

Hamburg, 14 September 2015

## **Investor survey:**

### **Searching for returns: real estate investors take profits**

- **International pressure to invest opens up selling opportunities**
- **Trend towards higher risk and cross-border investments**
- **Investment Climate Index climbs in Germany, France and the UK**

Price pressure in European investment markets is continuing to keep real estate return expectations in check. Less than half of the professional property investors surveyed in Europe's three largest economies believe they will achieve their yield targets in the next three years – and expectations are also subdued on a five-year view. To ensure that real estate investments continue to perform, taking profits has become essential for an increasing number of investors. But very few are relying on risk capital from America and Asia alone.

The latest investment climate study by Union Investment reveals that most European real estate investors have recalibrated their investment strategies to compensate for the adverse impact of falling acquisition yields. Professional investors in all three markets are gradually moving higher up the risk curve.

At present, the repertoire of strategic adjustments is clearly dominated by a focus on active portfolio management. The top priority for many European investors over the next twelve months is to identify market opportunities and take advantage of the increasing pressure to invest in order to dispose of properties, either in individual transactions or on a larger scale as package deals. According to the survey, 72 per cent of German investors, 84 per cent of UK investors and 52 per cent of French respondents plan to focus their investment teams more on taking profits and rebalancing portfolios. "Contrary to their original strategies, a wide range of market players are realising gains and becoming net sellers, which is unusual. The reinvestment of proceeds remains a key challenge in an environment characterised by strong demand," said Olaf Janßen, head of real estate research at Hamburg-based Union Investment Real Estate GmbH.

Experts agree that the window of opportunity for a more extensive cleanup of real estate portfolios is likely to close in the next six to twelve months, depending on the US Federal Reserve's decision on interest rates. The attention of asset managers is likely to be focused

even more intensely on investment capital from Asia and America during this short time frame. Currently, many international institutional investors are trying to enter the lucrative European real estate markets via portfolio deals in particular, or are rapidly expanding their existing exposure, aided by the strong dollar. “The ongoing stable economic outlook combined with a favourable exchange rate make Europe an extremely attractive destination for international capital. This will fuel more high-volume sales from European portfolios,” said Janßen. However, recent portfolio transactions in Europe have mainly been completed by European investors. “Alongside the appeal of pocketing a healthy profit, transaction security and a structured sales process play a major role. European buyers have a home advantage here over investors from America or the Far East.”

## **Growing influence of capital from America and the Far East**

International capital is currently highly popular, both in terms of selling opportunities and as investment partners for joint venture acquisitions and club deals. “The changes in the European investment landscape resulting from these new international players vary from country to country,” said Olaf Janßen. For UK investors, international capital is already having a significant impact on local investment activity, with over half the investors surveyed reporting significant or very significant changes as a result of capital from Asia and America. Meanwhile, the impact is still regarded as fairly low in Germany, where only around a third of investors believe that investment markets have undergone major changes as a result of international investors. As far as the French property investment market is concerned, around 40 per cent of local investors surveyed say the impact of non-European investors has been significant. It remains to be seen how the turbulence experienced by the Asian stock markets after the survey will affect the behaviour of Asian investors.

## **Greater emphasis on investment outside the core segment**

The Union Investment survey shows that in addition to stepping up sales activity the planned strategic changes include an increased emphasis on investment outside the core segment, which is no longer regarded as a source of stable performance. Around 48 per cent of the professional investors surveyed in Germany intend to boost their investment outside the core segment in the next 12 months. In the UK, 51 per cent of investors aim to make a strategic adjustment of this kind, while in France the figure is higher still, at 58 per cent.

UK and German investors are also showing greater willingness to increase the proportion of secondary cities in their portfolios in order to access higher yields. This figure has risen significantly compared to the last survey in December 2014. Investors have also recognised that the performance of their holdings can be stabilised by increasing the proportion of hotel investments or logistics properties. Given that specialist knowledge of the relevant market segments is required, this option is not open to all investors. A quarter of all the companies surveyed plan to achieve greater diversification of their portfolio through increased investment in hotels or logistics properties.

## **French property investors drop focus on security**

“Overall, there is a lot to suggest that the expected shift to higher risk investments has taken place and will continue to gain ground,” said Olaf Janßen. Compared to the last survey in December 2014, a much greater emphasis on returns was evident in all three of the regions surveyed. French investors in particular have dropped their traditional focus on security – returns are now central to investment decisions for 52 per cent of the investors surveyed, with security and liquidity lagging well behind. The focus on returns is most evident in the UK, where they have become the crucial element in investment decisions for 76 per cent of investors. Among German investors, returns and security are equally weighted at 40 per cent each.

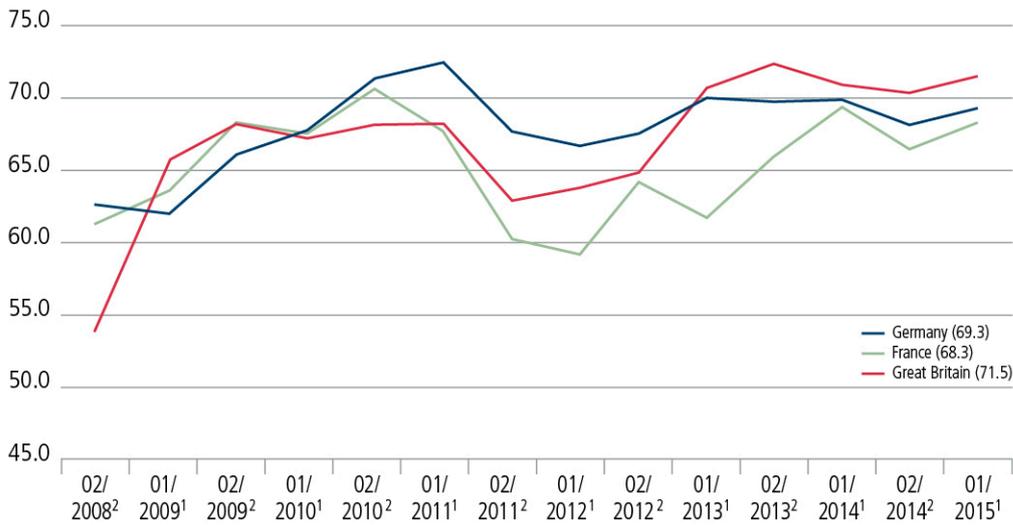
## **Investment Climate Index shows upward trend**

The willingness to take on greater risk can be explained by the significantly more positive perception of conditions for real estate investments in the home markets. Investors also rate their own financial position as having improved compared to the previous year (65 per cent), with only 2 per cent reporting it as worse. Since the last survey in December 2014, the real estate investment climate has shown a slight upward trend in all three of the regions surveyed. The key factor everywhere is a sharp increase in the “expectation” indicator. This indicator has risen in France by 10 whole points. UK investors continue to be the most optimistic, with the Investment Climate Index in the UK climbing by 1.2 points to reach the highest level measured in any of the three European countries, at 71.5 points. In Germany, the national index advanced by 1.2 points to 69.3 points, while a major leap of 1.9 points in France reflected the country’s renewed confidence in its own market. Overall, however, France remained behind the two other major European national property markets for the third year in a row, with the index for the country standing at 68.3 points.

**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 per cent. For the index, market research institute Ipsos conducted interviews between June and August 2015 with 165 property companies and institutional real estate investors in Germany (n=81), France (n=33) and the UK (n=51).

**Investment climate index for property investors**



Source: Union Investment, property investment climate study III/2015 (survey of 165 property investors in Germany, France and Great Britain)  
<sup>1</sup>Survey period: summer. <sup>2</sup>Survey period: winter.

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