



The Outlook for the European Real Estate Markets

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European Real Estate Markets

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European Real Estate Markets 2006

What Have We Learnt ?

- 1) Booming economies
- 2) Record levels of occupier demand
- 3) Low vacancy rates
- 4) High rates of rental growth
- 5) No shortage of debt finance
- 6) Record levels of transaction activity

European Real Estate Markets 2006

What Have We Learnt ?

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5%

European Real Estate Markets 2010-11

What Have We Learnt ?

- 1) Weak economies
- 2) Slow recovery in occupier demand
- 3) High vacancy rates in some key markets
- 4) Modest rates of rental growth
- 5) Little or no debt finance
- 6) Slow recovery in transaction activity

European Real Estate Markets 2010-11

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European Real Estate Markets 2010-11

What Have We Learnt ?

- 1) Ever so easy to rationalise the irrational free
- 2) Liquidity and other buzzwords
- 3) Quality of underwriting
- 4) Walk Out in Search of Value

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Investment Transaction Activity

Investment Transactions (\$bn)	2008	2009	2010	2011
Americas	130	44	57	70
Asia Pac	177	103	105	150
EMEA	73	63	62	70
Total	379	210	237	300

Source CBRE / ARE

AMERICAS

- Spreads remain attractive
- Increased cross border activity
- US Lenders more active in 2011
- Increased investor interest in Canada
- Brazil – No 1 emerging market in Americas

EMEA

- Investor focus on UK, Ger, and Fr
- London and Paris offices remain key targets
- Moscow is back in the spotlight
- Increasing interest on Poland and Turkey
- Stable market with good outlook in Nordics
- Spain, recovery play in 2012
- Strong liquidity driven by low bond yields
- De-leveraging will continue with debt taken out of markets on a net basis
- OEFs become less active in 2011

APAC

- Investor focus on China, Japan and Australia
- Positive business sentiment across the region
- Low valuations especially in Japan

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Investment Transaction Activity

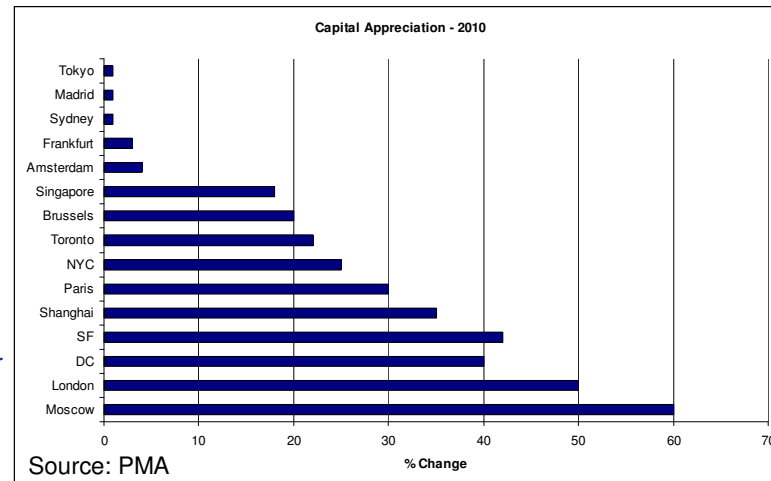
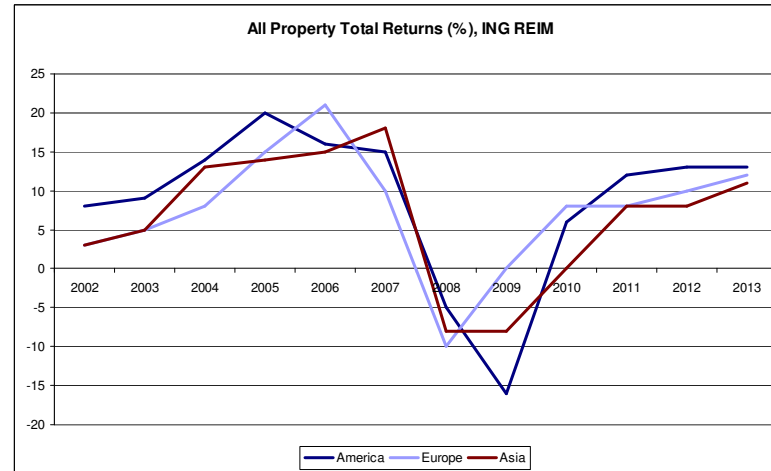
- The weight of capital targeting real estate continued to increase steadily throughout the year.
 - SWF (Investment Mandates - Norway, Malaysian, Korean).
 - Increased allocations (European / US Institutions)
 - Public Equity
 - Private Funds
 - HNWI (number of billionaires in Asia is 240 compared with 130 in 2009 according to Forbes)

- 1) Supply of core investment grade product is inadequate to meet investor requirements.

- 2) Prime yields have continued to compress with a substantial rise in capital values. As a result total returns have recovered driven almost entirely by capital markets

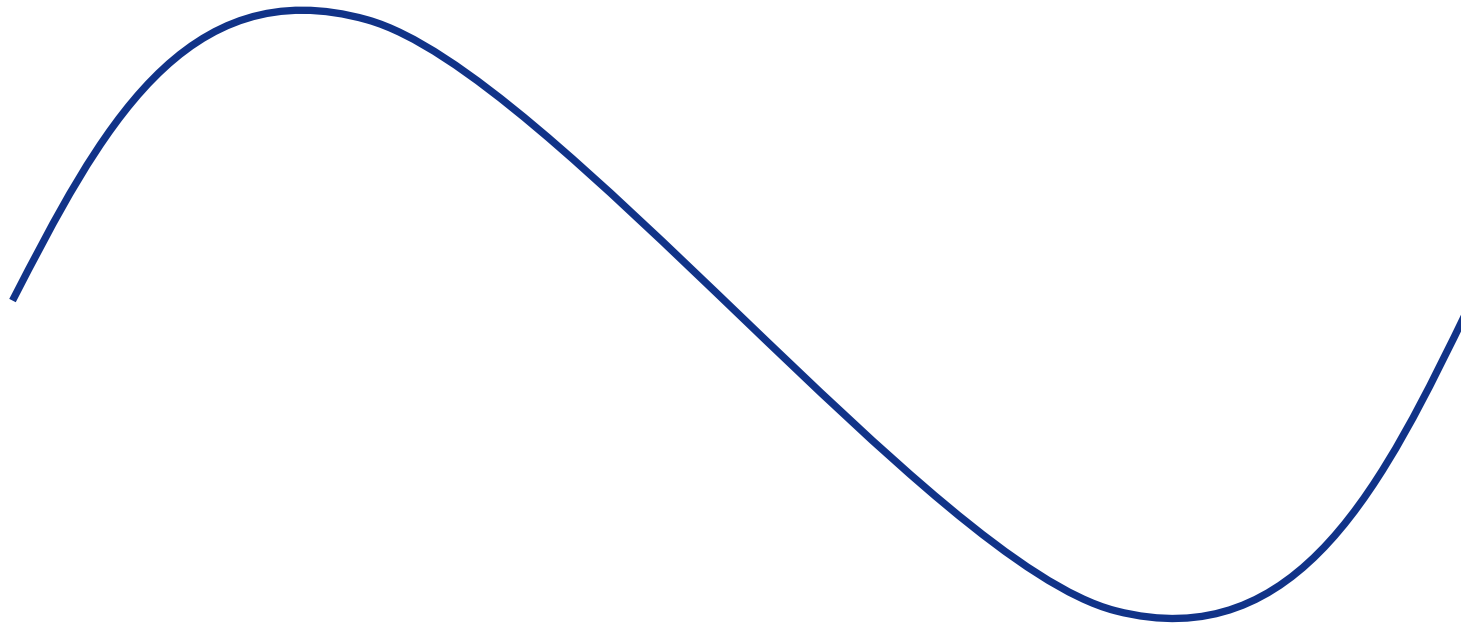
- 3) “Push” towards value-add and “secondary” assets/locations becoming evident across European markets

- 4) Investor focus on AsiaPac where business sentiment is most positive. Recovery in transaction activity level in the USA continues to lag other regions



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Timing is Everything...



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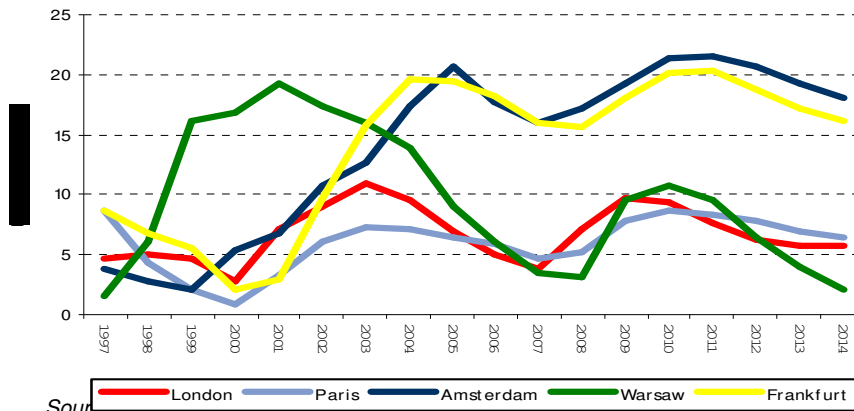
Timing is Everything...



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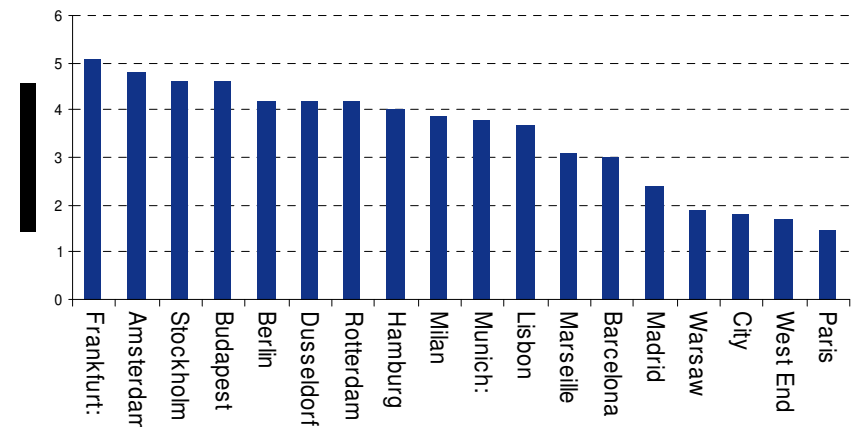
Leasing Markets

EU Markets - Vacancy Rates

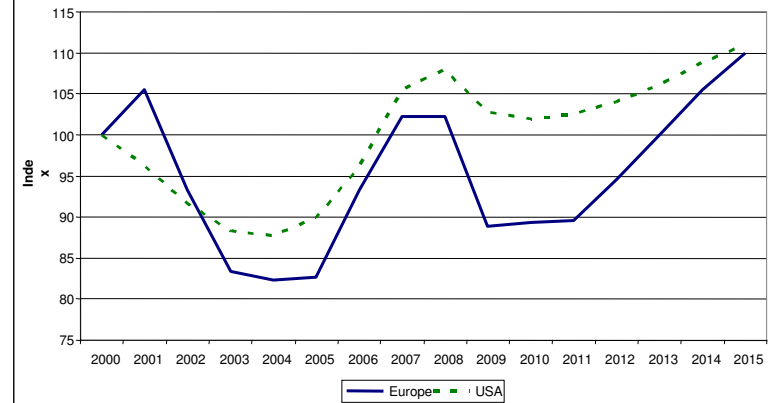


Source: JLL

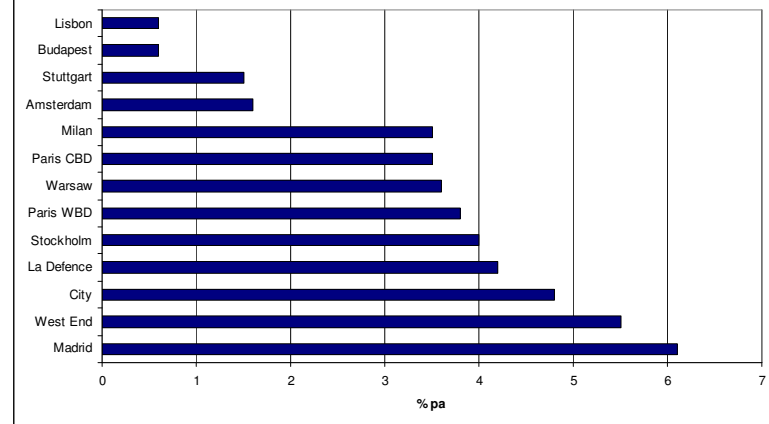
Market balance (Supply Years)



Rental Recovery in Office Market - Europe /USA



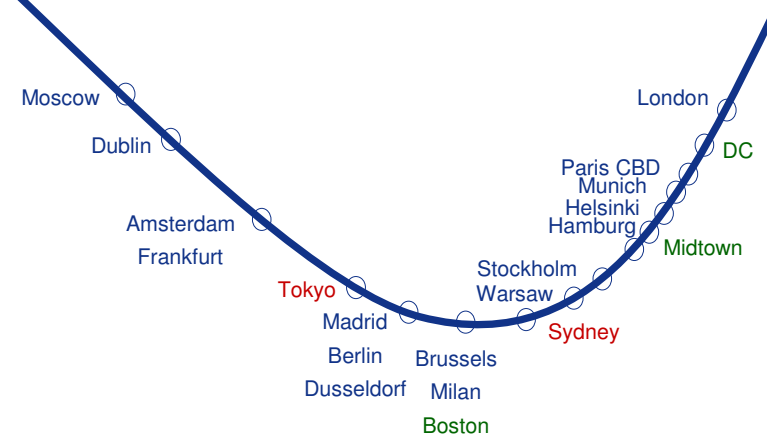
Office Rental Change in Europe (2010-15)



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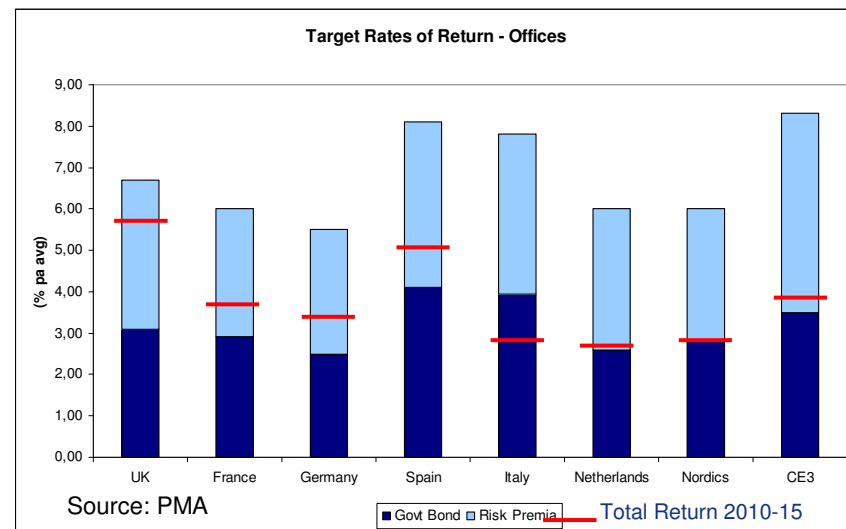
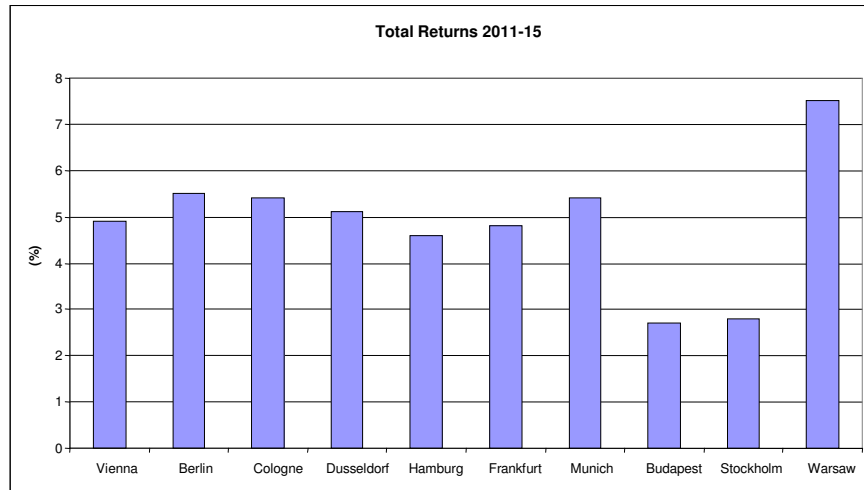
Leasing Markets

Market	Rationale
Madrid	Virtual shut down of development. Rents fell by over 35% since peak. Even IF forecasts materialise Madrid will be one of the centres most damaged by the recession. Active monitoring recommended although significant downside risk.
London	Lack of supply and faster recovery in financial sector than expected. Rents also fell more sharply than other markets. Rental peak expected in 2012-13 when new supply reaches market resulting in a dampening of rental growth.
Paris	Lack of supply and sustained recovery in demand. Strong rental growth and total return outlook across Paris CBD and key sub-markets which are expected to out-perform the average.
Warsaw	Lack of supply combined with positive net absorption. Strong outlook for both rental growth and total returns.
Midtown	Low vacancy and limited new supply. Market pricing remains well below peak pricing and below replacement cost
DC	Strong market fundamentals and rapid yield compression in core markets. Interesting investment opportunities across a number of established /mature sub-markets in DC. Recommend active persual of investment opportunities across the Capital
Boston	Real estate prices remain well below peak levels. Leasing recovery beginning to gain momentum but the market is lagging other major markets
German Markets	Modest rental growth expected across the main German markets with total returns in the 5-6% range, Munich and Hamburg expected to lead recovery
Stockholm	Expected to outperform in rental terms over the period. However, yields are expected to drift out by 40-50 bps



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Total Returns

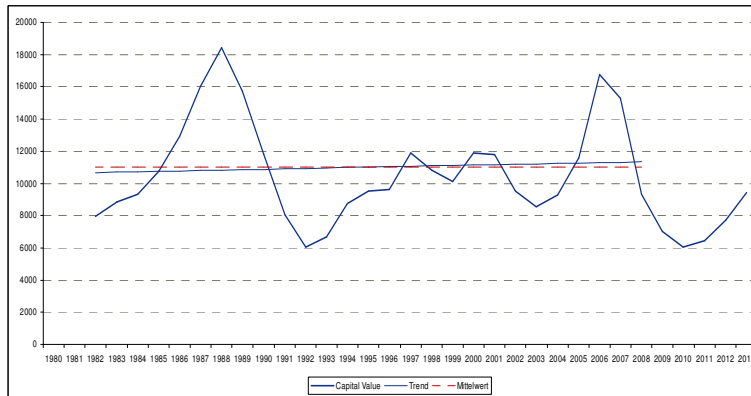


Source: PMA

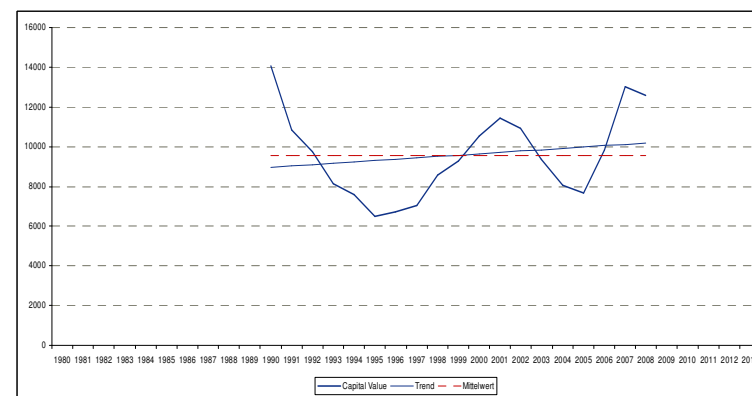
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Market Outlook - Offices

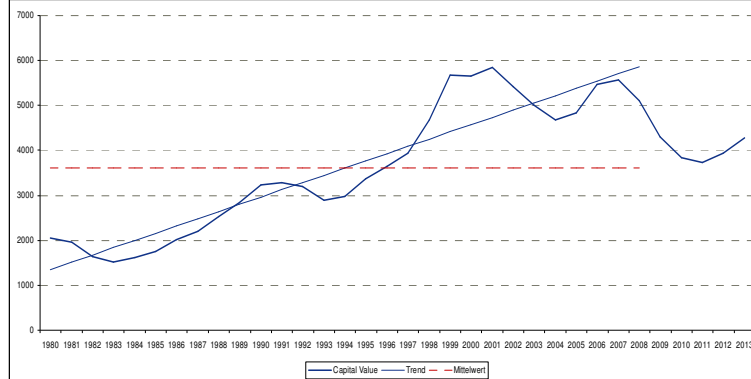
City of London - Capital Values



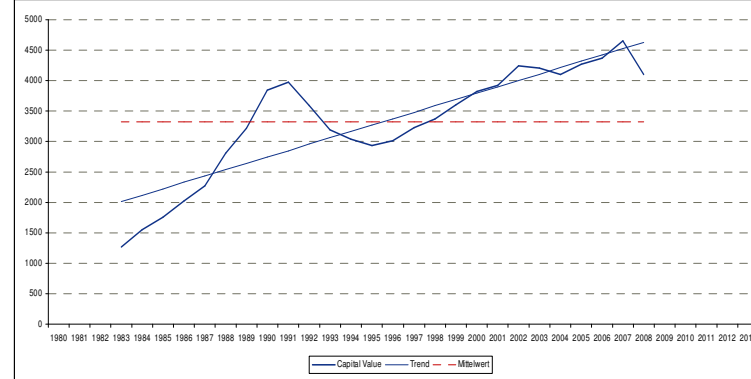
Zurich - Capital Values



Amsterdam - Capital Values



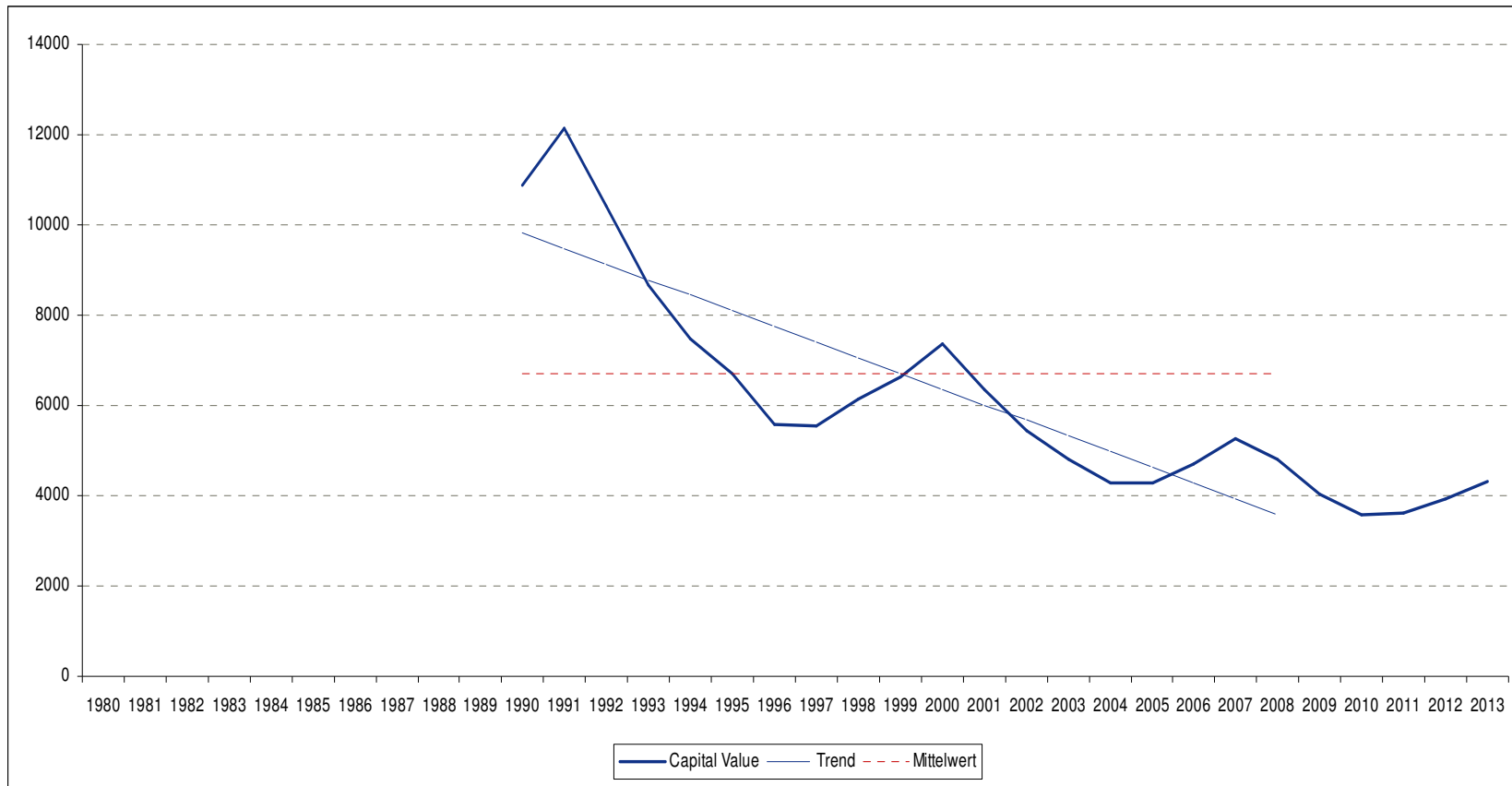
Brussels - Capital Values



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Market Outlook

Berlin – Capital Values



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Compatible investment strategies

Market Characteristics	Income Driven	Capital Driven	
Long Term Value Growth	Milan Stockholm Cologne Helsinki Brussels	Warsaw Madrid Barcelona Oslo Lisbon	Timing – Less Important
Long Term Value Stagnation	Tokyo Dusseldorf Hamburg Munich Stuttgart Vienna Frankfurt	London New York Paris	Timing – Critical
	↓ Long Term Defensive Strategy	↓ Short/Medium Term Opportunistic Strategy	

Source: ARE

European Real Estate Markets

Investment Market – Key Themes for 2011

- **Investment activity** – likely to be 25%+ up on 2010
- **Leasing Markets** – will continue to recover with highest levels of demand since the global financial crisis. Despite this recovery, effect on rental growth will be moderate
- **Core Investment Product** – Inadequate supply of core investment product
 - Push to secondary markets
 - Increasing focus on CEE, Spain and emerging markets
 - More product from Banks
 - More product from unlisted funds
- **Debt** – Improving availability of debt finance
 - Increased competition for larger lot sizes
 - Slow recovery in public debt markets
- **Polarisation** – prime property will continue to outperform secondary assets and location
- Intense competition for same type of product
- Temptation to move up the risk spectrum or chase real estate exotica

