Investment Market Update
Europe Q1 2010
Growth momentum maintained

20 April 2010

Authors

Konstantinos Papadopoulos
Real Estate Strategy
+44 (0)20 3296 2329
kostis.papadopoulos@dtz.com

Nigel Almond
Real Estate Strategy
+44 (0)20 3296 2328
nigel.almond@dtz.com

Contacts

Magali Marton
Head of Research, CEME
+33 1 49 64 49 54
magali.marton@dtz.com

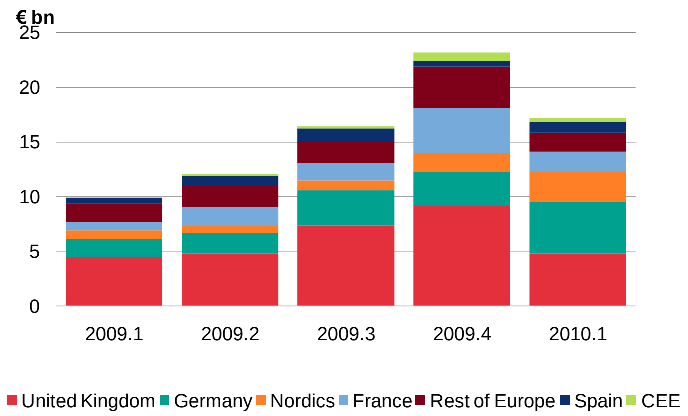
Tony McGough
Global Head of Forecasting and Strategy Research
+44 (0)20 3296 2314
tony.mcgough@dtz.com

Hans Vrensen
Global Head of Research
+44 (0)20 3296 2159
hans.vrensen@dtz.com

- European investment volumes reached €17.2bn in Q1 2010, a 26% fall on the €23.2bn recorded in Q4 2009 (Figure 1). The average volume over the last four quarters, which removes any seasonal impacts, rose by 12% from €15.4bn to €17.2bn.
- In Europe's major markets, Germany grew its share of activity, as volumes rose 53% from €3.1bn in Q4 2009 to €4.7bn in Q1 2010. Volumes were disappointing in the UK and France where activity fell by 48% and 56%, respectively.
- Risk aversion remains evident across Europe with investors continuing to focus on their home markets. Just 5% of transactions were accounted for by non-European investors. This is well below the 25% proportion seen at the peak of the market.
- Corporates continued to be net sellers. This is especially true for banks, who accounted for 46% of all sale and leasebacks in Q1 2010.
- Retail grew its share of overall activity to 44%, compared to 27% last quarter. The growth has been primarily driven by an increase in shopping centre sales.
- As occupier markets remain weak and uncertainties continue over the sustainability of the economic recovery, a number of investors are biding their time in making decisions. We do see new product coming to the market. Further opportunities will emerge from the growing level of loans up for refinance in the next couple of years.

Figure 1.

Total real estate purchasing activity by country



Source: DTZ Research

Investment Market Update

Volumes fall in Q1, but trend remains positive

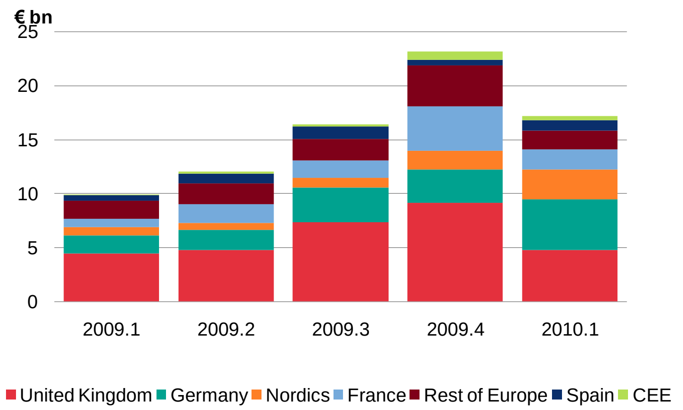
- European investment volumes reached €17.2bn in Q1 2010, a 26% fall on the €23.2bn recorded in Q4 2009. Investment volumes were 73% higher than the €9.9bn in the same period a year ago (Figure 2).
- The quarter on quarter drop in activity was unsurprising following a strong final quarter, as investors scrambled to deploy capital ahead of the year-end. Taking the moving average of the last four quarters, to remove any seasonal impacts, volumes rose by 12% from €15.4bn to €17.2bn, maintaining the momentum last quarter.
- Of the major markets, Germany grew its share of activity, as volumes rose 53% from €3.1bn in Q4 2009 to €4.7bn in Q1 2010. Nearly a quarter of this activity was recorded in one deal, as Corio acquired a portfolio of shopping centres totalling €1.1bn as part of a wider €1.3bn pan-European deal.
- In the UK volumes fell 48% over the quarter from €9.1bn to €4.8bn, whilst France recorded a 56% fall from €4.1bn to €1.8bn. Both these markets suffered a relative lack of stock.
- In Europe's other major markets, volumes rose by 91% in Spain, off a low base from €0.5bn in Q4 2009 to €0.9bn in Q1 2010. Sweden also posted a strong increase of 56%, again off a low base of €0.8bn to €1.2bn over the same period. Investment activity in Central and Eastern Europe (CEE) fell 46% to €0.4bn from €0.8bn in Q4 2009. However, activity is still stronger than that seen in each of the first three quarters of last year.

Inter-regional investors absent from market

- Despite the improved optimism, risk aversion remains evident across Europe with investors remaining focussed on their home markets, or markets they know well in their home region. Intra-regional investment has stepped up from 14% in Q3 2009 to 34% in Q1 2010. Just 5% of transactions were accounted for by non-European investors, well below the 25% proportion seen at the peak of the market (Figure 3).
- There are variations at a country level. Purchasers in France, Sweden and the UK were dominated by domestic investors accounting for at least 75% of activity. In Germany foreign investor accounted for 40% of activity, just above the European average, with much of this accounted for in one deal. In Spain and in more peripheral markets like CEE and Finland, foreign investors accounted for around 70% of activity.
- UK and German investors accounted for 47% of European investment. We have seen some subtle changes in their pattern of investment. Both investor groups were focussed on the large liquid markets in Q1. But, UK investors showed an increased appetite to spend overseas, which accounted for 19% of activity compared 10% last quarter. In contrast German investors spent a higher proportion at home, 59% in Q1 2010 compared 54% in Q4 2009.
- Activity continues to be dominated by private vehicles, who accounted for 44% of activity. Both private and quoted property companies increased their share of activity to 15% and 18% respectively from 12% that they accounted for in Q4 2009.

Figure 2

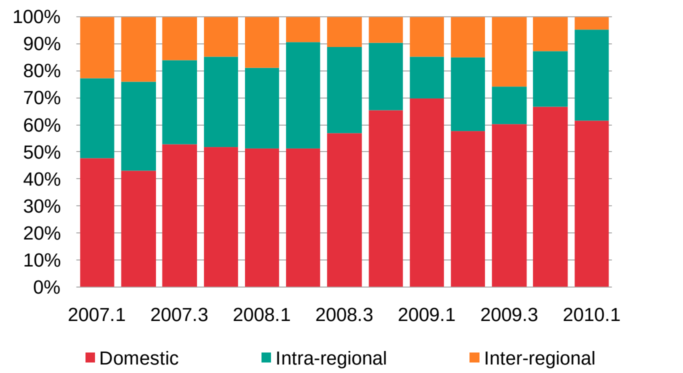
Total real estate purchasing activity by country



Source: DTZ Research

Figure 3

Real estate activity by purchaser region



Source: DTZ Research

Investment Market Update

- On a net basis, a number differences in activity emerged. First, listed property companies, including REITs, have shifted from being significant net sellers in most of 2008/09 to net purchasers in Q1 2010. This reflects the successful recapitalisation of their balance sheets following rights issues, bond issuance and asset sales (Figure 4). The figures were also supported by Corio's acquisition.

- Corporates continued to be net sellers using sale and leasebacks and sales of surplus assets as a means of raising equity to strengthen their balance sheets. This is especially true for banks, who accounted for 46% of all sale and leasebacks in Q1 2010. Banco Sabadell's sale of a portfolio of high street braches in Spain for €400m reflects these trends. Finally, institutions turned net sellers again this quarter following strong activity on the buy side in the last two quarters of 2009.

Shopping centres drive retail activity

- At the sector level offices saw their share of activity slip back to 37%, compared to 54% last quarter. Historically, the office sector has grabbed the biggest share of investment averaging 44%.

- Retail grew its share of overall activity to 44%, compared to 27% last quarter. It is also above the long run average of 23%. The growth has been primarily driven by an increase in shopping centre sales, which increased to nearly €4bn this quarter, continuing the growth witnessed in Q4 2009.Overall shopping centres accounted for 25% of total volumes (Figure 5).

Outlook

- As occupier markets remain weak and uncertainties remain over the sustainability of the economic recovery, a number of investors are biding their time in making decisions.

- Despite the first quarter lull, there are signs, at least in the UK, of a willingness for investors to bring key assets to the market to take advantage of the current pricing and the relative strong demand for product. We also see key assets coming to the market in France and Germany.

- Opportunities are also likely to emerge from the growing level of loans up for refinance in the coming years. We estimate there to be a significant €115bn funding gap in the next couple of years[1].

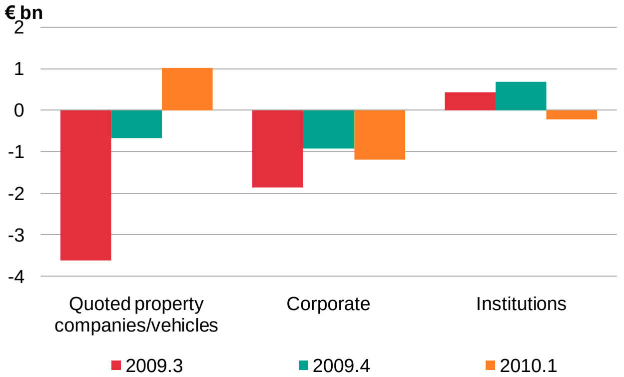
- We see opportunities for investors to inject fresh equity into existing loan positions in return for taking a share in the investment.

- Those with the creativity and expertise have the opportunity to use existing equity or to establish new funds to invest in debt positions. This could be to (a) provide top-ups to existing borrowers in existing loan positions where a deficit exists; (b) replace an existing lender in restructuring an existing loan position; or (c) provide or partner in lending on new positions.

[1] See 'European debt funding gap' 29 March 2010, DTZ Research

Figure 4

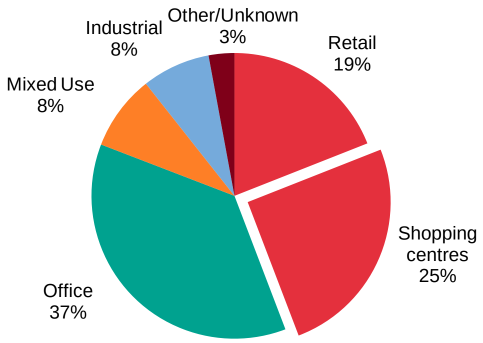
Net investment by investor type



Source: DTZ Research

Figure 5

Real estate purchasing activity by sector



Source: DTZ Research

Table 1

Significant deals					
Address	**Town/City**	**Property type**	**Purchaser**	**Vendor**	**Price (€ million)**
Portfolio	Multi-country	Shopping centre	Corio	Multi Corporation	1,300
Champs Elysées, Rue Vernet	Paris, France	Office	Ciloger	HSBC	430
Portfolio	Multi-city, Spain	Retail	Moor Park Capital partners	Banco Sabadell	403
Alexa	Berlin, Germany	Shopping centre	Union Investment	Fonciere Euris/ Sonae Sierra	316 (91% stake)
Landic Portfolio VI	Multi-city, Sweden	Multi-sector	Hemfosa	Landic	238
One Snowhill	Birmingham, UK	Office	Commerz Real	Ballymore	130

Source: DTZ Research

Table 2

Investment market	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Yr to Q3 2009	Yr to Q4 2009	Yr to Q1 2010
Total investment volume (€m)	9,936	12,074	16,412	23,214	17,233	54,783	61,636	68,933
Total real estate purchasing activity by sector (€m)								
Offices	3,499	5,601	7,628	12,435	6,316	25,010	29,163	31,980
Retail	3,135	3,617	4,013	6,280	7,616	14,584	17,045	21,526
Industrial	1,335	1,666	1,769	1,825	1,331	6,384	6,595	6,592
Mixed	1,418	792	2,396	1,815	1,468	6,612	6,421	6,471
Other	549	398	606	859	501	2,194	2,413	2,364
Total real estate purchasing activity (domestic vs. foreign) (€m)								
Domestic	6,933	6,976	9,913	15,471	10,633	34,541	39,292	42,933
Foreign	3,003	5,099	6,499	7,742	6,599	20,242	22,344	25,939

Source: DTZ Research