AtisReal

European *Investment* Market - Q4 2005

at a Glance

KEY FACTS IN EUROPE - Q4 2005

The investment market showed strong dynamism again during Q4 2005, despite contrasting signs of recovery in European leasing markets. The six major European investment markets (Berlin, Frankfurt, London, Madrid, Munich and Paris) together attracted the highest level of capital ever. The annual volume of investment for these six cities significantly outmatched that of the previous year, reaching € 41 billion.

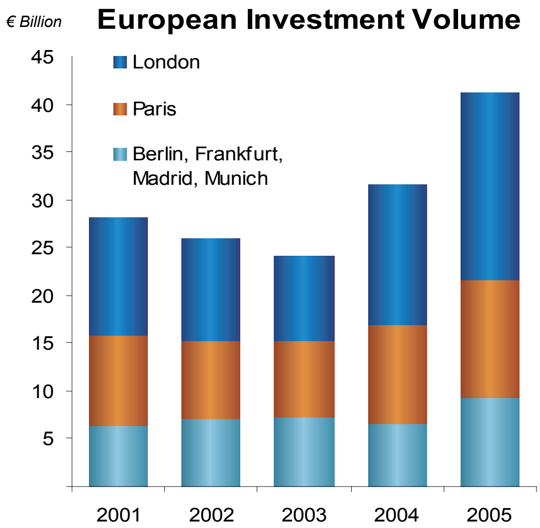
This exceptional level of activity stems from increasing cross-border capital flows. On the one hand sellers benefit from the high prices likely to be paid by non-domestic investors; on the other hand both sellers and purchasers are restructuring their portfolio geographically across major European markets.

The abundance of capital contributed to a further decline in net office prime yields in the major German cities and Paris, while London and Madrid consolidated their prime yields at a somewhat low level. Given the general increase of long-term interest rates, the year 2006 will reveal how these markets absorb declines in yields and how investment strategies are influenced by this new situation.

Alain Béchade, FRICS - Vice Chairman, Atisreal

KEY FIGURES Main European Market Indicators

	Investment Volume (€ million)			Investment Volume by product as % of total (Full Year 2005)				Prime Office Yield (%)			
								Net			Gross
	Q4 2005	Full Year 2005	Full Year 2004	**% Office**	% Retail	% Industrial & Logistics Warehousing	% Others	**Q4 2005**	Q3 2005	Q4 2004	Q4 2005
London	**5,836**	19,526	14,670	**85**	2	0	13	**4.25**	4.50	5.25	4.49
Paris	**4,320**	12,281	10,406	**80**	8	5	7	**4.88**	5.25	5.75	5.08
Madrid	**537**	2,887	2,792	**67**	24	3	6	**4.50**	4.50	5.25	4.75
Frankfurt	**1,241**	3,167	1,444	**82**	1	8	9	**5.05**	5.55	5.55	5.30
Berlin	**957**	1,745	1,003	**72**	9	6	13	**5.35**	5.55	5.55	5.60
Munich	**1,040**	1,494	1,209	**73**	7	3	17	**4.95**	5.35	5.35	5.20



Property investment grew in all markets

- During 2005 the monitored cities accumulated an overall investment volume **30% higher** than the one observed over 2004. The largest growth was recorded in Frankfurt with an investment volume reaching € 3 billion in 2005 - the highest in seven years - followed by Berlin (+74% compared to 2004). These significant results were supported by very strong activity from **non-German investors**, who made up more than half of both investment volumes.

- **London and Paris remained the main targets** of European investors, especially as far as office buildings are concerned. Following the trend of the past years, investment volumes registered in London and Paris accounted for **77% of total investments** across these six cities; in 2004 they made up 80%.

■ Offices remained the most demanded product, amounting for instance to 85% of the total 2005 investment volume in London. However investors showed a **growing interest in other buildings**, especially industrial and logistics, but also retail in Berlin and in Madrid.

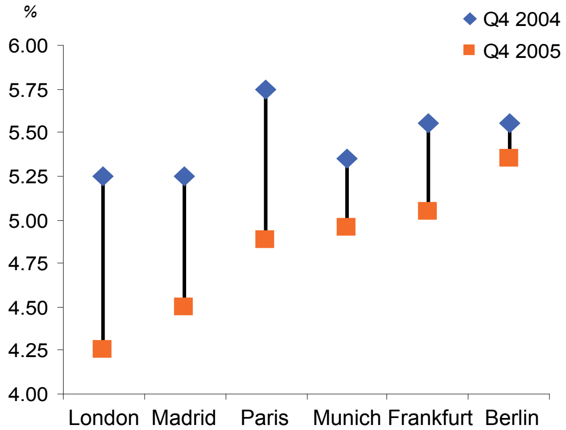
Capital increasingly flowed across borders

■ In the Eurozone, the **low level of the long-term interest rates versus property yields** contributed to the attractiveness of the property investment market. However, **in the UK** the gap is much narrower.

■ Many **cross-border transactions** took place in the six major European cities. In London West End for instance, Lancer Properties, acting on behalf of Middle-East investors, purchased an office building in Curzon Street for approximately € 410 million. Since the beginning of 2005 Paris saw a comeback of US investors focusing on **large office transactions**, with for instance Morgan Stanley acquiring the Tours Pascal at La Défense for around € 300 million.
Germany also saw many very active non-domestic investors, especially in the acquisition of both commercial (representing approx. € 14 billion) and residential **portfolios** (approx. € 16 billion).

■ German open-ended funds are expected to start selling buildings across Europe since they have been facing **important outflows**. In that context, the Deutsche Bank closed its open-ended fund Grundbesitz-Invest. On the other hand, more successful funds with high performance and high inflows **are investing** further. SEB ImmoInvest acquired an office building in the southern suburbs of Paris, which is currently under construction without pre-lettings. KanAm has just purchased the Reuters headquarters in Canary Wharf, one of London's most attractive office districts, for more than € 300 million.

Net office prime yield



The pressure on prime yields persisted

■ The **massive amount of capital** available in the European cities **weighed down on** net office prime yields. They shrank in all major markets between end-2004 and end-2005, although at varying paces: in the three German cities, prime yields decreased in the second half of 2005, while in Madrid and Paris they fell in two quarters. In London, the prime yield contracted every quarter in 2005. The net office prime yield in the French capital dropped **below the 5% mark for the first time,** while it fell to 4.95% in Munich due to a **scarcity** of interesting products.

■ Net office prime yields currently remain **the highest in Berlin and Frankfurt**, although they had reported the lowest prime yields at end-2000 across all major European markets. These cities are thus currently particularly attractive to American and Middle East investors.

■ With net office prime yields now under 5% in London, Madrid, Munich and Paris, these property markets may be **overpriced** against other investment types. This begs the **following questions**: will European real estate markets be able to absorb this amount of capital – whether invested directly or, as is increasingly the case, through indirect vehicles? Will it be allocated to other asset classes than property? How will this affect prime yields?

For further information please refer to our website: **www.atisreal.com**

Atisreal International Research is working on producing indicators which are as comparable as possible. This is a complex issue, due to cultural differences from market to market. Nevertheless, as we aim to actively contribute to the transparency of the markets, we have **highlighted** those definitions and indicators which are strictly comparable, so that our readers can understand what the indicators mean.
Furthermore we have decided to adopt the PEPCIG[1] definitions, on which most of the following indicators published by Atisreal are based. Other indicators are from INREV[2] and from Atisreal International Research.

Central Business District average rent takes into account all the headline rents in the CBD for leases signed during the four quarters ending with the survey period, weighted by the surface of each transaction. The definition of each city's CBD corresponds to local conventions.

Completions represent the total amount of floor space that has reached practical completion and is occupied, ready for occupation or an occupancy permit where required has been issued during the survey period.

Core Investment Vehicles target returns at 11.5% and lower, with gearing level up to 60% of Gross Asset Value.

Closed Ended Fund is a vehicle that has a targeted range of investor capital and a finite life.

Development Pipeline represents the total amount of floor space for all developments under construction and/or schemes (including major refurbishments) that have the potential to be built in the future through having a secured level of planning permission but remain unimplemented at the survey date. It includes all proposed new buildings, those constructed behind retained facades and buildings (or parts of buildings) undergoing a change of use to offices.

Exchange Rate from £ into € for rents is the value observed at the end of the period.

Exchange Rate from £ into € for investment volumes for each quarter is the average value over that period. Full-year investment volumes in both currencies are made up by adding the four quarters of each year.

German Open Ended Fund is a public vehicle that does not have a finite life, continually accepts new investor capital and makes new property investments. The list of German Open Ended Fund is published by the BVI (Bundesverband Investment und Asset Management e.V.).

Gross Asset Value is the sum of the Gross Capital Value of properties, cash and marketable securities and other (non-operating) assets.

Investment volume takes into account all commercial properties Atisreal is aware of, whose owner has changed during the studied period, whatever the purchasing price. It includes **Office buildings, Retail** (supermarkets, hypermarkets), **Industrial and Logistics Warehousing** and Others (Hotels, Cinema, Leisure, Car Parks, Care Homes, parts of portfolio which can not be split up by product, and Development Sites in Germany). Quoted investment volumes are not definitive and are consequently subject to change.

Investment volume by investor/seller type refers to the following categories: Insurance, Private Investors, Public Sector, Corporates, Property Companies & REITs, Consortium, Funds and Other.

Investment volume by investor/seller nationality refers to the following categories: Eurozone, Non-Eurozone, North America, Other America, Asia, Middle East, Australia, International and Other.

Major Refurbishments represents refurbishments, where building work must involve either structural alteration, and/or the substantial replacement of the main services and finishes. The quality of the floor space must have been substantially improved from its previous condition so as to offer accommodation of a modern standard – although not necessarily to the standard of a completely new building.

Opportunistic Investment Vehicles target returns in excess of 17%, with gearing levels above 60% of Gross Asset Value.

Prime Gross Yield is defined as Gross income (i.e. income before costs of ownership) over purchase price excluding costs of acquisition.

Prime Net Yield is defined as Net income (or NOI) over purchase price plus all other costs of acquisition.

Prime Rent represents the top open-market rent at the survey date for an office unit:
- of standard size commensurate with demand in each location
- of the highest quality and specification
- in the best location in a market

Actual transactions are used in France, Germany and Belgium to support the headline prime rental quoted, but one-off deals, which do not represent the market, are disregarded. In the UK & Spain, if there are no prime transactions during the survey period a hypothetical rent is quoted, based on expert opinion of market conditions.

Space calculation differs in Spain, where figures in m² (Take-Up, Vacancy, Pipeline, Completions) as well as Rental values are based on Gross Letting Area space, contrary to the other main European markets, which use Net Letting Area. In order to make the Spanish figures comparable across all monitored markets, they should be multiplied by 0.82 (NLA = 0.82 GLA). This ratio is applied by Atisreal to produce international indices and benchmarks.

Take-Up represents the total floor space known to have been let or pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period.

- It does not include space that is under offer
- A property is deemed to be "taken-up" only when contracts are signed or a binding agreement exists
- Pre-let refers to take-up that was either in the planning or construction stage
- All deals (including pre-lets) are recorded in the period in which they are signed
- Contract renewals are not included
- Sales and leasebacks are not included as there had been no change in occupation

Quoted take-up volumes are not definitive and are consequently subject to change.

The breakdown of take-up by business sector is compatible with the European NACE code.

Under Construction represents the total amount of floor space in properties where construction has commenced on a new development or a major refurbishment (see separate definition) at the survey date. It includes properties for owner occupation, which are reported separately. It does not include sites being cleared for possible development in the future.

Property that is under construction but pre-let or for owner occupation is recorded separately where appropriate.

Value-added Investment Vehicles target returns of 11.5% to 17%, with gearing levels between 30% and 70% of Gross Asset Value.

Vacancy represents the total floor space in existing properties, which are physically vacant, ready for occupation in the next three months (this period covers fit-out time) and being actively marketed at the survey date. Vacancy includes sublet space (except in Germany), but where possible, vacant sub-let space is recorded separately.
In France, vacancy excludes premises which the owner will renovate only once a lease is signed. Spain only counts immediately available space.

Vacancy Rate represents the total vacant floor space including sub-lettings divided by the total stock at the survey date.

[1] *Pan-European Property Common Interest Group. This group assembles a wide range of European advisors and investors and major agents.*

[2] *European Association for Investors in Non-listed Real Estate Vehicles.*