



German Property Snapshot

The economy

Current environment

The German economy enjoyed a strong rebound in activity in the first half of 2010. Growth for the full year is likely to be in excess of 3%, an outturn only exceeded before in 2000 and 2006. The steep upward trajectory in exports, after the severe drop in late 2008 and early 2009, has also sparked a rapid increase in business' capital investment in plant and machinery, as firms have responded to a surge in external demand. However, the actual level of GDP remains below its previous peak, with the economy still playing catch-up from the deep recession of 2008-09.

Germany's export and capital goods orientated economy has capitalised on the boom in emerging economies across the globe, underpinned by a high level of competitiveness that was secured through corporate rationalisation and subdued wage growth during the past decade. Households are also starting to benefit from the favourable turn in the economy, with spending in Q2 rising at a firm pace as the labour market strengthened. Employment expanded by a moderate 0.2% in the year to Q2 2010 compared with a fall of 0.6% for the eurozone as a whole.

Economic prospects

We expect growth to drop back to below 2% during 2011, as the outlook for Germany's main trading partners deteriorates, with both the US and Asia showing clear signs of an economic slowdown. However, provided there are no further shocks to the financial markets a renewed recession is not expected. The growth outlook is not helped by ongoing fiscal contraction across much of the eurozone which is likely to soften the demand for German goods. Nonetheless, household spending is poised to provide some counterbalance to slower external demands, with incomes rising and consumer confidence not too far off the unification highs of almost 20 years earlier.

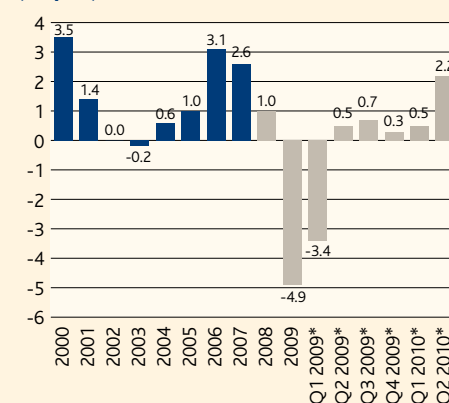
The outlook for the household sector is strengthened by the fact that Germany is not dealing with the aftermath of a housing bust or a build up of consumer and mortgage debt, like Spain or Ireland, and this should facilitate a fall in saving rates from historically high levels. However, we expect consumer spending to achieve moderate growth at best, with the labour market recovery likely to stutter as global growth pulls back in 2011. Over the medium term, negative demographics are likely to be a constraint on consumer spending, as baby-boomers keep saving rates relatively high ahead of reaching retirement. Finally, domestic fiscal consolidation has the potential to slow growth in the next year, although pressure for significant tightening has eased as the budget position has benefitted from the sharp economic rebound.

Economic forecasts

	2010	2011	2012
Real GDP growth p.a. (%)			
Germany	3.0	1.5	2.0
EU 27	1.7	1.1	2.3
Inflation p.a. (%)			
Germany	1.0	1.3	2.3
EU 27	1.6	1.4	2.4
Consumer spending growth p.a. (%)			
Germany	1.3	1.2	1.9
EU 27	0.9	0.8	2.0
Unemployment rate (%)			
Germany	7.4	8.7	8.5
EU 27	9.5	10.1	9.7

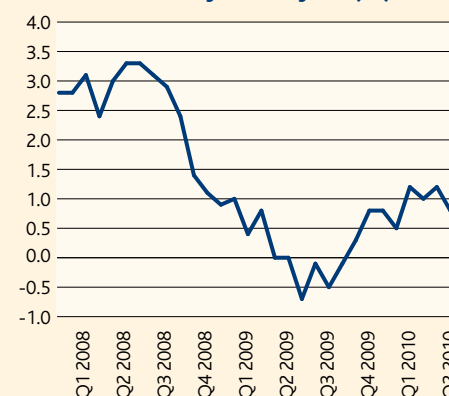
Source: Aberdeen Asset Management

German real GDP growth 2000 – Q2 2010 (% p.a.)



Source: Aberdeen Asset Management, destatis
*quarterly change year-on-year

German inflation year-on-year (%)



Source: Aberdeen Asset Management, Eurostat

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Recent property market trends

Office

The German office market is still marked by a reluctance of companies to commit to new space. However sentiment among companies has improved and their willingness to hire new staff has increased, which should lead to increased demand during the remainder of the year.

Looking back, the slight recovery in turnover in the 6 office property centres (Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Munich and Stuttgart) in the first quarter of 2010 continued into the second quarter, recording a letting volume of around 1.2 million square meters. This represents a year-on-year increase of 6%. Frankfurt am Main and Düsseldorf made the largest contributions to the improved turnover (+6% and +97% respectively) with major leases concluded, whereas Berlin, Munich and Stuttgart recorded year-on-year decreases in turnover.

The rise in vacancy levels has slowed quarter-on-quarter and the completion volume decreased in the first half of the year by around 20% year-on-year, with some regional differences. Completions are expected to reduce by almost a third during 2011, easing pressure on the market as a result of new buildings.

Prime rents stabilised during the second quarter. Düsseldorf actually recorded its first increase for some time, at €22.50 per square metre an increase of 2.3% quarter-on-quarter, although secondary locations remain under pressure.

Retail

The retail market has made a significant contribution to Germany's economic recovery. German retail sales stabilised further in the first two quarters of 2010 following a decline in the second half of 2009, reporting real growth of 5.3% for June 2010 over the same period last year.

Prime rents in premium locations experienced average rental increases of 1.6%, the only segment to achieve a rental increase in the last year. They remained stable during the first half of 2010.

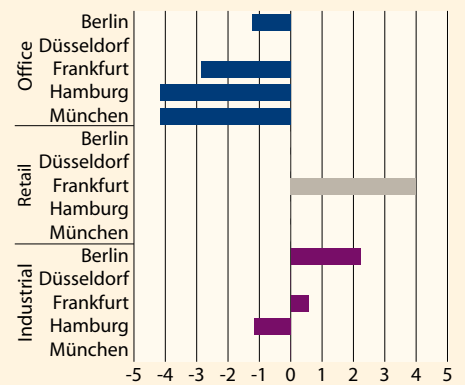
The efforts of retail companies to expand continued in the first six months of this year. There has been an increase in demand, particularly in the shopping and specialist retail centre segments, followed by premium sites in cities ranked as A and B locations.

Industrial

The logistics sector has benefitted from both positive developments in the German economy and exports. According to data from Jones Lang LaSalle, the first half of 2010 saw the highest letting performance for this period for the past five years. Demand is focused primarily on new, flexible properties of above-average quality and over 5,000 square metres of space.

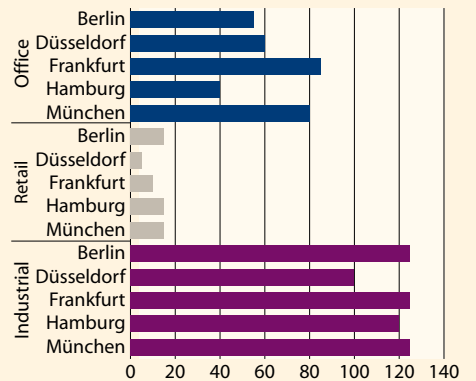
Although there was a slight decline in rents in 2009, there was a considerable recovery in the first half of 2010. For example, rents in Berlin rose by 2.2% year-on-year.

Prime rental change Q2 2009 to Q2 2010 (%)



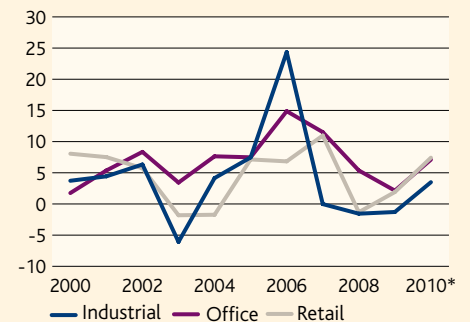
Source: Aberdeen Asset Management

Prime yield shift from peak to Q2 2010 (basis points)



Source: Aberdeen Asset Management

Prime total return Germany office, retail and industrial 2000 to 2010 (%)



Source: Aberdeen Asset Management

*forecast

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Investment market

The market for commercial property transactions experienced a substantial upswing in the first six months of 2010. A year-on-year increase of approximately 162% was recorded as of 30 June, taking the total to around €8.7 billion (2009: approximately €3.3 billion). Investment focused on retail properties accounting for almost 48%, followed by office (31%) and other properties (13%). Logistics properties accounted for 8%. It was interesting to note that the portfolio transaction segment again made up a significant proportion of the transactions executed with €2.4 billion, almost doubling its share from the prior year period from 15% to 28%.

Foreign investor interest in the German property market has significantly increased recently. Whereas this investor group accounted for only around 10% in 2009, it was responsible for over 40% of transaction volume in the first 6 months of 2010. This was largely due to the relatively high stability of the German property market in international terms. The strongest groups of buyers were property companies, closed-end property funds, banks, insurance companies and pension funds, investing predominantly in the "core" property segment.

This increase in interest by investors and their focus on core properties resulted in a moderate decline in net initial yields by an average of 10 basis points for office properties during the first half of the year. The price level for the retail and logistics segments remains unchanged from the end of 2009.

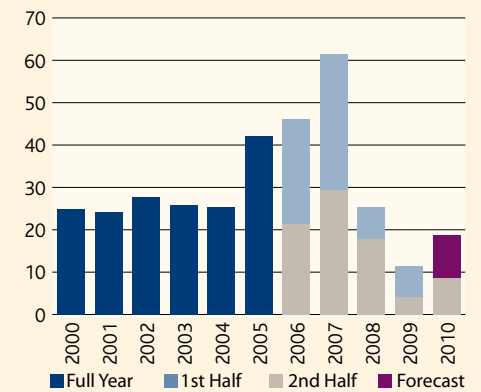
Outlook

We expect to see further recovery in the German property market in the second half of 2010. GDP is predicted to grow by 3%, followed by 1.5% in 2011, which is likely to be above the growth rate of the other EU27 countries. Positive developments in the German labour market, with a potential drop in unemployment to below 3 million, have also had a positive effect on the demand side of the property market. As for next year, we expect a moderate increase in prime rents in the office and logistics property sub-segments, with an initial stabilisation in prime yields.

On this basis, it is likely that transaction activity will remain relatively stable in the second half of the year and the annual total will move towards €20 billion, close to the long-term average. The focus is likely to continue to be on core assets. Institutional investors are increasingly concentrating on the residential property segment in order to profit from the stable cash flow, in addition to the traditional investments in office, retail and logistics properties.

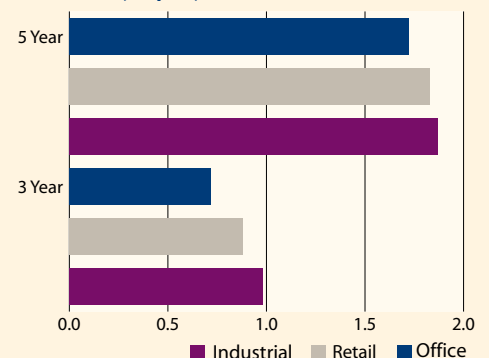
Looking at the development of total returns over the past 3 years as a whole, the office market has performed the best achieving 7.9% per annum, followed by retail (7.1%) and logistics (5.4%). The 5 year forecast shows a more balanced picture with office and retail properties at roughly the same level (7.8% and 7.7% per annum respectively), followed by logistics properties (6.7%).

Commercial investment volumes in Germany (€ billion)



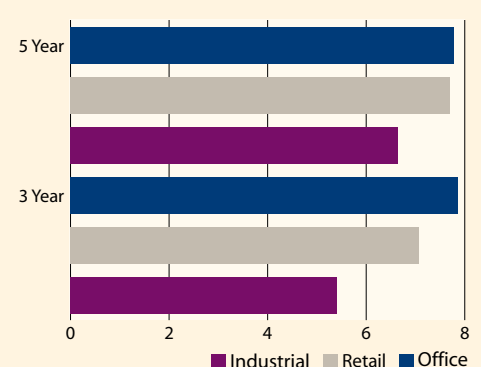
Source: Aberdeen Asset Management

German prime rental forecasts from Q2 2010 (% p.a.)



Source: Aberdeen Asset Management

German prime total return forecasts from Q2 2010 (% p.a.)



Source: Aberdeen Asset Management

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Aberdeen market view

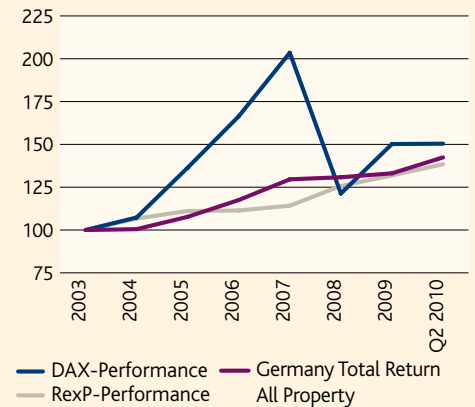
The table below shows Aberdeen's recommended positions on the German commercial property market, relative to the benchmark (Germany total return All Property), in order to achieve outperformance over a five year period.

Sector	
Germany office	Neutral
Germany retail	Neutral
Germany industrial	Underweight

Source: Aberdeen Asset Management

Note: Sector weightings are based on the annualised prime five year total return forecasts: "All Property" 7.7%, Germany offices 7.8%, Germany retail 7.7% and Germany industrial 6.7%.

Asset classes' performance since 2003



Source: Aberdeen Asset Management, Deutsche Börse

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