Hamburg, 11 February 2015

Historically low interest rates cause further decline in real estate return expectations

- **No evidence yet of shift to investments with significantly higher risk**
- **Core segment remains Europe's safe harbour**
- **Letting markets in relatively good shape**
- **Investment Climate Index falls in Germany, France and the UK**

The preference of many investors for safe investments poses increasing challenges in view of recent monetary policy developments. As a result of the historically low level of interest rates in Europe, professional property investors are finding it ever more difficult to achieve adequate, low-risk investment returns. The latest investment climate study by Union Investment reveals that although security and value preservation continue to be dominant factors for property investment, the ongoing low interest rate environment suggests a further drop in returns is likely. Only half of the 164 property investors surveyed in Germany, France and the UK believe that they will achieve their yield targets in the next three years. Investors were also asked the same question with regard to the next five years, with expectations being only marginally better.

"The latest ECB decision has further increased the pressure to revisit real estate investment strategies," said Olaf Janßen, head of real estate research at Hamburg-based Union Investment Real Estate GmbH. "Falling acquisition yields are having an increasingly adverse impact on investment outcomes. In order to ensure that their investments continue to perform, the more risk-averse investors are being forced to make a raft of adjustments."

As the latest survey by Union Investment shows, European investors have nonetheless remained cautious in terms of strategy. There is still no sign of the anticipated shift towards investments that carry significantly higher risk in an effort to escape low returns. Only a relatively small group of investors are considering boosting their exposure to non-European investments; the same applies to a move into the hotel and logistics segments with their higher returns. The proportion of professional investors who are prepared to take on greater risk due to price pressure in European investment markets remains at 37 per cent, the same as in the last survey in summer 2014. At 52 per cent, the majority of investors are not seeking to avoid this highly competitive environment or willing to invest in other risk classes.

“The core segment remains a safe harbour and despite the current high prices investors still expect it to deliver stable performance,” continued Olaf Janßen. “The letting markets in most core European countries are in relatively good shape at the moment. Companies are doing well. As long as the investment conditions are right – in terms of the lease and the income potential of the location – investors see no reason to change their investment style or diversify into different regions or sectors.”

Higher returns through development projects

Compared to last year's survey, professional investors are now more willing to accept shorter lease periods when acquiring properties and to seek slightly higher returns via development projects, while also accepting lower pre-letting rates in such cases. A good half of the surveyed investors are aiming to shore up their performance by increasing the proportion of secondary cities in their portfolio and focusing investment on European core markets.

High global demand for real estate has also resulted in portfolio holders taking a much closer interest in market opportunities for property disposals than was the case half a year ago. For 76 per cent of German investors, 79 per cent of British investors and 51 per cent of French investors, the main priority over the next twelve months is to exploit market opportunities in order to streamline their portfolios or take profits. “The turnover rate in European portfolios is set to increase because international capital is currently more willing to take significantly greater risks in Europe than local capital,” comments Olaf Janßen.

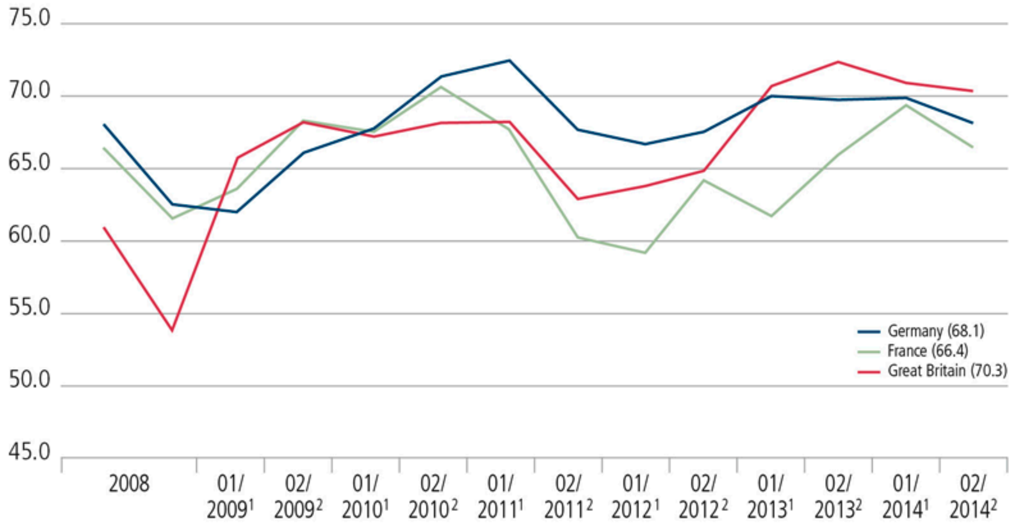
Investment Climate Index in downward trend

Compared with summer 2014, the real estate investment climate is now bleaker in all three of the regions surveyed. Due to a decline in the “expectation” indicator, the Investment Climate Index fell by 1.8 points in Germany and stands at 68.1 out of a possible 100 points. The mood among French investors deteriorated more significantly – the index for the country fell by 2.9 points to 66.4. The UK index, meanwhile, confirmed the optimistic sentiment seen in the

British investment market. The index softened by just 0.3 points and thus recorded the highest level of all three European countries at 70.3 points.

<u>About the Union Investment survey:</u>
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 in November and December 2014 with 164 property companies and institutional real estate investors in Germany, France and the UK.

Investment climate index for property investors



Source: Union Investment, property investment climate study II/2014 (survey of 164 property investors in Germany, France and Great Britain)
[1] Survey period: summer. [2] Survey period: winter.

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