

European property investors re-engage with the markets

Union Investment's Investment Climate Index up for the second time in succession / Sentiment in core European markets still affected by economic uncertainty / British investors leading the way again and taking on more risk

The recovery of European property investment markets is slowly getting under way. Having slammed on the brakes in the wake of the Lehman Brothers collapse, professional property investors in Germany, France and the UK long remained extremely cautious. At the start of 2010, investor optimism in the three biggest European economies is now considerably more buoyant than observers would have expected in early and mid-2009. Uncertainty about the economy is gradually fading into the background, particularly among investors with an international outlook. 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 over 220 decision makers at property companies and institutional real estate investment companies in Germany, France and the UK. Union Investment's Investment Climate Index, which has systematically tracked attitudes and expectations among European institutional property investors since 2005, rose for the second time in succession and now stands at 67.5 points. The robust increase of 3.8 points since the last survey in spring 2009 is mainly due to a significant rise in expectations in all three countries, along with a perceived improvement in location factors. "The investment climate's low point in autumn 2008 is now clearly behind us.

The climate index increase in all three countries is a leading indicator of a revival in the investment markets," says Olaf Janssen, head of property research at Union Investment. "Pressure on initial returns is set to increase in the UK and France. We can also expect to see a rise in cross-border transactions in Europe over the next 12 months."

The upward trend is also in evidence – albeit with a significant lag – in Germany, which recorded the highest increase of 4 points. However, at 66.1 points the level remains lower here than in France (68.3) and the UK (68.2). "The recovery in Germany's index should not obscure the fact that the three core European markets will probably diverge again, and sooner rather than later," says Janssen. He expects the recovery to accelerate rapidly in the UK in the first half of 2010, which will also be reflected in the UK climate index. The survey reveals that British property investors are much more positive about their prospects than they were in spring 2009, and are also substantially more willing to invest in 2010 than their German and French counterparts – 60% of UK investors signalled their intention to invest more in property this year, compared to 52% in France and 38% in Germany.

"Investors are still sceptical about the wider economy over the next 12 months. At the present time, however, investors in France and the UK feel more confident about their real estate markets than is the case in Germany," says Janssen. "The sharp drop in London in 2008 has created attractive opportunities for entering the market."

UK investors expect crisis to end in 2010

Accordingly, nearly 30% of British investors surveyed expect the UK property market to recover from the financial and economic crisis by the end of 2010. In contrast, only 12% of investors in Germany and 13% in France are similarly optimistic, with recovery expectations mostly ranging from one to three years. European investors see the Spanish property market as being hardest hit by the crisis, with 60% of investors surveyed anticipating a recovery period of three to five years, or expecting a lasting impact.

Unlike in Germany, British and French real estate experts expect the climate for office investment in their respective countries to significantly improve in 2010, resulting in considerable interest both from domestic and international investors. It is not only local players who have high hopes of the British property market: London is currently regarded as offering the best conditions for real estate investment worldwide, with 44% of investors surveyed seeing the UK capital as a “good to excellent” location for investment in 2010. Germany, France, the USA and Scandinavia are also viewed positively. Pension funds, insurance companies and open-ended real estate funds are expected to be among the key players in these markets in 2010. Alongside Spain, the property markets in Central and Eastern Europe and Japan receive a particularly gloomy assessment. European cross-border transactions in these regions are therefore likely to remain at a very low level in 2010.

Strong focus on returns in the UK

As the UK braces itself for a longer and tougher recession than originally expected, British real estate experts continue to take investment decisions based strictly on returns. 64% of UK respondents cite “returns” as their core investment motive, compared to just 9% for “liquidity” and 19% for “security”. While French investors display a greater emphasis on returns than in spring 2009 (39%), no such trend can be observed among Germany’s traditionally cautious property investors: “44% of those surveyed said that security would still be the most important factor in Germany in 2010 when taking property investment decisions. Very few German investors show signs of switching strategy from core to value added, in contrast to the UK trend,” comments Olaf 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 autumn 2009 index, market research institute Ipsos conducted 30-minute telephone interviews in November and December 2009 with 221 property companies and institutional real estate investors in Germany, France and the UK.

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