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EUROPEAN INVESTOR INTENTIONS FOR 2010

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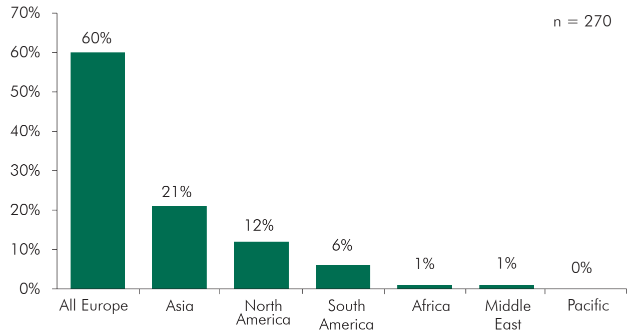
In early March 2010, over 270 people from across the European property investment community responded to our online survey asking them to answer six simple questions regarding the prospects for real estate investment. In each case, investors were given a series of options and were asked to select just one response. Whilst obviously not capturing the full depth and complexity of investor views, the results highlight some interesting similarities – and differences – of opinion about the prospects for the market and potential threats to the emerging recovery.

Question 1 – "Which global region do you believe to be the most attractive for making investment purchases in 2010?"

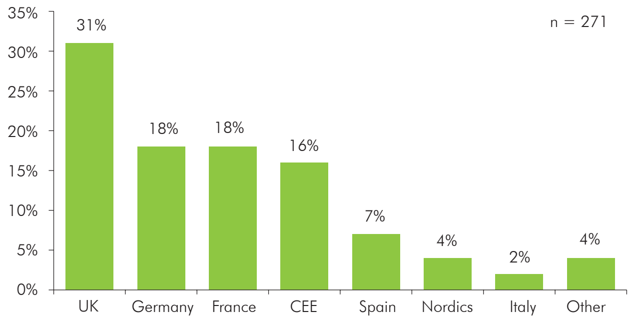


It is probably not surprising that Europe emerges as the preferred investment target, given that the vast majority of respondents are based in, and predominantly invest within, the region. Nevertheless, 40% of respondents believe that more attractive acquisition opportunities can be found elsewhere.

The strength of recovery in the Asian economies has fed rapidly through into property performance. With Asia expected to see continued economic outperformance over the next couple of years, over 20% of respondents believe the property market will see further strong growth.

Recovery is taking longer to become established in North America, and the property investment market continues to see low levels of transactions, but over 10% believe that there are good opportunities to be found – possibly because the distress in the market appears set to result in increased selling over the next 12 months. The smaller emerging markets and the Pacific region are being rated as top priority by only a handful of European investors.

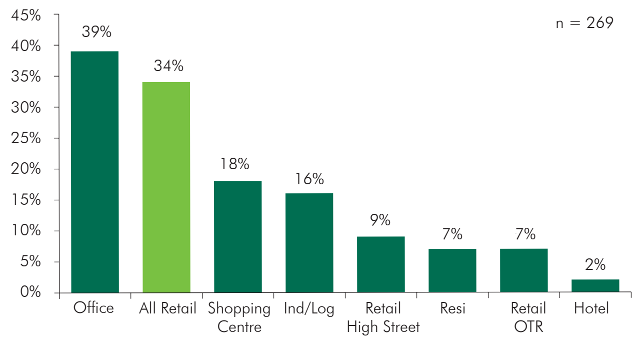
Question 2 – "In Europe, which country/region do you believe to be the most attractive for making investment purchases in 2010?"



The UK has undoubtedly led the recovery of both transaction volumes and prime property prices in Europe. The transparency and liquidity of the market, coupled with the rapid adjustment in prices and the weakness of sterling make an attractive combination in a market where investors are still risk averse and focussed on prime product. Many of the respondents are UK specialist investors, which will have influenced the results, but there are also numerous international investors who continue to focus on this market.

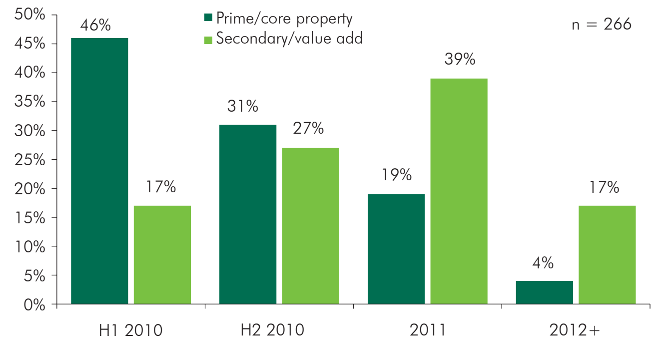
Liquidity risk is also a key concern, and given the size of the markets and relatively positive recovery prospects it is not surprising that France or Germany appear most attractive to over a third of respondents. Much more surprising is the strength of focus on the CEE markets, where transaction volumes have so far been extremely low over the past 18 months – perhaps suggesting that activity levels are set to stage something of a recovery during 2010. As yet, investors see fewer opportunities in the distressed Spanish market, perhaps believing that the window for entering the market will remain open for longer here than elsewhere.

Question 3 – "In Europe, which sector do you believe to be the most attractive for making investment purchases in 2010?"



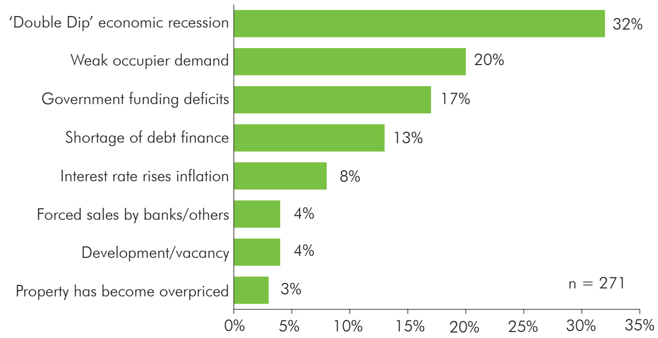
The office sector has historically been the most liquid, accounting for around half of all transactions, and clearly continues to attract significant interest. This could be due to the sector having seen the most significant value falls and/or being potentially likely to see most prime sales. However, the retail sectors together are a fairly close second, viewed as most attractive by 34% of respondents, with shopping centres the most favoured sub-sector.

Questions 4/5 – "When do you believe will be the best time to invest in the European market, for different types of property?"



Investors seem to believe the prime market is bottoming out, with three-quarters suggesting that 2010 is the year to invest and around half clearly believing "the sooner the better"! The same is not true of value add investments, where the pattern of responses suggests that activity is unlikely to pick up significantly until at least the latter half of this year.

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



Given the recent recovery in capital markets sentiment and reductions in prime yields, it is interesting, but perhaps not surprising, that most concern is focussed around the occupational side of the value equation.

The key issues identified are the risk of a "double dip" recession, implying a significant reduction in economic activity rather than simply a quarter or so of negative growth, and weaker than expected recovery in occupier demand (which is a similar issue, but includes the likelihood of a more moderate weakening in economic prospects). Between them, these "demand side" issues account for around half of all responses; this compares with just 4% who regard "supply side" development or rising vacancy as their main concern.

The parlous state of government finances in various countries is very topical at present, but is most likely to be troubling investors because of the potential impact on government bond yields (putting upward pressure on property yields) or the more general implications of reduced government spending on economic growth. Rising interest rates and/or the threat of inflation were also mentioned by 8% of respondents, again presumably because of their potential impact on investment pricing.

Interestingly, fears of forced sales appear low – or at least lower than other risks, although the shortage of available debt finance is seen as a major concern by a significant minority of investors.

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