Who would have thought in 2005……..

- The Irish would be amongst the most adventurous buyers
- The German funds would be a key source of stock
- Germany itself would be one of the fastest growing targets
- Central Europe would see yields matching Western levels
- Southern Italy would be an acceptable “buy”
- And the British would actually look beyond Dover

Plus ca change!

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So where are we…..Market Overview

- Excess capital to invest
- Low interest rates and inflation – paradigm shift?
- A cost sensitive occupier – weak rental growth pressures
- A supply not demand led rental recovery
- A continuing dislocation between occupation and investment markets

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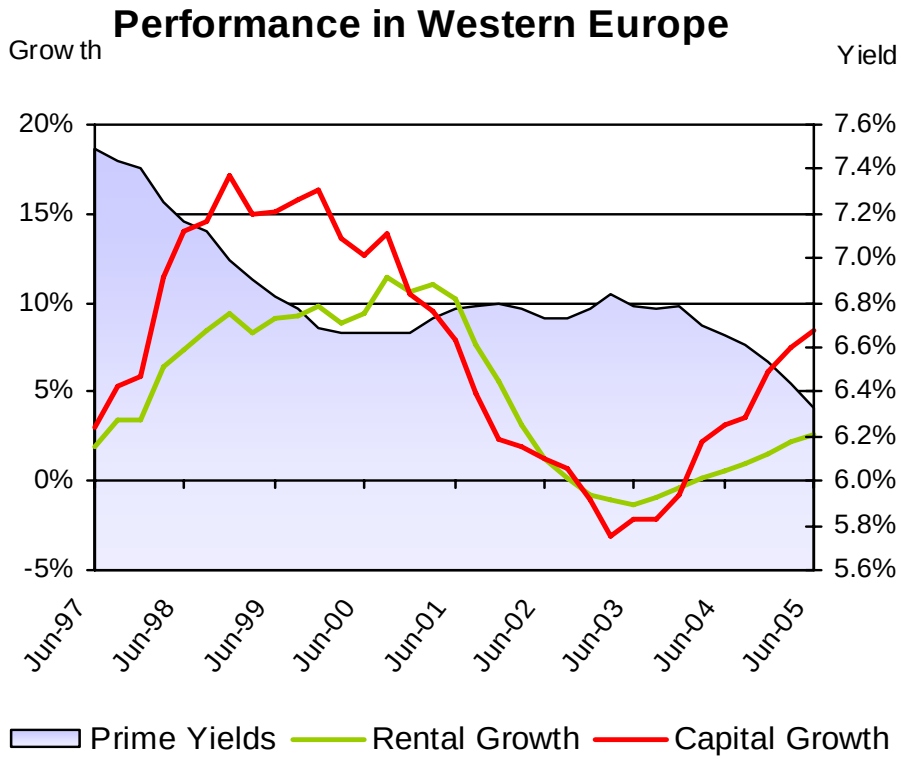
Property Performance has been strong….

- Capital growth of 8.4% to June.
- Property yields at their lowest since our records began in 1980.
- Prime rents, all sectors, recorded growth of 2.7% in the year to June.



Source: CWHB European Research Group

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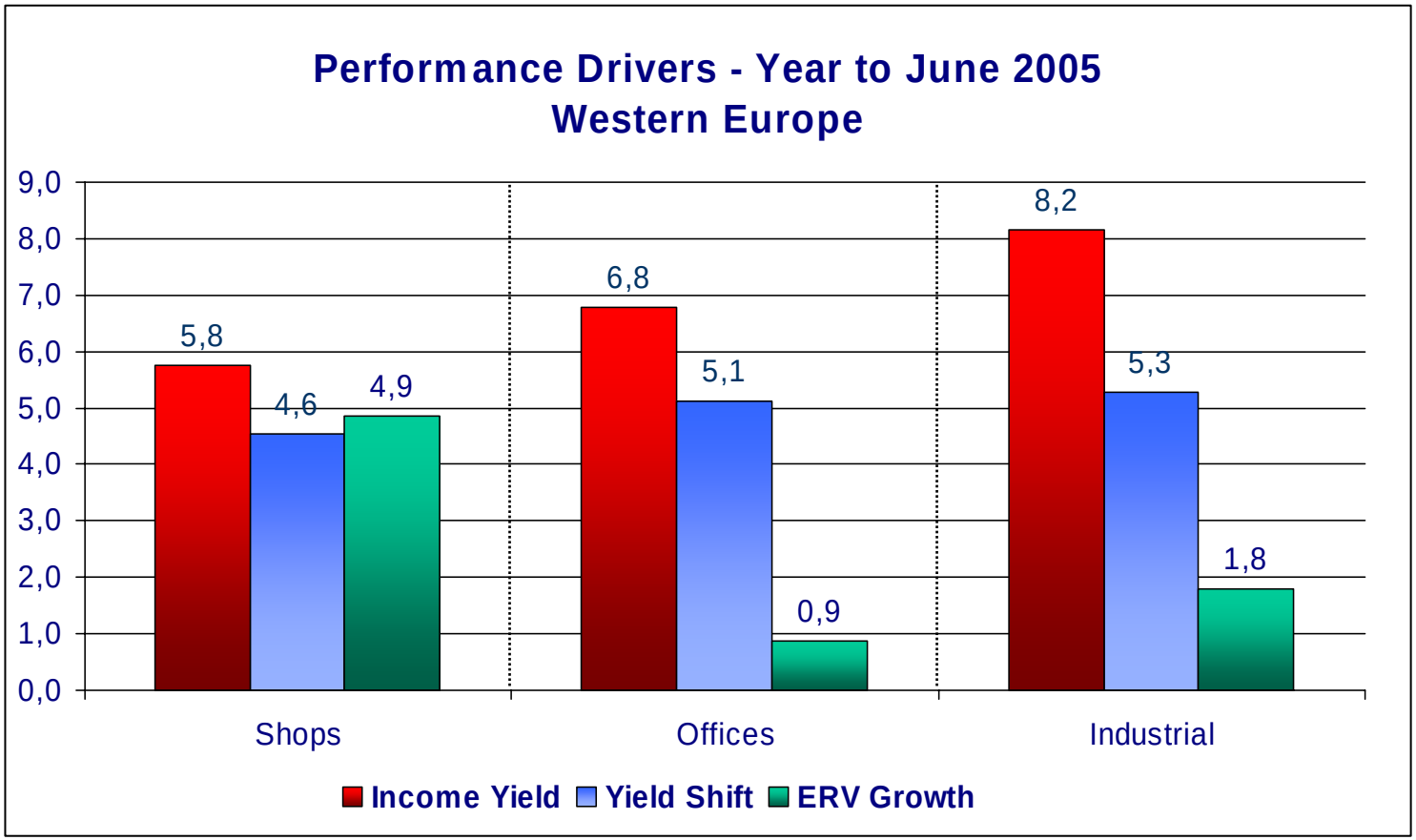
But can performance be sustained when yield falls end?



Source: CWHB European Research Group

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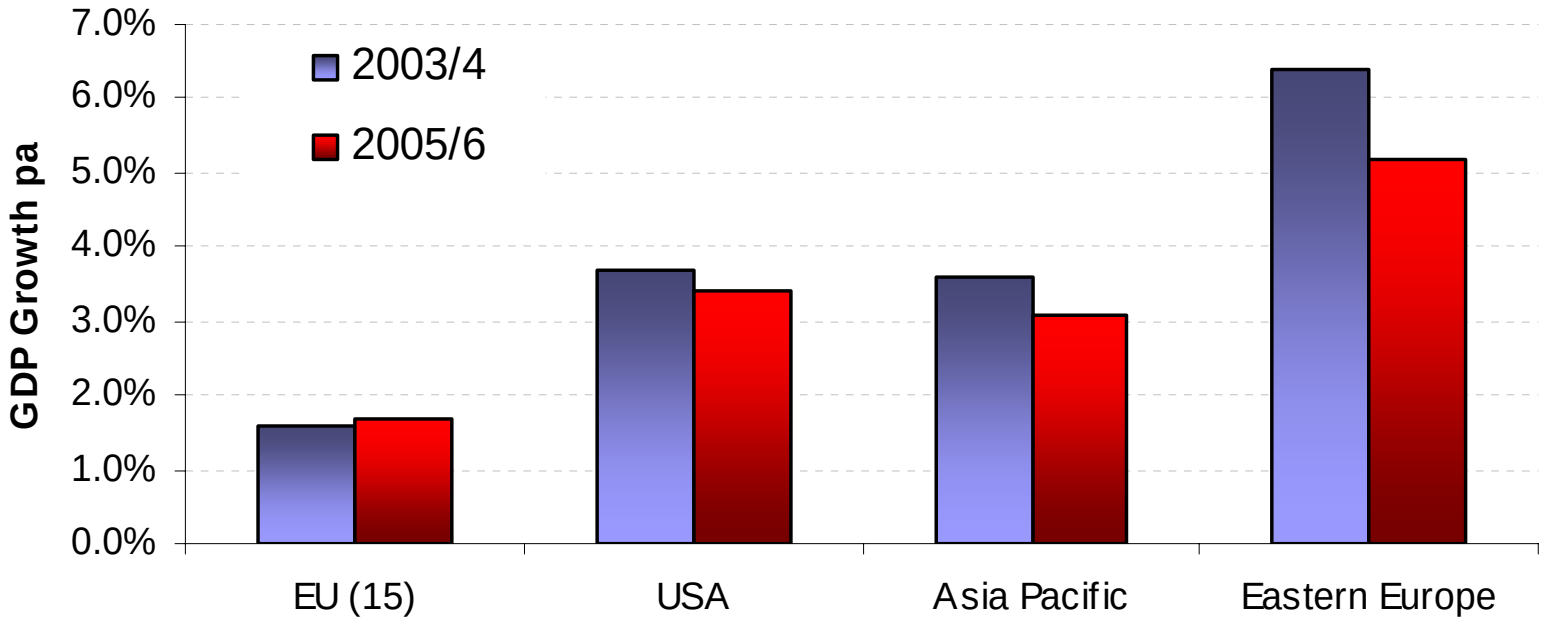
The Global Growth Outlook



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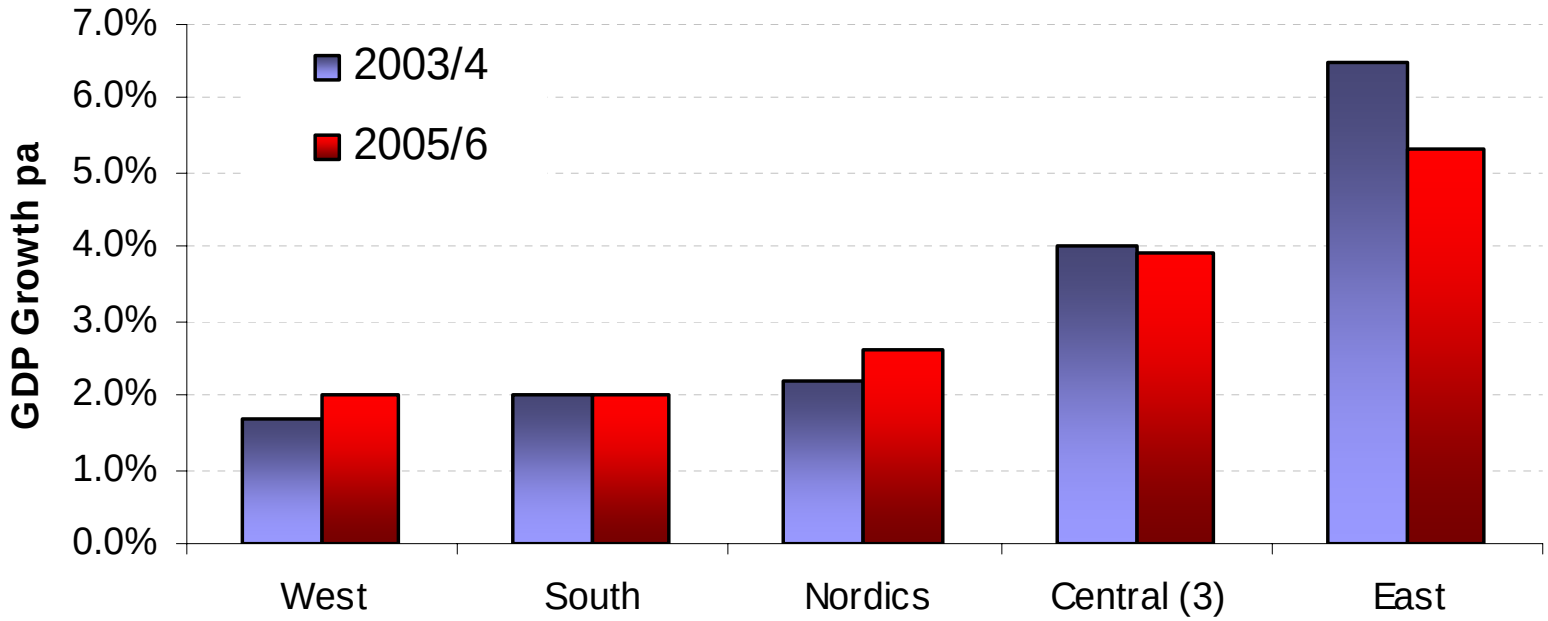
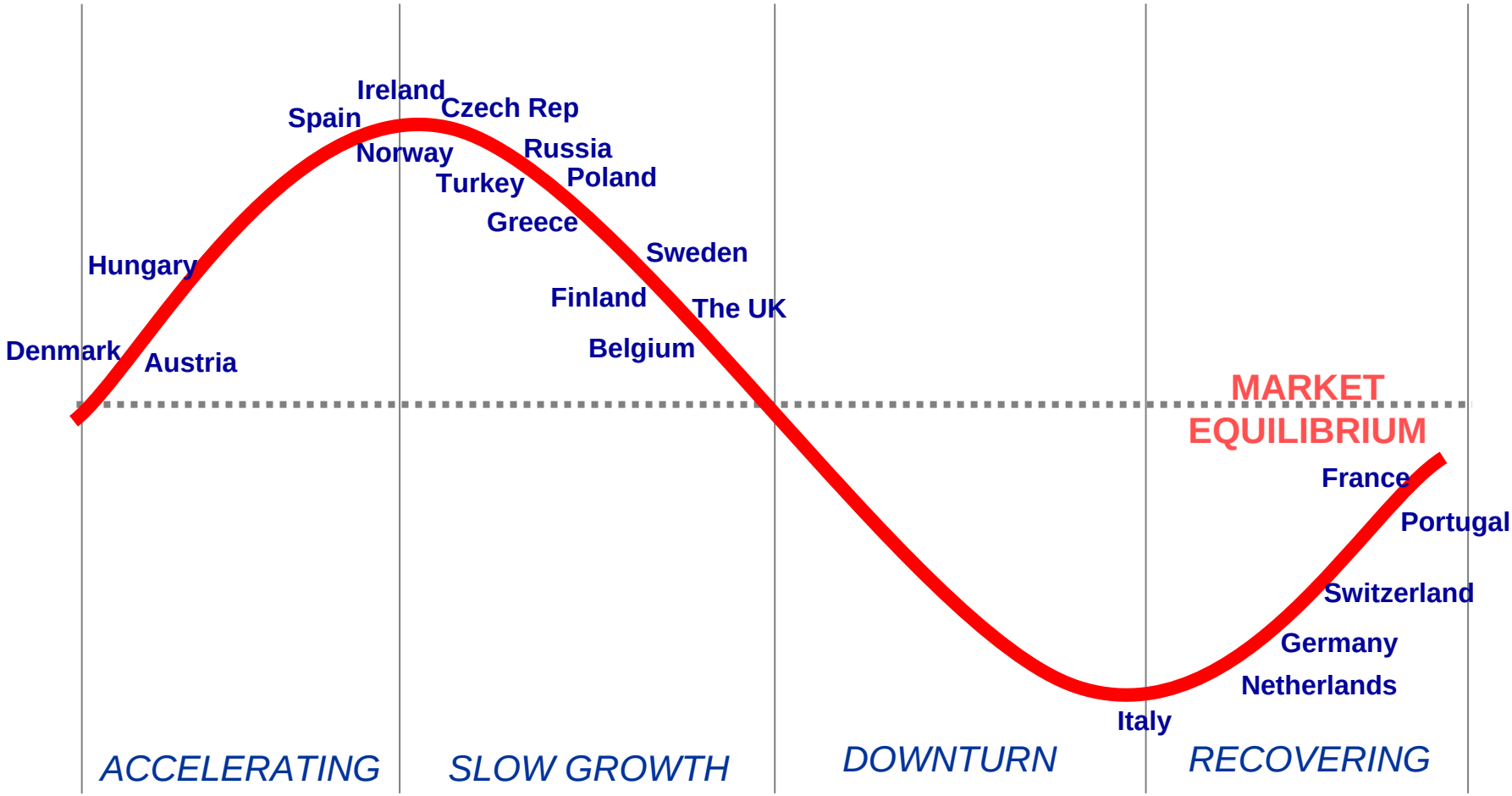
Out-performance to the East continues



Economic Cycle: 3rd Quarter 2005



Source: CWHB European Research Group

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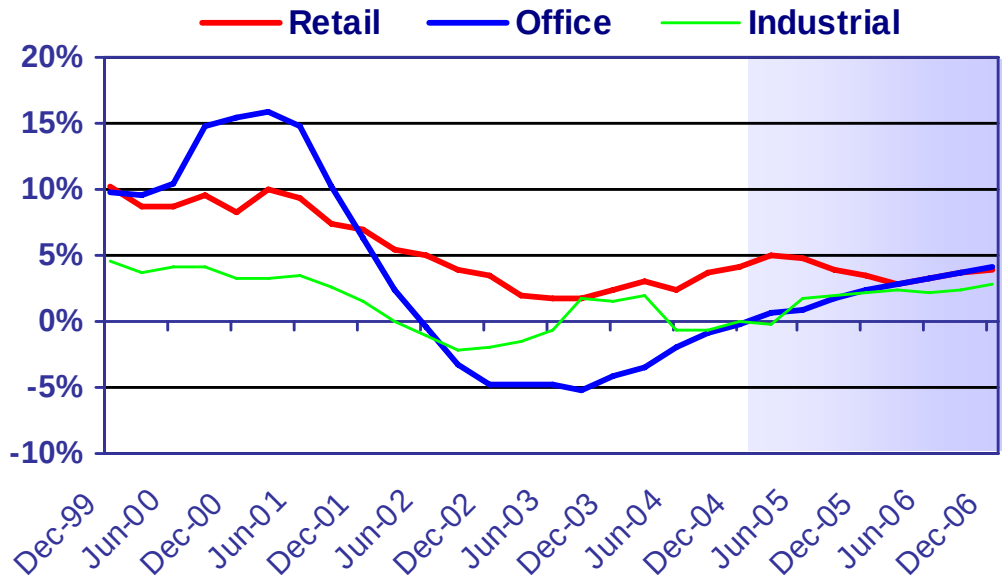
Rental Outlook: Western Europe

- Steady improvement with overall rents to rise 3.0% this year and 3.8% next.
- Short term growth still led by retail.
- Office rents to start to out-perform in 2006.



Source: CWHB European Research Group

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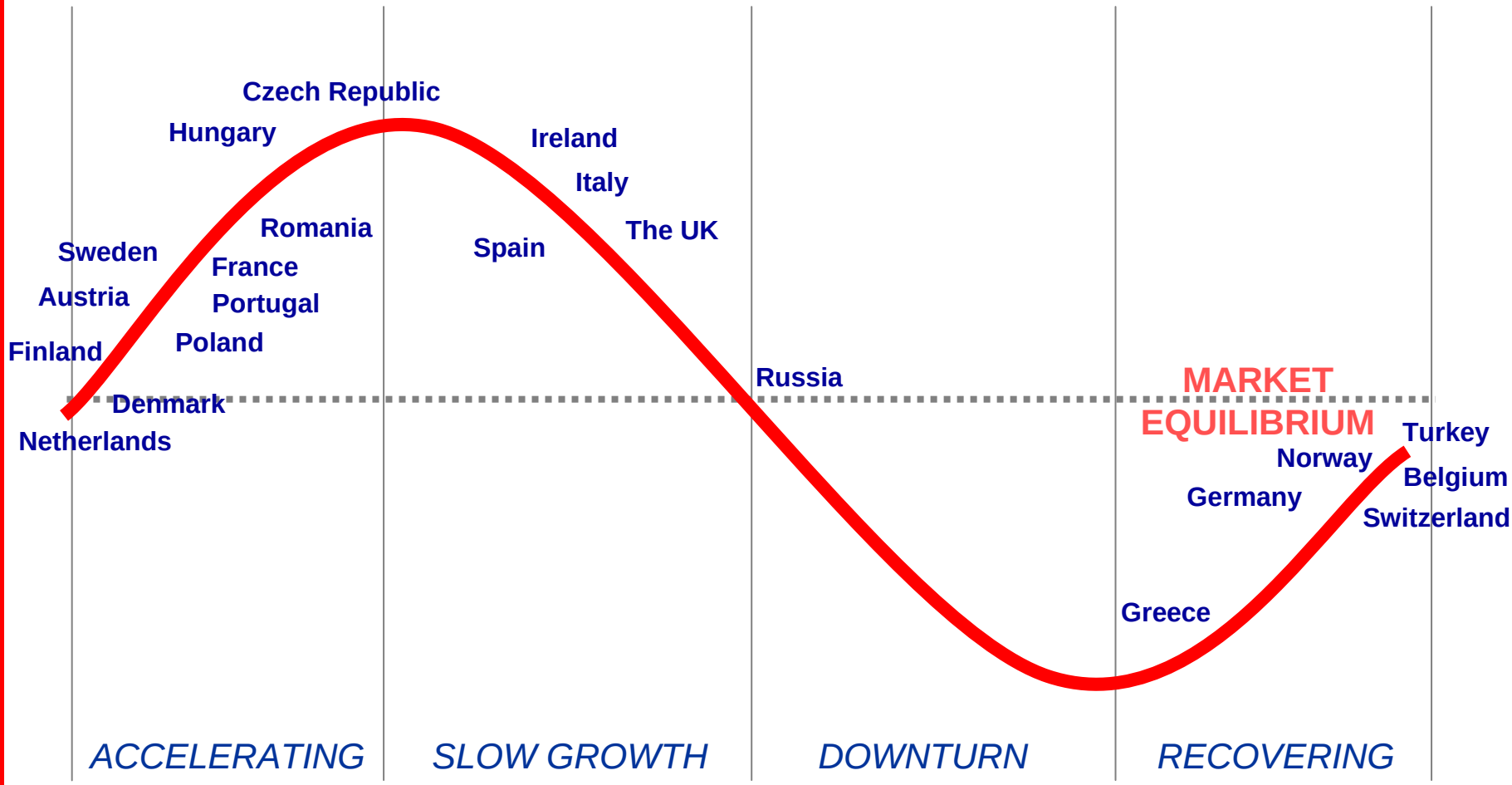
Retail Property Market Cycle: 2nd Quarter 2005



Source: CWHB European Research Group

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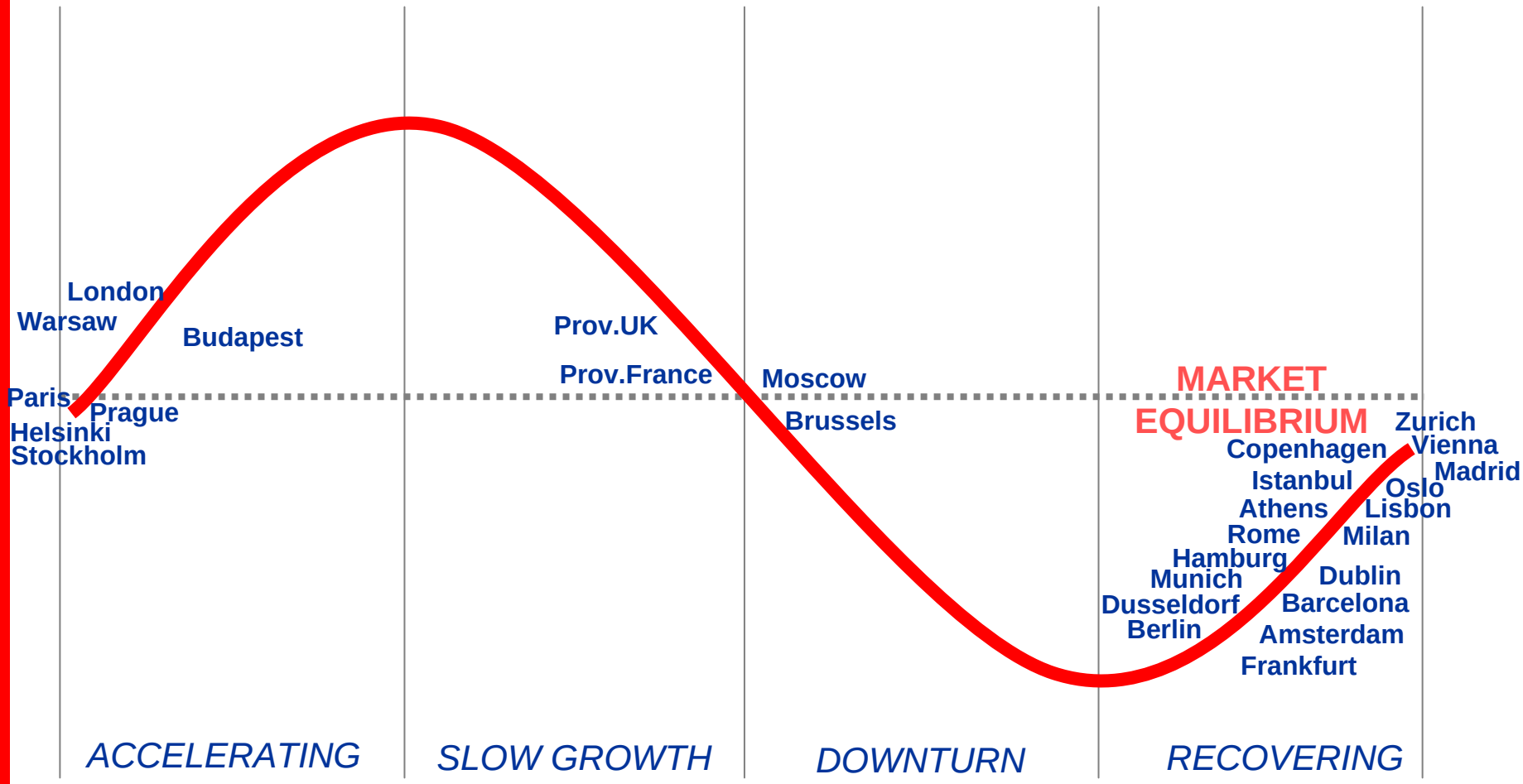
Office Market Cycle: 2nd Quarter 2005



Source: CWHB European Research Group

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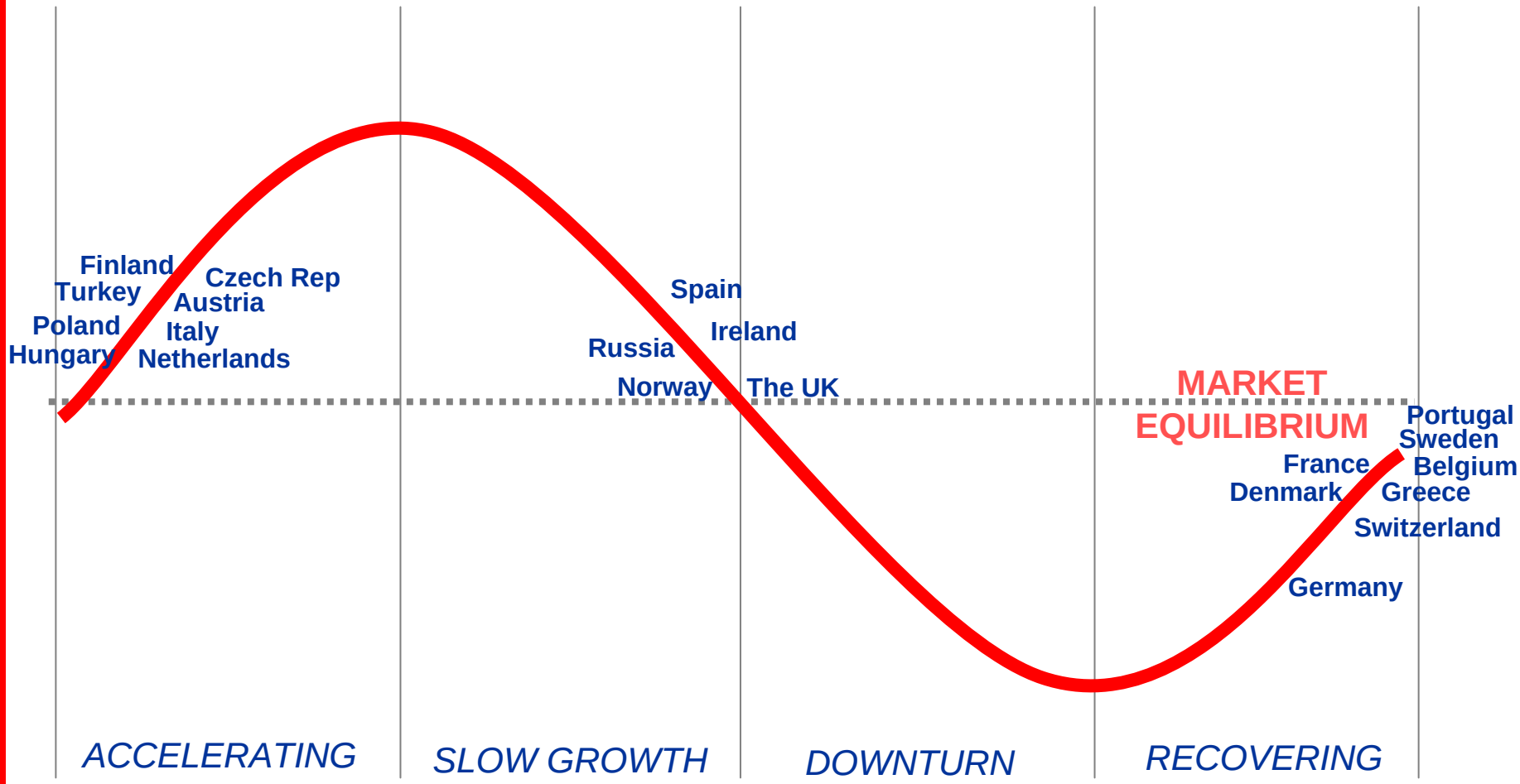
Industrial Market Cycle: 2nd Quarter 2005



Source: CWHB European Research Group

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Market Summary – Structure vs Cycle

- Economics
  - A slow cyclical upturn – but ongoing downside risks?
  - Lower inflation and interest rate expectations still impacting
  - An acceleration in reform?
- Occupational Markets
  - Margin pressures = cost sensitivity
  - Low net absorption in a supply led upturn
  - Modest but real levels of rental growth by late 2005.
  - Structural undersupply driving growth
- Investment
  - Demand ahead of supply
  - Further yield pressures, focussed on prime.
  - Stock selection vital
  - A new paradigm?

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The Long Term Trends (illustrative and just guesses!!)

• Terrorism	?????
• E-Tailing to take a 10% retail market share	2007?
• Sustainability to gain greater prominence	2008?
• Reform to gather pace in Europe	2009?
• Italy to drop out of the Euro	2010?
• Germany to out-perform the EU average	2012?
• Shifting working patterns hit business and pensions	2015+?
• Moscow to overtake London as European dominant city	2025?
• A new EU with Turkey included	2025?
• Europe's population to decline by 20%	2050?
• Global warming to hit	2100??
• EU to complete integrated transport programme	2100+??!!

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But what about the more immediate future?

- **Investor Trends**
  - Market liquidity
  - The German Open Ended Funds
  - Investment demand in Germany
  - Southern Italy
- **Market Supply**
  - A lack of modern supply to meet demand
- **Emerging Europe**
  - Central Europe
  - Eastern Europe
  - Russia
  - Turkey

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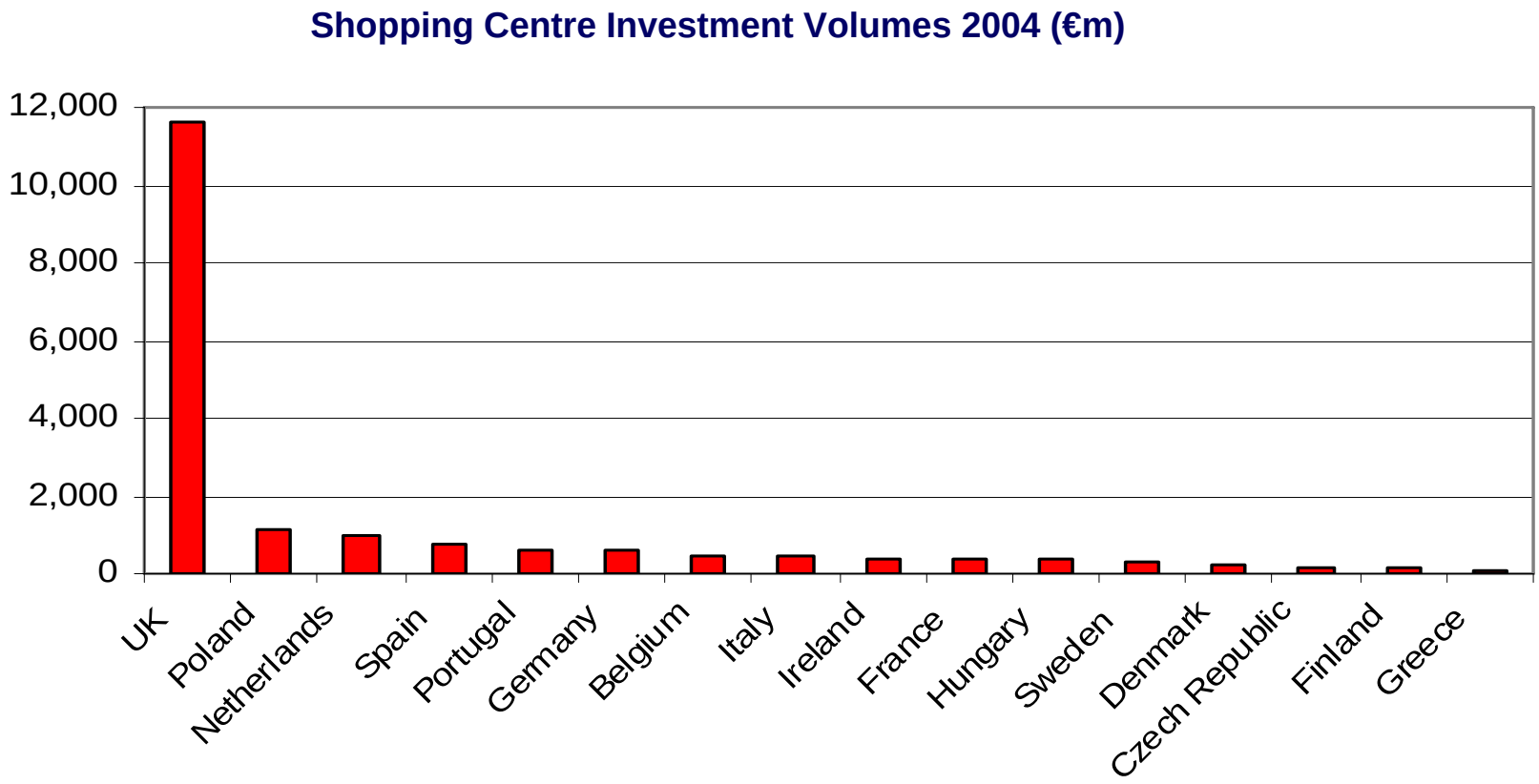
Investors are targeting more markets



But most offer only limited opportunities

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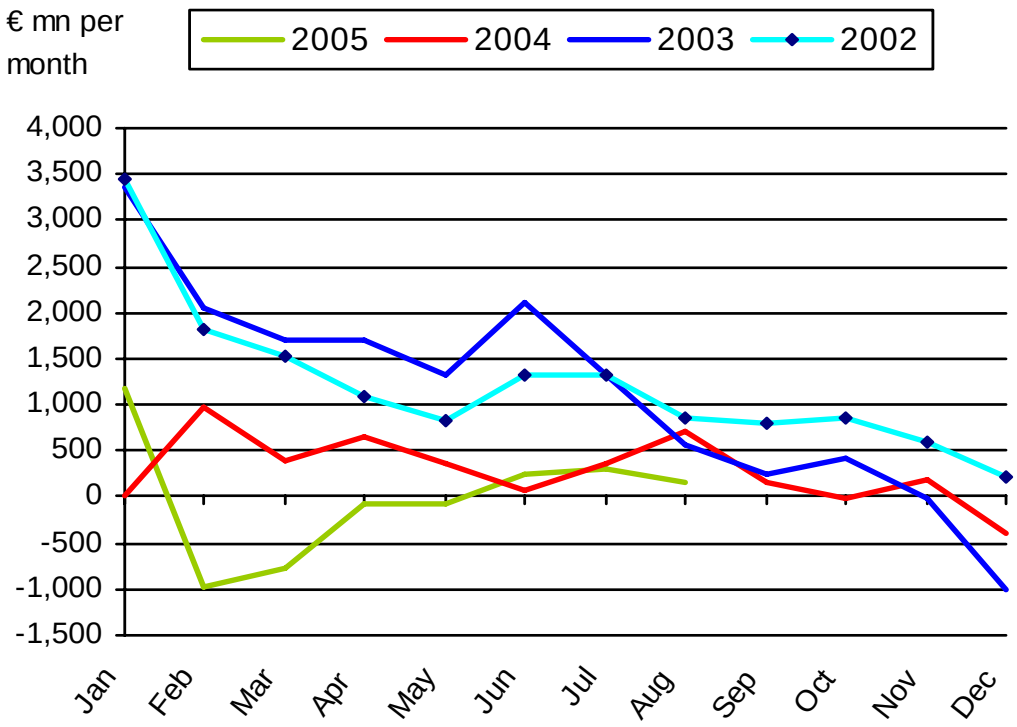
German Open-Ended Fund Inflows

- Fund inflows are down markedly on their 2003 peaks.
- Negative inflows in 6 of the last 9 months.
- Positive again in June however.
- Net investment flowing to non-domestic funds.
- Still a major force – with assets valued at €87.6bn



Source: CWHB European Research Group

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Investment into Germany

- A marked shift in sentiment
- Where is the value?
- Retail is heavily favoured
- Best balance of supply to meet demand in Europe
- Attractive yields – but compressing

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Southern Italy

- 25% share of Italian GDP
- With 20 million inhabitants, 36% of total Italian population
- With 1.7 million sqm of modern retail floor space representing less than 20% of the Italian total
- Huge development potential with 60 schemes planned over the next 5 years
- Strong retailer and developer interest

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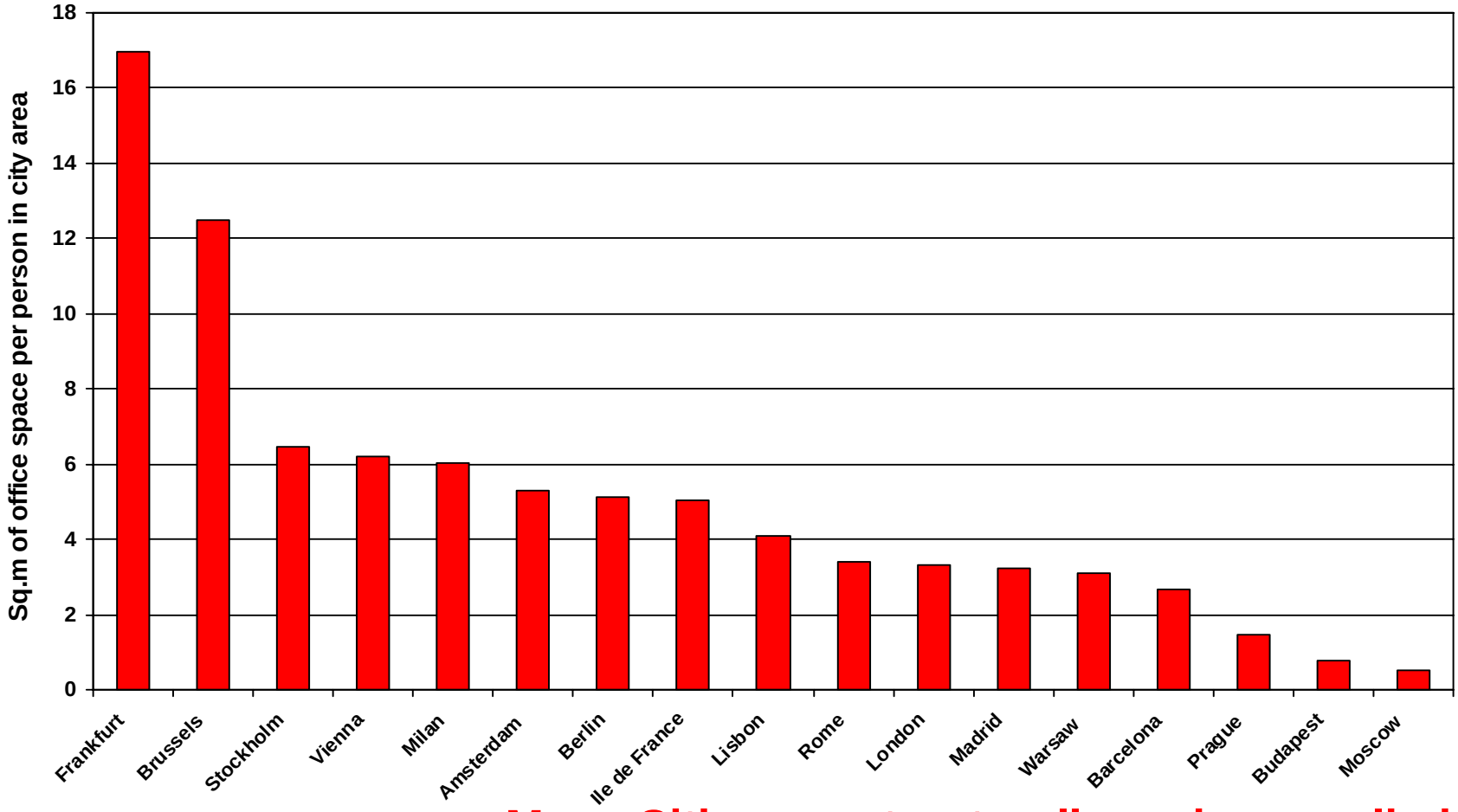
Office Space Per Capita



Many Cities are structurally under supplied

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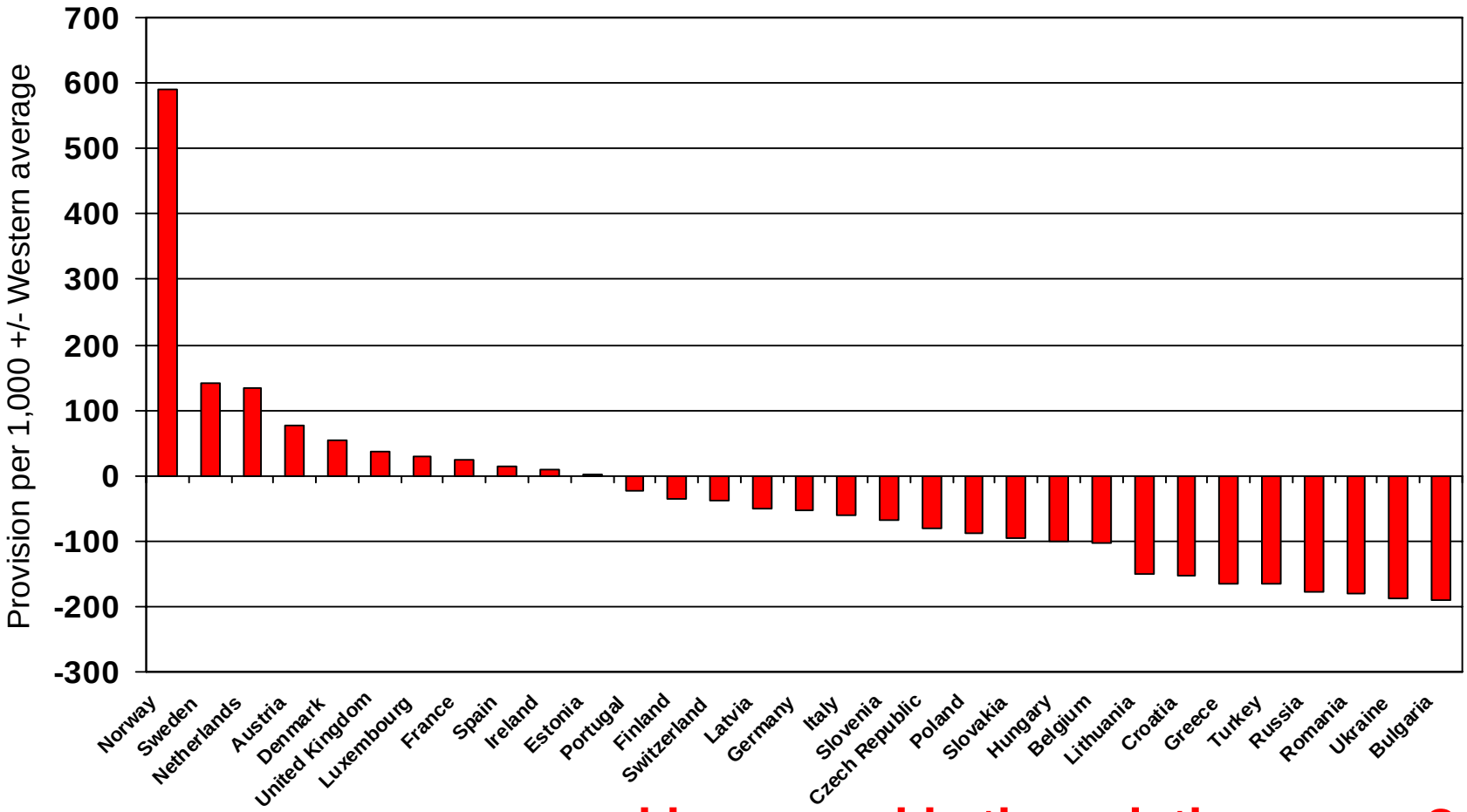
Significant Potential Remains for Shopping Centres



and how good is the existing space?

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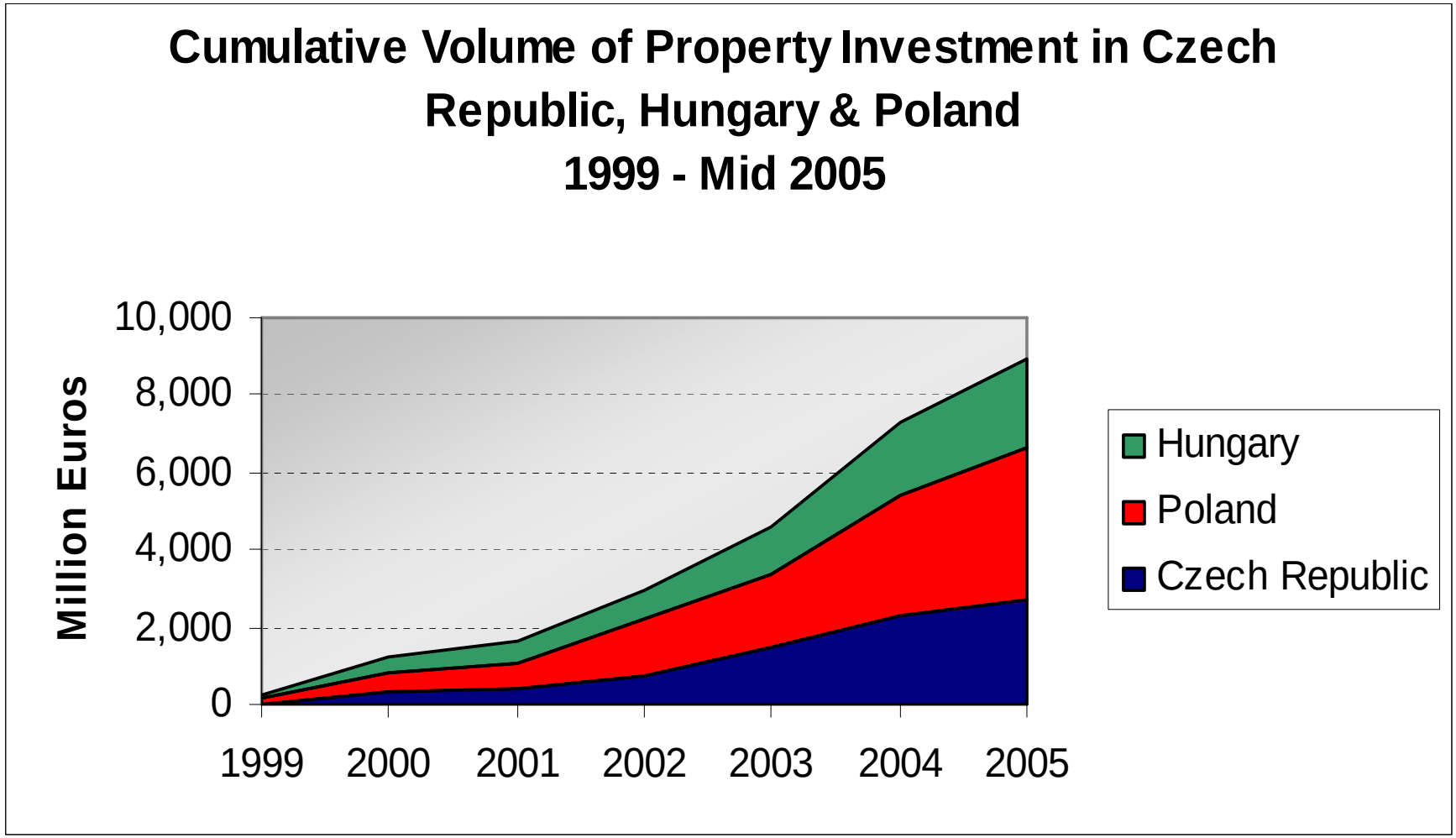
A Strongly Growing Market



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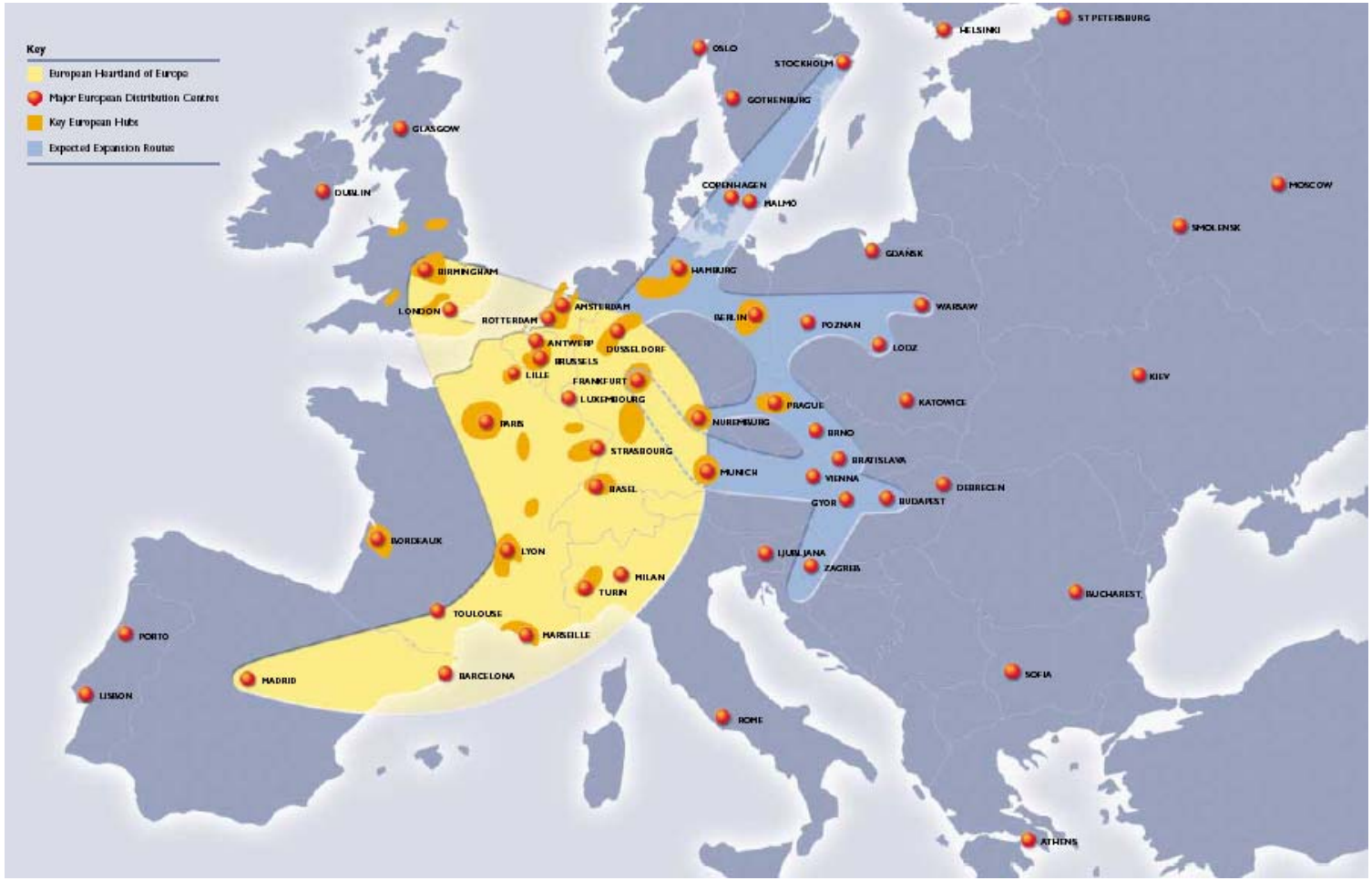
Changing Patterns for Distribution and Production



Source: CWHB European Research Group

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Russia

- Moscow to become Europe's principal business city
- Moscow responsible for 40% GDP with 12 million people earning 3 times national average
- Tax is low and disposable income high
- Regional expansion
- 2.5 times land mass of US
- Reduced political and economic risk

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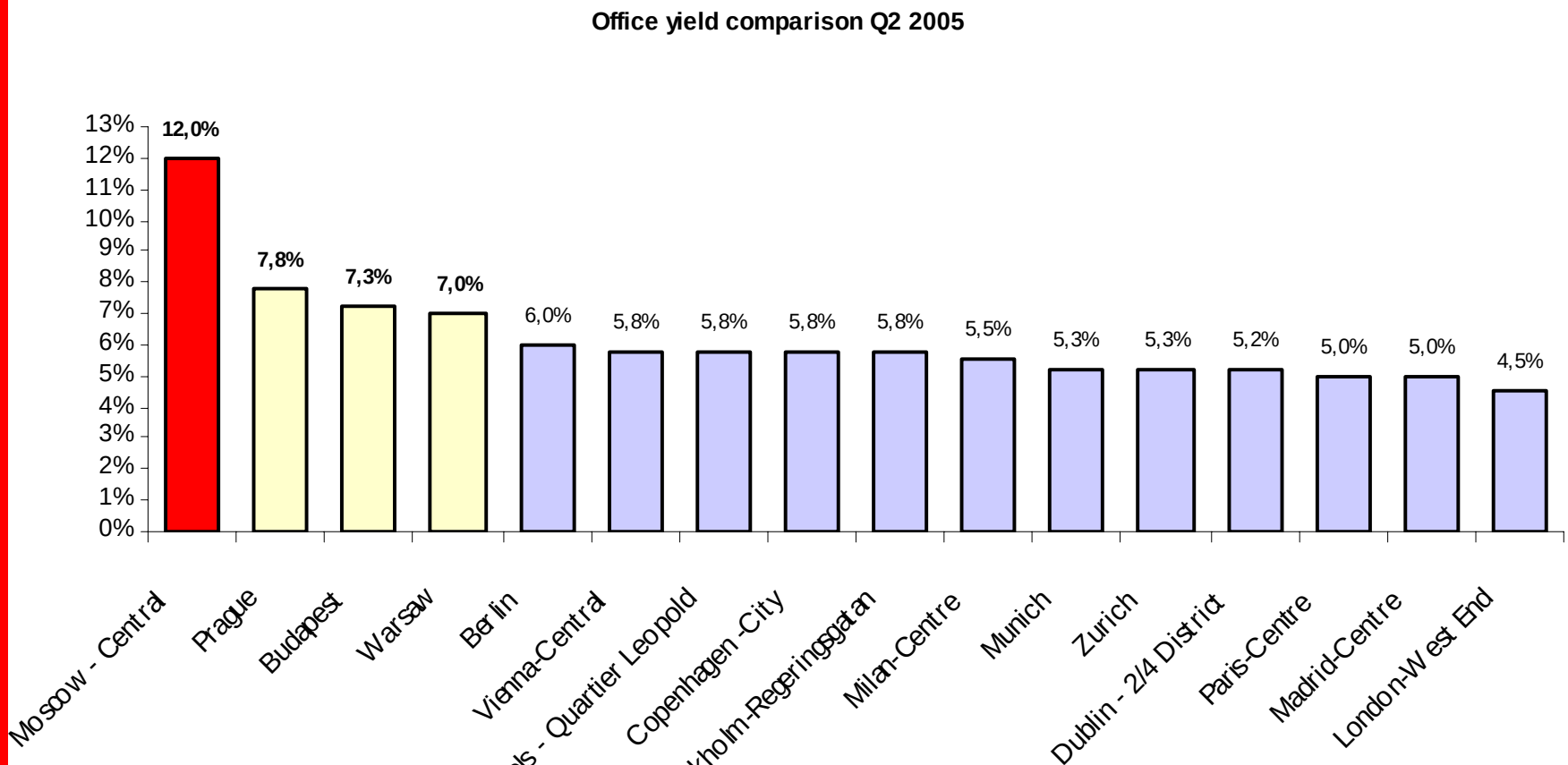
A Case For Yield Compression

Is the value today 12% or with more knowledge and understanding is it 9%?



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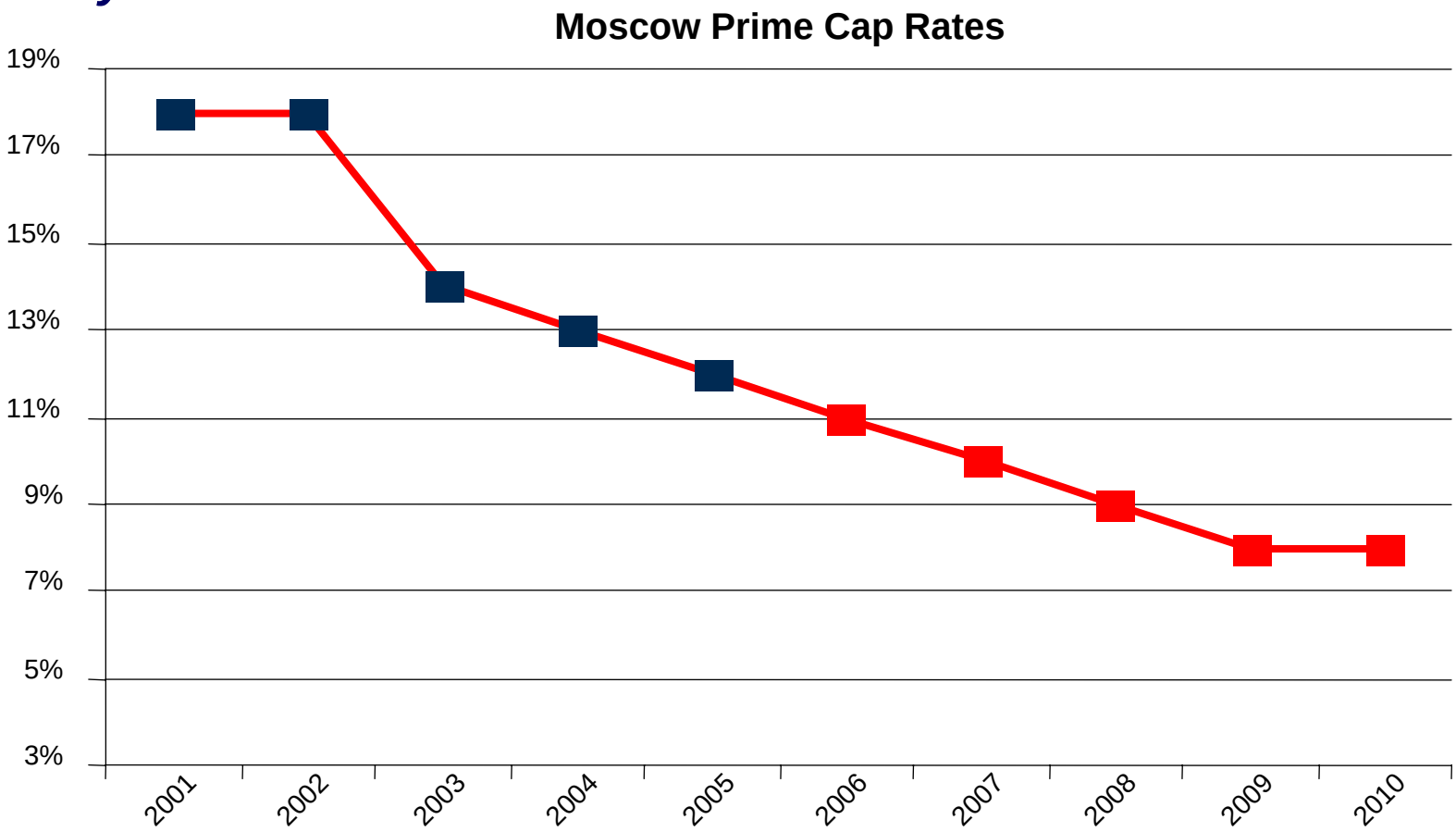
Cap Rate Compression

Is a compression rate of 100 basis points a year sustainable? Why?



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Emergence of Debt Market

MAJOR INTERNATIONAL BANKS ACTIVE IN THE MOSCOW REAL ESTATE MARKET















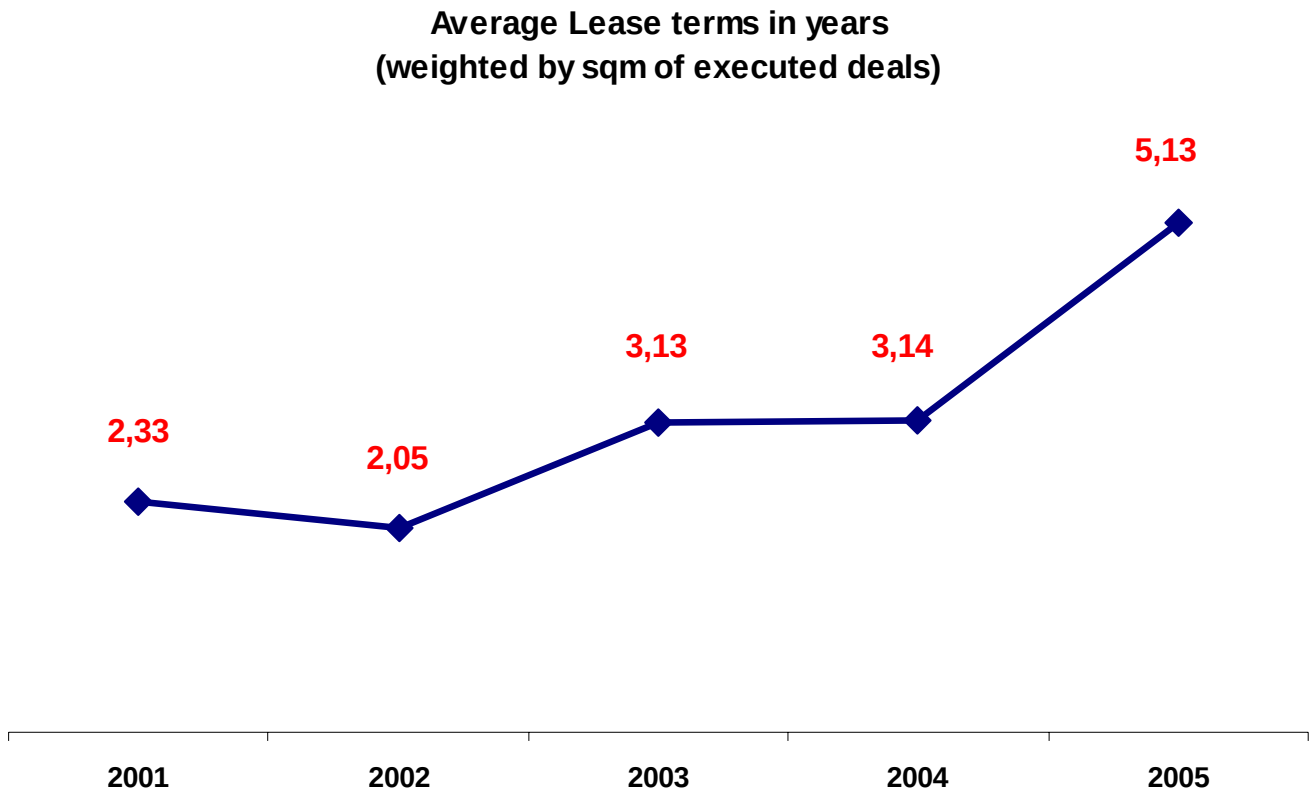






Institutional Leases

Average lease terms are getting longer with large, new, quality buildings hitting the market in 2005 and many owners starting with 7 year term.



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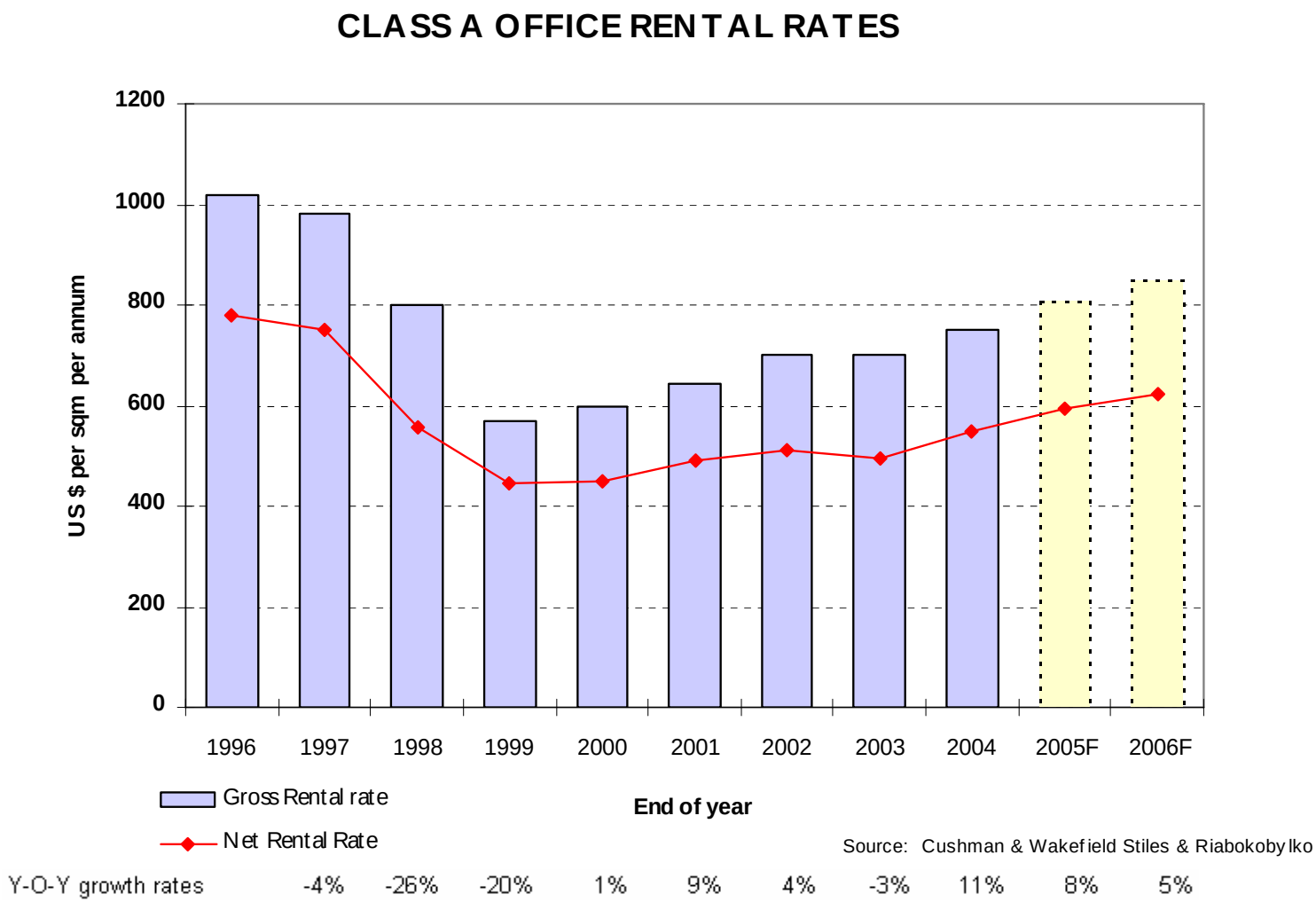
RENTAL GROWTH: The Premium for emerging market rents eroded after 1998



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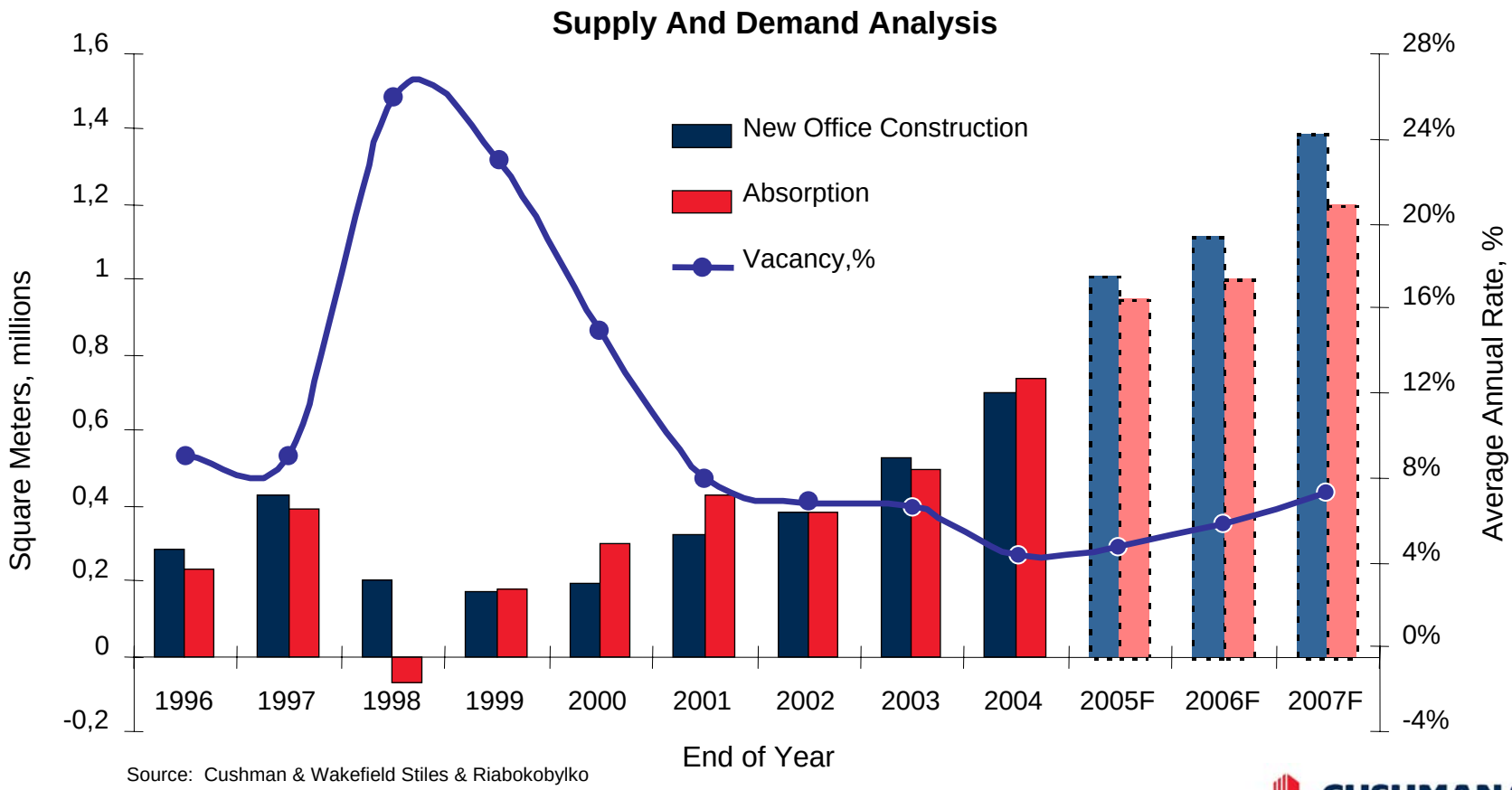
Supply and Demand

- Despite construction growth, demand is still ahead of supply
- 2005 take-up: 780,725 sq m to date; expect over 1 million sm



Source: Cushman & Wakefield Stiles & Riabokobylko

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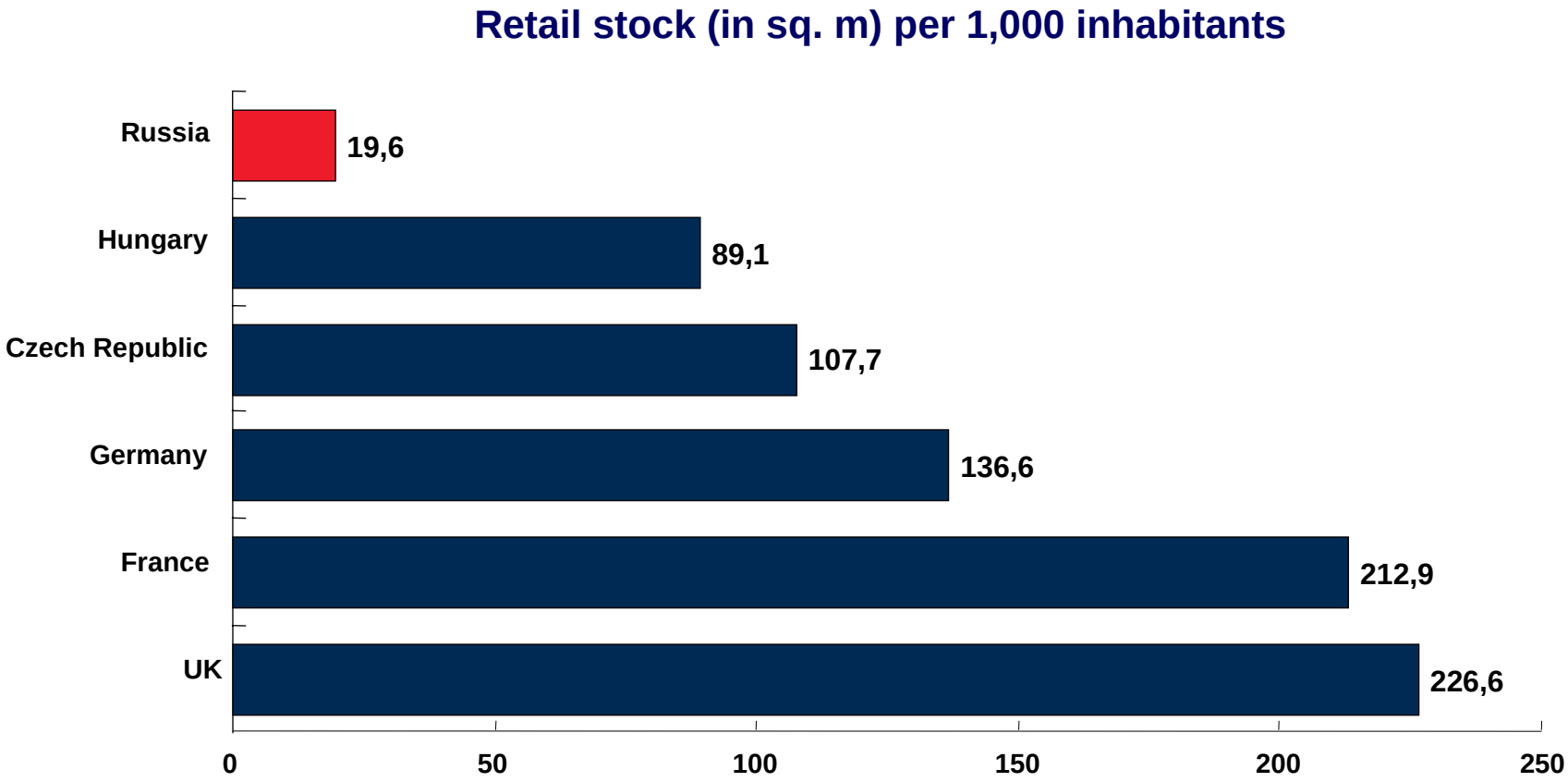
A Tremendous Potential: Retail



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Retail: IKEA

- Development Advisory and leasing Transaction Services
- Worked with client to develop concept for first of 13 Mega Malls in Russia — over 150,000 sq. m
- 50 million visitors a year at Mega I
- 3 Mega Malls Completed
- 700,000 sq. m, 5 Projects, in 4 Russian cities through 2006 Exclusive mandate
- 75% leased in 5 months over one year prior to opening





The Road Ahead

Market maturing in all areas

- Yields will compress in the near term as
  - rents remain strong
  - development is difficult and
  - development financing remains scarce
- Investor confidence
- limited supply
- lower risk perception
- improved financing and
- demand for quality product

will push asset prices up and yields down in the future – possibly as much as 100 basis points a year for the next three years.

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So What Can We Conclude?

- Structural shifts may be the most interesting driver for performance
- Property fundamentals shouldn't be forgotten
- Emerging European markets offer real prospects for out-performance
- Increasing investor drive for diversity

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