EUROPEAN REAL SnapShot!

Advisory Real Estate / Autumn 2014

Current developments in the key real estate markets in Europe

Special focus:
The Hotel Investment Market

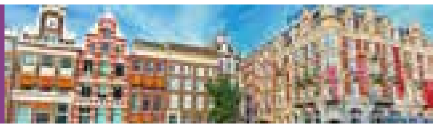
KPMG
cutting through complexity

Content

Germany 6
Historically low prime yields – will the rally in the German Hotel Market continue?

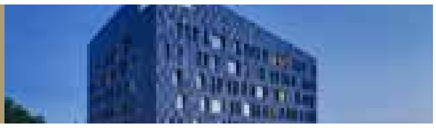
United Kingdom 9
No let up in demand for UK real estate

Nordic Region 16
Upswing is underway



The Netherlands 20
Residential market boosts foreign investment

Belgium 23
Stability in the market

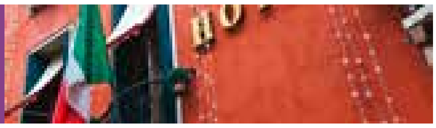


Luxembourg 26
Stable growth in a safe economy

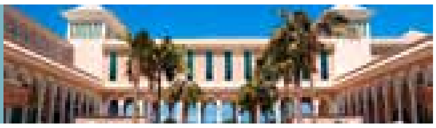
France 30
Big deals underpinned the market

Switzerland 34
Real estate investment market loses momentum

Austria 37
Robust market conditions



Italy 40
Economy still fragile, but outlook optimistic



Spain 44
At a stage of recovery

CEE 46
Further recovery in the region may be jeopardised by the ongoing geopolitical crisis

Russia 52
Under pressure, or an opportunity to buy in?

Turkey 57
Good growth prospects

Trends in the European Real Estate Investment Markets

Global capital in the search for European real estate investments

Thank you for your interest in KPMG's Real SnapShot. This publication gives you an overview and insight into the developments under way in the real estate markets across Europe.

Momentum continues to build across these markets, with investment property transaction volumes delivering a 10% year-on-year ("Y-o-Y") growth to reach €89bn in the first half of 2014.[1] This follows the strong growth (17% Y-o-Y) seen in 2013 which most certainly ended on a post-global financial crisis high for many of our markets. Through our day-to-day conversations with our clients it is apparent that investor confidence remains high and that many are facing significant competition in a bid to secure investment opportunities, both core and opportunistic.

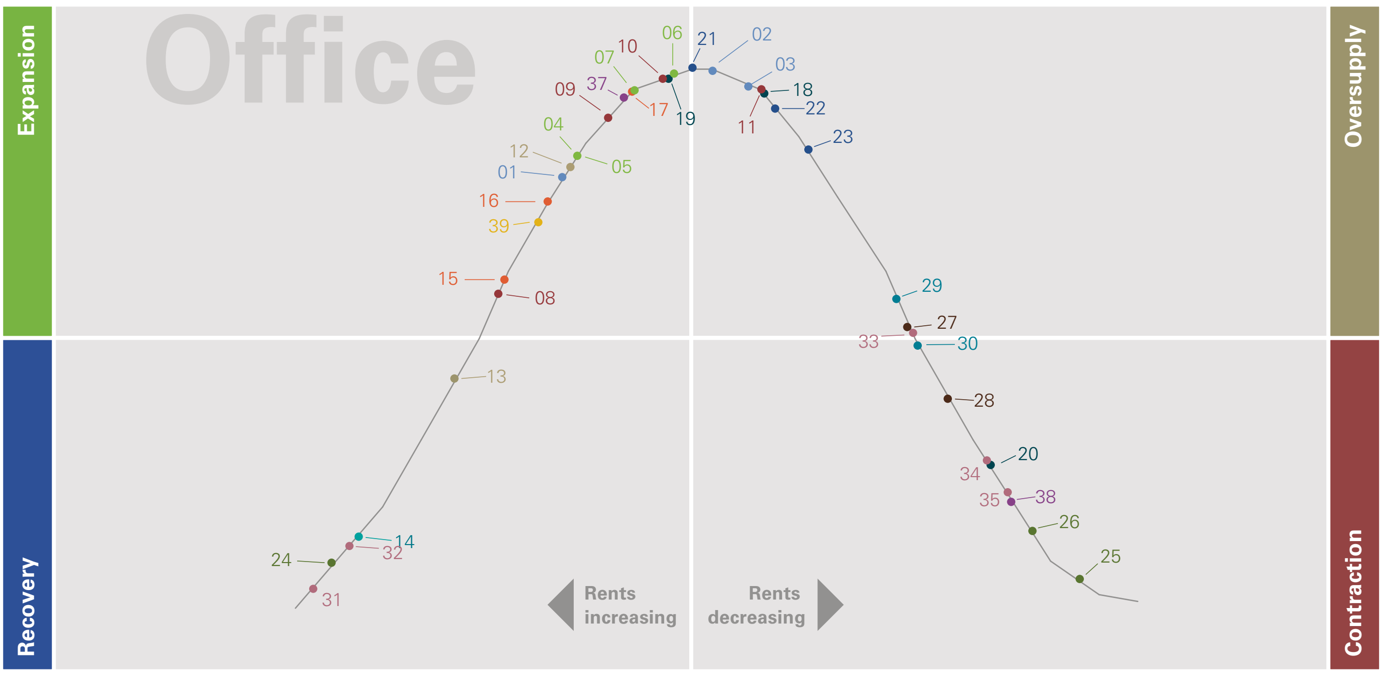
Focusing on the sectors, offices again secured the greatest share of investment volume, attracting around 41% of total European real estate investment in H1 2014, having secured the same percentage throughout 2013. Retail secured an additional 2% share of investment volumes, increasing to 25% in H1 2014. In contrast, residential experienced some softening, declining slightly from 16% of 2013's market volume to 12% in H1 2014. Turning to our special focus sector for this issue, hospitality transaction volumes secured 8% of total investments made in the first half of the year.

Y-o-Y growth for H1 2014 showed strong increases in retail and office investment volumes (51% and 14% respectively). The high growth in the retail segment results from a relatively high number of major shopping center deals, such as Bluewater in the UK, Beaugrenelle in France or CentrO in Germany. In contrast, a decrease in transaction volume was noted in industrial (-2%) and residential property (-26%).

As already highlighted in the last edition of Real SnapShot, cross—border capital is a key driver of transaction volumes and these investors have increased their share of total investment in almost all markets. Cross-border capital continues to invest primarily in the highly liquid European metropolises such as London and Paris. However, we are seeing increasing appetite for the peripheral markets from

[1] Real Capital Analytics

Market Cycle Office



Source: KPMG Qualitative Market Assessment

Germany
01 Berlin CBD
02 Munich CBD
03 Frankfurt CBD

UK
04 Edinburgh
05 Manchester
06 London West End
07 London City

Nordic Region
08 Copenhagen
09 Oslo
10 Stockholm
11 Helsinki

The Netherlands
12 Amsterdam South Axis
13 Other G4

Belgium
14 Brussels

Luxembourg
15 Station District
16 Luxembourg's CBD
17 Kirchberg

France
18 Lyon
19 Paris CBD
20 Paris La Défense

Switzerland
21 Basel CBD
22 Zurich CBD
23 Geneva CBD

Austria
24 Vienna
25 Salzburg
26 Innsbruck

Italy
27 Milan
28 Rome

Spain
29 Barcelona
30 Madrid

CEE
31 Budapest
32 Warsaw
33 Bucharest
34 Ljubliana
35 Zagreb

Russia
37 Sankt-Petersburg
38 Moscow Centre

Turkey
39 Istanbul

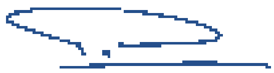
many jurisdictions and investment activity in these markets has seen significant volumes of opportunistic capital, led by US capital. US investors represent 75% of the global capital invested into the peripheral markets with investors such as PIMCO, Colony Capital and Blackstone being just a few of those hitting the medial headlines as they secure and build sizeable European real estate portfolios.

The UK continues to attract the greatest investment volumes, securing €28bn across all sectors in H1 2014. This accounts for almost one third of the total European real estate investments in the same period and represents an expansion of the UK investment volume of 19% on a Y-o-Y basis. Investment activity still concentrates on the greater London area, which combines a share of 50% of total investments, across all sectors, made in the country.

The German property investment market attracted the second largest share of real estate investments made in Europe in H1 2014. The transaction volume of €19bn reflects a slight decrease of 2% Y-o-Y. France noted a significant 39% Y-o-Y increase in investment activity, securing €13bn. This marks a rebound for the French property investment market having recorded a fall of 7% in 2013. Paris continues to dominate capital flows, securing 70% of the total transactions made in French investment property in H1 2014.

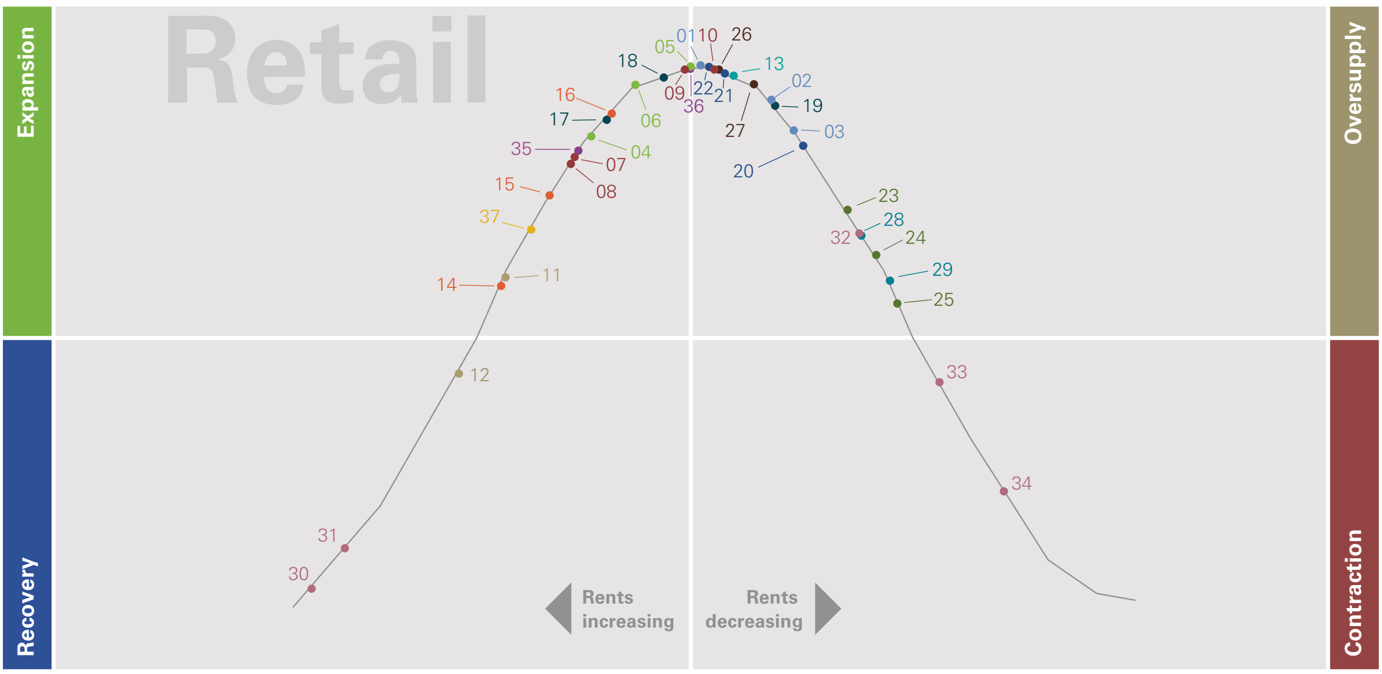
In our last issue of KPMG Real SnapShot we highlighted that the real growth drivers in the European real estate investment market were the peripheral markets such as Italy, Spain or Ireland. Spain again recorded a significant influx of foreign capital that delivered an increase of 124% in transaction volume in the first half of the year. Ireland also saw an uplift with transaction volumes increasing by 39% Y-o-Y. In Italy however, transaction activity has been negative compared to the previous year. These opposing trends can be explained by the differing economic growth prospects for the countries, which is key to investor sentiment.

Looking ahead, we expect that investment activity in secondary cities and in the peripheral markets will continue to gain traction due to highly competitive pricing in the sought after economic centers. However, such activity will correlate with the economic recovery and be tempered by the political stability of the individual geographical areas. We also expect the core markets to largely retain their market share of investment volumes as the major capital sources continue to seek access to these liquid investment markets. As long as re-financing rates remain low, real estate will continue to attract capital allocations due to the segment's comparably favorable risk/return profile, even if the perceived pricing temperature seems quite elevated in some markets.



Stefan Pfister
Partner, Head of Real Estate Europe / EMA

Market Cycle Retail Highstreet



Source: KPMG Qualitative Market Assessment

Germany
01 Frankfurt
02 Munich
03 Berlin

UK
04 Edinburgh
05 London (West End)
06 London (City)

Nordic Region
07 Copenhagen
08 Stockholm
09 Oslo
10 Helsinki

The Netherlands
11 Amsterdam
12 Other G4 HS

Belgium
13 Brussels

Luxembourg
14 Avenue de la Gare (Station District)
15 Grand Rue
16 Rue Philippe II

France
17 Lyon
18 Paris
19 Marseille

Switzerland
20 Basel
21 Zurich
22 Geneva

Austria
23 Innsbruck
24 Salzburg
25 Vienna

Italy
26 Milan
27 Rome

Spain
28 Barcelona
29 Madrid

CEE
30 Budapest
31 Warsaw
32 Bucharest
33 Ljubljana
34 Zagreb

Russia
35 Sankt-Petersburg
36 Moscow

Turkey
37 Istanbul

Germany

Historically low prime yields – will the rally in the German Real Estate Market continue?

Macroeconomic Overview

Driven by a robust domestic economy, Germany is expected to register Gross Domestic Product (GDP) growth of between 1.5% and 2.0% in 2014. Despite the very low interest rate level, there are no economic imbalances apparent. Therefore and with regard to the domestic economic climate, the outlook for 2015 can be viewed as solid. The German economy is healthy and the labour market appears stable.

The Deutsche Industrie- und Handelskammertag (DIHK) expects a rise of around 3.5% in exports in 2014. This figure already considers the current economic sanctions imposed against Russia in response to the Ukraine crisis.

In June, the Real Estate Growth Index, published by Deutsche Hypothekenbank, reported a decrease of 1.1% for the first time since June 2013. Taking into account the very high level of the index, it is still possible to interpret this marginal decline as a sign of stability.

Macroeconomic Overview

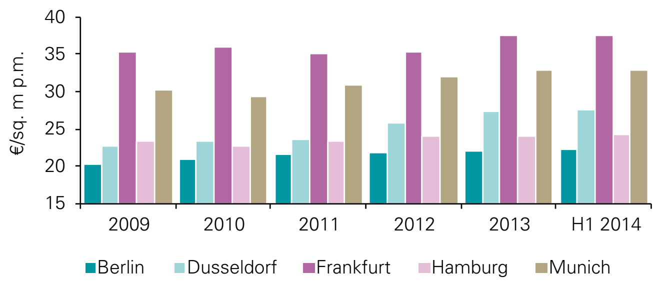
Source: Destatis

Despite the generally positive mood, the construction and real estate industry is actually facing major political change. The ruling coalition intends to implement a residential rental price cap ("Mietpreisbremse"). The current legislative proposal suggests a maximum cap of 10% above the comparable market rent over a three year period in the case of a re-letting. New buildings and lettings following extensive modernisation are excluded from this legislation. This is creating uncertainty amongst investors on whether to continue with modernisation works, as they are unsure how soon their investment will be amortised. It is currently envisaged that the cap on rental prices will come into force by the beginning of 2015.

Office Market

At €33.00 per sq. m per month prime rents in Munich have reached the highest level seen during the last ten years. Prime rents in Düsseldorf have also risen substantially, while prime rents in Frankfurt am Main, Berlin and Hamburg are only slightly above their 2009 levels.

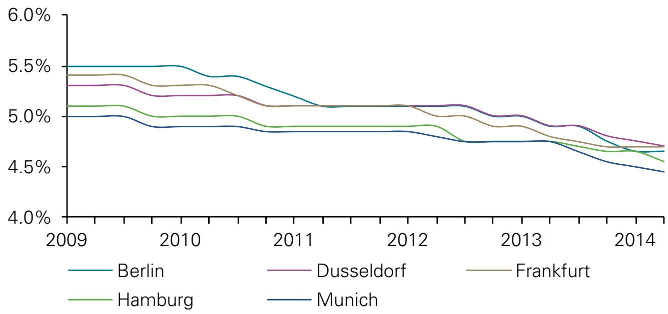
Prime Office Rents



Source: Thomas Daily

In the first half of 2014, the volume of transactions of office space reached approximately €4.3bn in the top five locations, Berlin, Düsseldorf, Frankfurt am Main, Hamburg and Munich (Germany €7.8bn).

Prime Office Yields



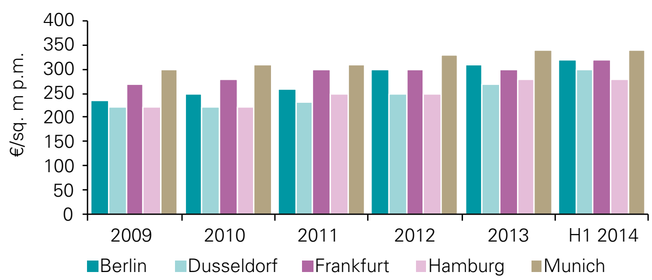
Source: CBRE

Prime office yields in Düsseldorf (4.7%), Munich (4.4%) and Hamburg (4.6%) showed a slight reduction at the beginning of 2014. Although no change was noted in prime yields in Berlin (4.7%) and Frankfurt am Main (4.7%), prime yields are still falling – in part due to the current low interest rate levels in the global economy.

Retail Market

In H1 2014, prime retail rents continued their upward trend of previous years. The limited availability of space in the top five cities is primarily responsible for this development.

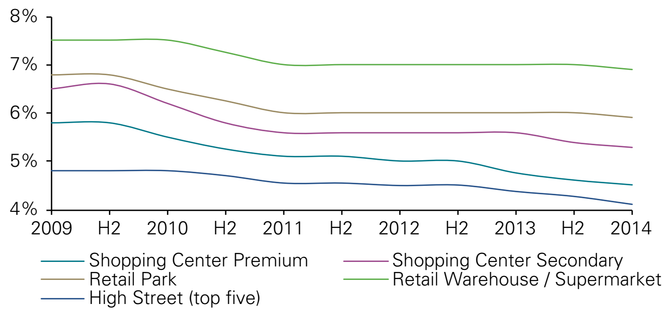
Prime Retail Rents



Source: CBRE

High rents in prime locations are typically accompanied by short-term lease terms, whereas lease terms of around ten years with the provision for rent reviews are more typical for premises in locations with stagnating or decreasing rental levels. The decrease in prime yields for shopping centres in off-centre locations (5.3%), malls (5.9%), supermarkets and retail warehouses (6.9%) was less substantial than for prime locations.

Prime Retail Yields by Type of Use



Source: CBRE

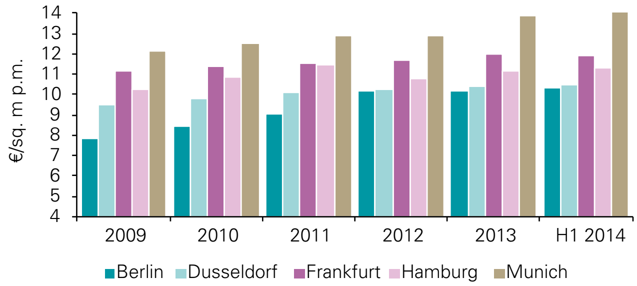
In the top five locations, a total investment volume in the retail sector of approximately €1.2bn was recorded in H1 2014 (Germany €4.8bn).

This corresponds to a 20% increase Y-o-Y and the trend is expected to continue, with a steady rise reported in the Consumer Climate Index ("Konsumklimaindex") published by the research company GfK in recent months.

Residential Market

In 2013, the residential market reported a 4.7% value increase in the Bulwien-Gesa-Real Estate Index; however, residential rents also increased by 3.8% throughout Germany.

Average Asking Rents Residential



Source: empirica

In the period from 2008 to H1 2014, house prices in the major German cities rose much faster than rental prices for new leases. While sale prices increased by an average of 30%, rents only recorded a rise of 13%. The situation is generally the reverse in areas with low economic growth rates.

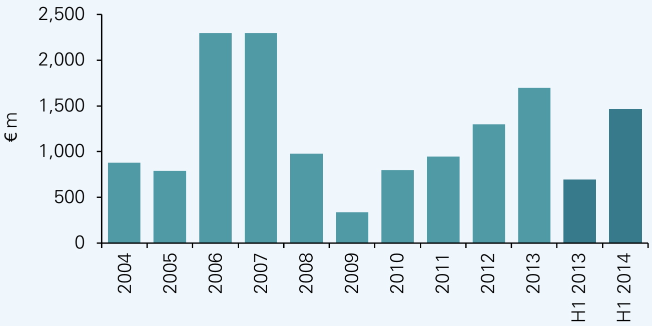
The investment market remains very dynamic. Around €7.3bn of residential assets held in portfolios with more than 50 units have been sold in Germany since the beginning of this year. The most notable transactions included the sale of the Vitus Portfolio of 30,000 residential units for approximately €1.4bn by Deutsche Annington and the sale by Archstone-Smith Trust of the Dewag-Portfolio comprising 11,500 residential units to Deutsche Annington.

Significant increases in rents were also reported by second-tier cities with above average economic growth and relatively low rental prices (2007-2013). Topping the table are the cities of Ingolstadt (+47%), Wolfsburg (+38%), Berlin (+33%), Karlsruhe (+33%) and Braunschweig (+32%). Slight to average rent rises were reported in the case of new lettings by all of the top five cities, with the highest average rent reported in Munich, of €14.25 per sq. m / month.

The Hotel Investment Market

In H1 2014, at almost €1.5bn, the transaction volume in the hotel investment market reached a new record, out-perfoming the former record in 2007. This corresponds to an increase of 110% Y-o-Y and demonstrates the continuing attractiveness of the German hotel market.

Hotel Transaction Volume



Note: Only transactions with a volume greater or equal €5.0 million were incorporated
Source: CBRE Hotelmarket Germany 2013, Colliers Hotel investment market Germany Q2 2014, KPMG analysis

With a share of over 84% of the transaction volume, foreign investors continue to show great interest in Germany. Contributing approximately 75% to the transaction volume, foreign investors also headed the field in terms of sales.

Three and four star hotels accounted for approximately 60% of the total transaction volume, and around 20% was generated by the sale of five star hotels.

In Q1 2014, only one in 12 transactions was a portfolio deal. The majority of the sales volume (73%) was generated by institutional investors and high net worth individuals.

In contrast Q2 2014 was dominated by portfolio deals and high volume transactions.

With five major portfolio transactions in H1 2014, the two most significant transactions were the reacquisition of 67 German hotels (seller: Moore Park) by Accor and a transaction involving hotels under the umbrella of Intercontinental Hotels Group (11 of 18 hotels located in Germany, seller: Ivanhoe Cambridge, purchaser: Apollo Global Management).

The most attractive cities are Munich, Hamburg and Berlin; however, interest in second-tier locations (e.g. Leipzig) is also improving, with such locations accounting for five of 15 single asset hotel deals.

A prime yield of 5.75% for properties in excellent locations across Germany was observed in H1 2014. Although this level was already reached in 2013, pressure on prime yields is expected to increase due to the lack of premium properties in markets with strong demand.

As a full service provider, KPMG was able to strengthen its top position in terms of transactions involving hotel real estate.

United Kingdom

No let up in demand for UK real estate

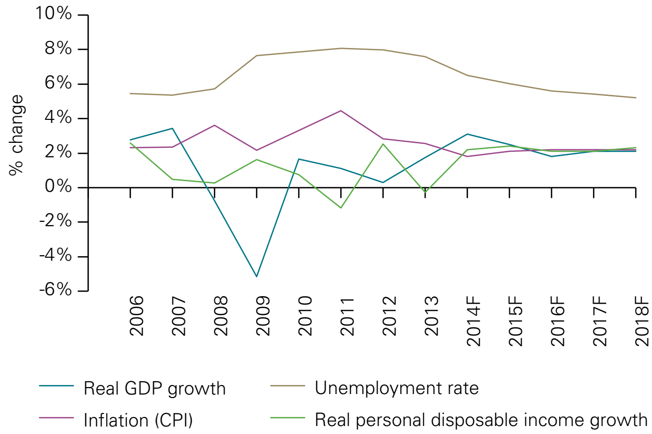
Macroeconomic Overview

The economic outlook for the UK remains positive. According to the Office for National Statistics (ONS)[1]. GDP grew by 0.8% in Q2 2014, contributing to a Y-o-Y increase of 3.2%. -0.2% above the pre-downturn peak in H1 2008. This is the sixth successive quarter of growth and moves the UK from having one of the slowest growth rates in the G7 since the downturn to one of the fastest, ahead of Germany (1.3%) and the US (2.5%). The Bank of England's August Inflation Report declared that robust, broadly based, growth over the past year has taken output to above its pre-crisis peak and unemployment has fallen sharply.

The services sector continues to dominate output growth; however this has also spread across a broad range of sectors, with growth accelerating over the last year. There has also been a normalisation of the labour market, with a decrease in unemployment driven by a sharp reduction in the job separation rate in recent quarters. This return to pre-downturn levels, both for recent recruits and more experienced workers, has increased job security and provided a boost to the office property market. Reduced uncertainty, along with improved credit conditions, has also helped to maintain strong household consumption and high consumer confidence, despite a continued weakness in real wages. This consumption is set to continue and the so-called "cost of living crisis", with inflation rises outpacing wage rises, is expected to turn around in 2014 according to a forecast from the Institute for Fiscal Studies.[2] A possibility that is becoming increasingly likely given that inflation for July fell more than expected (1.6%, down from 1.9% in June per the ONS) and remains below the Monetary Policy Committee's 2% target.

[1] Second Estimated GDP, Q2 2014, Office for National Statistics
[2] The IFS Green Budget, February 2014, Institute for Fiscal Studies

Macroeconomic Overview



Source: Economist Intelligence Unit
F: forecast

According to the Bank of England's 2014 H1 Systematic Risk Survey, the perceived probability of a high-impact event in the UK financial systems has fallen to its lowest levels since the financial crisis. However this period of low uncertainty is not without its risks. The BoE warns that historically low interest rates globally and the current backdrop of low volatility across financial markets may encourage market participants to underestimate the likelihood and severity of tail risks. The June Financial Stability Report notes that there are increasing signs that investors are looking up the risk curve in search of yields and may be exposing the financial system to shocks, particularly if potential structural changes reduce the availability of market liquidity at times of stress. Furthermore, there remains uncertainty over the degree of spare capacity in the labour market, with slack being used up at a faster pace than expected over the three months to August.

The deficit of trade in goods and services continues to pose a threat to the UK's long-term recovery. According to the

United Kingdom

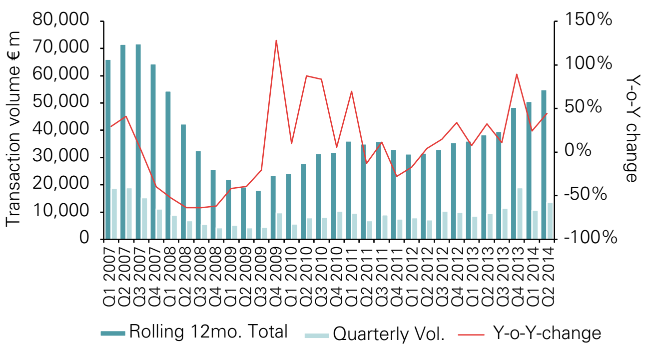
ONS[3], between June and July 2014 the deficit increased to £3.3 billion, driven by rising imports (up £1.3 billion). Overall in Q2 2014 the deficit grew by £2.9 billion to £28.7 billion.

And back to Real Estate!

The UK real estate market continues to perform strongly through H1 2014, building further on the strong end to 2013. Continued high demand from overseas investors is combining with further improvements in economic sentiment to drive a resurgent real estate finance market and increasing investment beyond London and into the UK's regional markets.

Transaction volumes remained robust throughout H1 of 2014 with total CRE volume (according to RCA[4]) up by 29%, Y-o-Y. While Q1 2014 volumes (€10.7bn) fell versus the staggering €18.9bn seen in Q4 2013, Q1 2014 still registered Y-o-Y growth of 22%. With €13.6bn of CRE volume transacted in Q2 2014, the UK market experienced its highest quarterly volume since Q3 2007, save for that seen in Q4 2013.

UK Commercial Real Estate Sale

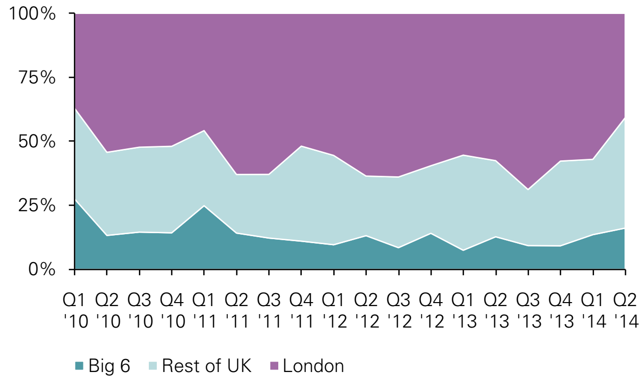


Source: Real Capital Analytics, rcanalytics.com

While London continues to enjoy its top ranking, based on volume, amongst the European markets, and still received the lion's share (50%) of the UK's total transactional volume in H1 2014 (down from 57% Y-o-Y), competition for assets remains aggressive. With overseas investors, UK institutions, listed REITs and property companies all in the market, there is greater interest in both secondary geographies and secondary asset classes as investors are forced (competition) and encouraged (economic stability) towards more value-add and opportunistic ends of the investment spectrum. We expect this trend to continue, and with it further yield stabilisation and, in cases, compression, outside London.

[3] UK Trade, July 2014, Office for National Statistics
[4] Real Capital Analytics, rcanalytics.com

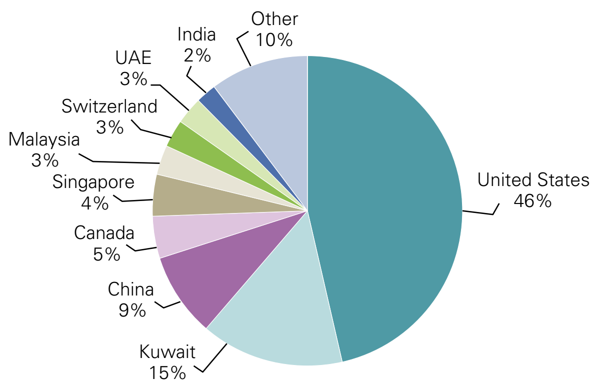
Commercial Real Estate – Transaction Volume Composition



Source: Real Capital Analytics, rcanalytics.com

Through our day-to-day dealings with our clients, it is clear that the UK market remains attractive to a wide range of overseas investors. While Asian and Middle Eastern investors remain a key source of capital for the UK, North American investors have dominated H1 2014, contributing over half of the inbound global capital in the first 6 months of the year.

Cross-border Capital Sources (H1 2014)



Source: Real Capital Analytics, rcanalytics.com

As many of the Sovereign and Super Funds focus on large complex acquisitions, it is reasonable to expect some fluctuation in the capital sources over short time frames. For example, whereas Kuwait contributed 15% of the global inbound capital in H1 this relates to only 2 deals: the first being the circa £1.7bn acquisition of the More London portfolio in January 2014; and the second being a circa £40 million office block, physically linked to the Welsh Houses of Parliament (the Senedd), and acquired in March 2014.

We also expect further fluctuations in capital sources as some investors, particularly those with significant exposure to the UK and/or those with more property management skills, shift their focus to the peripheral European markets, in a bid to secure hidden value. However, in the short to medium term we expect such capital to be replaced by other global investors.

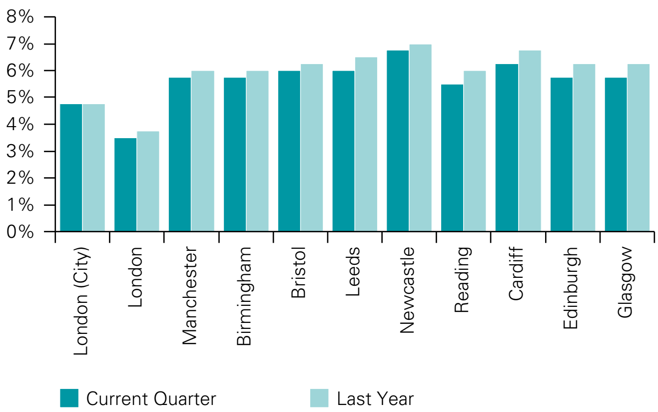
Office Market

Rising economic sentiment and improving business confidence is leading to increases in leasing activity and rental growth. This is not restricted to London but can be seen across the UK's largest cities and, even in markets where demand has lagged; there is consensus amongst industry commentators that most markets should see a strong FY14 based on space under offer and economic drivers.

Supply remains limited, especially for Grade A space, which is leading to some signs of occupier relocation. While development activity is currently limited we expect to see increases in speculative development across the larger cities as access to finance continues to improve and economic growth drives demand.

Offices continue to attract significant investor appetite and secured 55%[4] of UK CRE transactions in H1 2014. Access to investment opportunities are also limited by supply, driving investors beyond the London markets and leading to yield compression across the sector. Both the primary and secondary CBD markets experienced a 25bps drop in yields in Q2, with primary reaching 5.5% compared to the secondary yield of 6.5%.[5]

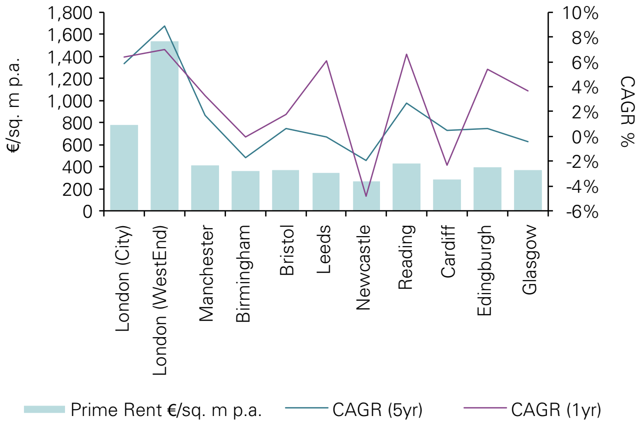
Prime Office Yields (net) – June 2014



Source: Cushman and Wakefield

Overseas investors continued their substantial activity, especially in London, accounting for almost 65% of volumes in H1 2014. Notable transactions include the acquisition of the More London Portfolio for circa £1.7bn mentioned above.

Prime Office Rents – June 2014



Source: Cushman and Wakefield

Retail Market

Improving consumer confidence is driving further improvements in the retail sector. With confidence reaching the highest level for nine years in June, certain retailers are increasing their demand for space, especially in prime locations. And while rationalisation remains a theme, distress has been less pronounced with stores, being released to the market, receiving interest.

"Click-and-collect" and "multi-channel" continue to be well used buzz-words, however, the attitudes to these fundamental shifts are changing and many in the sector are now embracing the challenge, seeing the speed to react as being a critical success factor.

New entrants from overseas have also been a dominant driver, especially in London, where demand has forced many to take space in less traditional areas of the City. According to CBRE[6] London is home to more international retail brands than any other city in the world with 31 international retailers opening stores in 2013.

Investment volumes remained strong in H1 2014, reaching circa €7.2bn and reflecting 23% growth Y-o-Y according to RCA. However, as seen in other sectors, Q1 was unable to keep pace with the volume seen in Q4 of 2013. Given that deals can range from major shopping centres to high street stores, the sector can experience fluctuations depending on whether significant deals complete, so it is notable that the volume of investment for the 12 months to 30 June 2014 showed a 40% increase on the prior year returning to levels not seen since 2007.

Demand from overseas investors, institutional, private equity, REITs and UK property companies is apparent and continues to focus on prime opportunities but also

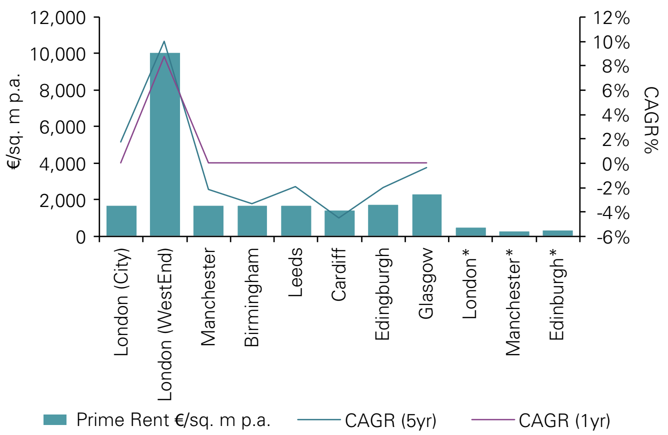
[5] Cushman and Wakefield Quarterly Marketbeat, United Kingdom – August 2014

[6] How Global is the business of Retail, 2014, CBRE

secondary stock as supply of prime stock, as with other sectors, is extremely limited. This trend is not only limited to the large shopping centres as, while the small lot sizes may deter certain investors, those institutions holding high street stock are showing some reluctance to release. The competition for Lend Lease's 30% share in Bluewater (acquired by Land Securities for circa £656 million) was fiercely fought with a host of REITs, Sovereign Wealth and Super Funds, UK and Overseas institutional investors all reported to have circled the asset.

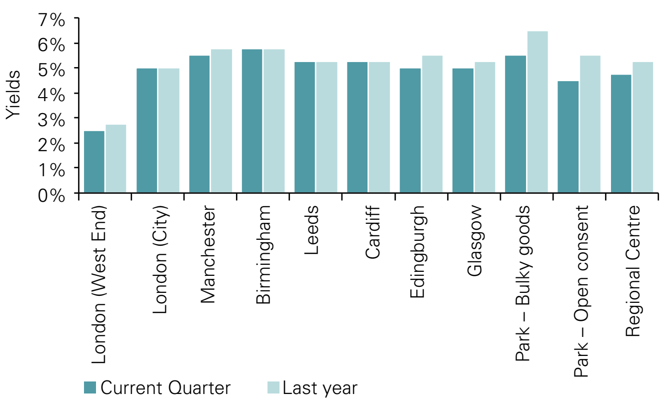
With a reasonably stable economic environment coupled with significant investor interest it is unsurprising that prime rents continue to rise in the best locations while yields are compressing. As UK occupiers look to expansion rather than rationalisation this trend is filtering through to secondary with high streets showing modest improvement. Polarisation around the UK remains with in-town vacancy rates running in the region of 25-30% in some of the weaker locations.

Prime Retail Rents – June 2014



Note: * Bulky goods
Source: Cushman and Wakefield

Prime Retail Yields – June 2014



Source: Cushman and Wakefield

Residential Market

UK house prices continued to rise in H1, amidst mounting concerns the market was entering bubble territory. However, July recorded the slowest growth since April 2013 at just 0.1%, bringing the annual house price growth to 10.6% (down from 11.8% in June)[7]. This slowdown in activity was not unexpected and was largely due to an increased moderation of the market as well as a shortage of properties coming on to the market. The introduction of the Mortgage Market Review by the FCA in April this year appears to have impacted on the number of mortgage approvals as banks introduced new processes and trained staff – almost a 20% reduction between January and May.[7] The modest rebound in mortgage approvals in June suggests this adjustment is temporary and will pick up once processes are established. Indeed, prices increased by 0.8% in August taking annual growth to 11%.

The RICS Residential Market Survey, June 2014, suggests that new instructions across the UK increased very modestly for June and July, while Knight Frank[8] note that the uncertainty caused by the upcoming 2015 election and imminent interest rate rises is causing demand for property to ease, particularly prime residential property in London. The impact of uncertainty is also evidenced in Scotland, the weakest performing region of the UK for Q2, as buyers and sellers appear to have adopted a wait-and-see policy in anticipation of the 18 September Referendum. Activity is expected to pick up as the political environment settles.

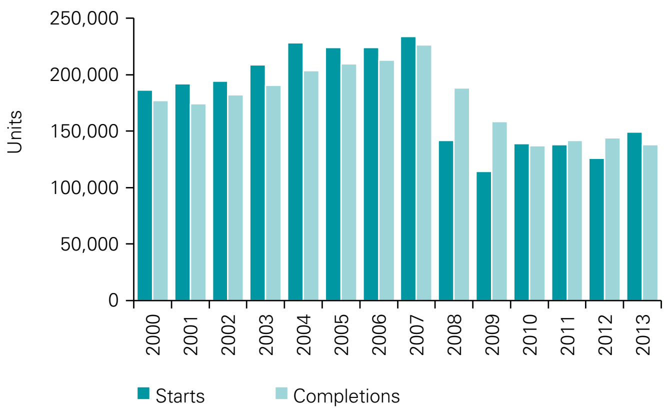
Although all UK regions saw annual price rises in Q2 2014, London continues to outpace the rest of the UK, with annual growth accelerating to 26%. Prices in the capital are now 30% above their 2007 peak, and the gap in average prices with the rest of the UK is the widest it has ever been, both in cash and percentage terms. However, it is anticipated that this will narrow as the ripple effect from the capital increases confidence across the county and London homeowners seek to take advantage of the value gap in the surrounding regions.

The growth in house prices has been driven by improved economic conditions and pent up demand following a sustained period of low activity, but central to allowing this has been historically low interests rates. The Help to Buy mortgage guarantee scheme, though relatively limited in its direct impact, has supported the reopening of the market for mortgages at higher LTV ratios – the number of mortgage products available to borrowers with LTV ratios greater than 95% trebled over the year to May 2014.[9] As a result, borrowers with high LTVs now form a significant

[7] Nationwide house price index July 2014
[8] London Residential Review, Summer 2014. Knight Frank.
[9] Financial Stability Report, June 2014, Bank of England

proportion of outstanding mortgage debt and are vulnerable to any rises in interest rates. It is also noteworthy that the UK house price to average earnings ratio has risen to more than six times annual earnings in the past few months. Though lower than the 2007 peak of more than seven times earnings, this is significant for predicting the future of the housing market and will have a stalling impact on house price growth unless wages start to increase. The slow growth of average wages is one of the key reasons that the Bank of England has refrained from increasing interest rates despite the blossoming economy.

UK Housebuilding Starts and Completions



Source: Department for Communities and Local Government

UK housebuilding is currently thriving, growing at its fastest rate since 2003 in July, and providing a boost to the construction sector.[10] This is driven in large part by a rise in confidence in the market and huge demand for new projects resulting from a backlog in supply. Despite this, there remains a critical imbalance between supply and demand – the net new supply of private housing was 110,000 in 2013, well below the 2000-2007 average of 180,000.[9] The Government's Help to Buy Equity Loan has been extended to 2020, directly increasing demand for new builds and having an indirectly positive impact on the market by improving developers' confidence in the market. Whilst there is a general consensus among the leading parties on the need for more homes, local issues are hindering progress. Changes in planning laws by the National Planning Policy Framework in 2012 were intended to encourage growth; however Savills analysis shows Local Planning Authorities have been slow and reluctant to embrace a growth agenda. Where to build new homes is high up on the political agenda and likely to remain so, particularly as the government seeks to demonstrate its role in the housing-led recovery in the run up to the 2015 election.

[10] The Market UK Construction PMI report

The Hotel Investment Market

The UK hotel market has experienced high levels of activity for H1 2014 compared to the same period last year. This is largely driven by growing investor confidence and a rebalance of pricing expectations between buyers and sellers. Indeed, more realistic pricing has reduced the time that transactions are taking to complete. According to Savills, UK hotel transaction volumes for H1 2014 totalled £2bn and are forecast to reach £3.1bn by year end.[11]

Regional transactions have risen significantly this year with volumes up 135% for August year to date on the same period last year, increasing the share of the UK market to 59% from 43% in 2013. However, this is still below pre-downturn levels when regional activity typically accounted for 82% of volumes. As with many of the commercial real estate sectors, hotel investors are looking to the regions as stock issues increasingly hinder the London market and so we would expect this upward trend in activity levels to continue. Operational performance has continued to improve in the regions, further increasing its appeal to investors, however this has not been uniform across the UK. Whilst cities such as Bristol have experienced strong growth, other areas such as the West Midlands have continued to face challenges. At the weaker end of the regional market, tired assets remained under-invested as hoteliers struggle against rising costs to implement capital expenditure projects and remain competitive in a market now dictated by instantly available customer feedback.

The London investment market witnessed a 155% increase in Q1 2014 compared to the same period last year, 8% up on Q4 2013.[12] The largest source of investment has come from domestic buyers, although this fell by 39% in Q1 and a significant increase in appetite has been shown by international investors. Investment money from Asian buyers increased from 0% to 33% over Q4 and Q1 whilst there was a 5% increase from Middle Eastern markets. A rise in Chinese tourists visiting the UK, boosted by government initiatives to make it easier for Chinese visitors to obtain visas, is leading to an increase in UK brand acquisition by Chinese investors. US investors are also creating and enlarging their UK operating platform through the acquisition of portfolios. Increasingly these buyers are being frustrated by a lack of stock and may look further

[11] savills.co.uk

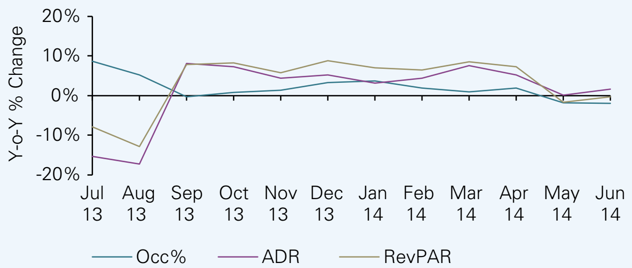
[12] Joneslanglasalle.com

afield, both outside the traditional West End core and beyond London itself.

There could also be opportunities for Chinese hotel brands to enter the UK market, particularly for budget and mid market brands given the current traveller's focus on price. At the five star end of the market, South London's Nine Elms regeneration site is set to see the first luxury hotel opened by a Chinese brand outside of China in an area undergoing an intense programme of redevelopment over the next few years.

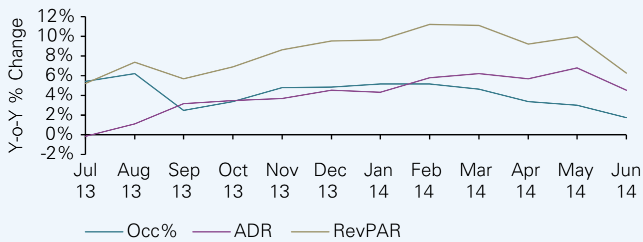
Bank and administrative led sales continue to dominate, although there has also been a rise in the "distressed buyer" looking to spend their allocated funds. While private equity and investment funds have remained dominant, high net worth individuals and sovereign wealth funds have increased their share of transactions particularly targeting the acquisition of trophy assets in London. As well as these trophy assets, London is appealing for its low cap rates, maturity of market and the strength it has demonstrated in maintaining high performance levels in the aftermath of the Olympics.

London Hotel RevPAR, Occupancy and ADR Growth – June 2014



Source: STR Global

Provincial Hotel RevPAR, Occupancy and ADR Growth – June 2014



Source: STR Global

Nordic Region

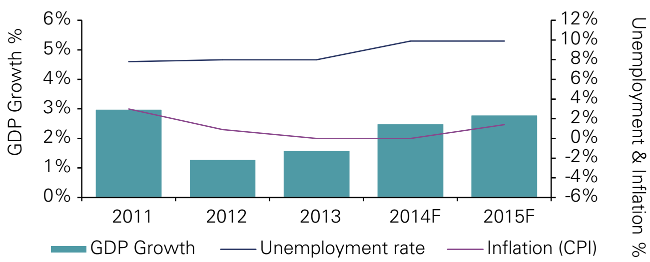
Upswing is underway

Macroeconomic Overview

Sweden

GDP: high growth in GDP is expected.
Inflation: disinflation will continue until late 2014, and positive rates are expected thereafter.
Employment: job creation to continue in H2 and anticipated to grow further in 2015.
There was a sharp rebound in GDP in Q4 2013; however, growth rates fell by a slight margin in Q1 2014 (-0.1% quarter-on-quarter). While the trade balance was negative, consumer spending and business growth remained positive; the consumer sector is also expected to deliver a strong performance in 2015. Business investment is growing rapidly, with a rise in foreign demand, low interest rates and improving investor confidence.

Macroeconomic Overview



Source: Cushman and Wakefield
F- forecast

Norway

GDP: increase in growth is expected in 2014.
Inflation: expected to remain stable.
Employment: expected to remain stable at current levels.
The Norwegian economy expanded by 0.6% quarter-on-quarter and is expected to strengthen further in 2014. Private consumption is witnessing a slowdown due to households' effort to reduce debt levels. Investment and stock building are predicted to make a strong contribution to growth due to an increase in the number of international orders, especially from the EU, while the contribution of net exports will be broadly neutral due to the strength of imports.

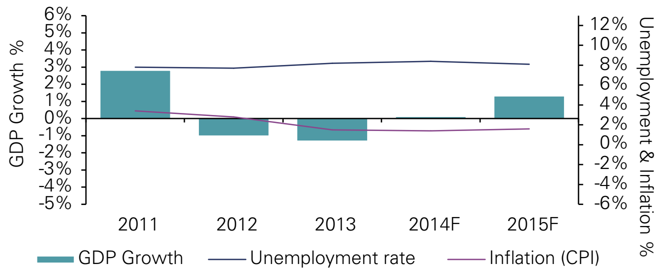
Macroeconomic Overview

Source: Cushman and Wakefield
F- forecast

Finland

GDP: marginal growth in 2014, but is expected to pick up in 2015.
Inflation: expected to ease in H2 and pick up slightly in 2015.
Employment: deteriorating currently, but improvement is expected from 2015.
The Finnish economy contracted by 0.4% in Q1 2014 after a fall of 0.2% in Q4 2013. Asset investments and government expenditure declined, while net exports contributed to growth, with imports contracting more than exports. A broad-based expansion is expected for 2015 as the government has started to roll out its fiscal deficit, and investments are expected to begin benefiting from higher exports backed by rising demand.

Macroeconomic Overview

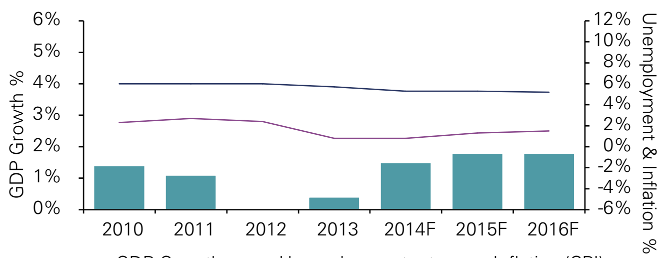


Source: Cushman and Wakefield
F- forecast

Denmark

GDP: a modest upswing is underway.
Inflation: muted, with upward pressure likely in Q4 2014.
Employment: likely to fall in H2 2014.
Private consumption has rebounded as it continues to benefit from the fall in unemployment, low inflation and less stringent monetary conditions. Acceleration in business activity is expected in 2015. Subdued lending due to the consolidation of the banking sector and the need to reduce household debt levels will slow down recovery. However, improving business activity, increased international competiveness, less stringent monetary conditions and recovering consumer confidence will generate reasonable GDP growth over the medium-term.

Macroeconomic Overview



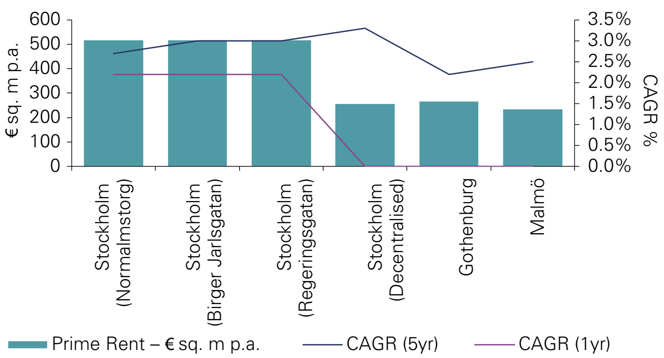
Source: Cushman and Wakefield
F- forecast

Office Market

Sweden

The Swedish office market remained healthy over the second quarter of the year. Demand for good quality space remained strong, leading to a rise in prime rents in Stockholm; demand remained stable elsewhere. On the supply side, due to underlying shortage of available modern space, owners of older buildings are finding ways to reposition their assets and correspond to the needs of the market. Business and investment activity in the market is not expected to change over the next few quarters. In terms of the volume of activity, this could increase; however, subject to an improvement of economic conditions overtime. Rents are likely to remain under pressure, due to the tight supply situation.

Prime Office Rents – June 2014



Source: Cushman and Wakefield

Norway

Norway's office sector reported an investment volume of € 450m in Q2 2014. Investors are focused on core properties, which are currently in short supply, and this is hampering expansion of market activity. Take-up levels in Oslo's CBD have strengthened over the course of the year so far, due to sustained high demand for centrally-located office premises.

A small number of leases of premises of > 5,000 sq. m could expire this year, which may stimulate further activity and new interest in the market.

Office investment is expected to fuel further growth, supported by a strong rental market, declining risk aversion, low interest rates and a wider availability of credit.

Prime Office Rents – June 2014			
Market	**Prime Rent – €/sq. m p.a.**	**CAGR (5yr)**	**CAGR (1yr)**
Oslo	559.0	6.1%	4.4%

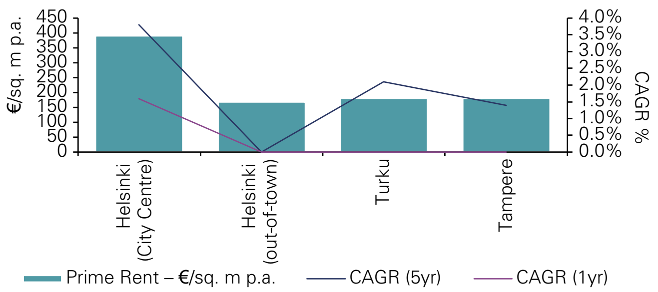
Source: Cushman and Wakefield

Finland

Finland's office market remained optimistic over the second quarter of the year, although activity was focused on the Helsinki Metropolitan Area (HMA) due to the wide availability of new and modern office premises. However, high levels of vacancy in certain submarkets curbed rental growth in many locations, which saw rents rise over the quarter.

Although vacancy remains relatively high, supply levels are decreasing in Finland's office market. The office market is expected to remain polarised, with activities focused on prime locations, particularly in the Helsinki Metropolitan Area.

Prime Office Rents – June 2014

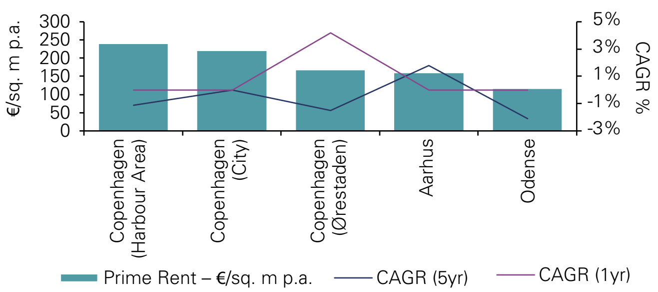


Source: Cushman and Wakefield

Denmark

Positive trends in the labour market and in consumer confidence have helped maintain strong growth. Conditions in the office property market were unchanged in Q2 2014, remaining tenant driven and characterised by a need for incentives on offer, although prime rents remained steady. Lettings of premises with < 10,000 sq. m dominated market activity. Office take-up volumes in Q2 were slightly lower than previous quarters, although offices remain one of the more sought-after property segments, second only to retail. Denmark's anticipated positive economic growth is expected to underpin a strengthening office market. There is likely to be upward pressure on prime rents in Copenhagen's submarkets. This burgeoning demand combined with the low supply of core properties is expected to see prime yields fall in 2015.

Prime Office Rents – June 2014



Source: Cushman and Wakefield

Nordic Region

Retail Market

Sweden

Demand for prime, high-quality retail premises is high. In Stockholm, demand for retail units in fashionable areas is high, especially in Bibliotekstan, and rents of over SEK 17,000 per sq. m have been recorded in prime locations for luxury flagship stores. Prime yields have remained stable across all retail segments over the course of the year so far. Despite the slowdown, consumer spending is expected to remain positive, and retail sales are expected to be healthy. Job growth, coupled with low inflation, is likely to provide support.

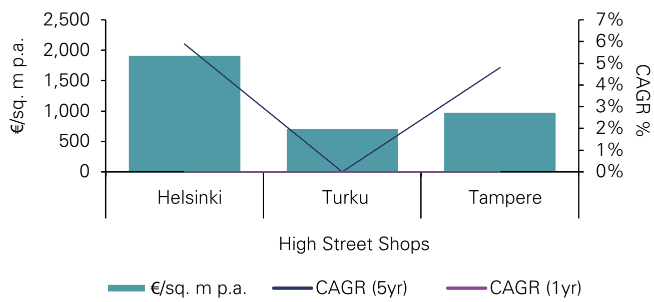
Prime Retail Rents (net)

Source: CBRE

Finland

Owing to factors such as unemployment and low consumer confidence, retail sales have been mixed in 2014, rising by 1.8% in April but falling by 0.9% in May. However, in terms of transactions, the retail market was very active during H1 2014, demonstrated by the acquisition of 68 grocery stores by Redito for €124m. In the rental market, conditions are considered to be relatively healthy, as several leases have been signed in high streets and prime shopping centres. Subsectors also continue to attract strong tenant demand; however, secondary locations continue to struggle, when compared to primary locations. In the rental market, the increasing demand for prime locations is expected to put upward pressure on the best retail destinations, especially in the capital.

Prime Retail Rents – June 2014

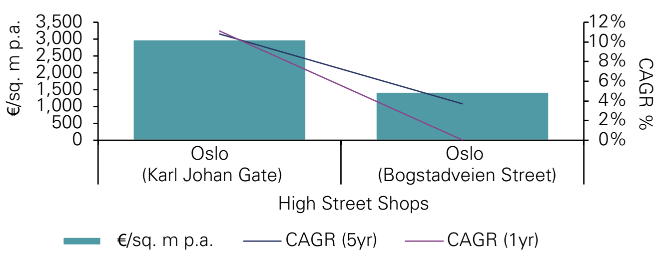


Source: Cushman and Wakefield

Norway

The Norwegian retail market remains healthy, with activity spurred by a strong economy and the high purchasing power of its inhabitants. Sales volumes increased by 1.6% in March, 3.4% in April and by a marginal 0.4% in May. Investment activity accelerated in Q2, with €149m worth of retail assets traded, although this volume was lower than recorded a year before. Higher occupier demand for prime locations has put upward pressure on rents. Further increase is expected, driven by strong demand from international brands and limited supply. Prime rental prices are expected to increase slightly but steadily in the best locations despite weaker economic growth.

Prime Retail Rents – June 2014

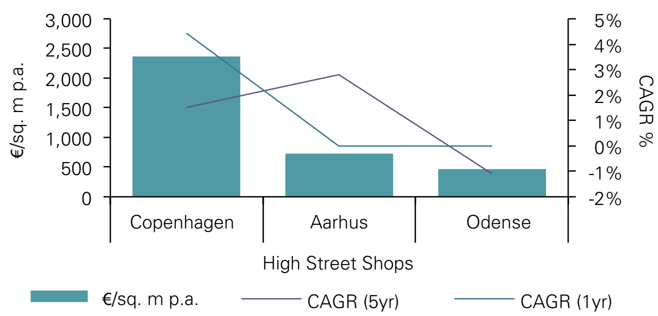


Source: Cushman and Wakefield

Denmark

The retail sector continued to record positive growth in Q2 and sales grew by 2.6% in April and again by 1.9% in May. The market was largely stable in Q2, but prime rents in high streets increased due to high demand and low supply. The market must still contend with a limited supply of prime units which, in turn, has forced retailers to look for premises in secondary locations. The investment market for high street properties is generally stable, but due to the strong interest in Strøget, the outlook looks promising, with a further fall in prime yields as a possibility. Denmark will remain a safe market to invest in, and activity is likely to remain high in H2 2014.

Prime Retail Rents – June 2014



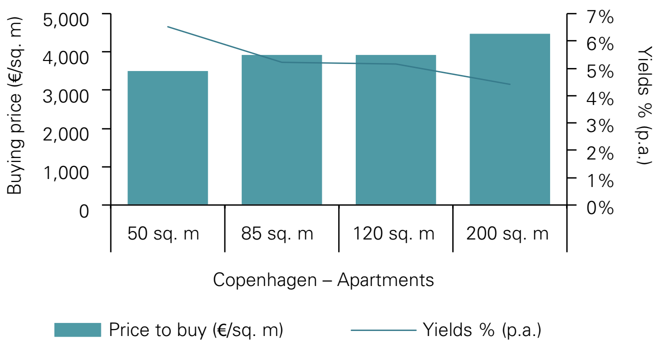
Source: Cushman and Wakefield

Residential Market

Denmark

House prices in Copenhagen and near the Danish capital are climbing so quickly that they may soon surpass pre-financial crisis levels. Nationwide, the average price of owner-occupied apartments rose by 6% in 2013. Prices of holiday homes increased by 1.39% while houses fared less well. Prices of houses in Denmark fell by 0.5% during 2013. Based on price increments in the past and strict rental controls, rental yields have been low in Denmark. The average rental yield in Copenhagen ranges from 4.4% to 6.5% according to the Global Property Guide.

Price and Yields % (p.a.) – April 2013

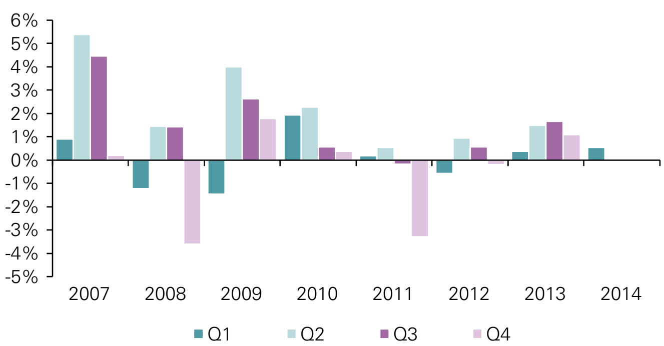


Source: Global Property Guide

Sweden

Residential real estate prices continued to increase in Sweden, rising by more than 3% during the period from May to July 2014 compared to the period between February and April, 2014. Annual price increases were recorded in 20 of the 21 counties, with only one county reporting a fall (the county of Kronoberg reported a fall of 1%). The largest rise was reported by Västernorrland, of 12%, followed by Norrbotten, of 9%.

House Price % Change



Source: Statistics Sweden

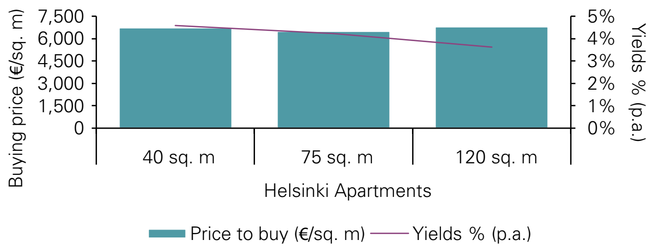
Norway

After almost four years of house price rises, Norway's housing market is slowing sharply due to a downturn in property demand and housing construction. According to Statistics Norway, house prices rose by 2.95% throughout the country in the first nine months in 2013, which is one of the slowest Y-o-Y increases since Q3 2009. A significant decrease in house prices is not expected, but there may be a very limited price increase from 2014, followed by stabilisation. Norway is also expected to avoid a housing slump due to low unemployment, low interest rates and population growth.

Finland

House prices in Finland are expected to remain stable in 2014, as access to financing is expected to improve and mortgage interest rates are expected to remain low during the year. The Finnish residential market reported lower gross rental yields owing to a rise in sales prices combined with stable rents. The market witnessed the highest rental returns on smaller apartments, while larger apartments yielded the lowest returns.

Price and Yields % (p.a.) – August 2013



Source: Global Property Guide

Residential market boosts foreign investment

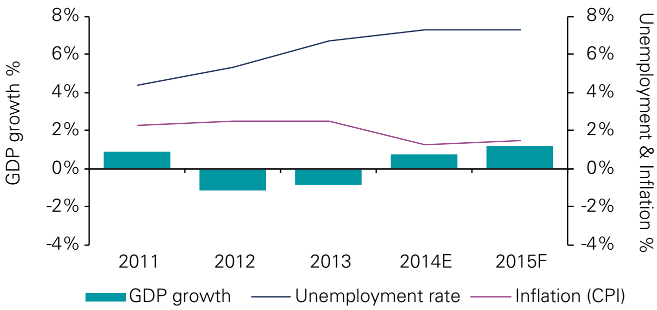
Macroeconomic Overview

2014 is expected to show growth in GDP for the first time in three years. Recovery is expected to be modest at first but will strengthen over the next few years.

The reason for the modest Recovery in 2014 will be limited by a poor first quarter. This saw a significant decline of 1.4% due to the positive one-off effects of investment activity in the final quarter of 2013, undertaken to make use of expiring fiscal treaties. Recovery is expected to be supported by the upswing in the construction and industrial sectors, which will be accompanied by increased consumer and manufacturer confidence.

Unemployment has risen over the last three years and is expected to increase further by 0.55% in 2014 to 7.25% of the workforce. A delayed response by the labour market is expected to the upswing in the Dutch economy, with companies initially focusing their efforts on improving their profitability; employment is however expected to rise from 2015. The number of Dutch citizens actively participating in the labour force is forecast to decrease in 2015; the high current unemployment rate is likely to discourage many to apply for unemployment benefit and this should lead to a slight reduction in the unemployment rate.

Macroeconomic Overview



Source: Centraal Plan Bureau
E: estimate
F: forecast

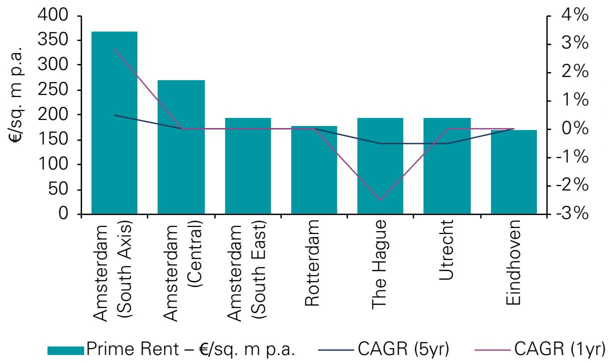
Inflation for 2014 is expected to drop below the 2% mark for the first time in four years. Estimated inflation for 2014 and 2015 is 1.25% and 1.5% respectively, of which approximately 1% (in both years) is attributable to the anticipated increase in rental prices in the country. In spite of this, it is expected that households' purchasing power will show minor improvement due to a forecast increase in average wages.

Office Market

Increasingly, tenants are shifting their focus from secondary locations to more centrally located office premises in the (inner circles of the) G4[1] cities. Total take-up in the office market has improved slightly by 0.1% compared to H1 2013.

This shift from the periphery towards prime locations is evident from the statistics, with the G4 cities accounting for 51% of the total take-up. Amsterdam is still the most popular location and strong demand for high-end office space in the South Axis area is leading to the development of new office locations in the city. A further result of this increased demand is upward pressure on office rents in this part of the city.

Prime Office Rents – June 2014



Source: Cushman and Wakefield

Supply continues to outstrip demand in the office market, despite the efforts of both suppliers and government to redevelop and transform office locations for hotel and residential uses. This is partly attributable to the more efficient use of office space by occupiers. These recent changes of use have led to an overall reduction of 0.2% in the stock of office space in the Netherlands over the past year; however, the weak demand for premises means that this reduction has not made any impact on the vacancy rate, which increased by 0.2% over the first two quarters of 2014.

Conversely, investment in office space continued to rise in terms of volume, with a 97% increase in volume in H1 2014 compared to the same period in 2013. Foreign investors accounted for a significant 85% share of the total transaction volume, with German real estate investors and UK private equity funds particularly active. Interest now appears to be shifting towards secondary locations in the G4 cities, with four notable transactions taking place there in Q2 2014.

Demand for prime office property is expected to strengthen slightly over the course of 2014; however, the increasing consolidation and more efficient use of office may counter these effects and stabilise overall vacancy. The focus of investments is expected to shift increasingly from prime locations towards secondary locations in the major cities due to the scarcity of available and suitable product.

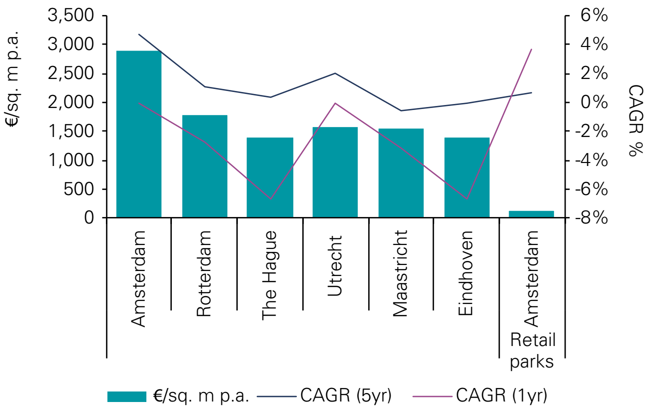
[1] G4 refers to Amsterdam, Rotterdam, The Hague and Utrecht.

Retail Market

Occupier focus in the retail market has not changed significantly. Prime locations in the G4 cities remain the most popular retail locations, especially for foreign retailers, and Amsterdam is still the most popular location ahead of the other G4 cities. The total stock of retail space has increased by 3.8% since the end of 2013.

It is interesting to note that many leases have been concluded by foreign retailers; conversely, domestic retailers had a relatively quiet first two quarters in terms of expansions and new openings. Although prime pitches in the G4 cities are the main focus of new entries to the market, in Amsterdam a number of retailers have opted for secondary locations. These decisions have been driven by the quality of these locations rather than the lower rental prices.

Prime Retail Rents – June 2014



Source: CBRE and Cushman and Wakefield

Amsterdam continues to record the highest retail rental prices of prime locations in the major cities; however, rents have fallen throughout the Netherlands over the past year, with the biggest falls recorded in The Hague and Eindhoven.

This reduction in rents in prime locations is a trend which started in 2012, and means that rents currently lie below the 5-year average. Amsterdam is currently the only city able to escape the trend.

There was a significantly high volume of investments in property during H1 2014, which reached €780m. This figure is roughly equivalent to the total volume invested in 2013 as a whole, around €800m, and appears to suggest a resurgence of interest in retail properties. Investors are focusing on shopping centres, and the acquisition of the Corio Portfolio has been the largest transaction of the year so far. Gross yields required by investors on properties in the major cities are unchanged since 2013, with the exception of Amsterdam, which has seen a slight fall.

Prime Retail Yields (Gross) – June 2014

Source: DTZ Zadelhoff, CBRE, JLL, Colliers

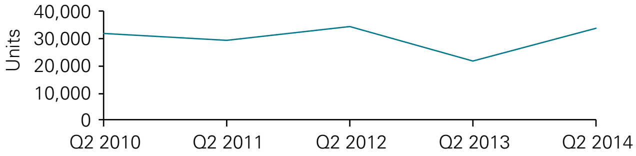
The retail market in the Netherlands is expected to recover gradually and move in line with the economy. The outlook for retail investments is increasingly positive, with a rise in foreign interest. The scarcity of core retail products in prime locations is forcing investors to widen their focus which will slow down recovery of trading volumes.

The Netherlands

Residential Market

House sales have increased in the first two quarters of 2014. Traditionally, Q1 is one of the weakest periods for house sales in the Netherlands, yet it enjoyed a 25% increase in sales compared to the same quarter in 2013. Q2 was even better, with a staggering Y-o-Y increase of 54% in sales.

Residential Sales



Source: Kadaster

There was also a Y-o-Y increase in transaction prices per sq. m for two consecutive quarters. The last time that such a recovery was recorded in the market was four years ago; however, the recovery at that time was short-lived, lasting only one year before market prices fell sharply.

Current indications suggest a slow but modest recovery of the market for owner-occupied property in terms of both price and volume. The strongest growth is expected in the G4 cities, with the main drivers of this recovery being population growth and the increasing number of households.

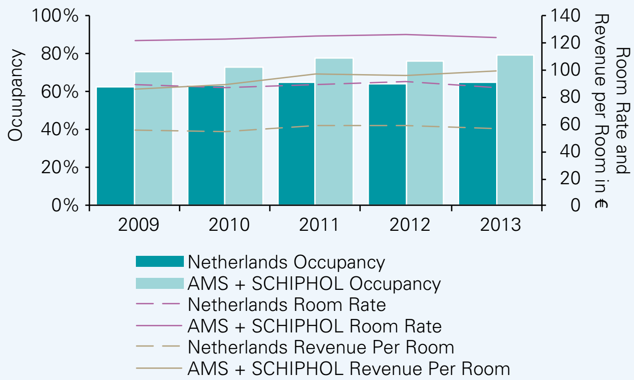
Amendments to social housing regulations in 2014 make it easier for housing associations to dispose of properties. As a result, there has been a significant rise in the number of Dutch residential properties acquired by foreign investors. In H1 2014, the total investment volume in Dutch residential real estate reached around €1bn. It is expected that more housing associations will come under governmental pressure to focus on their core business of providing homes for low-income families. An increasing number of national and international investors now regard housing as a solid investment in view of the anticipated growth in demand and prices. Investors are also attracted by current market conditions, with low interest rates, reduced real estate transfer tax (RETT) and increased investment yields.

The Hotel Investment Market

The occupancy rate in the hospitality sector has increased by 1.1%; however, this increase is mainly attributable to the Amsterdam and Schiphol region, which saw a rise in their occupancy rate of 3.3% in 2013. Conversely, the average room rate (ARR) has decreased significantly, from €92 to €87, which has in turn caused a fall in the revenue per available room (RevPAR) since 2012. The luxury hotel segment performed well in 2013, with a 2% increase in the occupancy rate. Again, this increase is mainly attributable to the Amsterdam and Schiphol region. Conversely, the occupancy rate in the budget hotel segment has fallen by 2.2%.

There has been increased participation by foreign investors in the investment market for hotel real estate in the Netherlands; the best example of this is the sale of the five star Amstel hotel to Katara Hospitality of Qatar.

Occupancy and Room Rate



Source: STR Global

Hoteliers in the Netherlands are facing increased competition from private individuals offering accommodation such as Airbnb, couchsurfing and B&Bs. This is mainly affecting the budget hotel segment in terms of both occupancy rate and price. The renting out of accommodation by private individuals is not yet sufficiently regulated in the Netherlands. Local governments have introduced restrictions and regulatory measures, but the enforcement of, and compliance with, these policies is still unknown. Other initiatives in the market are bringing demand and supply closer together by matching specific requests of customers with hoteliers' offers. Such initiatives will improve momentum and efficiency in the hotel market.

Belgium

Stability in the market

Macroeconomic Overview

According of the National Bank of Belgium, Belgium's GDP grew by 1.8% in 2011 before stagnating in 2012 and 2013 (0.1% contraction in 2012 followed by a 0.2% increase in 2013). Q1 2014 saw growth of 1.2% Y-oY.

The Belgian economy is expected to grow by 1.2% in 2014 and 1.5% in 2015. This should be driven by sustained private consumption growth and accelerating investments. Consumer spending and corporate investments grew by 1.5% and 3.3% respectively Y-o-Y during Q1 2014.

Inflation remains low (1.2% in 2013, and a forecast of 1.2% in 2014), and only a minor uplift is expected for 2015 (2%).

Macroeconomic Overview

Source: Economist Intelligence Unit
F: forecast

Belgium's current account deficit is expected to gradually return to equilibrium due to a brighter outlook in neighbouring economies and growth in German consumption.

Unemployment levels increased slightly in 2013 (8.4%), but should stabilise in 2014 and start to decrease slightly from 2015 onwards.

Economic Summary

Economic Indicators	2010	2011	2012	2013	2014F	2015F	2016F	2017F
GDP growth	2.3%	1.8%	-0.1%	0.2%	1.3%	1.5%	1.5%	1.7%
Unemployment rate	8.3%	7.3%	7.7%	8.4%	8.0%	8.5%	8.2%	8.1%
Inflation (CPI)	2.4%	3.4%	2.6%	1.2%	1.2%	2.0%	2.2%	2.4%

Source: Economist Intelligence Unit
F: forecast

General and regional elections took place in 2014, and it is likely that a centre-right federal government will be formed with the Dutch Nationalist Party (NVA), which won a third of votes in Flanders. The regional Flemish coalition government is led by centre-right political parties, while regional governments in Brussels and Wallonia are dominated by the Socialists.

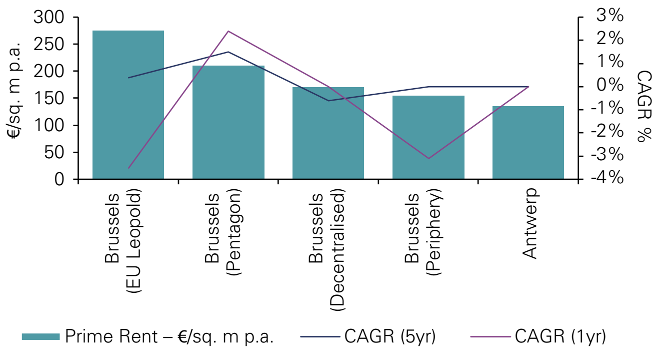
Belgium

Office Market

The Brussels office market can be divided into seven segments: Pentagon, South, North, Leopold, Louise, Decentralised and Periphery.

Prime rents and yields are expected to remain stable throughout the year, while vacancy rates should drop slightly in 2014 as a result of a lack of new construction projects in the most popular locations, and the steady conversion of obsolete office space to other uses (mainly residential).

Prime Office Rents – June 2014



Source: Cushman and Wakefield

Prime rents remain unchanged at €275/sq. m per year; this does not include incentives granted by landlords who are often flexible when negotiating with new potential tenants or renegotiating existing contracts, depending on the quality and location of buildings, and on the duration of leases. Although corporate demand remains low (early stage of economic recovery), the public sector accounted for the majority of recent take-up. Two notable deals in Q2 included a prelet of 50,000 sq. m by Vlaamse Gemeenschap in Tour & Taxis (North District) and the new 35,000 sq. m lease by Actiris in the Astro Tower (Pentagon).

Belgium witnessed a significant increase in investment volume in Q2 2014, which was mainly the result of two transactions: ATP and Axa Belgium purchased 90% and 10% respectively of shares in the SPV owning the North Galaxy building in Brussel's CBD for €475m (asset value), while AG Real Estate acquired the Kievit complex in Antwerp for €195m.

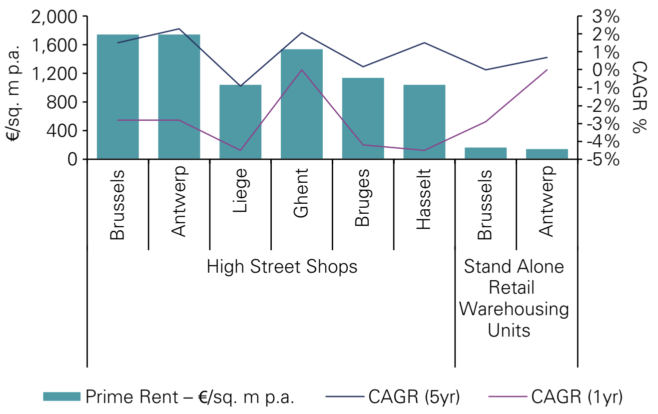
Prime space in central locations, specifically Brussel's CBD locations, remained popular investment locations. Prime office yields benefit from the strong demand levels, and remain stable at between 5% and 6% for the best products in the top locations.

Retail Market

The Belgian retail property market is divided into three segments: high streets in the major cities, shopping centres and retail warehousing.

Prime rents remained stable in all segments. In secondary locations and in high streets, prime rents remain under downward pressure. Where there is a good availability of retail properties, occupiers remain selective.

Prime Retail Rents – June 2014



Source: Cushman and Wakefield

Prime yields in the premier high streets in Brussels and Antwerp remained unchanged at 4.35%. Investments of properties with smaller volumes are expected to take place at lower yields. Yields for shopping centres and retail warehousing remain stable at approximately 5.0% and 6.0%, respectively.

Fewer deals were identified in prime locations, whereas it is currently easier to rent retail warehouses and shopping centres than shops in high street locations.
A major transaction in Q2 2014 was the acquisition of the Carrefour Centre in Evere Brussels by Teychené from Redevco.

In Brussels, a large project "Docks Bruxsel", under construction in Q2, is expected to open in 2016. The other two major shopping centre developments in Brussels, Uplace and Neo, face legal issues and their completion date remains unknown at this stage.

Prime rents in high streets may decrease slightly in the second half of the year, but should remain stable for shopping centres and retail parks.

Residential Market

The Belgian housing markets show signs of weakening in response to the introduction of stricter regulations in banking and a weak economy, despite the fact that interest rates remain attractive to potential purchasers.

According to Eurostat, house prices grew by only 0.23% in 2013, following an increase of 1.12% in 2012, 3.45% in 2011 and 4.61% in 2010. Adjusted for inflation, house prices fell by 0.61% in 2013.

In 2013, house prices increased by 4.3% in the Brussels Region, 2.1% in the Flemish Region and 0.9% in the Walloon Region.

Gross rental yields for apartments in Brussels range from around 4.45% to 5.54%. Yields for houses range from 3.66% to 4.88%.

According to the latest survey by Global Property Guide, square metre (sq. m) prices of apartments and houses in the prime districts of Brussels have shown a slight increase.

Belgium Residential Market – May 2013

		Price (€)/sq. m	
	Yield (p.a.)	To Buy	Monthly Rent
Brussels – Apartments			
50 sq. m	5.5%	3,153	14.6
75 sq. m	5.0%	3,088	12.9
100 sq. m	4.3%	3,199	11.6
120 sq. m	4.4%	3,124	11.3
150 sq. m	3.9%	3,301	10.7
200 sq. m	4.5%	3,322	12.3
Brussels – Houses			
150 sq. m	4.9%	2,795	11.4
250 sq. m	4.4%	2,673	9.8
400 sq. m	3.7%	2,950	9.0

Source: Global Property Guide

According to the latest figures from the National Bank of Belgium, the total number of house building permits issued in January 2014 increased Y-o-Y by 32.7% to 5,000 permits.

The Hotel Investment Market

The hotel market in Brussels is mature, with many international hotel chains present in the city. There are also an increasing number of aparthotels in the city.

In Brussels, hotels are concentrated in the City Centre and in the Leopold, Louise and North districts, as well as at the airport. A number of hotels have now opened in the South district.

Brussels' hotels comprise approximately 40% of four to five star hotels, which account for 65% of the total room supply. Luxury hotels operate in the City Centre as well as in the Louise and Leopold districts, and are often managed by international chains, while local players typically run smaller, less luxurious hotels.

The number of overnight stays and hotel occupancy rates have risen over recent years, increasing the interest of hotel operators and developers despite the limited pipeline of new hotel openings expected over the next few years.

Recent highlights include the opening of a new three star hotel by Motel One in central Brussels. The hotel will offer 490 rooms and should compete against the numerous more luxurious hotels in the central district.
Investors tend to look at hotels generating a regular income by means of rental or similar occupation agreements. Conversely, hotel operators prefer to manage hotels on behalf of their owners, thereby shifting part of the operating risk onto the hotel owner.

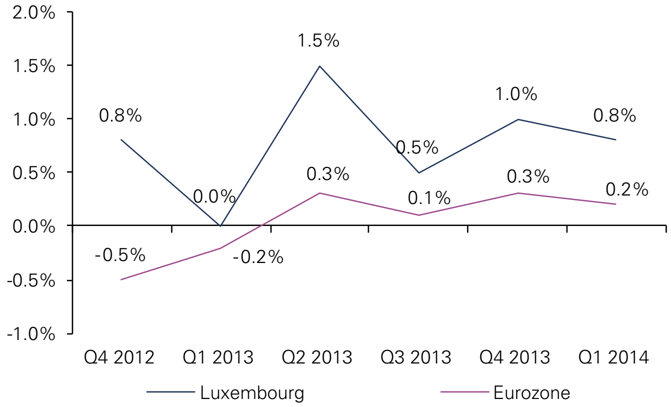
However, a number of hotel operators are facing difficulties. A prime example of this is the recent bankruptcy of Le Méridien in the city-centre (5 star hotel).

Stable growth in a safe economy

Macroeconomic Overview

During Q1 2014, Luxembourg's GDP grew by 0.8% compared to the previous quarter, implying an increase of 3.8% Y-o-Y. However, improvement in the sector is hampered by lower consumption figures and the poor performance of the financial sector.

GDP Growth (quarterly % Change)



Source: STATEC (July 2014)

In terms of GDP components, most of the underlying trends observed in previous quarters continued in Q1 2014. Due to the high unemployment rate, growth in private consumption was limited (1.4% Y-o-Y); however, recovery is not yet strong enough to bring unemployment down.

Investments in Luxembourg appear to be picking up steadily; mainly in the construction sector but also in road and rail transport equipment. The balance of trade in goods and services is also improving.

This renewed growth appears to extend to most branches of the economy, but the financial sector is still on its way to recovery. Added value in terms of volume stabilised in Q1 2014, but remains at a historically low level after falling significantly for two quarters in succession. This was mainly due to the unfavourable conditions in the banking sector.

In terms of employment during Q1 2014, domestic employment increased by 2.3% Y-o-Y (2.1% for national employment and 2.5% for cross-border paid employment). After a weak rise in 2013, cross-border employment started to pick up again in early 2014. This trend is partly linked to the high number of cross-border workers in sectors where activity has recovered most (manufacturing, construction and temporary work).

The percentage of cross-border workers in domestic employment rose steadily from 28% in 1995 to 44% in 2008, and then stabilised. According to STATEC, this share could increase further over the coming quarters.

Macroeconomic Overview

Source: STATEC (July 2014)
F: forecast

Since reaching high levels in 2013, inflation in food prices slowed down significantly in early 2014; it reached negative figures in June 2014 (below general inflation) for the first time since 2010.

During Q1 2014, average wage costs (per capita) grew by 2.9% Y-o-Y. However, the rise in hourly wage costs was lower: 0.7% over the same period. This modest growth was due to longer working hours, mainly in activities where average wages are relatively low, such as construction and temporary work.

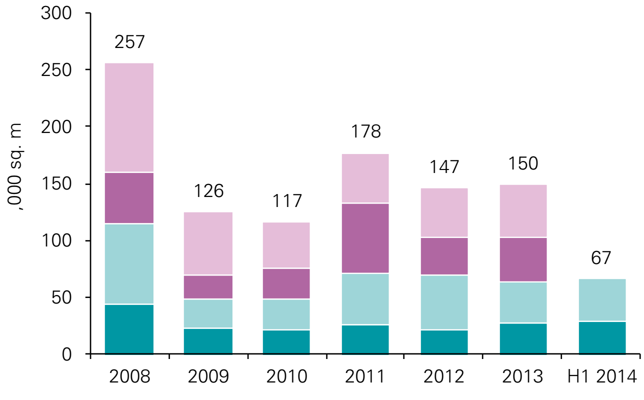
On the other hand, wages in the financial sector have declined significantly, in contrast to the exceptional redundancy payments made in early 2013.

Office Market

In Q2 2014, office space take-up decreased by 5.5% Y-o-Y (albeit a 25% increase compared to the previous quarter). During H1 2014, the total volume was 66,700 sq. m, in line with H1 2013.

There were 136 lettings in H1 2014 (36% increase Y-o-Y). The average transaction size during Q2 2014 was 530 sq. m, 50% lower than that of Q2 2013 (1,032 sq. m).

Annual Evolution of Office Take-up



Source: STATEC (July 2014)

Banking and financial services contributed to 34% of take-up in H1 2014. The two main transactions were the letting of 2,967 sq. m to Deloitte in the Daidalos building, and 1,780 sq. m taken by Northern Trust in the Findel Golf F6, both in the Airport submarket.

European institutions were also active in the market: the European Investment Bank leased 8,843 sq. m in the President B building (Kirchberg).

Office Market in Luxembourg City by District

	Stock (sq. m)	Take-up 2012 (sq. m)	Vacancy (%)	Prime yield (%)	Prime rent €/sq. m/ month
Kirchberg	810,453	33,491	3.3%	6.5%	33.0
Gasperich	271,928	10,215	15.0%	6.8%	28.5
Station	324,286	19,222	2.5%	6.5%	32.5
Strassen	135,845	9,964	1.7%	7.0%	28.0
Airport	190,766	3,974	13.7%	6.8%	25.0
Hamm	64,382	3,150	19.7%	7.5%	20.5
CBD	719,796	35,359	3.3%	5.5%	40.0
Munsbach	43,921	450	4.0%	8.0%	21.5
Bertrange	81,596	6,459	25.1%	7.5%	23.5
Contern	24,062	345	13.4%	8.0%	18.5
Lux-West	170,214	9,125	4.2%	6.5%	28.5
Howald	83,547	4,871	2.8%	7.5%	25.5
Limpertsberg	73,747	2,357	6.6%	6.0%	31.5
Capellen-Mamer	84,381	15,375	10.6%	8.0%	22.0
Leudelange	72,990	8,341	18.9%	7.5%	23.0
Belval	86,420	9,935	3.3%	7.5%	20.0

Source: CBRE

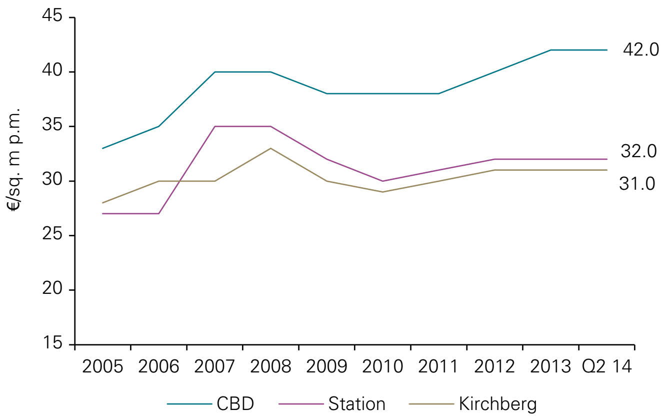
According to Jones Lang LaSalle, the vacancy rate continued to decline during Q2 2014 as a result of the limited volume of speculative completions during the year. It decreased from 5.0% in the previous quarter to 4.6%, reaching its lowest level since Q3 2009.

By submarket, the vacancy rate decreased slightly in the CBD (from 3.9% in Q1 2014 to 3.7%), while in the Station submarket, it fell from 2.5% to 1.9%. The vacancy rate in Kirchberg remained unchanged at 1.7%.

With regard to speculative completions, approximately 9,000 sq. m is expected to be completed: AXA's Aire in the CBD (5,660 sq. m), and Campus Contern Colibri in the Periphery (3,253 sq. m). Non-speculative completions in H2 2014 are estimated at 64,000 sq. m, of which 30,000 sq. m is accounted for by the new PwC head office in La Cloche d'Or, 16,000 sq. m by the new KPMG head office in Kirchberg, and two buildings in Belval (Bio-K and Enovos).

The prime office rent in the CBD has remained stable at €42.00 per sq. m / month since 2013.

Prime Rent Evolution



Source: JLL

The investment market continued to grow during H1 2014, with a volume of €320m (28% increase Y-o-Y). The largest deals were the sale of the City Link building (Station submarket) for €40m to an Italian private investor and the sale of the K2 Ballade in Kirchberg for €54.5m to Real IS.

Depending on the source, the prime office yield ranged from 5.25% to 5.5%; however, there is a clear downward trend in Luxembourg, which is in line with the trend in other European cities.

Retail Market

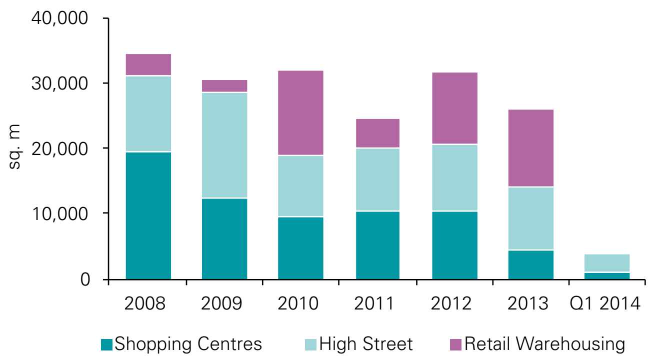
In 2013, there were 63 transactions with a total take-up volume of 26,300 sq. m. In terms of volume, this is a decrease of 16% compared to 2012 (31,300 sq. m) and 8% compared to the 5-year average (28,500 sq. m).

Retail warehousing was responsible for the highest share in the take-up volume, of 49% (14 transactions), followed by

Luxembourg

high street with 38% (39 transactions) and shopping centres with 13% (10 transactions).
In Q1 2014, nine transactions were registered totalling 2,900 sq. m. Most activity in the last 15 months was registered in the fashion (22%) and food sectors (15%).

Take-up by Segment



Source: JLL

Tenant demand was focused on prime pitches in top locations. Landlord and tenants remain cautious and are carefully assessing turnover levels in order to detect any real slowdown.

Luxembourg's retail investment market is normally characterised by a low number of transactions, some opportunistic in nature, and is dominated by private wealthy Luxembourgers.

In Q1 2014, there were four retail deals in the investment market, the most notable included: the mixed-use property Rosenstiel in Grand Rue, a retail park (11,000 sq. m) in Howald and a high street unit in Esch-sur-Alzette. In terms of trading volumes, these transactions totalled €55m.

Residential Market

Investment

During Q1 2014, activity in the residential investment market grew compared to Q1 2013: the number of transactions increased by 10.4% and the total volume by 27.3%.

Y-o-Y, registered prices of transactions for existing apartments showed a 5.7% increase during Q1 2014. Conversely, prices for apartments under construction decreased by 1.3% over the same period.

Throughout the country, average asking prices during Q1 2014 were: €3,696 per sq. m for houses; and €4,501 per sq. m for apartments (increases of 3.9% and 4.3% respectively Y-o-Y).

In terms of house or apartment type, there were major price increases for larger houses with five – six rooms (7.6% increase) and studio apartments (18.0% increase).

The average sizes of accommodation on offer were 182 sq. m for houses and 89 sq. m for apartments.

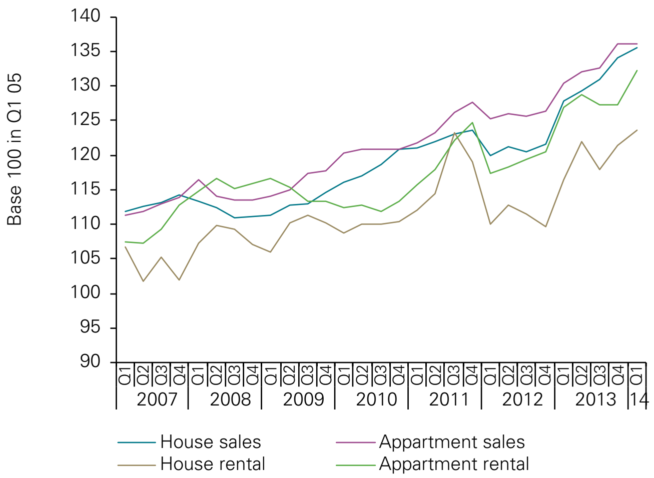
During Q1 2014, the average asking price for a house in Luxembourg City was €5,151 per sq. m (6.9% increase

Y-o-Y), and the price for an apartment was €6,084 per sq. m (8.6% increase Y-o-Y).

Rental

Average asking rents during Q1 2014 in Luxembourg were €2,442 / month (€13.19 per sq. m) for houses and €1,248 / month (€18.92 per sq. m) for apartments.
In Q1 2014, Luxembourg City accounted for 19% of house rental offers and 41% of apartment rental offers. Average asking rents for a house in Luxembourg City was €3,443 / month (€15.74 per sq. m) and for an apartment was €1,519 / month (€22.97 per sq. m).

Price Evolution of the Residential Market



Source: L'Observatoire de l'Habitat

The Hotel Investment Market

Despite being a UNESCO World Heritage Site, Luxembourg is not well-known as a tourist destination and therefore primarily welcomes business-related visitors. Nonetheless, tourism still accounts for 5.7% of Luxembourg's output.

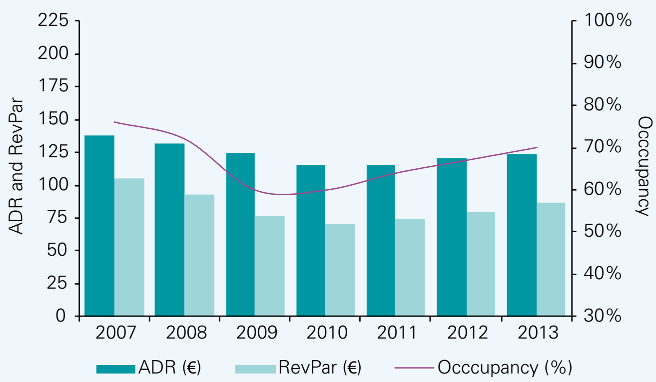
Luxembourg City accounts for approximately 50% of the total national hotel room supply. Although hotel supply decreased slightly in Luxembourg City from 2006 to 2013, bed capacity increased over the same period to approximately 3,300 beds. This confirms that larger branded hotels have entered the market over the past few years, leading to the closure of smaller, unbranded properties.

Hotels in Luxembourg are relatively small, with most hotels averaging fewer than 100 rooms. In terms of the high-quality end of the hotel market, there are 4 five-star and 19 four-star hotels in the city. The new Royal Hamilius development is expected to add additional hotel capacity to the city centre.

Since the mid-2000s, occupancy levels have been volatile as a result of the economic crisis and the EU hosting fewer meetings in the city. Currently, over 60% of demand is corporate-related and therefore local hotels are looking to increase revenue from other sources, particularly leisure. In contrast, the ADR is relatively stable and has grown annually since 2010.

In 2013, there was a strong growth in leisure demand, which enabled hoteliers to achieve higher occupancy rates over the summer period.

Hotel Performance Trends



Source: HVS London

Leisure demand and tourism in Luxembourg are forecasted to continue growing over the next few years. Furthermore, the country is expected to remain an international financial hub and seat of European institutions. This suggests that Luxembourg's hotel industry should face better conditions for growth than in the past.

France

Big deals underpinned the market

Macroeconomic Overview

While most of the Eurozone experienced some growth in H1 2014, the French economy remained flat due to a decline in exports, with reduced demand from outside Europe and a drop in energy expenditure due to a mild winter. Household purchasing power improved by a modest 0.6%; however, this was insufficient to drive consumer spending. The business climate generally remained stable, but still well below the long-term average.

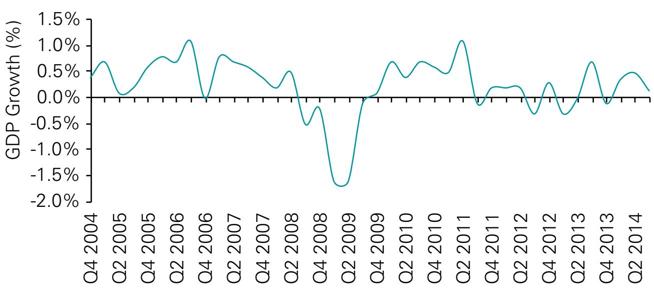
INSEE is forecasting a 0.7% increase in GDP for 2014. However, the construction sector remains fragile and is recording a decline for the third consecutive year (-2.6% forecast for 2014). Given the weak growth prospects and declining construction sector, there appears to be little prospect for improvement in job creation. With a growing active population, the unemployment rate is forecast to rise slightly to reach 10.2% at the end of the year.

In contrast, the French banking sector proved to be in relatively good health in H1 2014, with traditional lenders progressively returning to the market and increasing their financing of real estate if there is sufficient equity backing. This in turn ensured that there was a greater availability of financing for investors compared to 2013.

The cost of borrowing also fell to record low levels, despite gloom over the economic outlook and crisis over policy in France. The rate for French 10-year debt dropped to a record low of 1.15% and the Euribor 1 year rate bottomed at 0.35%, favouring attractive financial structures for deals.

This easier access to banking liquidity with attractive cost of debt conditions mostly benefited the low-risk asset classes / profile (notably through portfolio or very large asset deals) such as CBD office buildings or top-rated shopping centres.

GDP

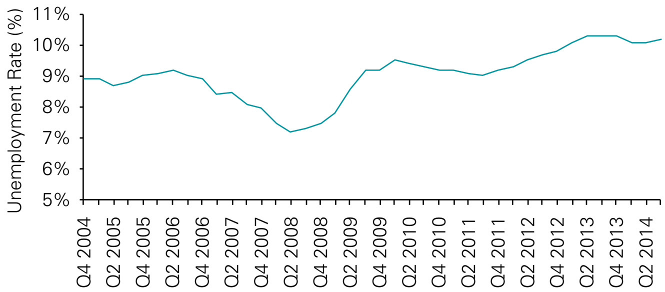


Source: INSEE

Inflation

Source: INSEE

Unemployment



Source: INSEE

Despite the weak economic climate, investment in the commercial real estate market reached the highest investment volume for a first half year since 2007. It amounted to €12.5bn during H1 2014, 39% higher than H1 2013. This growth is chiefly explained by the increase of high volume deals (> €500m), including the sale by Klépierre of the Carrefour portfolio of shopping malls in France to Carmila for around €2.0bn, the acquisition by Lone Star of Coeur Défense for €1bn and the sale of eight prime properties by Risanamento in the Paris CDB to the Saudi group Olayan, for €1.1bn. The outstanding performance in the first six months suggests that investment in commercial real estate in France could reach €20bn by the end of the year (+11.7% compared to 2013). The reasons of this performance are the high level of liquidity in the market, the profitability of the property market and the easy access to affordable financing.

Office property represents 53% of the total investment volume and increased by 49% between H1 2013 and H1 2014. The retail market recorded the best performance and is the second main asset class, accounting for 30% of investments in the first half of the year.
The Greater Paris region recorded 20 deals over €100m (representing more than 70% of total investment in France over the period).

Office Market

The French office market performed reasonably well over the first six months due to the contribution of large transactions. The office investment market recorded a total of €6.4bn invested in France (+14% compared to H1 2013). Foreign investors represent 54% of the total French office investment market by investing in the largest transactions and by focusing on the Paris CBD and La Défense district. Despite the return of international investors, French investors continue to play an important role in the market by investing in smaller deals.

The major office transactions were concentrated in Paris and the Greater Paris region. There have been three transactions greater than €500m signed in the Greater Paris region since the start of the year, a level not seen since 2006. These included the sale of the Risanamento portfolio for €1.1bn, the acquisition by Lonestar of the emblematic "Coeur Défense" for €1bn and the acquisition by Predica and Aviva of the SFR Campus in Saint Denis for €680m.

These very large transactions compensated for weaker investments in submarkets and mid price transactions (< €100m).

Prime Office Yields

		Q2 2014	Q1 2014	Q4 2013	FY 2013	10 Year High	10 Year Low
Paris	CBD	4.00%	4.25%	4.25%	4.25%	5.90%	3.80%
	Rive Gauche	5.00%	5.00%	5.00%	5.00%	6.50%	4.50%
	La Défense	6.00%	6.25%	6.25%	6.25%	6.75%	4.50%
Provincial	Lyon	5.75%	5.75%	6.00%	6.00%	7.25%	5.75%
	Other	6.25%	6.25%	6.25%	6.25%	8.00%	6.25%

Source: Cushman and Wakefield

In H1 2014, the total letting volume in France reached 1.1 million sq. m, an increase of around 24% Y-o-Y. In Q2 2014, take-up reached 562,000 sq. m. This performance must be considered within the context of weak growth and employment, generating a lack of confidence from companies.

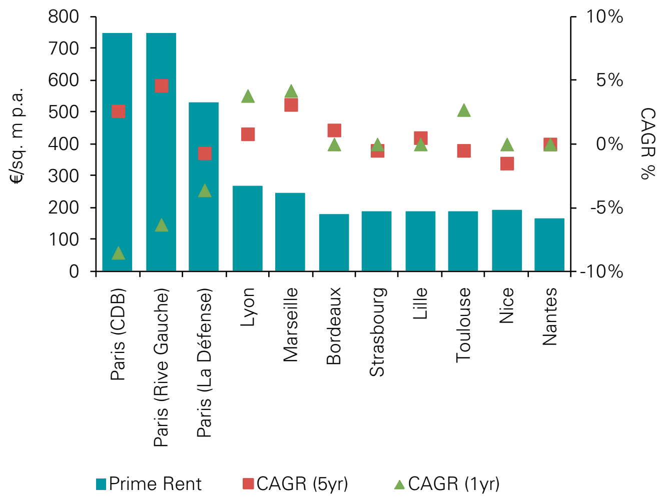
Growth was driven by large transactions in the Greater Paris region, executed by major companies which were particularly dynamic, with more than 30 transactions exceeding 5,000 sq. m, and a total of 500,000 sq. m representing 45% of take-up in the first half of the year. Three deals of over 30,000 sq. m were recorded in the Greater Paris region (in the Western Crescent) in Q2 2014. These included the lettings by KPMG of 40,000 sq. m in La Défense's Eqho tower (owned by Icade), by L'Oréal of 38,000 sq. m in EcoWest (owned by BNP Paribas Real Estate) in Levallois and by Solocal in City Lights (owned by BNP Paribas Real Estate) in Boulogne-Billancourt for 32,000 sq. m.

Medium-sized office premises (1,000 - 5,000 sq. m) also recorded a good performance with take-up of 304,200 sq. m in H1 2014 (+17% Y-o-Y).

Over the first six months, the immediate supply of office premises in the Greater Paris region remained stable at 4.0 million sq. m (803,000 sq. m in La Défense), with the overall vacancy rate standing at 7.5% in Q2 2014 (4.8% in Paris, 12% in La Défense and the Western Crescent).

The supply of existing space increased very slightly, while new supply has contracted, reflecting the low level of new buildings (only 650,000 sq. m of new and refurbished offices at the end of Q2 2014). New supply accounted for only 20% of the overall supply as of 1 July 2014, compared to 25% the year before.

Prime Office Rents



Source: Cushman and Wakefield, BNP Paribas Real Estate Research

The pipeline of new space in the Greater Paris region remains stable at 2.0 million sq. m, due to the slowdown in the launch of speculative developments. A number of new projects remain on hold awaiting a tenant before the start of construction in order to avoid a long vacancy period.

In the Greater Paris region, prime rents have stabilized since the decreases observed in 2012 and 2013, albeit subject to incentives being agreed between owners and tenants. The average prime rent in the Greater Paris region is €345 per sq. m per year.

In the Paris CBD, prime rents fell by 8.5% Y-o-Y to reach €734 per sq. m per annum in Q2 2014. La Défense recorded a lower decrease of 3.6% in one year, with the prime rent reaching €505 per sq. m per annum.

Retail Market

The volume of investments in retail property in the first half of 2014 amounted to €3.2bn (representing 30% of the commercial real estate investment market and an increase of 131% compared to the same period in 2013), with a historic record of €2.65bn in the second quarter. This recovery is chiefly explained by major transactions including the sale by Klépierre of a portfolio of 126 Carrefour shopping malls in France, Spain and Italy to Carmila for approximately €2.0bn; Gecina's sale of the Beaugrenelle shopping centre in the 15th arrondissement of Paris to a consortium of investors (Apsys, Madar, St James) for €700bn; and the sale by Risanamento of a mixed-use portfolio of eight buildings in Paris for €1.1bn to the Saudi group Olayan and Chesfield.

Investment during the first six months of 2014 was split almost equally between Paris and the regions. Among the different retail asset classes, shopping centres were the most popular representing 86% of retail investments during the first five months of 2014. Beaugrenelle was the main deal for the shopping centre asset class, but other important transactions took place such as the take-over of the Saint-Sébastien centre in Nancy by Hammerson from Axa Reim for €132m. In 2014, five important shopping centres are due to open in France, which will contribute to the current supply.

The general trend is a decrease in the prime retail yield across all main locations and all retail sub-sectors.

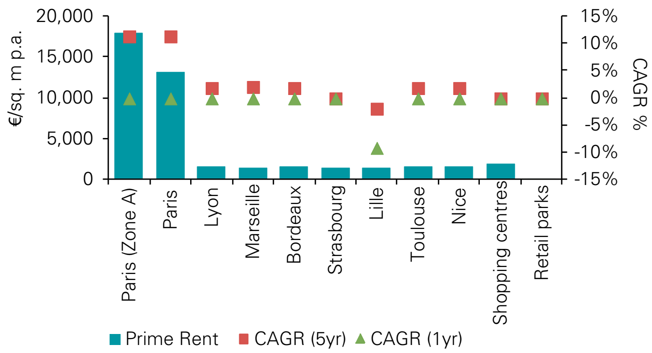
Prime Retail Yields

		Q2 2014	Q1 2014	Q4 2013	FY 2013	10 Year High	10 Year Low
High street Retail	Paris	3.50%	3.75%	3.75%	3.75%	6.00%	3.50%
	Lyon	4.75%	4.75%	5.00%	5.00%	6.50%	4.75%
	Marseille	5.00%	5.00%	5.25%	5.25%	6.50%	4.75%
	Bordeaux	5.00%	5.00%	5.25%	5.25%	6.75%	4.75%
	Strasbourg	5.00%	5.00%	5.00%	5.00%	6.50%	5.00%
	Lille	5.00%	5.00%	5.00%	5.00%	7.00%	4.75%
	Toulouse	5.00%	5.25%	5.50%	5.50%	6.75%	4.75%
	Nice	5.00%	5.50%	5.50%	5.50%	6.50%	4.50%
Shopping centres	Lyon	4.50%	4.75%	5.00%	5.00%	5.75%	4.00%
Retail parks	Other	6.00%	6.00%	6.25%	6.25%	7.25%	5.00%

Source: Cushman and Wakefield

High street stores and suburban assets represented 6% and 7% of investments, respectively; one of the biggest investments on the high street was the acquisition by Sofidy of a portfolio of eight assets including five high street stores for €29m.

Prime Retail Rents for High Street Shops



Source: Cushman and Wakefield

Strong disparities are still observed between the primary and secondary markets. Demand for prime locations remains strong, especially in the centre of large cities, and is due to the shortage of supply. Given the attractiveness of prime locations, rents continue to increase. Top rents on the Champs Elysées reached a new record at €20,000 per sq. m per annum (excl. VAT and charges, including the transfer of the leasehold rights).

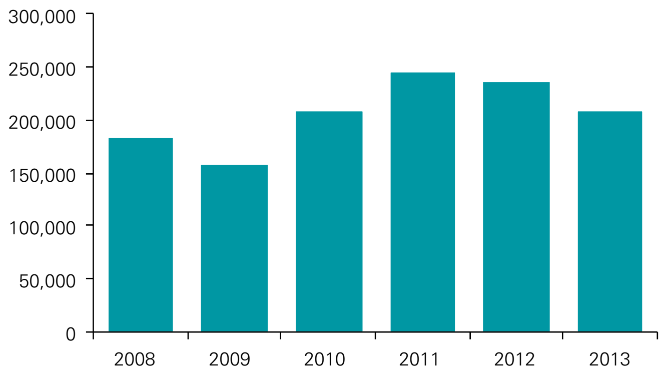
Rents in secondary locations were detrimentally affected by the high vacancy rates, low demand for those destinations and lack of supply for opportunities with the correct positioning for selective tenants.

Residential Market

By the end of March 2014, the number of sales of existing homes in France had reached 740,000 over the last 12 months, representing a 12% Y-o-Y increase and an increase of 2.9% compared to December 2013. In Q1 2014, prices of existing homes decreased by 1.7% Y-o-Y, -1.2% for apartments and -2.0% for houses, respectively.

In the Greater Paris region, the volume of sales of existing homes increased by 9% Y-o-Y compared to Q1 2013, benefiting both houses and apartments. However, the volume is far from the historic levels for this area. Conversely, the regional market recorded a strong increase in the volume of sales.

Building Permits for Apartments in France



Source: INSEE

Prices for existing homes fell by 1.2% for apartments and by 2.3% for homes Y-o-Y in the Greater Paris region. In regions, prices recorded a decline of 1.1% for apartments and 1.9% for houses on a Y-o-Y basis. There were still high disparities between regions in the first quarter, with price changes ranging from -5% to +5%. Of the 14 main provincial cities (cities with more than 200 sales per quarter), seven cities suffered from a fall in apartment prices (Saint-Etienne, Lille, Nice, Rennes, Grenoble, Nantes and Toulouse); five had steady prices (Dijon, Montpellier, Marseille, Toulon and Lyon); and two experienced rising prices (Strasbourg and Bordeaux).

During Q1 2014, sales in the new housing market decreased by 5% compared to Q1 2013. This decrease was moderate for collective housing (-1.7%), but important for the individual housing market (-30.8%).

To reduce the supply of new housing in this period of low sales, there has been a reduction of 31.5% in the number of units offered for sale in the market. The supply of houses on sale at the end of Q1 2014 decreased by 0.9% compared to the previous year, reaching 101,300 properties.

House Prices

	Houses Q1 2014 on Q4 2013	Houses Q1 2014 on Q1 2013	Flats Q1 2014 on Q4 2013	Flats Q1 2014 on Q1 2013
France	-0.2%	-2.0%	0.2%	-1.2%
Paris region	-0.9%	-2.3%	0.7%	-1.2%
Provincial	-0.1%	-1.9%	-0.2%	-1.1%

Source: Notaires de France and INSEE

According to the Banque de France, new housing loans increased by 2.8% between Q1 2013 and Q1 2014. The fall in effective interest rates observed is about to reach a historic low level.

The Hotel Investment Market

According to the recent French hotel industry's annual report for 2014 by KPMG, hotel investments in France were buoyant in 2013, amounting to almost €2.4bn. While down slightly (8.5%) Y-o-Y, 2013 still reported the third best performance of the decade, behind 2005 and 2012. Although the French market grew in terms of widely publicized luxury hotel assets, portfolio divestments by hotel operators accounted for the bulk of investments. Two noteworthy transactions were the acquisition of the Louvre Group's portfolio, including the emblematic Hôtel Martinez and Palais de la Méditerranée for €700m, and the sale of Club Med's portfolio for almost €300m. Although prices are high due to fierce competition, investors' interest in hotel assets remains strong, particularly for assets in Paris. Investment opportunities in the capital are still abundant, as reflected by the recent opening of Molitor Paris by MGallery and the Peninsula Paris, with many others in the pipeline such as Cheval Blanc.

Middle Eastern sovereign funds are increasingly active in the trophy asset segment, today outpacing American funds, which nevertheless remain focused and closely in tune with the market. A prime example is the Blackstone fund, which recently acquired the Concorde Opéra in Paris. Real estate investment funds, private equity funds and Real Estate Investment Trusts (REITs) such as Altaréa Cogedim, la Foncière des Murs and Icade, are also increasingly present in France. The appetite of these traditional investors for hotel assets with higher yields than office premises has led to the emergence of widely distributed investment products available to the public. Several of these newcomers have launched tailored investment products for individuals. By collecting savings, the new funds can set up hotel portfolios with target yields ranging from 4% to 10% per annum excluding tax, conditional on holding investments for at least six years. Initiatives such as these reflect the strength of the hotel investment market in France. Now, more than ever before, the hotel industry is withstanding the economic and financial crisis, and has solid growth prospects, underpinned by the expansion of international tourism.

Switzerland

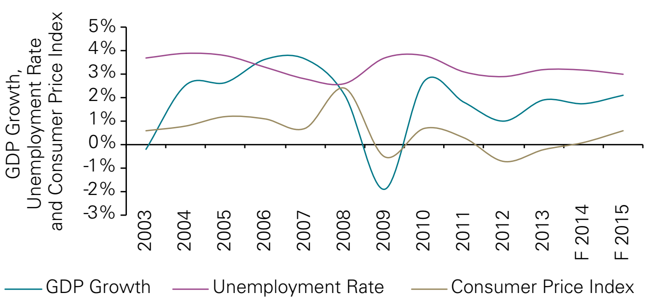
Real estate investment market loses momentum

Macroeconomic Overview

The economic prospects for Switzerland have deteriorated slightly over the past few months, but they remain healthy. Despite growth of 0.5% in the real GDP between Q4 2013 and Q1 2014, real GDP in the second quarter remained unchanged (0.0%). The trade balance in goods and services had a slightly negative effect on GDP growth; however private consumption delivered a little momentum. Zero contribution came from investment in construction and plant & equipment, with investment in construction lying in the negative range at -0.7%. Impediments to investment in construction which are gradually making themselves felt include a downturn in public civil engineering projects, limitations on second homes and greater planning uncertainty since the adoption of initiatives against mass immigration and the introduction of macroprudential meaures.

This deceleration in economic growth has led to a slight downward revision of economic forecasts. GDP consensus forecasts for 2014 and 2015[1] currently lie at 1.7% and 2.1%.

Macroeconomic Indicators



Source: BAKBasel, Credit Suisse, KOF, Seco, UBS
F: forecast

Office Market

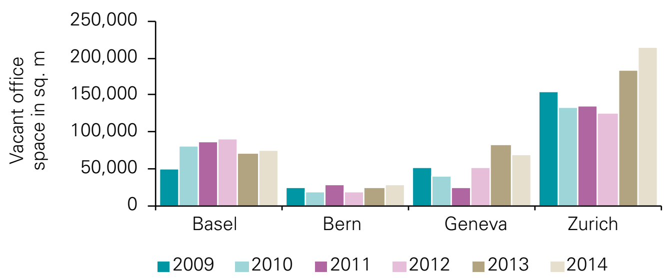
An imbalance has developed in the Swiss market, with an oversupply of premises. In previous years, low interest rates encouraged the completion of numerous new office projects. Relocations by major companies meant that this new space was absorbed well in the rental market.

The full impact of this office space expansion has not yet been seen, with only slight rises in the supply indices and higher vacancies. One reason for this is that a high proportion of new buildings have been constructed for the requirements of specific occupiers. Vacated premises are being revitalised or repositioned and are therefore not yet reflected in the supply statistics. The construction of some new developments is currently being postponed because they have not been sufficiently prelet.

This is impacting most on older existing space, vacated as a result of relocations. The imbalance between supply and demand has increased, particularly in this segment.

On the demand side, no major impetus is currently expected. An analysis of the development of traditional office branches shows that there was consistent annual growth of over 2% in typical office employment between Q2 2011 and Q3 2013. The situation has deteriorated slightly since then. In Q4 2013, employment increased by only 1.6% in the traditional office sectors, which points to stable but not growing demand.

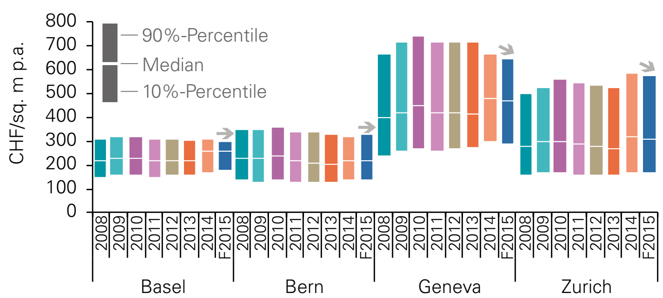
Development of vacant Office Space in the major Centres



Source: City Statistical, KPMG analysis

Statistically, the expansion in the availablility of space is not leading to a reduction in rents. On the contrary, asking rents continue to rise or are at least remaining stable. This apparent paradox can be explained by a detailed observation of the available space: the effect of the increased vacancy rates in city centres was that office space in prime locations was released onto the market at above market average rental prices reflecting their excellent locations. The increased willingness on the part of landlords to make concessions, which is expected in the current market climate, is not reflected in the observed asking rents.

Asking Rents for Office Premises in major Centres



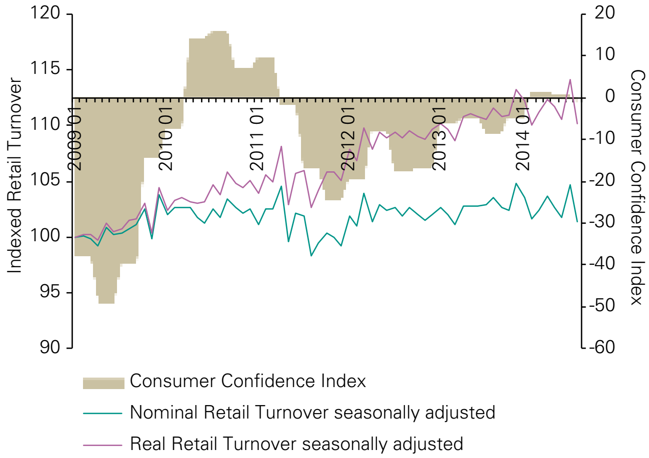
Source: KPMG analysis
F: forecast

[1] Consensus forecasts consider estimates by BAKBasel, Credit Suisse, KOF, Seco and UBS.

Retail Market

Retail experienced a difficult year in 2013, which saw price-driven positive nominal growth in sales in food retail and a weaker trend in the non-food segment. Overall, there was nominal growth of around 0.7% Y-o-Y. With the exception of 2008, the retail sector has reported a steady fall in prices over the past ten years, a trend which continued in 2013. Prices dropped by 1.3%, leading to a gap between nominal and real sales. The latter increased by 2.1% in 2013. Last year's price fall however was more moderate than in 2011 and 2012 (2.5% each).

Retail Sales and Consumer Sentiment



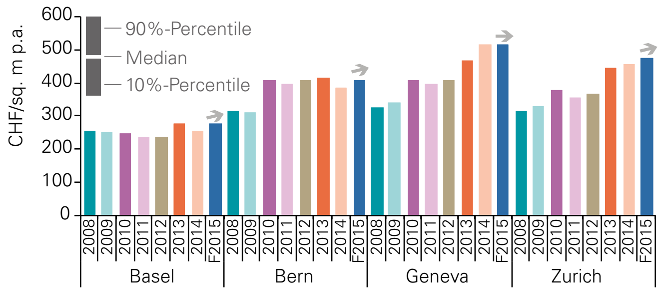
Source: BFS, Seco, KPMG analysis

These major challenges retail faces have encouraged investors to remain basically cautious. New-build activity has calmed significantly compared to previous years: whilst there was significant expansion of space between 2000 and 2009, with the exception of 2012 there has been a clear slowdown in the number of retail projects granted building consent since 2009.

Compared to last year, retail rents are expected to remain stable. However, there is a major difference between the qualities of individual locations. Small retail units in peripheral locations and secondary shopping centres and streets will probably continue to lose market share to online retail and more attractive retail formats. A reduction in rents and higher vacancy risks are expected.

In contrast, sales space in top locations remains in strong demand. These serve as flagship locations for major international fashion chains and luxury brands.

Asking Rents for Retail Space in the major Centres

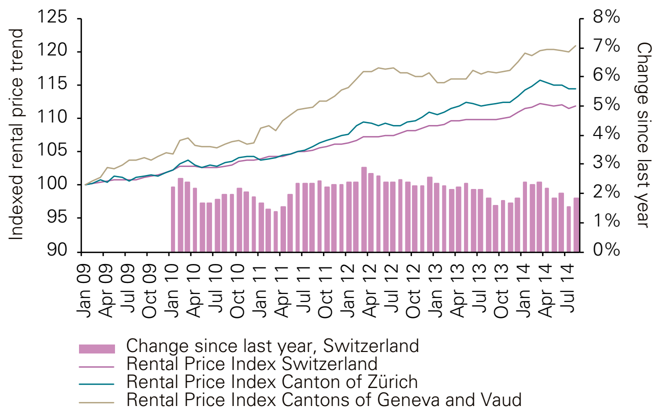


Source: KPMG analysis
F: forecast

Residential Market

According to Homegate.ch and ZKB[2], quality-adjusted asking prices for rental apartments in August 2014 increased by 1.8% in Switzerland compared to 2013. The highest price increases were registered in the cantons of Vaud and Geneva[3] (3.2%) and in the canton of Lucerne (2.7%). The cantons of Thurgau and Ticino registered slight rental falls of 0.7% and 0.8% on the contrary. A survey of rental apartment asking prices by Wüest & Partner confirms a moderate rise in rents. Y-o-Y, a 2.7% rise in rents was recorded in the second quarter of 2014.

Quality-adjusted Rental Price Index



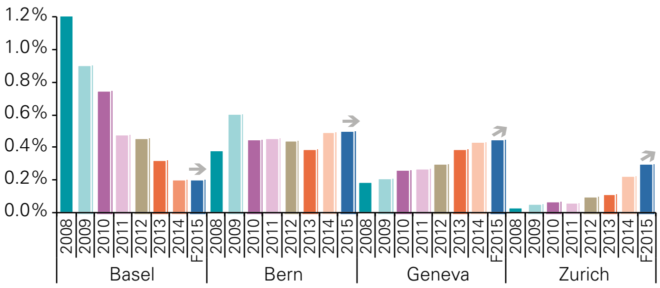
Source: Homegate.ch, ZKB, KPMG analysis

Active construction activity is expected to continue in the multiple family housing segment over the coming year. A similar high level of construction activity is also expected in 2015. Nonetheless, according to an analysis by Credit Suisse, the volume of building permits granted would suggest a slowdown in growth in housing construction. In Q2 2014, the number of building consents for apartments in Switzerland was around 10% lower Y-o-Y.

[2] The index measures the monthly, quality-adjusted change in rents for new and existing apartments.
[3] Rental price trends in the cantons of Vaud and Genena are shown in a shared sub-index.

Until now, new-build apartments were easily absorbed by the sustained migration-driven population growth. Despite sustained high construction activity, the vacancy rate the whole of Switzerland has risen only slightly from 0.96% to 1.08% over the past 12 months.

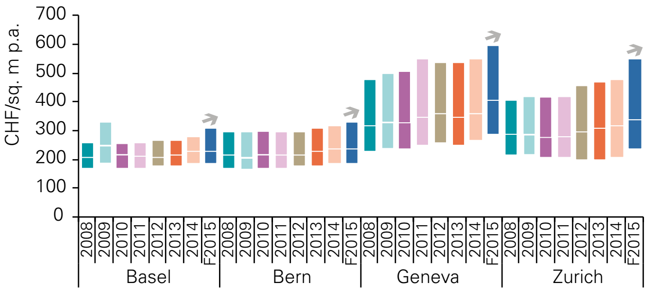
Vacancy rate in the major Centres



Source: BFS, KPMG analysis
F: forecast

Due to the current scarcity of residential offerings and sustained strong demand, we anticipate a slight rise in the median asking rent in the major centres over the short to medium-term. For peripheral locations, rents are expected to stagnate in the short-term, and could even decrease fall over the medium-term.

Asking Rents for residential Space in the major Centres



Source: KPMG analysis
F: forecast

The Hotel Investment Market

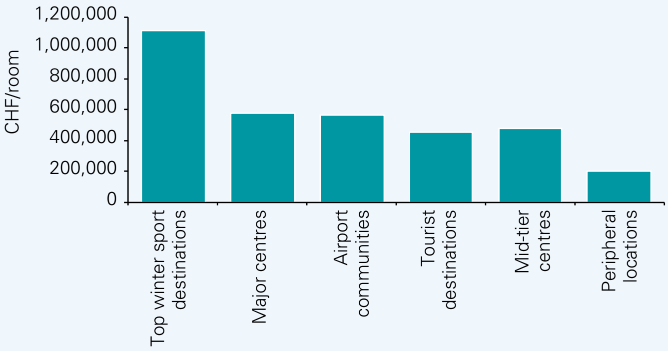
As a result of the increasing scarcity of suitable investment properties and the current caution of investors in the office space segment, a growing number of investors are eyeing special-use properties such as logistics real estate, student residences or retirement homes, data centres, car parks, hospital real estate, production plants and also hotels. However, such properties require specific expertise and are considered higher-risk investments due to their limited alternative use which, in the ideal case, is compensated for by a higher return.

In addition to domestic investors, international investors are also active in the Swiss hotel market. The reasons for this are partly economic due to international real estate diversification, volatile financial markets, the low cost of borrowing, as well as the expected hedge against inflation by investing in real estate and the long-term investment horizon. Also, Switzerland's reputation plays a role: the country is still regarded as a safe haven and enjoys international renown as a tourist destination with numerous world-famous holiday resorts.

An analysis of Swiss hotel transactions since 2002 shows that the major centres and top tourist destinations attract the highest share of hotel investments.

The highest transaction prices per room are paid in the top winter sport destinations such as St. Moritz and Zermatt. The average transaction price per room in these locations is CHF 1.1 million. Hotels in the major centres follow in second place, reporting average transaction prices of CHF 0.6 million per room.

Transaction Prices per Room by Location



Source: Real Capital Analytics and KMPG Real Estate Research

Much lower transaction prices are recorded in secondary quality locations. A high number of three to four star hotels are for sale in such locations throughout Switzerland; however, their smaller sizes mean that they are often too small to be operated at a profit. Often, such properties also require substantial renovation, which scares away investors. Given this situation, further consolidation can be expected in the Swiss hotel market. In the period between 1992 and 2013, the number of hotels decreasd by around 20%. At the same time, the size of of the individual operations increased by 26%.

Austria

Robust market conditions

Macroeconomic Overview

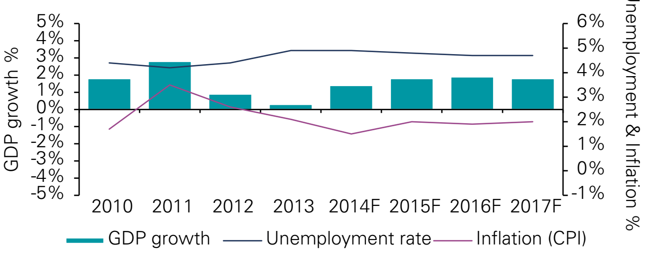
The Austrian economy is still in remarkable condition, despite recording only moderate growth in recent years. In principal, the economic outlook for Austria is more favourable and stronger growth appears most likely. This optimism is driven by recovering economies in the Eurozone, and the rise in demand from key markets (e.g. Germany) is strengthening foreign trade and exports. The result is a forecast GDP growth of 1.8% in 2015 and 1.9% in 2016, compared to 1.4% in 2014.

Nevertheless, economic conditions in the Eurozone remain susceptible to events in the Ukraine and the potential imposition of further sanctions against Russia.

Inflationary pressure on real wages is still a major factor; however, households' propensity to spend appears to have improved slightly and private consumption is expected to increase by 1% following a period of stagnation.

Conversely, unemployment rates have not improved but instead, have stabilised at 4.9% due to current conditions in the labour market. Although the Austrian economy appears to have recovered, conditions may still be too weak to impact significantly on unemployment figures in the short or medium-term. Expectations are therefore for a very slight improvement in the unemployment rate.

Macroeconomic Overview



Source: Economist Intelligence Unit
F: forecast

After years of zero inflation, inflation (CPI) is expected to reach a level of around 1.5% in 2014, which is higher than previously expected. In contrast to previous expectations, current forecasts expect the inflation rate to rise again in the next two years, reaching a level of 1.9% – 2.0%.

International real estate investors traditionally focus their attention on Vienna, and our report is therefore concentrated on Vienna, rather than the smaller provincial capitals.

Office Market

There was a general slowdown in the office market in Q2 2014. Demand for office premises has not yet responded to the more positive economic outlook, and the number of office lettings in Vienna has decreased, reaching its lowest level for the past few years. Despite this slowdown, there is still demand for centrally located, quality office space, with consolidations fuelling a substantial part of letting activity. Increasingly, tenants are reconsidering their decisions to relocate due to the continued scarcity of available prime office premises, especially in the central office districts.

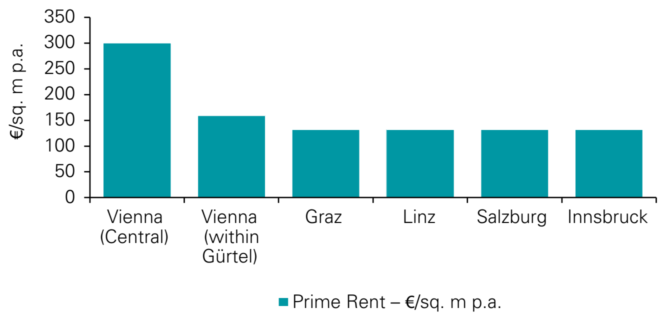
As a result, office premises in less attractive and peripheral locations are struggling to attract occupiers. This is fuelling a trend of conversions of office premises to alternative uses (such as housing) in non-core office locations, which is helping to absorb the surplus supply of office space.

At present, the development pipeline is small and there has been only a marginal increase in supply. As a result, the average vacancy rate has fallen slightly to 6.6%. Little change in vacancy is expected over the coming year, as supply remains low and completions of major new developments are not expected before 2015.

Prime rents increased slightly to approximately €25.50 per sq. m / month. In view of the current conditions in the market, they are expected to rise further to €25.75 per sq. m / month by year-end 2014. Average office rents have stabilised at approximately €14.75 per sq. m / month.

Prime rents in the main cities (Linz, Salzburg, Innsbruck and Graz) have also remained stable, ranging from €11.00 to €15.00 per sq. m / month.

Prime Office Rents – June 2014



Source: Cushman and Wakefield

It is unlikely that the tight supply conditions will change in the short-term, and therefore rental growth is likely.

The investment market has seen rising interest and the return of foreign investors. It is anticipated that international investor interest will strengthen further; however, due to the lack of attractive investment opportunities, market activity is still subdued and unlikely to change significantly, at least in the short-term.

Austria

Prime office yields have remained stable at 5.0% since spring 2014, but may come under pressure. Yields for good and average quality office locations also remained stable at 6.0-6.5%.

As there have been very few transactions in the provincial capitals, it is only possible to roughly estimate prime yields. These are expected to range from 5.75% to 6.5% and have therefore remained more or less stable, with only a slight downward shift from their previous level.

Prime Office Yields (Gross) – June 2014

	Current Quarter	Last Year
Vienna (Central)	4.8%	4.9%
Vienna (within Gürtel)	5.9%	6.0%
Graz	7.1%	7.3%
Linz	7.1%	7.3%
Salzburg	6.9%	7.0%
Innsbruck	6.9%	7.0%

Source: Cushman and Wakefield

Retail Market

With around 1.80 sq. m of retail space per capita, Austria has a high supply of retail space compared to other European countries. One of its major future challenges, aside from strengthening competition, will be the rise in online retail sales.

There has not been significant investment activity in the retail market since spring 2014. The main reason for this is the gap between demand and supply of premium retail product.

Vacancy in the commercial real estate sector is unchanged, and relatively low; the continuing focus is on the revitalisation and refurbishment of existing retail properties.

High Street: this segment is still popular and benefits from strong demand for retail premises in prime locations in Vienna (Kohlmarkt / Graben / Kärntnerstrasse), Linz (Landstrasse) and Salzburg (Getreidegasse / Alter Markt / Kranzlmarkt). Conversely, there have been no significant changes in the retail markets in the provincial capitals.

Prime rents in top locations in Vienna (Kohlmarkt / Graben) have remained stable at a level of approximately €390.00 per sq. m / month, with a slight upward tendency due to the limited availability of quality space in these prime pitches. The potential of moderate rental uplift is only expected in prime locations. In secondary and peripheral locations, rental levels will come under pressure as a result of the rise in vacancy rates.

Prime rents in top locations in larger provincial capitals such as Linz, Salzburg, Innsbruck and Graz, with strong performances have remained steady at between €70.00 and €150.00 per sq. m / month.

Prime Retail Rents – July 2014

		€/sq. m p.m.		€/sq. m p.m.
Vienna	from	160	to	390
Linz	from	70	to	130
Salzburg	from	90	to	130
Innsbruck	from	80	to	150
Graz	from	70	to	100

Source: KPMG analysis, Colliers, Cushman and Wakefield

Prime yields for High Street retail in general remained unchanged at between 4.2% and 4.5%, with only slight compression to approximately 4.0% in prime locations in Vienna. Prime yields in provincial capitals are stable, ranging between 5.0% and 5.25%.

Shopping centres: despite the steady demand for retail units in shopping centres, supply is outstripping demand, which is intensifying competition between shopping centres. Outdated shopping centres in secondary and peripheral locations in particular will find it increasingly difficult to remain competitive in this saturated market. As a result, renovations, redevelopments and extensions of existing and prime centres have been completed (e.g. Shopping City Süd) or are in progress (e.g. Plus City Linz, Fischapark, Auhof Centre, and Donauzentrum).

Moreover, there are now very few developments of new facilities underway and new construction is focused on carefully selected locations. Examples here include the City Gate in Vienna and the Weberzeile shopping centre in Ried/ Upper Austria, which are due to open in 2015.

Only a slight increase in prime rents has been observed since 2013. Prime rents of up to €110.00 per sq. m / month are achievable for shopping centres, and are expected to stabilise at this level.

In general, prime yields have remained stable at 5.5% and this is expected to continue. Lower yields of around 5.3% are only observed in top locations in the capital.

Retail parks: the market is now saturated due to the opening of multiple retail parks in recent years and this has slowed down new construction in this segment. Locations on the fringes of the main cities, where rental levels have stabilised, remain popular. As a result, retail parks continue to perform well and attract investors' interest.

Prime retail parks can achieve rents of up to €14.00 per sq. m / month and a prime yield of between 6.25% and 6.5%; this situation is expected to remain stable.

Retail Park Rents – July 2014				
		€/sq. m p.m.		€/sq. m p.m.
Vienna	from	11.0	to	14.0
Other Areas	from	9.5	to	11.0

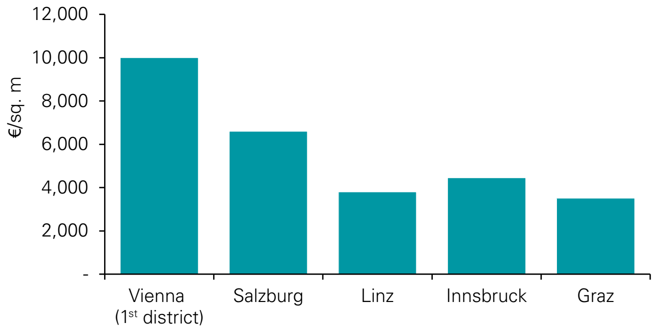
Source: KPMG analysis, Colliers, Cushman and Wakefield

Residential Market

Residential properties continue to enjoy investor interest. House prices and rents have stabilised and appear to exceed affordable levels.

Due to a shortfall in the supply of affordable housing in previous years, sustained demand for residential space over the next few years is expected to encourage further development activity and the renovation of existing residential properties.

Average Sales Prices Flats – 2014



Source: KPMG analysis, WKÖ

Average sale prices in Vienna's 1st District have stagnated and decreased to €9,700 per sq. m for new or extensively renovated residential units. High sale prices can only be achieved in the luxury segment at present.

The Hotel Investment Market

The hotel market in Austria is concentrated on renowned centres of tourism such as Vienna, Salzburg and Innsbruck, as well as Alpine resorts including Kitzbühl and St. Anton. In recent years, the hotel market has been driven by systematic expansions by private hotel operators (e.g. Motel One, 25 Hours and Wombats) and family-run businesses.

Compared to other international real estate markets, investment activity in the Austrian hotel market is weak and lags behind international levels in terms of the number and volume of transactions taking place.

The main focus of investors searching for investment opportunities continues to be Vienna. However, in addition to Vienna, the importance of provincial capitals such as Linz and Salzburg as investment locations is increasing.

Hotel Transaction – H1 2014

Hotel	Province	No. of rooms	Vendor
Mercure Hotel Wien	Vienna	252	E&P Real Estate GmbH & Co KG
Artis Hotel Wien	Vienna	165	Tose private foundation
Robinson Club Schlanitzen	Carinthia	169	Robinson (TUI subsidiary)
Austria Trend Hotel Salzburg	Salzburg	97	AXA Immoselect (Fund)
Schlosshotel Waidhofen	Lower Austria	92	S+B Group
Artis Hotel Schloss Krumbach	Lower Austria	65	Tose private foundation

Source: KPMG analysis, Christie+Co

A transaction volume of €70m was recorded in H1 2014 in Austria; this is much lower than in previous years. One main reason for this is that no major hotel portfolio transactions have taken place so far this year; this contrasts with previous years, in which portfolio deals (e.g. UNIQA) and large-scale single asset sales (e.g. Hilton Vienna Danube, and Motel One Wien Hauptbahnhof) dominated market activity.

According to STR Global, the following key performance indicators were observed in the hotel market in Vienna in 2013:

- Occupancy rate of 70.8%
- ADR of €94.81
- RevPAR of €67.15

Italy

Economy still fragile, but outlook optimistic

Macroeconomic Overview

Over recent months, the Italian market appears to have begun to emerge from the deep depression that has characterised its economy over the past few years, although the country's recovery remains fragile.

The first green shoots of recovery are confirmed by the updated GDP estimates for 2014. After a contraction of 1.8% at the end of 2013, slight growth of 0.6% is forecast by the end of 2014, triggering stronger growth (approximately +1.0%) from 2015.

Despite the high unemployment rate in Q1 2014 (12.7%), other data suggests that gradual recovery may be under way in the labour market. Although the GDP contracted by 0.1% Q-o-Q between January and March, the Italian industry reported a slight rise in employment for the second consecutive quarter in the same period.

Household spending grew by 0.1% in Q1 2014 to record its first quarter of growth since Q4 2010. Manufacturing PMI (purchasing manager's index) reached 52.6 in June: it is worth noting that the index has also exceeded the 50 point mark in the current quarter, a level which normally separates expansion from contraction in manufacturing.

Macroeconomic Overview

Source: International Monetary Fund, April 2014
F: forecast

The yield spread between the Italian government bond and the German government bond has continued to narrow since the final months of 2013, reaching 155 bps by the end of August. This demonstrates the unwavering optimism of investors for the future of the country.

Yield Spread Italian Government Bond / German Government Bond

Source: Market data provider

Supported by slight growth impetus, the investment volume reached approximately €1.6bn by the end of the first half of 2014. Although this is 20% lower Y-o-Y, activity has resumed over the past quarters and is returning to the most recent quarterly average: approximately €910m was invested in Q2 2014, which corresponds to a 26% increase Q-o-Q.

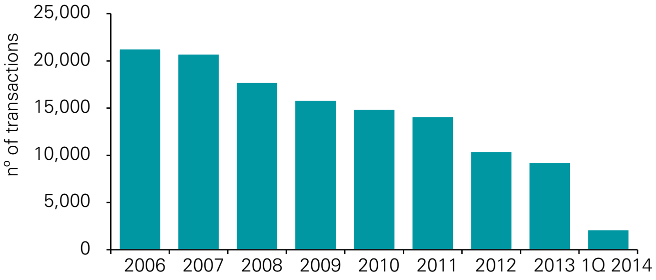
A significant uplift in investment activity is anticipated for the second half of the year, with the volume expected to exceed €2bn; this could push the total investment volume above the €5bn threshold.

Office Market

The office market continues to suffer from the negative macroeconomic conditions in 2014. In Q1 2014, the number of transaction volume reached 2,134 and, unless there is an unexpected trend reversal, the 2014 volume could be 8% lower than the 2013 result.

However, the small number of registered transactions conceals a high level of enquiries from investors looking for suitable investment products.

Number of Office Transactions



Source: Agenzia del Territorio

Milan: Furthermore, although the Milan market showed positive sentiment in the first quarter, there were just six deals recorded in the second quarter of the year, with a volume of €158m.

The two most significant deals were the acquisitions by Hines (asset manager) of the Light Building and the U10 building in Milanofiori by AXA REIM, each at a price of €45m. A major deal was also signed for an office close to Duomo Square (€110m).

On the development side, the Porta Nuova district continues to register new leases, benefitting from the increasing business activity in the area. One of the most notable developments recorded during the quarter was the 33,000 sq. m Energy Park in Vimercate, which is already pre-let to Alcatel.

Prime yields remained stable in the second quarter, ranging between 5.75% in the CBD and 7.4% on the periphery of the city.

Secondary assets are still struggling to find buyers, as they are still considered too high risk. Similar to yields, prime rents remained stable at around €490 per sq. m per annum, although above-average rental prices have been recorded in the new Porta Nuova district.

Office Market Highlights – Milan

	Q2 2014	Q1 2014	Q2 2013	2013
Investments (€m)	158	267	617	1,354
Office investment share	93%	54%	33%	59%
Take-up (sq. m)	93,000	54,000	60,000	232,000
Prime rents (€/sq. m p.a.)	490	490	500	490
Prime yields	5.75%	5.75%	5.60%	5.75%
Vacancy rate	12.7%	12.3%	12.1%	12.3%

Source: BNP Paribas Real Estate Research

Rome: The level of attention paid by international investors to Rome remains high, while Italian investors continue to adopt a wait-and-see attitude.

No notable transactions were recorded in the office sector in the first six months of the year; the largest deal in Q1 was the letting of approximately 6,000 sq. m by the consulting firm Accenture in the EUR district.

The low level of corporate activity and the economic crisis continue to reduce the number of offices occupied, and the increasing supply of office space is putting downward pressure on rents. With occupier demand driven by the desire to reduce overall real estate costs, landlords are under immense pressure to agree lower rents and to offer significant discounts compared to initial expectations. Prime rents in the city centre remain stable at €400 per sq. m per annum.

Yields are rising for all product types (from 6.25% for the CBD to 7.8% in the periphery).

Office Market Highlights – Rome

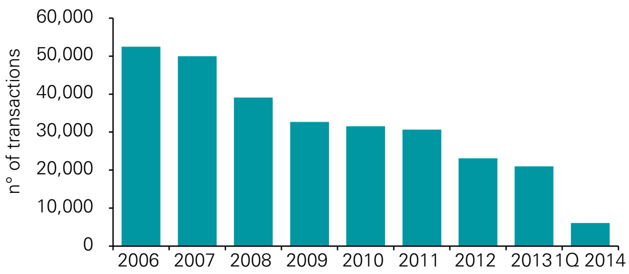
	Q2 2014	Q1 2014	Q2 2013	2013
Investments (€m)	–	39	270	1,079
Office investment share	0%	0%	98%	52%
Take-up (sq. m)	11,100	21,900	64,600	159,300
Prime rents (€/sq. m p.a.)	400	400	400	400
Prime yields	6.25%	6.25%	6.10%	6.25%
Vacancy rate	8.5%	8.4%	7.1%	7.6%

Source: BNP Paribas Real Estate Research

Retail Market

As is tradition in the Italian market, the retail sector continued to drive real estate investments. There were 6,240 transactions in Q1 2014.

Number of Retail Transactions



Source: Agenzia del Territorio

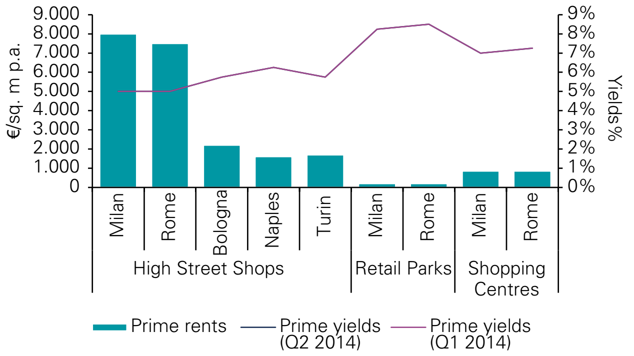
The volume invested in Q2 2014 (€645m) was twice that reported for the previous quarter. It was driven by two portfolio acquisitions representing 60% of quarterly volume: the acquisition of a Pan-European portfolio of retail galleries (Klepierre) by a consortium led by Carrefour; and the acquisitions by Blackstone of two shopping centres and a factory outlet, from the funds Degi Global Business and Degi International (managed by Aberdeen), respectively.

Investors such as PIMCO and Blackstone were amongst the most active. The current year-end forecast for 2014 is for a transaction volume of €1.2bn – 1.3bn in the retail market.

One example of a single asset retail deal concluded is the Fiumara Genova shopping centre deal (the largest of the transactions) for around €150m by two international institutional investors (Allianz and ING Insurance).

Overall, prime yields have remained stable over the past quarter.

Prime Retail Rents and Yields – June 2014

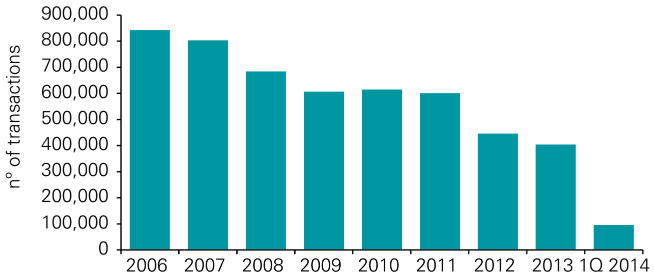


Source: Cushman and Wakefield

Residential Market

There was a rise in the volume of transactions during Q1 2014 compared to the same period in 2013, with the number of sales reaching 98,403 (+4.1% compared to Q1 2013).

Number of Residential Transactions



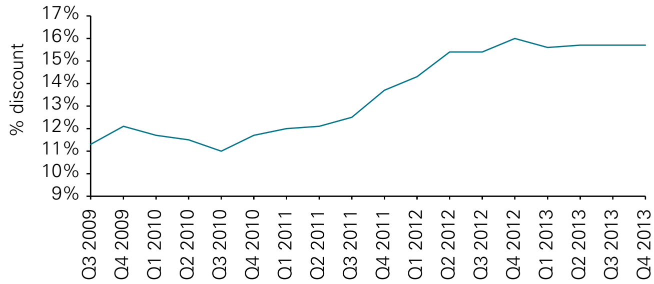
Source: Agenzia del Territorio

This positive trend is backed by the recovery in the real estate mortgage market: there was a 10.3% rise in demand for new mortgages during the first six months of 2014 compared to the same period in 2013. However, this has been accompanied by a reduction in the average mortgage to approximately €126,000.

After reporting sharp falls in 2012 (-49.6% compared to 2011) and 2013 (-13.1% compared to 2012), recent data appears to be indicating early recovery, including in the supply of mortgages during Q1 2014 (+5.3% Y-o-Y).

The average discount offered on the initial asking price to purchasers remains stable at 15.7%

Average Discount to initial Price proposed by Sellers



Source: Bank of Italy, Tecnoborsa, Agenzia del Territorio

The Hotel Investment Market

In Italy, Rome and Milan are two of the most important tourist destinations. Rome is Italy's largest city, benefiting from an unparalleled archaeological, cultural, artistic and historical heritage; Milan is the country's business and financial centre, and the preferred headquarters for many national and international fashion / design group and fairs. As such, EXPO 2015 will be a major opportunity to promote Milan as a "must-see" destination and to boost tourism throughout the country.

There are 946 hotels in Rome (approximately 47,900 rooms) and 446 in Milan (approximately 25,800 rooms). In both cities, the hotel stock comprises mainly four-star hotels, which account for approximately 52% and 54% of total available hotels respectively.

Hotel Supply in Rome and Milan

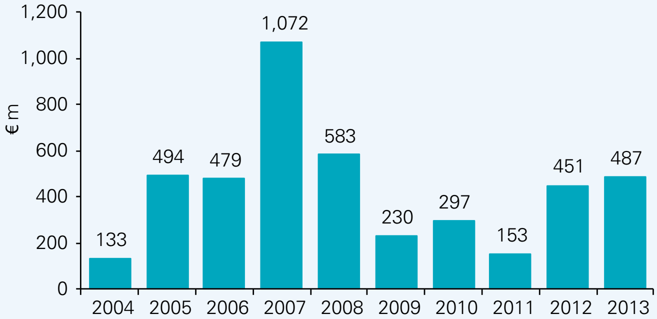
	Rome		Milan	
Grade	**Rooms**	**% total**	**Rooms**	**% total**
5-star	3,903	8%	2,060	8%
4-star	25,128	52%	13,904	54%
3-star	13,293	28%	5,665	22%
Other	5,582	12%	4,120	16%
Total	47,906	100%	25,749	100%

Source: Ente Bilaterale Turismo del Lazio, ISTAT, Comune di Milano

Rome continues to be a highly attractive city for hotel operators seeking flagship properties in Italy. However, hotel development in the city is expected to remain moderate, with approximately 1,500 rooms in the pipeline for 2014.

Historically, Italy accounts for around 6% of the total hotel transaction volume in EMEA. In 2013, the total hotel transaction volume in Italy was €487m.

Italy – Hotel Transaction Volume 2004 – 2013



Source: JLL

Data suggests that hotels in primary destinations remain an interesting investment for international investors, despite the fact that the downturn is not yet over. In June, Katara Hospitality, a major hospitality operator based in Qatar, completed the acquisition of five hotels in Europe (including the Intercontinental De La Ville, one of the most exclusive five star hotels in Rome). In August, ARTIC Holding (a company also based in Qatar) acquired the Aleph Hotel in Rome, previously owned by the Boscolo Group.
The main transactions completed during the last two years are summarised in the table below:

Main Hotel Transactions in Italy

Property	Location	Date	Price (€m)	Price per key (€)	Estimated investment yield
Hotel Aleph	Rome	2014	40	417,000	n.a.
Intercontinental De La Ville	Rome	2014	n.a.	n.a.	n.a.
Club Med Pragelato	Turin	2014	50	214,000	n.a.
Boscolo Palace	Rome	2014	65.5	753,000	4.2%
Hotel Eden	Rome	2013	105	868,000	1.9%
San Clemente Palace	Venice	2013	85	425,000	n.a.
Four Seasons Florence	Florence	2013	140	1,207,000	4.4%
Regina Baglioni	Rome	2012	n.a.	n.a.	n.a.
Hotel Project Via Veneto	Rome	2012	100	1,000,000	n.a.
Starwood Costa Smeralda	Sardinia	2012	580	1,559,000	5.5%

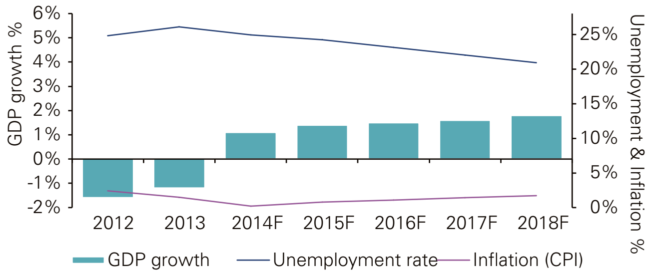
Source: BNP Paribas Real Estate Research

At a stage of recovery

Macroeconomic Overview

GDP: a recovery of the GDP is expected
Inflation: no inflation in 2014, with only a marginal increase expected in 2015
Employment: gradual improvement is expected
Growth in exports, leading to increased domestic demand, is the driver for GDP in 2014. The economy witnessed a fall in the unemployment rate to 25.9% in Q1 2014, from 26.9% in Q1 2013. Consumer spending is regarded as a driver for growth, while the disposable income of households is rising in response to lower inflation and unemployment. Strong expansion in fixed investment is forecast, given the strong growth in industrial production from -1.6% in 2013 to 2% in 2014 (forecasted figure).

Macroeconomic Overview (annual % change)



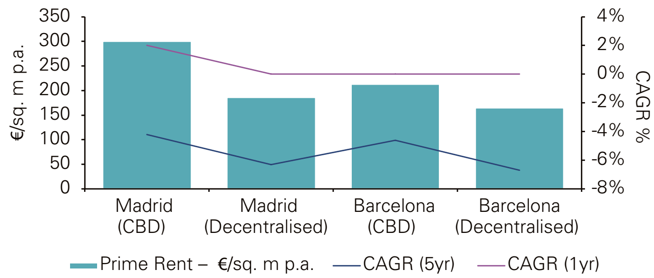
Source: Economist Intelligent Unit

Office Market

The Spanish office market remained stable in the second quarter of the year, with prime rents remaining unchanged across all submarkets. Spain's rental market showed signs of recovery and an increase in activity in the market observed, with many investors looking for suitable investment opportunities for their capital. This in turn put intense downward pressure on prime yields. On the supply side, no significant change in volume is expected due to limited speculative construction; supply levels are expected to hold steady, while demand is expected to gradually increase due to improving economic conditions.

Competition for core assets strengthened further, putting pressure on purchasers to expand their investment focus to include secondary locations.

Prime Office Rents – June 2014

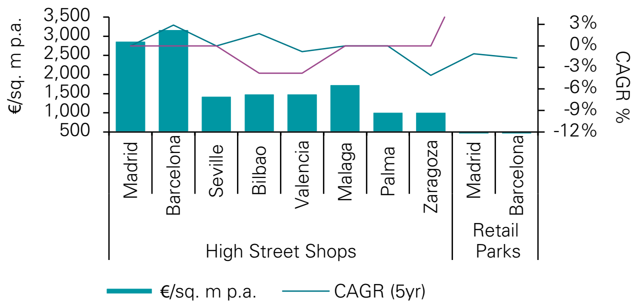


Source: Cushman and Wakefield

Retail Market

Retail sales saw modest growth, with a rise in sales of 1.1% in April, followed by 1% in May, Y-o-Y. There was an obvious strengthening of occupier demand for high street space in Q2, particularly from fashion and restaurant operators, with a specific focus on luxury premises in the streets of Madrid and Barcelona. In the investment market, increased demand for Spanish assets has continued to increase trading, putting further downward pressure on yields. Retail assets worth a total of €713m were traded in Q2. The strengthening demand for prime high street properties could lead to rent rises.

Prime Retail Rents – June 2014

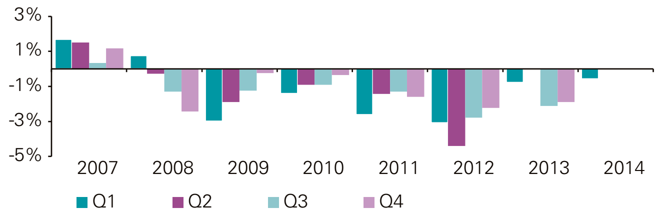


Source: Cushman and Wakefield

Residential Market

House prices are expected to stabilize, driven by improved economic conditions and the presence of international investors. House prices fell by 3% during the first six months of 2014, based on TINSA figures. In the capital and other major cities, house prices fell by 4% and in metropolitan areas by 3%. On the Mediterranean Coast, the fall in house prices was 7.1% and in other municipalities, a meagre 0.1%. Foreign demand of 40% was focused on the Balearic Islands.

House Price % change



Source: Banco de España

Further recovery in the region may be jeopardised by the ongoing geopolitical crisis

Macroeconomic Overview

Most countries within the Central and Eastern European region experienced growth in H1 2014, but the pace of the growth is forecast to slow down in the second half of the year.

Inflation has declined dramatically in 2014 across the CEE countries due mainly to external factors, i.e. lower food and energy prices. To counter the disinflationary trends, the European Central Bank announced a series of rate cuts in June 2014, relaxing monetary policy and prompting inflation to return to a healthy level. Similar monetary easing policies are likely to be adopted by some non-Eurozone countries, including Hungary and Poland. As the Central Bank's interest rate is already at a very low level in the Czech Republic, the Central Bank is expected to continue the currency devaluation until the third quarter of 2015 in order to increase inflation.

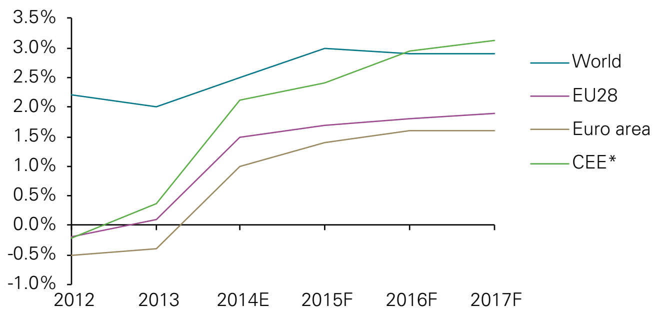
In addition, the deterioration in the relationship between the EU and Russia will have an adverse effect on the Eurozone recovery, making it less robust than expected. As a consequence, the outlook for the CEE region may also be less positive. GDP growth in the EU stagnated in Q2 2014 and is not projected to rise before 2015.

Hungary's GPD growth was the highest in the EU in H1 2014 at 3.5%, mainly attributed to automotive industry sales. Nevertheless, it is expected that the slowdown in the Eurozone and impact of the geopolitical crisis in the region will moderate growth in the second half of the year in all CEE markets.

As in previous years, economic growth in these countries is spread over quite a broad range.

The best performers in 2014 are expected to be Romania, Poland and the Baltic states, with 3.3%, 3.1% and 3.1% GDP growth respectively, followed by Hungary and the Czech Republic, which are projected to grow by 2.6% and 2.5% respectively. The weaker performers are expected to be Serbia, Croatia and Slovenia, with growth rates of -0.5%, -0.4% and 0.2%. In the case of Slovenia, the country is expected to finally exit its protracted recession period in 2014.

GDP Growth, Global Outlook



* = Czech Republic, Hungary, Poland, Slovakia, Slovenia
Source: Economist Intelligence Unit, August 2014
E: estimate
F: forecast

According to the Economist Intelligence Unit, the EU's compound GDP growth rate should average 1.7% over the next three years. GDP growth in the CEE region is expected to outperform the EU's forecasts and average 3.3% from 2015 to 2017.

Office Market

After a strong year in 2013 in the office sector, the first half of 2014 also experienced further recovery; however, the scale of improvement varied across the region.

Markets with the most development in the pipeline in terms of existing stock proportions are Prague and Warsaw.

Prime rents were generally stable in Q2 2014 with some markets now moving to the downward curve of the cycle due to an oversupply of newly completed space, which is outweighing current demand. The highest rental prices for prime CBD properties can be found in Warsaw (€22.00 – 24.00/sq. m per month), Budapest and Prague (€18.50 – 20.00/sq. m per month), while renting is less expensive in Bratislava, Sofia, Zagreb and Belgrade (at €13.00 – 16.00/sq. m per month).

There were some increases in vacancy rates in key CEE markets – namely in Prague and Warsaw. This rise was caused mainly by the higher volume of completed office space in this quarter. Vacancy levels remained stagnant in Bratislava (14%), Bucharest (15%), Zagreb (20%) and Sofia (25%). Decreasing tendency was apparent in Budapest (18%) and in Belgrade (8%).

Most of the countries in the region offer a broad choice of high-quality office space for tenants, often at favourable rental conditions.

There is intense development activity in **Warsaw**, with 190,000 sq. m of new office space handed over during the first half of the year. Currently, 580,000 sq. m of office space is under construction. Demand, which has decreased slightly compared to the same period last year, is mainly driven by relocations and renewals. Due to the high volume of new supply, the vacancy rate has increased and now stands at 13.4%. Prime rents are expected to remain stable in the short-term.

Occupier demand remained steady during the second quarter of the year in **Prague**, with seven new completions, adding an additional 73,000 sq. m of lettable area to the market. Furthermore, there is a rich pipeline of 290,000 sq. m of new office space. The large volume of new supply and steady demand resulted in a net increase in the vacancy rate, which currently stands close to 15%; hence rents will remain under pressure.

There was no new office completion in **Bratislava** during Q2 2014. Demand remained subdued, with only minor improvement since last year. There was no significant change in the vacancy rate, which currently stands close to 14%. Prime headline rents remained stable, but tenants still expect large incentive packages from landlords.

After increased demand in 2013, leasing activity in **Budapest** remained promising during H1 2014. However, due to the lack of new market entries, approximately half of the new leases were renewals. During the first half of the year, approximately 35,600 sq. m was handed over and, at the same time, the vacancy rate decreased slightly; this currently standing at 18%. It is expected that the limited speculative pipeline and strengthening demand could push the vacancy rate even lower. Average rents did not change during H1 and are expected to remain stable during 2014.

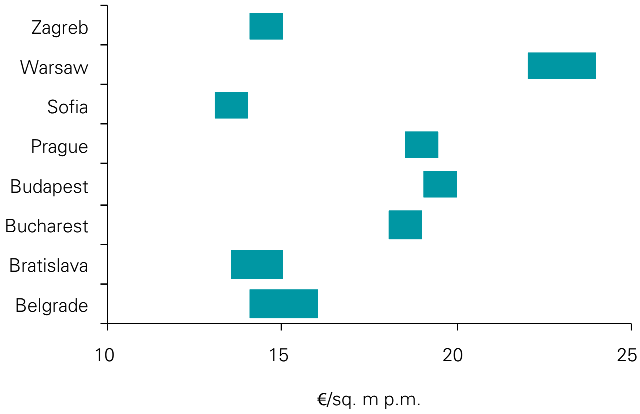
Leasing activity has increased Y-o-Y in **Bucharest**. During the first half of the year, 73,000 sq. m of new office space was handed over and an additional 70,000 sq. m is in the pipeline for the rest of the year. Average vacancy remained stable at approximately 15%. Take-up is expected to increase as more international companies choose Romania to set up new offices. Prime rents are expected to remain stable in the short-term, and growth is only expected once the vacancy rate drops.

Two new modern office buildings were handed over in **Zagreb** during H1 2014, which increased the supply by 26,500 sq. m. There is also an additional 80,000 sq. m in the pipeline, which could increase the vacancy rate due to stagnating demand. The average vacancy rate currently stands at 20%. Most of the new leases were relocations and renewals. New occupations and expansions only represent a small proportion of new leases. Prime rents decreased slightly during H1 2014.

Belgrade has experienced a low level of new office completions over the past 18 months. There was only one key project delivered to the market with a total GLA of 5,200 sq. m. However, it is expected that the development market will become more active over the next few years, with a pipeline of approximately 41,000 sq. m expected until Q1 2016. The average vacancy rate continued to decrease and now stands at approximately 8%. The rent for Class-A properties remained stable during H1 2014.

There was only one office completion in **Sofia** during H1 2014, bringing approximately 25,000 sq. m of modern office space to the market. The pipeline consists of one speculative project, which is expected to be handed over in 2015. Demand in the first half of the year was driven mainly by expansions amongst existing tenants, but there were a few market entries (i.e. international shared service centres). Average vacancy remained relatively stable and now stands at 25%. Rents for prime properties increased slightly during H1 2014.

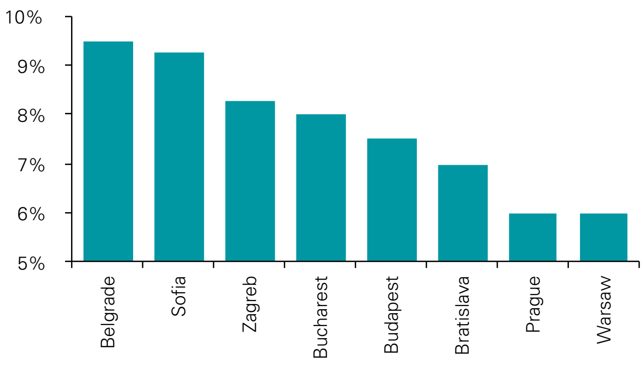
Prime Office Rents, Q2 2014



Source: JLL, Cushman and Wakefield

Prime office rents remained stable during Q2 2014, with the exception of Prague and Zagreb where a slight decrease was observed. Due to a lack of available quality office space, rents for prime properties increased slightly in Sofia.

Prime Office Yields, Q2 2014



Source: CBRE, Cushman and Wakefield

In line with previous years, office space remained the most sought-after asset class in the region among investors. In the major CEE markets such as Poland and the Czech Republic, a slight downward yield adjustment was observed for prime office space during the first half of the year.

Warsaw and Prague recorded the lowest yield levels at 6.0%. Conversely, investors still perceive Sofia and Belgrade as the riskiest spots in the region, which is reflected in the yields of 9.5% and 9.25% respectively.

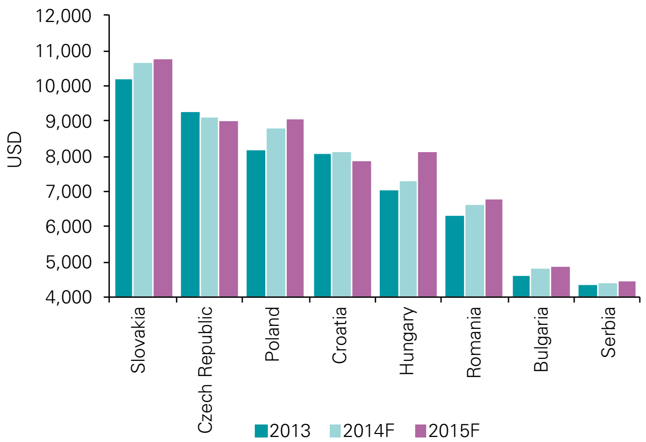
Retail Market

Consumer sentiment improved during 2013 and this trend continued in early 2014. This improvement is in line with the more positive macroeconomic outlook. Poland was a particularly attractive market for international brands due to its size and strong spending power. As a result, developers consider the country as a good place to develop new retail schemes.

Overall, shopping centre development activity increased in the region, although retailers remain cautious regarding further expansion. Secondary locations continue to suffer from a lack of demand.

Retail sales recovered in most markets within the CEE region thanks to higher real wages and decreases in unemployment. The rise in retail turnover is slowly leading to rental growth, but mostly in prime locations.

Private Consumption per Capita



Source: Economic Intelligence Unit, August 2014
F: forecast

According to forecasts by the Economic Intelligence Unit, private consumption per capita will grow in most of the CEE countries between now and 2015, with the exception of the Czech Republic and Croatia.

Warsaw with its agglomerations is the largest retail market in Poland with 1.1 million sq. m of shopping centre space. Despite this, the market is undersupplied with retail stock and therefore development activity is moderate with a relatively low 34,000 sq. m of new shopping centre space in the pipeline. The vacancy rate for shopping centres in Warsaw is below 2% due to stable above-average demand from retailers and the low number of quality shopping centres available. Prime rents are expected to remain stable in the short to medium-term.

More than 60,000 sq. m of new retail space was handed over in the Czech Republic during the first half of the year. Currently, an additional 110,000 sq. m is in the pipeline for 2014 and 2015, of which approximately 29,000 sq. m will be built in **Prague**. There is good steady demand and a number of new market entries and this is enabling the leading shopping centres to upgrade their tenant mix. Rents in shopping centres in Prague remained largely unchanged.

In Slovakia, there are three new shopping centres in the pipeline, two with expected hand-overs in 2015 and one scheduled to open in **Bratislava** during Q3 2014. There are several international retailers who are considering letting opportunities in Slovakia due to the improvement in consumer spending. Vacancy rates remained low for well established centres across the country and rental levels are expected to remain stable in prime locations.

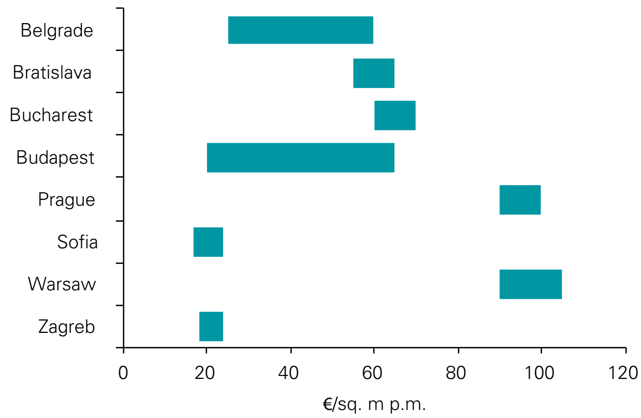
During H1 2014, shopping centre stock remained unchanged in **Budapest**. The market is already well supplied with modern retail space, creating competition between existing schemes. As a consequence, most of the shopping centres are endeavouring to improve their tenant mix and design to make themselves more appealing to customers. Retail sales started to improve during H2 2013. This trend is continuing into 2014. It is expected that new brands will enter the market, which will increase demand for retail space. Rental levels increased slightly during the first half of the year, but only in prime locations.

No new projects were handed over during the first half of the year in Romania, but two shopping centres are planned to open by the end of 2014. **Bucharest** accounts for more than 35% of the total retail stock in Romania. There was an almost 8% increase in retail sales in the first five months of the year compared to the same period in 2013, which rekindled developer and retailer confidence. Several international brands are considering entering the market, with shopping centres as their primary focus. Rental levels in prime locations have increased slightly since last year, but further growth is not expected in the short-term.
There was one major completion in Zagreb during H1 2014, which brought an additional 30,900 sq. m of modern retail space to the market. There are major differences between well-performing and secondary centres; the latter of which are suffering from high vacancy rates. The market is driven by both international and local players. There was a slight increase in retail trade compared to the same period in 2013 and rents remained largely stable during Q2 2014.

Shopping centre stock did not grow during the first half of the year in **Belgrade**, although the current volume of modern retail space is insufficient to service the increasing interest from international brands. Vacancy rates in centrally located shopping centres are close to zero. There are a number of projects in the pipeline, but their opening dates remain uncertain. As a consequence, there has been increased interest shown by many retailers in leasing space in retail parks, despite their non-central locations. Prime rents remained stable during Q2 2014.

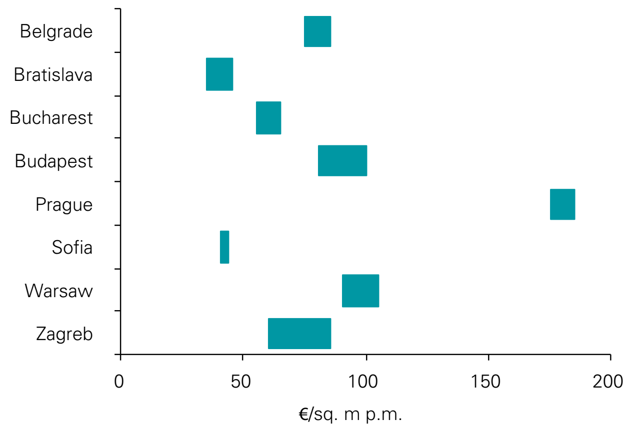
There was no new supply in **Sofia** during the first half of the year, only a re-opening of a previously closed mall. However, three shopping centres are under construction with a total area of approximately 116,000 sq. m, which can be considered significant as the current stock is estimated at 320,000 sq. m. There is strong demand for modern shopping centres, mainly from international retailers. Rents remained stable in modern shopping centres, but increasing supply levels due to healthy development activity may put increasing pressure on landlords.

Prime Rent in Shopping Centers, Q2 2014



Source: JLL

Prime Rent in High Streets, Q2 2014

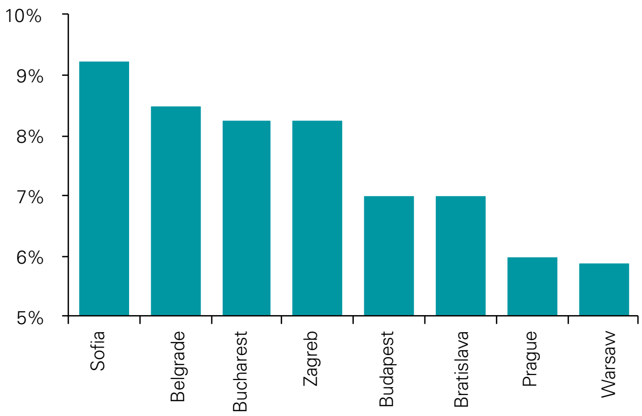


Source: JLL

Prime rents remained largely stable in the region during H1 2014, with the exception of Warsaw, Bucharest and Belgrade, where rents for prime shopping centres increased slightly.

The highest rental levels continue to be recorded in Prague and Warsaw, in both shopping centres and high street locations. The lowest average prime rents in shopping centres were registered in Zagreb and Sofia. In the case of high street rents, Sofia and Bratislava were the least expensive in the region.

Prime Retail Yields, Q2 2014



Source: CBRE, Cushman and Wakefield

Prime retail yields remained largely stable during H1 2014. The only exceptions were Warsaw and Prague which experienced slight yield compression due to strengthening demand and the decreasing availabilty of prime products.

The outlook for the retail sector is generally promising due to increasing retail sales registered in the region this year.

Residential Market

There were no major changes in CEE's residential markets during 2013 and this stability is expected to continue in most of the markets throughout 2014.

Signs of recovery and growth could be seen in the more significant markets within the region, such as Poland and the Czech Republic. Growth in residential markets was accompanied by improving economic conditions in these countries. The Slovakian market was amongst the strong performers last year, with Bratislava showing growth in both demand and supply and relatively stable price levels.

Growing demand for residential properties in Poland, the Czech Republic and Slovakia has impacted positively on market activity there and it is expected that increased demand will lead to an improvement in development activity in those countries. Prices of residential properties in Warsaw and Prague showed increases of approximately 4.3% and 2.1% respectively and remained relatively stable in Bratislava in 2013. Nevertheless, prices for residential properties in the Slovakian capital fell by approximately -1.5% in Q1 2014.

Other markets in the CEE region, i.e. Hungary, Romania, Slovenia, Croatia and Bulgaria have limited demand for residential units and a low supply of new projects, which is slowing down their recovery. Based on H1 2014 market studies, average prices in Budapest appear to have bottomed out. Activity in the market has increased, with more transactions registered and as a consequence of increasing demand, prices may start to increase slowly in H2, or possibly from early 2015.

In the cases of Bucharest, Ljubliana and Zagreb, prices decreased in 2013 and are not expected to recover in 2014 as buyers remain very price sensitive.

In Sofia, prices for residential properties were fairly stable in 2013, due mainly to significant price decreases in previous years and the slow market recovery in 2013 and H1 2014.

In Croatia, house prices have continued to weaken in most regions with the exception of some coastal areas, as a result of modest economic growth expectations, and this trend is expected to continue until the end of 2014.

The supply of new residential projects is not expected to be robust in most of the markets in the region, with the exception of Poland and the Czech Republic, where additional increases are forecast.

The CEE market is mostly dominated by inexpensive small-sized properties and middle-class buyers. The limited volume of financing available is keeping the supply of new housing relatively low; however, historically low interest rates may persuade some to consider buying new property.

The Hotel Investment Market

During the mid 2000s, **Central and Eastern Europe** was considered to be a growth engine in Europe, with GDP growth rates of up to 5-10 percent per annum during this time. As a result of growing economies and increasing demand, there was a boom in hotel construction in most of these markets up until 2008. With improving hotel performances, some markets were able to achieve higher operational figures than many Western European markets. This, in turn, led to an increase in hotel transaction activity, a compression of yields and value appreciation. As a result of increased performance and available bank financing, hotel development pipelines continued to grow and some markets such as Prague and Budapest saw an unprecedented growth in hotel stock.

Following the Lehman Brothers collapse and subsequent global economic downturn, the development in CEE came to an abrupt halt. Many popular tourist destinations started to suffer from the surplus of hotel capacities and declining KPIs, particularly average room rates. Poland was the only country within the EU still registering growth in GDP. As a result, most hotel investors turned their back on CEE, partly due to the strict lending policies introduced by many banks and major differences in opinions on prices between buyers and sellers.

There appears to have been a slow return of positive investor sentiment for key destinations in the CEE region since 2010. Several midscale and upscale/luxury hotels have changed hands. These transactions, including the Mercure hotels in Bratislava and Warsaw and the InterContinental and Mandarin Oriental hotels in Prague, were registered in capital cities.

In 2011, some significant transactions also materialised in response to increasing pressure from lenders, including the InterContinental and Four Seasons Gresham Palace in Budapest and the Hotel Sobieski and Le Meridien Bristol in Warsaw.

This trend has continued over the past three years and several trophy assets have changed hands in the CEE region. The most active buyers have been Middle Eastern Sovereign Wealth Funds, High Net Worth Individuals and Private Equity Groups. These investors have looked solely at income-producing trophy assets in capital cities, preferably at a discounted price, sometimes well below construction cost. For the most part, recent major transactions have tended to satisfy these criteria (Le Meridien Hungary, Radisson Blu Sofia, Hotel Palace Prague and Hilton Sofia).

According to STR Global, hotel room occupancy rates in Eastern Europe improved steadily between 2010 and 2013. However, certain markets have struggled in terms of average room rates, although average room rates in the region as a whole have increased in three out of the last four years.

Hotel Performance – June 2014

	2010	2011	2012	2013
Occupancy (%)	54.60	58.20	59.70	61.00
ADR (€)	84.14	84.91	89.22	85.00
RevPAR (€)	45.93	49.45	53.25	51.84

Source: STR Global, * Eastern Europe as defined by STR includes: Armenia, Azerbaijan, Belarus, Bulgaria, Czech Republic, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Poland, Moldova, Romania, Russia, Slovakia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan

If this trend continues, as in Western Europe, the CEE region may also see fewer distressed sales and more institutional investors appearing with an appetite for hotels and portfolios, which offer a stable business case and solid management. As economies stabilise in the region, it can already be seen that financing is becoming more available to support this assumption. However, the impact of the unrest in Ukraine is as yet unclear, and this may jeopardise the return to an image of relative stability across Central and Eastern Europe.

Under pressure, or an opportunity to buy in?

Macroeconomic Overview

The decline in GDP growth observed in the Russian economy over the past four years is expected to continue in 2014. Based on the World Bank's assessment under the baseline scenario the Russian economy (base assumption that geopolitical risks will not grow, and the international community will not be entered new sanctions in respect of Russia) in 2014 will slow to 0.5%, compared to 1.3% in 2013. There is a GDP growth projection of 1.3% for 2015, but short-term forecasts are unreliable in view of the recent geopolitical instability created by the Ukrainian crisis. Despite all these factors, major foreign investors are sticking to their Russian economic forecasts made at the end of 2013. At the same time, a new wave of the Eurozone crisis slowed growth in emerging markets, had some impact on weak export performance, and tapered investment activities. A downward trend in wholesale trade in Russia, deteriorating oil and gas exports and a recession in the construction sector all contributed to a decline in economic activity in H1 2014.

The Rouble weakened in the second half of 2013 due to both large capital outflows from Russia and unstable foreign markets. Net capital outflows in the first half of 2014 reached $80bn, demonstrating a more than two-fold increase on the preceding year. Based on MED projection the net outflow may reach the level of $120bn by the year end. Sluggish economic growth combined with high inflation continues to weigh on the currency.

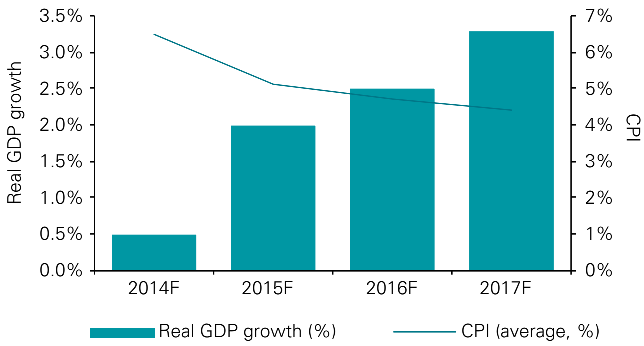
Economic Summary	2014F	2015F	2016F	2017F
Exchange rate RUB/USD (average)	35.5	37.0	38.0	38.8
Trade balance, USD bn	153	140	134	148

Source: MED
F: forecast

Accelerating the economic growth of the country is a priority issue for the government in the short term. According to the MED forecast for 2014, industrial production growth will reach 2.2%, compared to 0.7% in 2013.

Weaker growth forecasts and stabilising consumption at a lower rate result in downside potential for the economic mobility outlook. Recent events related to the Ukrainian crisis have exacerbated the issue and highlighted economic weaknesses. Russia's long-term outlook will primarily depend on positive changes in investor and consumer behaviour.

Macroeconomic Overview



Source: MED
F: forecast

The total volume of investments in the Russian real estate market in 2014 is expected to amount to $5bn, 50% less than the previously predicted $7.5bn. In the first half of 2014, investments in commercial real estate were down almost 60% on the previous year and stood at $1.58bn. This can partially be explained by the high base of the preceding year, but, that said, real estate investment contraction is indisputable.

Prime yields in the two main Russian cities of Moscow and St. Petersburg have remained stable since 2013, with prime offices at 8.5% – 11.0%, prime retail at 9.0% – 11.0% and prime industrial at 11.0% – 12.0%.

Office Market

The office market in H1 2014 was characterised by a downward movement, triggered by negative changes in the domestic economy and adverse geopolitical developments. Due to rather sluggish demand patterns, rental levels are also set to fall.

Construction activity remained high, delivering 533,000 sq. m of office space, a 36% increase on the corresponding period in 2013. Only 7% of office premises delivered in H1 2014 are located inside the Garden Ring Road – further testament to the decentralisation policy being pursued by the Moscow Government. Analysts note that decentralisation is gaining traction, on the part of developers (who prefer to avoid barriers and restrictions imposed on city-centre constructions) as well as tenants (who are seeking to improve the quality and size of the premises they occupy).

Market participants are tending to adopt a cautious approach towards the purchase or lease of new office space, in order to minimise associated risks. As a result of the gap between market demand and supply (which in H1 2014 only widened due to record construction volumes, accompanied by weakened consumer activity), owners are agreeing to concessions. Contracts are signed for shorter periods and include special provisions to protect tenants from currency fluctuations. The total volume of deals completed in H1 2014 fell by 28% compared to the same period in 2013, and stood at 523,000 sq. m. Moreover, the share of large-scale transactions fell significantly, replaced by lease contracts being extended and the renegotiation of transactions.

Average Moscow market rental rates, USD/sq. m		
Prime (A+)	**Class A**	**Class B/B+**
1,050-1,200	650-750	400-450

Source: Colliers

According to analysts, a 2% – 4% decrease in foreign-currency-denominated rental levels was registered in Q1 2014. The decrease was caused by both a depreciation of the domestic currency and the supply of new premises. A further escalation in geopolitical tensions impacted Q2 dynamics; a 3% shortfall compared to Q1 was observed. Rental levels tended to reduce across all segments: in the case of Class-A offices, falling by approximately 8%, due to excessive supply in H1 2014. Class B space suffered less, with average rates dropping by 2%. A further decrease may occur in the short-term; however, according to analysts, demand may recover slightly by the end of 2014. In H1 2014, there was a clear rise in the vacancy rate in high-quality buildings, especially in the Class-A segment.

Average Moscow Market Selling Prices, USD/sq. m		
Prime (A+)	**Class A**	**Class B/B+**
10,300	8,300	6,300

Source: Colliers

Rental Rate and Capitalisation Rate Dynamics

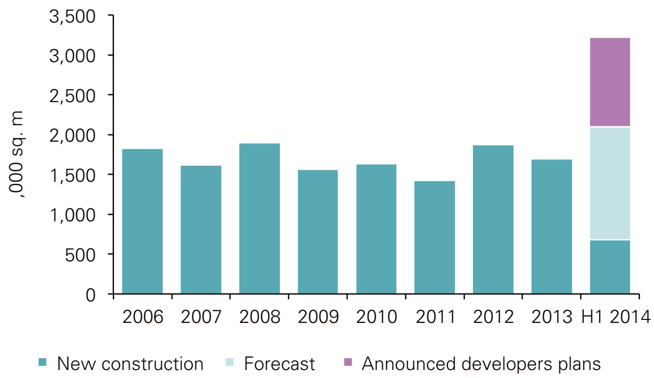
Source: JLL, Cushman and Wakefield, Colliers, CBRE, Knight Frank

Retail Market

Over the past decade Russia has seen a signficant increase in the supply of shopping centres. In 2014, despite the economic slowdown and political instability, Russia still holds the largest development pipeline in Europe.

More than 3 million sq. m GLA of new retail facilities are expected to be built in Russia in 2014, including the largest shopping centre in Europe, Avia Park (400,000 sq. m GBA, 225,000sq. m GLA). Meanwhile, given the relatively small volume of new real estate being commissioned (only around 800,000 sq. m), market experts remain pessimistic, forecasting only 2.2 million sq. m to be constructed by year-end. In addition, growing uncertainty due to the geopolitical situation may lead to the postponement of some projects.

Quality Retail Construction in Russia: ,000 sq. m GLA



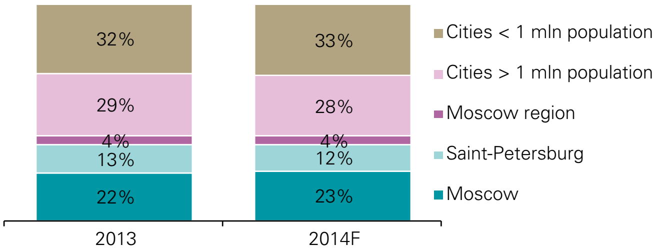
Source: KPMG analysis, Cushman and Wakefield, Colliers, JLL

In Russia, 18 new centres totalling more than 682,000 sq. m were comissioned during first half of the year. As a result, total retail GLA in Russia stood at approximately 17.1 million sq. m.

Moscow accounts for the majority of shopping centres added to the market and boasts maximum delivered space during 2008–2013. Some of the largest centres delivered in Moscow from the beginning of 2014 include Vegas Crocus City (GBA: 283,000 sq. m, GLA: 111,000 sq. m), Goodzone (GBA: 145,000 sq. m, GLA: 56,000 sq. m) and Vesna! (GBA: 126,000 sq. m, GLA: 56,000 sq. m). The most significant new malls in regions include Greenwich (phases IV and V, GBA: 80,000 sq. m, GLA: 40,000 sq. m) in Ekaterinburg, and City Mall (GBA: 87,000 sq. m, GLA: 68,000 sq. m) in Novokuznetsk.

Russia

Retail Area Distribution by Regions



Source: JLL
F: forecast

Also by the year-end, an additional 60 retail centres containing approximately 1.4 million sq. m of new GLA could be added to Russia's stock. The development pipeline, among other things, consists of significant projects in Ekaterinburg (Globus 2, GBA: 182,000 sq. m, GLA: 82,000 sq. m) and Samara (Avrora 3, GBA 180,000 sq. m, GLA: 100,000 sq. m and Ambar, GBA 128,000 sq. m, GLA: 90,000 sq. m). As a result, the average provision of retail area per 1,000 inhabitants in these cities will reach nearly 630 sq. m, while Moscow's average provision can reach the level of 440 sq. m per 1,000 inhabitants by the year-end.

Despite Russian currency volatility, rental levels did not undergo any significant correction in Q1-Q2 2014. Rather than cutting rates, developers have been prepared to consider alternative compensation measures. Some owners are refraining from annual indexation, and most lessees have tended either to freeze the currency corridor in existing lease contacts or to accept short-term discounts as a compromise.The prime rent in central retail galleries in Moscow was $4,000 per sq. m per annum (excluding VAT and OPEX), varying depending on location, area and concept. In other cities, rental levels were typically 30% to 60% below the Moscow level. Although rates remained stable in Moscow, they tended to decrease in regions. It is likely that the increase in rental levels by the end of 2014 will remain below CPI level.

The vacancy rate in thriving shopping centres in Moscow remained at the 2013 level and was minimal, while the busiest shopping malls retained a 100% occupancy rate and had waiting lists. A deficit of quality shopping centres led to a significant number of pre-lease agreements in future centres under construction. However, the vacancy rate could increase slightly by the end of the year due to the planned commissioning of large centres in Moscow.

If the political situation intensifies and there is a macroeconomic decline, a potential decrease in rental levels could be on the cards. However, top projects are likely to remain in high demand. The country continues to demonstrate significant retail turnover growth, and this is likely to ensure that companies will continue to rent new high-quality centres at the same high level.

Residential Market

According to the Russian Federal State Statistics Service, 29.4 million sq. m of residential property was commissioned in Russia in H1 2014, a 30% increase on H1 2013. In H2 2014, a further 49.6 million sq. m of residential space is expected to be commissioned.

The largest housing construction volumes were carried out in the Moscow Region, Krasnodar Region, and St. Petersburg, which together accounted for almost a third of the total number of residential properties commissioned during this period. Tsentralnij and Privolgskij federal districts hold leading positions among other districts of the country, where about half of newly commissioned housing is located.

Delivery of newly built residential Properties by Federal District in H1 2014

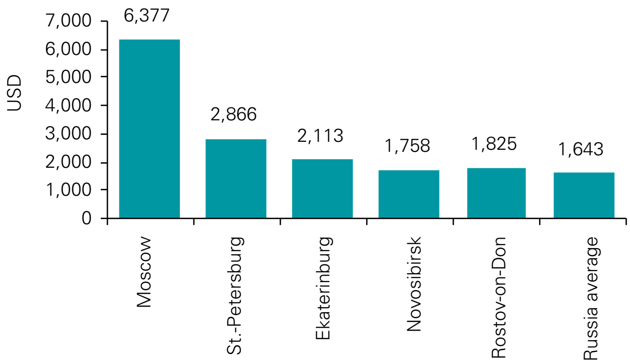
Source: Federal State Statistic Service

In Moscow (excluding recently added territories), supply on the primary market increased by 14% compared to H1 2013, reaching 1.76 million sq. m in June 2014. In total, according to the Moscow City Government, approximately 1.5 million sq. m was delivered on the sites of Old and New Moscow during H1 2014, with the latter accounting for around 53% of this figure.

In Russia, average Rouble sale prices increased on both primary and secondary residential markets during H1 2014. However, Rouble price growth was compensated for by a depreciation in the Rouble.

The average Rouble price per square metre on the primary market has risen by 3.25% since the beginning of the year, to RUB 48,108, while a decline of 1% was observed in the USD equivalent. On the secondary market, the Rouble price reached almost RUB 59,000, seeing a 1.71% increase, while the USD price decreased by 2%.

Average Housing Prices per sq. m in Russia



Source: rosrealt.ru

In Moscow, the Rouble price per square metre on the primary market grew by 2.2% and on the secondary markets, by 3.8%, reaching RUB 231,000 and RUB 216,000, respectively. The USD equivalent decreased by 2.5% for primary assets and by 1% for secondary.

On the St. Petersburg primary market, the average price increased by almost 2%, reaching RUB 93,000, while growth on the secondary market was 3%, with the market price reaching RUB 100,000. At the same time, prices in USD decreased by 2.8% and 1.7%, respectively.

Despite positive trends witnessed in H1 2014, the Russian residential market is likely to undergo a downturn in the near future. Intensive demand in the first quarter has abated and further price increases are expected to be almost entirely offset by increased inflation, supplemented by an attendant slowdown in the growth of household income. As a result, house prices in such overheated markets as the Moscow residential market may fall and approach equilibrium values. According to Standard and Poor's, in H2 2014 the average Rouble price per square metre adjusted for inflation will fluctuate at around the 3% mark, while its USD equivalent may experience a decrease in the face of continuing Rouble devaluation.

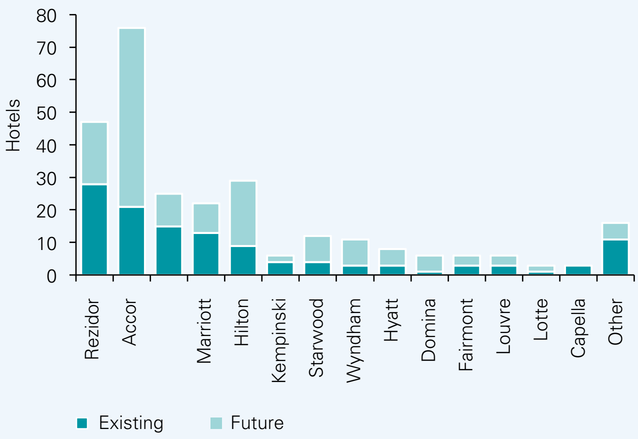
Average Moscow residential Sale Prices, US$/ sq. m

Source: www.irn.ru

The Hotel Investment Market

In terms of its hotel network, Russia is the most developed country in the CIS, with more than 120 hotels up and running and over 155 in the pipeline. Recent political and economic events have worsened the business environment outlook and financing costs could increase as a result of banking sanctions; however, according to interviews with major international hotel chain representatives, no decrease in investor interest towards hotel development has so far been witnessed.

International Operators with a Presence at the Russian Market



Source: KPMG analysis

Despite the current economic and geopolitical situation and consequent slowdown in tourism activity, Moscow remains the most attractive market in the country for hotel development; however, that said, regional markets are also seeing active development. In the past, hotel operators preferred to establish a presence in cities with a population exceeding one million; now, they are actively looking at expanding their networks to regional centres with more than 300,000 inhabitants.

Most of the Russian room stock and hotels under international brands are concentrated in Moscow (38% of the current Russian room stock of international operators). At present, 42 of 343 hotels in Moscow, or 10,754 of 46,989 rooms, are under the management of various international brands. Upscale and luxury hotels currently account for the bulk of hotel supply in the capital, while there remains a lack of international-quality hotel rooms priced in the mid-range. No new midscale hotels are expected this year, and the budget and midscale market presently accounts for only 12 hotels, with a total inventory of 2,700 rooms.

Each year, an increasing number of international hotel chains are opening or taking over properties in Moscow, from established brands such as Marriott and Radisson, to relative newcomers like Four Seasons. Hotel Nikolskaya, which opened last spring under the Kempinski brand, has changed operator to Starwood Hotels & Resorts and launched a new brand on the Russian market, St. Regis. After Moscow and St. Petersburg, the most developed city in the country in terms of hotel infrastructure is Sochi, whose leading position is easily explained by the recent Olympic Games held in the city, which created a strong demand for international standard hotels. Somewhat surprisingly, Sochi's development did not finish when the Olympics ended – eight more hotels, operated by Starwood Hotels, Marriott International Inc., Hyatt Corporation, Hilton Worldwide, Accor Hotels and Rezidor Hotel Group are expected to add to the network of 18 existing branded properties in Sochi.

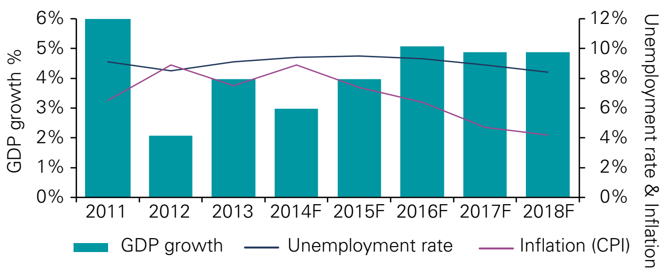
Among regional cities with a population exceeding one million, the most developed in terms of number of hotel properties are Yekaterinburg, Samara, and Kazan, with four or more branded hotels already operating. A further 10 large Russian cities (population > one million) have more properties in the pipeline than are currently operating. Rostov-on-Don has the biggest pipeline among regional cities, with seven hotels scheduled to open within the next four to five years under the Ibis, Mercure, Hyatt Regency, Holiday Inn, Le Meridien, Sheraton and Ramada brands, but have none under an international brand operating at the moment. The second-highest number of projects (five) are being developed in Nizhny Novgorod, where only one branded property, Courtyard by Marriott, has been opened. Cities with a population exceeding one million are due to have from three to eight branded properties up and running by 2019.

Good growth prospects

Macroeconomic Overview

GDP: Gradual growth in 2014 with increased growth expected in 2015.
Inflation: Will ease after edging up in Q2.
Employment: Stable, with downside risks.
A decrease in domestic demand due to a tightening of monetary conditions caused exports to improve by 7.7% Q-o-Q in Q1 and a reduction in the current account deficit to 3.3% of GDP in 2014. A 39% fall in the trade deficit in May 2014 led to a strong decline in government bond yields. High inflation of 9.2% prevailed in June 2014 which, together with tight credit conditions, caused a slowdown in consumer spending and fixed investment; however, the situation is expected to improve by the end of the year. Risks such as high inflation, dependence on external financing, a polarized political environment and continued credit growth prevail in the economy.

Economic Indicators

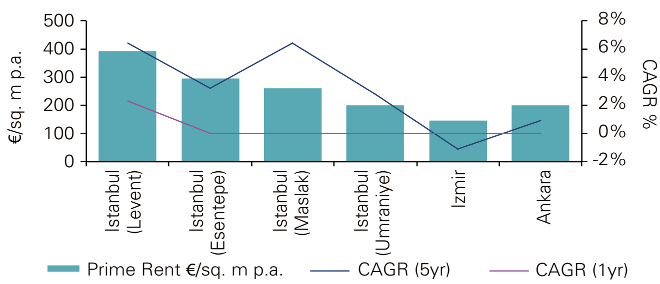


Source: Economist Intelligence Unit
F: forecast

Office Market

The Turkish office market remained stable in Q2 2014, with increased activity in the rental market, which continues to support the development pipeline. There was a lack of investment deals in Q2, in spite of the rising interest of domestic and international investors; however, this situation should improve with a number of new development projects in place. Rental levels are expected to remain stable due to the improved availability of space for occupiers in the market.

Prime Office Rents – June 2014

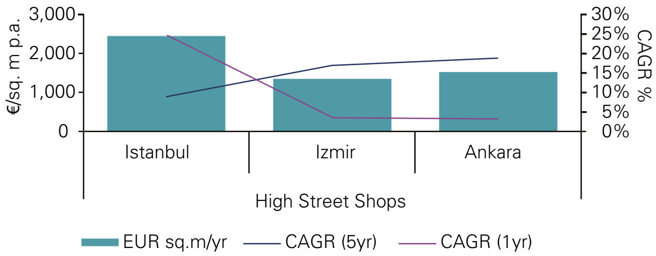


Source: Cushman and Wakefield

Retail Market

Retail sales grew by 6.8% Y-o-Y in shopping centres in May 2014 across all segments, with the exception of consumer electronics. Retailers' market entry and expansion strategies were supported by the new shopping centre space delivered onto the market in Q2. Occupier activity was low due to differences between the rental expectations of landlords and lessors. There have been a number of new retail openings this year: the largest was the Mall of Istanbul, which has attracted retailers offering national and international brands. However, there was no investment activity in Q2. Domestic retailers focused on gaining higher market share and improving their market position. Domestic demand is expected to improve and growth is projected for occupier demand and investment activity, driven by the increased business confidence of international occupiers and presidential elections held in August.

Prime Retail Rents – June 2014

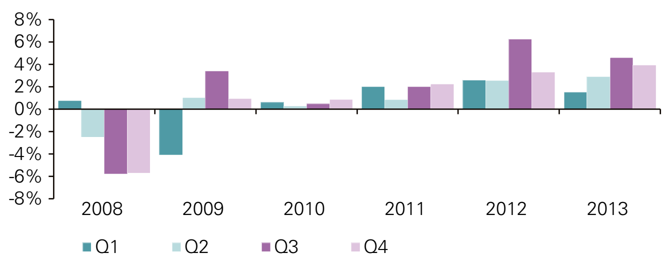


Source: Cushman and Wakefield

Residential Market

Turkey's housing market is on a steady rise, with residential sale prices climbing to 17.11%, during the year to January 2013 according to REIDIN. The primary housing market witnessed a rise in prices, at a gradual pace. There was a 2.35% Q-o-Q drop in house sales in Q3 2012. Yields for smaller apartments in Besiktas have seen a considerable fall since 2012, with a 120 sq. m apartment yielding a return of 5.02% compared to 6.6% last year. Yields in Kadikoy improved compared to 2012, with 120 sq. m apartments yielding a 4.2% return. Upper reaches of the Sariyer district are expensive, with property prices at around €3,000/sq. m.

House price % change (Turkey)



Source: REIDIN

All-encompassing Real Estate Advisory from one Source

The challenging and increasingly complex real estate markets require a clear focus and a flexible strategy. Our real estate team is involved in every stage of the asset and investment lifecycle, working with all levels of stakeholders throughout the real estate industry. Whether your focus is local, national, regional or global, we can provide you with the right mix of experience to support and enhance your needs and ambitions. We provide informed perspectives and clear solutions, drawing on our experience from a variety of backgrounds including accounting, tax, advisory, banking, regulation and corporate finance. Our client focus, our commitment to excellence, our global mindset and consistent delivery build trusted relationships that are at the core of our business and reputation.

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 and investment controlling, portfolio performance measurement

Strategy/Organization

- Strategy development and implementation
  - Business planning/business modelling
  - 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

Please contact us

KPMG Europe

Stefan Pfister
Partner, Head of Real Estate Europe/EMA
T: +41 58 249 54 16
E: stefanpfister@kpmg.com

KPMG in Germany

Gunther Liermann
Partner, Corporate Finance Real Estate
T: +49 69 9587 4023
E: gliermann@kpmg.com

Niels P. E. Buck
Partner, Transaction Services
T: +49 40 32015 5848
E: nbuck@kpmg.com

Sven Andersen
Partner, Real Estate M&A
T: +49 69 9587 4973
E: sandersen@kpmg.com

KPMG in UK

Richard White
Partner, Head of Real Estate
T: +44 20 7311 4010
E: richard.white@kpmg.co.uk

Stephen Barter
Director, Chairman of UK Real Estate Advisory
T: +44 20 7694 1906
E: stephen.barter@kpmg.co.uk

John Taylor
Associate Partner, Real Estate
T: +44 20 7311 1672
E: john.taylor@kpmg.co.uk

KPMG in Sweden

Björn Flink
Partner, Head of Real Estate
T: +46 8 7239482
E: bjorn.flink@kpmg.se

KPMG in Finland

Teemu Haataja
Manager, Head of Real Estate and Construction Sector Services
T: +358 40 747 8773
E: teemu.haataja@kpmg.fi

KPMG in Denmark

Michael Tuborg
Director, Head of Real Estate
T: +45 52 15 00 25
E: m.tuborg@kpmg.com

KPMG in Norway

Ole Christian Fongaard
Partner, Head of Real Estate
T: +47 40 63 90 86
E: ole.fongaard@kpmg.no

KPMG in The Netherlands

Hans Grönloh
Partner, Head of Real Estate
T: +31 20 6567792
E: gronloh.hans@kpmg.nl

Willem-Jan Brinkman
Partner, Corporate Finance
T: +31 20 6567989
E: brinkman.willem-jan@kpmg.nl

KPMG in Belgium

Koen Maerevoet
Partner, Real Estate and Infrastructure
T: +32 2 708 38 67
E: kmaerevoet@kpmg.com

KPMG in Luxembourg

Pierre Kreemer
Partner, Head of Real Estate and Infrastructure
T: + 32 2 708 38 67
E: pierre.kreemer@kpmg.lu

Yves Courtois
Partner, Corporate Finance
T: +352 22 51 51 7503
E: yves.courtois@kpmg.lu

KPMG in France

Mark Wyatt
Partner, Country Head Corporate Finance
T: +33 15568 9300
E: markwyatt@kpmg.fr

Regis Chemouny
Partner, Audit
T: +33 15568 6818
E: rchemouny@kpmg.fr

Cyril Schlesser
Director, Corporate Finance
T: +33 155 68 93 04
E: cschlesser@kpmg.fr

KPMG in Switzerland

Ulrich Prien
Partner, Head of Real Estate
T: +41 58 249 62 72
E: uprien@kpmg.com

Beat Seger
Partner, Real Estate M&A
T: +41 58 249 29 46
E: bseger@kpmg.com

KPMG in Austria

Klaus Mittermair
Partner, Head of T&R
T: +43 732 6938 2172
E: kmittermair@kpmg.com

KPMG in Italy

Maurizio Nitrati
Partner, Head of Building, Construction and Real Estate
T: +39 06 8097 1480
E: mnitrati@kpmg.it

Andrea Giuliani
Associate Director, Advisory
T: +39 06 8097 1483
E: agiuliani@kpmg.it

KPMG in Spain

Javier Lopez Torres
Partner, Head of Real Estate
T: +34 91 451 30 48
E: flopez1@kpmg.es

Emilio Miravet
Partner, Corporate Finance Real Estate
T: +34 91 451 32 23
E: emiravet@kpmg.es

KPMG in Central and Eastern Europe

Andrea Sartori
Partner, Head of Real Estate
T: +36 1 887 72 15
E: andreasartori@kpmg.com

KPMG in Russia

Sven Osmers
Director, Head of Real Estate
T: +7 495 937 44 77
E: svenosmers@kpmg.com

KPMG in Turkey

Hakkı Özgür Sıvacı
Partner, Audit
T: +90 216 681 90 13
E: osivaci@kpmg.com