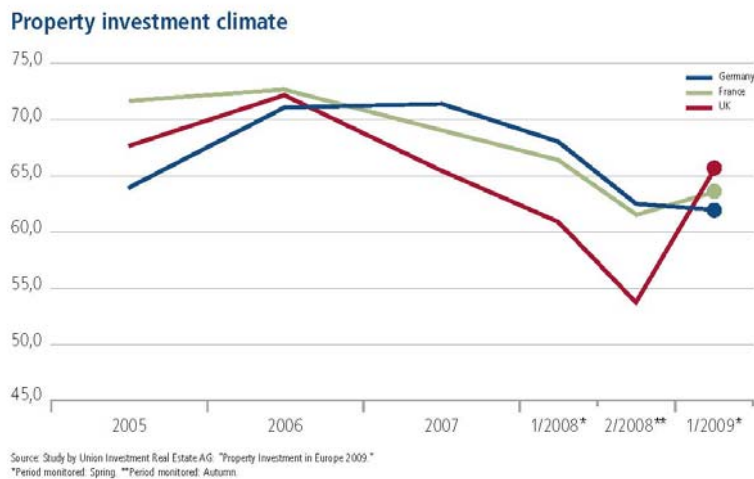


## Investment climate: growing confidence among European property investors suggests the worst is over

Sharp rise in Investment Climate Index in UK – signs that market is also bottoming out in Germany and France



After a significant deterioration in sentiment in the second half of 2008, European property investors now appear to have largely put the gloom behind them. Union Investment's Investment Climate Index rose for the first time since autumn 2006 in France and the UK, reflecting growing confidence among investors in those countries with regard to both their own business prospects and the state of the property market in general. Although changes in the index were broadly similar in the three core markets surveyed, analysis of individual values reveals clear differences that highlight the UK's traditional role

as trendsetter. “The sharp rise in the UK by 12 points to 65.5 points – the biggest movement we have recorded over the past four years – suggests that the savage correction in London is beginning to tempt British investors back into the market,” says Olaf Janßen, head of property research at Union Investment.

In contrast to the positive trend across all UK indicators, the survey responses from German and French property professionals indicate that the decline in these markets over the past year has at best been halted. After last year’s major drop, the climate index in Germany moved sideways and currently stands at 62.1 points. In France, there was a slight increase in the index, which rose 1.8 points to 63.4. Despite the positive trend, national indices remain at a low level overall, with sentiment being conspicuously more volatile in the UK. This suggests that the investment climate in Western Europe will remain subdued for a while yet.

### **Expectations drive Investment Climate Index**

The positive performance of the Property Climate Index in all markets was mainly driven by an increase in the “expectation” indicator, which was particularly marked in the UK, where it climbed 19.6 points to 57.7. The majority of UK investors (63%) surveyed were very upbeat about their own prospects over the next 12 months. By contrast, the values for Germany and France were relatively low at 36% and 30% respectively. The optimistic expectations in the UK reflect the increased confidence of British investors about their home property

market. The overwhelming majority of UK respondents (87%) anticipate a significant rise in investment interest from abroad in the near future. In addition, 42% of professional investors in the UK plan to invest (significantly) more in property, compared to 21% in December 2008. This dynamic trend was mirrored in Germany and France, with increases of 23% and 18% respectively to 41% in each country. "This greater willingness to invest indicates that we will soon have turned the corner in terms of European transactions. Bit by bit, the brakes are coming off," comments Janßen.

### **Safety versus returns**

The Union Investment study reveals major regional discrepancies with regard to the core investment motives of property investors. As in 2008, German investors and to an even greater extent French property investors are again investing primarily with safety in mind, with only 29% and 28% respectively basing their decisions on anticipated returns. In stark contrast, 68% of UK investors indicated they were focusing on returns, compared to 18% seeking safety. "The greater emphasis on returns among British investors is a further indication that the UK turnaround represents a sustained trend. Germany and France lag the British market both here and in terms of investor expectations," says Janßen.

**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%. For the spring 2009 index, market research institute Synovate conducted 30-minute telephone interviews in April and May 2009 with 177 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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