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European property market outlook

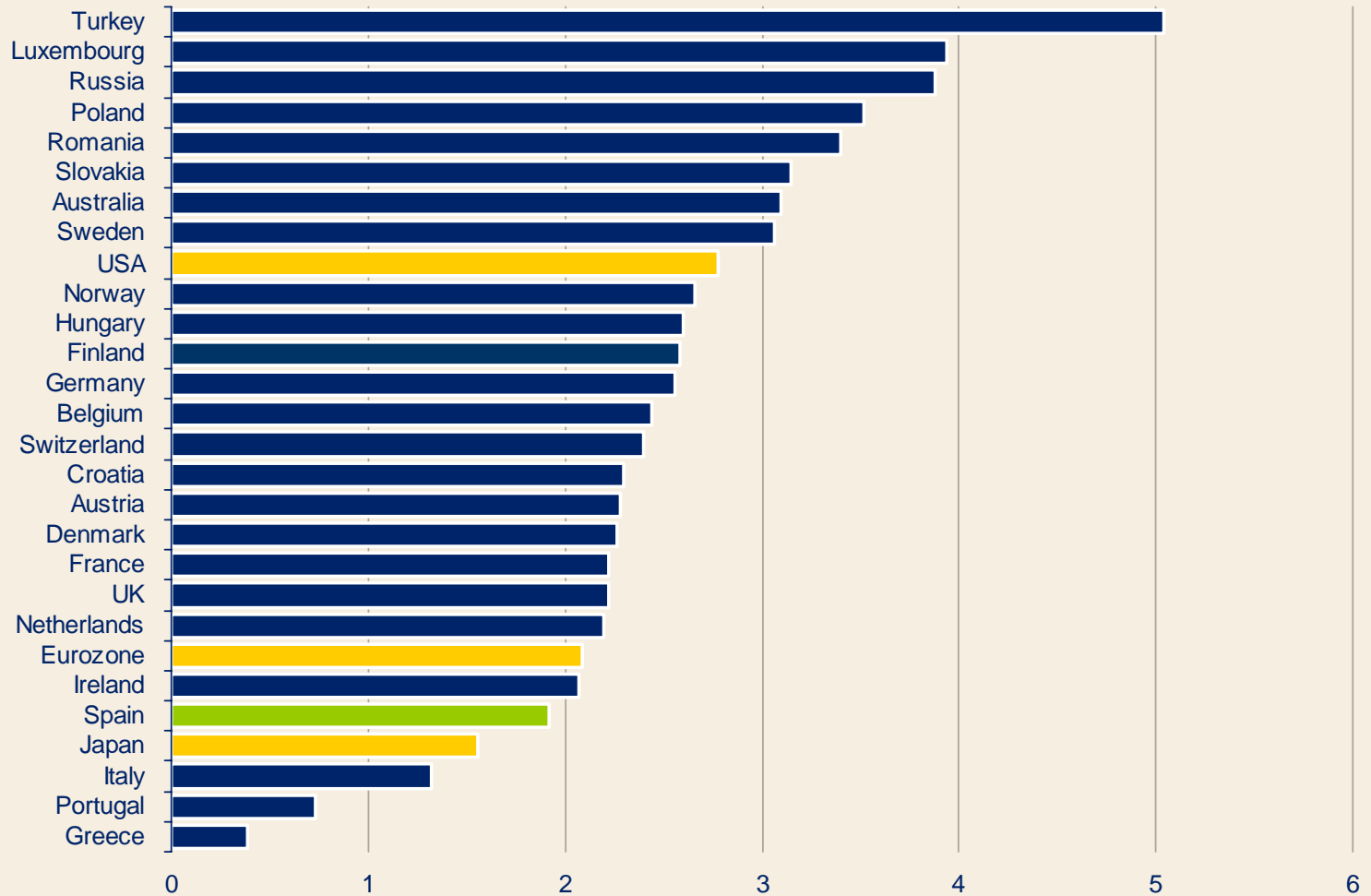
25th March 2011

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Aberdeen Asset Management



Southern Europe to lag economic recovery

Real GDP growth 2011 - 2015 (average % p.a.)



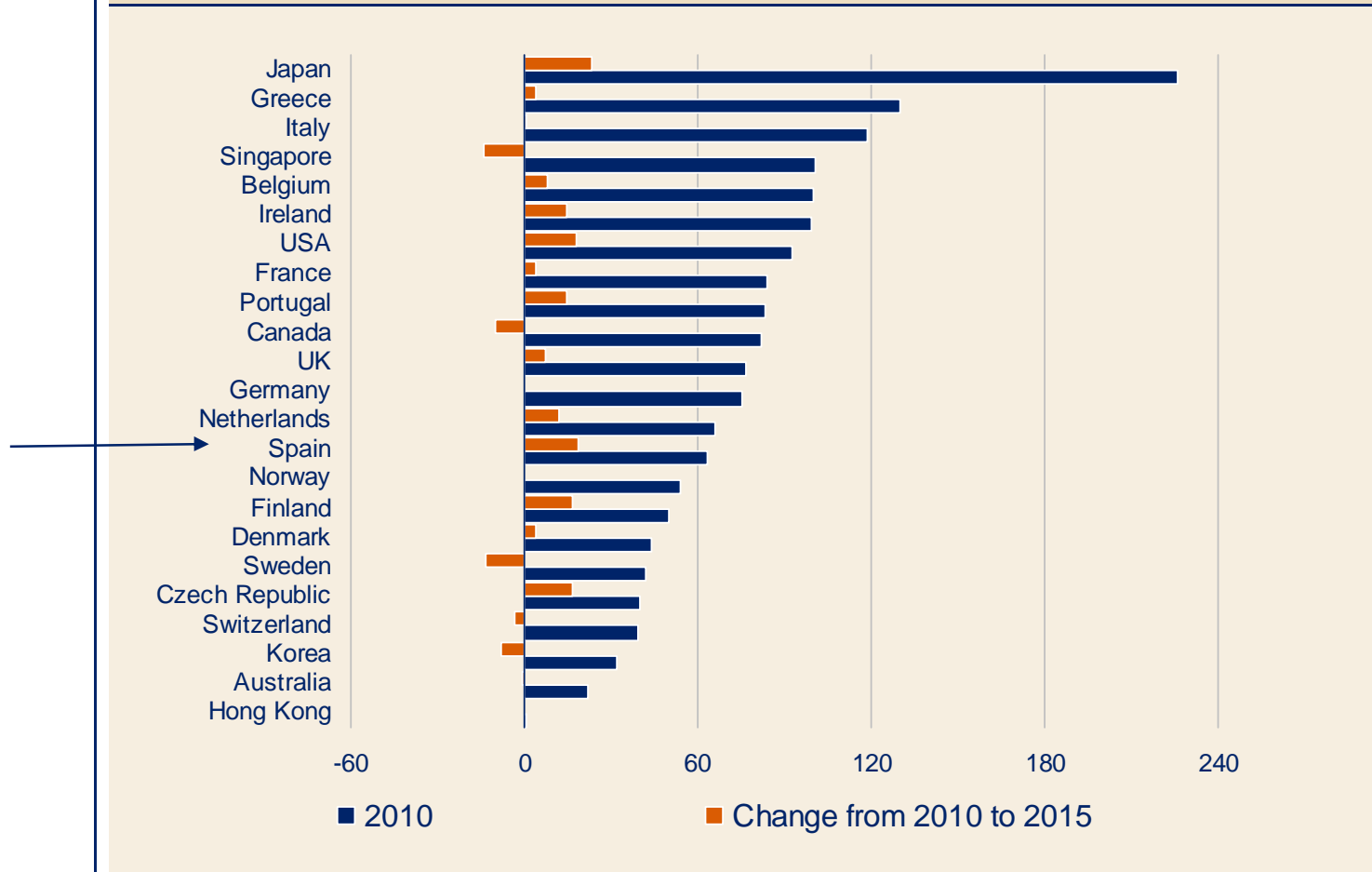
Source: Aberdeen
Asset Management,
February 2011

Spain's macroeconomic background

- The Spanish economy is expected lag behind core eurozone economies in the next 2-3 years due to an ongoing fiscal squeeze, high levels of household debt, and low competitiveness
- The spread between Spanish 10-year yields and German Bunds hit 225 bps, as yields rose to 5.53% after Moody's cut Spain's rating to Aa2 in March
- Collective wage bargaining agreements, many of them indexed to inflation, locked Spanish companies into salary increases even during crisis, hurting competitiveness
- Should the ECB raise interest rates it would have a stronger negative consequence for Spain, due to a high percentage of floating rate mortgages
- The fiscal crisis is more a consequence of a banking crisis than of excessive government spending
- Due to huge loans to the property/construction and the bursting of the price bubble many banks are undercapitalized by EUR 40-50 billion. This could overwhelm the governments rescue fund which is laid out for EUR 20 billion

Advanced economy debt rising above key 60% ratio

Gross government debt, % of GDP



Source: Aberdeen Asset Management, IMF: November 2010

- Worries over high budget deficits and normalisation of interest rates will put pressure on high debt economies

In Europe, Nordics and Germany rank highly

Economic growth prospects scores

	Private debt, % of GDP	Current account balance, % of GDP	Working age population growth	Government debt in 2011, % of GDP
Finland	**	A	**	A
Sweden	**	A	**	A
Norway	**	A	**	A
China	**	A	**	A
Australia	**	**	**	A
India	A	**	A	**
Poland	A	**	**	A
Germany	**	A	**	**
Netherlands	***	A	**	**
Belgium	**	A	**	***
UK	***	**	**	**
France	**	**	**	***
US	***	**	A	***
Spain	***	***	**	**
Japan	***	A	***	***
Ireland	***	**	**	***
Italy	**	**	**	***
Portugal	***	***	**	***
Greece	**	***	**	***

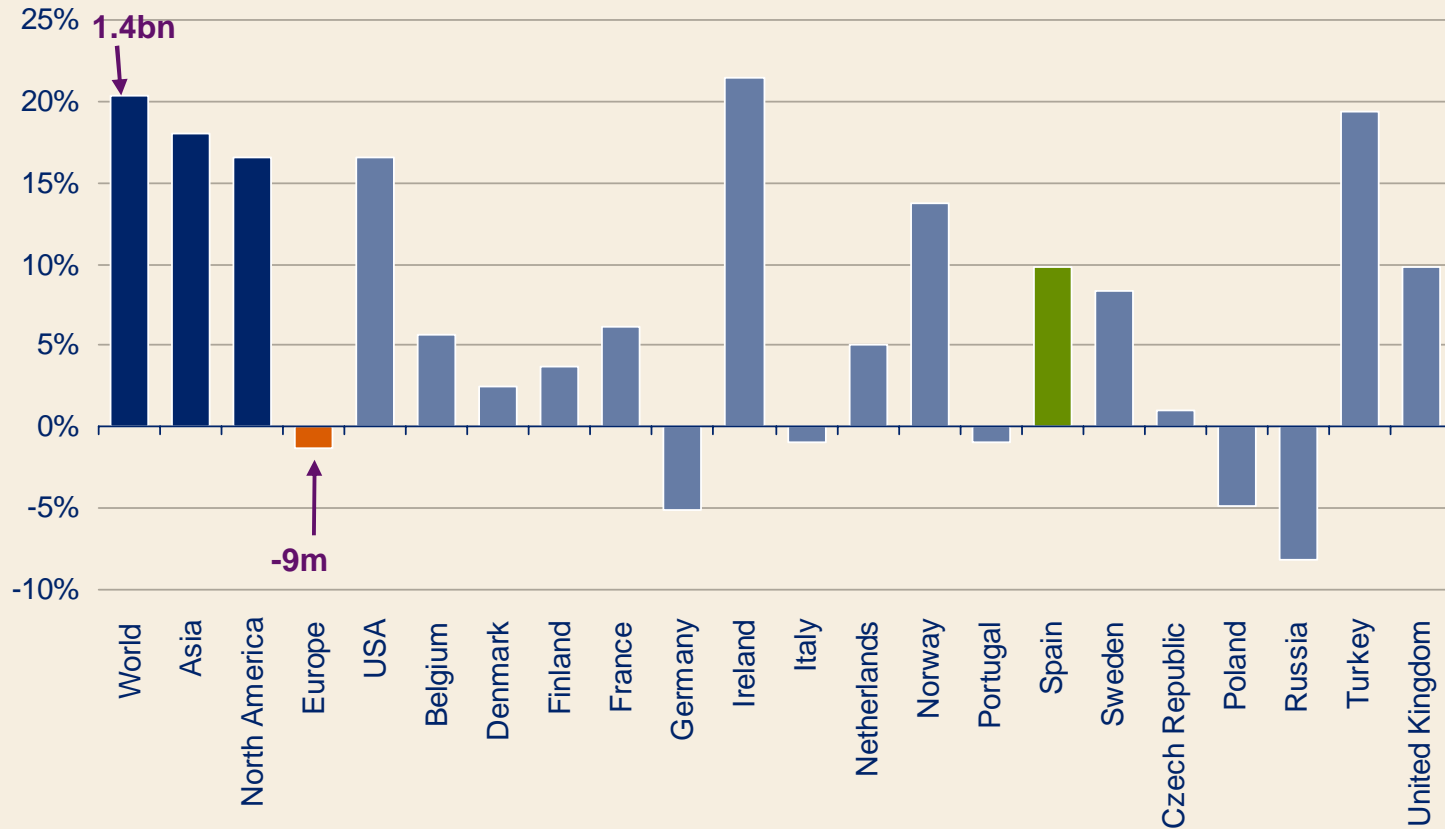
↑ Lower risk
↓ Higher risk

* = Favourable, ** = Average, *** = Unfavourable

Source: Aberdeen Asset Management, IMF, Reuters Ecowin, World Economic Forum : October 2010

World population growth will be strong, but not in Europe

Total population change 2010 - 2030 (%)

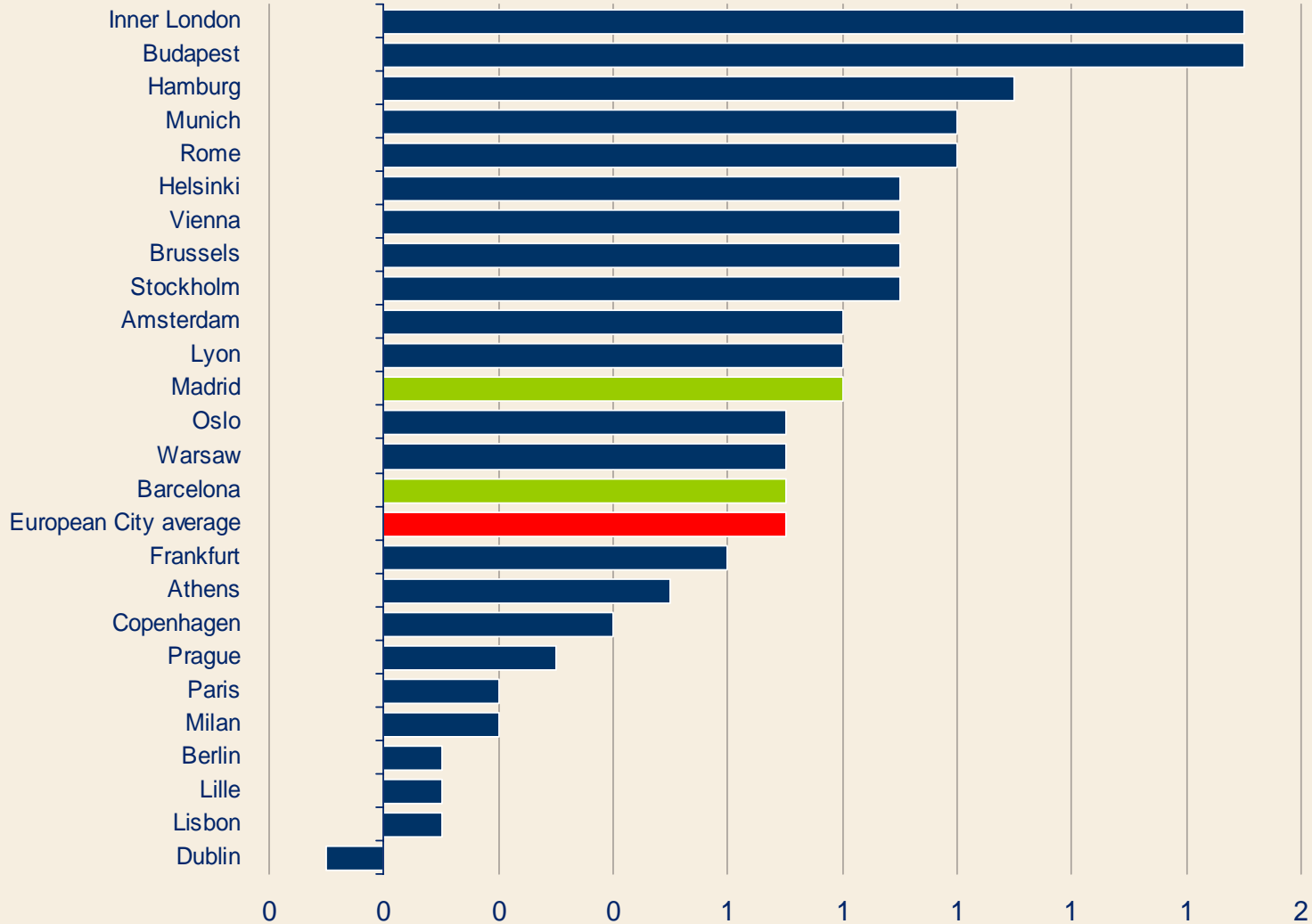


Source: United Nations Population Projections, medium variant, Mar 09

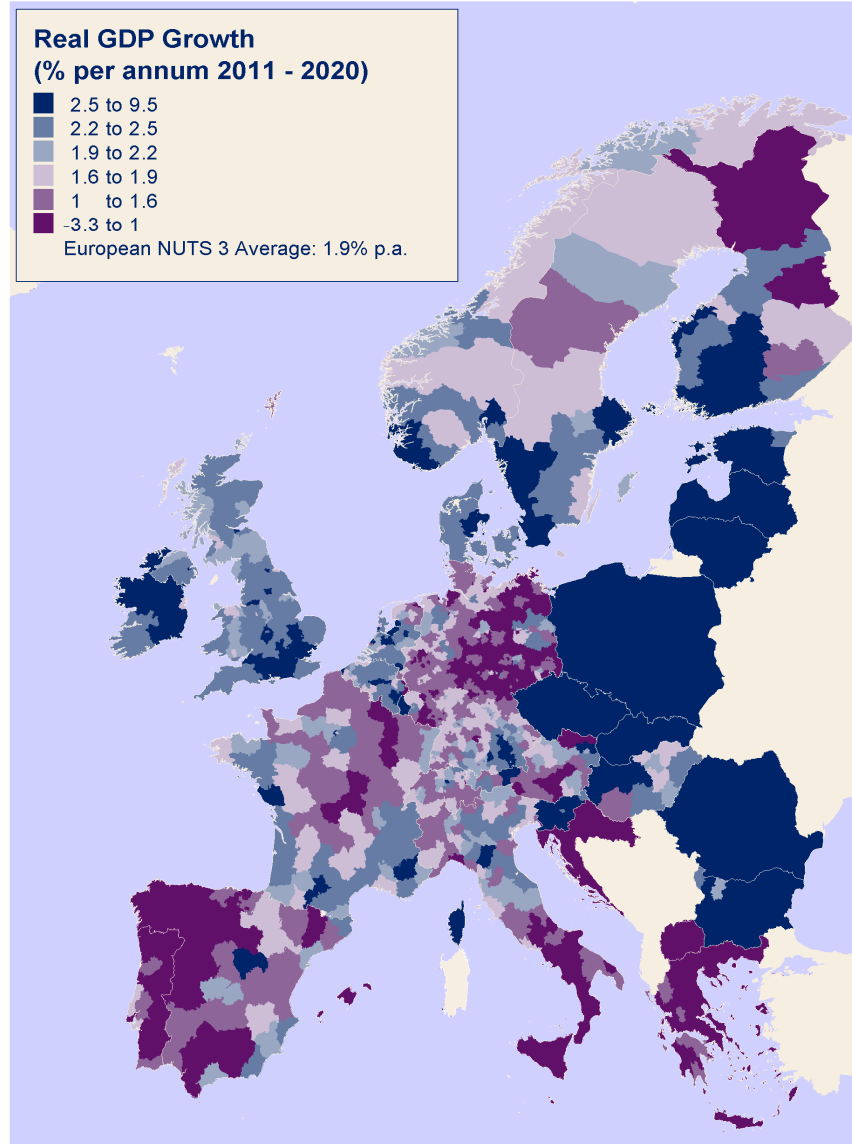
- Europe's "working population" has already peaked
- Government policies in Europe might change in future: increasing retirement age, incentives for larger families and immigration

Total employment growth

Annual average growth 2011-2015 (in %)

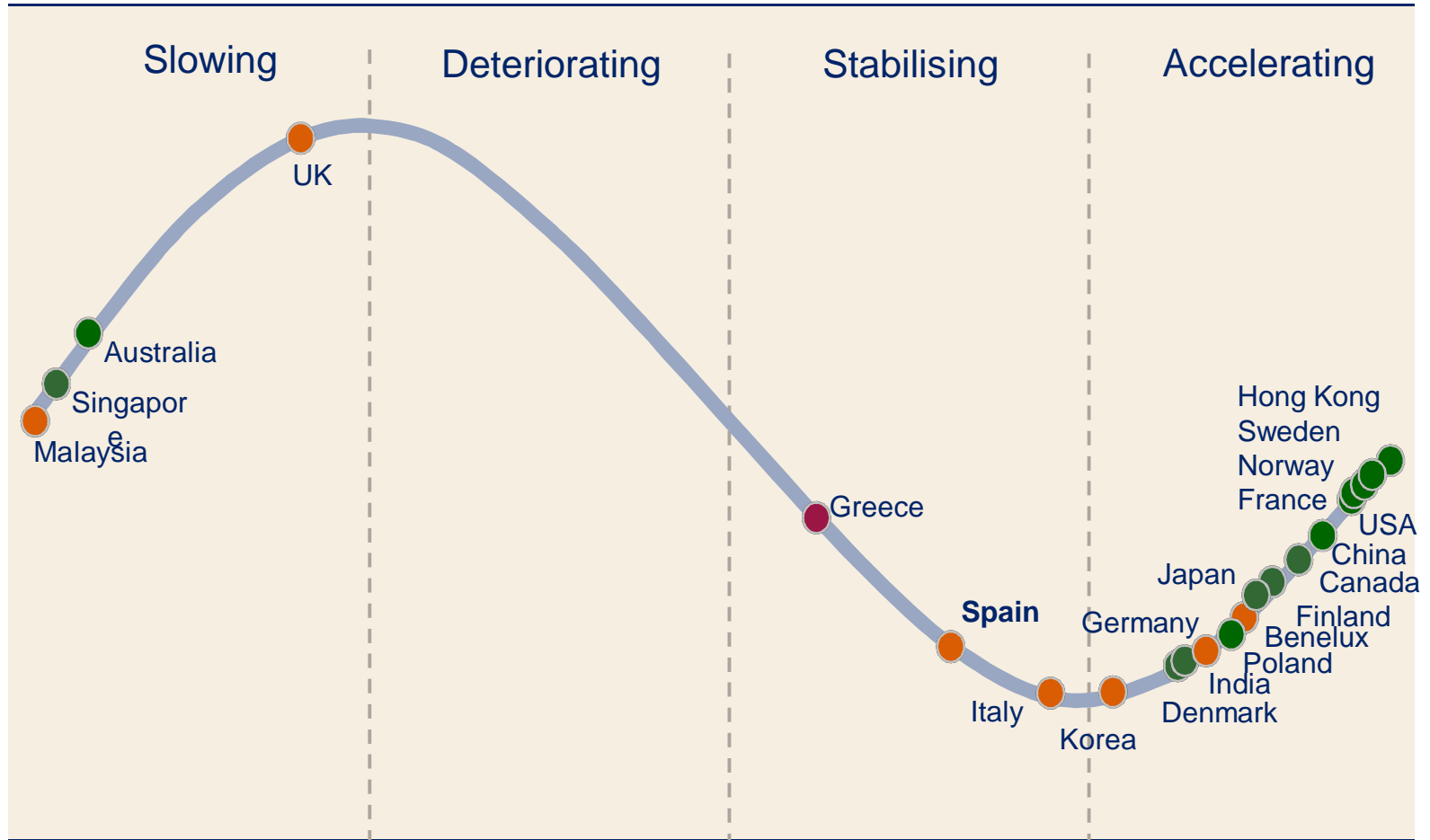


Real GDP Growth - Europe



- GDP growth between 2011 and 2020 set to average 1.9% p.a across the NUTS 3 regions
- GDP growth forecasts strongest in CEE and in the Baltics
- The UK, Norway and Benelux also anticipated to outperform
- The best performing areas can be found in Bulgaria and Romania
- The worst performing areas are largely found in southern Italy and eastern Germany

Capital value cycle, global prime all property



CV growth rate falling

CV contraction rate rising

CV contraction rate slowing

CV growth rate rising

Note: Schematic representation – not to scale

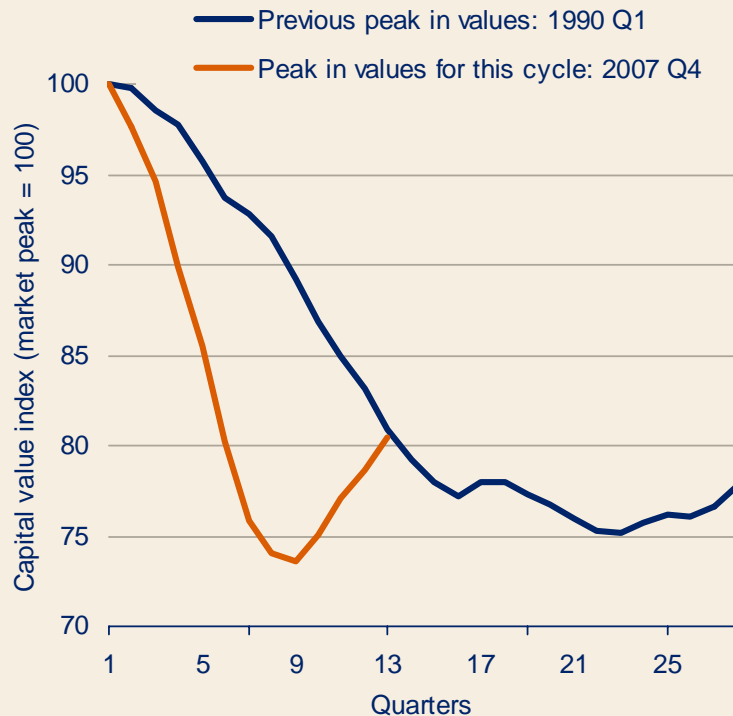
Expected movement of capital values in the next 6 months:

- Fall 
- Stable 
- Rise 

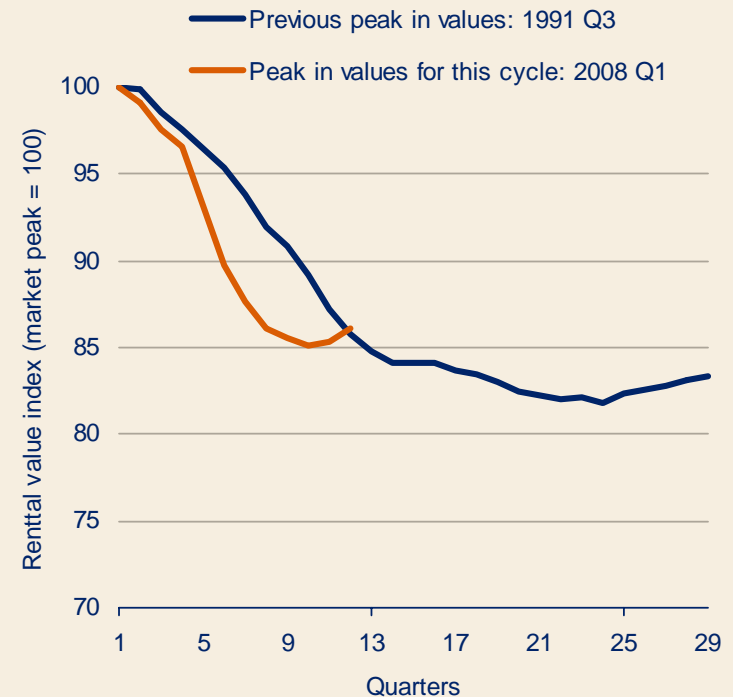
Source: Aberdeen Asset Management, March 2011

Two downturns compared

Global real prime capital values



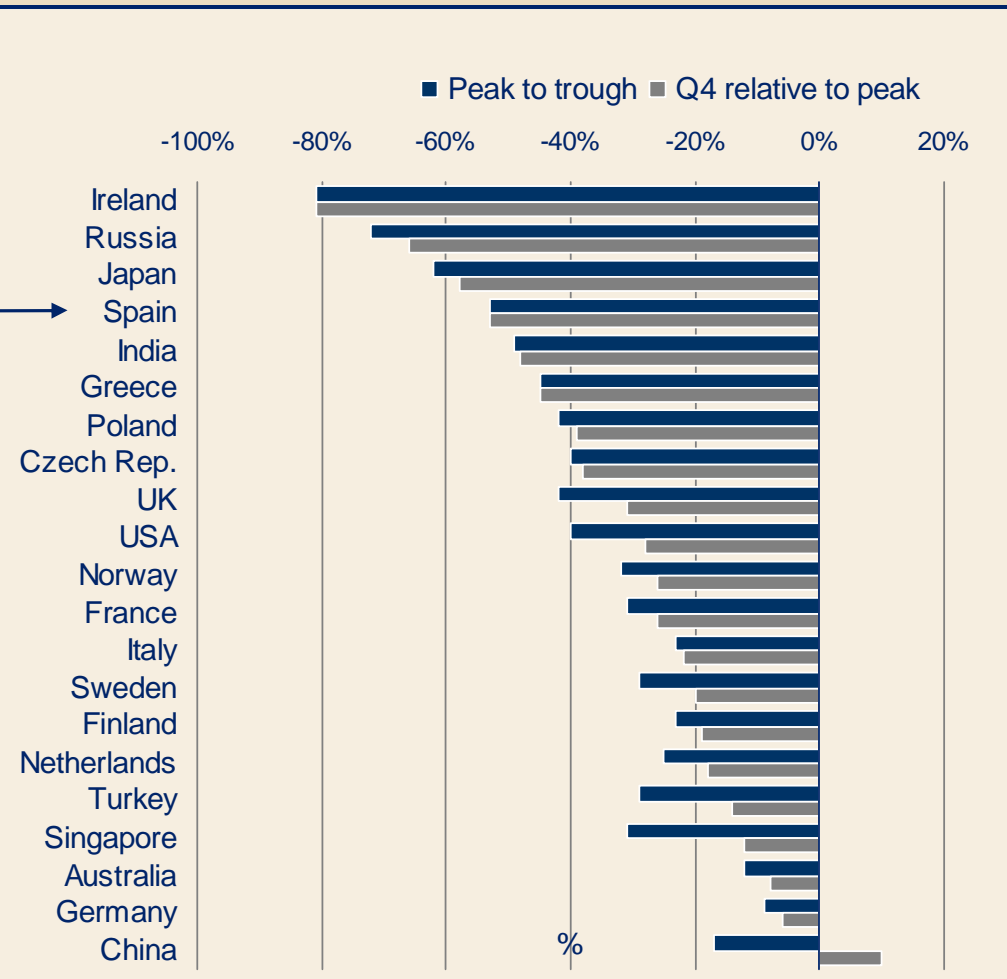
Global prime real rental values



- Global real estate values were hit harder than in the last big cycle of the early 1990s, but bottomed out earlier, and are rebounding
- Rents seem close to stabilising with a relatively small fall despite a huge peak to trough decline in GDP during the recession

Overheated markets have seen the steepest declines

Capital value movements to Q4 2010

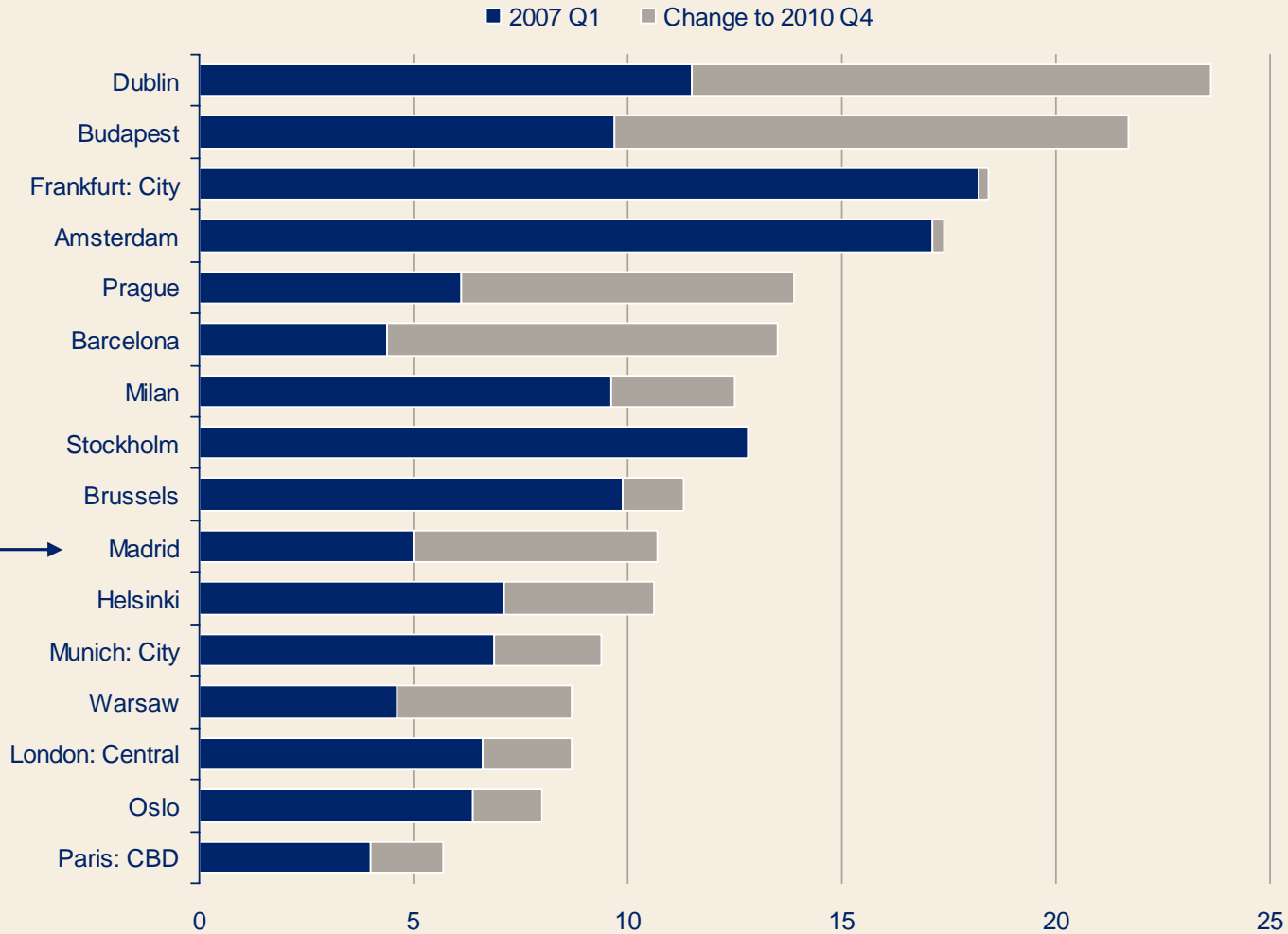


- Capital values have stabilised ahead of letting markets
- Lack of development will limit oversupply
- Pricing has over-corrected in some markets like the UK
- Extreme markets generate attractive mispricing opportunities
- Property looking cheap in a long term context, and against other assets

Source: Aberdeen Asset Management, NCREIF/MIT, Jones Lang LaSalle, IPD: February 2011

Office vacancy rates

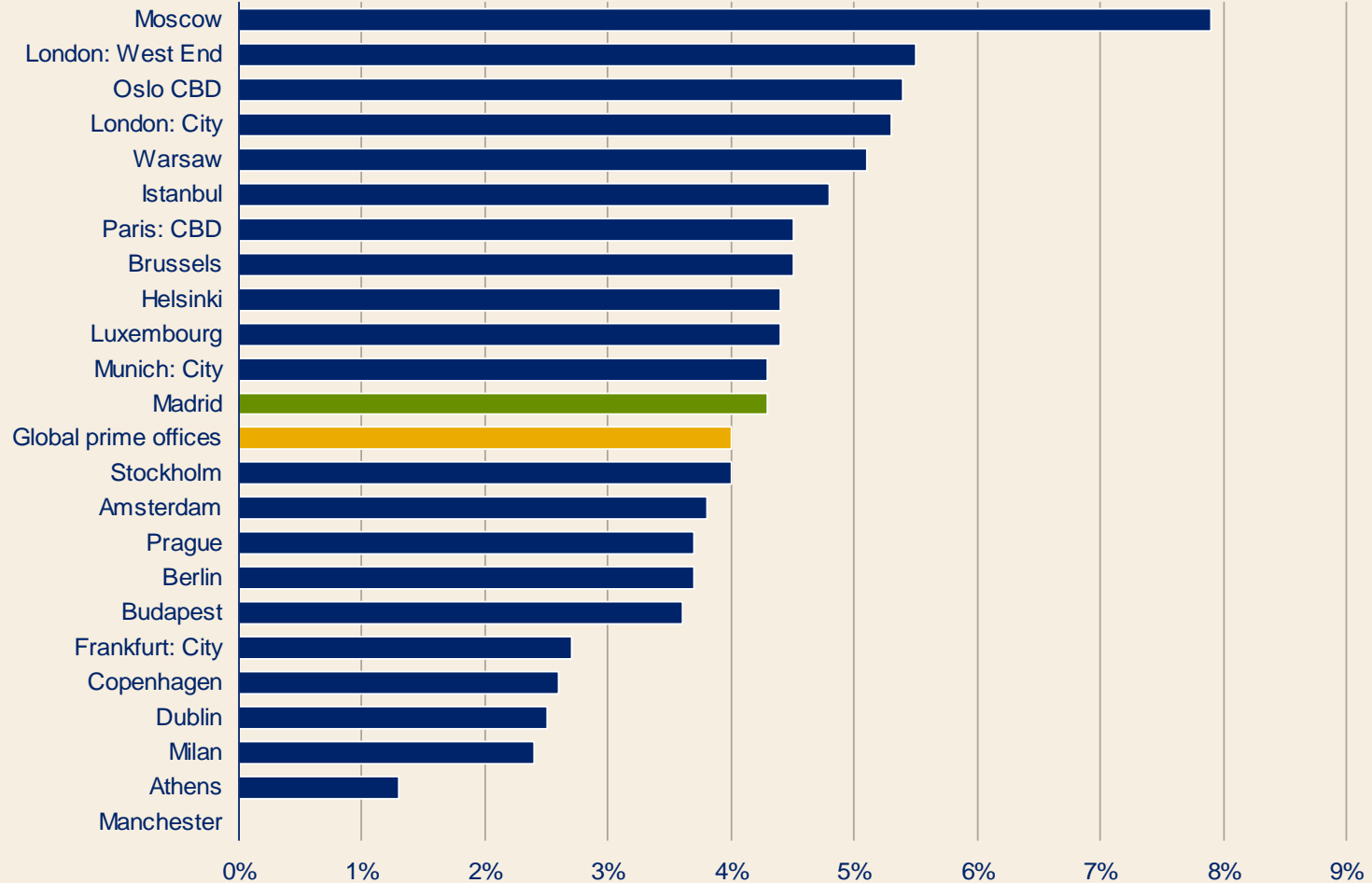
Vacancy rates, Q1 2007- Q4 2010 (in %)



Sources: PMA,
PPR, JLL :
February 2011

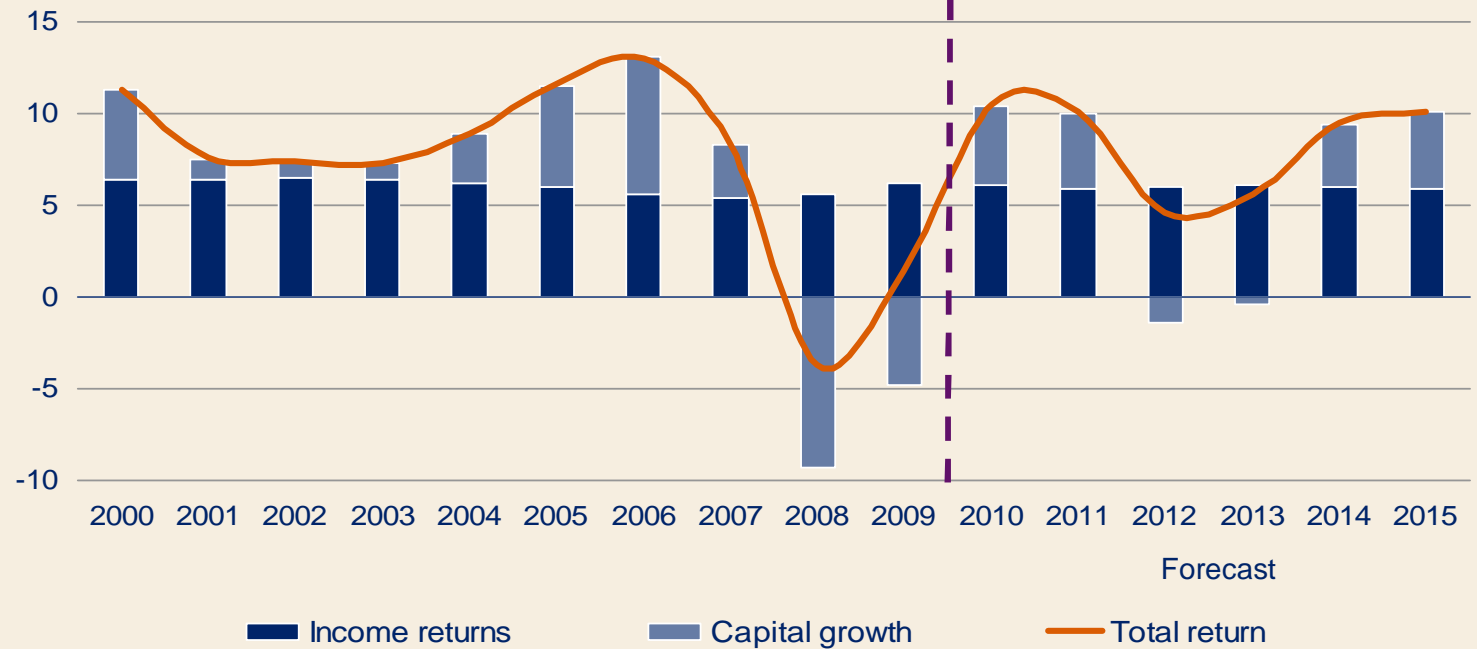
Prime office rental growth forecasts

Prime rental growth, rolling from Q1 2011 – Q4 2015 (average % pa)



European returns likely to stay firm

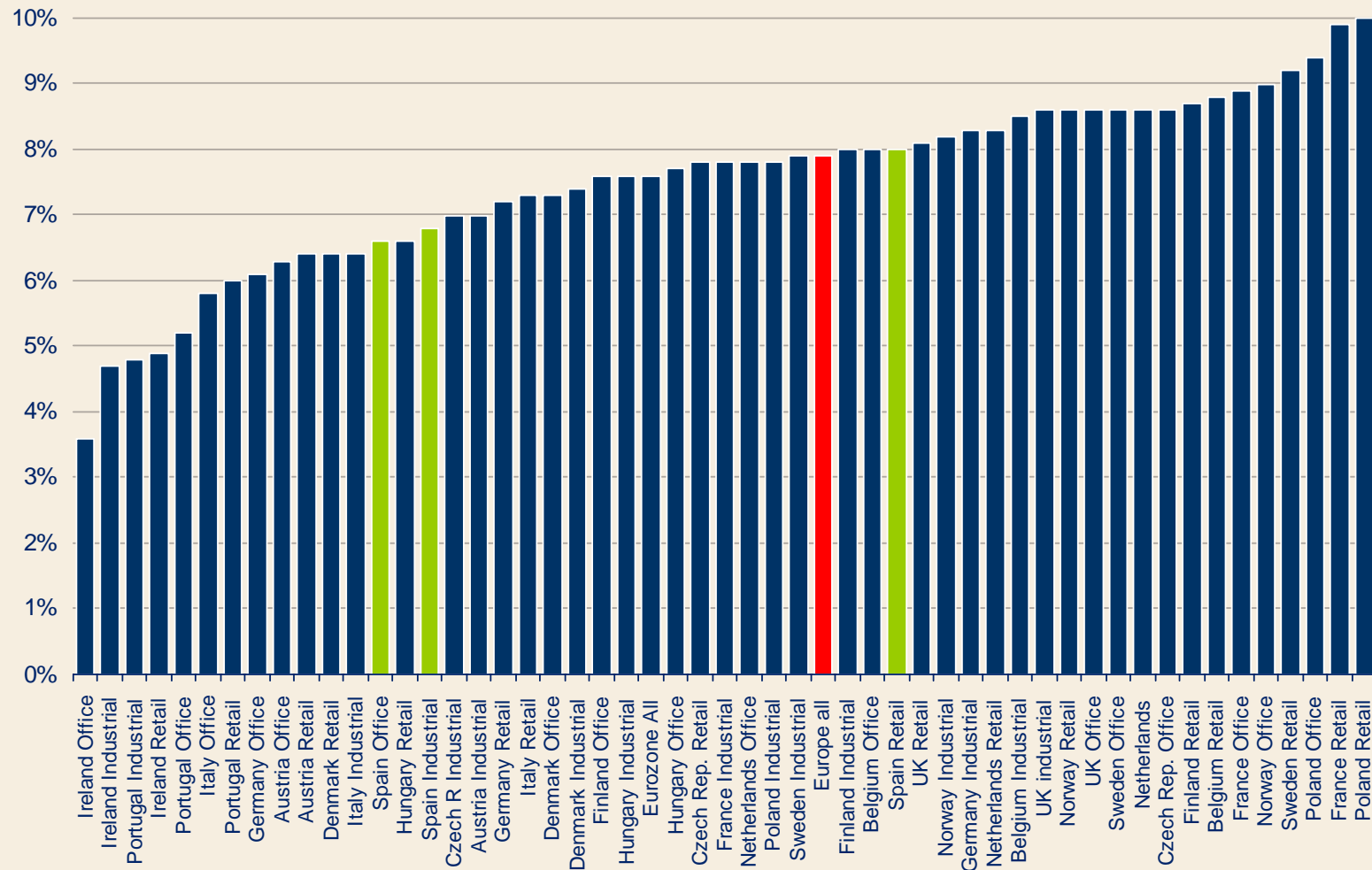
European IPD all property returns (local currencies % per annum)



- Real estate market recovery to continue into 2011
- Eurozone predicted to deliver 7.6% total returns over the next five years
- Sustainable rental recovery only envisaged from 2012
- Rising interest rates though likely to cap returns from next year

Total returns by sector, Europe, Q1 2011 – Q4 2015

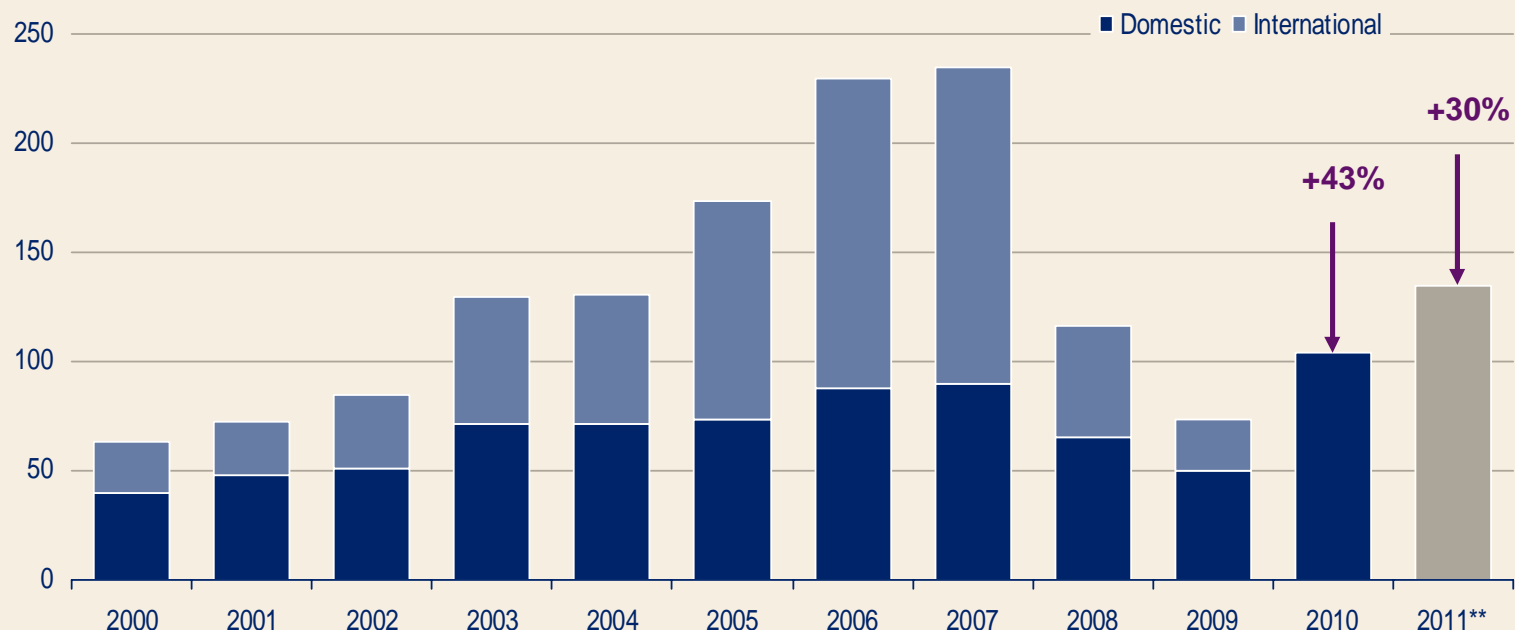
Unleveraged IPD total returns in local currency (average % pa)



Source: Aberdeen Asset Management, February 2011

Investment activity continues to gain momentum

European direct real estate investment* volumes (EUR bn)

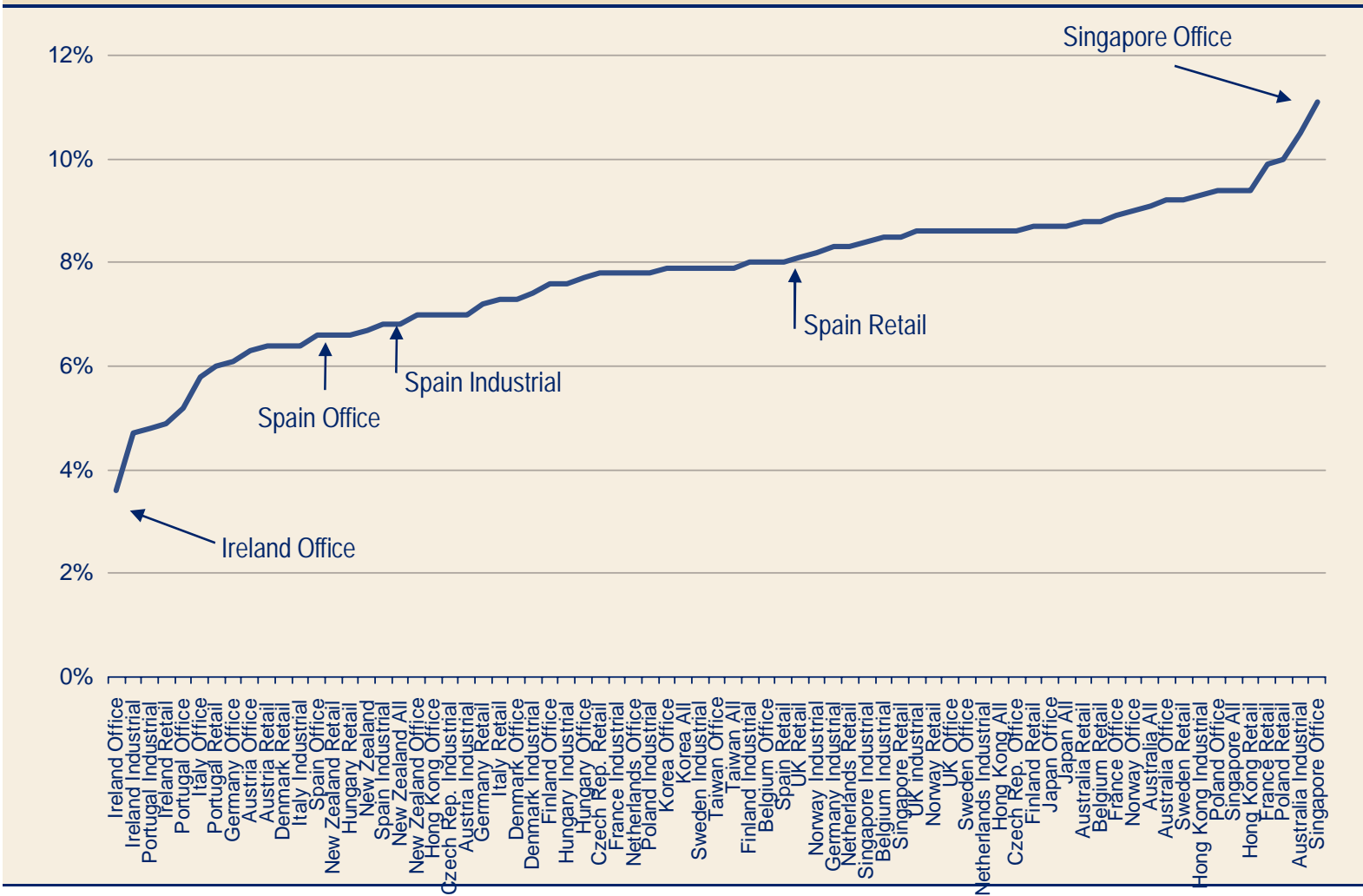


- Deal sizes remain small, as banks are not that keen about financing larger deals
- Equity players in a good position
- More distressed sales could occur later on
- Institutions are expected to increase their property allocations (direct and indirect)

* Only commercial, excluding residential ** 2011 is a forecast
Sources: Jones Lang LaSalle, CBRE and Aberdeen Asset Management

Total returns by segment, global, Q1 2011 – Q4 2015

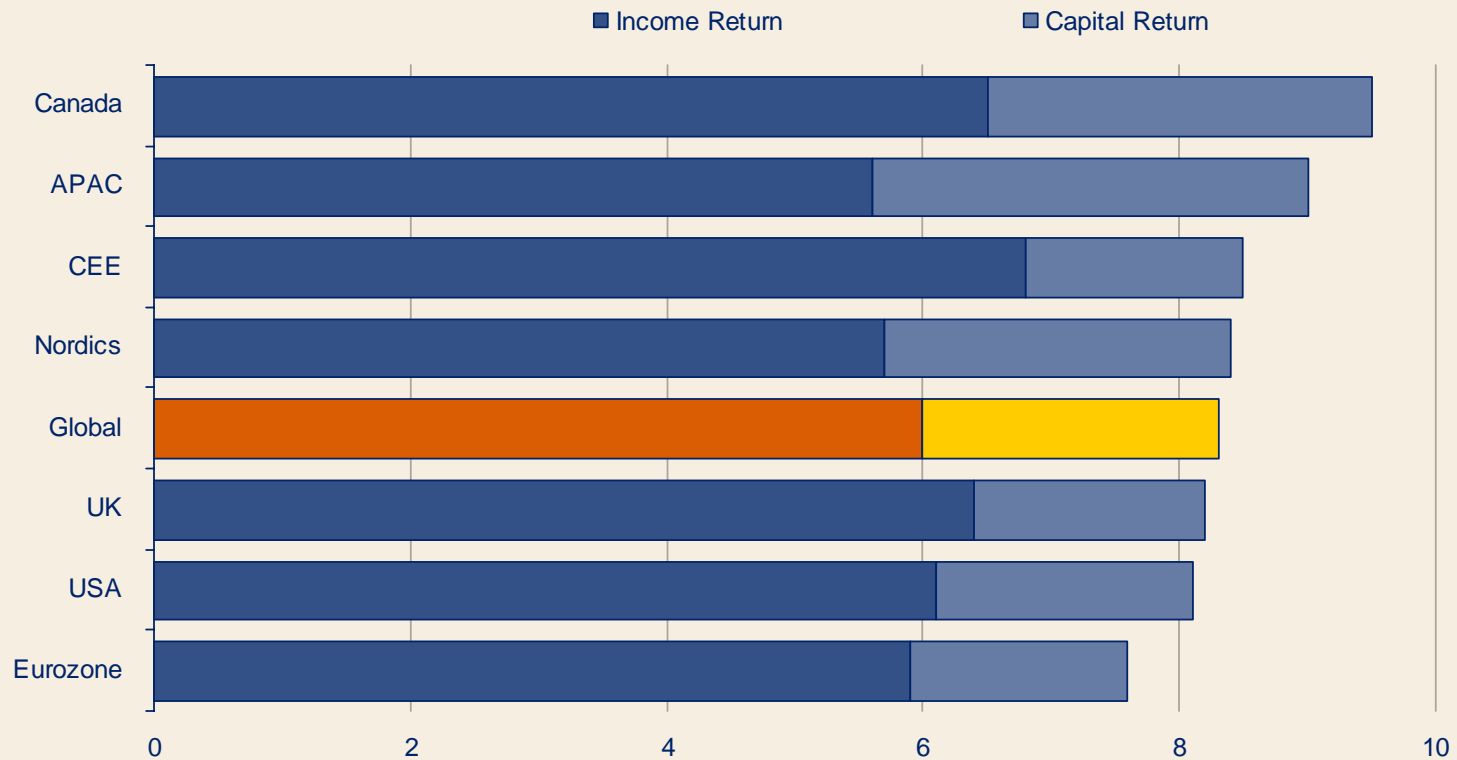
Unleveraged IPD total returns in local currency, % pa



Source: Aberdeen Asset Management, February 2011

Global property total return forecasts

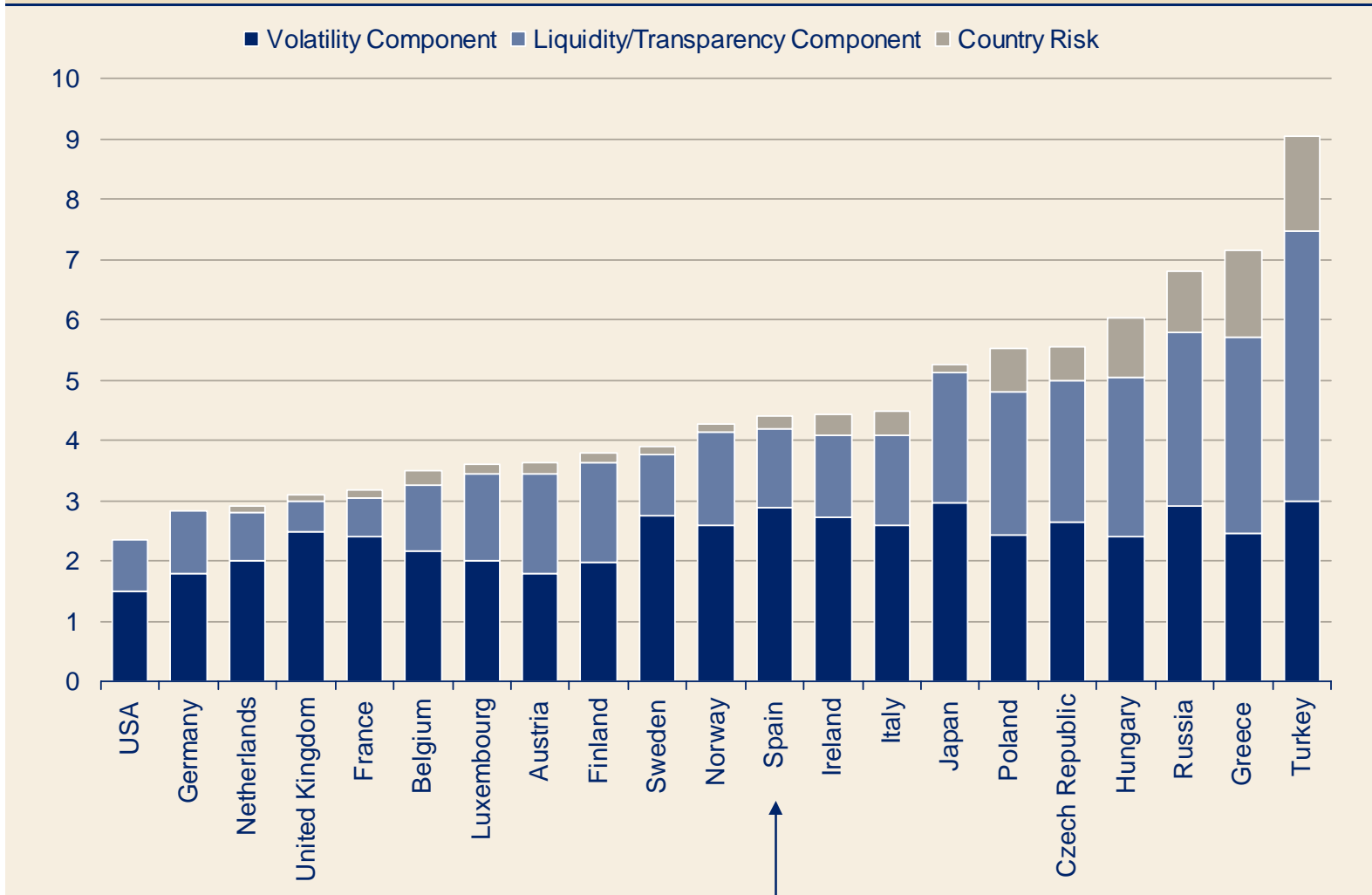
'All property' total return Q1 2011 to Q4 2015 (% pa)



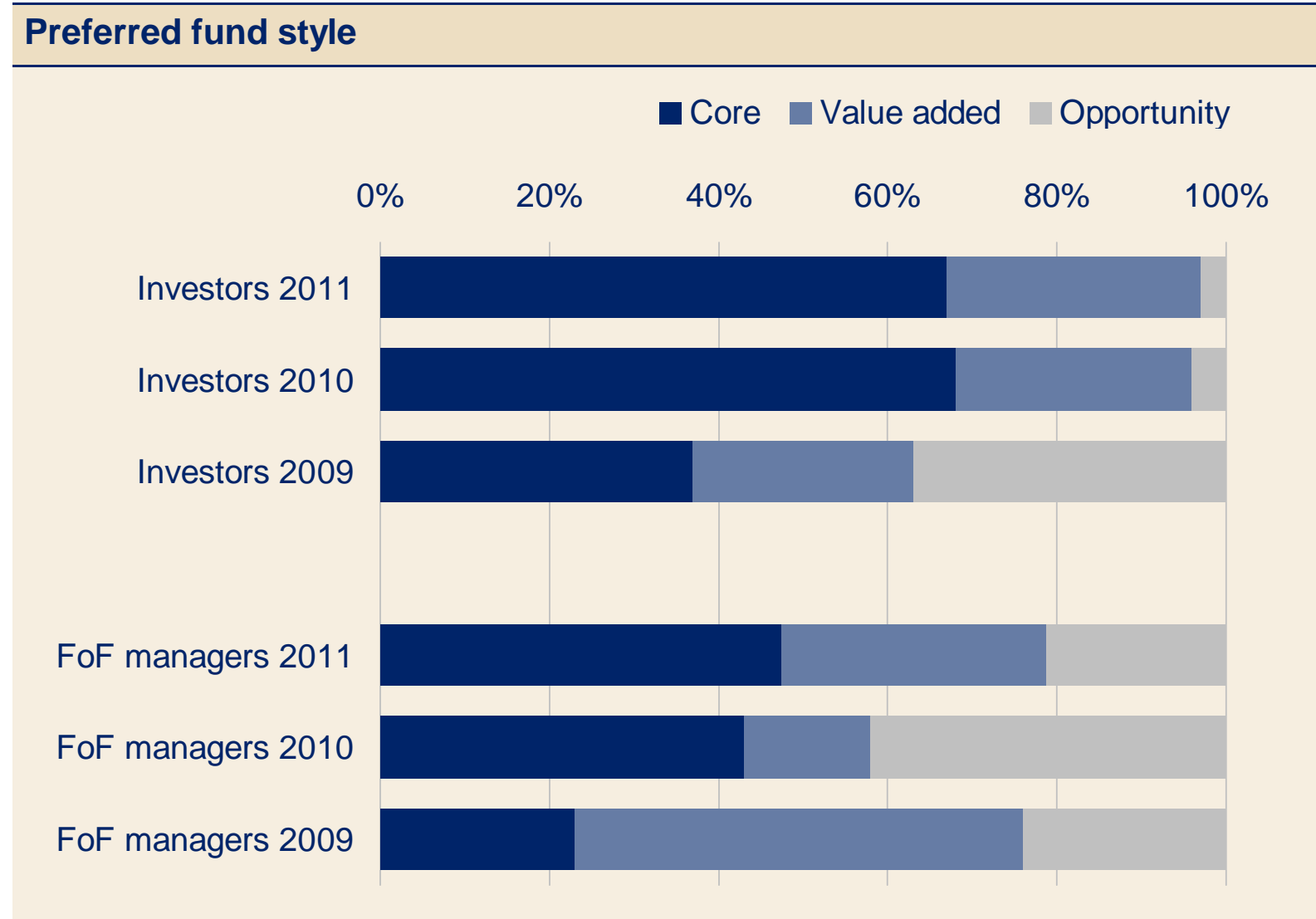
- Canada and CEE stand out with high income returns
- Asia-Pacific and Nordics should benefit from above average capital returns

Wide spectrum of risk from European real estate

Office risk premium, %



Investors' style preferences have changed



Source: INREV, Aberdeen Asset Management

Investor trends

- Less appetite for risk
 - Core funds are 'in'; opportunity funds are 'out' **Temporary**
 - More restricted use of debt **Permanent**
 - Greater home country bias **Temporary**
 - More interest in diversified funds **Temporary**
- Search for greater control
 - JVs; segregated direct property mandates **Temporary**
 - Investor participation in UACs / IC's **Permanent**
 - Increased regulation (e.g. EU AIFM Directive) **Permanent**
- Search for greater alignment of interest
 - Fee and remuneration structures **Permanent**

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Property Markets / Spain

- Office prime yields Q4 2010, Barcelona: 6.0% and Madrid at 5.75%.
- Retail prime yields Q4 2010, Barcelona: 5.25% and Madrid at 5.25%
- We expect prime yields to come under some downward pressure in 2011 due to a search for yield from pan-European investors, and the perception that Spain is better placed for a recovery than the rest of southern Europe.
- Yields are more likely to rise next year, as interest rates begin to rise, with the ECB recently indicating that it is close to raising interest rates
- Prices of residential property in Spain are 20% down from their peak, but the overall decline has been modest relative to other markets with similar large overhangs of housing, such as the USA and Ireland
- The correction in the housing market has been less severe than in the commercial real estate sector, with the latter representing the best opportunity for medium to long term investors
- Our analysis, based upon our long term views on risk and potential return, indicate that Spain is broadly priced at fair value
- The retail sector offers the best opportunity on a long term basis to capture excess returns, whereas the office market is less attractive as yields for the overall market are relatively low