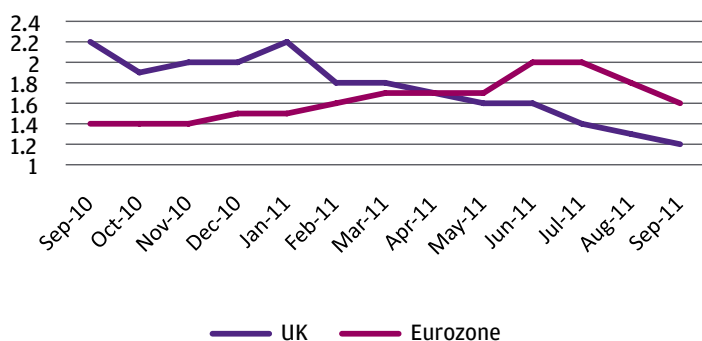


European Real Estate Markets

September 2011

Economic forecasts, 2012 - downgrade continues



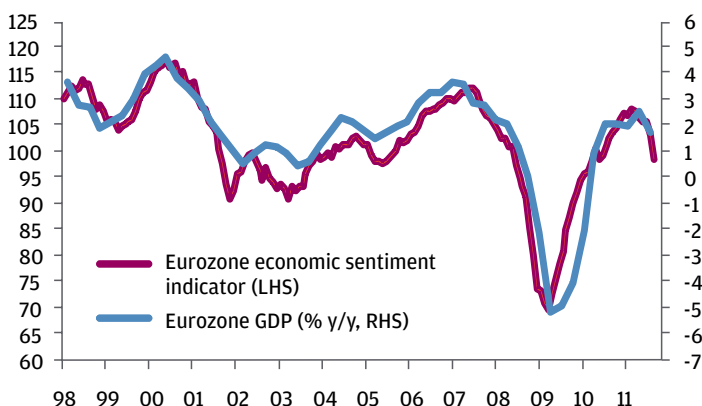
Heightened volatility and a low growth environment reinforces the defensive nature of real estate **at the right price:**

Core - Core investment in late recovery markets where pricing remains favourable

Core+ / Value Add - Attractive risk-adjusted returns in major markets. Such opportunities will only really be accessible to a few managers with access to debt finance

Opportunistic - The focus will continue to be on the deleveraging of bank balance sheets

Eurozone economic sentiment & GDP



Source: Bloomberg, Datastream. Data as at September 2011.

Market volatility continues to expose the weakness of debt-ridden economies. Investors lack confidence in the ability of policymakers and, as a result, the migration to safety is in full flight.

It is no surprise, therefore, that economic forecasts around Europe continue to be downgraded with the best case scenario being a rather slow and anaemic rate of growth in 2012, albeit with substantial downside risk.

The risk of the major economies going into another recession has increased with the latest set of lead indicators in German showing that export order books have begun to decline whilst consumer sentiment is at a low point in the UK, Germany as well as France.

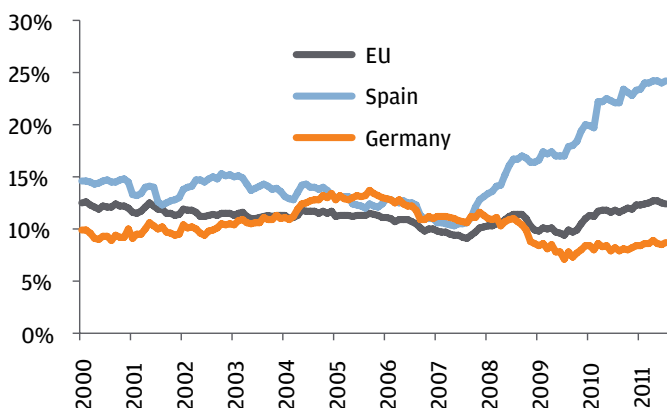
Whilst inflation remains low and interest rates which will need to stay low, and fall further, in the eurozone, the search continues for a credible "Plan B" capable of implementation:

Any potential second round of quantitative easing (QE2) in the UK may well include the purchase of real estate assets from the banks. There is, however, little to suggest that QE2 will be any more successful than previous versions.

Political division will inevitably hamper coherent and decisive action and, as a result, volatility in the market will continue.

Whilst the market is looking for a coherent plan to indebtedness and growth requiring either closer fiscal union or dissolution, the reality may well be a period of further, muddled, consensus and prevarication. Against such a background, investors will remain uncertain and, so long as investors are uncertain, economies won't grow at the sort of rates required to solve the problem.

Misery index (*)



Source: J.P. Morgan Asset Management.

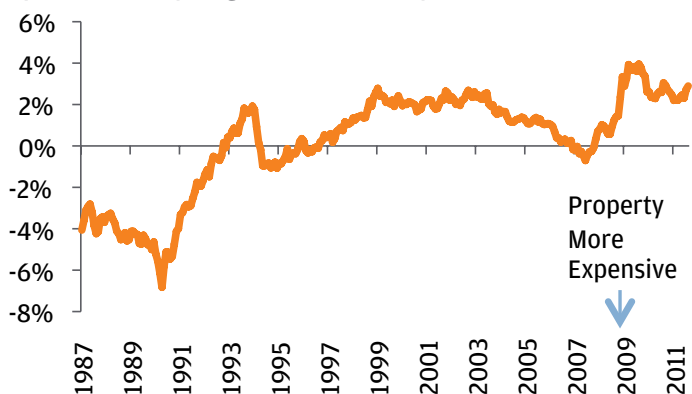
Data as at August 2011

(*) unemployment plus inflation

European Real Estate Markets – Defensive Qualities

September 2011

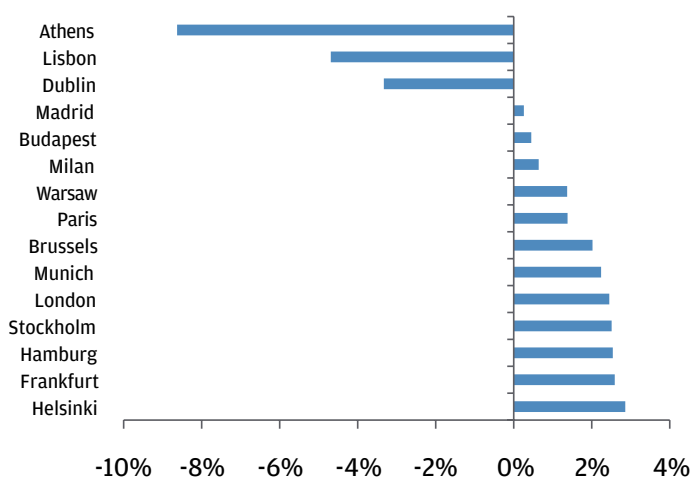
Spread over 10 year government bond yields in the UK



The real estate market is not immune from the lack of confidence prevailing at the present time. The economic downturn will impact on the occupier market as occupiers “look but don’t commit”, whilst the dearth of debt will lead to a weakening of prices. However, not all real estate, and not all real estate markets can or should be tainted with the same brush.

Pricing - Relative to government bonds, corporate bonds and equities, core European real estate remains reasonably priced. The current yield gap continues to be significant even taking into account the fact that income growth prospects have deteriorated over the past three months, there is now a higher probability of tenant default and a higher liquidity risk premium.

Prime office yields over 10 year government bond yields

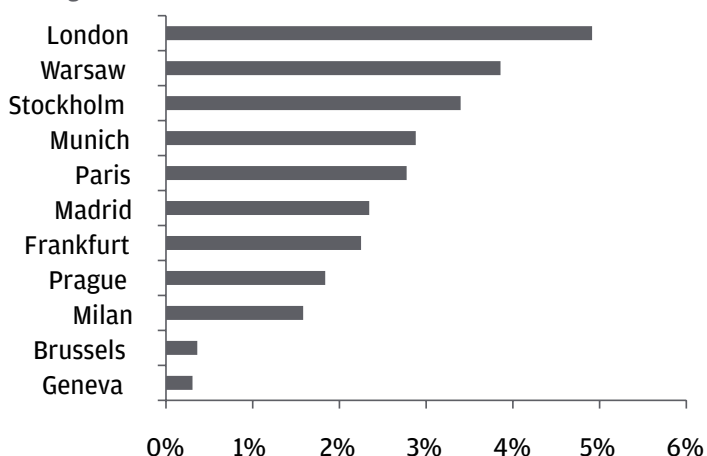


Also, real estate reasonably priced in terms of capital values which remain well below both long-term levels as well as peak values.

Liquidity - Investment capital continues to focus almost entirely on core, income producing investment product in prime locations. Germany, Scandinavia and CEE continued to buck the trend attracting substantial investor interest recently despite the gloomy nature of the macro environment.

Debt - Banks will be under increasing pressure from respective Governments to lend to the corporate and consumer sector in the first instance. Real estate has a higher default rate and will generally be seen as a poor alternative. The lack of debt finance and a longer, than expected, lag in the recovery of many leasing markets will place further pressure on secondary markets.

Average 2011-15 rental forecasts



Total Return	1 month	3 months	12 months
UK All Property	0.6%	1.9%	8.8%
FTSE All Shares	-6.9%	-9.3%	7.3%
UK Government Bonds	1.7%	5.6%	5.5%
Sterling Corporate Bonds	-1.5%	0.1%	3.2%

Source: DTZ, J.P. Morgan Asset Management. Data as at June 2011.

Source: Bloomberg, Datastream, IPD
J.P. Morgan Asset Management.
Data as at June 2011.

European Real Estate Markets – Defensive Qualities

September 2011

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