

European Property Markets

Quarterly Review – 3Q08

January 2009



Edited by

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European Macroeconomic Scenario

After Ireland and Denmark, the GDP in Germany and Italy declined again in 3Q08 to drive the Eurozone into recession for the first time since its creation

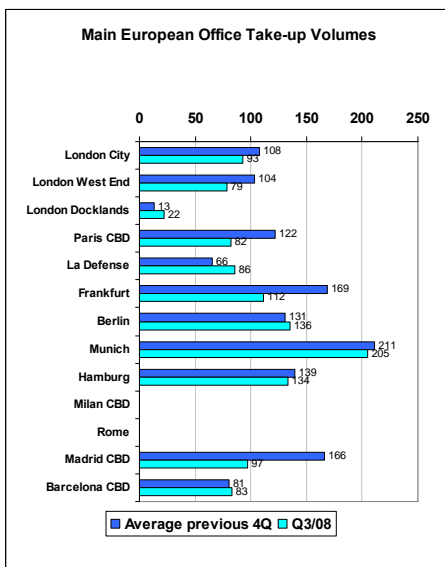
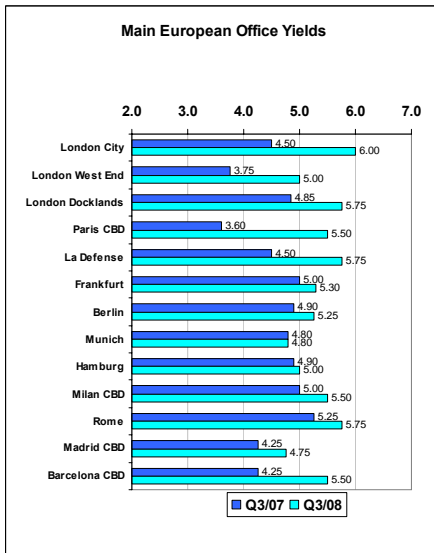
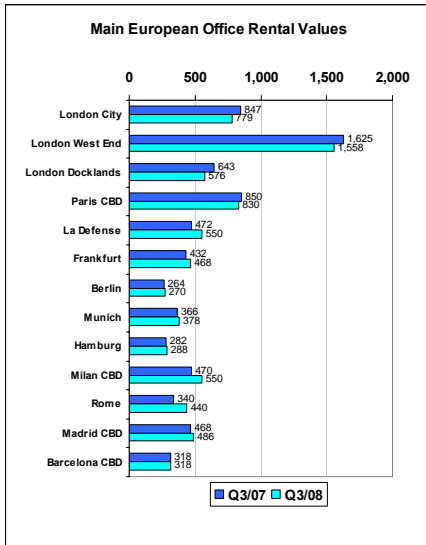
The deterioration of the economic environment deepened again with the second economic crash due to the bankruptcy of Lehman Brothers at the beginning of September. The contraction of credit delivery from banks intensified and consequently investments from companies moderated in 3Q08. Hence the Euro Zone entered a recession phase for the first time since its creation – such as in the US whose GDP declined qoq by 0.3% in 3Q08 the strongest decrease for the last seven years. In this context the Confidence Index measured every month in the EU27 declined again by 7 points in a month to stand at 70.5 points, the lowest level since 1985. Companies' investments are not likely to enhance the growth due to the lack of demand while the situation of the labour market is expected to worsen further in the next months. When will this vicious circle be broken?

In a context of decelerating inflation the European Central Bank and the Bank of England have softened the monetary policy by respectively 50 bps and 150 bps in November and again by 75 bps and 100 bps in December - after the ECB had hardened it in July - reflecting the very rapid deterioration of the economic environment. The question at present is how long will these new financial conditions take to be transmitted to the real economy and start improving the economic environment?

- **UK:** Expectations for UK economic growth have been continuously revised downward since the beginning of the year. According to surveys, the UK experienced its first decline in GDP growth in 16 years (-0.5%) between July and September, with service industries, construction and production output all driving the slowdown. Latest Consensus forecasts (October 2008) show 2008 GDP growth at 1.1%, down from 1.5% three months ago. 2009 growth forecast from October is now negative at -0.2% and down from the 0.6% forecast in September. Household consumption forecast for 2008 remained relatively stable at 1.9% over the last quarter but is now negative for 2009 (-0.4%). The outlook for manufacturing and production has also worsened, and in October 2008 was at -0.6% for 2008 and -1.2% for 2009. Weakening retail markets and slowing trade figures will have a direct impact on the UK property market;
- **France:** the GDP surprisingly remained positive at 0.1% in 3Q08 avoiding a technical recession at that stage. Households spendings slightly grew by 0.2% during the summer in line with the progressive drop of the inflation at 3.1% at end September. The astonishing rebound of the exportations increasing by 1.9% in 3Q08 and a lower contraction of investments in 3Q08 (-0.3%) than that of 2Q08 (-1.5%) sustained of the economy. However the 4Q08GDP should be negative again resulting in a yearly economic growth standing at approx. 0.9%. Forecasts for 2009 have been recently revised by the French government and should range between 0.2% and 0.5% at best due to the strong increase of the unemployment rate and the consequent noticeable fall in consumption, despite low inflation;
- **Germany:** in 3Q08 the biggest economy of the Euro Zone entered in a recession phase for the first time since 1H03 as the GDP declined for the second successive quarter by 0.5% qoq. The drop of retail sales strongly intensified at -2.3% in 3Q08 as the households' consumption substantially fell during the summer. Since the beginning of the year the decrease reached 0.5% yoy. Due to the very brutal deterioration of the economic environment the 2008 GDP forecast plunged from 2.7% at the beginning of the year down to current 0.8%. In that context perspectives are increasingly gloomy too and the Federal Government consequently weakened again the GDP growth anticipation for 2009 at 0.2%, despite the undertaken fiscal measures are oriented to sustain public and private investment;
- **Italy:** the Italian macroeconomic context evolved unfavourably over last quarters, reflecting a now certain recession scenario. At the end of 3Q08 the Italian GDP was recorded in reduction by 0.5% qoq and by 0.9% yoy, the worst result among Euro countries, mostly because of the fixed investments reduction. CPI rate reduced to 3.8% from 4.1% at the end of the previous month. Retail sales have increased by 0.5%, while the industrial production reduced by 5.8% yoy;

- **Spain:** the GDP registered for the first time since 1993 a negative result with -0.2% qoq, but a still slight growth by 0.9% yoy. In line with the significant decrease of the industrial production and the large number of job losses in the construction sector GDP forecasts confirm the probable entry in a recession of Spain in 4Q08, hit by lower tax income and job losses among the population. GDP growth should thus reach 1.3% in 2008 – above other Western European countries – but suffer from an above-average fall next year at -1.5%.

Sector Comment



European Office Sector

Weak level of demand across all European markets as the financial crisis fully filtered through to the real economy driving to overall jobs losses. Drop of prime rental values has started in most of the markets

Plummeting investment volumes throughout Europe and significantly falling demand on the occupier markets have characterised the office markets in 3Q08. Consequently the most attractive investment products were secured ones in terms of quality of buildings and of tenants as well as in terms of lease lengths. The last months have seen cross border transactions plunging strongly as more and more opportunities can be caught by investors on their respective well-known local market due to the fall of prices. The high majority of the transactions concerned properties cheaper than 100 million € in a context of credit conditions tightening further. All markets faced again upward shift in yields as investors kept on adding higher risk appreciation to each property. The widening of yields between the best buildings and less qualitative ones intensified again this quarter.

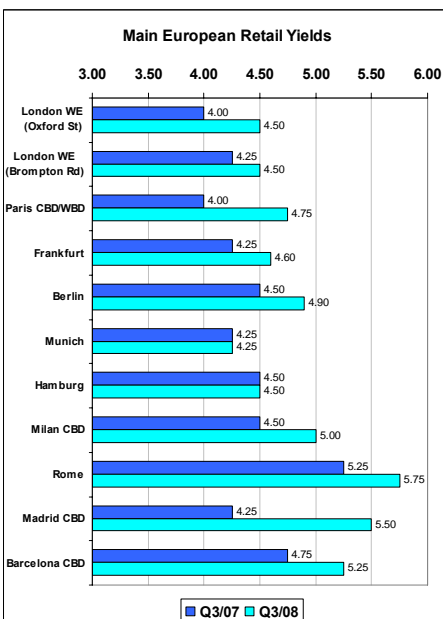
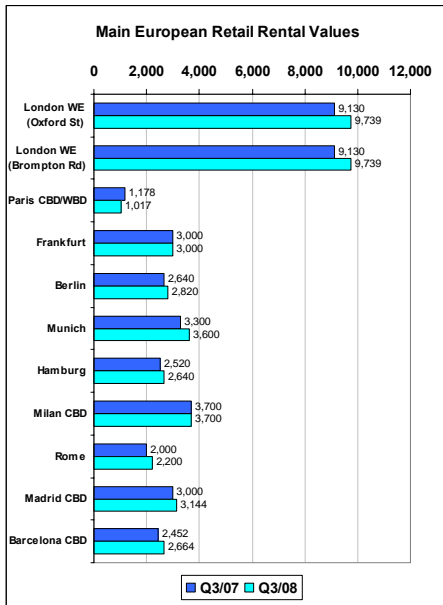
Moreover rental values are showing first signs of decline as demand significantly softened further during the last three months in London, Paris and to an even bigger extent in Spain. Longer rent free periods generalised during 3Q08 across all European property markets as investors are anticipating a lacklustre year 2009 on the occupier market and are strongly willing to avoid vacancy. However despite a more abundant supply across all European markets in the mid-term completions are likely to be limited and modern and new office space units are expected to be scarce in 2011 and 2012.

- **UK (=):** the UK office property market clearly stands in the middle of a reversal trend started one year ago. Demand for spaces has reduced drastically and take-up fell by 30%. Rents went down by 4% on average, with significant corrections also in the Central London area. Here investments volume in the quarter was 75% below average and prime yields increased by 125/150 bps yoy. Downside risk is reducing;
- **France (=):** in 3Q08 take-up was dynamic this quarter due to some large transactions, but is still declining since the beginning of 2008 against the comparable period of 2007 leading to a slight decline in prime rents, although a decrease in average rental values. On the investment side the market remained dull with a volume of 3 billion € in 3Q08 and around 11 billion € during the first three quarters. The average prime yield increased again this quarter exceeding the 6%-mark for the first time since 4Q05;
- **Germany (=):** in 3Q08 the occupier market in the main German cities remained stable. The take-up recorded a slight drop, but is still sustained due to several large transactions. The market is suffering from a lack of large office space units and the vacancy rate declined overall. The average prime rent marginally increased due to the rise registered in Berlin, but rental values remained globally unchanged elsewhere. The investment market continued to evolve negatively. The average prime yield rose again reaching the level of 3Q06;
- **Italy (=):** after a positive trend in the first half of the year, the picture of the Italian office property market maintained substantially favourable also during 3Q08. Take-up levels were in line with last years average. High demand of quality spaces brought prime rents up by 21% yoy. Investment volumes decreased noticeably. Rising prime yields and rents perspectives lead us to downgrade the segment;
- **Spain (=):** in 3Q08, the Spanish take-up fell strongly further and is expected to keep on decreasing in the next quarters reflecting the economic downturn hitting Spain much noticeably. In consequence the supply continued to grow, and according to the stocks expected to be completed, the vacancy rate will be rising further next year. The average prime rent slightly declined further. On the investors' side, the investment volume decreased and the average prime yield kept on rising.

Sector Comment

European Retail Sector

The fall in households consumption intensified in 3Q08 as the financial crisis finally filtered through to consumer confidence and retail sales. Impact on yields and to some extent on rents



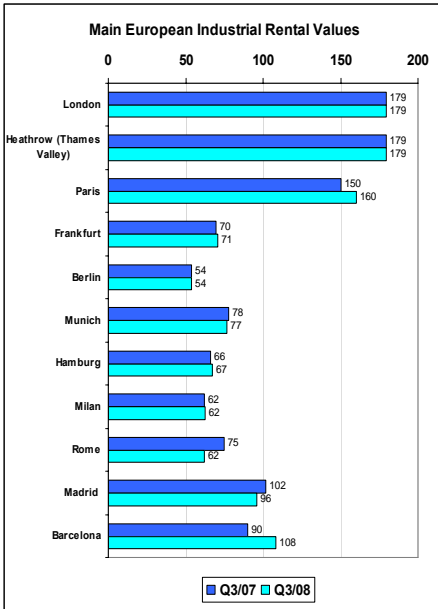
In 3Q08 the market started to cool down in terms of demand. While prime rental values remained generally stable for high street shops, they showed first signs of correction in the shopping centre segment. Alike the other sectors the investment volume of retail premises has strongly plummeted during the last three quarters. The economic downturn across Europe has severely reduced the purchasing power of households, whose concern currently focuses on the widespread and deepness of recession expected in 2009, job losses and the - often quoted in the media - expectations of general price fall as the fear for deflation rapidly replaced the last inflation's worries. The current key issue is the expected increasing level of supply in the shopping centre market at a time of strong slowdown of retail sales and drop in consumer confidence encouraging retailers in a wait-and-see attitude. Only international healthier retailers have tried in the recent months to reposition themselves in better performing high street locations. National and even more local retailers have already started suffering.

In the next quarters rental values for prime assets in terms of quality and location should not move down much. On the contrary secondary locations and less performing assets are expected to face decline in rents. Following the same logic prime yields are not likely to significantly adjust while yields for less qualitative buildings are expected to rise at least until mid 2009.

- **UK (-):** The UK retail property market evolved positively in this macroeconomic context, despite the drop in consumer expenditure. At the end of 3Q08 average prime rents stood at 8,010 €/sqm/a, +5.8% yoy vs 3Q07. Yields still stand at 4.50% as a consequence of the impact from the financial crisis, limiting property capital values yoy decline to 11%;
- **France (=):** despite the further fall of retail turnovers in 3Q08 the prime rents for retail high street premises in city centres have not been impacted yet. The number of shop openings remained sustained especially in the regional markets, although first signs of slowdown were observed in Paris. On the investment side the share of retail products' transaction remained low affecting only slightly the prime average yield which rose by 25 bps across all French markets monitored;
- **Germany (=):** in 3Q08, the demand for prime high street shops remained high despite the deterioration of the economic environment. The activity of the retail market registered a decline during the summer, but international retailers are still active. The average prime rent for high street shops and for shopping centres remained stable. As investments in retail fell further during 3Q08 the prime yield for high streets marginally rose, while it increased more significantly for shopping centres;
- **Italy (=):** The strong dynamism that characterized the retail property market favourable trend in recent years seems to be over since the end of 2007, reassessing on smoother features. "Flight to quality", induced by the subprime crisis, put in upward pressure the high bracket of the high street in Milan and Rome. Demand is expected to be strong for retail premises, sustaining the positive cycle;
- **Spain (-):** in 3Q08 the Spanish retail market moved from a positive cycle to a negative one due to the slowdown of consumption as a result of the financial crisis. Available space increased further in some areas, but not in prime locations. The average prime rent for high streets remained stable, while it declined for shopping centres. However the investment market volume was poor despite increasing yields for both high street shops and shopping centres.

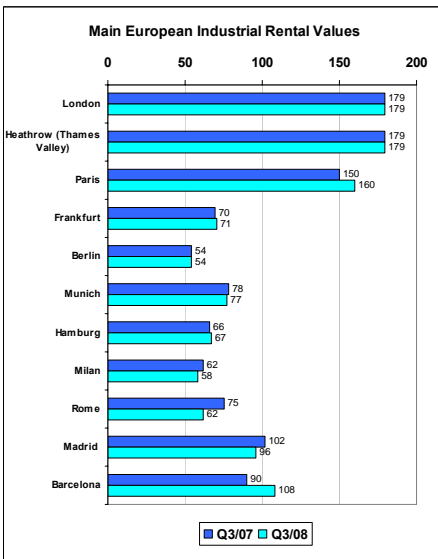
European Industrial Sector

Further declining demand in the European industrial sector leading to stabilisation or even drop in rental values according to the markets monitored; prime yields continued their rise



Demand from occupiers diminished again this quarter. With the rapid further deterioration of the economic environment occupiers reflected their concern for costs control. Thus they started to show interest for secondary locations outside the traditionally established industrial hubs in order to benefit from a higher availability of construction sites and thus to minimize the level of rents. The increase of supply originated in the phase of high demand stopped and a noticeable slowdown of speculative development schemes was registered in 3Q08. Despite the strong increase of incentives, headline rents started to decline in several markets such as Spain and France. Prime yields kept on increasing further in all countries except in France where no change has been registered in 3Q08. Even in Germany the first rise since 1Q07 was recorded.

Demand is expected to remain sustained due to tenants upgrading into modern stock, increasing outsourcing movements and change in the patterns of consumption. Rental values are expected to remain stable in some markets and to fall in others as competition between developers, resistance from tenants to pay high rents and more abundant supply will drive the markets in the coming quarters. On the investment side prime yields are expected to increase further across all markets: drop in demand combined with an overall abundant supply will lead to a higher risk premium of industrial assets.



- **UK (-):** demand still sustains the industrial property market in UK, focused on large lots, despite maintaining cost rationalization as a key driver. Take-up was buoyant during the first half of the year, it started to fall sharply in 3Q08. Prime rental value in London remained stable at 179 €/sqm/a over 3Q08. Prime yields increased to 6.50%;

- **France (=):** in 3Q03 take-up kept on falling and vacant supply kept on rising. The volume of future supply declined due to the difficulties to finance speculative projects. On the contrary the number of partly pre-let developments rose. Rental values for light industrial warehouses remained stable but they declined for logistic platforms. No evolution of the average prime yield was registered during the quarter;

- **Germany (+):** despite the current economic downturn the take-up level for industrial premises remained high in Germany during 3Q08 because demand increased in most of the areas as a result of occupiers' interest for modern and large platforms. In that context the average prime rent remained stable. The interest from investors for industrial assets remained sustained, but the average prime yield started to increase;

- **Italy (=):** The current economic scenario is showing as particularly not favourable to the warehousing property market. The first nine months of 2008 were characterized by the positive trend of take-up accompanied by declining rents in 3Q08. Developers are acting cautiously as their activity in upcoming months is closely linked to economic fundamentals, with a consequent extension of the "wait-and-see" phase in real estate investment decisions. In Milan, prime rents have decreased to 58 €/sqm/a (-6.4%) after 5 years stability, due also to the wide supply;

- **Spain (-):** the logistic market started to suffer from the economic downturn but somewhat less than the industrial segment this quarter. On both segments demand declined and expansion decisions are delayed. The investment market rose due to the investors' interest for secure, medium size products offering long leases. The average prime rental value fell further and the average prime yield kept on rising in the main Spanish areas. The average prime yield rose further to stand at a comparable level with that of 3Q05.

Rating: =

Office Market / UK

Plunge in office property valuations: -30% yoy, looking for a bottom

Country market cycle

The macroeconomic scenario upcoming in UK after the heavy consequences of the financial crisis is not favourable. UK is foreseen in technical recession in 2009. The property market was hit by a sharpened fall in valuations in the proxy of 20/30% yoy. Because of the economic slowdown that affected all sectors, demand by occupiers in the office segment fell by 4% in Central London over 3Q08.

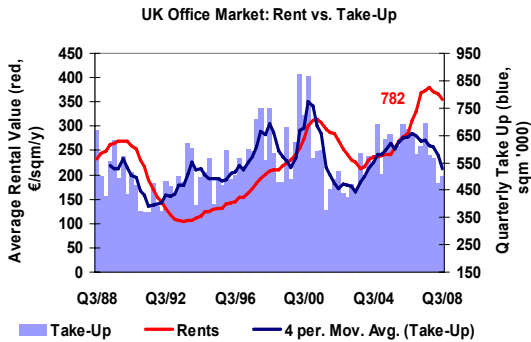
The banking and finance sector significantly downgraded growth expectations and space requirements. The annual trailing take-up volume (853,000 sqm) reduced by 21.6% yoy driving the vacancy rate up by 120 bps to 4.4%. At current exchange rate prime rental value recorded a 4% decrease yoy to 779 €/sqm/a.

The number of transactions, contracted in 3Q08, confirmed market forecasts: £ 1,17 bln negotiated versus a quarterly average of £ 4,70 bln. **Average prime yield increased by 135 bps to 5.55% over the last year.** The property yield spread further increased to +111 bps. Implicit fundamental valuations are 25/30% down from 4Q07, as generally witnessed by appraisal companies.

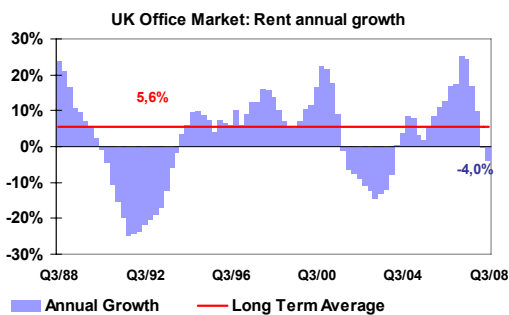
Market Outlook

The negative trend undertaken by the UK office segment continued also in the second part of 2008, characterized by both a contraction of rents and an increase in yields: current valuations discount a further reduction in rents, which might follow the contraction in demand by firms, now not willing to expand their business, and an increase in vacancies. The downtrend in valuations might go ahead in the short term future, thus we maintain a neutral view upon this market, even if at this stage investing in quality asset might embody a lower downside risk:

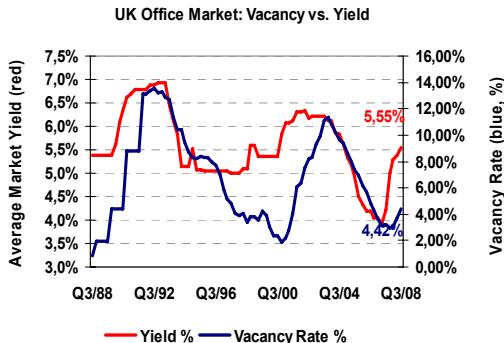
- BOE's policy to cut official rate, now at 1,50% could help sustaining the market;
- despite the decrease in demand, the level of rents suffered only marginally, in a still low space availability context;
- the strong price correction, accompanied by lower interest rates, should encourage investors to approach the market with more favourable perspectives.



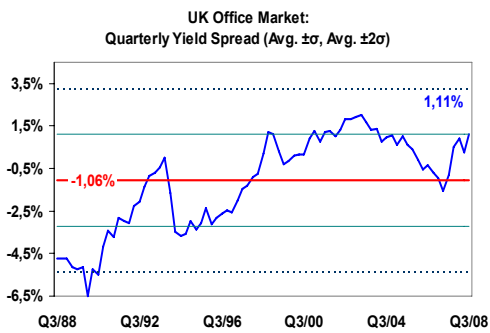
Data Source: CB Richard Ellis



Data Source: CB Richard Ellis



Data Source: CB Richard Ellis



Data Source: CB Richard Ellis

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value (€/Sqm p.a.)	652	812	779
Rental Value Chg, %	12.6	24.4	-4.0
Yield, %	4.19	4.20	5.55
L/T Bond Yields, %	4.52	5.01	4.45
Yield Spread, %	-0.33	-0.81	1.11
Capital Value (derived)	15,572	19,313	14,021
Vacancy Rate, %	4.8	3.2	4.4
Vacancy Rate % Chg	-2.6	-1.6	1.2
Take Up (Year, Sqm '000)	1,110	1,089	853
Take Up Chg, %	4.7	-1.9	-21.6
Stock (Sqm Mln)	36.8	37.3	37.6
Take Up as a % of Stock	3.0%	2.9%	2.3%

Data Source: CB Richard Ellis (Values in Euro at 30/09/08 Eur/GBP exchange rate)

	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread	Take Up (sqm, '000)	Vacancy Rate
London City	778.8	-8.0%	6.00	1.50	1.55	93	5.4
London West End	1,557.7	-4.2%	5.00	1.25	0.55	79	3.8
London Mid Town	731.4	1.9%	6.25	1.25	1.80	26	4.0
London CBD (City+WE+MT)	1,022.6	-3.4%	5.75	1.33	1.30	197	4.4
London Southbank	609.5	-5.3%	6.75	1.50	2.30	8	2.4
London Docklands	575.7	-10.5%	5.75	0.90	1.30	22	3.7
Thames Valley	418.2	3.4%	6.28	1.00	1.83	73.0	10.7
North M25	298.0	1.6%	7.02	1.02	2.57	18.6	3.4
South M25	322.8	0.0%	6.53	1.00	2.08	17.6	7.0
Manchester	386.0	0.0%	6.85	1.60	2.40	na	na
Birmingham	440.2	0.0%	6.85	1.60	2.40	na	na
Glasgow	372.5	0.0%	6.35	1.60	1.90	na	na
Edinburgh	392.8	3.6%	6.35	1.60	1.90	na	na
Leeds	365.7	8.0%	7.00	1.75	2.55	na	na
Cardiff	270.9	2.6%	7.25	1.50	2.80	na	na
Bristol	372.5	0.0%	7.00	1.75	2.55	na	na

Data Source: CB Richard Ellis

Market analysis

UK (=): the weakening in demand for office spaces persisted in 3Q08 in Central London. As a result, the net absorption of surfaces was only slightly positive, with a negative contribution of the activity recorded in West End and the Docks. The 3Q take-up in Central London (190,000 sqm) was 33% down compared to the average amount surveyed in previous quarters, concentrated on the grade-A class. Take-up concerned mainly new completed buildings versus second hand ones, and large sizes especially versus small ones. Banking & finance sector reduced by almost a half its occupation activity over the quarter. Vacancy rate increased to 4.4%, but it is expected to increase further in the next future, as many firms are leaving their offices, following staff lay-off and reduction in turnover forecasts.

The downward trend of prime rents has continued since the beginning of 2008. In this market context net effective leases are more than 10% lower than rents due to strong incentives. In the West End Area prime rent lowered at 1,558 €/sqm/a (-4.2%), while in the City and Docks areas it dropped significantly respectively by 8.0% yoy to 778.8 €/sqm/a and by 10.5% qoq to 575.7 €/sqm/a. Investment volume (GBP 1.2 bln) continued to fall in the 3Q08 with a reduction by 30% qoq. The YTD total of GBP 5.4 bln invested in Central London compares with GBP 17 bln at the same stage of 2007. deteriorating conditions of debt market led investors to increase the proportion of equity in their investments, thus prime yield remarkably increased by 130 bps yoy, reaching 5.0% in the West End and 6.0% in the City.

In 3Q08, among secondary locations rents boosted in Reading (Thames Valley) and Leeds. Yields increased further in all locations in the range of 100 - 200 bps yoy. Considering the current average market yield on appraisals close to 6.5%, properties already discount part of the downside risk. We then prefer maintain the rating on the office sector to Neutral.

MAIN LEASING TRANSACTIONS (Data Source: Jones Lang LaSalle)

Property	Sqm	Tenant	€/sqm/a
1 Kingdom ST, W2	8,487	Vodafone	740.02
King's Place, YW, NW1	2,842	Logica	672.74
65 Grosvenor St, W1	939	Silver Lake	1473.31
77 Grosvenor St, W1	555	Bank of Qatar	1614.59
20 Gresham ST, EC2	14,059	Std Bank of London	na
St. John St, EC1	13,015	Cancer Research UK	na
Centurium, Kingsway, WC2	3,596	Takeda	726.56
14 Cornhill, EC3	2,102	Pension Corporat.	827.48

MAIN INVESTMENT TRANSACTIONS (Data Source: Jones Lang LaSalle)

Property	Sqm	Purchaser	Price/sqm	Yield
50 Stratton St, W1	6,325	Lancer	25,692	5.00%
180 Great Portland St, W1	1,679	Commerz Real	59,186	6.25%
5 Savile Row, W1	2,944	Kajima	16,983	5.60%
63 St James's St, SW1	2,094	Private client of Citi	21,561	5.00%
London Wall, EC2	30,412	DEKA	9,453	6.50%
63-73 Shoe Lane, EC4	13,776	Commerz Real	8,212	5.75%
21 Tudor St, EC4	9,032	UK Consortium	8,996	6.26%
95 Queen Victoria St, EC4	9,838	Invesco	6,988	5.90%

	Rent Trend	Yield Trend	Spread	Take-up Trend	Vacancy	Downside Risk
London City	--	--	++	-	+	Medium
London West End	-	--	=	-	++	High
London Mid Town	=	--	++	=	++	High
London CBD (City+WE+MT)	-	--	++	-	++	High
London Southbank	-	--	++	-	++	High
London Docklands	--	--	++	+	++	Very High
Thames Valley	=	--	++	--	-	High
M25	+	--	++	--	+	High
Manchester	=	--	++	-	na	High
Birmingham	=	--	++	--	na	High
Glasgow	=	--	++	-	na	High
Edinburgh	+	--	++	-	na	High
Leeds	++	--	++	-	na	High
Cardiff	+	--	++	-	na	High
Bristol	=	--	++	-	na	High

See Legenda, pag. 36.

Rating: -

Retail Market / UK

Prime rents resist in a market treated by contraction of consumer spending

Market analysis

Over last years investors in retail properties achieved appealing performances, deriving from the constantly increasing market rents and compressing yields. The current crisis brought some uncertainty about the segment capability to prolong such trend further. The strong slowdown in consumption might reduce retailers margins to the extent they might find convenience in relocating or negotiating new lease conditions. Valuations are dropping as the increase in yields has to reflect a higher investment risk. Despite retail property continues to appeal investors and operators, since 3Q08 quarter volumes of take-up and investments have decreased.

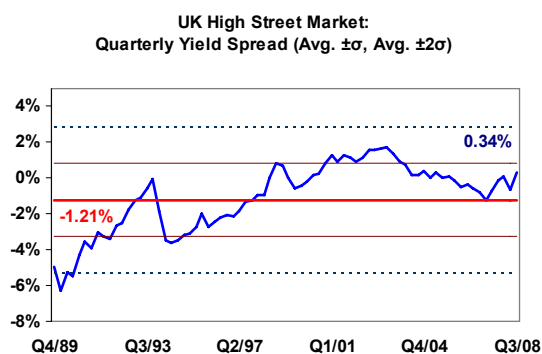
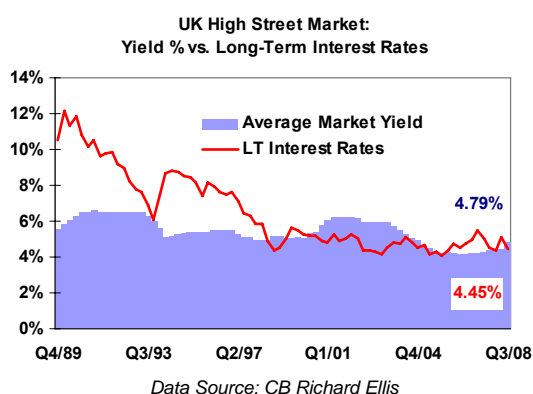
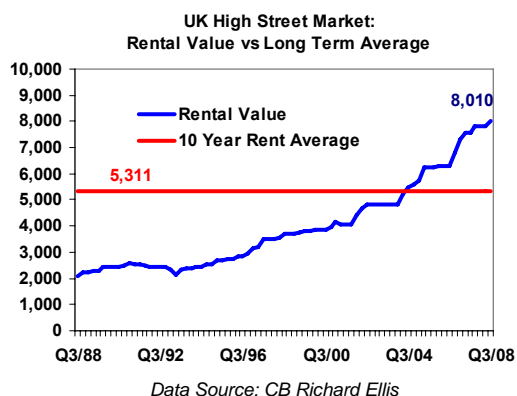
The general economic crisis burdens on the retail property market: the increase in the unemployment rate and the decline in consumers confidence, usually strictly linked to consumption expenditure, may give start to a strong reversal in this segment trend. At the end of 3Q08, average prime rents stood at 8,010 €/sqm/a, +5.8% yoy vs 3Q07. According to Jones Lang LaSalle in London New Bond St. and Oxford St. prime rents reached respectively 6,762 €/sqm/a (+17.7% yoy) and 5,372 €/sqm/a (+17.7% yoy) while yields still stand at 4.50% bringing property capital values down only by 11%. On the investment side, also demand by overseas investors, strong till 4Q07, repositioned on softer levels over all 2008 due to a reduction in expected total returns.

The turmoil seems to have impacted harder on retail properties placed in secondary locations, where rental values did not appreciate in the second half of the last year. Here yields significantly increased by 90 to 150 bps in the last twelve months. Investing in retail properties might embody a significant downside risk in this market scenario: valuations have already decreased by 7% from the high reached in 2Q07 and a further correction is likely. We therefore are rather for maintaining a negative outlook on retail properties in UK and recommend a waiting approach.

Market Outlook

The market scenario presented in 3Q08 supports our negative view on UK retail real estate and we fill confident in maintaining our "Negative" rating by relying on segment fundamentals.

- there is no visibility on prime rents, which following a strong impact of the crisis on consumption, might be affected considerably;
- the recent marginal increase in property yields already impacted on valuations, but considered the risk of investing in retail property in this market scenario, yields may increase further, bringing capital values down.



High Street	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread
London West End (Oxford Street)	9,739.14	6.7%	4.50	0.50	0.05
London West End (Brompton Road)	9,739.14	6.7%	4.50	0.25	0.05
Reading (Thames Valley)	3,449.28	0.0%	5.25	0.75	0.80
Watford (North M25)	4,193.24	0.0%	5.65	0.80	1.20
Croydon (South M25)	3,584.54	0.0%	5.25	0.75	0.80
Manchester	4,057.97	1.7%	5.65	1.15	1.20
Birmingham	3,719.81	0.0%	5.75	1.25	1.30
Glasgow	2,299.52	-33.3%	5.75	1.50	1.30
Edinburgh	2,840.58	0.0%	5.75	1.25	1.30
Leeds	4,112.08	-0.3%	5.65	0.90	1.20
Cardiff	4,057.97	0.0%	5.65	1.15	1.20
Bristol	2,637.68	0.0%	6.25	1.40	1.80

	Rent Trend	Yield	Yield Trend	Spread	Downside Risk
London West End (Oxford Street)	=	-	-	-	Very High
London West End (Brompton Road)	=	-	-	-	Very High
Reading (Thames Valley)	-	=	=	=	High
Watford (North M25)	-	=	=	=	High
Croydon (South M25)	-	=	=	=	High
Manchester	=	=	=	=	High
Birmingham	-	=	=	=	Very Low
Glasgow	--	=	=	=	Very Low
Edinburgh	-	=	=	=	Low
Leeds	-	=	=	=	High
Cardiff	-	=	=	=	High
Bristol	-	+	--	=	Medium

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value (€/Sqm p.a.)	6,292	7,571	8,010
Rental Value Chg, %	0.5	20.3	5.8
Yield, %	4.18	4.28	4.79
L/T Bond Yields, %	4.52	5.01	4.45
Yield Spread, %	-0.34	-0.73	0.34
Capital Value (derived)	150,453	177,027	167,394

Data Source: CB Richard Ellis (Values in Euro at 30/09/08 Eur/GBP exchange rate)

Rating: -

Industrial Market / UK

Valuations jeopardized by risk assessment

Market analysis

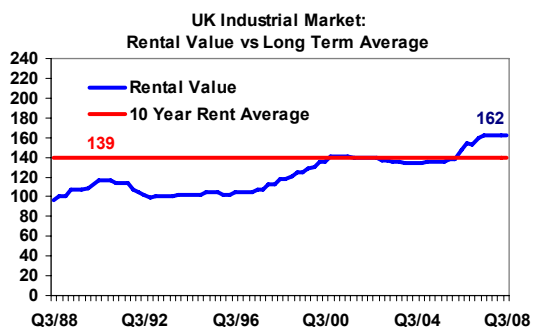
Demand of industrial property in UK in 3Q08 seems to have maintained on good level, despite the general economic slowdown, at least as far as the level of prime rents still at the highest value ever, reached in 3Q07, is concerned. The guidelines of this segment market remain the same that accompanied the recent growth trend: demand is increasingly worried about occupation costs, but it is still rather good, focused on large lots (in excess of 10,000 sqm) and on grade B and C smaller sizes (below 1,000 sqm). Over 2008 a significant part of demand has shifted from "active" to "potential" as a consequence of revised economic expectations. Distribution confirms and strengthens its weight as the largest share of the logistic segment in UK property market, driven by both food and non-food retailers. A new record for large distribution warehousing take-up in 2008 was recorded. However, while take-up was buoyant during the first half of the year, it started to fall sharply in 3Q08. Prime rental value in London remained stable at 179 €/sqm/a over 3Q08, while it recorded a remarkable increase in Glasgow (+8.3% yoy) and Leeds (4.5% yoy).

As a consequence of the financial turmoil, credit spreads sharply widened. Higher cost of financing impacted negatively on investors' appetite, thus yields increased homogeneously in the whole country over 2007 and 2008, by 90-185 bps. Prime yields increased to 6.50%, dragging the yield spread versus LT bonds to 205 bps in the quarter. Despite record new completions in 2008, the number of new schemes started during the year dropped significantly. Developers are now backing away from speculative development. The recent credit market turmoil and its feared consequences on real economy brought market participants to reconsider the perspective to invest in industrial products at the prevailing market yields. In such uncertain scenario, the downside risk implicit in current rents and prices is relevant for investors, we then maintain our negative view on this segment.

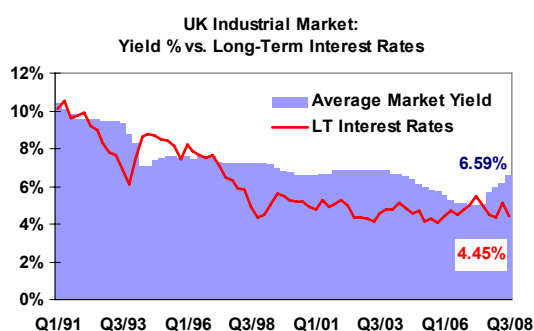
Market Outlook

In 3Q08 yields moved further upwards incorporating a higher risk premium and negatively impacting on implicit property valuations (-24%). Deteriorating macroeconomic scenario led to revise the sustainability of investment opportunities. We prefer maintaining a negative outlook due to:

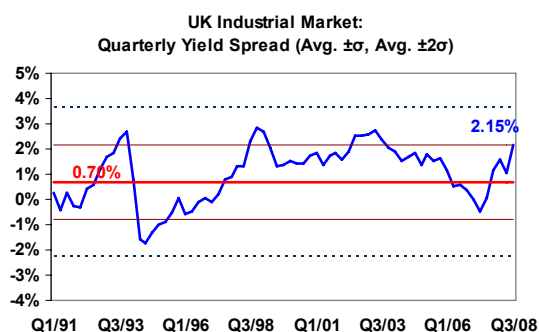
- a rising level of yields to grant an adequate risk premium to investors in such a new market scenario, driving capital valuations downward;
- The majority of local markets recorded stable rents over the last six months, while in 2009 the majority of them could face downward pressure on rents.



Data Source: CB Richard Ellis



Data Source: CB Richard Ellis



	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread
UK Total	179.47	0.0%	6.50	1.65	2.05
London (£ per sf pa)	179.47	0.0%	6.50	1.65	2.05
Heathrow (Thames Valley)	179.47	0.0%	5.75	0.90	1.30
Watford (North M25)	125.29	0.0%	6.65	1.00	2.20
Guilford (South M25)	135.45	0.0%	6.50	0.85	2.05
Manchester	81.27	0.0%	7.50	1.85	3.05
Birmingham	80.59	-4.8%	7.50	1.75	3.05
Glasgow	88.04	8.3%	7.50	1.75	3.05
Edinburgh	91.43	-3.6%	7.00	1.25	2.55
Leeds	77.88	4.5%	7.50	1.75	3.05
Cardiff	88.04	0.0%	7.50	1.65	3.05
Bristol	101.59	3.4%	7.50	1.75	3.05

	Rent Trend	Yield Trend	Spread	Downside Risk
UK Total	=	--	-	Very High
London (£ per sf pa)	=	--	-	Very High
Heathrow (Thames Valley)	=	--	-	Very High
Watford (North M25)	=	--	-	Very High
Guilford (South M25)	=	--	-	Very High
Manchester	=	--	=	Very High
Birmingham	-	--	=	High
Glasgow	+	--	=	Very High
Edinburgh	-	--	=	Very High
Leeds	=	--	=	Very High
Cardiff	=	--	=	Very High
Bristol	=	--	=	High

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value (€/Sqm p.a.)	148	162	162
Rental Value Chg, %	9.8	9.3	0.1
Yield, %	5.10	5.05	6.59
L/T Bond Yields, %	4.52	5.01	4.45
Yield Spread, %	0.58	0.04	2.15
Capital Value (derived)	2,907	3,206	2,459

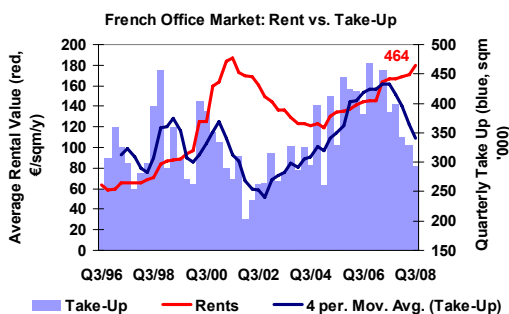
Data Source: CB Richard Ellis (Values in Euro at 30/09/08 Eur/GBP exchange rate)

Rating: =

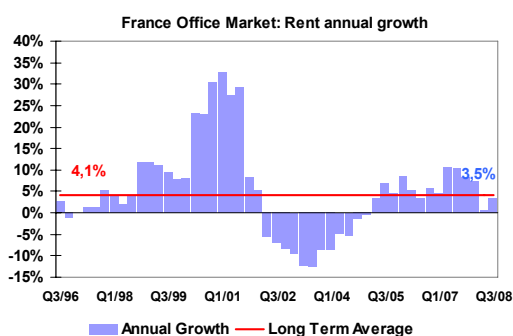
Office Market / France

A surprisingly strong quarterly result from the occupier side

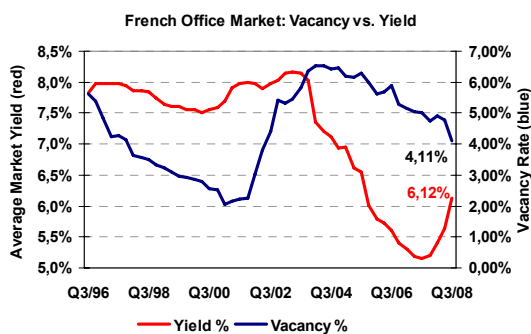
Country market cycle



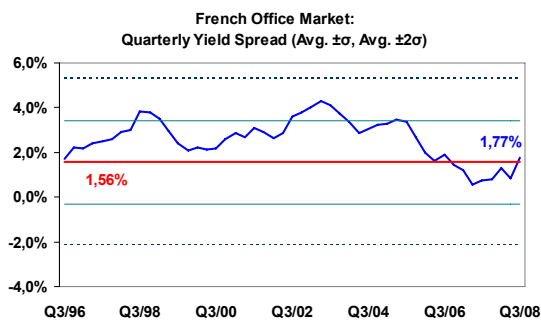
Data Source: CB Richard Ellis



Data Source: CB Richard Ellis



Data Source: CB Richard Ellis



Data Source: CB Richard Ellis

In 3Q08 take-up reached an expected level in the Ile-de-France with nearly 660,000 sqm let or sold compared with 580,000 in 3Q07, a 14% rise. Since the beginning of the year 1.8 million sqm were taken up representing a 10% decline against the comparable period of last year. The large and even very large transactions the market was missing in 1H08 finally took place during the summer. Thus three huge lettings above 40,000 sqm and thirteen between 5,000 and 10,000 sqm fuelled take-up in 3Q08. Nevertheless this 3Q08 somewhat dynamic level is not to be analysed as a new and rapid upturn of the Ile-de-France. This is only the consequence of these large transactions occurring in the last three months after long periods of search as in the meantime small transactions which sustained take-up activities in 1H08 strongly fell in 3Q08 reflecting the economic uncertainties faced more noticeably by smaller tenants. The banking and financial sector remained again the most active accounting for around 40% of the take-up as it pursued business rationalisation. Most of the large transactions were contracted in new or redeveloped buildings driving 42% of total lettings concerning thus high quality space units. The vacancy rate for the Ile-de-France slightly declined due to several lettings registered again in La Défense to stand at 5% at end of 3Q08 in line with the average vacancy rate for France which significantly dropped from 4.8% down to 4.1% between the end of June and the end of September. In the investment market only 3 billion € acquisitions were registered in 3Q08 representing a further slight decline qoq. During the first three quarters around 11.2 billion € were invested in commercial properties across France i.e. a downfall of 53% compared with the 23.9 billion € recorded between January and September 2007. The country average prime rent rose by 3% qoq to stand at 464 €/sqm/a at the end of 3Q08. The average prime yield for France increased again during the last three months from 5.65% up to 6.12% qoq exceeding the 6%-mark for the first time since 4Q05. The rise of the average prime yield even reached 96 bps yoy. The strong correction is due to the further increase in prime yield in the Paris CBD but this trend has finally starting expanding to the regional markets.

Market Outlook

In 3Q08 the dynamism of the Ile-de-France leasing market was fuelled by large transactions, but the investment market remained weak. Our view is still neutral as:

- demand from occupiers is expected to slow down in 4Q08 and next year, while the supply should increase across the country;
- rental values could show first signs of decline in 4Q08;
- the investment market is not expected to exceed 15 million € in 2008 - halving compared with 2007 - due to the recession and the difficulty of assessing the fair value;
- yields should thus increase further in both the Ile-de-France and regional markets.

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value (€/Sqm p.a.)	402	441	464
Rental Value Chg, %	4.4	9.8	5.2
Yield, %	5.61	5.16	6.12
L/T Bond Yields, %	3.72	4.41	4.35
Yield Spread, %	1.89	0.75	1.77
Capital Value (derived)	7,166	8,557	7,587
Vacancy Rate, %	5.9	5.0	4.1
Vacancy Rate % Chg	-0.4	-0.9	-0.9
Take Up (Year, Sqm '000)	1,618	1,482	925
Take Up Chg, %	50.9	-8.4	-37.6
Stock (Sqm Mln)	31.5	32.5	26.0
Take Up as a % of Stock	5.1%	4.6%	3.6%

Data Source: CB Richard Ellis

	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread	Take Up (sqm, '000)	Vacancy Rate
Paris CBD	830.0	-2.4%	5.50	1.90	1.16	82.0	3.3
La Defense	550.0	16.5%	5.75	1.25	1.41	86.0	3.4
Velizy	220.0	0.0%	7.00	0.00	2.66	na	4.6
Levallois	460.0	0.0%	4.60	0.10	0.26	na	7.2
Boulogne	460.0	0.0%	4.60	0.10	0.26	na	7.2
Issy	500.0	0.0%	4.60	0.10	0.26	na	7.2
Neuilly	550.0	0.0%	4.60	0.10	0.26	na	7.2
Courbevoie	350.0	0.0%	4.60	0.10	0.26	na	7.2
Puteaux	350.0	0.0%	4.60	0.10	0.26	na	7.2
Suresnes	380.0	0.0%	4.60	0.10	0.26	na	7.2
Saint-Cloud	340.0	0.0%	4.60	0.10	0.26	na	7.2
Sèvres	340.0	0.0%	4.60	0.10	0.26	na	7.2
Lyon	250.0	19.0%	6.25	0.25	1.91	40.6	5.5
Marseille	240.0	14.3%	6.15	0.15	1.81	10.0	5.0
Lille	195.0	11.4%	6.75	0.45	2.41	29.9	4.6
Nice	210.0	2.4%	6.50	-2.00	2.16	4.5	17.0
Nantes	175.0	6.1%	7.80	0.00	3.46	15.0	2.1
Montpellier	155.0	3.3%	9.20	0.00	4.86	13.0	22.6
Grenoble	155.0	3.3%	8.50	0.00	4.16	8.6	na

Data Source: CB Richard Ellis

Market analysis

France (+): the trend of average rent for new buildings in the Ile-de-France started to change in 3Q08. Without going first through a stabilisation phase it declined by 1% qoq at 328 €/sqm/a, for the first time since 2004. In the meantime the average rent for second hand buildings fell too by 0.5% to reach 242 €/sqm/a. The Paris CBD traditionally strongly in demand is currently showing less activity reflecting the very sharp situation of the financial sector and the deteriorating economic situation. Only 240,000 sqm were taken up during the first three quarters of 2008, a strong decline of 39% compared with the same period of last year. The type of occupiers active in the CBD – banks, financial institutions, international lawyers - is particularly strongly affected by the world economic slow down and a still high level of rents are both an explanation to this phenomenon. In the other market districts of Paris the lack of dynamism of the Public Sector led to a sustained level of demand during 3Q08 materialised by a dropping take-up of 19%. On the contrary in La Défense, the take-up registered in 3Q08 has been relatively dynamic compared with the beginning of the year. The take-up was fuelled in particular by the public sector with three transactions larger than 5,000 sqm as well as the financial sector with only one single large transaction bigger than 40,000 sqm from the Société Générale. With a very low vacancy rate standing at 3.5% immediate supply is very scarce and the choice very limited with no space over 25,000 sq. m currently available for large users. The quality of the available space is somewhat low as only one building being redeveloped at present. The stagnation of rental values has been observed in the past three months and are expected to start declining in the next quarters as the last lettings in quality buildings were contracted in 3Q08. The Paris prime yield remained temporarily stable qoq at 4.85% in 3Q08 but is expected to start increasing in the next months.

In the regional markets occupiers' demand has started to slow down but in the major markets such as Lyon or Marseille letting activities are still dynamic in a context of good availability of space improving the quality of the stock progressively. Prime rents went on stagnating in the secondary markets and showed first signs of stabilisation in the major markets. Prime yields rose significantly this quarter exceeding 6% again for the first time since 3Q07 reflecting the financial turmoil. They now reach 6.25% in Lyon, 6.15% in Marseille and 6.75% in Lille.

	Rent Trend	Yield Trend	Spread	Take-up Trend	Vacancy	Downside Risk
Paris CBD	=	--	+	--	++	High
La Defense	++	--	++	na	++	High
Paris Secondary Markets	=	=	=	na	+	Very High
Lyon	++	-	++	=	+	Very High
Marseille	++	=	++	=	+	Very High
Lille	++	-	++	=	++	Very High
Nice	=	++	++	-	--	Very High
Nantes	+	=	++	-	++	Very High
Montpellier	+	=	++	=	--	Very High
Grenoble	+	=	++	=	na	Very High

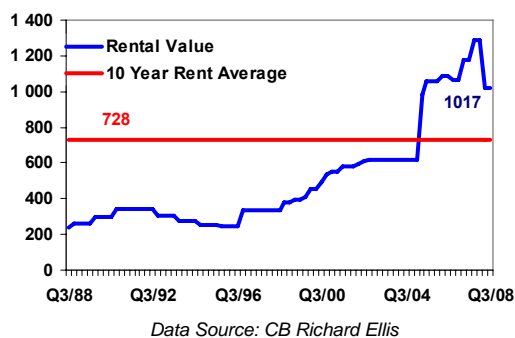
See Legenda, pag. 36.

Rating: =

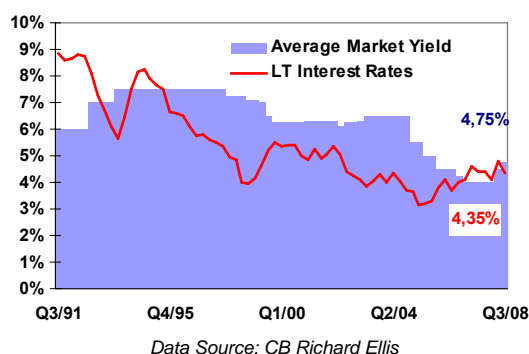
Retail Market / France

A resisting sector despite deteriorating economic prospects

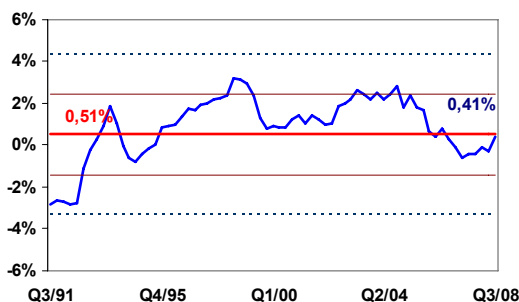
**French High Street Market:
Rental Value vs Long Term Average**



**French High Street Market:
Yield % vs Long-Term Interest Rates**



**French High Street Market:
Quarterly Yield Spread (Avg. $\pm\sigma$, Avg. $\pm 2\sigma$)**



High Street	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread
Paris CBD/WBD Average Rent (€ p)	1 017,00	-13,7%	4,75	0,75	0,41
Lyon	675,00	4,0%	5,25	1,00	0,91
Marseille	959,00	0,2%	5,25	1,00	0,91
Lille	1 160,00	7,2%	5,25	1,00	0,91
Nice	783,00	0,0%	8,50	-	4,16
Nantes	661,00	0,0%	9,00	-	4,66
Montpellier	396,00	0,0%	9,00	-	4,66
Grenoble	631,00	0,0%	9,00	-	4,66

	Rent Trend	Yield	Yield Trend	Spread	Downside Risk
Paris CBD/WBD Average Rent (€ per	--	-	--	=	High
Lyon	=	=	--	=	Very High
Marseille	-	=	--	=	Very High
Lille	=	=	--	=	Very High
Nice	-	++	=	+	Very High
Nantes	-	++	=	+	Very High
Montpellier	-	++	=	+	Very High
Grenoble	-	++	=	+	Very High

Market analysis

In line with a decelerating level of consumption retail turnovers declined further in 3Q08 especially retailers such as textile and traditional food supermarkets and hypermarkets at first. In the meantime discounters market share rose slightly further. However prime retail locations in the city centres have not been impacted yet, driven by the dynamism of luxury goods especially in Paris and Marseille and the high level of demand from international retailers. The regional markets in particular are currently in focus of textile retailers willing to open flagship stores in the best locations of for instance Lyon or Toulouse. In Paris the mass market clothes has started showing first signs of slowdown but the demand of successful retailers such as H&M – whose lease contract in the Champs Elysées was finally signed off by the Conseil d'Etat – Zara or Pimkie is still sustained. According to CBRE observations shops openings have been more numerous across France during the first three quarters of 2008 than during the comparable period of 2007. Moreover the retail sector saw the net creation of around 6,000 new jobs in 1H08 as France registered the destruction of jobs in average across all sectors for the first time since 1995. Following the strong quarterly fall in 2Q08 (-20%) due to the decline of rental values in secondary locations mostly occupied by national or even local retailers, the average rent remained stable qoq at 1,017 €/sqm/a in Paris. The prime locations of the capital are still very much in demand especially from international retailers leading to a persisting lack of adequate surface. No movement in rents was observed in the regional markets in 3Q08. In Marseille for instance, summer sales were moderately successful but retailers focused further on the best locations to meet consumers. However opportunities in the city centre remain scarce and the rotation of brands very weak. With the election of Marseille as the European capital of the culture in 2013 retailers demand is expected to remain sustained.

On the investment side the interest expressed from investors for retail premises declined further in 3Q08. During the first three quarters of 2008 only 800 million € were invested in retail products i.e. 7% of the total amount invested in commercial real estate during the period. In that context the prime average yield for high street shops went on increasing qoq by 25 bps to reach 4.75% back to end 2005 levels. In the regional markets the rise in prime yields reached 25 bps too to stand at 5.25%.

Market Outlook

The deterioration of consumer spending persisted in 3Q08 without impacting strongly the retail market in its fundamentals. In that context our view on the French retail market remains neutral on the short term:

- the degradation of the economic environment is expected to worsen again in the next quarters affecting thus retail turnovers significantly;
- the differentiated evolution between prime and secondary locations in terms of rents is expected to strengthen as the sustained level of demand of international retailers will focus on the most qualitative and frequented zones;
- the prime yield for retail should continue to rise slightly further as financing remains rare and then stabilise in the next months.

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value (€/Sqm p.a.)	1 085	1 178	1 017
Rental Value Chg, %	2,4	8,6	-13,7
Yield, %	4,50	4,00	4,75
L/T Bond Yields, %	3,72	4,41	4,35
Yield Spread, %	0,78	-0,41	0,41
Capital Value (derived)	24 111	29 450	21 411

Data Source: CB Richard Ellis

Rating: =

Industrial Market / France

Significant increase in supply reflects lower demand for light industrial premises

Market analysis

With 580,000 sqm let or sold in the first nine months of 2008 the light industrial market in the Ile-de-France registered a slight fall in take-up (-2%) yoy, particularly due to the lack of large transactions. 65% of take-up concerned transactions smaller than 3,000 sqm. Companies demand is increasingly fragile and consequently driven by cost savings resulting in a wait-and see attitude. In the meantime supply kept on rising by 8% qoq to reach 1.98 million sqm at end 3Q08 to reach a vacancy rate of 6.5%. As reaction construction declined significantly with 100,000 sqm currently under construction at 3Q08 - half of that of 4Q07 - as developers are waiting for pre lettings to get financed and thus start building. Rental values for light industrial premises remained stable with the country average prime rent stagnating at 137 €/sqm/a in 3Q08. The prime yield remained unchanged qoq too at 7.38% following the rise recorded in 2Q08.

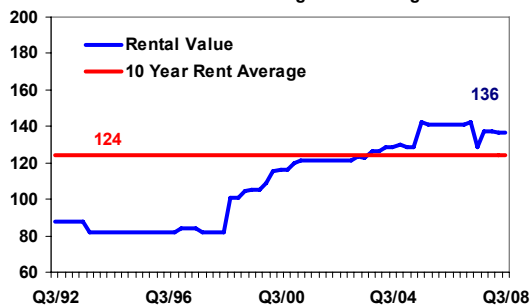
Since the beginning of the year the take-up for logistic platforms reached 1.8 million sqm across France. This volume decreased by 22% compared with the same period of 2007 due to the lack of very large transactions. Indeed the share of transactions larger than 50,000 sqm represented 26% of total take-up last year against 13% in 2008. 73% of the take-up during the first nine months was located in the North-South axis - a significant increase compared to 2007 which stood at 66% - due to the declining dynamism in secondary areas such as the Centre, the East and the Normandy. Along the Rhone's and the Northern markets cumulated together more than 900,000 sqm of total take-up at end 3Q08. These zones attract logistics developers and occupiers due to cheaper site prices than in the Ile-de-France and the possibility to develop large high-quality, multimodal platforms. Most of the occupiers primarily focused on platforms under development or on turnkey projects as half of the supply still consists of inappropriate buildings. The immediate supply remained stable qoq in 3Q08 at 2.04 million sqm but strongly rose by 35% since the beginning of the year due to the increase in the Ile-de-France which totalled 71% of the vacant space of the whole country. The volume of speculative future supply declined during the last three months in line with the growing difficulties of financing and the economic uncertainties. On the contrary the number of partly pre-let developments rose. Prime rental values started to decline in 3Q08 with transactions being contracted between 47 and 52€/sqm/a against a range between 47 and 55€/sqm/a in 2Q08. Transactions in second-hand premises were contracted at declining values too. Incentives granted, through rent-free periods or landlord-paid fit out works, are increasingly significant.

Market Outlook

The slowdown in demand intensified in the logistic segment but remained quite marginal in the light industrial market. Our view remains neutral:

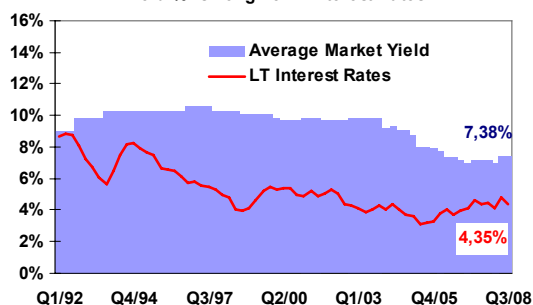
- the quick reaction of developers through the financing difficulties will avoid the risk of oversupply in the industrial market;
- demand is expected to keep a wait and see attitude leading to real estate decisions being postponed or even cancelled;
- the prime rental value should stagnate further but incentives should keep on rising especially in second hand buildings;
- the prime yield is expected to slightly increase further.

French Industrial Market:
Rental Value vs Long Term Average



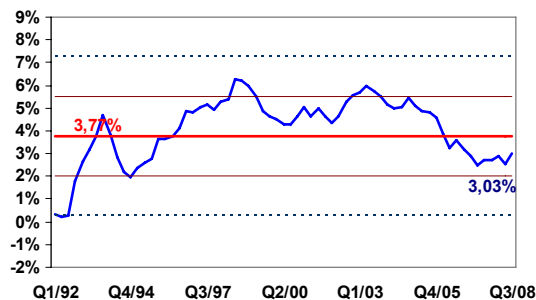
Data Source: CB Richard Ellis

French Industrial Market:
Yield % vs Long-Term Interest Rates



Data Source: CB Richard Ellis

French Industrial Market:
Quarterly Yield Spread (Avg. $\pm\sigma$, Avg. $\pm 2\sigma$)



	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread
Ile-de-France	160.00	6.7%	7.50	0.50	3.16
Lyon	65.00	0.0%	7.00	(0.50)	2.66
Marseille	100.00	-9.1%	8.00	-	3.66
Lille	60.00	0.0%	7.25	(0.95)	2.91
Nice	90.00	-10.0%	9.50	-	5.16
Nantes	80.00	29.0%	9.00	-	4.66
Montpellier	84.00	52.7%	10.00	-	5.66
Grenoble	92.00	0.0%	9.00	-	4.66

	Rent Trend	Yield Trend	Spread	Downside Risk
Ile-de-France	+	-	=	Very High
Lyon	-	+	=	High
Marseille	-	+	=	Very High
Lille	-	+	=	Very High
Nice	-	+	+	Very High
Nantes	++	=	+	Very High
Montpellier	++	=	+	Very High
Grenoble	=	=	+	Very High

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value (€/Sqm p.a.)	141	129	136
Rental Value Chg, %	-0,9	-8,7	5,8
Yield, %	7,33	7,13	7,38
L/T Bond Yields, %	3,72	4,41	4,35
Yield Spread, %	3,61	2,71	3,03
Capital Value (derived)	1 925	1 807	1 847

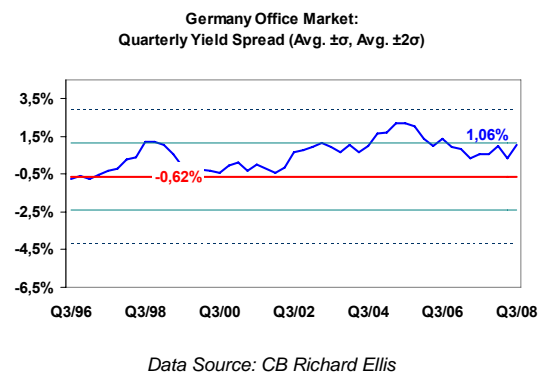
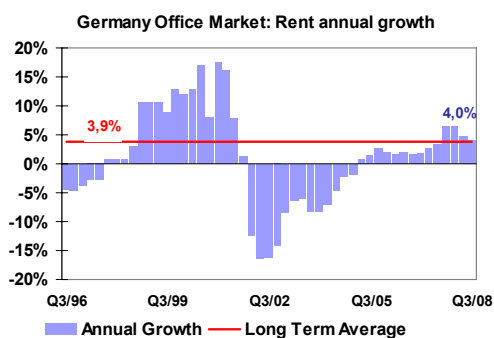
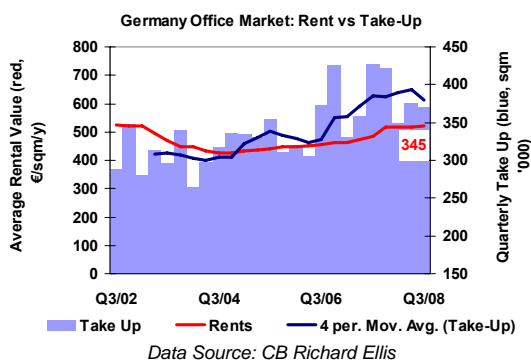
Data Source: CB Richard Ellis

Rating: =

Office Market / Germany

Demand started to dampen this quarter

Country market cycle



The rental market in the five main German cities, Berlin, Düsseldorf, Frankfurt, Hamburg and Munich remained sustained at a comparable level with that of last year. Indeed around 680,000 sqm office space units were let or sold to owner-occupiers in 3Q08, a decrease of less than 3% qoq. Since the beginning of 2008 take-up reached more than 2 million sqm recording a slight drop of 2% compared with the same period of last year. The sustained level of take-up is the result of several large transactions based on long term expressed demands which were finally satisfied. Most of the major markets are currently characterized by the low level of availability of large office space units. The vacancy rate declined further in 3Q08 to reach 9% across all major markets at end of September. Around 200,000 sqm were completed during 3Q08 of which 150,000 sqm in Munich. Next year approximately 1.1 million sqm new office space units should be completed i.e. around 30% more than in 2008. The average prime rent marginally increased by 0.5% in 3Q08 to reach 345 €/sqm/a due to the rise of 0.50 €/sqm/a registered in Berlin while rental values remained unchanged across the other four markets. In the investment market the strong decline in activity observed in the first half of the year persisted in 3Q08 with 4.5 billion €, in line with the investment volume recorded in 2Q08. More than one third of the total volume was achieved in the five major markets. The strongest decline could be registered in Frankfurt (-72%) and in Hamburg (-70%) while the Munich property market remained more stable with -36%. In the first three quarters 16 billion € were invested in Germany. This plummeting level of investments was due to the lack of transactions above 100 million €. According to Jones Lang LaSalle around 15 large transactions have been registered between 1Q08 and 3Q08 against 87 during the comparable period of 2007. The average prime yield for Germany rose again in 3Q08 from 4.94% up to 5.07% reaching the same level as 3Q06.

Market Outlook

The level of demand from occupiers in line with that of last year kept on contrasting with low activities from investors due to the difficult access to debt. We deteriorated our rating to neutral because:

- demand from companies is expected to slow down resulting in constraint take-up results in 2009 as additionally large office space units should be scarce;
- in that context the actual level of rents should stop its progression and stabilise;
- in 2008 around 20 to 23 billion € should be invested in commercial properties against nearly 55 billion € last year;
- prime yields are expected to keep on increasing in a context of strong financial turbulences and an anticipation of distressed assets coming onto the market in the next quarters.

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value (€/Sqm p.a.)	321	332	345
Rental Value Chg, %	2.0	3.4	4.0
Yield, %	5.07	4.89	5.07
L/T Bond Yields, %	3.71	4.33	4.02
Yield Spread, %	1.36	0.56	1.06
Capital Value (derived)	6,329	6,786	6,808
Vacancy Rate, %	10.0	9.2	9.0
Vacancy Rate % Chg	-0.6	-0.8	-0.2
Take Up (Year, Sqm '000)	1,895	2,504	2,447
Take Up Chg, %	-6.0	32.1	-2.3
Stock (Sqm Mln)	60.4	60.1	60.4
Take Up as a % of Stock	3.1%	4.2%	4.1%

Data Source: CB Richard Ellis

	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread	Take Up (sqm, '000)	Vacancy Rate
Frankfurt	468.0	8.3%	5.30	0.30	1.29	111.5	11.9
Berlin	270.0	2.3%	5.25	0.35	1.24	135.6	9.6
Munich	378.0	3.3%	4.80	0.00	0.79	204.7	7.0
Hamburg	288.0	2.1%	5.00	0.10	0.99	133.6	8.3
Dusseldorf	276.0	2.2%	5.25	0.25	1.24	90.3	10.5
Leipzig	126.0	0.0%	6.50	0.00	2.49	20.0	19.6
Dresden	120.0	0.0%	6.50	0.00	2.49	12.0	13.5
Stuttgart	204.0	0.0%	6.00	0.00	1.99	29.0	5.2
Koln	237.6	0.0%	6.00	0.00	1.99	94.0	9.3

Data Source: CB Richard Ellis

Market analysis

Germany (=): the take-up of all major German markets started to decline by nearly 3% qoq and by 23% between 3Q07 and 3Q08. On a yearly comparison of 3Q07 towards 3Q08 all German markets have registered a decrease – sometimes a very strong one such as -47% for Frankfurt – in occupier demand. On a quarterly comparison only Berlin and Munich registered a positive take-up with an increase of respectively 18% and 24%. In Berlin the take-up for the whole year is expected to match the long term average of the yearly figures registered between 2000 and 2007 which represented 457,600 sqm as larger lettings could be recorded in 3Q08 and should be completed before the end of the year. In this the prime rent slightly rose by 2% qoq following five quarters of stability. On the supply side the amount of vacant space should reach its peak at the end of the year due to in particular the amount of space due to be completed on a speculative basis before the end of the year. In Munich the take-up amounted to 598,500 sqm over the first three quarters of 2008 showing stability compared with the same period of last year. During 3Q08 the take-up figure amounted to 205,000 sqm a decrease of 7% against 3Q07. Letting transactions bigger the 5,000 sqm represented 21% of the total take-up since the beginning of the year as no deals larger than 20,000 sqm could be completed. 1.26 million sqm offices are currently vacant in Munich dropping by 4.3% yoy representing a vacancy rate of 6.9%. The Munich office market saw completions of approximately 200,000 sqm between Q108 and Q308, of which 45% have already been pre-let and 100,000 sqm mainly of office space refurbishments are due to be completed during 4Q08. The take-up figure registered a significant qoq decrease in Frankfurt and Hamburg while it remained quite stable in Düsseldorf. In Hamburg the take-up should clearly exceed 500,000 sqm for the whole of 2008, as several big leases are expected in 4Q08. However several long-standing inquiries were recently given up and inquiries for large space units diminished over the last three months. This should intensify the cooling down of the leasing market already faced during 3Q08. However, with an annual take-up average at 426,000 sqm over 2002 and 2007, next year figure should be considered as market normalisation.

Across all markets the prime rental values remained stable qoq except in Berlin. In order to achieve further stability in rents the volume of space units developed in the next quarters should remain sustained which is expected to happen in the future given the current financial environment development schemes. The prime yields started to increase across nearly all markets except Munich during 3Q08 but to a lesser extent than in the Western European markets. Indeed the spread between peak and trough has traditionally been much lower in Germany than anywhere else. Thus yields adjustments ranged between 10 bps in Hamburg, 25 bps in Düsseldorf, 30 bps in Frankfurt and 35 bps in Berlin not only on a quarterly but also on a yearly basis. In the meantime Munich remained stable at 4.80% at the same level since Q406.

	Rent Trend	Yield Trend	Spread	Take-up Trend	Vacancy	Downside Risk
Frankfurt	++	-	++	=	-	Medium
Berlin	=	-	+	=	=	Low
Munich	+	=	+	=	+	High
Hamburg	=	=	+	=	=	Medium
Dusseldorf	=	-	+	=	-	High
Leipzig	=	=	++	na	--	Very Low
Dresden	=	=	++	na	--	Very Low
Stuttgart	=	=	++	na	+	Low
Koln	=	=	++	na	=	Medium

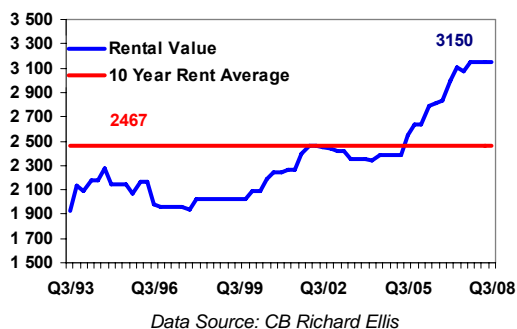
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Rating: =

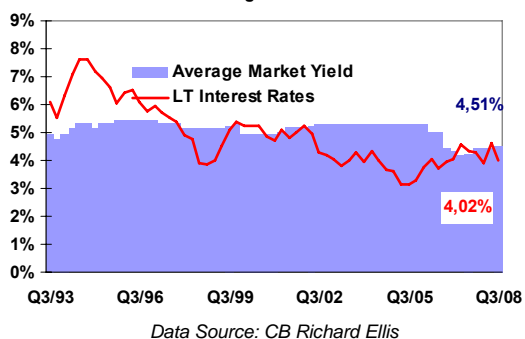
Retail Market / Germany

Slowing down demand from both occupiers and investors

German High Street Market:
Rental Value vs Long Term Average



German High Street Market:
Yield % vs Long-Term Interest Rates



German High Street Market:
Quarterly Yield Spread (Avg. $\pm\sigma$, Avg. $\pm 2\sigma$)



High Street	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread
Frankfurt	3 000,00	0,0%	4,60	0,35	0,59
Berlin	2 820,00	6,8%	4,90	0,40	0,89
Munich	3 600,00	9,1%	4,25	-	0,24
Hamburg	2 640,00	4,8%	4,50	-	0,49
Dusseldorf	2 640,00	0,0%	4,60	0,10	0,59

	Rent Trend	Yield	Yield Trend	Spread	Downside Risk
Frankfurt	-	-	=	=	Very High
Berlin	=	-	-	=	Very High
Munich	=	=	=	=	Very High
Hamburg	=	-	=	=	Very High
Dusseldorf	-	-	=	=	Very High

Market analysis

Despite the recession of the German economy and its consequence of the households consumption prime high street shops remained very much in demand in 3Q08. According to Comfort the number of lettings contracted in the main German cities strongly rose by 85% in the first three quarters of 2008 compared to 2007. However the activity in the retail market slowed down during the summer with only one fourth of all lettings signed during 3Q08 while more than 40% were signed in 2Q08. International retailers kept on being active in 3Q08 especially clothing retailers. About one third of all letting transactions concerned stores offering between 100 sqm and 250 sqm of sales space. In that context the average prime retail rent for high street shops remained stable at 3,150 €/sqm/a. Munich remained the most expensive location in Germany at 3,600 €/sqm/a due to the purchasing of its inhabitants – the highest across the country – and the fourth most frequented high street across Europe with the Kaufinger Strasse. Consequently the competition among international retailers and among luxury brands willing to be in the Munich market stayed strong. In the shopping centre market rental values remained stable except in Berlin were a slight rise of 2% at 2,820 €/sqm/a could be registered. The best performing shopping centres are those located in city centres such as Europa Passage in Hamburg or Zeilforum in Frankfurt, due to open in 1Q09. At present more than 900,000 sqm are under construction and should be completed by the end of 2009 representing a 7.5% increase of the stock according to Cushman figures. With a shopping centre density of 151 sqm per inhabitant Germany is still under the Europe-27 countries average of 201 sqm per inhabitant. 5.2 billion € were invested in retail premises since the beginning of the year representing one third of the total investment. In 3Q08 however the investment volume reached only 400 million € while Karstadt disposed of several department stores for 2.6 billion € in 1H08. In the high street segment the dynamism of the occupier market was reflected in the stability of the average prime yield for high streets which marginally moved from 4.44% up to 4.51%. The prime yield for shopping centres rose by 25 bps standing at 5.25% at end 3Q08.

Market Outlook

Following several quarters of significant activity the retail market started to perceive the effects of the financial crisis both on the occupier and investment side. Our view remains nevertheless neutral:

- the households consumption should remain low as it will not be supported by any plans at the first stage with the German government favouring production and competitiveness;
- the prime level of the market in terms of high street localisations is expected to remain in significant demand from international retailers and register thus an increase of prime rental values;
- in the secondary locations the level of demand is likely to be less dynamic and could lead to slightly drop in rental values;
- the prime yield for retail premises could increase further in line with the deteriorating financial and economic environment.

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value (€/Sqm p.a.)	2 815	3 075	3 150
Rental Value Chg, %	10,4	9,2	2,4
Yield, %	5,00	4,25	4,51
L/T Bond Yields, %	3,71	4,33	4,02
Yield Spread, %	1,29	-0,08	0,50
Capital Value (derived)	56 304	72 353	69 806

Data Source: CB Richard Ellis

Rating: +

Industrial Market / Germany

Completions fuelled the market this quarter

Market analysis

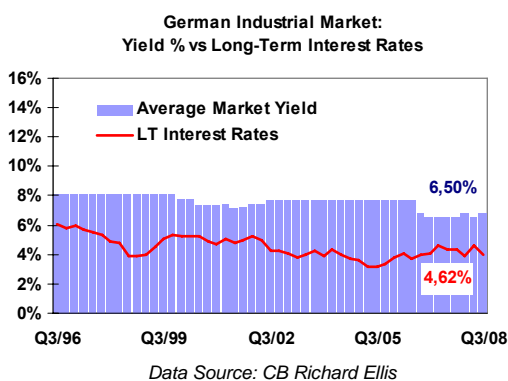
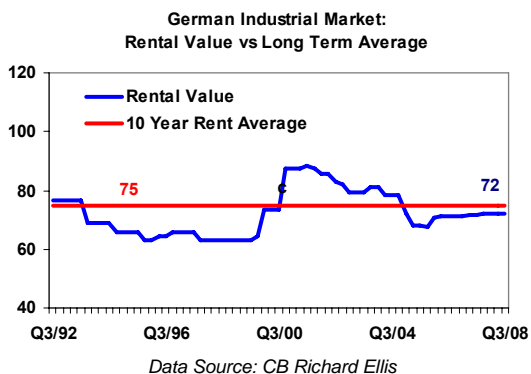
Despite the low level of households consumption demand for industrial premises remained high in 3Q08 to reach a take-up level of nearly 1.1 million sqm since the beginning of the year. In the regions of Berlin, Düsseldorf, Hamburg, Frankfurt and Munich industrial demand has increased by 19% during the first nine months of 2008 compared to the same period of 2007. According to Jones Lang LaSalle, this figure exceeded by 26% the average of the past five years. All markets recorded a double-digit increase between 12% in Düsseldorf and its regions up to 63% in the Hamburg market. Only Frankfurt recorded a significantly lower level of take-up with a yoy decrease standing at 25%. This sustained level of take-up is attributed to the growing average size of the letting transactions contracted across all markets due to the availability of modern large platforms. Hence more than half of the take-up was made by transactions larger than 5,000 sqm, of which one third was signed in the surroundings of Hamburg. Companies from the transportation sector amounted to 45% of the take-up registered since the beginning of the year followed by companies from the industry sector with 20% and those from the retail sector with 12% each. The average prime rent remained stable again for the fourth successive quarter across the major German markets standing a 72.30 €/sqm/a. The prime rent in Hamburg could register a slight increase in the next month as the dynamic level of demand there is facing a scarcity of appropriate premises.

In the investment market the interest from investors remained sustained too based on the dynamic of the occupier market. Thus the share of industrial premises in the total investment volume increased significantly from 5% up to 9% representing an amount of 1.5 billion € between 1Q08 and 3Q08. Compared with the same period of last year the volume invested in industrial transactions strongly declined by 42% while the total investment volume plummeted by 71%. The average prime yield started rising again by 25 bps following six quarters of stability to stand at 6.50% in 3Q08.

Market Outlook

Demand in the occupier market was further sustained in 3Q08 due to large completions across nearly all markets. We keep our positive view on the industrial segment as:

- the future availability of industrial premises due to several developments schemes which will come onto the markets is expected to fulfill further the demand from occupiers for large and modern platforms;
- rental values are likely to remain stable given future completions but might slightly increase in specific areas where high quality space units are scarce;
- prime yields started increasing this quarter and are likely to rise further in the next quarters due to the deterioration of the economic environment and the tighter credit conditions.



	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread
Frankfurt	70.80	1.7%	6.75	0.25	2.74
Berlin	54.00	0.0%	7.25	0.25	3.24
Munich	76.80	-1.5%	6.75	0.25	2.74
Hamburg	67.20	1.8%	6.75	0.25	2.74
Dusseldorf	62.40	0.0%	6.75	0.25	2.74
Leipzig	42.00	0.0%	8.25	-	4.24
Dresden	58.80	0.0%	8.50	-	4.49
Stuttgart	72.00	0.0%	7.50	-	3.49
Koln	60.00	0.0%	7.50	-	3.49

	Rent Trend	Yield Trend	Spread	Downside Risk
Frankfurt	=	-	=	High
Berlin	=	-	=	Low
Munich	=	-	=	High
Hamburg	=	-	=	Very High
Dusseldorf	=	-	=	High
Leipzig	=	=	+	Medium
Dresden	=	=	+	Low
Stuttgart	=	=	=	High
Koln	=	=	=	Very High

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value (€/Sqm p.a.)	71	72	72
Rental Value Chg, %	4,4	0,8	0,8
Yield, %	7,65	6,50	6,75
L/T Bond Yields, %	3,71	4,33	4,02
Yield Spread, %	3,94	2,17	2,74
Capital Value (derived)	929	1 103	1 071

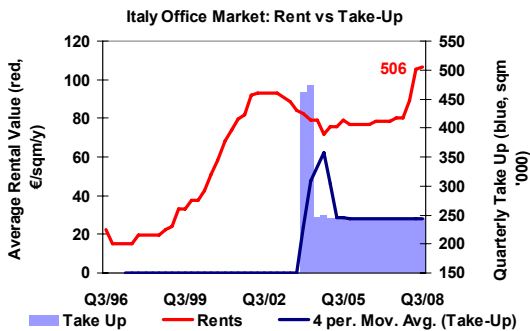
Data Source: CB Richard Ellis

Rating: =

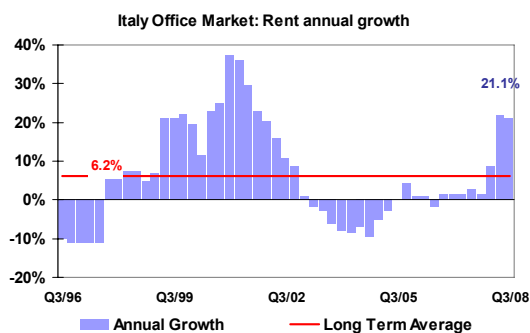
Office Market / Italy

Investment market is supported only by lowering interest rates

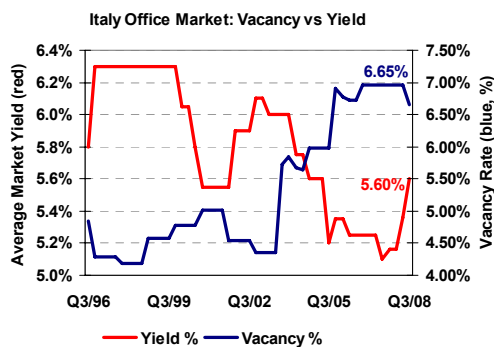
Country market cycle



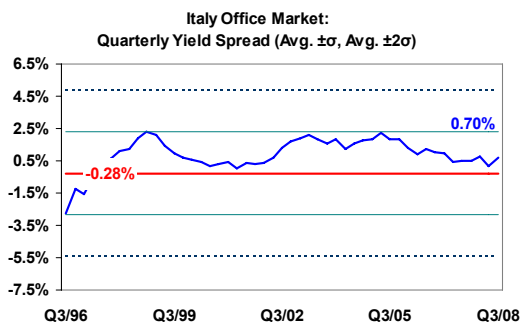
Data Source: CB Richard Ellis



Data Source: CB Richard Ellis



Data Source: CB Richard Ellis



Data Source: CB Richard Ellis

In 3Q08 the office property market maintained a certain dynamism only in Rome and Milan, while it has generally weakened all over the country. Uncertain perspectives of economic growth led to a decline in interest for office spaces from both occupiers and investors. For sure, these latter have not been helped by banks strong resistance to lend money in this period.

The level of take-up recorded in 3Q08 maintains in line with previous quarters averages, driven by the ongoing process undertaken by firms of relocating in more efficient and less expensive areas. Industry and services were the most dynamic sectors in recent markets. Despite the significant level of new spaces already developed, the vacancy rate slightly reduced over the quarter to 6.7%. Prime rents resulted in very slight progress compared to 2Q08, after the strong rise recorded in the previous quarter. Prime value stands now at 506 €/sqm/a.

Investments in this segment have decreased noticeably, as in such scenario a future correction of values is likely and players are very careful to their business plans. New development projects number narrowed considerably; projects, started in previous years, should bring high-quality products onto the market in next years. In this phase investment banks have almost stopped financing real estate acquisitions, leaving room to commercial banks. Banks are now willing to focus business on highly rewarding and less risky deals, in terms of duration and leverage. Yields increased 50 bps yoy, without impacting significantly on valuations where rents benefited of a still positive dynamic.

Market Outlook

The difficulty experienced by the domestic economy might drive the growth perspectives of the Italian office market down in the short term, that have maintained a favourable trend so far despite the complicated international scenario. Thus, considering the worsening market context we downgrade the segment as:

- demand of space occupation from end-users might reduce over next months, leaving the level of rents unvaried or even leading to a downward pressure on values;
- an increase in spread of yield versus bond, to reflect the perception of downside risk, is expected to drive yields upward, thus penalizing valuations.

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value	406	418	506
Rental Value Chg, %	-1.9	3.0	21.1
Yield, %	5.25	5.10	5.60
L/T Bond Yields, %	3.99	4.60	4.90
Yield Spread, %	1.26	0.50	0.70
Capital Value (derived)	7,733	8,196	9,036
Vacancy Rate, %	6.7	7.0	6.7
Vacancy Rate % Chg	0.7	0.2	-0.3
Take Up (Year, Mq k)	112	112	112
Take Up Chg, %	-1.8	0.0	0.0
Stock (Sq m Mln)	9.3	9.3	9.5
Take Up as a % of Stock	1.2%	1.2%	1.2%

Data Source: CB Richard Ellis

	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread	Take Up (sqm, '000)	Vacancy Rate
Milan CBD	550.0	17.0%	5.50	0.50	0.60	na	na
Milan Ring 3	260.0	13.0%	6.25	0.45	1.35	na	na
San Donato	260.0	8.3%	6.00	0.25	1.10	na	na
Sesto S.Giovanni	210.0	5.0%	6.50	0.50	1.60	na	na
Milanofiori	160.0	0.0%	6.75	0.75	1.85	na	na
Milan Aggregate	346.5	11.9%	6.04	0.48	1.14	28.0	5.8
Rome	440.0	29.4%	5.75	0.50	0.85	na	8.0

Data Source: CB Richard Ellis

Market analysis

Italy (=): with 114.550 sqm taken-up in the first nine months of 2008, the occupation activity in Rome has already exceeded the whole 2007 and is in line with the 2006 and 2005 figures. In Milan an occupation activity only slightly lower than previous years led to an increase in prime rents and to a reduction in vacancy rates. Considered the above, it can be said that the health conditions of the Milan and Rome office property markets are good.

In Milan demand maintains on a good level and in 3Q08 was focused on higher than before average size: 38% of transaction concerned small-medium size properties (500-1000 sqm) and 27,6% concerned medium size properties (1000-2500 sqm). In the central area the drivers of the market seem to be still the high request for grade A buildings, the reduction of available surfaces and the relocation in peripheral areas to reduce costs. Vacancy rate in the CBD lowered further to 2.2% and prime rent was up to 550 €/sqm/a, +4.3% yoy. Refurbishment deals in CBDs and new development schemes in cities outlying maintained vivid the office property market. Large development projects are taking place in the periphery (Sesto San Giovanni, Milanofiori and Santa Giulia) and in the semi-centre (Porta Nuova and Citylife), all started before 2008. In 2008 the investment activity has reduced, especially the speculative one; furthermore the property disposal conditioned to tenant identification are increasing. Prime yields rose to 5.50%, +50 bps yoy.

The Rome office market confirmed its stability in 3Q08. The occupation activity remained at a good level as many end users are searching a new location. Consulting firms, foreign banks and TLC companies demand for smaller office spaces in historic refurbished buildings in the CBD, while government bodies and industrial firms are more oriented to larger new premises (grade A quality) in the Greater EUR. Prime rents in the CBD climbed at 440 €/sqm/a and 300 €/sqm/a in the EUR. Vacancy rate, according to JLL, stands at 4.3%. New development schemes are taking place mainly in the Greater EUR: this market is attractive to investors as building quality is high and yields set at a comfortable 6.5%. Yields in CBD increased to 5.75%. Considering the context characterized by stability of rents and increasing yields expected in the Italian office market, we decide to downgrade our view to neutral.

	Rent Trend	Yield Trend	Spread	Take-up Trend	Vacancy	Downside Risk
Milan CBD	++	-	=	na	na	High
Milan Ring 3	++	-	++	=	na	Medium
San Donato	++	-	+	na	na	Very High
Sesto S.Giovanni	+	-	++	=	na	Very High
Milanofiori	=	--	++	--	na	High
Milan Aggregate	++	-	+	-	+	High
Rome	++	-	+	=	=	Very High

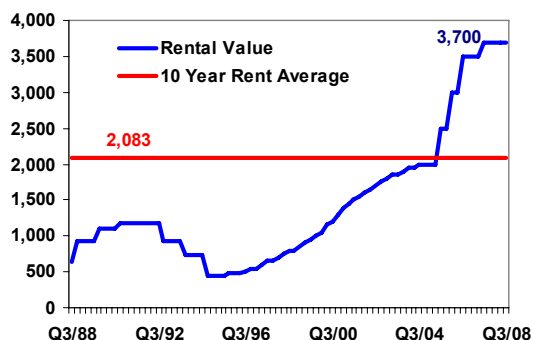
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Rating: =

Retail Market / Italy

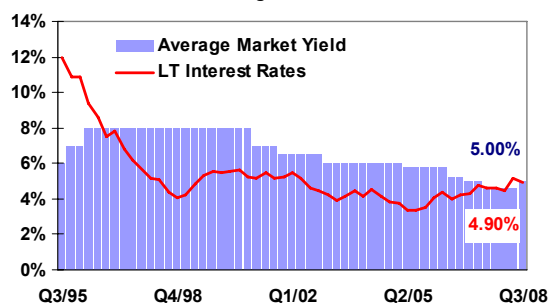
The Italian retail market keeps on against the financial crisis

Italian High Street Market:
Rental Value vs Long Term Average



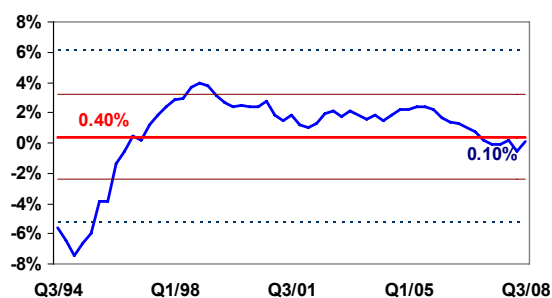
Data Source: CB Richard Ellis

Italian High Street Market:
Yield % vs Long-Term Interest Rates



Data Source: CB Richard Ellis

Italian High Street Market:
Quarterly Yield Spread (Avg. $\pm\sigma$, Avg. $\pm 2\sigma$)



High Street	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread
Milan Total	3,700.00	0.0%	5.00	0.50	0.10
Rome	2,200.00	10.0%	5.75	0.50	0.85

	Rent Trend	Yield	Yield Trend	Spread	Downside Risk
Milan Total	-	-	-	-	Very High
Rome	=	=	-	=	High

Market analysis

The fever that led the retail property market to reach higher and higher values in recent years seems to be over since the end of 2007. The opening of new shops and the refurbishment of historical seats is still an ongoing process in prime areas in both Milan and Rome. What is missing in this market is the willing to invest in highly risky real estate projects, considered the uncertainty of returns linked to the trend of economy.

In general however international investors and retailers played a key role in the development of the Italian High Street segment. As owners of prime assets prefer not to dismiss them, demand by investors, driven by a "flight to quality", induced by the subprime crisis, put in upward pressure the high bracket of the high street in Milan (Via Verri) and Rome (Via dei Condotti). In Milan prime rents in the "fashion Quadrilatero" and in the Duomo zone have been stable at 3,700 €/sqm/a (+0.0% yoy). Prime yield of high street investments increased to 5.00%, which at the end of 3Q08 reward just a 10 bps premium compared to LT 10 years bond interest rates.

Development projects concerned mainly shopping centres schemes over the whole country. The volume of speculative schemes was limited in main cities. In Milan the market for shopping centres has been narrowing in 3Q08. The market is evolving towards a quality standards improvement: the number of new projects tailored on tenant requirements and pre-let is increasing. Prime shopping centres rents remained stable at 750 €/sqm/a. Demand is expected to maintain sustained for retail premises. Mid-term perspectives for retailers, currently suffering the economic slowdown, feed uncertainty about the sustainability of current properties values. We then prefer downgrading this segment to Neutral.

Market Outlook

The Italian retail property market experienced a positive trend over the last decade. Only over the year 2008 prime rents seemed moving toward stabilization, due to the lack in upward pressure exercised by a fierce demand, and yields are increasing in conjuncture with the contemporary macroeconomic context. Slowdown of the trend seems to be coming over; we then change our outlook into Neutral.

- The subprime crisis impacted only marginally on high streets yields, which remain firm at 5.00%, an increase in yields driven by higher risk of investing is expected.
- The supply of High Street shops units is restricted and concentrated in CBDs; high competition for space should sustain market fundamentals in the high market bracket and maintain constant the level of rents.
- The shopping centre segment is not mature and, in this market phase, it could be a more appealing alternative than other uncertain property investment.

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value	3,500	3,700	3,700
Rental Value Chg. %	40.0	5.7	0.0
Yield, %	5.25	4.50	5.00
L/T Bond Yields, %	3.99	4.60	4.90
Yield Spread, %	1.26	-0.10	0.10
Capital Value (derived)	66,667	82,222	74,000

Data Source: CB Richard Ellis

Rating: =

Industrial Market / Italy

The logistic segment hit by economic downturn

Market analysis

The current economic scenario is showing as not favourable in particular to the warehousing property market. The first nine months of 2008 were characterized by a positive trend of take-up accompanied by declining rents in 3Q08. Developers are acting cautiously as their activity in upcoming months is closely linked to economic fundamentals which for Italy are not good. Firms do not have a clear idea of the repercussions of the crisis on their economic activities, with a consequent extension of the "wait-and-see" phase in real estate investment decisions. Then reduction in investment volume together with rising yields followed. In this scenario the logistic sector is on its way to be an important driver in the economic development towards eastern economies.

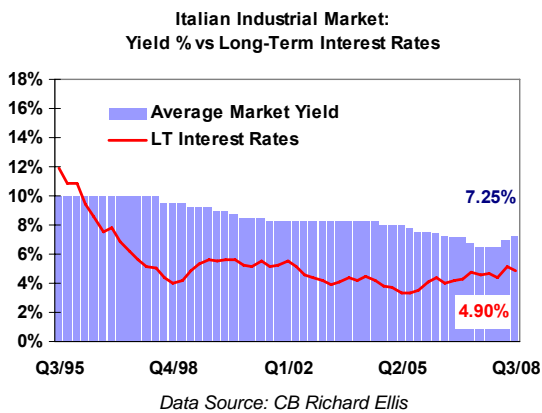
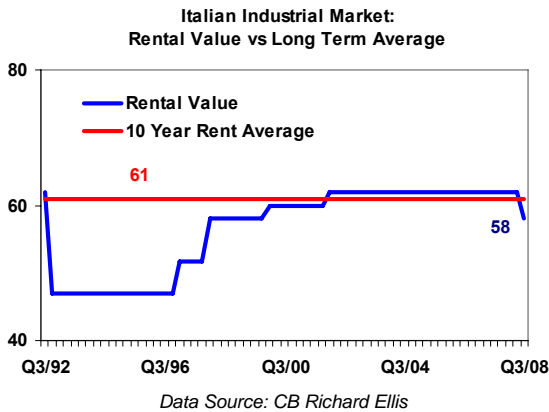
The Italian industry developed almost exclusively in the Northern part of the country and the main pole is concentrated in the zone surrounding Milan. This area is also a crucial location for the development of European trade axes, offering many operators the opportunity to gain from pure distribution rather than mere production. Along the axis Milano-Piacenza-Bologna a high volume of transactions in the logistic segment was recorded recently. The development of international trades along new axes will lead to new opportunities for both operators and investors in the logistics: Corridor 5 (Lisbon-Kiev), Corridor 1 (Berlin-Palermo) and Corridor 8 (Bari-Varna).

In Milan, prime rents for logistic segment have decreased to 58 €/sqm/a (-6.4%) after 5 years stability, due also to the wide supply. Yields instead moved up to 7.25% in 3Q08 (+75 bps yoy), driving capital values down. In Rome the price fall was even harder with prime rents down by 17.3% at 62 €/sqm/a. At this extent capital valuations do not embody a high downside risk, but the trend of market metrics and the expected strong decline in demand encourage us to downgrade the segment to Neutral.

Market Outlook

Capital value went down considerably and cost cut are still a key factor. Considered the wide product supply, we do not forecast a major rent upside in the short term, but likely a further contraction. Our Neutral view is supported by the following arguments:

- The trend of rent stabilization in the logistics sector is common to many European markets and should be confirmed for all of 2008 and 2009, as a significant increase in supply of logistics space over the last few years and a consequent increase in vacancy;
- The level of yields has increased only slightly, thus witnessing the experienced stability of this segment on the Italian property market, but leaving room to future corrections;
- The perception of the logistic segment as a highly rewarding and appealing alternative is abandoning investors; today the market is focusing on quality only, very hard to be found in the Italian logistic segments.



	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread
Milan Total	58.0	-6.5%	7.25	0.75	2.35
Rome	62.0	-17.3%	7.25	0.75	2.35

	Rent Trend	Yield Trend	Spread	Downside Risk
Milan Total	-	--	=	Very High
Rome	--	--	=	High

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value	62	62	58
Rental Value Chg, %	0.0	0.0	-6.5
Yield, %	7.20	6.50	7.25
L/T Bond Yields, %	3.99	4.60	4.90
Yield Spread, %	3.21	1.90	2.35
Capital Value (derived)	861	954	800

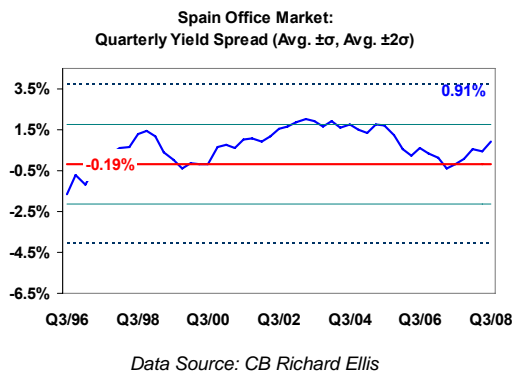
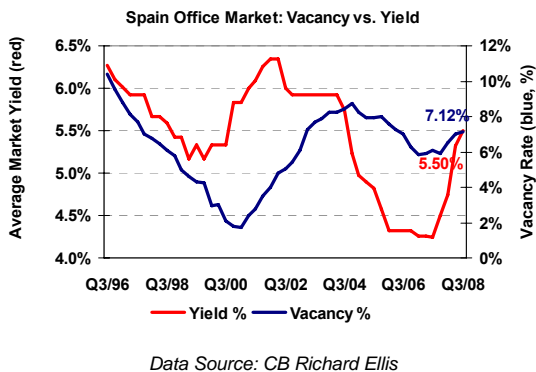
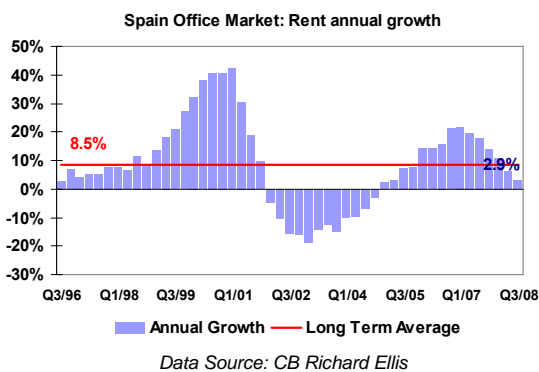
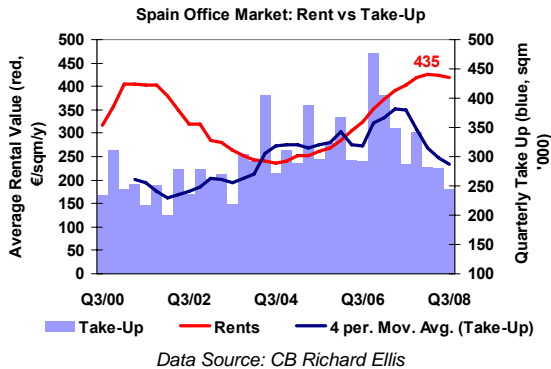
Data Source: CB Richard Ellis

Rating: =

Office Market / Spain

Significant decrease of occupier demand

Country market cycle



The take-up in the occupier market in Madrid and Barcelona declined again significantly in 3Q08. Only 180,000 sqm were transacted during the last three months a fall of 20% qoq. Since the beginning of the year the decrease is even stronger as only 633,000 sqm were taken up between 1Q08 and 3Q08 against 927,000 sqm between 1Q07 and 3Q07 representing a drop of 32%. Some tenants have already started to downsize, a situation likely to intensify next year. In the meantime the supply kept on growing in 3Q08 but only slightly to stand at 7.1%. Since the beginning of the year around 240,000 sqm were completed in Madrid and 200,000 sqm in Barcelona. Around 480,000 sqm are expected to come onto the market across both markets in 4Q08, 60% of which should not be pre let at completion and thus enlarge the volume of availability, increasing the vacancy rate especially in the New Business Areas and the Periphery of both cities. The average prime rent slightly decreased in 3Q08 by 1% qoq standing at 436 €/sqm/a at a comparable level with that of end 2007. While the prime rent remained stable in Madrid it fell by 4% qoq to 318 €/sqm/a in Barcelona.

On the investment side, Madrid and Barcelona are the only European markets that registered their investment volumes so far this year through several sale-and-lease-back deals from financial companies and disposal of assets from real estate companies currently in need for cash. In Madrid 420 million € in 3Q08 and 2.3 billion € between 1Q08 and 3Q08. Investors took benefit of the rapidly readjusting prices but the lack of liquidity and the financial crisis has limited the number of potential buyers. In Barcelona 600 million € were invested in commercial properties one big transaction – La Maquinista shopping centre – amounting for more than half of that volume. 1.5 billion € since the beginning of the year in Barcelona. The average prime yield for the country kept on rising in 3Q08 from 5.33% up to 5.50% qoq.

Market Outlook

Demand from occupiers significantly declined further in 3Q08 impacting rental values while the investment market showed noticeable dynamism. Our view remain neutral:

- the occupier market should remain lacklustre in the next quarters given the rapid and deep deterioration of the economic environment and in particular the strong increase of the unemployment rate;
- completions are expected to pick up in the next months despite financial constraints likely to delay some of the development schemes and lead to a potential over supply;
- due to dampening demand together with rising supply rents are forecast to experience further falls in 2009;
- the investment volume expected in 2009 should be low despite likely further price readjustment.

EOY DATA	Q2/06	Q2/07	Q2/08
Rental Value (€/Sq m p.a.)	344	413	439
Rental Value Chg, %	14.4	19.8	6.3
Yield, %	4.32	4.25	5.33
L/T Bond Yields, %	4.07	4.64	4.90
Yield Spread, %	0.25	-0.39	0.43
Capital Value (derived)	7,965	9,711	8,235
Vacancy Rate, %	7.3	5.9	7.0
Vacancy Rate % Chg	-0.6	-1.4	1.1
Take Up (Year, Sqm '000)	1,099	1,403	987
Take Up Chg, %	2.2	27.7	-29.6
Stock (Sqm Mln)	15.2	15.8	16.3
Take Up as a % of Stock	7.2%	8.9%	6.1%

Data Source: CB Richard Ellis

	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread	Take Up (sqm, '000)	Vacancy Rate
Madrid CBD	486	3.8%	4.75	0.50	0.16	5.0	4.4
North (Discontinued serie)	462	4.1%	5.50	1.00	0.91	13.0	4.0
City (Discontinued serie)	324	0.0%	5.75	1.00	1.16	12.0	2.4
M30 (Discontinued serie)	291	1.0%	6.00	1.00	1.41	66.0	6.7
M40 (Discontinued serie)	288	2.1%	6.25	0.75	1.66	37.0	11.3
Madrid Aggregate	398	2.8%	5.43	0.71	0.83	133.0	6.1
Barcelona CBD	318	0.0%	5.50	1.25	0.91	0.7	2.9
City	264	7.3%	6.00	1.25	1.41	5.6	1.6
New Business Area	264	4.8%	6.00	1.25	1.41	34.2	0.0
Periphery	216	5.9%	7.00	1.25	2.41	42.5	0.0
Barcelona Aggregate	297	1.8%	5.75	1.25	1.16	83.0	2.2

Data Source: CB Richard Ellis

Market analysis

Spain (=): in Madrid the take-up figure was significantly under the record levels of the recent years but was in fact better than initially feared. Indeed, in the A-1 sub-market in the Northern part of the city occupier demand actually exceeded the Q3 long term average. The interesting performance of the decentralised market districts is signs that tenants have become more price sensitive and are prepared to leave the city centre in order to move into good quality of buildings with large space units and easy access. However the vacancy rate there increased up to 12% due to the completions of several buildings. Across the Madrid market the vacancy rate increased only slightly in 3Q08 as very few new buildings were completed during the quarter in the Spanish capital. The prime rent achieved at 3Q08 in the CBD stood again at 486 €/sqm/a but should decrease in the next quarters due to the increasing availability of quality space units in out-of-town market districts. Even in the CBD a significant amount of new space is due to completion and asking rents are likely to fall over the coming quarters.

In Barcelona demand remained moderate due to the summer time usually slow in activity as well as the current economic situation but increased against 2Q08 through several corporate transactions of significant volume such as the sale of Trioparc Business Park in Sant Cugat with 15,000 sqm. Vacancy has increased slightly as only two projects were completed during 3Q08 adding 18,000 sqm to the total office stock but only 6,000 sqmeters to vacancy. Take up in the CBD during 3Q08 has been very low, mostly due to the scarcity of available space. Rental values experienced a downward pressure and prime rent in the city decreased from 330 €/sqm/a to 318 €/sqm/a. The general drop in rents occurred throughout all areas although the CBD and City Center have experienced the most significant drop in average rents during 3Q08. Rents are expected to continue a downward pressure in 4Q08.

Such as the other European markets the investment volume faced a significant slowdown since the beginning of the year despite the surprisingly noticeable level it reached in 3Q08 due to a large transactions in Barcelona. With credit conditions tightening further the prime yield went up by 25 bps in Madrid and remained stable in Barcelona standing at 5.50% in both cities.

	Rent Trend	Yield Trend	Spread	Take-up Trend	Vacancy	Downside Risk
Madrid CBD	+	-	-	=	++	Very High
North (Discontinued serie)	+	--	+	-	++	Very High
City (Discontinued serie)	=	--	+	=	++	High
M30 (Discontinued serie)	=	--	++	=	+	High
M40 (Discontinued serie)	=	--	++	=	-	Very High
Madrid Aggregate	+	--	+	++	+	Very High
Barcelona CBD	=	--	+	+	++	High
City	+	--	++	=	++	High
New Business Area	+	--	++	-	++	High
Periphery	+	--	++	++	++	Very High
Barcelona Aggregate	=	--	+	=	++	High

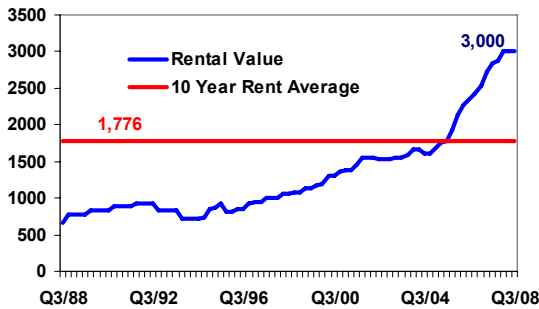
See Legenda, pag. 36.

Rating: -

Retail Market / Spain

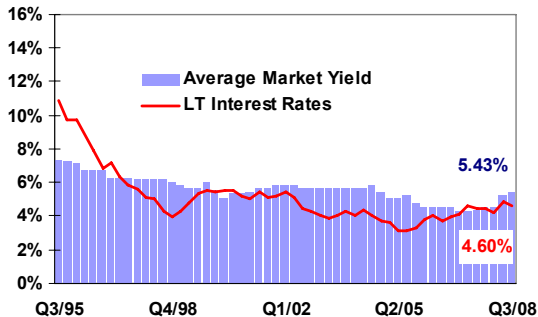
Falling demand from both households and retailers

Spanish High Street Market:
Rental Value vs Long Term Average



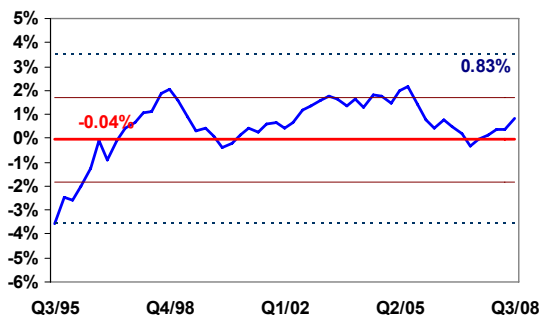
Data Source: CB Richard Ellis

Spanish High Street Market:
Yield % vs Long-Term Interest Rates



Data Source: CB Richard Ellis

Spanish High Street Market:
Quarterly Yield Spread (Avg. $\pm\sigma$, Avg. $\pm 2\sigma$)



High Street	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread
Madrid Total (€ per sq m pm)	3,144.00	4.8%	5.50	1.25	0.91
Barcelona Total	2,664.00	8.6%	5.25	0.50	0.66

	Rent Trend	Yield	Yield Trend	Spread	Downside Risk
Madrid Total (€ per sq m pm)	=	=	--	=	Very High
Barcelona Total	=	=	-	=	Very High

Market analysis

The Spanish retail market suffered further from the deterioration of the economic environment this quarter and is progressively stepping out of a very positive cycle: most operators started to freeze their expansion plans across the country while consumption is expected to fall significantly after Christmas. In Barcelona demand has lost intensity in comparison to last year in 3Q08 as decrease in activity could be measured in the main consumption areas (Portal de l'Angel, Porta Ferrisa, Pelai, Rambla Canaletas, Rambla Catalunya) as well as in the luxury areas of Passeig de Gràcia. In Madrid however some high street space units are still in demand and several lettings at high levels of rents could be closed. Available space increased further in some areas but not in prime quality locations. The average prime rent for high streets in Spain remained stable in 3Q08 for the third time in a row at 3,000 €/sqm/a. The average prime rent for shopping centres declined by 8% to reach 1,100 €/sqm/a.

The shopping centre centre shows another picture as several areas of Madrid and Barcelona are suffering of the strong competition between centres due to the oversupply initiated in the past two years. However well positioned centres in terms of prime locations and a good retail mix are being successful. In Madrid for instance Islazul - a 90,000 sqm big centre which recently opened in the south of Madrid - is performing well despite the south of Madrid having a high concentration of centres.

In the investment market the total volume allocated to retail premises remained at a low level due to the traditional big size of shopping centre investments. Since the beginning of the year less than one billion € was invested in retail premises across Spain against 1.5 billion € during the comparable period of last year. One transaction can however be mentioned: in 3Q08 Unibail Rodamco purchased the shopping centre La Maquinista in Barcelona from Metrovacesa for 344 million €. This deal is the result of Metrovacesa struggling under the weight of debts. The average prime yield significantly rose from 5,25% up to 5,43% for high street shops. In the shopping centre segment the average prime yield rose more significantly qoq from 50 bps to stand at 5.75% at the end of 3Q08.

Market Outlook

The intensifying degradation of the economic environment went being reflected in consumer spending in retail shops and thus in demand for retail space units. Our view remains negative because:

- falling household consumption should start affecting strongly the business of all type of retailers whose demand for retail space units is likely to slow down noticeably;
- this depressing demand is expected to lead to declining rental values especially in secondary high street locations;
- shopping centres rents in high retail density areas will come under pressure due a combination of strong competition and weaker retail sales;
- no major price falls are expected for high street shops due to the lack of supply in the prime areas.

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value (€/Sq m p.a.)	2,341	2,836	3,000
Rental Value Chg, %	31.8	21.1	5.8
Yield, %	4.50	4.40	5.43
LT Bond Yields, %	3.72	4.44	4.60
Yield Spread, %	0.78	-0.04	0.83
Capital Value (derived)	52,027	64,448	55,300

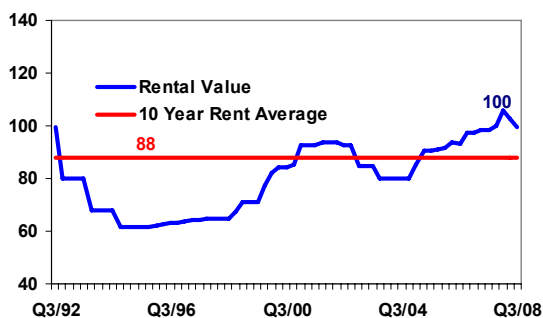
Data Source: CB Richard Ellis

Rating: -

Industrial Market / Spain

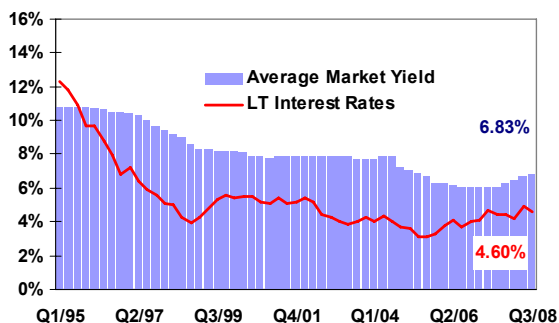
Decrease in rental values confirmed this quarter

Spanish Industrial Market:
Rental Value vs Long Term Average



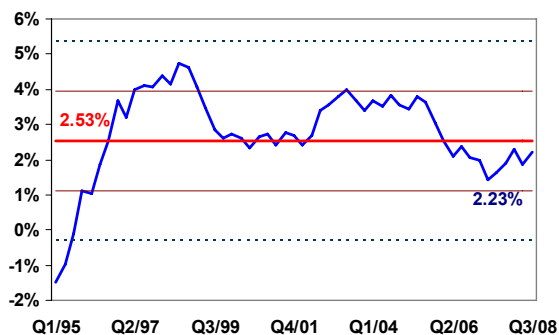
Data Source: CB Richard Ellis

Spanish Industrial Market:
Yield % vs Long-Term Interest Rates



Data Source: CB Richard Ellis

Spanish Industrial Market:
Quarterly Yield Spread (Avg. $\pm\sigma$, Avg. $\pm 2\sigma$)



	Rent Eur/sqm/a	Rent chg 1y	Yield	Yield chg 1y	Spread
Madrid Total	96.0	-5.9%	6.75	0.75	2.16
Barcelona Total	108.0	20.0%	7.00	0.75	2.41

	Rent Trend	Yield Trend	Spread	Downside Risk
Madrid Total	-	--	-	Very High
Barcelona Total	++	--	=	Very High

Market analysis

The general economic downturn has also started affecting the logistics in the Madrid and Barcelona markets. Consequently demand slowed further down during 3Q08 both in the rental and turnkey markets. Many companies have delayed their expansion decisions for next year but the the logistic segment is less affected than in the industrial sector. On the supply side vacancies are rising in the periphery of Madrid as well as in the periphery of Barcelona where availability used to be traditionally very low. 40,000 sqm were completed and still available to the market while approximately the same amount of units should be completed by mid 2009. In Madrid a significant volume of land ready for development as well as a large number of projects under construction are boosting up potential supply.

During the summer industrial premises increasingly attracted investors interest as volumes are more moderate volumes i.e. less dependent on credit and yields becoming higher. The investment volume narrowed 500 million € between 1Q08 and 3Q08 against approximately 420 million € between 1Q07 and 3Q07. Secured products with long leases focused most of the transactions.

The decrease in the average prime rental value continues in 3Q08 reaching 3% qoq. For the time since 4Q07 the prime rent did not exceed the 100 €/sqm/a mark any more and stood at 99.6 €/sqm/a. Both the Madrid and Barcelona markets registered a fall in rents, by 2% in Madrid and both 5% in Barcelona after eight quarters of increase. The average prime yield increase again for the fourth quarter in a row from 6.75% up to 6.83%.

Market Outlook

Additionally to the credit crunch affecting the investment market as a whole the Spanish industrial market is showing signs of unbalance of the property fundamentals: the combination of significantly declining demand and increasing supply led to a drop in rental values for the second quarter in a row. In that context we downgraded our view:

- the level of demand should not improve in the next quarters and could even worsen given the quickly deteriorating economic environment;
- through the completions of large platforms in 3Q08 rental values have already started to decrease this quarter and are expected to drop further;
- the rise in prime yields is likely to persist in the next quarters.

EOY DATA	Q3/06	Q3/07	Q3/08
Rental Value (€/Sqm p.a.)	93	98	100
Rental Value Chg, %	3.1	5.7	1.2
Yield, %	6.08	6.08	6.83
L/T Bond Yields, %	3.72	4.44	4.60
Yield Spread, %	2.36	1.64	2.23
Capital Value (derived)	1,533	1,620	1,459

Data Source: CB Richard Ellis

Legenda

Legenda					
Ratings	++	+	=	-	--
Rent Trend	The "rent trend" measures the variation of the quarterly rent over a year (RT). The rating corresponds to the appartenance of the RT to the following ranges:				
Office	RT > 7,5%	2,5% < RT < 7,5%	-2,5% < RT < 2,5%	-7,5% < RT < -2,5%	RT < -7,5%
High Street	RT > 23%	12% < RT < 23%	1% < RT < 12%	1% < RT < -10%	RT < -10%
Industrial	RT > 13%	5% < RT < 13%	-3% < RT < 5%	-3% < RT < -11%	RT < -11%
Yield Trend	The "yield trend" measures the change of the yield over a year (YT). The rating compares the YT with clusters, centered on zero, corresponding to multiples of the Standard Deviation (SD) of the yield annual variation.				
	YT < -3/2 SD	-3/2 SD < YT < -1/2 SD	-1/2 SD < YT < 1/2 SD	1/2 SD < YT < 3/2 SD	YT > 3/2 SD
Spread	The "spread" (S) measures the difference between the yield and the Long Term Interest Rate of the Country. The rating compares the S with clusters centered on an average European spread value (A) and corresponding to multiples of the Standard Deviation (SD) of the average European spread.				
	S > A + 3/2 SD	A + 1/2 SD < S < A + 3/2 SD	A - 1/2 SD < S < A + 1/2 SD	A - 3/2 SD < S < A - 1/2 SD	S < A - 3/2 SD
Take-up Trend	The "Take-Up Trend" is measured as the 'quarterly change of the last 4 quarters average of the take-up' (D-A). The rating compares the D-A with clusters, centered on 0, corresponding to multiples of the Standard Deviation (SD) of the D-A of the city, or area.				
	D-A > 3/2 SD	1/2 SD < D-A < 3/2 SD	-1/2 SD < D-A < 1/2 SD	-2 SD < D-A < -1/2 SD	D-A < -3/2 SD
Vacancy	The rating corresponds to the appartenance of the vacancy rate (VR) to the following clusters:				
	VR < 5%	5% < VR < 7,5%	7,5% < VR < 10%	10% < VR < 12,5%	VR > 12,5%
Ratings	Very High	High	Medium	Low	Very Low
Downside Risk	The "downside risk" (DSR) measures the risk of investing in specific areas, or cities, according to average of the positioning, in a [0,1] cluster, of the level of rent and yield compared to a scale determined by the difference between the maximum and minimum historical values. DSR = Average of [(actual rent-minimum)/(maximum-minimum)] and [1- (actual yield-minimum)/(maximum-minimum)]				
	0 < DSR < 0,2	0,2 < DSR < 0,4	0,4 < DSR < 0,6	0,6 < DSR < 0,8	0,8 < DSR < 1

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