

Real estate investment climate driven by wider economic conditions

- **Investment Climate Index for real estate reaches new all-time high in Germany**
- **Economic weakness undermining investor confidence in France and UK**

While the real estate investment climate in Germany continues to benefit from the feel-good factor generated by the ongoing recovery, economic weakness in France and the UK is taking its toll. The diverging moods among European property investors are reflected in Union Investment's Investment Climate Index, which responded in July with a new all-time high in Germany, a sideways movement in the UK and a surprisingly sharp decline in France. The differences in sentiment across the three most important European real estate markets are thus at their most pronounced for over three years. After the national indices displayed broadly similar trends in the period from 2008 to 2010, the spread between Germany on the one hand and France and UK on the other rose to over 4 points during the course of the year. This represents the greatest level of divergence since autumn 2008.

As confirmation of the buoyant economic situation, the location factors and general environment indicators rose particularly steeply in Germany and drove the national index to a new peak of 72.3 points (a

0.9 point increase over the last survey in December 2010). Meanwhile, weak economic data and government spending cuts sapped the confidence of investors in the UK. At 68.2 points (+0.1), the UK index failed to progress from the figure recorded at the start of the year. Overall, the forecasts from property professionals for the UK economy are significantly worse than in the other two countries, with only 8% of British investors surveyed anticipating an improvement over the next twelve months

Increasing scepticism among British investors

“Correspondingly, only 12% of British property investors expect a better general environment for office investment in the UK over the coming 12-month period. This is a strong indicator that confidence in the domestic markets has suffered and further strains are expected,” said Olaf Janssen, responsible for real estate research at Union Investment. This chimes with the fact that only around a third of British investors expect an increasing willingness to invest in UK markets over the next twelve months. Around 73% of German investors expect greater investment interest in their domestic markets, while the figure for France is also significantly higher at 49%. “The business climate has deteriorated in the UK in a range of sectors, particularly the service sector – which accounts for much of the demand for office space. Investors are responding accordingly in terms of investment decisions,” added Janssen. London and Paris are among the property markets most likely to display overheating tendencies over the next 24 months according to the investors surveyed.

Subdued mood in France

As the latest investment climate survey by Union Investment shows, the brief euphoria in France was interrupted even more abruptly than in the UK. A total of three of the four indicators slipped below 70 points. This was particularly noticeable with regard to the “expectations” rating, which fell by 7 whole points. “The reaction of the index, which recorded the biggest decrease since 2006, falling 2.7 points to 67.9 and dipping below the figure for the UK again, reflects the structural crisis affecting the French economy, which is most apparent in the country’s high budget deficit,” said Janssen. The reduced expectations in France match the subdued mood in the country: only half of the real estate companies surveyed take an optimistic view of their own business prospects over the next twelve months.

Sentiment in Germany and Great Britain is significantly more upbeat on this point, with 68% and 60% respectively of investment companies polled in July being positive about their outlook. French property professionals’ expectations that foreign investors will buy commercial real estate in France likewise declined significantly. Only 22% of the property experts surveyed in France anticipate increased cross-border investment in their country over the next twelve months. Here again, German respondents are considerably more optimistic regarding their market, with 79% expecting higher international demand for real estate. The equivalent value for the UK is 36%.

Further increase in focus on returns in Germany and UK

Overall, around 66% of the 171 property companies surveyed rate their situation as better or significantly better than twelve months ago. Given the economic uncertainty, it is only logical that the proportion of companies planning to invest more this year than last year is nonetheless slightly below the value seen in December 2010 (57% vs. 63%). Meanwhile, the focus of investors on returns continued to increase when viewed across all three countries. "Returns" are now the most important investment motive for 50% of those polled (previously 48%), significantly outstripping "security" (30%) and "liquidity" (13%). However, there is again evidence of regional divergence: security (38%) was the main objective for more investors in France than six months ago (27%).

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 index, market research institute Ipsos conducted 20-minute telephone interviews in June and July 2011 with 171 representative property companies and institutional real estate investors in Germany, France and the UK.

Press contact

Union Investment Real Estate GmbH

Head of Real Estate Marketing, Communication

Fabian Hellbusch

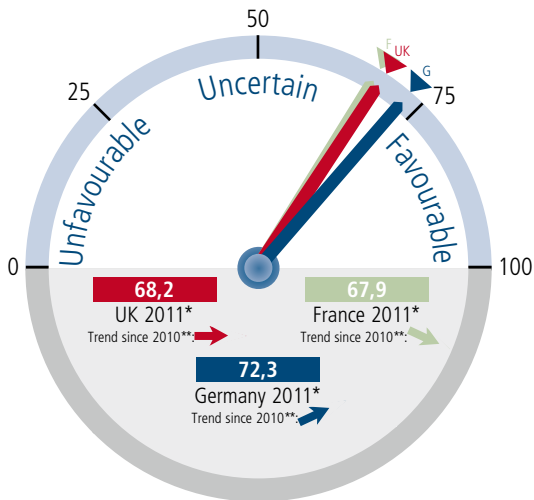
Caffamacherreihe 8

20355 Hamburg, Germany

Tel: +49 40 3491 94160, fax: +49 40 3491 95160

E-mail: fabian.hellbusch@union-investment.de

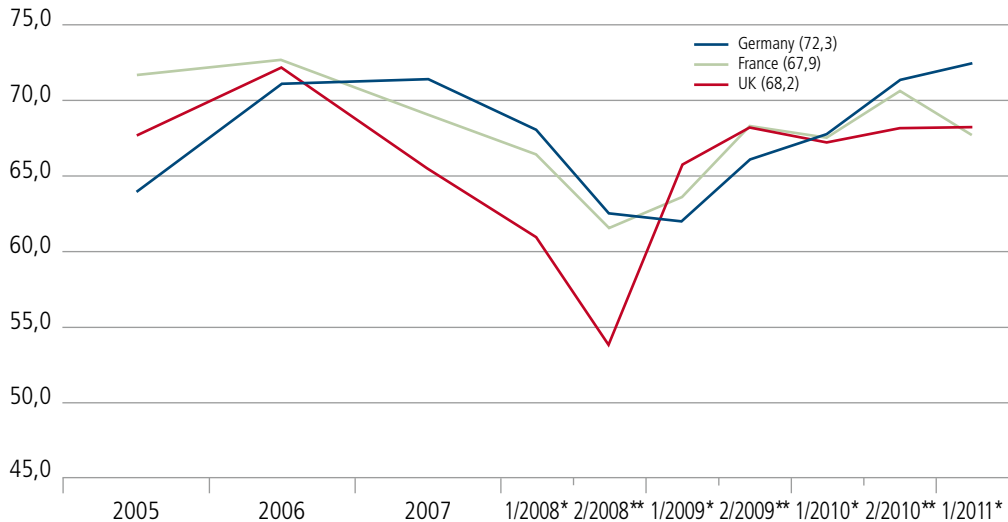
Internet: www.union-investment.com/realestate



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

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

Property investment climate



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

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