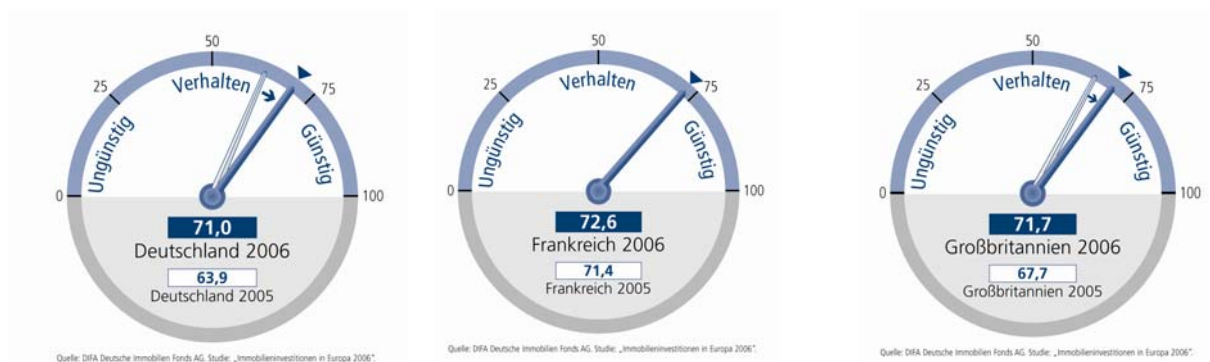


Property investors expect further improvement in the European investment climate

- **Greater optimism among European investors**
- **DIFA's Investment Climate Index shows strongest rise in Germany**
- **Investors see progress on transparency**
- **Regional divergence in level of transparency remains**



The environment for investment in European real estate has improved significantly according to institutional investors: The DIFA Investment Climate Index – which tracks trends, attitudes and expectations among European property investors – is up on 2005 in Germany, France and the UK, the countries covered by the index. The most significant development was recorded in Germany, where the index has risen strongly to 71.0 points and now indicates a more favourable investment climate. This represents an increase of more than 7 points over the previous year (63.9 points). In the UK the index likewise improved considerably to 71.7 points (2005: 67.7). Meanwhile, in France the increase was less marked at 72.6 points, although it was here that the best DIFA index value was recorded last year (71.4). In 2005, the index highlighted major differences between the three main European economies in terms of the investment behaviour, sentiment and expectations of real estate professionals. By contrast, in 2006 a trend towards convergence is evident: With index values of between 71 and 72.6 points, property investors in Germany, the UK and France are equally optimistic about the investment climate this year. “German investors appear to have overcome their scepticism and are increasingly interpreting market conditions in terms of opportunities. Germany’s overdue economic recovery is reflected in improved

sentiment,” comments DIFA Management Board member Ingo Hartlief with regard to the findings of the study, entitled “Property Investment in Europe 2006”. The associated DIFA Investment Climate Index is calculated annually, starting in 2005. For the 2006 index, Hamburg-based DIFA Deutsche Immobilien Fonds AG commissioned market research institute *Synovate* to interview a representative sample of 200 institutional property investors in Germany, France and the UK about the investment climate in their country, as well as their aims and expectations. The study included managers of open-ended/closed real estate funds, quoted property companies, Real Estate Investment Trusts (REITs), project developers, pension funds and insurers.

Greater willingness to invest over the next 12 months

The jump in the Investment Climate Index mirrors a more upbeat assessment of the economic situation and outlook by the vast majority of European property investors surveyed. Around three quarters (74%) of institutional investors in the three countries rate their own company’s performance as better or significantly better than the prior year. This optimistic mood among real estate investors is buoyed by the belief that the trend will continue: 71% are optimistic that their company’s performance will (significantly) improve over the next 12 months. This is the view of 67% of German property investors, 74% in the UK and 71% in France. The clearest indicator of a better investment climate in the three European investment markets is a conspicuous willingness to invest over the next year: Almost one in two property investors (46%) plan to invest more in property over the coming 12 months than in the previous year. In Germany, 41% are aiming to undertake more property investment, with French and British respondents coming in at 43% and a substantial 56% respectively.

“This greater willingness to invest indicates a major trend shift, given that we have already seen significant transaction volumes in the year to date,” comments Ingo Hartlief. For example, 45% of investors in the three countries included in the study believe that the industry’s general willingness to invest will increase (significantly) over the next 12 months. A further 38% expect no change here. Positive expectations are focused on the retail sector in particular: 38% of property investors expect a (significant) improvement in the climate for retail investment, while the figure for investment in office space is 30%.

When asked about the focus of investment for their companies over the next five years, 45% cited Western Europe, 20% Central and Eastern Europe, 8% Asia, and 4% North America. These responses point to a clear shift away from Western Europe – currently the focus of

property investment for 57% of interviewees – towards the CEE markets (up from 15% to 20%) and Asia (up from 3% to 8%).

German market expected to play a bigger role into the future

The DIFA study provides clear evidence that both domestic and foreign investors have revised their perception of the German real estate market. 54% of the property experts surveyed expect interest from foreign investors in German properties to continue to grow (significantly). At 61%, German investors are more optimistic about future investment demand for German properties than their French (55%) and British (37%) counterparts. When asked about the future importance of specific European countries as investment locations, 65% of interviewees confirmed that Germany would play a major role over the next few years. The future importance of the British property markets was rated similarly highly (64%), while 43% of investors believe that French markets will play a key role in the future. The comparative values of 70% and 77% respectively for Central/Eastern Europe and Asia illustrate how high expectations are with regard to these markets. The future role of North American markets was rated as important by considerably fewer investors (37%).

“In spite of ongoing perceived deficiencies in transparency, the German real estate market offers a good environment for foreign investors. The heightened interest of global investors in Germany will further accelerate the move towards greater transparency here. In addition to accurate market data, international investors expect things like reliable performance benchmarks,” adds Hartlief. Currently, just 26% of investors regard German property markets as offering a (sufficiently) high level of transparency; in contrast, the British market was rated as (very) transparent by 59% of respondents. Only 38% of investors agree that real estate market data in Germany is available in a generally accepted form. Just under half of the interviewees (48%) feel that market data in Germany is easily accessible. With regard to the transparency of European property markets, there was criticism of a lack of publication standards and standard performance indicators. The transparency of available property data is an important factor in investment decisions for 63% of the investors surveyed.

A total of 56% of property investors are convinced that only market participants can bring about transparency in property markets. “By standardising their annual reports and publishing additional figures on rental yields and expert valuations of individual properties, open-ended real estate funds have made an important contribution to simplifying investment in Germany for foreign investors. This has removed barriers to investment,” continues Hartlief. Accordingly, the

market transparency of open-ended real estate funds is rated positively by market players: 33% of institutional property investors describe the asset class as having a (very) high level of transparency; REITs were also classified as transparent by 33%, while the figure for quoted property companies was 29%. The new industry standard on transparency adopted by open-ended real estate funds meets the main requirements of the reporting standard defined by the European Public Real Estate Association (EPRA) for quoted European property companies, and exceeds it in some respects. "The perceived transparency of open-ended real estate funds will continue to grow with increasing Europeanisation of the asset class," adds Hartlief.

Signs of a stronger investment culture in Europe

The transparency of the three investment markets surveyed and the availability of market data have, in the view of property investors, improved considerably compared to the previous year. For example, significantly more interviewees than in 2005 describe the access to relevant market data and the accessibility of information required for making investment decisions as good in their country. "Property investors see a major change here which explains the more optimistic overall view," says Hartlief. The significantly higher scores for the transparency and investment attitude indicators in 2006 are a sign that the investment culture among institutional investors has developed further. "The study clearly indicates a greater willingness among property investors in Europe to take action and regard risks as opportunities compared to last year," says Ingo Hartlief.

Extracts from the DIFA "Property Investment in Europe 2006" study will be available for download from www.difa.com from the end of November.

Press contact

DIFA Deutsche Immobilien Fonds AG

Marketing Communication

Fabian Hellbusch

Caffamacherreihe 8

20355 Hamburg

Germany

Tel: +49 40 3491 9160, Fax: +49 40 3491 9190

E-mail: fabian.hellbusch@difa.de

Internet: www.difa.com