

Investor survey:**The search for growth: Germany and Poland seen as winners of the debt crisis**

- European property investors expect “long period of uncertainty”
- High degree of confidence in the German property market
- Investment Climate Index falls

The debt crisis in Europe is turning into a stress test for European property markets – and forcing investors to recalibrate their investment strategies. Germany in particular should benefit from increased risk aversion. Investors have greater confidence in Germany’s resilience to the impact of the euro crisis on the domestic property market than any other country.

That is the conclusion of the latest investment climate study conducted by Union Investment, which surveyed 167 property investors in Germany, France and the UK. The survey showed that one in every two investors (49 per cent) is convinced that the German property market will actually emerge stronger from the current cycle. Just 3 per cent of European investment professionals believe that the euro crisis will result in a significant weakening of the German market. The popular consensus is that only a few other countries will likewise survive the “debt crisis stress test”. 38 per cent of those surveyed believe that the Polish market will come out stronger, with lower figures recorded for Turkey (31 per cent), Sweden (29 per cent) and Switzerland (25 per cent). In contrast, the survey showed a broad spread of expectations with regard to property markets in France, the UK and the Netherlands. Equal numbers of investors believe these markets will be

strengthened or experience further weakening in the current cycle. When it comes to the countries on the southern periphery – particularly Portugal and Spain, with investors regarding the latter as the riskiest market over the next two to three years – investors believe the debt crisis will hit local investment markets particularly hard. “The growing divide between stable markets in northern Europe and the weaker countries in the south is being further exacerbated by the debt crisis. But the uncertainty is also weighing down markets that are currently still in good health,” says Olaf Janssen, head of property research at Union Investment Real Estate GmbH, Hamburg.

Investors face the need for more capital

When asked about the medium to long-term impact of the debt crisis, a clear majority (78 per cent) of investors expect a “long period of uncertainty in all European property markets”. In this context, 90 per cent are expecting a “stronger focus of investment on stable markets in northern Europe” and – correspondingly – a “growing north-south divide”. An equally emphatic majority (88 per cent) anticipate higher “capital requirements for investors”. Respondents in France demonstrated above-average belief in the risk of a “new credit crunch” (86 per cent, compared to 72 per cent overall) and “rising taxes” (100 per cent, as against 77 per cent across all respondents). Meanwhile, a total of 68 per cent of those surveyed feel that the demand for “opportunistic investment” will rise in the course of the debt crisis, with just 39 per cent believing a “Europe-wide recession” is a likely scenario. “Even if parts of the European property market remain partially unaffected by the turbulence, significantly lower investor expectations will lead to a reduced volume of transactions in Europe in 2012 compared to the previous year,” says Janssen. This view is shared by the majority of the participants in the survey: 57 per cent of investors expect a “decline in cross-border property transactions in Europe” as a short to medium-term consequence of the debt

crisis. While it is hardly surprising that investors are expected to focus increasingly on core products (87 per cent agreement), the results of the survey do not indicate that any usage category will be a particular beneficiary of the euro crisis. Only 31 per cent of the surveyed investors expect “increasing demand for retail properties” as a result of the debt crisis.

Reduced expectations trigger fall in climate index

As the survey shows, the property investment climate in the three major European economies deteriorated to different extents over the last six months. Union Investment’s Investment Climate Index dropped in all three regions, with the reaction in France being particularly noticeable, down 7.7 points since the last survey in summer 2011. In the UK (-5.3 points) and Germany (-4.6 points), the decline in the national indices was not quite as pronounced.

The national index of 67.7 points recorded for Germany continues to be significantly above the values for the UK (62.9 points) and France (60.2 points). However, after a consistently positive trend in Germany since 2009, the index has now passed its peak here as well. “Although momentum has slowed, the German property market remains in good shape. But Germany isn’t an island – the turmoil caused by the euro crisis has contributed to many German investors lowering their expectations and approaching the next twelve months with due caution,” comments Janssen.

Investors looking for security

The economic uncertainty in large parts of Europe has also influenced the investment motives of European property investors. For 55 per cent of German property investors, “security” is now the most important investment

motive, with “return” (28 per cent) and “liquidity” lagging well behind. Six months ago, security was the principal factor for 33 per cent of German investors when taking an investment decision, with “return” the main motive for 43 per cent. Traditionally security-oriented German investors thus still value security much more highly than their counterparts in France (32 per cent) and the UK (9 per cent). UK investors continue to regard “return” as the key investment factor, chosen by a surprising 84 per cent of respondents, even in a tough economic environment.

About the Union Investment survey:

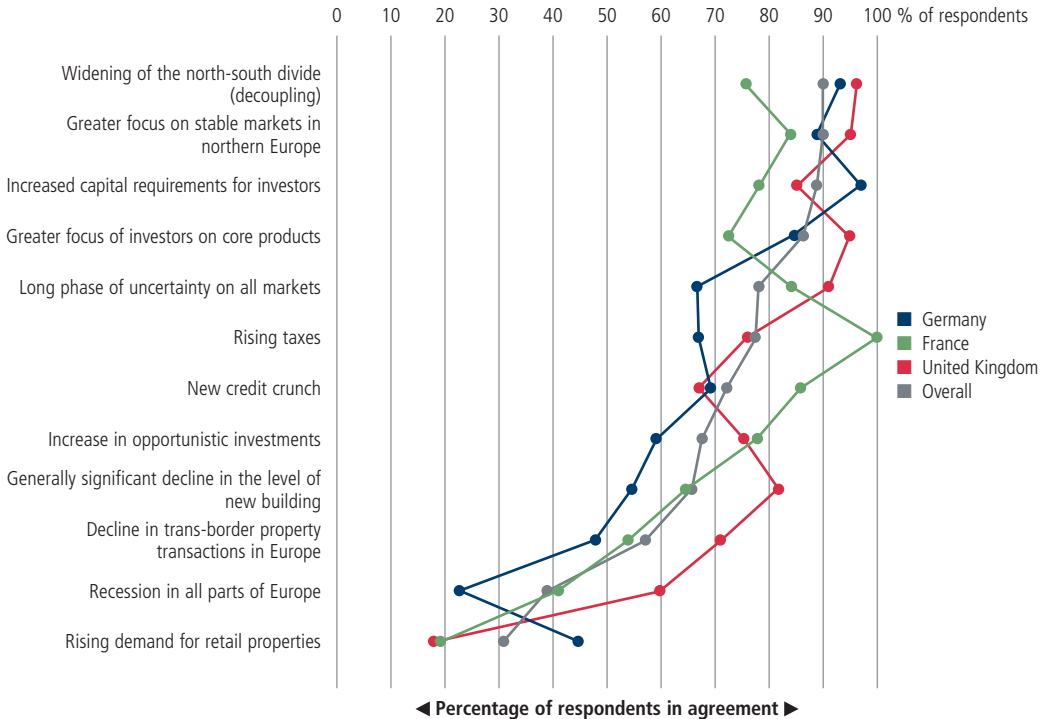
Union Investment launched its Investment Climate Index of European property investors in 2005, with the survey taking place at six-month intervals since spring 2008. The index is based on four indicators: market structure, the general environment, location factors, and expectations, each with a weighting of 25 per cent. For the index, market research institute Ipsos conducted 20-minute telephone interviews between December 2011 and January 2012 with 167 representative property companies and institutional real estate investors in Germany, France and the UK.

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The divided market: Investors expect a wider north-south divide in Europe

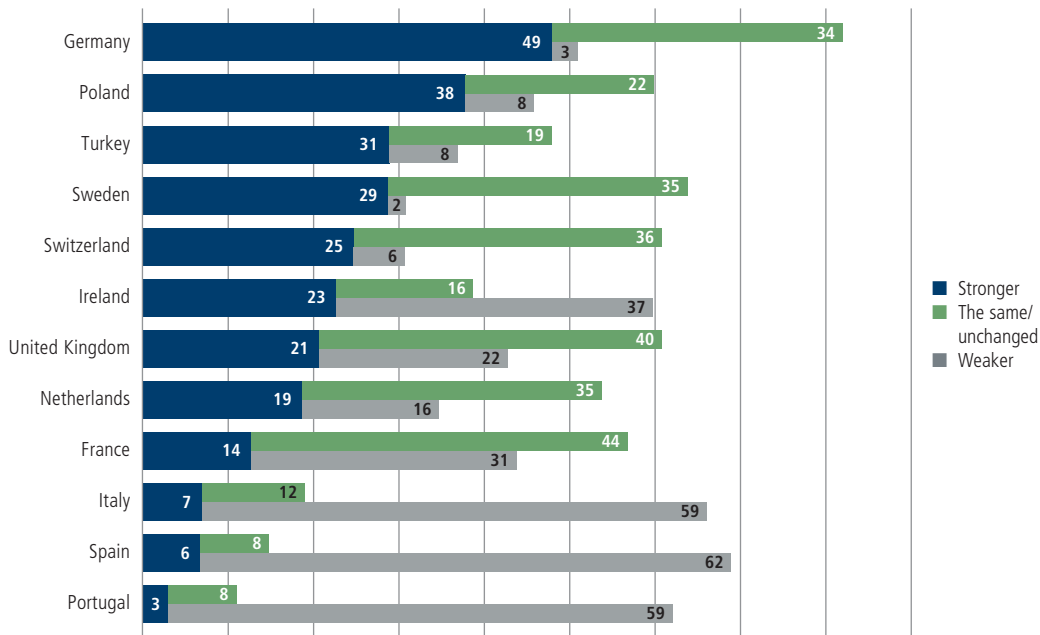
Impacts of the debt crisis on European property markets



Question: "What impacts will the debt crisis have on the European property markets?"

Source: Union Investment, investment climate study 2nd wave 2011. Survey of 167 property investors in Germany, France and the United Kingdom.

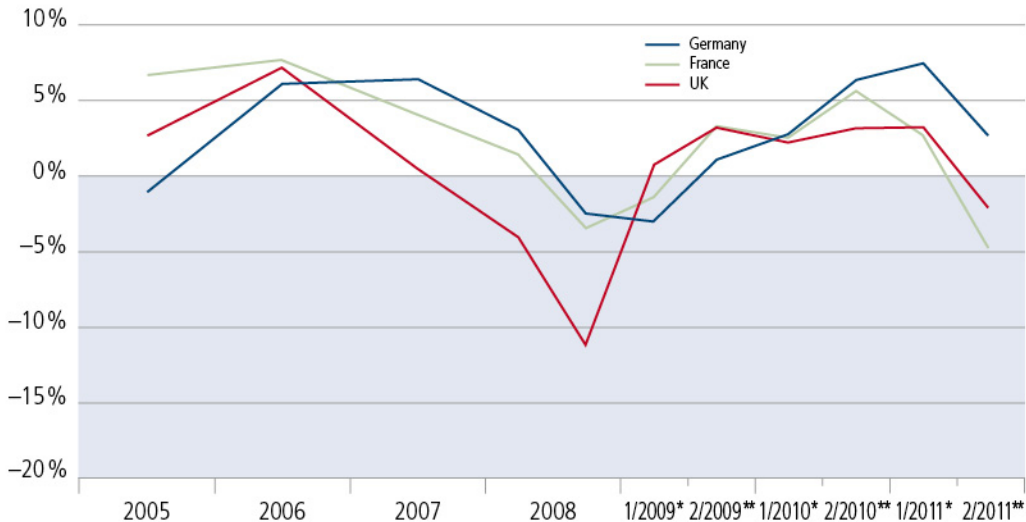
Investor survey: Germany and Poland come out on top in “debt crisis stress test”



Question: “Which of the following European property markets will emerge stronger from the current cycle, which will emerge (even) weaker, and which will remain unchanged?”

Source: Union Investment, investment climate study 2nd wave 2011. Survey of 167 property investors in Germany, France and the United Kingdom.

Property investment climate



Source: Study by Union Investment Real Estate GmbH: "Property Investment in Europe 2011."

*Period monitored: Summer. **Period monitored: Winter.