Invesco Real Estate House View

European Market Outlook

Autumn 2011

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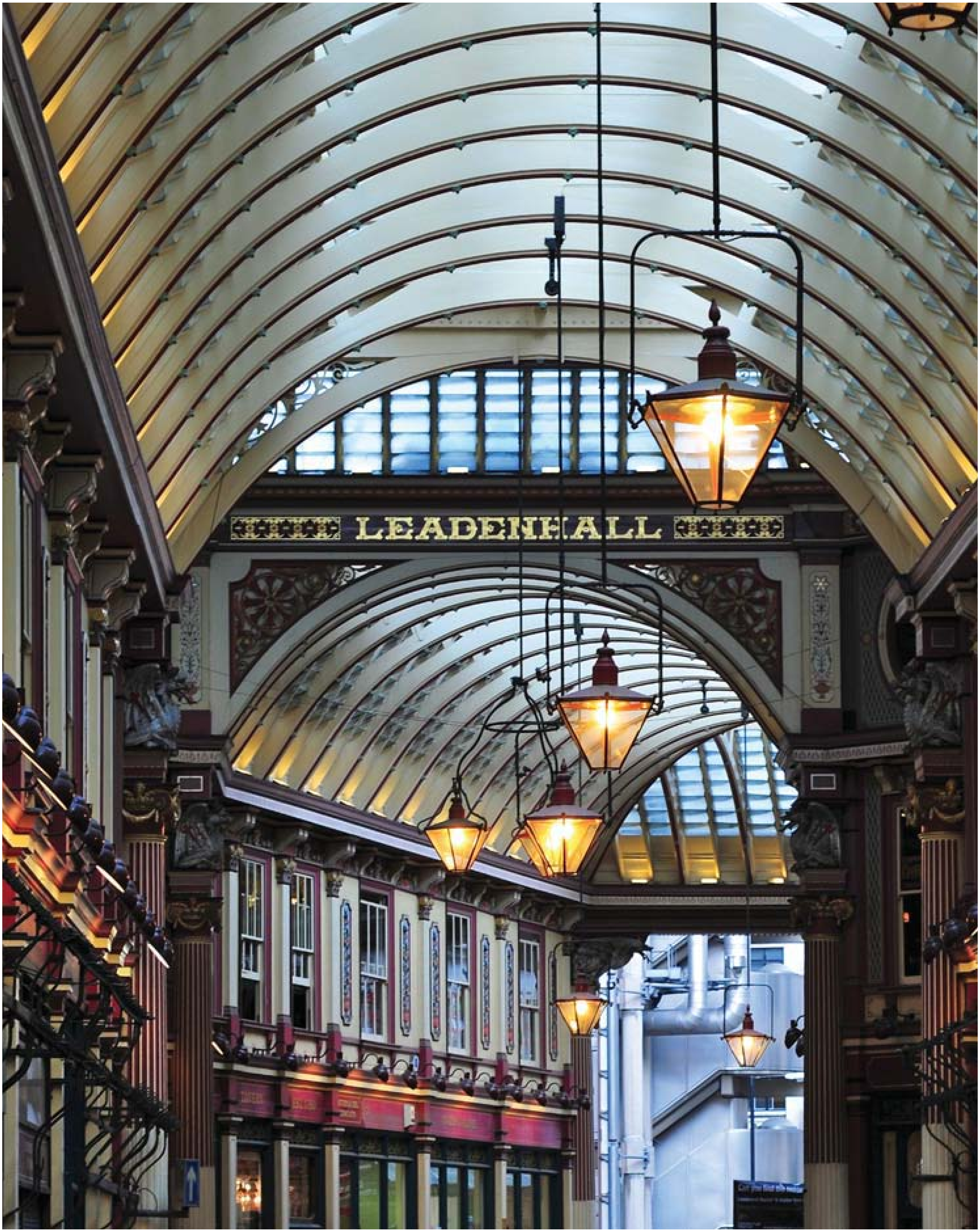
(Cover Image: City View of Stockholm, Sweden)

Table of Contents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Executive Summary

We believe that prime European real estate will continue to attract investors, offering attractive income returns and capital appreciation, despite recent turmoil. However, given the rapidly evolving global economic situation, there is unusually high uncertainty around our forecasts.

The following "headlines" represent the highlights of our autumn 2011 European Market Outlook, which are fully explored in the main report:

- **Nordic real estate is a clear leader in the short term.** Returns in traditional markets (UK, France, Germany and the Nordics), where rental growth is already established and supply is limited, look attractive in the short term. Longer term, Central and Eastern Europe (CEE) and the Southern European markets are expected to provide robust returns.
- **Most markets are expected to produce appropriate returns over five years.** Prime real estate is forecast to significantly outperform government bonds, but few core markets are forecast to achieve returns in excess of 7% pa. This suggests that investors will need to lower their return expectations given their risk aversion.
- **Prime real estate should attract investors seeking income.** We expect capital flows to continue to stabilise prices for prime real estate in the short term. Investors have a narrow view of prime real estate and yields may be pushed down further than anticipated in our spring 2011 forecasts by weight of capital, as risk aversion is higher than expected.
- **Secondary real estate continues to struggle.** The yield gap between prime and secondary has continued to widen as investors remain risk averse. Rents are still falling as demand is weak and vacancy rates for secondary space continue to climb. Recovery in the secondary market is likely to lag prime by at least a year.
- **Value-add remains attractive for long-term holders.** In our view, strategies focused on "curable deficiencies" that manufacture core will find little investor competition and have a place in portfolios. As investors continue to avoid these assets, the period in which these strategies are possible is extended.
- **The three main sectors offer different return profiles.** The office sector is expected to offer the strongest returns in the short term, but the retail sector is stronger mid-term as consumer sentiment improves. Logistics sees less capital appreciation due to weak rental growth, but potentially offers attractive income returns.
- **Hotels are expected to continue delivering attractive returns.** While competition for hotel assets has increased recently, yields and lease lengths remain attractive compared to other property types. Sustainable economic growth is expected to translate to hotel revenue growth quickly.
- **Rental recovery is slower but longer.** The weaker economic outlook has resulted in a moderate downgrade of our rental forecasts, underpinned by weaker short-term demand, especially in the office and retail sectors. However, a lack of development financing and pipeline are expected to continue for longer and therefore elongate the rental recovery phase.
- **No clear resolution to the sovereign debt crisis.** We believe that the sovereign debt crisis remains the biggest threat to ongoing European economic recovery. The ongoing crisis has the potential to create a new credit crunch in the European banking sector and further damage business and consumer confidence, resulting in a new pan-European recession.
- **Interest rates to remain low in 2012.** With governments focused on implementing austerity programmes in order to reduce their deficits, monetary policy is expected to remain loose for at least the next 12 months in order to provide support to current anaemic economic growth.

- **Drivers of growth rebalance towards private sector.** Recent growth has been driven by the private sector rather than the public sector and should set the stage for long-term sustainable growth. Recovery in consumer spending is expected to lag as household balance sheets remain weak and confidence is low in the face of austerity measures and market volatility.
- **Diversity across Europe.** In our base case, the Nordics are forecast to have the strongest economic growth prospects in Western Europe. Southern Europe (Spain, Portugal, Italy and Ireland) is expected to lag Core Europe (Germany, France, Austria, Switzerland and Benelux) and could fall back into recession. Central Europe (Poland, Czech Republic and Slovakia) should deliver robust growth, driven by domestic demand and lower labour costs. Real estate performance is expected to follow a similar pattern given the strong correlation between rental growth and economic performance.

Figure 1 — Five-Year Outlook

✓✓✓ Office Opportunities

Geneva, Lyon, Lille, Marseille, Helsinki, Stockholm, Gothenburg, London (City), London (WE), London (Midtown), London (Docklands), Birmingham, Manchester, Glasgow, Edinburgh, Cardiff, Bristol, Leeds, M25 West, Warsaw, Budapest, Prague and Bratislava

✓✓✓ Retail Opportunities

SSU – Stuttgart, Cologne, Helsinki, Stockholm, Oslo, Manchester, Glasgow, Bristol, Leeds, Warsaw, Budapest, Prague and Bratislava

SHC – Greater Paris, Brussels, Copenhagen, Stockholm, Oslo, London, Manchester, Bristol, Leeds, Warsaw, Budapest and Prague

RW – Lyon, Stockholm, Warsaw, Budapest and Prague

✓✓✓ Industrial/Logistics Opportunities

Helsinki, Gothenburg, Greater London, Glasgow, Edinburgh, Bristol, Budapest and Prague

Key: SSU = Standard Shop Unit/High Street Retail Unit; SHC = Shopping Centre; RW = Retail Warehouse
✓✓✓ = Most opportunities are expected to exceed target returns (excess return is > 1%).

Economic Conditions and Outlook

Our view on the long-run outlook for the economies of Europe is largely unchanged from our spring 2011 view, despite the recent turbulence in world markets and weak Q2 economic results.

For over a year we have taken the view that the recovery would be "bumpy" and protracted, as is typical of the recovery period following a balance sheet recession, but would not result in a double-dip recession at a pan-European level.

Global weaknesses have emerged during Q2, exacerbated by a number of market shocks. The aftermath of the Japanese earthquake disrupted supply chains and caused some problems during the second quarter, but the impact is thought to have been fairly limited in Europe. The first sign of real problems occurred in July when it became apparent that Greece might be close to default and would need a further bail out. The lack of political consensus in reaching a solution spooked the markets, and both Spanish and Italian bond yields also came under pressure, with 10-year yields for both countries rising beyond 6% in early August, before European Central Bank (ECB) intervention brought them back down towards 5%. This was rapidly followed by the downgrading of the U.S. government's credit rating from AAA to AA+ by Standard & Poor's (S&P), coupled with the release of weak H1 2011 U.S. growth figures. The sequence of bad news resulted in significant stock markets declines, increases in Credit Default Swaps (CDS) spreads and corporate bond yields and a flight to quality and safety, which saw, ironically, U.S. gilt yields fall into negative territory in real terms.

Consequently, economic forecasters have been reducing forecasts for 2011 and 2012. European GDP growth is now expected to be weaker in 2012 than in 2011, with sustainable trend growth delayed until at least H2 2012 in core European markets and a further year later in the periphery, where austerity measures and further risks to sovereign debt will dampen growth for longer.

Inflation has continued to be a concern in the first half of 2011 as prices continued to be driven up by high oil and commodity prices as well as increased taxation as a result of austerity policies. Central bank responses have been markedly different depending on their view of the economic situation. The ECB and the Swedish National Bank (SNB) have moved base rates upwards in the past 12 months to counter rising inflation while the UK has opted to maintain interest rates at their historically low levels in order to support the weak recovery in the UK. However, the latest data have clearly exposed the fragility of the recovery, not just in Europe but also at a global level and, consequently, interest rates across the Western world are now expected to remain at low levels for longer as central banks focus on supporting growth rather than limiting inflation.

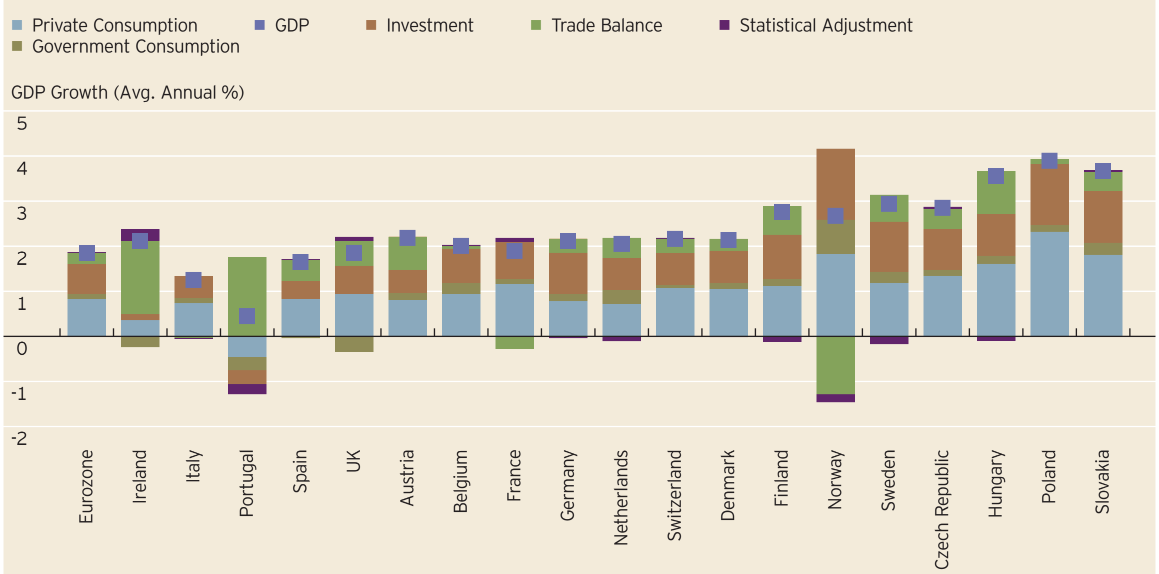
Our current base case forecast assumes a resolution to the eurozone debt crisis that avoids meltdown. However, the sovereign debt crisis remains the key risk in Europe. While most people expect some sort of restructuring by Greece, Ireland and Portugal in the medium term, the desire is for further structures to be put in place to manage this, and for European banks to be in a better position to absorb any fall-out. Any default before 2013 could produce a significant shock to both the eurozone and the European banking sector.

European macroeconomic themes

Overall, a return to sustainable growth for much of Europe now looks to be six to 12 months further off, as weak business and consumer sentiment limit investment and expenditure, while governments are unable to offer further fiscal support given their burgeoning deficits.

- The combination of strong Q1 data and disappointing Q2 data suggest that overall GDP growth in 2011 will be similar to that recorded for 2010.
- Growth in the second half of the year is expected to be weak, especially as China is focused on managing a soft landing for its economy and growth in the U.S. continues to disappoint, therefore, further export led growth will be limited.
- The slowdown is expected to last well into 2012, before economies finally start to move back towards trend levels of sustainable growth. This will be generated in the first place by increased levels of business investment as firms begin to utilise the capital that they have built up and grow their employment base. Later in the recovery, support will also come from improving household consumption as consumer confidence improves and household balance sheets return to healthier levels following a period of deleveraging.
- Countries in the periphery are likely to continue to flirt with recession over the next 12 months and recovery will be very slow, given the levels of austerity being required of them. The wide divergence between a strongly growing core and a stagnant or contracting periphery has been our central scenario since the beginning of the year and the latest Consensus forecasts suggest that, if anything, the divergence will be slightly greater than expected at the beginning of the year.
- In the short term, growth is forecast to remain strongest in Germany, the Nordics and Poland, with GDP growth in the 3.0% to 4.0% range this year underpinned by strong export growth and improving consumer sentiment.
- In the medium-term trend the Nordics should continue to outperform other Western European markets (Figure 2) with GDP growth of 2.5% to 3.0% pa as these economies are in a fiscally sound condition and, in general, will not need to implement austerity policies.

Figure 2 – Components of GDP Growth From 2011 to 2015f



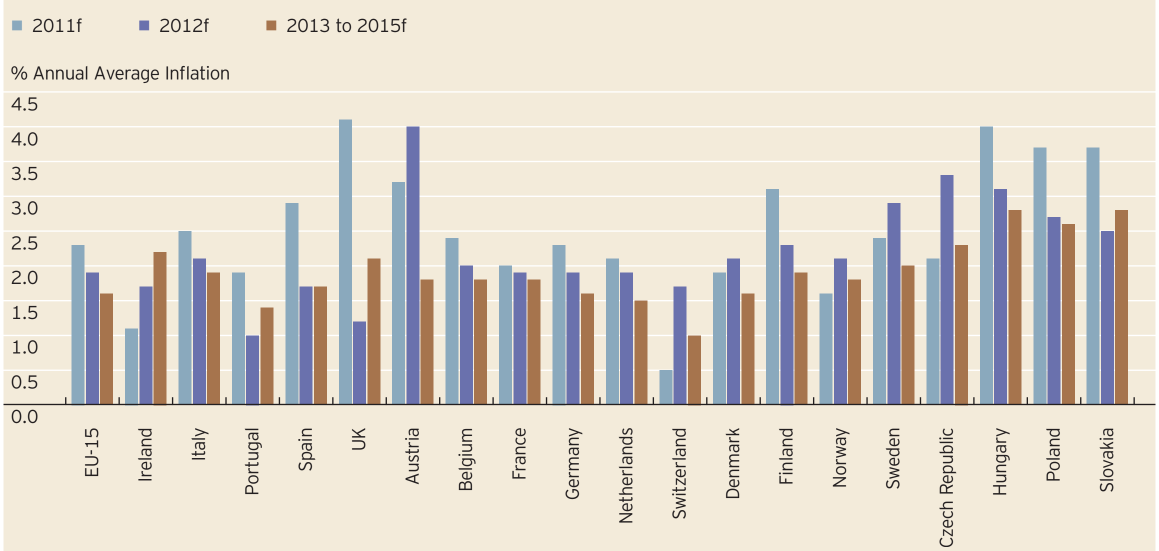
Source: Experian Business Strategies based on a scenario developed by Invesco Real Estate, August 2011
f = forecast

- While CEE economies should post stronger growth in 2011 than 2010, a return to outperformance relative to Western Europe is now likely to be delayed until 2013 as the weakening outlook, especially in Germany, is likely to have an impact. The exception is Poland, where proven robust domestic demand is expected to continue to generate some of the strongest growth in Europe over the next 24 months.
- The "core" economies such as France and Benelux should achieve trend growth of close to 2.0% this year, but these economies are less dynamic than those of Germany or Sweden and many will need to implement modest austerity programmes bringing growth down below c.2.0% in 2012, and only returning to trend from 2013 onwards.
- Italy, Spain and the UK sit between the struggling economies of the periphery and those of the core economies, with expected GDP growth of c.0.5% to 1.5% in 2011, and weaker growth in 2012 as austerity policies are implemented in full and growth throughout the five-year forecast period is expected to be well below the average growth achieved in the early 2000s.

Inflation, interest rates and capital market conditions

In general, a certain amount of inflation can be seen as good for real estate. Inflation drives real estate revenue growth both directly and indirectly. In many European countries, leases are indexed and, therefore, as inflation increases, so too does the rent payable. For investors requiring inflation-hedged liability-matching income, strategies can be built to meet this need. Indirectly, moderate core inflation is a sign of a growing economy, which in turn feeds through into business expansion and investment (leading to rising office rents), increasing consumer spending (feeding through to rising retail and logistics rents).

Figure 3 — Inflation Expected to Moderate Across Europe From 2011 to 2015f

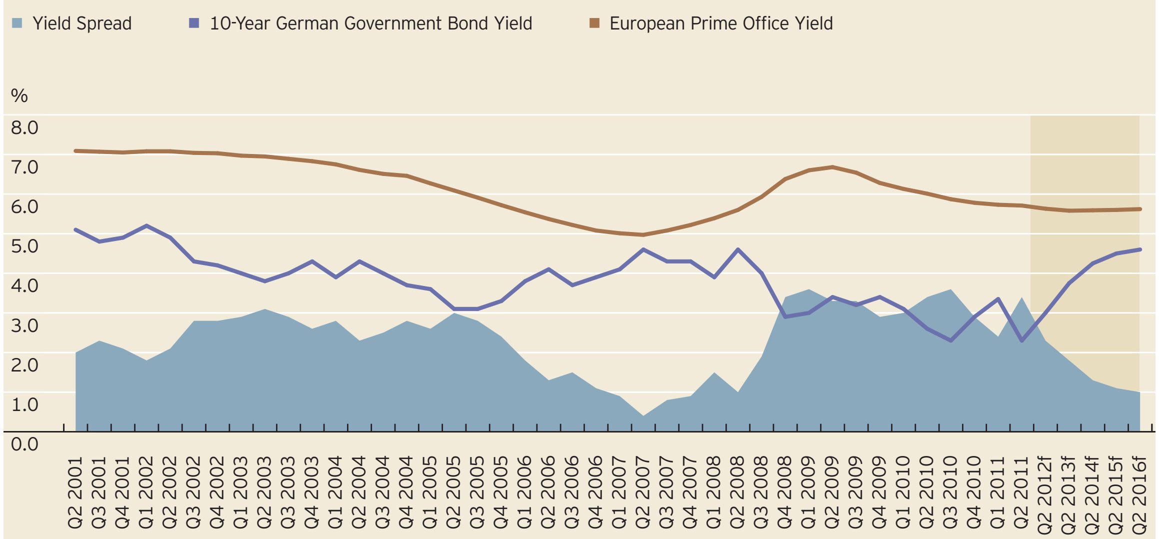


Sources: Experian Business Strategies based on a scenario developed by Invesco Real Estate, August 2011; Economy.com, August 2011
f = forecast

Inflation has been running higher than average levels across much of Europe. We continue to believe that this is the result of short-term temporary price pressures and will moderate to central bank targets of c.2% from mid-2012 onwards, given the lack of structural pressures such as wage inflation (Figure 3). This should produce a healthy inflationary environment for real estate revenue growth.

Although there are now strong signs that interest rates will remain low for longer to support economic growth, the assessment of "correct" pricing of real estate relative to sovereign bond yields has grown more difficult. Traditionally, real estate is priced relative to a "risk-free rate", which is typically a 5 to 15 year government bond yield. At present, when compared to long-term government bond yields, real estate continues to look attractive in most countries (Figure 4). However, this yield spread is artificially high at present due to the on-going risk aversion, which has seen investors invest heavily in "risk-free" government bonds. The turmoil seen in early August following the second bail out of Greece, the ECB's intervention to shore up Spanish and Italian bond markets, and the U.S. downgrade by S&P has resulted in yields in perceived "safe havens" such as the U.S. and Germany being pushed down further. Nevertheless, in our view, investors have to weigh up the relative merits of "safe" government bonds, which in some circumstances are currently trading at negative real interest rates, against higher return opportunities with a greater risk profile. Such an analysis is leading investors to accept surprisingly low prime real estate yields given where we are in the current cycle.

Figure 4 – Yield Spread is Currently Attractive vs. the 10-Year German Bund but the Spread Should Narrow by 2016f



Sources: Thompson Datastream, August 2011; Experian Business Strategies based on a scenario developed by Invesco Real Estate, August 2011; Invesco Real Estate, autumn 2011 using data from CB Richard Ellis, Q2 2011
f = forecast

In Europe there is a further dilemma as investors attempt to analyse an acceptable yield for real estate in those countries in the periphery experiencing distress in their sovereign debt markets. Government bond yields in these markets are no longer "risk-free" and, therefore, the traditional relative pricing approach breaks down. However, using a benchmark yield such as the bund does not capture the economic and political risk facing investors in these countries. While this dilemma is causing cross-border investors to shy away from these markets, domestic investors are taking a more pragmatic approach and using other indicators such as market value per square metre to gauge appropriate pricing.

Following the market turmoil of the summer, we now expect interest rates to rise more slowly and for the process of normalisation of bond yield pricing to take longer. Over the course of 2013 to 2015, as the deleveraging process unwinds, we expect bond yields in Core European countries to begin to rise back to more "normal" levels. This in turn is likely to put some upward pressure on real estate yields.

While the possibility of sovereign debt default exists, investor risk aversion is likely to remain and bond yield spreads for Southern European economies are likely to remain elevated. However, our central scenario assumes that solutions will be found to the problems faced by the eurozone and that over the long term, governments will successfully implement the necessary austerity programmes and economic reforms required to return to competitiveness and solvency. Nevertheless, at the end of our five-year forecast period bond yield spreads are not expected to have returned to the narrow band in which they operated prior to the recession.

Financing conditions

Although bank margins have risen recently, in response to rising bank refinancing costs, swap rates have dropped markedly through summer 2011 leaving all-in-financing costs below their start year levels. In the UK, for example, current all-in-financing costs are c.60 bps below their start of the year levels. Figure 5 shows indicative bank financing terms for prime assets reported by Invesco Real Estate's Structured Finance team.

While these historically low levels seem attractive for real estate investment, they are generally only available for real estate investors with core, well-let buildings in key locations. Where investors have such buildings competition from lending banks can be expected. Lower quality assets outside these markets are finding financing conditions, both for new lending and re-financing, more difficult. In addition, anecdotal evidence indicates that banks are reluctant to lend on smaller single asset lot sizes even of good quality and investors may need to look for lending at the portfolio level.

The all-in-financing costs for prime well-let assets across Europe continue to offer an attractive positive carry compared to real estate yields.

Figure 5 — Indicative Financing Terms for Prime Assets

Country	Base	Base %	Margin LTV <40%	All-In-Financing %
United Kingdom	5-Year SWAP	1.75	165bps	3.40
France	5-Year SWAP	1.90	100bps	2.90
Germany	5-Year SWAP	1.90	90bps	2.80
Spain	5-Year SWAP	1.90	175bps	3.65
Netherlands	5-Year SWAP	1.90	145bps	3.35
Poland	5-Year SWAP	1.90	145bps	3.35

Source: Invesco Real Estate's Structured Finance team, August 2011

Investors who need to use debt are expected to continue to focus on prime assets as bank financing is available and attractively priced. We also expect long-term equity-only investors to look to the best of secondary assets to take advantage of the lack of competition and lock in real estate at attractive pricing.

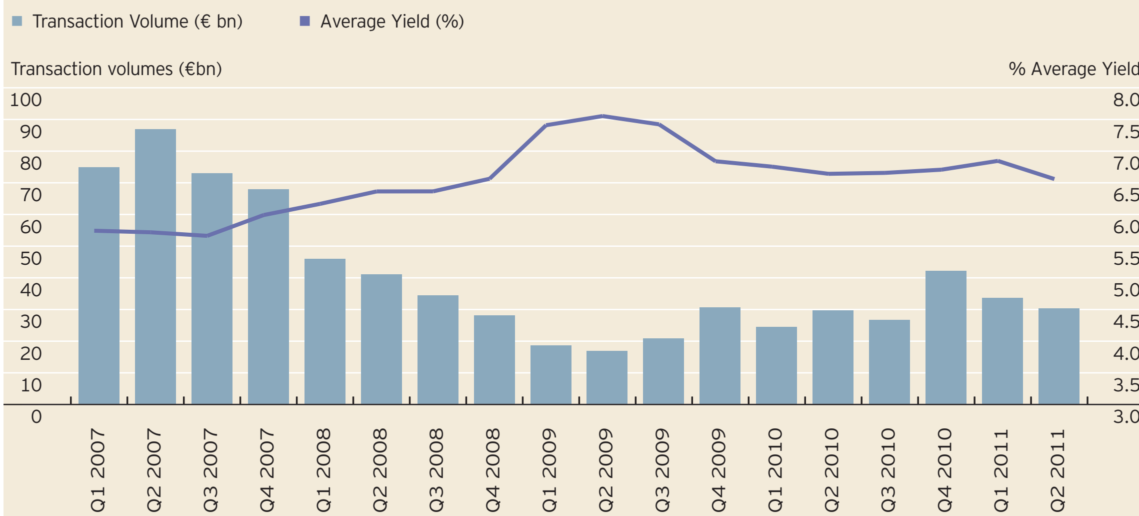
We do not believe robust bank financing will re-emerge until sustained economic recovery across Europe is recorded. However, attractive strategic opportunities exist for new players to offer financing. Solvency II capital requirement regulations in Europe are beginning to drive insurance companies to follow U.S. insurance company strategies of offering real estate lending rather than investing directly. Insurance companies are at the early stages of this process and are offering competitive financing. However, they are cherry-picking deals and are generally slower and less flexible than banks. Real Estate fund managers are finding attractive returns available from investing in distressed debt where re-financing is difficult.

Real Estate Market Conditions and Outlook

There has been a deceleration in investment growth. Some of this slowdown may be due to increasing investor caution, as a consequence of disappointing economic performance. The ability to source good quality stock, which remains the focus of investors, continues to be difficult.

Investment activity in H1 2011 is up on levels seen in H1 2010, but the rate of increase is slowing, with volumes in Q2 2011 only 2% higher than in the corresponding quarter in 2010 (Figure 6).

Figure 6 – EMEA Investment Volumes From 2007 to 2011



Source: Real Capital Analytics, August 2011

The global EMEA figures mask considerable differences between countries, with activity strongest in the Nordic and German markets where economic and, therefore, occupier fundamentals are perceived to be strongest. Central and Eastern European (CEE) markets have also seen increased investor interest, especially in Poland, where there is a compelling growth story and good liquidity, and in Russia where local investors have become more active. In contrast, volumes are down in Southern Europe and the UK as investors react to concerns about growth prospects given austerity programmes and sovereign debt fears.

Our data indicate that patterns of yield movements closely reflect investment activity. Yields were stable during H1 2011 in over half of our markets, but where yield hardening has occurred there appear to have been two conflicting drivers. The first group of markets where there was hardening was the CEE markets, especially those of Eastern Europe. This hardening appears to reflect growing investor confidence in the core nature of Central European locations and also a desire to chase yield. Deals in Eastern Europe remain scarce and, therefore, liquidity and transparency remain significant issues in these markets. The other areas to see yields harden were the Nordics and Germany. Here investors appear to be looking for safety and responding to evidence of moderate rental growth, despite the relatively high prices that assets command in these locations.

A quarter of the markets that we monitor recorded rental growth and, on average, rents grew by 1%. Growth was strongest in the Nordics, reflecting the robust economic recovery that has been witnessed in the region. Core European markets, led by Germany, also saw reasonable levels of rental growth across all three sectors. In contrast, rents in the periphery and the UK have been broadly stable, with some rental decline recorded in markets most severely affected by the sovereign debt crisis or austerity measures. Despite the evidence of rental growth, there has been little evidence of investor appetite for secondary assets or assets with associated risk outside the most liquid and transparent markets.

As expected, the first half of 2011 has been a period of consolidation in the real estate sector. However, given the delay in transmission between events in the economy and the impact on real estate, there has been insufficient time for the turmoil in financial markets in July and August to be clearly reflected in either the real estate occupier or investment markets. This has been exacerbated by the fact that transaction activity in the summer months tends to be relatively low. The first evidence of any impact is most likely to be seen in Q3 valuations in the UK, published at the beginning of October.

Themes to our forecasts

Rents

- The slowdown in economic growth points to weak occupier demand in the short term and, in general, we expect rents to be stable until the level of uncertainty in economic and financial markets begins to subside.
- The clearly differing regional economic dynamics are forecast to have a direct impact on the timing of the rental recovery across Europe. Growth is forecast to continue in the Nordics, Germany and some of the dynamic CEE economies, such as Poland, in the short term.
- Rental recovery is forecast to be delayed in markets where economic growth is likely to be dampened by austerity measures. We now do not expect sustained growth to be achieved until 2013 in most of these markets.
- At present, activity is being driven by lease events and occupiers seeking opportunities to trade up at relatively low market rents. Few companies are finding that they need to take additional space due to expansion of their workforces. Consequently, overall vacancy rates are broadly stable, but the availability of grade A space is declining steadily.
- Supply remains relatively constrained. There has been little improvement in development activity in all but the largest markets; development financing remains restricted to schemes with substantial pre-lets.
- The continued lack of development activity points to a potential upside to rental growth projections. With shortages of grade A supply developing in some markets, and a relatively long lead time for office development, there could be considerable upward pressure on rents in 2013/2014 once employment growth returns.
- We continue to forecast that the large, liquid and more cyclical markets will achieve the strongest rental growth. However, given the recent slowdown in demand, we are concerned that growth will be weaker than expected and that new stock currently being developed could be delivered at just the point where demand recovers, thereby dampening the cycle significantly.

Yields

- The recent financial market turmoil is likely to have increased investor risk aversion and we are expecting that the "flight to quality" will be replicated within the real estate market too. We, therefore, expect prime yields in the most liquid markets (e.g., London, Paris, Stockholm) to be pushed down further as capital competes for a limited number of buildings.
- Consequently, we now expect yields in these markets to be driven lower than we had forecast in our spring 2011 House View and for potential yield hardening to last into 2012, driven by the imbalance in supply of, and demand for, prime product.
- Current real estate pricing continues to look attractive when compared with current 10-year government bond yields, with yield spreads suggesting that a considerable risk premium is still being priced in for real estate.
- Our economic forecasts indicate that over a five-year hold period economic performance and, therefore, both long and short-term interest rates should start to normalise from current historically low levels. This normalisation is likely to put upward pressure on real estate yields at the end of our forecast period.
- However, given current indications are that interest rates are going to remain low for longer (c.f. the U.S. Federal Reserve's recent announcement that interest rates will remain at current levels until 2013), upward pressure on property yields is unlikely until towards the end of the forecast period.
- At exit in five years' time, yields in half of our markets are forecast to be at current levels and those displaying outward yield shift are broadly in balance with those forecast to have seen yields move in.
- The logistics and retail sectors are forecast to see marginally more inward yield shift on average than the office sector, reflecting the fact that the office sector has led the recovery and yields are therefore, closer to their equilibrium level.
- The strongest inward yield shift is forecast in the CEE markets, especially in the higher yielding Eastern European markets. However, a lack of transparency and liquidity makes it difficult to appraise current yields and it may not be possible to acquire properties at our estimate of current yields. Realising the forecast inward yield shift may prove difficult.
- Further developments in the sovereign debt crisis have resulted in rising hurdle rates for many of our Southern European markets. Consequently, although returns in these markets tend to be at the top end of the range across all our markets, most of these markets only achieve a "one-"or "two-tick" rating. If pricing is benchmarked against the bund or a blended bund-local bond rate, then our estimate of hurdle rates falls and the tick rating rises.
- While cross-border investors remain concerned about prospects for these markets, domestic investors are taking a different view, sometimes assessing pricing in terms of capital values, or opting to acquire prime real estate at lower than expected yields due to its attractive income returns.

Five-year outlook

All of our forecasts assume a five-year hold period, ignoring leverage and the impact of portfolio management costs. Properties are assumed to be let at market rents at the time of purchase with a long, secure income stream. Our "tick ratings" are based on the relationship between the expected total return and our market specific risk-adjusted hurdle rate or "required return". One drawback of this approach is the presumption that investors attach an equal weight to both income and capital growth elements of an expected return.

In our spring 2011 House View forecasts we estimated that almost 90% of our markets would produce "appropriate" five-year total returns (defined as a return that is not more than 1% below the required return) as most markets had stabilised and were moving into the growth phase of the capital value cycle. Little has changed since the spring, with 86% of markets now assessed as producing appropriate returns. However, lower bond yields in core markets have meant that hurdle rates in these markets have fallen and a greater proportion of our markets are now assessed as "three-tick" markets that will generate strong out-performance relative to bond yields. Conversely, in Southern Europe the sovereign debt crisis has driven bond yields, and therefore hurdle rates, higher, pushing more of these markets to be categorised as "risks".

Higher risk markets

Our House View focuses on prime assets in core locations. In recent reports we have taken the decision not to focus on markets that we do not currently consider core markets. These markets are Bulgaria, Romania and Russia. While we regard these markets as non-core, because of transparency, liquidity and economic issues, they do still offer prime asset opportunities and are worthy of mention given recent increases in activity in these markets.

Figure 7 indicates the markets which offer prime opportunities, albeit in non-core markets and with commensurate additional risk.

Figure 7 — Higher Risk "Prime" Opportunities

✓✓✓ **Office Opportunities**
Moscow, St Petersburg and Sofia
✓✓✓ **Retail Opportunities**
SSU – Moscow, St Petersburg, Bucharest and Sofia
SHC – Bucharest
✓✓✓ **Industrial/Logistics Opportunities**
Moscow, St Petersburg, Bucharest and Sofia

Key: SSU = Standard Shop Unit/High Street Retail Unit; SHC = Shopping Centre; RW = Retail Warehouse
✓✓✓ = Most opportunities are expected to exceed target returns (excess return is > 1%).

Secondary real estate

We believe that the outlook for secondary assets is somewhat different to that for prime properties. Our evidence indicates that for prime properties rents have stabilised and even started to increase in some locations, and prime yields have clearly hardened. In contrast, many markets are continuing to see secondary supply rise as weaker covenant occupiers downsize or close, while stronger occupiers take the opportunity to trade up. Landlords are having to offer significant incentives in order to persuade tenants to renew leases or attract new tenants. The latest UK average market data from Investment Property Databank (IPD) confirms that rents are still falling in high yielding markets, albeit at a slower rate than previously.

There are some differences in the key characteristics that help to define "secondary" product across the three sectors. In the office market the size of the city and the location within the city is important, with highly accessible locations in major cities being the focus of cross-border investors, while smaller cities and suburban markets are viewed as less attractive to occupiers and less liquid from an investment perspective. In contrast, prime retail locations can be found in smaller cities if schemes are dominant within their catchment area, the leases are long and the majority of income is being provided by well-known retail brands. For logistics and warehousing, good transport links are key, along with access to cheap labour, while building quality is a significant issue given the risks of obsolescence.

Investor demand is expected to remain very weak for secondary assets despite the considerable spread in yields between prime and secondary. The ongoing lack of liquidity and transparency in secondary markets across much of Europe have made investors wary of the pricing of these assets, and there is concern that following acquisition they could continue to lose value, even if the tenant continues to pay the rent.

Furthermore, in a low interest rate environment investors are seeking secure income and are expected to continue to pay generously for it. While prime real estate with long leases can benefit from this focus on income, secondary real estate lacks the required security of income as occupiers tend to have weaker covenants and greater probabilities of default. Until both business and consumer sentiment improve substantially and economic growth returns to sustainable trend levels, investors are therefore expected to remain wary of secondary properties.

We believe that in general the start of rental recovery for secondary real estate will lag at least 12 months behind that of the prime market as demand will have to improve substantially and supply will have to fall further.

Although interest rates are likely to be rising by the time that recovery in secondary real estate becomes established, there should be scope for yield hardening given the very wide spread that currently exists between prime and secondary and also between secondary real estate and the "risk-free rate". Even when recovery is firmly established, recovery may still be slow as banks continue to need to dispose of considerable volumes of secondary properties where loans are in default. Therefore, supply should be plentiful as demand recovers. Furthermore, given banks will need to continue to improve their capital base, debt financing for such assets may remain very limited.

However, there may be attractive opportunities where prime properties have "curable deficiencies". Curable deficiencies relate to problems such as short leases, financing issues or minor refurbishment needs that are curable by an experienced real estate manager and deliver core/prime assets once dealt with. Up until very recently, we had seen investors begin to look outside the top end of the prime market and begin to investigate prime buildings with "curable deficiencies" and, in some cases, even to look at development opportunities in primary markets such as London and Paris.

Given the increase in risk aversion, there may be less activity in this area of the real estate market in the near term. Therefore, strategies focused on these "curable deficiencies", which manufacture core assets, should find little investor competition. Furthermore, as investors continue to avoid these assets the period in which these strategies are possible is extended.

Offices

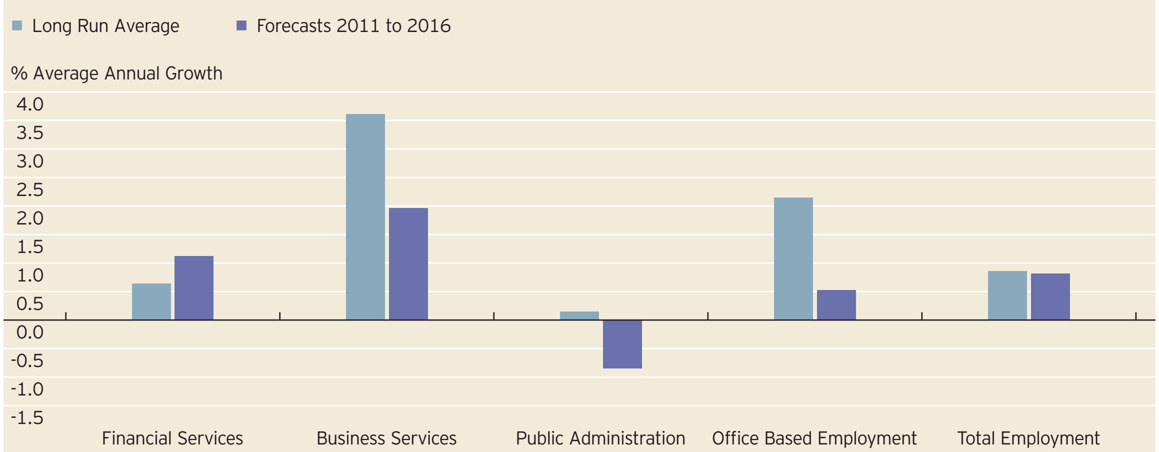
Office rents have continued to stabilise during H1 2011 and in the most robust markets rents have started to climb. The strongest growth was recorded in the Nordics and Switzerland, where improving demand combined with shortages of grade A space put upward pressure on rents. On average rents have grown by 1.1% in H2 2011, but this represents a marked slowdown compared to the 2.1% achieved in H2 2010. Growth has been less widespread with only 30% of markets monitored recording growth, and the double-digit growth recorded in major cities such as London has not continued into 2011.

The pause in growth appears to be linked to a number of trends. Firstly, as expected, in the peripheral markets rents have continued to stagnate or fall as austerity measures have begun to be felt and occupiers have retrenched. However, in markets such as the City of London and Paris CBD, some momentum has been lost as rents no longer look to be exceptionally cheap and, therefore, the cost benefit of moving vs. staying in existing space is less compelling. Finally, the time taken to complete deals appears once more to be rising as a result of growing economic uncertainty. While take-up has been subdued, space under offer has risen.

Nevertheless we are forecasting that prime rents will steadily return to growth over the next 12 to 18 months in most markets as shortages of prime supply increase in many markets due to the lack of speculative development as a consequence of the recession and credit crunch. Two-thirds of our markets have seen vacancy rates fall in the first half of 2010, and most markets are forecast to experience positive net absorption over the next year as there is little evidence of increased development activity.

Banks remain reluctant to provide financing for speculative development and schemes that are currently under construction have either achieved a significant pre-let or have been financed using alternative sources of funding. The low level of development activity is expected to exacerbate supply shortages in many markets over the next two years. Furthermore, the lack of investor appetite for "value add" projects could also limit the amount of refurbished space that is delivered to the market during this timeframe.

Figure 8 – Office Based Employment Growth by Sub-Sector Across 50 Key European Office Centres



Source: Experian Business Strategies, August 2011, based on a scenario developed by Invesco Real Estate
Long-run average data vary from country to country due to length of available data series.

Despite our optimism regarding supply side factors, we have become increasingly concerned about occupier demand. Demand is forecast to continue at below trend levels as the public sector begins to rationalise its workforce and space requirements and the economic uncertainty resulting from austerity measures limits companies' willingness to commit to additional space. Figure 8 compares the growth rates of the components of office based employment over the next five years relative to the long-run historic average. The data show that the main driver of growth will be business services, but the rate at which employment will grow will be far weaker than has been the case in the past, while public administration will act as a drag on total office based employment. Employment growth in financial services is forecast to outperform its long-run average, but the long-run history contains two periods of significant job contraction in the sector.

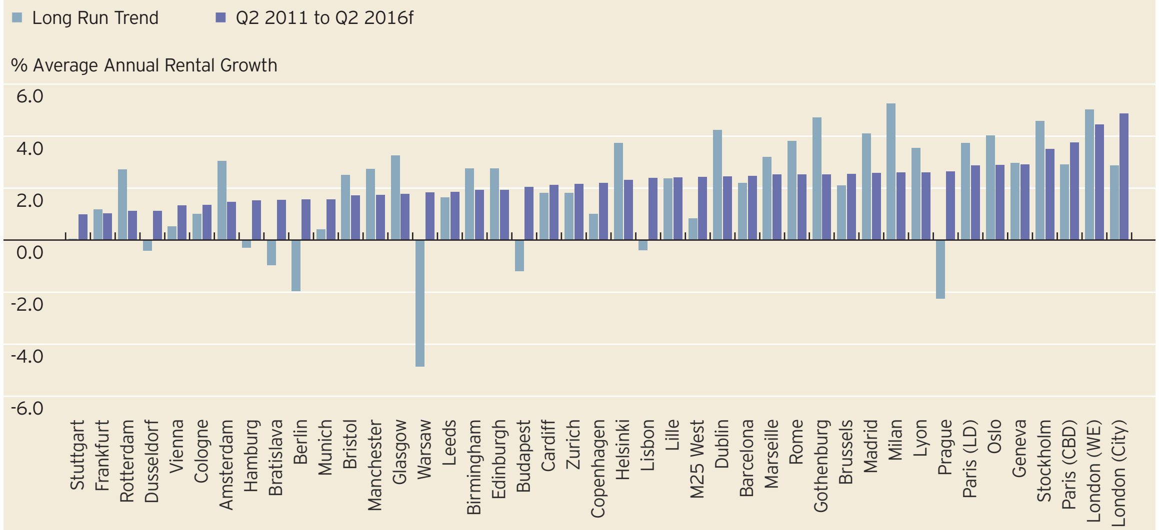
Figure 9 – Estimated Timing of Recovery in Office Employment Levels

Returning to Peak Office Employment Now (2010/2011)	Short-term Recovery (2012/2013f)	Medium-term Recovery (2014/2015f)	Long-run Recovery (2016+f)
Berlin	Amsterdam	Bratislava	Barcelona
Cologne	City of London	Bristol	Birmingham
Copenhagen	Copenhagen	Bucharest	Brussels
Dusseldorf	Lyon	Budapest	Dublin
Frankfurt	M25 West	Edinburgh	Lisbon
Gothenburg	Manchester	Glasgow	Madrid
Hamburg	Munich	Helsinki	Milan
Marseille	Paris	Leeds	Rotterdam
Munich		Lille	Sofia
Oslo		London – West End	
Prague		Rome	
Stockholm			
Vienna			
Warsaw			
Zurich			

Source: Experian Business Strategies, August 2011, based on a scenario developed by Invesco Real Estate
f = forecast

The weakness in demand is expected to continue across much of Europe for the next 12 to 18 months. We believe that second tier cities will be most affected as a greater proportion of employment in these cities is in public administration. Furthermore, the recent market crisis has dented already fragile business confidence and this is expected to dampen demand in larger cities in the short term. Our overall expectation for the next 12 months is for office rents to stagnate and for sustained real growth to be delayed until late 2012 and beyond as economic conditions remain challenging for longer than previously expected. There are some exceptions to this outlook, with growth now firmly established in a number of Nordic markets and also most German cities. In general these markets have already returned to peak levels of office based employment (Figure 9) and therefore any further employment growth has the potential to create new demand rather than simply being absorbed into existing space. Nevertheless, the recent slowdown may yet dent short-term performance.

Figure 10 – Prime Office Rental Growth From Q2 2011 to Q2 2016f



Source: Invesco Real Estate, Autumn 2011 using data from CB Richard Ellis and Wüest & Partner, Q2 2011
Long-run trend data vary from country to country due to length of available data series
f = forecast

On average over the next five years we are forecasting that office rents will grow by 2.2% pa, slightly ahead of inflation and slightly below the growth we forecast in our spring 2011 report. As illustrated in Figure 10 the weakest growth is forecast for the German and Dutch markets. Despite the strong economic outlook, we do not foresee significant rental growth in the German markets because there was little downward correction in rent levels during the recession and growth in recent quarters means that rents are at or close to historic highs. The polycentric nature of the German urban hierarchy also means that economic activity is less concentrated, and this may help explain why German markets tend to be much less cyclical.

The strongest rental growth is forecast for the large cyclical markets of London, Paris and, to a certain extent, Stockholm as well as some CEE markets. A lack of supply is the key driver of growth in London and Paris in the short term while strong economic growth and robust demand underpin growth forecasts for the buoyant Nordic and CEE markets.

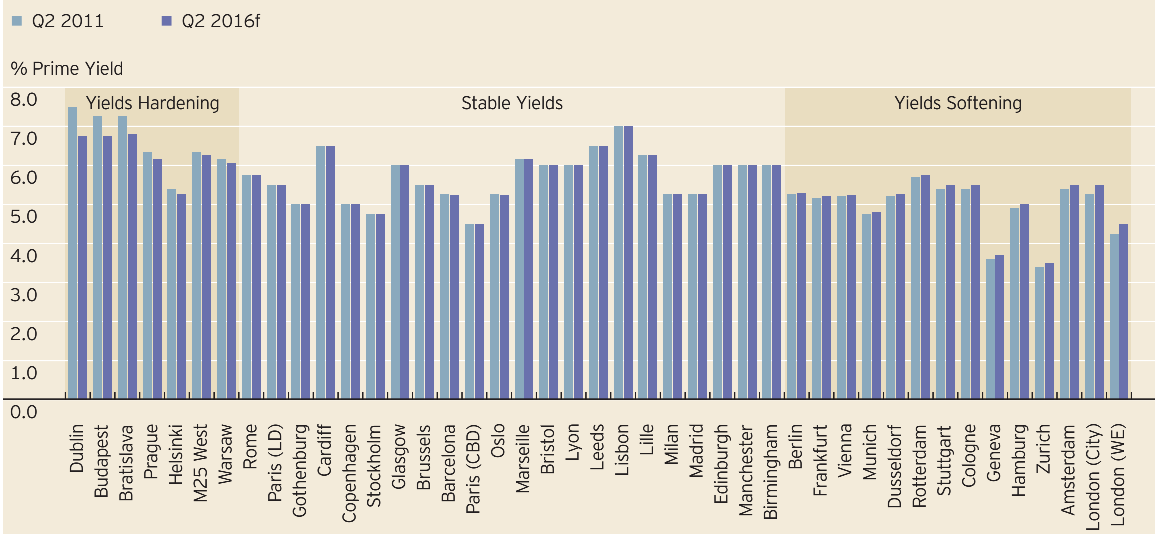
Rental growth in many of the markets in the periphery is forecast to be broadly in line with the European average. In the short term, rents are still forecast to stagnate or fall, but towards the end of our forecast period we believe that rental growth will be quite strong, albeit from a very low base. Very few markets in the periphery will have seen rents return to pre-crisis levels by the end of our forecast period in mid-2016.

As with rents, the rate of yield hardening decelerated in H1 2011, however this was expected. Average inward yield shift was only 13 bps and this was almost entirely driven by yield movement in the Nordics and CEE markets. Yields were broadly stable in Core European markets as investors assessed these markets to now be fairly priced given modest rental growth expectations, and broadened their horizons to other sectors and started to search for more yield, especially in Central Europe.

Most Eastern European markets recorded further inward yield shift, but we remain concerned that some of this shift may simply reflect an improvement in sentiment rather than any genuine transactional evidence. These markets remain illiquid and although transaction volumes have increased, especially in larger markets such as Russia, domestic investors are dominating and transactions remain highly opaque.

The main theme of our office yield forecasts is that yields will be broadly stable over the next five years (Figure 11). Although we expect a greater number of centres to see an outward shift relative to current yields rather than an inward shift, yields are not forecast to soften by more than 25 bps. Most of the markets forecast to experience continued inward yield shift are those of Central and Eastern Europe, which have lagged behind in the recovery.

Figure 11 – Prime Office Yields From Q2 2011 to Q2 2016f



Source: Invesco Real Estate, Autumn 2011 using data from CB Richard Ellis and Wüest & Partner, Q2 2011
f = forecast

Just focusing on the exit yield does mask some differing yield cycles over the next five years, which in turn generate some differences in strategy across European markets. In the short term we believe that yields in the largest and most prime markets could be driven in further than we had expected in our spring 2011 forecasts. The key driver of this further hardening is the weight of capital seeking real estate exposure combined with increased risk aversion after recent events. In these markets there is a risk that yields will overshoot given shortages of prime stock, but rising interest rates may help to stabilise markets at appropriate ("fair value") yield levels. Conversely, smaller, riskier and less liquid markets are expected to see yields stagnate or soften in the short term as risk aversion limits demand. Secondary property is also expected to remain out of favour for longer with limited appetite for such risk until sustained economic growth is achieved.

As economies return to trend growth, interest rates and bond yields are forecast to normalise from their current lows; financing is likely to become more costly; and the case for investing in real estate could therefore become less compelling. We forecast that yields will begin to drift out in the second half of our forecast period, especially in more cyclical markets where the rental growth story will have largely run its course (e.g., central London offices) and in markets in places such as Germany and Switzerland where low net yields are likely to come under significant pressure from rising bond yields. Given our forecast of limited yield shift, it remains the case that we believe that performance will be driven by rental growth rather than yield movement over a five-year hold period.

There are still a number of markets that are forecast to significantly out-perform: the central London office market, despite a modest reduction in rental growth expectations, should still achieve returns in excess of 8%, although below the double-digit forecasts of previous house views, as yields are now lower and forecast outward yield shift reduces returns; the Nordic markets are also expected to perform well as a result of strong rental growth; higher yielding UK regional offices are expected to generate attractive returns, driven by a combination of solid income growth and modest rental growth, although performance is weighted to the back end of our forecast period; and finally, a number of Central European markets are also expected to generate strong returns through a combination of rental growth and yield shift. While the first two groups of markets are likely to attract investors in the short term due to their rental growth stories, the second two groups of markets are likely to grow in appeal to investors who are continuing to focus on a core strategy with limited risk and are chasing yield by looking at opportunities in smaller second tier cities and in the more mature CEE markets.

The low yielding, low rental growth markets of Germany, Austria and Switzerland all produce relatively weak total returns. However, hurdle rates for these markets are also very low as a result of low bond yields and small risk premia, given the lack of volatility in these markets and, therefore, these returns are assessed as "acceptable". The Paris office sub-markets also fall into this group of markets, despite the robust rental outlook, as net office yields across Paris are already low. Finally, a number of smaller markets, which include cities in Italy, Belgium, the Netherlands and Denmark, achieve acceptable performance as yields are slightly higher (in the 5.5% to 6.0% range) and broadly stable over the five-year hold period. When combined with modest rental growth, returns are sufficient to meet our estimate of required returns. However, it should be noted that a small increase in the government bond rates used as our "risk free" rates would reduce a number of these markets to a "one tick" rating.

Unsurprisingly, the under-performers are dominated by Southern European markets, where hurdle rates have been elevated by current high local bond yields. Although rental growth is likely to be negligible in these markets, there is the potential for inward yield shift from high current yields in the second half of the forecast period, in Dublin and Lisbon, and this generates relatively robust total returns. The use of local bond rates as a "risk-free rate" may be inappropriate in these markets, given that a significant probability of default is currently being priced into these 10-year government bond yields. If investors are happy to price these markets against a benchmark "risk-free" eurozone bond yield (usually taken to be the German bund), then the required return would fall by 200 to 500 bps and most of these markets would be assessed as generating appropriate or attractive returns.

Despite the country risk, these markets may offer investors some strategic opportunities given core assets are currently priced at historically low per sq m capital values. There are clearly some near-term risks but, potentially, some attractive medium-term performance, especially in the larger more liquid markets such as Madrid and Barcelona.

Overall, our forecasts point to a period of solid total return performance broadly in line with expectations for the sector. Additionally, there is also the opportunity to pursue more opportunistic strategies including re-development and refurbishment, or to accept some short-term leasing risk in order to benefit from improving demand in the medium-term, given the growing shortages of grade A space in some of the most liquid markets. For investors focused on running returns, higher yielding opportunities are largely in smaller regional cities and Central and Eastern European locations. However, these yields are reflecting greater risk and therefore investors will need to carefully assess the security of the income stream.

Figure 12 — Offices Forecasts From Q2 2011 to Q2 2016

Opportunities

✓✓✓ Strong Out-performance
Geneva, Lyon, Lille, Marseille, Helsinki, Stockholm, Gothenburg, London (City), London (WE), London (Midtown), London (Docklands), Birmingham, Manchester, Glasgow, Edinburgh, Cardiff, Bristol, Leeds, M25 West, Warsaw, Budapest, Prague and Bratislava

✓✓ Acceptable Performance
Berlin, Hamburg, Munich, Frankfurt, Düsseldorf, Stuttgart, Cologne, Vienna, Zurich, Amsterdam, Rotterdam, Paris (CBD), Paris (LD), Paris (Rive Gauche), Brussels, Rome, Milan, Copenhagen and Oslo

Risks

✓ Unacceptable Performance
Madrid, Barcelona, Lisbon and Dublin

Key: ✓✓✓ = Most opportunities are expected to exceed target returns (excess return is > 1%).
✓✓ = Most opportunities are expected to meet target returns (excess return between -1% and +1%).
✓ = Only exceptional opportunities will be of interest (excess return < -1%).

Retail

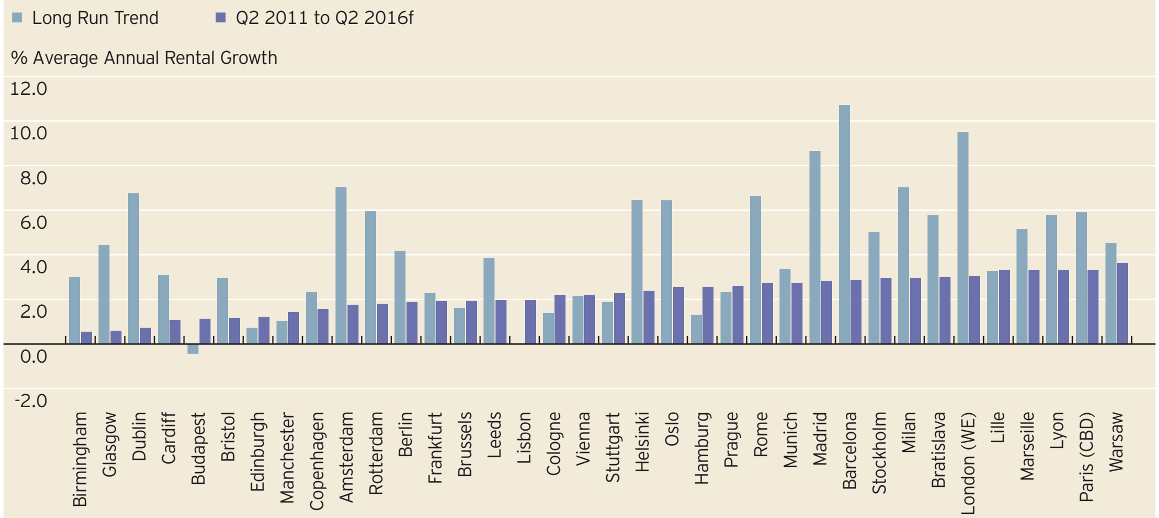
Despite concerns about the health of the consumer across much of Europe, there has been a strong appetite for retail assets, especially larger shopping centres, over the past six months. Investors have been attracted by the slightly higher yields, the multi-tenanted nature of the assets and the belief that it should be possible to realise modest rental growth through active asset management. Grocery anchored retail parks have also attracted strong investor interest for their long, often inflation-linked, leases and strong tenant covenants.

Consequently, it was the retail sector that witnessed the greatest yield hardening during the first half of 2011, with yields moving in on average by c.20 bps. The strongest inward yield shifts were recorded in the Nordic and CEE markets. In the Nordics, as in the other sectors, the economic growth story has supported expectations of rental growth and, therefore, more aggressive pricing. In the CEE markets, higher yields and a compelling story of rapidly growing consumption by the emerging middle classes has attracted investors not only into the capital cities but also smaller cities across the region.

In contrast, cross-border investors have been more wary in the Southern European markets and yields have drifted out further in Ireland and Portugal. Concerns about consumer indebtedness, high unemployment and further austerity policies have also caused investors to be cautious in markets such as Spain and Italy. However, domestic investors in these markets and also in the UK, which faces similar problems, have continued to be active in the markets, assessing current pricing to be relatively attractive.

Rents have continued to stabilise and on average rents grew by 1% in H1 2011, with German and Nordic markets recording particularly strong growth underpinned by robust economic growth, falling unemployment and relatively upbeat consumer sentiment. High street rents were most buoyant with German retail warehouse rents also performing well. However, in some UK locations shopping centre rents continued to fall as new supply was absorbed.

Figure 13 – Prime Retail Rental Growth From Q2 2011 to Q2 2016f



Source: Invesco Real Estate, Autumn 2011, using data from CB Richard Ellis, July 2011
Long-run trend data vary from country to country due to length of available data series
f = forecast

Figure 13 illustrates our forecasts for in-town rental growth over the next five years. On average, rents are forecast to grow by 2.1% pa, which is slightly less than the growth forecast for the office sector, but above inflation. Performance is relatively homogeneous across Europe, with most centres achieving growth of close to 2% pa on average. Although this performance looks positive on a relative basis, when compared with the rates of growth achieved historically, growth is very modest.

We believe that a number of structural changes in the retail market will result in lower average rental growth going forward as retailers continue to face significant challenges in improving profitability. Competition from the internet is likely to accelerate as more people use their mobile phones to access online content. Ocado, an online grocery retailer in the UK, recently trialled a virtual shopping wall in the City of London where shoppers could browse images of products and order them using an app on their mobile phones. Ocado revealed that 15% of online orders are now made from mobile devices. In response to increasing online sales, we expect some retailers to begin to reduce the amount of physical space that they occupy, focusing on the most profitable and most high profile locations to improve brand awareness. A further implication of this trend is that there will be an increasing polarisation within and between markets: prime pitch will become more narrowly defined and fringe locations may fall out of retail use. We believe good quality/dominant shopping centres and retail parks will also continue to be successful with limited vacancy, while poor quality centres will struggle to attract tenants and are likely to significantly under-perform the market.

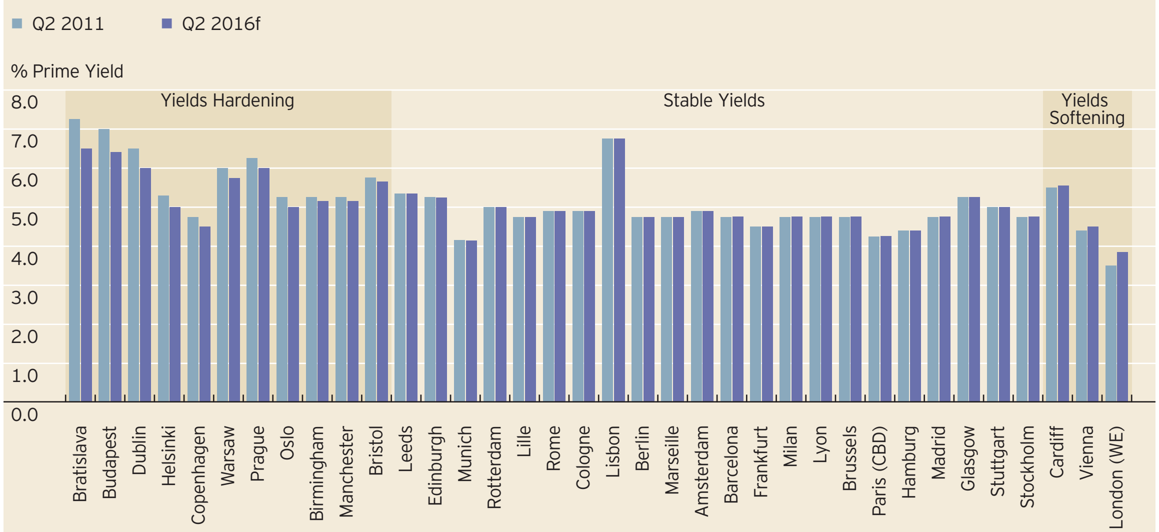
At a sub-sector level, growth on the high street and in shopping centres is forecast to be broadly similar and slightly above the average for the retail sector as a whole, while rental growth in the retail warehouse sub-market is forecast to lag behind, adversely affected by expected weak sales of high ticket items as consumers retrench. Furthermore, the pool of retailers seeking retail warehouse space is relatively small and, therefore, demand is more limited. Achieving rental growth in schemes anchored by grocery anchor tenants, who sign long leases but with only partial indexation, can be challenging given a lack of comparables and the negotiating strength of food retailers.

While the five-year average growth numbers look fairly homogeneous, they hide notable differences in the timing of growth. Growth in the Nordic and German markets is already well established and rents are already close to, or at historic highs. We believe that international retailers will continue to seek representation in these markets given the stronger short-term economic outlook and limited pipeline of new space. Therefore, growth should continue but will be weighted to the first half of the forecast period.

In markets with high profile austerity programmes, rents are not forecast to return to growth until the end of the forecast period. In the short term, consumer expenditure is forecast to remain weak as sentiment is damaged by concerns about job security, especially in the public sector; households focus on paying down debt while interest rates remain low; credit availability remains limited as banks continue to be cautious; and real incomes contract as wages fail to keep pace with inflation. In such an environment retailers are expected to be cautious, although we have seen some instances where international retailers have entered new markets, taking the opportunity to acquire prime space very cheaply and with generous break clauses.

Rents in these markets are forecast to fall marginally in the short term and real growth is unlikely to be achieved before the end of 2013. However, as these markets have already seen significant declines in rents, we expect a reasonable bounce back at the end of our forecast horizon.

Figure 14 – Prime Retail Yields From Q2 2011 to Q2 2016f



Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, July 2011
f = forecast

In contrast to the office and logistics sectors, there is a clear bias toward a continued hardening of yields in the retail sector (Figure 14), reflecting the fact that the sector has lagged behind during the property market recovery. We believe that despite the headwinds we have outlined above, investors will remain attracted to the sector because of its less volatile nature. On average, exit yields are forecast to be 30 bps below current levels, although much of this average is being driven by continued strong yield hardening in the CEE markets.

We expect the yield cycles to follow a similar pattern to the rent cycles, with yields in markets where rental growth is already proven hardening further in the short term but coming under pressure at the end of the forecast period. Yields in markets hit by austerity are expected to remain stable in the short term, but may see some hardening at the end of the forecast period as rental growth returns, although in some markets this will simply offset the upward pressure from rising interest rates and bond yields.

90% of our in-town markets are forecast to generate appropriate or attractive returns over a five-year hold period. Strong performers include higher yielding German cities, where demand for product is so high that secondary/peripheral locations are attracting strong interest, UK markets, Nordics and Central European markets. In the Nordics and Central Europe this strong performance is driven by a combination of strong rental growth and modest inward yield shift. In the UK, rental growth is not as strong, but we are still expecting some inward yield shift once real rental growth returns as yields remain above long run averages.

Markets worst affected by the sovereign debt crisis dominate the under-performers in all three retail sub-markets, largely due to high hurdle rates, as absolute returns in these markets are generally on a par with, or even in excess of returns generated in other Western European markets.

Our forecasts suggest that the best opportunities for investment in the short term will be in markets where rental growth has become established and yields are expected to continue to harden, such as Germany and Sweden. The more mature Central European markets are also likely to see further yield hardening in the short term as investors become more confident about the medium-term growth story. Prices are also rising in Eastern European markets, but over-supply and weak rental growth may result in disappointing performance in the short term. Later in the forecast period markets affected by the sovereign debt crisis are forecast to out-perform as rental growth returns. However, in many of these markets private domestic investors have continued to acquire assets and yields have remained relatively low, therefore, there is little scope for inward yields shift even once rents begin to recover.

Figure 15 – Retail Forecasts From Q2 2011 to Q2 2016

Opportunities	
✓✓✓ Out-performance	
SSU –	Stuttgart, Cologne, Helsinki, Stockholm, Oslo, Manchester, Bristol, Leeds, Warsaw, Budapest, Prague and Bratislava
SHC –	Greater Paris, Brussels, Copenhagen, Stockholm, Oslo, London, Manchester, Bristol, Leeds, Warsaw, Budapest and Prague
RW –	Lyon, Stockholm, Warsaw, Budapest and Prague
✓✓ Acceptable Performance	
SSU –	Berlin, Hamburg, Munich, Frankfurt, Düsseldorf, Vienna, Amsterdam, Rotterdam, Paris, Lyon, Lille, Marseille, Madrid, Copenhagen, London, Birmingham, Glasgow, Edinburgh and Cardiff
SHC –	Berlin, Hamburg, Munich, Frankfurt, Amsterdam, Lyon, Lille, Marseille, Madrid, Barcelona, Rome, Milan, Birmingham, Glasgow, Edinburgh and Cardiff
RW –	Berlin, Hamburg, Munich, Frankfurt, Vienna, Amsterdam, Rotterdam, Greater Paris, Lille, Marseille, Brussels, Madrid, Barcelona, Rome, Milan, London, Birmingham, Manchester, Glasgow, Edinburgh, Cardiff, Bristol and Leeds
Risks	
✓ Unacceptable Performance	
SSU –	Brussels, Barcelona, Lisbon, Milan, Rome and Dublin
SHC –	Lisbon and Dublin
RW –	Lisbon and Dublin

Key: SSU = Standard Shop Unit/High Street Retail Unit; SHC = Shopping Centre; RW = Retail Warehouse
✓✓✓ = Most opportunities are expected to exceed target returns (excess return is > 1%).
✓✓ = Most opportunities are expected to meet target returns (excess return between -1% and +1%).
✓ = Only exceptional opportunities will be of interest (excess return < -1%).

Industrial/Logistics

On average, European logistics rents grew by 0.7% in H1 2011. Only the Dublin market recorded a fall in rental values as the weakness of the economy and austerity measures continued to weigh on demand. Unsurprisingly there appears to be a good correlation between trade activity and markets that are experiencing rental growth. Port and airport locations in export driven economies such as Germany and the Nordic countries have seen the best growth so far this year.

However, there are a number of headwinds facing European logistics markets in the near term. Firstly, there has been a clear slowdown in freight volumes since the early summer according to a leading survey of the freight industry. Furthermore, the Baltic Dry Index, which is a good indicator of global trade flows, has been subdued for much of the year. As growth continues to slow in Asia over the coming months, there is little reason to expect a significant recovery in the freight sector and this is likely to dampen prospects for further near-term growth in rents in export driven economies.

Secondly, the weak outlook for consumption growth is also likely to be a constraint on demand for logistics space. Retailers have been particularly active in the logistics market as they have upgraded their supply chain facilities to improve their performance and reduce costs. However, further investment in warehouse facilities will have to demonstrate clear operational efficiencies to warrant further expenditure in a fairly stagnant retail market.

Thirdly, the cost sensitive nature of occupiers is expected to act as a break on rental growth. Retailers and third party logistics (3PL) operators tend to operate on small margins and are constantly seeking operational efficiency gains to protect profitability. This will continue to be particularly pertinent in the short term given high fuel costs and, therefore, occupiers will be seeking ways to control other expenditures including occupation costs.

Finally, the sector is likely to see more consolidation and rationalisation in the search for efficiency, resulting in a further increase in the availability of second-hand space. While this is unlikely to impact prime headline rents for new space, older space is unlikely to see rental growth.

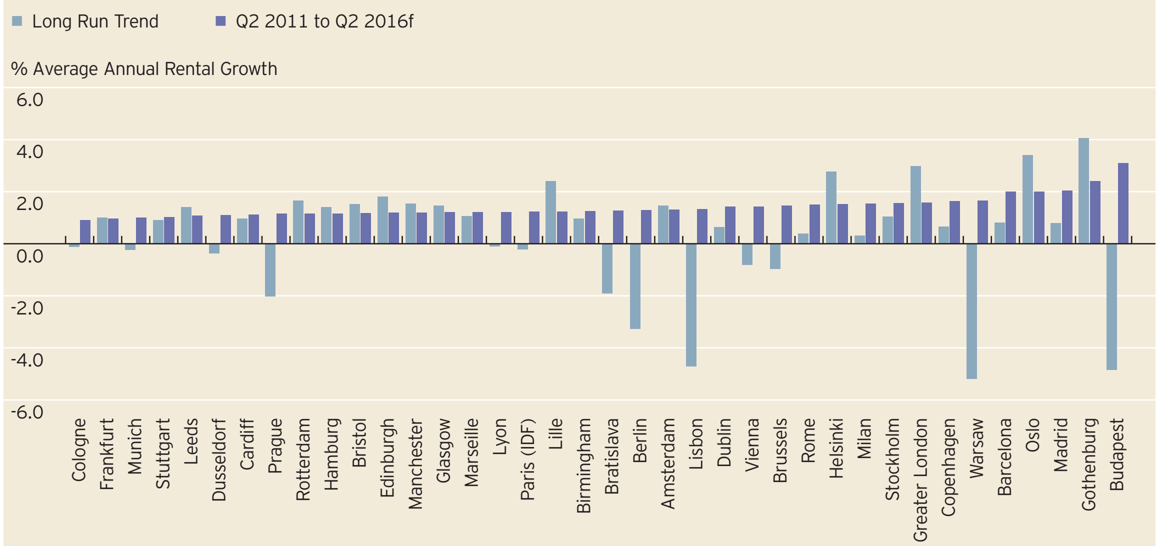
The second-hand market is expected to struggle given levels of oversupply and obsolescence. For example, recent research by Jones Lang LaSalle estimated that in the UK only a quarter of the available second-hand stock at the end of 2010 provided the specification required by occupiers: good height and column grid layout, dock level and ground level access, sufficient yard depth, appropriate office space and sustainability.

Build-to-suit development is likely to dominate the sector, with demand being driven by changes in supply chain operations such as the growth of dedicated e-fulfilment operations and the growth of "reverse logistics", which requires facilities to handle returns, packaging and waste. The continuing centralisation of retail distribution and consolidation within the retail and distribution sectors is also likely to generate demand for new large efficient "super-warehouses".

We forecast that rents will grow over the next five years, averaging 1.4% pa, which is well below the averages for the European office and retail markets, and also well below our expectations for inflation over the next five years. As build times are relatively short and speculative development is limited, imbalances in supply and demand tend not to be the key driver of rental growth. Instead, growth in the sector is driven by the economic rent or the rent that the developer has to achieve to make development worthwhile. Therefore, if land is in plentiful supply, then the main drivers of rents should be build costs, which increase broadly in line with inflation. Economies of scale and improved efficiency in the construction process are likely to offset higher commodity price inflation, which affects the cost of construction materials. In the short term, we are forecasting that the pressure on rents will remain weak, as labour costs are expected to grow only slowly as a consequence of the recession.

Figure 16 illustrates the range of rental growth we expect across Europe in the five years to mid-2016. Growth is forecast to be strongest in the robust Nordic economies. However, in markets such as Budapest, Barcelona, Madrid and Dublin, where rental declines have been dramatic during the recession, we are also forecasting robust growth, albeit from a low base. Once existing supply has been absorbed in these markets, new development will have to cover developers' costs.

Figure 16 – Prime Industrial/Logistics Rental Growth From Q2 2011 to Q2 2016f

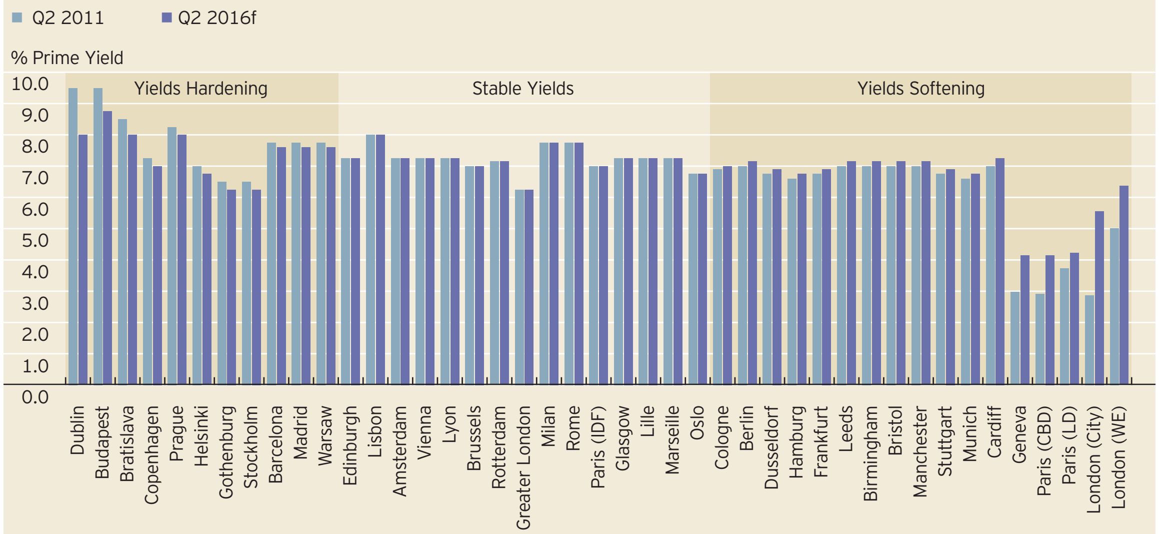


Source: Invesco Real Estate, Autumn 2011 using data from CB Richard Ellis, July 2011
Long-run trend data vary from country to country due to length of available data series.
f = forecast

Although export growth in the German economy is forecast to continue to be robust, in contrast to the Nordic markets rental growth is forecast to be relatively weak. Some German markets face competition from lower cost markets to the east, which will limit upward pressure on rents. Furthermore, rents in Germany are relatively expensive in a European context and were broadly stable during the recession and, therefore, do not experience any form of "bounce" back.

Although rental growth is forecast to be limited, even in the strongest markets, there is still investor appetite for prime logistics as it plays a useful role in providing relatively stable income return within a portfolio. To limit the risk of depreciation and obsolescence and to protect income growth, investors are focused on new buildings let to retailers on long leases (in the region of 15 years) with indexed rental uplifts. Pricing for such opportunities is often at a significant premium to the yields that we quote for standard prime industrial units.

Figure 17 – Prime Industrial/Logistics Yields From Q2 2011 to Q2 2016f



Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, July 2011
f = forecast

On average, yields hardened a further 10 bps in H1 2011, but this was a clear slowdown in the rate of hardening when compared to H2 2010. Yields were stable in almost two-thirds of markets and only rose in Dublin and Lisbon, where a lack of institutional deals makes establishing appropriate pricing difficult. The largest inward yield shifts were recorded in the CEE markets, especially those of Eastern Europe, which have tended to lag behind during the recovery of the past 18 months.

The outlook for industrial yields follows a very similar path to that for offices and retail, with markets in Core Europe remaining stable or seeing marginal inward yield shift during the next 12 to 18 months. There may be scope for further inward yield shift as economies return to sustainable growth from 2013 onwards, but at this point bond yields are forecast to begin to increase and the resultant upward pressure from bond yields is expected to offset the downward pressure from improved rental growth prospects.

Yields are forecast to be c.30 bps below current levels on average at the end of our five-year forecast horizon, but much of this hardening is focused on CEE markets (Figure 17). At exit our forecasts indicate that the more mature Central European markets should be priced at similar net yields to those of Western Europe. Nordic markets are also forecast to experience some further inward yield shift over the next five years, reflecting the relatively robust outlook for both the economy and the occupier market.

A number of markets are now expected to experience a marginal increase in yields over the five-year hold period. These markets are generally in the UK and Germany, where net yields are relatively low, and therefore more vulnerable to the upward pressure from rising interest rates and bond yields. However, in Germany, the increase in yields, when combined with weak rental growth, produces returns that are below current hurdle rates. In the UK, where current yields are higher and there is marginally more rental growth, returns are forecast to be above our hurdle rates.

Markets that are forecast to generate attractive total returns include some of the Scandinavian markets and a number of the CEE markets, underpinned by strong economic fundamentals.

Our forecasts indicate that most logistics markets should generate acceptable total returns performance over a five-year hold period. However, our assumption that at exit prime conditions still apply, is probably least applicable in the logistics market, where lease length is very important because building obsolescence is a much greater issue, and therefore investment value reverts back to site value more rapidly. Unless buildings are well specified and offer occupiers the flexibility to innovate, they are likely to become difficult to lease, resulting in rising void periods, shorter leases, weaker covenants and downward pressure on rents.

Figure 18 — Industrial/Logistics Forecasts From Q2 2011 to Q2 2016

Opportunities

✓✓✓ Strong Out-performance
Helsinki, Gothenburg, Greater London, Glasgow, Edinburgh, Bristol, Budapest and Prague

✓✓ Acceptable Performance
Berlin, Hamburg, Munich, Frankfurt, Düsseldorf, Stuttgart, Cologne, Amsterdam, Rotterdam, Greater Paris, Lyon, Lille, Marseille, Madrid, Barcelona, Rome, Copenhagen, Stockholm, Birmingham, Manchester, Cardiff, Leeds, Warsaw and Bratislava

Risks

✓ Unacceptable Performance
Vienna, Brussels, Lisbon, Milan, Oslo and Dublin

Key: ✓✓✓ = Most opportunities are expected to exceed target returns (excess return is > 1%).
✓✓ = Most opportunities are expected to meet target returns (excess return between -1% and +1%).
✓ = Only exceptional opportunities will be of interest (excess return < -1%).

Hotels

We continue to remain positive on the European hotel sector and expect business investment to continue to drive increased hotel usage and revenue growth. Hotel investment yields are expected to be largely stable across Europe, moving slightly inwards in prime locations while transaction volumes are rising. RevPAR growth remains healthy albeit below 2010 levels.

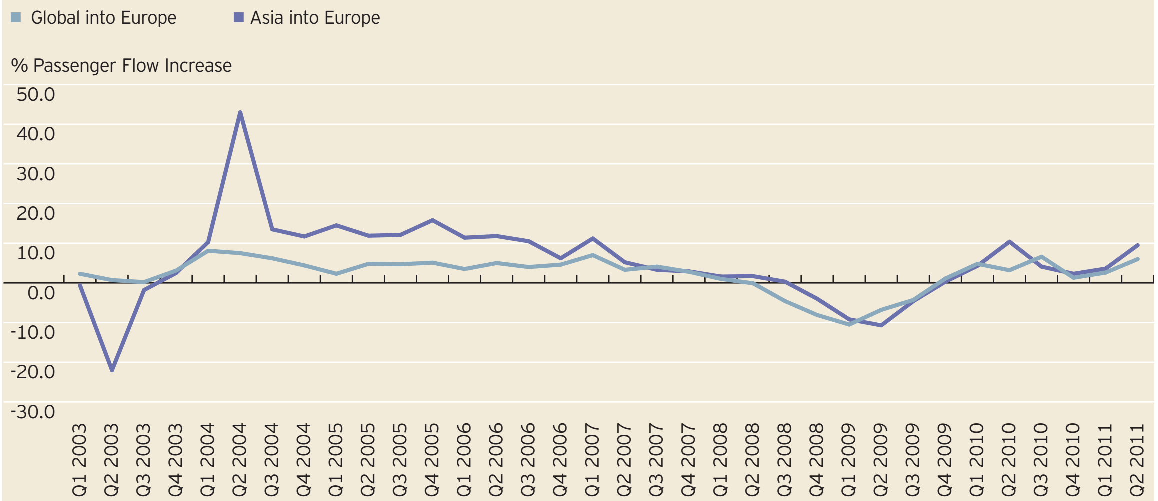
Hotel investment, in our view, can provide a solid inflation hedge for institutional investors. The key industry metric RevPAR (revenue per available room) has grown in excess of inflation over the last 15 years. When investing into leased hotels it is not uncommon for new leases of over 20 years to be signed, often with a guaranteed rental level. These leases are linked to the nightly room "leases" which allow operators to adjust very quickly to economic conditions and, therefore, as economic growth is expected to improve over the coming few years, net operating incomes are expected to rise quicker compared to longer commercial property lease review terms.

For decades, the tourism and travel industry has been one of the world's largest growth sectors. A UN World Tourism Organisation report (May 2011) states that European travel and tourism growth has outperformed the growth in manufacturing and financial services and is projected to continue outperforming over the period 2010 to 2015.

Despite the recent economic turmoil leading to first time declines in European disposable incomes, passenger flows through European airports are rising (Figure 19). This has been driven by a significant rise in visitors from Asia, the Middle East and South America. The burgeoning middle-classes in the BRICs region (Brazil, Russia, India and China) have growing disposable incomes, which are being spent on leisure travel to Europe and other regions.

The business travel sector has seen a significant increase over the last decade. While business travel growth stalled during the 2008/2009 period, it has begun accelerating again and this is a leading indicator for economic recovery as business travel is a precursor to making deals, which leads to business growth. Cash-rich BRICs businesses are beginning to expand globally, driving business travel flows from the region.

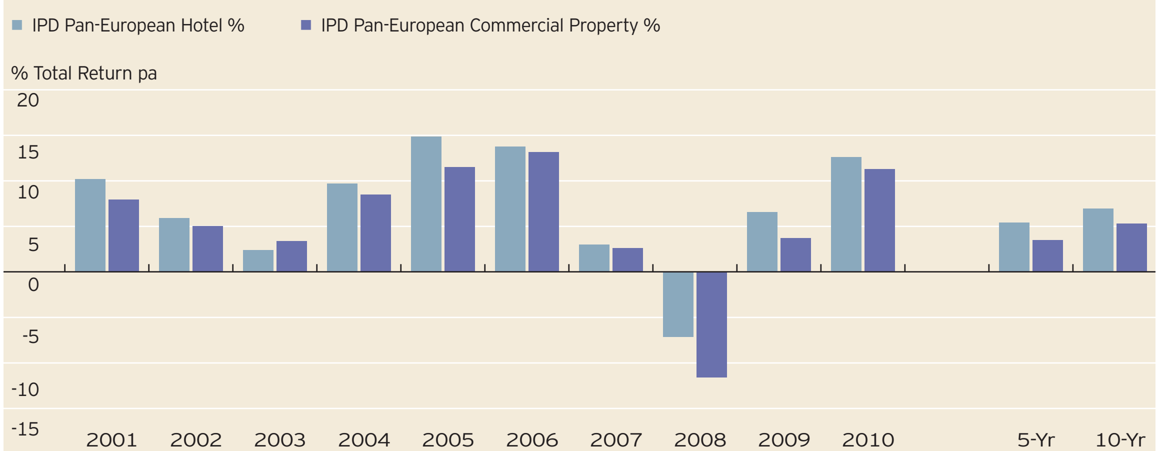
Figure 19 – Passenger Flows into Europe Rising, Q1 2003 to Q2 2011



Source: Association of European Airlines ("AEA"), August 2011

One of the major factors holding back increased institutional ownership of European hotels has been the lack of a credible performance index providing both market transparency and a tool to allow investors to judge hotel performance against traditional real estate and other asset classes. Invesco Real Estate is excited to be supporting, alongside Jones Lang LaSalle and HVS, the development of the IPD Pan-European Hotel Index. IPD is a leading provider of global real estate performance benchmarking and this is an important step to increasing awareness and investment into the institutional hotel market.

Figure 20 – Strong Growth in IPD Pan-European Performance From 2001 to 2010



Source: IPD, August 2011

The underlying strong drivers of growth over the past decade are reflected in the IPD Pan-European Hotel Index performance numbers (Figure 20). The chart demonstrates the strong total returns generated by hotels compared to commercial property over the last 10 years. Over the past decade pan-European hotel investment, as measured by the IPD Pan-European Hotel Index in EUR, has recorded 1.0% capital return compared to -0.3% for the IPD Commercial Property Index. Hotel investment has also demonstrated a lower standard deviation over the last decade, 6.2 compared to 6.5 for commercial property.

In 2010, hotel values rose 6.6% compared to 5.3% for commercial property. A key factor explaining this faster growth is the attractive yield levels for prime long-leased hotel investments compared to prime commercial property. The difficulties in accessing prime real estate across Europe and the desire to diversify holdings have seen hotel investment increase notably during 2010 driving prices up. Jones Lang LaSalle estimates European hotel transaction volumes at €7.4bn for 2010, a 159% increase on €2.8bn in 2009 though considerably below €22.2bn in 2006. Investment volumes for 2011 currently stand at €4.1bn (January to August) although this an under-estimate of end year totals as over 70% of deals in 2010 were completed in the second half of the year and the same is expected for 2011.

The better value growth coupled with a higher income return saw hotels record a 12.5% total return in 2010 compared to 11.2% for commercial property. We expect hotel total returns for 2011 to be robust compared to 2010, despite the economic slowdown across Europe.

Conclusions and Implications for Investment Strategy

Despite recent turmoil we believe that prime European real estate will continue to attract investors, offering the potential for attractive income returns and capital appreciation.

However, given the rapidly evolving global economic situation, there is unusually high uncertainty around our forecasts.

- We continue to expect to under-write real estate investments based on an expectation of rental value growth rather than significant yield movement. This means a "buy-the-market" approach continues to be inappropriate, in our view.
- Local factors will still be most important in under-writing the rental growth prospects of an individual investment. We would be cautious and ensure that the lease profile allows any expected rental growth to feed through to returns during the hold period.
- Historically "risk-free" government covenants should be carefully under-written to ensure the space occupiers are not departments that are under threat from austerity cuts.
- Access to real estate product, particularly prime stock, remains difficult due to investor demand. A strong local platform will, in our view, be vital to successfully accessing good quality stock and delivering attractive returns over the medium term.
- Returns in the UK, France, Germany, the Nordics, Poland and the Czech Republic are expected to be attractive in the short term as investor pressure, compressing yields and rental growth in supply constrained city centres, combine to push the values of both office and retail assets higher.
- In the longer term other Central, Eastern and Southern European markets are expected to provide the best return prospects through renewed and stronger economic growth prospects. These markets are expected to deliver stronger returns but with more inherent risks and less liquidity.
- The elongated rental recovery phase is expected to prolong the period in which investments can be made that will deliver attractive returns over the next five years. We had suggested in a previous House View report that 2010/2011 was the best vintage period to invest. This was based on a stronger economic recovery scenario and a widening of investor focus. Our vintage period expectation is now extended into 2012.
- Office markets are expected to deliver the best short-term returns with supply constrained key city centres offering the best opportunities for growth. In the long term we caution that development pipelines may reduce rental growth prospects. In many key centres across Europe development approvals follow lengthy processes so risks can be mitigated by understanding the pipeline supply well in advance.
- Retail is forecast to produce the strongest medium- to long-term returns. Grocery anchor schemes offer best security of income, in our view, while main high streets and dominant centres are forecast to deliver the strongest growth.
- Internet shopping has long been watched to assess the effects on retail real estate. We believe we will begin to see the impacts over the next five years as retailers continue to invest in the best retail locations while disinvesting from secondary markets. There will be some growth that will transfer from the retail sector to logistics distribution units as home delivery becomes key to e-retailing strategies.
- Over our forecast period we expect logistics, particularly let to grocery related distributors, to continue offering attractive income returns. The best security of income and value is expected to come from the most modern facilities on long leases.

- Hotels are expected to continue delivering attractive returns over our forecast period. While competition for hotel assets has increased recently yields and lease lengths remain attractive compared to other property types. Sustainable economic growth is expected to translate to hotel revenue growth quickly.
- Secondary markets remain stagnant and evidence suggests further value and rental falls could occur in the short term as investors remain focused on prime assets and as business investment focuses on key markets.
- Value-add opportunities exist in key markets, particularly in the office sector. Strategies focused on "curable deficiencies" that manufacture core will find little investor competition. As investors continue to avoid these assets, the period in which these strategies are possible is extended.

Tables

Offices

	Current Vacancy Jun 2011	Vacancy Trend Jun 2011 -Jun 2016	Current Prime Rent (local definition) Jun 2011	Jun 2016	Quoting Terms	Current Prime Rent (€ sqm pm) Jun 2011	Average Prime Rental Growth (long historical trend)	Average Prime Rental Growth Jun 2011 -Jun 2016	Current Prime Yield (local definition) Jun 2011	Exit Prime Yield (local definition) Jun 2016	Expected Total Return 5-Year Average Jun 2011 -Jun 2016	5-Year Required Return as at Jun 2011	Outlook
Berlin	9.8%	Down	21.00	22.25	€ sqm m	21.00	-2.0%	1.6%	5.25%	5.30%	4.6%	4.3%	✓✓
Hamburg	9.5%	Level	22.50	23.75	€ sqm m	22.50	-0.3%	1.5%	4.90%	5.00%	4.0%	4.3%	✓✓
Munich	9.9%	Down	30.00	32.00	€ sqm m	30.00	0.4%	1.6%	4.75%	4.80%	4.4%	4.1%	✓✓
Frankfurt	18.1%	Down	38.00	40.00	€ sqm m	38.00	1.2%	1.0%	5.15%	5.20%	4.5%	4.4%	✓✓
Dusseldorf	12.4%	Down	23.00	24.25	€ sqm m	23.00	-0.4%	1.1%	5.20%	5.25%	4.3%	4.5%	✓✓
Stuttgart	6.3%	Level	17.50	17.75	€ sqm m	17.50	0.1%	1.0%	5.40%	5.50%	3.9%	4.4%	✓✓
Cologne	8.9%	Down	21.00	22.50	€ sqm m	21.00	1.0%	1.4%	5.40%	5.50%	4.5%	4.3%	✓✓
Vienna	5.8%	Level	23.00	24.00	€ sqm m	23.00	0.5%	1.3%	5.20%	5.25%	4.9%	4.8%	✓✓
Zurich	2.5%	Level	1,100.00	1,112.50	€ sqm m	73.46	1.8%	2.2%	3.40%	3.50%	4.3%	3.3%	✓✓
Geneva	1.6%	Level	1,050.00	1,131.25	€ sqm m	70.12	3.0%	2.9%	3.60%	3.70%	4.8%	3.0%	✓✓✓
Amsterdam	18.8%	Down	330.00	354.75	€ sqm pa	27.50	3.0%	1.5%	5.40%	5.50%	4.5%	4.9%	✓✓
Rotterdam	18.4%	Down	195.00	206.25	€ sqm pa	16.25	2.7%	1.1%	5.70%	5.75%	4.3%	5.3%	✓✓
Paris (CBD)	5.0%	Level	775.00	931.75	€ sqm pa	64.58	2.9%	3.8%	4.50%	4.50%	6.0%	5.5%	✓✓
Paris (LD)	6.5%	Level	575.00	633.75	€ sqm pa	45.83	3.7%	2.9%	5.50%	5.50%	6.2%	5.5%	✓✓
Paris (Peri Defense)	18.1%	Down	400.00	453.75	€ sqm pa	33.33	3.6%	2.6%	5.75%	5.75%	5.9%	5.7%	✓✓
Paris (Neuilly/Lev)	7.4%	Level	550.00	630.00	€ sqm pa	45.83	3.7%	2.8%	5.50%	5.50%	6.2%	5.7%	✓✓
Paris (Northern River Bend)	17.4%	Down	350.00	355.00	€ sqm pa	26.25	4.4%	2.4%	5.75%	5.75%	5.4%	5.7%	✓✓
Paris (Southern River Bend)	11.6%	Down	500.00	575.25	€ sqm pa	41.67	4.2%	2.8%	5.50%	5.50%	5.6%	5.5%	✓✓
Paris (Rive Gauche)	6.6%	Down	500.00	588.00	€ sqm pa	41.67	2.5%	3.3%	5.25%	5.25%	5.9%	5.5%	✓✓
Lyon	6.4%	Level	240.00	273.00	€ sqm pa	20.00	3.5%	2.6%	6.00%	6.00%	6.8%	5.4%	✓✓✓
Lille	5.2%	Down	200.00	225.25	€ sqm pa	16.67	2.4%	2.4%	6.25%	6.25%	6.9%	5.3%	✓✓✓
Marseille	5.5%	Level	240.00	271.75	€ sqm pa	20.00	3.2%	2.5%	6.15%	6.15%	7.0%	5.3%	✓✓✓
Brussels	11.9%	Down	285.00	323.25	€ sqm pa	23.75	2.1%	2.6%	5.50%	5.50%	5.7%	6.3%	✓✓
Madrid	12.9%	Down	324.00	368.25	€ sqm pa	27.00	4.1%	2.6%	5.25%	5.25%	6.5%	7.9%	✓
Barcelona	14.7%	Down	228.00	264.25	€ sqm pa	19.50	2.2%	2.5%	5.25%	5.25%	6.2%	8.0%	✓
Lisbon	12.2%	Down	222.00	256.75	€ sqm m	19.00	-0.4%	2.4%	7.00%	7.00%	7.7%	13.3%	✓
Rome	8.0%	Down	420.00	475.75	€ sqm pa	35.00	3.8%	2.5%	5.75%	5.75%	8.1%	7.5%	✓✓
Milan	9.5%	Down	520.00	591.50	€ sqm pa	43.33	5.3%	2.6%	5.25%	5.25%	7.6%	7.5%	✓✓
Helsinki	12.1%	Down	30.00	31.50	€ sqm pm	30.00	3.7%	2.3%	5.40%	5.25%	7.4%	5.6%	✓✓✓
Copenhagen	7.9%	Level	1,675.00	1,867.00	DK sqm pa	18.72	1.0%	2.2%	5.00%	5.00%	5.6%	5.3%	✓✓
Stockholm	8.0%	Level	4,400.00	5,106.50	SK sqm pa	40.69	4.6%	3.5%	4.75%	4.75%	7.5%	4.9%	✓✓✓
Gothenburg	8.0%	Level	2,300.00	2,606.25	SK sqm pa	21.27	4.7%	2.5%	5.00%	5.00%	6.3%	5.0%	✓✓✓
Oslo	7.5%	Down	3,500.00	3,690.50	NOK sqm pa	37.38	4.0%	2.9%	5.25%	5.25%	6.1%	6.5%	✓✓
Dublin	22.8%	Down	323.00	389.25	€ sqm pa	26.92	4.2%	2.4%	7.50%	6.75%	10.5%	13.1%	✓

(Continued on page 33)

Offices

(Continued from page 32)

	Current Vacancy Jun 2011	Vacancy Trend Jun 2011 -Jun 2016	Current Prime Rent (local definition) Jun 2011	Jun 2016	Quoting Terms	Current Prime Rent (€ sqm pm) Jun 2011	Average Prime Rental Growth (long historical trend)	Average Prime Rental Growth Jun 2011 -Jun 2016	Current Prime Yield (local definition) Jun 2011	Exit Prime Yield (local definition) Jun 2016	Expected Total Return 5-Year Average Jun 2011 -Jun 2016	5-Year Required Return as at Jun 2011	Outlook
London (City)	7.8%	Up	55.00	69.75	£ sqft pa	55.06	2.9%	4.9%	5.25%	5.50%	8.5%	5.4%	✓✓✓
London (WE)	4.7%	Up	92.50	108.75	£ sqft pa	92.60	5.0%	4.5%	4.25%	4.50%	7.1%	5.1%	✓✓✓
London (Midtown)	5.6%	Level	50.00	62.50	£ sqft pa	50.05	5.1%	4.6%	5.50%	5.75%	8.3%	5.1%	✓✓✓
London (Docklands)	7.3%	Level	37.50	48.00	£ sqft pa	37.54	3.4%	5.0%	5.50%	5.75%	8.5%	5.4%	✓✓✓
Birmingham	13.9%	Down	27.00	29.75	£ sqft pa	27.03	2.7%	1.9%	6.00%	6.00%	7.2%	5.2%	✓✓✓
Manchester	15.3%	Down	28.50	31.00	£ sqft pa	28.53	2.7%	1.7%	6.00%	6.00%	7.0%	5.2%	✓✓✓
Glasgow	12.8%	Down	28.00	30.50	£ sqft pa	28.03	3.3%	1.8%	6.00%	6.00%	7.1%	5.4%	✓✓✓
Edinburgh	7.4%	Down	27.00	29.75	£ sqft pa	27.03	2.7%	1.9%	6.00%	6.00%	7.2%	5.1%	✓✓✓
Cardiff	6.2%	Level	20.00	22.25	£ sqft pa	20.02	1.8%	2.1%	6.50%	6.50%	7.6%	5.4%	✓✓✓
Bristol	12.7%	Down	26.50	28.25	£ sqft pa	26.53	2.5%	1.7%	6.00%	6.00%	7.0%	5.3%	✓✓✓
Leeds	9.1%	Down	24.00	26.25	£ sqft pa	24.03	1.6%	1.9%	6.50%	6.50%	7.5%	5.3%	✓✓✓
M25 West	11.5%	Down	27.00	30.00	£ sqft pa	27.03	0.8%	2.4%	6.35%	6.25%	7.7%	5.4%	✓✓✓
Warsaw	6.2%	Level	25.00	26.25	€ sqm m	25.00	-4.9%	1.8%	6.15%	6.05%	7.0%	5.6%	✓✓✓
Budapest	20.7%	Down	19.00	21.00	€ sqm m	19.00	-1.2%	2.0%	7.25%	6.75%	9.4%	7.2%	✓✓✓
Prague	11.9%	Level	20.00	22.75	€ sqm m	20.00	-2.2%	2.7%	6.35%	6.15%	8.2%	5.2%	✓✓✓
Bratislava	9.1%	Level	17.00	18.25	€ sqm m	17.00	-1.0%	1.5%	7.25%	6.80%	9.1%	7.7%	✓✓✓
Bucharest	16.1%	Down	18.50	19.50	€ sqm m	18.50	-3.6%	1.0%	8.75%	8.25%	10.4%	9.1%	✓✓✓
Sofia	23.9%	Down	13.50	13.75	€ sqm m	13.50	-3.4%	0.5%	9.75%	9.00%	11.2%	8.7%	✓✓✓

All tables in this appendix are source: Experian Business Strategies, Citigroup, CB Richard Ellis, Wüest & Partner. Invesco Real Estate, Autumn 2011.

There are three categories:
✓✓✓ = Most opportunities are expected to exceed target returns (excess return is > 1%).
✓✓ = Most opportunities are expected to meet target returns (excess return between -1% and +1%).
✓ = Only exceptional opportunities will be of interest (excess return < -1%).

1 Current prime rents are headline and therefore exclude incentives.
2 Average prime rental growth is the average annual change in headline rental values over the identified period.
3 Current prime yields are based on the appropriate market definition for a rack rented property; as a result, they cannot be used for a direct comparison of available net initial returns.
4 Expected total returns are based on estimates of income return and capital growth over a five-year hold period. Returns are pre-tax and fund costs, ungeared, in local currency after transaction costs and operating expenses.
5 Outlooks are based on excess return (the difference between expected and required returns in local currency). Required returns represent Invesco Real Estate's estimates of the appropriate total return given a suitable risk-free rate and risk premium.
6 Long-run trend data vary from country to country due to length of available data series.

High Street Retail (SSU)

	Current Prime Rent (local definition)										
	Jun 2011	Jun 2016	Quoting Terms	Current Prime Rent (€ sqm pm) Jun 2011	Average Prime Rental Growth (long historical trend)	Average Prime Rental Growth Jun 2011 -Jun 2016	Current Prime Yield (local definition) Jun 2011	Exit Prime Yield (local definition) Jun 2016	Expected Total Return 5-Year Average Jun 2011 -Jun 2016	5-Year Required Return as at Jun 2011	Outlook
Berlin	250.00	274.75	€ sqm m	250.00	4.2%	1.9%	4.75%	4.75%	5.6%	5.0%	✓✓
Hamburg	240.00	255.25	€ sqm m	240.00	1.3%	2.6%	4.40%	4.40%	6.0%	5.0%	✓✓
Munich	320.00	354.50	€ sqm m	320.00	3.4%	2.7%	4.15%	4.15%	5.9%	5.0%	✓✓
Frankfurt	290.00	308.00	€ sqm m	290.00	2.3%	1.9%	4.50%	4.50%	5.5%	5.0%	✓✓
Dusseldorf	230.00	256.50	€ sqm m	230.00	1.7%	2.2%	4.50%	4.50%	5.8%	5.0%	✓✓
Stuttgart	230.00	246.25	€ sqm m	230.00	1.9%	2.3%	5.00%	5.00%	6.3%	5.0%	✓✓✓
Cologne	230.00	245.00	€ sqm m	230.00	1.4%	2.2%	4.90%	4.90%	6.1%	5.0%	✓✓✓
Vienna	2,750.00	3,012.00	€ sqm pa	229.17	2.2%	2.2%	4.40%	4.50%	5.3%	5.7%	✓✓
Amsterdam	2,700.00	2,944.50	€ sqm pa	225.00	7.1%	1.7%	4.90%	4.90%	5.8%	5.7%	✓✓
Rotterdam	1,750.00	1,913.75	€ sqm pa	145.83	6.0%	1.8%	5.00%	5.00%	5.9%	5.9%	✓✓
Paris (CBD)	9,547.00	11,244.75	€ sqm pa	585.87	5.9%	3.3%	4.25%	4.25%	6.8%	5.9%	✓✓
Lyon	2,144.00	2,525.00	€ sqm pa	131.57	5.8%	3.3%	4.75%	4.75%	7.1%	6.2%	✓✓
Lille	1,365.00	1,606.75	€ sqm pa	83.78	3.3%	3.3%	4.75%	4.75%	6.9%	6.0%	✓✓
Marseille	1,700.00	2,001.25	€ sqm pa	104.32	5.1%	3.3%	4.75%	4.75%	7.0%	7.1%	✓✓
Brussels	1,700.00	1,761.25	€ sqm pa	133.33	1.6%	1.9%	4.75%	4.75%	6.2%	7.3%	✓
Madrid	1,900.00	2,184.25	€ sqm pa	158.33	8.7%	2.8%	4.75%	4.75%	7.5%	8.4%	✓✓
Barcelona	1,850.00	2,129.00	€ sqm pa	154.17	10.7%	2.8%	4.75%	4.75%	7.6%	8.7%	✓
Lisbon	900.00	993.00	€ sqm m	75.00	0.0%	2.0%	6.75%	6.75%	8.3%	14.2%	✓
Milan	2,673.00	3,094.75	€ sqm pa	222.75	7.0%	3.0%	4.75%	4.75%	7.3%	8.4%	✓
Rome	2,611.00	2,985.25	€ sqm pa	217.58	6.6%	2.7%	4.90%	4.90%	7.3%	8.3%	✓
Helsinki	124.00	133.25	€ sqm m	124.00	6.5%	2.4%	5.30%	5.00%	8.8%	6.4%	✓✓✓
Copenhagen	15,000.00	15,672.25	DK sqm pa	167.68	2.3%	1.6%	4.75%	4.50%	6.9%	6.1%	✓✓
Stockholm	12,500.00	13,879.50	SK sqm pa	115.59	5.0%	3.0%	4.75%	4.75%	7.0%	5.7%	✓✓✓
Oslo	15,000.00	15,865.75	NOK sqm pa	160.18	6.4%	2.5%	5.25%	5.00%	8.7%	7.0%	✓✓✓
Dublin	2,805.00	3,034.25	€ sqm pa	233.75	6.8%	0.7%	6.50%	6.00%	8.7%	13.8%	✓
London (WE)	900.00	1,046.00	£ sqft Zone A pa	540.58	9.5%	3.1%	3.50%	3.85%	4.6%	5.3%	✓✓
Birmingham	280.00	287.75	£ sqft Zone A pa	129.64	3.0%	0.6%	5.25%	5.15%	6.1%	5.4%	✓✓
Manchester	245.00	252.00	£ sqft Zone A pa	122.63	1.0%	1.4%	5.25%	5.15%	6.9%	5.3%	✓✓✓
Glasgow	250.00	257.75	£ sqft Zone A pa	172.06	4.4%	0.6%	5.25%	5.25%	5.8%	5.4%	✓✓
Edinburgh	180.00	191.25	£ sqft Zone A pa	123.88	0.7%	1.2%	5.25%	5.25%	6.4%	5.4%	✓✓
Cardiff	230.00	253.00	£ sqft Zone A pa	106.49	3.1%	1.1%	5.50%	5.55%	6.3%	5.4%	✓✓
Bristol	215.00	227.75	£ sqft Zone A pa	99.54	3.0%	1.1%	5.75%	5.65%	7.1%	5.1%	✓✓✓
Leeds	220.00	242.50	£ sqft Zone A pa	101.86	3.9%	2.0%	5.35%	5.35%	7.1%	5.3%	✓✓✓
Warsaw	75.00	89.50	€ sqm m	75.00	4.5%	3.6%	6.00%	5.75%	10.4%	6.3%	✓✓✓
Budapest	85.00	90.00	€ sqm m	85.00	-0.4%	1.1%	7.00%	6.40%	10.2%	7.5%	✓✓✓
Prague	125.00	142.00	€ sqm m	125.00	2.3%	2.6%	6.25%	6.00%	9.8%	6.1%	✓✓✓
Bratislava	50.00	58.00	€ sqm m	50.00	5.8%	3.0%	7.25%	6.50%	12.2%	8.7%	✓✓✓
Bucharest	65.00	71.75	€ sqm m	65.00	10.9%	2.0%	10.00%	9.00%	14.7%	8.4%	✓✓✓
Sofia	450.00	478.75	€ sqm pa	37.50	-0.6%	1.2%	10.00%	9.00%	13.7%	7.9%	✓✓✓

Shopping Centres (SHC)

	Current Prime Rent (local definition)										
	Jun 2011	Jun 2016	Quoting Terms	Current Prime Rent (€ sqm pm) Jun 2011	Average Prime Rental Growth (long historical trend)	Average Prime Rental Growth Jun 2011 -Jun 2016	Current Prime Yield (local definition) Jun 2011	Exit Prime Yield (local definition) Jun 2016	Expected Total Return 5-Year Average Jun 2011 -Jun 2016	5-Year Required Return as at Jun 2011	Outlook
Berlin	1,920.00	2,061.50	€ sqm pa	160.00	4.2%	1.4%	5.25%	5.30%	5.4%	5.0%	✓✓
Hamburg	1,920.00	2,066.50	€ sqm pa	160.00	1.3%	1.5%	5.10%	5.10%	5.6%	5.0%	✓✓
Munich	2,640.00	2,878.25	€ sqm pa	220.00	3.4%	1.7%	5.00%	5.10%	5.4%	5.0%	✓✓
Frankfurt	3,000.00	3,139.75	€ sqm pa	250.00	2.3%	0.9%	5.10%	5.10%	5.2%	5.0%	✓✓
Amsterdam	1,000.00	1,101.25	€ sqm pa	83.33	7.1%	1.9%	5.30%	5.40%	5.5%	5.7%	✓✓
Paris	2,000.00	2,347.00	€ sqm pa	166.67	8.4%	3.3%	4.75%	4.75%	7.2%	5.9%	✓✓✓
Lyon	1,400.00	1,636.50	€ sqm pa	116.67	-1.1%	3.2%	5.00%	5.00%	6.5%	6.1%	✓✓
Lille	1,400.00	1,638.75	€ sqm pa	116.67	-1.1%	3.2%	5.00%	5.00%	6.6%	6.0%	✓✓
Marseille	1,400.00	1,636.75	€ sqm pa	116.67	-1.1%	3.2%	5.00%	5.00%	6.6%	6.0%	✓✓
Brussels	1,200.00	1,533.50	€ sqm pa	100.00	4.1%	3.4%	5.75%	5.75%	8.8%	7.2%	✓✓✓
Madrid	950.00	1,057.25	€ sqm pa	79.17	2.5%	2.2%	6.25%	6.25%	7.9%	8.4%	✓✓
Barcelona	940.00	1,044.00	€ sqm pa	78.33	5.2%	2.1%	6.25%	6.25%	7.9%	8.6%	✓✓
Lisbon	960.00	1,056.50	€ sqm pa	80.00	3.3%	1.9%	7.25%	7.20%	8.3%	14.2%	✓
Rome	800.00	822.25	€ sqm pa	62.50	2.4%	1.9%	6.15%	6.15%	7.3%	8.2%	✓✓
Milan	800.00	839.25	€ sqm pa	63.33	5.3%	2.0%	6.15%	6.15%	7.6%	8.4%	✓✓
Copenhagen	5,000.00	5,531.75	DK sqm pa	55.89	2.3%	2.0%	5.50%	5.25%	7.2%	6.1%	✓✓✓
Stockholm	7,500.00	8,354.50	SK sqm pa	69.35	5.0%	2.2%	5.50%	5.00%	8.1%	5.6%	✓✓✓
Oslo	9,250.00	10,177.00	NOK sqm pa	98.78	6.4%	2.5%	5.75%	5.50%	8.0%	7.0%	✓✓✓
Dublin	3,250.00	3,293.00	€ sqm pa	270.83	6.7%	0.3%	7.75%	6.75%	10.6%	13.8%	✓
London	425.00	485.75	£ sqft Zone A pa	425.46	9.5%	2.7%	5.25%	5.00%	8.8%	5.8%	✓✓✓
Birmingham	275.00	291.00	£ sqft Zone A pa	275.30	3.0%	0.8%	5.50%	5.35%	6.8%	5.9%	✓✓
Manchester	300.00	295.50	£ sqft Zone A pa	300.32	1.0%	1.1%	5.50%	5.35%	7.1%	5.8%	✓✓✓
Glasgow	250.00	257.75	£ sqft Zone A pa	250.27	4.4%	0.6%	5.50%	5.35%	6.7%	5.9%	✓✓
Edinburgh	200.00	231.00	£ sqft Zone A pa	200.22	0.7%	1.0%	5.50%	5.50%	6.5%	5.9%	✓✓
Cardiff	200.00	245.50	£ sqft Zone A pa	200.22	3.1%	0.5%	5.50%	5.35%	6.5%	5.9%	✓✓
Bristol	275.00	294.75	£ sqft Zone A pa	275.30	3.0%	1.0%	5.50%	5.35%	7.1%	5.6%	✓✓✓
Leeds	300.00	293.00	£ sqft Zone A pa	300.32	3.9%	0.9%	5.50%	5.35%	7.0%	5.8%	✓✓✓
Warsaw	980.00	1,165.75	€ sqm pa	81.67	4.5%	3.5%	6.00%	5.75%	10.4%	6.3%	✓✓✓
Budapest	1,000.00	1,068.00	€ sqm pa	83.33	-0.4%	1.3%	7.25%	6.50%	10.9%	7.5%	✓✓✓
Prague	1,100.00	1,206.25	€ sqm pa	91.67	2.3%	1.9%	6.25%	6.00%	9.0%	6.1%	✓✓✓
Bucharest	600.00	641.50	€ sqm pa	50.00	10.0%	1.3%	9.00%	8.65%	11.7%	8.4%	✓✓✓

Retail Parks (RW)

	Current Prime Rent (local definition)										
	Jun 2011	Jun 2016	Quoting Terms	Current Prime Rent (€ sqm pm) Jun 2011	Average Prime Rental Growth (long historical trend)	Average Prime Rental Growth Jun 2011 - Jun 2016	Current Prime Yield (local definition) Jun 2011	Exit Prime Yield (local definition) Jun 2016	Expected Total Return 5-Year Average Jun 2011 -Jun 2016	5-Year Required Return as at Jun 2011	Outlook
Berlin	162.00	155.25	€ sqm pa	13.50	4.2%	0.7%	6.50%	6.50%	4.7%	4.7%	✓✓
Hamburg	186.00	189.00	€ sqm pa	15.50	1.3%	1.2%	6.25%	6.25%	5.3%	4.7%	✓✓
Munich	198.00	204.25	€ sqm pa	16.50	3.4%	1.2%	6.25%	6.25%	5.4%	4.7%	✓✓
Frankfurt	186.00	187.50	€ sqm pa	15.50	2.3%	1.0%	6.25%	6.25%	5.1%	4.7%	✓✓
Vienna	150.00	152.00	€ sqm pa	12.50	5.5%	1.1%	6.75%	6.75%	5.5%	5.5%	✓✓
Amsterdam	145.00	154.00	€ sqm pa	12.08	7.1%	1.2%	7.00%	7.00%	5.7%	5.3%	✓✓
Rotterdam	145.00	153.50	€ sqm pa	12.08	5.1%	1.1%	7.00%	7.00%	5.6%	5.5%	✓✓
Paris	190.00	209.25	€ sqm pa	15.83	2.8%	2.0%	5.50%	5.50%	6.1%	5.5%	✓✓
Lyon	180.00	198.50	€ sqm pa	15.00	4.9%	2.0%	6.00%	6.00%	6.8%	5.8%	✓✓✓
Lille	160.00	176.50	€ sqm pa	13.33	2.9%	2.0%	6.00%	6.00%	6.6%	5.6%	✓✓
Marseille	180.00	198.50	€ sqm pa	15.00	2.0%	2.0%	6.00%	6.00%	6.4%	5.6%	✓✓
Brussels	160.00	177.25	€ sqm pa	13.33	3.2%	2.1%	6.75%	6.75%	7.6%	6.9%	✓✓
Madrid	211.00	234.00	€ sqm pa	17.58	2.9%	2.1%	6.75%	6.75%	7.8%	8.0%	✓✓
Barcelona	211.00	234.50	€ sqm pa	17.58	3.3%	2.1%	6.75%	6.75%	7.8%	8.2%	✓✓
Lisbon	130.00	141.25	€ sqm pa	10.83	1.0%	1.7%	9.00%	8.75%	9.0%	13.8%	✓
Rome	200.00	221.50	€ sqm pa	16.67	0.0%	2.1%	7.00%	7.00%	7.8%	7.9%	✓✓
Milan	220.00	244.25	€ sqm pa	18.33	1.2%	2.1%	6.75%	6.75%	7.7%	8.0%	✓✓
Stockholm	1,800.00	1,822.25	SK sqm pa	16.64	5.0%	2.6%	5.75%	5.75%	6.3%	5.2%	✓✓✓
Dublin	150.00	159.75	€ sqm pa	12.50	n/a	1.3%	7.85%	7.00%	9.4%	13.3%	✓
London	32.50	37.50	£ sqft pa	32.53	9.5%	1.4%	5.75%	5.50%	7.5%	5.4%	✓✓✓
Birmingham	26.50	27.25	£ sqft pa	26.53	3.0%	0.5%	5.75%	5.75%	5.7%	5.5%	✓✓
Manchester	22.00	23.00	£ sqft pa	22.02	1.0%	0.8%	5.75%	5.75%	5.8%	5.4%	✓✓
Glasgow	23.00	24.00	£ sqft pa	23.02	4.4%	0.8%	5.75%	5.75%	5.9%	5.5%	✓✓
Edinburgh	25.00	26.25	£ sqft pa	25.03	0.7%	1.0%	5.75%	5.75%	6.1%	5.5%	✓✓
Cardiff	25.00	25.50	£ sqft pa	25.03	3.1%	0.4%	5.75%	5.75%	5.6%	5.5%	✓✓
Bristol	22.00	23.25	£ sqft pa	22.02	3.0%	1.2%	5.75%	5.75%	6.1%	5.2%	✓✓
Leeds	25.00	26.50	£ sqft pa	25.03	3.9%	1.1%	5.75%	5.75%	6.2%	5.4%	✓✓
Warsaw	120.00	128.75	€ sqm pa	10.00	4.5%	1.4%	6.85%	6.75%	7.5%	5.9%	✓✓✓
Budapest	95.00	96.25	€ sqm pa	7.92	-0.4%	0.2%	8.00%	7.50%	8.1%	6.6%	✓✓✓
Prague	126.00	140.25	€ sqm pa	10.50	2.3%	2.2%	7.25%	7.00%	8.8%	5.6%	✓✓✓

Industrial/Logistics

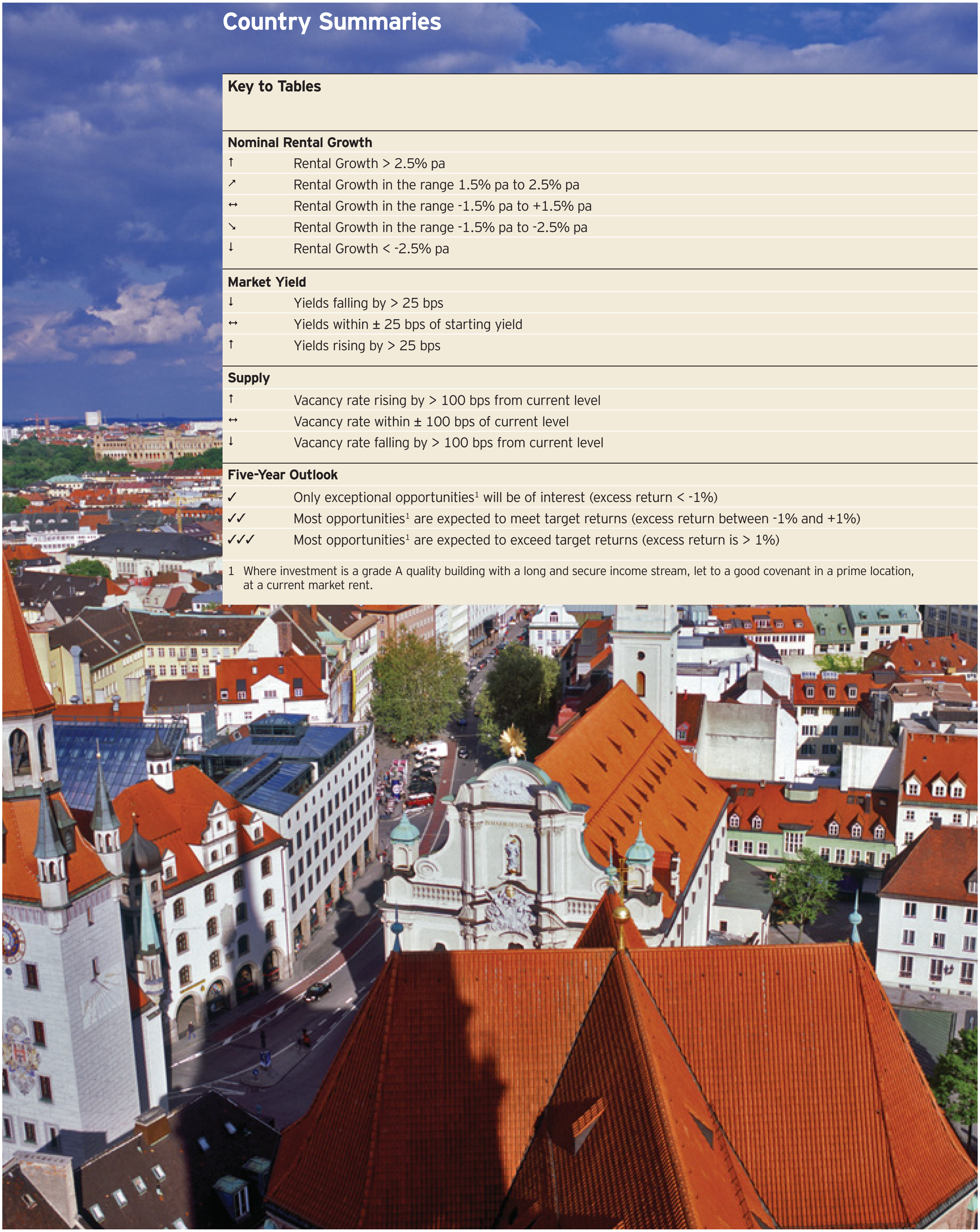
	Current Prime Rent (local definition) Jun 2011	Jun 2016	Quoting Terms	Current Prime Rent (€ sqm pm) Jun 2011	Average Prime Rental Growth (long historical trend)	Average Prime Rental Growth Jun 2011 -Jun 2016	Current Prime Yield (local definition) Jun 2011	Exit Prime Yield (local definition) Jun 2016	Expected Total Return 5-Year Average Jun 2011 -Jun 2016	5-Year Required Return as at Jun 2011	Outlook
Berlin	4.50	4.50	€ sqm m	4.50	-3.3%	1.3%	7.00%	7.15%	4.8%	5.8%	✓✓
Hamburg	5.75	6.00	€ sqm m	5.75	1.4%	1.2%	6.60%	6.75%	4.8%	5.8%	✓✓
Munich	6.50	6.75	€ sqm m	6.50	-0.2%	1.0%	6.60%	6.75%	4.8%	5.8%	✓✓
Frankfurt	6.10	6.25	€ sqm m	6.10	1.0%	1.0%	6.75%	6.90%	4.9%	5.8%	✓✓
Dusseldorf	5.30	5.50	€ sqm m	5.30	-0.4%	1.1%	6.75%	6.90%	4.8%	5.8%	✓✓
Stuttgart	6.50	6.75	€ sqm m	6.50	0.9%	1.0%	6.75%	6.90%	5.0%	5.9%	✓✓
Cologne	5.50	5.75	€ sqm m	5.50	-0.1%	0.9%	6.90%	7.00%	4.9%	5.9%	✓✓
Amsterdam	65.00	67.25	€ sqm pa	5.42	1.5%	1.3%	7.25%	7.25%	5.9%	6.4%	✓✓
Rotterdam	67.00	68.75	€ sqm pa	5.58	1.7%	1.2%	7.15%	7.15%	5.8%	6.7%	✓✓
Vienna	5.10	5.50	€ sqm m	5.10	-0.8%	1.4%	7.25%	7.25%	6.0%	7.6%	✓
Paris (IDF)	52.00	55.25	€ sqm pa	4.33	-0.2%	1.2%	7.00%	7.00%	6.1%	6.0%	✓✓
Lyon	45.00	47.75	€ sqm pa	3.75	-0.1%	1.2%	7.25%	7.25%	6.6%	6.5%	✓✓
Lille	45.00	47.75	€ sqm pa	3.75	2.4%	1.2%	7.25%	7.25%	6.5%	6.4%	✓✓
Marseille	45.00	47.75	€ sqm pa	3.75	1.1%	1.2%	7.25%	7.25%	6.5%	6.4%	✓✓
Brussels	46.00	47.25	€ sqm pa	3.75	-1.0%	1.5%	7.00%	7.00%	5.5%	7.6%	✓
Madrid	66.00	73.00	€ sqm pa	5.75	0.8%	2.0%	7.75%	7.60%	8.1%	8.8%	✓✓
Barcelona	66.00	72.75	€ sqm pa	5.75	0.8%	2.0%	7.75%	7.60%	8.1%	9.1%	✓✓
Lisbon	42.00	44.75	€ sqm m	3.80	-4.7%	1.3%	8.00%	8.00%	7.4%	14.6%	✓
Rome	60.00	64.75	€ sqm pa	5.00	0.4%	1.5%	7.75%	7.75%	7.7%	8.6%	✓✓
Milan	57.00	61.50	€ sqm pa	4.75	0.3%	1.5%	7.75%	7.75%	7.6%	8.8%	✓
Helsinki	8.50	9.00	€ sqm m	8.50	2.8%	1.5%	7.00%	6.75%	8.0%	6.7%	✓✓✓
Copenhagen	500.00	542.50	DK sqm pa	5.59	0.7%	1.6%	7.25%	7.00%	5.6%	6.4%	✓✓
Stockholm	650.00	702.50	SK sqm pa	6.01	1.0%	1.6%	6.50%	6.25%	6.7%	5.9%	✓✓
Gothenburg	850.00	957.50	SK sqm pa	7.86	4.1%	2.4%	6.50%	6.25%	8.3%	5.9%	✓✓✓
Oslo	1,100.00	1,104.50	NOK sqm pa	11.75	3.4%	2.0%	6.75%	6.75%	5.9%	7.4%	✓
Dublin	65.00	81.50	€ sqm pa	5.42	0.6%	1.4%	9.50%	8.00%	12.4%	13.7%	✓
Greater London	12.00	13.00	£ sqft pa	12.01	3.0%	1.6%	6.25%	6.25%	7.4%	5.6%	✓✓✓
Birmingham	5.25	5.50	£ sqft pa	5.26	1.0%	1.3%	7.00%	7.15%	6.9%	5.9%	✓✓
Manchester	5.75	6.00	£ sqft pa	5.76	1.5%	1.2%	7.00%	7.15%	6.9%	5.9%	✓✓
Glasgow	6.00	6.25	£ sqft pa	6.01	1.5%	1.2%	7.25%	7.25%	7.5%	5.9%	✓✓✓
Edinburgh	6.00	6.25	£ sqft pa	6.01	1.8%	1.2%	7.25%	7.25%	7.5%	6.1%	✓✓✓
Cardiff	5.25	5.50	£ sqft pa	5.26	1.0%	1.1%	7.00%	7.25%	6.5%	6.1%	✓✓
Bristol	7.00	7.50	£ sqft pa	7.01	1.5%	1.2%	7.00%	7.15%	7.0%	5.9%	✓✓✓
Leeds	5.00	5.25	£ sqft pa	5.01	1.4%	1.1%	7.00%	7.15%	6.7%	5.9%	✓✓
Warsaw	4.25	4.50	€ sqm m	4.25	-5.2%	1.7%	7.75%	7.60%	7.4%	6.5%	✓✓
Budapest	3.00	3.50	€ sqm m	3.00	-4.8%	3.1%	9.50%	8.75%	11.6%	8.3%	✓✓✓
Prague	4.25	4.50	€ sqm m	4.25	-2.0%	1.2%	8.25%	8.00%	7.7%	6.4%	✓✓✓
Bratislava	4.00	4.25	€ sqm m	4.00	-1.9%	1.3%	8.50%	8.00%	8.7%	8.6%	✓✓
Bucharest	4.00	4.25	€ sqm m	4.00	-3.7%	1.6%	10.00%	9.50%	11.3%	8.4%	✓✓✓
Sofia	4.25	4.50	€ sqm m	4.25	3.5%	1.5%	12.00%	11.00%	14.0%	8.1%	✓✓✓

Economics

	National Economic Data & Forecast								Local* Economic Data & Forecast				
	National GDP Growth pa		National Inflation pa		ILO Unemployment		10-Year Bond Yield		Population (thousands)	Metro GDP per Capita (€)	Consumer Spending per Capita (€)	Local GDP Growth pa	ILO Unemploy-ment
	2006 -2010	2011 -2015	2006 -2010	2011 -2015	Year End 2010	Year End 2015	Aug 2011	Q2 2016	Year End 2010	Year End 2010	Year End 2010	2011 -2015	Year End 2010
Berlin	1.1%	2.0%	1.6%	1.8%	7.1%	5.9%	2.3%	4.6%	3,413.14	26,257.26	14,424.88	1.4%	12.6%
Hamburg	1.1%	2.0%	1.6%	1.8%	7.1%	5.9%	2.3%	4.6%	1,801.16	47,293.46	20,812.75	3.1%	6.5%
Munich	1.1%	2.0%	1.6%	1.8%	7.1%	5.9%	2.3%	4.6%	1,339.41	52,357.62	19,099.32	3.1%	4.7%
Frankfurt	1.1%	2.0%	1.6%	1.8%	7.1%	5.9%	2.3%	4.6%	663.45	79,494.96	18,260.80	2.2%	6.9%
Dusseldorf	1.1%	2.0%	1.6%	1.8%	7.1%	5.9%	2.3%	4.6%	584.22	33,134.71	17,694.57	2.0%	6.7%
Stuttgart	1.1%	2.0%	1.6%	1.8%	7.1%	5.9%	2.3%	4.6%	595.85	54,454.12	18,427.89	2.0%	5.7%
Cologne	1.1%	2.0%	1.6%	1.8%	7.1%	5.9%	2.3%	4.6%	1,009.39	40,053.75	16,922.51	2.1%	7.9%
Amsterdam	1.4%	2.0%	1.5%	1.7%	4.5%	3.6%	2.7%	4.9%	1,245.61	53,891.68	18,553.63	2.5%	4.8%
Rotterdam	1.4%	2.0%	1.5%	1.7%	4.5%	3.6%	2.7%	4.9%	1,360.94	38,301.23	16,725.51	2.1%	5.7%
Vienna	1.5%	2.2%	1.8%	2.0%	4.4%	3.7%	2.8%	4.8%	1,719.54	40,846.16	17,230.01	2.5%	7.2%
Zurich	1.9%	2.1%	0.8%	1.0%	4.4%	3.0%	1.2%	3.5%	1,350.33	52,933.80	43,789.21	2.2%	4.2%
Geneva	1.9%	2.1%	0.8%	1.0%	4.4%	3.0%	1.2%	3.5%	446.73	38,217.77	19,632.34	2.2%	6.8%
Paris (IDF)	0.8%	1.9%	1.7%	2.0%	9.7%	8.0%	3.4%	4.7%	11,859.35	44,828.03	17,598.70	2.3%	9.3%
Lyon	0.8%	1.9%	1.7%	2.0%	9.7%	8.0%	3.4%	4.7%	1,715.62	34,144.73	16,212.47	2.7%	9.0%
Lille	0.8%	1.9%	1.7%	2.0%	9.7%	8.0%	3.4%	4.7%	2,563.08	24,130.09	16,090.00	1.6%	14.6%
Marseille	0.8%	1.9%	1.7%	2.0%	9.7%	8.0%	3.4%	4.7%	2,001.76	27,805.89	17,177.98	2.1%	11.0%
Rome	-0.4%	1.3%	2.0%	2.0%	8.4%	7.2%	4.8%	5.3%	4,233.76	29,641.28	14,921.54	1.2%	8.2%
Milan	-0.4%	1.3%	2.0%	2.0%	8.4%	7.2%	4.8%	5.3%	4,062.77	31,916.77	17,237.24	1.4%	6.4%
Brussels	1.2%	2.0%	2.2%	2.1%	8.3%	7.0%	4.1%	5.0%	1,067.76	58,176.15	15,342.03	2.1%	17.0%
Madrid	0.9%	1.8%	2.5%	1.9%	20.1%	14.0%	5.5%	5.6%	6,360.67	26,907.09	14,230.29	1.7%	15.5%
Barcelona	0.9%	1.8%	2.5%	1.9%	20.1%	14.0%	5.5%	5.6%	5,347.77	23,538.74	12,909.54	1.5%	17.8%
Lisbon	0.5%	0.9%	1.7%	1.6%	11.0%	7.0%	11.0%	5.3%	2,034.91	24,510.60	12,809.83	0.5%	10.9%
Helsinki	1.0%	2.6%	2.0%	2.3%	8.4%	6.0%	3.3%	4.7%	1,420.14	41,820.00	20,073.50	3.4%	6.6%
Stockholm	1.4%	2.8%	2.1%	1.9%	8.4%	5.8%	2.9%	4.7%	2,001.71	47,668.52	20,144.68	3.4%	6.7%
Gothenburg	1.4%	2.8%	2.1%	1.9%	8.4%	5.8%	2.9%	4.7%	1,579.80	32,908.71	16,468.57	3.0%	9.0%
Copenhagen	0.1%	2.2%	1.6%	1.8%	7.1%	5.9%	3.2%	4.6%	676.45	54,841.77	21,896.27	2.9%	9.6%
Oslo	0.8%	2.2%	2.3%	1.8%	3.5%	3.0%	3.4%	4.3%	589.69	101,231.23	30,177.95	3.0%	4.9%
Dublin	-0.4%	2.3%	1.1%	2.0%	13.8%	12.6%	9.8%	5.8%	1,228.40	49,085.85	17,541.98	1.6%	11.7%
Greater London	0.3%	2.0%	2.7%	2.5%	7.9%	6.8%	2.8%	4.8%	7,850.79	50,328.77	21,396.95	2.5%	9.1%
Birmingham	0.3%	2.0%	2.7%	2.5%	7.9%	6.8%	2.8%	4.8%	1,031.59	26,817.54	15,024.26	1.5%	12.9%
Manchester	0.3%	2.0%	2.7%	2.5%	7.9%	6.8%	2.8%	4.8%	984.37	45,285.68	17,193.48	1.9%	8.3%
Glasgow	0.3%	2.0%	2.7%	2.5%	7.9%	6.8%	2.8%	4.8%	589.24	40,446.21	14,669.13	1.3%	11.7%
Edinburgh	0.3%	2.0%	2.7%	2.5%	7.9%	6.8%	2.8%	4.8%	481.07	41,713.30	22,682.46	2.3%	6.0%
Cardiff	0.3%	2.0%	2.7%	2.5%	7.9%	6.8%	2.8%	4.8%	466.47	25,779.82	14,458.12	1.8%	7.9%
Bristol	0.3%	2.0%	2.7%	2.5%	7.9%	6.8%	2.8%	4.8%	437.51	35,850.57	19,920.79	1.9%	6.2%
Leeds	0.3%	2.0%	2.7%	2.5%	7.9%	6.8%	2.8%	4.8%	792.32	32,244.41	16,871.08	2.1%	9.6%
M25 West	0.3%	2.0%	2.7%	2.5%	7.9%	6.8%	2.8%	4.8%	976.16	35,668.84	22,654.62	3.1%	6.3%
Warsaw	4.7%	3.9%	2.9%	2.9%	9.6%	7.5%	5.8%	5.4%	1,720.59	23,127.73	6,676.66	3.4%	9.4%
Budapest	-0.1%	3.7%	5.3%	3.1%	11.2%	8.8%	7.7%	5.6%	1,706.66	18,568.33	6,193.90	4.8%	7.5%
Prague	2.6%	2.9%	2.6%	2.2%	7.3%	5.8%	3.5%	5.0%	1,236.69	23,018.85	7,194.61	2.9%	3.2%
Bratislava	4.7%	3.7%	2.3%	2.8%	14.4%	10.0%	4.5%	5.1%	617.39	26,339.59	9,490.07	3.1%	5.5%
Bucharest	2.5%	3.7%	6.2%	4.2%	7.3%	5.8%	7.3%	5.1%	1,932.14	10,337.46	6,287.84	3.0%	3.3%
Sofia	2.6%	4.0%	6.4%	4.1%	10.2%	5.1%	5.4%	5.5%	1,243.14	7,568.99	3,520.84	4.4%	9.2%

*For the purpose of economic data, local areas are defined using the European Union's NUTS3 definitions, with the exception of Paris (IDF) and Greater London.

Country Summaries



Key to Tables

Nominal Rental Growth	
↑	Rental Growth > 2.5% pa
↗	Rental Growth in the range 1.5% pa to 2.5% pa
↔	Rental Growth in the range -1.5% pa to +1.5% pa
↘	Rental Growth in the range -1.5% pa to -2.5% pa
↓	Rental Growth < -2.5% pa
Market Yield	
↓	Yields falling by > 25 bps
↔	Yields within ± 25 bps of starting yield
↑	Yields rising by > 25 bps
Supply	
↑	Vacancy rate rising by > 100 bps from current level
↔	Vacancy rate within ± 100 bps of current level
↓	Vacancy rate falling by > 100 bps from current level
Five-Year Outlook	
✓	Only exceptional opportunities[1] will be of interest (excess return < -1%)
✓✓	Most opportunities[1] are expected to meet target returns (excess return between -1% and +1%)
✓✓✓	Most opportunities[1] are expected to exceed target returns (excess return is > 1%)

1 Where investment is a grade A quality building with a long and secure income stream, let to a good covenant in a prime location, at a current market rent.

Austria

Economy

- After the Austrian economy expanded by 2.3% in 2010, we expected GDP growth to accelerate further in 2011. This was supported by a very strong Q1 2011 performance, when the economy grew by 4.2% y-on-y. However, there are now signs of a slowdown, although there should be sufficient momentum to produce growth of 2.7% in 2011.
- Foreign trade was the main driver of the economy, supported by a strong surge in domestic demand, mainly of investments in inventory.
- The Austrian labour market also benefitted from a strong start to 2011. The employment rate has increased by 1.8% y-on-y and is currently at record levels. Although unemployment is still above pre-crisis levels, at 3.7% in July it is the lowest unemployment rate within the European Union.
- The total public debt of 72.2% of GDP is a cause for concern, but a windfall in tax take at the beginning of the year, due to a strong H1 2011, should improve the chances of meeting the Maastricht criteria this year.
- We expect the Austrian economy to produce an average GDP growth of 2.2% pa over the next five years.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Vienna	↑	↔	↓	↔	↓	✓✓
Prime Retail – High Street and Retail Parks						
Vienna	↑ ↑	↔ ↔	↔ ↓	↔ ↔	N/A	✓✓ ✓✓
Prime Industrial/Logistics						
Vienna	↔	↑	↓	↔	N/A	✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- The institutional Austrian office market is very much restricted to prime locations in Vienna.
- Unlike most other core European markets, the Vienna office market lost a bit of its post-crisis momentum. Take-up levels in 2011 will probably not reach that achieved in 2010.
- Because there is a steady pipeline of development completions for 2011, the vacancy rate is expected to increase until the end of the year. Consequently, there has been little upward pressure on rents.
- We expect some minor rental growth at the prime end of the market in the next 12 months, but average rents are likely to remain unchanged. Over the next five years, nominal rental growth is not expected to exceed 1.7% pa, implying a fall in rents in real terms.
- There has been generally little prime stock on the market for sale. This has also kept transaction volumes significantly lower than in previous years. Although we have seen some growth in interest from investors in recent months, we still believe that the potential for inward yield shift remains limited to 10 bps in the next 18 months. At exit in 2015, we expect yields to have gradually moved out again to current levels.
- On a risk-adjusted basis, we expect this will create acceptable returns of c.5% over a five-year hold period.

Retail

- Despite strong economic growth in the first half of 2011, retail sales fell significantly in H1 2011. Rising concerns about inflation and the generally negative sentiment in the media on the global economic outlook is expected to continue to act as a drag on consumer spending this year.
- But occupiers' demand for prime space in quality high street locations and shopping centres remains high. International retailers are seeking to expand their networks in Vienna on the back of strong purchasing power, high centrality and strong tourist exposure. We expect rents in-town to grow at 2.4% pa and out-of-town by slightly below CPI levels at 1.5% pa, over five years.
- Similar to the German retail markets, prime yields in central Vienna high street locations might drop as low as 4% off-market, while in the institutional market such properties usually trade at around 4.5%. Retail warehouse parks, which are often more characterised as hybrid shopping centres, trade between 6.5% and 6.75%. Given the very stable nature of this sector, we don't expect much yield movement in the next five years.
- Despite the low high street yields, we forecast that returns will be acceptable because of the solid rental growth, but also because our estimate of current hurdle rates is very low.

Industrial/Logistics

- On the back of solid economic growth in H1 2011, the logistics sector in Vienna could benefit from growing demand from occupiers and investors in the short term.
- However, we doubt that this will result in a steady real increase in rents over the next five years. While we expect vacancy will be reduced, demand is unlikely to exceed long-term levels. At 1.3% pa over the next five years, rental growth is forecast to keep pace with indexation at best.
- Investors tend to seek exposure to prime logistics assets to secure high running income, which is seen as attractive in the current low yielding bond environment. However, availability is scarce and liquidity quite low. We expect prime yields to exit at the current level of 7.25% in 2015.
- The Vienna logistics market is forecast to produce total returns of 6% pa over the next five years. Due to a slightly higher hurdle rate compared to its German peers, this level of return is deemed to be unattractive.

Belgium

Economy

- The Belgian economy grew by 0.7% q-on-q in Q2 2011 and by 1.7% y-on-y, down from 2.5% y-on-y in Q1. Growth was supported by robust private consumption and foreign trade.
- However, political uncertainty and sovereign risk remain and given the importance of exports in delivering GDP growth, Belgium may suffer. We believe growth will be less than 2% during 2012 following 2.4% growth in 2011.
- Through strong performance from the business service sector, the employment situation improved significantly. Employment growth was slightly positive during 2010 (+0.8% versus the European average of +0.7%), largely driven by the business service and public administration sectors. However, youth unemployment remains very high.
- Belgium has now been without an elected government for more than a year, which has raised fears concerning its political stability. Although the fiscal consolidation process appears to be making good progress, the country will need a full government to decide on the longer-term direction of economic policy.
- With public debt at 96.8% of GDP last year, the third highest level in the eurozone, the economy remains at risk of contagion from the sovereign debt crisis.
- Inflation is expected to be above 3% in 2011 and is weighing on private demand. CPI is expected to come below 2% from 2013 onwards.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Brussels	↑	↔	↓	↔	↔	✓✓
Prime Retail – High Street, Shopping Centres and Retail Parks						
Brussels	↑ ↔ ↔	↓ ↑ ↔	↔ ↓ ↓	↔ ↔ ↔	N/A	✓ ✓✓✓ ✓✓
Prime Industrial/Logistics						
Brussels	↗	↓	↓	↔	N/A	✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- Gross take-up activity during H1 2011 was weaker than expected, mostly due to the lack of activity from the public sector. However returning public sector demand is expected to drive activity during the second half of the year.
- Demand was mainly concentrated in the central Leopold area. Decentralised and periphery locations remained difficult with weak demand and high vacancy levels.
- The lack of speculative development has helped to absorb current stock and vacancy stabilised at 12% in June 2011. A key trend in the market has been the conversion of poor quality office stock into residential space.
- Prime rents were stable at €285 per sqm pa and there were signs that average rents were also starting to stabilise. However, a significant amount of available second-hand quality office space is continuing to exert downward pressure, particularly in outside city centre locations.
- Given the much reduced volume of quality space in prime locations, we expect rents to grow by 2.6% pa on average over the next five years.
- Investors remain focused on core products. For prime products with leases longer than the typical 3-6-9 year, let to the public sector, yields are c.5.5% gross. On average, yields are at 6.25% gross for shorter leases in core locations.
- The most active buyers remained the domestic players (more than 50% of total activity) such as Belgian REITs or Befimmo. German investors were significant sellers. There were some new buyers, such as SwissLife, who made its first acquisition in Belgium.
- We do not expect any inward yield shift in five years' time. Therefore, rental growth prospects are expected to drive acceptable returns.

Retail

- Shortage of prime retail units combined with strong demand for prime high streets drove rents up in the best streets, where vacancy is very tight. However, secondary retail units continued to struggle to find tenants.
- In general, prime retail products remained resilient during the downturn. Despite significantly reduced pipeline volumes, we believe rents for shopping centres or retail parks are likely to stagnate in the near term.
- Over the next five years, on average, rents are expected to grow by around 2% pa for high street and retail parks and by a stronger 3.4% pa for shopping centres.
- Investment activity was weak due to cautious investors. Prime yields remained unchanged at 4.75% for high street, 5.75% for shopping centres and 6.75% for retail parks.
- We do not expect any inward yield shift over the five-year forecast period. Given stronger rental growth prospects, we believe prime Belgian shopping centres will deliver attractive returns and retail parks acceptable returns based on a higher income return level. However, due to low current yield levels and moderate rental growth for high streets, we believe Brussels high street retail is unlikely to produce sufficient returns.

Industrial/Logistics

- The improvement in activity already recorded during 2010 continued into the first six months of 2011 with gross take-up at its highest levels since 2008.
- Stronger leasing activity combined with limited new development completions have started to drive vacancy down.
- New development remains driven by "build-to-suit" as many developer-investors are reluctant to start any speculative projects.
- Demand was concentrated in the traditional Antwerp-Ghent-Brussels triangle, which accounted for the majority of the total take-up activity.
- Prime rents increased slightly to €46 per sqm pa in Brussels and, on average, rents are estimated to be between €38 and €43 per sqm pa. We believe rental growth is likely to remain below CPI growth over the next five years.
- Investment activity remained weak with prime yields at 7%. Concerns over economic uncertainty resulted in risk averse investors, who remained focused on high quality and long-leased products.
- We do not expect inward yield shift over the next five years. As a result, we do not expect prime Belgian logistics to produce sufficient returns to meet the hurdle rate.

Bulgaria

Economy

- Economic growth slowed in Q2 2011 to 0.3% q-on-q and 2.0% y-on-y. The manufacturing sector underpinned the growth, while the service sector continued to contract.
- With evidence of weakness in the eurozone, Bulgaria's key export market, growth is likely to slow further in H2 2011.
- Unemployment fell to 11.2% in Q2 2011 from 12% in Q1, which is encouraging and should help to support a gradual recovery in consumer spending. However, the overall level is still relatively high and when combined with wage and pension freezes, recovery remains fragile.
- Despite high inflation, interest rates remain low to support growth and this has helped to improve investor confidence. GDP is forecast to grow by c.3.5% pa over the next five years, but will be dependent on inward investment and an upgrading of the skills base of Bulgaria's workforce.
- The latest report from the EU on corruption has once again highlighted deficiencies in Bulgaria's judicial system and could discourage inward investment. Plans to join the eurozone have been put back to 2016 at the earliest.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Sofia	↔	↓	↓	↓	↔	✓✓✓
Prime Retail – High Street						
Sofia	↓	↓	↔	↓	N/A	✓✓✓
Prime Industrial/Logistics						
Sofia	↔	↔	↓	↓	N/A	✓✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- After significant increases in new supply during 2010, development completions slowed in H1 2011 and vacancy rates began to stabilise, albeit at very high levels of c.25%, of which a significant proportion is grade A.
- Although take-up has increased, relocations and renegotiations dominate activity and, therefore, net absorption is low. Rents are broadly stable, but asking rents fell marginally in H1 2011.
- With 192,000 sq m of space due for completion during 2011, vacancy rates are likely to continue to rise in H2 2011. Given there is a further 200,000 sq m of space where construction is currently suspended, vacancy could be slow to fall, even if economic growth recovers strongly in 2012/2013.
- Office rents are forecast to grow by only 0.5% pa over the five years to June 2016, with some further short-term falls and weak growth in the last two years of the forecast period.
- There is still no institutional grade investment activity in the office sector in Bulgaria and, therefore, estimates of prime yields remain indicative and untested.
- We forecast that yields will harden by 75 bps over the next five years as activity recovers, given a lack of product. This inward yield shift, combined with a high current yield of 9.75%, should generate returns in excess of our estimated hurdle rate.

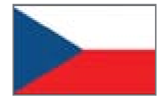
Retail

- Retail sales have continued to fall during 2011, recording a decline of 2.8% y-on-y in July. The data indicate that spending has been focused on essentials and major purchases have been postponed.
- With sales continuing to fall, very few retailers are seeking to expand although, given the market conditions, some are taking the opportunity to relocate at favourable terms or rationalise their portfolios.
- A number of international grocery retailers are actively looking for convenience stores in major cities across Bulgaria, but comparison goods retailers are focused almost entirely on Sofia.
- Prime high street rents were stable during H1 2011, but some agents reported continued falls in shopping centre rents, where supply is plentiful. We forecast that rents will grow by 1.2% pa over the next five years, but that this growth will be focused in 2014 to 2016.
- The sale of the Mall of Sofia was the first significant institutional quality deal in Bulgaria since the start of the global recession in 2008. However, prime yields in both the high street and shopping centre sub-sectors remained unchanged on their Q4 2010 levels.
- We forecast that there will be yield compression of 50 to 100 bps in the in-town retail sector over the next five years, and returns will be comfortably in excess of our estimated hurdle rates.

Industrial/Logistics

- Recent strong export growth and the recovery in manufacturing should help to provide a floor for rents in the industrial/logistics sector, although generous incentives packages are likely to remain in place for a while.
- There is little grade A supply and demand is generally met through build-to-suit development, but even here there is little demand at present. There has been an increase in supply in recent quarters, but much of this space is of poor quality and is unlikely to be re-leased.
- Rents are forecast to grow by 1.5% pa over the next five years, reflecting the need for rents to cover rising development costs.
- Occupiers have shown some interest in acquiring land for new development, but financing remains scarce. Yields have hardened, but this is reflecting sentiment rather than specific deal activity.
- We forecast that yields will harden by 100 bps over the five years to 2016, generating robust total returns comfortably in excess of our calculated required returns.

Czech Republic



Economy

- The Czech Republic had an impressive start to 2011 when it expanded by 2.8% q-on-q, but momentum was lost in the second quarter when growth was only 0.1% q-on-q.
- The performance of the Czech economy in Q2 was mainly driven by the growth in net exports. Household and government expenditure fell by 0.4% q-on-q and 0.2% q-on-q, respectively.
- While the Czech Republic has benefitted greatly from its links with Germany, this also leaves the country heavily exposed to a slowdown in the German economy. At the same time, the ongoing eurozone debt crisis will continue to be a drag on consumer and business sentiment.
- Compared to all other Central European states, the Czech labour market has held up relatively well. With an unemployment rate of c.8% the current levels are not far from pre-crisis levels.
- Over the next five years, we do not expect the Czech economy to grow at the levels that were common in the last decade, but we do forecast that growth will be sufficient to outperform in the European context, particularly in the second half of our forecast period.

	Nominal Rental Growth (Jun 2010-Jun 2011)			Nominal Rental Growth (Jun 2011-Jun 2012)			Market Yield (Jun 2010-Jun 2011)			Market Yield (Jun 2011-Jun 2016)			Supply (Dec 2010-Dec 2012)	Five-Year Outlook		
Prime Offices																
Prague	↔			↑			↓			↓			↓	✓✓✓		
Prime Retail – High Street, Shopping Centres and Retail Parks																
Prague	↔	↓	↔	↑	↔	↗	↓	↓	↓	↔	↔	↓	N/A	✓✓✓	✓✓✓	✓✓✓
Prime Industrial/Logistics																
Prague	↑			↑			↓			↔			N/A	✓✓✓		

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- An increasing amount of capital has been allocated to the Czech office market. International investors appreciate the low volatility of rents and the high liquidity of the market, which makes it a less risky investment compared to many other CEE locations.
- In 2010 local players dominated the transaction market, but an increasing number of cross-border investors have been active in the prime office market in 2011.
- Gross initial yields have already dropped to 6.3% for good quality assets in prime locations. But since central Prague lacks a critical mass of prime buildings, sub-markets like Andel and Karlin are also increasingly of interest. While we do not expect yields to drop below 6% in the next five years, we still expect an inward yield shift of 20 bps to an exit yield of 6.15%.
- So far rents have been stable as occupiers remain cautious about their space requirements. The vacancy rate is still relatively high at 11.9%. Due to the current economic climate we expect real rental growth to be postponed until the second half of the forecast period. Nevertheless, rental growth is still forecast to average 2.3% pa over the five years to Q2 2016.
- The forecast inward yield shift in combination with expected solid rental growth should generate attractive total returns in excess of our hurdle rate over a five-year period.

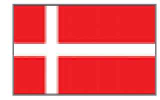
Retail

- Within a CEE context the absolute level of disposable income in the Czech Republic looks attractive. However, the rate of growth of retail sales has fallen behind that of Poland and Eastern Europe.
- Prague is one of the few cities in CEE which can provide a consolidated central high street market – in the Old Town area. This is very attractive to international retailers and has made the Czech Republic a first stop for many entering the CEE market.
- We expect rents to achieve average growth of 1.5% pa for retail warehousing, 2.6% pa for high street properties and 1.9% pa for shopping centres.
- Attractive high street assets and well-appointed shopping centres in Prague are expected to be in high demand. With current yield levels at 6.3% in both segments, we see additional inward yield shift of up to 25 bps by Q2 2016. This should reflect a sustainable yield level going forward.
- The retail warehouse segment is of less institutional quality given it is a relatively immature market. However, strong locations are expected to become well established over the next few years and investors are expected to become more comfortable with the concept. This should leave yields 30 bps lower at 7% at exit in Q2 2016.
- All three retail sub-segments should therefore produce attractive total returns in excess of our hurdle rates.

Industrial/Logistics

- The Czech Republic is well located being between the influential German economy and the emerging markets of Eastern Europe. However, the government still needs to invest further in the final links of the main transit route from Prague to Dresden.
- The main reason why we forecast rental growth of just 1.2% pa on average over the next five years is that over the past nine months, prime rents have already rebounded back to pre-crisis levels. Furthermore, the Czech economy may lose a bit of pace in the next 18 months, which should keep rents flat in the first half of our forecast period, before they receive further impulse from the economy again.
- At 8.25%, current yield levels offer a reasonable discount to the more expensive Polish markets. Investors looking for high running returns might find this spread attractive. Assets with long leases and strong tenants are expected to exit 30 bps below current levels in Q2 2016.
- On a risk-adjusted basis, the combination of high initial yields and forecast inward yield shift as well as a modest amount of rental growth should produce attractive returns for investors seeking exposure in the CEE logistics markets but who want to avoid the more volatile markets further east.

Denmark



Economy

- Many analysts had expected Denmark to experience a technical recession at the start of 2011 following GDP contraction in Q4 2010. However, Q1 delivered, albeit weak, 0.1% growth q-on-q followed by 1.0% for Q2.
- The strength of the economy in Q2 2011 relative to other European nations masks some fundamental problems in the underlying economy. Consumer spending fell by 0.3% in Q2 2011. Government spending rose by an unsustainable 0.8%, offsetting this.
- Private investment, however, was positive, a sign of growing business sector confidence that some of Denmark's problems (namely, significant public and private debt levels) are coming under control.
- Since the end of 2010, unemployment has fallen marginally from 7.7% to 7.1%. We expect the increasing business investment to begin to translate into further job creation over the next 12 months.
- Y-o-y inflation peaked at 3.1% in May 2011, up from 2.8% at the end of 2010. However, inflation fell back slightly during August to stand at 2.4%. This fits with our overall view that in the short term, temporary drivers of inflation are beginning to fall out of the calculation.
- While Denmark is outside of the eurozone, it does not enjoy the same flexibility as Sweden and Norway as the Danish krone is pegged to the euro. This limits the ability of policy makers to deal with any further crisis and is a downside risk for the Danish economy.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Copenhagen	↔	↔	↓	↔	↔	✓✓
Prime Retail – High Street and Shopping Centres						
Copenhagen	↑ ↔	↓ ↔	↓ ↔	↓ ↓	N/A	✓✓ ✓✓✓
Prime Industrial/Logistics						
Copenhagen	↑	↔	↓	↓	N/A	✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- Office rents stabilised at Dkr1,675 psm pa for the first half of 2011. There were some positive signs in the occupier markets: take-up levels were modestly higher than in 2010 and the vacancy rate in Copenhagen fell to 8% in Q2 2011, from 9% in Q4 2010.
- Headline rents mask significant incentives reducing the effective rents. Lettings were confined to the prime market, with secondary markets continuing to suffer. Much of the occupier activity was movement from older, secondary space to newer, prime buildings.
- We are forecasting little rental growth for the next 12 months. We expect strong rental growth in 2013, but speculative development is expected to dampen prospects in the long term.
- Domestic institutional and private investment activity has reduced markedly in the first half of 2011, however, cross-border activity increased. Prime Copenhagen office yields fell 25 bps over the course of H1 2011 to 5%. We are not expecting any significant change in yield levels to the end of our forecast period.
- In our spring 2011 House View, Copenhagen was forecast to deliver attractive returns based on yield shift (from 5.25% to 5%) and rental growth. With the yield movement now complete, we are forecasting returns in line with the hurdle rate, which makes them acceptable rather than attractive.

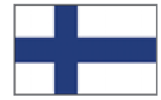
Retail

- Despite retail sales data that are relatively weak by historical standards, retailer demand for prime dominant locations has seen high street retail rents rise to Dkr15,000 psm pa. Shopping centre unit rents remained stable at Dkr5,000.
- Rents in most secondary, off-pitch locations continued to fall during H1 2011. This is in-line with our expectations for secondary retail locations across most of Europe.
- We expect both high street and shopping centre rents to return to growth over the next five years. We are forecasting nominal growth of 1.6% pa for high street rents but a higher rate for popular shopping centres at 2%.
- Investor demand has seen high street retail yields fall 25 bps to 4.75% by the end of Q2 2011, while shopping centres have remained unchanged at 5.5%.
- Over the next five years we expect high street units to see further inward movement of 25 bps to exit at 4.5%, while shopping centres are expected to see increasing investor demand in the medium term and fall 25 bps to exit at 5.25% in mid-2016.
- Weak rental growth coupled with marginal yield movements is expected to deliver acceptable returns, in line with our hurdle rates, for high street retail. However, stronger rental growth for shopping centres is expected to drive attractive total returns in this sector.

Industrial/Logistics

- Manufacturing activity continues to remain weak so logistics rents have remained stable at Dkr500 psm pa for the first half of 2011. We do not expect significant rent rises until both domestic and eurozone economic recovery is sustainable. Growth is forecast to be largely in line with inflation.
- Of all the Nordic countries, Danish logistics remain the cheapest, and has not attracted international logistics developers. This has left Denmark with an aging stock, vulnerable to obsolescence, and not enough of the modern facilities demanded by logistics providers.
- Rents are expected to grow 1.6% pa over the course of the next five years resulting in 2016 rental levels a little above 2007 peaks.
- Despite economic weaknesses, investors continue to be attracted to the long leases and stable income returns offered by logistics and, therefore, yields have remained stable at 7.25%. We expect yields to move in by a further 25 bps by mid-2016.
- With weak rental growth and little yield movement we expect acceptable returns in line with our hurdle rate. The income component of logistics is likely to continue to be very attractive to liability-driven investors.

Finland



Economy

- Following strong Q4 2010 GDP growth of 1.6%, Q1 2011 measured 0.3% growth and Q2 2011 0.6% growth. With the Finnish economy skewed towards eurozone exports, and the eurozone struggling in the second quarter, we expect to see further subdued growth in the near term.
- Finland continues to be the second strongest Nordic economy behind Sweden. Once sustainable growth returns to Europe we expect Finland to benefit from growing exports, particularly to Russia and other Nordic countries. We are forecasting 2.6% pa GDP growth over the next five years.
- Unlike the other Nordic countries, Finland is part of the eurozone, which makes its exports more accessible to euro-denominated manufacturers. However, it also means Finland is more impacted by Southern European bailout costs, which might hamper short-term growth and government spending.
- The labour market has proved resilient with unemployment falling 20 bps to 7.9% in H1 2011. We expect on-going job creation to continue to reduce unemployment, with 2016 unemployment levels predicted to be c.6%.
- Inflation peaked in July 2011 at 3.7% and fell to 3.5% in August 2011. However, this is still significantly above the 2.8% recorded at the end of 2010 and the eurozone target of 2%. We believe inflation will fall to below target over the next five years.
- Although the crisis has seen Finland's public surplus turn into a deficit, the country remains well placed to implement any necessary fiscal stimulus.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Helsinki	↑	↓	↓	↓	↓	✓✓✓
Prime Retail – High Street						
Helsinki	↑	↓	↓	↓	N/A	✓✓✓
Prime Industrial/Logistics						
Helsinki	↑	↔	↓	↔	N/A	✓✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- Greater Helsinki vacancy rates fell slightly during H1 2011 to 12.1% as increased occupier activity began to absorb developments delivered during 2009/2010. Vacancy rates are, however, significantly lower in the core CBD, where grade A space remains in short supply.
- Vacancy rates are expected to remain elevated over the next five years as Helsinki embarks on a significant redevelopment of the old harbour area to the south west of the traditional CBD. This should deliver much needed high quality space to the market.
- Rents for prime office space in the CBD rose to 8% during H1 2011 to stand at €30 per sqm per month. We expect a further 2.3% pa growth in rents through to the end of the forecast period.
- Helsinki office yields fell 10 bps to 5.4% in H1 2011 as investment volumes rose. The most significant acquirers were domestic institutions although German open-ended funds were also active in the market. Most deals were focused on Helsinki, though a few investors also acquired in key centres such as Espoo and Vantaa.
- Office yields should remain relatively stable as dominant local investors have significant amounts of capital to invest in the market. We believe that cross-border capital will continue to find access to the market difficult.
- We forecast that rental growth coupled with inward yield shift will result in attractive returns that outperform our required hurdle rates.

Retail

- Consumer spending held steady in H1 2011 and international retailers continue to look to expand in key markets such as Helsinki. Rents therefore rose a further c.5% during H1, following a 4% rise in 2010.
- Rents now stand significantly above their 2007 levels, although this is more a sign of the maturing of the Finnish market as it becomes more of a market for international retailers rather than a sign of over-heating.
- We expect rents in the prime high street locations to continue rising by an average of 2.4% pa over the next five years. However, we do caution that there are significant plans for shopping centre developments or redevelopments that might dampen high street growth. The Kannelmäen shopping centre was opened in the Helsinki city centre in April 2011 and is expected to be extended in the medium term as the transport infrastructure is improved.
- Domestic investor demand for high street units saw yields fall 10 bps to 5.30% in H1 2011. We expect further moderate falls over the next five years to see yields exit at 5% in mid-2016.
- Robust rental growth coupled with inward yield shift is expected to deliver attractive returns for Finnish retail over the five-year forecast period.

Industrial/Logistics

- The success of the Finnish logistics market is heavily dependent on the strength of the export markets. Finland's key export markets are the eurozone, the Nordics and Russia, so the strength of these markets is vital.
- The most sought after logistics locations are those around Helsinki and major road network hubs. In these locations rents grew 3% during the first half of 2011.
- While we expect a growing export market to support logistics growth, we also expect 3PL providers to remain cost averse for the next five years. This is likely to dampen rental growth prospects. We expect rents to grow in line with inflation at c.1.5% pa over the next five years.
- Yields have fallen over H1 2011 from 7.25% to 7%. Finnish logistics are now priced at similar levels to other logistics markets across Europe. We forecast logistics yields to exit at 6.75% in mid-2016.
- Our forecast yield movement and rental value growth combine to generate attractive five-year returns that outperform our estimated hurdle rate.

France

Economy

- The French economy stagnated in Q2 2011, achieving growth of only 0.1% q-on-q, down from 0.9% q-on-q in Q1 2011. In annual terms, French GDP grew by 1.6%, down from 2.1% in Q1 2011 due to weaker private consumption growth and poor foreign trade.
- The unemployment rate stabilised at 9.7% in Q1 2011 and, according to the latest estimate for Q2, unemployment fell to 9.6%. However, cuts in public spending and an overall reduction in growth will exert pressure on the employment situation.
- Given the latest indicators available, particularly the business climate index, which fell abruptly in July by four points (the sharpest monthly decline since October 2008), we expect much slower growth in H2 2011.
- In order to reduce its budget deficit from 7.1% of GDP at the end of 2010 down to below 6% this year, the government unveiled austerity measures in late August aimed at saving €12bn over 2011 to 2012. However, they are yet to be implemented, requiring parliamentary approval and there are already concessions agreed by the government concerning the elimination of real estate incentives, for instance.
- With slower growth now forecast for 2012, the government is expected to have to implement further measures in order to move towards meeting Maastricht criteria in the medium term.
- We expect GDP growth for 2011 to 2012 to be c.1.5% to 1.7% pa, well below the forecasts produced in the spring following the publication of Q1 growth figures.
- Inflation is expected to be above 2% over the next two years but should come down below the 2% mark thereafter as one-off effects fall out of calculations and fuel and commodity prices moderate.
- We remain concerned about French banks' exposure to Southern European sovereign debt but remain confident in private consumption and investment continuing to support economic growth.

Offices

- Globally, vacancy continued to rise in June 2011 although supply available within one year has started to stabilise suggesting that the overall stabilisation of the office market is underway.
- Demand remains focused on new or refurbished quality office space while the second-hand office market continues to see vacancy rising, albeit at a more moderate pace than in previous quarters. Consequently, while average rents for quality products have started to show signs of growth, rents for second-hand space remain under downward pressure.
- Prime rents in Paris CBD remained stable at €775 per sqm pa but there were a few transactions signed at higher levels, suggesting ongoing improvements in rental growth. In general across the various Paris sub-markets prime rents remained stable, although we recorded some improvement in La Defense and Northern River Bend where some significant letting transactions were signed at higher levels compared to last year. Although there were only a few deals, we consider them to be representative of prime quality buildings in these areas.
- Investment activity in France during H1 2011 was 37% higher than during H1 2010, but investors continued to remain focused on prime or core products. Inward yield shift for prime yields has spread into locations other than the CBD, reflecting a thirst from investors for secured quality products.
- The most active buyers in France remained institutional investors such as insurance companies or property companies who tend to target Paris outside of the CBD and inner rim sub areas.
- The key difference compared with 2010 investment activity is the reduction of German funds' activity, to the benefit of U.S. and UK funds or even sovereign wealth funds that are attracted by the Paris market's maturity and relatively low vacancy rate in a pan-European context.
- As a result, yields outside the CBD area recorded, on average, a fall of 25 to 50 bps, while prime yields in the Paris CBD remained at 4.5% net.
- We expect rents to slowly grow over the next two years, while the economy remains weak and job creation is limited before accelerating as employment growth recovers. On average, nominal rents are expected to grow from 2.5% pa in the Western Crescent sub-areas and in the French regions to 4% pa in the Paris CBD.
- Because risk aversion remains high and flight to quality dominates the investment market, we expect yields to remain low. In the near term there might be some further inward yield shift recorded as we believe competition for core products will remain fierce.
- However, with the gradual improvement of the economic environment, interest rates are expected to rise and we therefore expect some outward yield shift in the medium term. At exit in Q2 2016, yields are expected to be broadly in line with current levels.
- We expect most Paris markets to produce acceptable total returns, meeting their hurdle rates, while French regional markets, which benefit from higher yields, should produce attractive returns above our estimated hurdle rates.

Prime Offices	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Paris (CBD)	↑	↗	↓	↔	↔	✓✓
Paris (LD)	↑	↓	↓	↔	↑	✓✓
Paris (Rive Gauche)	↑	↔	↓	↔	↓	✓✓
Paris (Peri Defense)	↑	↔	↓	↔	↔	✓✓
Paris (Neuilly/Lev)	↑	↔	↓	↔	↔	✓✓
Paris (N. River Bend)	↑	↓	↓	↔	↓	✓✓
Paris (S. River Bend)	↑	↔	↓	↔	↔	✓✓
Lyon	↔	↗	↔	↔	↓	✓✓✓
Lille	↑	↔	↓	↔	↔	✓✓✓
Marseille	↑	↔	↔	↔	↔	✓✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Retail

- Retailer demand remained focused on the prime high streets where rents were stable thanks to almost no vacancy and strong demand from international retailers (e.g., new flagship stores for Abercrombie & Fitch in Champs-Elysées and Michael Kors in rue St Honoré). Marks & Spencer and Banana Republic have chosen the Champs-Elysées and Forever 21 brand chose rue de Rivoli for their new stores in Paris.
- Consequently, we continue to believe that prime high street retail should remain robust in Paris notwithstanding uncertainties regarding economic and consumer spending prospects. In the regions, demand is even more concentrated on fewer retail streets than in Paris.
- In the shopping centre market, demand remained focused on existing large regional centres, while in the retail warehouse segment demand has been more balanced and diversified, supporting improving trends across the sector as a whole.
- On average, rental growth should be between 2% and 4% pa, with the high street outperforming and retail warehouse underperforming.
- Retail products remain sought after by investors as they have proven to be quite resilient during the downturn. However, the amount of retail stock available in the investment market has reduced markedly, particularly for large lot sizes.
- Shopping centres have attracted the most demand (more than 40% of retail investment in France) followed by high street retail units (35%), whose smaller lot sizes makes accessibility easier for smaller/private investors.
- Although investors continued to favour shopping centres, given the strong competition for product, they have started to look at alternatives such as retail parks.
- Consequently, both shopping centres and retail parks saw a 25-to-50 bps inward yield shift bringing yields down to below 5% and below 6%, respectively. Prime yields for high street retail remained stable at 4.25%.
- Yields should exit at comparable levels to those observed currently. In general, we expect French retail products to produce acceptable returns in line with our estimate of hurdle rates.

Prime Retail – High Street, Shopping Centres and Retail Parks	Nominal Rental Growth (Jun 2010–Jun 2011)	Nominal Rental Growth (Jun 2011–Jun 2012)	Market Yield (Jun 2010–Jun 2011)	Market Yield (Jun 2011–Jun 2016)	Supply (Dec 2010–Dec 2012)	Five-Year Outlook
Paris (CBD)	↔ ↔ ↔	↗ ↔ ↔	↓ ↓ ↓	↔ ↔ ↔	N/A	✓✓ ✓✓✓ ✓✓
Lyon	↔ ↔ ↔	↔ ↔ ↔	↓ ↓ ↓	↔ ↔ ↔	N/A	✓✓ ✓✓ ✓✓✓
Lille	↔ ↔ ↔	↗ ↔ ↔	↓ ↓ ↓	↔ ↔ ↔	N/A	✓✓ ✓✓ ✓✓
Marseille	↔ ↔ ↔	↗ ↔ ↔	↓ ↓ ↓	↔ ↔ ↔	N/A	✓✓ ✓✓ ✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Industrial/Logistics

- Vacancy started to decline thanks to the combination of very limited new supply and stronger occupier demand. However, the improvement is focused primarily on the North-South axis from Lille to Marseille through Greater Paris (particularly to the north) and Lyon.
- What changed in 2011 compared to 2010 is the renewed activity recorded in the regions outside of Paris. A number of large transactions were signed, including turnkey deals and owner occupier deals, particularly in Lyon where demand was essentially driven by quality.
- In the Greater Paris market, the north and the east of the region were the most dynamic while the areas to the south and west suffered from an over-supply of second-hand buildings.
- Prime rents remained stable in H1 2011 at €52 per sqm pa around Paris and €45 per sqm pa in the regions. They are expected to stagnate in the near term. On average, rental growth over the next five years is expected to be below national CPI growth.
- Investment activity in logistics remained weak with very few investors interested in such products. The only active investors are currently those specialising in logistics.
- Prime yields remained stable at 7% net and are expected to remain unchanged in the short term. In five years' time, they should exit at a comparable level.
- We expect French logistics to produce acceptable returns in line with hurdle rates.

Prime Industrial/Logistics	Nominal Rental Growth (Jun 2010–Jun 2011)	Nominal Rental Growth (Jun 2011–Jun 2012)	Market Yield (Jun 2010–Jun 2011)	Market Yield (Jun 2011–Jun 2016)	Supply (Dec 2010–Dec 2012)	Five-Year Outlook
Paris (IDF)	↔	↔	↓	↔	N/A	✓✓
Lyon	↔	↔	↔	↔	N/A	✓✓
Lille	↔	↔	↔	↔	N/A	✓✓
Marseille	↔	↔	↔	↔	N/A	✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Germany

Economy

- After several quarters of sustained growth, the German economy stagnated for the first time in Q2 2011, achieving growth of only 0.1% q-on-q. Untypically, the strongest growth did not come from net exports but from inventories, government spending and investment in machinery and equipment, while private consumption and construction activity continued to weigh on performance.
- The Federal Statistics Office also confirmed that the shutdown of eight nuclear power plants in the aftermath of Fukushima may have had a negative impact on growth in Q2. Given that the order books are still full in the construction and manufacturing industries, both construction activity and industrial production should remain robust in the medium term.
- Two indicators give cause for concern: the export sector, a typical driver of the German economy, is likely to grow more slowly sooner and for longer, given the slowdown we are beginning to see across the globe. In addition, private consumption has still not responded as hoped and, therefore, may not deliver the results expected by economists.
- Although retail sales surged 4.5% in June, private consumption had a negative impact on GDP growth in Q2 2011. This was clearly disappointing. At 7%, the unemployment rate is at a historical low and wages grew at a rate of 4.1% between April and June. This should point to increases in consumer confidence and spending. However, rising energy prices and the general uncertainty in the financial markets appear to have limited consumers' willingness to undertake major purchases.
- Following Lehman's the "Kurzarbeit" programme initially kept job cuts to a minimum. In combination with the extraordinary strong rebound of the economy, this has created a very favourable situation in the labour market. Unemployment has fallen for 24 consecutive months. We now expect it to stabilise at this level for the next 12 months.
- While the tax take rose by 8.5% in H1 2011, public spending only grew at a rate of 0.3%. This has resulted in a deficit of only 0.6% in H1 2011. With an estimated -1.5% for the full year, Germany will comfortably meet the Maastricht criteria this year and is planning to present a balanced budget from 2014 onwards. This leaves the government in a strong position to slowly reduce its total debt ratio from 83% to the eurozone target level of 60%.
- Trade growth within the European Union and with Asia is already decelerating. This will limit the average GDP growth rate to just above 2% pa over the next five years. Nevertheless, compared to most of its European peers, Germany remains in a strong position. The labour market is robust while the government is making progress in consolidating its fiscal position. This should also offer some extra leeway in terms of possible stimuli programmes should the eurozone debt crisis worsen.

Offices

- Market sentiment in Germany has been upbeat in H1 2011. A strong surge in demand for office space has produced one of the best half year results of the last 10 years. The German office market has also benefitted from its safe haven status within Europe. Due to the ongoing uncertainty in the financial markets, an increasing number of cross-border investors appreciate the lower but stable returns available in Germany.
- The low availability of prime products has so far kept the total transaction volumes still in the sector at average levels. However, there has been a c.30% increase in investment in the Core+/Value Add segment. Frankfurt, Berlin and Hamburg have seen the most activity, while the market remained quiet in Munich.
- Take-up grew at triple-digit rates q-on-q in Cologne and Stuttgart, and Munich and Berlin also saw a notable increase in demand. This has reduced vacancy rates in most locations. Hamburg is the only market where vacancy is likely to remain unchanged given that the development pipeline remains relatively strong.
- Generally, the development pipeline is shrinking across all markets. Speculative development remains limited, although a small number of high profile schemes have been introduced in Frankfurt (e.g., "Taunus Turm" and "Quartier Palais").
- This has resulted in upward pressure on prime rents in the markets we monitor. In H1 2011 rents grew by 5% in Munich and Berlin and c.3% in Stuttgart and Hamburg, while rents in Frankfurt, Cologne and Dusseldorf remained stable.
- Given that all markets have already experienced a notable increase in rents since 2009, we are forecasting that rents will rise by c.2% pa in those markets where there is a lack of grade A space in central locations (e.g., Munich, Berlin and Hamburg). Growth prospects in Frankfurt, forecast at 1% pa on average, are lower because net effective rents need to recover further before headline rents start to rise. Nevertheless, rents in all markets are expected to be at or close to their all-time highs at exit in Q2 2016.
- Although prices for prime office buildings are already fairly expensive in a European context, we still see some leeway for minor yield compression of c.10 bps in the short term.
- However, once interest rates and bond yields start to rise, real estate yields are likely to come under pressure and we expect some outward yield shift in the second half of our forecast period.
- Although yields and rents are expected to have only limited room for growth over the next five years, total returns are still forecast to be in line with our estimate of required levels.

Prime Offices	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Berlin	↑	↔	↔	↔	↓	✓✓
Hamburg	↘	↔	↔	↑	↔	✓✓
Munich	↗	↗	↔	↔	↔	✓✓
Frankfurt	↔	↗	↔	↔	↔	✓✓
Stuttgart	↑	↗	↔	↔	↔	✓✓
Dusseldorf	↑	↔	↔	↔	↔	✓✓
Cologne	↔	↑	↔	↔	↓	✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Retail

- Investor demand for retail properties remained strong in H1 2011. With a total transaction volume of nearly €6bn, it exceeded the previous year by nearly 50%. It was also the best performance since the record year of 2006.
- Investors have been attracted by a favourable economic environment in Germany. Several structural indicators, most notably strong employment growth and wage rises, have been translated into improving consumer sentiment.
- With nearly 44% of the turnover, shopping centres have attracted by far the largest share of the capital. However, a broad base of investors have increased their interest in retail parks and well located retail warehouse schemes where the availability is much higher and the pricing levels appear to offer greater total return potential.
- High street properties have also seen increasing investment volumes. However, with yields as low as 4% for the most prominent locations, this segment rarely meets the return requirements of institutional investors. Nevertheless, given the very low availability of space in central locations, rents in high street properties are forecast to grow by 2.5% to 3% pa in the next five years.
- Although pricing is already quite aggressive, there is still some potential for yield hardening of between 10 and 15 bps in the short term. However, over a five-year period, we expect yields to remain broadly stable.
- Shopping centres tend to be favoured by international retailers and this should generate rental growth rates that keep up with the rate of inflation. Yields are currently close to 5% and, as in the high street, we expect a short-term hardening of 10 bps followed by a gradual softening over the remainder of the forecast period.
- In H1 2011, there has been some increase in rental values in the retail warehouse segment. A strong rise in construction costs has increased the pressure on rents significantly. Nevertheless, we do not believe that this pressure will be sufficient to push average rental growth to inflation levels over five years.
- Yields in this segment have already fallen by up to 100 bps since the height of the recession. However, at 6.25% they are still over 100 bps above the historic lows of 2006. We expect pricing to peak at 6%, before yields come under pressure from rising bond yields and interest rates.
- Our forecast indicates that all three retail segments should generate acceptable returns close to our estimate of required levels over a five-year hold period.

	Nominal Rental Growth (Jun 2010-Jun 2011)			Nominal Rental Growth (Jun 2011-Jun 2012)			Market Yield (Jun 2010-Jun 2011)			Market Yield (Jun 2011-Jun 2016)			Supply (Dec 2010-Dec 2012)	Five-Year Outlook		
Prime Retail – High Street, Shopping Centres and Retail Parks																
Berlin	↑	↑	↑	↑	↑	↓	↓	↓	↔	↔	↔	↔	N/A	✓✓	✓✓	✓✓
Hamburg	↑	↔	↑	↘	↑	↔	↔	↓	↓	↔	↔	↔	N/A	✓✓	✓✓	✓✓
Munich	↑	↑	↑	↔	↑	↔	↓	↓	↓	↔	↔	↔	N/A	✓✓	✓✓	✓✓
Frankfurt	↑	↑	↑	↔	↗	↔	↓	↓	↓	↔	↔	↔	N/A	✓✓	✓✓	✓✓
Stuttgart	↑			↑			↓			↔			N/A	✓✓		
Dusseldorf	↑			↔			↓			↔			N/A	✓✓✓		
Cologne	↑			↔			↓			↔			N/A	✓✓✓		

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Industrial/Logistics

- The German logistics sector performed well in H1 2011. Strong industrial output as well as a rise in private consumption has kept new industrial space in high demand by 3PL operators and retailers.
- The logistics sector has been the only sector which has witnessed a decrease in investment compared to the previous year (down 15% y-on-y). The main reason for this was a large portfolio deal in 2010, which skewed the statistics. However, there are signs that a lack of available assets will limit volumes in the medium term.
- Due to strong investor demand, yields have fallen by 80-to-120 bps in the last 18 months. The most expensive markets are currently Munich and Hamburg, where yields can get as low as 6.5% GIY. Of the major markets, only in Berlin do we still quote yields above 7%.
- Although market prices are already at an all-time high, we expect yields to remain at current levels for some time. The very best products, with extra-long leases of up to 15 years, are expected to see some further yield compression because of the highly attractive running return they provide.
- Nevertheless, as in the office and retail sectors, we expect this situation to change in the second half of our forecast period. We forecast an outward yield shift of up to 15 bps from current levels at exit in Q2 2016. In addition, the compelling economic story will have lost momentum. This will drag on the performance of logistics more significantly than in the other two sectors.
- Compared to most other European markets, there is little potential for a rebound in rents, given that there has been hardly any downward correction in the course of the financial crisis. With rents up to €6.50 per sqm per month, the German markets are already some of the most expensive in Europe. With a nominal rental growth prospect of c.1% pa, most income growth will be derived from indexation.
- Given the forecast of limited rental growth and minor outward yield shift, returns are expected to be acceptable relative to our estimated hurdle rates.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Industrial/Logistics						
Berlin	↑	↓	↓	↔	N/A	✓✓
Hamburg	↔	↑	↓	↔	N/A	✓✓
Munich	↗	↔	↓	↔	N/A	✓✓
Frankfurt	↗	↔	↓	↔	N/A	✓✓
Stuttgart	↔	↑	↓	↔	N/A	✓✓
Dusseldorf	↑	↗	↓	↔	N/A	✓✓
Cologne	↔	↔	↓	↔	N/A	✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Hungary

Economy

- Hungary's economic recovery was surprisingly strong in Q1 2011, with annual GDP growth jumping up to 2.4%. This was mainly based on the strong trade links with Germany. Hungary is, therefore, likely to face a tougher economic environment going forward, given the rising concerns about the European debt crisis.
- Although traditionally an export-led economy, Hungary still needs to see a recovery in domestic demand to support sustainable growth. Retail trade has not picked up in the course of 2011, still contracting by 0.9% y-on-y. With little sign of improvement, the Hungarian economy remains heavily exposed to downside risks should the European crisis deepen.
- There is also political risk in Hungary. Due to a number of business unfriendly policies, the ruling Fidesz party has reduced foreign investors' confidence in the economy to such an extent that this could cause long-term damage to foreign direct investment.
- Our base case scenario expects a delay in economic recovery. But, Hungary should also benefit from a strong base effect, so we expect average annual GDP growth of 3.7% in the five years to 2016.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Budapest	↓	↑	↓	↓	↓	✓✓✓
Prime Retail – High Street, Shopping Centres and Retail Parks						
Budapest	↓ ↔ ↓	↔ ↘ ↓	↓ ↔ ↔	↓ ↓ ↓	N/A	✓✓✓ ✓✓✓ ✓✓✓
Prime Industrial/Logistics						
Budapest	↔	↔	↔	↓	N/A	✓✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- A growing number of international investors have started to look at the Budapest office market again, but so far no notable deal has been completed. It seems that buyers and sellers have yet to find a common pricing level.
- The yield spread relative to Warsaw is currently still 100 to 125 bps. While we think this is justified at present, we expect this yield spread to narrow in the course of our forecast period. Yields are forecast to harden by 50 bps by Q2 2016, exiting at 6.75%.
- There has been some reduction in the vacancy rate, but this will clearly not be enough to generate significant rental growth in the short term. Furthermore, incentives will have to be reduced first. However, growth is forecast to return in the second half of our forecast period, resulting in average annual growth of 2% over five years.
- Our forecasts indicate that the Budapest office market will produce a total return in excess of 9% pa. While our analysis indicates that this is an attractive risk-adjusted return, there is concern that political risk has been under-estimated in our risk premium and that investors will remain wary of the Hungarian market.

Retail

- Hungarian consumers remain under considerable strain given that the majority of Hungarian mortgages are denominated in Swiss francs. Due to strong depreciation of the forint, most household's debts have risen significantly and negative equity is a common situation.This means there is little income left that could boost the domestic retail market.
- However, some investors are regarding this sector as a counter-cyclical play. Good quality shopping centres with decent footfall are trading at a discount of c.125 bps compared to prime centres in Warsaw. For long-term investors (>10 years), this could be a welcome alternative, gaining exposure to Central European shopping centres and exploiting the possibility of inward yield shift.
- We are forecasting that retail yields will harden by c.75 bps in good quality in-town locations. However, international retailers are focused on Poland and the Czech Republic and, therefore, yield hardening is likely to be focused in the second half of our forecast period.
- There is little upward pressure on rents in the short term. However, retail rents have fallen considerably and we, therefore, believe that there is potential for growth once consumer demand improves. Over the five years to Q2 2016, we forecast that rents will grow by 1.3% pa for high street and shopping centre locations, while retail warehouse rents are forecast to stagnate.
- Despite our forecasts of limited rental growth, the expected strong inward yield shift generates total returns in excess of our required levels.

Industrial/Logistics

- The Budapest logistics market was probably the worst hit sector in the course of the last three years. With vacancy rates topping 30% in some sub-markets, rents have been in free-fall and are now bottoming out at below €3 per sqm per month.
- For the time being, this market has been removed from investors' radars, given that there are a number of additional uncertainties. Land banks are still significant, which further increases the risk of obsolescence. Developers are aggressively poaching tenants out of their lease contracts, offering them attractive conditions for new build-to-suit buildings.
- Investors still face much higher risks when they seek exposure in this market. However, they might be rewarded with attractive returns in the long term. Rental levels and capital values are at historic lows and offer greater potential for inward yield shift and rental growth than elsewhere in Central Europe. Our forecasts indicate that total returns should exceed our estimated hurdle rates.

Ireland

Economy

- Ireland posted q-on-q GDP growth of 1.3% and 0.1% y-on-y in Q1 2011, the latest data available at the time of writing. However, this growth was driven by exports and the profits of overseas companies. In contrast, GNP declined by 4.3% over the same period.
- Private consumption declined by 1.9% q-on-q and more up-to-date retail sales data indicate that there is little evidence of improvement, with retail sales down 0.5% y-on-y in July.
- The domestic economy is likely to continue to contract until 2013, although robust export growth should ensure that overall GDP figures are marginally positive.
- However, this means that Ireland is very vulnerable to a slowdown in the core European economies and could easily be tipped back into recession.
- Economic growth is expected to accelerate in 2013 to 2015 and averages 2.1% pa over the five years to 2015, but is well below the 6.7% pa achieved in the decade before the recession.
- Dublin is expected to bear the brunt of continued job losses and GDP growth is forecast to lag behind that of the country as a whole over the next decade.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Dublin	↓	↑	↔	↓	↓	✓
Prime Retail – High Street, Shopping Centres and Retail Parks						
Dublin	↓ ↔ ↓	↗ ↓ ↓	↑ ↑ ↔	↓ ↓ ↓	N/A	✓ ✓ ✓
Prime Industrial/Logistics						
Dublin	↓	↑	↑	↓	N/A	✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- Rents fell further in H1 2011 as tenants continued to hold the upper hand in negotiations. Demand should continue to improve as companies are attracted to Ireland by the low rate of corporation tax, a well-educated labour force and low real estate costs.
- The vacancy rate remains above 20%, but within the city centre, where demand is concentrated, there are few large grade A buildings available and a significant proportion of the stock is becoming obsolete.
- Development activity is likely to remain limited given a lack of available finance, but rents will also need to rise in order to make development profitable.
- We forecast that rents will continue to fall in the short term, but bounce back sharply in the medium term. On average over the five years to mid-2016, rents are forecast to grow by 2.4% pa.
- The proposal to legislate against upward-only rent reviews in existing leases continues to keep investors on the sidelines. The uncertainty created by the legislation has resulted in an upward adjustment to yields.
- We forecast that yields will have hardened by 75 bps by the end of the forecast period, but most of this will occur in the second half of the forecast period.
- Our forecasts of high initial yields and reasonable rental growth generates low double-digit returns, but given the high "risk-free" rate, total returns fail to exceed our estimate of required returns.

Retail

- Retail rents have continued to edge downwards and are now approximately half their 2007 peak levels. Given the difficult trading conditions, we believe that there will be further falls over the next 12 months.
- However, vacancy in the best high street locations has fallen as international retailers have taken advantage of opportunities to acquire space in prime locations at attractive rents, often turnover-based and with frequent break clauses.
- In the retail warehouse sector, demand is weak and new lettings are often done on a trial basis.
- We forecast that in-town rents will increase by 0.7% pa over the next five years in Dublin, but in secondary locations and smaller cities performance could be weaker as there is little demand from the international retailers that are supporting the Dublin market.
- Yields are forecast to harden by 50 to 100 bps over the next five years, with the high street seeing the most modest inward yield shift and shopping centres seeing the strongest improvements.
- None of the Irish retail sub-markets is forecast to generate total returns in excess of our estimated required levels as these hurdle rates remain elevated due to high government bond yields.

Industrial/Logistics

- There has been a gradual improvement in leasing activity and vacancy levels have begun to fall, but supply, especially of secondary space, remains plentiful.
- Occupiers are very focused on cost savings and are willing to compromise on building quality in order to cut costs.
- Headline rents fell in Q1, but stabilised in Q2 2011. We forecast that further declines are likely over the next 12 months, but that there will be a recovery in the medium term. On average rents are forecast to grow by 1.4% pa over the five years to mid-2016.
- There have been no industrial investment transactions so far this year, although there have been a couple of sales to owner-occupiers. However, finance for such deals remains difficult to obtain.
- We forecast that yields will exit 150 bps below the current level of 9.5%. However, the high hurdle rate for Irish real estate means that although forecast returns are well in excess of 10%, they fall short of our estimate of required returns.

Italy

Economy

- Italy continued to lag behind the rest of the eurozone with quarterly GDP growth of 0.1% in Q1. However, it recorded Q2 quarterly growth of 0.5% and 1.3% on a y-o-y basis.
- Growth was supported by external trade growth and investment. While relatively stronger than in other European economies, overall output still remains well below its pre-crisis level.
- We expect the activity to moderate over H2 2011 given the economic slowdown already recorded during Q2 2011 across Europe. PMI surveys are declining, indicating that external demand may suffer.
- Consumer confidence remains at very weak levels despite falling unemployment, down to 8.6% in Q1 2011 from 9.1% in Q1 2010.
- The fiscal consolidation plan totalling €45.5bn approved by the Italian government in August was estimated to be insufficient and, hence, was raised in early September to €54bn by 2013. It includes a raise in VAT from 20% to 21%.
- Such efforts are expected to curb GDP growth over the next two years to well below 1% pa. CPI growth is forecast to be 2.1% pa over the next five years.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Rome	↔	↔	↔	↔	↔	✓✓
Milan	↔	↔	↓	↔	↔	✓✓
Prime Retail – High Street, Shopping Centres and Retail Parks						
Rome	↔ ↑ ↔	↔ ↓ ↔	↔ ↔ ↔	↔ ↔ ↔	N/A	✓ ✓✓ ✓✓
Milan	↔ ↑ ↔	↔ ↓ ↔	↔ ↔ ↔	↔ ↔ ↔	N/A	✓ ✓✓ ✓✓
Prime Industrial/Logistics						
Rome	↔	↔	↔	↔	N/A	✓✓
Milan	↔	↔	↔	↔	N/A	✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- Driven by a few large lettings completed during H1 2011, demand recorded strong growth compared to H1 2010 in both Milan and Rome. Demand was driven by private sector consolidation and relocation.
- Prime rents remained stable in Milan and Rome. However, rents outside the city centres continued to fall, albeit at a more moderate pace than in 2010. They are expected to remain under downward pressure until 2012.
- Vacancy started to stabilize but, given weak demand and continued economic uncertainty, we believe vacancy should only start recovering in the medium term.
- Office products accounted for half of the total investment activity recorded during H1 2011. Demand was strong for core assets. Consequently, prime yields recorded a 25 bps inward yield shift to 5.25% net in Milan while they remained stable in Rome at 5.75%. There is an estimated 100 to 125 bps spread with secondary yields, which remained under upward pressure because of risk aversion.
- International investors remained very cautious about Italy given the difficult economic and financial situation. Demand was largely driven by domestic funds.
- With an expected 2.5% pa nominal rental growth over the next five years and no further yield shift, Italian prime offices are likely to produce acceptable returns in line with the hurdle rates.

Retail

- Because of the large development pipeline delivered over the last decade, the density of shopping centres has become very high, particularly in the wealthy northern region, with many areas close to saturation.
- Demand from international retailers remained and was largely concentrated in the northern region (e.g., Milan, Bologna and Florence). Consequently, prime shopping centre rents grew by 5% in H1 2011.
- The retail parks format has started to gain interest from retailers specialising in the medium-to-low priced furniture and fashion segments. Rents remained stable.
- Prime yields remained stable in all three sub-sectors. Investors continued to focus on prime properties and, given the lack of quality supply, we believe prime yields will remain under downward pressure in the near term.
- Prime high street retail rents are expected to record strong rental growth of 3% pa on average, supported by continued and buoyant demand from international retailers. However, given the low yield levels, we believe prime high streets in Italy will produce returns below our hurdle rates.
- Prime rents for shopping centres and retail parks should record an average rental growth of 2% pa and given relatively higher yield levels, we believe they should produce acceptable returns.

Industrial/Logistics

- Demand strengthened in 2011 particularly for medium-to-large sized units. However, demand continued to be driven by consolidation plans and cost reductions. Vacancy is therefore likely to remain under upward pressure particularly for second-hand stock.
- In order to avoid vacancy landlords are offering significant incentives, which has helped to stabilise headline rents but has also resulted in lower real rents.
- Occupiers remain focused on good quality properties. Assets north of Rome or south of Milan are the most sought after locations due to good transport links.
- Prime rents stabilised at €60 per sqm pa in Rome and €57 in Milan. We do not expect much change in five years' time.
- Investment activity remained weak due to high risk aversion for the sector although it improved compared to last year. Prime yields remained stable at 7.4% net in both Milan and Rome and we do not expect much improvement in the near term.
- With very weak rental growth expected over the next five years and no significant yield shift, we believe prime Italian logistics products will produce unattractive returns.

Netherlands

Economy

- The Dutch economy had a bright start to 2011 but failed to sustain this dynamism. In Q2 2011, real GDP growth reached only a meager 0.1% q-on-q.
- While growth was skewed in Q1 due to strong construction sector activity on the back of improving weather conditions, it significantly slowed in Q2.
- Due to declining demand from the eurozone and emerging markets, exports in Q2 also disappointed, shrinking 0.6% q-on-q. Since most economic indicators are pointing towards a weakening global economy, we can expect the export-driven Dutch economy to slow further in the coming months.
- Consumers are also increasingly pessimistic, as illustrated by the deterioration in the August consumer confidence indicators. Private consumption shrank by 0.1% q-on-q in Q2 2011 as consumers continued to save rather than spend.
- Since the Dutch economy is very much reliant on global trade, the outcome of the uncertain events in the global economy will be crucial to its well-being. We expect the economy to expand by 2% pa on average over the next five years, as long as the European debt crisis remains under control.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Amsterdam	↔	↑	↓	↑	↔	✓✓
Rotterdam	↔	↔	↓	↔	↔	✓✓
Prime Retail – High Street, Shopping Centres and Retail Parks						
Amsterdam	↔ ↔ ↔	↗ ↑ ↗	↓ ↓ ↓	↔ ↔ ↔	N/A	✓✓ ✓✓ ✓✓
Rotterdam	↔ ↔	↗ ↔	↓ ↓	↔ ↔	N/A	✓✓ ✓✓
Prime Industrial/Logistics						
Amsterdam	↑	↔	↓	↔	N/A	✓✓
Rotterdam	↑	↔	↔	↔	N/A	✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- In previous reports we highlighted the vast oversupply situation in the office markets. Structural vacancy is a major problem and, due to more flexible working schemes for employees as well as more efficient floor plans for office space, this situation is likely to persist.
- However, the institutional market has selected a handful of prime sub-locations, notably Amsterdam Central and South Axis, and Rotterdam CBD and Kop van Zooid as the main targets. Most other sub-markets are subject to vast consolidation processes and will remain unattractive for the foreseeable future.
- Occupiers with the best covenants are also targeting these sub-markets. As local government has been very strict on new building permission we expect modest rental growth of 1.4% pa on average for the best product in these four sub-markets over the next five years.
- Prime Dutch real estate offers exposure to stable income from a tangible asset and is, therefore, likely to attract some cross-border investors. However, we forecast that at exit in Q2 2016, yields will be slightly above current levels.
- We apply a fairly low hurdle rate to the main Dutch markets, given the current low Dutch government bond yield and the low risk premium due to the stability of rents and yields in recent years. Consequently, Rotterdam and Amsterdam are forecast to produce acceptable returns relative to this benchmark over a five-year hold period.

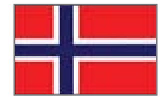
Retail

- The outlook for retail sales is forecast to remain modest in the near future. Occupier demand is expected to focus on the best high street locations and selected shopping centres.
- Pressure on rents is, therefore, expected to be restricted to the most desired locations – those in demand by international retailers seeking to expand their store network in the Netherlands.
- However, since rents have been stable throughout the crisis, we do not expect a significant rebound effect. We expect rental growth to remain below inflation, with average growth rates at c.1.7% pa for in-town locations.
- Few large transactions took place in H1 2011, mainly due to a lack of available product. High street units and well-appointed shopping centres should trade at below 5% GIY in Amsterdam and slightly above in Rotterdam. We do not expect any major changes in the yield level in the next five years.
- For risk-adverse investors, the combination of stable yields and modest rental growth should generate acceptable total returns broadly in line with hurdle rates over a five-year investment period.

Industrial/Logistics

- Compared to the neighbouring German logistics market, the recovery of the major Dutch logistics hubs has been much less dynamic.
- Occupiers continue to focus on the very best locations and have so far not been forced to compromise on location or build quality. Consequently, there has been no upward pressure on prime rents and rents in secondary locations may even face some further downward correction.
- However, because new supply will be restricted to build-to-suit projects, we expect prime rents to grow in order to cover rising development costs. Over a five-year period this will average 1.5% pa.
- Investors are focused on the most prime part of the market, but so far few owners have been willing to sell. Given that the Dutch economy is already losing some momentum, we expect transaction volumes to stay low for some time. Hence, we forecast yields to be at current levels in 2016.
- For investors seeking high running income, the combination of stable yields and modest rental growth should create acceptable total returns relative to our estimated hurdle rates over a five-year investment period.

Norway



Economy

- Headline GDP numbers for Norway appear weak, at -0.6% for Q1 and 0.4% for Q2 2011. However, this masks the underlying strength of the mainland economy excluding the impact of offshore oil and gas production.
- The mainland economy, which includes Oslo, grew 1% q-on-q in Q2 following a revised rise of 0.5% in Q1. We expect the economy to grow by 2.2% pa over the next five years.
- Overall growth is expected to be driven by increasing consumer expenditure and business investment over the next five years. Oslo is expected to grow faster than the overall economy achieving 3% pa growth.
- Norway has been one of the few European countries to experience continuing house price increases, up c.6% for the 12 months ending Q2 2011. We caution that there could be a housing bubble with negative impacts on consumer spending in the medium-term. However, we believe the risk is limited with the independent central bank able to intervene.
- Unemployment has risen to 3.3% from its low of 2.5% in 2007, but this is still significantly lower than the wider European average. We expect unemployment to fall over the next five years to c.3% by 2016.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Oslo	↑	↓	↓	↔	↔	✓✓
Prime Retail – High Street and Shopping Centres						
Oslo	↑ ↑	↓ ↔	↓ ↓	↔ ↔	N/A	✓✓✓ ✓✓✓
Prime Industrial/Logistics						
Oslo	↑	↓	↓	↔	N/A	✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- There has been little new development within the Oslo office market for the last two years and very little planned for 2011. With tenants beginning to look for new space, upward pressure is expected on rents in the near-term.
- Rents rose 9.4% during the first half of 2011 to stand at NOK3,500 per sqm pa. This follows a rise of 6.7% in 2010. Similar to other markets across Europe this growth has been confined to the best buildings in prime locations, with secondary locations stagnant.
- We expect rents to grow 2.9% pa over the next five years. but even in mid-2016 rents are c.NOK3,700, still well below the peak 2007 levels. There could, therefore, be the potential for further rental upside over the next five years, particularly if mainland Norwegian GDP growth rates continue to remain strong.
- Oslo office yields fell 50 bps in H1 2011. We are expecting yields to move in a further 25 bps to peak at 5% in mid-2014 before pushing back out to 5.25% by mid-2016. The outward movement is expected to be driven by Norwegian bond rates, which are expected to normalise over the long-term. The Oslo office market remains dominated by domestic pension fund capital and it is a difficult market for cross-border investors to gain access to.
- Despite strong rental growth and yield movement, we expect acceptable returns for Oslo office over five years rather than attractive returns as the estimated hurdle rate is relatively high.

Retail

- Consumer spending is expected to remain strong over the next five years, averaging 3.5%. With low levels of consumer debt, robust consumer confidence and little expectation of government austerity measures, retailers should continue to benefit from strong consumer spending. International retailers have little penetration in Norway and we expect expansion from these occupiers.
- High street rents grew 7% in Q2 2011 to stand at NOK15,000 per sqm pa. Shopping centre rents also grew during the same period, but by 3%. Growth was driven by a shortage of prime stock (vacancy rates are close to zero for dominant shopping locations) and expansion plans by domestic and Nordic retailers.
- We expect 2.5% pa rental growth for both high street shops and shopping centres over the next five years resulting in new record rents for Oslo retail.
- Yields for both sectors fell 25 bps during the first half of 2011 to stand at 5.25% for high street shops and 5.75% for shopping centres. High street shops continue to be attractive to domestic private investors. We expect a further 25 bps reduction for both sectors by the end of our forecast period.
- Rental growth and yield impact over the next five years are expected to deliver attractive returns above the required hurdle rate for both Oslo high street shops and shopping centres. However, like most Norwegian real estate, domestic investors make acquiring attractive stock difficult.

Industrial/Logistics

- Oslo logistics rents increased 10% during Q2 2011 to stand at NOK1,100 per sqm pa, which translates into €11.75 per sqm pa. This level makes Oslo logistics rents the second most expensive in Europe next to Greater London.
- Rental growth is expected to be modest due to the high current level and the continued cost-saving focus of 3PL providers. We are forecasting 2% pa rental growth over the next five years.
- Yields were unchanged during H1 2011 at 6.75%. We had expected yields to hold steady as they are already expensive in a European-wide context.
- We expect yields to exit at 6.75% in mid-2016 but we are forecasting a short-term inward movement of approximately 25 bps. This is dependent on sustainable economic growth and other logistics markets across Europe experiencing a similar inward movement.
- Oslo logistics are already well-bid in a European context and this, combined with our forecast of limited rental growth, is expected to produce weak total returns that will under-perform our required hurdle rate over the next five years.

Poland

Economy

- The Polish economy has been one of the top performers in the last five years. In H1 2011 Poland continued its robust growth at a healthy annual growth rate of 4.4% in Q1 and 4.3% in Q2, according to preliminary figures.
- Unlike most other European states, Poland was able to sustain its growth rate in Q2, demonstrating that Poland is not entirely dependent on the well-being of, its main trading partner, Germany, but that it can also count on robust domestic demand.
- However, there are also areas of concern, most notably the high youth unemployment rate of 24%, the fast growing current fiscal deficit, as well as the high exposure of Polish households to mortgages that are denominated in Swiss francs. Since the Swiss franc has appreciated sharply against the Polish zloty, private debt has risen substantially.
- So far, this has had no real impact on Polish private consumption, which has been a main pillar of the Polish economy in recent years. This balance of foreign trade and private consumption will further strengthen the third pillar of the economy, foreign direct investments.
- We expect Poland to continue to outperform in Europe and expect GDP growth rates of nearly 4% pa on average from 2011 to 2016.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Warsaw	↑	↑	↓	↔	↔	✓✓✓
Prime Retail – High Street, Shopping Centres and Retail Parks						
Warsaw	↔ ↗ ↔	↑ ↑ ↔	↓ ↓ ↔	↓ ↓ ↔	N/A	✓✓✓ ✓✓✓ ✓✓✓
Prime Industrial/Logistics						
Warsaw	↑	↑	↓	↔	N/A	✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- On the back of its economic growth story, the Warsaw office market has seen strong interest from institutional investors in the past 18 months. However, only a fraction of allocated money has so far been spent, given that the availability of prime product remains fairly low.
- Yields have dropped 35 bps in the last 12 months to 6.2% GIY, which we quote as a realistic pricing level for newly developed buildings in CBD locations. We expect yields to drop below 6% in the next 18 months given the weight of capital seeking exposure to Poland.
- We do not believe that this pricing will be sustainable as total returns at such low yield levels are unlikely to meet required rates.
- Leasing activity has also been strong over the past six months. This has caused vacancy rates to fall close to 6%. Warsaw was one of the first European markets to generate rental growth after the global financial crisis, and rents are now 15% above trough levels.
- Given the rising number of speculative developments, we believe that in the medium term growth rates will be significantly lower. We forecast an annual average growth of 1.8% over the next five years.
- The Warsaw office market should deliver attractive total returns of 9% over a five-year hold period according to our forecasts. However, we believe that the "vintage" period will end quite soon.

Retail

- Poland is considered as one of the top destinations for international retailers as purchasing power in Warsaw reached critical mass some time ago. However, vast regional disparities in the distribution of income should be registered carefully by both retailers and investors.
- The institutional market is still very much restricted to the main Warsaw shopping centres, which are also the main targets for international retailers. The vacancy rates are close to zero and prime rental growth should therefore exceed most European markets.
- Given that there are only a small number of good quality shopping centres in Warsaw that meet the requirements of institutional investors, trades in this segment will be limited. However, due to this strong interest in one of the few clear European growth markets, yields will likely drop further and are forecast to exit at 5.75% in Q2 2016.
- Pressure on yields for retail parks is expected to be more limited as investors are concerned about the risk profile of this relatively immature segment. We still expect an inward yield shift of 25 bps, which should produce attractive returns above our hurdle rates.

Industrial/Logistics

- There is a vast disparity between the different sub-markets in Warsaw. While availability of land is very limited in central Warsaw locations, the greater region suffers from oversupply.
- This has created a broad rental band between €3 and €5 per sqm per month and an attractive environment for tenants. However, it also creates very different rental growth forecasts. We expect average rental growth of 1.7% pa for prime assets in close proximity to central Warsaw, while growth in peripheral sub-markets should remain much weaker.
- Logistics yields have already dropped significantly in the last 18 months. We expect some further yield compression before pricing stabilises at c.7.6%, an inward yield shift of 25 bps.
- Forecast limited yield shift and rental growth combine to produce acceptable rather than attractive returns for investors, given that higher hurdle rates apply for logistics properties.

Portugal

Economy

- Portugal recorded negative quarterly growth in Q1 2011 followed by no growth in Q2. On an annual basis GDP contracted 0.9% to the end of Q2.
- A bailout package of €78bn was agreed in May 2011 with the IMF and EU. The new government has already announced its austerity plan, which actually goes beyond what was negotiated with the IMF and EU. However, the market remains pessimistic about Portugal's ability to service its debt given the structural weak competitiveness of the market.
- The unemployment rate increased to 12.4% in Q1 2011, which weighed on consumer confidence.
- The government needs to bring its deficit down to 5.9% by the end of 2011. There is much uncertainty and, as such, we believe Portugal will continue to record negative GDP growth into 2012.
- We expect GDP to grow by 2% pa on average with CPI likely to grow by 2.1% pa over the next five years.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Lisbon	↓	↑	↑	↔	↑	✓
Prime Retail – High Street, Shopping Centres and Retail Parks						
Lisbon	↔ ↔ ↔	↔ ↔ ↔	↔ ↔ ↑	↔ ↔ ↓	N/A	✓ ✓ ✓
Prime Industrial/Logistics						
Lisbon	↓	↔	↑	↔	N/A	✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- During H1 2011 gross take-up activity was weaker than in the same period last year. Vacancy continued to increase up to 12.2% in June 2011 and, given the particularly difficult economic conditions, we believe vacancy is likely to remain elevated for some time.
- Rising vacancy drove rents down. In Q2 2011 prime rents continued to fall by more than 2% compared to Q4 2010. Rents now stand at €222 per sqm pa (€18.5 per sqm pm) and are expected to stabilise at this level.
- Outside of city centre locations we believe downward pressure will continue given poor demand and weak prospects of economic growth.
- From 1 month rent-free per year of leasing contract, incentives have increased to 1.5 months, which illustrates the weak office market conditions.
- Although development reduced substantially, there is still some office space expected to be completed in the near term, which will continue to drive vacancy up as demand remains weak.
- Portugal is no longer targeted by core investors. Value-add and opportunistic investors, aside from domestic investors, would be the only ones to look at Portuguese property. Consequently, investment activity remained weak with very few transactions making a fair assessment of market yields very hard.
- We believe prime office yields moved out by 25 bps up to 7% in H1 2011. As political, economic and financial uncertainties are likely to remain, we do not expect any significant improvement in the Lisbon market.
- Moderate rental growth prospects and continuing near-term outward yield shift means prime Lisbon offices are expected to produce unattractive returns.

Retail

- The Portuguese retail market is dominated by shopping centres with the high street retail market relatively less developed than elsewhere in the European markets. Retail parks are still unknown in Portugal.
- The success of the shopping centre format drove strong development activity in Portugal, leading to high densities in a few areas. Over supply can be found in some locations where the local population is not able to absorb the retail space developed.
- Consequently, reconversion and modernisation of existing space forms most of the new development pipeline.
- Prime rents remained stable. We do not expect much rental growth over the next five years, with growth forecast to be at or below 2% pa.
- Prime yields remained stable for high street retail at 6.75% but continued to move out by 25 bps for shopping centres to 7.25% and by more than 150 bps for retail parks, confirming the unattractiveness of such product in Lisbon.
- Prime Portuguese retail investments are unlikely to perform well, producing total returns well below hurdle rates.

Industrial/Logistics

- The rebound in gross take-up volume recorded during Q2 2011 compared to Q1 is due to one single transaction totalling 60,000 sqm, which was a pre-let deal. It accounts for more than 60% of the whole H1 take-up volume.
- Demand remained weak and continued to be driven by cost cutting and space optimisation. Most new space is build-to-suit development. Vacancy should continue to remain elevated, thereby, restraining rental growth.
- At €42 per sqm pa we do not expect much rental growth for prime logistics. On average, rental growth over the next five years is expected to remain well below CPI growth.
- Investment activity remained weak, which drove yields out by 25 bps up to 8%.
- Since we do not expect much improvement, prime Portuguese logistics are not expected to produce returns sufficient to meet our hurdle rate.

Romania

Economy

- The Romanian economy grew by 1.4% y-on-y and 0.2% q-on-q in Q2 2011. This marked a slowdown on Q1 rates of growth and the cause appeared to be weaker manufacturing and exports output, as a result of falling orders from Western Europe.
- Some of this slowdown has been attributed to supply chain disruption in the auto industry following the Japan earthquake.
- Household expenditure has been weak as taxes have risen, and wages and benefits have been cut.
- However, conditions are now in place for domestic demand to improve. Unemployment has fallen to 4.8% and the tightness of the labour market is expected to feed through into wage growth, which in turn should support improvements in retail sales.
- In the medium term, prospects for growth look encouraging as the economy continues to modernise. Job creation in the services sector is forecast to be 1.5% pa, one of the strongest performances in Europe and well ahead of the 0.6% forecast for the EU-15.
- In the longer term, Romania could struggle with shortages of skilled labour given its rapidly aging workforce and the possibility of high levels of migration as younger workers seek better employment prospects in higher wage countries.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Bucharest	↔	↓	↓	↓	↔	✓✓✓
Prime Retail – High Street and Shopping Centres						
Bucharest	↓ ↔	↘ ↓	↓ ↓	↓ ↓	N/A	✓✓✓ ✓✓✓
Prime Industrial/Logistics						
Bucharest	↔	↔	↓	↓	N/A	✓✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- There was no change in the prime headline office rents in Bucharest in H1 2011. Incentives remain high, but in the city centre sub-markets, where vacancy rates are below 10%, there is an expectation that they will start to fall by the end of the year.
- Overall vacancy stands at 16.1% and although the rate of new completions has slowed, stock growth remains strong. It is estimated that there is 250,000 sqm of space that has been put on hold during the recession, where work could commence again quickly.
- We, therefore, forecast that rental growth will average 1% pa over the next five years.
- There has been some improvement in investment activity and the office market has been the main target of overseas investor interest. Consequently, prime yields hardened by a further 50 bps in H1 2011.
- We forecast that at exit net initial yields will be 50 bps below the current level of 8.5%.
- The combinations of current high initial yields, and forecast modest rental growth and inward yield shift are sufficient to generate total returns in excess of our estimate of required returns for Bucharest offices.

Retail

- The rate of delivery of new retail space has slowed significantly in Romania in the past six months. In Bucharest only one new scheme opened, with most completions in smaller Romanian centres.
- International retailers such as H&M, Inditex, C&A and Decathalon are beginning to take an interest in the Romanian market, taking advantage of attractive rents and lease terms.
- Prime rents in Bucharest appear to have stabilised in H1 2011 across all three retail sub-sectors. However, rents in secondary locations and smaller cities have continued to fall.
- Rental growth is forecast to average 2% pa over the next five years, supported by growing demand from an increasingly affluent population.
- There is still little investor appetite for retail investment but retail yields have begun to harden as sentiment has improved. We expect yields to continue to harden and at exit to be 100 bps lower than the current market yield of 10%.
- The combination of forecast rental growth and inward yield shift generate attractive total returns significantly in excess of our estimated hurdle rates.

Industrial/Logistics

- The quality of Romania's infrastructure remains a significant issue for logistics operators and investors. The latest Global Competitiveness Report from the World Economic Forum gave a grim assessment ranking it 134 out of 139 countries for the quality of its roads.
- Take-up has improved, driven by demand from the logistics and automotive sectors. While logistics operators are focused on Bucharest, the automotive industry is focused on the Western part of Romania.
- Prime rents in Bucharest have stabilised over the past year, but landlords are still having to offer considerable incentives to attract tenants.
- We expect rents to remain stable over the next 12 months and, over our five-year forecast period, to achieve growth of 1.6% pa.
- As in the office and retail sectors, yields have hardened in H1 2011, although a lack of transactional evidence makes it difficult to confirm the current estimate of yields at c.10%.
- Total returns are forecast to be in excess of required returns, based on high initial yields and our forecast of modest rental growth and 50 bps of inward yield shift.

Russia

Economy

- GDP slowed to 3.4% y-on-y in Q2 2011 from growth of 4.1% in Q1. The growth in investment and consumption was largely offset by a strong rise in imports.
- Encouragingly, the rate of inflation began to decelerate in July and continued to slow in August. A good harvest has been predicted for Russia and that should further reduce price pressures.
- As a result of slowing growth, both domestically and globally, the central bank has indicated that further monetary tightening is unlikely before the end of the year, despite indications that inflation targets will not be met.
- With parliamentary elections scheduled for December, the expectation is that government spending will start to increase in an attempt to reduce current public dissatisfaction, which has been caused by high consumer prices.
- Spending is likely to be focused on housing and infrastructure, and this should provide some support to growth in H2 2011 and into 2012. Russia has underinvested in infrastructure compared to other BRIC economies in recent years.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Moscow	↑	↔	↓	↓	↓	✓✓✓
St. Petersburg	↑	↔	↓	↓	↑	✓✓✓
Prime Retail – High Street						
Moscow	↔	↔	↓	↓	N/A	✓✓✓
St. Petersburg	↑	↔	↓	↓	N/A	✓✓✓
Prime Industrial/Logistics						
Moscow	↑	↓	↓	↓	N/A	✓✓✓
St. Petersburg	↔	↔	↓	↓	N/A	✓✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- Rents in Moscow continued to rise in H2 2011. In St. Petersburg rents were stable, although there is evidence that landlords are increasing asking rents.
- Both cities saw a reduction in vacancy, especially of grade B space. However, demand for grade A space is rising, and occupiers are increasingly focused on CBD locations, taking advantage of lower rents to improve the quality and location of their space.
- We forecast that rents will grow steadily throughout our five-year forecast period, underpinned by employment and GDP growth in the service sector.
- Rental growth in Moscow is forecast to be slightly stronger at 3% pa, while St. Petersburg is expected to achieve growth of 2.5% pa.
- Demand from local investors continues to improve, and activity has also spread to St. Petersburg, consolidating the rise in prices recorded at the end of 2010.
- We forecast that yields will continue to harden and will be 100 bps lower at exit in Moscow and 200 bps lower in St. Petersburg, where there has been less yield compression so far.
- The combination of forecasts of robust rental growth and inward yield shift generate attractive double digit total returns well in excess of required levels.

Retail

- The robust economic recovery has encouraged some retailers to recommence expansion plans. A number of international retailers opened their first Russian stores during H1 2011 and some are now considering expansion beyond Moscow and St. Petersburg.
- Supply continued to increase, with three new shopping centres opening in Moscow in H1 2011. A further 14 schemes are expected to open in the next 18 months. However, vacancy levels are low and rents are rising.
- Furthermore, the Moscow city government recently announced that there would be no more new large shopping centre developments permitted in the city centre.
- We forecast steady rental growth of 3.2% pa on average in Moscow and 2.5% pa in St. Petersburg.
- Investor demand for retail property has increased and a number of shopping centres were traded in H1 2011. Consequently, yields have hardened by at least 100 bps in both cities since the beginning of the year.
- At exit in Q2 2016 we forecast that retail yields will be 75 to 125 bps lower than current levels.
- Our forecasts of strong inward yield shift and robust rental growth generate attractive total returns in the range of 12.5% to 17.5%, and well above our estimate of hurdle rates for Russian retail real estate.

Industrial/Logistics

- Demand is currently outstripping supply and vacancy levels have fallen rapidly. Development activity is increasing, but pre-lets are a pre-requisite for construction to commence.
- Landlords are able to dictate leasing terms, requiring guarantees, larger deposits and longer lease terms. Rent-free periods have fallen and rents are rising. Some landlords are even negotiating to remove smaller tenants in the expectation of achieving new leases to stronger tenants at higher rents.
- Although rental growth is likely to be robust in the short-term, we believe that speculative development will return and this will limit growth in the medium term. Rental growth is forecast to average c.1.5% pa over the five-year forecast horizon.
- Yield compression lags behind that of the retail and office markets and investor demand remains focused on Moscow. However, yields for high quality, well-located product continued to harden in H1 2011.
- We expect yield compression of in excess of 200 bps for prime Russian logistics properties over the next five years. Therefore, despite weaker rental growth, the logistics sector should generate attractive total returns in excess of the required levels.

Slovakia

Economy

- So far the Slovakian economy has shown a strong recovery in 2011, producing annual growth rates of 3.5% and 3.3% in the first two quarters, respectively.
- The main driver of growth has been industrial production, which has been fuelled by strong demand from its most important trading partner, Germany.
- However, this dependency on a single economy makes Slovakia vulnerable. Since the outlook for the German economy is fading, Slovakia will likely feel the impact.
- The strong recovery in the key automotive sectors has so far not been translated into increasing consumer spending. The national unemployment rate is currently quoted at 14%, damaging confidence, although the labour market has remained robust in Bratislava.
- Slovakia is one of the poorest states in the eurozone and has implemented quite drastic austerity measures. It is likely to face a huge challenge in navigating through the upcoming decision of European policymakers to implement further measures for European stability.
- Nevertheless, we expect Slovakia to produce average GDP growth rates of 3.7% pa over the next five years. Although this will be lower than pre-crisis levels, it will be enough to outperform in a European context.

	Nominal Rental Growth (Jun 2010–Jun 2011)	Nominal Rental Growth (Jun 2011–Jun 2012)	Market Yield (Jun 2010–Jun 2011)	Market Yield (Jun 2011–Jun 2016)	Supply (Dec 2010–Dec 2012)	Five-Year Outlook
Prime Offices						
Bratislava	↔	↑	↓	↓	↓	✓✓✓
Prime Retail – High Street						
Bratislava	↔	↔	↓	↓	N/A	✓✓✓
Prime Industrial/Logistics						
Bratislava	↔	↑	↓	↓	N/A	✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- In the past 10 years, Bratislava has been over-shadowed by the other three major Central European office markets. Historically, Bratislava has been a second tier city and it remains a challenge for it to establish itself as an influential European capital.
- Local investors have long been dominant in Bratislava and are particularly active on the development side. Although a number of (mainly Austrian) cross-border investors sought exposure to the market before the crisis, the market has lacked any notable transactions ever since.
- Prime office properties are currently traded at 7.25%, which implies a yield spread of 110 bps compared to Warsaw. We expect investor interest to increase, when pricing in Warsaw and Prague becomes expensive over the next 18 months. Yields are forecast to harden to 6.75% and the yield spread should therefore reduce to 70 bps at exit in Q2 2016.
- Prime headline rents stayed fairly stable at €17 per sqm per month, but average prime rents saw a downward correction and are currently between €12–€14 per sqm.
- However, with forecast modest rental growth of 1.5% pa plus 50 bps of inward yield shift, Bratislava should offer attractive total returns in excess of our required level for those investors who are able and willing to take this additional risk.

Retail

- Over the last five years there has been a considerable expansion of shopping centre space in Slovakia, predominately in Bratislava but also in smaller regional towns.
- Due to the relatively small size of the consumer market, international retailers tend to focus on larger retail markets in Prague, Budapest and Warsaw. However, new good quality schemes have been successful in attracting a growing number of internationally recognised brands.
- Rental levels are still by far the lowest in Central Europe. Asking rents on the high street are rarely more than €50 per sqm per month. On the back of the economic recovery, we forecast that rental growth should average 3% pa.
- International investors are attracted to the Central European retail market and we expect the Slovakian market to benefit from this trend. Our forecast suggests that yields for good quality schemes should fall by a further 75 bps to 6.5% at the end of our forecast period.
- This offers an attractive environment for investors to achieve total returns above our hurdle rate.

Industrial/Logistics

- Although the Slovakian economy produced a solid start to 2011, demand for new logistics space has been moderate so far. In particular, domestic logistics operators are still reluctant to make new commitments, given that economic activity has so far been limited to the automotive industries.
- However, at 3%, the vacancy rate in Bratislava is currently one of the lowest in Europe, and it is somewhat surprising that there is little evidence that developers are committing to speculative construction. We, therefore, expect average rental growth to remain low at 1.3% pa over the next five years.
- The Slovakian logistics market is certainly not the main target of international investors. But, the current yield level of 8.5% should increase investors' interest, if suitable assets can be sourced. We forecast an inward yield shift potential of 50 bps over the next five years.
- This should produce acceptable returns up to 8.6%, broadly in line with our required levels over a five-year period.

Spain

Economy

- Spain recorded q-on-q GDP growth of 0.3% in Q1 2011 (+0.8% y-o- y) and 0.2% q-on-q (+0.7% y-o-y) in Q2 2011.
- Unemployment remains above 20%, and is likely to remain elevated for a significant period of time. High unemployment, coupled with continuing house price declines, means Spanish consumption is likely to remain depressed.
- We remain cautious regarding the Spanish economy given the current sovereign debt tensions. GDP growth is expected to be below 1% over 2011-2012 with CPI growth of 2% pa over the next five years.
- The budget deficit was down to 9.2% in 2010 from 11.1% in 2009. The government expects that the deficit will come down to 6.2% by the end of 2011 and potentially down to 5.1% in 2012.
- Public debt stood at c.60% of GDP in 2010 and estimates for 2011 indicate a rise to c.70% over 2011-2012, although this is still lower than the current European average of 84%, which provides room for manoeuvre in terms of interest payments and refinancing needs.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Madrid	↔	↔	↓	↔	↔	✓
Barcelona	↓	↑	↓	↔	↔	✓
Prime Retail – High Street, Shopping Centres and Retail Parks						
Madrid	↔ ↔ ↔	↔ ↔ ↔	↓ ↓ ↓	↔ ↔ ↔	N/A	✓✓ ✓✓ ✓✓
Barcelona	↔ ↔ ↔	↔ ↔ ↔	↓ ↓ ↓	↔ ↔ ↔	N/A	✓ ✓✓ ✓✓
Prime Industrial/Logistics						
Madrid	↓	↔	↓	↔	N/A	✓✓
Barcelona	↓	↔	↓	↔	N/A	✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- Vacancy continued to increase in June 2011 with demand remaining weak. Due to the much reduced development pipeline, we expect vacancy to stabilise over the next 12 months. However, given the forecast of weak demand, we do not expect any significant reduction before 2013.
- In Madrid prime rents remained stable in H1 2011 supported by strong demand for CBD space. Rents fell by 2.6% in Barcelona.
- We believe rents are now close to their trough and expect them to stagnate over the next two years. On average, we forecast rental growth to be c.2.1% pa over the next five years, broadly in line with inflation.
- Investment activity remained weak albeit improving compared to 2010. There is some evidence of interest from international investors, which is encouraging.
- However, a recovery in investor interest does not necessarily translate into an improvement in pricing and transaction volumes. There is still a high level of risk aversion for Spanish property given the economic situation.
- Prime office yields stand at 5.25% gross. Average city centre office yields range between 5.5% and 6.5%. Outside the city centre yields range between 7% and 8.5%.
- We do not foresee any further inward yield shift over the next 12 months and yields are forecast to remain at current levels at exit in five years' time.
- Weak rental growth and no yield movement means Spanish prime offices are not expected to produce acceptable returns compared to hurdle rates.

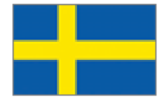
Retail

- Despite falling retail sales and weak consumer confidence, prime rents in the best locations are stable and vacancy is low. International retailers such as Forever 21 and Abercrombie & Fitch are even piloting stores in Spain.
- What has changed since 2008 is an increasing volume of new retail park developments. Easy to build and manage, retail parks also benefit from a concentration of discount operators that, given the current difficult economic situation, are particularly attractive to households.
- We expect rents to stagnate over the next 12 months. On average rents are expected to grow by an average of 2.1% pa for shopping centres and retail parks and a stronger 2.8% pa for high street.
- The retail sector attracted the most cross-border investors (Dutch, UK and German capital). Prime yields moved in by 25 bps to 6.25% for shopping centres and 6.75% for retail parks. Private investors continued to exert downward pressure on prime high street yields, which also moved in by 25 bps to 4.75%. Given the lack of quality products in core locations, investors have turned to more value add opportunities, such as core quality products in good consolidated secondary locations or in the funding of development projects alongside a local developer.
- We expect Spanish prime retail products to produce acceptable returns driven largely by modest levels of rental growth.

Industrial/Logistics

- Vacancy increased moderately but has begun to stabilise. Demand levels remain weak because of the economic uncertainty, with operators waiting for sustained economic recovery before committing to new space.
- Demand remains focused on the most developed regions with excellent transport networks.
- Prime rents have remained unchanged in H1 2011. On average rental growth should be close to 2% pa over the next five years, in line with CPI growth expectations.
- Although investment activity remains weak, a few significant deals pushed prime yields down to 7.75% in H1 2011. The most active investors are those specialising in logistics, and non-domestic capital looking for higher yield products in core locations.
- However, risk aversion from investors remains high and we do not expect strong inward yield shift. In five years' time, we believe yields will exit at 7.60%.
- Yield movement coupled with modest rental growth is expected to deliver acceptable returns in line with the hurdle rate.

Sweden



Economy

- In the year to Q2 2011 Swedish GDP grew 5.3%, one of the best performing markets in Europe. We are expecting slower growth in the next few quarters, as Sweden's key eurozone export partners experience weaker growth. However, GDP should be supported by healthy domestic demand and business investment.
- The balance sheets of both the Swedish government and Swedish banks are in good condition, which means that further stimulus can be provided if necessary.
- The strengthening of the Swedish krona against a wide basket of currencies is a concern for exporters. However, it is still below long-term value.
- Inflation has fallen during the course of H1 2011 to 1.6% in August 2011. The slowdown has partly been due to rising interest rates, which now stand at 2%. Unemployment has fallen to 7.4% by August 2011. We expect it to continue falling over the next five years, driven by private business expansion, to stand at 5.5% in 2016.
- Sweden is expected to deliver the strongest five year average GDP growth outside of the Central and Eastern European markets. We expect y-o-y growth of 2.8% over the next five years. The downside risk to this forecast is any sustained decline in export markets or continued currency appreciation.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Offices						
Stockholm	↑	↑	↓	↔	↓	✓✓✓
Gothenburg	↗	↑	↓	↔	↔	✓✓✓
Prime Retail – High Street, Shopping Centres and Retail Parks						
Stockholm	↑ ↔ ↑	↘ ↔ ↓	↓ ↔ ↓	↔ ↓ ↔	N/A	✓✓✓ ✓✓✓ ✓✓✓
Prime Industrial/Logistics						
Stockholm	↔	↔	↓	↔	N/A	✓✓
Gothenburg	↔	↔	↓	↔	N/A	✓✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- Within the Greater Stockholm area we estimate vacancy rates at 10%, however, in inner Stockholm rates are closer to 7% and grade A CBD space has a vacancy rate of less than 2%. Coupled with a lack of development we expect upward rental pressure in the near term.
- Rents rose 2.3% in H1 2011, completing a 10% rise over the last 18 months, thus bringing Stockholm rents back to pre-crisis levels. We expect rents to grow 3.5% pa over the next five years. Rents were unchanged in Gothenburg in H1, but we expect a recovery from mid-2012 onwards.
- Rental growth in Stockholm is forecast to be quite cyclical with the strongest growth focused in the next two years. We caution that the significant recovery in rents coupled with strong economic growth may start a development cycle that will dampen medium-term rental growth prospects.
- International and domestic demand for a limited number of prime Stockholm buildings pushed yields to 4.75% in Q2 2011. Yields in fringe city centre markets such as Kungsholmen have also seen significant inward movement.
- We expect Stockholm yields to fall a further 25 bps in the short term before slowly rising, to exit in 2015 at 4.75%. Gothenburg yields are expected to remain at 5% for the forecast period.
- Strong rental value growth is expected to deliver attractive total returns above our estimated target rates in both Gothenburg and Stockholm.

Retail

- We expect to see rents continue to expand in the medium-term, supported by strong demand from international retailers attracted to the positive economic story in Sweden. While shopping centre rents held steady during H1 2011, high street rents grew 4.2% and retail warehousing grew 12.5% following 18 months of stability.
- We expect retail warehousing rental growth to be weaker in the short term as the market absorbs the recent rises. Over the five-year period high streets are expected to grow 3% pa, shopping centres by 2.2% and retail warehouses by 2.6%.
- The number of investors targeting the retail sector increased during H1 2011 and the yields reflect this. Retail warehousing yields have fallen 50 bps to 5.75% and high street shops stand at 4.75%. Limited bank financing mean the shopping centre sector is attracting fewer investors so yields have remained unchanged at 5.5%.
- For high street shops and retail warehousing we expect to see short-term inward yield movement followed by a period of outward movement – this will leave exit yields at current levels. Shopping centre yields are expected to exit 50 bps lower in mid-2016.
- Forecast inward yield shift and strong rental growth combine to produce attractive returns, above our required hurdles, in all retail sub-sectors.

Industrial/Logistics

- The best Swedish logistics assets along the Stockholm-Jönköping-Gothenburg corridor are achieving yields of 6.5%, down from 6.75% in Q4 2010. This is expensive in a European context but still offers a significant premium over office and retail stock as well as a stable income return.
- We expect yields to be 6.25% at exit in mid-2016. We caution that further institutional investor interest in the asset class could trigger additional developments that will limit or reverse yield shift.
- With logistics operators operating on tight margins, rents have remained stable since mid-2007. Logistics rental growth is dependent on the continued expansion of the Swedish export market, and for Gothenburg the continued recovery of the automobile industry. The recent bankruptcy of SAAB, a significant employer in the Gothenburg region, might dampen short-term rental growth recovery there.
- Gothenburg is traditionally the more robust logistics market and we expect 2.4% pa rental growth here. Stockholm is expected to deliver 1.6% pa.
- Gothenburg is expected to deliver attractive returns due to rental growth prospects while Stockholm logistics are expected to deliver acceptable returns, in line with the hurdle rates.

Switzerland

Economy

- In Q2 2011 the Swiss economy expanded by 0.4% q-on-q (2.3% y-on-y). The main driver has again been the positive trade balance, despite the very strong Swiss franc. While private consumption growth contributed modestly, there was concern as investment declined. The industrial and financial sector stagnated, and only the business service sector made a positive contribution to output.
- However, the main concern for the Swiss economy will likely be the safe haven status of the Swiss franc on the global financial markets. As long as there is a degree of uncertainty regarding the European debt crisis and a threat of a U.S. double dip recession, the Swiss economy is likely to suffer from an extraordinary strong currency, which in turn could reduce the margins on exports and increasingly drag on the competitiveness of domestic industries.
- This was the main reason why, at the beginning of September, the Swiss National Bank took extraordinary measures to weaken the Swiss franc substantially. With the announcement to defend the minimum exchange rate to the euro at CHF 1.20, by intervening heavily on the money markets, the Swiss national bank has introduced its ultimate weapon.
- While this could increase the balance sheet of the Swiss National Bank to an unhealthy level, the domestic export industry should be able to return to profit and the upswing in the labour market will be sustained for longer. In the past 12 months the unemployment rate has fallen over 75 bps and currently stands at 3.7%.
- Given the very strong commitment to defend the interest of the Swiss export industries we expect the economy to continue to be able to produce GDP growth rates close to long-term levels at 2% pa over the next five years.

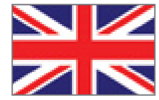
Prime Offices	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Zurich	↑	↗	↓	↑	↔	✓✓
Geneva	↑	↔	↓	↔	↔	✓✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Offices

- The Swiss office market is among the most expensive in Europe. In Switzerland, institutional investors' allocation to real estate is often significantly higher than elsewhere in Europe. This has created a low yielding environment due to constant demand from local insurance companies and pension funds who have to meet target allocations. In addition, the Swiss 10-year government bond yield has also traded at record low yields in recent years, which has kept the real estate yield spread over bonds small but positive.
- We expect government bond yields to return to more sustainable, historical levels. Consequently, we do not expect prime office yields in Zurich and Geneva to harden notably in the next five years. We expect both markets to exit 10 bps lower in 2015. The stable demand for prime real estate will prevent yields from moving out further.
- Demand from occupiers remained solid in H1 2011, supported by robust economic growth. However, there have been a number of notable development completions in the Zurich office market. This has kept availability of office space relatively high and left average rents stable at CHF 300. However, prime headline rents in the best locations in Zurich have risen to CHF 1,100. For the next five years, we forecast average rental growth of 2.2% at the prime end of the market.
- Due to its relatively small size, Geneva tends to show a much more stable profile. In our last report we expected strong mid-term rental growth as a result of new demand from re-locations of UK hedge funds and Russian businesses. However, growth is already strong given the scarcity of prime space and high levels of demand and landlords have been able to increase rents by 7% this year. We expect a slightly higher rental growth of 2.7% pa, compared to Zurich, and at the end of our forecast period rental levels in Geneva should be on a par with Zurich.
- Even though prime yields are already 3.4% in Zurich and 3.6% in Geneva, we expect prime assets in Zurich to produce acceptable risk-adjusted returns relative to our very low estimate of required returns. Due to the stronger rental growth prospects, forecast total returns in Geneva are expected to be attractive over our forecast period. However, appetite from foreign institutional investors is expected to remain low and the Swiss market is likely to remain in domestic hands for the foreseeable future.

United Kingdom



Economy

- The UK economy grew by 0.2% q-on-q and by only 0.7% y-on-y. However, growth may have been depressed by the additional public holiday to celebrate the royal wedding and a number of other one-off events.
- However, growth has been very disappointing for three quarters in succession and more timely indicators such as manufacturing output and PMI surveys all indicate that the recovery remains anaemic and could be weakening.
- The government remains committed to its austerity programme and cuts are beginning to be felt across much of local and central government.
- Unemployment levels have remained broadly unchanged at 7.9%, although the number of unemployed people rose in the three months to July. The expectation is that unemployment will rise further in the short term, although private sector employment growth is expected to outpace public sector job losses from 2013 onwards.
- Consumer confidence has weakened through the summer and retail sales contracted m-on-m in August, although this contraction has been partly linked to the recent riots. However, underlying trends remain unfavourable as a consequence of public sector job cuts, subdued wage growth and high inflation.
- Inflation remains high, having risen to 4.5% in August but is likely to ease at the beginning of 2012 as the impact of last January's VAT rise drops out of the y-o-y calculations. There will also be a similar effect at the end of 2012 as the recent increase in utility prices falls out.
- Despite high inflation the Bank of England policy rate is expected to remain at its current historically low level as the Monetary Policy Committee continues to ensure that policy supports the weak economy.
- GDP growth is forecast to remain weak over the next 18 months and to average only 1.9% over the five years to 2015. Due to austerity measures, government expenditure is expected to act as a drag on growth throughout our forecast period.
- The components of growth should be more balanced, with less dependence on consumption and a positive contribution from trade.

Offices

- The London economy appears to have been more robust than that of the country as a whole over the past 12 months, and the central London office market has been a beneficiary.
- However, the fortunes of the various London sub-markets have differed over the past six months. In the City, take-up has been well below long-run average levels and rents have remained unchanged. In the West End, take-up has remained strong and rents have continued to rise.
- Nevertheless, vacancy rates have continued to fall in all sub-markets and are likely to continue to do so for the remainder of the year given the limited amount of development due for completion in the next 18 months.
- Given the low levels of vacancy in the City and evidence of greater leasing activity, we believe that rental growth should return during H2 2011. We forecast that City rents will grow by 4.9% pa over the five years to Q2 2016.
- West End office rents are forecast to grow by 4.5% pa. With limited new completions this year and vacancy rates of 3.8%, rents are expected to continue to rise. However, completions are set to rise in 2012 and in 2013 should be well above the long-run average, which we believe will dampen growth earlier than in the City.
- In the UK regional office markets, rents have remained unchanged in H1 2011. There continues to be evidence that landlords are increasing asking rents, but incentives packages remain significant.
- In contrast to the London markets, available space and, therefore, vacancy rates are continuing to rise in most regional markets. However, given the limited development pipeline, we are forecasting that vacancy rates will begin to decline during 2012.
- Regional markets are more vulnerable to public sector job cuts and our forecasts indicate that it will take longer for these markets to see office-based employment levels exceed their pre-recession levels.
- Rental growth in most regional markets is forecast to grow at c.1.9% pa over the next five years. The exception is the M25 W market, where growth is expected to be stronger at 2.4% pa as the market is less exposed to public sector job cuts.
- Yields in central London are expected to harden further in the short-term as investor risk aversion results in increased demand for the best quality buildings in the most liquid markets. However, we expect yields to come under pressure as bond yields rise and the rental cycle reaches its peak. At exit, yields are, therefore, forecast to be 25 bps higher than current levels.
- In contrast regional office yields are forecast to remain broadly stable, with the exception of the M25 West markets, where we expect a 25 bps inward yield shift as yield compression has lagged behind in this market.
- All the UK office markets are expected to produce attractive returns over a five-year hold period. The regional office markets offer robust income returns due to their relatively high initial yields, while the central London markets should achieve outperformance through the strong forecast rental growth.

Prime Offices	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
London (City)	↑	↑	↓	↑	↓	✓✓✓
London (WE)	↑	↔	↓	↑	↔	✓✓✓
London (Midtown)	↑	↑	↓	↑	↑	✓✓✓
London (Docklands)	↑	↑	↓	↑	↓	✓✓✓
Birmingham	↔	↔	↔	↔	↓	✓✓✓
Manchester	↔	↔	↔	↔	↓	✓✓✓
Glasgow	↔	↔	↔	↔	↓	✓✓✓
Edinburgh	↔	↔	↔	↔	↓	✓✓✓
M25 West	↑	↔	↔	↓	↓	✓✓✓
Bristol	↗	↘	↔	↔	↓	✓✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Retail (UK continued from page 63)

- UK retailers are continuing to find the current trading environment tough, with a number requesting a move to monthly rental payments.
- Retailers are also rationalising their store portfolios and in-town vacancy rates are therefore steadily rising, especially in smaller centres and off-pitch locations.
- Nevertheless, prime retail rents have remained stable in most major markets during H1 2011. However, given the weaknesses in the UK retail market, we expect rents to fall further over the next 12 months.
- Over the five years to 2016, rents are forecast to grow by c.1.1% pa on average. Growth in central London is expected to be stronger, supported in the short-term by strong trade from tourism.
- The polarisation that we are seeing in in-town markets is also occurring in the retail warehouse market; well-located parks with open A1 planning consent continue to trade well with limited vacancy, while older bulky goods parks have to contend with rising vacancy as bulky good retailers rationalise their portfolios.
- Given that demand for big ticket items is likely to remain weak for some time, we believe that the potential for rental growth in the retail warehouse sector is limited, averaging c.0.9% pa over the five years to Q2 2016.
- In general, yields have been stable in the retail sector. However, investment activity in the sector increased in H1 2011 with a number of shopping centres being traded and consequently shopping centre yields hardened by 25 bps.
- Although we expect good rental growth prospects for the central London office market, current low yields are forecast to come under pressure at the end of our forecast period and exit 25 bps higher than current levels. Total returns are, therefore, forecast to be broadly in line with estimated required returns.
- Yields for most other major UK high streets are expected to be broadly stable, but performance is forecast to be modest due to the weak rental growth outlook and again total returns are appropriate relative to our hurdle rate.
- We are expecting a small amount of yield hardening for shopping centres over our five-year forecast period and, where rental growth is forecast to be slightly above average, this is sufficient to generate attractive returns.
- With the exception of London, all our retail warehouse markets are expected to generate acceptable returns when benchmarked against estimates of required levels, based on our forecasts of weak rental growth and stable yields.

	Nominal Rental Growth (Jun 2010-Jun 2011)			Nominal Rental Growth (Jun 2011-Jun 2012)			Market Yield (Jun 2010-Jun 2011)			Market Yield (Jun 2011-Jun 2016)			Supply (Dec 2010-Dec 2012)	Five-Year Outlook		
Prime Retail – High Street, Shopping Centres and Retail Parks																
London (WE)	↔	↓	↓	↔	↗	↑	↓	↔	↔	↑	↔	↔	N/A	✓✓	✓✓✓	✓✓✓
Birmingham	↔	↘	↔	↓	↔	↔	↔	↓	↔	↔	↔	↔	N/A	✓✓	✓✓	✓✓
Manchester	↑	↑	↔	↓	↓	↔	↔	↓	↔	↔	↔	↔	N/A	✓✓✓	✓✓✓	✓✓
Glasgow	↔	↓	↔	↓	↓	↔	↔	↓	↔	↔	↔	↔	N/A	✓✓	✓✓	✓✓
Edinburgh	↔	↓	↓	↔	↑	↔	↔	↓	↔	↔	↔	↔	N/A	✓✓	✓✓	✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

Industrial/Logistics

- The occupier demand for larger units witnessed in H2 2010 has continued into H1 2011, and supply is becoming relatively tight, especially for the largest units. Retailers are particularly active and accounted for c.50% of take-up in H1 2011.
- Limited availability is now reducing take-up and occupiers with requirements for units in excess of 50,000 sq m will need to consider going down the design and build route to fulfil their requirements.
- Given the importance of the retail sector to the distribution market, the current weak retail environment is a cause for concern, but is more likely to have a knock on impact for 3PL operators, who could find themselves with surplus space if client retailers go into administration.
- Rents have remained stable during H1 2011. However, we expect to see significant polarisation in prospects, with rents on build-to-suit space rising given the demand, while rents on secondary space continue to fall as supply rises.
- We forecast that prime rents will rise on average by 1% to 1.5% pa over the five years to Q2 2016.
- Investors continue to be interested in the sector, but are seeking prime assets let to strong retail covenants with indexed leases in excess of 15 years, in order to provide good income returns and a reasonable exit strategy. Pricing on this type of property attracts a considerable premium.
- Other investors are looking for opportunities to acquire good quality properties with relatively short leases as there is a belief that these have been mis-priced in the current risk-averse environment.
- We forecast that yields will be marginally higher in most logistics markets by the end of our forecast period. However, the combination of low estimated hurdle rates as a result of low bond yields, and current initial yields of c.7%, result in acceptable five-year returns that are broadly in-line with hurdle rates.

	Nominal Rental Growth (Jun 2010-Jun 2011)	Nominal Rental Growth (Jun 2011-Jun 2012)	Market Yield (Jun 2010-Jun 2011)	Market Yield (Jun 2011-Jun 2016)	Supply (Dec 2010-Dec 2012)	Five-Year Outlook
Prime Industrial/Logistics						
Greater London	↔	↔	↓	↔	N/A	✓✓✓
Birmingham	↓	↔	↔	↔	N/A	✓✓
Manchester	↑	↔	↔	↔	N/A	✓✓
Glasgow	↔	↔	↔	↔	N/A	✓✓✓
Edinburgh	↔	↔	↔	↔	N/A	✓✓✓

Source: Invesco Real Estate, Autumn 2011, based on data from CB Richard Ellis, Q2 2011

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