

Risk awareness growing among Europe's property investors

Legal risks of major importance for investment decisions / Risk management as a competitive factor

European property investors have changed their attitude to risk very significantly over the past few years. Real estate professionals are now focusing even more on risk compared to 2006, with active risk management being seen as a key competitive factor. That's the outcome of a follow-up study on "Property Investment in Europe 2007" by Union Investment which included examining the risk attitudes of 161 property companies and institutional real estate investors in Germany, France and the UK.

Despite currently displaying a strong preference for returns over safety, investors are also evincing a growing risk awareness, which is clearly reflected by their general ranking of risk and their assessment of specific risk types. 93% of investors interviewed in Germany see themselves as very risk aware, with the comparative figure for the UK being 96%, against just over 60% in France. "Assessing risks is increasingly becoming an integral part of the investment decision process," says Dr. Reinhard Kutscher, chairman of the Management Board of Union Investment Real Estate AG. Risk awareness among German investors has risen particularly sharply, according to the study. Last year, 65% of this group of respondents rated property investment risks as a given, a value that has since climbed by 16 percentage points to 81%. By contrast, 91% of British real estate investors and only 52% of their

French counterparts consciously accept general property investment risk.

With regard to specific risks, those associated with debt financing and letting play a particularly important role: Rent default represents an important risk element for 68% of those interviewed, while lease expirations play a special role in risk management for 52% of investors. 84% of British investors pay particular attention to the creditworthiness of their tenants, a higher figure than in the other countries. "In addition to conventional property and capital market risks, additional aspects are emerging to which significantly less importance was attached in the past. Doubtless as a result of the increasingly global nature of the property investment business, legal risk is becoming more important," says Dr. Kutscher. The study shows that 64% of European investors are particularly concerned about contractual and liability risks, the risk of lawsuits, as well as legal and tax-related structural risks. Kutscher: "It is therefore to be expected that analysing, managing and protecting against legal risks will assume much greater importance in the risk management systems used by real estate asset managers." Indeed, they may also become a competitive factor: 57% of the surveyed investors feel that risk management expertise is set to become a core criterion when selecting a real estate asset manager.

Extracts from the study will be available for download at www.union-investment.com/realestate from mid-December.

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