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EUROPEAN REAL ESTATE INVESTOR INTENTIONS 2014

by Dr Peter Damesick, Chairman, EMEA Research

EXECUTIVE SUMMARY

- There were 387 respondents to the 2014 CBRE online survey of European investor intentions, drawn from across the property investment community. Comparisons with the 2013 survey results highlight significant shifts in investor sentiment and preferences, against the background of improving economic conditions and higher investment activity in European markets.
- Investor confidence in Europe is up sharply this year, with over 70% of investors choosing Western Europe as the most attractive global region for investment purchases.
- Thirty-six percent of investors will invest outside Europe this year, mainly in North America and Developed Asia.
- Within Europe, the UK has regained its position as the most popular country for investment this year with a fall in the proportion favouring Germany, last year's first choice.
- The 2014 survey shows a striking increase in the proportion of investors viewing Spain as most attractive for purchases, putting it in third place.
- London is again the most attractive city for investment, with Madrid in second place this year; Barcelona also makes the list of top ten choices.
- Germany has three cities in the top ten (Berlin, Munich, Hamburg) together with Paris, Amsterdam, Dublin and Warsaw.
- Investor preferences for offices as the most attractive sector increased significantly this year. Logistics was the second most popular sector. Fewer investors favoured shopping centres and retail warehouses compared with 2013.
- Investors are moving up the risk curve. Two out of three respondents said the most attractive types of assets to purchase were outside the prime/core category. Almost half said their risk appetite for secondary was higher than in 2013.
- The survey found wide-ranging exposure to 'alternative' sectors with 51% of respondents already invested in one or more alternative sectors; leisure property and student housing were the most popular.
- Investors are committing more capital to European real estate. Over half (56%) expect their purchasing activity in 2014 to be more than 10% higher compared with 2013. Three-quarters will be net investors.
- The biggest obstacles to making acquisitions in Europe facing investors are the availability of assets, asset pricing and competition from other investors.
- The greatest threat to European property markets is the perception that property has become over-priced. Other significant threats identified were US tapering/rising interest rates and government economic measures/austerity policies.
- Over 60% of investors said if the UK voted to leave the EU it would make the UK less attractive as a location for investment.

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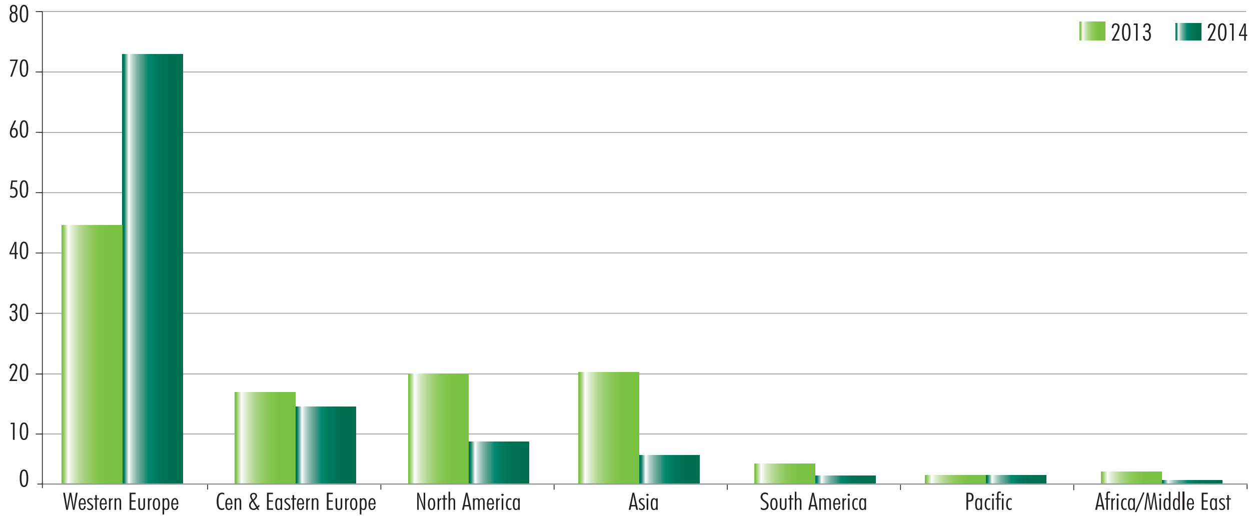
WHICH GLOBAL REGION IS MOST ATTRACTIVE?

Respondents to the 2014 survey overwhelmingly favoured Western Europe over other global regions as most attractive for investment purchases this year. With the majority of respondents based in Europe, a strong preference for the home region is not surprising but it is notable that investors' confidence in Western Europe, chosen by 71% of respondents as most attractive, appears far higher than the 2013 survey. The much stronger sentiment towards Western Europe has emerged against a background of improving economic conditions and reduced uncertainty over the past year. Central and Eastern Europe (CEE) was in second place with 14% of the vote, similar to last year. There were corresponding falls is the popularity of both North America and Asia compared with the 2013 survey.

Which Global Region Is Most Preferred For Investment?

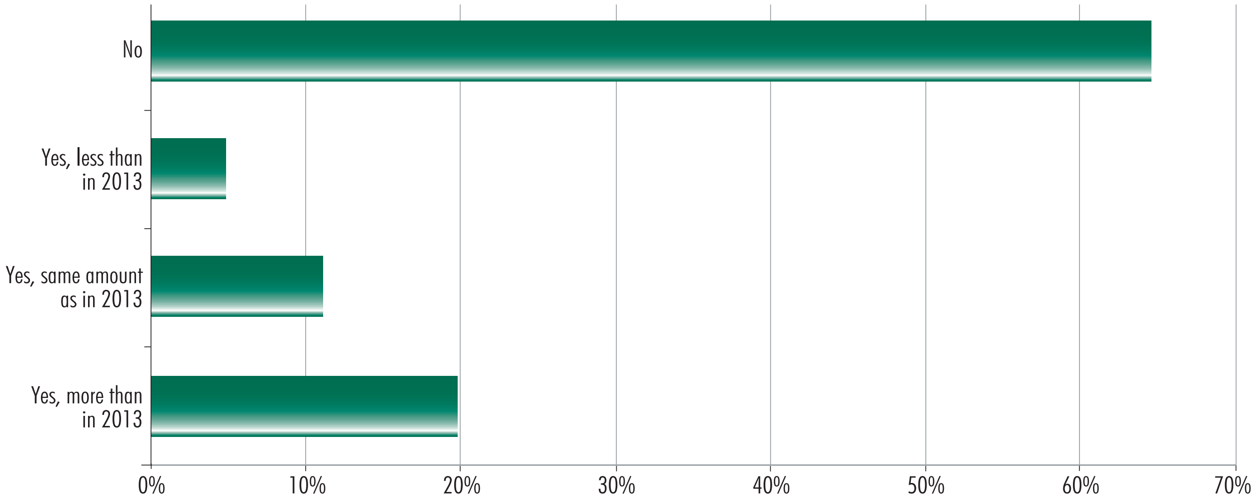
Percent



Source: CBRE European Investor Intentions Survey 2014

Just over one third (36%) of investors said they intended to invest outside Europe in 2014. The proportion was lower (24%) among investors based in the UK and higher among those domiciled outside Europe (72%). Most of the investors intending to invest outside Europe in 2014 indicated they would invest the same or a greater amount outside the region than in 2013. Overall, 20% of respondents said they intended to invest a greater amount outside Europe in 2014 than in 2013.

Investing Outside Europe In 2014

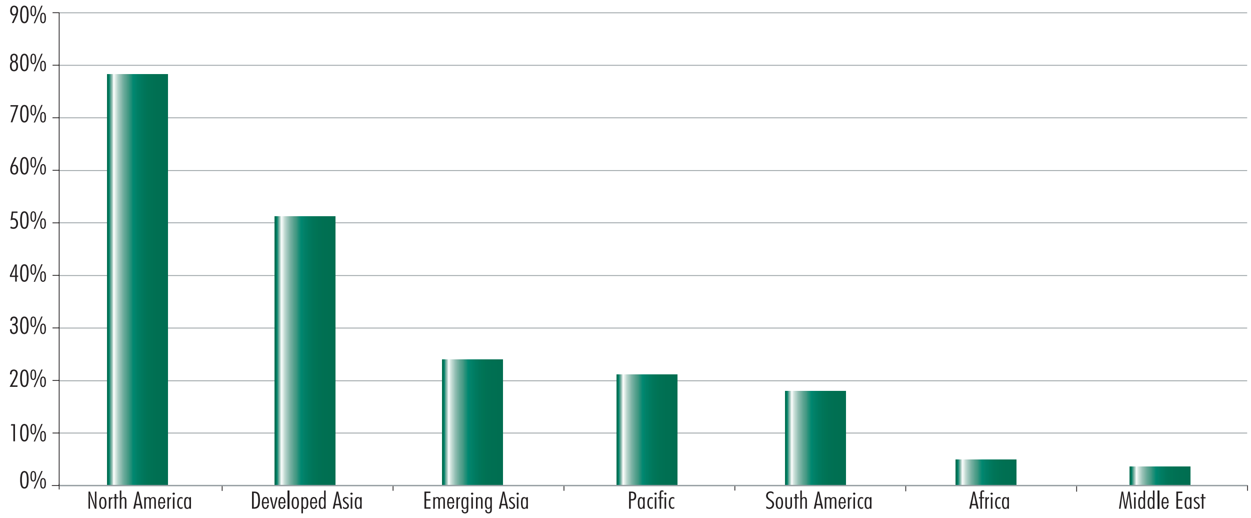


Source: CBRE European Investor Intentions Survey 2014

Four out of five respondents intending to invest outside Europe indicated they would be investing in North America. Markets in Developed Asia were next most popular, chosen by 50% of those investing outside Europe. Emerging Asia and the Pacific region were each attractive to just over 20%.

Most Attractive Regions For Investment Outside Europe In 2014

Percentage of respondents who will invest outside Europe



Source: CBRE European Investor Intentions Survey 2014. Respondents could choose more than one region.

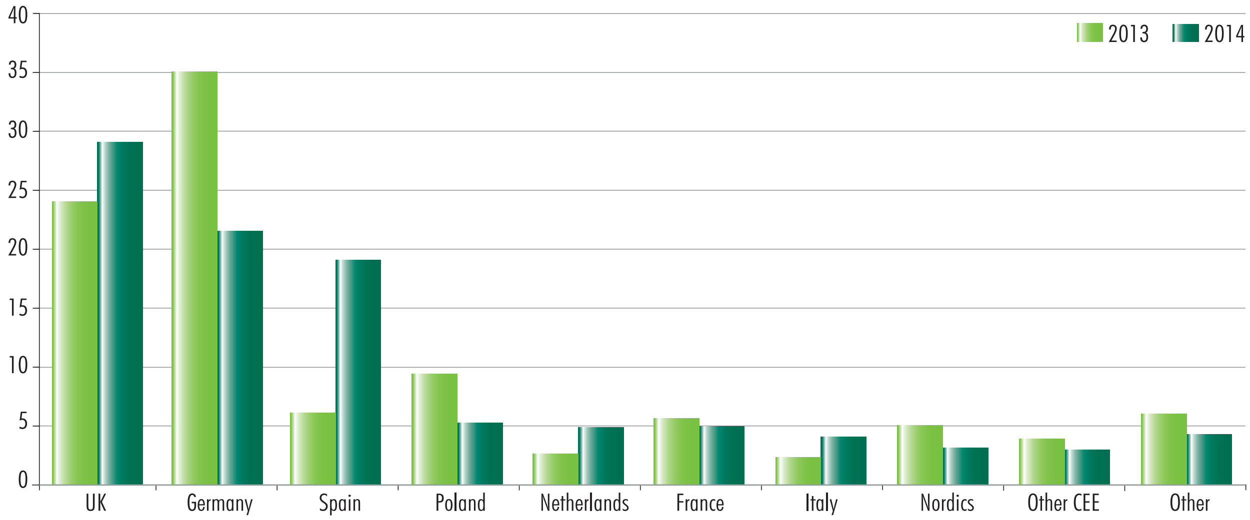
MOST ATTRACTIVE COUNTRY IN EUROPE FOR INVESTMENT PURCHASES

The 2014 survey reveals some notable shifts in investor sentiment towards different national markets across Europe compared with twelve months ago. The UK regains its position this year as the single most attractive country for making purchases, selected by 29% of investors. The UK economic recovery has gathered pace over the past year and is easily outpacing the eurozone.

Germany was in second place in investors’ preferences this year with 21% of the vote, down from 35% in the 2013 survey when it was first choice. Poland, France and the Nordics also all registered reductions in their relative attractiveness in this year’s survey compared with the 2013 results.

Most Attractive Country In Europe For Investment Purchases

Percent



Source: CBRE European Investor Intentions Survey 2014

The most striking shift in investors' country preferences revealed in this year's survey is the markedly increased proportion (19%) of investors selecting Spain as the most attractive market for purchases, putting it in third place closely behind Germany. The sharp increase in investor interest in Spain follows a very strong proportionate rise in turnover in the Spanish investment market over the course of the past year, with sales totalling €5.0 billion in 2013 overall, more than double the level in 2012. Resurgent investment demand in Spain reflects the abatement of the eurozone sovereign debt crisis and positive investor perceptions of recovery potential in the Spanish market, including recently improving employment indicators.

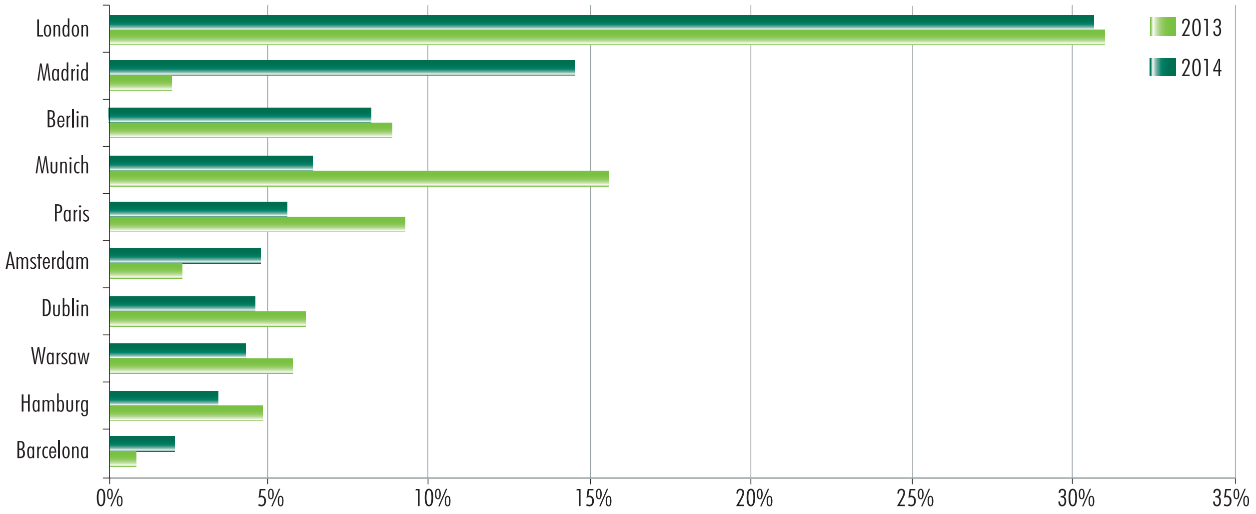
Also noteworthy, although much less dramatic, are the increased proportions of investors in the 2014 survey identifying the Netherlands and Italy as most attractive. Both these markets saw increased investment activity over the past year as investors took a more confident view of their relative value and recovery prospects.

MOST ATTRACTIVE CITY FOR INVESTMENT PURCHASES

Respondent were asked to identify which individual city in Europe they consider most attractive for investment in 2014. Investors' choices were relatively concentrated and ten cites accounted for 82% of the total responses. London was again the clear favourite, with 30% of the vote, very similar to last year's result. The London investment market saw exceptionally strong activity in 2013, with strong inflows of global capital taking deal volume above the previous peak of 2007.

While London's top-ranking postion continues previous trends, the positions of other cities in the top ten choices show some notable changes. Madrid now takes second place, up from ninth last year and in line with the significant rise in Spain's attractiveness for investment recorded in this year's survey. Barcelona also makes it into the top ten this year. Investor appetite for opportunities in 'recovery markets' is further evidenced by the inclusion of Amsterdam and Dublin among the top ten.

Most Attractive City For Investment In 2014



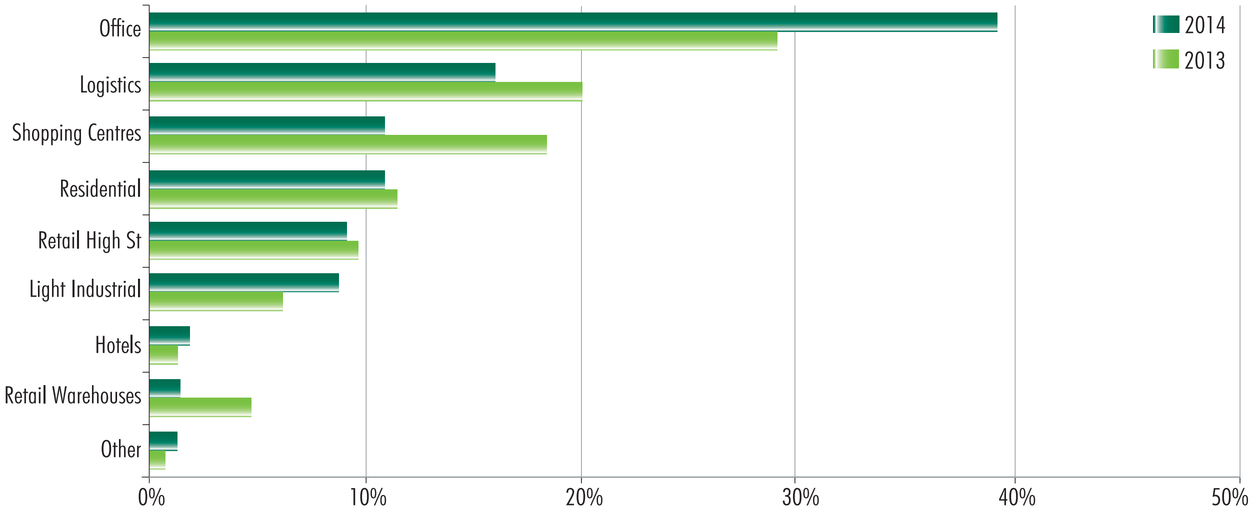
Source: CBRE European Investor Intentions Survey 2014

Rising investor interest in Madrid appears partly to have been at the expense of certain northern European markets. Berlin again occupies third place in the ranking with a very similar share of the vote to last year, but Munich and Hamburg saw some slippage in their positions, as did Paris and Warsaw.

WHICH PROPERTY SECTORS ARE MOST ATTRACTIVE?

Offices were the most attractive sector to investors in this year's survey, recording a notably higher share of the vote (39%) than in 2013 (29%). The increased preference for offices in 2014 seems to be at the expense of logistics property and shopping centres. Last year's strong survey result on the attractiveness of logistics property presaged a major increase in investment activity in the sector during 2013 compared with the previous year. Logistics remains the second most popular sector this year, albeit with a somewhat lower vote (16%) than in 2013 (20%) The proportion of investors choosing light industrial property as most attractive increased to 8% this year.

Most Preferred Sector For Investment Purchases



Source: CBRE European Investor Intentions Survey 2014

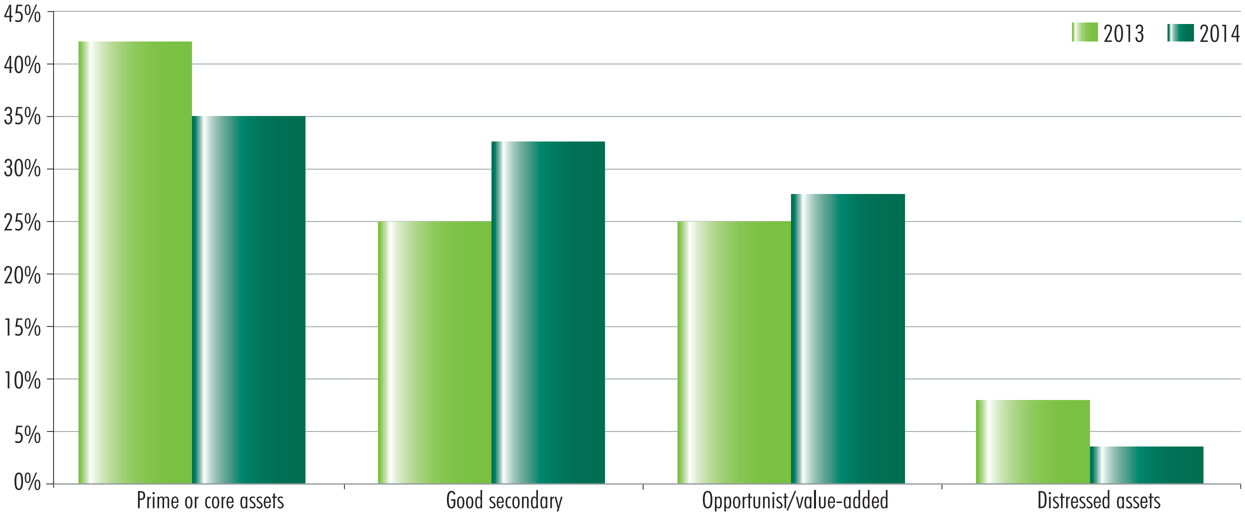
The proportion of respondents viewing shopping centres as most attractive this year dropped to 11% from 17% last year and there was further shrinkage in the proportion favouring retail warehouses to only 2% (down from 9% two years ago). High Street Retail held on to about 9% of the vote. Caution among investors towards shopping centres and retail warehouses can be related to the headwinds for retail property created by weakness in retail sales in many European markets over recent years and the impact of growth in online sales. In most Western European markets outside the UK, retail sales growth remained disappointing over the latest Christmas trading period. It would seem that investors currently see more evidence of economic recovery bringing improvement to occupier markets for offices relative to retail.

Residential property was again selected by 11% respondents as most attractive for purchases, this year on a par with shopping centres.

WHAT TYPE OF ASSETS IS MOST ATTRACTIVE?

Respondents were asked what types of property assets by quality and risk characteristics were most attractive to purchase. Investors' responses indicated a general move up the risk curve compared with last year's survey. There is still substantial demand for prime or core assets but the proportion of investors saying these were their most preferred asset type decreased from 42% to 35%, while those viewing 'good secondary' as most attractive increased to 33% from 25% last year. There was also an increase in the attractiveness of 'opportunistic/value-add' assets. A clear majority (65%) of investors in this year's survey see the most attractive types of assets outside prime/core.

Most Preferred Asset Type For Purchases

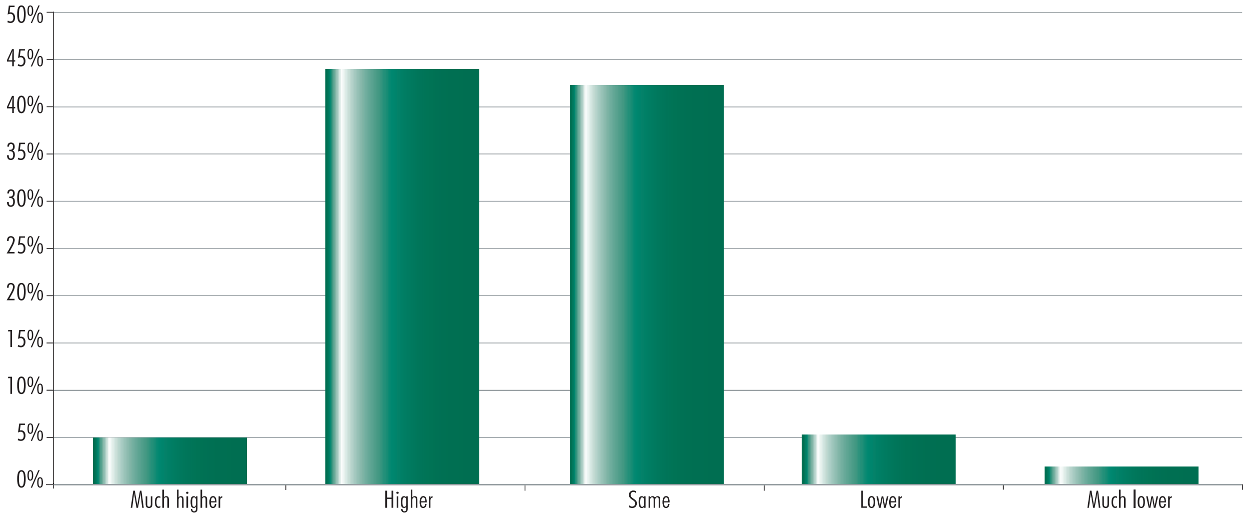


Source: CBRE European Investor Intentions Survey 2014

Further evidence of investors moving up the risk curve came in answers to the question: "What is your risk appetite for secondary assets compared to 2013?" Almost half (49%) of the respondents indicated that their risk appetite for secondary was higher than in 2013. Only 7% said it was lower.

The evidence of greater risk tolerance and stronger appetite for secondary assets can be attributed to a combination of factors. First, investors are likely to view secondary more positively as economic recovery brings general improvement to occupational markets. Second, other survey evidence points to core markets becoming more competitive and expensive, prompting investors to target a wider range of opportunities.

Risk Appetite For Secondary Assets In 2014 Compared With Last Year

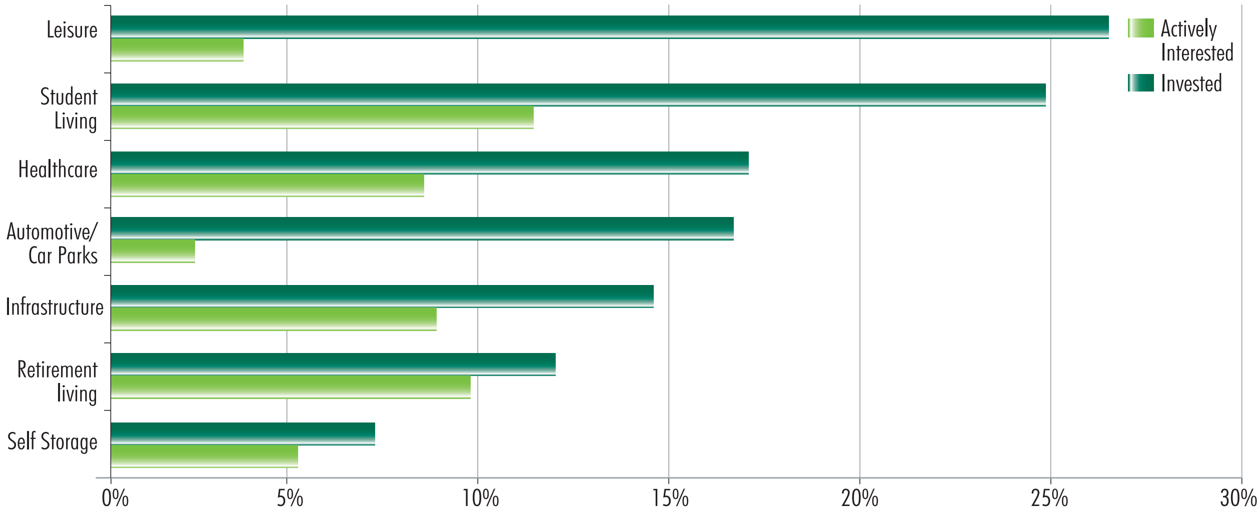


Source: CBRE European Investor Intentions Survey 2014

INVESTMENT AND INTEREST IN ALTERNATIVE SECTORS

The 2014 survey explored investors' exposure to and interest in a range of alternative real estate sectors outside the mainstream commercial categories. Investment exposure to alternative sectors proved to be widespread among investors in the survey; just over half (51%) were already invested in one or more of seven alternative sectors. The two most commonly invested sectors were leisure property (27%) and student accommodation (25%), followed by automotive/car parks and healthcare property, both with around 17% of respondents already invested.

Investment And Interest In Alternative Sectors



Source: CBRE European Investor Intentions Survey 2014

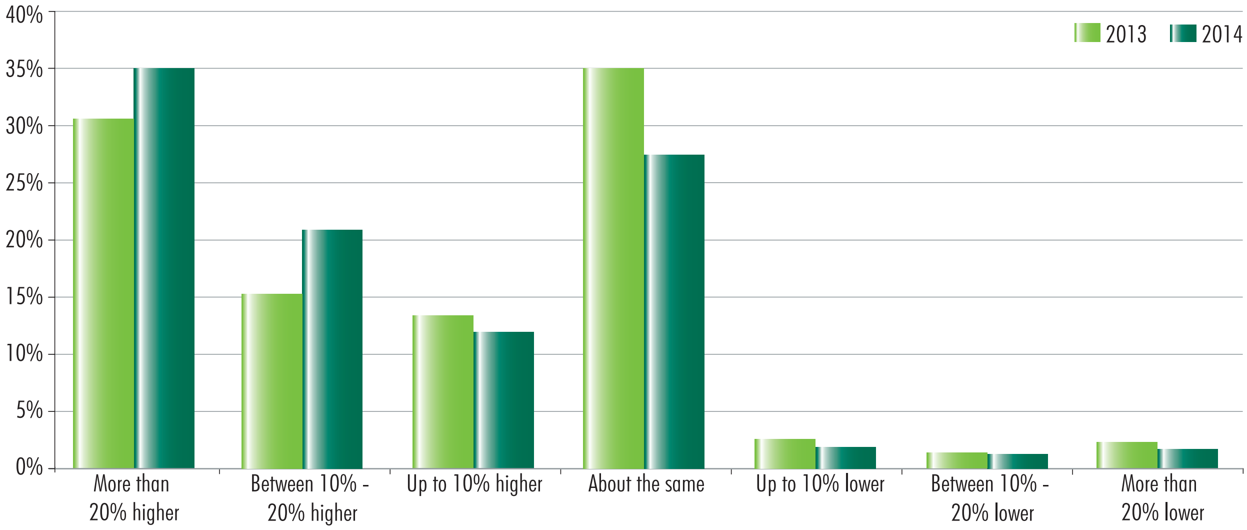
Respondents were also asked if they were actively interested in each of the alternative sectors. There were fewer responses by investors actively interested but not already invested in the different sectors, suggesting that interest in the alternatives was somewhat limited beyond those investors who already had exposure. Student living was the most popular of the alternative sectors overall, with around 12% of investors in the 'actively interested but not yet invested' category. Healthcare, infrastructure and retirement living were recorded as sectors of active interest by 8%–10% of respondents.

EXPECTED PURCHASING ACTIVITY IN 2013

Total investment turnover in European real estate markets in 2013 was 30% higher than the previous year. A very strong final quarter saw growth in transactions concentrated in the UK and the periphery of the euro area. The 2014 survey points to increased purchasing activity this year compared to 2013. A large majority (67%) of investors expect their purchasing activity to be higher in 2014, up from 59% in response to the same question in last year's survey. As many as 35% of this year's survey respondents expect their purchases to be more than 20% higher than in 2013. Only 5% of investors expect to be spending less in 2014.

Investors were also asked if their purchases would exceed their sales in 2014. Seventy-five percent answered 'yes', indicating they would be net investors and confirming the picture of investors committing more capital to European markets this year.

Expected Purchasing Activity This Year Compared With Last Year

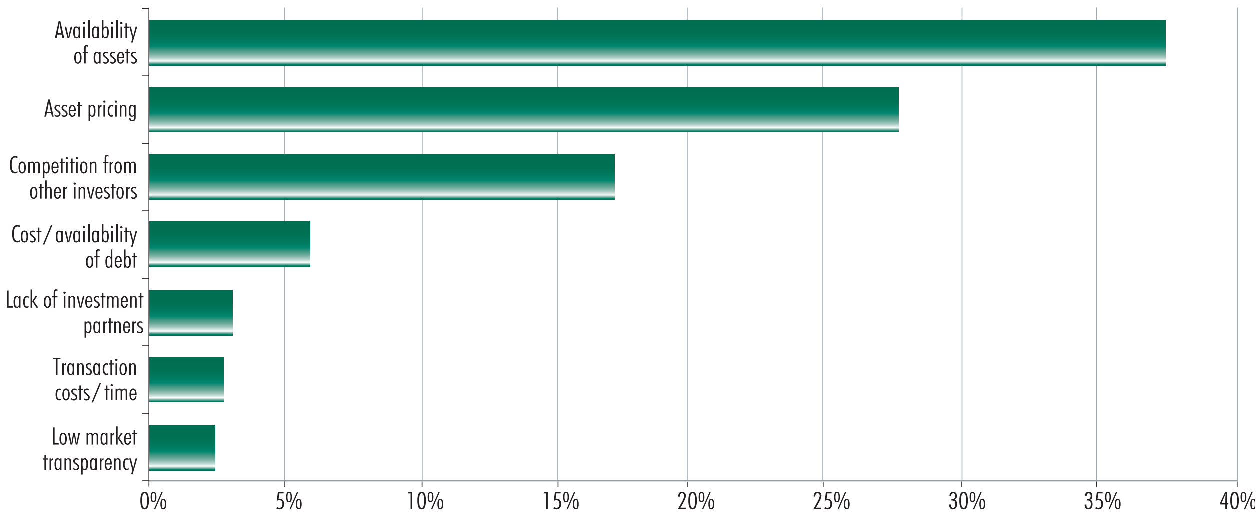


Source: CBRE European Investor Intentions Survey 2014

OBSTACLES TO ACQUIRING ASSETS IN EUROPE

In a clear reflection of the gathering strength of investment demand and capital commitments directed at European real estate, investors identified the availability of stock as the single biggest obstacle to acquisitions, followed by asset pricing and competition from other investors. These obstacles to investment are symptomatic of crowded and keenly priced markets. The findings are also consistent with the survey evidence of investors showing greater risk appetite and viewing assets outside the prime/core space as most attractive.

What Is The Biggest Obstacle To Acquiring Assets In Europe?



Source: CBRE European Investor Intentions Survey 2014

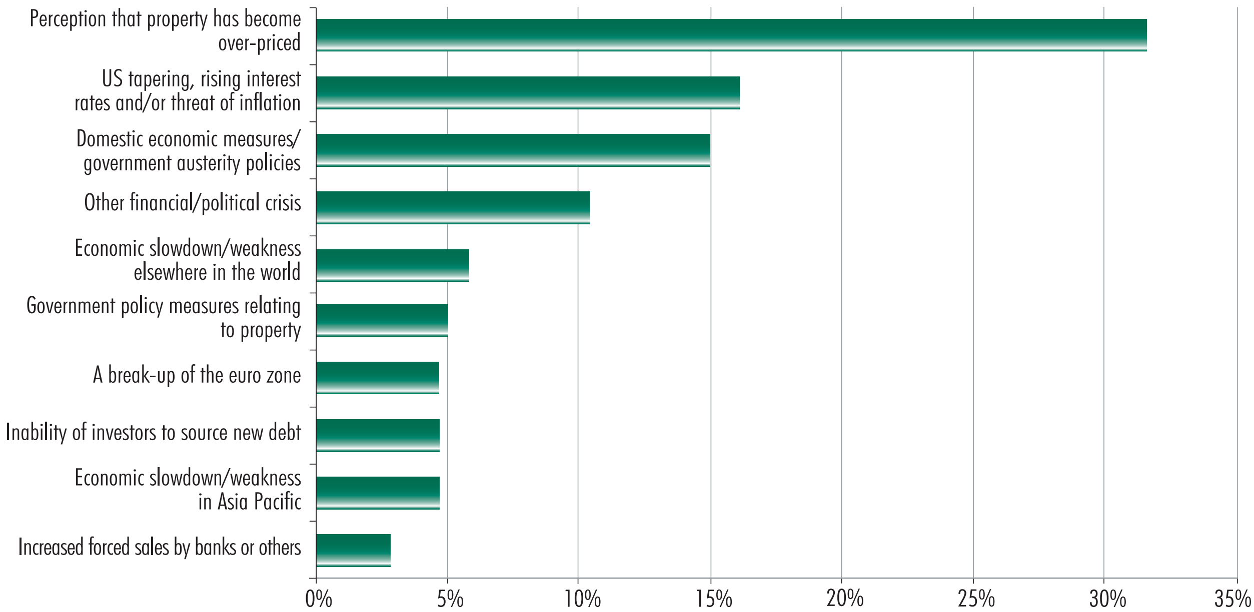
Other obstacles to acquisitions were selected by relatively small proportions of investors. It is noteworthy that only 7% of respondents this year cited the cost or availability of debt as the greatest obstacle. This is a significant change from our survey evidence over the past two years when the ability to source debt was a more potent constraint on activity. This finding is reinforced by other recent CBRE research which has shown an increasing number of lenders becoming active in European markets and significant relaxation in lending terms over the past twelve months both in terms of lending margins and available loan to value ratios.

THREATS TO EUROPEAN PROPERTY MARKETS

In line with the evolving economic backdrop and shift in market conditions, it is not surprising that investors' perceptions this year of the greatest threats to the health of European property markets show marked changes from previous concerns. Two years ago a potential break-up of the eurozone and a lack of debt were among the biggest perceived threats to the market. In early 2013 recession was investors' biggest concern.

This year the perception that property has become over-priced is at the top of investors' collective list of threats to the market, cited by 32% of respondents. This clearly echoes investors' concerns over stock availability, asset pricing and competition as obstacles to investment in 2014.

What Is The Greatest Threat To European Property Markets?



Source: CBRE European Investor Intentions Survey 2014

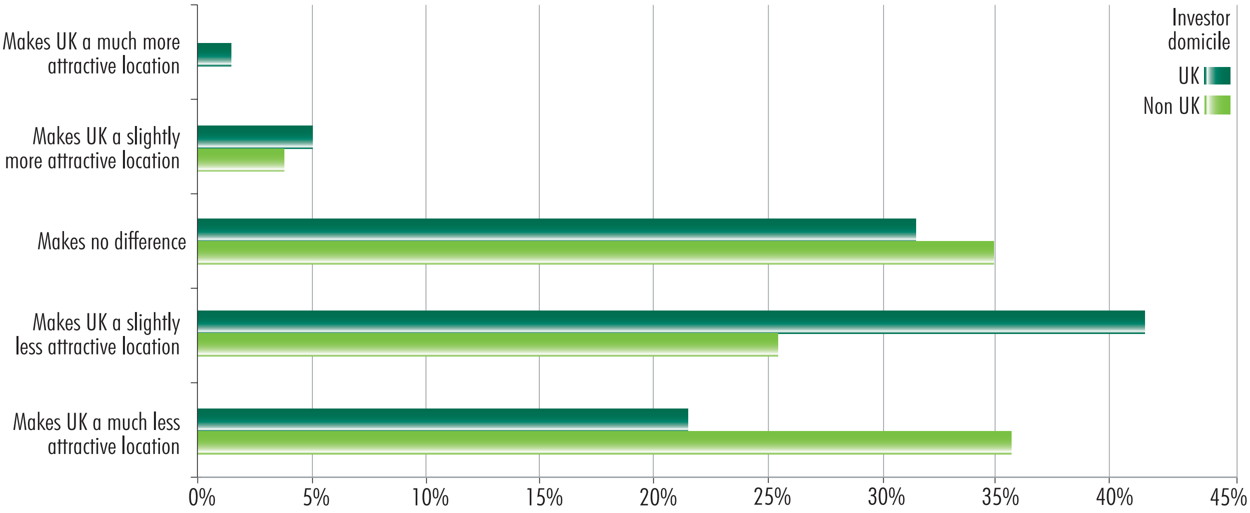
The next most frequently identified threats are related to economic policy – essentially the withdrawal of monetary stimulus and the ongoing need to reduce fiscal deficits. The US Federal Reserve has begun reducing its asset purchases and higher interest rates are anticipated, although with major uncertainly over their timing and pace. Around 15% of investors viewed the US taper and higher interest rates as the biggest threat to the European property market. A similar proportion identified domestic economic policies/austerity measures as the main threat.

Less specific concerns about possible financial/political crises or economic slowdown elsewhere were registered by smaller proportions of respondents. A break-up of the eurozone and the inability to source new debt have been relegated to the lower ranks of investors' concerns this year.

IMPLICATIONS OF A UK EXIT FROM THE EU

The UK is attempting to embark on a renegotiation of the terms of its EU membership and the current Prime Minister has committed to holding an 'in/out' referendum on EU membership after the next general election due in 2015, assuming his party is in government. There have been growing signs of uneasiness among both domestic and foreign business in the UK regarding the potential consequences of exit from the EU. Our survey asked investors for their views on what effect it would have on the UK's attractiveness as a property investment location if the UK voted to leave to the EU.

What Effect Would UK Exit From EU Have On UK's Attractiveness For Investment



Source: CBRE European Investor Intentions Survey 2014

Responses showed clearly that a vote to leave the EU would be negative for the UK's attractiveness as a location for investment. Over 60% of both UK and non-UK investors indicated it would make the UK less attractive for investment. As many as 36% of non-UK-based investors said it would make the UK 'much less attractive', with 22% of UK-based investors taking the same view. UK-based investors were more likely to judge that an EU exit would make the UK 'slightly less attractive'.

The survey findings imply that a UK vote to leave the EU would pose a potentially significant downside risk to investment demand in the UK. This is underlined by the high proportion of UK property investment activity accounted for by foreign capital. In 2013 48% of all investment sales in the UK were to foreign buyers, with 38% to global investors from regions outside Europe.

CONCLUSIONS

The 2014 survey findings reveal a marked change in tone and sentiment in the European commercial property investment market compared with a year ago. Investors show a much higher level of confidence in European real estate and a substantially greater risk appetite. More investors this year see good secondary and opportunistic/value-add assets as most attractive for purchase   The survey also highlights the transformation in investor interest in Spain over the past year, putting Madrid in second place to London as the most attractive city for investment.

The survey findings point towards increased investment activity in European real estate in 2014. A large majority of investors expect their purchasing activity to be higher in 2014 than in 2013, with one in three looking to spend over 20% more this year than in 2013. The widening spread of demand across markets and asset types will see the trend towards reduced market polarisation that began during 2013 gather pace further in the coming year. As investors advance further on the risk curve, development funding is likely to be more actively considered.

There remain areas of caution. Investor show increased readiness to place their bets on the office sector this year, with retail property getting fewer votes in the attractiveness stakes. Relative to its market size, current investor sentiment towards France appears somewhat muted.

The gathering tempo of investment demand has brought fresh challenges and concerns for investors.   The availability of and competition for assets are now testing investors' ability to make acquisitions. There is evident concern that at least some parts of the market have become overcrowded and fully priced, which in turn is pushing investors to target a wider range of opportunities, by location and asset type. European markets continue to show wide variability in economic conditions and risks. Finding value and determining what risks to take in which markets will be key challenges for investors in 2014.

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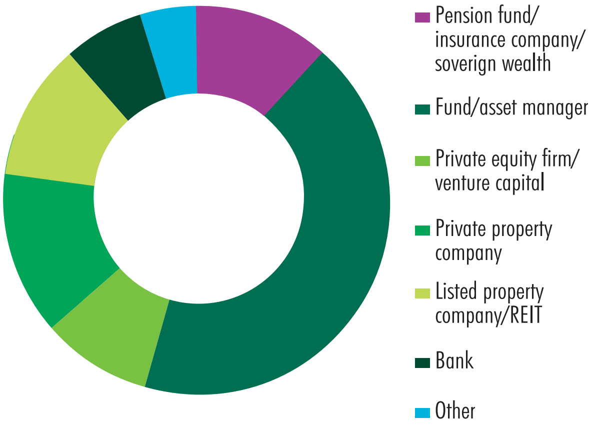
SURVEY METHOD AND COMPOSITION OF RESPONDENTS

The survey was carried out online between 27 January and 6 February 2014 with a total of 387 respondents spread across a range of types of real estate investors. The most numerous were fund/asset managers accounting for 43% of survey participants. A further 11% were pension funds, insurance companies and sovereign wealth funds. The other most numerous groups were private property companies (14%), listed property companies/REITs (11%) and private equity/venture capital firms (10%).

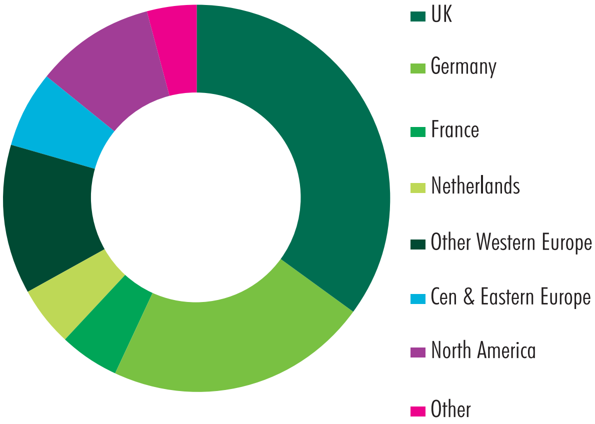
Survey respondents were predominantly from organisations domiciled in Europe (88%). UK-based investors were the most numerous, making up 38% of the total. Respondents based in Germany made up 23% of the total, with a similar proportion (22%) domiciled elsewhere in Western Europe. Respondents domiciled outside Europe were mainly based in North America (% of the total).

Survey Respondents By Type Of Organisation



Source: CBRE European Investor Intentions Survey 2014

Survey Respondents By Domicile



Source: CBRE European Investor Intentions Survey 2014

CBRE GLOBAL RESEARCH AND CONSULTING

This report was prepared by the CBRE EMEA Research Team, which forms part of CBRE Global Research and Consulting – a network of preeminent researchers and consultants who collaborate to provide real estate market research, econometric forecasting and consulting solutions to real estate investors and occupiers around the globe.

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