Catella Market Indicator

RESIDENTIAL | EUROPE

SPRING / SUMMER 2016

Contents

Definitions

Gross yield

Rental income plus management costs, excl. incidental acquisition costs

Rent

Average rent per month for apartments regardless of year of construction, located in the city centre.
Size of apartments varies between 75 sqm and 90 sqm.

Average of examined countries

The average house price of the country in relation to all 18 examined countries in this report

European residential property in a supercycle

DEAR READERS,

If you take a purely analytical approach to the European residential sector and are of a pessimistic frame of mind, you could well think that the events of 2004–2008 are repeating themselves. Wasn't it the use of residential real estate as collateral for financial securities that caused the collapse of Lehman Brothers and scores of other banks? Didn't the US housing market trigger the worst financial crisis in memory? That expression "subprime" – does it ring any bells? Weren't lending rates an incredible "bargain" at the time, just like today? Didn't house prices rise like there was no tomorrow? "Double-digit rental growth from leases" was the magic formula for many investors. The dramatic structural realignment that followed wasn't just restricted to Spain and Ireland: the bloodletting was general and protracted.

The world has seen two simultaneous developments that have set the stage for what is known as a "supercycle": rising liquidity coupled with a rate of urbanisation that can almost be described as dramatic. Together, they have produced the current situation in which high demand contrasts with comparatively slow-growing supply. At the same time, there is severe pressure on international intermediaries to provide investors with something more than ten-year German federal bonds. The results of this combination of factors can be seen everywhere: Helsinki, Oslo, Stockholm, Copenhagen, Berlin, Frankfurt, Munich, Paris, Lyon, Madrid and Barcelona.

There are few indicators suggesting we are about to witness the same excesses as we did in the first decade of the century. Market participants are basing their decisions on factors that are entirely realistic. No matter what country or city you look at, it is obvious that investments in residential property are subject to increased levels of demand, which leads to constantly rising prices. However, new market segments are another consequence. These include micro homes and changing consumer behaviour. A key phrase here: "renting instead of buying". The European market also provides evidence of this new paradigm. Furthermore, residential property leads the field when it comes to performance.

It is precisely the situation described above that reveals that investors are extremely active in the residential market due to its nature as a safe haven for money. The real estate sector stands out as the decade's best performer despite the existence of substantial differences in yields and drivers between different regional markets and cities. Demand has rocketed in the last 24 months, and at present, there is no discernible end in sight. Residential investment came to a total of EUR 37.5 billion in 2015.

Our survey Catella Market Indicator Residential - Spring/Summer 2016 takes a closer look at individual countries and explores their role within the overall context of investments. While it may be true that the term "supercycle" seems, at first glance, to be lifted from a marketing unit's handbook, we are nevertheless certain that further appreciation is more likely than falling prices for Europe's residential property in the years ahead.

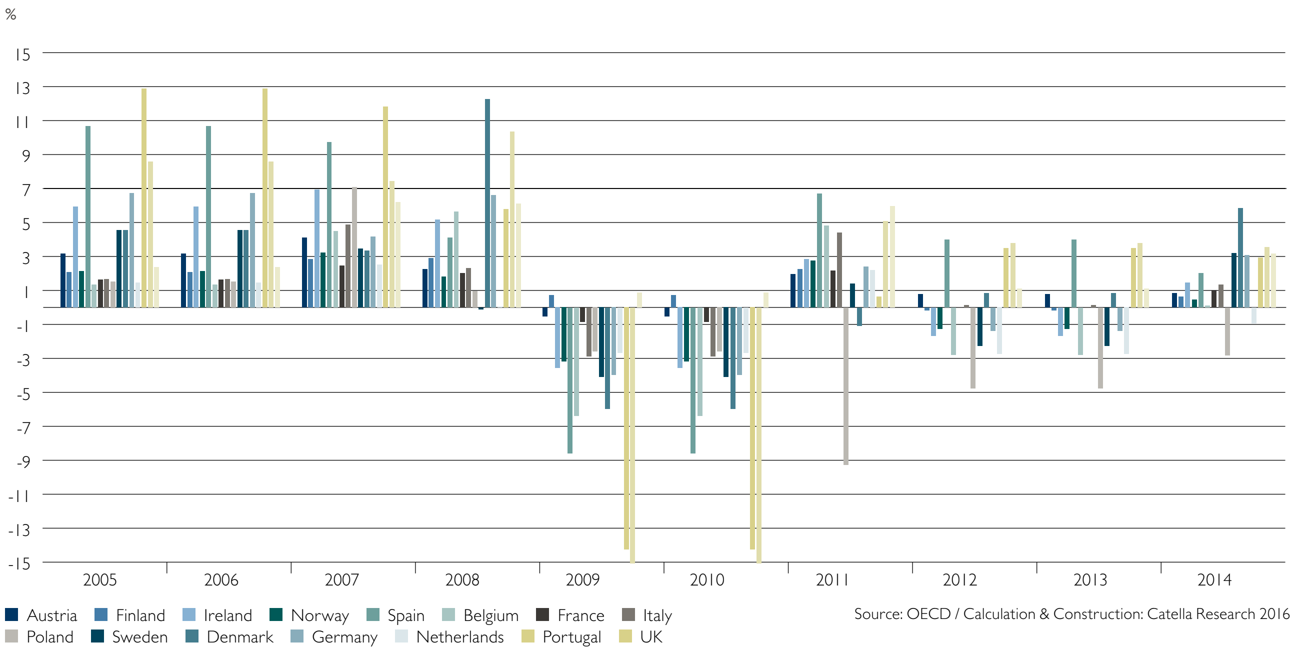
Thomas Beyerle
Catella Head of Group Research

The macroeconomic environment

"Quo vadis, Europa?" – this is the question many investors are currently pondering. An insight into the long-term development of individual national economies is crucial when it comes to investment decisions in certain asset classes. This especially applies to investments in real estate.

In order to evaluate the long-term advantages of a European investment location, Catella Research draws on a large number of criteria from the areas of economy, demographics, regulation, residential property market and finance. Certain aspects of this analysis are presented below. The comparison with last year's residential market analysis draws specifically on data from the Bank for International Settlements (BIS) and from our inhouse experience. But before we analyse the national property markets in detail, we would like to briefly present the general economic developments.

COMPARISON OF GDP DEVELOPMENT IN EUROPE 2005 - 2014



Source: OECD / Calculation & Construction: Catella Research 2016

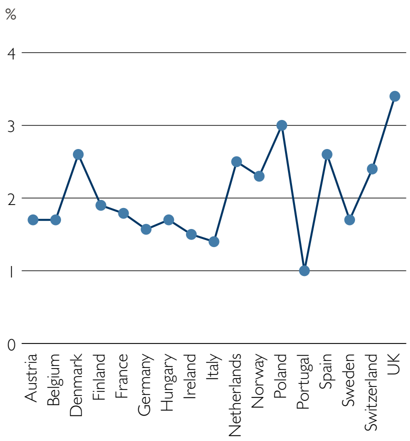
With a few exceptions, the European markets have weathered the global financial crisis and its aftermath. Many of the countries are back to long-term growth. Ireland and Spain – two countries that were particularly affected by a domestic real estate crisis – have overcome financial upheaval, as can be seen in the currently positive GDP growth rates (Spain: 2.0%; Ireland: 6.0%). Slight drops in economic output were only experienced in Austria, Finland and Italy in 2014.

However, economists expect that all of the national economies analysed will see considerable real growth by 2020. Expectations range from real growth of at least one per cent for Italy and 3.4% for the Polish economy. Average growth is expected to amount to 2% for the countries analysed.

When considering the different European labour markets, the Spanish figures stand out. Unemployment is currently above 25%, giving cause to describe the situation on the Spanish labour market as disastrous. However, it is very likely that Spanish reform policies will soon bear fruit. As a result, the rate of unemployment is expected to drop to 17% by 2020.

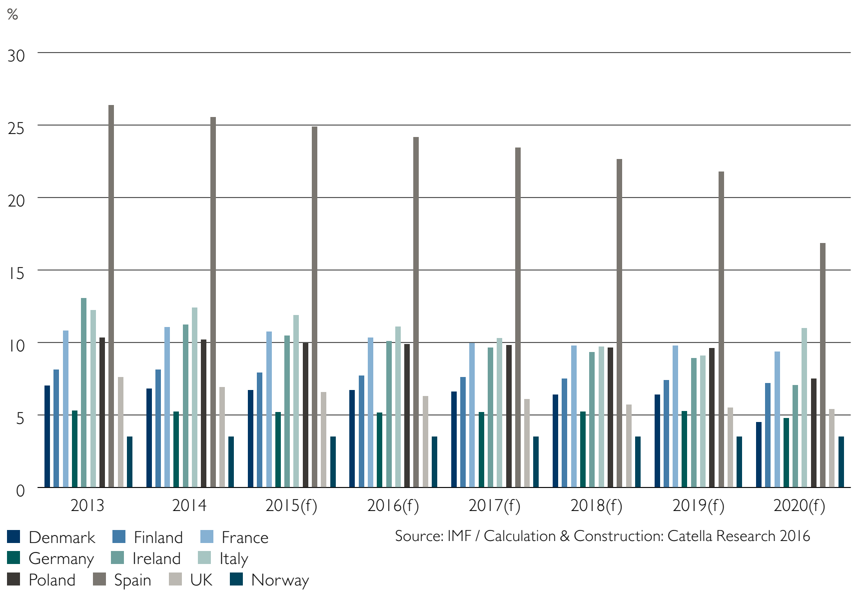
The Irish economy is a positive example, with experts anticipating a reduction in the unemployment rate to 7% – half of the current rate – by 2020. While Germany is expected to be able to successively bring unemployment down to less than 5%, the French economy still has to deal with structural deficits, which means that the rate is likely to persist at 10%. Norway is a haven of stability – the unemployment rate in this country is 3.5%, which economic theory dictates is very close to full employment.

ESTIMATED REAL GROWTH IN GDP BY 2020



Source: IMF / Calculation & Construction: Catella Research 2016

UNEMPLOYMENT RATES ACROSS EUROPE



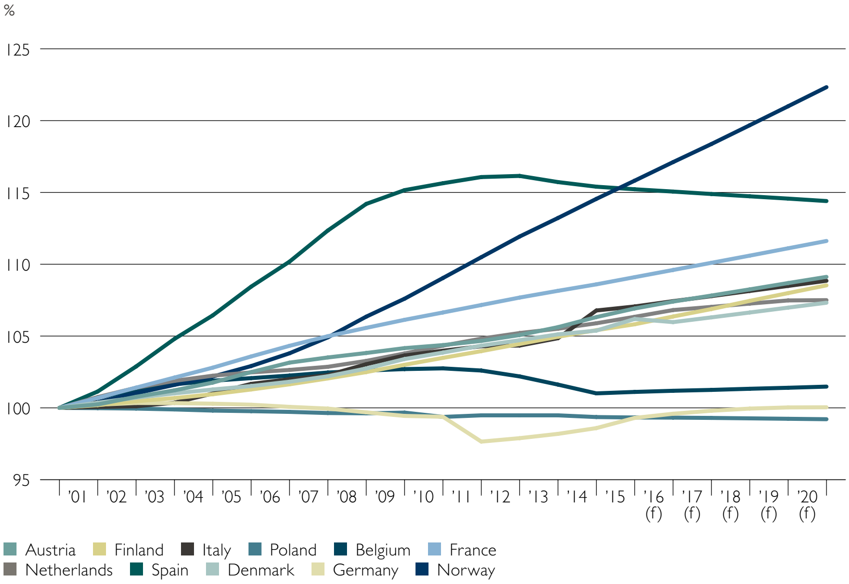
Source: IMF / Calculation & Construction: Catella Research 2016

Demographic developments are a fundamental criterion in determining demand for residential properties. The diagram does not explicitly refer to population levels – as an aside, it is worth noting that Germany is currently the most populous country in Europe with 81.7 million inhabitants, followed by France (64.2 million) and Italy (60.9 million). Over the past years, Germany has been suffering from a decline in population. Even without taking into account the current refugee developments, Germany will record a moderate increase totalling almost 1.5% between 2015 and 2020. Sweden (7.6%), Norway (6.6%) and Belgium (5.4%) are expected to record the highest rates of change in comparison to the other countries. Poland (-0.15%) and Spain (-0.9%) will have to deal with a drop in population.

After the historic about-turn of the US Federal Reserve System (FED) in its interest policies in the past year, discussions are under way about increasing interest rates in Europe, too. However, there is no sign of an end to the era of low interest rates in the short to medium term. As long as Mario Draghi and the ECB continue to flood the markets with cash as part of the quantitative easing (QE) programme, the main refinancing rate will remain close to zero.

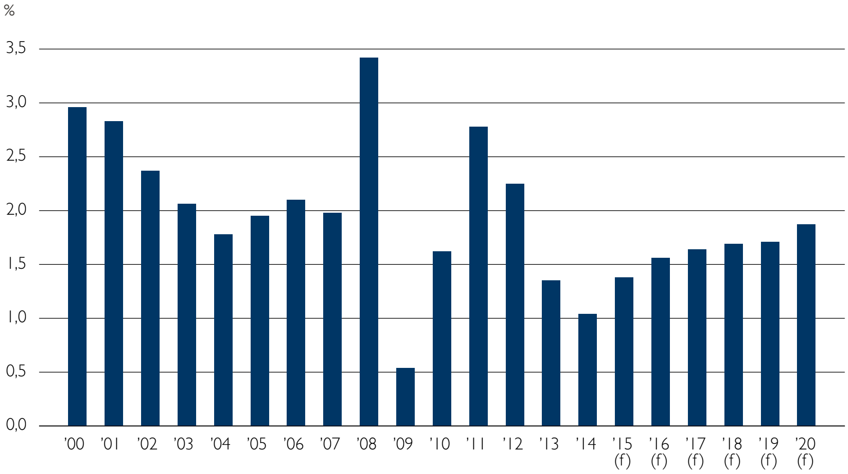
The inflation rate in the eurozone is currently just over 1%, the lowest rate since the financial crisis (2009: 0.5%). This can be chalked up to the European debt crisis. As economic activity improves, the inflation rate will also successively increase, conceivably reaching the ECB target of 2.0% by 2020.

COMPARISON OF POPULATION IN EUROPEAN COUNTRIES (INDEX DEVELOPMENT)



Source: IMF / Calculation & Construction: Catella Research 2016

INFLATION RATES IN THE EUROZONE



Source: IMF / Calculation & Construction: Catella Research 2016

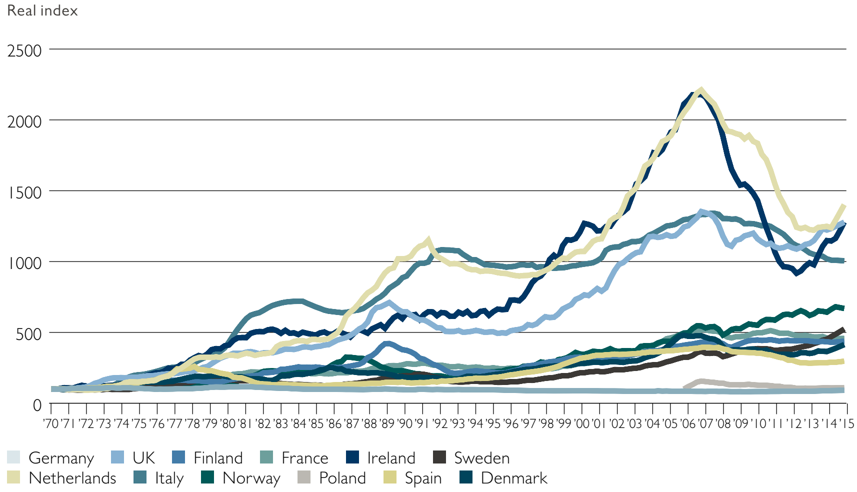
A comparison of European residential property markets

The real developments of national residential property markets have taken very different paths over time. Development in Germany has even been slightly negative over the last 30 years. It is only in the last three years that the German market has displayed any signs of recovery, with real growth of almost 2%.

At the beginning of the millennium, the markets were generally displaying considerable increases until the financial crisis. France, the UK, Denmark and Sweden all saw growth of at least 50% in this six-year period. House prices in Ireland even increased by 120%. This upturn proved particularly unsustainable in Ireland, Spain, Italy and the Netherlands though, with the period of growth finishing out with major price corrections in many countries. At the moment, however, many European economies are once more on a growth path, with price corrections only expected in Italy.

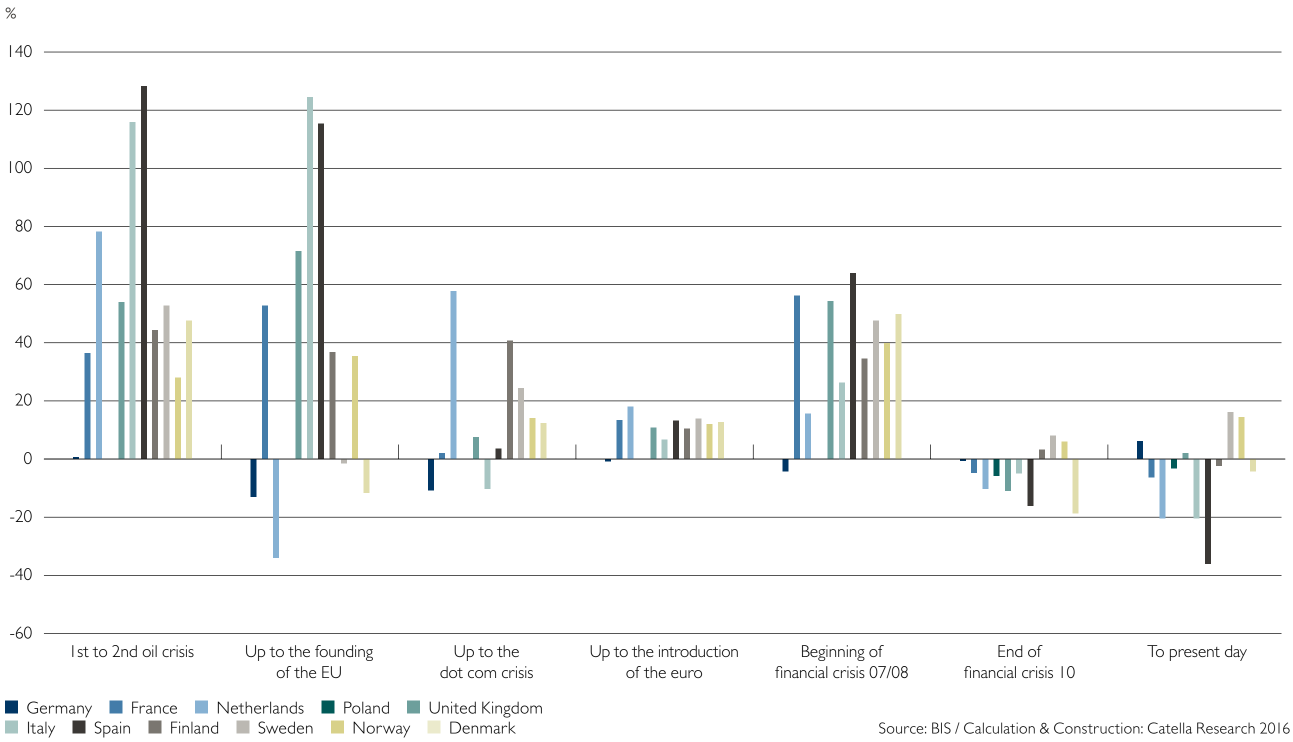
With the exception of the recent financial crisis – which by no means affected all markets, while those that were affected were so to different extents – we have been able to identify market cycles where development was heterogeneous for a time. This is due to the fact that price development on the residential markets is closely linked to national economic output.

COMPARISON OF EUROPEAN RESIDENTIAL PROPERTY MARKETS



Source: BIS / Calculation & Construction: Catella Research 2016

PRICE CHANGES OF DIFFERENT RESIDENTIAL MARKETS FOR VARIOUS MARKET PHASES (1973 – 2015)



Source: BIS / Calculation & Construction: Catella Research 2016

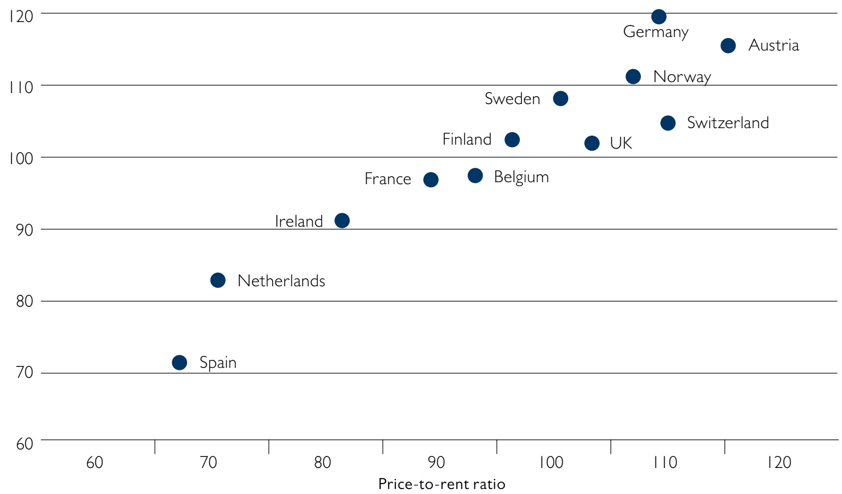
A peculiarity is observed on the aggregated European housing market index (index of individual countries proportionally weighted by population): amplitude is clearly increasing over time. The time frame between upward and downward market trends is therefore in clear decline. The market may look very different again in the space of just a few short years.

We can see that the total European market recorded annual change rates of 9.0% between 1998 and 2007. In 2008 and 2009 the market declined by a total of 11.0%. The negative phase continued – after slight growth in 2010 – with a drop of almost 6% in 2012 and 2013. It now seems though that the lowest trough has been reached. In the last two years positive growth of almost 6% was achieved. Relative values, which include absolute house prices alongside macrovariables such as income, unemployment rates, etc. are often chosen to compare property values. The relationship between prices and income (price-to-income ratio) and prices and rents (price-to-rent ratio) are included in the analysis below to serve as examples. These ratios serve as major references for the affordability of residential properties. In this context, however, the focus is not specifically on affordability but rather on attempting to illustrate the momentum on the housing markets. We therefore refer to the index development of both of these ratios. The base index of 100 represents the year 2010. The knowledge that there is a linear correlation between both "housing affordability multiples" should not come as a surprise. The correlation coefficient is +0.95. For Germany, Austria, Sweden, Norway and Switzerland, this results in an increase both for the price-to-income ratio (8.8%) and the price-to-rent ratio (10.9%).

That means the affordability of residential properties will decline further. In contrast, buying and renting residential properties has become considerably cheaper in France, Finland, Ireland, Spain and the Netherlands. In these countries the price-to-income ratio averages at -8.3% and the price-to-rent at -11.4%.

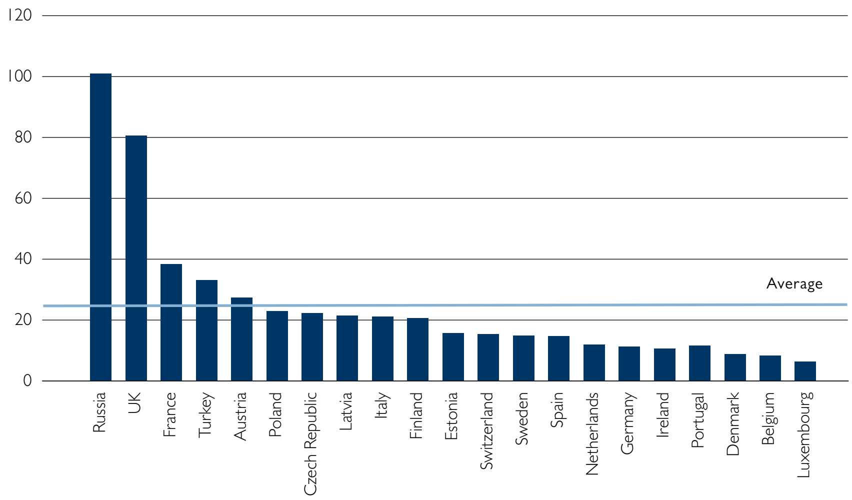
PRICE-TO-INCOME VS. PRICE-TO-RENT RATIO

(2015; based on 100 in 2010)



Source: IMF / Calculation & Construction: Catella Research 2016

PRICE-TO-INCOME RATIOS IN EUROPE



Source: Global Property Guide / Calculation & Construction: Catella Research

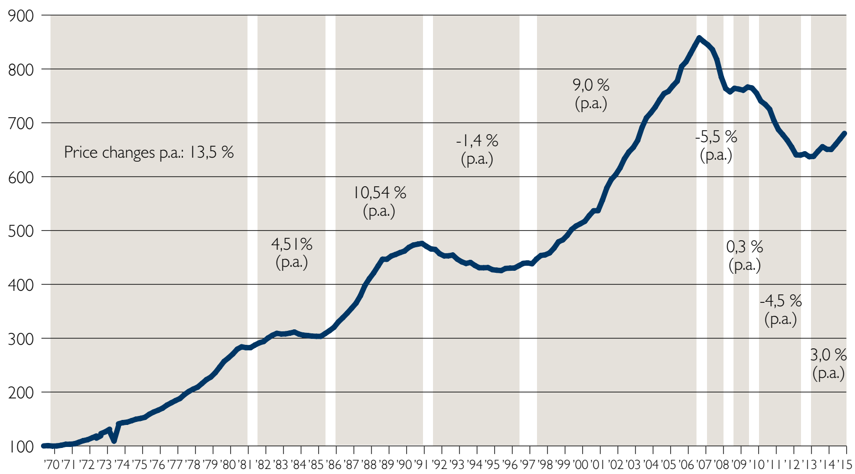
Are Germany, Austria and other countries already too expensive? No, not at all. The following explanations will provide a useful base for understanding this conclusion. Our analysis is based on a 100 sqm apartment. In a relative comparison of Europe, the most expensive property of this type would be in Russia. In order to be able to purchase such a property, a Russian citizen would have to pay over 100 times his share of the national GDP. The least expensive places to purchase such a property would be in Denmark (8.97 times), Belgium (6.59 times) or Luxembourg (6.25 times). As mentioned above, getting on the private property ladder will become ever less affordable in Germany, although it must also be noted that Germany is still amongst the bottom third in Europe with a price-to-income ratio of 11.24. The German market is therefore more undervalued than overvalued. On average, European citizens (in the countries analysed) would spend 24 times their income (share of GDP) on such an apartment.

These ratios merely provide an indication. Other factors also play a part, and there are different preferences regarding property ownership in the individual countries.

And there is another peculiarity to be observed when comparing the European and U.S. markets. In order to present the situation on the American market we have used the real version of the Case-Shiller home price index for our analysis.

EUROPEAN HOUSING MARKET (LONG-TERM REAL INDEX DEVELOPMENT)

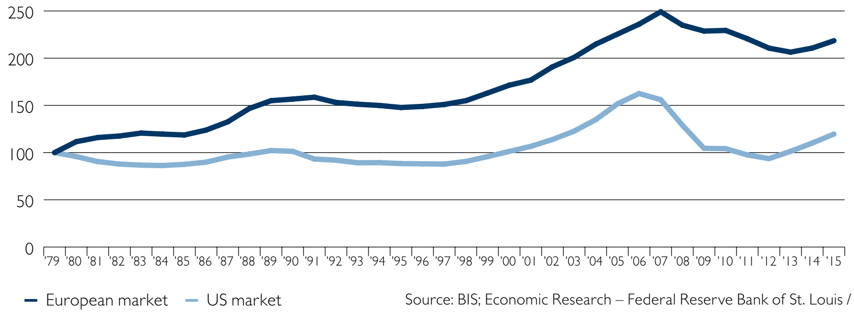
Index development



Source: BIS / Calculation & Construction: Catella Research 2016

PRICE DEVELOPMENTS: COMPARISON OF EUROPE AND THE USA

Index development



Source: BIS; Economic Research – Federal Reserve Bank of St. Louis / Calculation & Construction: Catella Research 2016

A clear synchronisation starting in the mid-80s can be seen. European residential property investments are obviously also subject to the global investment market, which is reflected in the synchronisation of these markets.

This makes it apparent that correct market timing and an in-depth analysis of individual markets is essential in order to establish a European residential property portfolio that will be successful over the long term.

Selected aspects of regulation affecting Europe's residential and owner-occupied housing markets

National residential markets are very much subject to national politics. Consequently, the domestic regulatory regimes must be taken into consideration to a certain degree when contemplating residential property investments in any country. The idiosyncrasies of individual regulatory characteristics will be briefly described below for a selection of European countries.

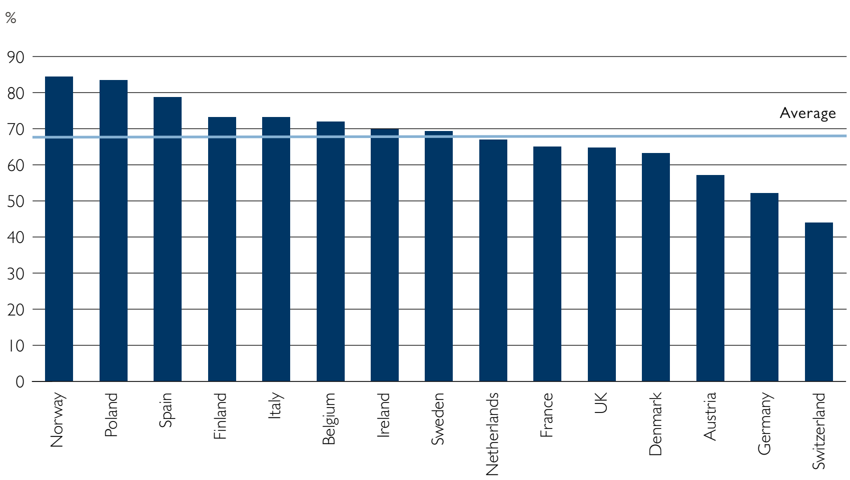
First, however, we need to look at the structural composition of the European residential property markets: The German population is traditionally considered to be made up of renters. This assertion is backed by the figures comparing ownership rates. In Europe, Switzerland and Germany can usually be found bringing up the rear when it comes to these figures. From an economic perspective, high rates of ownership have both advantages and disadvantages. Owner-occupiers are generally savers, and owning a residential property also forms a part of personal investment in retirement. However, often owner-occupiers are also less mobile. If both robust buyer and renter markets exist side by side, this can improve the stability of financial markets, because the risk of a property bubble with high overall economic damages occurring is lower.

Government influence on the property markets tends to have a more destabilising than stabilising effect. An example of this would be tax deductible debt interest payments. The fact that these are tax deductible has led to excessive debt in some countries, which in turn has led to more volatility and the formation of bubbles on the markets. Such regulations still exist in a number of EU member states, but they are increasingly being reviewed.

A rent cap has just come into effect in Germany, meaning that rental prices even for new properties are linked to the rental price index and are no longer subject exclusively to supply and demand. Sweden has had comprehensive rent regulation for some time. This has proven particularly problematic in the cities of Stockholm, Gothenburg and Malmö, because this type of regulation impedes construction, causing excessive demand.

Finally, the issue of taxation is also one that bears closer examination. This is particularly important in Europe, where taxation is governed at a national level, but unfavourable developments can have an impact on the stability of the currency union as a whole. Virtually all countries in the EU have some form of property and property transaction tax, but the significance of this tax revenue varies greatly among the different countries. In the UK the amount generated by both of these types of taxes is

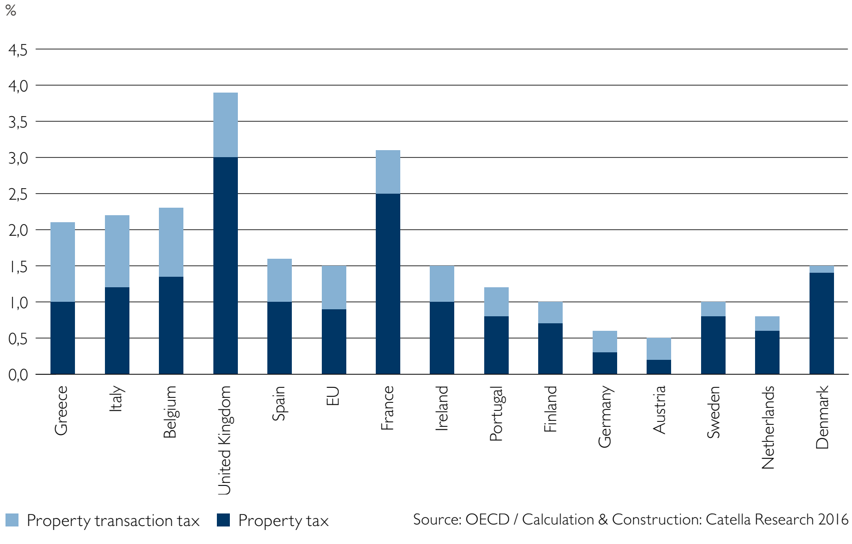
OWNERSHIP RATES



Source: EuroStat / Calculation & Construction: Catella Research 2016

6.5 times higher than the amount generated in Germany. Looking purely at property transaction taxes, the highest relative values are in Italy, France, Belgium and the UK. In Belgium, property transaction tax is more than 10%. In Germany, the peak tax rate currently stands at 6.5%. However, these tax rates are set by the individual federal states and there has been a recent trend towards increasing these rates. VAT forms a type of natural upper limit – but because this is currently 19% in most cases, it may not be as reassuring as it initially sounds. Overall, the trend across Europe has been towards a successive increase in both of these taxes over a longer time period – relative to GDP.

EUROPEAN COMPARISON AS PERCENTAGE OF GDP (2013)



Source: OECD / Calculation & Construction: Catella Research 2016

Portfolio selection

CORRELATION MATRIX EUROPEAN RESIDENTIAL MARKETS 2016

	Germany	France	Netherlands	Poland	United Kingdom	Ireland	Italy	Spain	Finland	Sweden	Norway	Denmark	Market
Germany	1,00	-0,39	-0,24	-0,37	-0,20	0,02	-0,60	-0,43	-0,31	-0,03	-0,19	0,09	-0,37
France	-0,39	1,00	0,61	0,27	0,56	0,58	0,83	0,81	0,77	0,39	0,44	0,74	0,85
Netherlands	-0,24	0,61	1,00	0,45	0,55	0,59	0,69	0,70	0,23	0,43	0,27	0,45	0,76
Poland	-0,37	0,27	0,45	1,00	0,36	0,33	0,35	0,36	0,32	0,31	0,19	0,14	0,54
United Kingdom	-0,20	0,56	0,55	0,36	1,00	0,71	0,57	0,72	0,51	0,59	0,29	0,41	0,83
Ireland	0,02	0,58	0,59	0,33	0,71	1,00	0,48	0,81	0,49	0,59	0,14	0,69	0,79
Italy	-0,60	0,83	0,69	0,35	0,57	0,48	1,00	0,87	0,59	0,30	0,26	0,47	0,84
Spain	-0,43	0,81	0,70	0,36	0,72	0,81	0,87	1,00	0,62	0,53	0,27	0,64	0,93
Finland	-0,31	0,77	0,23	0,32	0,51	0,49	0,59	0,62	1,00	0,42	0,33	0,59	0,69
Sweden	-0,03	0,39	0,43	0,31	0,59	0,59	0,30	0,53	0,42	1,00	0,63	0,65	0,61
Norway	-0,19	0,44	0,27	0,19	0,29	0,14	0,26	0,27	0,33	0,63	1,00	0,53	0,39
Denmark	0,09	0,74	0,45	0,14	0,41	0,69	0,47	0,64	0,59	0,65	0,53	1,00	1,00
Market	-0,37	0,85	0,76	0,54	0,83	0,79	0,84	0,93	0,69	0,61	0,39	0,66	1,00

Source: Catella Research 2016

Naive diversification was not used for our office market report; instead, an attempt was made to quantitatively prove this potential between the markets using a correlation matrix. This matrix often displays slightly positive and even negative correlations between the markets. This applies in particular to the German market, which enables a major reduction in the portfolio's non-systematic risk. We have also begun to measure the diversification effect for the market (European residential property market index) as an addition to our previous property market report.

Specifically in aggregate comparisons, the unusual nature of the German residential property market becomes particularly clear – while other countries show a slight or considerable correlation with the market, Germany displays negative correlation with the market. The result is a negative beta risk factor for Germany. The beta risk factor includes a relative risk comparison and is calculated from the covariance of the individual market relative to the whole market and the variance of the market. The central reference value is the collective market's beta risk of one. If a country's risk factor exceeds that of the collective market's, then the beta factor is greater than one. A lower risk is valued at less than one. The beta risk factor is vital for analysing the stock markets. This is not yet true for the real estate market yet, as the availability of data is often severely limited.

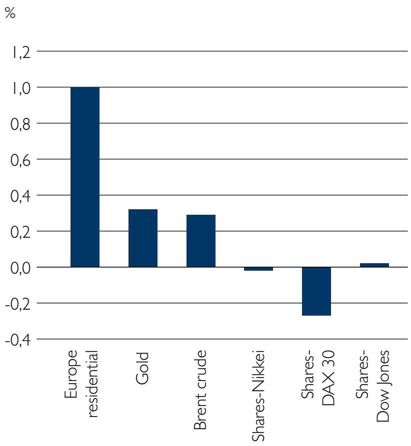
In practice, yield risk modelling tends to be of particular interest to major institutional investors as they can use it to determine certain equity, bond, commodity and real estate exposure rates. Investors in the German stock market in particular can tap into great diversification potential by investing in the European residential property market.

COMPARISON OF BETAS

	Beta risk factor
Germany	-0,14
France	1,40
Netherlands	1,02
Poland	0,50
United Kingdom	1,47
Ireland	2,26
Italy	1,01
Spain	2,39
Finland	0,47
Sweden	0,66
Norway	0,42
Denmark	1,42
Europe	1,00

Source: BIS / Calculation & Construction: Catella Research 2016

DIVERSIFICATION POTENTIAL OF DIFFERENT ASSET CLASSES (2000-2014)



Source: BIS; Construction: Catella Research 2016

Residential investments in Europe

There are certainly considerable differences in residential property price developments in the various countries. Price developments should always be viewed in the context of national economic developments and the domestic approaches to regulation. Looking at European housing market indices leads us to conclude that cycles are becoming ever shorter and volatility is higher. This makes in-depth, country-specific research more important than ever in European investment strategies in order to get the market timing right.

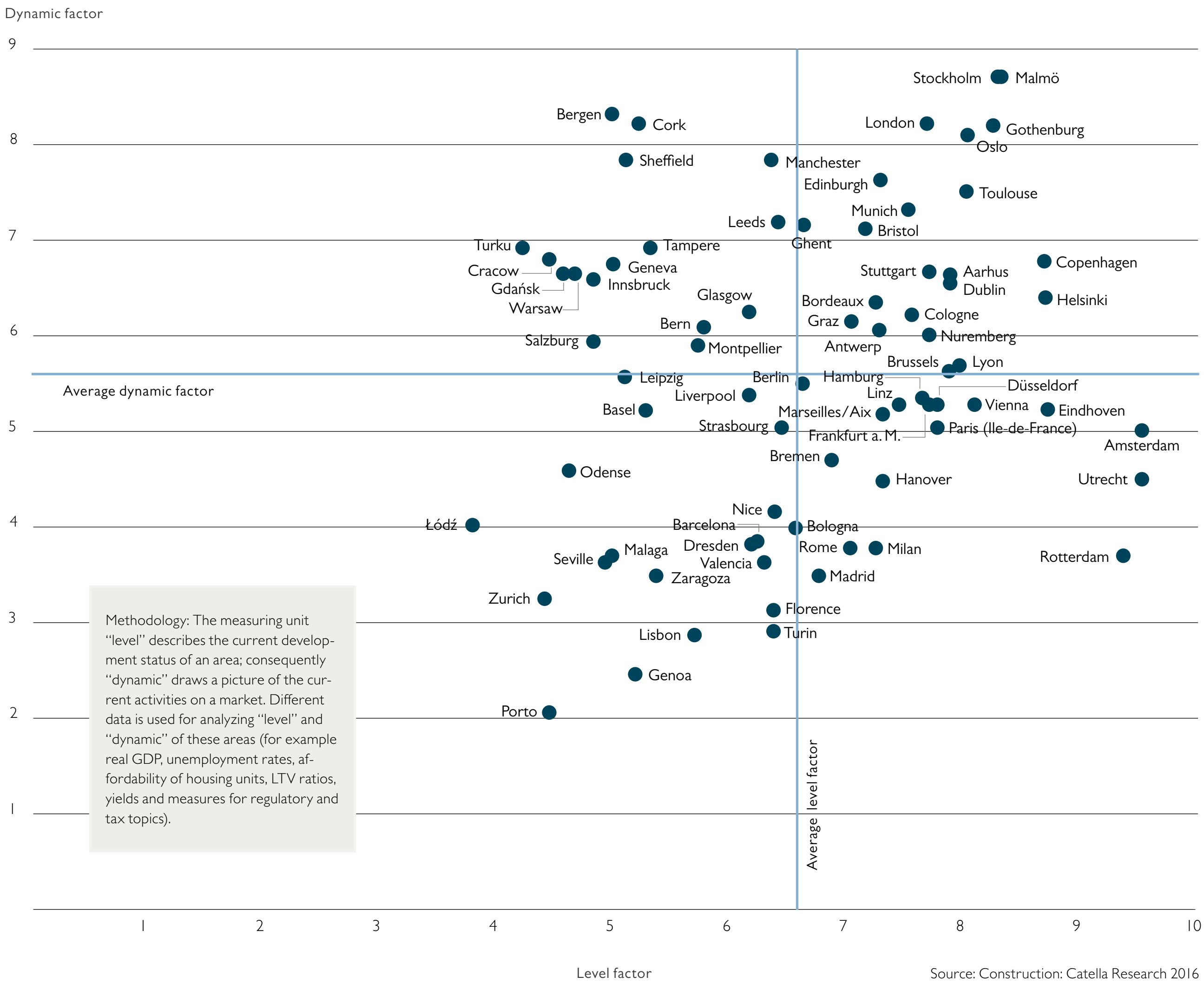
Ultimately, however, property investors do not buy countries, they buy properties in regions. But the various regions within a single country can exhibit characteristics that vary so greatly that there is no way around analysing the major metropolitan regions.

Catella Research employs two ratings to evaluate the quality of an investment location: level and dynamic.

Cities like London, Paris, the Swiss metropolitan regions and German cities such as Munich, Hamburg and Stuttgart are very popular, which results in high rental prices. But the growth in rental prices is struggling to compensate for the increase in purchase prices, resulting in yield compression and confining rental yields to between 3% and 4%. This is pushing some of Germany's category B and C towns, with rental yields of up to 6%, into the limelight.

Similar results have also been achieved in Polish cities such as Warsaw, Gdańsk and Łódź. This trend will be carried by stable Polish economic growth over the medium and long term. Transaction activities have recently increased in Spain, although it remains to be seen whether this development is sustainable.

MARKET ANALYSIS / RATING OF EUROPEAN METROPOLITAN AREAS



Source: Construction: Catella Research 2016

Housing market is recovering

The housing market is heading up and the economy is gradually recovering. Gross rental yields have fallen sharply in recent years. The rental market is muted due to rent controls and rising numbers of homeowners. Record low interest rates cause the mortage market to expand rapidly.

AT A GLANCE

Population	11,1 mn
Housing stock	4.65
Stamp duty	10.0%-12.5%
Notary costs	0.3%-1.0%
Brokerages	2.0%-3.0%
Value added tax	21.0%

2016 forecast	
Unemployment rate	8.4%
Inflation rate	1.2%
GDP growth	1.4%

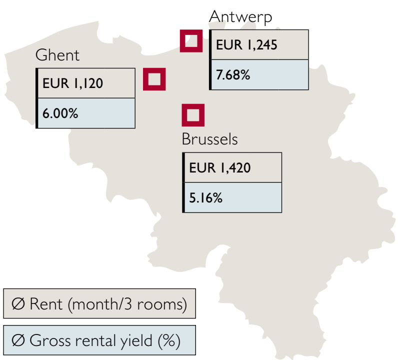
Top Cities	**Population**
Brussels	1,8 mn
Antwerp	1,7 mn
Ghent	1,4 mn
Mons	1,3 mn
Bruges	1,2 mn

Source: Eurostat, IMF, PMA

The Belgian economy lost some momentum in the second half of 2015, mainly due to weaker growth in household consumption, with the government's imposition of a whole-economy wage freeze until 2017 and rising inflation clearly weighing on sentiment. GDP growth was 0.2% in Q3 – down from 0.5% in Q2. High frequency economic indicators are pointing to a gradual improvement in consumer spending and investment in H1 2016. Consumer confidence has risen in recent months, amid greater positivity around employment prospects and the outlook for the economy. Prospects for business investment have also become more positive, underpinned by improving profitability, rising capacity utilisation and increasingly favourable credit conditions, following the decision by the European Central Bank. GDP growth is expected to reach 1.4% in 2016 and average 1.6% over the medium term, with all sectors of the economy, except public spending, making positive contributions to growth. Domestically, growth will be constrained by high public debt and ongoing structural issues in the labour market.

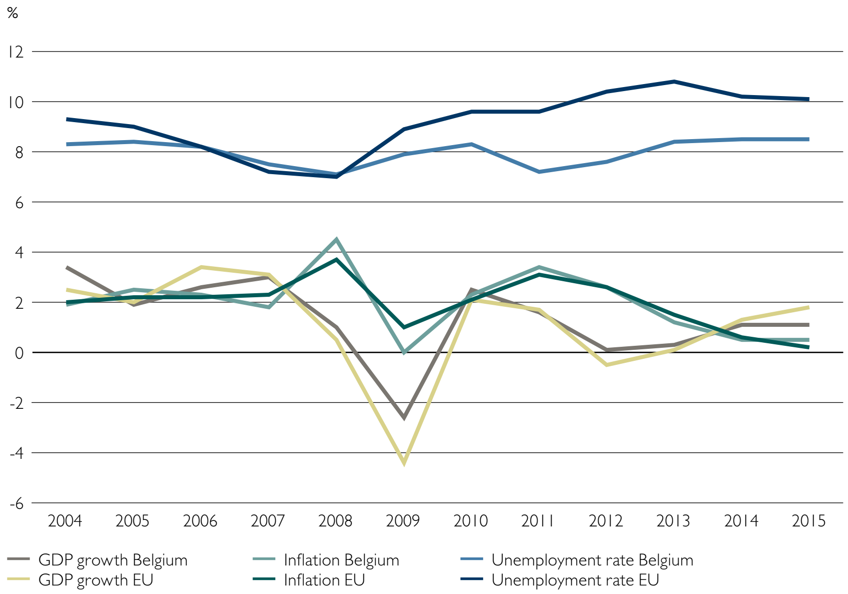
Since the crisis, Belgian house prices have followed the economy. In years when the economy was strong, house prices rose. When the economy was weak, house prices stagnated. Property prices in Belgium are rising again, especially after a decline in the first half of 2014. Nationwide, Belgian house prices declined by 0.5% (inflation-adjusted 0.8%) y-o-y in 2014. On a quarterly basis, house prices increased 1.1% (inflation-adjusted 1.3%) in Q4 2014 compared to Q4 2013. The purchase price of existing houses decreased slightly by 0.1% (nominal) in 2014 from a year earlier. On the other hand, the price of new houses fell by 1.8% (nominal). The average price of regular houses in Belgium stood at EUR 202,140 in 2014.

RENTS AND YIELDS IN CITY CENTRES



Source: Numbeo

ECONOMIC DATA



Source: IMF, PMA

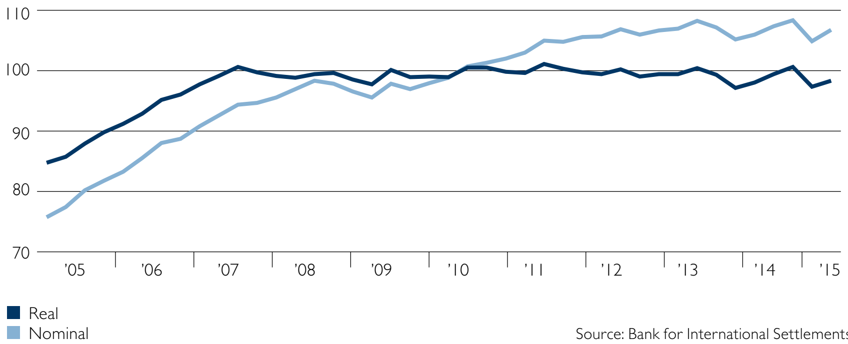
Belgium is divided into three regions: the Flemish Region, the Walloon Region and the Brussels-Capital Region. Residential prices in Belgium's three regions move in the same price cycle, but the capital has experienced the highest price increases by far. Prices in Brussels surged almost 200% (140% inflation-adjusted) from 1998 to 2008, much more than in the two other regions (143% for the Flemish region and 116% in Wallonia). Prices also fell the most in Brussels during 2010, though the average price of ordinary houses in Brussels decreased by 1.44% (4.27% inflation-adjusted) in 2010; while house prices continued to rise by 4.6% in the Flemish region and by 4.2% in the Walloon region. The reasons for Belgium's house price boom were a rapid mortgage market expansion due to low interest rates and increased competition between banks and a relatively strong economic and wage growth.

Gross rental yields in the Brussels range have remained steady over the past year.

Gross rental on apartments in Brussels range from around 4.56% to 5.53%, while yields on houses range from 4.46% to 5.01%. Meanwhile, the difference between the yields on small properties, which tend to be higher, and those on larger properties, has declined. All of the apartments and houses are located in the prime areas of Brussels. The prime areas are Laeken, Nieder-over-Heembeck, Auderghem, Ixelles, St. Gilles, Uccle and Woluwe-St. Pierre.

RESIDENTIAL PROPERTY PRICES

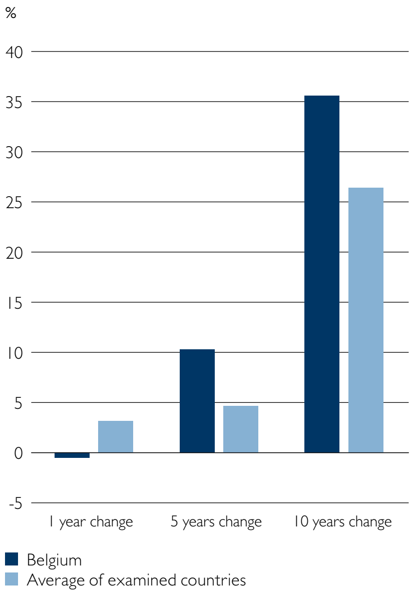
Real vs. nominal, 2010 = 100



Source: Bank for International Settlements

Rigidities in housing supply can lead to price increases when construction fails to keep up with growing demand, but there are, nonetheless, few signs of a housing shortage in Belgium as a whole. The number of houses per thousand inhabitants has continued to increase, while compared to the number of households it has been broadly stable during the last decade. The steady growth in new houses has thus been able to meet the increased demand to a large extent, which confirms that the past increase in house prices is related more to demand factors than to a structural undersupply of housing. However, it will be challenging to expand the housing stock at a pace commensurate to the increasing number of households. In Brussels, office buildings in the European quarter are now being converted to houses, reversing a long-standing trend.

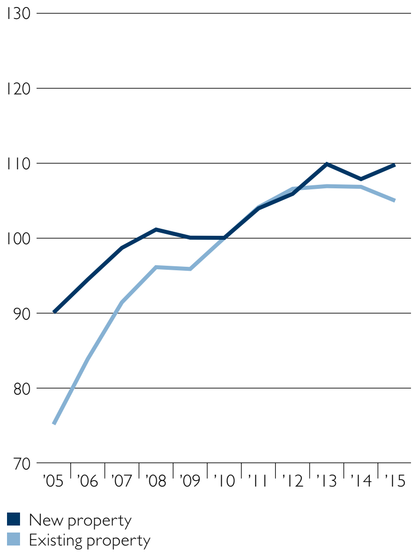
PERCENTAGE PRICE CHANGE OF NOMINAL INDEX



Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



Source: Eurostat

Growing population and high demand in the capital

House prices are rising rapidly in Luxembourg on the back of strong performance by consumers, investment and exports. House prices in the centre of the capital are the most expensive with low rental yields. Low interest rates are also boosting the investment market.

AT A GLANCE

Population	550,000
Housing stock	0.22
Stamp duty	9.0%-12.0%
Notary costs	0.5%-0.65%
Brokerages	1.0%-2.0%
Value added tax	17.0%

2016 forecast	
Unemployment rate	6.1%
Inflation rate	1.3%
GDP growth	3.1%

Top Cities	**Population**
Luxembourg City	107,000

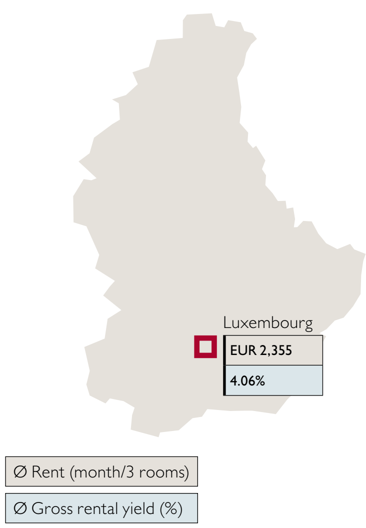
Source: Eurostat, IMF, PMA

The economy steadily built momentum in the second half of 2015, driven by strong performances from consumers, investment and exports. The government's attempts to diversify the economy away from an over-reliance on the financial industry are paying dividends and the current broad-based recovery is expected to continue over the coming quarters. Inflation remains low, with the renewed downward pressure on oil prices offsetting the impact of the VAT hike introduced in early 2015. While inflation is expected to pick up in 2016, the central bank has indicated that the next indexation of wages is due by Q1 2016, which will help boost real disposable incomes and private consumption throughout the year. Consumer spending is forecast to rise by 2.3% in 2016 and an average of 2.4% a year in 2017–2018.

Luxembourg's economy is forecast to be one of the top European performers over the medium term, with healthy contributions expected from all sectors of the economy. A number of short-term risks remain, however, namely rapidly rising house prices, labour market shortages, fiscal uncertainties linked to the EU investigations and weaker financial sector investment.

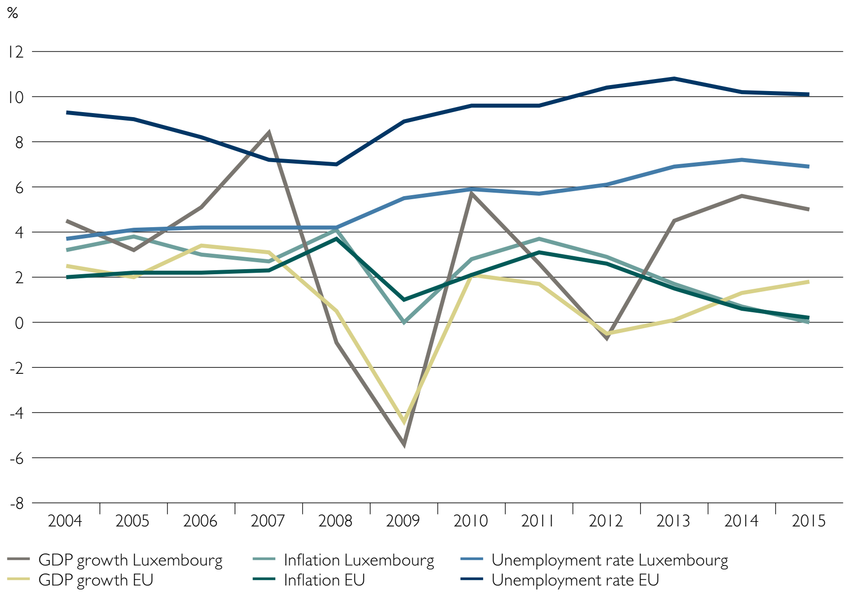
Since 2004, the residential market has grown steadily. From 2009 to 2014 house prices have increased by 25%. The prices of land for property development are the main reason for the fast evolution of housing prices. The Luxembourg residential market was only moderately hit by the global crisis of 2008. The positive result can be attributed to a steadily increasing population, high demand, especially for apartments which are more expensive than houses, and relatively high inflation, with an average rate of 2.6% from 2004 to 2014. After a drop in 2012, Luxembourg's residential property market is rising again, amidst a recovering economy. In 2013, the average selling

RENTS AND YIELDS IN CITY CENTRE



Source: Numbeo

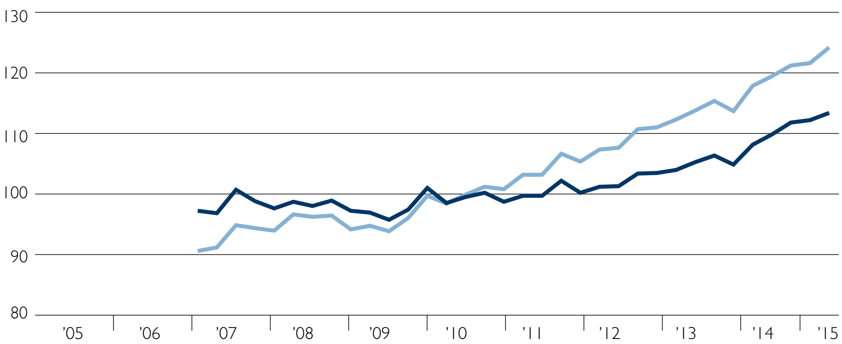
ECONOMIC DATA



Source: IMF, PMA

RESIDENTIAL PROPERTY PRICES

Real vs. nominal, 2010 = 100



Real
Nominal

Source: Bank for International Settlements

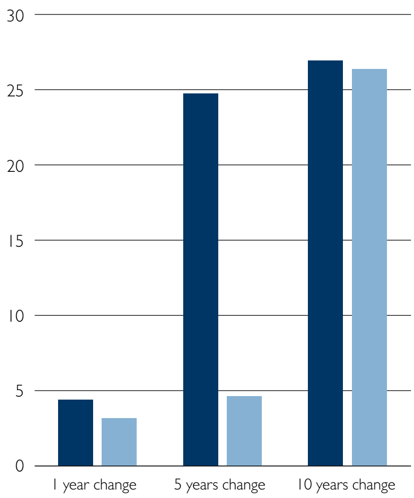
price of houses increased by 5.0% (3.2% inflation-adjusted), the biggest annual house price increase since Q2 2006. This strong price development continued into 2014, when it was up by 4.4% (3.7% inflation-adjusted). The strongest increase was seen in Q4 with 5.1% (5.2% inflation-adjusted). There is also a difference in price growth between existing and new houses. While average prices for existing houses increased by 5.1% in 2014 to EUR 4,445 per square metre (sqm), average prices for newly built houses rose slightly by 2.6% to EUR 5,670 per sqm.

As the VAT rate for construction and repair costs has been raised to 17% for non-owner occupied properties, investors are now seeking to raise rents. However, the increase in the price of property for sale and residential rents may not immediately develop directly in line with the VAT rise. The rental market is mainly focused in Luxembourg City and its neighbouring areas and primarily focuses on letting. The majority of the population live in owner-occupied properties, with an owner-occupancy rate of 69%, and 28% are tenants. Although Luxembourg's rental market is said to be strongly pro-tenant, investors consider investment in rental real estate in Luxembourg a very attractive option. Rental yields in Luxembourg are low and ranged from 3.40% to 3.85% in 2014, with smaller apartments having higher yields.

In recent years, housing supply has not kept up with the growing demand that has come with population growth. Population growth in Luxembourg is the second highest in Europe (+24.0% in 2014) and, according to information on completions by the national statistics institute, an additional 129,000 housing units are needed by 2030. This means about 6,000 units per year – against an average housing completion rate of about 2,500 units per year in 2002-2010.

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

%

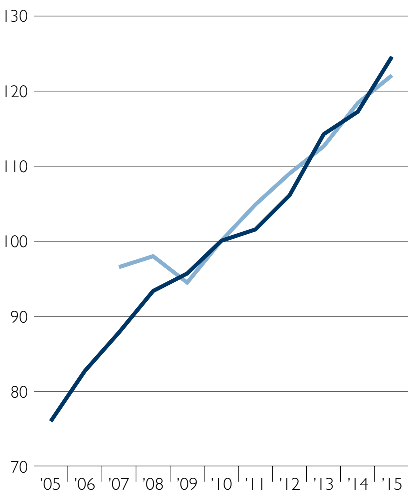


Luxembourg
Average of examined countries

Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



New property
Existing property

Source: Eurostat

Changing demographics and well-performing housing market

The Dutch housing market is characterized by a positive performance in terms of demand, with dynamic population growth and a growing number of households. House prices and apartment rents increased during 2015 in urban areas and the countryside. The Dutch housing market is expected to gain strength.

AT A GLANCE

Population	16,8 mn
Housing stock	7.59
Stamp duty	6.0%
Notary costs	0.2%-0.4%
Brokerages	1.0%-1.25%
Value added tax	21.0%

2016 forecast	
Unemployment rate	6.9%
Inflation rate	0.9%
GDP growth	2.1%

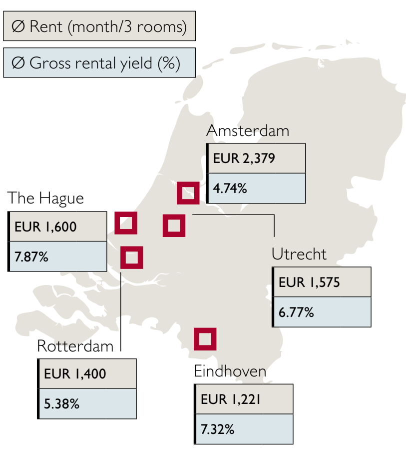
Top Cities	**Population**
Amsterdam	1,6 mn
Rotterdam	1,2 mn
The Hague	1,0 mn
Utrecht	655,000
Eindhoven	420,000

Source: Eurostat, IMF, PMA

The performance of the Dutch economy in 2015 points to a fairly modest recovery, despite the benefits of low interest rates, falling oil prices and the weaker euro. Quarterly GDP growth was just 0.1% in Q2, down from 0.6% in Q1 and the slowest pace in over a year. The slowdown in Q2 is attributed to a government-imposed restriction on gas production. Both consumer and business confidence rose strongly in Q3, with consumer confidence particularly high as it remained at the level last seen in September 2007. Consumption was additionally bolstered by low inflation and the ongoing decline in the unemployment rate, and has resulted in solid growth in consumer spending since the end of 2014. The Dutch economy is forecast to expand to 1.7% in 2016. Growth is anticipated to be well-balanced, with both external and domestic demand gaining strength. External risks, including the slowdown in China and other emerging markets, as well as the ongoing uncertainty about Greece, remain in place.

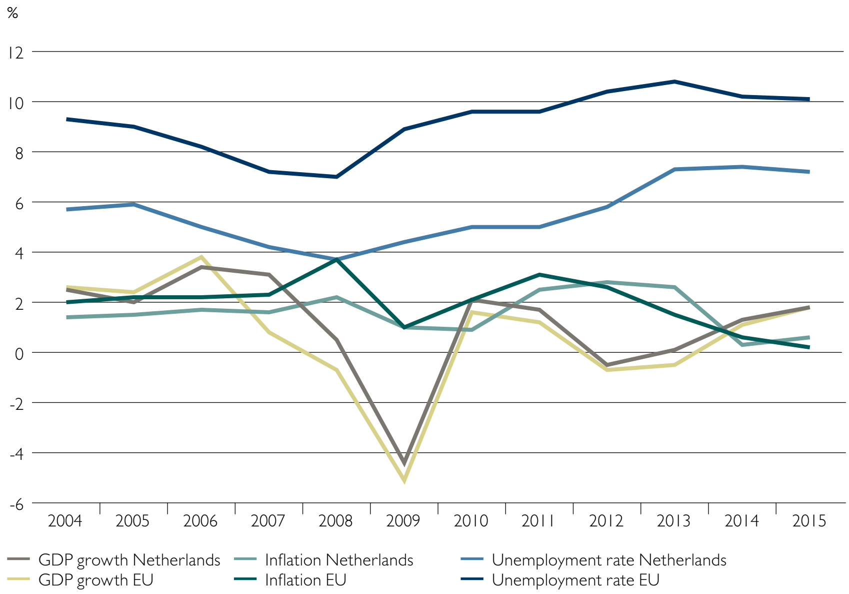
After almost five years of continuous house price falls, property transactions are increasing strongly, and house prices are rising modestly. The average house price in the Netherlands rose by 0.8% (-0.2% inflation-adjusted) during 2014 to EUR 225,000. In the third quarter of 2015 alone, residential property prices increased by 3.2% (2.4% inflation-adjusted). After the housing boom lasting almost 11 years, the Dutch housing market started to weaken in 2008, mainly due to the global financial crisis. This had a negative impact on consumption levels, construction activities and the overall economy. Today, the housing market appears to be recovering with house prices picking up and the number of transactions and building permits increasing. The number of property transactions rose by 39% in 2014, the highest level since 2008.

RENTS AND YIELDS IN CITY CENTRES



Source: Numbeo

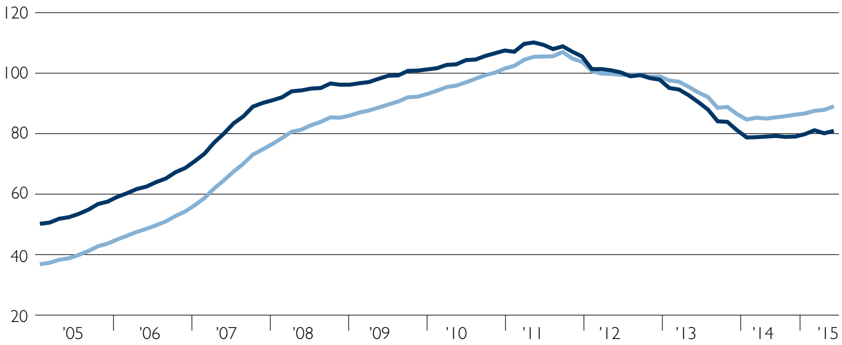
ECONOMIC DATA



Source: IMF, PMA

RESIDENTIAL PROPERTY PRICES

Real vs. nominal, 2010 = 100



Real
Nominal

Source: Bank for International Settlements

Houses sales rose in all major cities and municipalities, thus the recovery in the housing market is no longer limited to urban areas, and home sales are also improving outside the cities. The Dutch housing market is expected to continue to strengthen in the coming months, thanks to low interest rates, increased consumer confidence and improving economic conditions.

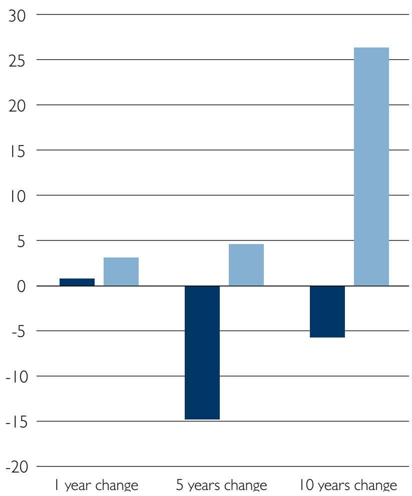
Demographics, on the other hand, will increasingly impact the residential market in the medium term. The first regions will see shifts in population and household figures that lead to a changing demand for residential space in the medium term. Although population figures may have already decreased regionally, the majority of regions are expected to witness an increase in the number of households. The main impact of this is that the average household size will decrease across the country, leading to an increased appetite for one- and two-person accommodation whereas demand for larger homes will feel some pressure.
At the same time, rents in the "free market sector" increased by an average of 2.4% in 2015, particularly for new occupants, and are expected to continue due to more market-related rent levels in the regulated sector and increasing demand in the rental sector. Usually, the annual rent increase is based on the price index number and inflation. Some contracts may also include a clause stating that rent will be increased according to market value every five years. In 2015, rent in Amsterdam increased by 3.1% and by 2.1% in The Hague.

In the Netherlands, the housing stock is divided into 60% owner-occupancy, 33% social housing – the highest share in the EU – and 7% private rental. The majority of the approximately 2.95 million rental homes in the country are owned by not-for-profit housing corporations and are mostly regulated homes. In the social housing market, the maximum basic rent in Netherlands for rent-controlled houses was approximately EUR 700 in 2014, a 2.8% rise from the previous year's rent control limit of EUR 681.

Gross rental yields in the small up-market decontrolled sector are good and will benefit the stability, rule of law and generally vibrant economy in the Netherlands with good long-term prospects. In Amsterdam, yields on apartments range from 4.7% to 5.8%. In The Hague, yields range from 6.1% to 7.1%. In both areas, smaller apartments return higher yields than larger apartments. The Hague is a less expensive city to buy in, and has a huge potential as the seat of government, with most foreign embassies and international organisations in the country located there. In addition, several large international businesses have their headquarters in The Hague, including Shell, the world's second largest company in terms of revenue. This means that there is an ideal group of expatriate tenants to whom owners can rent their apartments, as 26% of the jobs in The Hague are either offered by the Dutch government or by international institutions.

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

%

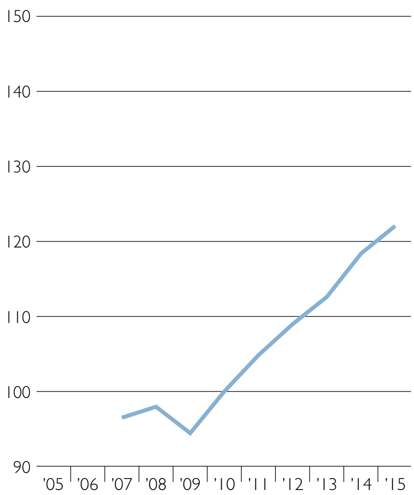


Netherlands
Average of examined countries

Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



New property (no index available)
Existing property

Source: Eurostat

Strong growth in Vienna and slowdown in the regions

House prices are declining but there is a large divergence between Vienna and the rest of the country. Housing supply is increasing modestly and residential rents are still rising. Austrian interest rates continue to fall but the mortgage market still remains small.

Following four quarters of marginal contraction or zero growth, the Austrian economy expanded by 0.8% in 2015. The economy continues to under-perform the eurozone average. It is anticipated that exports will be the main driver of growth this year, alongside government spending. Exports grew by 1.1% in 2015 and accelerated to 3.6% in 2016 thanks to the impetus caused by higher demand from Germany, which accounts for 30% of the country's merchandise exports. In addition, the weaker euro is expected to further boost trade with non-eurozone countries. A recent rise in inventories and solid increases in industrial production confirm the positive trend for this element of the economy. With inflation falling to its lowest level since early 2010, confidence recovering from the low level observed in late 2014 and unemployment at modest levels, a gradual improvement in consumer spending is anticipated from early this year.

The economy is expected to grow by 1.5% this year, increasing to 1.7% in 2017. Exports and industrial production are expected to remain bright spots while consumer spending and private investment are likely to gather pace next year. Government spending is anticipated to continue to support GDP growth. The country's strong economic fundamentals and a lack of serious structural challenges are expected to insulate it from downside risks, especially a slowdown in China and its potential lagged impact on the export sector.

Austria's property market is now slowing down sharply, amidst meagre economic growth. The residential property price index in Austria increased modestly by 2.5% (1.6% inflation-adjusted) in 2015 to Q2 2015. On a quarterly basis, property prices increased by only 1.5% in Q2 2015 (0.5% inflation-adjusted) compared to the second quarter of 2014. This overall slowdown in the housing market is reflected in almost all parts of the country. House prices in Vienna have been rising consistently since

AT A GLANCE

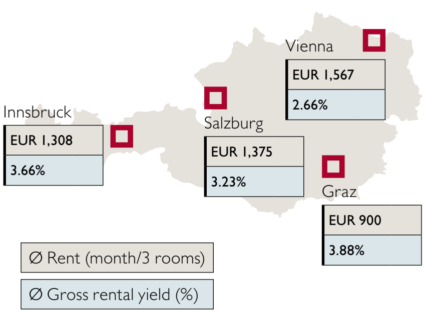
Population	8,5 mn
Housing stock	3.77
Stamp duty	3.5%
Notary costs	EUR 5,000 - EUR 15,000
Brokerages	1.0%-3.0%
Value added tax	20.0%

2016 forecast	
Unemployment rate	5.5%
Inflation rate	1.7%
GDP growth	1.5%

Top Cities	**Population**
Vienna	1,8 mn
Graz	269,000
Linz	194,000
Salzburg	147,000
Innsbruck	124,000

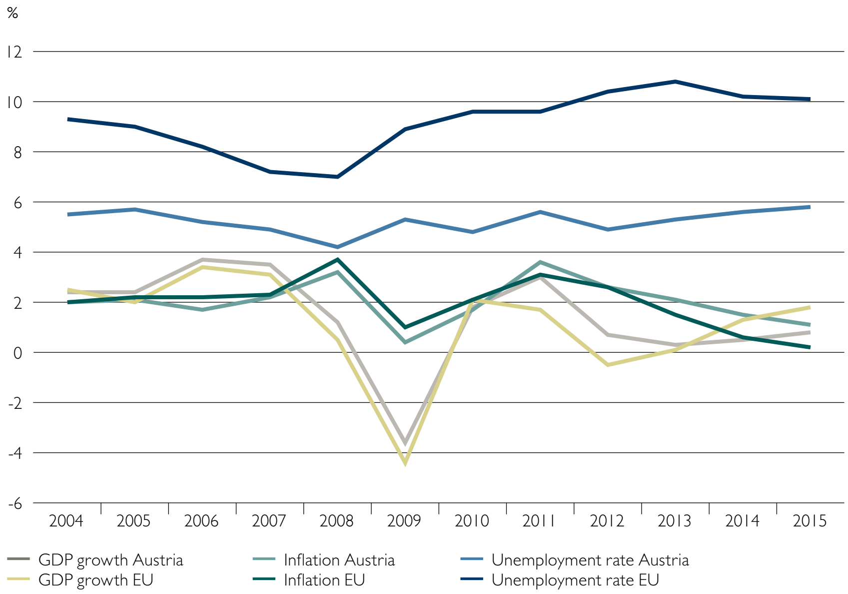
Source: Eurostat, IMF, PMA

RENTS AND YIELDS IN CITY CENTRES



Source: Numbeo

ECONOMIC DATA



Source: IMF, PMA

Q3 2004. During the housing boom (2003–2013), house prices in the capital soared by 99.6% (61.7% inflation-adjusted). On the other hand, property price changes in the rest of Austria have been erratic ever since the index was assembled in 2000. House prices rose by just 37.1% (11.1% inflation-adjusted) from 2003 to 2013. While both Vienna and the rest of Austria are now showing signs of slowdown, there remains a huge gap in their property price levels. The divergence between the capital and the rest of Austria during the period is puzzling. This may be partly due to the fact that it is difficult to build in the centre of Vienna. It may also be because, in an era of low interest rates, people are putting money into rental properties and Vienna offers relatively easy renting (though returns are quite moderate). Another possible factor is that the majority (about 70%) of residential real estate in Vienna is owned by institutional investors, i.e. banks and companies.

A comparison of housing stock and ownership by state reveals that around 23% of all Austrian households are found in Vienna, while Burgenland, the state with the smallest population, accounts for only about 3% of all households. Vienna also stands out when it comes to property ownership. In the capital, approximately 75% of all housing units are rental properties serving as main residences. This is in contrast to Burgenland where this form of housing accounts for only 16% of all households. These figures show that property ownership and the type of housing (rented/owner-occupied, apartment/detached house) differ greatly between the various Austrian states.

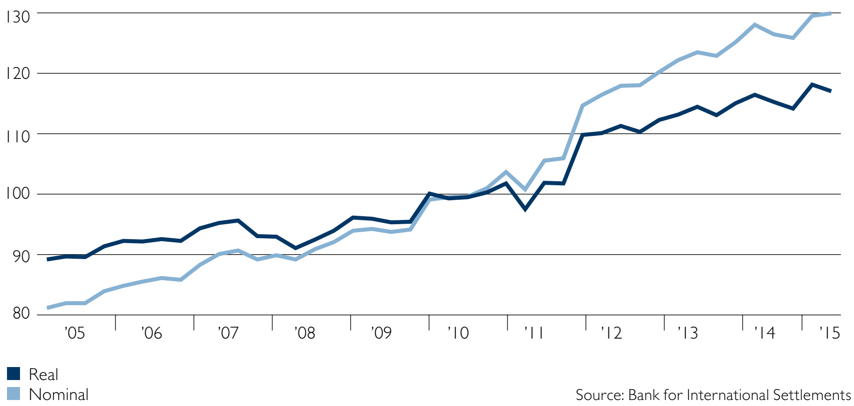
The number of new homes built in Austria fell to about 40,000 units a year during 2001–2004, down from around 66,000 units yearly in the 1990s, as a result of a boom and bust cycle. Construction volumes have still not entirely recovered. Total houses authorised rose to 59,500 units in 2013, up from 39,774 units in 2012 and 45,665 units in 2011, according to Statistics Austria. When analysing the housing forecast and the demand for housing in the various regions of Austria, it is obvious that the highest rates of increase are expected in Lower Austria, Burgenland and Vienna, and to a lesser extent Vorarlberg. These developments will understandably have a huge impact on the availability of housing.

The household statistics indicate that Lower Austria and Burgenland will see a significant increase in the number of households over the next few years. In response to the further increase in population in the capital and rising housing costs, many families originally based in Vienna will be moving to adjacent states where housing is much more affordable. Given their vicinity to the capital, Lower Austria and Burgenland are already attractive locations.

Austria's rental market is segmented via tenure, regulation and market forces into a hierarchy of low rents for municipal, other social tenants and long-term incumbents in the private sector, but with higher free market rents for recent entrants into the private rental sector (though even the "free" sector is substantially controlled, with maximum rents clearly specified by the authorities). Residential rents in Austria continue to rise, in contrast with the slowing house price rises in the country. In addition, prices vary greatly between different districts in the federal states.

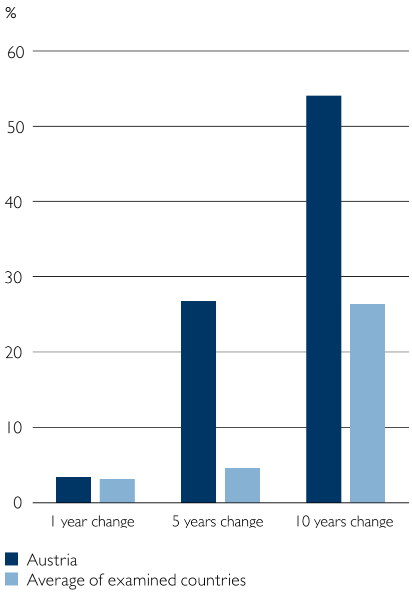
RESIDENTIAL PROPERTY PRICES

Real vs. nominal, 2010 = 100



Source: Bank for International Settlements

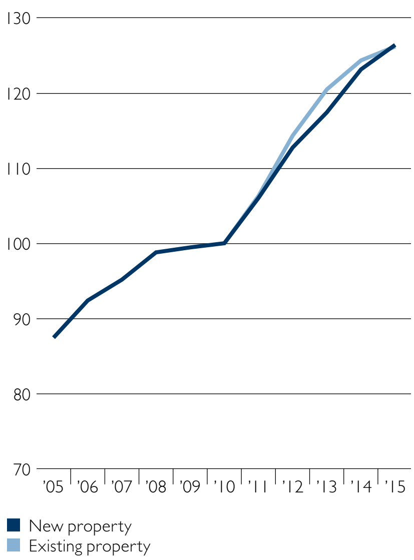
PERCENTAGE PRICE CHANGE OF NOMINAL INDEX



Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



Source: Eurostat

Recovering rental market, moderate rental yields

Sales were particularly strong, partly due to increased interest from foreign homebuyers, low interest rates and increasing confidence in the economy. Residential construction activity recovers from the global financial crisis.

AT A GLANCE

Population	10,6 mn
Housing stock	4.61
Stamp duty	4.0%
Notary costs	-
Brokerages	0.5%-1.0%
Value added tax	21.0%

2016 forecast

Unemployment rate	4.8%
Inflation rate	1.8%
GDP growth	2.4%

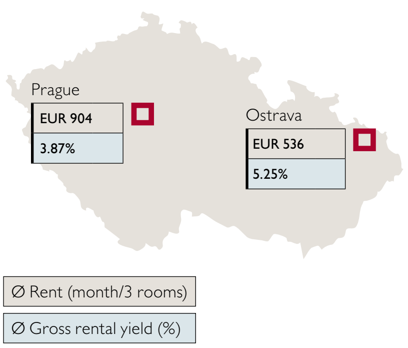
Top Cities	**Population**
Prague	1,3 mn
Brno	405,000
Ostrava	312,000
Pilsen	171,000
Liberec	105,000

Source: Eurostat, IMF, PMA

The Czech economy expanded by a robust 4.1% in 2015, up from 2.0% in 2014. Although the change in methodology was a factor behind this robust data, underlying conditions were indeed very positive. Domestic demand has gone from strength to strength, with fixed investment at the fore but private consumption also gaining significant momentum and government spending remaining supportive. Meanwhile, net exports weighed on growth modestly due to imports outpacing exports. Consumer spending accelerated to 3.1% y-o-y in Q2, up from 2.8% in Q1. A slight moderation is likely going forward, as indicated by a modest slowdown in retail sales in August, to a nevertheless decent 3.3% y-o-y, and a fall in consumer confidence in September. The consumer sector is unlikely to lose too much steam, however, given subdued inflation and a possibility of renewed deflationary pressures on the back of the renewed decline in oil prices. In addition, the unemployment rate is among the lowest in CEE and real wages are growing robustly. The growth forecast for 2016 is 2.4%. The economy is in for a domestically-driven expansion, with investment particularly strong but consumer spending also set to expand robustly. Downside risks include a slowdown in China and lower demand for subcomponents from Germany.

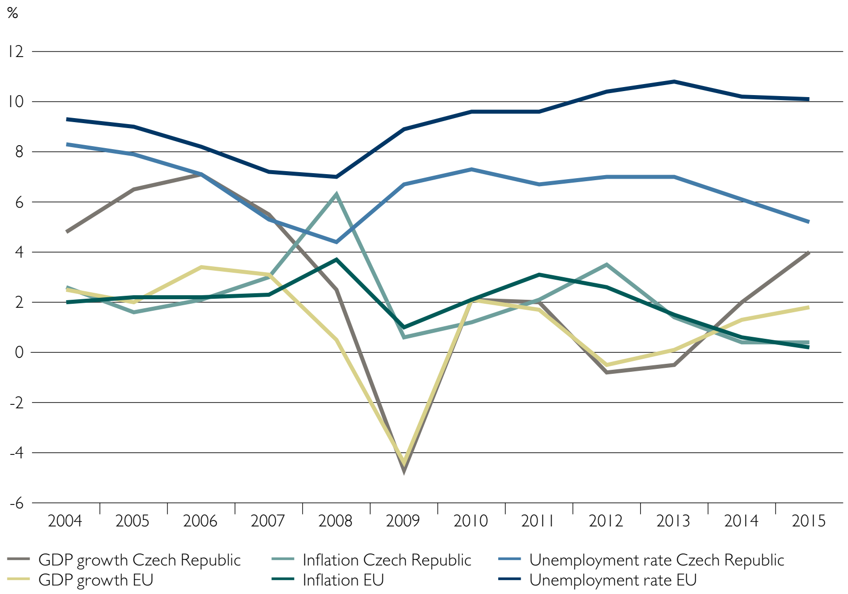
Economic growth is back, mortgage demand is exploding, housing completions remain low, and mortgage interest rates are as low as they've ever been. The average residential property prices in the Czech Republic rose by 2.6% in 2014 (2.2% in real terms), the sixth consecutive quarter of moderate price increases. In the first half of 2015 alone, house prices increased by 3.3% (2.9% inflation-adjusted). The housing market stagnated from 2004 to 2005, with measures to cut the budget deficit probably the key factor. The average price of apartments dropped

RENTS AND YIELDS IN CITY CENTRES



Source: Numbeo

ECONOMIC DATA



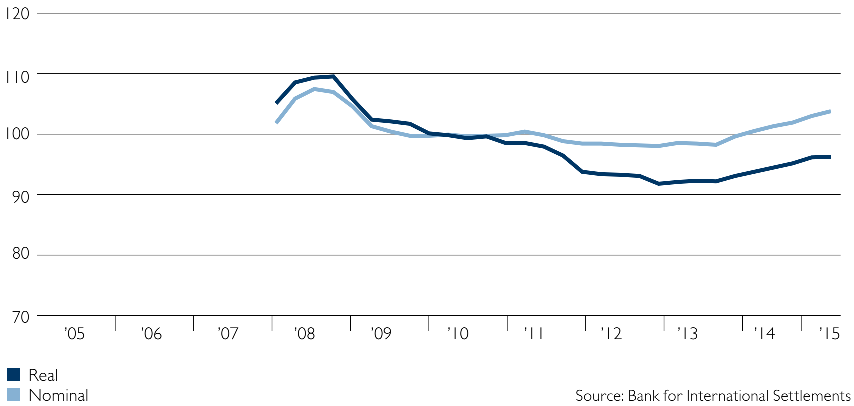
Source: IMF, PMA

ranging from 4.05% to 4.30% – still not great for investment. Current yields are lower than the yields during 2000–2005, when the average rental yield in Prague was 6.8%, around 10.8% in Ostrava and Ústí nad Labem and 7.8% in the rest of Czech Republic.

The Czech Republic's rental market has been regulated since the 1980s, causing a significant difference between the rent prices of regulated and non-regulated units. Regulated rents used to cover around 80% of all rented apartments (around 750,000 apartments). Around 300,000 affected units were privately owned, while the rest were owned by municipalities. Most cities and municipalities ended their deregulation process on 31 December 2011, while the Central Bohemian region (which includes Prague) and cities with over 100,000 inhabitants were deregulated on 31 December 2012. While the end of rent regulation had been expected to boost rental market returns, this process has taken a long time, due to weak economic growth.

RESIDENTIAL PROPERTY PRICES

Real vs. nominal, 2010 = 100



Source: Bank for International Settlements

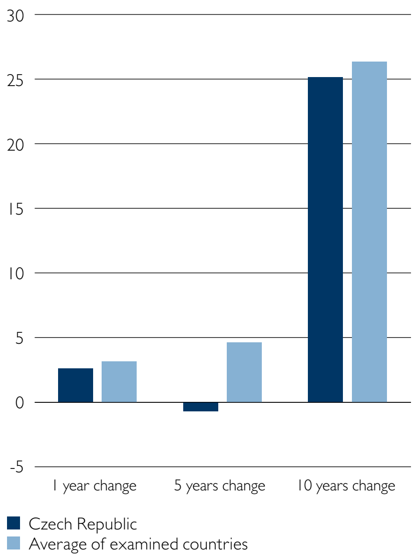
by 2.7% in 2004, a 5.2% fall in real terms. This was followed by a 2.7% increase in 2005, a 0.5% fall in real terms. Thanks to lower interest rates in 2006, the house price index rose by 8.4% (5.7% in real terms). Housing completions shot up in 2007 by almost 38% and the house price index grew by 31.2% (27.1% in real terms) in 2007. In 2009, apartment prices fell by 12.3% (-13.3% in real terms), after 17.1% (10.5% real) y-o-y growth in 2008, due to the global financial crisis. Housing competions fell by 14.3% y-o-y. Nevertheless, there was a substantial completions overhang. Completions in 2009 and in 2008 were still higher than in the years prior to 2007. Finally, the property market returned to growth in 2012, with the house price index rising by 3.1% (0.26% in real terms), despite the depressed economy. The property market has recorded modest house price rises since then.

The residential rental market is now gradually recovering. Foreign buyers are returning to the market to purchase properties for investment purposes. A higher proportion of luxury buyers recently were either Czechs or Russians.

Gross rental yields in Prague remain less than attractive. A 200 sqm apartment has an average yield of 3.80%, while a 120 sqm apartment has a rental yield of 4.2%. Smaller apartments at around 50 sqm to 85 sqm have an average yield

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

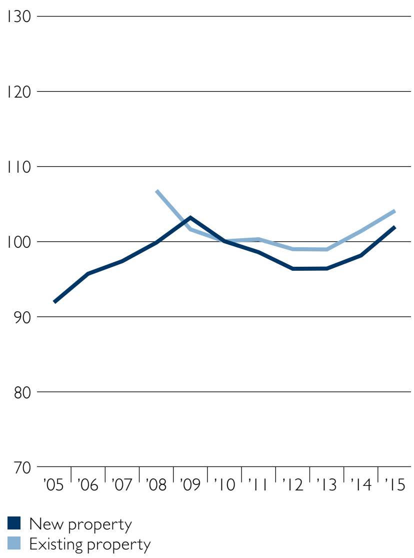
%



Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



Source: Eurostat

CEE/Hungary

Housing market is recovering

Stable rent and house price development as well as an increasing number of building permits are the main drivers of the housing recovery. Increasing credit demand pushed housing transactions while loan interest rates continue to fall.

into negative territory and employment in both the public and private sectors growing strongly. Economic expansion is expected to reach 2.0% in 2016. The consumer sector is expected to maintain its strength meanwhile thanks to marked increases in disposable incomes.

AT A GLANCE

Population	9,9 mn
Housing stock	4.13
Stamp duty	4.0%
Notary costs	0.5%-1.0%
Brokerages	0.5%-2.0%
Value added tax	27.0%

2016 forecast	
Unemployment rate	6.5%
Inflation rate	1.4%
GDP growth	2.0%

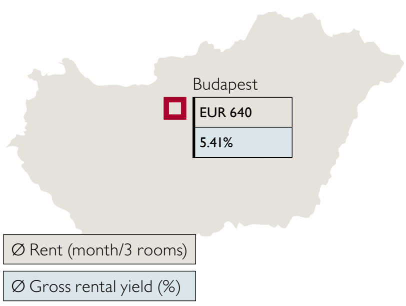
Top Cities	**Population**
Budapest	1,7 mn
Debrecen	211,000
Miskolc	168,000
Szeged	168,000
Pécs	156,000

Source: Eurostat, IMF, PMA

GDP growth in Hungary was moderate in Q2 due to high base effects, with a still decent 2.5% y-o-y, following 3.2% in the previous two quarters. Overall, growth in 2015 was 2.5%, which was slow compared to the particularly strong 2014, due to an easing in fixed investment after a front-loaded use of the EU structural funds and a moderation in agricultural output following an expansion in 2014. In addition, fiscal policy has been tightened in recent quarters, thus ceasing to boost growth. Net exports have picked up pace thanks to improving external demand and a weaker forint. However, they are likely to be moderate next year as a result of ongoing weakness in demand from Russia, Ukraine and other CIS economies. The consumer sector continues to enjoy favourable conditions, with inflation slipping back

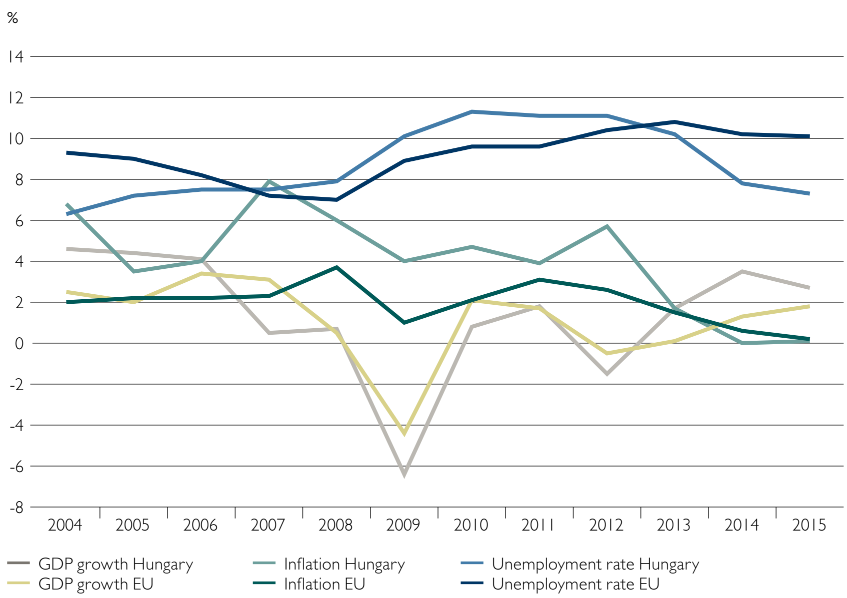
Property prices in Hungary have risen over the past year, after six years of falling prices. The national house price index rose by 4.3% (4.5% inflation-adjusted) during 2014. Up to the second quarter of 2015, residential property prices picked up by 11.5% (12.0% inflation-adjusted). Prices of existing houses rose by 13%, while prices of new houses rose by 5.7%. The market is recovering and, in 2014, housing transactions were up 17%, more housing permits were issued and there was increased demand for credit, especially for second-hand sales. The recovery is expected to continue during 2016. Some parts of the housing sector remain weak: the share of newly-built homes in the market remains low, with a decline in new homes built during the latest quarter (Q1 2015). During Hungary's housing

RENTS AND YIELDS IN CITY CENTRE



Source: Numbeo

ECONOMIC DATA



Source: IMF, PMA

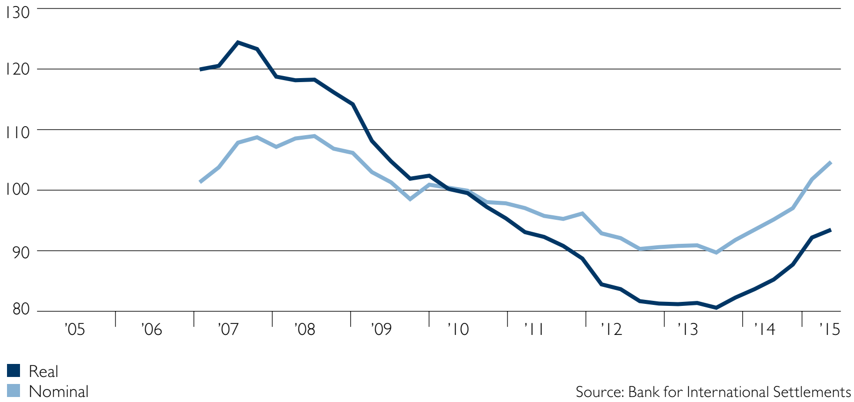
boom (1998–2007), house prices soared by 264% (102% inflation-adjusted). However, the market started to fall in 2008, mainly due to the global financial meltdown.

The construction sector has improved. The number of residential permits rose by 33.8% during the year to March 2015, to around 1,236. The number of new residential permits issued had already increased in 2014. The rise of building permits is much more evident in Budapest with permits increasing by 74.4% y-o-y to 150 units in Q1 2015. The newly-built homes market has improved, though its share of total sales remains marginal, accounting for only 3% of the total home sales (4% in Budapest). This is striking compared to 2008, when 9% of home sales were new units (14% in Budapest). More developers are planning to launch smaller investment projects, relaunch or take over a project that had previously come to a halt. However, the main problems of the new homes market remain, such as the high VAT rate, the financing environment and the housing stock's static character.

Gross rental yields in Budapest are quite good. Apartments in Buda, the greener side of Budapest, have relatively lower yields, ranging from 5.35% for larger apartments to an average of 7.85% for medium-sized apartments. In Pest, Budapest's business and commercial centre, yields are slightly higher, ranging from 6.89% to 8.3%. Rents decreased continuously in the period from 2008 to 2010, but the downward trend changed in 2011. Since then, there has been a moderate but steady increase in rentals, though rentals have not returned to pre-crisis levels. The rise in rents, although low key, continued during the first three quarters of 2014, with most expensive rents being observed in Budapest.

RESIDENTIAL PROPERTY PRICES

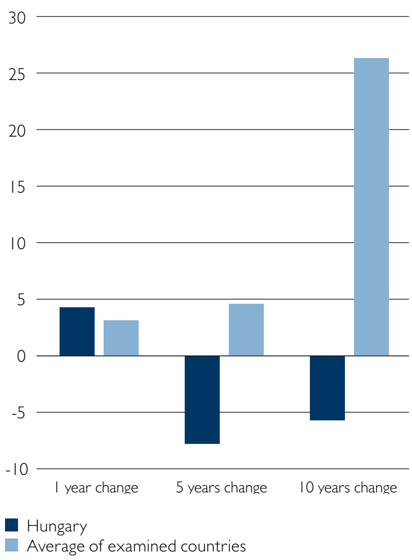
Real vs. nominal, 2010 = 100



Source: Bank for International Settlements

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

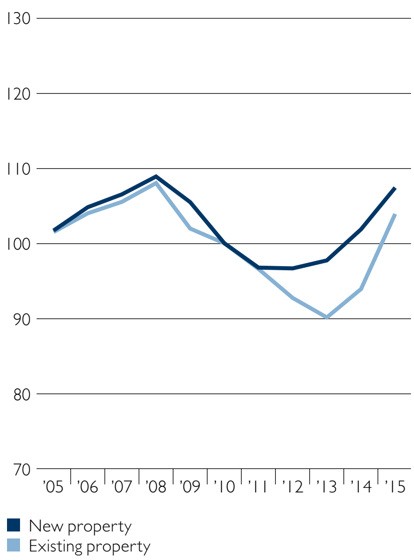
%



Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



Source: Eurostat

Housing market is gaining momentum

Housing sales grew strongly on the back of continuous falling interest rates. Gross rental yields are very attractive. Stricter requirements for financing lead to a growing demand for rental accommodation. Completion activity was struggling at the beginning of 2015.

AT A GLANCE

Population	38,5 mn
Housing stock	13.93
Stamp duty	1.0%-2.0%
Notary costs	Min. EUR 25 EUR, max. EUR 3,650
Brokerages	0.5%-1.5%
Value added tax	23.0%

2016 forecast	
Unemployment rate	6.7%
Inflation rate	1.3%
GDP growth	3.7%

Top Cities	**Population**
Warsaw	1,7 mn
Cracow	761,000
Łódź	709,000
Wrocław	633,000
Poznań	574,000

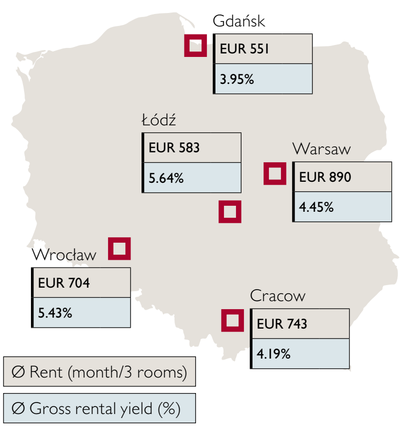
Source: Eurostat, IMF, PMA

The Polish economy continues to gain momentum, with growth ticking up to 3.5% in 2015, compared to 3.4% in 2014. This marked the sixth consecutive quarter of growth exceeding 3% y-o-y and the third best result in the EU, following Ireland and the Czech Republic. The expansion has become more balanced, with investment clearly at the fore and private consumption maintaining momentum thanks to subdued inflation and an improving labour market. The consumer sector is accelerating as a result of falling unemployment, mounting confidence, solid wage growth and a rise in bank lending. After a slowdown in Q3 due to extensive power cuts, the economy anticipated a return to solid growth by the end of the year. GDP growth is expected to reach 3.7% in 2016 with a further pick-up in corporate investment and consumer spending alongside positive, albeit slower, growth in net exports. Public spending should remain solid as a result of ongoing inflows of EU funds and healthy public finances. External risks remain, with instability in Ukraine, uncertainty about Greece's future in the eurozone as well as a slowdown in China.

With record low interest rates, constrained supply and new housing programs stimulating demand, Poland's housing market is gaining momentum. The average price of existing apartments in Poland's seven major cities (Warsaw, Gdańsk, Gdynia, Cracow, Łódź, Poznań and Wrocław) rose by 3% (4.3% inflation-adjusted) during the year to Q2 2015 according to the Polish central bank Narodowy Bank Polski (NBP). During the second quarter of 2015, house prices were up by 2.3% (3.1% inflation-adjusted).

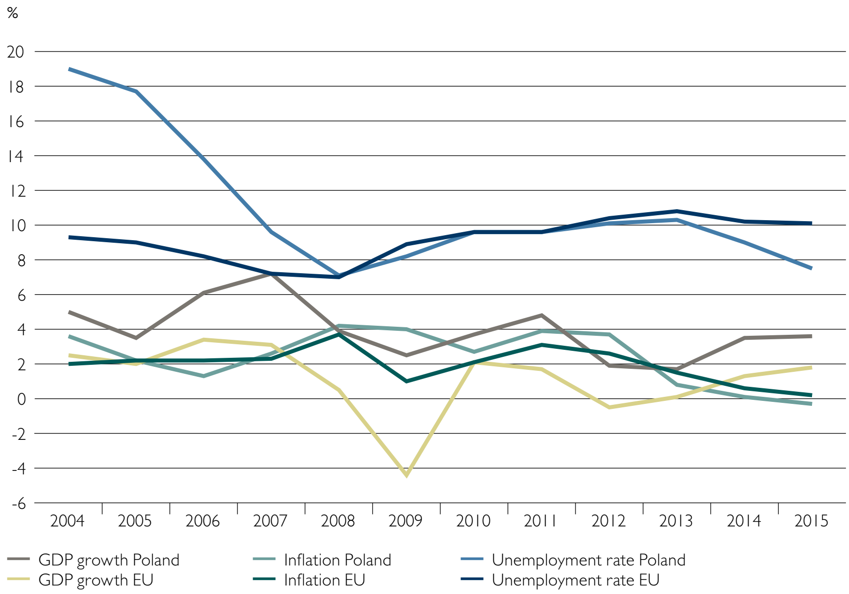
The post-2008 decline in Polish house prices came after a long boom period from 2004 to 2007, fuelled by an inflow of investment due to the country's accession to the EU, by record low interest

RENTS AND YIELDS IN CITY CENTRES



Source: Numbeo

ECONOMIC DATA



Source: IMF, PMA

rates and mortgage financing development. Property prices surged in Warsaw – up 23% in 2005, 28% in 2006, an amazing 45% in 2007 and 13% in 2008. Other cities such as Wroclaw saw even larger house price rises. Behind this boom lay strong economic growth. However, during the 2008–2009 crisis the Polish zloty fell dramatically, and mortgages – mainly denominated in foreign currencies – became unrepayable. Residential prices fell for six consecutive years.

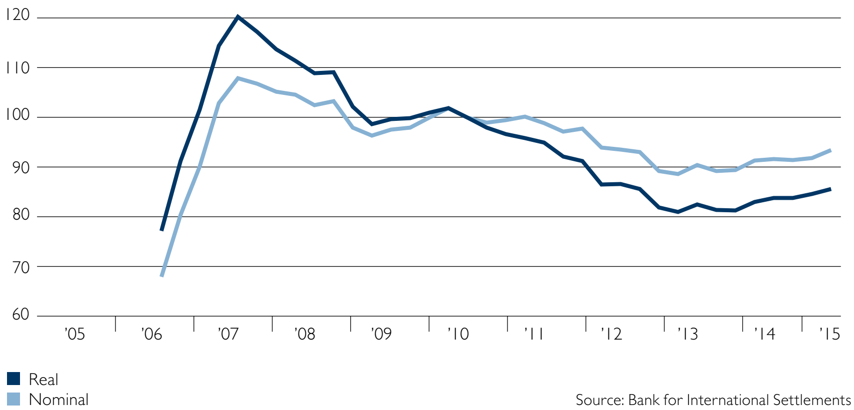
Renting is an unavoidable choice, as stricter requirements for mortgage financing, uncertainty in the labour market and low growth prospects discourage households from incurring long-term debts. The movement of people from other cities to the capital, especially students or young people looking for work, also drives people to rent. Official data from the 2002 National Census show that 21% of households in Warsaw rent apartments, with half of these in social and communal housing. Most residential properties in Poland are owned by private individuals. About 11% of the housing stock is rented at lower rates, with 6% in communal or social housing, 2% in cooperative tenancy and 1% in state-owned companies. The remaining housing stock is primarily owner-occupied.

Housing completions were down in the first half of 2015, with around 63,800 completions. This is 4% lower than in the same period last year. Yet just over half of the units completed in 2014 have already been sold. Shortages of new apartments and houses seem likely, allowing real estate prices to rise in 2016. On the demand side, two government programmes are boosting demand. The Apartments for Youth programme started in 2014 after being approved in early 2013, replacing the "Families on their Own" programme. It aids families by subsidising home purchases particularly in the low-end market.

The Polish residential market lags behind Western European countries in terms of quality, age of stock and level of market saturation. Of the total residential units in Poland, 71% were built before 1989, mostly during the communist era, and tend to be of very poor quality. Modern units built from 2000 onwards comprise only about 12% of the total and are concentrated primarily in six areas: Warsaw, Cracow, Poznań, Wrocław, Tricity and Łódź.

RESIDENTIAL PROPERTY PRICES

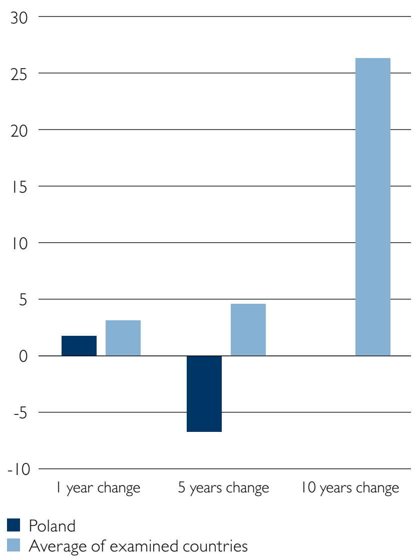
Real vs. nominal, 2010 = 100



Source: Bank for International Settlements

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

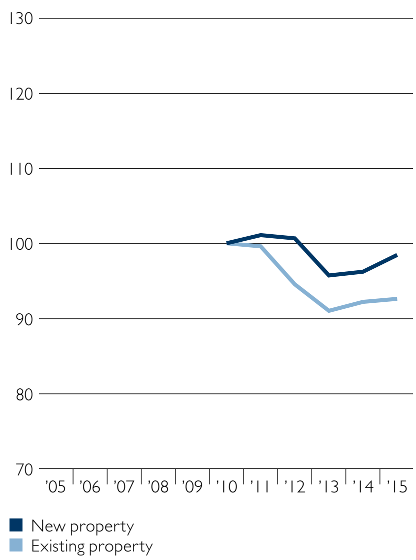
%



Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



Source: Eurostat

Copenhagen house prices rising strongly

Residential property price rises were modest, but started to grow at the beginning of 2015. Interest rates are historically low, which is also fostering the market boom. Rental yields are healthy, despite a highly regulated market. Nevertheless, residential construction is plunging.

AT A GLANCE

Population	5,6 mn
Housing stock	2.36
Stamp duty	0,6%-1,5%
Notary costs	-
Brokerages	1.0%-2.5%
Value added tax	-

2016 forecast	
Unemployment rate	6.2%
Inflation rate	1.5%
GDP growth	2.0%

Top Cities	**Population**
Copenhagen	1,7 mn
Aarhus	323,000
Aalborg	205,000
Odense	195,000
Esbjerg	115,000

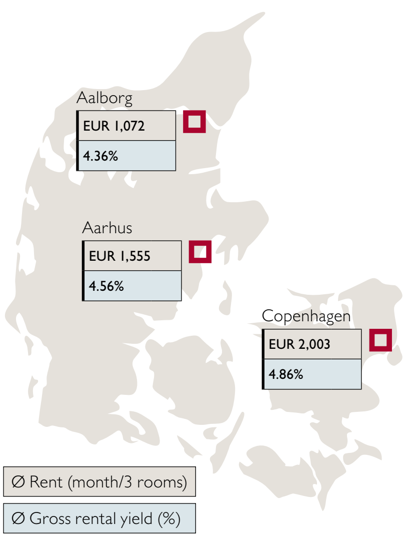
Source: Eurostat, IMF, PMA

The Danish economy grew by 1.8% in 2015, up from 1.1% in 2014. This marked the eighth consecutive quarter of expansion – the longest period of uninterrupted growth since 2000. As expected, fixed investment became the main driver of growth after a period of weakness, while private consumption faltered and government consumption was flat. Domestic demand contracted overall while net exports contributed to growth on the back of a sharp decline in import volumes. After a brief period of strong increase in consumer confidence, a sharp fall to the lowest level since early 2014 was recorded in September and retail sales dipped in August. Underlying conditions in the consumer sector contrast with the softening sentiment, with unemployment at a six-year low in August. The overall outlook for the Danish economy is bright. GDP growth forecast for 2016 is 2.0%. Loose monetary policy and low inflation as well as ongoing improvements in the labour market are expected to boost consumer spending.

Property price rises in Denmark were modest in 2013 and 2014 but started to grow strongly at the beginning of 2015. In the current year, prices rose by 7.3% (6.9% inflation-adjusted) in the first half compared with the same period of the previous year. On a quarterly basis, Q2 2015 showed the strongest growth since pre-crisis values. After a short-lived recovery from Q3 2009 to Q3 2010 (with property prices rising by 4%, or 1.6% when adjusted for inflation), property prices fell again by about 4.3% from Q4 2010 to Q4 2012, mainly due to the adverse impact of the eurozone debt crisis. The housing market has gradually recovered since then.

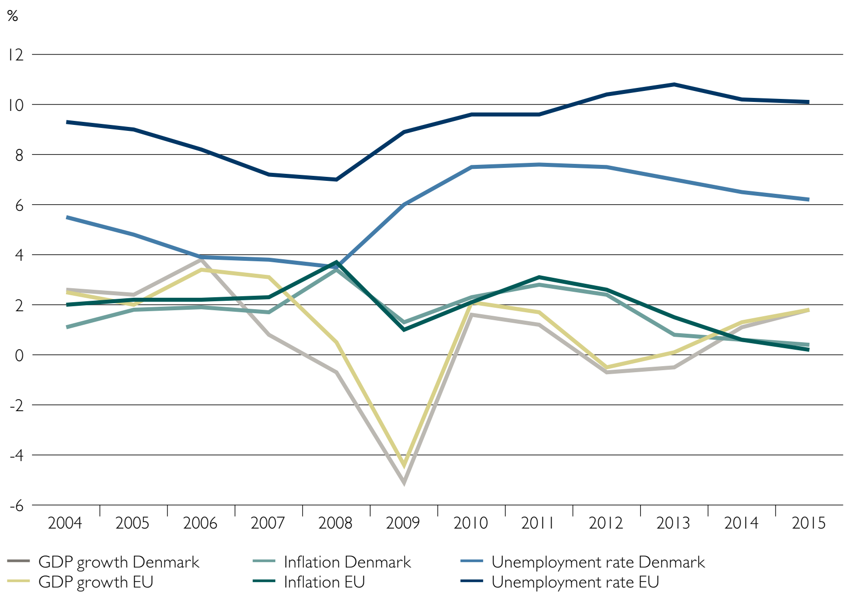
Residential property prices in Copenhagen are now rising strongly, after a slow recovery from the crisis. The economy is finally improving, and demand for housing is strengthening.

RENTS AND YIELDS IN CITY CENTRES



Source: Numbeo

ECONOMIC DATA



Source: IMF, PMA

Prices have now climbed since 2011, which is due to a low supply of owner-occupied apartments in tandem with the effects of a budding economic recovery. Prices of ownership and rental housing are predicted to see further increases in 2016. Substantial supply and demand imbalances therefore still drive up prices.

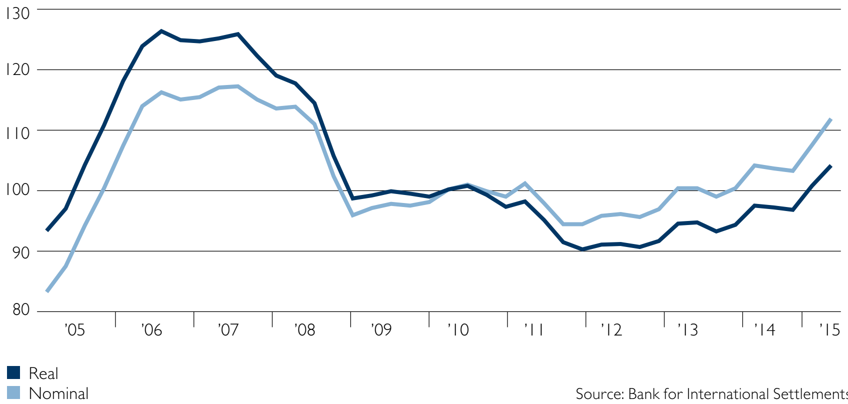
The combination of virtually no vacancies and strong demand has boosted Copenhagen residential rental prices in recent years. Since 2008, rents have soared by as much as 30%, and further increases are forecast for 2015. All other things being equal, very high rental prices make home ownership more attractive, and such a shift may somewhat ease the upward pressure on rents. Indeed, the climbing prices of owner-occupied apartments indicate that an increasing number of residents are entering the home ownership market. As interest rates are at an all-time low, such a shift in fact makes good sense in terms of user costs.

Denmark's housing market is fundamentally distorted by misguided social policies. The private rental market is strongly pro-tenant. Rents are non-responsive to market forces because there are several different forms of rent control, depending upon the age of the building. Private sector rents are regulated based on historic costs, and there is a huge social rental sector. Owner-occupied houses, which cater mainly to families, receive generous benefits from the government. Aside from mortgage tax relief, house owners are also entitled to a standard deduction for home maintenance. About 21% of households in Denmark receive housing subsidies from the government, the highest rate in the EU. However, there has been a slight decline in owner-occupancy in favour of social housing due to the rise of single person households.

Overall, Copenhagen is set to experience a boom in the number of residents for years to come. According to Statistics Denmark, by 2040 this boom is predicted to correspond to an increase of 53,600 residents. With current population forecasts for Copenhagen implying an overall influx of 220,000 new residents by 2040, however, the increase in residential demand is predicted to pose a structural challenge. In order to meet the surge in demand, the level and scale of residential new-building must increase considerably in the years ahead. In addition, the city of Copenhagen seems increasingly ready to allow the conversion of central Copenhagen office space for residential use.

RESIDENTIAL PROPERTY PRICES

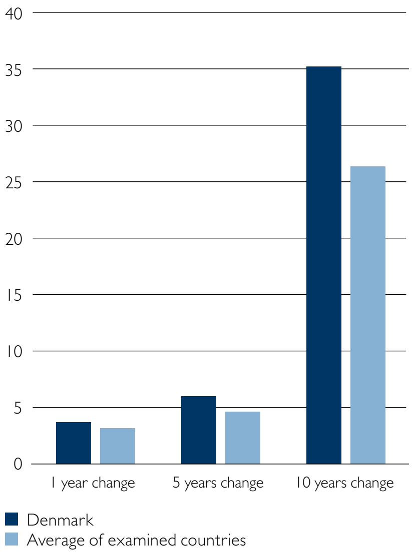
Real vs. nominal, 2010 = 100



Source: Bank for International Settlements

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

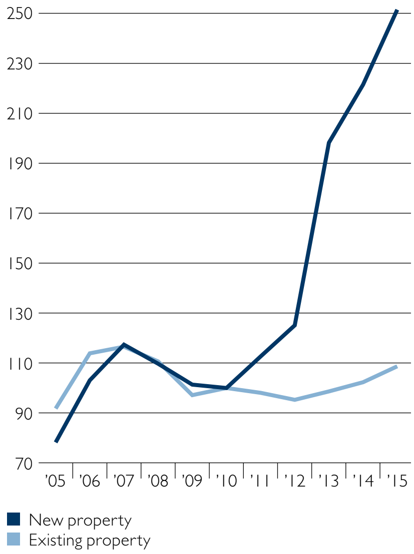
%



Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



Source: Eurostat

Rents and house prices are rising again

Although the growth rate of house prices remains slow, construction activity has been rising. While prices for existing houses stagnated, prices for new residential properties went up. Low interest rates are stimulating the housing market, despite a weak economy.

AT A GLANCE

Population	5,5 mn
Housing stock	2.6
Stamp duty	4.0%
Notary costs	EUR 112 + travelling expenses (fix)
Brokerages	0.75%-4.0%
Value added tax	24.0%

2016 forecast	
Unemployment rate	9.05%
Inflation rate	1.1%
GDP growth	1.1%

Top Cities	**Population**
Helsinki	615.000
Espoo	262,000
Tampere	221,000
Vantaa	209,000
Turku	182,000

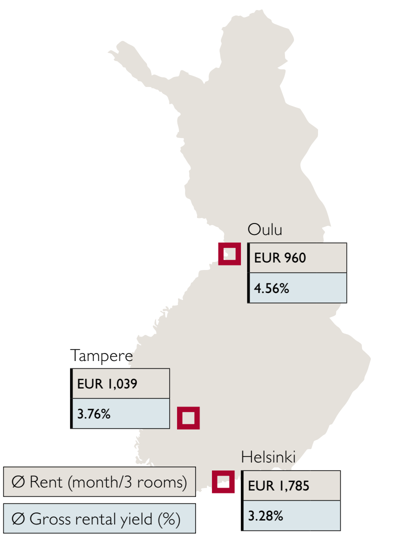
Source: Eurostat, IMF, PMA

The Finnish economy expanded modestly in 2015, following three quarters of neutral or negative growth to 0.3%. Net exports staged a recovery in the first half of the year, with imports contracting and export growth entering positive territory, while domestic demand was subdued. Investment remained weak and so did public expenditure as the government embarked on deficit cutting due to the recent deterioration in its fiscal position. Moreover, consumer spending faltered with a 0.6% y-o-y contraction. The export sector has improved this year and muted domestic demand held import levels low while exports increased modestly, leading to a positive contribution to growth from net foreign trade. Nevertheless, the outlook is still clouded by deteriorating economic conditions in Russia. Negative inflation as well as ultra-loose monetary conditions will give the Finnish consumer some boost but are unlikely to lift growth in private consumption in 2016 above 1%. Finland's economic outlook is clouded by ongoing domestic challenges. GDP growth is projected to reach 1.1% in 2016 and any marked improvements in the longer term would require structural reforms.

House prices in Finland have risen slightly, with the country's economic outlook modestly improving. But sentiment is not positive, as indicated by weak housing stats regarding construction and numbers of housing permits. In 2013, there was a 1.2% increase in the price index of residential prices in Finland (-0.3% when adjusted for inflation), with average prices at EUR 2,261 per square metre (sqm). Finland's house price boom lasted from 2001 to Q2 2008. The upsurge in house prices was mainly due to:

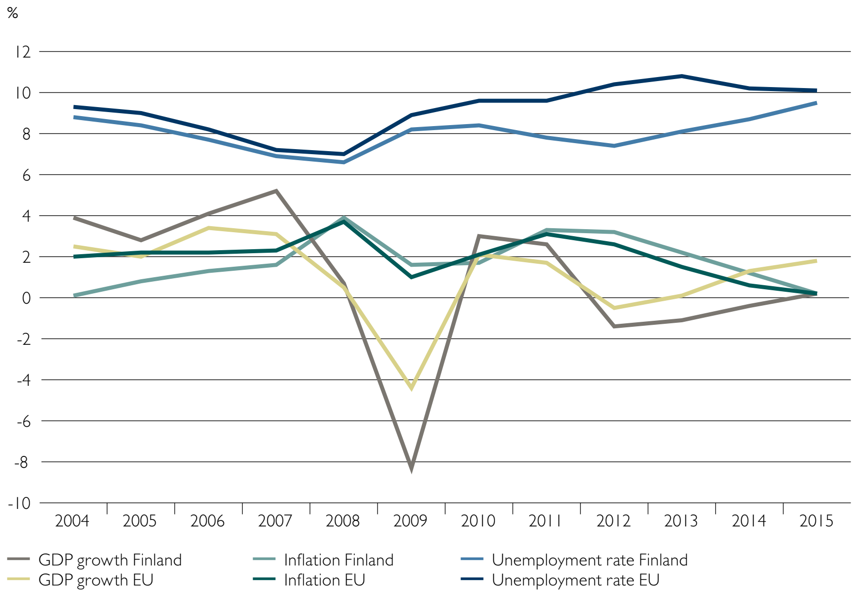
- Strong economic and wage growth
- Changes in the mortgage market, combined with low interest rates, which made housing more affordable for all income brackets. Outstanding

RENTS AND YIELDS IN CITY CENTRES



Source: Numbeo

ECONOMIC DATA



Source: IMF, PMA

housing loans to Finnish households grew 153% from EUR 24.3 billion in 2000, to EUR 67.6 billion in 2008
- Owner-occupancy still being privileged by the tax system as, despite reforms during the 1980s, a flat 29% tax deduction on mortgage interest remains in place, while imputed rental income and capital gains on permanent homes are untaxed

After a price fall of 5% in Q1 2009 (-7% inflation-adjusted), house prices bottomed out, and rapidly rose as consumer confidence strengthened again. A year later house prices reached another peak, rising by 11.4% y-o-y to Q1 2010 (11.2% inflation-adjusted).

The house price surge eventually died away in late 2011 when the housing market was affected by economic uncertainty. Although there were 1.8% nominal price increases from Q2 2011 to Q3 2012, prices actually fell by an average of 1.41% when adjusted for inflation.

Currently, house prices are stabilising with a decrease of 0.2% (-0.1% inflation-adjusted) in the first half of 2015 compared with the same period one year earlier.

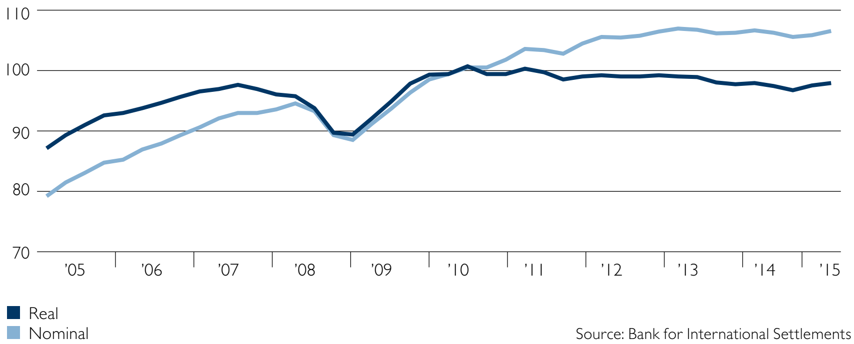
The casualty is new housing prices, which fell by 2.1% to EUR 3,385 in 2013 (-3.4% inflation-adjusted). In Helsinki, the average price was at EUR 4,607, down by 3.3% in 2013. Prices in the rest of the country also fell. The decline in new house prices can be explained by lower demand, as reflected in lower building permits issued, 20% lower y-o-y as of November 2013. Permits for detached houses and permits for blocks of apartments were even down by 18%.

Finland's rental yields range from low to moderate. Gross rental yields range from 3.30% to 5%, with smaller apartments generating higher yields than larger ones.

In Helsinki, yields for 40 sqm and 75 sqm apartments were an average of 4.95% and 4.70%, respectively. A 120 sqm apartment could yield up to 4.05%, while an even larger apartment of 200 sqm yielded 3.30%. During the fourth quarter of 2015, the y-o-y increase in rents was 3.0%. The rents of non-subsidised rental dwellings went up by an average of 2.7% in the whole country. The rents of non-subsidised rental homes went up in the Greater Helsinki area and in the rest of Finland by 2.7%.

RESIDENTIAL PROPERTY PRICES

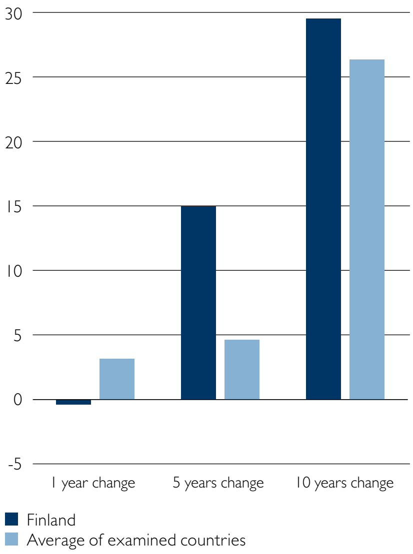
Real vs. nominal, 2010 = 100



Source: Bank for International Settlements

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

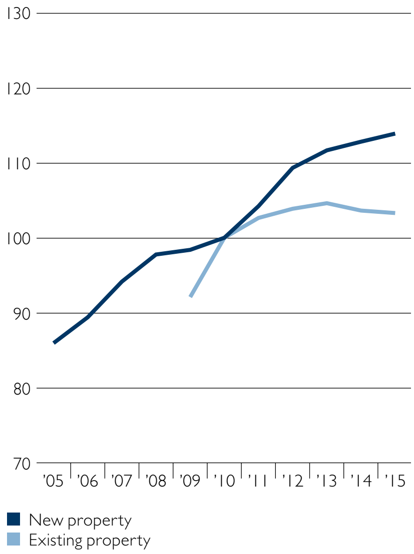
%



Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



Source: Eurostat

Norwegian housing market going upward

Rents have increased in line with house prices. Nevertheless, there is a divergence between larger towns and cities and the countryside. Transaction activity increased further due to lower interest rates.

AT A GLANCE

Population	5.2 mn
Housing stock	2.47
Stamp duty	2,5%
Notary costs	-
Brokerages	0.75%-1.25%
Value added tax	25.0%

2016 forecast	
Unemployment rate	4.8%
Inflation rate	2.2%
GDP growth	1.6%

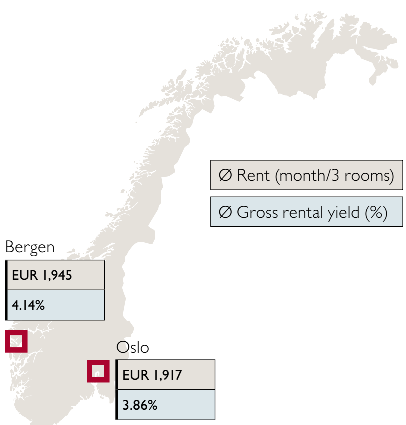
Top Cities	**Population**
Oslo	995,000
Bergen	268,000
Stavanger	240,000
Trondheim	183,000

Source: Eurostat, IMF, PMA

An oil-led slowdown within Norway continues, with GDP contracting by 0.1% q-o-q in Q2. While the economy of mainland Norway continued to grow, it has been clearly affected by knock-on effects of the plunge in global oil prices and resulting reductions in investment and employment in the petroleum sector, which have spread to related industries and other parts of the economy. The unemployment rate recently rose to the highest level in 9.5 years and is likely to edge up further, while wage growth slowed. Relatively high inflation and slower wage growth as well as a sharp drop in consumer confidence to the lowest level since 2009 suggest that households are unlikely to provide the same impetus to growth as they did in recent quarters. Despite the knock-on effects from the faltering petroleum sector, GDP growth in mainland Norway is expected to stay positive in 2016 with 1.6% growth, supported by improving external demand for non-petroleum products, a weaker krone (which boosts exports), positive, albeit slowing, wage growth and loose monetary conditions. A further decline in oil prices is the main risk to growth with lower demand from China.

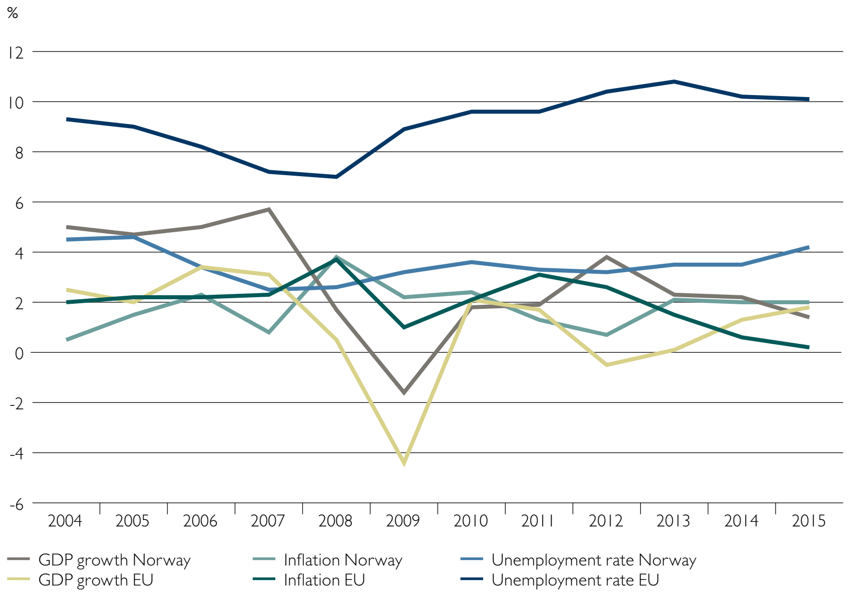
Despite troubling times for the Norwegian economy, the residential market is continuing at all-time high levels for each passing quarter. During the year to end-Q1 2014, the nationwide house price index rose by 0.4%, the slowest y-o-y increase since Q3 2009. In inflation-adjusted terms, house prices actually dropped by 1.7% over the same period. House prices increased in the first half of 2015 by 6.9% (4.7% inflation-adjusted) compared to the same period of the previous year. The first quarter of 2015, in particular, showed strong growth with a rate of 7.2% (5.1% inflation-adjusted), the highest value since Q4 2011. However, it is important to note that there are currently considerable differences in the

RENTS AND YIELDS IN CITY CENTRES



Source: Numbeo

ECONOMIC DATA



Source: IMF, PMA

larger cities, where a city and region such as Stavanger is likely to see a decline in residential prices during these troubling times. On the other hand we have cities such as Bergen and especially Oslo where the market is very strong and where we see the most growth. In Oslo, the growth has been close to 12% on a y-o-y basis with other large cities such as Bergen not far behind. Going forward, Oslo and Tromsø are likely to continue to see the strongest growth in prices, while we are more uncertain regarding the developments in Bergen as the area might very well become increasingly affected by the sluggish oil sector. There are arguably several reasons for the increase in residential prices despite a concerning climate for the economy. The dominant reason, however, is the record low interest rates in Norway. A consequence of this is that, despite rising housing prices and stable rental prices, it has been no cheaper to purchase a residential unit than to rent for several decades now, as the cost of finance is so low.

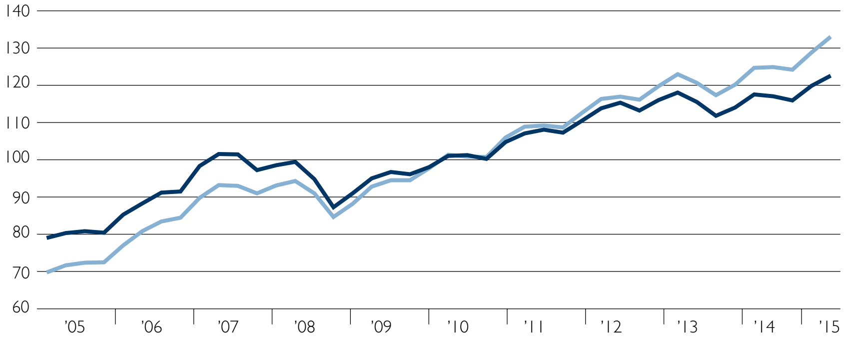
Residential construction activity has slightly declined. In 2013, the total number of housing completions fell by 1.2% from the same period last year. There are no sharp decreases in house prices expected but there may in fact be a very limited price increase and potential upside in the short to medium term. Norway will avoid a housing slump thanks to its low level of unemployment, low interest rates and population growth. Norway's key interest rates have gone through several cuts and hikes since the global credit crunch. From 5.78% in Q3 2008, sight deposit rates were slashed to a record low of 1.25% in Q3 2009. The rate hikes were more likely targeted at avoiding a housing bubble, since the housing market is extremely sensitive to interest rate changes.

Rents have only been rising in line with prices, which suggests that fears of over-valuation are exaggerated. Normally there is a clear pattern to housing bubbles, with house price rises greatly outpacing rent rises during the boom. This has not happened in Norway.

Owner-occupancy has been increasingly popular in Norway and state policy has had a strong impact. In 2011, approximately 23% Norwegians were renters, around 63% were freeholders and 14% cooperative owners. Oslo had the lowest portion of homeowners at around 69% and its portion of renters was slightly higher at 31% of households. At the same time, there is a consensus that the free market does not provide sufficient housing for the poor. In 1998, the Government agreed that the state should finance a new non-commercial rental housing sector, with the aim of building 50,000 new non-commercial rental dwellings over the next ten to fifteen years, located in the biggest towns, with low and regulated rents. Social rental housing made up around 15% of the 800,785 rental stock in 2001. In 2013, social rental housing covered 7% of total stock and 25% of total population live at risk of poverty (population below 60% of median equivalised income).

RESIDENTIAL PROPERTY PRICES

Real vs. nominal, 2010 = 100

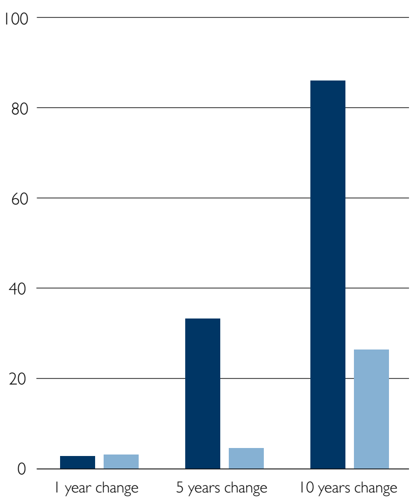


Real
Nominal

Source: Bank for International Settlements

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

%

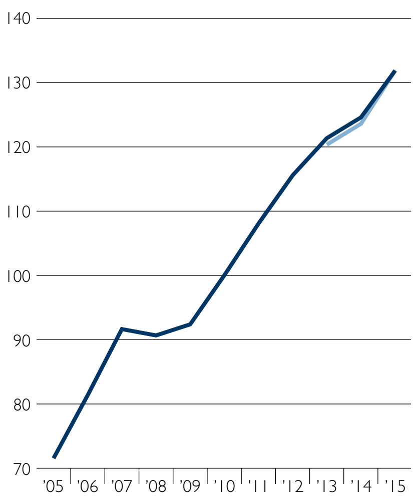


Norway
Average of examined countries

Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



New property
Existing property

Source: Eurostat

Residential property prices with continuous upward trend

Economic recovery continues and interest rates remain at historical lows. Reduced housing supply and free-market reforms helped to trigger a boom in house prices. In addition tax reforms have encouraged home ownership.

AT A GLANCE

Population	9,6 mn
Housing stock	4.59
Stamp duty	4.25%
Notary costs	-
Brokerages	0.25%-1.5%
Value added tax	25.0%

2016 forecast	
Unemployment rate	6.8%
Inflation rate	0.9%
GDP growth	2.9%

Top Cities	**Population**
Stockholm	2,1 mn
Gothenburg	1,6 mn
Malmö	1,3 mn
Linköping	434,000
Uppsala	342,000

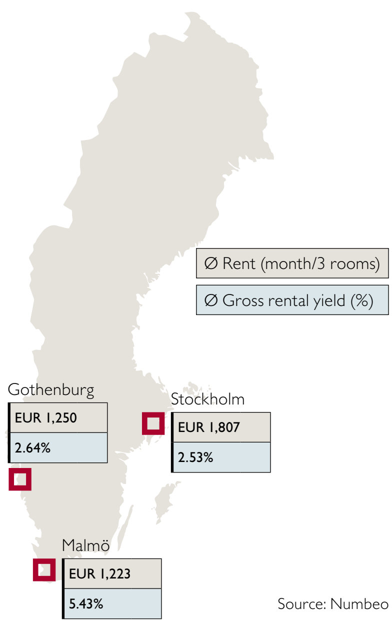
Source: Eurostat, IMF, PMA

The economy has shaken off the relatively lethargic performance in H1 2015, with recent leading indicators, such as retail sales and business surveys, pointing to healthy underlying economic conditions. Domestic demand is strengthening on the back of very low inflation and ultra-loose monetary policy, following the decision by the central bank to commence quantitative easing in H1 2015 and to keep interest rates negative. Investment and private consumption were the main drivers of growth in 2015, buoyed by expansionary monetary policy. Residential construction, in particular, has been a key contributor to the growth in investment, with completions up by 25% and 15% y-o-y in Q3. The consumer sector continues to enjoy favourable conditions, with inflation negligible, nominal wages rising and unemployment falling. External demand from key trading partners in Europe has picked up in recent months and exports are performing more strongly as a result. GDP growth is estimated to reach 2.9% in 2016.

House prices in Sweden surged by 9.4% during 2014, probably due to rock-bottom interest rates and a shortage of housing supply. When adjusted for inflation, house prices rose by 9.6% as compared to the previous year. House price growth this past year was much higher than the 5.5% rises seen in 2013 (5.5% in real terms). In the first half of 2015 alone, the positive trend continued with significant growth rates of 12.3% (12.4% inflation-adjusted). Similar growth rates were only recently achieved in peak terms in 2007.

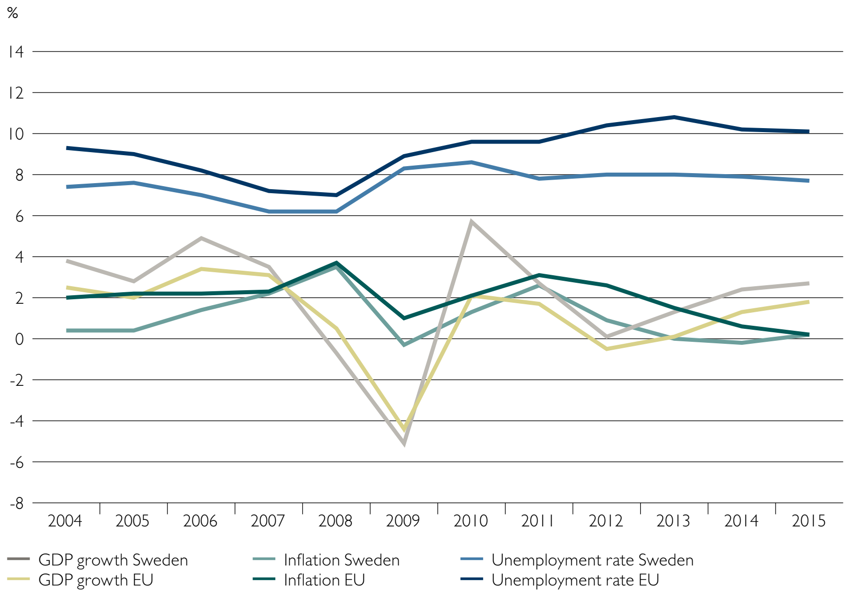
During Sweden's current housing boom house prices skyrocketed by 87% from 2000 to 2008 (62% inflation-adjusted). After a short-lived decline from Q3 2008 to Q1 2009 due to the global financial meltdown, property prices started to rise again in Q2 2009. There was a dip from Q4 2011 to Q3 2012

RENTS AND YIELDS IN CITY CENTRES



Source: Numbeo

ECONOMIC DATA



Source: IMF, PMA

amidst a sharp slowdown in economic growth, but house price growth resumed in Q4 2012 and price rises have been continuous since then.

From 1996 to 2007, the Greater Stockholm house price index soared 217% (119% in real terms). House prices rose by 236% (185%) in Greater Malmö, and 202% (156%) in Greater Gothenburg. In five of Sweden's eight regions, house prices doubled. The boom was set off by low interest rates, rapid economic growth and lack of new supply. In 2014, house prices rose by 13.07% (13.31% in real terms) in the Greater Stockholm area, and in Greater Gothenburg house prices increased by 7.22% (7.45% in real terms).

Housing supply in Sweden has been very low, on a par with Europe's supply laggards such as the Netherlands and the UK. There was a notable drop in houses, especially those built for social renting, because of free-market economic reforms which strongly reduced total completions. Completions had in fact risen to 32,021 units in 2008 once again, but with the economic crisis in 2009 they fell by 28%. Completions started to pick up in 2011 with 20,064 units to 27,100 units in 2014. In order to encourage more construction of rental properties, the government will provide support with annual incentives for new rental properties and student housing in areas with housing shortages.

Rents in Sweden increased by an average of 1.7% in 2014, slightly less than the 2.2% growth in 2013.

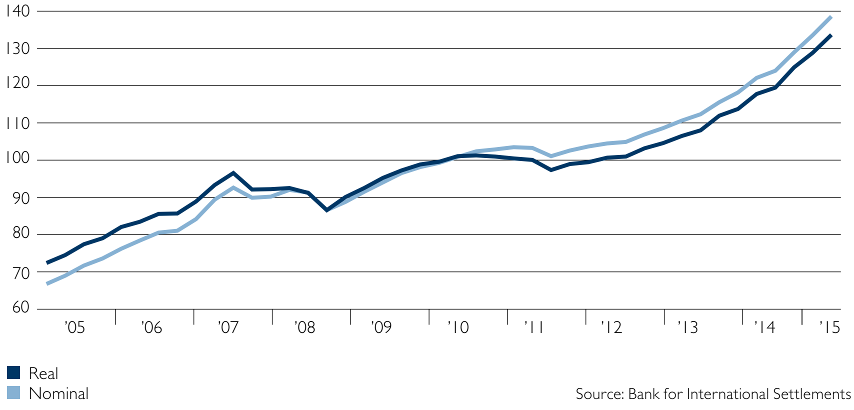
Owner-occupied homes currently account for 67% of all homes in 2014, 42% of which are straightforward owner-occupied, while 23% are tenant-owned cooperative houses and apartments. The growth of tenant-owned cooperatives has trimmed the rental sector, as new cooperatives have taken over previously rented property and built new houses. These conversions have been prevalent in major cities.

In 2014, mid-sized central Stockholm apartments (80 to 120 sqm) had the most generous gross yields, at 6% to 7%. Other sized properties seemed likely to have lower yields at around 3% to 4%, and properties in suburban Stockholm also had relatively lower yields at 3% to 5%, while apartments in the centre of the second-largest city of Gothenburg can yield around 5% to 7%.

Because rents are tied to the age of the property, the higher yields in the city-centre partly reflect the newer housing stock in those areas. Generally, property prices in Stockholm vary in a range from EUR 6,000 to EUR 7,500 per square metre (sqm).

RESIDENTIAL PROPERTY PRICES

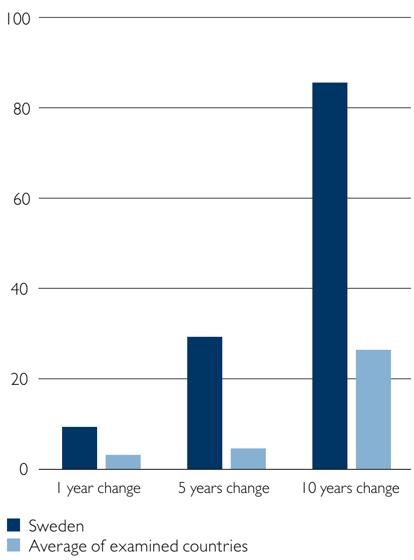
Real vs. nominal, 2010 = 100



Source: Bank for International Settlements

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

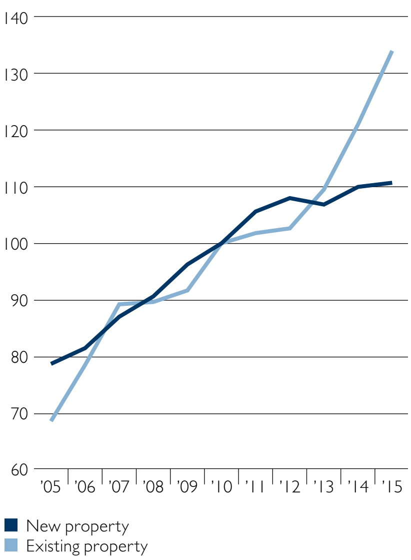
%



Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



Source: Eurostat

House prices are still falling, but at a slower pace

The market for new housing is recovering faster than the market for existing homes. The ownership rate is still one of the highest in Europe. Renting is unattractive, with poor returns on rental properties due to rent controls and other restrictions.

AT A GLANCE

Population	59.4 mn
Housing stock	25.77
Stamp duty	4.0%
Notary costs	0.05%-0.2%
Brokerages	0.5%-1.5%
Value added tax	22.0%

2016 forecast	
Unemployment rate	11.4%
Inflation rate	0.4%
GDP growth	1.4%

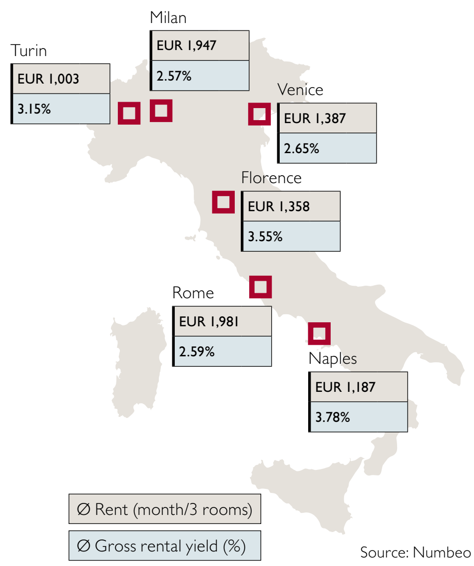
Top Cities	**Population**
Rome	2,6 mn
Milan	1,2 mn
Naples	962,000
Turin	872,000
Palermo	658,000

Source: Eurostat, IMF, PMA

The Italian economy continues to show signs of a gradual recovery with an annual GDP growth of 0.7% in 2015, the first year of positive growth since 2011. Domestic demand was positive for most of 2015, with consumer spending strengthening in the second half of the year. The national consumer confidence indicator is now close to historic highs, with households sustained by the combined effects of low inflation, an improving labour market and the elimination of property tax on main residences. Despite credit conditions being at the most favourable levels in five years, investment activity is yet to show a meaningful improvement. Exports have increased by 3.9% in 2015 – up from 2.8% in 2014 – with exporters benefitting from the weak euro and rising demand from the US and EU markets. The Italian economy is forecast to strengthen in 2016, with GDP growth expected to be driven mainly by further improvements in consumer spending and business investment by 1.4%.

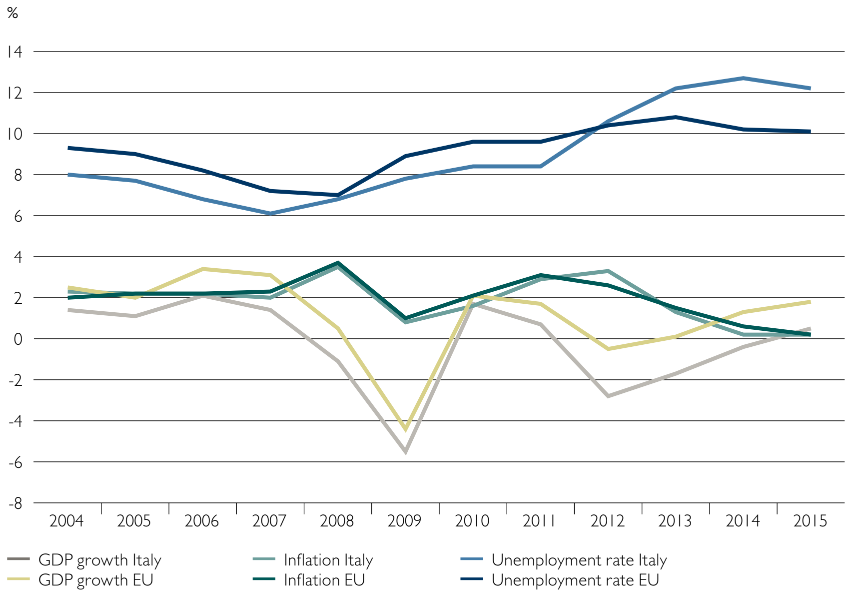
The Italian market is underpinned by an exceptionally high rate of owner-occupancy, with 75% of the population living in mortgaged or outright owned properties, compared to 67% in the UK and 64% in France. House prices are still falling in Italy. But the rate of decline has slowed during the past several quarters, after five years of continuous decline. House prices have fallen by a total of about 20% since 2008. Italy's house price index fell by 3.0% during the year to Q2 2015, the lowest y-o-y decline since Q2 2012. When adjusted for inflation, the index only fell 3.1%. Average property prices in the country's thirteen biggest cities fell 4% for new and 4.4% for existing homes. Rome saw an annual house price fall of 4.1% in 2014. Milan and Venice registered declines of 3.2% and 4.8%, respectively. These three major cities are the most expensive

RENTS AND YIELDS IN CITY CENTRE



Source: Numbeo

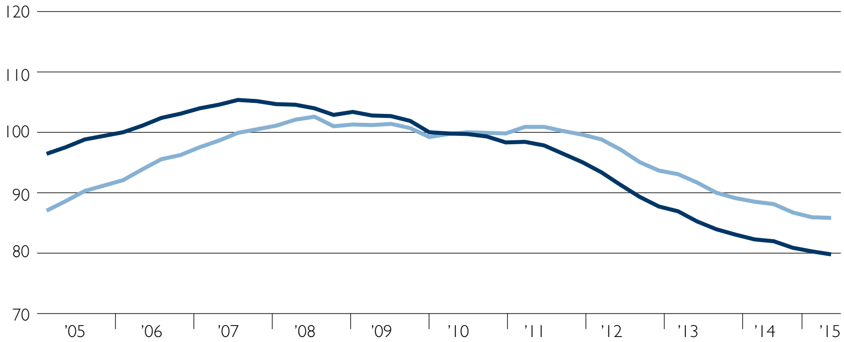
ECONOMIC DATA



Source: IMF, PMA

RESIDENTIAL PROPERTY PRICES

Real vs. nominal, 2010 = 100



Real
Nominal

Source: Bank for International Settlements

Italian cities, with houses priced above EUR 3,000 per square metre (sqm). In Milan, however, the rental market is strong by Italian standards, although yields are relatively low, between 3% and 4%. Venice remains a sought-after destination for its exceptional and unique characteristics. Its real estate is highly prized and integral to the city's character. Buyers in Venice invest in a property to occupy for part of the year themselves whilst renting it out at other times, often during the peak summer tourist season. Rentals are underpinned by solid tourist demand, and yields of 5% are achievable. Venice is also a popular second home destination for Italians, who make up approximately a quarter of the market. Other major buyer groups include the French and the British.

The primary housing market is recovering faster than the secondary market. During the year to end-Q2 2015, the price index for new houses fell by just 1.65%, after annual declines of 2.86% were seen in Q2 2014 and 3.4% in Q2 2013. The price index for existing homes dropped 3.4% after y-o-y declines of 5.8% in Q2 2014 and 6.2% in Q2 2013.

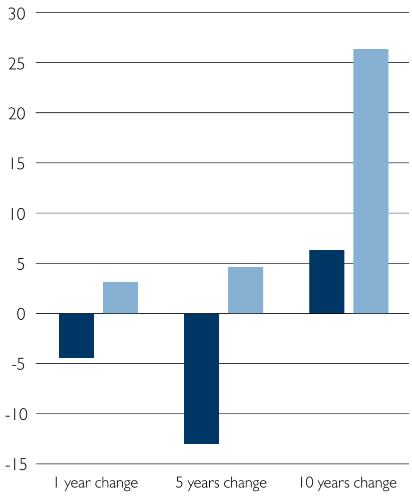
Private renting is unattractive for Italian landlords, with very poor returns on rental properties caused by rent controls and other restrictions. Gross rental yields on apartments in Rome and Milan are poor. Gross rental yields on apartments in Rome's historical centre range from 3.4% to 4.0%, with little difference in returns by size. In the suburbs, rental yields range from 3.0% (200 sqm) to 4.7% (50 sqm), with large apartments clearly yielding poorer investment returns. Apartments in Milan return rental yields of between 3.5% and 3.9%, with no clear pattern of rental returns according to size.

Italy is a nation of homeowners. Currently, about 88% of all homes are owner-occupied, especially in the south and small towns, up from 59% in 1980.

Italy's islands Sardinia and Sicily have the highest home ownership rate of about 89%. This was followed by the North East with 82%, and the Centre and the Southern region both with 82%. The North West had the lowest home ownership rate at 79%. There are several reasons for the rapid increase in home ownership: mortgage borrowing is now much easier; living standards have risen, despite relatively slow economic growth; there are tax breaks for ownership, mortgage relief, and low value assessments when calculating imputed income tax and capital gains taxes; new housing supply is almost exclusively destined for home ownership; and the Fair Rent Act of 1978 established a common four-year lease and continued rent controls.

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

%

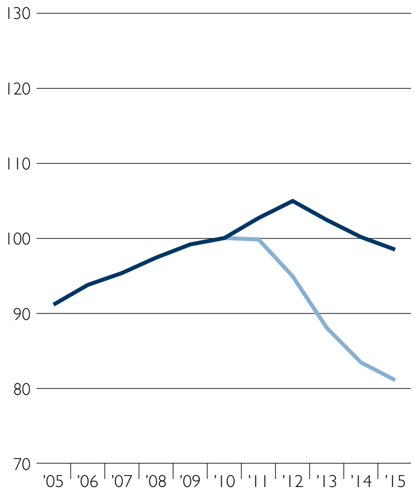


Italy
Average of examined countries

Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



New property
Existing property

Source: Eurostat

House prices have been rising since the beginning of 2015

The housing market continues to recover in nearly all regions, in line with the economy. Interest rates are astonishingly low and there has been a slight increase in loan demand. Despite of a muted rental market, rental yields are moderate to good.

AT A GLANCE

Population	10,6 mn
Housing stock	4.06
Stamp duty	6.5%
Notary costs	0.3%-1.0%
Brokerages	1.0%-2.5%
Value added tax	23.0%

2016 forecast	
Unemployment rate	11.4%
Inflation rate	0.8%
GDP growth	1.6%

Top Cities	**Population**
Lisbon	2,7 mn
Porto	1,3 mn
Braga	182,000
Coimbra	139,000
Funchal (Madeira)	109,000

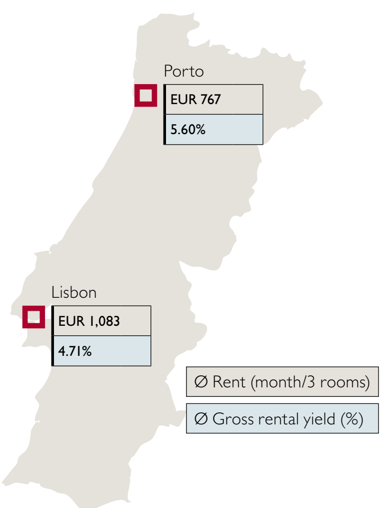
Source: Eurostat, IMF, PMA

The Portuguese economy had a mixed performance in the second half of 2015, with private consumption and industrial production showing steady growth, but investment and public spending both weakening as the year drew to a close. The economy recorded no growth in Q3 and only a modest expansion in GDP. Full-year growth in 2015 was around 1.5%. Private consumption growth is forecast to improve strongly, with real disposable incomes boosted by less austerity and the continuation of the low inflation environment. Portugal had the third-fastest rate of job creation in the EU in H2 2015 – which should provide further impetus to consumers in 2016. Business investment has been notably weaker in recent months and any recovery in 2016 is expected to be marginal. Employment growth has been solid in 2015, but youth unemployment remains very high, which has led to a brain drain as young professionals look elsewhere in Europe for opportunities. The economy is expected to slowly build momentum throughout 2016, although progress will be slow and the economy still has some way to go before it reaches its full potential.

Portugal's residential market saw price falls of 10.3% between 2010 and 2014. Since then, transactions have been on a modest upward trajectory and 2014 was characterised by stability in prices, posting a modest 2.2% y-o-y increase. Up to the second half of 2015, residential property prices increased by 1.9% (1.6% inflation-adjusted) with a strong growth rate in Q2 2015. For both new and existing properties, house prices decreased significantly during 2011 and 2013. Since then, we have seen a steady upward trend with 6.8% for existing and 5.2% for new residential properties up to 2015.

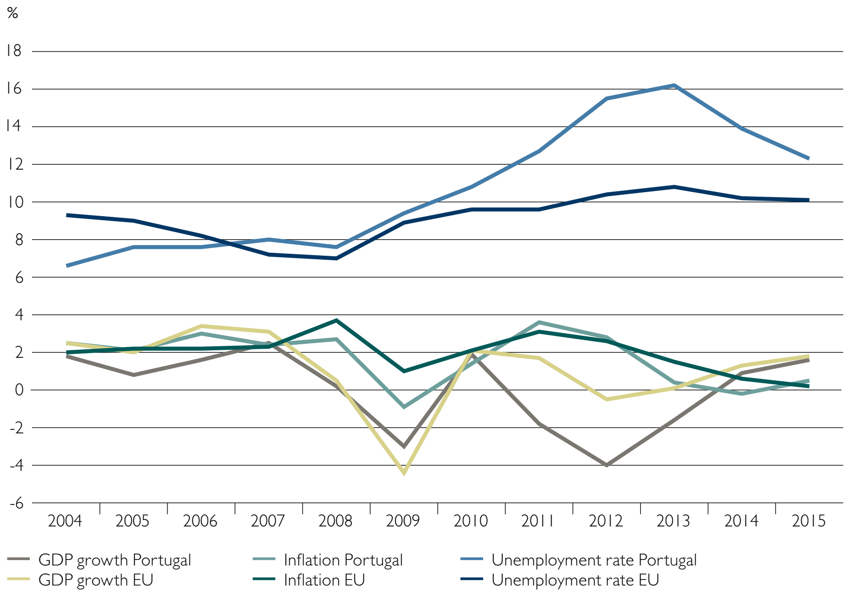
Portugal has overhauled its leasing laws. Rents in urban areas had previously

RENTS AND YIELDS IN CITY CENTRES



Source: Numbeo

ECONOMIC DATA



Source: IMF, PMA

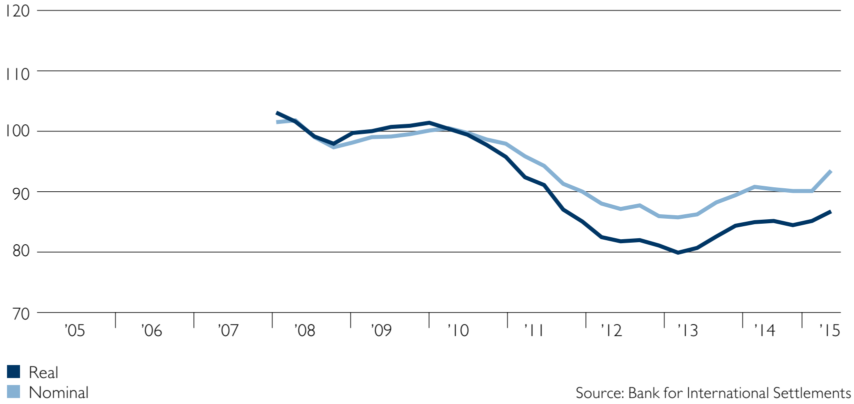
been heavily controlled by law and had become detached from market reality. While they remain pro-tenant, they have made residential investment for long-term income a more appealing proposition. A slowly improving economy means stronger occupier demand too. All these factors, taken together, have contributed to the recent stabilisation of Portugal's housing market. Around 20% of primary residences in Portugal were rented as of 2011. Most rented homes have contracts with indefinite duration (58%), fewer have contracts for a limited period (32%). Even fewer have social or supported annuity contracts (9%) or sublease contracts (2%). Portugal has one of the highest owner-occupation rates in Europe, generous government mortgage subsidies having helped push up owner-occupancy from 52% of all housing in 1981 to 70% in 2013. Meanwhile, the private rental market has shrunk from 39% of total dwelling stock in 1981 to 18% in 2008. The social rental sector is small at around 3% of the total housing stock, or 16% of total rental stock.

Construction activity in Portugal has been in decline since 2002. Building completions fell by 35.7% y-o-y during the last quarter of 2014, but this was actually a lower decline than the 42.3% y-o-y decline in Q3 2014. And there are other hopeful signs. The number of housing permits for new family housing construction rose by 17.3% during the year to Q4 2014, an improvement on the 11.6% y-o-y decline of the previous quarter. Lisbon (85.7%), Madeira (84.6%) and Algarve (63.6%) saw large increases in the number of housing permits for family housing during the year to Q4 2014; only Alentejo (-42.1%) and Azores (-27.3%) experienced declines.

Lisbon is enjoying a new wave of investment into its residential markets. While new development is limited, existing building renovations are increasingly common. Lisbon's prime real estate is good value by European standards – roughly half the price of that in Madrid, and less than a tenth of London premium prices.

RESIDENTIAL PROPERTY PRICES

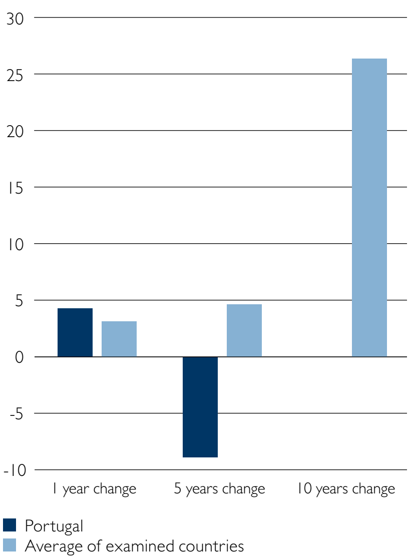
Real vs. nominal, 2010 = 100



Source: Bank for International Settlements

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

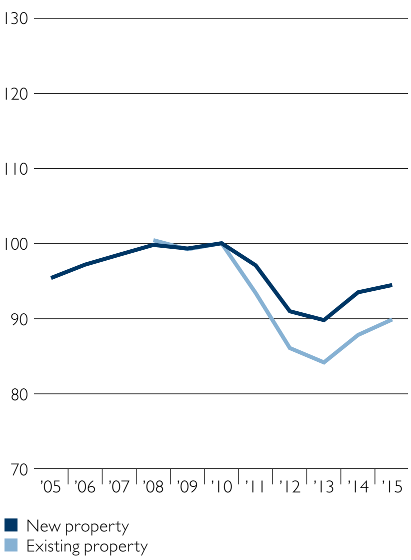
%



Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



Source: Eurostat

Rising transaction activity and recovering housing market

Foreign investors have started to return to the residential property market, which resulted in a rising number of transactions. The gap between housing supply and demand has been widening for the last five years. Rents are declining slightly but gross rental yields are recovering.

AT A GLANCE

Population	46,8 mn
Housing stock	18.33
Stamp duty	6,0%-8,0%
Notary costs	0.25%-0,5%
Brokerages	1.0%-2.0%
Value added tax	21.0%

2016 forecast	
Unemployment rate	20.6%
Inflation rate	0.8%
GDP growth	2.9%

Top Cities	**Population**
Madrid	3,2 mn
Barcelona	1,6 mn
Valencia	792,000
Seville	698,000
Zaragoza	678,000

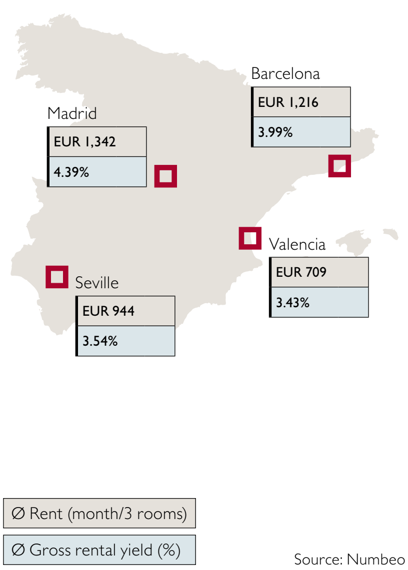
Source: Eurostat, IMF, PMA

Quarterly GDP growth has been confirmed at 0.8% in Q3 2015, equating to annualised growth of 3.4%. This maintains Spain's position as one of the fastest-growing eurozone economies, with consumers, investment and exports all making healthy contributions to growth. Consumer spending is estimated to have grown by around 3% in 2015, fuelled by rising confidence, robust employment growth and further increases in real disposable incomes. Spain's consumer price index (CPI) has been negative since August 2015 and further deflationary pressures are anticipated in the first quarter of 2016. The low interest rate environment and positive economic outlook has resulted in a strong uptick in business investment. The underlying fundamentals of the economy are positive and the current strong momentum is expected to continue in 2016. GDP growth is forecast to be 2.9%, well above the eurozone average of 1.8%.

After the deep slump in the Spanish residential market, 2014 experienced a more optimistic scenario. Positive economic prospects, the increase in mortgages granted, and a gradual rebound in housing transactions and prices suggest a turning point in the residential sector since the beginning of the crisis in 2007. At the national level the Spanish residential market appears to have stabilised. Prices stand 28% below their 2008 peak and by the first half of 2015 the rate of falls had slowed to 0.3% y-o-y. Residential property prices increased by 2.8% up to Q2 2015 (3.4% inflation-adjusted). A rapid rebound is unlikely given the high volume of new housing delivered prior to the crisis, still being worked through.

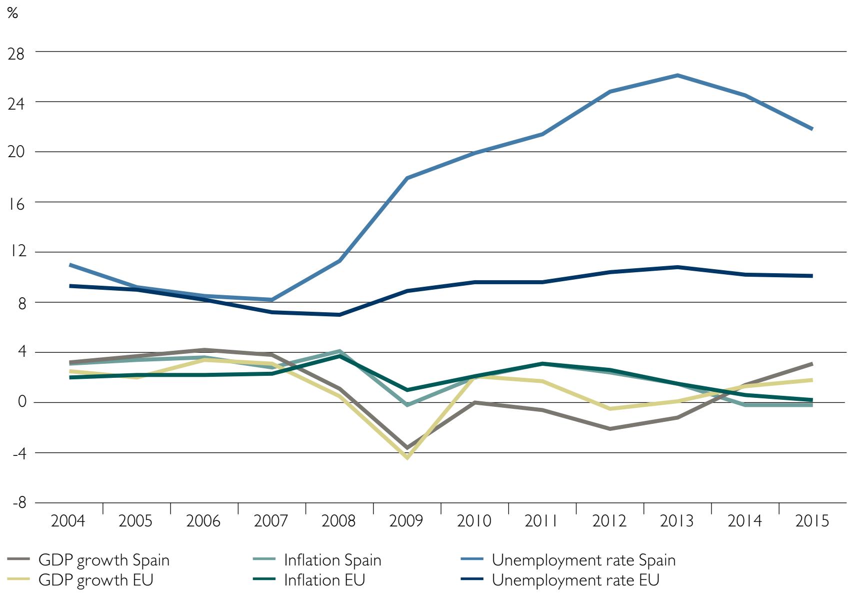
After an intense phase of housing construction, typical of upward economic cycles in Spain, a downward trend persisted for five years. Excessive housing stock along with weak demand

RENTS AND YIELDS IN CITY CENTRES



Source: Numbeo

ECONOMIC DATA



Source: IMF, PMA

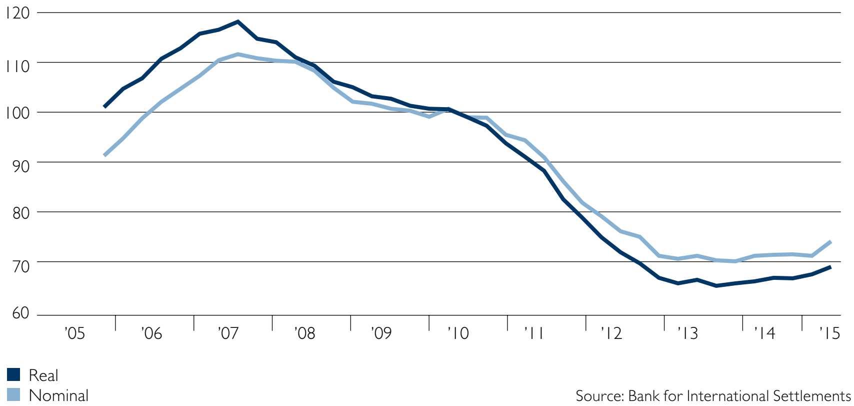
encumbered these figures and their expectations in the short- and medium-term. While in 2008 the number of houses completed exceeded half a million units, in 2014 the annual figure did not exceed forty thousand. The weak household growth in recent years together with the momentum of housing investment have resulted in an incipient, yet fragile, rise in housing demand. This fact is reflected by an increase in the number of housing transactions. Until the fourth quarter of 2014, the annual number of housing transactions amounted to approximately 365,600, which means 65,000 more acquisitions over the previous year. The national picture disguises some resilient submarkets. The Balearics saw much lower net additions to housing stock, and a dearth of new development in recent years means quality new units are now in short supply. Just 1,200 homes were completed in the Balearics in 2014, for a region with in excess of one million inhabitants. It is no coincidence that this region has emerged as one of the best performing in the country, with prices now just 11.8% below their 2008 high, compared to 28.6% below at the national level.

Demand recovery and low production levels are behind the slowdown in the decline of housing prices, both in the rental and the home ownership markets. However, it should be noted that the housing market is extremely segmented. Therefore, this changing trend of prices is mainly based on the attractiveness of specific residential assets located in prime areas, coastal locations or areas with potential revaluation. Consequently, the weight of households living in rental housing has increased, resurfacing a traditionally weak tendency, and presenting new opportunities for residential investments. As access to credit improves in the coming years, an upturn in housing demand for purchase is expected. However, it will be a slight increase given the factors that are driving growth in the rental market: tax relief suppression, increased labour mobility, and the emergence of new family forms and their respective residential needs.

The residential markets in the Balearics have been much more resilient than those of the mainland thanks to a diverse demand base and limited new supply. Prices have been broadly flat in the last year, after rises of 8% in the year to Q2 2014. They now stand just 12% below their 2008 highs, having seen relatively modest price falls by Spanish standards during the downturn. Madrid, as an important urban centre, is primarily a domestic market. This means its residential market is much more closely driven by the national economy and domestic factors. Prices here fell further than the Spanish average – some 33.5% between 2007 and the lowest level at the end of 2013. However, as in the rest of Spain, stability has returned and 2014 saw prices appreciate 8% off their very low base.

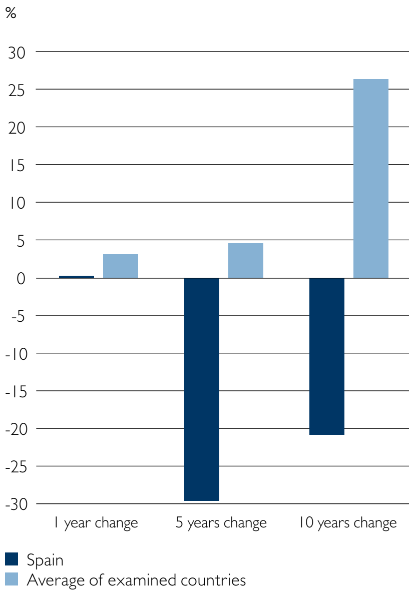
RESIDENTIAL PROPERTY PRICES

Real vs. nominal, 2010 = 100



Source: Bank for International Settlements

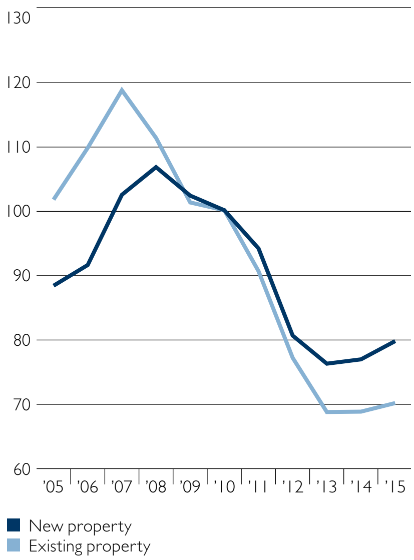
PERCENTAGE PRICE CHANGE OF NOMINAL INDEX



Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



Source: Eurostat

House prices rising only in new developments

Low interest rates are encouraging buyers and the mortgage market is still growing to become one of the largest in the EU. Construction activity has fallen to a new level. Despite decreasing prices, sales of existing residential properties in Paris and Ile-de-France rose strongly.

AT A GLANCE

Population	64,9 mn
Housing stock	28.09
Stamp duty	5,09% or 5,8%
Notary costs	0,825%
Brokerages	0,1%-3,0%
Value added tax	20.0%

2016 forecast	
Unemployment rate	10.1%
Inflation rate	0.6%
GDP growth	1.5%

Top Cities	**Population**
Paris (Ile-de-France)	12,2 mn
Lyon	2,2 mn
Marseille/Aix	1,7 mn
Toulouse	1,2 mn
Lille	1,2 mn

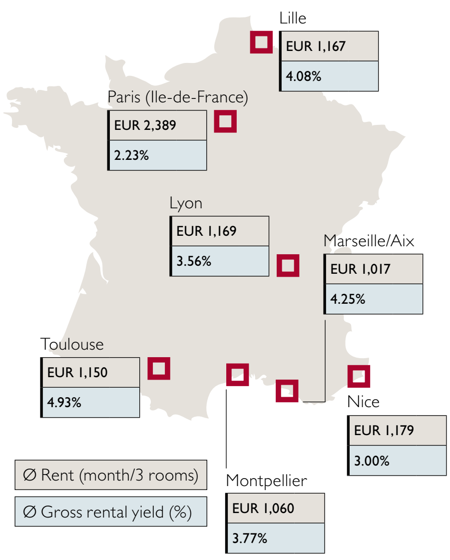
Source: Eurostat, IMF, PMA

The positive momentum from Q3 is expected to have continued in Q4, although at a slower pace, with most sectors of the economy making positive contributions to GDP growth. Annualised growth in industrial production reached a four-year high in October. There are also signs of a revival in business investment, with GDP growth estimated to have been 1.1% in 2015, up from the 0.2% growth recorded in 2014. The renewed drop in energy prices is providing a further boost to real household incomes, with inflation estimated to have been just 0.1% in 2015. The consumer confidence indicator held steady at 97 in January, down from the long-term average of 100, but higher than the average for 2015. After a sustained period of weakness, investment is slowly picking up and is becoming an important driver of the recovery. Economic activity is expected to gradually strengthen over the medium term, with GDP growth forecast to average 1.5% between 2016 and 2019. A number of political and economic headwinds remain, however.

The French residential market proved resilient in the years immediately following the global financial crisis. Relatively modest price decreases of 9.7% were seen between 2008 and 2009. A period of recovery quickly followed, and by 2011 prices and transaction levels had exceeded their 2007 highs. This recovery proved short lived, and the last three years have seen suppressed transaction volumes and sliding prices, set against a faltering eurozone economy and rising national unemployment. Record low mortgage rates have improved market liquidity, and it is low interest rates that will keep any further falls modest in 2015.

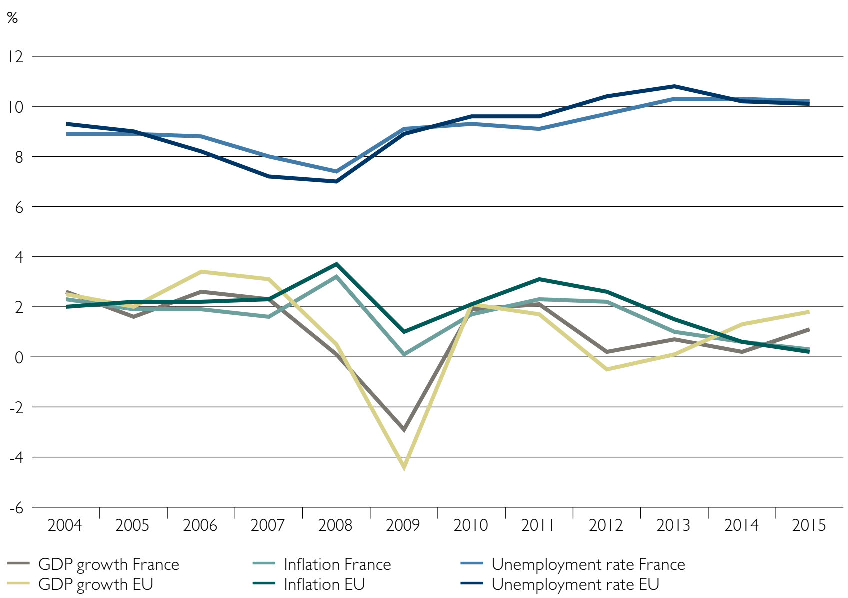
House prices in France fell by 2.1% during the year to Q2 2015, the thirteenth consecutive quarter of y-o-y price declines. When adjusted for inflation,

RENTS AND YIELDS IN CITY CENTRES



Source: Numbeo

ECONOMIC DATA



Source: IMF, PMA

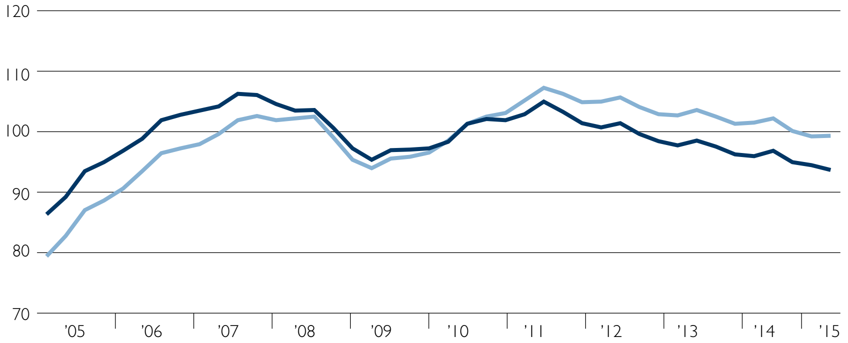
house prices still fell by 2.1%. Prices for new residential properties, however, increased by 1.8% in 2015 to Q2. Prices for existing properties followed the French trend and decreased by 2.6% to the second quarter of 2015.

Paris is a top-tier world city that enjoys a steady flow of foreign investment into its property markets. The city has many characteristics that make it favourable for buyers from around the globe: a major centre of business and finance, quality cultural institutions, luxury retail and celebrated architecture and urban environment. The prime Paris market is driven by French buyers, while international purchasers are present at the very top end. Paris continues to see a flow of buyers from the Middle East seeking a safe haven in light of continued unrest in their home region. The city boasts the kind of large, lateral apartments favoured by such buyers, at cheaper prices than London. The prices of Paris apartments, as recorded by INSEE, have fallen by 6.3% since their peak in Q3 2012. Small, easy-to-let apartments in good locations have held their value, while larger apartments suited to families have seen price corrections of up to 15%. Supply is up and prime property remains cheap compared to London with room for price growth. Limited development opportunities in historic central Paris will keep the supply of new-build property constrained. Buyers now recognise value in the prime markets and 2015 has seen renewed market activity, aided by low interest rates and, for international buyers, a weak euro.

In France, rents have until recently still been freely determined, but revisable only once a year. However, in 2014 the French Parliament passed a new law and set new rules regarding housing and property rentals. One of the most relevant parts of the law was the rent cap on long-term rentals. Rents should not be higher than 20% above the median rent set by the prefect in the urban areas. These rent control laws are likely to have a highly unfortunate impact.

RESIDENTIAL PROPERTY PRICES

Real vs. nominal, 2010 = 100



Real
Nominal

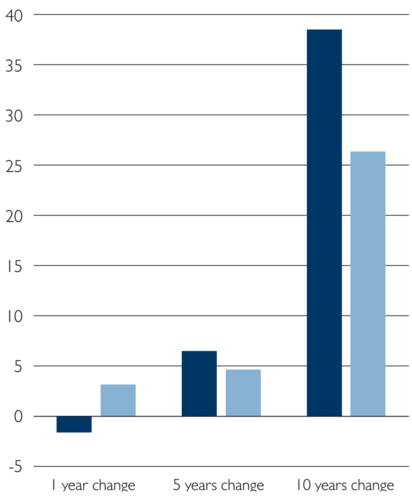
Source: Bank for International Settlements

As of 2013, around 57.8% of France's housing stock belongs to owner-occupiers, which means that almost half of France's population are renting. Of primary residences, around 21.8% are privately rented, while 17.3% are socially rented. When combined with the significant protection given to tenants, these laws are persuading landlords to sell their buy-to-let properties, thus putting downward pressure on prices and increasing transaction volumes.

Gross rental yields in Paris range from 3.05% to 3.65%, with smaller apartments generating higher yields than larger ones. Also, during the second quarter of 2015, France's rent index barely rose, increasing by only 0.08% from the same period last year. Rents in Île-de-France have stagnated. Rents in Bordeaux and Lyon plunged, with rents in Lyon declining by 4% and 7% for two-bed and four-bed apartments. Other major cities in the country, except for Strasbourg and Montpellier, also experienced rent declines during the first half of 2015.

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

%

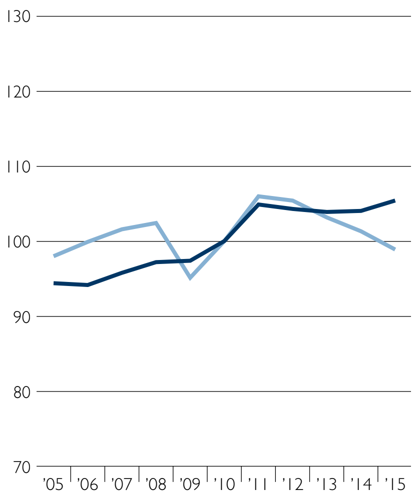


France
Average of examined countries

Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



New property
Existing property

Source: Eurostat

Increasing property prices nearly all over the country

Low interest rates and bond yields have encouraged rapid house price growth and persistently growing demand, especially in metropolitan areas. Transaction activity reached a new record level and investors are increasingly seeking for locations with great growth potential.

AT A GLANCE

Population	80,2 mn
Housing stock	39.71
Stamp duty	3,5%-6,5%
Notary costs	1,0%-1,5%
Brokerages	2,0%-5,0%
Value added tax	19,0% bzw. 7,0%

2016 forecast	
Unemployment rate	4.4%
Inflation rate	0.8%
GDP growth	2.1%

Top Cities	**Population**
Berlin	3,4 mn
Hamburg	1,7 mn
Munich	1,4 mn
Frankfurt	701,000
Düsseldorf	599,000

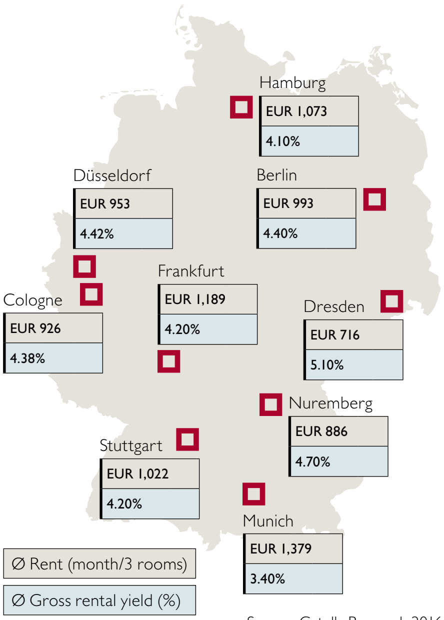
Source: Eurostat, IMF, PMA

The German economy was primarily led by the broad-based recovery in business investment and strong household consumption. Economic activity has also been boosted by a steady rise in industrial production and new orders in Q4, as external demand from key trading partners strengthened. Consumer spending has rebounded strongly in the second half of 2015 and the recent pick-up in employment and wage growth bodes well for household consumption over the coming months. The labour market remains tight, which continues to boost wages, while inflation forecasts for 2016 have been revised down to 0.8%. Business investment is steadily recovering, helped by rising capacity utilisation across most industry sectors. Business confidence indicators, such as the ifo Business Climate Index, were high in the course of 2015 but weakened in January based on lower growth expectations for China and other emerging markets. GDP growth is projected to strengthen to 2.1% in 2016, as robust labour market conditions, low interest rates and low energy prices underpin private consumption.

Although Germany is building a large number of new houses, the pressure of demand is such that supply is still barely meeting it. House prices continue to surge, after several years of upward movement.

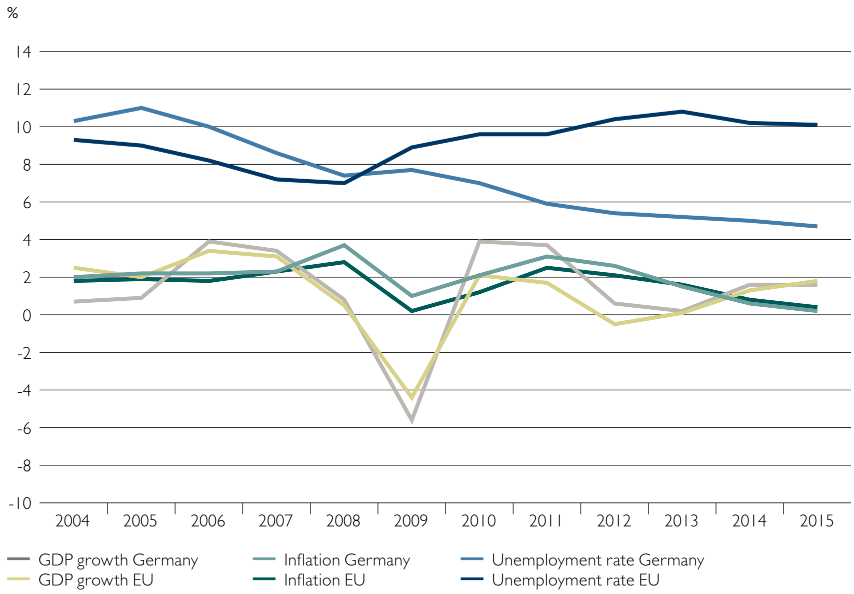
The national property index rose by 4.7% during the year to July 2015 (4.4% inflation-adjusted). The price index for existing homes increased 4.3% in nominal terms, and new home prices rose by 6.0% y-o-y. The German housing market was one of the few that avoided a slump in the wake of the 2008–2009 global financial crisis. Extremely low interest rates and bond yields have encouraged rapid house price growth and persistently increasing demand. Strong demand for residential properties in metropolitan areas and in locations

RENTS AND YIELDS IN CITY CENTRES



Source: Catella Research 2016

ECONOMIC DATA



Source: IMF, PMA

with a positive population balance is clearly based on urbanisation effects and a structurally good economic foundation in Germany.

House prices have been rising faster than rents and incomes. The QE programme lowered bank interest rates to zero, encouraging demand for homes. This is likely to increase prices for German homes, which could be overvalued by as much as 10%. Home prices rose more or less everywhere in Germany in 2015. High levels of demand in central city locations remain uninterrupted, but capital from investors is increasingly flowing into locations with great growth potential. The anticipated proportional rental price development will primarily be focussed on mid-range locations, in line with capital market philosophy. Purchase prices have peaked in top locations with the best features. The properties on offer in the high-end urban luxury segment are becoming increasingly difficult to market at the prices expected. Nevertheless, the development pipeline remains full. This will result in price/quantity effects. The popular mid-range segment, too, will experience considerable changes in price expectations in the coming years: high demand from investors, significant increases in construction activity, rising average rental prices and attractive offers for smaller homes in the 50–60 sqm size range will shape the residential markets in German urban centres.

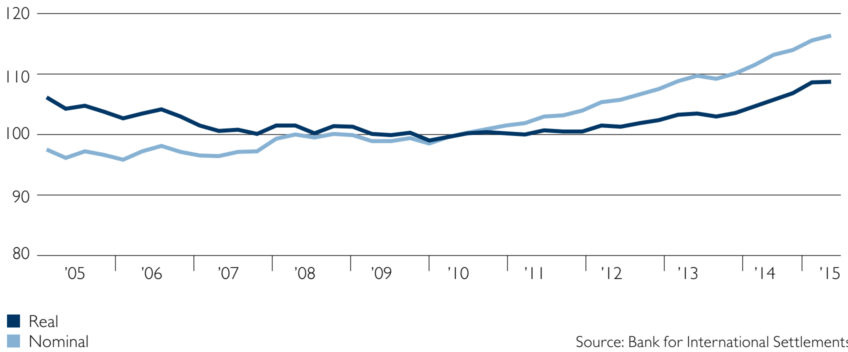
The residential market is once more the focus of market regulation this year, but state interventions in rental price developments have neither been able to halt increases in rental prices nor have they caused any measurable number of investors to pull out of this allegedly unattractive market segment so far. Thus we do anticipate ongoing increases in rental prices on average in the coming years due to urbanisation effects.

Average rents for medium-sized apartments in Germany's top 7 markets in second-tier locations increased by 6.5% to approx. 11.16 EUR/sqm in 2015. Average rents in prime locations currently stand at 14.24 EUR/sqm. On the other hand, rents in the rest of the country (70 locations) only slightly increased by 1.8% to approx. 7.68 EUR/sqm. Average gross returns in Germany's top 7 markets currently amount to 4.18%, with Munich only returning 3.39%. In the rest of the country gross yields vary between 4.63% and 8.20%, with an average of 5.52%.

Germany is expected to need to build an average of 272,000 apartments and houses per year until 2020 to keep pace with rising demand. Construction activity struggles to match this. Dwelling permits rose by 5.4% to 284,851 in 2014, and completions were 14.2% higher than in 2013 at around 245,325 units. This level is the highest in nine years. Around 270,000 units were completed in 2015.

RESIDENTIAL PROPERTY PRICES

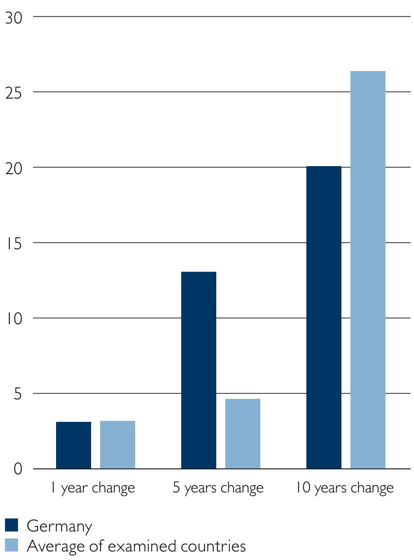
Real vs. nominal, 2010 = 100



Source: Bank for International Settlements

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

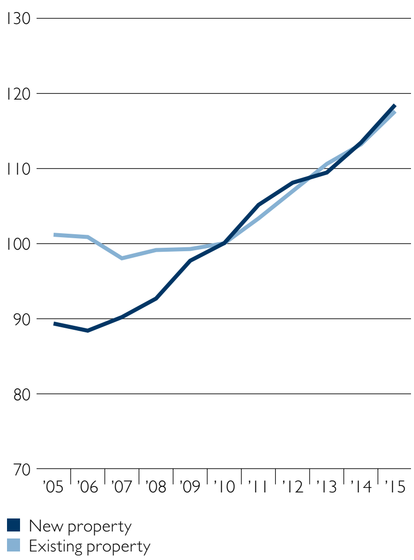
%



Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



Source: Eurostat

Dublin's house price growth slowed down while rents are rising fast

Home ownership is shifting towards a growing number of rented accommodation, with strongly rising rents due to subdued completion activity in recent years. Rents are rising fast and supply of rental properties on the market is scarce.

AT A GLANCE

Population	4.6 mn
Housing stock	1.71
Stamp duty	2.0%
Notary costs	-
Brokerages	1.23%
Value added tax	23.0%

2016 forecast	
Unemployment rate	8.1%
Inflation rate	1.4%
GDP growth	3.8%

Top Cities	**Population**
Dublin	1,3 mn
Cork	518,000
Galway	251,000
Limerick	191,000
Waterford	114,000

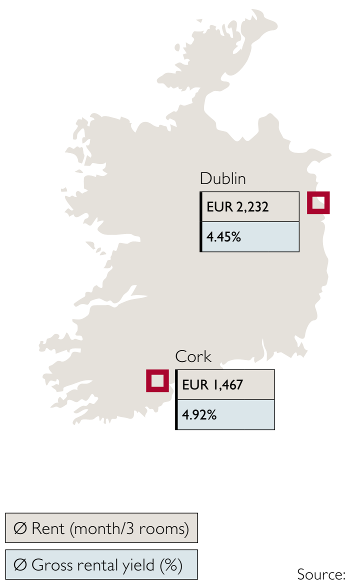
Source: Eurostat, IMF, PMA

The Irish economy expanded by 5.4% y-o-y in 2015, marking by far the highest GDP growth rate in the EU. Fixed investment has been particularly buoyant. In addition, consumer spending was solid, up by 3.0% y-o-y in 2015, and government expenditure provided a modest impetus to growth. Meanwhile, net exports remained a drag despite robust export volumes as imports grew even faster. A weak euro and solid growth in Ireland's key trading partners are sustaining an extraordinarily favourable environment for Ireland's export sector. Irish consumers continued to spend freely despite high indebtedness as employment has grown at a rapid pace, the number of part-time jobs has declined and confidence has risen markedly, currently at a 9-year high. Ireland is nevertheless on course to be the fastest growing EU economy this year and is forecast to expand by an average of 3.8% per year in 2015–2019.

After double-digit price rises last year, Irish house prices slowed to single-digit increases during the second half of 2015. The national residential property price index rose by 12.1% (12.6% inflation-adjusted) during the year to September 2015, compared to the annual rise of 11.8% (11.5% inflation-adjusted) during the same period last year. In Dublin, Ireland's capital city, house prices slowed even more. Dublin's residential property price index rose by 3.4% (3.6% inflation-adjusted) during the year to November 2015, way below last year's 22.4% (22.3% inflation-adjusted) y-o-y increase. House prices were pushed in 2013–2014 mainly by Ireland's strong economic growth. The residential market then slowed, especially in Dublin, largely because of central bank measures in January 2015 which limited loan-to-value ratios.

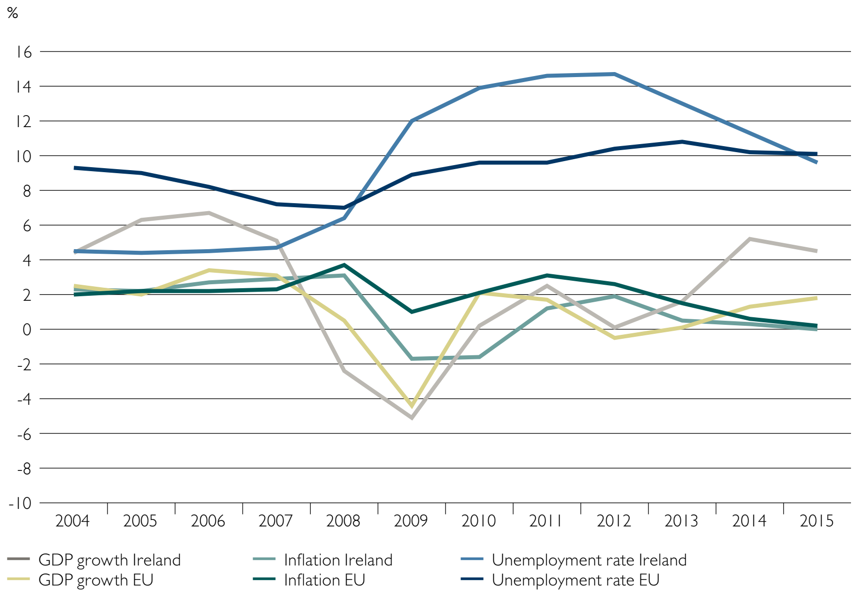
An insufficient supply of new housing development is the single most significant impediment to the proper

RENTS AND YIELDS IN CITY CENTRES



Source: Numbeo

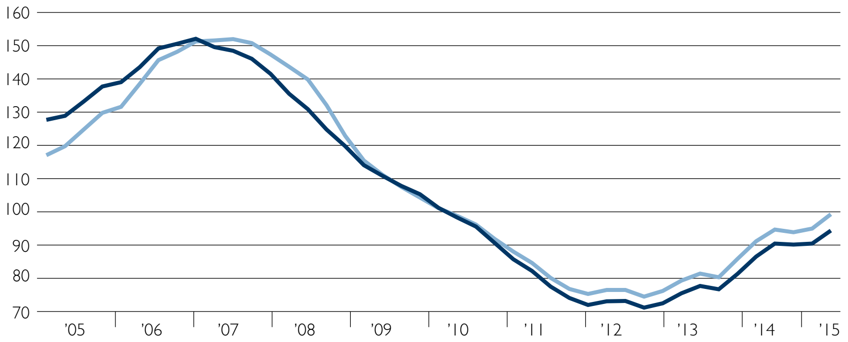
ECONOMIC DATA



Source: IMF, PMA

RESIDENTIAL PROPERTY PRICES

Real vs. nominal, 2010 = 100



■ Real
■ Nominal

Source: Bank for International Settlements

functioning of the residential property market in Ireland. Housing completions hit an all-time low of 8,301 units in 2013, with just 1,360 units completed in Dublin. The situation improved somewhat in 2014 with 11,016 new units added – a 32% uplift, and the first y-o-y increase in new housing completions since 2006. The uplift was even stronger in Dublin. Development activity has been limited by a number of factors such as planning requirements that make development inviable at current exit prices, concentrated ownership of sites (particularly in Dublin), prohibitive local authority levies, the 13.5% VAT rate on new homes, and so on. Moreover, scarce development finance remains an issue and is contributing to the critically low levels of residential construction activity. There are no large-scale housing developments in progress at the moment and, considering the likely construction pipeline, our view is that tight supply will remain a feature of the market for the foreseeable future.

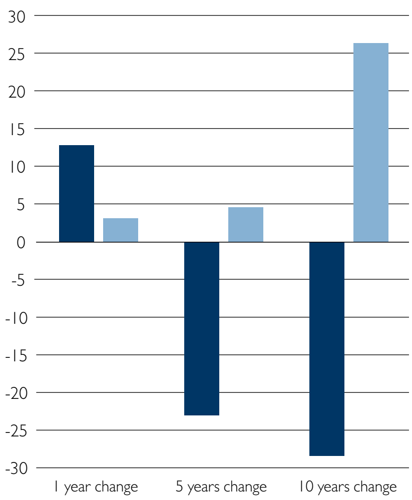
Ireland's population has grown by 9% since 2006 and is expected to rise by up to 5.8% over the next six years. At the same time, average household sizes have fallen by 7.5%, meaning that more housing units are required to accommodate a rising population. These factors, along with the ongoing need to replace dilapidated properties as they wear out, mean that approximately 25,000 new units are required per annum across Ireland, with approximately 7,000 of these in Dublin.

Despite a strong tradition of owner-occupancy, the number of households in rented accommodation in Ireland more than doubled from 145,317 to 305,377 between 2006 and 2011. This shift from owner-occupancy to the private rented tenure ensured that rents declined relatively modestly during the economic crisis. Now, with a strong economic recovery underway and with the market tightening due to six consecutive years of subdued house building, rents are rising strongly once again. Ireland's rent index increased 9.5% during the year to October 2015 between June and September 2015. The recent quarter (Q3 2015) marked the highest three-month jump in rents since 2007, with rents up 3.2% between June and September. In Dublin city centre, the average rent was up by 9.3% during the year to Q3 2015. Thus, in Dublin, rents were only 2.5% lower than their peak levels.

New mortgage lending restrictions were imposed by the Central Bank on 27 January 2015, which will require most buyers to save a larger deposit. This will delay their entry into owner-occupancy and extend their stay in the private rented sector. In the short term this will lead to rental growth. Ultimately this will attract investors and we are likely to see a continuation of the trend towards a more professional private rented sector with better quality accommodation on offer.

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

%

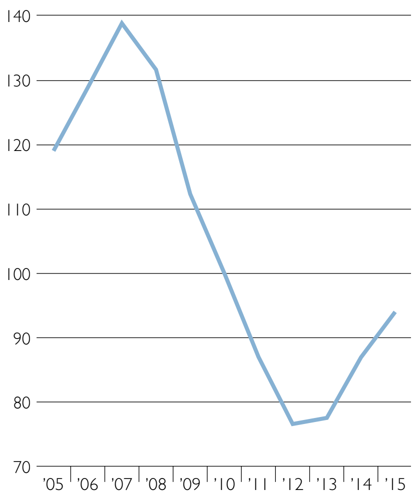


■ Ireland
■ Average of examined countries

Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



■ New property (no index available)
■ Existing property

Source: Eurostat

Wide gap between the capital and the rest of the country

House prices in London have surged way ahead of the rest of the UK and are being driven by first-home buyers and foreign investors. House prices in London have topped even the peak in 2007. Completion activity is still below the estimated demand for the coming years.

AT A GLANCE

Population	64,1 mn
Housing stock	28.8
Stamp duty	4.0%
Notary costs	-
Brokerages	0.5%-1.0%
Value added tax	20.0%

2016 forecast	
Unemployment rate	5.4%
Inflation rate	1.4%
GDP growth	2.4%

Top Cities	**Population**
London	9,6 mn
Manchester	2,7 mn
Birmingham	2,6 mn
Leeds	1,8 mn
Glasgow	1,2 mn

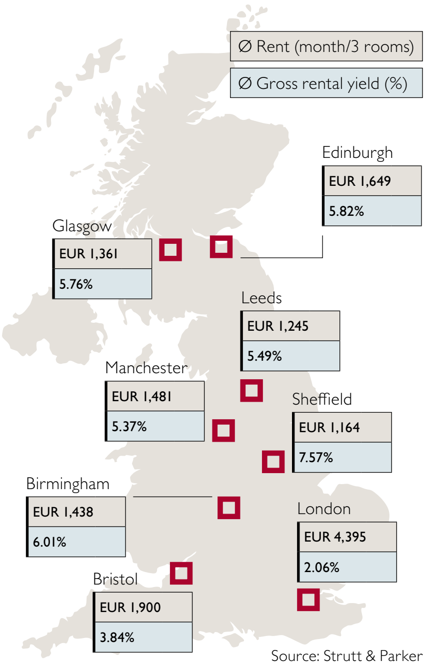
Source: Eurostat, IMF, PMA

UK GDP growth estimates for the second and third quarters of 2015 have been revised down, with the data continuing to highlight the divergence between weak external demand and the ongoing strength of the domestic economy. Growth is anticipated to have been around 0.6% in Q4, which would equate to annualised growth of 2.2% in 2015, below the 2.9% recorded in 2014. Consumer spending growth is estimated to have been 3% in 2015, the strongest annual performance since 2007. Retail trading conditions have been boosted by the combined effects of robust economic growth, near zero inflation, low interest rates and an improving labour market. Despite some tentative signs of recovery in Q4, the export sector remains the weakest performing sector of the economy, with the sector being weighed down by the strength of the pound and weakening global demand throughout 2015. Stronger activity is forecast for 2016, due to anticipated higher growth in key trading partners in the eurozone and in the US. The tone emanating from the Bank of England is that there will be no increase in interest rates from the current record lows until there is evidence of sustained growth in wages.

The prime residential UK market was one of two halves in 2014. The improving economy and positive sentiment from the mainstream market helped drive demand in the first half of the year.

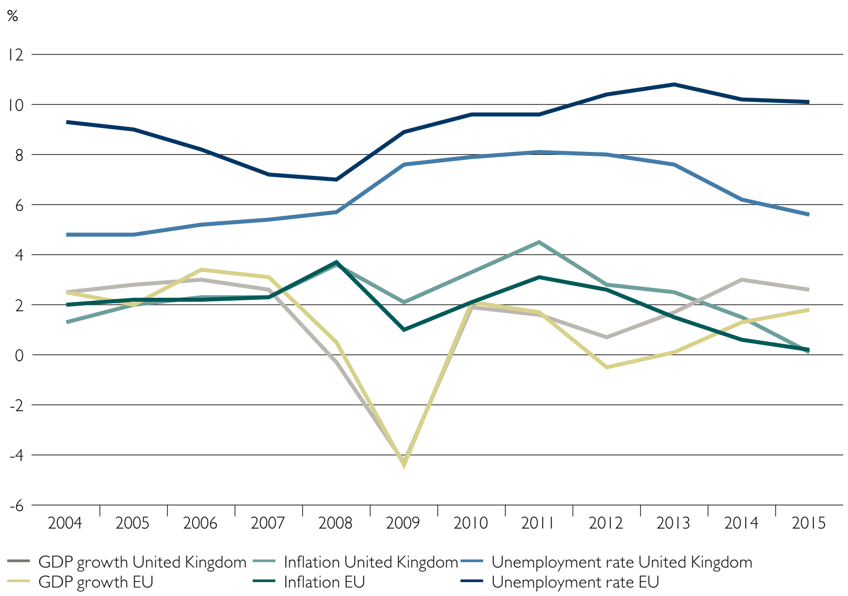
The UK's 7.1% house price increase during 2015 was lower than the 10% gain recorded in 2014, after adjusting for inflation there was little difference (7% UK house price increase in 2015 Q2 versus 7.2% after inflation in 2014). The slowdown in housing market activity is surprising given further steady gains in employment, a pickup in wage growth (albeit from low levels) and the continued low level of mortgage rates. Moreover, consumers remain in high spirits

RENTS AND YIELDS IN CITY CENTRES



Source: Strutt & Parker

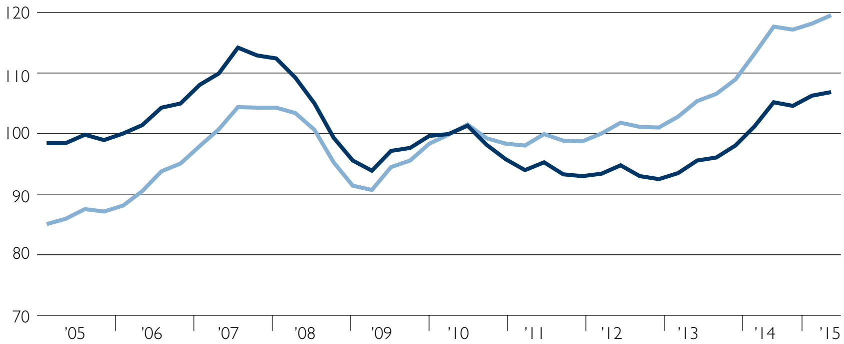
ECONOMIC DATA



Source: IMF, PMA

RESIDENTIAL PROPERTY PRICES

Real vs. nominal, 2010 = 100



Real
Nominal

Source: Bank for International Settlements

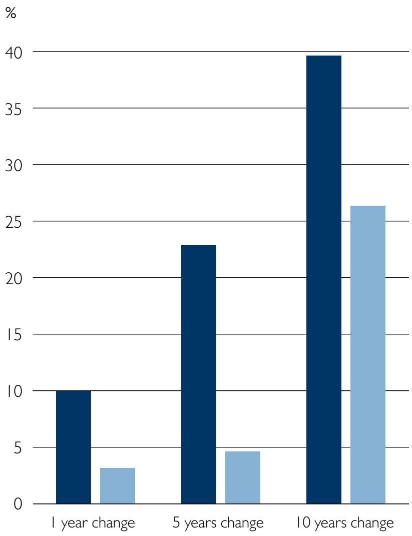
– a view reinforced by robust retail spending growth in November, which was at its highest for over a decade.

An average price increase of 4.9% was recorded in the prime markets of London and 3.1% outside the capital. But momentum was lost over the summer and prices remained flat in the final six months of 2014, with a small drop in prime London which slowed due to changes to stamp duty and pre-election uncertainty, resulting in a lack of urgency among buyers. Prime central London housing markets, including areas such as Mayfair, Knightsbridge and Kensington, were particularly impacted by the increased stamp duty charges and the threat of mansion tax, and sellers had to factor in price adjustments accordingly.

2015 house prices declined in London for the sixth month in a row while the rest of UK is experiencing house price increases. The North and Scotland saw house prices rise more than expected. Moreover, house price growth accelerated in the South East and South West of England. Prime London property has now emerged from a prolonged bull run and appears to be fully priced and taxed. As a consequence, the medium-term outlook remains muted. Despite very high price-to-income ratios in London and cities in the South East and South West, UK house prices are being boosted by several factors: immigration and population growth have been strong, especially in London; interest rates have been at record lows, with a large expansion of the money supply through "quantitative easing", and construction activity remains weak.

The average home price in London is more than twice as high (in Q4 2014) than the average home outside the capital. The capital's surge is being driven by first-time buyers and foreign investors rather than home movers. The gap between London and the rest of UK is the widest it has ever been, both in cash and percentage terms, though London prices have always been higher than elsewhere. Only four other regions record higher prices than their 2007 peak values: Outer Metropolitan London, which is 16% higher than in 2007, the Outer South East, which is 9% higher than in 2007, East Anglia, which is 6% higher than in 2007, and the South West, which is 3% higher than in 2007. All four regions are evidently benefitting from London's ripple effect. All other regions remain below their 2007 values, with Northern Ireland performing the worst with prices almost 50% below its 2007 peak.

PERCENTAGE PRICE CHANGE OF NOMINAL INDEX

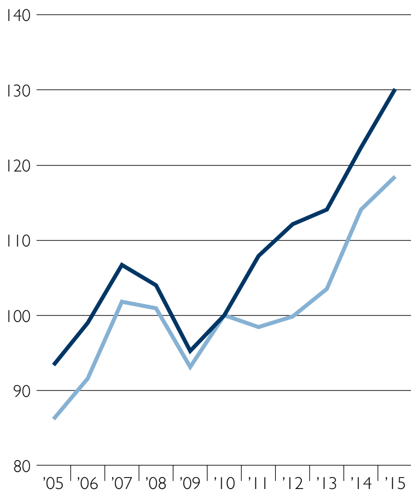


United Kingdom
Average of examined countries

Source: Bank for International Settlements

RESIDENTIAL PROPERTY PRICES

New vs. existing property, 2010 = 100



New property
Existing property

Source: Eurostat

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