

AMSTERDAM ECONOMIC OVERVIEW

OFFICE EDITION 2006Q2

Summary

- **Amsterdam's economy is recovering**, with employment growth of 1% year-over-year at the end of the first quarter. With a healthy recovery of the Dutch economy and job growth finally kicking into gear, Amsterdam is expected to benefit from the upswing of the recovery cycle. Office-using employment growth will average a healthy 2% annually over the forecast.
- **Amsterdam's vacancy rate has finally peaked but is still traveling near its historically high level.** Improving demand in concert with a notable reduction in new construction will lead to a notable turnaround, but vacancies will end the forecast at "just" about 13%, well above Amsterdam's historical average of 9.3%.
- **Total returns are firming, but investors should not expect any of the double-digit returns seen recently in other European markets.** Total returns averaging 8.8% annually over the forecast will outperform the PPR Euro average by 60 basis points.

Economic Trends

CATEGORY	2006		ANNUAL GROWTH RATES			
	METRO	EU 15	1996-2005		2006-2010	
			METRO	EU 15	METRO	EU 15
POPULATION (THOUSANDS)	1,215	386,269	0.7%	0.3%	0.5%	0.2%
GDP (MILLIONS OF 2000Q2 EUROS)	43,573	8,796,970	2.6%	2.1%	2.3%	1.9%
GDP PER CAPITA (IN 2000Q2 EUROS)	35,867	22,774	1.9%	1.7%	1.8%	1.7%
CE INDUSTRY CATEGORY	2006		ANNUAL GROWTH RATES			
	EMPLOYMENT (000s)	LOCATION QUOTIENT	1996-2005		2006-2010	
			METRO	EU 15	METRO	EU 15
CONSTRUCTION	20	0.42	0.0%	0.5%	0.8%	0.3%
MANUFACTURING	32	0.34	-3.4%	-0.8%	-0.1%	-0.6%
AGRICULTURE AND NATURAL RESOURCES	10	0.22	-2.1%	-1.3%	-2.1%	-1.2%
WHOLESALE AND RETAIL SALES	91	0.88	-0.0%	1.1%	1.7%	0.9%
TRANSPORT AND COMMUNICATION SERVICES	57	1.38	1.1%	0.7%	2.6%	2.2%
FINANCIAL ACTIVITIES	38	1.75	3.4%	0.6%	8.8%	0.8%
LEISURE AND HOSPITALITY	15	0.45	1.1%	2.3%	-0.6%	1.6%
OTHER MARKET SERVICES	182	1.87	4.2%	4.1%	1.2%	1.2%
NON MARKET SERVICES	233	1.20	2.9%	1.3%	1.2%	0.5%
TOTAL EMPLOYMENT	678	1.00	2.0%	1.0%	1.7%	0.6%
OFFICE-USING EMPLOYMENT	336	1.65	3.8%	2.1%	2.0%	0.8%

- **Amsterdam's economy is recovering**, with employment growth of 1% year-over-year at the end of the first quarter. Employment in the telecommunications and financial sectors has finally kicked into gear. Strong growth in these heavy office-using sectors has resulted in a healthy 1.5% office-using employment growth year-over-year in the first quarter.
- **Amsterdam is benefiting from a strong recovery of the national economy.** The Dutch economy is moving towards a period of much stronger growth. Indeed, GDP was up by 2.1% in the first quarter of 2006, much stronger than the year-earlier number, per the Economist Intelligence Unit. Business and (finally) consumer spending is growing at a healthy pace, and exports are up with a very strong 7%, per Economy.com. Amsterdam is in a relatively strong position to take advantage of the national growth since it is the commercial capital, with its large presence of (global) financial and business services industries.
- **Amsterdam is a highly service-oriented economy, as about 90% of the work force is employed in services.**

Financial employment is well represented, with 5% of total employment, compared to the EU15 of 3%. Some of the world's leading banks have a substantial presence in Amsterdam, including ABN AMRO, ING, Fortis, and DNB. The high location quotient of transport and communication services reflects the concentration of IT firms in Amsterdam. Cisco Systems has its European headquarters here, and BT Ignite, UPC, and KPN also have significant presences.

- **Four Global Fortune 500 companies call Amsterdam home.** Financial services giants ING Group and ABN AMRO, electronics conglomerate Royal Phillips, and food retailer Royal Ahold have headquarters in the Dutch capital.
- **Amsterdam's economic prospects are favorable.** With a healthy recovery of the Dutch economy and job growth finally kicking into gear, Amsterdam is expected to benefit from the upswing of the recovery cycle. As a result, office-using employment growth will average 2% annually over the forecast, a stellar 1.2 percentage points above the EU 15 average.

Current Economic Indicators

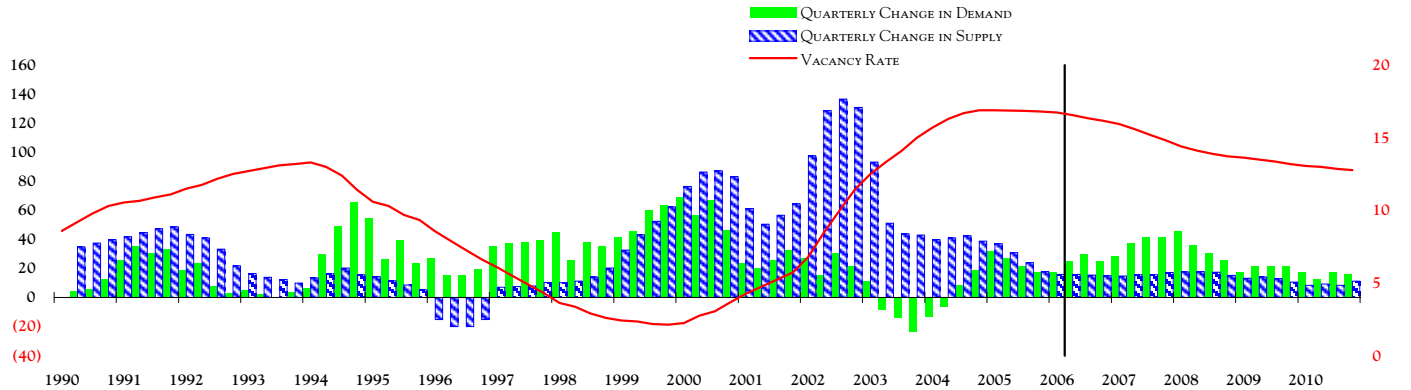
EMPLOYMENT GROWTH 3/06	INFLATION RATE 3/06	UNEMPLOYMENT RATE 3/06	THREE MONTH TREASURY BILL RATE	TEN YEAR BOND RATE
1.0%	1.2%	7.3%	3.0%	3.9%

SOURCES: CAMBRIDGE ECONOMETRICS EUROPEAN REGIONAL PROSPECTS, ECONOMY.COM, THE ECONOMIST AND PPR

Supply, Demand, and Vacancy

	METRO	PPREURO		METRO	PPREURO		METRO	PPREURO
VACANCY PEAK	16.9%	9.5%	VACANCY TROUGH	2.1%	3.2%	CURRENT VACANCY	16.7%	9.0%
DATE	2004:4	2004:4	DATE	1999:4	2000:4	MEAN VACANCY 2006-10	14.4%	8.2%

DEMAND & SUPPLY (000 SM)



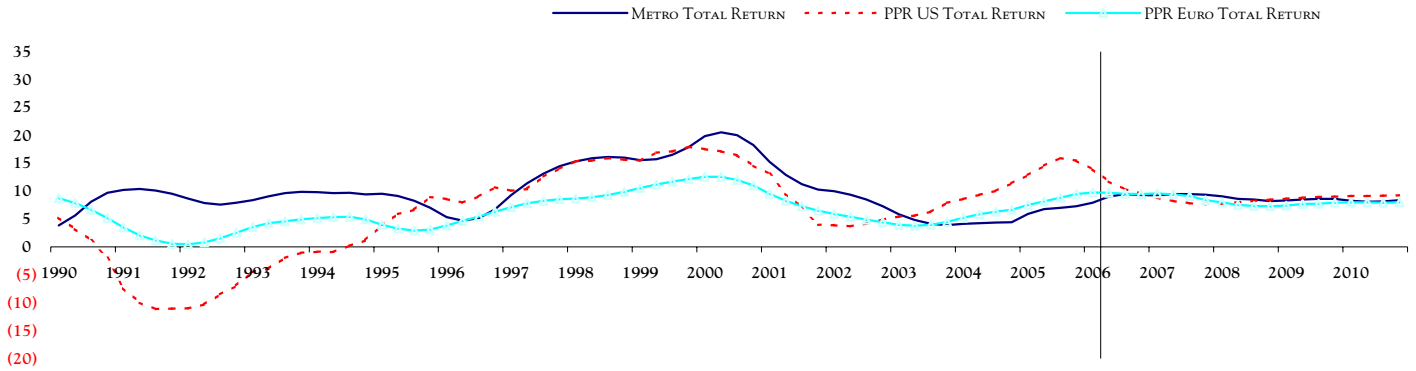
	HISTORICAL			FORECAST		
	METRO	PPREURO	PPRUS	METRO	PPREURO	PPRUS
ANNUAL SUPPLY GROWTH	2.6%	2.1%	1.6%	0.8%	1.2%	1.3%
IN THOUSANDS OF SQUARE METERS	149	3,770	7,646	55	2,652	7,438
ANNUAL DEMAND GROWTH	2.0%	1.8%	1.7%	1.8%	1.5%	1.8%
IN THOUSANDS OF SQUARE METERS	101	2,912	6,775	108	3,071	8,174

- **Amsterdam’s vacancy rate has finally peaked but is still traveling near its historically high level.** After its peak in the end of 2004 (16.9%), vacancies have come down a marginal 20 basis points and currently stand at 16.7%. The vacancy rate is expected to fall more rapidly in the remainder of the forecast and end an approximate four percentage points below its current level. Net absorption is gaining some momentum, with a little pop in 2007–08, and completions finally tapered last year. Despite the recovery, much damage has been done and it will take years to absorb the surplus capacity and restore the market balance. The metro is still struggling with an extremely high vacancy level, in historical perspective, but it is also one of the highest vacancy rates in Europe.
- **Amsterdam is highly exposed to the IT and financial activities sectors, and these are finally leasing again.** From 1998 to 2002, IT companies accounted for 22% of all leasing activity, with financial firms driving a further 19%, per DRO, so they were two important sources of demand that dried up with the global slowdown. Now that job growth in these two sectors has returned, office demand is picking up. Furthermore, tenants in these two sectors, in particular, are exploiting the softer market environment to secure more (and often nicer) expansion space at lower lease rates. As a result of their renewed activity in the leasing market, **take-up (space leased or purchased for occupancy) in the first quarter was the highest in five years, at 124,000 SM** (per Boer Hartog Hoofdt). Dell leased 11,000 SM in the Sloterdijk area, and British Telecom took 17,000 SM in the Southeast submarket.
- **Construction will remain in check over the forecast.** Amsterdam’s developers were badly burned during the recession, as deliveries peaked just when demand collapsed amid the tech bust. Since then, builders have been cautious about moving forward with new projects. In addition, the local planning authorities recently decided that no land would

- be made available for office developments in the near future. Since most land in Amsterdam is in the hands of the local government, many developments will be effectively blocked. Some major projects will still be completed during the forecast period, but they are mostly build-to-suits. Large build-to-suit projects currently underway include the 30,000 SM Ernst & Young building in South Axis, and the 24,000 SM Court of Justice building in the new Oosterdokseiland area in the City Center. There is next to no speculative development in the pipeline, and if there is, builders will not commence with the construction until the project is at least 70% leased.
- **South Axis is the submarket with the highest international appeal** due to its proximity to Schiphol Airport, accessibility, and modern large-scale office product. Two Global Fortune 500 companies already call this location home — ING Group and ABN AMRO. In 2006, most completions in Amsterdam will take place in this submarket, with about 40,000 SM completing at the Drentepark (Ernst & Young building) and Mahler 4 projects. While many developers want to build here and have plans to do so, strict planning requirements regarding the phasing and timing of projects limit the risk of oversupply.
- **The other submarkets, which are mostly on the A10 ring highway, suffer from much higher vacancy rates than do the City Center and South Axis.** The Southeast submarket has been struggling with the highest vacancy rate in recent years, but it is expected to recover due to the strong presence of IT and financial services companies. In the first quarter, British Telecom leased 17,000 SM in the Mercurius & Minerva buildings on the Herikerbergweg.
- Improving demand in concert with a notable reduction in new construction will lead to a notable turnaround, but **vacancies will end the forecast at “just” about 13%, well above the historical average of 9.3%.** This will cap rent growth, but it should also reduce the willingness of developers to start building.

Metro vs. PPR54 Derived Market Return

ANNUAL TOTAL RETURN (%)



Index Values, 4th Quarter, 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
TOTAL RETURN	9.7%	9.5%	8.0%	9.9%	9.4%	7.0%	6.7%	14.5%	16.0%	17.9%
PRIME RENT (EUROS/SM/YEAR)	209	199	198	190	191	213	238	248	287	310
AVERAGE RENT (EUROS/SM/YEAR)	157	148	141	139	136	137	139	142	156	165
PERCENTAGE CHANGE FROM PRIOR YEAR										
CAPITAL VALUE INDEX		1.1%	-0.2%	2.0%	1.5%	-0.4%	-0.4%	6.3%	8.0%	10.4%
NOI INDEX			-2.0%	-4.1%	3.5%	-5.8%	-4.2%	14.6%	4.5%	0.5%
NOI YIELD INDEX			-1.8%	-5.9%	2.0%	-5.4%	-3.8%	7.8%	-3.2%	-9.0%
NOMINAL PRIME RENT GROWTH		-4.7%	-0.5%	-4.0%	0.3%	11.6%	12.1%	4.1%	15.6%	8.3%
NOMINAL AVERAGE RENT GROWTH		-6.2%	-4.5%	-1.0%	-2.3%	0.8%	1.4%	2.3%	9.2%	6.3%

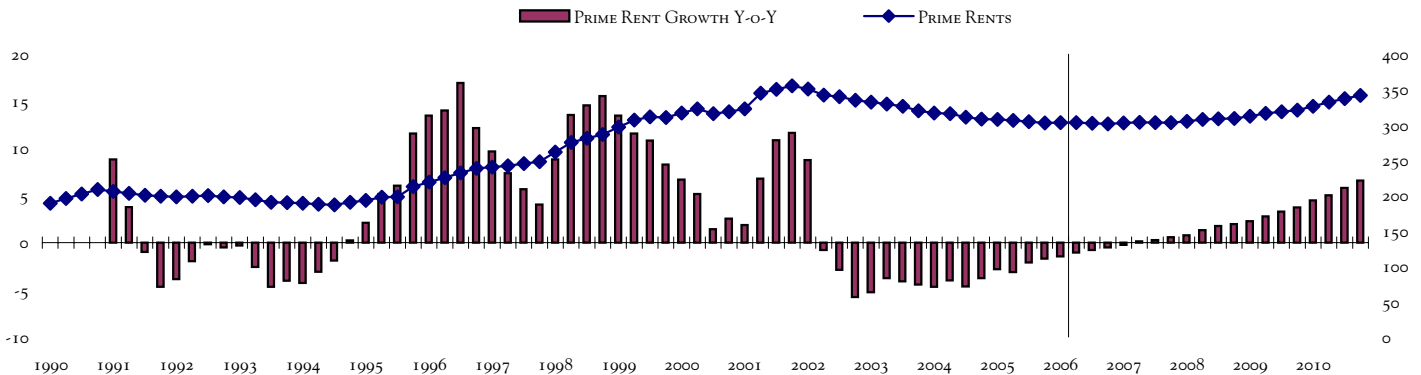
Index Values, 4th Quarter, 2000-2010

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
TOTAL RETURN	18.3%	10.3%	7.3%	3.9%	4.4%	7.3%	9.3%	9.3%	8.2%	8.6%	8.4%
PRIME RENT (EUROS/SM/YEAR)	318	355	335	320	308	303	301	303	309	321	342
AVERAGE RENT (EUROS/SM/YEAR)	183	193	196	192	190	189	190	192	195	199	204
PERCENTAGE CHANGE FROM PRIOR YEAR											
CAPITAL VALUE INDEX	11.0%	3.2%	0.2%	-3.1%	-2.4%	0.7%	2.9%	3.0%	1.9%	2.3%	2.1%
NOI INDEX	6.8%	9.1%	3.0%	-0.9%	-6.4%	-4.2%	-2.8%	0.9%	2.6%	2.3%	2.4%
NOI YIELD INDEX	-3.8%	5.7%	2.8%	2.3%	-4.2%	-4.9%	-5.5%	-2.0%	0.6%	0.0%	0.3%
NOMINAL PRIME RENT GROWTH	2.6%	11.6%	-5.8%	-4.4%	-3.8%	-1.7%	-0.5%	0.6%	2.0%	3.8%	6.6%
NOMINAL AVERAGE RENT GROWTH	10.6%	5.3%	1.9%	-2.3%	-0.9%	-0.4%	0.2%	1.4%	1.5%	2.1%	2.3%

Prime Rents

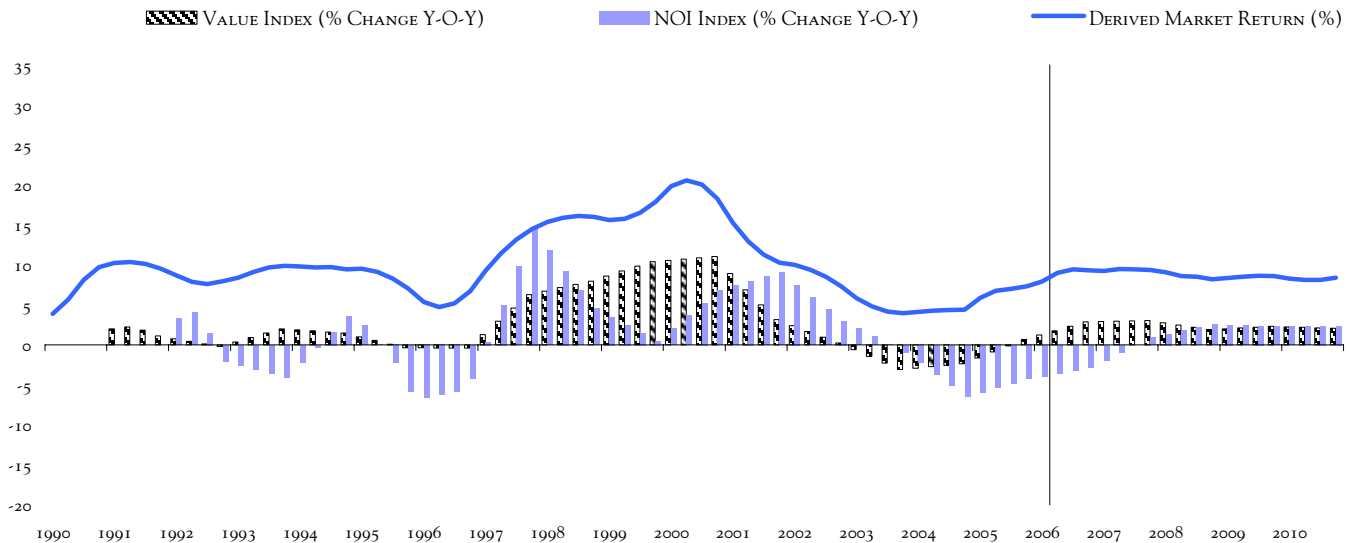
CHANGE Y-O-Y (%)

EUROS/SM/YEAR



SOURCES: IPD AND PPR

DMR, Capital Value and NOI Indices



	METRO	PPR _{Euro}	PPR _{US}
AVERAGE ANNUAL FORECAST RETURN (%)	8.8	8.2	8.7
HISTORICAL VOLATILITY (%), 1990 TO PRESENT	4.4	6.9	8.5
FORECAST RETURN PER UNIT OF RISK	2.0	1.2	1.0
AVERAGE ANNUAL CV CHANGE (%)	2.4	2.9	1.7
AVERAGE ANNUAL NOI CHANGE (%)	1.0	3.2	4.1

RECENT TRANSACTIONS
 Nordkapital acquired an 11,000 SM office building on the Transformatorweg for €30 million, at a gross initial yield of 6.7%.
 Het Oosten, in combination with Vesteda, bought the ABN AMRO building in the Vijzelstraat for €23 million in a sale & leaseback deal.

- **Total returns are firming but investors should not expect any of the double-digit returns seen recently in other PPR Euro markets.** NOI growth will be weak, and value growth is limited despite relatively high current yields.
- Amsterdam's current vacancy rate is far above its equilibrium rate of 5% to 7%, keeping a firm lid on rent growth. **Despite falling vacancies, rents will not bottom out until mid-2007.** Incentives remain strong and these need to burn off first before rent growth is back again, for the first time since 2001. Older properties will be particularly hard-pressed to eke out rental gains, and some may be refurbished or converted to residential use. Average annual prime rent growth during the forecast period is 1.9%, which will not keep up with inflation.
- **Landlords will have to sit through a few years of declining cash flows.** Rents have fallen 15% from their 2001-peak, and many of these leases are coming up for renewal. With rents not bottoming out until mid-2007, accelerating occupancy gains will lead to a NOI recovery in the second half of the forecast.
- **Amsterdam is one of the few PPR Euro markets where office sales are slowing down.** In 2005, office investment totaled €429 million, down 61% from its 2004 level, per

- Jones Lang LaSalle. This is the lowest transaction volume in the last four years. German investors remain the most active players in the market.
- **Yields have not compressed as much as in most other European cities,** and Amsterdam has one of the highest initial yields among all PPR Euro markets. Despite rising interest rates, **yields have more room to fall** and will continue to compress for another few years. Yield compression will continue to be a prop for value growth. Amsterdam is one of the few PPR Euro cities where value growth actually will derive from yield compression, rather than healthy NOI growth.
- Amsterdam has traditionally been a low-volatility market. Due to the tech bust, cyclical behavior of financial markets, and an unrivaled construction boom, its risk profile has increased. However, **a limited supply pipeline combined with a diversified economic base should moderate risk over the forecast period.**
- While NOIs will be hamstrung by weak rental growth, **total returns averaging 8.8% annually over the forecast will outperform the PPR Euro index (8.2%), courtesy of the metro's higher yields and stronger expected value appreciation.**

Amsterdam DMR Relative to Other European Office Markets



SOURCES: IPD AND PPR