European Logistics Snapshot

Goodman

June 2007

The economy

Recent performance

- Economic growth slowed slightly in the first three months of 2007, but the drop was small against a background of robust conditions. A fall in German retail sales in response to the VAT hike in January has tempered activity but exports and business investment show continued dynamism.
- As a result, the ECB raised interest rates by 0.25% to 4.0% at its June policy meeting, citing above trend economic growth and increases in the money supply sharply above the bank's reference value.
- There are few signs of the eurozone economy tracking negative developments across the Atlantic. Even as the US economy has slowed, the emerging economies of Europe and Asia are still growing rapidly, propelling eurozone exports and industrial production higher.
- Robust growth has led the eurozone unemployment rate to decline to 7.1% in April, the lowest since records began in 1990. However, job growth has focused on part-time employment and smaller economies, putting a lid on income growth. As a result, consumer spending has lagged the recovery.

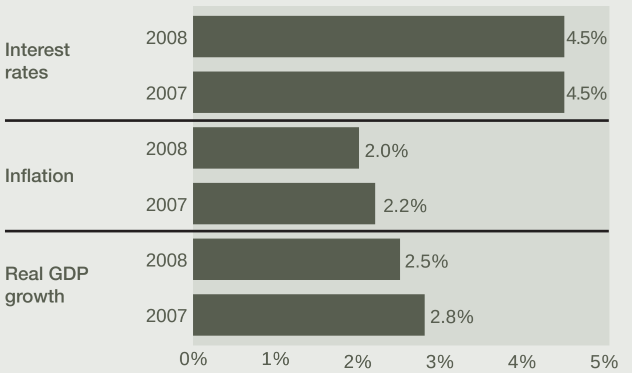
Outlook

- The global economy is set to slow moderately as monetary policy tightening in major developed and emerging economies dampens consumer and business spending. Nonetheless, world economic growth is expected to be above trend.
- The US economy will rebound later this year as homebuilding activity stabilises, albeit at sharply lower levels than last year. Also, manufacturing output will expand but be offset in the near-term by the negative impact of rising oil prices on consumer spending.
- Eurozone economic growth is set to be moderately lower than last year on tighter monetary and fiscal policy. However, business survey evidence for May points to robust demand conditions, while rising employment levels are positive for consumption prospects.
- We expect eurozone interest rates to rise to 4.50% this year. Although inflation was 1.9% in May and inside the 1-2% ECB target, the bank views the risk to price stability on the upside. Strong money and credit growth and the potential for higher wage settlements as spare capacity in the economy reduces, are the main risk factors for inflation.

Risks

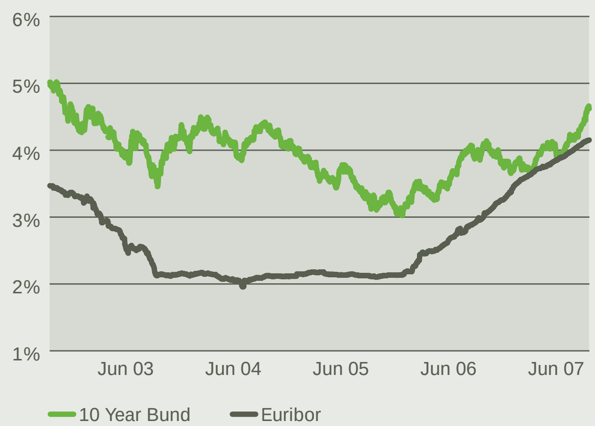
- Downside risks in general have moderated as the global economy has shown that it can to some extent de-couple from the US economic slowdown. Nonetheless some risks remain in the near-term.
- A prolonged slowing in the housing market, prompted by a tightening of lending standards, could lead to a US recession.
- Sustained rises in oil and commodity prices will reduce consumers' real disposable incomes, while also raising inflation.
- A rise in financial market volatility from usually low levels will raise premiums attached to asset prices, negatively impacting on business financing conditions and household wealth.

Economic forecast



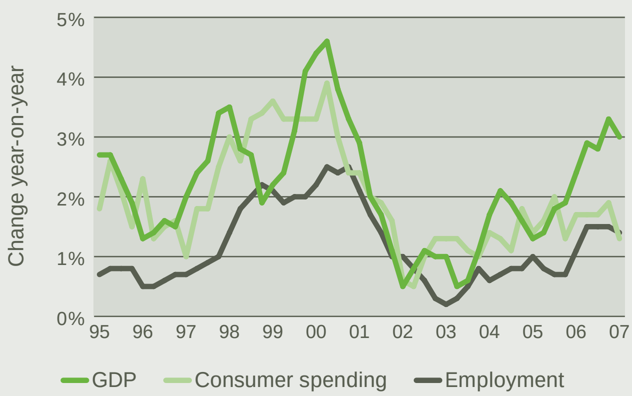
Source: Goodman research/Consensus

Euro bond yield versus 3 month Euribor



Source: EcoWin, Goodman Research

Consumer spending and employment developments



Source: EcoWin

Property market overview

Recent performance

+ Demand remained strong in the majority of the logistics markets across Europe. The largest annual increases in take-up were seen in Germany and provincial France. Retail occupiers dominate demand despite increased competition from other sectors from 2004 onwards.

+ Speculative construction still remains low across Europe given the short construction times. However, there is a general consensus that this will pick up in the short term.

+ Despite the dearth of good sites in prime locations, Goodman Research expects supply to increase over the year across most markets. However, the increase in supply of modern warehousing will be largely fuelled by the growth of development in secondary locations. Margins remain tight for both occupiers and developers and cost efficiency remains a key driver behind their property strategies.

+ Rents remained stable in the majority of markets. Nonetheless, encouraging signs emerged as rents increased in five logistics markets over the quarter with particularly strong growth in Amsterdam and Warsaw.

+ More than €19 billion was invested in logistics property during 2006. This has nearly doubled since 2005 as logistics has become a more popular alternative asset choice. Consequently, investment volumes for logistics assets are expected to be higher in 2007. Estimates point to over €20 bilion being spent on logistics property this year.

+ Yields have continued to fall. The strongest yield compression in the newly extended EU27 has been in Bucharest, where yields have fallen by 140 bp over the last year. In the eurozone the fastest price growth was seen in Lille where yields fell by 80 bp over the year.

+ Capital values have continued to strengthen, despite muted rental growth. Investors have widened their search for modern product. As a result, the yield differential between core and emerging locations has continued to decrease. In these difficult market conditions, where logistics property looks like being overpriced, investors and developers are looking at alternative routes to acquire warehouse property.

Logistics industry issues

+ Over the last six months increasing numbers of 3PLs have extended their coverage further into central and eastern Europe. US company, BDP International purchased Merlin Logistics in order to get more exposure in CEE. Geodis UK extended their road freight service to CEE, allowing door to door transit time to CEE of 3-4 days from the UK. Whilst, Kuehne & Nagle have recently announced ambitious plans to expand aggressively across Russia.

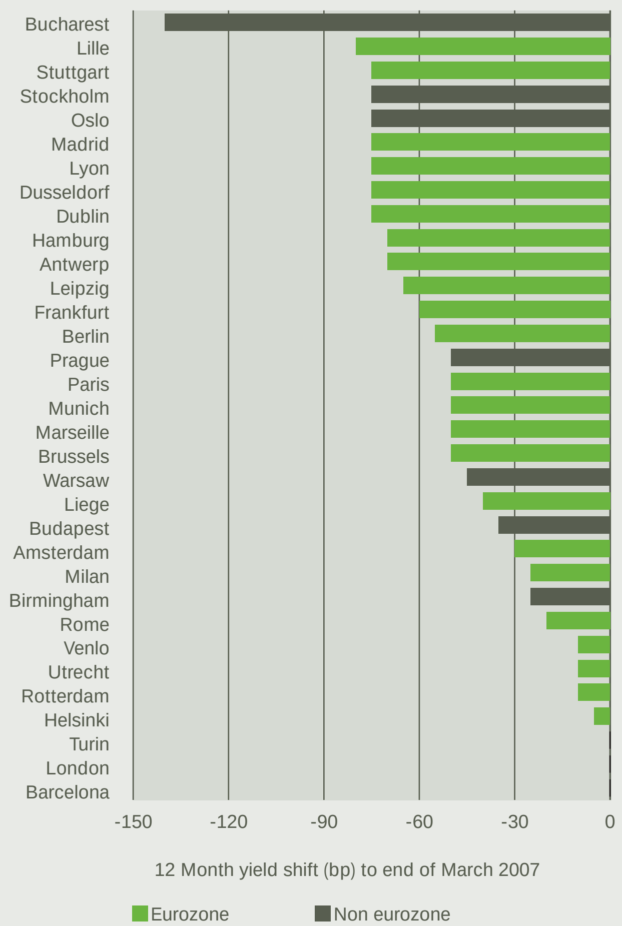
+ With limited capacity, the key ports are investing heavily into extending their capacity over the medium to long term. Rotterdam for example is opening a new Euromaxterminal in 2008. Also, the Maasvlakte 2 scheme will be operational in 2015 and will ease capacity and encourage further growth in the port of Rotterdam. Nonetheless, capacity is expected to remain tight in the largest ports for the remainder of 2007.

+ One of the most immediate issues for the logistics property market is the implementation of the new European legislation that will require all warehouses to obtain a certificate (known as an Energy Performance Certificate or EPC) when they are constructed, sold or rented out. The green credentials of warehouses will be an increasingly important factor for logistics occupiers as well as developers and investors. These new demands may see a fall in capital values of inefficient buildings as occupiers and investors want higher energy rating properties.

Consumer spending and employment developments

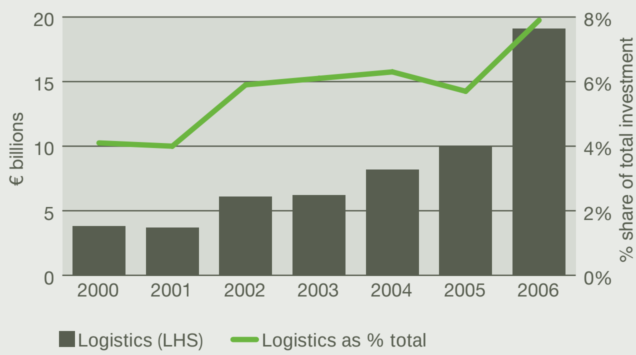
Source: EcoWin

Prime warehouse yield shift: 12 month to Q4 2006



Source: Goodman Research

Logistics investment continues to grow



Source: PMA, JLL, DTZ, Catella, CBRE

Sector prospects

Short term prospects – 2007

- Rental growth is forecast to improve across the EU15 in 2007 to just under 1% from rental declines in 2006. This will be driven by the shortage of top quality product in prime locations. However, rental growth will still be limited as occupiers' margins remain tight as they continue to upgrade to more cost efficient premises. Ireland, Spain and Finland will enjoy the strongest rental growth all at over 2%. There will be further rental declines in Italy and Greece over 2007.
- The EU15 total return is expected to fall from 11% in 2006 to just over 8% in 2007 as capital growth slows. Ireland, Spain, Finland and the Netherlands will all deliver strong total returns of over 10% in 2007. The weakest performing markets in 2007 will be Austria and Greece where total returns are forecast to be below 5%.
- With the continued dearth of available sites in prime logistics locations, developers will increasingly concentrate on building larger modern warehouses in more peripheral locations.

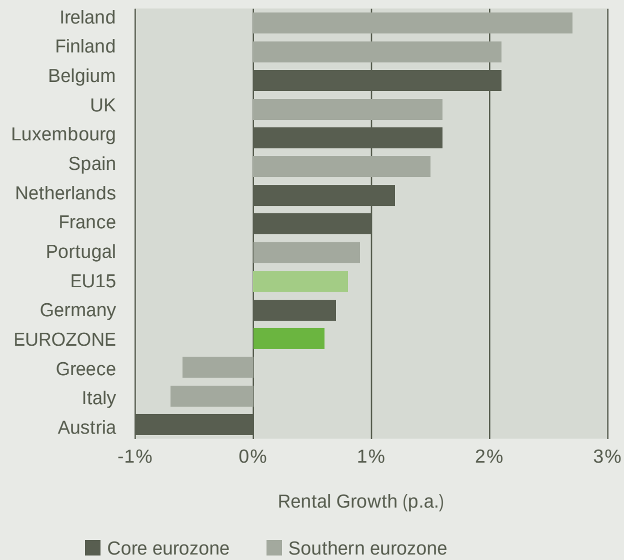
Medium term prospects – 2007 to 2009

- Rental growth will remain below inflation with forecasts pointing to growth of less than 1% p.a. over the next three and five years respectively across the EU15. The European average will be dragged down by weak rental growth in the larger markets of Germany and Italy. Finland and Belgium will be the only markets to experience rental growth above inflation, whilst Austria, Italy and Greece will continue to experience rental falls over the next three years.
- European industrial returns will marginally outpace retail returns over the next three years, but this can be largely attributed to poor performance prospects in UK retail. European industrial returns will average at just below 8% on a three year annualised basis. Capital growth will fall substantially from 2008 onwards as yields stabilise or even move out in some markets. As capital growth slows, investors will increasingly focus on properties with healthy income streams, especially in markets with better rental growth prospects.
- When broken down, total returns will not surpass 10% in any of the EU15 markets. However, Ireland, Spain, the Netherlands and Portugal will offer the strongest performance with total returns of over 9% over the three years to 2009. Austria and Greece will offer the poorest performance with annualised forecast total returns of below 5%.
- On a city basis, the strongest total returns over the next three years will be Lille and Lisbon, where there is room for further yield compression. Berlin, Prague and Vienna will be the worst performing logistics markets, suffering at the hands of competition from north western Poland and Slovakia and countries further east. These poor performers will only start to recover from 2009 onwards.

Longer term prospects – 2009 onwards

- The best prospects over five years will be in the Netherlands, Ireland, Finland and Spain with returns of nearly 9% p.a. The worst will be in Austria, Greece and Luxembourg where total returns are not expected to exceed 6% p.a..
- Elsewhere, occupiers and developers will be keen to branch out further in CEE, most notably into the new EU markets of Romania and Bulgaria. There has also been growth in occupier demand in western Ukraine and Russia. Poland will have the most post positive prospects in central Europe over the next five years as the logistics markets grow beyond the capital of Warsaw alongside new motorway developments.

Three-year average industrial growth: 2007 to 2009

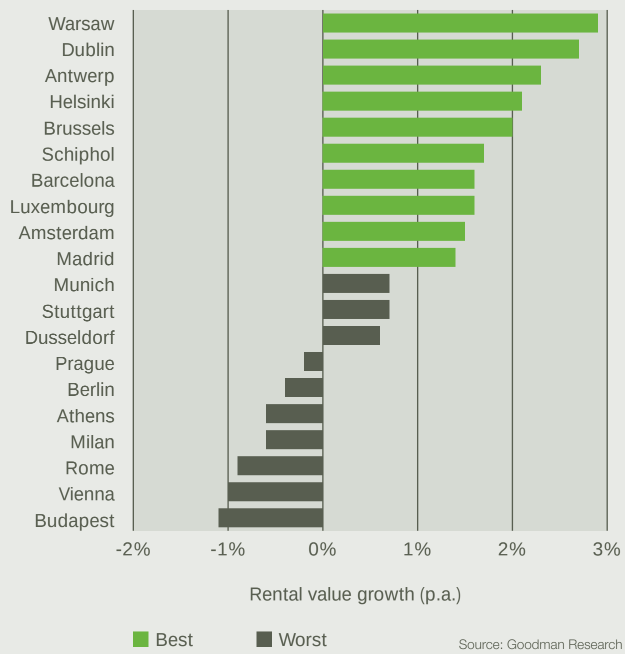


Source: Goodman Research

Annualised industrial total returns over three year horizon: 2007-2009

Source: Goodman Research

Industrial city prime rental growth: 2007 to 2009



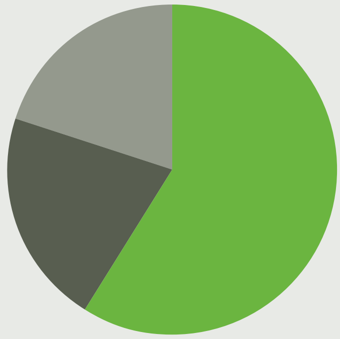
Source: Goodman Research

Investment policy

+ The following table shows indicative weightings and positions relative to benchmark for a standing investment portfolio, based on optimised performance over three years. In practice, the degree to which target weightings should be applied to actual funds will be dictated by current portfolio structures, turnover costs and stock selection issues.

Country	Strategy
Austria	Underweight
Belgium	Underweight
Central Europe	Market weigh
France	Overweight
Finland	Overweight
Germany	Market weight
Greece	Underweight
Ireland	Market weight
Italy	Market weight
Luxembourg	Underweight
Portugal	Market weight
Spain	Overweight
The Netherlands	Overweight
United Kingdom	Underweight

Regional allocation of a model eurozone logistics fund



Source: Goodman Research

"Core Europe" is Austria, Belguim, France, Germany, Luxembourg and Netherlands.
"Southern Europe" is Greece, Italy, Portugal and Spain.
"Other Europe" is Finland, Ireland and United Kingdom.

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Note: For professional investors only. Calls may be monitored and recorded.