



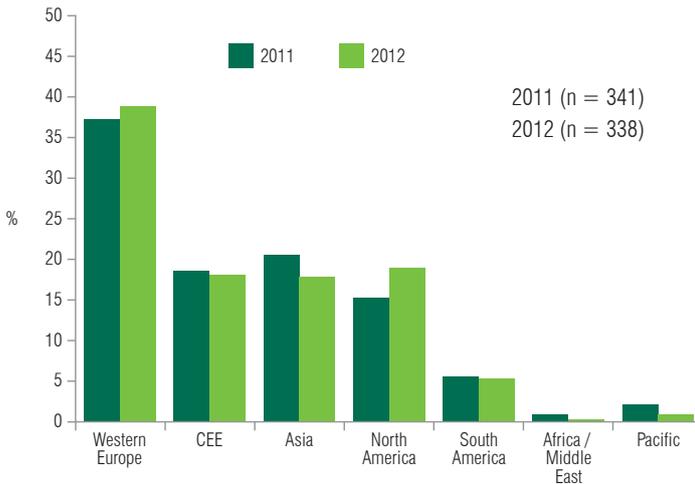
## REAL ESTATE INVESTOR INTENTIONS 2012

by Peter Damesick, EMEA Chief Economist

### INTRODUCTION

The CBRE 2012 online survey of Investor Intentions was carried out in February and was completed by over 340 respondents from across the property investment community. Consistent with the past two years, the survey is designed to provide high level insights into investor views and sentiment towards global real estate markets, with a focus on Europe. It charts investors' preferences in respect to regions, countries, cities, sectors and types of property assets. The survey also covers the influence of debt availability and the impact of the eurozone crisis on investment activity, and records investors' views on potential threats to the property market recovery. The 2012 results reveal some interesting changes in investor intentions and concerns from a year ago, and point to some of the key trends we may see across real estate markets in the year ahead.

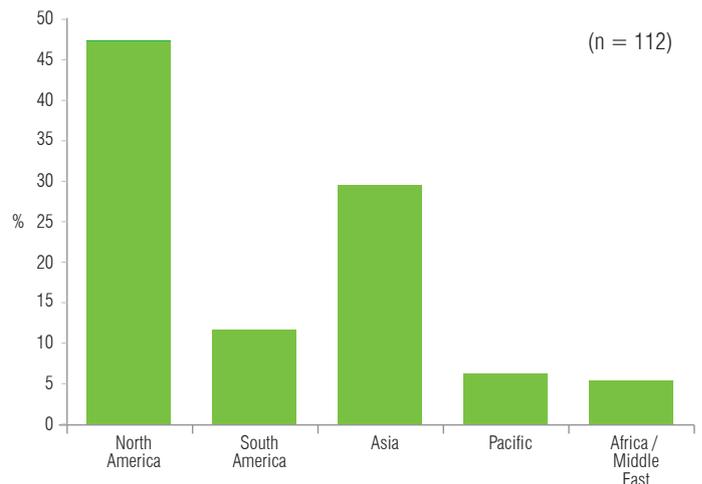
### "WHICH GLOBAL REGION DO YOU BELIEVE TO BE THE MOST ATTRACTIVE FOR MAKING INVESTMENT PURCHASES IN 2012?"



Source: CBRE Real Estate Investor Intentions Survey 2012

There was little change from the 2011 survey in investor preferences at global regional level. A majority (57%) of respondents see Europe as the most attractive region for investment in 2012; this is not surprising in view of the predominance of investors domiciled in Europe among the respondents. The proportion favouring Europe is virtually unchanged from last year, with a small rise in the preference for Western Europe to 39% of respondents and Central and Eastern Europe (CEE) maintaining its strong showing at 18% in this year's survey. Outside Europe, the main change from 2011 is a small increase in the proportion choosing North America as the most attractive region for investment. Asia slipped back marginally compared to last year.

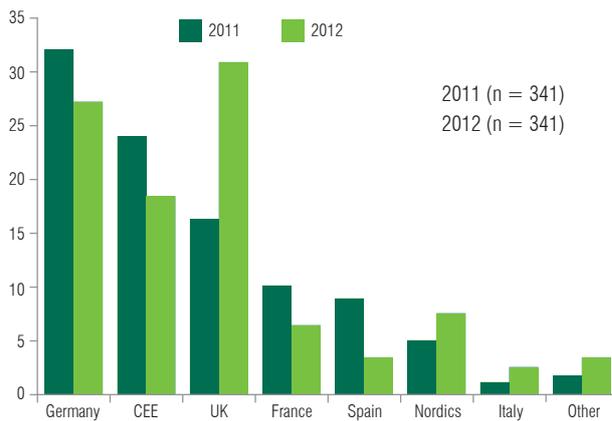
### INVESTING OUTSIDE EUROPE IN 2012 - "WHICH GLOBAL REGION IS MOST ATTRACTIVE?"



Source: CBRE Real Estate Investor Intentions Survey 2012

The survey asked respondents if they intended to invest outside Europe in 2012; 33% confirmed that they did. Among these respondents, the single most attractive region (outside Europe) was North America, selected by 47%, followed by Asia with 30% of the vote. South America was chosen by 12%. From these results it appears that investors seeking to invest outside Europe in 2012 will be looking more to the West than to the East. This may reflect a view that Asian markets are less favourably priced following strong growth in capital values in 2010 and 2011.

## "IN EUROPE, WHICH COUNTRY/REGION DO YOU BELIEVE TO BE THE MOST ATTRACTIVE FOR MAKING INVESTMENT PURCHASES THIS YEAR?"



Source: CBRE Real Estate Investor Intentions Survey 2012

The 2011 survey responses on which countries/regions within Europe investors believed were most attractive put Germany and Central and Eastern Europe (CEE) in first and second place. This proved a good predictor of shifts in investment activity last year in favour of these markets.

In 2012, the pattern of responses on the most attractive countries/regions in Europe has changed significantly. The UK now returns to the top of the ranking, identified as the most attractive market for investment by 31% of respondents – very close to its position in 2010, but up from 16% of respondents in the 2011 survey.

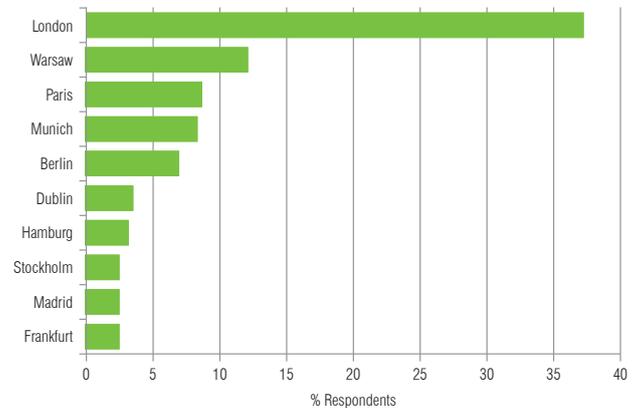
Germany now ranks second in attractiveness, favoured by 27% of respondents and down from 32% in 2011. The CEE markets are in third place, but their share of responses has also slipped from 24% in 2011 to 18.5% this year. The relatively high attractiveness of the German and CEE markets in 2011 reflected perceptions of their relatively strong economic fundamentals and this is likely to be a factor influencing investor intentions in their favour this year. However, the UK's attraction has now increased compared to last year which could be in part a reaction to the ongoing problems and heightened uncertainty in the Euro area.

France is recording lower relative attraction than in 2011, while the proportion of respondents choosing Spain as the most attractive market dropped from 9% in 2011 to 3.5% this year. Italy was favoured by only 2.5% of respondents. Conversely, the attraction of the (mostly non-euro)

Nordic markets increased: chosen by 8% of respondents as the most attractive for investment this year compared with 5% last year.

The focus of investor interest on northern European markets perceived to have stronger economic underpinnings is highlighted by the finding that a majority (53%) of survey respondents in 2012 believe markets in Germany, CEE or the Nordics to be the most attractive for investment. At the same time, investor preferences have shifted further away from southern Europe. However, the importance of economic performance as the driver of investment opportunity is balanced in 2012 by the increased attractiveness to investors of the UK market with its high liquidity and "safe haven" attributes.

## "WHICH CITY IN EUROPE DO YOU BELIEVE TO BE THE MOST ATTRACTIVE?"



Source: CBRE Real Estate Investor Intentions Survey 2012

Further insights on investors' geographical preferences are provided by the choices of individual cities which respondents believed the most attractive for investment. This question was completed by 84% of respondents who collectively identified a total of 30 different cities across Europe. Among these, around half received three or fewer mentions and there was a marked concentration of choices on a limited number of cities.

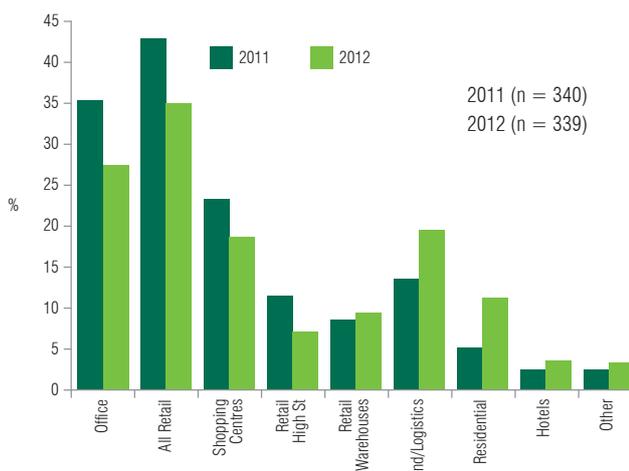
The single most attractive city for investment is London, selected by 37% of respondents. This is in line with the UK's position as the most attractive country for investment in 2012 and with London's specific attractions as a global financial centre and the most active property investment market in Europe.

The next most popular city in the survey is Warsaw, chosen by 12% of respondents. This highlights the attraction of a market seen to have good economic fundamentals and relatively strong growth prospects, as well as some pricing advantages compared with mature markets. It is noteworthy that Warsaw attracted more choices among investors than the much larger Paris market which was in third place, with 9% of respondents judging it most attractive. The relative position of Paris is in some contrast to its high level of investment activity in 2011, showing growth of 36% on 2010 and second only to London in investment turnover.

Close behind Paris, the next two most preferred cities are Munich and Berlin. Germany's urban structure lacks a single dominant centre comparable to either London or Paris, so investor preferences are spread across a number of cities in the German market. Taken as a group, Germany's four leading centres of Munich, Berlin, Hamburg and Frankfurt were chosen by 21% of respondents. Looked at this way, the next most attractive locations for investment after London are a German city or Warsaw. Including London, this collection of cities accounted for 68% of respondents' choices.

The other three cities in the top ten, each chosen by between 2%-3% of respondents, were Dublin, Madrid and Stockholm. Dublin's appearance, ahead of many larger European markets, suggests a significant strand of investor interest in a radically re-priced market perceived to have recovery potential. Similar sentiment may explain Madrid's appearance in the top ten, whilst Stockholm's inclusion is more likely to be based on perceptions of relative economic strength.

## "IN EUROPE, WHICH PROPERTY SECTOR DO YOU BELIEVE TO BE THE MOST ATTRACTIVE FOR INVESTMENT PURPOSES THIS YEAR?"



Source: CBRE Real Estate Investor Intentions Survey 2012

The pattern of responses on the property sector seen as most attractive for investment in 2012 reveals some marked shifts in sentiment from 2011. The retail and office sectors are again the most attractive sectors for investment, but their relative popularity is sharply down on a year ago. The proportion of respondents choosing offices as the most attractive sector dropped from 35% to 27%. Retail property lost ground by a similar amount with the aggregate proportion of respondents selecting retail property as most attractive failing from 43% to 35%.

The retail property sub-sectors fared differently. Shopping centres are again the most attractive retail category in 2012, favoured by 19% by investors, but this is down from 23% in 2011. The proportion seeing High Street retail as the most attractive has shrunk to 7%, down from 11% in 2011. In contrast, retail warehouses are slightly more popular than last year, chosen by 9% of investors as the most attractive.

Two sectors record significantly stronger attraction for investors in 2012; these are industrial/logistics property, now chosen by 20% of investors, and residential, the first choice of 11% of investors this year compared with 5% in 2011.

The shift in investor sentiment away from offices and retail in 2012 may reflect perceptions that these sectors are the most exposed to weaker economic prospects and risks of recession

now evident in a range of European markets. The cooling of interest in High Street retail and shopping centres in particular can be related to the widespread pressure on consumer spending across economies facing austerity programmes.

With prospects for rental growth looking extremely subdued in many markets, the relative attraction of higher income yields on industrial and logistics property is increased. The proportion of respondents selecting this sector in 2012 compared with 2011 may have been influenced to some degree by the 2012 survey including separate choices for light industrial and logistics property where these were combined in 2011. Logistics property was the more preferred category in 2012, chosen by 14% of respondents; this suggests income security from strong tenant covenants is attractive for investors in the current environment.

The greater interest seen in residential property in 2012 seems likely to reflect the comparatively strong performance of this sector. Investors who favoured residential also mainly favoured the UK and German markets. In the UK increased demand for rented housing is seen as resulting from constraints on mortgage finance.

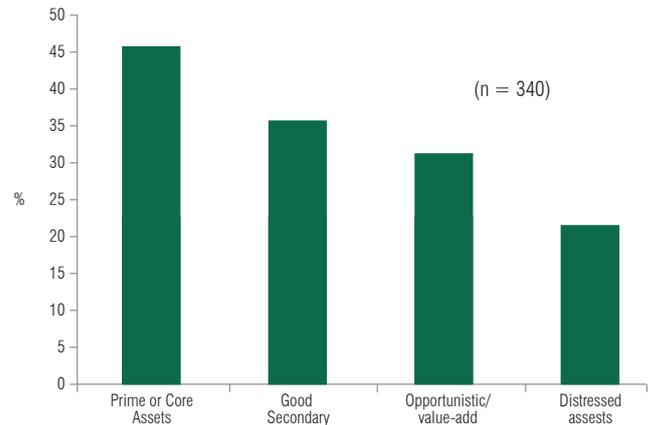
#### MOST FREQUENT COMBINATIONS OF PREFERRED COUNTRIES AND SECTORS

Country	Sector	% Respondents
UK	Offices	11.5
CEE	Shopping Centres	6.8
UK	Industrial/Logistics	6.2
Germany	Offices	5.0
UK	Residential	5.0
Germany	Industrial/Logistics	4.7
Germany	Shopping Centres	4.4
CEE	Offices	4.4

Source: CBRE Real Estate Investor Intentions Survey 2012

Some further insight on investor preferences is gained by analysing responses on the most attractive countries and property sectors in combination. The most frequent combination of responses, recorded by 12% of investors in the survey, is for the UK and offices as the most attractive country and sector respectively. The next most frequent combination of first choices, made by 7% of respondents, is CEE markets and shopping centres followed by the UK and industrial/logistics (6%). Investors favouring Germany most frequently preferred offices, industrial/logistics and shopping centres, in that order

#### "WHAT TYPE OF PROPERTY ASSETS ARE MOST ATTRACTIVE FOR YOU TO PURCHASE IN 2012?"



Note: Respondents could select more than one asset type.

Source: CBRE Real Estate Investor Intentions Survey 2012

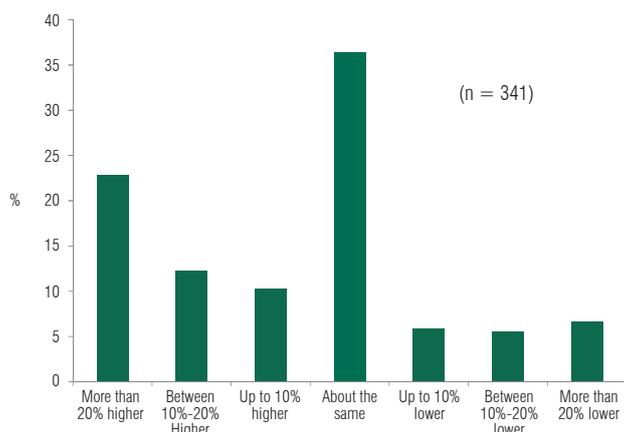
Respondents had a choice of four types of assets ranging from prime/core properties to distressed assets and they could select more than one category.

Prime/core assets were the single most attractive category chosen by almost half (46%) of respondents. This preference fits with recent and currently observed trends in investment activity and suggests a strong focus on prime assets and core markets will continue in 2012.

The survey results also show, however, that there is significant investor interest outside core to include more risky assets. One third of investors find good secondary to be attractive, a likely reaction to core markets becoming crowded and in some cases expensive. Further up the risk curve, opportunistic/value-add assets were recorded as attractive by 31% of respondents – the proportion was higher (38%) among the investors who most favoured the UK. Distressed assets were attractive for as many as 21% of investors.

The overall pattern of responses on this question suggests that, while there is a bias among investors in favour of prime/core assets, there is substantial interest and attraction for investors across the risk spectrum. Significant proportions of investors are therefore seeking non-core acquisition opportunities in 2012.

**“COMPARED WITH 2011, DO YOU EXPECT YOUR PURCHASING ACTIVITY IN 2012 TO BE HIGHER, THE SAME OR LOWER? WILL YOUR PURCHASES EXCEED YOUR SALES IN 2012?”**



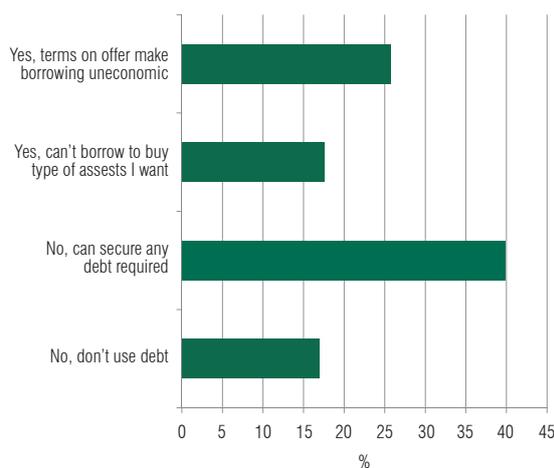
Source: CBRE Real Estate Investor Intentions Survey 2012

Property investment turnover in European markets in 2011 was 7% up on the previous year. Investor intentions this year point to a likelihood of increased purchasing activity among European investors in 2012. Just over one in three (35%) respondents expect their purchasing activity in 2012 to be at least 10% higher than in 2011. Only 12% expect their purchasing activity to be lower by 10% or more.

A clear majority of investors (61%) indicated that their purchases will exceed their sales in 2012, signifying net investment. As might be expected, the respondents who expect to spend at least 10% more in 2012 than last year will be predominantly net investors.

These results suggest potential for increased transaction volumes in European investment markets in 2012, but caution is required as to what this implies with respect to the scale of activity. The responses were not weighted by the size of respondent organisations or their level of purchase/sale activity.

**“IS THE AVAILABILITY OF DEBT AFFECTING YOUR INVESTMENT ACTIVITY?”**



Source: CBRE Real Estate Investor Intentions Survey 2012

The shift from plentiful availability of debt finance to much tighter credit conditions has caused a seismic change in investment market activity since 2007. Currently, far fewer banks are actively lending to real estate than in the pre-crisis period, lending criteria are more selective and terms more stringent. The survey asked investors if the availability debt was affecting their investment activity and why. There was a marked spread of responses to this question.

A majority (57%) of respondents said debt was not affecting their investment activity. This was either because they did not use debt (17%) or, more commonly, they could secure any debt they required (40%). For the other 43% of respondents accessing debt was a problem affecting their investment activity. This was either because they could not borrow to buy the type of assets they wanted (18%) or because the terms and conditions on offer made borrowing uneconomic (26%).

The survey results confirm that debt availability is a critical influence on investment market activity, most particularly for certain groups of investors and in relation to specific asset categories. Problems in accessing debt were widespread across different types of investor in the survey, but were proportionally most prevalent for private equity / venture capital organisations, among whom seven out of ten reported problems with access to debt.

The impact of debt availability on market activity can be gauged further by examining variations in responses to other questions according to

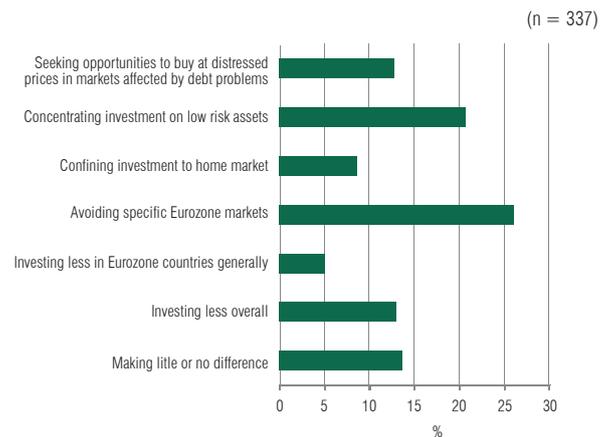
whether respondents were experiencing problems with debt or not. Thus, for instance, the effect of debt constraints was evident in responses on expected 2012 purchasing activity compared with 2011. Thus, 46% of investors who expect to reduce purchasing activity by 10% or more in 2012 report debt constraints compared with 34% of respondents expecting to increase spending by the same amount.

Investors with debt constraints are also less likely to be net investors in 2012. Just over half (51%) of investors with debt constraints will not buy more than they sell in 2012 compared with just 30% of respondents who do not have debt constraints.

Debt availability also affects respondents depending upon the type of assets they found most attractive. Among investors favouring prime or core assets, debt constraints were reported by only one in three. In contrast, investors attracted to either opportunistic/value-add or distressed property assets reported debt constraints in around 60% of cases in each category. This reflects the current strong focus of lenders to real estate on lower risk assets.

In sum, the survey results confirm that debt constraints are affecting levels of purchasing activity and net investment and in particular restrict activity with respect to opportunistic and distressed assets. Debt constraints will continue to weigh on real estate markets significantly in 2012.

## "HOW IS THE EUROZONE DEBT CRISIS AFFECTING YOUR INVESTMENT ACTIVITY?"



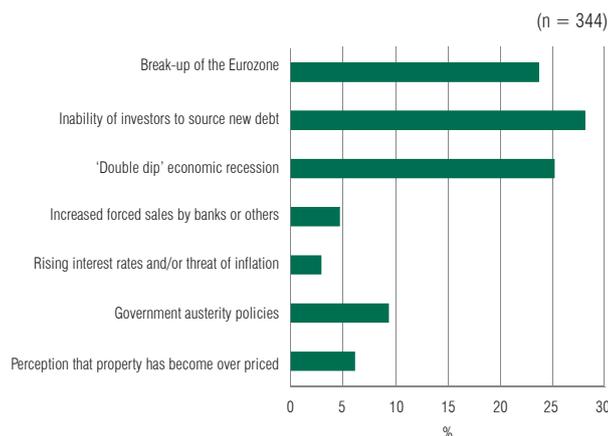
Source: CBRE Real Estate Investor Intentions Survey 2012

Over the past year the unfolding eurozone debt crisis has come to dominate the economic outlook facing European property investors, generating weaker growth prospects and heightened uncertainty. The survey sought to examine how investors are reacting to the crisis and the impact on their activity.

The results show a diversity of responses with no single dominant effect on investment activity. Among 13% of respondents, the eurozone debt crisis was not affecting their activity. The two most common responses indicated that investors are avoiding specific eurozone markets (reported by 26%) or concentrating investment on lower risk assets (21%). These responses clearly align with the survey results on the most favoured countries/regions for investment and a bias towards prime/core assets. However, there were also more cautious and risk averse responses to the debt crisis, including those of 13% of respondents who reported investing less overall in reaction to the eurozone crisis. Lower proportions of investors are confining investment to home markets (9%) or investing less in eurozone countries generally (5%).

The overall balance of responses indicates that for a majority of respondents the main effect of the eurozone crisis is to push them towards more cautious investment strategies and lower risk markets/assets. However, in a different direction, 13% of respondents said that they were seeking opportunities to buy distressed prices in the markets most affected by sovereign debt problems.

## “WHAT DO YOU BELIEVE POSES THE GREATEST THREAT TO RECOVERY OF THE EUROPEAN PROPERTY MARKET?”



Source: CBRE Real Estate Investor Intentions Survey 2012

The two factors most frequently cited in the 2011 survey as the biggest threats to property market recovery were interest rate rises and/or inflation and a shortage of debt finance. A year ago fears of a “double dip” recession had eased, although investors were still concerned about weak occupier demand.

The escalation of the sovereign debt crisis and deteriorating growth prospects in Europe have clearly changed sentiment significantly over the past 12 months. However, the single biggest perceived threat to property market recovery in this year’s survey is still seen as the inability of investors to source new debt, identified by 28% of respondents. Not surprisingly, investors experiencing debt constraints themselves (as shown by responses to an earlier question) made up a clear majority of those selecting this factor.

Fears of a “double dip” economic recession have increased substantially since last year, putting this in second place as the biggest recovery threat identified by 25% of respondents. It is now, however, only marginally ahead of a eurozone break-up which is seen as the greatest threat by 24% of respondents.

None of the other threats listed in the survey were chosen by more than 10% of investors – the impact of government austerity policies was the highest at 9%. Of least importance as a perceived threat is the prospect of rising interest rates and or inflation. This is in sharp contrast to investor concerns over this factor in early 2011 and clearly reflects the turnaround in economic circumstances and expectations over the past year.

## CONCLUDING POINTS

The 2012 survey results indicate that the strategic response of investors to the current outlook is varied and complex. Key elements in this are:

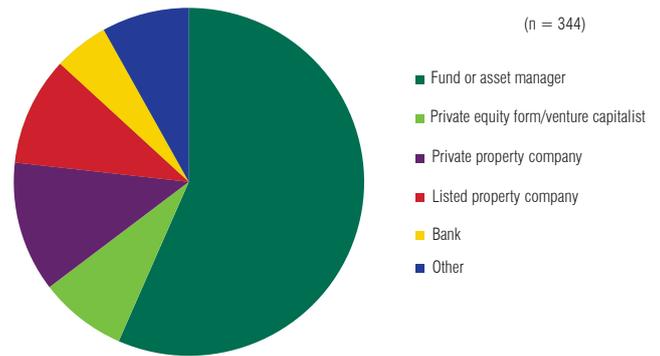
- Shortage of debt is clearly having a significant impact on activity in the investment market and is perceived as the single greatest threat to recovery (although not by a majority). Debt constraints have a greater effect on non-core markets and assets than in prime/core markets.
- At the same time investors are concerned at the prospect of recession and it is notable that nearly 1 in 4 picked a eurozone break-up as the biggest threat to market recovery.
- Investors are reacting to the sovereign debt crisis in diverse ways, but most commonly by avoiding specific eurozone markets and/or focusing on lower risk assets.
- The effect of the eurozone crisis in prompting greater caution is balanced, however, by evidence of significant risk appetite among the survey respondents, reflected in the substantial interest in acquiring opportunistic or distressed assets, including distressed assets in sovereign debt risk markets for some investors.
- The evidence of investor caution and concern about threats to the market needs also to be balanced by the survey evidence on intentions with respect to purchasing activity and net investment in 2012. Over 80% of respondents indicated that their purchasing activity in 2012 would be about the same or greater than in 2011 and a clear majority (61%) indicated they would be net investors with purchases exceeding sales in 2012. The survey results thus point clearly towards investors wishing to commit more capital to European real estate despite the risks and uncertainties currently overhanging the market.

## SURVEY METHODOLOGY AND COMPOSITION OF RESPONDENTS

The survey was carried out between 6-16 February. It was sent electronically for online completion to a wide range of investors in CBRE's clients and contacts database. A total of 344 respondents completed the survey. The majority (56%) of these describe themselves as Fund or Asset Managers. The next most numerous categories by type of organisation were private property companies (12%), listed property companies (10%) and private equity/capital firms (8%). Banks comprise 5% of respondents and the remaining 8% were made up of sovereign wealth funds, landed estates and other types of organisations.

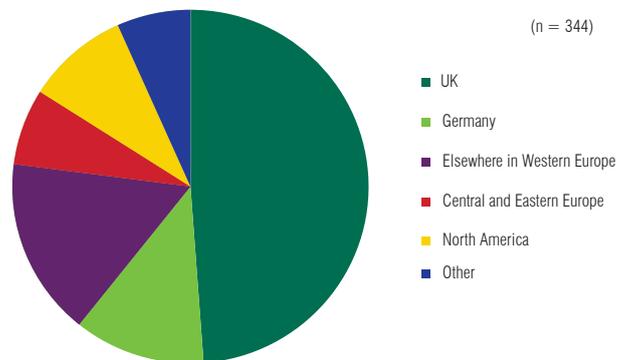
Just under half (49%) of the respondents' organisations were domiciled in the UK. The rest of Europe accounted for a further 35% of respondents. Among these Germany (12%) and Central and Eastern Europe (7%) were the most commonly recorded. A further 16% of respondents were domiciled outside Europe, of which the largest group (9% of all respondents) is from North America.

## RESPONDENT'S ORGANISATION: MAIN ACTIVITY



Source: CBRE Real Estate Investor Intentions Survey 2012

## COUNTRY/REGION OF DOMICILE



Source: CBRE Real Estate Investor Intentions Survey 2012

## 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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