

20 July 2010

Author

Nigel Almond
 Forecasting & Strategy Research
 +44 (0)20 3296 2328
 nigel.almond@dtz.com

Contacts

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

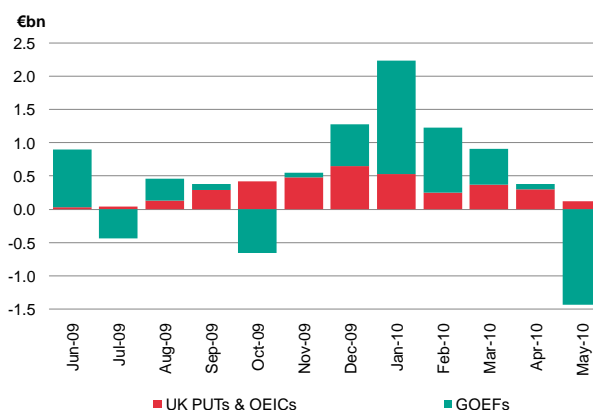
Tony McGough
 Global Head of Forecasting &
 Strategy Research
 +44 (0)20 3296 2314
 tony.mcgough@dtz.com

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

- Total direct commercial real estate investment across Europe was €21.4bn in Q2 2010, an 11% increase over the €19.3bn recorded in Q1 2010.
- The recovery in volumes remains uneven across Europe. Volumes increased 29% qoq to €7.9bn in the UK and 23% qoq to €2.2bn in France but slipped 19% qoq to €3.8bn in Germany.
- Activity from inter-regional investors increased in Q2 2010 and accounted for 19% of acquisitions. Asian and Middle Eastern investors were net buyers over the quarter at €1.5 and €1.1bn respectively. European investors were net sellers by €1.6bn.
- Both private property vehicles and institutions were net buyers over the quarter at €2.7bn and €2.2bn respectively. Listed property companies were net sellers, owing largely to sales by REITs over the quarter.
- The volume of retail assets sold totalled just €5.1bn in Q2 2010, a 39% drop from the €8.4bn in Q1 2010. In contrast, office sales rose 43% to €9.8bn. Mixed-use schemes saw a 108% increase, albeit off a low base, to €3.5bn in Q2 2010.
- Uncertainty over how quickly Europe's economies will recover, poses downside risks to that recovery. Combined with planned legislative changes to German Open Ended Funds we have seen a reduction in net flows to open ended funds (Figure 1) which could hold back significant new investment in the short term.

Figure 1.

Net flows into UK and German funds



Source: IMA; BVI; DTZ Research

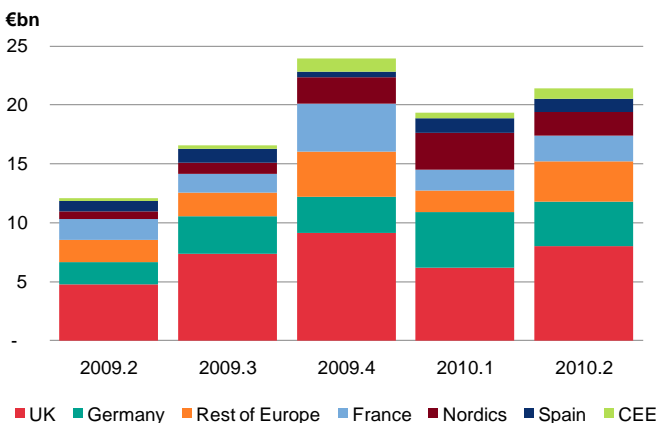
Investment Market Update

Steady growth in volumes

- Total direct real estate investment across Europe increased 11% to €21.4bn in Q2 2010 compared to €19.3bn in Q1 2010 (Figure 2). In the first half of 2010, volumes reached €40.7bn, an 85% increase on the same period last year. This growth underscores the overall steady recovery in activity from the low point in Q1 2009.
- However, volumes remain below the long run quarterly average of €31bn and the figure recorded in the final quarter of 2009.
- Europe's largest markets - France, Germany and the UK - continue to dominate, accounting for two-thirds of activity over the second quarter.
- At a country level the recovery remains uneven. Over the quarter volumes increased 29% to €7.9bn in the UK. France registered a 23% increase from €1.8bn to €2.2bn. In contrast volumes in Germany fell by 19% to €3.8bn.
- Elsewhere in Europe, volumes in the Netherlands increased 74% over the quarter to €1.3bn. In Central and Eastern Europe (CEE), volumes nearly doubled to €0.9bn. In contrast, volumes dropped 10% to €1.1bn in Spain and 35% to €2bn in the Nordics. The decrease in the Nordics was largely because of a 62% drop in activity in Norway.

Figure 2

Total real estate purchasing activity by country



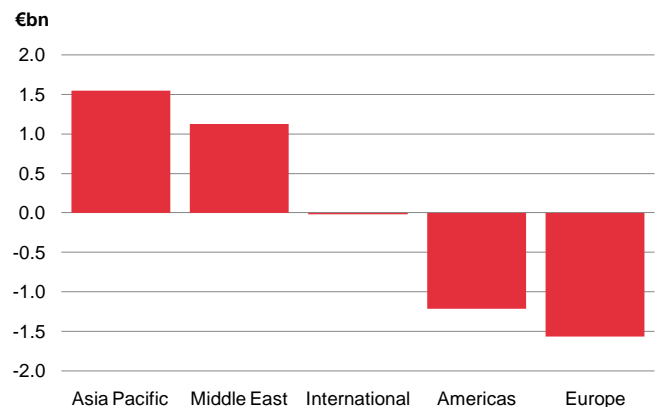
Source: DTZ Research; Propertydata

Inter-regional investors return

- Domestic investors continued to dominate purchasing activity and accounted for 62% of acquisitions in the second quarter, unchanged from Q1. Inter-regional investors accounted for 19% of all acquisitions, up from 7% last quarter.
- Only Asian and Middle Eastern investors were net buyers over the quarter at €1.5 and €1.1bn respectively (Figure 3). This is reflective of a number of high profiles deals in Germany and the UK involving the South Korean National Pension Service, Barwa of Qatar and Olayan Group of Saudi Arabia (Table 1). These investors will have benefitted from the depreciation of the pound and the euro against the dollar.
- Despite acquiring a significant €17.3bn of assets, sales by European investors were even higher at €18.9bn. Net sales by European investors were driven primarily by UK investors, who sold a net €1.5bn. Over 90% of their activity was centred on the UK.
- Despite the recent reduction in net flows into German Open Ended Funds (GOEFs), GOEFs acquired a total of €1.5bn of assets in this quarter compared to €1bn last quarter. Activity remained centred on Germany, the UK and France. Overall, GOEFs have been net buyers of European real estate, quarter on quarter, since the beginning of 2007.

Figure 3

Net purchasing activity by purchaser region, Q2 2010



Source: DTZ Research

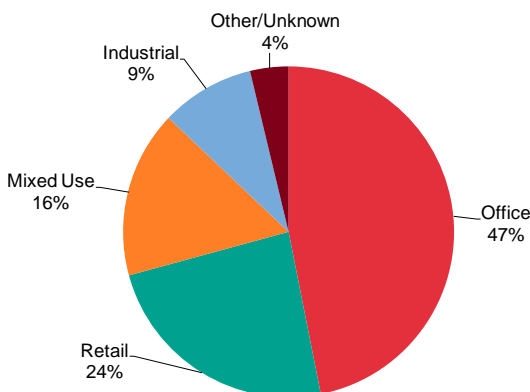
Investment Market Update

Institutions return

- Private property vehicles, including third-party fund managers, remained dominant buyers over the quarter with purchases totalling €10.1bn. Institutional investors increased purchasing activity to €2.9bn, and listed property companies accounted for an additional €2.5bn of acquisitions.
- Both private property vehicles (€2.7bn) and institutions (€2.2bn) were net buyers over the quarter. Listed property companies were net sellers, largely because REITs became net sellers over the quarter.
- Sales by corporates totalled €2.1bn. This total included a number of high-profile sale and leasebacks in Spain by the savings bank Caja Madrid and the retailer EROSKI.
- Despite a number of high-profile sales in the retail sector, the overall volume of retail assets sold totalled just €5.1bn in Q2 2010. This was a 39% drop from the €8.4bn recorded last quarter. This volume represents 24% of quarterly sales (Figure 4), marginally below the long-run average of 26%.
- The volume of office sales rose 46% to €10.0bn and represented 47% of sales over the quarter. Growth was supported by a number of significant sales including the Sony Centre in Berlin. Sales of mixed-use schemes totalled €3.5bn, more than double last quarter's figure. Growth was supported by the sale of the Knightsbridge Estate and Park House in London's West End, which combined totalled nearly €1bn.

Figure 4

Real estate purchasing activity by sector, Q2 2010



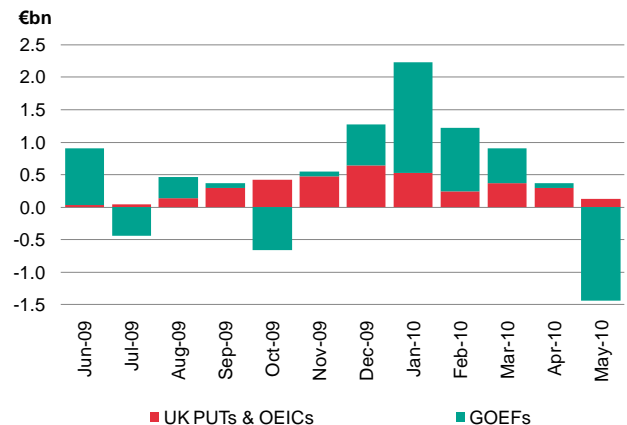
Source: DTZ Research

Outlook

- A number of clouds remain on the horizon which could cast a shadow over the recovery in Europe's real estate market.
- One such cloud comes in the form of tough austerity packages. These packages could pose a threat to the still-fragile recovery in real estate, especially in those countries most exposed to high levels of sovereign debt.
- Although our central forecasts for real estate markets across Europe are little changed over the quarter, we believe that increased nervousness over the strength of the recovery is impacting investor decisions.
- This sentiment is already evident in retail and institutional flows into UK funds and GOEFs. Recent figures show net outflows from GOEFs. Net flows into UK funds have also slipped back (Figure 5). Arguably it is proposed legislative changes to the operation of GOEFs that caused significant outflows. Overall the need for open ended funds to maintain sufficient liquidity is likely to hold back significant investment in the short term.
- Nonetheless, investor demand remains strong, and the weakness of the pound and the euro against the dollar make Europe's real estate markets attractive to overseas investors; as such flows from the Middle East and Asia are likely to continue. With prime initial yields between 5% and 7% in most major markets, real estate offers attractive returns relative to both bonds and cash in the short term.

Figure 5

Net flows into UK and German funds



Source: IMA; BVI; DTZ Research

Table 1

Significant deals					
Address	Town/City	Property type	Purchaser	Vendor	Price (€ million)
Sony Centre	Berlin	Office	South Korea NPS	MSREF/ Corpus Sireo, John Buck Company	570
Cap 3000	St-Laurent-du-Var	Retail	Altearea , ABP, Predica,	Galeries Lafayette	450
Porta di Roma	Rome	Retail	Allianz, Corio	Porta di Roma S.r.l. and Gallerie Commerciali Italia S.p.A.	440
Park House	London	Mixed-use	Barwa	Land Securities	293
Hypermarket Portfolio	Multi-city, Spain	Retail	AEW Europe, Tristan Capital Partners	EROSKI	150
30 Finsbury Square	London	Offices	Meag Munich Ergo REI	DEGI	120

Source: DTZ Research

Table 2

Investment market								
	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Yr to Q4 2009	Yr to Q1 2010	Yr to Q2 2010
Total investment volume (€m)	12,072	16,586	23,940	19,328	21,394	62,487	71,926	81,247
Total real estate purchasing activity by sector (€m)								
Offices	5,487	7,266	13,378	6,870	10,028	29,507	33,000	37,542
Retail	3,649	4,485	5,989	8,429	5,109	17,381	22,552	24,012
Industrial	1,691	1,660	1,727	1,558	1,960	6,400	6,635	6,904
Mixed	727	2,549	1,948	1,678	3,493	6,560	6,902	9,669
Other	518	627	898	793	803	2,639	2,836	3,121
Total real estate purchasing activity (domestic vs. foreign) (€m)								
Domestic	6,975	10,595	16,341	12,077	13,260	40,785	45,988	52,273
Foreign	5,097	5,991	7,599	7,252	8,133	21,703	25,938	28,975

Source: DTZ Research