



RAC Quarterly Market Assessment (QMA) – Q3 2009

**EURO
HYPO**

GRM-CR-ABF-RAC Research | October 2009

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RAC Quarterly Market Assessment (QMA): Product Information Sheet

■ Intention

- Comprehensive overview over current developments of commercial property markets (office, retail, investment), covering all relevant Eurohypo markets worldwide
- Real-time review of market conditions and early stage indication of short term developments already at the beginning of the quarter (publications of other market players' assessments sixth week after end-of-quarter at the earliest) → „to be ahead“

■ Approach

- Independent assessment based on in-house market expertise only
 - Quarterly standardised polling of RAC appraisers' opinion on the spot
 - Quarterly Market Survey (QMS): Focus on office markets
 - Market Value Changes (MVC): Focus on investment markets, 12-Months-review and prognosis for several real estate segments, scenario analysis
 - Analysis of relevant macro-economic data and the latest economic forecast of Commerzbank Economic Research

■ Specifications

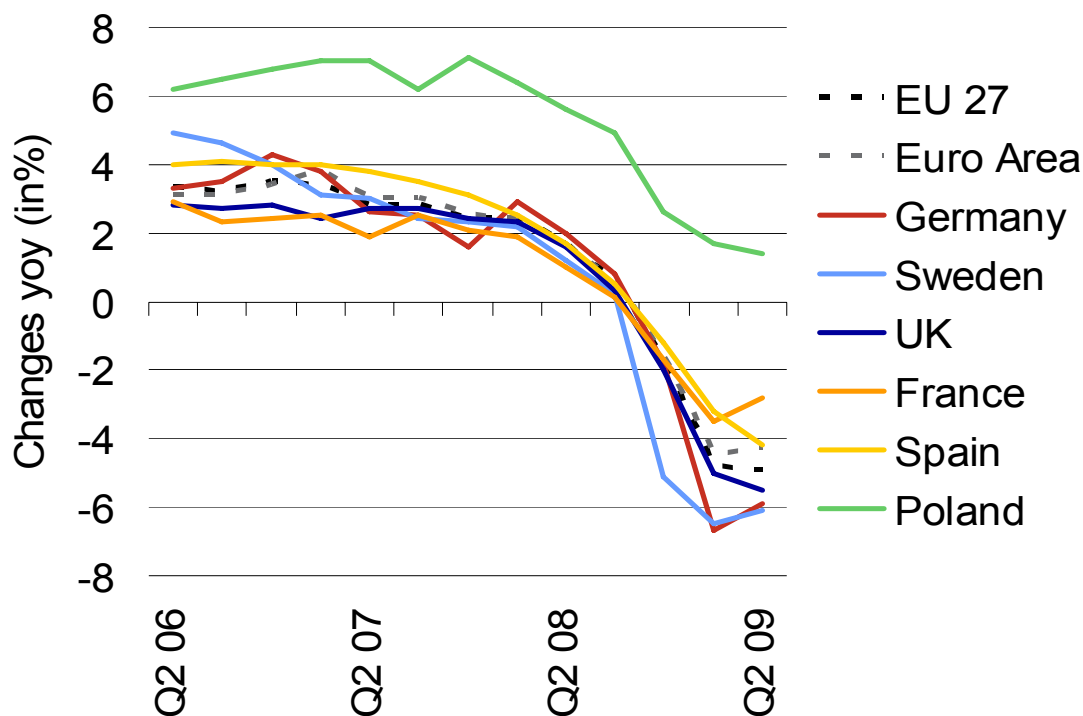
- Periodicity: Quarterly
- Language: English

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Economic Development – Europe

Real GDP Growth – Recession Technically Over in Most All Economies



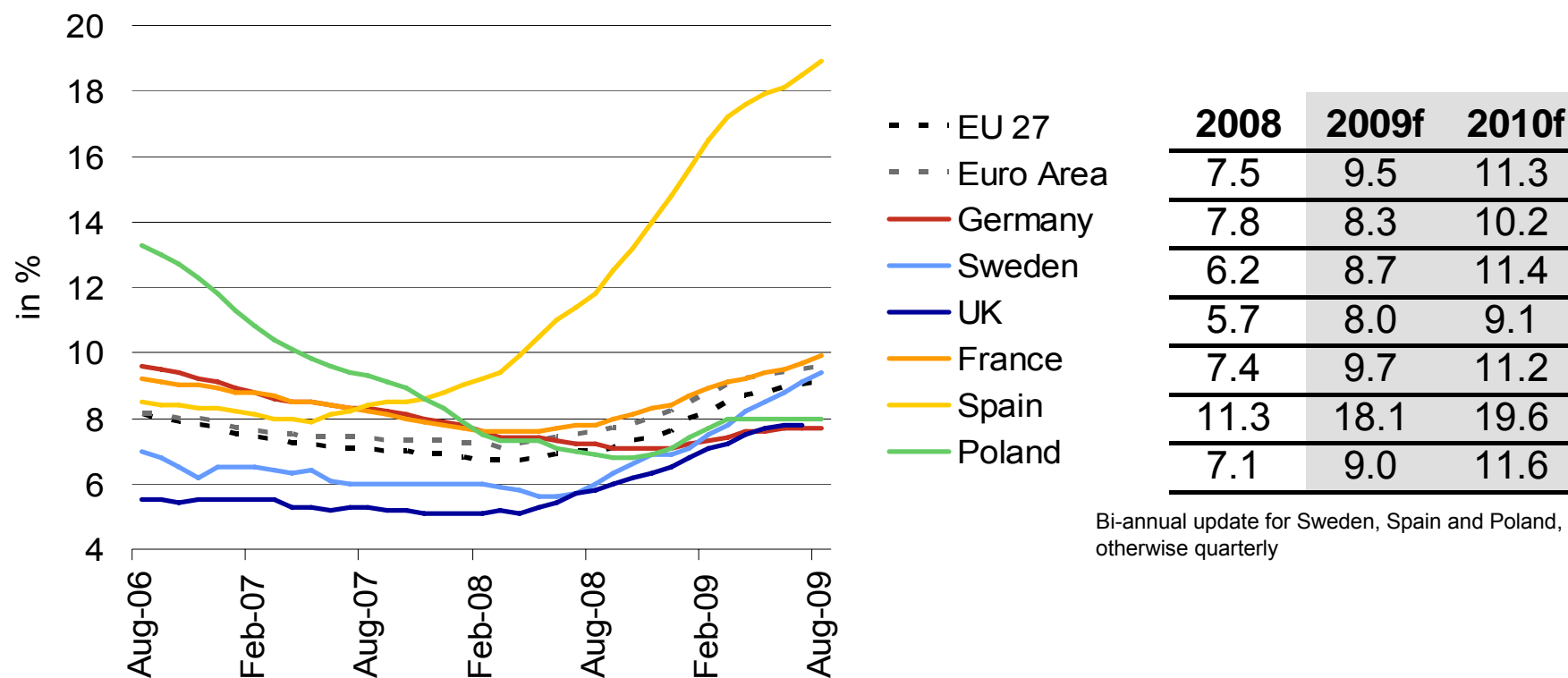
	2008	2009f	2010f
EU 27	0.6	-3.8	1.5
Euro Area	1.3	-5.0	2.0
Germany	-0.4	-4.5	1.8
Sweden	0.7	-4.4	1.0
UK	0.4	-2.1	1.7
France	1.2	-3.8	-0.3
Spain	4.9	1.2	3.0

- Foreshadowed by a reduced GDP contraction (yoy) or already positive GDP growth rates in some markets in Q2 2009 (qoq), the recession is over now in most monitored countries
- As a result, the economic forecasts for 2009/2010 generally have been revised upwards compared to last QMA
- However, despite strong catch-up effects in H2 2009 uncertainty regarding sustainable growth prospects for 2010 persists
- Spain to be hit hardest by the crisis, with GDP contraction still going beyond 2009

Sources: Datastream, Commerzbank

Labour Market – Europe

Unemployment Rate – The Worst Is Still Ahead

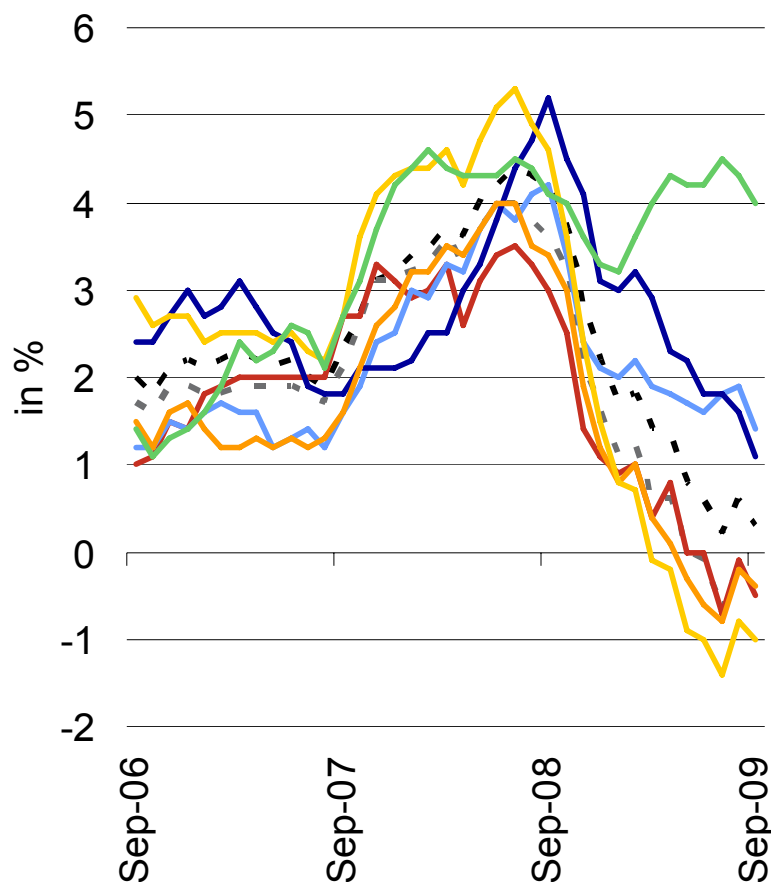


- As an after-effect of the economic crisis, deterioration of labour markets will accelerate until year-end 2009 and beyond
- This applies particularly to markets with strictly regulated labour markets such as Germany and France
- Being an important demand related early-bird-indicator for real estate markets, rising unemployment foreshadows that the downswing on commercial letting markets gains momentum

Sources: Commerzbank, Datastream, Consensus, OECD

Inflation – Europe

Harmonised Consumer Price Index – Back above Zero by Year-End



	2008	2009f	2010f
- - - EU 27	3.3	0.4	1.0
- - - Euro Area	3.3	0.4	1.0
— Germany	2.6	0.2	0.7
— Sweden	3.5	-0.3	1.1
— UK	3.6	1.8	2.1
— France	2.8	0.2	1.0
— Spain	4.1	-0.3	1.4
— Poland	4.2	3.6	2.6

- Relief for both production and consumption from low inflation continuous across all countries
- Nevertheless, last year's dampening effect of falling oil prices will drop out and consumer prices are expected to rise again
- All in all, as wages and prices for goods (excl. food and energy) will soften in the aftermath of the crisis, inflation in most European countries will amount to some uncritical 1% in 2010

Sources: Datastream, Commerzbank

Economy – Non-European Countries

Economic Growth in 2010 Stronger Than in Europe

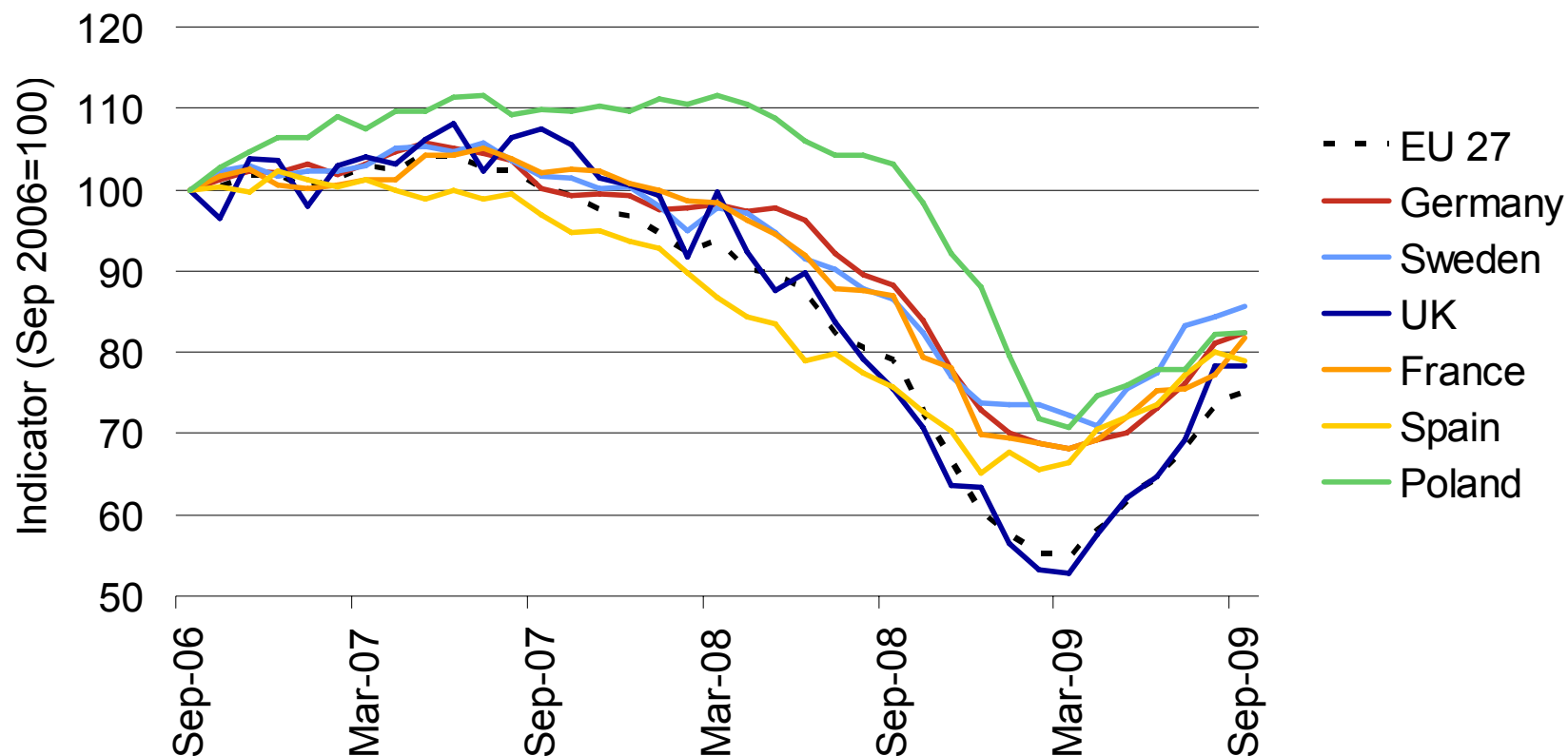
	Real GDP Growth			Unemployment			Inflation		
	2008	2009f	2010f	2008	2009f	2010f	2008	2009f	2010f
USA	0.4	-2.5	2.5	5.8	9.2	9.7	3.8	-0.5	1.3
Mexico	1.4	-8.0	2.8	3.5	5.7	6.9	5.1	5.4	3.1
Japan	-0.7	-5.5	2.0	4.0	5.3	6.0	1.4	-1.4	-0.5
China	9.0	8.0	8.5	9.2	10.3	n.a.	5.9	-0.3	1.5

- As the governmental stimulus packages and expansionary monetary policy are boosting the Chinese economy, already strong GDP growth rates for 2009 and 2010 have been revised upwards significantly compared to last QMA
- In all other economies also adjustments concerning slightly better forecasts have been made, however, the contraction in 2009 remains severe, followed by an upswing that is somewhat stronger than in Europe
- Despite economies are expected to show positive growth rates in 2010, unemployment will increase substantially over the next 15 months
- Inflation, although rising, is not going to be a burden in 2010

Sources: Commerzbank, Datastream, OECD

Business Sentiment – Europe

Economic Sentiment Indicator (Europ. Commission) – Close to Pre-Lehman Levels

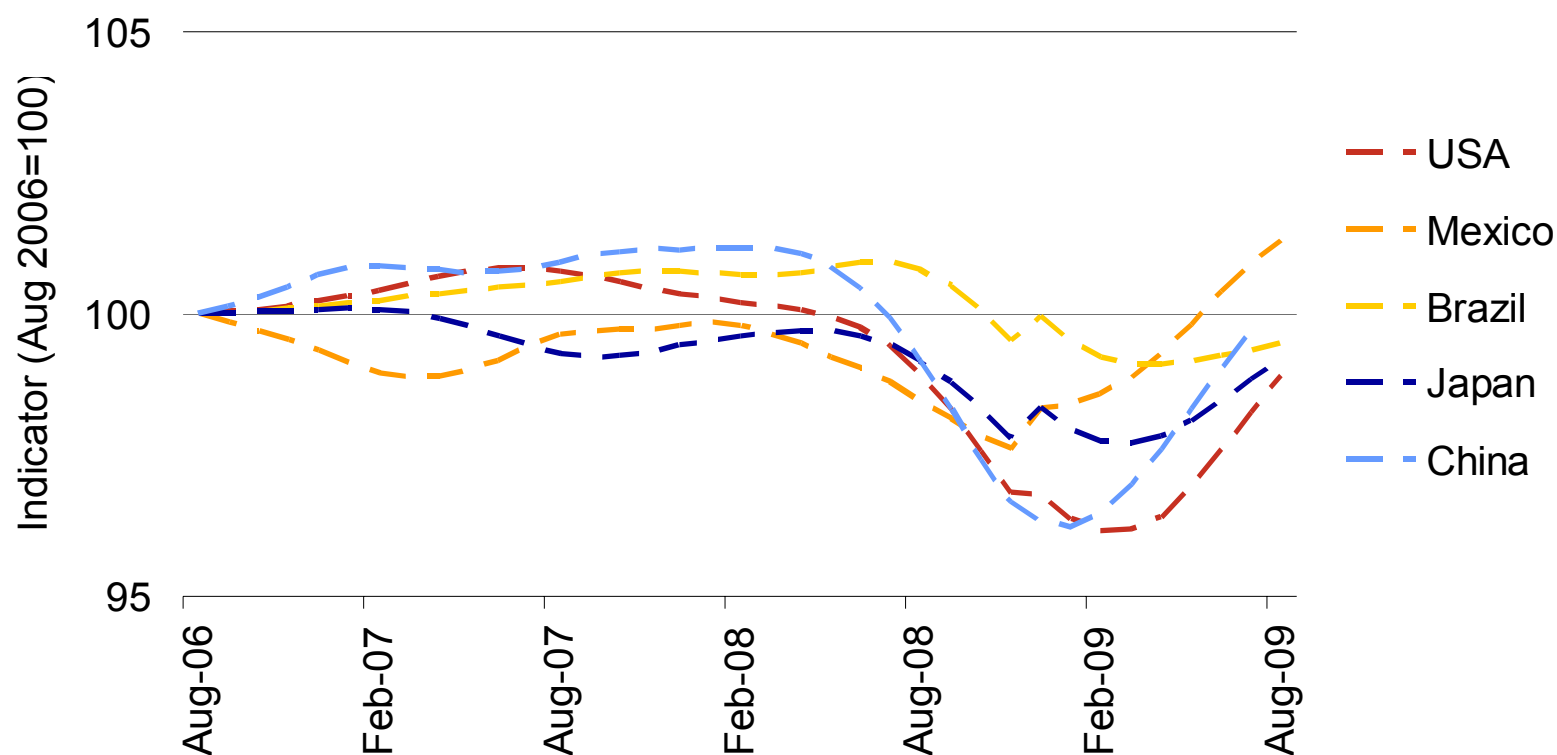


- Rebound of economic sentiment continued over recent months
- Indicator back to pre-Lehman level of September 2008
- However, uncertainty regarding the continuity of the current economic upswing is reflected by an anewed stagnation or slowing improvement of the index in almost all monitored countries last months

Source: Datastream

Business Sentiment – Non-European Countries

Composite Leading Indicator (OECD) – Strong Rebound Over Recent Months



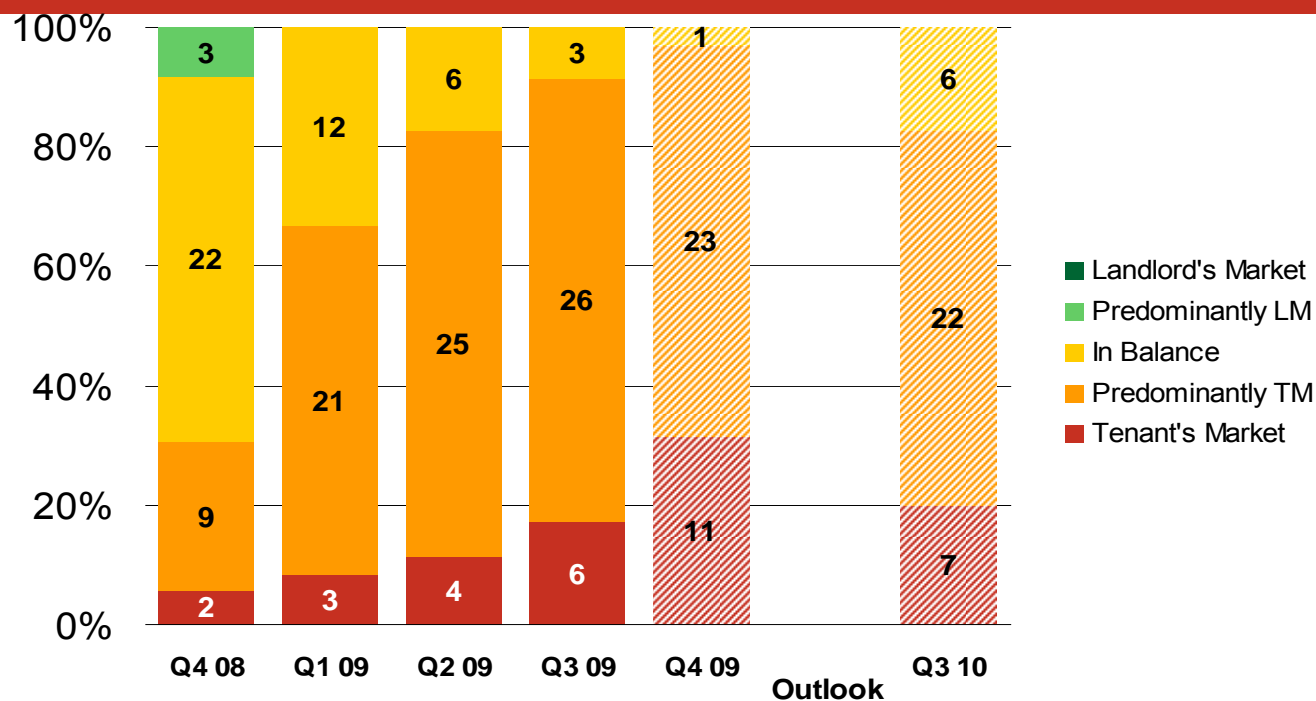
- Comparable to ESI for European economies, the Composite Leading Indicator recorded a strong recovery until August 2009 and a return to pre-Lehman levels outside Europe
- China and Mexico with strongest improvement in sentiment

Source: Datastream

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Office Market Conditions of Eurohypo Markets Downswing on Office Letting Market Has Not Reached Bottom Yet

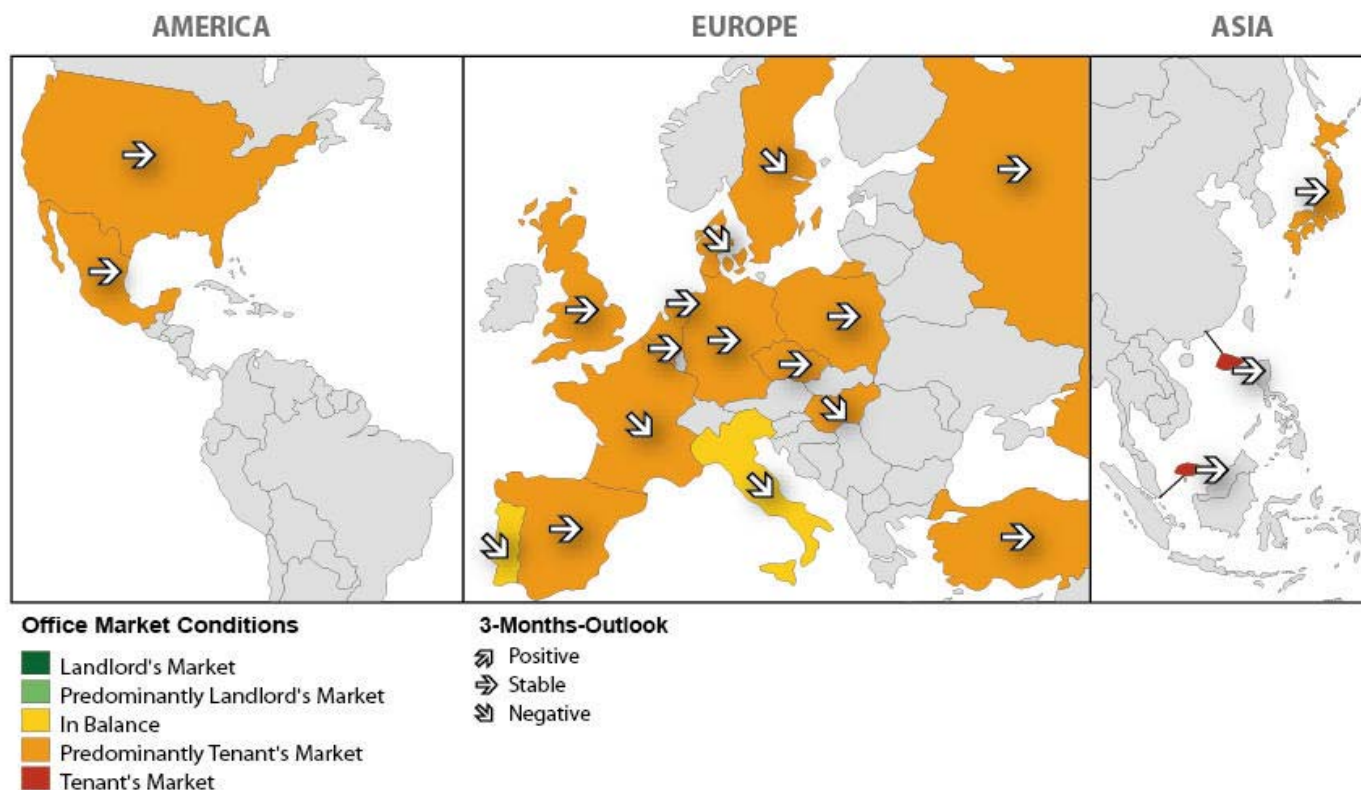


- Appraisers outlook of last QMA has been fulfilled with an ongoing downswing on office letting markets during Q3 2009.
- All monitored markets are currently experiencing restrained letting activity; demand for additional space are offset by downsizing measures resulting in rising vacancies. Renewals of existing leases and relocations go generally hand in hand with rent reductions and the granting of incentives.
- At least within the next quarter even the last “anchors of stability” are expected to loose their market balance while the number of distinct tenant’s markets are mounting up to almost one third.
- The 12-months outlook just reflects that the bottom of the current cycle will be hit, but a clear turn to the better should not be awaited as none of the monitored market will show any sign of a landlord’s market.

Source: Eurohypo GRM-CR-ABF-RAC

Office Market Conditions and 3-Months-Outlook by Countries

Last “Anchors of Stability” to Loose Their Market Balance

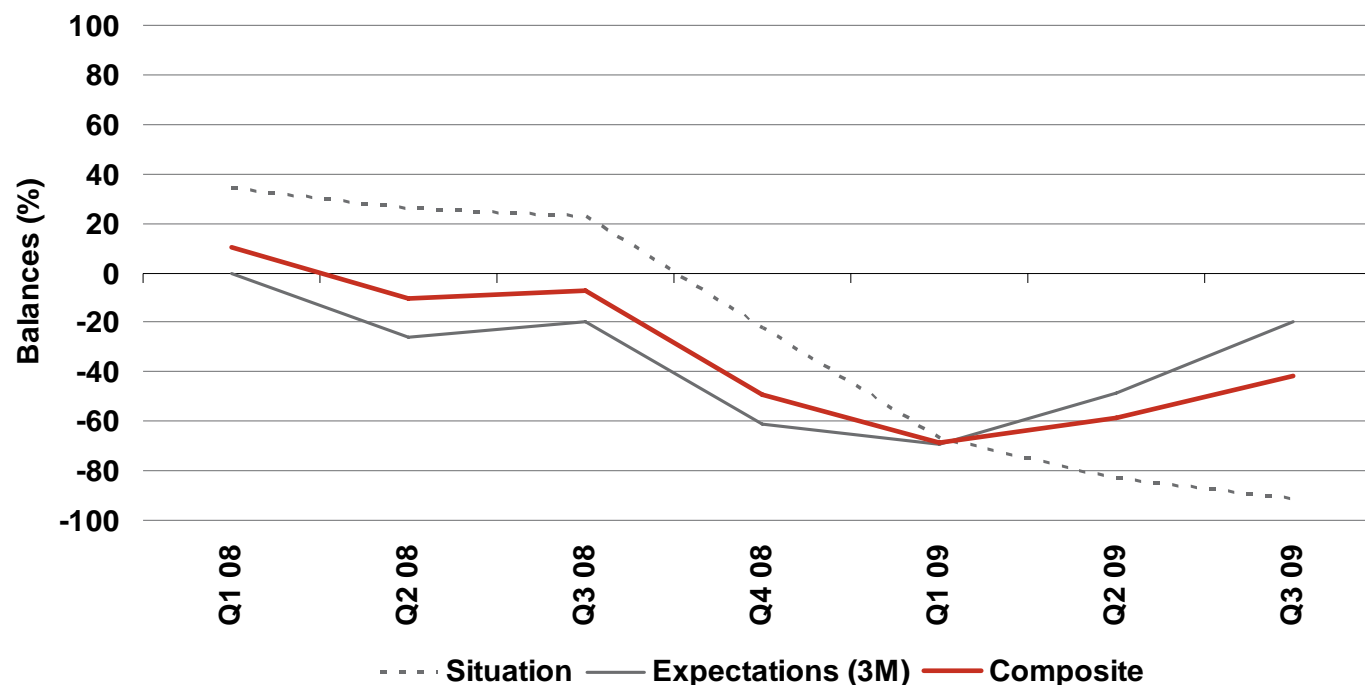


- Being in the middle of the current downswing, even the last "anchors of stability" (predominantly less volatile markets such as Lisbon and Milan) will loose their balance within the next three months
- Further softening of market fundamentals expected in France, the Nordics and Hungary
- Still no market with positive 3-months outlook
- In Q3 2009, Hong Kong and Singapore are showing characteristics of distinct tenant's markets

Source: Eurohypo GRM-CR-ABF-RAC

RAC Sentiment Index – Office Letting Markets

Assessment of Current Situation Can Hardly Get Worse

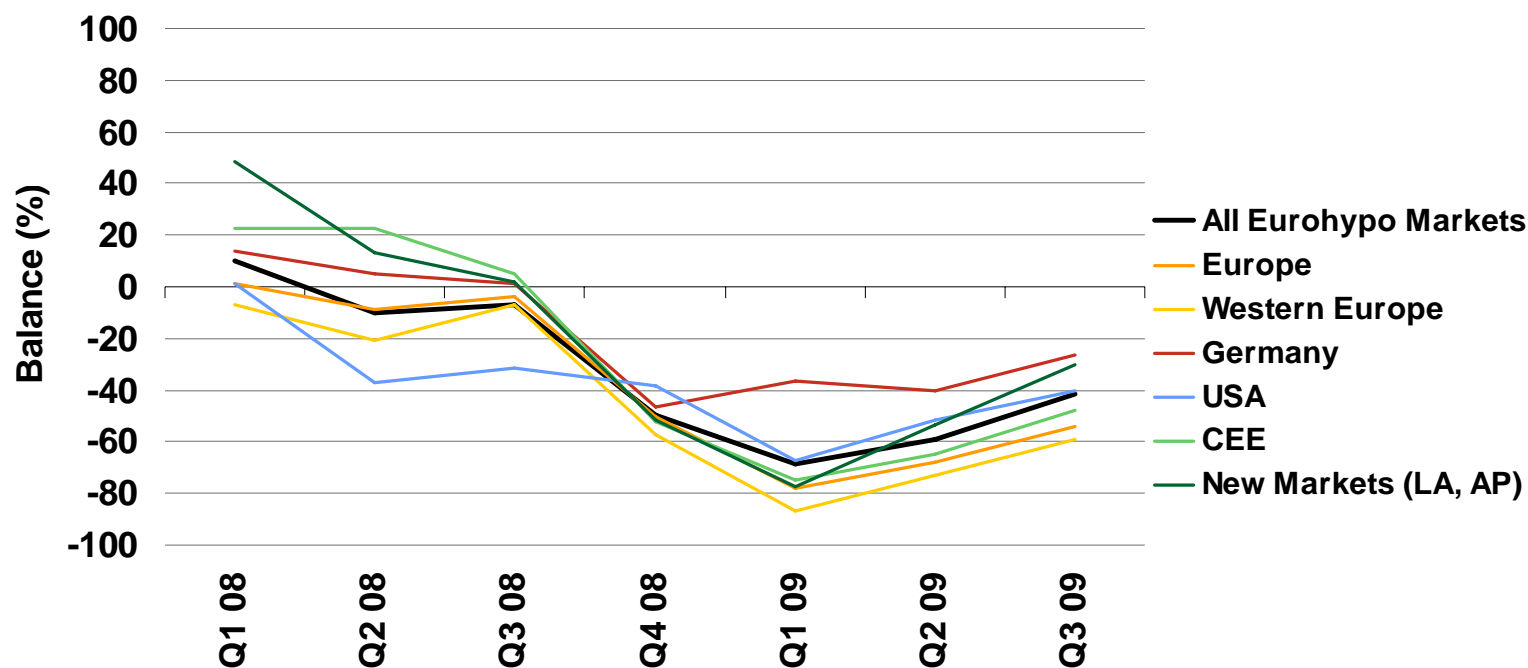


- The already extremely negative assessment of the current situation on Eurohypo office letting markets by last QMA has been surpassed in Q3 2009 (-83 vs. -91), leaving just a very small gap to the worst result that is possible on the Index scale (-100).
- Against the background a further deterioration on the monitored markets is hardly possible and, therefore, predominantly stabilizing tendencies are seen by the 3-months-outlook which has to be interpreted as a hardening of the current situation rather than heralding early signs of a turnaround; statistically a clear improvement of the expectation component and, thus, the overall Composite Index, is the consequence.
- However, pessimistic sentiment still dominates (Composite still at -40) and a clear turning point to the better can not be seen.

Source: Eurohypo GRM-CR-ABF-RAC

RAC Sentiment Index by Country Groups

Stabilisation on Low Levels Across All Country Groups



- Stabilisation trend on very low levels across all country groups visible
- Current state of country-related sub-indices and the pace of improvement since Q1 2009 indicate that the rebound
 - will proceed at the earliest on office letting markets in Latin America/Asia Pacific
 - will last longest in Western Europe particularly in volatile Tier I markets such as Paris, London-City and Frankfurt
- As the majority of German and US-office markets were comparably less affected by corrections yet – reflected by less negative evolution of the RAC Sentiment Index in recent quarters - the rebound will also be less dynamic than in other country groups; as a result, both markets are expected to be “overtaken” by other regions once the recovery sets in

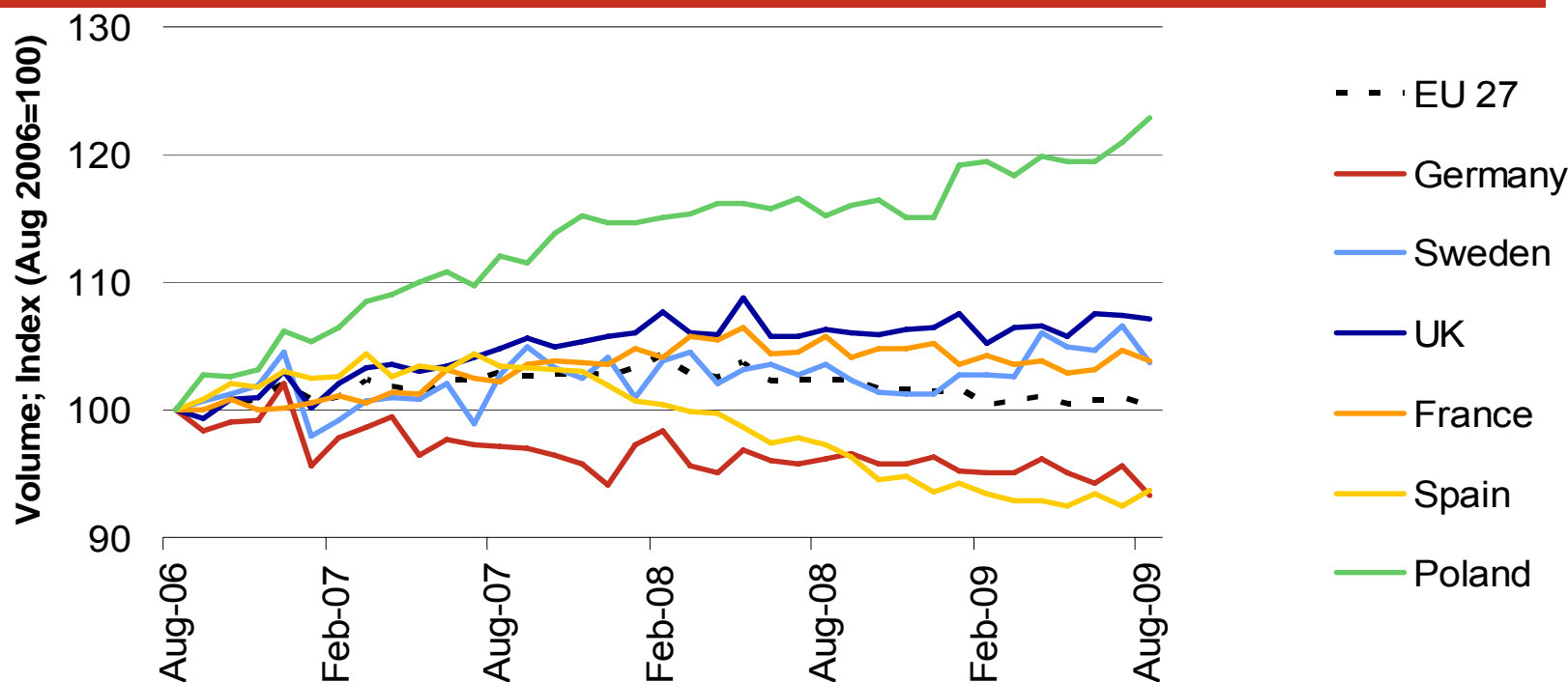
Source: Eurohypo GRM-CR-ABF-RAC

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Retail Sales – Europe

Trend of Stabilizing Retail Sales Might Be Preliminary

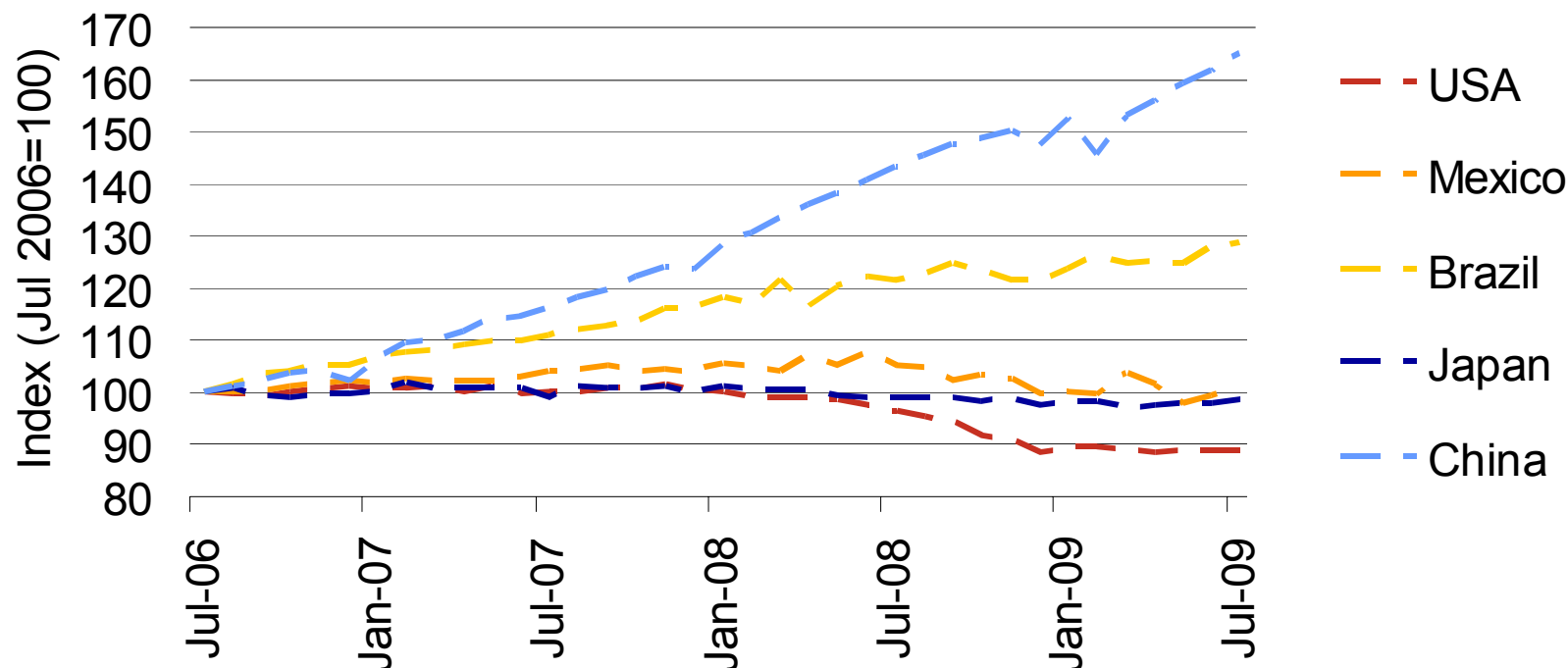


- Supported by low inflation and governmental stimulus packages retail sales in most European economies remained robust over the last months
- However, as these positive effects will edge off and negative income effects from deteriorating labour markets will gain momentum in the months to come a radical recovery of retail fundamentals will not set for the time being
- After a period of consolidation, Poland restarted its strong upward trend in retail turnover; to a less extent, this also applies to Sweden
- Contrary to the overall trend, Germany showed decreasing sales volume, now bringing up the rear with Spain

Source: Datastream

Retail Trade – Non-European Countries

Chinas Retail Sales Boosted by Governmental Stimulus Packages

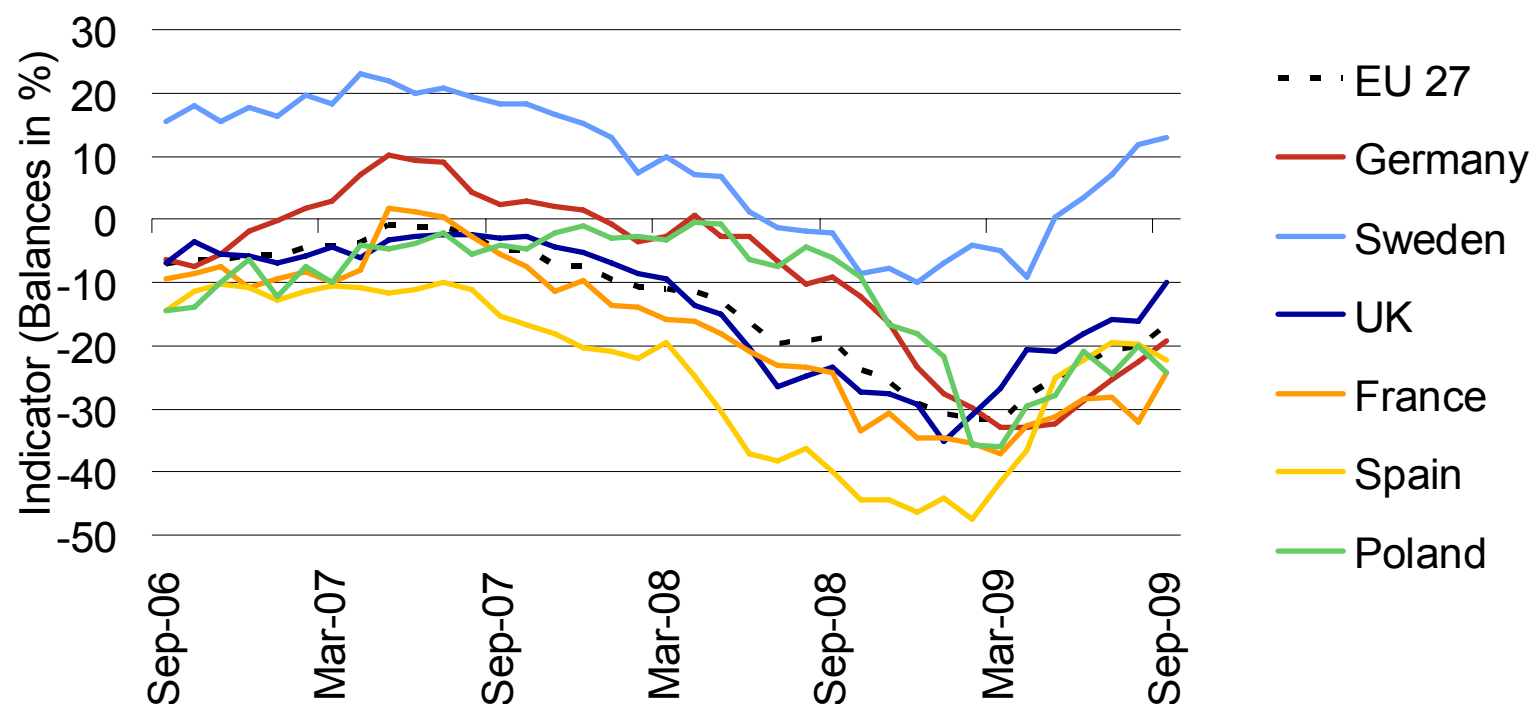


- Impressive effects of governmental stimulus packages and excessive lendings are evidenced by China's skyrocketing retail sales
- All other markets with consolidation of retail trade turnover during the first half of 2009
- In the light of high indebtedness of private households and negative wealth-effects from deteriorating housing markets that only gradually bottoms out, retail sales in the USA are expected to remain far below long years average

Source: Datastream

Consumer Confidence – Europe

Consumer Confidence Remained Subdued Despite Latest Improvement



- Consumer climate improved further, but, apart from Sweden, remained in negative terrain
- Due to early-bird qualities of the consumer confidence indicator, gloomy expectations for the evolution of retail sales are confirmed; a clear turnaround in the retail sector is still not in sight

Source: Datastream

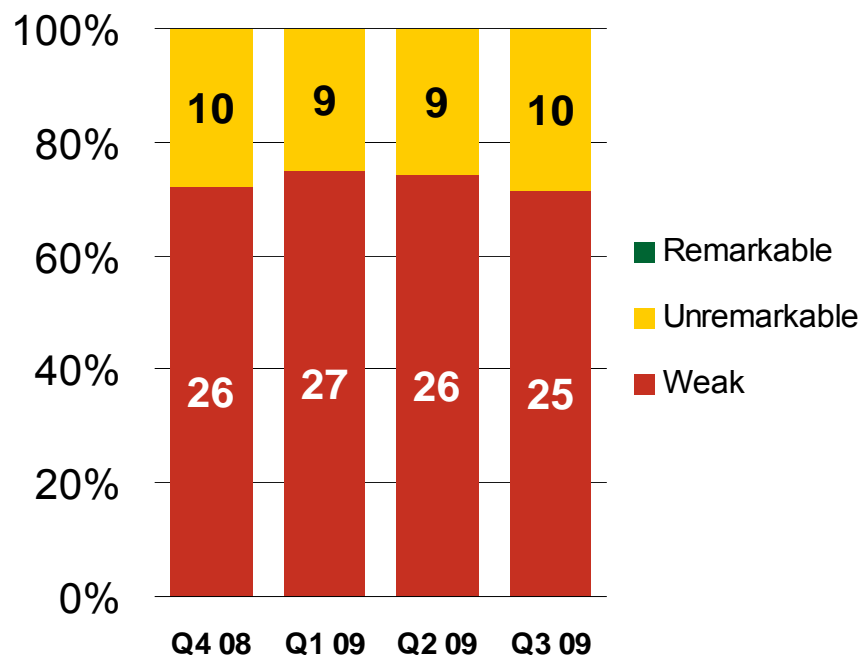
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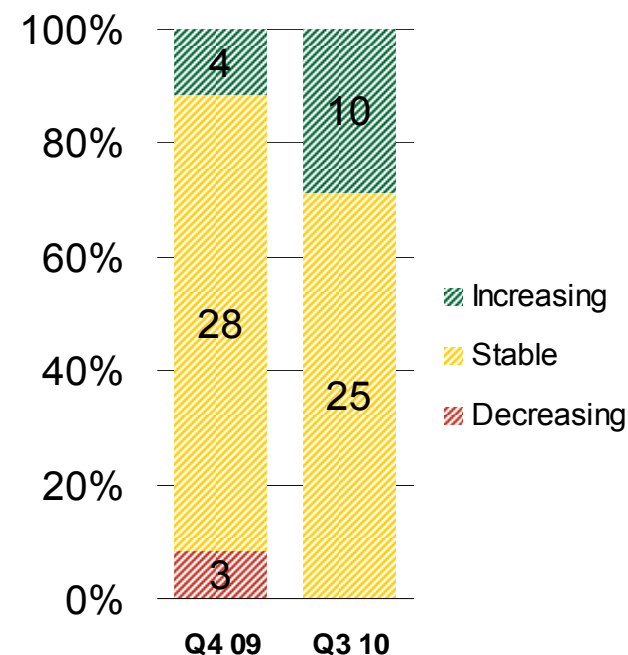
Investment Activity on Eurohypo Markets

Improving Prospects Despite Increasing Risks of Set Backs

Current Investment Sales



Outlook Investment Sales

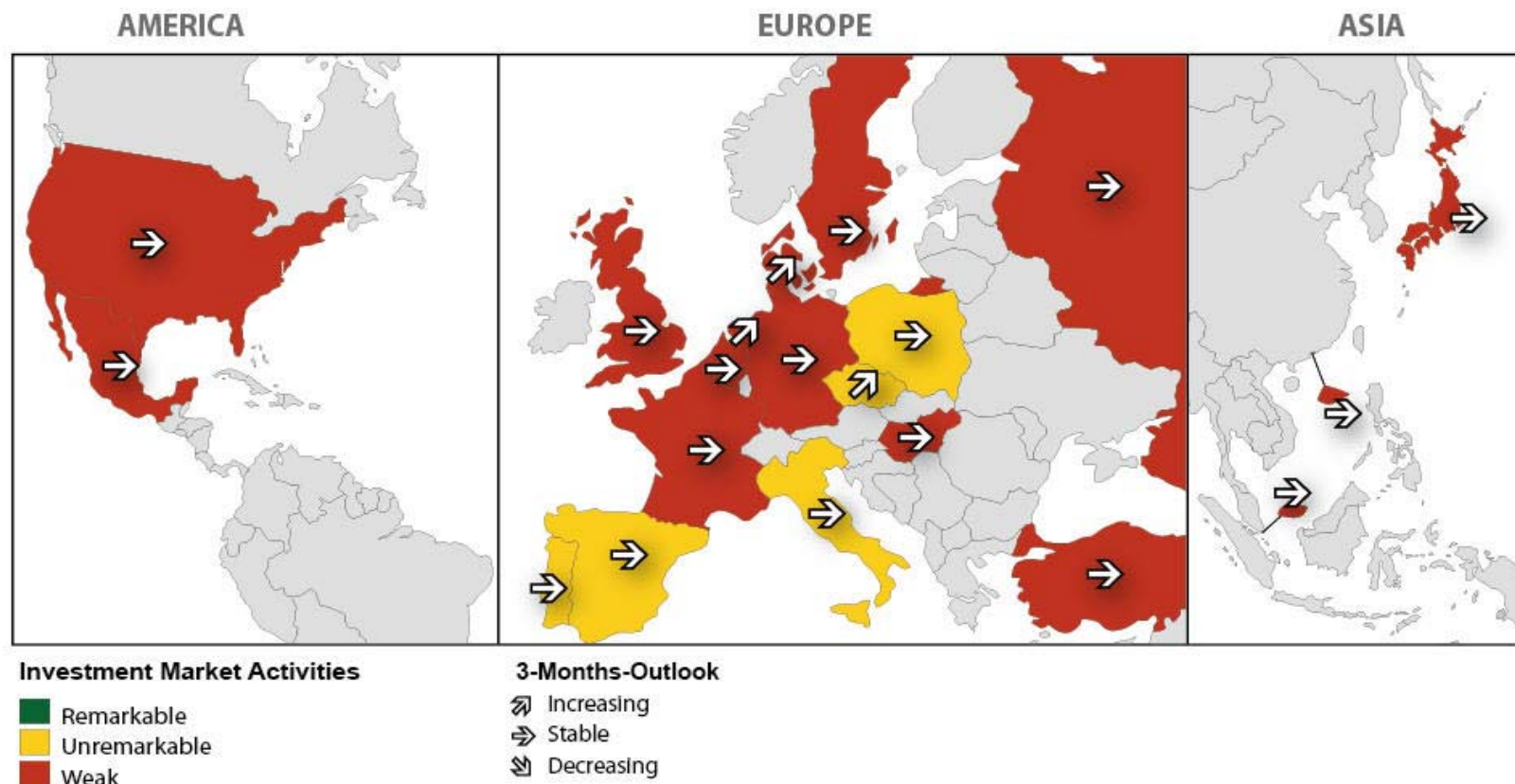


- In Q3 2009 still no significant rebound of investment activity, which hit rock bottom already two quarters ago
- Larger transactions are still very rare and distress sales have failed to appear on a grand scale yet
- However, investors interest particularly for prime properties in core markets is increasing; short-term prospects are improving
- Risks of a set back will increase within the next 12 months as capital markets' malfunction are still persisting while constraints from letting markets are rising

Source: Eurohypo GRM-CR-ABF-RAC

Investment Market Conditions and 3-Months-Outlook by Country

Small Western European and Central European Markets Ahead in Rebound

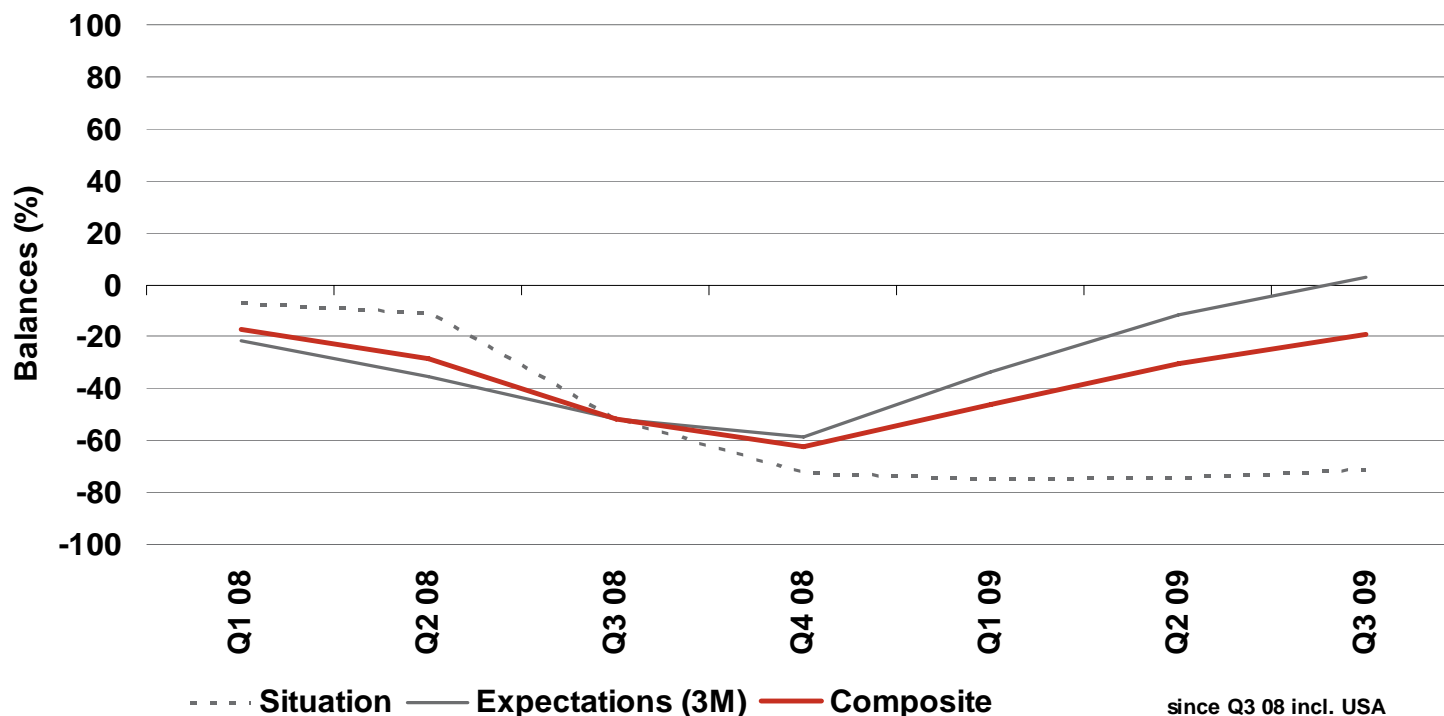


- The whole Eurohypo universe is still experiencing anaemic investment activity
- However, compared to the Q2 assessment, no market is expected to face a further deterioration
- Comparably higher level of activity and/or first signs of a recovery are currently seen for smaller Western European (PT, IT, NL, DK) and Central European markets (CZ, PL) which have not been impacted so severely by the ongoing crisis

Source: Eurohypo GRM-CR-ABF-RAC

RAC Sentiment Index – Investment Markets

Recovering Sentiment on Eurohypo Investment Markets from Low Levels

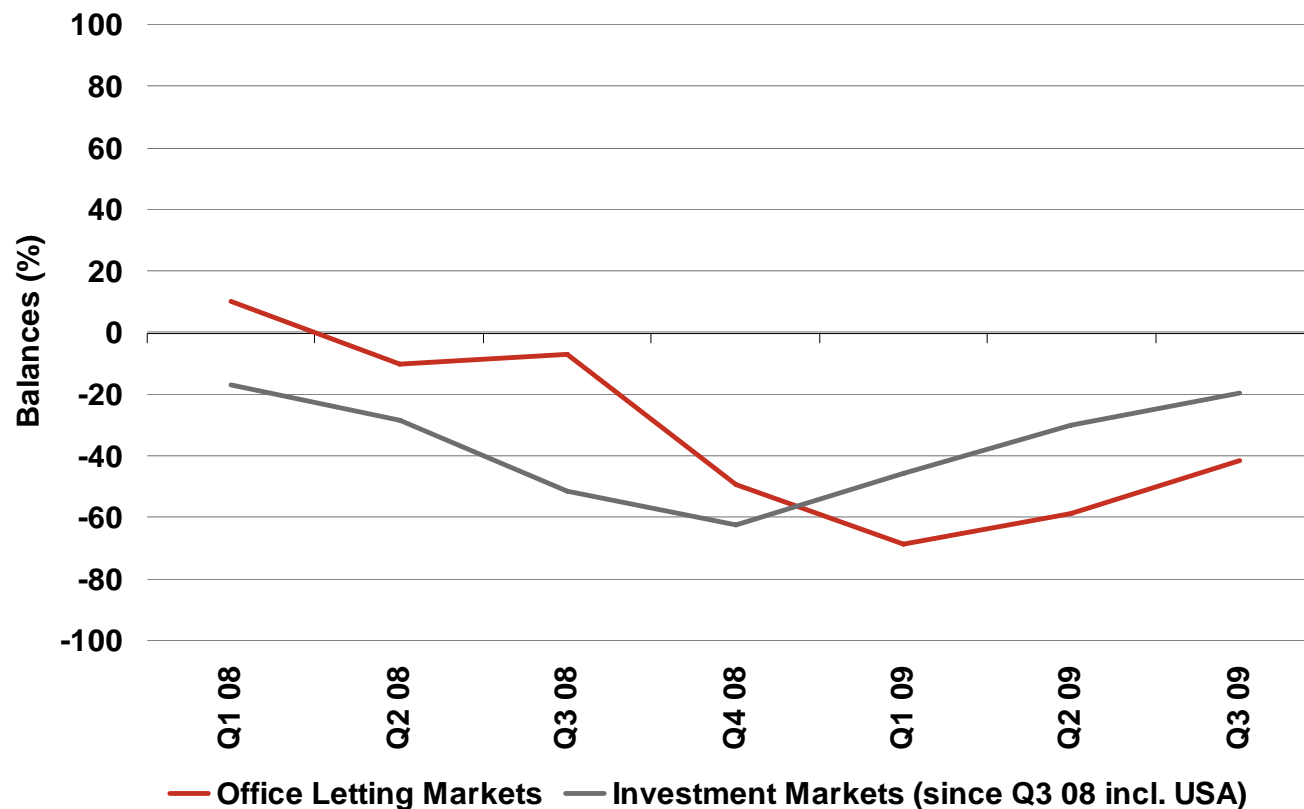


- Situation component has been stabilizing on very low levels for the fourth consecutive quarter
- Rebound of expectation component gains momentum as the majority of monitored markets are not going to deteriorate further; with few markets facing improving sentiment the sub-index even dipped slightly into positive terrain in Q3 2009
- As a result, the current Composite Index for Eurohypo investment markets, which is still clearly negative, recovered to its highest level since it has been launched in Q1 2008

Source: Eurohypo GRM-CR-ABF-RAC

RAC Sentiment Index – Office Letting Markets vs Investment Markets

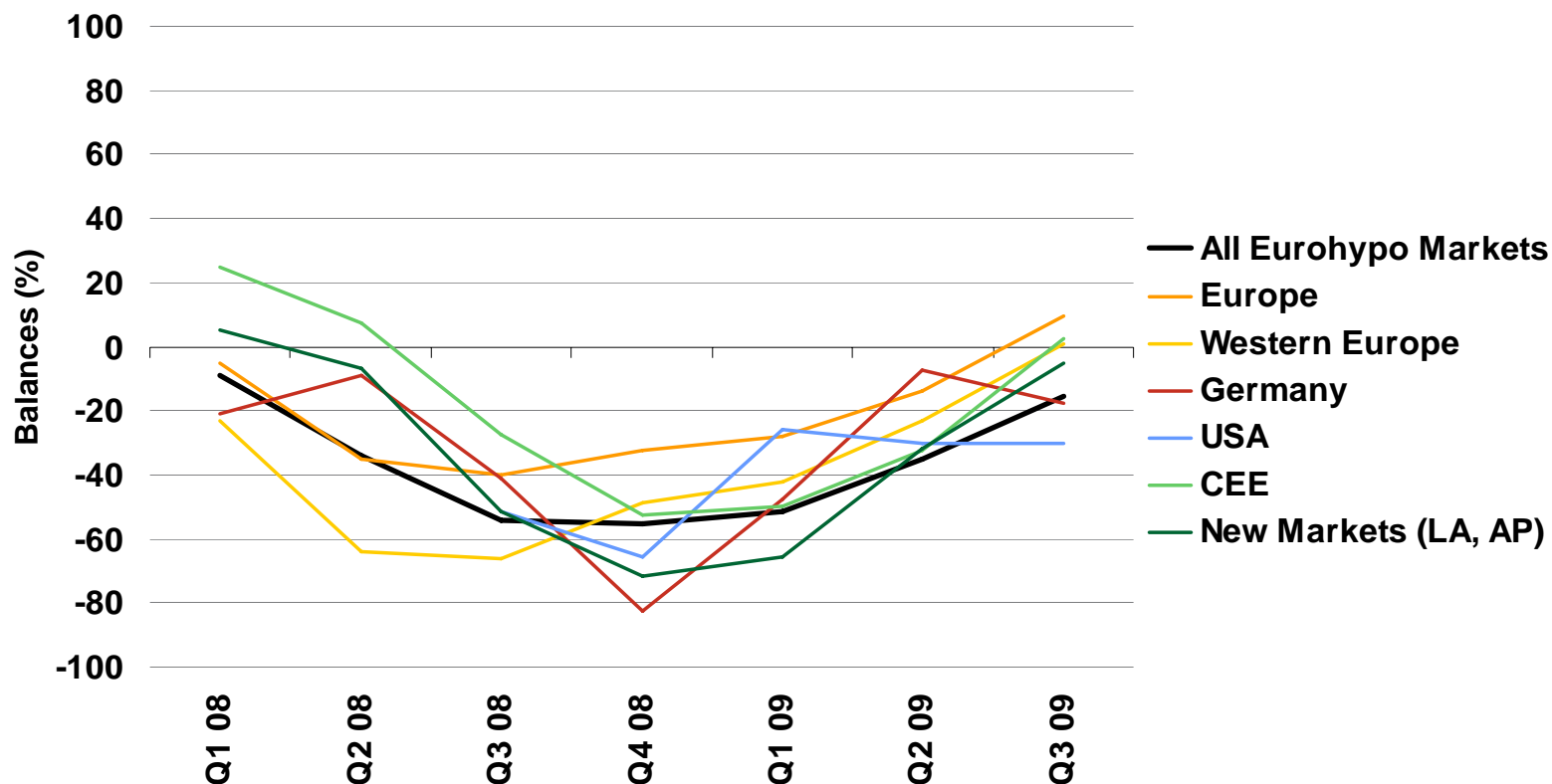
Recovery of Both Indicators Still Fragile As Office Letting Markets Will Soften



- Improvement of both indices continued with higher pace on office letting markets, which, however, came from a much lower level in Q2 2009
- Despite the reduced gap between both indices, sentiment on office letting markets is still much more negative as on the investment market indicating that negative spill-over on the investment markets effects are still possible

Source: Eurohypo GRM-CR-ABF-RAC

RAC Sentiment Index – Investment Markets by Country Groups Except for USA and Germany Improving Sentiment Accelerated

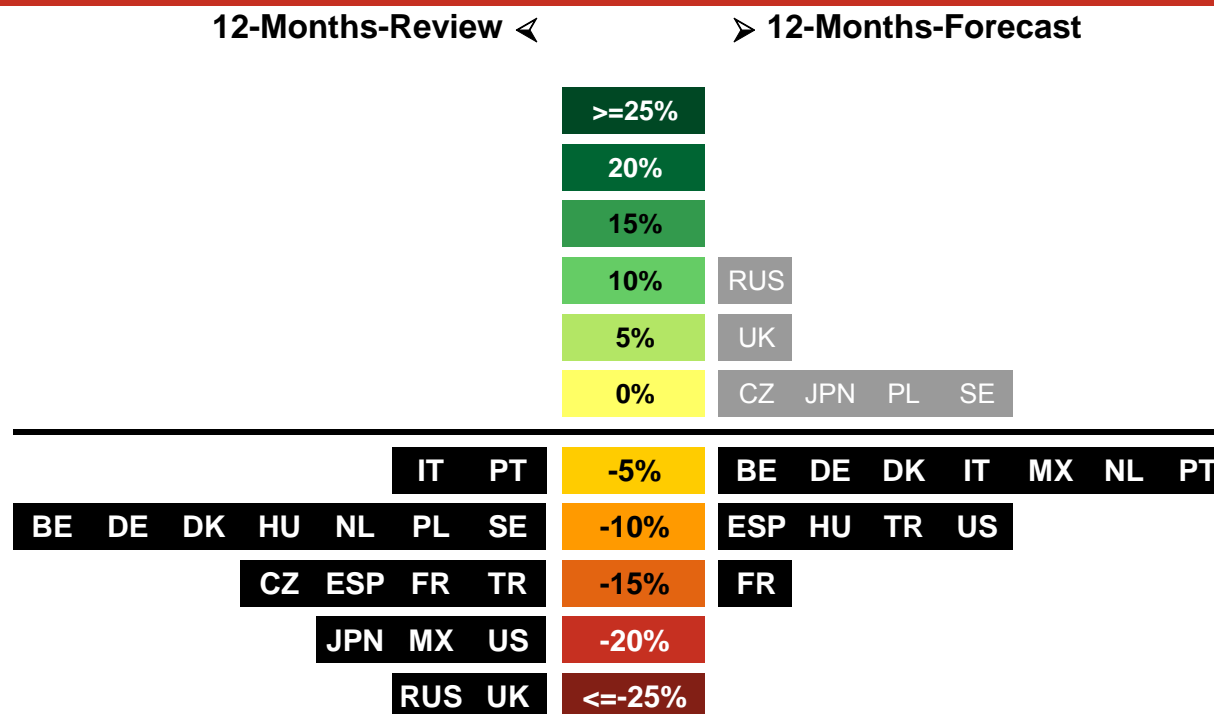


- In Q3 2009, improving sentiment accelerated in most country groups with strongest recovery in CEE and LA/AP-Markets coming from lowest levels in previous quarter
- Western Europe and CEE even dipped into slightly positive terrain
- Contrary to the common trend, German and US markets with slightly worsening respectively stabilising sentiment

Source: Eurohypo GRM-CR-ABF-RAC

Market Value Changes – Office

Stabilizing of Investment Markets Reflected by Slowing Downward Corrections

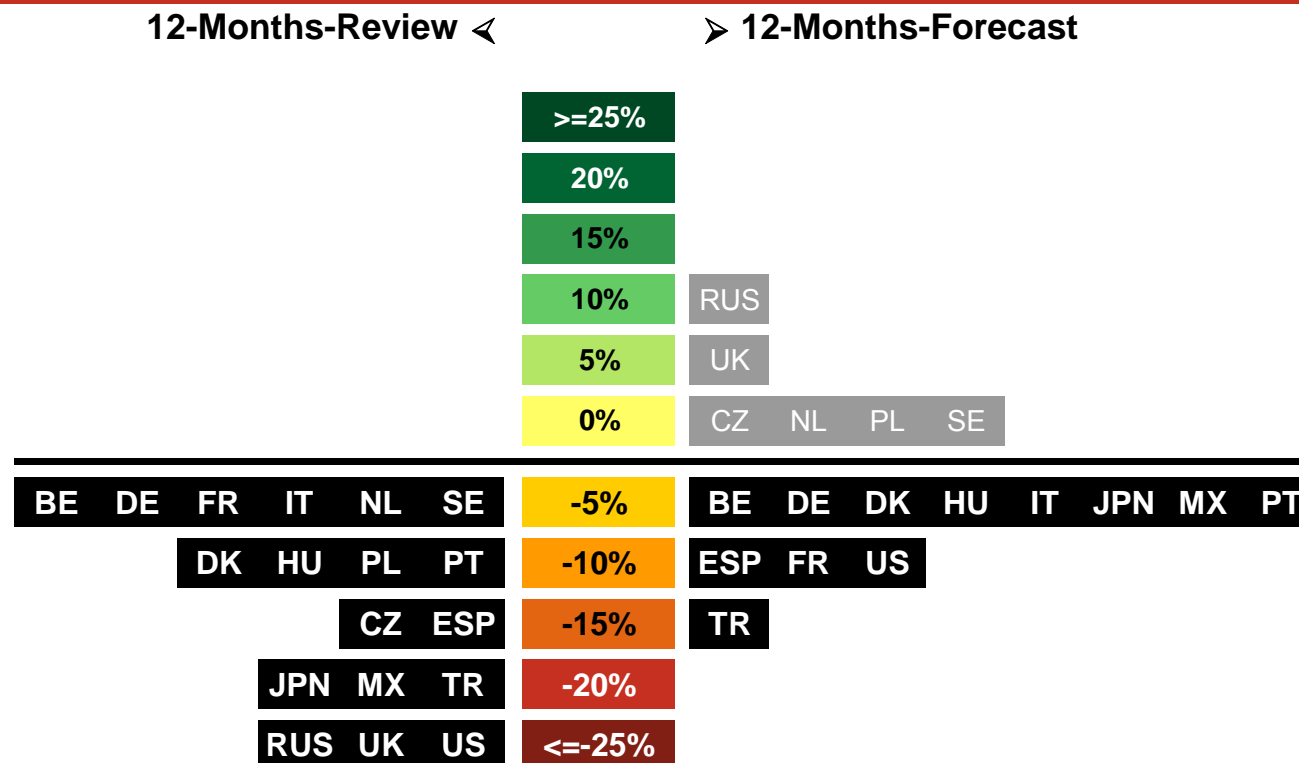


- With another unfavourable Q3 2009 in a row, office properties in all monitored markets were affected by depreciation over the last 12 months
- However, due to the ongoing trend already evidenced by last QMA, in most markets downward corrections edged-off or even reduced its pace over the last three months
- Within the next 12 months, two third of all monitored markets will still face value losses, but the need for corrections will slow down further; in addition, one third are expected to show stagnating or even rising market values
- Positive market value changes for Great Britain and Russia have to be seen against the background of their drastic slump over the last 12 months; London-core focussed by a very selective investors interest

Source: Eurohypo GRM-CR-ABF-RAC

Market Value Changes – Retail

Bottoming-out of Market Value Losses Now Also Visible for Retail Properties



- In Q3 2009, the overall bottoming-out of market value reductions also became visible for retail properties
- As a result and contrary to last QMA, the overall 12-months-review has not deteriorated further for the majority of monitored markets, which recorded the same or even better market values changes than three months ago
- Comparable to office segment, the 12-Months-Outlook clearly indicates the end of further downward corrections
- One third of all markets are also expected to show stable or improving market values, lead by Russia and Great Britain

Source: Eurohypo GRM-CR-ABF-RAC

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