
	La Défense	6.0%	6.0%	5.8%	6.8%	4.5%
Provincial	Lyon	6.0%	6.0%	6.0%	7.8%	5.8%
	Other	6.3%	6.3%	6.3%	9.0%	6.3%

Source: Cushman & Wakefield

Retail market

Continuing economic and social uncertainty in France, and in Europe as a whole, has resulted in a slump in retail sales growth in the country since 2011. However, some sectors are faring better than others. While household furnishings and fashion dropped 0.5% and 0.4% respectively (on a rolling year basis), IT equipment, leather goods and the perfume/beauty sector enjoyed growth of 11%, 3% and 6% respectively (on a rolling year basis). Despite the decline in some sectors, there is still robust demand for prime retail space in large cities, particularly in Paris, due to the strong tourist base.

Prime Retail Rents



Source: Cushman & Wakefield

As a result, international mass market and luxury retailers are looking to either enter the market or expand their portfolios in these areas. Tiffany's and M.A.C both recently finalised deals on the Champs-Elysées for record rents. With limited supply available in most sought–after districts, rental values are expected to continue to trend upwards in prime high street retail locations. However, this demand pressure is not being seen in the other retail segments. Supply is still high in shopping centre segment while rents in the retail park segment remain stable.

On the investment side, transactions reached EUR 1.1bn in H1 2012; this represents an increase compared to the corresponding period last year, however the improvement was largely driven by two major transactions in the Paris area. While investor appetite is strong, the lack of opportunities for prime high street locations has translated into low investments. Consensus is that the lack of quality supply combined with both the economic and social uncertainty will lead the investment market to underperform compared with 2011.

Retail Yields

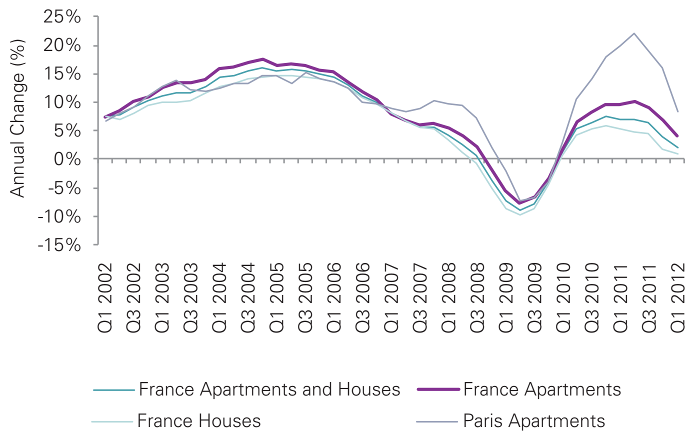
		Q2 2012	Q1 2012	FY 2012	10 Year High	10 Year Low
High street retail	Paris	4.3%	4.5%	4.5%	6.5%	4.0%
	Lyon	5.3%	5.3%	5.3%	6.8%	4.8%
	Marseille	5.3%	5.3%	5.5%	6.8%	4.8%
	Bordeaux	5.3%	5.3%	5.5%	7.0%	4.8%
	Strasbourg	5.3%	5.3%	5.5%	6.5%	5.3%
	Lille	5.3%	5.3%	5.5%	7.3%	4.8%
	Toulouse	5.8%	5.8%	5.8%	7.0%	4.8%
	Nice	5.8%	5.8%	5.8%	6.5%	4.8%
Shopping centres	Paris Region	5.0%	5.0%	4.8%	5.8%	4.0%
Retail parks	Paris Region	6.0%	6.0%	6.0%	8.0%	5.0%

Source: Cushman & Wakefield

Housing market

Prices in France's residential real estate market increased significantly in 2009 following a small drop during the global recession. Up until the third quarter of 2011, prices had risen by over 120% since the year 2000. Much of this growth has been attributed to the limited supply of housing, particularly in urban areas such as Paris, and to the low mortgage interest rates; nevertheless, the first signs of weakness are starting to show.

Change in second-hand Home Prices (y-o-y)



Source: INSEE

According to INSEE, home prices increased by only 1.8% in 2011 after adjusting for inflation, and only 0.8% growth was registered in Q1 2012. Significant regional differences still remain. The market for apartments in Paris continued to perform well last year, growing 12% in real terms (reaching approx. EUR 8,400/sq. m on average). Outside Paris, the drop in prices has been significant, with prices falling 4.6% in Brittany, 6% in Lower Normandy and 9.7% in Burgundy.

There was also a steep fall of 41% in the number of mortgages issued between the months of January and February 2012. This fall, which marks the lowest levels in residential mortgage lending in nearly three years, comes as banks and other financial institutions tighten up lending criteria.

Consensus is that prices will continue to fall over the coming months, but that this fall represents more of a correction than a crash after the market rebounded quite rapidly and significantly following the onset of the economic crisis in 2008. FNAIM, the association of estate agents in France, predicts a fall in prices of 5% in 2012 while other predictions of price falls range from 5% to 10%.

Real estate debt market

The weakening economic outlook and increasing regulatory requirements imposed on banks has led them to cut their holdings in real estate debt. However, new investors such as insurance companies and sovereign funds are emerging onto the market and looking to increase their holdings. The French division of AXA announced at the end of Q1 2012 that it planned to double its investments in French real-estate debt from approx. EUR 1.5bn to EUR 3bn. This is not surprising given that the European Union's Solvency II rules appear to make investing in real estate debt more attractive for insurers than directly investing in property.

Switzerland

Safe haven

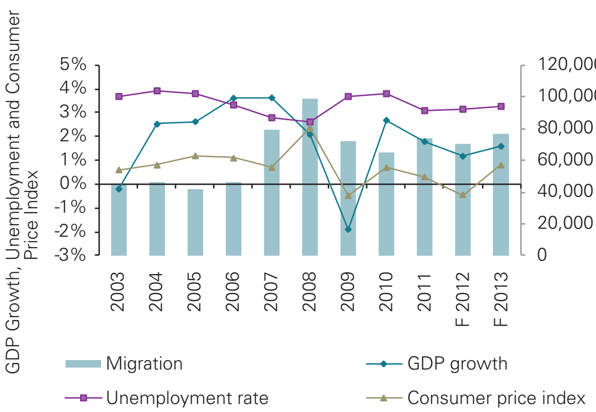
Macroeconomic overview

Due to its robust domestic economy and relatively strong export industry, the Swiss economy is developing better than expected despite the strong Franc and the recessive economic situation in many EU countries. Particular significance is attached to the sustained migration of qualified workers into Switzerland. This is supporting spending and acting as a buffer to the effects coming from foreign trade. Between January and April 2012, positive net migration of the foreign residential population in Switzerland of 23,000 persons was measured. This would suggest net migration for the whole year commensurate with that registered last year (+75,000 persons).

However, the economic situation remains tense for different sectors and many export firms, and the pressure on margins is still high. Whilst watch making and pharmaceutical exports have continued to develop exceptionally well, even registering nominal export growth of 16.4% and 2.8% respectively in the first half of 2012, a very strong downturn in the volume of exports was registered by the engineering (-11.3%) and metal industries (-9.2%).

On average[1], forecasters expect moderate real GDP growth of 1.2% over the coming year. Individual forecasts fluctuate between 0.4% and 1.5%. A broader supported growth of 1.6% is expected for 2013, whereby forecasts point to the inherent risks in the event of a further escalation in the Eurozone.

Macroeconomic Indicators and Net Migration



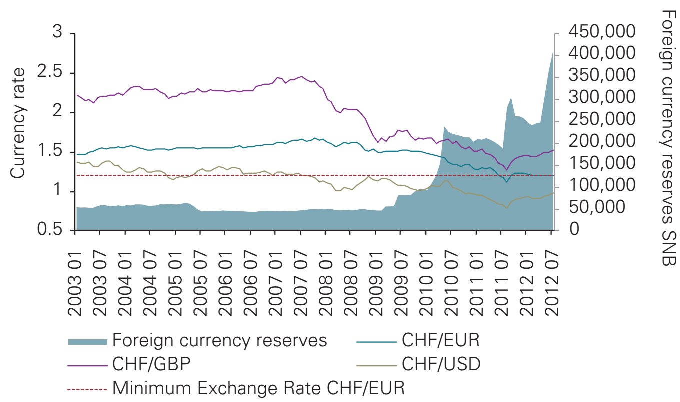
Source: BAKBasel, BFS, Credit Suisse, KOF, Seco and UBS

The economic resilience of the Swiss economy is also evident in the labour market, which remains in good health. The unemployment rate for August 2012 was 2.8%.[2] Compared to the corresponding period last year, this equates to a rise in unemployment of 8,136 persons (+7.3%); nevertheless, the most recent labour market trends have developed significantly better than in most European countries, in which there have been clear rises in unemployment levels. However, according to estimates by most labour market experts, unemployment could rise slightly over the coming months. Economic sectors with economic or structural problems in particular could expect some job cuts. In terms of the annual average, a seasonally adjusted unemployment rate of 3.1% has been estimated both for 2012 and 2013.

For 2012, slight deflation of -0.5% is expected in Switzerland, which is mainly due to a drop in import prices. The Import Price Index stood at 96.7 points in July 2012; this is a 3.8% lower than the price level last year. Lower prices compared to the corresponding month last year are mainly registered for oil, mineral oil products and steel. A return to slight inflation of 0.8% is already expected for 2013; however, neither inflationary nor deflationary risks have been identified in Switzerland for the foreseeable future.

The Swiss National Bank (SNB) remains steadfast at its exchange rate of CHF 1.20 per Euro and has stated that it will maintain this level at all costs. Despite the substantial rise in currency reserves (July 2012: CHF 409bn) it is still prepared to buy unlimited currency. The SNB is of the opinion that the Swiss Franc is valued too highly against the Euro, even at the current exchange rate.

Excange Rates and Foreign Currency Reserves SNB



Source: SNB

[1] Forecasts by the following economic research institutes have been analysed: BAKBasel, Credit Suisse, KOF, Seco and UBS

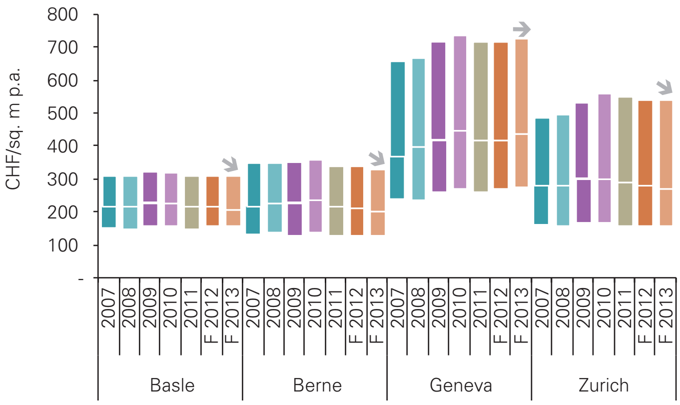
[2] The unemployment rate published by the State Secretariat for Economic Affairs (SECO) has been revised and now refers to the working population at the time of the National census in 2010, which was undertaken by the National Statistics Office (BFS). The size of the working population increased from 3,946,988 in 2000 to 4,322,899 in 2010.

Office market

The perspectives for the Swiss office market are varied. There is a clear variance in development between the largest German and French speaking Swiss office markets. Whilst the largest German speaking cities are faced with a situation of oversupply, there is moderate lack of supply in the larger French speaking centres.

The office markets in the three German speaking cities, Basel, Bern and Zurich, are experiencing major company relocations. Central locations are being given up by large companies in favour of less expensive, better accessible, modern or sustainable accommodation. This structural change in the office market was initiated by the most dominant local branches (pharmaceuticals, public sector and service sector) and has led to the development of new major office centres outside of the traditional CBDs. In the case of the space being left behind, there are two trends being observed: high-quality office space with flexible use is being absorbed within a relatively short period by smaller to medium sized businesses from the service sector. In contrast, abandoned older properties with inefficient layouts or suboptimum accessibility are faced with much longer marketing periods and can sometimes only be relet with the help of incentives in the form of rent-free periods, stepped rents, break options or the financing of contributions towards fitouts or extension works. This challenging environment, together with the sustained office space expansion, means for the overall market segment that owners and landlords have to offer rent reductions. Investors are already factoring this ongoing shift from a landlord to tenant market into their market analyses, which may also lead to a reduction in transaction prices over the short to medium term.

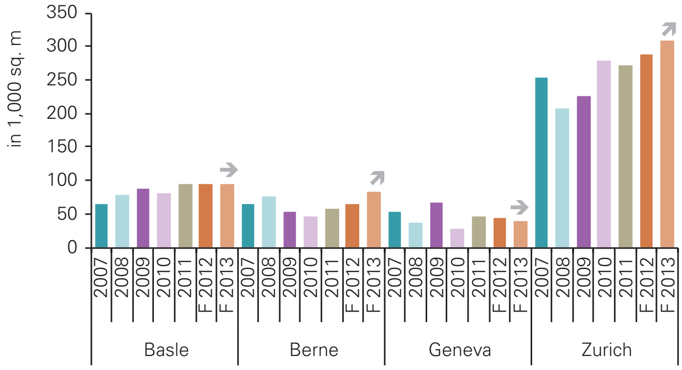
Office Prices in the Economic Centres



Source: KPMG

In French speaking Switzerland, the situation in the office markets is somewhat better. The markets in the cities of Geneva and Lausanne continue to register low vacancy rates and a limited supply pipeline. Due to the lack of positive demand impetus, prices are expected to stagnate.

Vacant Office Space in the Economic Centres

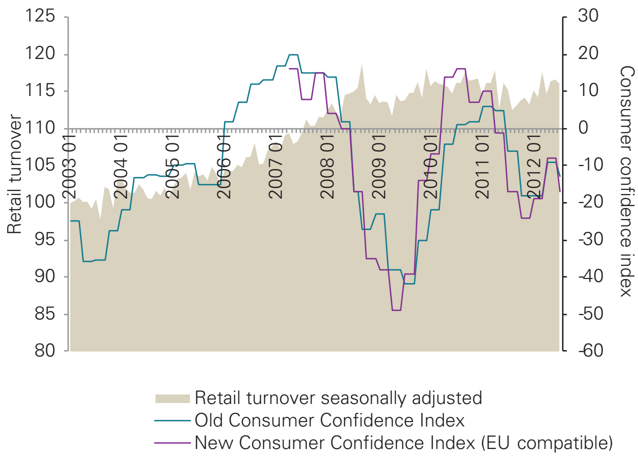


Source: KPMG

Retail market

The economically stronger winter months helped Swiss retail business to a surprisingly good half-year result. The development of demand in particular significantly exceeded forecasters' expectations for the first quarter.

Retail Sales and Consumer Confidence



Source: Source: BFS and Seco

However, the ongoing, challenging exchange rate situation is encouraging the Swiss population to shop outside of Switzerland, which is causing major problems particularly for retailers close to the Swiss border. Even retailers who enjoy a certain distance protection have not escaped the intensification of competition from foreign mail order chains or shopping centres close to the border.

At the same time, spending is being sustained by the good labour market situation, high Swiss real wages and sustained positive net migration.

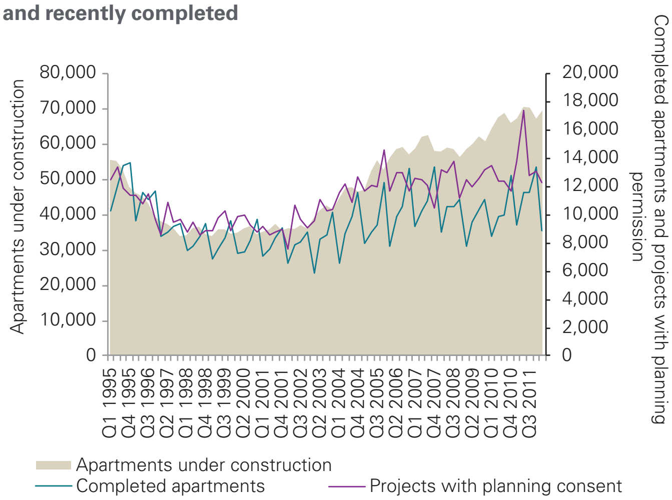
BAK Basel anticipates a rise in real sales, not adjusted for the number of selling days, of 2.0% for the whole of 2012 compared to last year. At the same time, a fall in prices by 2.4% is forecast. This will result in a further reduction of 0.5% in nom-

inal sales since 2011, which will continue to put the already strained profit margins under pressure.
The strong sales space expansion of the last few years has come to a standstill in 2012. There is obvious cautiousness on the part of investors due to the difficulty in predicting macroeconomic environment and the development of the trend towards saturation in the Swiss retail market. This development is confirmed by the low number of major projects which have received planning consent. Although there are still numerous shopping centres in planning, their realisation is often postponed. This consolidation is helping to stabilise the retail market and, despite the stagnating demand, is leading to stable vacancies and falling supply rates.
In terms of rental development, the retail market can be divided into three groups:
High street locations in the major centres can maintain high rental levels despite the unfavourable exchange rate situation. The increasing presence of chain retailers and a sustained trend towards internationalisation and "verticalization" (mono-label stores) act as a rental stabiliser here. We expect prime rents to consolidate at a high level over the medium term, following many years of rent increases.
Stable rents are also expected for central locations, specialist retail parks and shopping centres in the agglomerations. This is supported by relatively long lease terms and robust population growth in the agglomerations. The losers are small format units and space close to the national border. In these cases, rents are expected to fall, at the same time as an intensification of structural change occurs.

Housing market

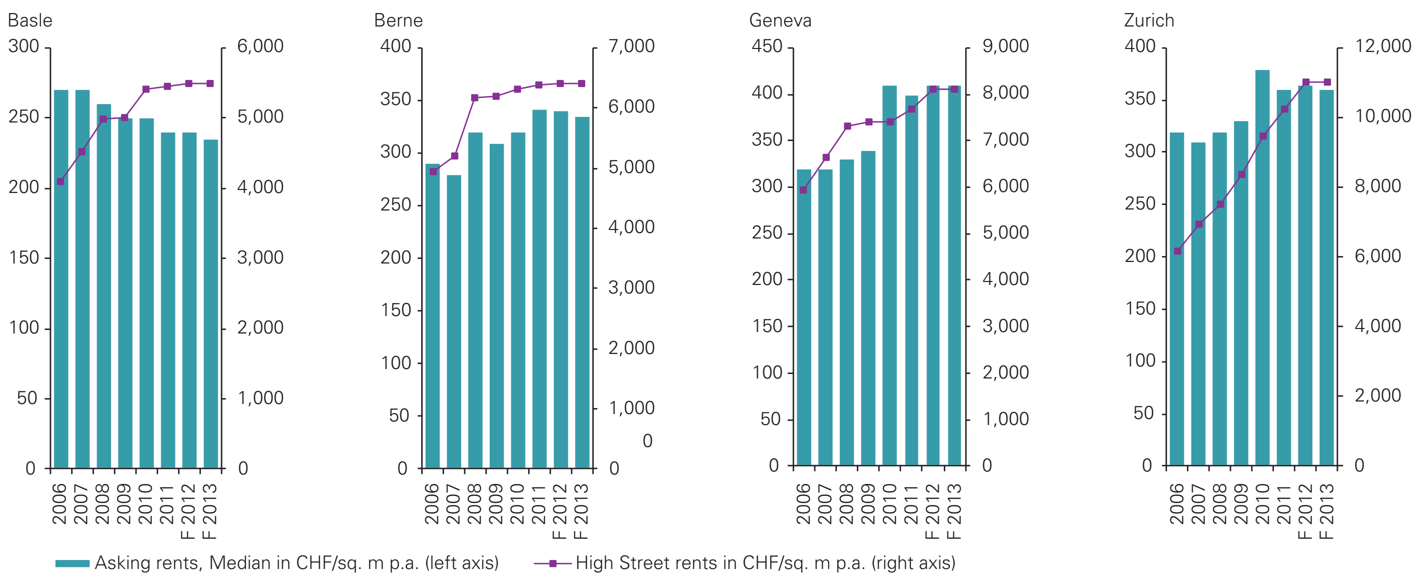
According to the National Statistics Office, in the first quarter of 2012 the number of apartments with planning permission decreased by 11% to 12,260 units compared to the corresponding quarter last year. In the first three months, 8,910 apartments were completed in Switzerland. This equates to a fall of just 4% compared to the corresponding quarter last year. At the end of March 2012, there were 69,760 apartments under construction, which corresponds to a rise of 3% within a year. The deceleration of the early indicators can be viewed as a sign of an impending reduction in the previously very strong construction activity. The main drivers for active construction activity were the high net migration and the low mortgage interest rate, which fed demand for owner-occupied housing.

Apartments with Planning Consent, apartments under construction and recently completed



Source: BFS

Median Asking Rents and Top Rents High Street

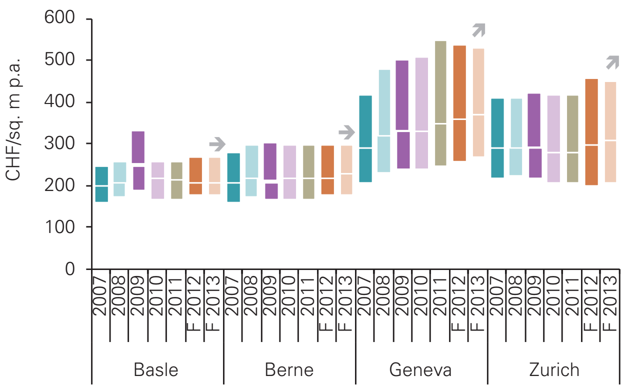


Source: KPMG

Switzerland

No major change is expected in the fundamental data over the medium term. As a result of the de facto tying of the Swiss Franc to the Euro, the SNB has little room for manoeuvre in terms of increasing the base interest rate, which may keep mortgage interest rates low over the medium term. Positive net migration is expected to continue; the recessive tendencies in many European countries are even strengthening the relative attractiveness of Switzerland.
At the same time, banks have implemented more restrictive lending policies for mortgages due to controls being imposed by the regulators (SNB and the Swiss Financial Market Supervisory Authority). The lending regulations recently introduced by the banks themselves should slow down slightly the strong development of house prices seen over previous years.
Rents are developing at different speeds. House prices continue to rise in the cities of Zurich, Geneva and Lausanne, and in the growing agglomerations. Due to favourable financing conditions, more freehold apartments are being purchased by households with higher incomes, which is leading to a reduction in rents for apartments in the higher price bracket.

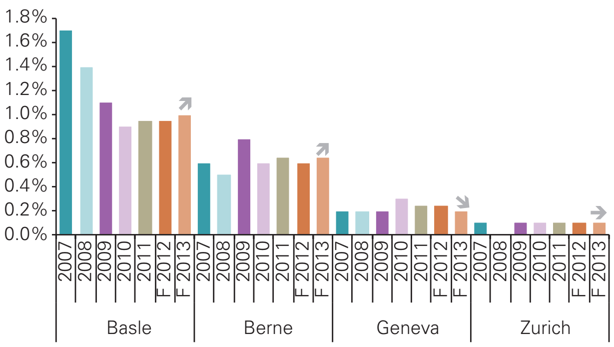
House Prices in the Economic Centres



Source: KPMG

In the other regions, prices are tending to move laterally. Rental falls are being observed in individual regions, which are due to overactive construction activity or are characterised by structural challenges.

Vacancy Index in the Economic Centres



Source: KPMG

Real Estate debt market

Real estate debt investment continues to play a minor role in Switzerland, by global comparison.
In contrast to foreign banks, local banks and insurance companies have no imminent restructuring or divestment requirements to satisfy the increase in equity capital demanded by the stricter regulations (Basel III and Solvency II). This is due to their focus on the relatively safe Swiss real estate market and their conservative lending policies (LTV: 50-70%). Therefore, investment opportunities are limited in this asset segment or are reserved for the traditional financiers and some pension funds.
An interesting perspective for real estate debt investors is now becoming apparent in the Swiss market in conjunction with the new hospital financing policy which was introduced at the beginning of 2012. The most important change of relevance to property is the transfer from property-based to performance-based financing. Under this new financing practice, building investment are no longer cross-subsidised by owners, such as the Swiss cantons. The necessary capital must be generated through the operation of the premises. This takes the form of a case-based lump sum investment, which forms part of the payment for services provided. This means that hospital operators are now subject to financing parameters for the repair, extension or development of buildings and fixtures and fittings, which are comparable with those in the private economy.

For hospital operators, this means there is a financing requirement which could also be satisfied by private or institutional investors. All hospitals are required to find the optimum mix of equity and loan financing for their future investments. In addition to the financing structure, it must be verified whether a split between ownership and operation in the form of an OpCo/PropCo structure is feasible.
In this real estate debt environment, opportunities are arising for capital investors and traditional real estate investors to invest in a previously closed state sector which, in view of the expected demographic trends, has excellent growth potential.

Italy

Uncertainty still drives the market

Macroeconomic overview

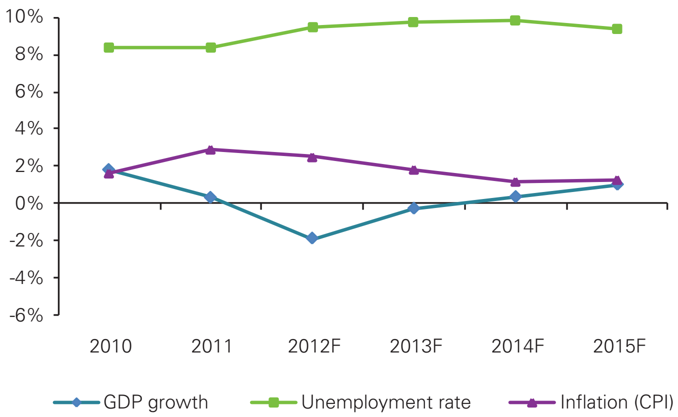
Whilst the United States, Japan and major EU countries are continuing to show weak but positive growth rates, Italy is lagging behind as a consequence of rising unemployment rates, weak financial conditions and declining consumer confidence.

All components of growth have deteriorated since the beginning of the year, with the exception of government spending, whilst contagion from Eurozone debt crisis ended the period of relatively low bond yields that Italy experienced in the past. Private spending fell by roughly 1% in the first quarter, marking the most pronounced deterioration in almost two decades. Households have been hit by severe fiscal measures, especially tax rises. The austerity plan is estimated to reduce disposable incomes by 5% in 2011-2013 due to its impact on unemployment. Overall spending is expected to reduce by 2.7% this year.

Inflation is expected to be around 2.5% in 2012, slowing slightly from 2.9% registered in 2011. Despite limited price pressures due to the ongoing weakness in the labour market, utilities, transport and food costs are expected to keep on rising due to high commodity prices. The unemployment rate has increased beyond expectations, reaching 10.9% in the first half of 2012.

In June 2012, Italy's GDP registered its fourth consecutive decline since Q3 2011, with an overall slump of -1.6% compared to June 2011. Momentum is expected to remain weak, according to forecasts of a further decline in the country's GDP in 2012 (-1.9% p.a.), with risks of a downside due to the unresolved Eurozone debt crisis.

Economic Indicators

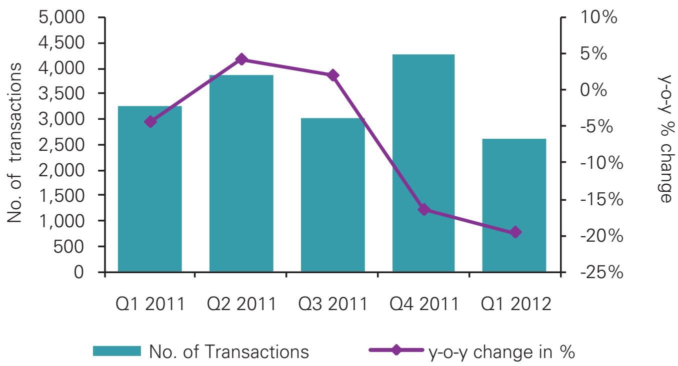


Source: IMF

Office market

The uncertain economic outlook ahead, as well as the declining business confidence, has stifled performance in the office market. Investors remain risk adverse. In Q1 2012, transaction volumes declined sharply compared to the corresponding period in 2011 (-19.6%), with deals taking longer to complete. Such figures also reflect the opportunistic attitude of investors expecting a re-pricing of Italian properties.

Number of Office Transactions and y-o-y % Change



Source: Agenzia del Terriorio, June 2012

Current leasing activity is focused on prime products in core locations; however prime rents in major cities declined slightly over the quarter, despite the generous incentives on offer. With the current market heavily favouring occupiers, landlords continue to offer significant tenant incentives in a bid to remain competitive and secure leases. The main drivers of demand remain rationalisation and cost cutting, with occupiers looking to upgrade to better quality spaces. Consequently, the availability of lower quality space in particular, is still increasing, prompting landlords to re-think their strategies for a better utilisation of their properties and urging them to refurbish or convert to alternative uses.

Prime Office Rents and Yields – June 2012

Source: Cushman & Wakefield

Italy

The Milan market was characterised by very little activity in the real estate sector, with investments aligned to Q4 2011.

The volume of vacant offices has increased sharply in Q1 2012, rising to approx. 11.6% of the total stock. This is putting pressure on property owners, who prefer to reduce the rents of their assets rather than risking to lose tenants. For this reason, the average office rent in Milan dropped by 5% during H1 2012, although prime rents remained steady at EUR 520/ sq. m p.a.

Highlights – Milan	Q1 2012	Q4 2011	Q1 2011	2011
Investment (€m)	140	140	840	1,490
Office Share	88%	52%	26%	36%
Absorption (sq. m)	57,000	89,000	106,000	337,000
Prime Yield	5.4%	5.4%	5.2%	5.4%
Vacant Office (%)	11.6%	10.9%	10.1%	10.9%

Source: BnP Paribas Real Estate Research, 2012

In the Rome market direct investment was limited. One of main reasons for this is the uncertainty brought by the commitment of the government to cut public spending, also by means of office space optimisation. It is anticipated that this could lead to a rise in vacancy figures, especially in Rome which is highly dependent on public sector occupiers.

The volume of vacant offices in Rome remained steady at around 6.2% of total stock. Yields also showed no significant change in Q2, although the limited transaction volume means that it is not possible to make an accurate assessment of the reliability of such figures.

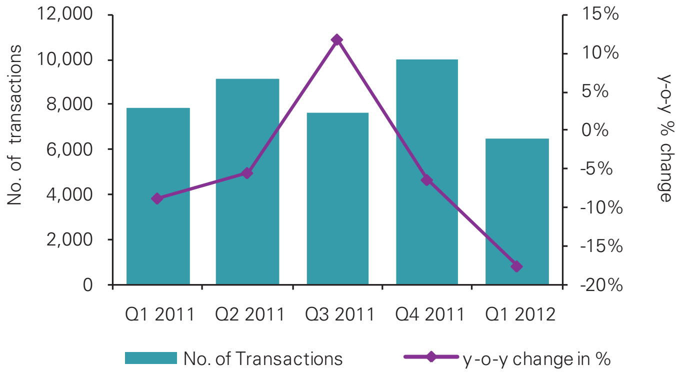
Highlights – Rome	Q1 2012	Q4 2011	Q1 2011	2011
Investment (€m)	100	50	60	810
Office Share	50%	77%	24%	74%
Absorption (sq. m)	6,900	16,700	67,200	181,900
Prime Yield	5.9%	5.9%	6.0%	5.9%
Vacant Office (%)	6.2%	6.2%	5.7%	6.2%

Source: BnP Paribas Real Estate Research, 2012

Retail market

Whereas in 2011 the retail market was confirmed as the main driver of investment, accounting for 55% of the total volume, Q1 2012 saw a sharp decline in transaction volumes (roughly -18% compared to Q1 2011).

Retail Number of Transactions and y-o-y % change



Source: Agenzia del Territorio, June 2012

The decline observed in this sector could be driven by the slowdown in consumer spending, and thus investors' expectations of an increase in yields will remain substantially unchanged compared to 2011.

Prime Retail Rents and Yields – June 2012

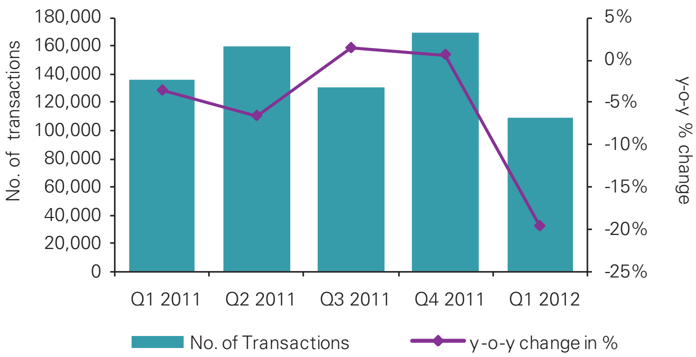
Source: Cushman & Wakefield

Housing market

The number of transactions in the residential market reduced by around a third from 2006 to 2011.

The recent increase in property taxation, low consumer confidence and stricter conditions attached to bank loans contributed to this trend in Q1 2012, with a slump of roughly -20% compared with the corresponding quarter in 2011.

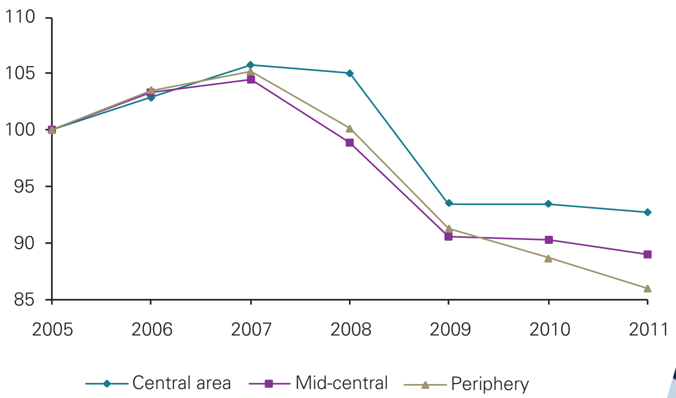
Number of Residential Transactions and y-o-y % Change



Source: Agenzia del Terriorio, June 2012

Most recent analyses show that the average price per square metre fell by -21.5% in real terms between 2007 and 2011, with the price reduction as high as -22.4% in major cities. Even prices of prime properties fell dramatically, although these now appear to be less influenced by the recent market slowdown.

Italian big Cities – Prices (2005–2011)



Source: CRESME 2012

Real estate debt market

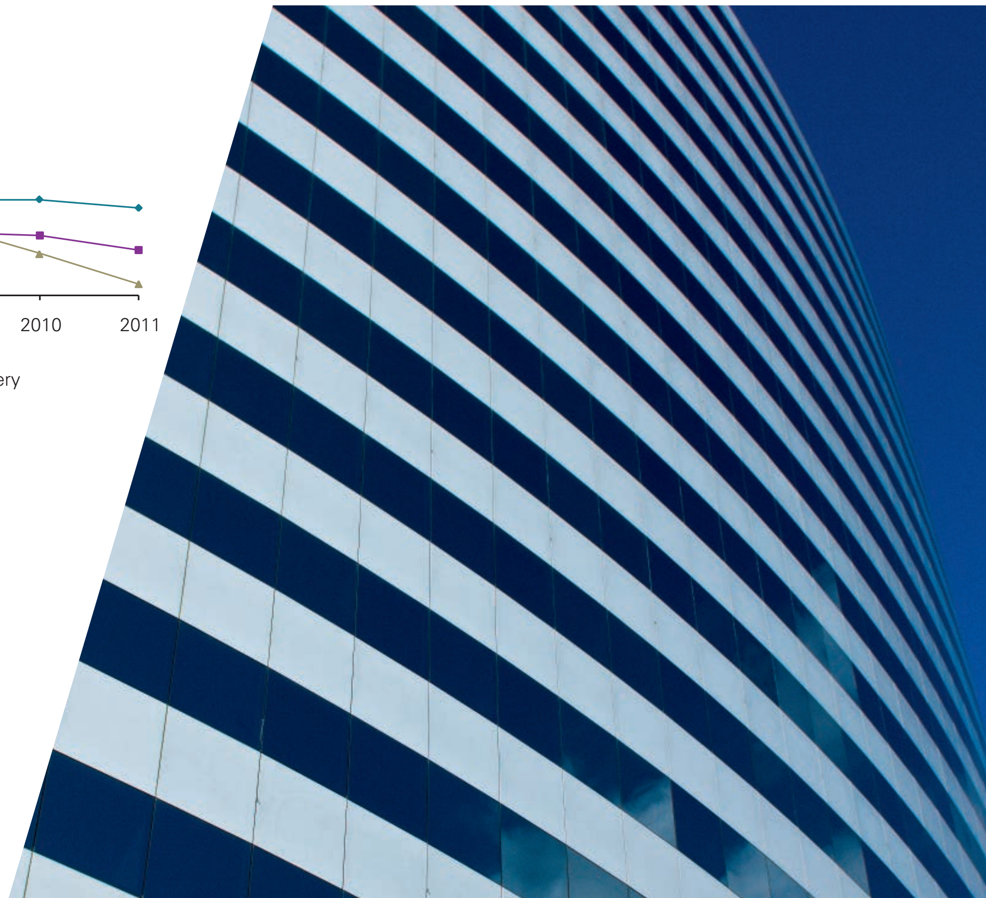
Italy's real estate industry has always relied strongly on bank lending, with other debt instruments such as CMBS or mezzanine financing largely underdeveloped in comparison to other markets.

The new regulations set by Basel III are putting pressure on banks to reduce their assets and current cash shortages limit the availability of new borrowings. Moreover, property loans of around EUR 15bn should come to maturity within the next two years.

Such scenarios are creating opportunities for new debt providers to either finance or re-finance the real estate industry. Also this form of lending can be seen as a potential alternative to finance real estate investment, especially considering that senior debt remuneration (current spread in the range of 350bps – 450bps) is, on average, aligned to core assets yield or even higher.

Italian institutional investors, and especially insurance companies favoured by the treatment of real estate lending under Solvency II, are showing interest in those property-backed debt securities.

In Q2 2012 the securing of a prime property was achieved through the issuing of 5 year promissory notes to the amount of EUR 150m (LTV of roughly 40%), entirely underwritten by an insurance group.



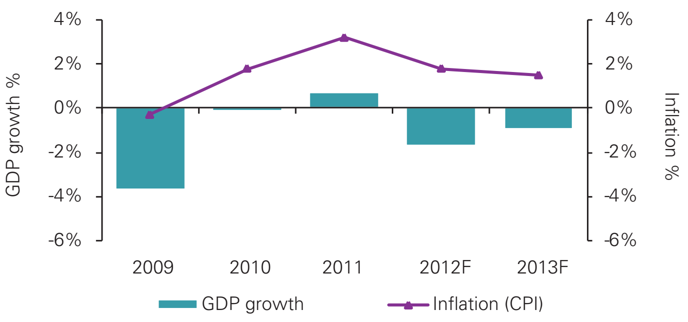
Spain

A market in structural change

Macroeconomic overview

The Spanish economy has suffered considerably since the real estate bubble burst in summer 2007. With 18% of GDP coming from real estate and construction activity in 2008, the country now has to adjust its whole economy through drastic job cuts and a restructuring of the financial sector. In addition, the fall in tax revenues has forced the government to make severe cuts in public spending, at the same time as increasing direct and indirect taxes.

Economic Indicators



Source: Cushman & Wakefield

Some of the largest Spanish companies are performing well, mainly thanks to cross-border activities, but in general, smaller businesses are paying a high price due to a slowdown in private consumer spending and financing difficulties of local banks.

The restructuring of the financial sector is still ongoing and there have recently been some major efforts to support this process, including a EUR 100bn bailout by the EU (June 2012), an extensive merging of regional savings banks and finally the creation of a bad bank which will hold toxic real estate assets.

GDP forecast for 2012 is expected to drop to -1.7% following positive growth in 2011. 2013 will also see negative GDP growth due to the recent public spending cuts made to adjust deficit figures. As a result, recovery is not expected before 2014/2015, when improved flexibility in the labour and other reforms come into effect. For 2015 and 2016, GDP growth is expected to exceed 2%. This should help reduce the unemployment rate, which is key to a recovery in consumer spending.

Economic Summary					
Economic Indicators	**2009**	**2010**	**2011**	**2012** F	**2013** F
GDP growth	–3.7%	–0.1%	0.7%	–1.7%	–0.9%
Unemployment rate	18.0%	20.1%	21.7%	26.1%	28.0%
Inflation (CPI)	–0.3%	1.8%	3.2%	1.8%	1.5%

Source: Cushman & Wakefield

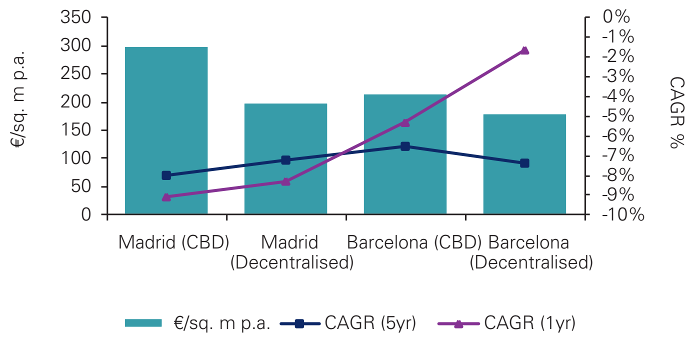
Office market

A further effect of the general economic situation is that most companies are reluctant to undertake office moves or changes; this has been observed in the Madrid and Barcelona areas in particular. Despite this, it is possible to find some positive trends, such as activity in the IT and professional services fields, especially in the Madrid area.

Although there is little occupier movement, there is evidence that some companies are taking advantage of the situation, by making smart moves allowing them to reduce the area of their premises and at the same time relocate to "more" prime locations. This would suggest a market trend of "less but better".

In terms of supply, Madrid's vacancy rates continue to rise due to the completion of several construction projects, with more in the pipeline, despite demand remaining weak. In addition to this, some prime, key developments started during the expansive economic phase are still not fully occupied. The situation in Barcelona is more stable, as construction activity has been significantly lower over previous years.

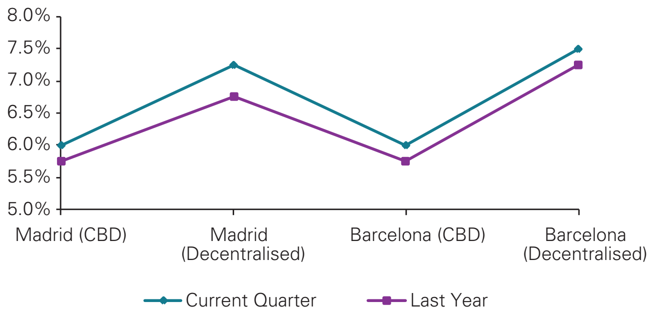
Prime Office Rents – June 2012



Source: Cushman & Wakefield

With no revival in economic activity or improvement in business confidence expected in the short-term, prime rents are not expected to recover and are, in fact, likely to decrease slightly in line with recent trends. Prime yields are expected to remain stable in both Madrid and Barcelona.

Prime Office Yields (Gross)



Source: Cushman & Wakefield

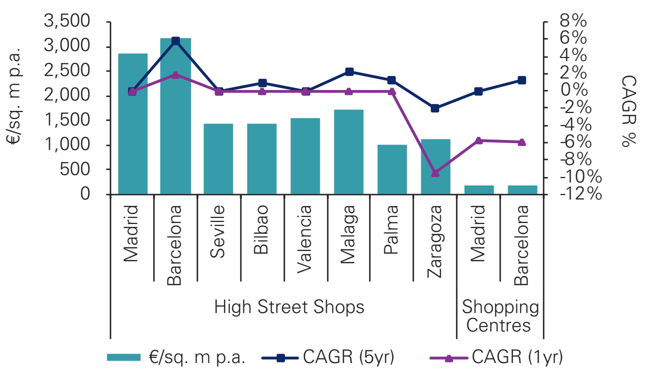
Retail market

Retail activity is affected by the high unemployment rate and the associated fall in household consumer spending (-0.6%) and this is putting downward pressure on rents. However, this applies more to secondary, rather than prime locations in major cities. As a result, prime rents are largely remaining stable or decreasing slightly, due to the strong level of interest being shown by larger retail brands (local and international), increasingly appearing in the market.

In addition, some budget or low cost brands (supermarkets, stores, restaurants, etc) are moving to prime locations, where they have not been before in order to take advantage of new demand coming from upper to middle class consumers. This trend is also helping to sustain prime retail areas.

Despite the difficult conditions, the supply pipeline of new shopping centres remains robust (around 420,000 sq. m of new space will be released onto the market by 2013), which shows that the Spanish market is not yet saturated in terms of this retail format.

Prime Retail Rents



Source: Cushman & Wakefield

With no recovery expected in trade activity in the short-term, occupiers will become more selective, focusing on prime locations rather than secondary ones. As such, we anticipate a trend of consolidation and the establishing of a two-tier model with significant differences in rents and yields.

Prime Retail Yields (Net)

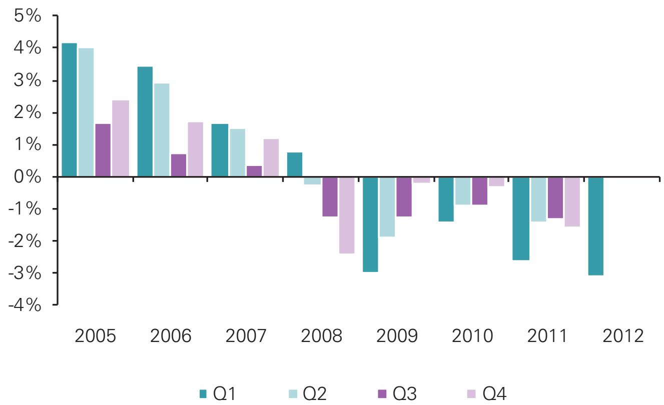
Source: Cushman & Wakefield

Housing market

The residential market is still suffering from surplus supply; with around 700,000 new properties still unsold (this figure may vary between differing researchers). The location of these properties is relevant, as most are located in certain coastal areas in the south and east of the country, whilst there is practically no housing stock in prime locations in major cities.

This, together with limited access to mortgages, has been putting constant downward pressure on prices since 2008, with an overall fall of around 20-30% in house prices since then. The valuation body TINSA estimates that prices dropped by 7.7% last year, after inflationary adjustment.

House Price % Change



Source: Global Property Guid

Gross rental yields in Madrid are now extremely low, at around 3.8% on the very smallest apartments (50 sq. m). Larger apartments yield substantially less, at around 2.6% on apartments of 200 sq. m. In Barcelona, the situation for landlords is slightly more positive, but no one welcomes a return of only 4.0% (the yield on 60 sq. m apartments). Yields appear to be fairly flat across the various apartment size categories in Barcelona.

Spain Residential Market – July 2012

		Price (€)/sq. m	
	Yield (p.a.)	To Buy	Rent p.a.
Barcelona – Appartments			
50 sq. m.	4.1%	4,223	173
90 sq. m.	2.9%	4,652	133
120 sq. m.	3.0%	4,860	148
200 sq. m.	2.8%	5,055	139
Madrid – Appartments			
70 sq. m.	4.2%	3,727	157
120 sq. m.	3.4%	4,022	137
200 sq. m.	3.3%	4,262	142
325 sq. m.	3.2%	4,796	152

Source: Global Property Guide

A revival of the residential market will need a general economic recovery (especially an improvement in the unemployment rate) and real estate finance to flow again, both for developers and purchasers.

In the meantime, the government is attempting to improve the rental market by introducing specific tax savings and allowing landlords more flexibility, legally and contractually. A new law was introduced in August 2012 in this regard.

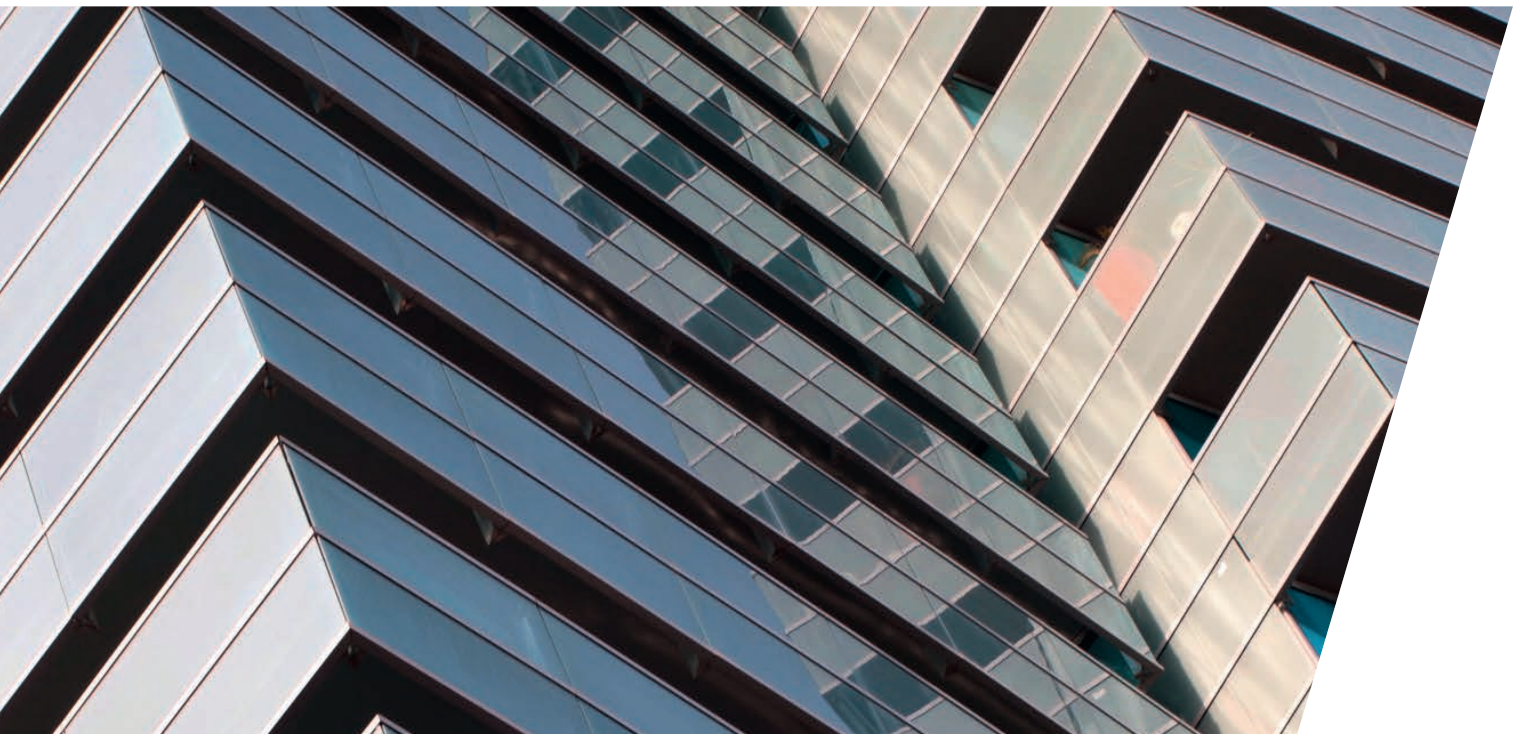
Real Estate debt market

Banks exposure to Spanish real estate debt is around EUR 450,000m according to market analysts. The quality of the collateral for this debt is varied. Most problems emanate from undeveloped land, especially land purchased during the boom years at high prices that were based on an anticipated, and now acknowledged as unrealistic, level of demand, and by mothballed and ongoing developments in poor locations.

Most of this toxic debt is currently held by medium to smaller sized banks (especially regional savings banks). Recent government attempts to remedy this situation by introducing a merger process for some of the worst affected banks have not yet resolved this problem. In addition, the effects of new directives on real estate portfolios held by banks (which have tightened up regulations on real estate debt) will not become apparent before 2013.

The most recent step (announced on 31 August) is the creation of a bad bank which will hold a significant proportion of Spain's toxic real estate portfolio, which is currently in the hands of different banks. This should ease the situation and allow banks to regain their financial standing. This can help to restart the flow of funding, both for developers and purchasers.

Finally, it is worth mentioning that real estate financing in Spain will be different in the future, with less funds coming directly from bank loans, which means that equity and non-conventional funding sources (funds, institutions, individuals, etc.) will play a more dominant role.



Is the regional market preference shifting?

Macroeconomic overview

The Eurozone crisis is leaving its mark throughout Europe including, in particular, the CEE region. Although agreement has been reached on a growth package of EUR 120bn, the economic climate remains uncertain within the EU.

The CEE region is still one of the most promising regions in Europe. For example, economic growth in Poland is one of the highest on the continent and other countries are also expected to perform reasonably well. However, these positive signs are not common within the region, e.g. Croatia and Slovenia are expected to achieve negative GDP growth in 2012 and Serbia and Bulgaria are forecast to report positive, but not substantial growth.

Real GDP Growth Rate in %

Country	2009	2010	2011	2012*	2013*
CRO	–6.9	–1.4	0.0	–1.1	0.8
CZE	3.1	–4.7	2.7	1.7	0.6
HUN	0.9	–6.8	1.3	1.7	0.6
POL	1.7	3.9	4.3	2.6	3.0
ROU	–6.6	–1.6	2.5	1.0	2.0
RUS	–7.8	4.3	4.3	3.8	3.9
SRB	–3.5	1.0	1.6	0.7	2.0
SVK	–4.9	4.2	3.3	1.7	1.9
SVN	–8.0	1.4	–0.2	–1.2	0.5
BGR	–5.5	0.2	1.7	0.7	2.3

* 2012 – 2013 values are forecasted

Source: Economist Intelligence Unit

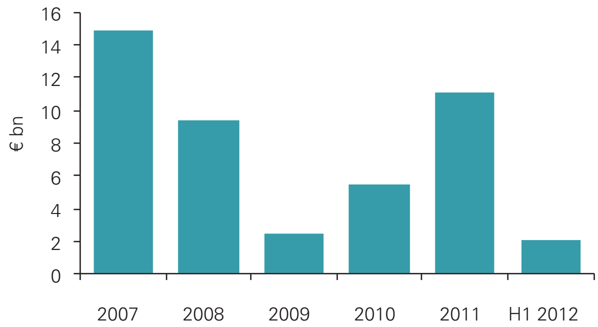
Nonetheless, there are hopes that 2012 will mark the end of the economic downturn in the region and that, in general, all regional countries will see positive economic growth in 2013.

Investment sentiment was also not very strong; one of the possible reasons for this is that markets and investors were awaiting the outcome of the EU Leaders' Summit in June, with the hope that it would restore confidence in investments on the continent. The continued uncertainty in Europe resulted in significant decreases in the volume of investment transactions reported during the first half of 2012, compared with the corresponding period in 2011.

Following a strong year in 2011, the first half of 2012 saw no major investment activity in most of the countries within the region, resulting in as much as a 60% drop in investment levels compared to H1 2011. Approx. EUR 2.1bn of transaction volume was recorded in the first half of 2012.

Only two countries showed significant investment activity relative to the other countries in H1 2012: Russia and Poland. Although Russia reported an over 40% reduction in transaction volume compared to H1 2011, together these two countries still accounted for over 80% of the capital invested in the region. Despite the relatively weak first half of the year, an uplift in transaction volumes in Russia is expected during the second half of the year.

Total Real Estate Investment Transactions in CEE 2007 – H1 2012



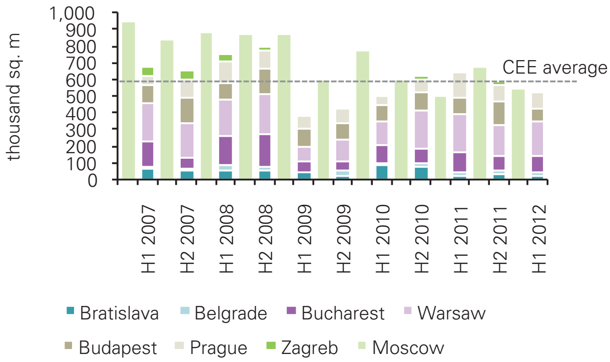
In this table CEE includes Bulgaria, Croatia, Czech Rep, Hungary, Poland, Romania, Russia, Serbia, Slovakia and Uktraine

Source: CBRE

Office market

The CEE office investment market (including Russia) is at its lowest ebb since the beginning of 2009: EUR 700m was invested in office properties during the first half of 2012. There are numerous reasons for this downturn in the transaction volume, which include a shift in focus between assets (from office to retail) and a short-term lack of liquidity, due to the recent of transactions of prime properties. A number of developments have been delayed due to the difficult financial climate and this has resulted in a smaller number of projects being completed during the year than were under construction at the turn of 2011/2012. Financial conditions (austerity measures, tax and legal changes) and stakeholder preferences (generally higher risk-aversion, higher levels of pre-lets) will also most likely limit the number of completions in 2012. Furthermore, office take-ups have decreased across the region during H1 2012, although the figure varies greatly between countries. While demand for office space in Warsaw and Bucharest was quite strong, it slowed down in the rest of the region. Landlords are finding it difficult to retain tenants. Budapest and even Moscow are experiencing a significant downturn compared to H2 2011.

Office Take-up in the CEE Region's Capitals



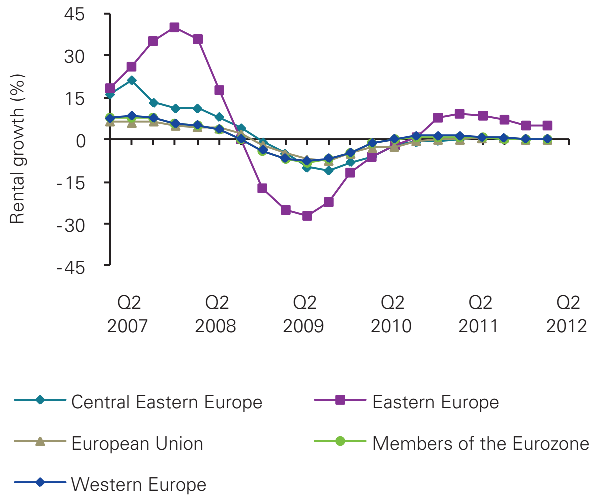
Source: CBRE

Office markets are generally biased in favour of tenants at the current time, which is a reflection of the harsh economic climate across the region. As such, office letting markets are focused mainly on lease renewals, rather than the securing of new contracts.

Despite the current trends in the office markets, there are still many new projects in planning and it is expected that a high volume of office space will be completed by the end of 2013. In Moscow, 1.5 million sq. m of space is currently under construction, which accounts for approx. 12% of the total office space supply in the Russian capital. This is the largest project development volume in CEE. In Warsaw, it is expected that more than 515,000 sq. m will be delivered before the end of 2013; 40% of this has already been pre-let.

Apart from Poland and Russia, the rest of the CEE region is less active in terms of the development of new office space. This is due to high vacancy rates, subdued rental levels and, again, the current financial environment which is being overshadowed by the ongoing Euro crisis; the crisis is resulting in stricter financing conditions and a reluctance to start new projects.

Office Rental Growth across Europe



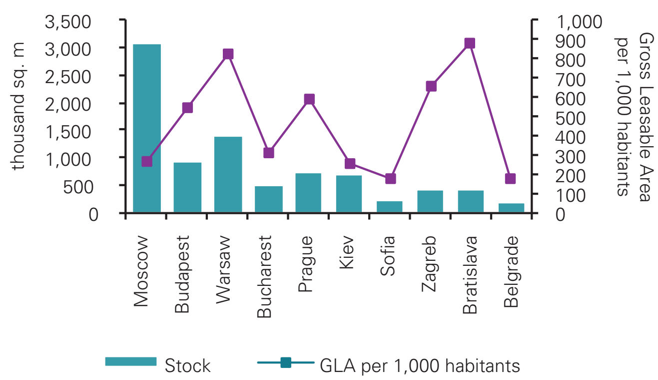
Source: Cushman & Wakefield

Retail market

The retail market is still largely influenced negatively by weak consumer confidence, which is well below the long-term average, due to the unstable economic environment and austerity measures introduced by some European countries. This has caused flat retail sales growth across the continent.

The current environment is not attractive for retail developers: with the exception of Poland and Russia, the CEE region is facing flat retail sales growth due to the lack of a strong consumer base, which is holding back retailers' expansion plans.

Retail Stock in selected CEE Cities – Q1 2012

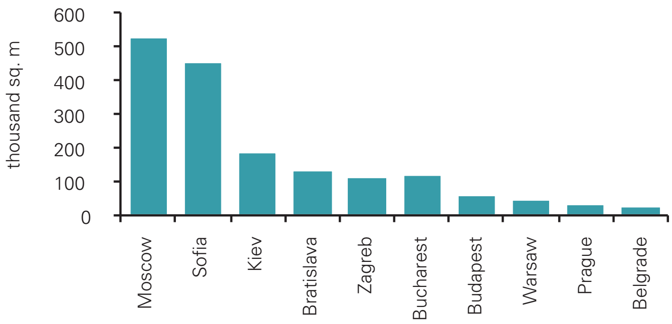


Source: CBRE

Demand is causing retail occupiers to focus their attention on prime locations and areas proven to generate reasonable revenue flows; however, this distorts demand, restricting it to certain areas and resulting in increased volumes of vacancies in new developments and a rise in rents in prime locations. Despite the fact that the CEE region saw strong activity in the retail market in previous quarters, activity reduced in H1 2012 compared to H2 2011. Although Russia experienced a sharp fall in the total transaction volume, it was the only market within the retail market to report strong transaction activity in the first half of 2012 compared with other countries. This included four large shopping centre deals.

According to current planning, the completion of ongoing projects will increase the total volume of retail space by 15% in the Eastern European region. It is expected that growth rates will vary significantly between countries, with Sofia, Kiev and Zagreb leading the field; however, there is a considerable risk of delay in delivering these planned projects.

Total Shopping Centre Pipeline – Q1 2012

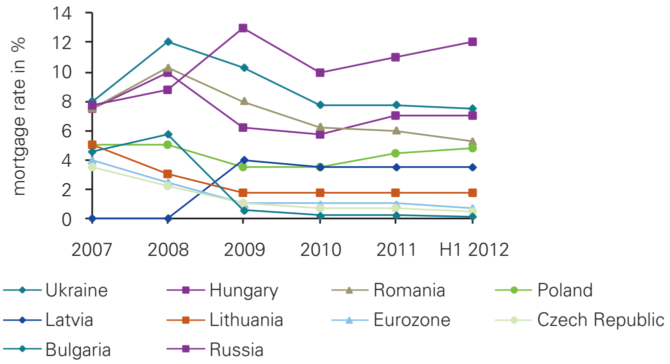


Source: Colliers

Housing market

Despite the current challenging financial environment, essential demand drivers (low supply of high-quality housing) suggest good long-term prospects for the residential markets in the CEE region. Furthermore, the continued gap in general economic conditions and the varying sizes of the mortgage markets between the CEE region and Western Europe offer significant potential.

Representative Mortgages Rates of selected CEE Countries

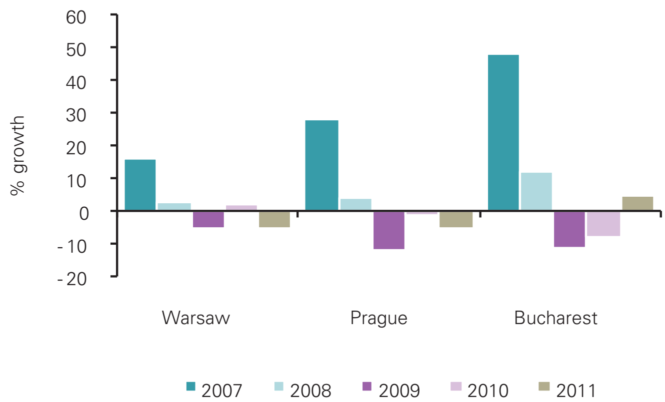


Source: Trading economics

Developers and investors are continuing to build up their portfolios, focusing on safe, established products and, more importantly, on liquid markets. As risk aversion is currently high, developers are being careful in their selection of the markets in which to invest. The most important aspects they consider are the accessibility and conditions of residential mortgage loans and the ability and willingness of the public to take-on mortgages.

Although residential prices have decreased in both Warsaw and Prague, these two cities have reported outstanding market performance, with a recent strong sales turnover. Warsaw has one of the most promising residential markets, registering primary market sales growth of 9.2% and a record high of 18,000 available units. Sales growth in Prague showed even greater y-o-y growth of 32%. Supply increased substantially in 2011, mainly due to the announced VAT changes and generally promising sales figures. Bucharest continued to struggle, with demand affected by challenging macroeconomic factors. As a result of this weak demand, average asking prices decreased slightly by 1.4% p.a. However the end of the year saw a strong rise in price levels. In Moscow, the high-end residential market enjoyed a strong period during the first half of 2012, as demand increased by 19%; nevertheless, there is still a lack of supply.

Annual Price Growth in selected CEE Capitals



Note: in % comparing Q4 year-on-year
Source: REAS

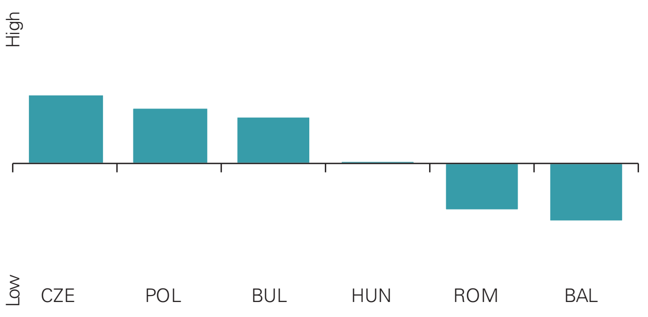
Overall prospects in real estate financing

In the following section we discuss the findings of a KPMG survey of over 35 banks in the CEE region. The aim of the survey was to examine banks' opinions of the real estate market and the terms and conditions of financing for new developments and income generating projects.

Compared with last year's outlook, the participating banks reported a sustained or decreasing willingness to offer real estate financing in 2012. Even in Poland and the Czech Republic, where the forecast was positive in terms of the importance of real estate financing to the development of their portfolios in 2011, the outlook for 2012 was less favourable. Results from Romania and the Baltic States suggest that banks are feeling the pressure on the real estate market and do not foresee swift recovery in the sector when compared with other sectors in the economy.

Real estate projects are strategically more important to banks in the Czech Republic, Poland and Bulgaria, and have moderate significance elsewhere. In most countries banks are less enthusiastic about the long-term prospects of the real estate market and continue to monitor developments. Furthermore, the strategic importance of real estate financing may also reflect the fact that a number of banks are having to manage a significant number of non-performing real estate loan portfolios.

Strategic Importance of Real Estate Financing for Banks



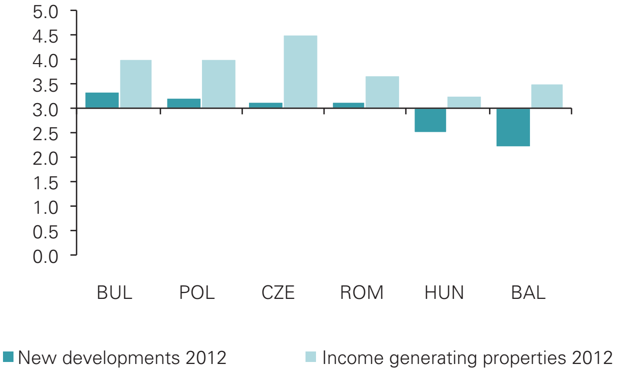
Source: KPMG in CEE Property Lending Barometer 2012

Bank sentiment towards real estate loan portfolio growth prospects varies greatly from country to country. Responses from the Czech Republic and Bulgaria suggest that they expect no growth in their own and the sector's real estate portfolio. Banks in Hungary and the Baltic States see somewhat negative growth prospects. Comparing the banks' future expectations with last year's results, there is a general negative shift in sentiment in each of the countries surveyed.

The majority of positive responses regarding the financing of real estate projects come from countries with a high proportion of fully compliant real estate loans i.e. the Czech Republic, Poland, and Bulgaria. However, banks in Hungary and the Baltic States are less willing to grant real estate financing compared with their regional peers. In Poland there has been a shift of focus to income-generating assets rather than development projects, which were highly rated in last year's survey.

The majority of the banks interviewed are still more interested in financing income-generating projects than development projects. The willingness to finance new developments decreased slightly compared with 2011, following a fairly significant increase from 2010.

Openness of Banks to finance Development/ Income-generating Projects



Source: KPMG in CEE Property Lending Barometer 2012

Market returns to pre-crisis level and remains stable

Macroeconomic overview

The Russian economy continues to show good results in comparison with the major developed and neighbouring developing countries. The Federal State Statistics Service estimates annual GDP growth of 4.9% in 2012, while the estimates given by the Ministry of Economic Development suggest y-o-y growth during H1 2012 of 4.5%. Amid the ongoing Eurozone crisis and its effect on production in most export-oriented industries, strong domestic demand continues to be the key driver of GDP growth; however, the real sector of the economy has started to slow down.

Consumer price inflation has increased from 4.3% in June to 5.6% in July.

Economic Indicators

Note: A - actual, E - estimated, F – forecast

Source: Ministry of Economic Development

Economic stabilisation is expected in the near future, based on a 2% improvement in industrial production during Q2 2012, as this index is always considered a forerunner of change. The main drivers in this sector are still mining/extraction, food production, metallurgy and construction materials.

A y-o-y increase of 20% in capital investment was registered in January-May, which may be counted as evidence of long-term confidence in the economy in general.

The price of Urals oil dropped in Q2 2012 from the peak value of US$125 per barrel to US$107 per barrel (July 20).

As predicted, business activity slowed down in H1 2012, especially in contrast with the rapid start to 2011. This is because many decisions were put on hold until after the presidential elections in March and until the associated expected changes in government solidified.

In August, Russia formally acceded to the World Trade Organisation. The immediate impact will be limited because many tariff cuts are not extensive and a number of them will be phased in over the rest of this decade (for example, the average customs tariff for manufactured goods will be lowered from 9.5% to 7.3%).

Russian Economic Overview	Value
GDP, 2012, US$ bn	1,341.7
GDP growth since 1997	91.8%
GDP short-term forecast 2012 to 2014	8.1%
Population, 2012 (m)	141.2
Population growth since 1997	(4.5)%
GDP per capita 2012	14,480
GDP growth per capita since 1997	428.9%
Retail turnover, 2011, US$ bn	649.1
Retail turnover in GDP	48.4%

Source: KPMG analysis, Economist Intelligence Unit

Office market

Moscow is home to the headquarters and offices of thousands of Russian and foreign companies, banks and other institutions and, since Russian business is concentrated here, the office market is much more developed, active and transparent than in other Russian cities. The economic downturn of the late 2000s cut prime office rents by more than half to US$ 800/sq. m and pushed the capitalisation rate up to 12%-13%, but since 2010 prime rents have been increasing and by H1 2012 reached US$ 1,200/sq. m, while the capitalisation rate has decreased to 8.5%-9%.

The City of Moscow has recently restricted new commercial construction in the Central Business District. As a result, according to Colliers International, 64% of premises acquired in H1 2012 and 70% of office properties announced for commissioning in 2012 are located outside the CBD.

The volume of new construction has been decreasing since 2008 due to the lack of financing; however, there have been a number of major rental and purchase deals in 2012: for example, Raiffeisenbank and Alfa Bank purchased almost 50,000 sq. m in the Nagatino i-Land business park for relocation, and O1 Properties acquired two A-class business centres – Ducat Place III and Silver City (worth about US$ 600m together). According to brokers, in H1 2012 gross office space take-up in Moscow exceeded 500,000 sq. m, which is more than twice the amount of office space completed in that time. As a result, by mid-year the average vacancy rate dropped compared with the beginning of 2012.

Despite the decreasing vacancy rates, rents for office space have stabilised, partially due to a drop in oil prices, which has prevented many property owners reviewing their pricing policy. According to brokers' forecasts, rents will stay stable.

Broker's Consensus for Office Properties in Moscow			
	Yield	Average rent, US$ /sq. m	Vacancy rate
Prime	8.5%–9.0%	1,200	7.0%–9.0%
A Class	9.5%–10.0%	750	12.0%–15.0%
B Class	10.5–11.0%	450	10.0%–12.0%

Source: KPMG analysis of the brokers' reports (Colliers International,Cushman and Wakefield, CBRE, Knight Frank, Jones Lang LaSalle)

While in Moscow the office market is healthy, in most Russian regions it is stagnating. Most activity in the office sector outside Moscow is located in the second-largest Russian city, St. Petersburg. In 2012, the volume of new supply reached its pre-crisis level. Still, the volume of high-quality office stock here is only 10%–15% of Moscow stock and prime rents range between US$ 550/sq. m and US$ 750/sq. m.

The southern regions of Russia are currently attracting a lot of attention. The planned 2014 Olympic Games in Sochi have prompted the development of all market segments in the Krasnodar region, including offices. Rents for prime properties can reach and even exceed St. Petersburg's level.

As for the regions to the East of Moscow, the most active cities in the office market are Kazan, Yekaterinburg, Krasnoyarsk and Novosibirsk. Rents for high-quality properties in regional capitals range from US$ 300/sq. m to US$ 500/sq. m.

According to brokers there were no major office deals in the regions in H1 2012.

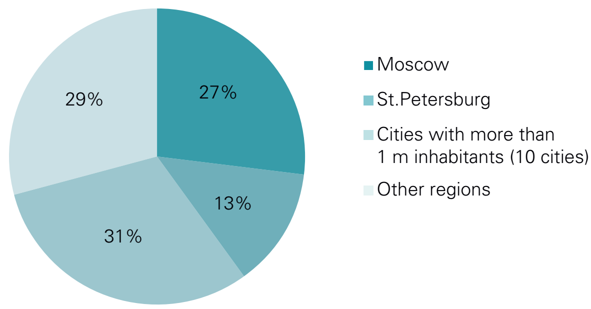
Moscow Office Market Dynamics

Source: KPMG analysis, rosrealt.ru

Retail market

Over recent years, the number of high-quality shopping centres has steadily increased. The total area of high-quality retail space in Russia in H1 2012 was approximately 13 million sq. m, 9.4% higher than in the corresponding period of 2011. In Q2 2012, 679,000 sq. m of new retail space were delivered, which is 83% more than in Q2 2011 (370,000 sq. m). In August 2012 Russia's first outlet centre opened in the Moscow region. This new retail format is likely to become popular. With a low rate of retail space provision per 1,000 inhabitants in the capital compared with other Russian regions, Moscow remains a major destination for developers.

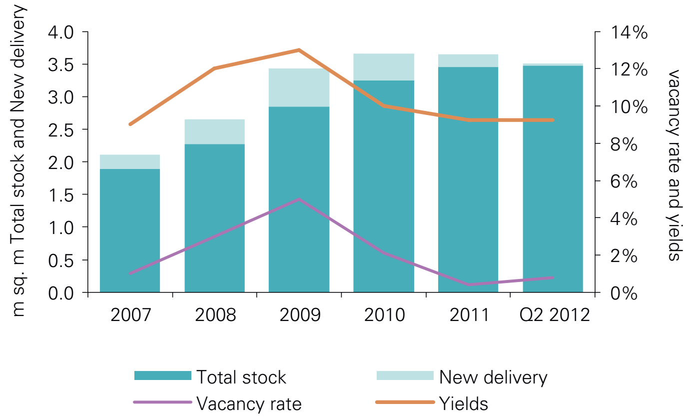
Breakdown of Russian Retail Stock by Regions



Source: KPMG analysis, Jones Lang LaSalle

Due to the positive market dynamics in Russia, many large local and international operators have announced their development plans for 2012-2013 both in Moscow and the Russian regions, including established retailers: McDonald's, Subway, Metro Group, Marks & Spencer, Starbucks, Eldorado, Megafon and Magnit, as well as new players entering the market, particularly Scotch and Soda, Mamas & Papas, Hamleys, Bath and Body, Works, Mavi, Lee Cooper, M&S Simply Food and Michael Kors.

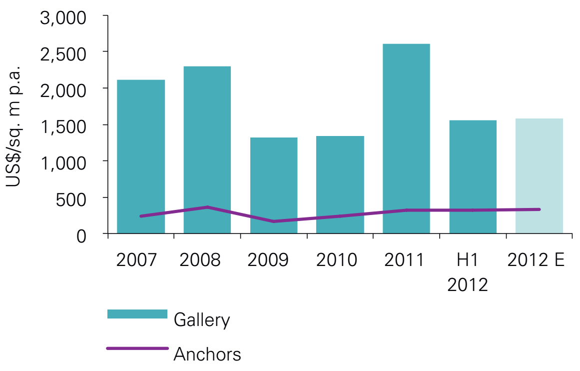
Moscow Retail Market Indicators



Source: KPMG analysis, Cushman & Wakefield

The vacancy rate for quality shopping centres in Moscow has been approximately 1% since late 2010. In general, rents for retail space in Moscow in Q2 2012 have almost returned to their pre-crisis levels and are currently stable, with no change expected until the end of 2012. Nevertheless, an increase of 10% in rents has been observed for retail mall tenants compared with Q4 2011. Turnover rent is becoming increasingly popular in the Russian market. For retail mall tenants, turnover rents can range from 5% to 12%, whilst for anchor tenants, this rate does not usually exceed 3%.

Average Rental Dynamics, US$ /sq. m, 2007-2012



Note: E – estimated

Gallery tenants with area from 100 sq. m to 500 sq. m were taken into consideration

Source: KPMG analysis, Knight Frank

In H1 2012 the total volume of investment in the Russian retail market was about US$ 1.4bn, including the deal with Galeria shopping centre (US$ 1.1bn) in St. Petersburg, which accounted for 80% of all investment in retail.

Retail Space Provision in Russia, sq. m per 1,000 Inhabitants

Note: The analysis was performed for cities with a population over 1 million people.

Only high-quality shopping centres were considered

Source: KPMG analysis

Housing market

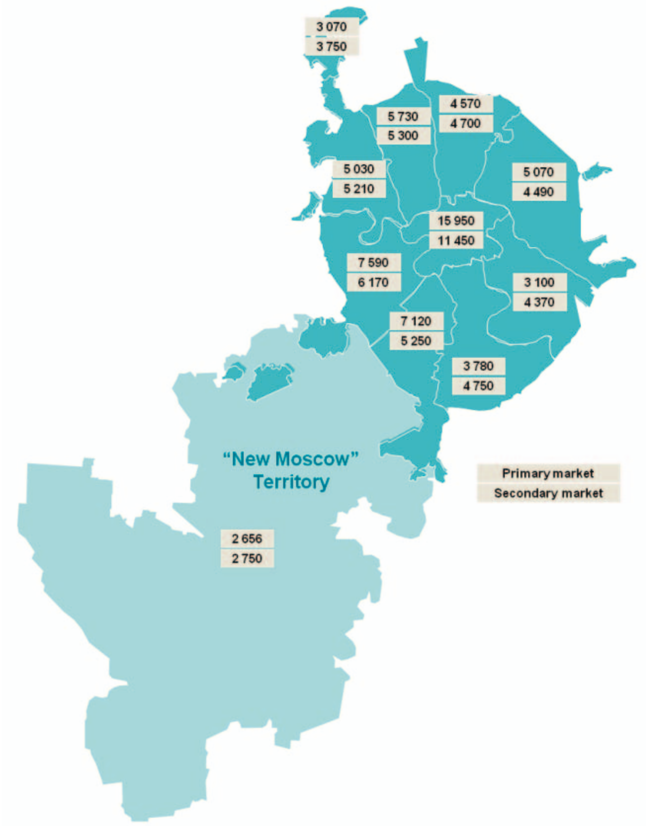
One of the priorities set out by the Russian government in its "Concept 2020" programme is to create favourable conditions for the development of economy class residential property. However, despite the programme, only 10% of new supply in Moscow relates to economy class housing, and more than 3% of the population are still living in substandard housing.

According to the Federal State Statistic Service, 25.2 million sq. m of residential premises across Russia were introduced into the market in H1 2012, although this amount is only 37% of the Russian Housing Development Foundation's projections. The Krasnodar region became the leader for area delivered, with 2.2 million sq. m in H1 2012, driven by the attention the region has received in preparation for the 2014 Olympic Games in Sochi. The Moscow region delivered almost 2 million sq. m, followed by the Republic of Tatarstan in third place with over 1.3 million sq. m.

In Moscow, H1 2012 saw 630,000 sq. m of residential premises introduced onto the market, which is the lowest level in recent years. In July 2012 the territory of Moscow was extended by presidential decree by almost 250%, or 148,000 ha. Due to the extension, the total supply of residential premises increased by 220% in H1 2012, up to 2.5 million sq. m. Furthermore, according to the State Building Control Committee of Moscow, "New Moscow" has obtained permission for the construction of 5 million sq. m of residential space.

Russia

Average House Prices on "New Moscow" Map, US$ /sq. m in Moscow



Note: The analysis was performed for cities with a population over 1 million people. Only high-quality shopping centres were considered

Source: KPMG analysis, Blackwood

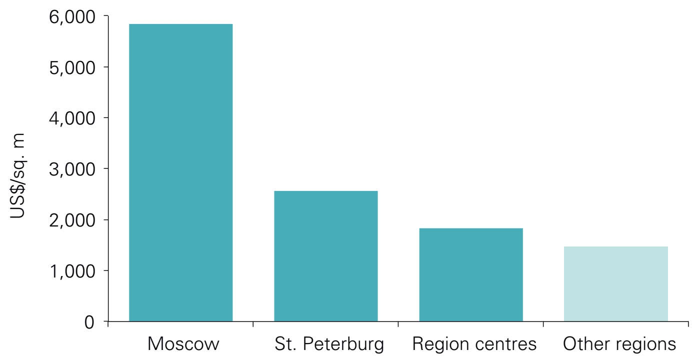
Moscow's residential market is on the way to reach the pre-crisis level of average house prices.

The high-end segment of the Moscow market reached 20% of total sales, but the average price per sq. m decreased by 4% in H1 2012. In St. Petersburg, the high-end residential market showed a record increase of 12% during H1 2012, while the average price per sq. m increased by 6%-7%.

The number of deals reached 148 transactions per month, which is 12% higher than a year earlier and a 53% increase since 2010.

There are still large differences between the residential markets in Moscow, St. Petersburg and other Russian regions. Prices in St. Petersburg are less than 50% of Moscow prices. Regional prices are even lower.

Average House Price, US$ /sq. m in Russia

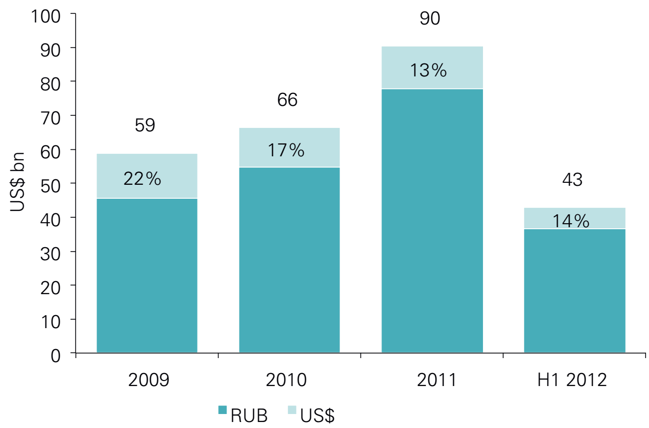


Source: Rosrealt.ru

Real estate debt

After the financial crisis of 2008-2009, Russian banks have become the *de facto* and in some cases *de jure* owners of property and development companies, as many developers were unable to service their debts. In order to meet the requirements of the Central Bank concerning reserves for bad loans and loss recognition, Russian banks prolonged loans issued previously and refinanced existing facilities. In 2009-2010, newly issued debt of Russian banks almost totally related to restructuring deals.

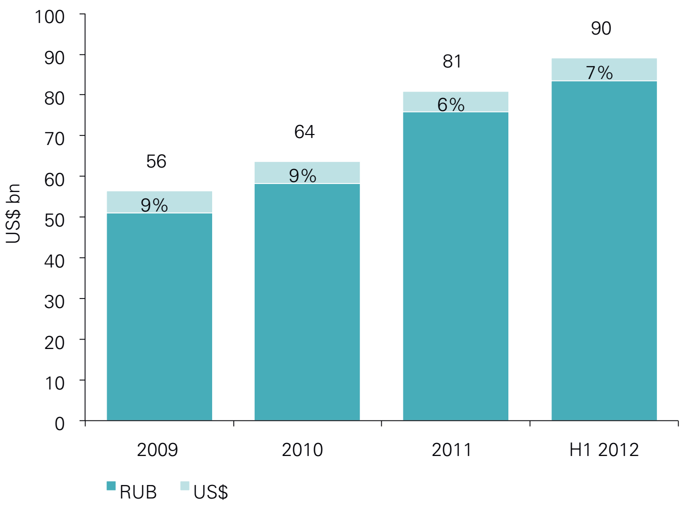
Bank Loans issued to RE Companies – split by Currency



Source: KPMG analysis

Debt financing for new construction and the refinancing or acquisition of existing buildings is currently available in the Russian market, mainly from Russian state banks such as Sberbank, VTB, VEB and Gazprombank. Financing for new construction remains limited and is available only for large-scale projects of state importance, such as infrastructure in Sochi for the Winter Olympic Games in 2014, the FIFA World Cup in 2018, and in Kazan for the 2013 World Student Games.

Developers' Liabilities – split by Currency



Source: KPMG analysis

The current terms of US$ debt financing for new construction projects offer fixed interest rates of 10%-12% for a term of up to 10 years with a loan-to-cost ratio of 70%. For refinancing of existing commercial property, US$ fixed interest rates are 7%-10% with a loan-to-value ratio of 60%-70%. Examples of the largest debt financing deals are described below:

Sberbank refinanced Immofinanz Group's debt issued to its project company to construct the Zolotoy Vavilon Rostokino retail shopping centre. The loan of US$ 715m was issued for 10 years. In June, VTB issued a RUB 21bn collateralised credit line to AFI Development to refinance its existing debts. In addition, VTB has signed a loan agreement under the guarantee of Italian export credit agency SACE with Italian banks Intesa Sanpaolo and Cassa Depositi e Prestiti for a total of approx. EUR 276m to finance its VTB-Arena Park (the reconstruction of a football stadium and construction of hotels, offices and retail facilities with the total investments over US$ 1.5bn).

Russian offices of international banks, on the other hand, are shying away from developers' projects due to the high risks involved: they are only active in the market in the management of commercial real estate that already generates strong income. In 2012, banks working with the real estate sector include Raiffeisenbank, UniCredit Bank and Absolut Bank (KBC Group).

The only example of an international bank that has issued long-term debt to finance a large developer's project in Russia is the EBRD, which has approved financing for construction of four hypermarkets in Moscow region and Tver by a branch of the German development group, Globus. The Ruble equivalent loan of EUR 117.5m was issued for a 10-year term.

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