Markets to

Respondents continue to express optimism *for most European property markets in 2006 as they did in 2005.*

Watch

Survey respondents consistently expressed optimism for most European property markets in 2006 as they also did in 2005. Based on overall benchmarks and ratings at the property market or city level, and including specific office, retail, and industrial property types within each city, respondents believe that European property markets offer diverse opportunities for investment and development in 2006.

However, the growth in optimism for European property markets does not appear to be as great as that expressed by respondents in the *Emerging Trends in Real Estate Europe 2005* report. There are caution signals for investors and developers as 2006 unfolds based on survey results, direct comments from many pan-European interviews, and year-end 2005 property market reports. The spirited search for property investments and development in mainstream European cities is now spreading to many new targeted secondary property markets. Respondents frequently mentioned cities in Cyprus, Croatia, Ukraine, the Baltics, Slovenia, and Romania in surveys—an early indication for future capital flows and an expanding investment horizon?

Paris continues as the number-one city based on the average of total return and city risk ratings, followed by London, Helsinki, Madrid, and Barcelona; Stockholm, Dublin, Lyon, Copenhagen, and Lyon round out the top ten. New entrants into the top-ten rankings for 2006 include Madrid, Dublin, and Copenhagen, as Milan, Brussels, and Zurich slipped out of the top ten (see Exhibit 3-1). Frankfurt is the lowest-ranked city in the survey by a wide margin, with modestly poor prospects for total returns and a below-average risk rating. But on the bright side, its prospects have improved markedly from last year.

A comparison between 2005 and 2006 survey responses clearly indicates that investors believe overall total return and city risk ratings will improve in 2006—a continuing trend from the initial survey in 2004 and 2005. Yet, there are selected cities where year-over-year ratings changes suggest prudence due to slight deterioration of city risk ratings in Paris, Lyon, Milan, and Istanbul, and total return rating decreases in cities such as Edinburgh, Prague, Brussels, Rome, Milan, Vienna, and Moscow.

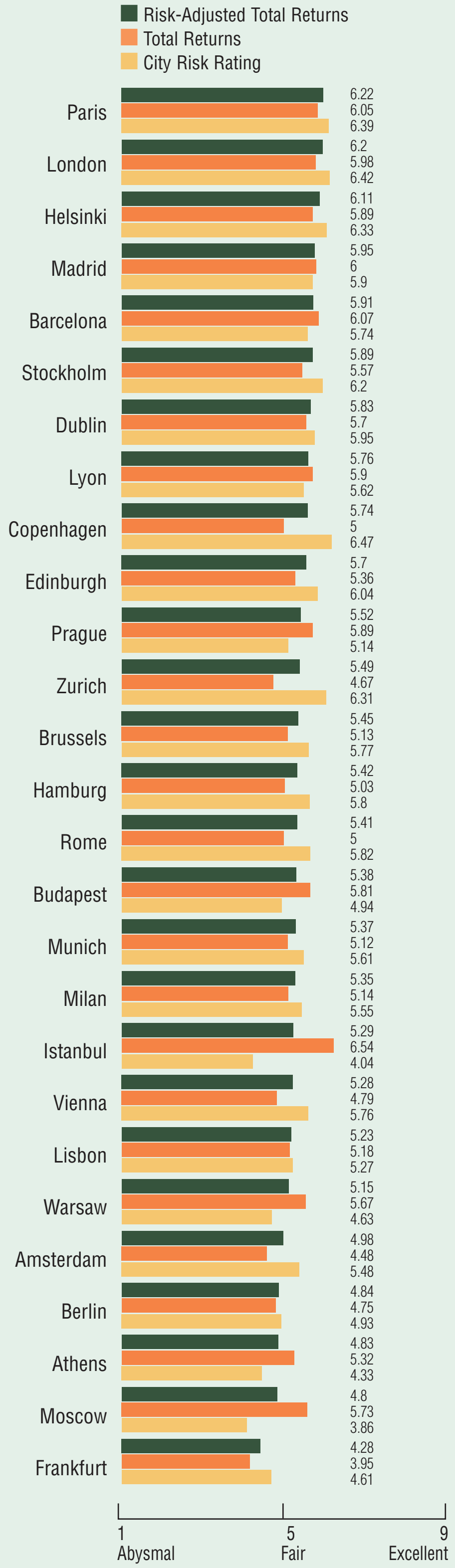
If we shift gears and look at cities with the best development prospects, the picture changes a bit. From this perspective, the fast-growing but riskier markets of Istanbul and Moscow rise to the top of the chart. Paris, Barcelona, and London round out the top five for development prospects.

There are several themes for European property markets in 2006 that emerge through the interviews and analysis of the survey results:

- The majority of the European property markets previously ranked in the top ten and bottom ten in 2005 remain in their respective clusters in 2006, indicating that respondents don't envision significant movements in favourite and challenging property markets over the next year.

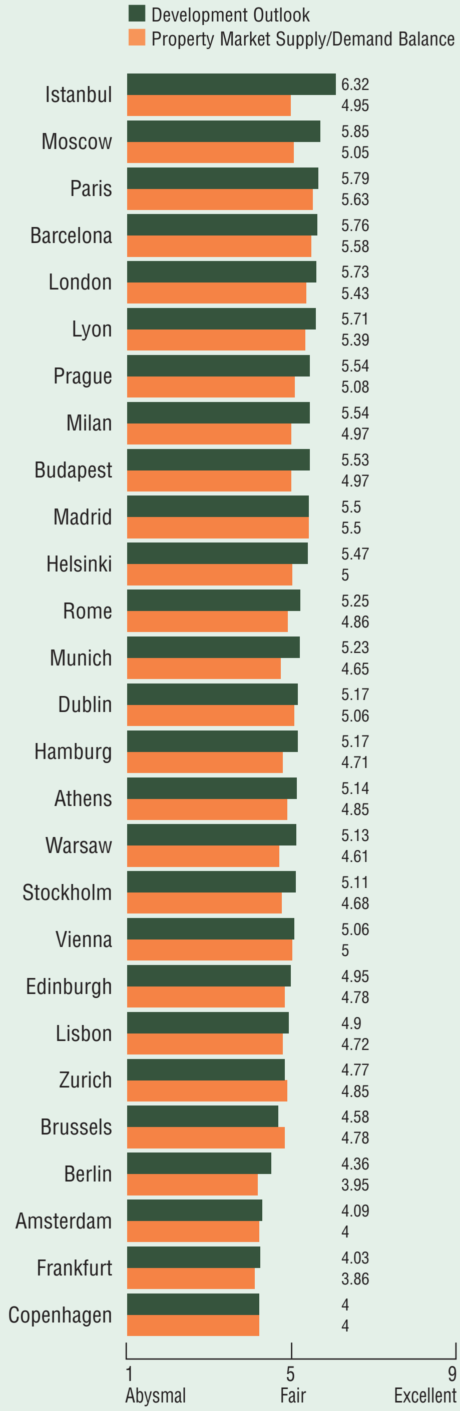
Respondents often mentioned **Paris** *and* **London** *in the same breath as tops for*

Exhibit 3-1 City Return/Risk Prospects



Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Exhibit 3-2 City Development and Market Balance Prospects



Source: Emerging Trends in Real Estate Europe 2006 *survey.*

opportunities in 2005 and prospects for 2006.

■ Although cities in the bottom ten have not significantly changed from 2005 results, average ratings for city risk and total returns increased for Frankfurt, Moscow, Athens, Berlin, Amsterdam, and Warsaw.

■ Buyers are on the hunt with little to hunt. Although yields are historically low and property values potentially peaking, it appears that only a minor segment of respondents believe that 2006 is a good time to sell regardless of property market or property type across Europe.

■ The lack of acquisition opportunities in primary European property markets and CBD submarkets will force domestic and foreign investors and developers to widen the scope of their strategies to include secondary European property markets and non-CBD submarkets in major European markets.

■ Urban regeneration, mixed-use development, and movement into noncore property types such as student and seniors' housing will also increase in 2006 (and 2007) in most European property markets.

The next section briefly provides an overview of the 27 European property markets covered in this year's survey. The ranking methodology used remains consistent with last year's *Emerging Trends in Real Estate Europe*. At the end of this chapter, we present a new cluster analysis of the European markets that provides an alternative view of the 27 cities. Rather than being ranked, cities are clustered based on several key buy-hold-sell ratings in order to help readers create new, or challenge existing, investment and asset management strategies.

The Top Ten Markets

Paris

Paris reigns supreme again, taking the top spot in our risk-adjusted total return rankings for the second year running. Does it really have everything? Many survey respondents think so and are quick to praise its ability to offer "long-term investments in a consolidated city." In this capital-rich, product-poor property environment, the city also gets top marks for its size and liquidity. "You can buy and sell at the same time depending on the opportunity," says one respondent.

Total return prospects for Paris are among the best in Europe (third in our survey), and this, together with its attractive risk rating (also third), pushes it into first place overall. Notes one respondent, "Assuming the economic growth in France will not stagnate, Paris is one of the structurally healthiest real estate markets in Europe." At 1.8 percent GDP growth predicted for France in 2006 by Consensus Economics, it is just about in line with European averages.

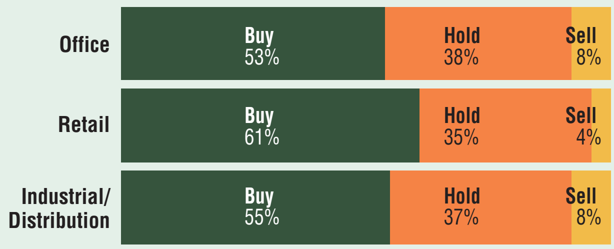
Respondents often mentioned Paris and London in the same breath as tops for opportunities in 2005 and prospects for 2006, but few speak with as much enthusiasm and romance about London. The relative yields of the two cities explain why Paris edges ahead on the office side: Paris is pretty steamy at 5.1 percent, according to CB Richard Ellis, but it is 60 basis points above London at 4.5 percent. Paris offices were in soft recovery last year, according to our respondents, and the city is now looking at certain submarkets experiencing strong recovery for 2006, with prices supported by actual and expected rental growth. Also, some development is expected to commence again (but not in La Défense submarket, where vacancy still exceeds 10 percent), and with supply having started to fall in 2005, this is looking to be a main trend for 2006.

However, Paris's popularity is resulting in some dissatisfaction among investors. With the capital a little too hot for some, there is a marked move towards second-tier French cities as investors chase apparent mispriced opportunities. "In provincial markets, rental growth is not yet reflected in prices," commented one respondent. There is also sustained interest in industrial and retail property types, and Paris has retained its top-ten ranking in both these sectors as it relates to buying opportunities. Yet, competition is heating up with a short supply of shopping centres, with the 60 percent "buy" rating being a wish more than a reality. For industrial, the transport links and the density of the city make it a good bet for 2006, say respondents.

Exhibit 3-3 **Prospects for the Paris Real Estate Market in 2006**

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Good	6.2	1st
Total Returns	Modestly Good	6.1	3rd
Risk	Modestly Low	6.4	3rd
Rent Increases	Modestly Good	5.6	5th
Capital Growth	Modestly Good	5.9	5th
Supply/Demand Balance	Fair	5.4	3rd
Development	Modestly Good	5.6	1st

Investment Recommendation of Survey Respondents



Source: Emerging Trends in Real Estate Europe 2006 *survey.*

London

Survey respondents continue to be positive about the London market, hence its second-place ranking. As one respondent observed, the depth and size of the market, just like Paris, continue to give it merit for both buy and sell opportunities. The survey results indicate investors in all property sectors wanting to continue to buy or hold in 2006, with little emphasis on selling.

The property product crunch is likely to continue in 2006. For many, it is a recovery market gathering pace in 2006—"the cyclical upturn is underway," says one interviewee. The West End still outranks the City, where recovery is slower. At a vacancy rate of 5 percent, the West End has its lowest vacancy rate in four years and CBRE's rental index for the area is up 3.6 percent year over year. In addition, new supply is 40 percent lower than its peak in 2003 and many interviewees see the West End as a healthy development option.

Exhibit 3-4

Prospects for the London Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Good	6.2	2nd
Total Returns	Modestly Good	6.0	5th
Risk	Modestly Low	6.4	2nd
Rent Increases	Modestly Good	5.9	1st
Capital Growth	Modestly Good	5.8	8th
Supply/Demand Balance	Fair	5.4	4th
Development	Modestly Good	5.7	5th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	53%	33%	14%
Retail	24%	44%	32%
Industrial/ Distribution	38%	47%	16%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Respondents generally believe the office sector has two to three good years of performance ahead of it. The City lags in its recovery, but it is starting to see positive demand figures that have reduced ready-to-occupy space to 10 percent. Tenant incentives need to be worked out of the market before anything more than marginal rental growth is seen.

For retail property, high-street retail yields in London are among the lowest in Europe at 4.25 percent, and London is one of the lowest-rated cities in our survey for retail property buying prospects. However, interest could pick up for Oxford Street if plans by the local business improvement districts proceed with a major refurbishment to provide more flagship stores, hotels, and restaurants.

One word litters the survey responses from the U.K.: REITs. Finally, the market's ambitions for a tax-transparent vehicle look set to be realised, though several issues are yet to be resolved. Notably, the government made no early indications on the level of an exit tax other than to reiterate that it would take no chances in losing tax revenue from the REITs' introduction. There are also concerns that the government will introduce a development land tax. Worries about the implications of the tax have come from all sectors. The retail industry is worried that schemes in regeneration areas could be at risk, while the housing industry says fewer sites could come forward for residential if they become subject to this tax.

Helsinki

Helsinki jumped from sixth place last year to third in the rankings for 2006. The city ranks in the top ten in risk-adjusted total returns (third), total returns (seventh), and city risk (fourth). Rent increases and capital growth should be modestly good in 2006, and a high percentage of survey respondents recommend buying office (65 percent) and retail (62 percent) in Helsinki, while less than 5 percent believe

Exhibit 3-5

Prospects for the Helsinki Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Good	6.1	3rd
Total Returns	Fair	5.9	7th
Risk	Modestly Low	6.3	4th
Rent Increases	Modestly Good	5.5	8th
Capital Growth	Modestly Good	5.8	7th
Supply/Demand Balance	Fair	5.0	9th
Development	Fair	5.5	11th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	65%	30%	5%
Retail	65%	30%	5%
Industrial/ Distribution	35%	47%	18%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Madrid *and* **Barcelona** *in ageing industrial locations.*

that 2006 is a good time to sell in either property sector. Industrial properties are seeing far less interest. Yields are relatively high for Europe at 6.5 percent for both office and high-street retail properties, and very high for industrial at 10.3 percent.

Office vacancy rates increased in 2005 and there are structural differences between older and newer office stock, with oversupply a potential risk in 2006. Helsinki has "passed the worst," states one experienced investor in the market. There is strong demand from foreign investors for Helsinki office properties; according to a year-end market report, 20-plus foreign property investment firms have been active in the market over the last several years.

Madrid

There's a national victory for Madrid this year as it beats Barcelona in the rankings for the first time. This reflects investors' sentiment that the Spanish capital is reaching a turning point. Last year, there was caution over the huge supply of offices on the outskirts—which was still mentioned in several 2006 interviews. While it remains a heavily supplied market, there has been little change in the vacancy in 2005, and speculative supply in 2006 and 2007 will be no more than 550,000 square metres. Demand has been steady in 2005, giving respondents more confidence for including Madrid on their prospects list. A solid majority (61 percent) rate Madrid a "buy" market for office properties. Enthusiasm among some is tempered by the perception that Madrid is a "medium-term" prospect, while others note the possibility of undersupply in key areas and think central Madrid provides opportunities for Grade A office development.

Solid prospects for industrial are expected in 2006 as its location creates opportunities in the main corridors from Madrid to Barcelona, Valencia, and Toledo. Respondents expect to see a rise in demand from tenants and investors in these areas. The best possibilities of development in this sector are between Madrid and Zaragoza. Madrid is also a highly rated "buy" market for industrial properties, with 63 percent giving a buy recommendation.

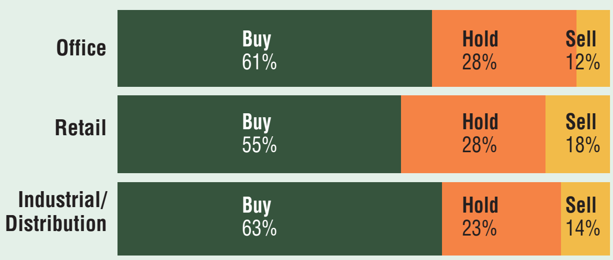
Madrid ranks in the mid range for retail (55 percent recommend buying) and there is a 50/50 view among interviewees as well. Madrid has some of the worst prospects for some, whereas others say there is still value in the eastern side of the city. An infill approach appears to be favoured, with developers looking at smaller centres for more innovative schemes such as development at train stations.

Survey respondents frequently mentioned Madrid when questioned about urban regeneration opportunities across Europe. Domestic and foreign investors alike see a variety of redevelopment opportunities in Madrid and Barcelona in ageing industrial locations. Infrastructure improvements supporting urban regeneration include the extension of the Paseo de la Castellana thoroughfare, which will have associated development of 1 million square metres of offices and retail space.

Exhibit 3-6
Prospects for the Madrid Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Good	6.0	4th
Total Returns	Modestly Good	6.0	4th
Risk	Modestly Low	5.9	9th
Rent Increases	Modestly Good	5.9	2nd
Capital Growth	Modestly Good	5.8	6th
Supply/Demand Balance	Modestly Good	5.5	3rd
Development	Modestly Good	5.5	10th

Investment Recommendation of Survey Respondents



Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Barcelona

On many levels, Barcelona should reign supreme over Paris. Without the adjustment for city risk, Barcelona actually takes the top spot as it beats Paris this year in outlook for both rent increases and capital growth, and it places second behind Istanbul for total return prospects. Barcelona is also on par with Paris for its supply/demand balance and development outlook. The city just doesn't have the size and the liquidity, which holds back this continually attractive city at fifth place overall, though it rose from its eighth-place position last year.

The majority of respondents are attracted by what they think will be a continuation of strong rental growth in 2006. Those surveyed describe it as a "gradual" improvement in fundamentals. Yet, it is scaring off some investors for 2006; they refer to Barcelona as a "difficult" market in which to find

The Dublin market is its own internal engine. **Growth** *continues to be impressive; it*

Exhibit 3-7 **Prospects for the Barcelona Real Estate Market in 2006**

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Good	5.9	5th
Total Returns	Modestly Good	6.1	2nd
Risk	Modestly Low	5.7	14th
Rent Increases	Modestly Good	5.8	3rd
Capital Growth	Modestly Good	5.9	3rd
Supply/Demand Balance	Modestly Good	5.6	2nd
Development	Modestly Good	5.8	4th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	48%	41%	11%
Retail	55%	34%	11%
Industrial/ Distribution	68%	19%	14%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

value and with prime office yields at 5 percent, which is ten basis points lower than Paris, it is definitely too hot for some. Others continue to find Barcelona appealing and point to opportunities for refurbishment, whether offices or residential.

Respondents believe the fringe and out-of-town market will continue to do well in 2006. Demand has picked up, supply is in check, and rents are favourable to prospective tenants. Second-tier-city syndrome is also hitting Spain. Respondents mention Valencia and Malaga as high-growth areas that are attracting interest from international investors that in the past considered only Barcelona and Madrid. In these second-tier cities, they say, pricing has not adapted to reflect the growth prospects.

Barcelona industrial jumps to third place in 2006 in terms of buy recommendations, compared with mid-range mediocrity last year. Respondents talk of good prospects in areas where main communication centres link Madrid to Barcelona. Interestingly, retail sparks little interest anecdotally and it is a stable-to-down market, unlike office or industrial. However, more than 50 percent say it warrants a buy rating, if the opportunity arose.

Stockholm

Stockholm's prime yields continued to fall in 2005, driven by a competitive investment environment and an increase in the number of investors from Norwegian and Danish property firms. Declining office vacancy rates are positive, although still higher than levels seen during the late 1990s. A "jobless" recovery in 2006 coupled with increased construction risks may dampen future investment capital flows. Respondents overwhelmingly choose "buy" or "hold" for each property type in Stockholm for 2006. City risk ratings are favourable, while capital growth and development ratings are fair. Speculative office developments in 2006 may signal future supply/demand imbalance in the office market.

Interviewees from the Nordic region mention hotels, mixed-use, and industrial property types as alternative investment and development opportunities in Stockholm in lieu of the aggressive office sector.

Exhibit 3-8 **Prospects for the Stockholm Real Estate Market in 2006**

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Good	5.9	6th
Total Returns	Modestly Good	5.6	13th
Risk	Modestly Low	6.2	6th
Rent Increases	Modestly Good	5.5	7th
Capital Growth	Fair	5.3	13th
Supply/Demand Balance	Fair	4.7	21st
Development	Fair	5.1	18th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	48%	43%	9%
Retail	45%	45%	10%
Industrial/ Distribution	40%	44%	16%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Dublin

The Dublin market is its own internal engine. Growth continues to be impressive; it is down from the high levels of the late 1990s but continues to outpace Europe, with a higher growth rate expected in 2006. More important, the strength is domestic, with less reliance on foreign direct investment and more economic generation of indigenous companies.

is down from the high levels of the late 1990s but continues to outpace Europe.

Exhibit 3-9

Prospects for the Dublin Real Estate Market in 2006*

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Good	5.8	7th
Total Returns	Modestly Good	5.7	11th
Risk	Modestly Low	6.0	8th
Rent Increases	Modestly Good	5.6	6th
Capital Growth	Fair	5.3	17th
Supply/Demand Balance	Fair	5.1	7th
Development	Fair	5.2	14th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	22%	44%	35%
Retail	20%	55%	25%
Industrial/ Distribution	18%	59%	23%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

** Fewer than 20 (but no fewer than 14) survey respondents rated this city on some measures.*

Domestic demand and capital sources are also the engine of Dublin's investment and lettings markets. Three years of sluggish conditions in the office sector turned round in 2004, and early indications are that respondents expect sustained demand through 2006, once again primarily from domestic firms. Office vacancy declined from 13.8 to 11.3 percent during the year ending in the third quarter of 2005. Drawbacks for 2006 are that deals are starting to take longer to transact as negotiations are prolonged by fighting over incentives. In some sectors, particularly manufacturing, Irish companies are facing competitive pressures from overseas firms. In the office market, strong lettings continue to drive rental and capital growth, fuelling investor demand. Once again, the majority of the investors are locals. Other Europeans are interested but continue to find themselves outbid by strong local buyers. Office property yields as of third-quarter 2005 were—together with London—the lowest in Europe at 4.5 percent.

Retail properties have been in demand, but prices are now quite high, with high-street retail yields now at the near-ridiculous level of 3 percent. These yield levels are undoubtedly among the prime reasons that survey respondents do not give a high buy recommendation for Dublin retail, suggesting that holding is the best strategy for 2006. Supply is curtailed, with restrictions on large-scale schemes, but European retailers continue to want to get into the high street in an effort to capture the spending power of the young age profile in Dublin. Any worries in this sector are out of Dublin, with concerns that the amount of retail warehousing in provincial cities will be realised.

Investor interest in the hotel market may well tail off from 2005 levels as tax incentives designed to stimulate development end, with qualifying projects needing to be finished by July. Irish buyers' reputation is just as strong overseas, but for some it may be time to realise the gains, despite its seventh-placed ranking for total returns among European cities. As one respondent says: "Dublin is very strong and may be a sell to buy elsewhere."

One interesting note on Dublin: the sell recommendations for office, retail, and industrial are above average when compared with other markets. Are the high sell recommendations a market signal that the property cycle has peaked, or an opportunity for foreign investors to buy from willing domestic owners? As yields for office, retail, and industrial properties in Dublin are the lowest in Europe, according to CB Richard Ellis, investors will need to bank on growth in rents, rather than further yield compression, to achieve attractive returns in 2006.

Lyon

Lyon punched above its weight in last year's return-adjusted prospect rankings and it is just about holding its own again this year. It has dropped four spots to eighth place and, while it is still named by many as a top ten favourite prospect, this is countered by talk of competition and increasing prices. In 2006, Lyon continues to head the pack of second-tier French

Exhibit 3-10

Prospects for the Lyon Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Good	5.8	8th
Total Returns	Modestly Good	5.9	6th
Risk	Modestly Low	5.6	15th
Rent Increases	Fair	5.3	9th
Capital Growth	Modestly Good	5.9	4th
Supply/Demand Balance	Fair	5.4	5th
Development	Modestly Good	5.7	6th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	64%	28%	8%
Retail	68%	24%	8%
Industrial/ Distribution	64%	24%	12%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Investors rate **Copenhagen** *as the city with the lowest risk of any in the survey.*

cities, which are benefiting from the overspill of competition in Paris. Office property yields in Lyon at 7.5 percent are still 160 basis points above Paris at 5.1 percent. It is a smaller, less liquid market, but respondents have the confidence to believe that development with some preletting will be possible in 2006. While Lyon is perceived as being somewhat risky, over 60 percent of survey respondents recommend buying office, retail, and/or industrial properties in Lyon in 2006, making it one of the favourite "buy" markets in Europe.

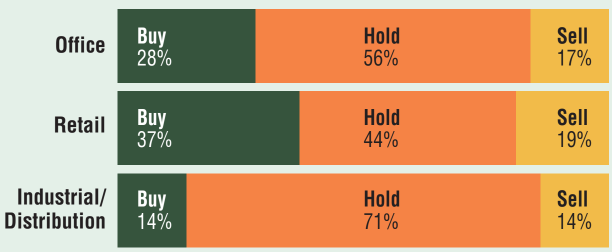
Copenhagen

Copenhagen has moved into the elite top ten market rankings in 2006 from the middle of the pack last year. Falling yields, fundamental improvements, and optimism regarding employment growth in 2006 fuel positive expectations that flat prime rents in 2005 will improve in 2006. Investors also rate Copenhagen as the city with the lowest risk of any in the survey, which significantly bolstered its rating. Positive economic growth is sustaining property market demand and foreign investment is visible in the market. Retail properties attracted foreign investors in 2005 with continued interest in 2006. The hold recommendation for industrial at 71.4 percent is the highest among all property markets, and the hold recommendation for office is high as well, with office vacancy at a fairly low 7.2 percent.

Exhibit 3-11 **Prospects for the Copenhagen Real Estate Market in 2006***

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Good	5.7	9th
Total Returns	Fair	5.0	21st
Risk	Low	6.5	1st
Rent Increases	Fair	4.9	13th
Capital Growth	Fair	5.2	20th
Supply/Demand Balance	Modestly Poor	4.0	25th
Development	Modestly Poor	4.0	27th

Investment Recommendation of Survey Respondents



Source: Emerging Trends in Real Estate Europe 2006 *survey.*

** Fewer than 20 (but no fewer than 14) survey respondents rated this city on some measures.*

Edinburgh

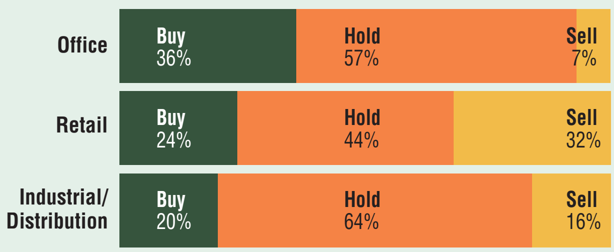
Edinburgh rounds out the top ten favourite markets—the same ranking it held in 2005. In 2006, Edinburgh's office market will experience the full impact of its reaction to an oversupply problem dating back to 2000. No new buildings will be completed in the city in 2006, giving Edinburgh a driver for short- and medium-term rental growth. However, next year also depends on how demand fares. The market had an expectation of improved take-up in 2005, but this is proving premature as demand was down 40 percent compared with the same levels in 2004. Office yields stood around 5.5 percent in late 2005.

German investors have been active in the city for more than a decade and they continue to head a cosmopolitan mix of players. There is little the city can do to satisfy the weight of money it experiences. It is a tighter market than more traditional U.K. locations and, as such, has a stronger disposition towards owner occupation.

Exhibit 3-12 **Prospects for the Edinburgh Real Estate Market in 2006**

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Good	5.7	10th
Total Returns	Fair	5.4	14th
Risk	Modestly Low	6.0	7th
Rent Increases	Fair	5.2	11th
Capital Growth	Fair	5.4	12th
Supply/Demand Balance	Fair	4.8	17th
Development	Fair	5.0	20th

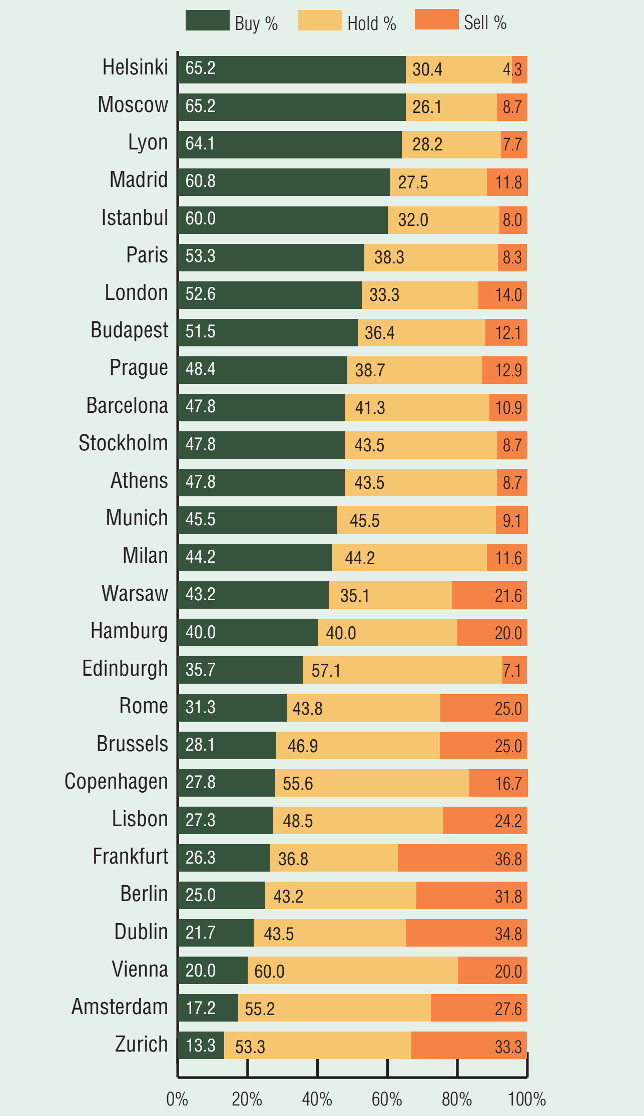
Investment Recommendation of Survey Respondents



Source: Emerging Trends in Real Estate Europe 2006 *survey.*

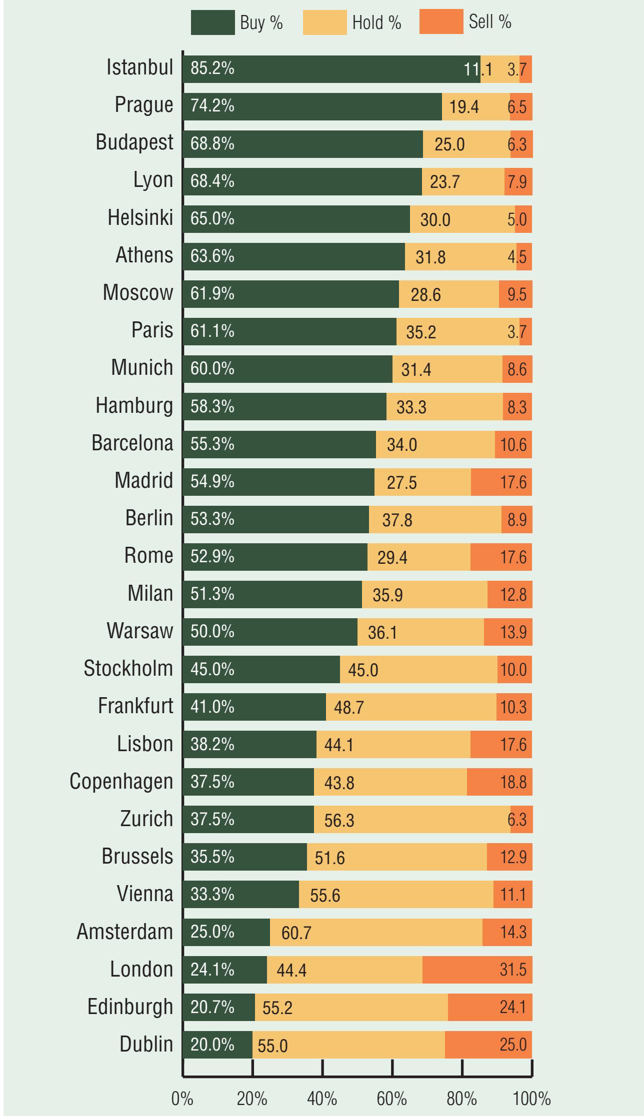
On the retail side, a dearth of opportunities for large floor plate retailers is holding the city back compared with competitors such as Glasgow. The city is considering for a second time a big-bang solution at Waverly Station, but this is in its early days yet. The market is well liked overall in our survey, coming in tenth, but on an individual-sector level there is more scepticism over its place as a buy city, with most recommending holding.

Exhibit 3-13 Office Property Buy/Hold/Sell Recommendations by City



Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Exhibit 3-14 Retail Property Buy/Hold/Sell Recommendations by City



Source: Emerging Trends in Real Estate Europe 2006 *survey.*

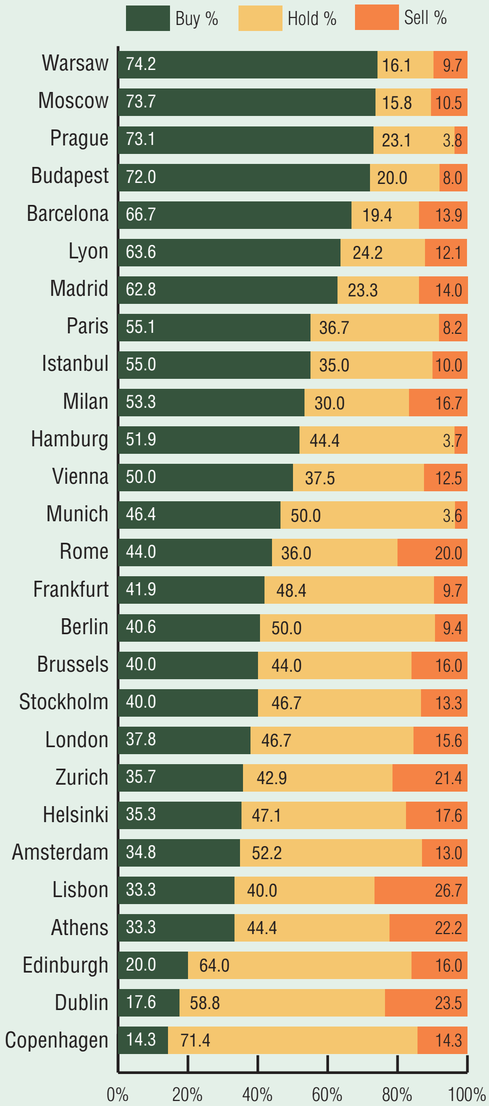
The Middle-Ranked Markets

Prague

Prague comes in at the 11th ranking in this year's survey, with fairly strong total return prospects but some investor concern about risk. Prague also offers one of the better development outlooks in Europe, ranking seventh on this measure.

Office vacancy rates decreased in 2005 to the lower teens from the mid teens in 2004 due to information technology and business service positive take-up. Respondents' office buy recommendation decreased from 73 percent in 2005 to 48 percent in 2006, indicating that a larger percentage of

Exhibit 3-15 **Industrial/Distribution Property Buy/Hold/Sell Recommendations by City**



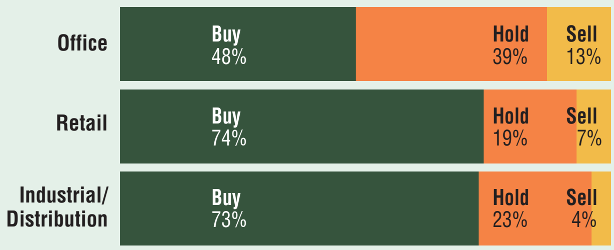
Source: Emerging Trends in Real Estate Europe 2006 *survey.*

investors see office as a hold in Prague for the next year. The buy recommendation for retail has increased to 74 percent, up from 65 percent in 2005, whereas Prague's top ranking as an industrial buy city in 2005 has decreased slightly to 73 percent in 2006—still one of the top industrial buy recommendations in 2006.

Exhibit 3-16 **Prospects for the Prague Real Estate Market in 2006**

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Good	5.5	11th
Total Returns	Modestly Good	5.9	8th
Risk	Moderate	5.1	20th
Rent Increases	Fair	4.9	14th
Capital Growth	Modestly Good	5.6	11th
Supply/Demand Balance	Fair	5.1	6th
Development	Modestly Good	5.5	7th

Investment Recommendation of Survey Respondents



Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Prime yields for office, retail, and industrial properties remain on the high side for European cities, ranging from 7 percent for office up to 8.75 percent for industrial, according to CBRE.

Zurich

Foreign investors are starting to make an impact in what remains one of Europe's weakest office markets. It is a big change for the market to see international interest in a historically domestic market. Private investors—often Middle Eastern in origin if not location—are taking the long view on investments in Zurich, pricing locals out of the market with yields of 4.5 to 4.8 percent, compared with previous levels of 5.5 percent. Respondents expect the international presence to grow in 2006. Zurich continues to rank as one of the lowest-risk markets in Europe.

However, the consensus is that 2006 will be a more difficult year and survey respondents agree; only 13 percent recommended buying offices in 2006, placing Zurich at the bottom of the "buy" recommendations list. The backdrop is a predicted weak economic growth rate, which has translated into little demand for office space. Leasing activity in 2006 is likely to remain the same as occupiers take advantage of consolidating businesses and upgrading offices rather than activity that affects net absorption. Capital has remained available *in 2006.*

Exhibit 3-17

Prospects for the Zurich Real Estate Market in 2006*

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Good	5.5	12th
Total Returns	Fair	4.7	25th
Risk	Modestly Low	6.3	5th
Rent Increases	Fair	4.5	24th
Capital Growth	Fair	4.7	24th
Supply/Demand Balance	Fair	4.9	16th
Development	Fair	4.8	22nd

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	13%	53%	33%
Retail	38%	56%	6%
Industrial/ Distribution	36%	43%	21%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

** Fewer than 20 (but no fewer than 14) survey respondents rated this city on some measures.*

and disciplined, although respondents report that this discipline is starting to slip away with the desire to invest. There are discussions on the horizon to widen to residential the Lex Friedrich legislation, which opened up the country to foreign ownership of commercial properties. Housing is an emotive issue in Switzerland and one that is likely to be resolved through a referendum.

Brussels

The home of the European Union slipped in overall rankings from 2005 to 2006, primarily due to less favourable city risk ratings. Investors appear mixed on office investment and development, although residential appears acceptable. Several investors ranked residential development in Brussels on par with London and Paris. Office supply in 2006 is a potential risk affecting rent growth expectations, and Brussels is one of a few markets where office vacancies have been on the increase, rising 100 basis points over the past year to 11.7 percent as of the third quarter of 2005. The private sector is showing modest gains in office occupancy share and respondents indicate a major fight for tenants over the next year with significant relocation opportunities. One investor stated,

Exhibit 3-18

Prospects for the Brussels Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Good	5.5	13th
Total Returns	Fair	5.1	18th
Risk	Modestly Low	5.8	12th
Rent Increases	Fair	4.7	19th
Capital Growth	Fair	4.8	23rd
Supply/Demand Balance	Fair	4.8	18th
Development	Fair	4.9	19th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	28%	47%	25%
Retail	36%	52%	13%
Industrial/ Distribution	40%	44%	16%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

"…E.U. institutions are prepared to look outside the traditional Leopold area" in Brussels, with non-CBD locations growing increasingly attractive.

Brussels, a very pan-European investment market, shows improved prospects as a distribution market, as respondents increased the "buy" recommendation for industrial in 2006 versus 2005. On the other hand, investors' enthusiasm for buying retail and office properties has waned considerably from last year.

Hamburg

Hamburg moves up from the fourth-lowest spot in 2005 to the middle-ranked cities in 2006. "The city may come back in 2006 . . ." asserted one interviewee. The final stages of the FIFA World Cup in July 2006 provide a "world stage" opportunity for Hamburg to showcase itself to a global audience. Survey respondents describe rent increases, capital growth, supply/demand balance, and development issues as fair—very similar to Munich's ratings and higher than Berlin and Frankfurt.

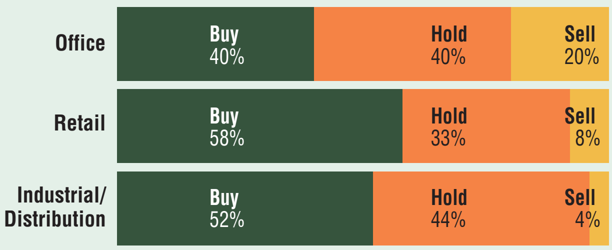
Budapest gains ground from the lower tier in 2005 to the **middle-ranked** *tier*

Exhibit 3-19

Prospects for the Hamburg Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Fair	5.4	14th
Total Returns	Fair	5.0	20th
Risk	Modestly Low	5.8	11th
Rent Increases	Fair	4.6	21st
Capital Growth	Fair	5.0	21st
Supply/Demand Balance	Fair	4.7	20th
Development	Fair	5.2	15th

Investment Recommendation of Survey Respondents



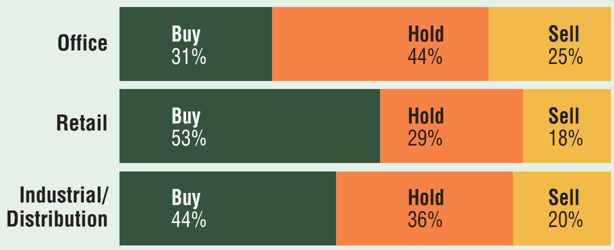
Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Exhibit 3-20

Prospects for the Rome Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Fair	5.4	15th
Total Returns	Fair	5.0	22nd
Risk	Modestly Low	5.8	10th
Rent Increases	Fair	4.6	23rd
Capital Growth	Fair	5.3	14th
Supply/Demand Balance	Fair	4.9	14th
Development	Fair	5.3	12th

Investment Recommendation of Survey Respondents



Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Hamburg's buy signals improved for all property sectors compared with last year. Office vacancy rates were stable in 2005 at 8.5 percent, with continued positive take-up trends throughout the year. If office rents eventually improve, coupled with continued positive take-up trends throughout 2006, the fairly strong buy rating for office may turn out to be understated for the year. "Buy" recommendations for office have risen to 40 percent in 2006—a significant increase from 27 percent in 2005. Buy signals for retail and industrial also increased from 2005's ratings of 32 percent and 31 percent up to 58 percent and 52 percent, respectively. Office yields stood at 5.3 percent as of third-quarter 2005, up 30 basis points from a year earlier.

Rome

Rome remains a government town, but some respondents predict that this stability will soon be the backdrop for something more. "Rome is slowly but surely moving into the limelight," says one respondent. "Good, but not amazing," is a more moderate view expressed by other interviewees. Rome is one of a minority of cities that did not experience yield declines in 2005 in the office sector, with yields holding steady at 5.75 percent.

Some international investors continue to get exposure to the city through major portfolio deals such as the Carlyle Group and private investor Operae's joint venture to buy 26 assets for €255 million in Rome, Milan, and Turin. Refurbishment opportunities are welcomed in a market with limited prime space, but interviewees add that the high level of middle-quality space offers the market an inherent stability. Tenants may start to look at out-of-town submarkets such as the EUR business district, where a majority of new space is proposed.

The attraction of the retail sector has declined for buyers, falling from a 61 percent buy rating for 2005 to a 53 percent buy rating for 2006. However, there are signs of momentum in this sector as the industry continues to react to Italy's generally undershopped status. Cushman & Wakefield Healey & Baker (CWHB) estimates that Italy's retail space per 1,000 inhabitants is 130 square metres, well below the E.U. average of 159 square metres. New retail supply will bring 273,000 square metres into the market by the end of 2006 in three major schemes in Rome, with expectations of increasing international investment interest.

Budapest

Budapest gains ground from the lower tier in 2005 to the middle-ranked tier in 2006, largely due to its improved risk rating. The city ranks in the top ten markets in several benchmarks such as prospects for total returns, capital *in 2006, largely due to its improved risk rating.*

Exhibit 3-21

Prospects for the Budapest Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Fair	5.4	16th
Total Returns	Modestly Good	5.8	9th
Risk	Moderate	4.9	21st
Rent Increases	Fair	5.1	12th
Capital Growth	Modestly Good	5.6	9th
Supply/Demand Balance	Fair	5.0	12th
Development	Modestly Good	5.5	9th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	52%	36%	12%
Retail	69%	25%	6%
Industrial/ Distribution	72%	20%	8%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Exhibit 3-22

Prospects for the Munich Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Fair	5.4	17th
Total Returns	Fair	5.1	19th
Risk	Modestly Low	5.6	16th
Rent Increases	Fair	4.8	18th
Capital Growth	Fair	5.3	16th
Supply/Demand Balance	Fair	4.7	22nd
Development	Fair	5.2	13th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	46%	46%	9%
Retail	60%	31%	9%
Industrial/ Distribution	46%	50%	4%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

growth, and development. The industrial buy rating at 72 percent remains strong, albeit 11 basis points lower than 2005, and compares favourably with the other top-ranked industrial markets of Warsaw, Prague, and Moscow. Office vacancy rates declined 400 basis points in 2005 to 13 percent as of the third quarter, due to solid demand and limited new supply. The above-average office buy rating of 51.5 percent reflects survey respondents' optimism for this property sector in 2006. Retail receives favourable buy ratings as well, with 68.8 percent rating it a buy; retail is diversifying in locations around the city and also into various retail formats.

Munich

Munich is the second German city to jump from the lower ranks in 2005 into the middle ranks of European property markets in 2006. Just like Hamburg's, Munich's rise is due to improved property fundamentals during 2005. Office vacancy rates remained within the 9 percent range with continued take-up through most of 2005, and respondents' office buy rating has increased from 27 percent for 2005 to 45.5 percent in 2006. Office yields increased 20 basis points to 5.2 percent as of the third quarter of 2005, according to CBRE. "Munich may start to pick up while Frankfurt may continue to underperform . . . " in 2006, suggests one interviewee, a sentiment that was echoed by other respondents. Retail buy recommendations increased from 41 percent for 2005 to 60 percent for 2006 and industrial buy recommendations also increased from 36 percent for 2005 to 46 percent in 2006. Interviewees mention Munich as a growing market for retail warehouse development opportunities.

Milan

Milan tumbled down the markets-to-watch rankings this year from second place in 2005 to 18th in 2006. Interviewees view the market as nonvolatile with modestly low risk, but its risk rating declined for 2006. The city also lost its footing in the retail buy recommendations, falling from first place to 15th. Rental and capital growth prospects fared no worse than last year, and the city appears to have suffered in part from the fact that other cities around it are just getting more attractive. Milan ranks in the middle for industrial prospects, but options are limited with few sites—and small ones at best—to invest or develop.

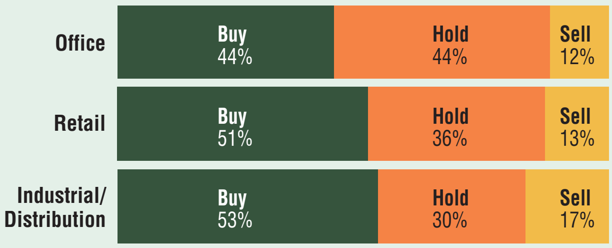
Interviewees now see declining interest from international investors in Milan. Foreign investors' presence is still very relevant, but with fewer corporate spin-off transactions, potential portfolios are becoming too small for foreign investors. Instead, the real estate funds are taking a good share as are the property companies, which have gained critical mass over the last five years.

Istanbul remains a **favourite** *with buyers despite its higher risks.*

Exhibit 3-23 Prospects for the Milan Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Fair	5.4	18th
Total Returns	Fair	5.1	17th
Risk	Modestly Low	5.6	17th
Rent Increases	Fair	4.8	17th
Capital Growth	Fair	5.3	15th
Supply/Demand Balance	Fair	5.0	5th
Development	Modestly Good	5.5	11th

Investment Recommendation of Survey Respondents



Source: Emerging Trends in Real Estate Europe 2006 *survey.*

A worry for Milan's prospects in 2006 is the view that Italy's real estate liquidity spreads to many of the smaller towns in the country, thus increasing the number of competitive markets. Investors are starting to see good opportunities all over Italy, mainly in the northeastern part of the country (although some see this as a "one-way" investment), but also in the less wealthy south. This has been proved, say respondents, with the breakup of Enel and Ferrovie Italiane's office and residential portfolios, which were spread all over the country.

There is scope for development, but investors, particularly international ones, are still cautious over the risks from a protracted process. A prelet might make the proposition more palatable. On a large scale, a few are taking the risk. Italian developer Risanamento is due to start work on its Montecity scheme in the southeast of Milan, which will provide 170,000 square metres of offices as well as housing and retail. Prospects for property supply/demand balance are better than for most European cites, as Milan ranks fifth on this measure.

Hotels pique an interest with some respondents as the city (and country) have few hotel chains and the sector is still very fragmented, despite demand from both tourist and business travel markets. There are a few transactions, but they tend to be small; others note that while there are plenty of projects on paper, few are interesting enough to warrant an investment in the sector.

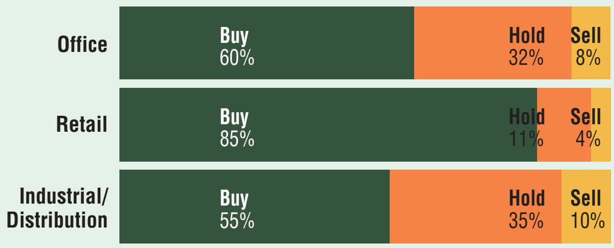
Istanbul

Although Istanbul dropped in the rankings for risk-adjusted total returns for 2006, its rating remained the same and the city still captures top ranking for development, capital growth, and total returns and fourth place for rent growth. It suffers in the overall rankings again because of its poor risk rating, the second worst in our survey behind Moscow. Survey respondents appear optimistic for sustained economic growth as evidenced by the very high retail "buy" rating at 85 percent, up from 47 percent in 2005. Foreign investors are acquiring significant shares of existing retail properties and looking for development opportunities in an expanding market. Well-located office buildings in the CBD of Levent command premium rents in a high-occupancy market, and office yields, while still high at 10 percent, have fallen 300 basis points over the past year. Survey respondents also give Istanbul a high buy rating for office. Others believe the Mediterranean coast offers residential and resort opportunities targeting European and Middle Eastern homebuyers and tourists.

Exhibit 3-24 Prospects for the Istanbul Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Fair	5.3	19th
Total Returns	Good	6.5	1st
Risk	Modestly High	4.0	26th
Rent Increases	Modestly Good	5.7	4th
Capital Growth	Good	6.5	1st
Supply/Demand Balance	Fair	5.0	13th
Development	Modestly Good	6.3	1st

Investment Recommendation of Survey Respondents



Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Vienna

Vienna drops from 14th to 20th place in the risk-adjusted total return rankings for 2006. Buy recommendations are below average for retail and office, and average for industrial properties. Austria's influence in the European theatre tends to be through its investors, who are increasingly active in central Europe and Russia, often taking the lead for international

Exhibit 3-25

Prospects for the Vienna Real Estate Market in 2006*

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Fair	5.3	20th
Total Returns	Fair	4.8	23rd
Risk	Modestly Low	5.8	13th
Rent Increases	Fair	4.9	15th
Capital Growth	Fair	5.0	22nd
Supply/Demand Balance	Fair	5.0	10th
Development	Fair	5.1	19th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	20%	60%	20%
Retail	33%	56%	11%
Industrial/ Distribution	50%	37%	13%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

** Fewer than 20 (but no fewer than 14) survey respondents rated this city on some measures.*

investment along with the Germans. Back home, domestic property firms are regaining territory by squeezing out international investors. According to CBRE, international investors previously accounted for 50 percent of the investment market, adding that the market is judging acquisitions on lease length and covenant rather than location and condition. This may explain the 20–basis point yield compression for office properties in the past year to a heady 4.8 percent. Demand may be up, but everything else—supply and rents—is stable, with nothing set to change for 2006. Investor interest in neighbouring eastern European countries such as Slovakia is growing.

Lisbon

Portugal's outlying European location has led international investors to label Lisbon as undiscovered territory in their pursuit of product. To a certain extent, investors have been disappointed: the supply of product is no different there and competition is as high, with local private investors getting in on the act. Yields are somewhat higher than other prime markets at 6.75 percent for prime office properties and 7 percent for high-street retail. However, Lisbon's ranking at seventh from bottom in our risk-adjusted ratings illustrates that the premium is not enough for most, and respondents are not enthusiastic about buying prospects in office, retail, or industrial property sectors.

If the government finally settles lease law reforms satisfactorily, international interest may increase. A strong majority government should ease reforms into place for the beginning of 2006. The laws will mean less flexibility for tenants to vacate on short notice, giving more confidence for landlords to invest. Even in light of reforms, the office sector is still risky, with low demand and excess supply. Office vacancy rates have increased dramatically in the CBD, rising from 5 percent in the third quarter of 2004 to 9.12 percent in the third quarter of 2005, according to CBRE. According to Jones Lang LaSalle, the city saw a 54,630-square-metre take-up in the first half of 2005 compared with 95,365 square metres in the same period in 2004. Excess supply in the out-of-town western Corridor market will continue to be a problem into 2006.

Exhibit 3-26

Prospects for the Lisbon Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Fair	5.2	21st
Total Returns	Fair	5.2	16th
Risk	Moderate	5.3	19th
Rent Increases	Fair	4.7	20th
Capital Growth	Fair	5.2	19th
Supply/Demand Balance	Fair	4.7	19th
Development	Fair	4.9	21st

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	27%	49%	24%
Retail	38%	44%	18%
Industrial/ Distribution	33%	40%	27%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Any stability for rents is to be found in the CBD, which respondents say could also still sustain new development, if chances arose. Otherwise, the development message for next year is to "pick your opportunities carefully." Retail continues to be the darling investment class in Portugal, but most of the fierce fighting is for properties located outside the capital. One important trend for this sector for 2006 and beyond, which will affect Lisbon, is the move towards intown regeneration projects and the importance of high-street retail. The Portuguese economy generally reflects an extreme version of the European average—at present, it is the extreme of underperformance; thus, there is cause for concern in 2006.

Respondents see few buying opportunities in Amsterdam, but they are not enthusiastic

Warsaw

Warsaw remains at the lower end of the rankings for 2006, similar to its place in 2005. While total return prospects are not bad, the city's risk rating is among the worst in the survey, and its prospects for rent increases and supply/demand balance also receive low ratings. Survey respondents (70 percent) still recommend industrial as a strong "buy," but office and retail buy recommendations have declined from last year. Yet, several interviewees identify Warsaw as a best bet for office in 2006, but ". . . not a market for speculative office development." Office vacancy rates have declined and now fluctuate in the lower teens to single digits, depending on whether you're talking about city centre or noncentral submarkets; most new office supply targets noncentral areas. Some respondents mention Warsaw as a growing "offshoring" market for Europe, further increasing interest in the office sector. One interviewee noted that Warsaw has "many old brownfields in great locations in need of development, especially on east side of the river Wisla."

Exhibit 3-27 Prospects for the Warsaw Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Fair	5.2	22nd
Total Returns	Modestly Good	5.7	12th
Risk	Moderate	4.6	23rd
Rent Increases	Fair	4.6	22nd
Capital Growth	Modestly Good	5.6	10th
Supply/Demand Balance	Fair	4.6	23rd
Development	Fair	5.1	17th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	43%	35%	22%
Retail	50%	36%	14%
Industrial/Distribution	74%	16%	10%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Several interviewees mentioned the return of foreign investment and development, particularly in the industrial sector from firms like ProLogis, due to Warsaw's strategic location as a major distribution hub, and in general from firms such as GE Capital and Heitman, which are back in the market. According to several respondents, urban regeneration is described as ". . . promising but slow," while new residential offers potential development opportunities.

Challenging Markets

Amsterdam

There is little change in Amsterdam in our survey rankings, even though its rating improved over last year's. Rising a few positions up the risk-adjusted return league to 23rd for 2006 is little compensation for its continued grouping with other "challenging" markets near the bottom of our survey rankings. Respondents see few buying opportunities in Amsterdam, but they are not enthusiastic about selling either; it remains a solid "hold" market for most investors.

Exhibit 3-28 Prospects for the Amsterdam Real Estate Market in 2006

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Fair	5.0	23rd
Total Returns	Fair	4.5	26th
Risk	Modestly Low	5.5	18th
Rent Increases	Modestly Poor	3.8	26th
Capital Growth	Modestly Poor	4.4	26th
Supply/Demand Balance	Modestly Poor	4.0	24th
Development	Modestly Poor	4.1	25th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	17%	55%	28%
Retail	25%	61%	14%
Industrial/Distribution	35%	52%	13%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

The office market is seeing a good level of take-up but little net absorption as tenants take advantage of lower costs to relocate. Amsterdam has the highest office vacancy rate (16.8 percent in third-quarter 2005) of the 23 cities covered by CBRE, and this rate showed no improvement over the past year. Investors with a strong stomach can risk investing in this oversupplied office market for yields of around 6 percent. With the right lease length and tenant, investors can underwrite on zero or even negative rental growth, say respondents.

Investors also give some credit to the residential market, but even then a tough local policy on new housing developments causes obstacles. For 2006, all eyes could be on retail. A new retail policy from the government will allow more large-scale retailers to locate on the periphery of cities rather than just "do it yourself" or garden centres. The policy will offer more opportunities for retailers to trade from bigger stores—a certain attraction to international retailers that have been frustrated in their attempts to find large-scale stores in inner cities. Rents for warehouse retail are still low in comparison with those in other European countries, but with a more flexible approach to supply, they are not expected to see dramatic growth from their yearly range of €60 to €125 per square metre.

Berlin

Though it moved up two spots in the rankings, Berlin is still entrenched near the bottom of rankings for 2006. There are some positive trends as the office sector has experienced the highest take-up since 2001 due to public sector demand, outpacing flat private sector demand. Vacancies remain high at around 10.3 percent, according to CBRE; office yields rose from 5.1 to 5.6 over the year ending in the third quarter of 2005. Speculative office development is a major risk in 2006, while new office stock in 2007 appears very moderate. The market still has much to prove to investors before rents start to grow appreciably, supporting our respondents' stable office buy recommendation at 25 percent in 2006 compared with 22 percent in 2005. Industrial buy recommendations are also flat from 2005 levels, remaining at 41 percent. However, the retail buy recommendation has jumped from 38 percent in 2005 to 53 percent in 2006, reflecting some aspirations for positive growth in the economy and disposable incomes.

Exhibit 3-29 **Prospects for the Berlin Real Estate Market in 2006**

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Fair	4.8	24th
Total Returns	Fair	4.8	24th
Risk	Moderate	4.9	2nd
Rent Increases	Modestly Poor	4.1	25th
Capital Growth	Fair	4.6	25th
Supply/Demand Balance	Modestly Poor	4.0	26th
Development	Modestly Poor	4.4	24th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	25%	43%	32%
Retail	53%	38%	9%
Industrial/Distribution	41%	50%	9%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

Athens

It will be a testing 2006 for Athens as it adapts to having value-added tax (VAT) applied to new buildings from the beginning of the year, as opposed to a transfer tax of 9 to 11 percent. The impact had already started to be seen with a rush to get building permits before the end of 2005. There also will be a gradual increase through to 2008 in the "objective values" of buildings, on which tax is based, which has seen those with disposal plans step them up a gear. While residential is likely to see more impact from these VAT plans, the commercial sector is on guard. A framework is also being put in place to launch private/public partnerships in Greece, which could provide more opportunities for developers 2006 onwards.

Athens drops slightly in the risk-adjusted rankings this year to 25th place, third from the bottom. The risk applied to the city anchors it here. Its ratings on prospects for rent increases, capital growth, and development are a bit better and are considered to be fair.

High-net-worth individuals continue to have the run of the market, although the influence of foreign investors is increasing. Their impact is expected to be felt at the €15 million–plus end

Exhibit 3-30 **Prospects for the Athens Real Estate Market in 2006***

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Fair	4.8	25th
Total Returns	Fair	5.3	15th
Risk	Modestly High	4.3	25th
Rent Increases	Fair	4.9	16th
Capital Growth	Fair	5.2	18th
Supply/Demand Balance	Fair	4.9	15th
Development	Fair	5.1	16th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	48%	43%	9%
Retail	64%	32%	4%
Industrial/Distribution	33%	44%	22%

Source: Emerging Trends in Real Estate Europe 2006 *survey.*

** Fewer than 20 (but no fewer than 14) survey respondents rated this city on some measures.*

Even though Moscow ranks at the lower end of the pack, survey respondents are conflicted

of the market, with acquisitions below that level remaining the preserve of private investors. Capital values will be affected positively, say respondents, but not exponentially. Many flag up a worry about land prices continuing to rise in 2006, though.

Debt and equity are available in Greece, with debt looking to increase in share in the coming years. Syndicates are expected to be an important source of financing. Most respondents agree that the capital is generally disciplined, but mainly because "there is not an abundance of investment-grade products." Also, with a less transparent market, more care is needed before investing.

Retail is a preferred sector, which shows with its sixth-place ranking on retail buying prospects—64 percent recommend buying retail in Athens—but there is a shortage of product. This is likely to be exacerbated in 2006 as respondents see development interest in retail tailing off but investment interest increasing. Industrial remains an owner-occupier market, so little action is forecasted for 2006. In the hotel sector, development of top-end, five-star hotels is a significant trend for 2006.

Moscow

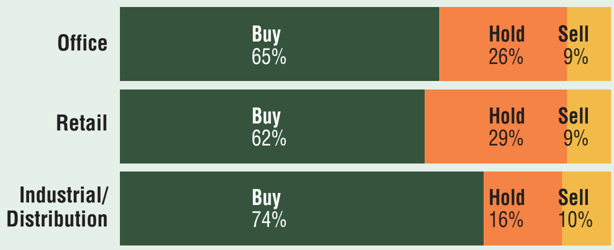
Even though Moscow ranks at the lower end of the pack, survey respondents are conflicted about the market and overwhelmingly indicate strong "buy" signals for all property types, especially industrial. Moscow suffers in the rankings largely because of its poor risk ratings; respondents rate it the highest-risk city of all 27 cities in our survey. This is reflected in office prime yields, which stood at 12.5 percent in the third quarter of 2005, according to CBRE. There is still the ". . . need for the market to become more transparent and open; people should be comfortable that there would be fair, open, clear rules," according to an interviewee active in Russia and other CIS countries. Moscow's risk-adjusted total return rating puts it in 26th place. On the other hand, Moscow ranks highly (second place) on prospects for both capital growth and development.

Exhibit 3-31

Prospects for the Moscow Real Estate Market in 2006*

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Fair	4.8	26th
Total Returns	Modestly Good	5.7	10th
Risk	Modestly High	3.8	27th
Rent Increases	Fair	5.3	10th
Capital Growth	Modestly Good	6.1	2nd
Supply/Demand Balance	Fair	5.1	8th
Development	Modestly Good	5.9	2nd

Investment Recommendation of Survey Respondents



Source: Emerging Trends in Real Estate Europe 2006 *survey.*

** Fewer than 20 (but no fewer than 14) survey respondents rated this city on some measures.*

A limited amount of high-quality space is available in the office sector, with economic demand increasing. Class A office vacancy rates have steadily declined over the last two years, with rental rates increasing in the mid-$800s per square metre per annum, while vacancy rates remain in the 6 percent range and rents are relatively flat. Foreign investors are increasing, with some interest growing from German mortgage lenders. Retail and warehouse vacancy rates have been declining since 2002. The warehouse sector is underdeveloped with "incredible demand," stated one respondent on Moscow's future industrial demand trends. The industrial buy recommendation jumped from 45 percent in 2005 to 74 percent in 2006. Open Investments, Russia's only traded real estate company, recently received a buy recommendation from an investment bank.

about the market and overwhelmingly indicate strong **"buy"** *signals.*

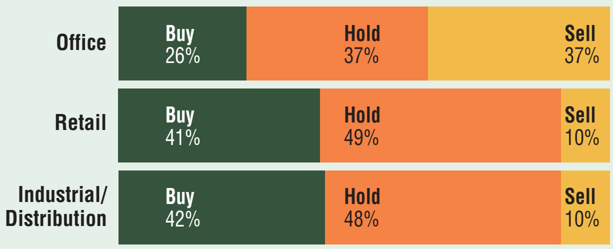
Frankfurt

Frankfurt remains at the bottom in this year's markets-to-watch ranking, with the lowest rankings in risk-adjusted total returns, rent increases, capital growth, and supply/demand balance. Yet, there is some encouraging news; Frankfurt's risk-adjusted total returns and city risk ratings improved over last year's (3.6 and 4.2 in 2005 to 4.8 and 4.9 in 2006, respectively), thus indicating some improvements in prospects as with many other European markets. Buy recommendations in 2006 increased over last year's recommendations for retail and office, while industrial remains flat. Retail's buy recommendation jumped from 27 percent in 2005 to 41 percent in 2006, and office increased from an abysmal 11 percent in 2005 to 26 percent in 2006. Office vacancy rates fell 50 basis points over the past year but remain high at 14.5 percent as of the third quarter of 2005, according to CBRE.

Exhibit 3-32 **Prospects for the Frankfurt Real Estate Market in 2006**

	Prospects	Rating	Ranking
Risk-Adjusted Total Returns	Modestly Poor	4.3	27th
Total Returns	Modestly Poor	4.0	27th
Risk	Moderate	4.6	24th
Rent Increases	Modestly Poor	3.6	27th
Capital Growth	Modestly Poor	4.0	27th
Supply/Demand Balance	Modestly Poor	3.9	27th
Development	Modestly Poor	4.0	26th

Investment Recommendation of Survey Respondents



Source: Emerging Trends in Real Estate Europe 2006 *survey.*