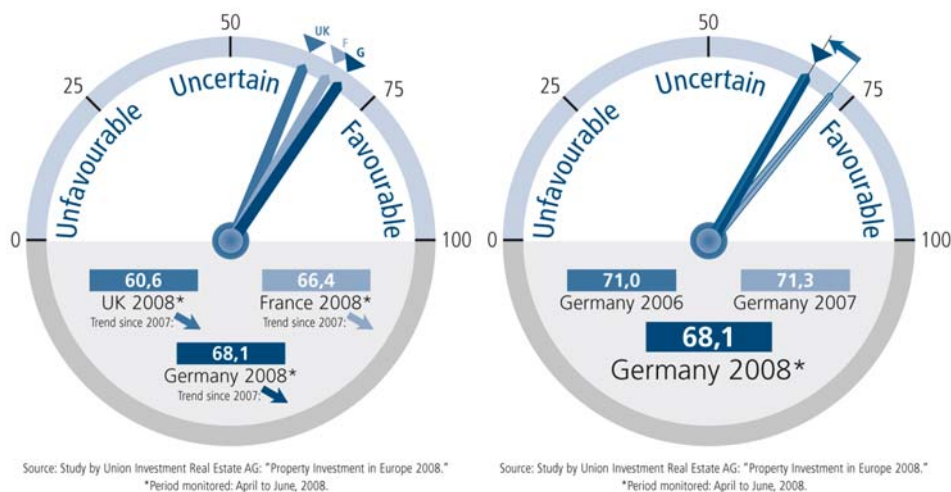


## European property investors increasingly pessimistic

**Investment Climate Index falls in the three major European economies / Marked differences between countries / Investment focus shifts back to core markets**



Pessimism among European property investors has deepened since autumn 2007 in the wake of the global financial crisis. Union Investment's Investment Climate Index, which is updated every six months, has fallen slightly in Germany and France to 68.1 points (autumn 2007: 71.3) and 66.4 (69.3) respectively. The UK saw a sharper drop to 60.6 points (65.4). On a scale of 0 to 100, 75 marks the point at which an "uncertain" investment climate becomes "favourable".

The fall in the index reflects the low expectations of property professionals in their respective countries on two counts: the overall economic situation, and the likelihood of a swift recovery from the subprime crisis. Accordingly,

the “expectation” indicator has plummeted in the three major European economies since autumn 2007. The indicator declined in Germany by around 11 points to 67.4, and dropped by over 17 points in France to 49.8. In the UK, which has been harder hit by the effects of the credit crunch than its European counterparts, there was a fall of almost 9 points to 40.6 – the lowest value since the index was launched in 2005.

Moreover, some property investors believe the worst is yet to come: around 44% of UK investors think that the immediate repercussions of the liquidity crisis will only be fully felt in their country over the next six months to two years. “Sentiment towards the UK property market remains weak,” says Dr. Reinhard Kutscher, Chairman of the Management Board of Union Investment Real Estate AG. A significant proportion of British investors (36%) expect the investment climate for office properties to deteriorate in the coming 12 months, compared to 28% of respondents who anticipate a short-term improvement.

### **Sentiment still strong in Germany**

In contrast, the mood among German property investors is more confident, with 43% of those questioned intending to invest (significantly) more in real estate compared to the previous year. Only 8% plan to reduce their investments in 2008, against 24% and 45% in the UK and France respectively.

Although almost one in two (47%) German investors expect the liquidity crisis to have a negative short-term effect on the country’s property investment climate, the greater threat is perceived to come from general economic trends (62%). “The subprime crisis has yet to impact the markets in Germany in terms of price adjustments or funding constraints the way it has in the UK. The upbeat assessment by German property investors of

their own prospects means they are not unduly concerned about the storm clouds gathering on the horizon – for the time being, at least,” says Kutscher. When it comes to making investment decisions, credit terms and the general liquidity situation are of far greater importance to UK property investors than their German counterparts.

### **Adapting investment strategy in the wake of the financial crisis**

Although the impact of the crisis in the financial markets has varied significantly from region to region, property investors in all three countries have generally responded by adapting their strategies to the changing situation in the capital and real estate markets. Nearly 60% of all respondents revealed that they had switched their investment focus back to established core markets as a result of the subprime crisis. Some 45% have made their existing risk management systems more robust, while 35% have responded to the financial crisis by putting new risk management systems in place.

British investors have evidently been quick to adapt to the situation, with 88% of the property experts questioned revealing that they have modified their investment strategy. Conversely, German investors seem to have adopted a “wait and see” approach, with only 60% feeling compelled by the crisis to change track. “Germany’s stable economy and the sustained confidence of foreign investors in the success of our real estate market have ensured that the change of sentiment now being registered here is less dramatic than in other countries,” says Kutscher. “Events over the next six months will show whether sentiment in spring 2008 was driven by wishful thinking or based on a realistic assessment.”

**About the Union Investment survey**

Union Investment launched its Investment Climate Index of European property investors in 2005. Now calculated every six months, the index is based on four indicators: market structure, the general environment, location factors and expectations, each with a weighting of 25%. For the spring 2008 index, market research institute Synovate conducted 30-minute telephone interviews with some 100 property companies and institutional real estate investors in Germany, France and the UK. Further findings of the follow-up study "Property Investment in Europe" are available from Union Investment:

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