

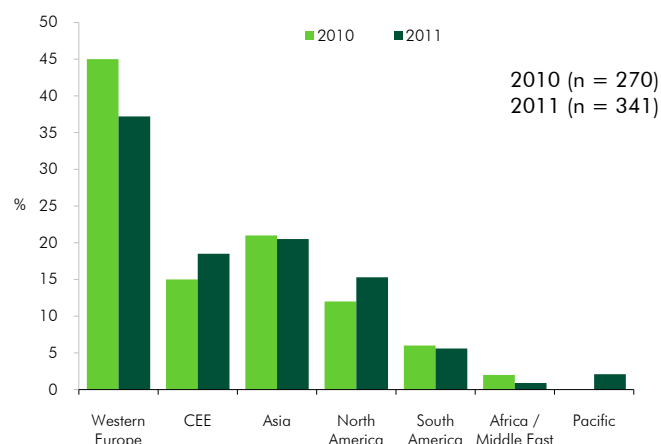


EUROPEAN INVESTOR INTENTIONS IN 2011

by Peter Damesick, EMEA Chief Economist

Over 340 respondents from across the European property investment community took part in our online survey of investor intentions in February 2011, following a similar survey carried out at the same time last year. The 2011 survey included six simple, high level questions relating to the prospects for property investment. The results provide an illuminating picture of investors' strategic views and preferences with respect to regions, countries, sectors and prime and secondary assets, as well as their perceptions of the greatest threats to the European property market recovery. The results also highlight some significant changes in investors' views from those revealed in last year's survey, suggesting important shifts in investor intentions and concerns for 2011.

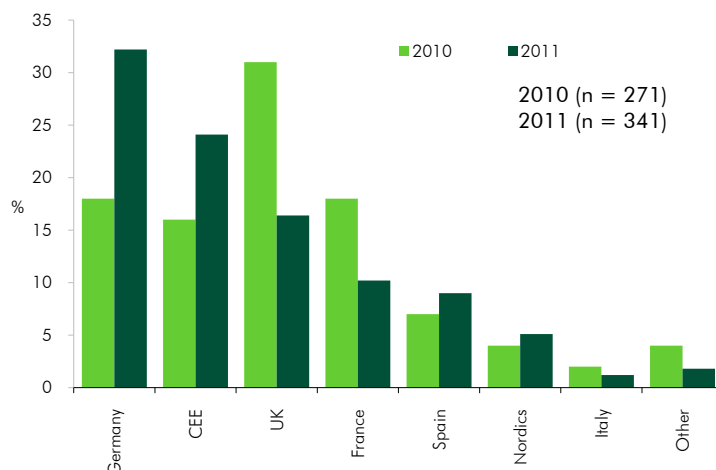
Question 1 - "Which global region do you believe to be the most attractive for making investment purchases this year?"



As in last year's survey, a majority (56%) of respondents see Europe as the most attractive global region for investment in 2011. This is perhaps unsurprising given the respondents are predominantly based in Europe, but it is noteworthy that compared with last year's survey, the proportion of respondents seeing Western Europe as the most attractive region slipped from 45% to 37%, while those favouring Central and Eastern Europe increased from 15% to 18.5%.

Overall, 44% of respondents this year saw more attraction in markets outside Europe, with Asia (21%) and North America (15%) the most popular choices. As with last year, the strong performance of Asian economies appears to be exerting a significant pull on European investors, while the attraction of North American markets has increased somewhat.

Question 2 - "In Europe, which country/region do you believe to be the most attractive for making investment purchases this year?"



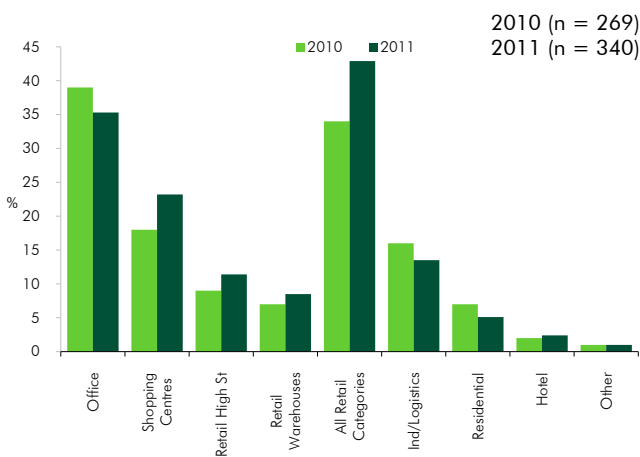
Within Europe, perceptions of relative economic strength appear to have a strong influence on investor intentions in 2011. Germany stands out as the country deemed most attractive for investment in 2011 by 32% of respondents, a large increase from 18% in 2010. Central and Eastern Europe (CEE) was second in attractiveness this year, favoured by 24% of respondents and also well up on 2010. Growth in some CEE countries, such as Poland and the Czech Republic, is, of course, highly geared to German economic performance. These emerging and less mature markets also offer some price advantages over core markets in Western Europe, albeit with potentially more risk and lower liquidity.

The UK and France were the third and fourth ranked choices for investment in 2011, with both showing a substantial fall in their relative attraction from last year.

Having led the European market recovery in terms of transaction volumes and property values, the UK in particular saw a sharp decline in perceived attractiveness for 2011 investment. European property investors now show a significant shift in focus towards Germany and linked economies in CEE, putting greater weight on economic performance as the driver of investment opportunity.

Elsewhere in Europe, Spain was seen as most attractive for investment in 2011 by 9% of respondents, slightly up on last year's proportion despite the country's economic difficulties. The Nordic countries were the most attractive for just 5% of respondents, perhaps surprising given the strength of the Swedish economy and the high growth of investment activity in the Nordic region in 2010. Other markets in aggregate attracted few votes as the most attractive targets for investment.

Question 3 – “In Europe, which sector do you believe to be the most attractive for making investment purchases this year?”

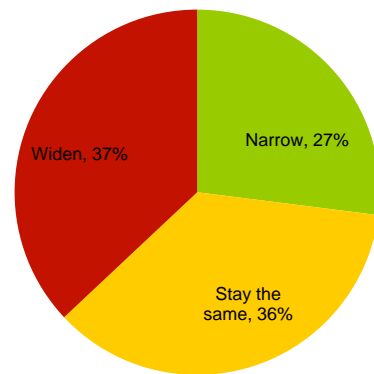


Offices have continued to attract the largest share of investment in European markets over the past year and were the single most attractive sector for purchases in 2011 among 35% of survey respondents. However, offices' popularity has slipped somewhat from last year while that of retail property, especially shopping centres, has increased. When all retail categories are combined, the sector as a whole was regarded as the most attractive by 43% of respondents, up from 34% in our 2010 survey. Shopping centres were the most attractive retail sub-sector, favoured by 23% of investors. The increased interest in retail could reflect perceptions of greater relative value in the sector now that prime assets in core office markets have seen strong re-pricing.

Industrial and logistics property was the most favoured sector for 13% of respondents. Overall, investor interest remains very firmly concentrated on the mainstream commercial sectors with less than 10% of respondents seeing other property sectors as most attractive in 2011. Interest in residential investment has slipped somewhat compared to last year.

Question 4 – “What will happen to the prime-secondary yield gap in 2011?”

(n = 338)

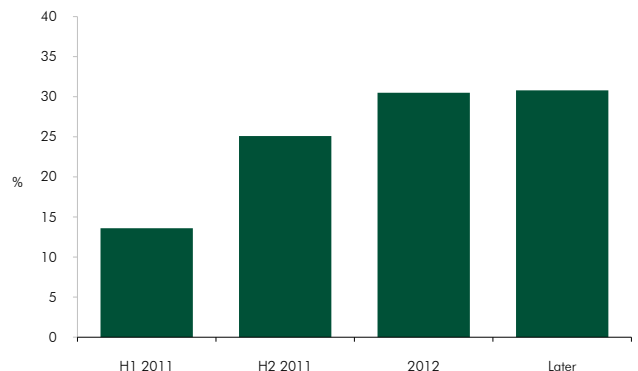


Within all sectors of the European property market, the recovery since 2009 has been marked by sharp differences between prime and secondary property, reflecting the concentration of investor demand on high quality assets in core markets and the shortage of debt finance for secondary acquisitions. Pricing differentials are at high levels, with a wide yield gap between prime and secondary property.

A large majority (73%) of survey respondents believe this yield gap will persist at the same level or widen during 2011. A widening yield gap could result from stable secondary yields with prime falling further, or from stability in prime yields with further weakening in secondary asset values. Either way, it appears most investors do not envisage secondary property values enjoying recovery in 2011. One factor underlying this view could be expectations of continued shortages of debt finance for secondary assets.

Question 5 – “When will be the right time for you to invest in secondary property?”

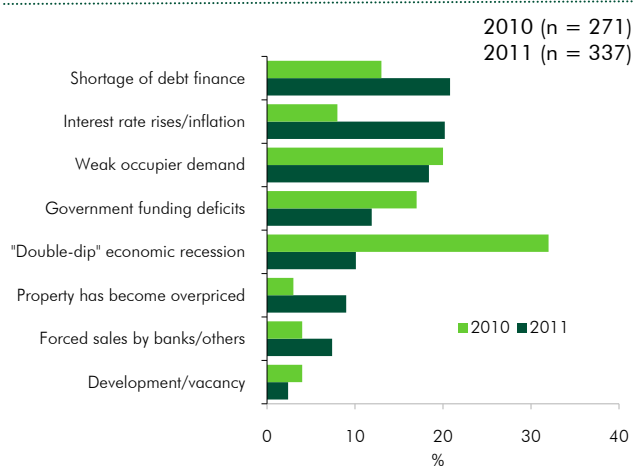
(n = 337)



There are clearly divergent views among investors on the right time for them to invest in secondary property. A majority of respondents (61%) do not see secondary property as attractive for investment during 2011, and a sizable minority (31%) do not see secondary as attractive within the next two years. This is a somewhat more negative timescale for investment in secondary property than that shown by the 2010 survey where only 17% of respondents felt the right time for secondary was more than two years away.

However, 39% of investors do view secondary as attractive for purchases this year, mainly in the second half. This suggests a substantial body of investors are now looking for opportunities higher up the risk curve and this could be partly related to expectations by some that a further re-pricing of secondary will occur in the course of 2011, creating more opportunities for value-seeking buyers.

Question 6 – “Which of the following poses the greatest threat to the emerging European property market recovery?”



Respondents show a wide dispersion of views on the current biggest threats to recovery in European property markets and their concerns have changed substantially from a year ago. In early 2010 investors' perceptions of the main threats to the European property recovery were strongly focused on demand-side risks in occupational markets. Almost one in three considered then that the greatest threat was a “double-dip” recession.

Only 10% of respondents now see a double-dip recession as the greatest threat, although for a further 18% of investors weak occupational demand is still the primary concern. Interestingly, investor concern over government funding deficits has also reduced in the 2011 results, with 12% picking this as the biggest threat to recovery compared with 17% in 2010. After a year of recovery, rather more investors are now concerned that property has become overpriced, but this is perceived as the biggest threat by less than 10% of respondents.

In 2011, the two factors most frequently cited as the biggest threat to recovery are interest rate rises and/or inflation and the inability of investors to source new debt – both of these are seen as the primary risk by just over 20% of respondents and both are markedly higher than the corresponding figures from a year ago.

A shortage of debt finance is a constraint on liquidity and investor demand, especially in the secondary market. It is notable that almost three times as many investors are concerned about debt scarcity compared with those that are similarly worried about forced sales by banks hitting the recovery. The debt-related threat to the market is thus seen much more as a lack of new lending than a potential flood of distressed selling.

The background to rising investor concern about higher interest rates and inflation is: above target inflation in both the UK and Euro-zone; higher government bond yields; and growing expectations that rate rises from their current ultra-low levels are coming closer. Investors are therefore signalling concern over the potential impact of dearer money on property pricing, borrowing costs, consumer spending and economic growth.

There remains a clear lack of concern among respondents about over-supply in occupier markets posing a risk to recovery. This reflects the subdued level of development activity across all sectors since the onset of the credit crunch, leaving supply pipelines very thin in many markets for at least the next couple of years.

The pattern of responses on threats to recovery in 2011 indicates continued underlying concern over the strength of occupier demand, but with much less fear of a relapse into recession than a year ago. Bigger threats are now perceived to lie with the effects of higher interest rates and inflation combined with debt constraints in the investment market. In this context the principal shift in investor intentions is an increased focus on markets perceived to have stronger economic growth prospects. Investors therefore now appear to be looking more to fundamental economic drivers of property performance rather than to the capital markets to provide support for values.

Overall the survey shows that investors remain very cautious. The markets that are of interest are those that are showing strongest economic growth and attitudes towards secondary property have weakened. However, looking forward investors are convinced that the economic recovery is going to be sustained and their concerns lie in the direction of interest rates and the debt market.

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