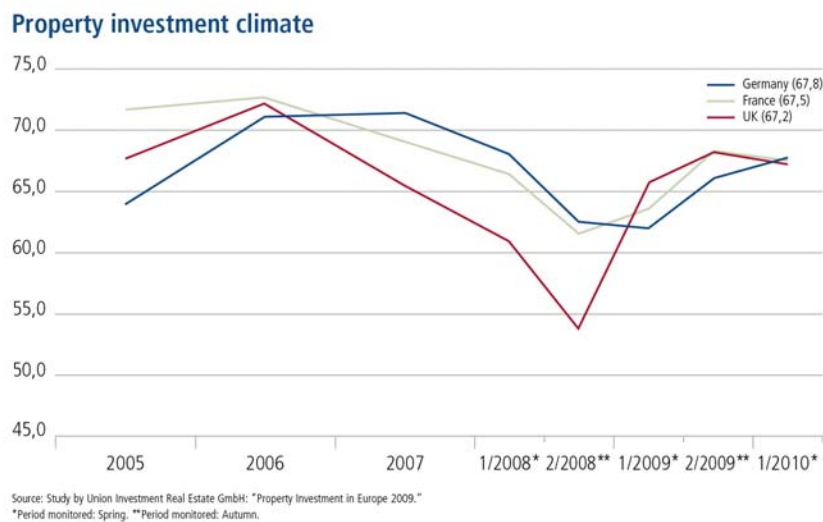


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Return to normality: confidence in the property markets stabilising

Union Investment's Investment Climate Index reveals upward trend in Germany / European real estate investors ready to take on more risk



Following the severe shocks triggered by the financial and economic crisis, the major European property investment markets are now picking up again. Conditions for real estate investment continued to stabilise in the first six months of the year, particularly in Germany but also in France and the UK. At the same time, a greater willingness to invest compared to the second half of 2009 means European transaction volumes in 2010 are expected to significantly exceed the

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prior-year total. Those are among the findings of fund management company Union Investment in its latest investment climate survey, which was conducted by market research institute Ipsos and involved 185 decision makers at property companies and institutional real estate investment companies in Germany, France and the UK.

Union Investment's Investment Climate Index, which tracks attitudes and expectations among European real estate professionals at six-month intervals, has moved up to 67.5 points, which is where the index stood in autumn 2009. "The index is approaching the previous all-time high of 68.7 points, recorded in 2007. This general upward trend is feeding off investor optimism in Germany. In Paris and London, the index is currently static at a high level," says Olaf Janssen, head of property research at Union Investment.

Sentiment towards real estate investment climbed from 66.1 to 67.8 points in Germany, reaching a higher value than the climate index in the other two major European economies for the first time since autumn 2008. The climate index fell slightly by 0.8 in France to 67.5 points and was down one point in the UK (67.2 points). "The recovery in Germany is proving surprisingly strong. It reflects a high level of investor confidence in the performance of the domestic market," says Janssen. Accordingly, a clear majority (58%) of German investors surveyed anticipate a significant rise in investment demand from abroad over the next twelve months, with 63% of German investors expecting the investment climate to continue improving over the same period.

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UK investors expect negative fall-out from the crisis in Greece

59% of French investors are similarly positive about the performance of their home market. By contrast, UK investors display a more sceptical attitude: only 34% believe that the climate for real estate investment in the UK will continue to improve in the short-term. 27% of British investors actually expect it to deteriorate. "Expectations of negative fall-out from the crisis in Greece are very pronounced among UK investors and this has affected the mood," comments Janssen. A substantial 71% of British investors expect the crisis in Greece to impact current transactions in Europe.

While UK and French investors remain cautious about the economic outlook (46% and 49% of respondents respectively expect the economic outlook in their country to worsen), the situation at company level was rated much more positively in all three countries than at the start of the year. 58% of respondents assume returns for their own company will improve. Companies say they have weathered the market turbulence well over the past twelve months. 81% of the real estate companies surveyed reported that performance was stable or had even improved over the past year.

Growing appetite for risk

"A significantly greater willingness to invest in all three countries suggests that investment activity is returning to normal," says Janssen. Compared to the previous year, 63% of real estate professionals indicated that investment volumes are set to rise, while

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fewer than 10% of respondents were expecting levels to fall. The fact that returns are increasingly important when making investment decisions is consistent with this picture. 46% of participants in the study cite “returns” as their key investment motive, compared to 42% for “security” and 10% for “liquidity”. “Investors are clearly willing to raise their risk exposure in exchange for higher returns,” explains Janssen. “This indicates a sustained revival in the European investment markets.”

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 2010 index, market research institute Ipsos conducted 20-minute telephone interviews in May and June 2010 with 185 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

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