Hamburg, 1 March 2016

No turning point in sight yet: European real estate investors remain bullish

- **More higher-risk portfolios coming onto the market**
- **Only Germany experiencing further improvement in investment climate**

Investors are facing an ever growing number of unknowns in the real estate market. Yet even in this advanced stage of the property market cycle, European property professionals are not exercising greater restraint. On the contrary, compared with the prior year even more investors are primarily motivated by returns. The increased appetite for risk is being driven by the continuing search for returns and a market environment that shows only very muted signs of a change ahead. Those are the findings of the latest property investment climate study carried out by Union Investment twice a year, which this time involved a representative survey of 171 professional property investors in Germany, France and the UK.

In the opinion of the investors surveyed, there are no indications of a shift in any of the three core European property markets: 86 per cent of the professional investors polled believe that the overall willingness to invest in commercial real estate markets in their respective countries will continue to improve or at least not decrease over the next 12 months. “Europe is doing well. The overall macro-economic picture remains positive. The high level of investment interest in Europe, including from overseas investors, is one of the reasons why the property investment climate in the main European markets is comparatively stable, despite toughening conditions,” said Olaf Janßen, head of real estate research at Union Investment Real Estate GmbH. “At the same time, the decreasing availability of prime assets combined with current prices is forcing investors to contemplate higher levels of risk.”

In fact, 51 per cent of survey participants believe they will miss their yield targets in the next three years, as they face continuing high prices and correspondingly low returns. And even taking a five-year view, one in two of those polled see themselves failing to achieve the expected return on investment.

Accordingly, many real estate investors are accepting the need for more risk to mitigate the danger of a further decline in yields. 81 per cent of British investors stated in the survey that they mainly or only take property investment decisions based on returns. That represents a further increase compared to the previous survey in May 2015. Back then, 76 per cent of UK investors – who are traditionally less risk averse – cited return on investment as their main motivation. Correspondingly, the percentage of investors focused on security in the UK declined by a further five points to 13 per cent. In Germany and France, returns and security are currently level pegging, but here too there is a clear trend towards returns. By contrast, liquidity considerations played only a minor role in investment decisions across all the groups surveyed.

Portfolio deals with greater risk

The Union Investment survey reveals that the search for higher returns is boosting interest in portfolio deals, particularly among real estate investors in France and the UK. Half of all investors surveyed stated that they were actively considering purchasing property portfolios. In France, investors were strongly interested, at 74 per cent, followed by British investment professionals, where the figure was 67 per cent. The low level of interest among German investors is striking: only 24 per cent of property investors surveyed in Germany are interested in potential portfolio purchases. The overwhelming majority (57 per cent) of German respondents stated that they were not engaged in any way in acquiring or selling portfolios.

In this regard, the expectation of 80 per cent of survey participants that there will be more transactions in 2016 involving higher-risk portfolios in particular is revealing – providing confirmation of the increasing focus on returns by UK, French and also international investors. 74 per cent of the surveyed property professionals believe that investors from Asia and North America will be more active in Europe. International investors could use portfolio deals to gain fast access to the wider European market. At 70 per cent, the overwhelming majority of market players surveyed expect that more and more pan-European portfolios will come onto the market. A substantial 58 per cent also believe there will be an increase in the number of portfolio deals comprising different use types.

Portfolio deals are not a new phenomenon. 2015 was a record year for high-value portfolio transactions in Europe. In the previous year, portfolios with a clear focus on a specific use type, namely either office or retail, predominated, but since the fourth quarter of 2015 there has been a growing trend towards mixed use portfolios. “Thanks to the current low financing costs and ability to allocate substantial amounts of capital to a single transaction, interest in pan-European portfolios has received a major boost,” said Olaf Janßen. “What’s more, overseas investors want to increase their exposure to Europe and exploit the interest rate window and weak euro to wrap up large deals this year.”

Monitoring the markets

European real estate investors are eager to use the associated opportunities to rebalance their portfolios or take profits. 70 per cent of both German and British investors stated that they will be more active as sellers of real estate over the next 12 months. In France, meanwhile, every second investor aims to use the gradually shrinking window of opportunity to make substantial disposals. “2016 will be an exciting year in terms of transactions. Buyers and sellers will be closely monitoring the direction of individual markets and whether they might already have peaked," continued Olaf Janßen.

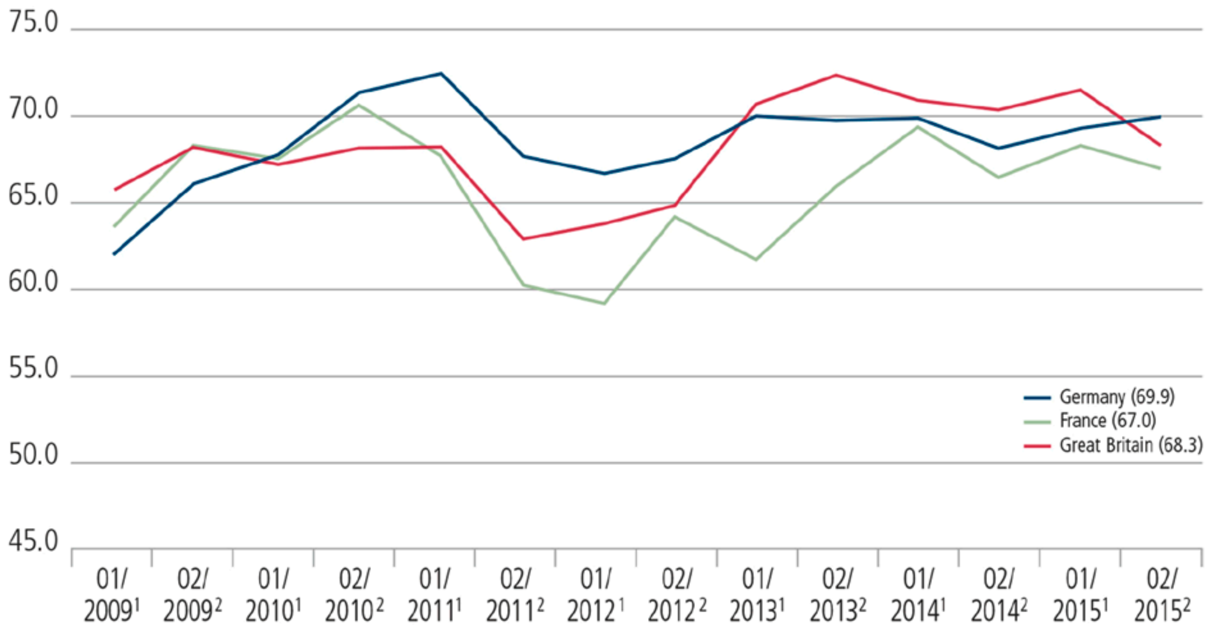
Only Germany shows improvement in property investment climate

Since the last survey in May 2015, Germany is the only country surveyed to have seen a slight upward trend in the real estate investment climate. The German national index created by surveying German investors advanced by 0.6 points to 69.9 points. For the first time since 2013, German investors are more positive about the climate for real estate investment in their country than their counterparts in France and the UK. With a fall of 3.2 points, the UK suffered the biggest decline of any of the countries and now stands at 68.3 points. Sentiment in France trailed the two other major European national property markets for the fifth year in a row, with the index for the country standing at 67.0 points (minus 1.3 points). The French index is still characterised by a comparatively high degree of volatility, which is currently probably due to the uncertainty caused by factors such as the terrorist attacks in Paris in November 2015.

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 December 2015 and January 2016 with 171 property companies and institutional real estate investors in Germany (n=75), France (n=42) and the UK (n=54).

Investment climate index for property investors



Source: Union Investment, property investment climate study II/2015 (survey of 171 property investors in Germany, France and Great Britain)
[1] Survey period: summer. [2] Survey period: winter.

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