A EUROPEAN PERSPECTIVE

FROM THE LEADING ALLIANCE IN REAL ESTATE

STRUTT & PARKER

CATELLA

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FRANCE
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MADRID
SPAIN

The leading alliance in European real estate

Strutt & Parker and Catella continue to undertake the largest and most significant transactions in Europe, capitalising on new opportunities through our understanding of each country's unique and distinctive markets.

In the 2013 PropertyEU rankings, Strutt & Parker and Catella were ranked as the fourth largest investment transactions adviser. We had a combined investment volume of over €11bn and a European market share of 10%.

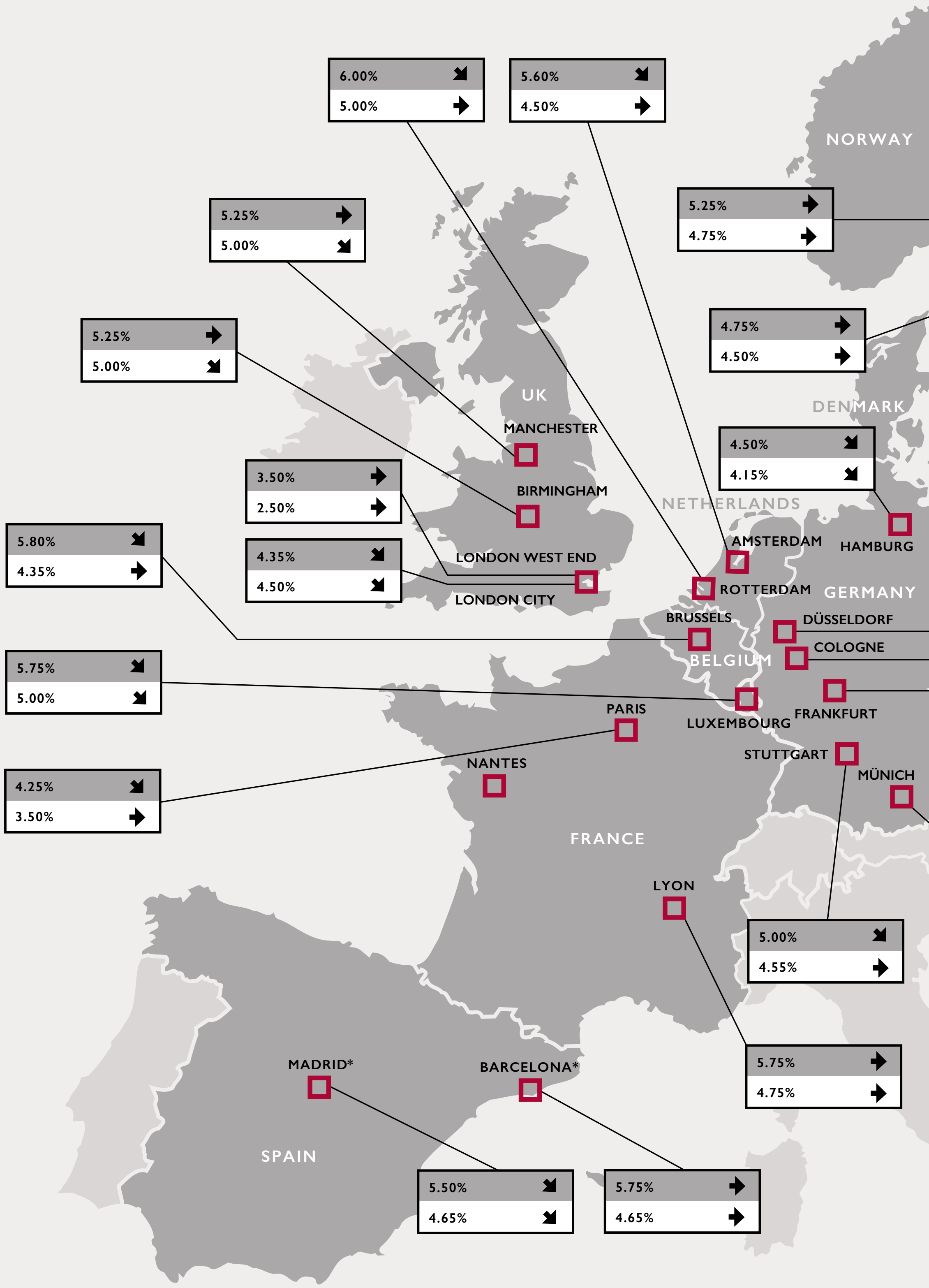
As alliance partners, we have delivered some truly outstanding results for our clients, who trust us to provide effective property solutions across Europe's key financial and business centres.

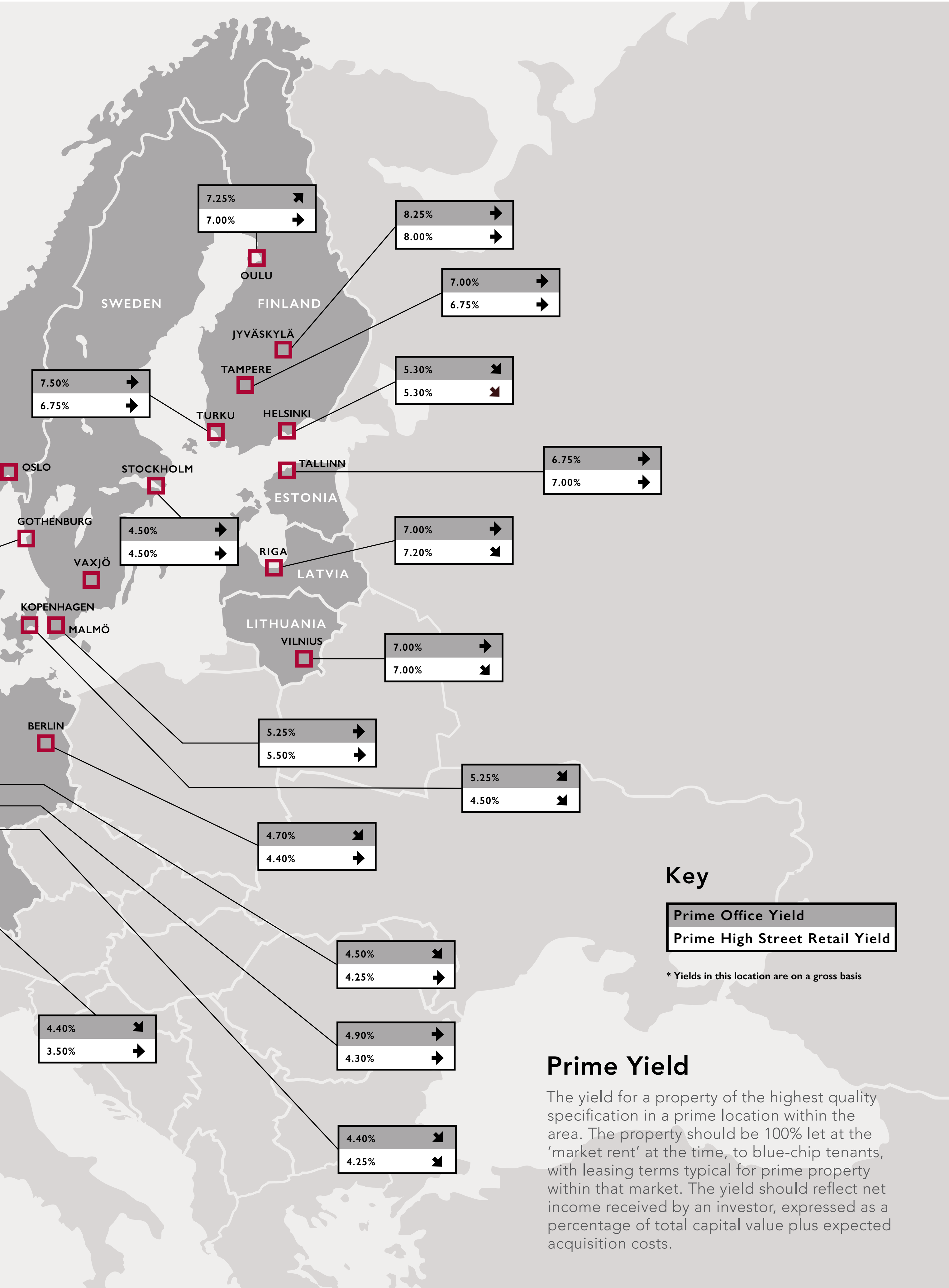
Catella and Strutt & Parker work together across Europe to provide the following services in all commercial asset classes:

- Investment, sales and acquisitions
- Valuation
- Research
- Debt financing
- Equity funding
- Asset management
- Development
- Leasing
- Occupier solutions

MAP OF EUROPEAN PRIME YIELDS

AUTUMN 2014





Prime Yield

The yield for a property of the highest quality specification in a prime location within the area. The property should be 100% let at the 'market rent' at the time, to blue-chip tenants, with leasing terms typical for prime property within that market. The yield should reflect net income received by an investor, expressed as a percentage of total capital value plus expected acquisition costs.

MARKET COMMENTS

Stephanie McMahon
Head of Research
Strutt & Parker

The UK continues on its positive economic road with 0.8% GDP growth over the second quarter heralding the economy's return to pre-recession level of output.

Further good news for the household pocket is consumer price inflation easing to 1.5% in August and putting little immediate pressure to raise interest rates. Further household confidence is manifesting itself in the housing market where price growth was 11.7% in the year to July 2014 (Source: Land Registry). That said, wages are consistently lagging inflation, and the burden of household debt is still at historically high levels.

Whilst UK manufacturing growth slowed in August, the service sector recorded its fastest growth for almost a year. Such inconsistency is mirrored in confidence surveys and results in a growing but still fragile business investment environment.

Turning to the UK commercial property markets, 2013 volumes reached their highest levels since 2006 with over £54bn transacted (Source: Property Data). There were some very significant deals in 2013, such as The Broadgate Estate and More London, and as such we anticipate the market to remain highly attractive in 2014, but not reach the same levels. To date, (September) the market has transacted £32.7bn (Source: Property Data).

It is well documented that overseas investors have dominated the UK market over recent years, with their proportion of activity reaching 46% in 2013. Although still the largest investor group with 37% market share, 2014 has witnessed the re-emergence of the UK institutions with a 30% market share (Source: Property Data).

The competition for investment product has resulted in a tightening of prime yields. West End offices have reached 3.5%, shopping centres and retail parks are at 4.5% and 4.75% respectively and prime distribution is trading at 5.25%. The spread between primary and secondary yields has closed substantially with investors factoring future rental growth into their projections.

Property yields are best contextualised by a global perspective, with investors seeking safe haven opportunities and looking for performance beyond that of the bond markets. As such, we can anticipate a further narrowing of yield spreads between prime and secondary property over the remaining few months of the year and overall volumes stretching into the low £40 billions.

Thomas Beyerle
Head of Research
Catella

The Eurozone and the wider EU28 saw relatively flat GDP in Q2, with quarterly growth of 0% and 0.2% respectively. However, there was a strong degree of variation within this. Latvia and Hungary recorded growth of 1% and 0.8% respectively; whilst the major economies of Germany and Italy both saw 0.2% falls in GDP. French growth figures were also flat whilst Spain saw reasonable growth of 0.6%.

Yields on low-risk government bonds have been squeezed in the wake of the debt crisis and equity indices are highly volatile. Real estate is currently seen as attractive based on the yield spread compared to bonds, and we expect a further tightening of prime yields within many of the main European centres.

Generally the environment for real estate financing in Europe is positive, with easier access to financing compared to last year. The average LTV on European commercial real estate lending is 71%, according to our in-house research indicator. The demand for non-bank financing also continues to grow alongside increasing provision of said finance.

Looking forward, we expect investment to rise in Europe with investors remaining hungry for yield and ready to invest more in real estate as they redirect allocations toward alternative investments.

Beside the UK and France, global investors are considering Germany and the Nordics as the safe haven locations of Europe and are looking for opportunities to invest. In 15 of the 32 covered markets we expect a further decline in office prime yields over the upcoming six months.

Increasing levels of employment are ensuring good demand for office space, although we expect little positive net absorption in total and rental growth to be limited to a few key markets. The main driver of rental growth will be the lack of new office construction in a number of key centres and strong demand for new office space. Demand for second hand office space is weaker; however, the limited supply of new space is helping to spur demand for the lower quality stock. Although we are seeing a decrease in take-up across some cities, vacancy rates should continue to decrease in most key centres.

Within the high street retail market, we expect most of our key centres to see stable prime yields over the next six months.

OUR HIGHLIGHTS

UK

Broadgate Estate, London, EC2

- Advised GIC on the purchase of 50% of this 30 acre City estate comprising 16 office buildings for £1.7bn.
- The largest single investment transaction undertaken in the UK ever, and the largest European transaction of 2013.

Devonshire House, London, W1

- Advised Devonshire Realty Investments Ltd on the sale for circa £400m.
- The second largest single West End investment transaction of 2013.

Trident Place, Hatfield Business Park, Hatfield

- Advised on the sale of Everything Everywhere's HQ, on behalf of Goodman, for in excess of £130m.
- Largest single-let South East office deal of 2014 to date (outside of London).

Minster Court, London, EC3

- Advised a private German close ended fund on the loan refinancing of Minster Court at £43m.
- Strutt & Parker and Catella worked together to deliver this high profile and complicated refinancing deal.

MEPC Portfolio

- Advised on the purchase of three business parks, on behalf of Oaktree Capital and Patrizia for £430m.
- Biggest regional UK office deal of 2014 to date.

Point, Paddington, London, W2

- Advised Hermes and WELPUT on the sale of this landmark office block in Paddington for circa £210m.

50 Pall Mall, London, SW1

- Advised Legal & General Property on the sale of this prime West End investment for circa £60m.
- Achieved a price substantially higher than the guide price of £53m.

King Edward Court, Windsor

- Advised SWIP on the acquisition of the 215,000 sq ft shopping centre for £104m.
- Secured the asset for SWIP following an extremely competitive bidding process.

Innova Park, Enfield

- Advised Kuwait Finance House on the sale of this 245,000 sq ft Iceland distribution unit for £44m, reflecting a net initial yield of 5.05%.
- Previously advised on the acquisition in 2012 for £35m.

SWEDEN

Globen City, Stockholm

- Advised the Carlyle Group on the €430m sale of a 115,000 sq m office and retail property.

Mölndals Galleria, Gothenburg

- Advised NCC on the creation of a joint venture for the development of this shopping centre, including acquisition at completion for €120m.

Välmågan 8 and Snäckan 8, Stockholm

- Advised Skanska and Alecta on the exchange of these office properties for €256m.

OUR HIGHLIGHTS

FRANCE

Le Madeleine, Paris 1

- Advised BlackRock on a share deal of 30,000 sq m of offices for €430m.

Portfolio Erestone

- Advised Santander on the sale of five assets for €123.4m.

Atlantis Massy, Massy (91)

- Advised The Carlyle Group on the sale of 36,162 sq m of office space for €109.5m.

GERMANY

Sky Headquarters, Munich

- Advised Commerz Real on the sale of this office investment; achieving a price of €50m.

C&A Headquarters, Dusseldorf

- Advised Generali Immobilien on the sale of this office investment; achieving a price of €88.6m.

DENMARK

Project Nordic Living, Copenhagen

- Provided financial advice to Pension Denmark in the divestment of 700 residential units.

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