



RAC Quarterly Market Assessment (QMA) – Q2 2009

**EURO
HYPO**

ZRS RAC Research | July 2009

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RAC Quarterly Market Assessment (QMA): Product Information Sheet

■ Intention

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

■ Approach

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

■ Specifications

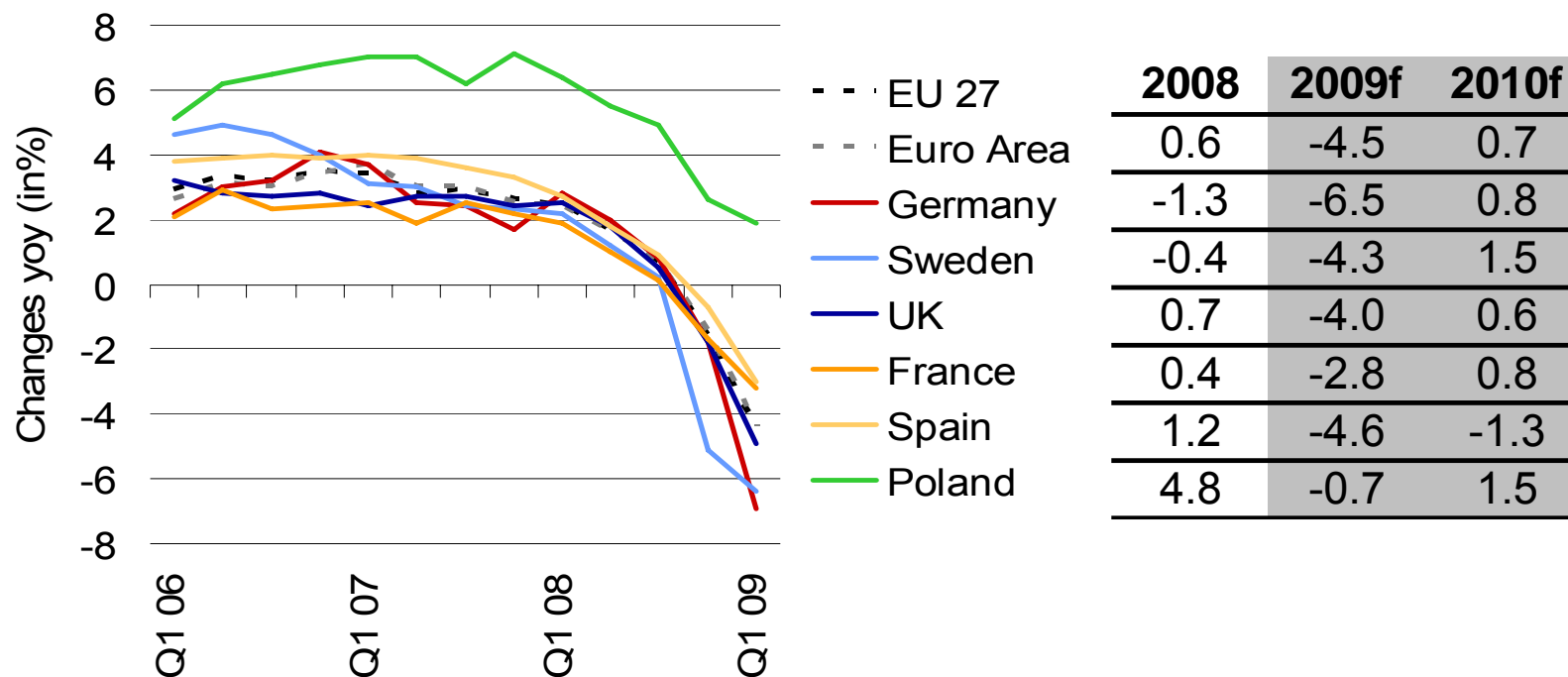
- Periodicity: Quarterly
- Language: English

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Economic Development – Europe

Real GDP Growth - First Half of 2009 with Dramatic Contraction

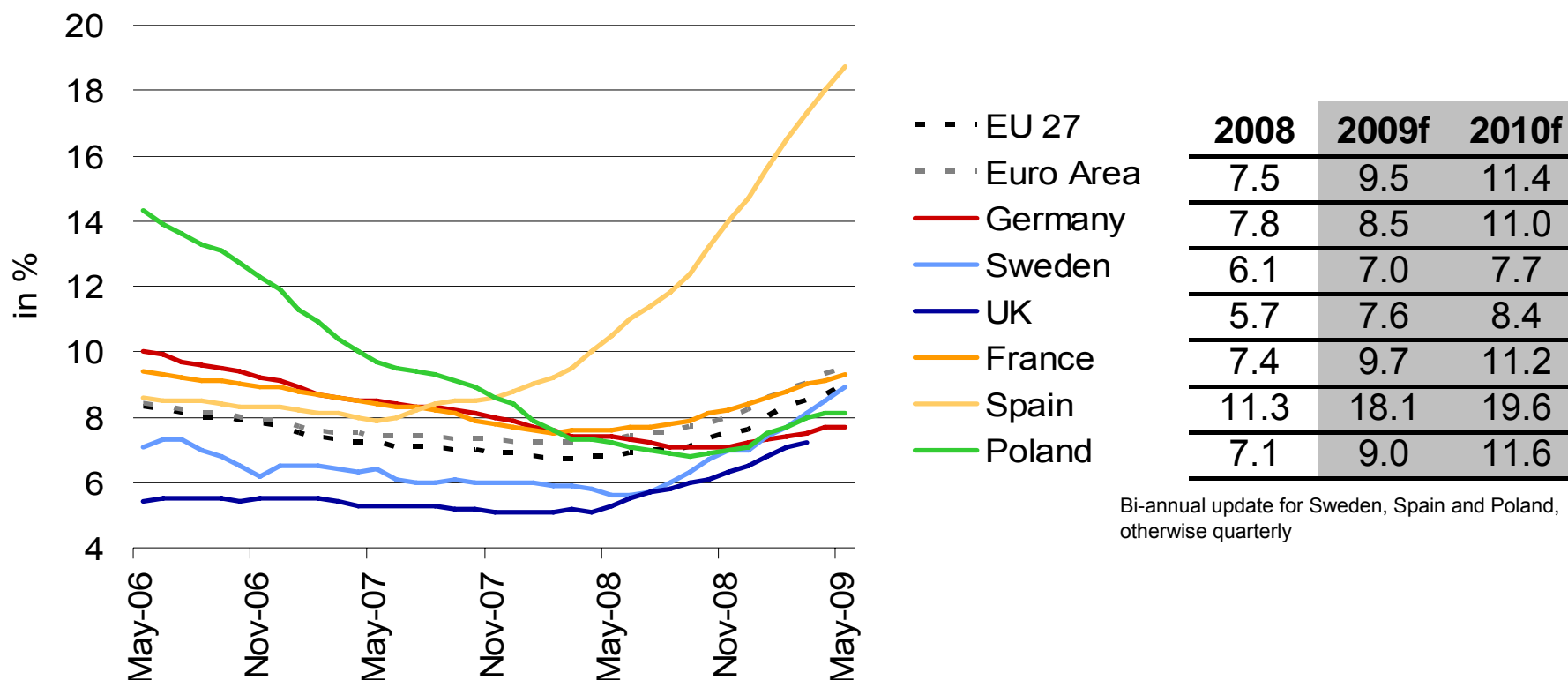


- Contraction of European economies accelerated dramatically in Q1 2009
- For Q2 2009, GDP is expected to shrink further, leading to negative growth rates for the entire year; however, decline for this period is not estimated to gain momentum once again
- Export-based German and Swedish economy to suffer most from global recession; in contrast, Spain's shrinkage at above-EU-average rates mainly due to deteriorating domestic demand; crises now also constrains CEE countries
- With recurring confidence in the economy reflected by several sentiment indicators and share price indices the recession is expected to grind to a halt in the second half of the year followed by an anaemic recovery in 2010

Sources: Datastream, Commerzbank

Labour Market – Europe

Unemployment Rate – Decrease continues unabatedly

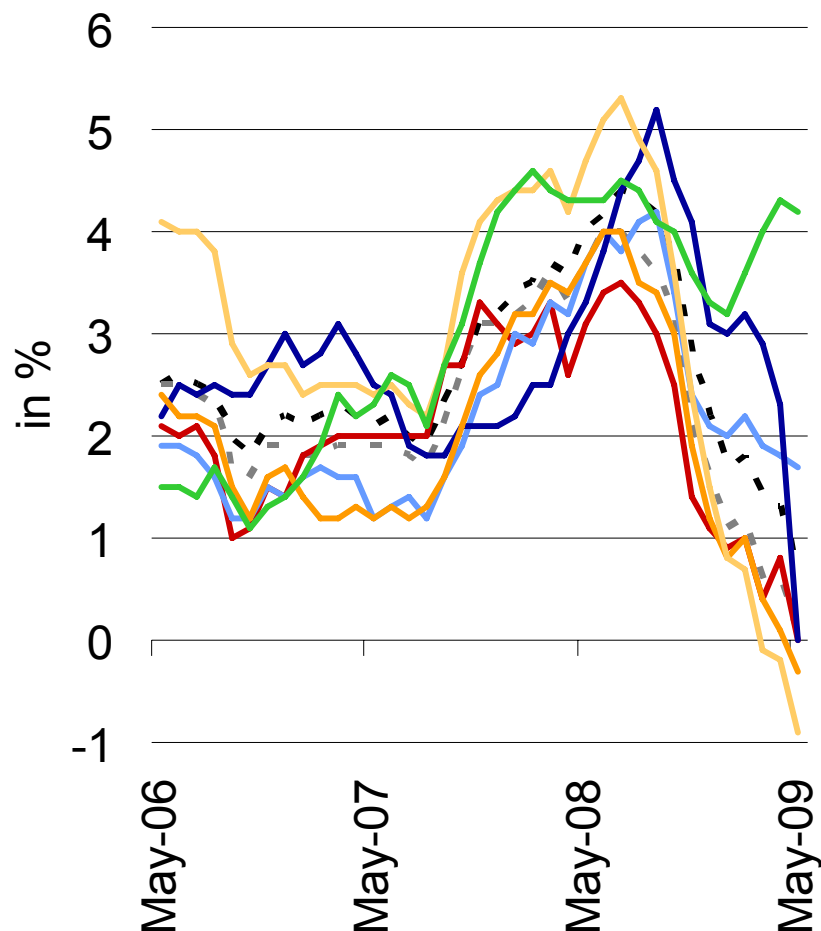


- Synchronic increase in unemployment across all economies continued
- Although recession is expected to come to an end in the second half of 2009, the deterioration of the labour market is not foreseen to bottom out by 2010
- With regard to last QMA, forecasts for Spain and Poland have been significantly revised to the negative revealing extraordinary structural problems of the national economies

Sources: Commerzbank, Datastream, Consensus, OECD

Inflation – Europe

Harmonised Consumer Price Index – Further Relief from Reduced Oil Prices



| | 2008 | 2009f | 2010f |
|-----------------|------|-------|-------|
| - - - EU 27 | 3.3 | 0.5 | 1.6 |
| - . - Euro Area | 2.6 | 0.4 | 1.5 |
| — Germany | 3.5 | -0.5 | 1.5 |
| — Sweden | 3.6 | 1.5 | 1.9 |
| — UK | 2.8 | 0.5 | 1.7 |
| — France | 4.1 | -0.5 | 1.5 |
| — Spain | 4.2 | 3.0 | 1.5 |
| — Poland | | | |

- Relief for both production and consumption has derived from plunging inflation that even turned slightly negative in some countries recently.
- With lately rising prices of oil and imported commodities deflation has to be regarded as a short-term phenomenon.

Sources: Datastream, Commerzbank

Economy – Non-European Countries

Except for China, Similar Pattern of Current Cyclical Trend

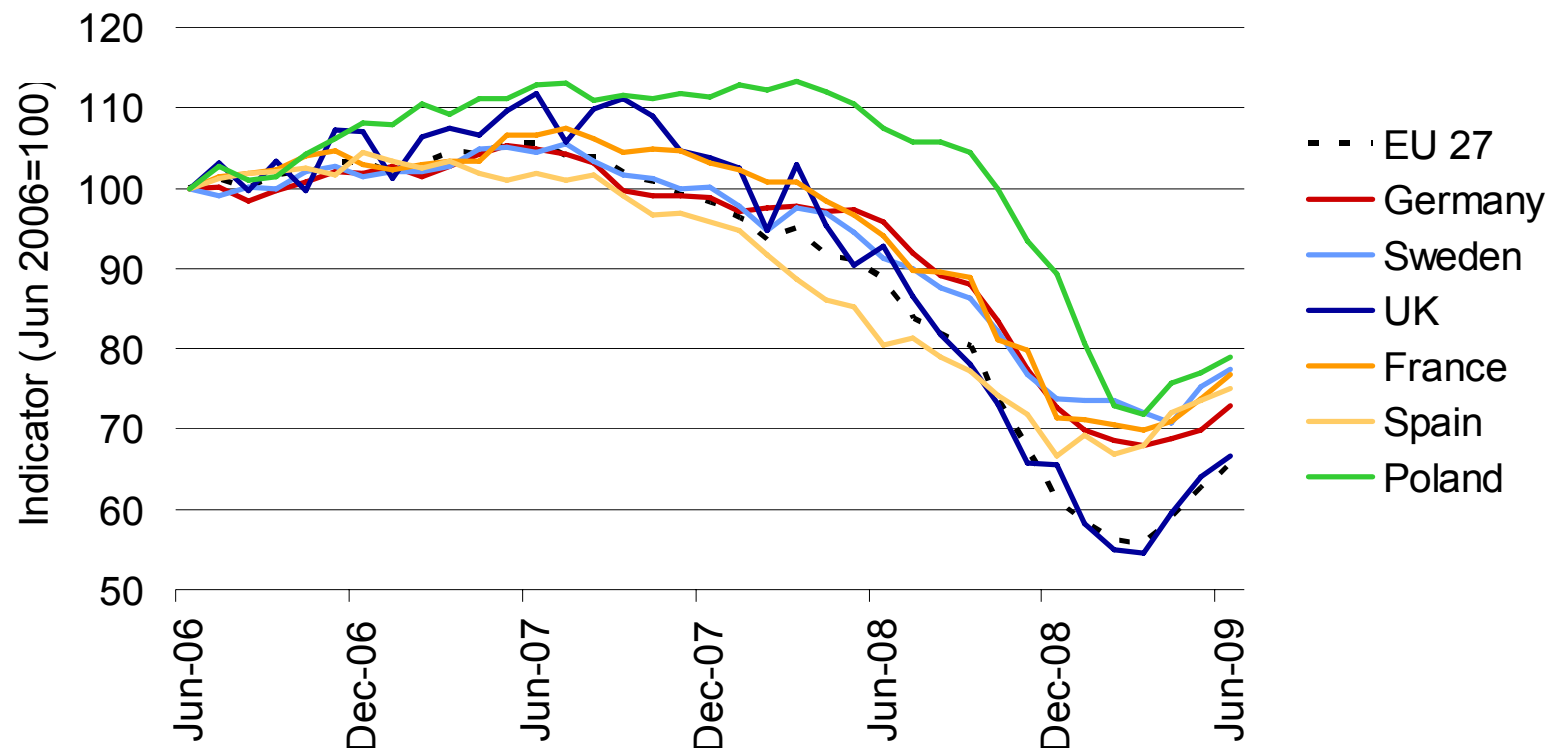
| | Real GDP Growth | | | Unemployment | | | Inflation | | |
|---------------|-----------------|-------|-------|--------------|-------|-------|-----------|-------|-------|
| | 2008 | 2009f | 2010f | 2008 | 2009f | 2010f | 2008 | 2009f | 2010f |
| USA | 1.1 | -3.0 | 1.5 | 5.8 | 9.4 | 10.7 | 3.8 | -0.7 | 2.0 |
| Mexico | 1.4 | -8.0 | 2.8 | 3.5 | 5.7 | 6.9 | 5.1 | 5.4 | 3.1 |
| Japan | -0.7 | -7.0 | 0.9 | 4.0 | 5.2 | 6.0 | 1.4 | -1.4 | -0.5 |
| China | 9.0 | 6.5 | 7.5 | 9.2 | 10.3 | n.a. | 5.9 | 0.3 | 1.8 |

- Except for China, the pattern of the current cyclical trend is similar for both Established and Emerging markets: after a severe contraction in 2009 the following upswing is dominated by only very moderate growth rates
- Double-digit unemployment rates will burden the recovery in the USA, being a constraint for private households to get their finances in order
- Japan additionally constrained by deflation as a reaction on the severe recession
- China is just facing reduced growth rates as generous stimulus packages launched by the government temper the impacts of the financial and economic crisis

Sources: Datastream, Commerzbank, OECD, EIU

Business Sentiment – Europe

Economic Sentiment Indicator (European Commission) – Rebounding Confidence

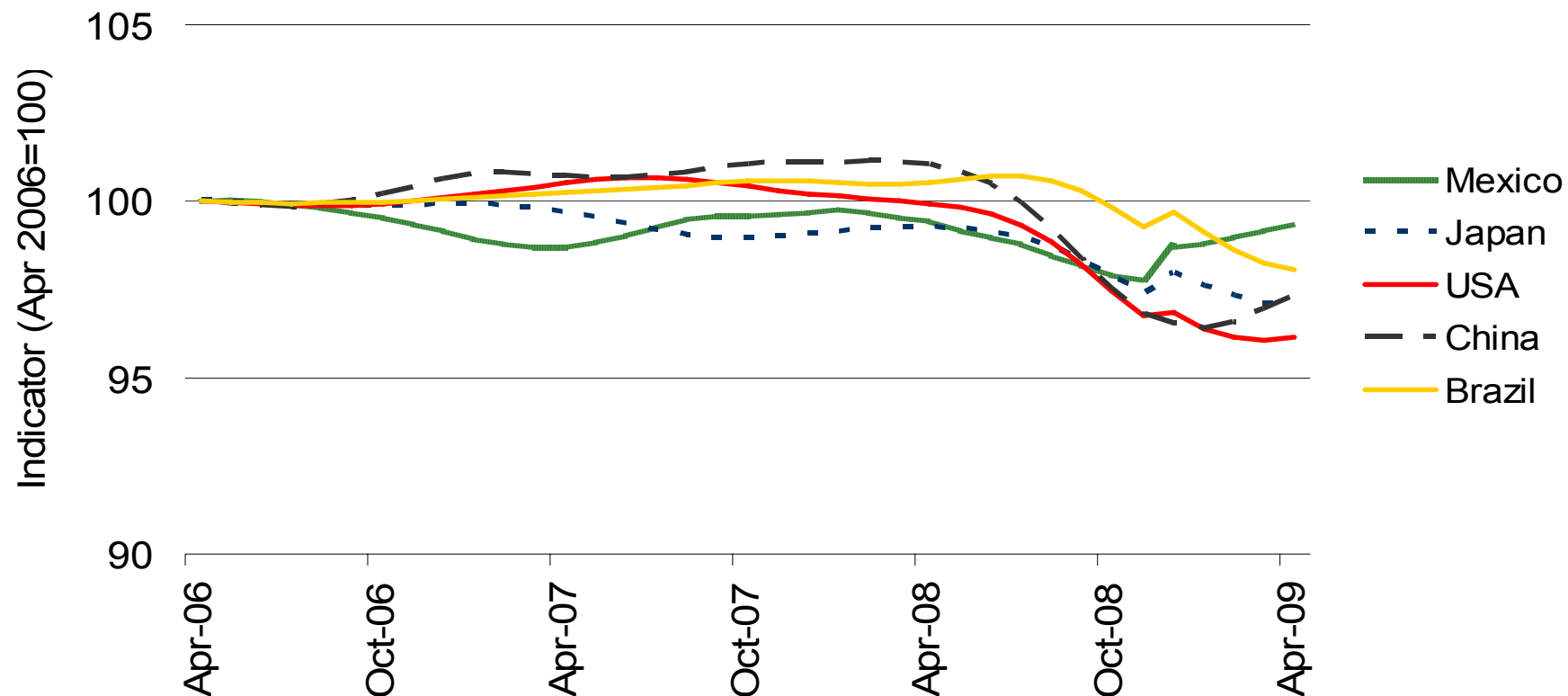


- Since the start of the year several survey-based leading indicators such as ESI improved continuously confirming the rebound of confidence in the economy across all countries
- UK with impressive catch up
- Current pick-up of „hard facts“ such as order bookings gradually prove this optimistic sentiment
- As these indicators have a forerun on the development of the GDP of six months, the end of the recession is foreshadowed for H2 2009

Source: Datastream

Business Sentiment – Non-European Countries

Composite Leading Indicator (OECD) – Decline in Confidence Also Halted



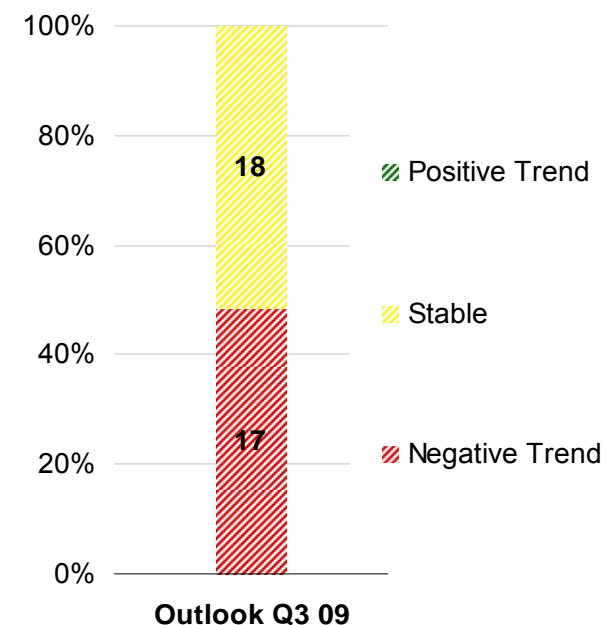
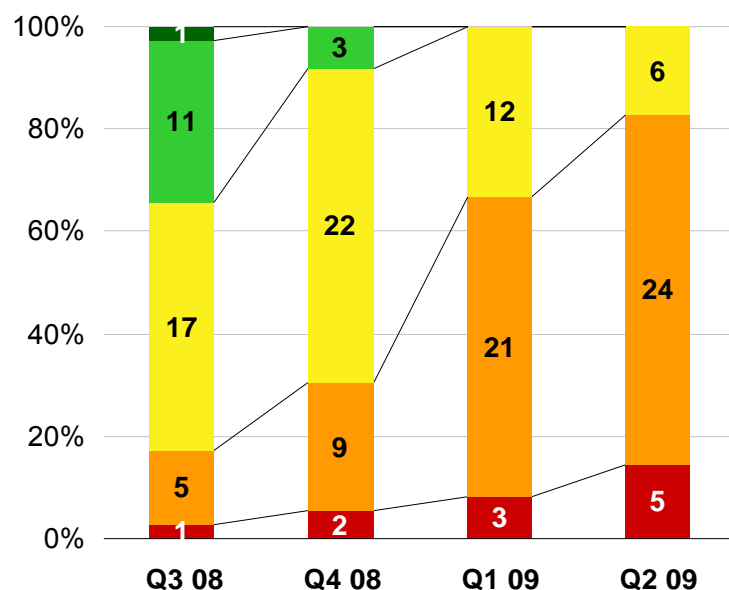
- Comparable to European economies, encouraging signs from stabilizing confidence indicators become visible for Non-European Countries as well (please note: latest recorded month is April; ESI ends up in June)
- China with the strongest improvement, followed by Mexico; other countries with a CLI bottoming off

Source: Datastream

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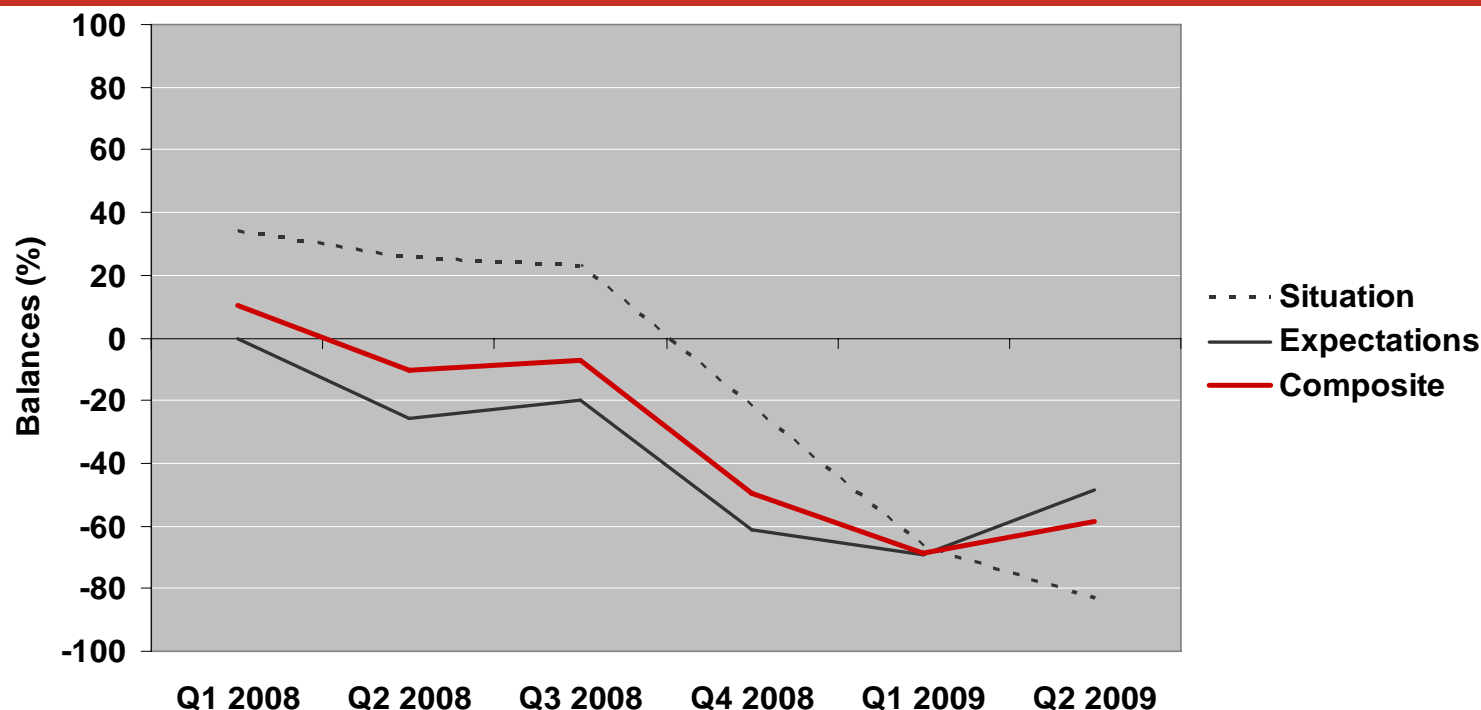
Office Market Conditions of Eurohypo Markets Downswing on Office Letting Markets Continued in Q2 2009



- World-wide downswing on office letting markets continued in Q2 2009
- More than one fifth of all Eurohypo markets show clearly characteristics of a tenant's market with weak letting activity in line with deteriorating rents, increasing availability and a significant rise in incentives
- Only few markets, particularly less volatile Tier II markets (e.g. Lisbon, Stuttgart), are still regarded to be in balance
- With a half of all markets being expected to soften further over the next quarter, the short-term outlook remains dampened; however, the proportion "stable trend" to "decreasing trend" converted to the favor of the first category, indicating that the pace of correction may ease.

Source: Eurohypo ZRS RAC

RAC Sentiment Index – Office Letting Markets Slightly Rebound in Expectation Component

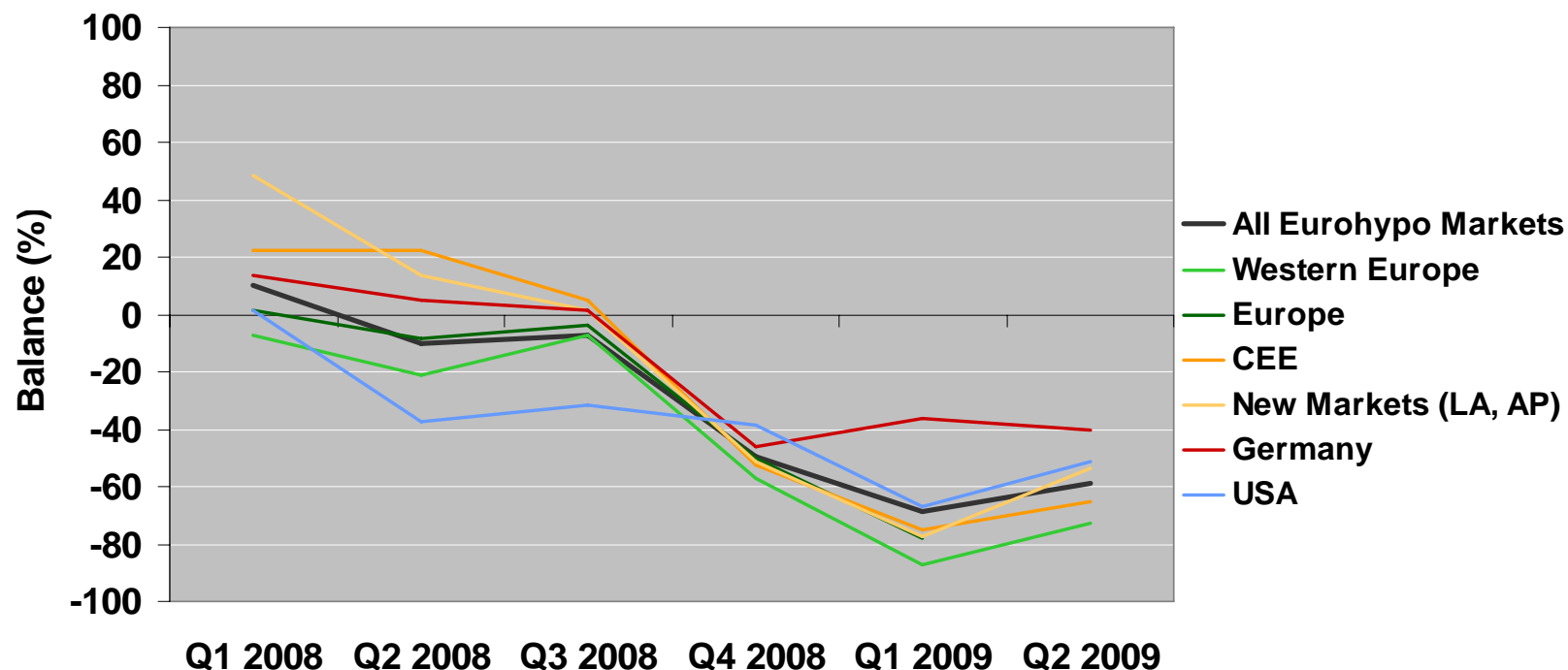


- The two components of the sentiment index are currently pointing in contrary directions: while the situation component deteriorated once again to a level that could hardly turn worse, the expectation component improved so that the overall index rebounded slightly, still remaining in strongly negative terrain
- If this rebound already foreshadows a sustainable recovery or at least a bottoming out of the office letting markets has to be proved by the following surveys
- Future trend hardly to assess as many local RAC departments foresee the letting activity to come down further due to company's space optimization and sub-lettings on one hand; on the other hand relief comes from drying-up pipe-lines

Source: Eurohypo ZRS RAC

RAC Sentiment Index by Country Groups

German Office Letting Markets Remain Comparatively Stable

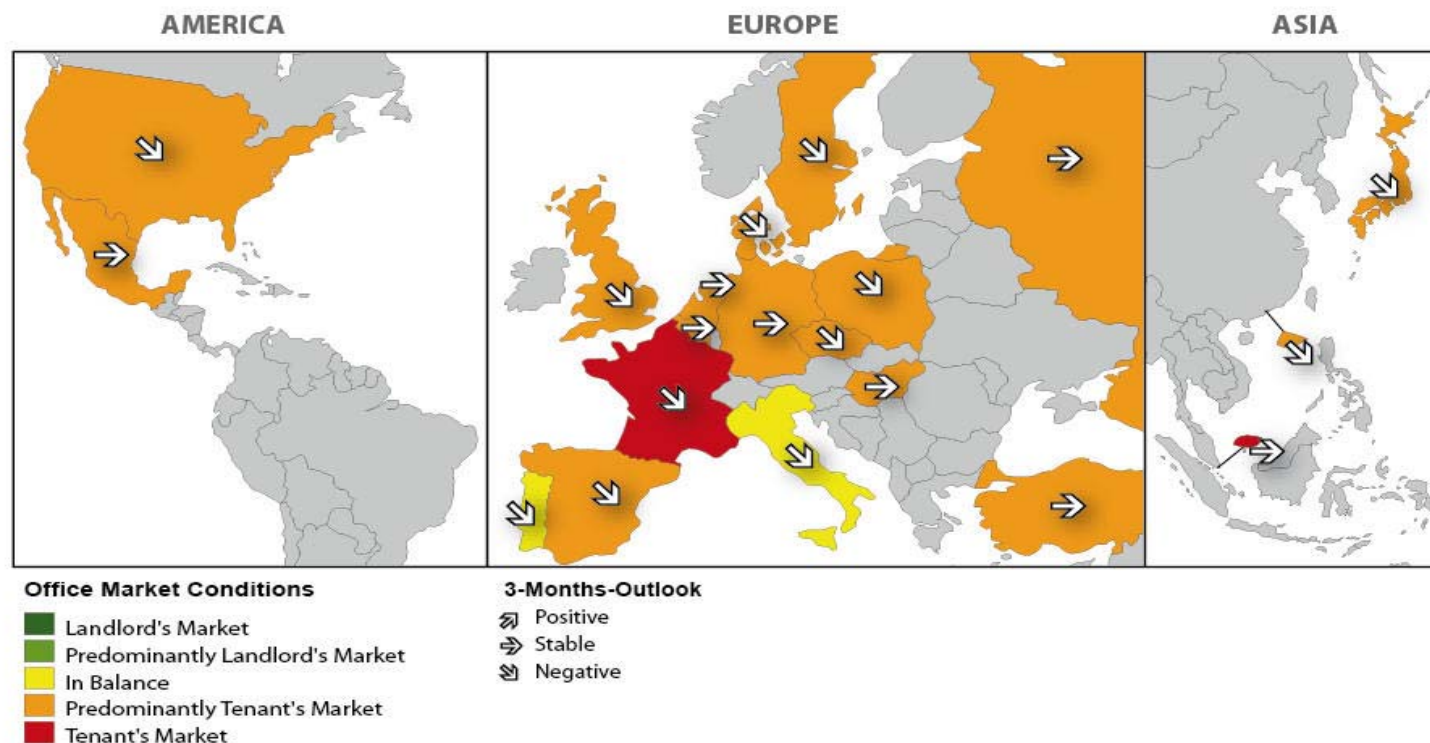


- The slightly rebound can be experienced across all monitored country groups
- Germany proved to be less effected by the overall downswing on the office Letting markets as the RAC Sentiment Index stayed relatively firm since Q4 2008
- European Core Markets such as UK, Spain, France and the Nordics to suffer most from current crisis

Source: Eurohypo ZRS RAC

Office Market Conditions and 3-Months-Outlook by Countries

France with Sharpest Deterioration in Q2 2009



- Compared to last QMA, still no market with positive trend
- With a certain time-lag, Italy and Portugal expected to follow other European core markets as tenant's market
- In Q2 2009, France experienced the sharpest deterioration with Ile-de-France now showing characteristics of a distinct tenant's market

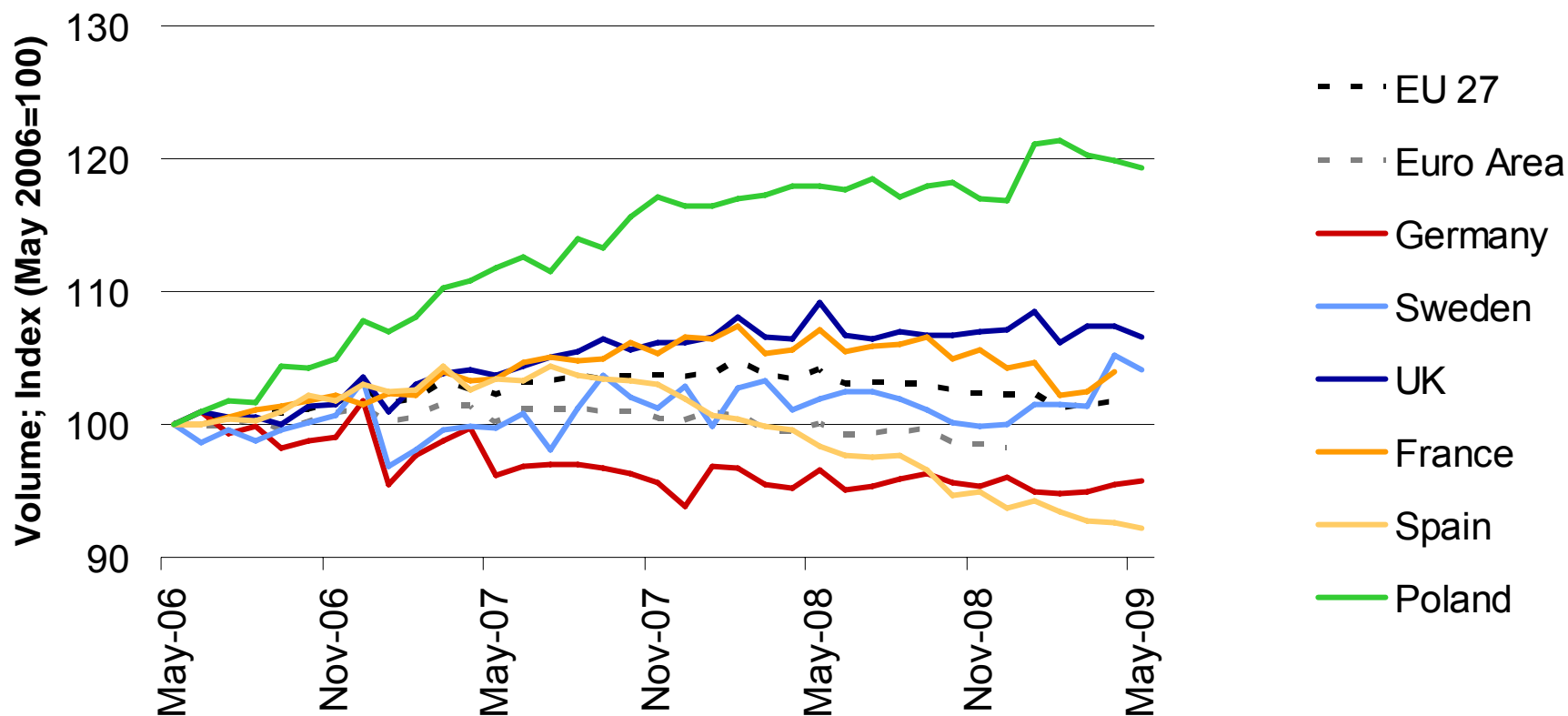
Source: Eurohypo ZRS RAC

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Retail Sales – Europe

Ambivalent Development of Retail Sales

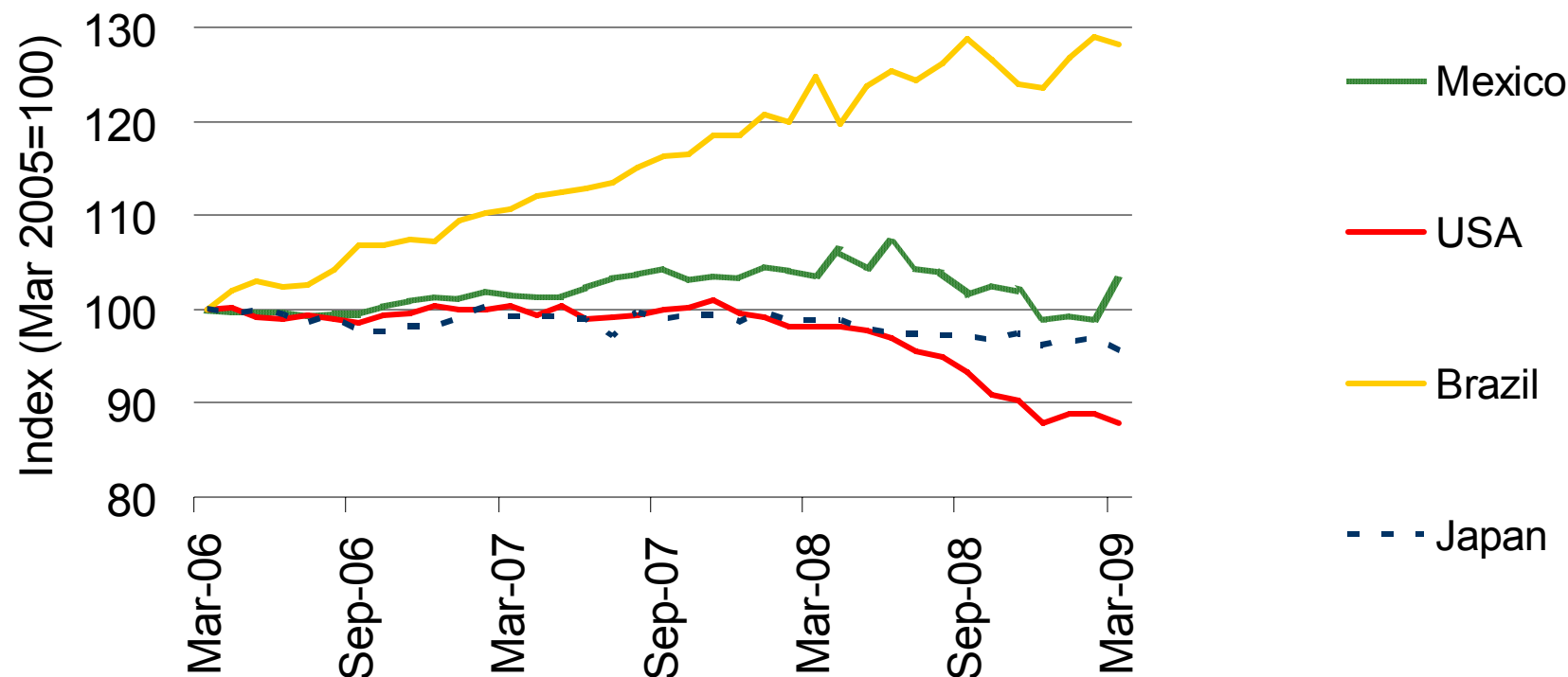


- Sluggish development of retail sales
- Spain continues to show the most distinct decline in sales; weakening data for Poland
- Outlook clouds as deteriorating labour markets, reduced income perspectives and tighter lending to private households will burden purchasing power significantly in the months to come

Source: Datastream

Retail Trade – Non-European Countries

Free Fall of Retail Sales Stopped in the USA

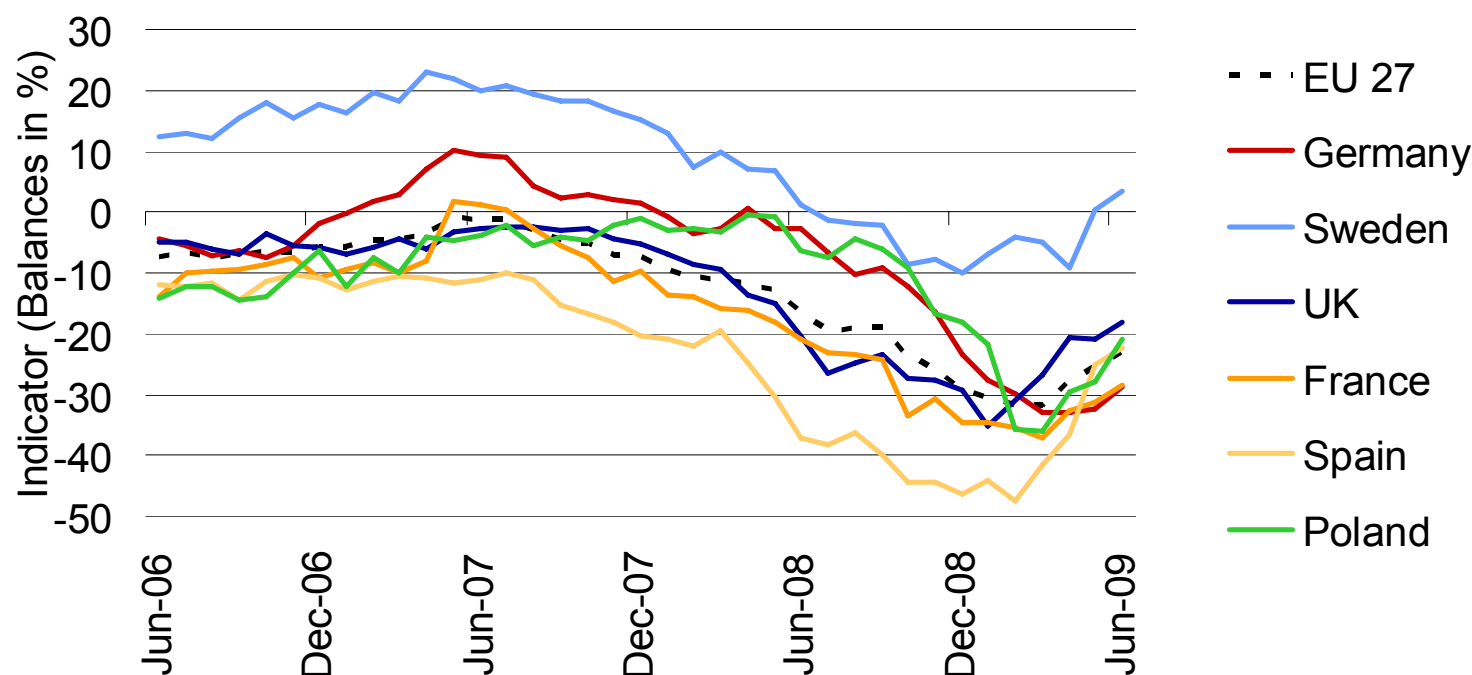


- Burdened by high indebtedness of private households and negative wealth-effects from the deterioration in house prices, retail trade in the USA performed extremely badly, however, free fall of turnover came to an end
- Mexico and Brazil also show stabilization of retail sales after a downswing at the end of 2008; the further development has to be seen

Source: Datastream

Consumer Confidence – Europe

Consumer Confidence Remained Subdued Despite Latest Improvement



- Consumer confidence indices left their lows continuously since the start of the year
- However, expect for Sweden, indices for all monitored countries are still very negative pointing out that a fundamental recovery of the retail sector is still not seen in the months to come

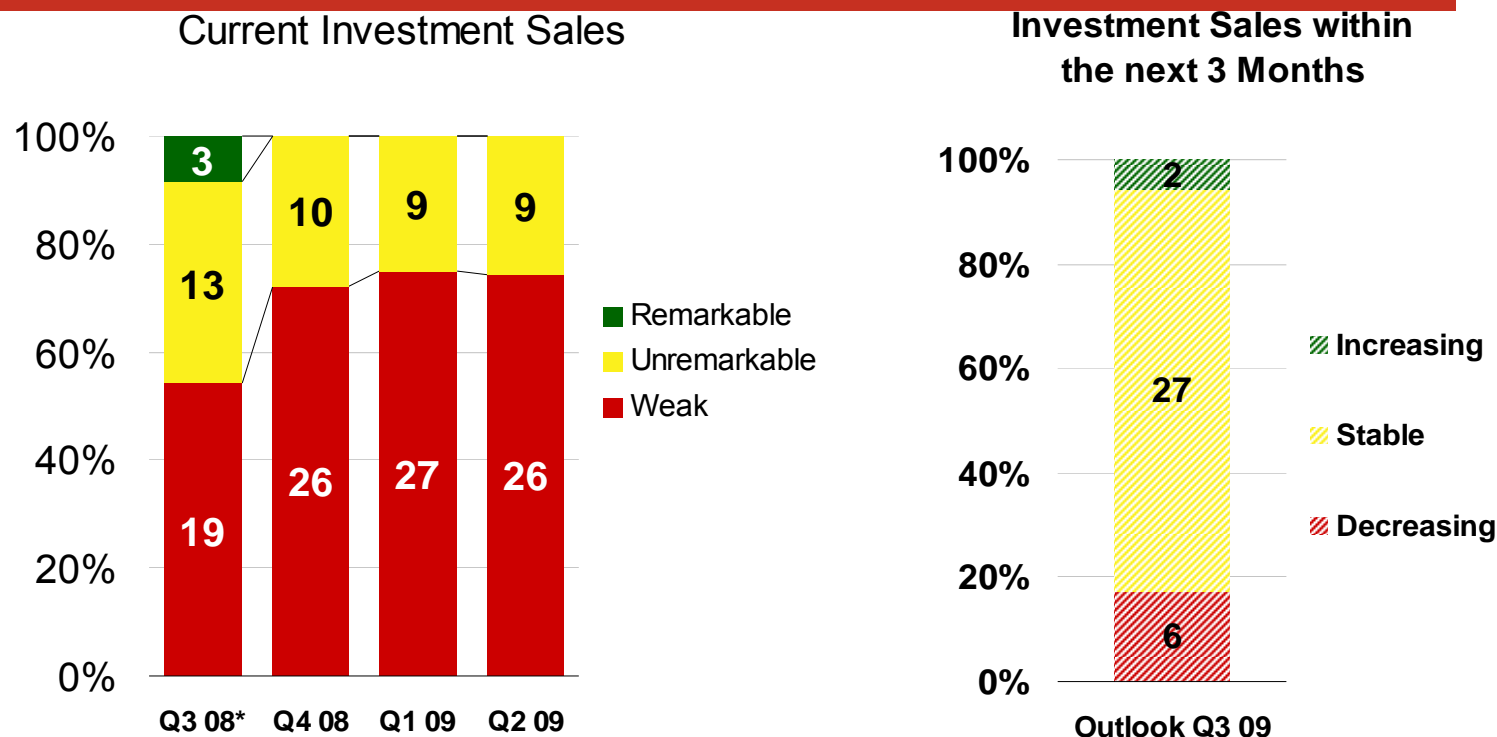
Source: Datastream

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Investment Activity on Eurohypo Markets

Bottoming Out on the Investment Markets Gains Momentum

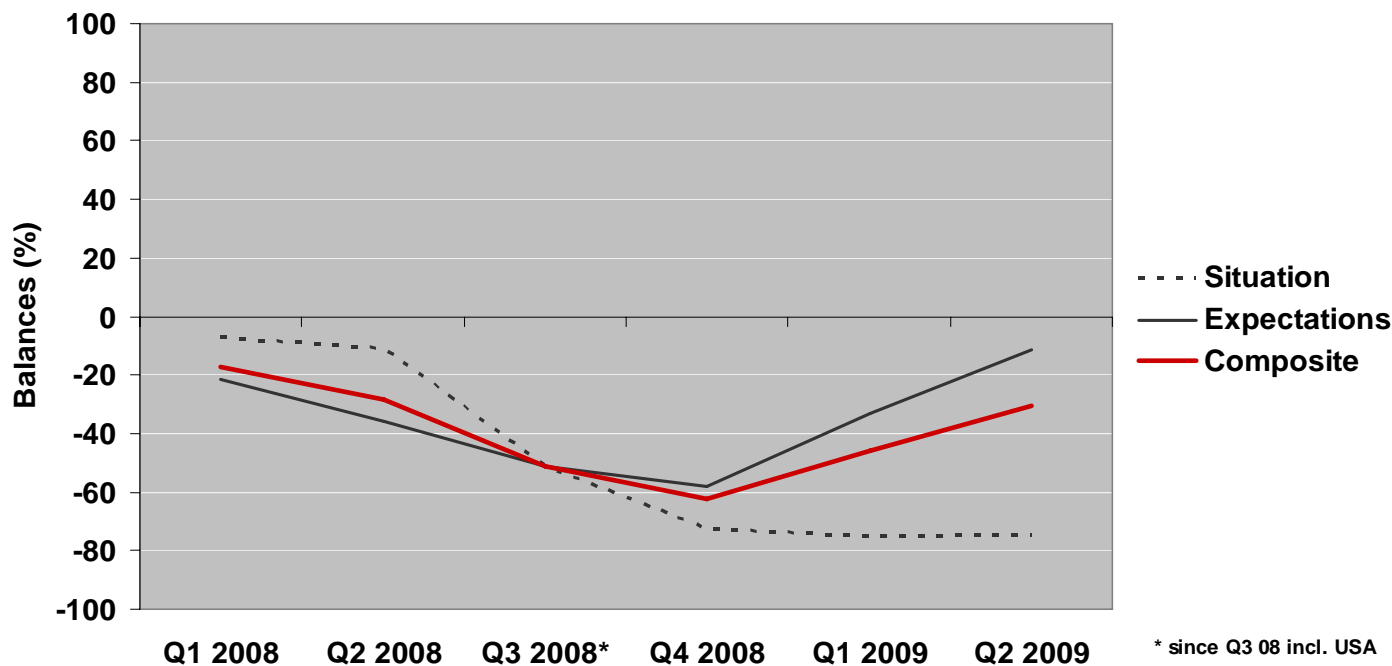


- Three quarter of all markets are still characterised by weak investment activity resulting from continued tight lending to investors and a mismatch regarding price expectations
- For the second consecutive quarter survey shows no further deterioration as the current situation can hardly get worse
- Short-term outlook confirms trend of stabilization clearly

Source: Eurohypo ZRS RAC

RAC Sentiment Index – Investment Markets

Sentiment on the Eurohypo Investment Markets Continued to Improve

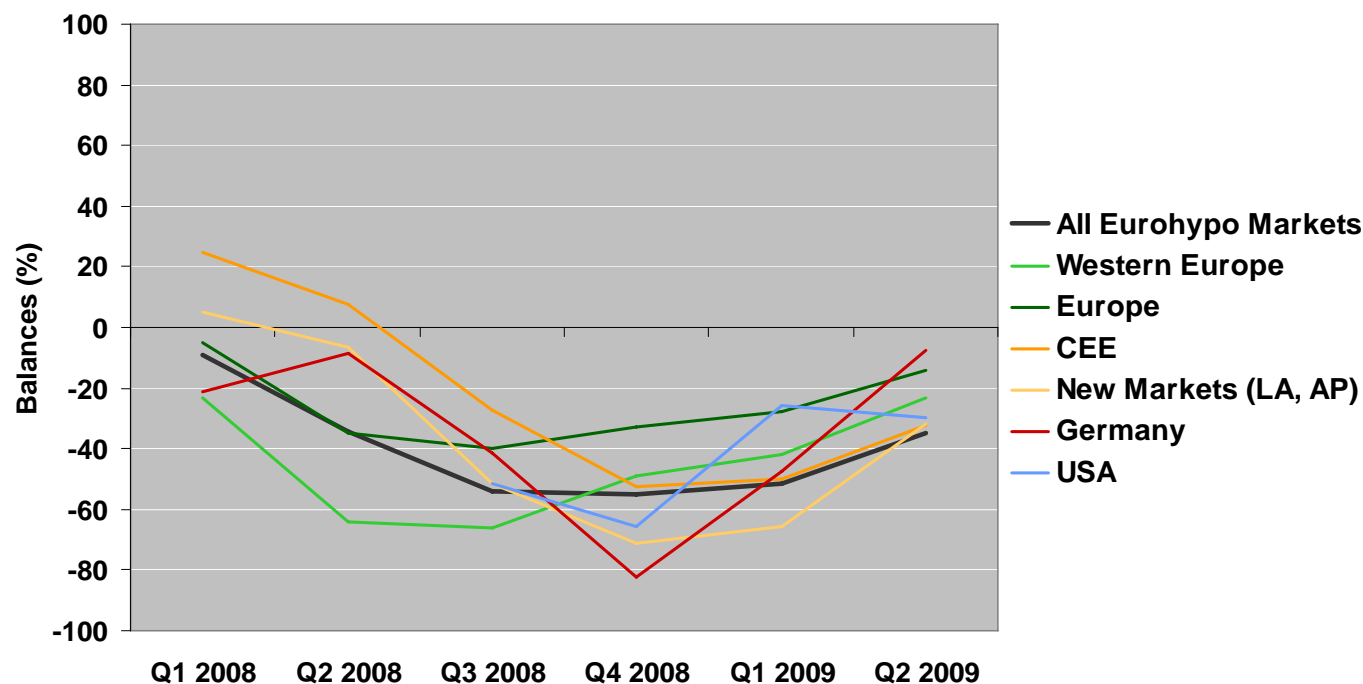


- Since Q4 2008 continued and significant rebound of the expectation component and a firm situation component, resulting in an improved overall RAC Sentiment index, the turnaround on the Eurohypo investment markets seems to be confirmed
- However, with regard to the still negative index the sentiment on the monitored markets remains predominantly subdued
- As negative impacts from capital markets may level-off now, constraints from letting markets could burden the future development

Source: Eurohypo ZRS RAC

RAC Sentiment Index – Investment Markets by Country Groups

Sentiment Improves Synchronously across all Country Groups

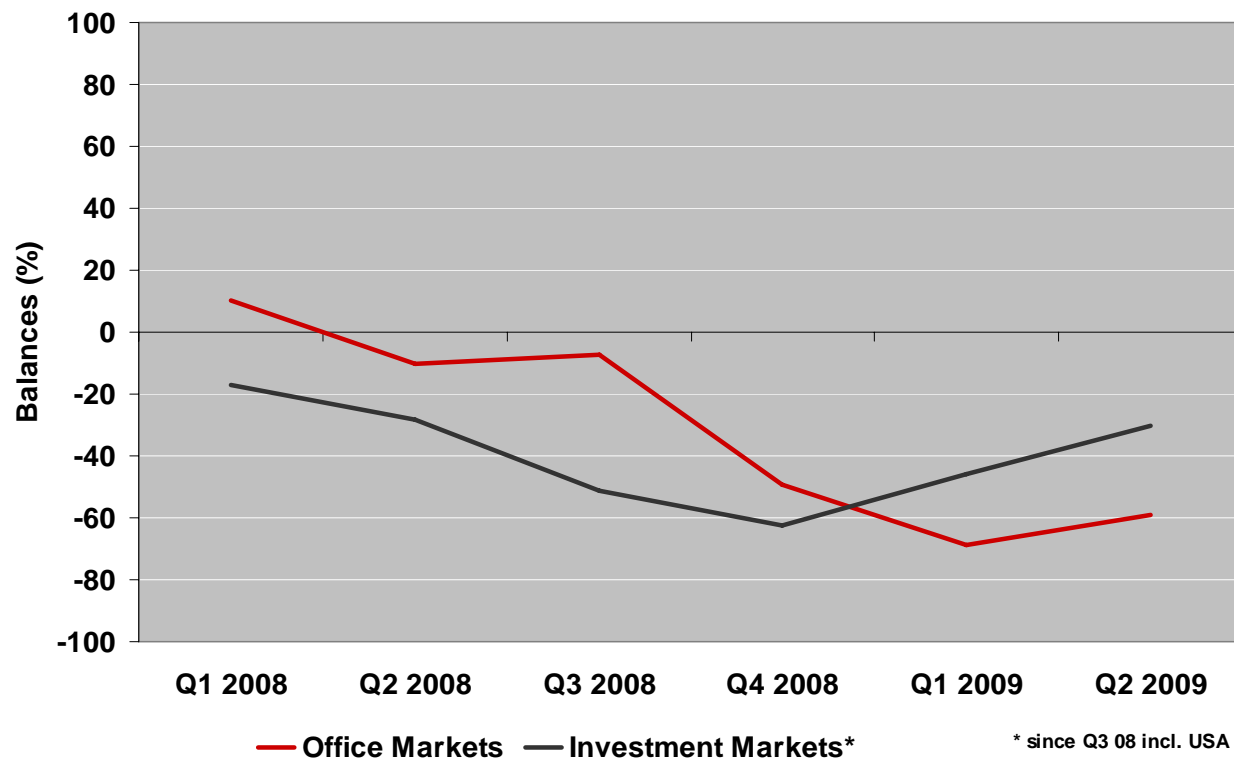


- The improving sentiment is evidenced across all country groups
- Trust in German investment markets supported by relatively firm office letting markets reflected by strong recovery

Source: Eurohypo ZRS RAC

RAC Sentiment Index – Office Letting Markets vs Investment Markets

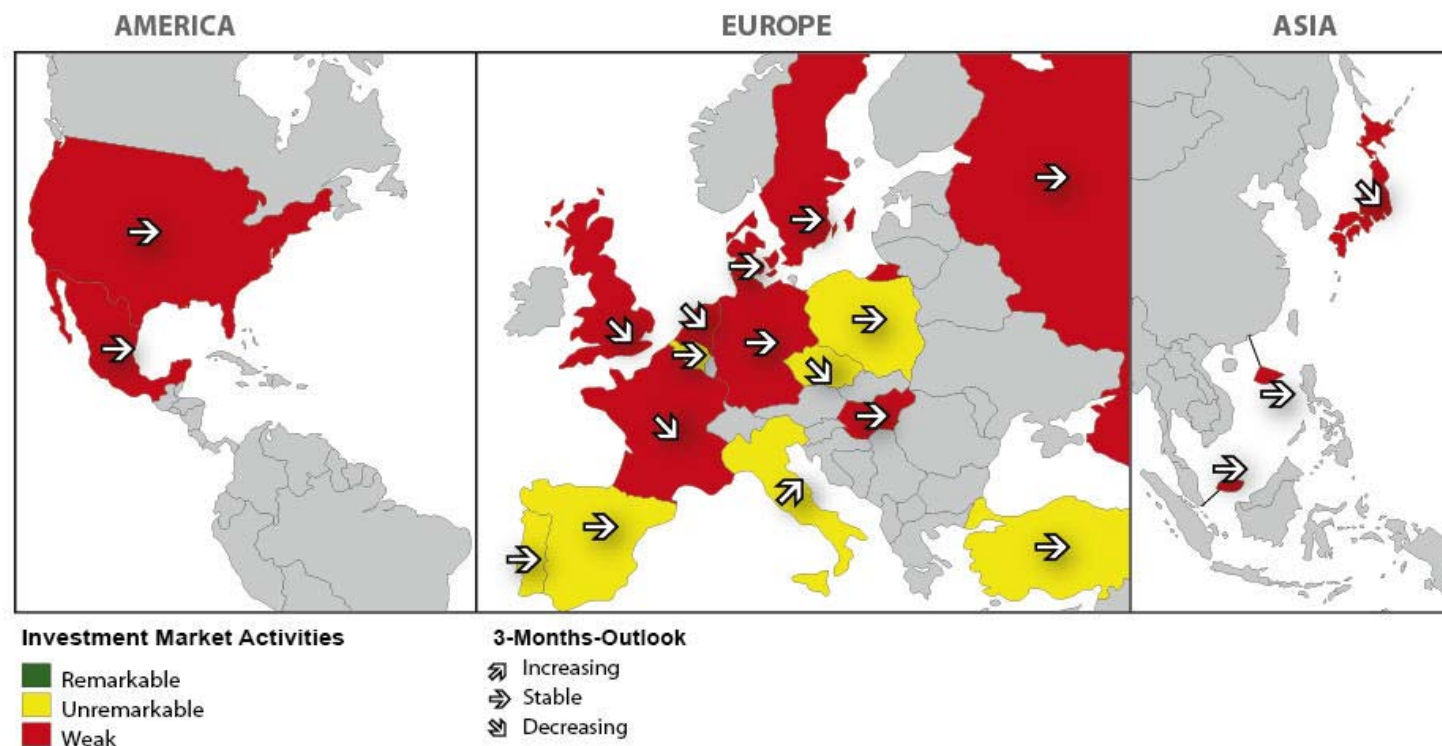
Both indicators are Now Tending to the Better



- Both indicators are now tending to the better, but remain still in deep negative terrain
- Sustained recovery of the investment markets are now dependent on the further evolution of the letting markets

Source: Eurohypo ZRS RAC

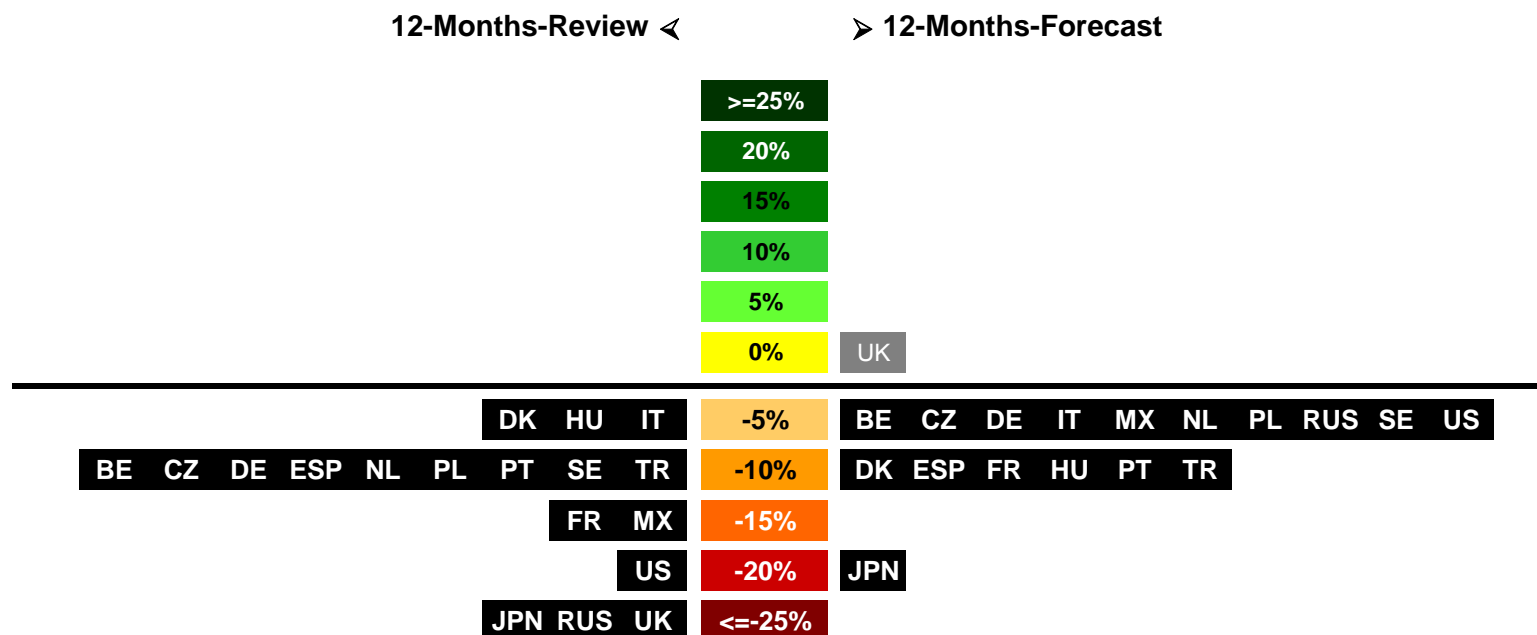
Investment Market Conditions and 3-Months-Outlook by Country Constrained Investment Markets Still a Global Phenomenon



- Unchanged to last quarter in the whole Eurohypo universe the real estate transaction activity remains in the doldrums with no further appearance of „hot spots“ and „anchor of stability“

Source: Eurohypo ZRS RAC

Market Value Changes – Office Q2 2009 with Stable or Even Reduced Pace of Depreciation in Most Markets

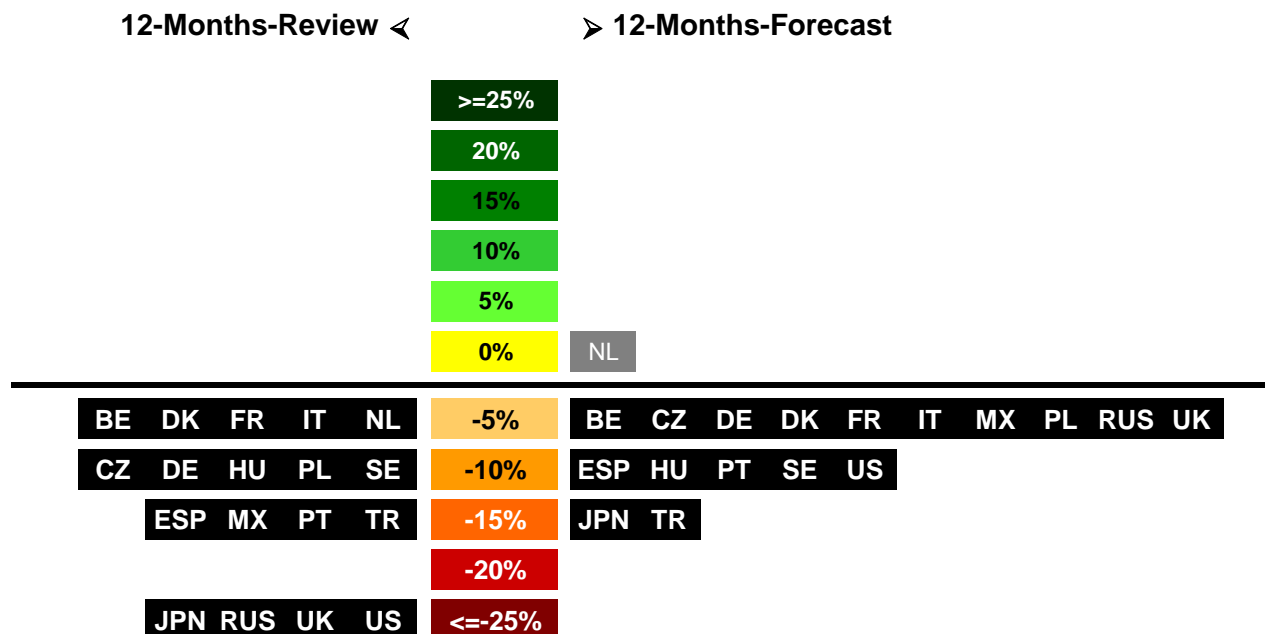


- In most markets depreciation of office properties levelled-off or even reduced its pace in Q2 2009, so that the overall 12-months-review has not deteriorated further compared to last QMA
- Further remarkable downward corrections ($\geq -10\%$) recorded for “latecomers” Turkey and Russia only; in contrast, Spain, which had been hit at first and hardest by market value corrections, experienced a significant improvement lately
- Referring to previous QMA, 12-Months-Outlook slightly improved as – except for Japan – all monitored markets are above the -10% threshold now; outlook for UK forecasts no further potential for adjustments
- However, until mid-year 2010, still no market with positive value growth is expected reflecting the further downswing on letting markets

Source: Eurohypo ZRS RAC

Market Value Changes – Retail

Bottoming out for Market Value Losses with a Time-Lag to Office Segment



- Contrary to the office segment, bottoming-out of market value reductions of retail properties not yet visible as – compared to previous QMA – the majority of the monitored markets recorded higher depreciations as at Q1 2009
- Japan and Russia with most significant depreciations
- However, outlook indicates that the turn to the better is expected within the next 12 months

Source: Eurohypo ZRS RAC

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