

EUROPEAN PROPERTY MARKET PERFORMANCE DRIVEN BY INCOME

- ROBUST INCOME RETURNS DESPITE RECESSION, BUT TENANT DEFAULT STILL POSES THREAT –

According to the latest research report produced by Invista Real Estate Investment Management (“Invista” / the “Company”), the European property markets have continued to deliver attractive income returns over the past two years despite the worst economic conditions in modern times.

According to IPD, the income return on its Eurozone Index increased from 5.1% in 2007 to 5.6% at the end of 2009, its highest level since 2003, which cushioned the impact of falling capital values. With interest rates expected to remain low in the short term, we anticipate seeing an increasing weight of investor capital seeking income-producing property investments. Invista’s forecasts suggest income returns will range from 5% in Austria, Belgium and Germany to more than 7% in Finland, Ireland, Portugal and Spain.

Since property investment turnover bottomed-out across Europe in the first quarter of 2009 (Source: CBRE), investor demand has focused on high quality properties and prime submarkets in Europe’s larger, more liquid property markets. This defensive strategy is expected to shift as investors look for higher yielding properties in ‘good secondary’ locations.

Rental growth is expected to depend on the level and sustainability of economic and employment growth over the next few years, both of which have become more uncertain in the short-term due to initiatives to reduce government budget deficits. This suggests that 2010 will be the worst year for rent declines in the current cycle. Over the longer term, Invista identifies modern office properties located in supply constrained city centres, such as Paris, Munich and Vienna, as potential growth winners within the European market. The retail sector is expected to remain under pressure due to weak consumer spending, however, “hotspots” for rental growth could emerge as retailers consolidate within the best units and centres in a ‘flight to quality’ to protect their profits. This could generate some competition and a degree of rental growth in prime city-centre locations and dominant regional shopping centres. The same can be said for the logistics / distribution market rents, where a ‘flight to quality’ trend is also expected to emerge amongst distribution occupiers, which could support prime rents in hub locations.

The risk to property income returns from tenant default is considered to be above ‘normal’ levels, primarily as a result of the worst global economic conditions of modern times. Pricing trends in the Eurozone CDS (credit default swap) market suggest that default risks are highest in the telecommunications, utilities, banking and insurance sectors, in contrast to the retail, technology, food & beverage and industrial sectors.



Tim Francis, Director of Continental European Strategy & Research at Invista, commented:

“Over the longer term in Continental Europe, income returns have typically made a greater contribution to overall property performance than capital growth, both in cyclical and non-cyclical markets. Taking into account the subdued outlook for rental growth across Continental Europe, we therefore expect investors to remain focused on preserving and enhancing income returns at their currently attractive levels, and thus are unlikely to be attracted to higher risk, capital growth investments.”

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About Invista Real Estate Investment Management

Invista Real Estate Investment Management is the largest UK listed real estate fund management group. The Group manages both commercial and residential property across the UK and continental Europe, and has a total of £5.4 billion of assets under management as at 31 May 2010. Invista Real Estate manages a total of 23 funds as at 31 May 2010, some of which are for the largest UK providers of savings and investment products such as, Halifax and St. James's Place. Invista Real Estate also manages a number of collective investor funds, including real estate investment trusts and open ended funds such as Invista Foundation Property Trust and Invista European Real Estate Trust which are listed on the main market of the London Stock Exchange. Invista Real Estate has offices in London, Paris, Guernsey and Hong Kong and operations in Luxembourg and Singapore.

For more information on Invista Real Estate or the funds it manages visit www.invistarealestate.com.

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