

Emerging Trends in Real Estate®

The Second Act Optimism Returns

2013

Europe



“In the great scheme of the recovery, we are at the start of the second act.”



Emerging Trends in Real Estate® Europe 2013

A publication from:



Emerging Trends in Real Estate®

The Second Act Optimism Returns

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Europe

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Executive Summary

Optimism has returned to Europe's real estate industry. Sentiment among industry leaders about the prospects for their businesses is more positive than at any time since 2008, despite the uncertain macroeconomic outlook. Equity for investment in prime commercial real estate is expected to increase, but bank debt is predicted to contract further.

Emerging Trends Europe's respondents are adjusting to this "new normal". Those with access to capital are focusing on opportunities in areas they know best. They recognise that traditional stock selection and micro asset management skills are crucial to generating returns. The environment offers very little certainty and definitely no quick wins. Europe's real estate markets continue to be challenging, but all sectors offer new investment potential too.

Debt is expected to be available primarily to those who don't need it. This will, however, create opportunities for those with access to finance as distressed assets are brought to market.

Emerging Trends Europe respondents' optimism about 2013 does not mean they believe resolutions have been reached on how the industry's debt mountain will be refinanced, or that they have any clear idea about what might happen to the region's swathes of unloved, overgeared subprime property.

The new sources of equity and debt that are emerging will be insufficient to fill the refinancing gap and, in any event, will be focused on prime or low-risk assets. Debt is expected to be available primarily to those who don't need it. This will, however, create opportunities for those with access to finance as distressed assets are brought to market.

It is a new world that is being shaped by two major forces. Capital is increasingly global in nature, flowing into European property from across the world to the larger, well-capitalised or well-established businesses. At the same time, decisions about the way that capital is deployed will become increasingly granular, as investors shut out of the core markets chase yields worth working for.

investors are looking for value beyond prime locations and sectors.

What is distinct about 2013 is investors' willingness to take on slightly more risk. Those surveyed by *Emerging Trends Europe* are still wary of southern Europe, but they are prepared to dig deeper into more stable markets to find opportunities.

As the survey's rankings of cities' investment prospects reveal, markets such as Munich and Berlin have overtaken "non-core" locations such as Istanbul, a two-times winner in recent years.

London climbs to third best from tenth in 2012 for the same reason. But within these markets, investors are looking for value beyond prime locations and sectors.

Southern European cities, Dublin and Amsterdam remain at the lower end of the rankings, though Dublin has risen to 21st place, boosted by recent investment activity and the prospect of greater flows of distressed assets in the coming months.

Accepting more risk requires more rigour – and this is where those who are specialised, who have detailed local knowledge, and who can create networks in regional markets will prosper. Investors are exploring off-the-radar locations, learning how the local economies of those areas function, and seeking relationships with local operators to help them do that.

Lenders are similarly specialising. Pan-European strategies are out of favour. Now it is about depth and detail, as banks become more local themselves, seeking security in knowing how the demographics or economy of an area works.

Investors and lenders, as they keep one eye on refinancing risk, want to know whether an asset will stand the test of time. The need for flexibility and "future-proofing" buildings will see the green agenda take a significant step forward in 2013.

However it's not just sustainability that is changing the nature of what is built, and where. Across all sectors, macro trends are emerging that provide opportunities for those able to grasp them.

E-commerce is injecting momentum into Europe's immature logistics market. Asian tourism – a booming industry in Europe – is presenting retail and leisure developers with an entirely new consumer to cater for. In offices, the rise of the technology, media, and telecommunications sector looks set to change the way the real estate industry thinks about workspaces.

For those hunting distressed-property loan portfolio deals, there will be more interesting prospects over the months ahead. Dublin will attract more private equity capital as banks in Ireland release more assets this year. Investors will also be watching to see how Spain's "bad bank" organises itself. And European banks will be dealing in the small stuff as well as the big portfolios, creating opportunities for more businesses in 2013.

But as with all else this year, nothing is going to come easy. Europe's real estate industry is more confident about its revival, but recovery is still some way off.

Ten Years of *Emerging Trends Europe*

‘Predicting is hard, especially the future.’ – physicist Niels Bohr

***Emerging Trends in Real Estate Europe* canvasses the European real estate industry’s views about the prospects for their market in the coming year. How prescient are these experts at spotting trends? Professor Dirk Brounen, Professor of Real Estate Economics, Tilburg University, NL analyses their track record.**

Investors’ and managers’ ability to predict returns has been debated for more than 100 years. How much sense is there in asking real estate investors, developers, and advisers about their expectations for the years to come?

The efficiency of local real estate markets, where information is not always abundant, is often questioned. Thus, the opinions of experts who may be better-informed about the market may add value. For ten years, the Urban Land Institute and PwC have been discussing the state of real estate markets with well over 500 real estate experts across Europe in the annual *Emerging Trends Real Estate Europe* survey. This track record calls for celebration and critical reflection. What have these industry leaders been telling us? And how informative are their opinions?

Real Estate Confidence versus Consumer Confidence

We start the quest by comparing the business confidence of survey respondents with the European Commission’s overall economic sentiment indicator (ESI). In other words, how different is the opinion of Europe’s real estate industry from those of the men and women on the street? Exhibit 1 presents standardised results for both series.

The *Emerging Trends Europe* confidence indicator (ETE) measures respondents’ answers to the survey question about the outlook for business profitability in the coming year. From 2003 onwards, more of them have been optimistic than pessimistic, hence we plot an increasing trend up to 2005. From 2006 onwards, the pessimists have been dominating, with 2008 the all-time low.

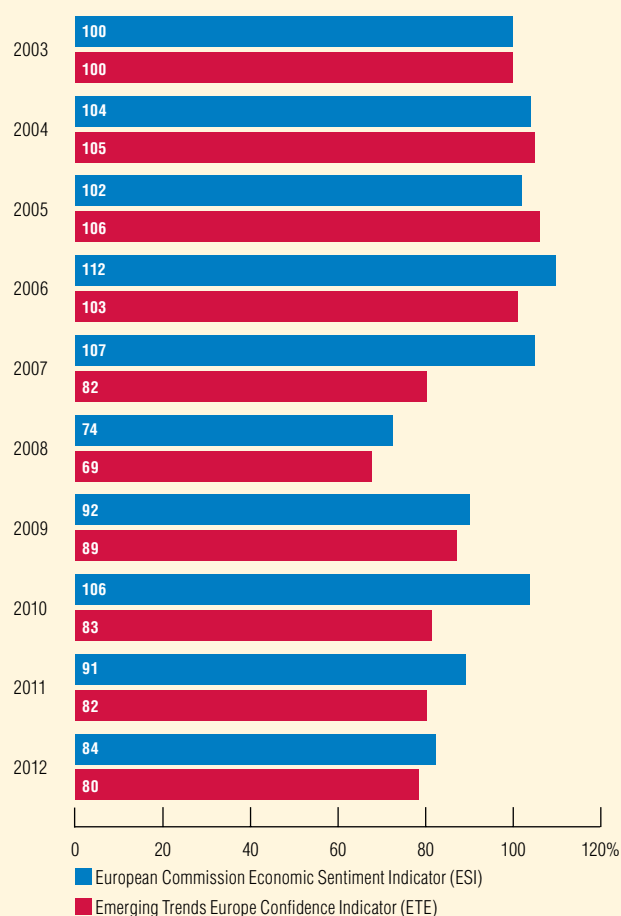
This path is similar to that of overall European consumer confidence, which also increased from 2003 and weakened after 2006. But remarkably, the direction of the ETE confidence indicator reversed earlier. This means that the survey’s respondents have been picking up the change in their market earlier and more explicitly than the more general economic confidence indicator.

Since 2009, both ETE and ESI show sentiment recovering somewhat, and in both cases this recovery weakened again after 2010. Again, this change of heart came sooner and more strongly for *Emerging Trends Europe*’s real estate respondents than for European consumers at large.

So, we can conclude that *Emerging Trends Europe* tells us something different than what we would learn by simply tracking the overall consumer confidence. Over the past ten years, the ETE and ESI opinions had a correlation of 0.6. Clearly, views are shared, but the real estate opinions reported in *Emerging Trends Europe* are more volatile and tend to change faster than in society at large.

Exhibit 1

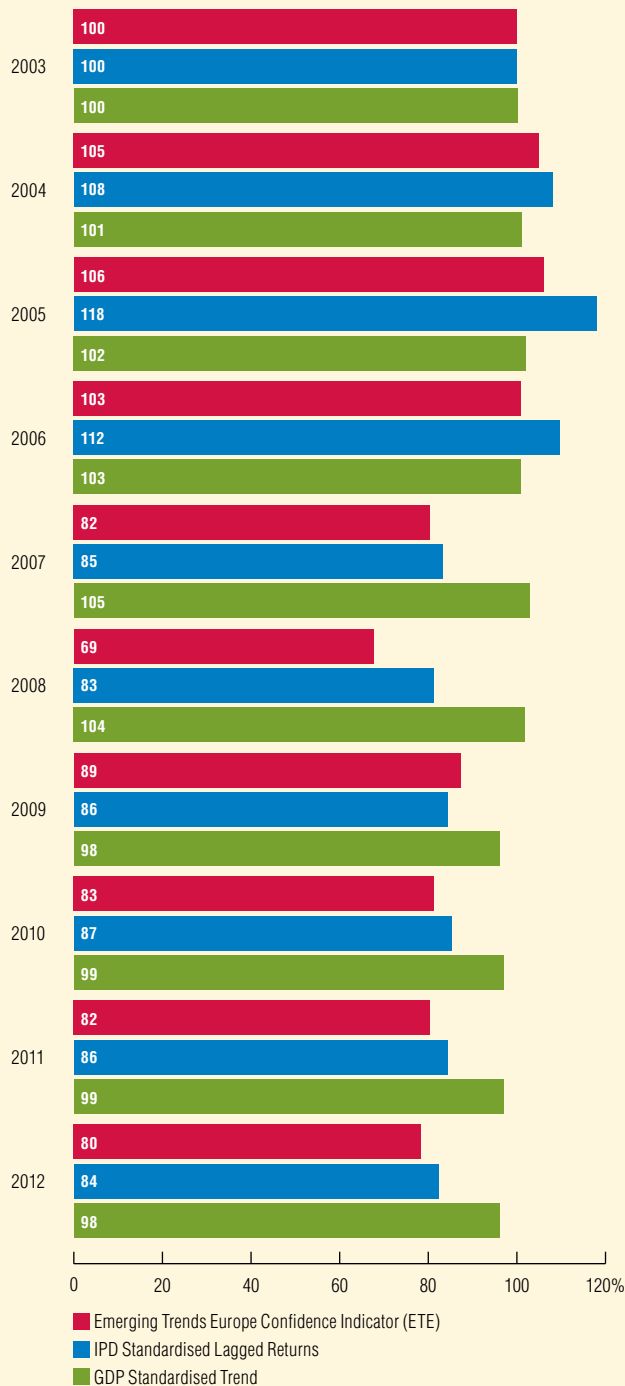
Real Estate versus Consumer Confidence



Sources: *Emerging Trends in Real Estate Europe* 2013 survey, European Commission.

Exhibit 2

Expectations versus Facts



Sources: *Emerging Trends in Real Estate Europe* 2013 survey, European Commission, Investment Property Databank.

Are We Really Forward-Looking?

Having established that the real estate opinions in this survey do more than just reflect overall economic sentiment, we can test how valuable these opinions are. We do this by comparing ETE with both the real estate returns reported by Investment Property Databank and gross domestic product in the subsequent year. Because *Emerging Trends Europe's* survey asks respondents whether they are more or less optimistic about business in the coming year compared with the past one, we standardised the IPD returns and GDP numbers by relating them to long-term averages.

This way we can assess whether respondents are telling us in advance whether next year will be better or worse than normal. The ETE confidence indicator – the red bars – shows the fall after 2006, the recovery in 2009, and a softening thereafter. Comparing this to the IPD dynamic – the blue bars – we see a remarkable similarity. The correlation between both series is almost 0.7, which means that the end-of-year opinions collected in *Emerging Trends Europe* surveys are strongly related to the real estate returns registered in the following year.

We can assess whether this is just a reflection of the general economic climate by comparing the ETE series to European Union GDP (the green bars). Here the correlation is mild at best. *Emerging Trends Europe* respondents are telling us more than what general economic indicators do. In eight of the last ten years, these industry experts have correctly predicted what the trend of European real estate returns will be next year. We hope you enjoy reading their opinions this year.

Dr. Dirk Brounen

Professor of Real Estate Economics
TiasNimbas Business School
Tilburg University, The Netherlands



Business Environment

“In the great scheme of the recovery, we are at the start of the second act.”

The past five years were about survival. But 2013 marks the beginning of the rehabilitation. For those who’ve made it through, it will be a year of refocusing, repositioning, and renovating. And it will be a year when the survivors benefit from the release of assets to market.

Emerging Trends Europe survey respondents and interviewees are extraordinarily optimistic about the months ahead. Almost 80 percent say the Eurozone crisis has created opportunities for them.

Business confidence, profitability, and real estate investment intentions are noticeably better for 2013 (though not headcounts); only a small minority of respondents foresees conditions worsening.

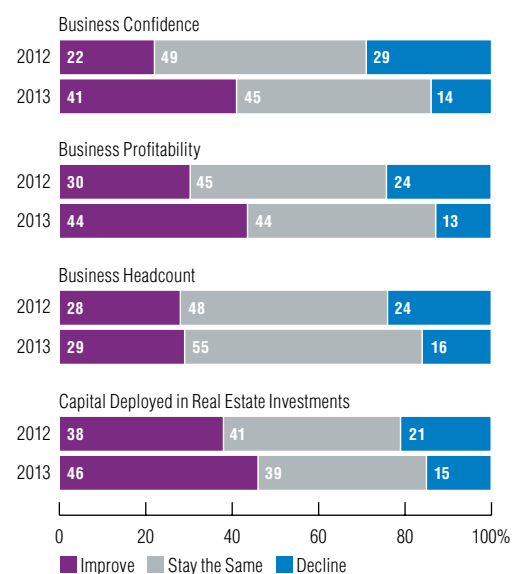
“There is nothing we can do about the Eurozone. But we can manage the risks and focus strategy around the medium-term trends – demographics, technology, and urbanisation.”

That’s not to say that the market believes macro issues have been resolved. The economic outlook remains unsettled. Europe still faces about €400 billion of deleveraging risk. And banks, as this report reflects, are undertaking a structural reduction of their commercial real estate lending.

Against such a backdrop, optimism looks paradoxical. But several factors explain the prevailing positive outlook. *Emerging Trends* surveys those businesses that are still standing.

Having gone through a Darwinian struggle, they are confident that they are well positioned to withstand the tough climate with all its continued uncertainty. This attitude is also evident in the *Emerging Trends Americas* report, in which the industry is engaging in roll-up-your-sleeves enterprises to ensure continued performance.

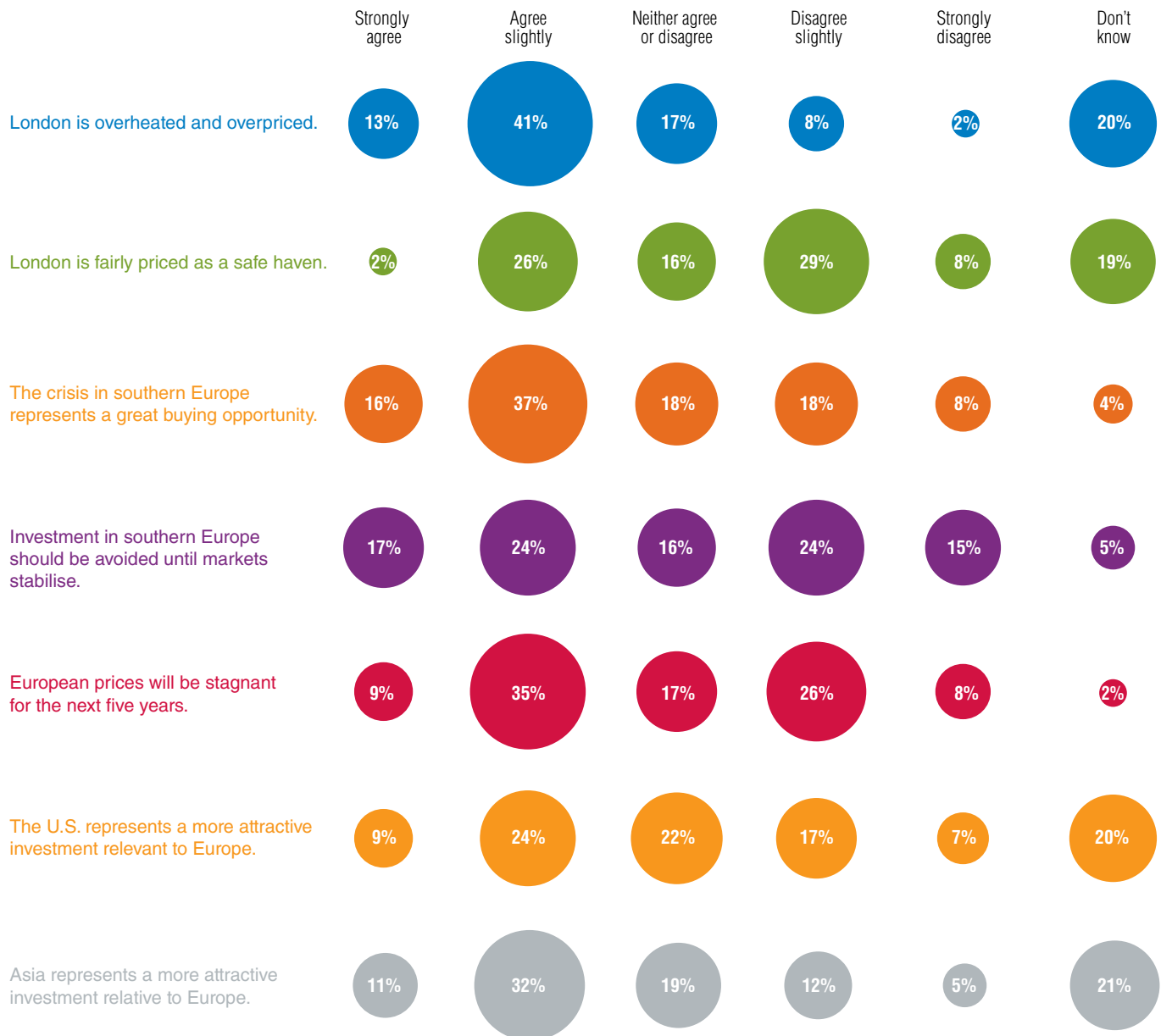
Exhibit 1-1
Real Estate Business Issues in 2013



Source: *Emerging Trends in Real Estate Europe* 2013 survey.

Exhibit 1-2

European Real Estate in 2013: What the Industry Thinks



Source: *Emerging Trends in Real Estate Europe* 2013 survey.

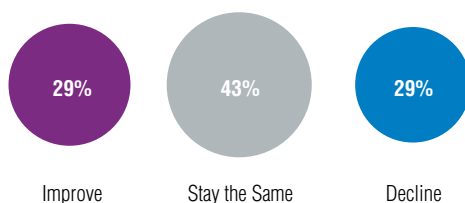
Respondents are also more at ease with the economic picture. Last year, interviewees were fearful to act, concerned Europe was on the “precipice of absolute implosion”. But looking ahead, businesses believe it’s now important to focus on the day-to-day and to navigate the market as best they can. Many subscribe to the view that Europe’s politicians will “do the right thing” and that stabilisation will be found incrementally.

“There is nothing we can do about the Eurozone,” says one interviewee. “But we can manage the risks and focus strategy around the medium-term trends – demographics, technology, and urbanisation.” As another interviewee puts it, “One needs to have a refugee mentality. Of course we are concerned about what happens next in the economy, but it’s only one piece of what we do.”

Business optimism also contrasts with the fact that survey respondents give investment and development prospects of Europe’s main cities their lowest ratings in ten years (see chapter 3). And 44 percent of respondents think the region’s real estate prices will remain stagnant until 2017.

This second disconnect – between business optimism and the outlook for individual markets – is attributable to interviewees being far more deal-led today. Panregional or country positions are passé. “Everyone is adjusting to local realities. With very few exceptions, Europewide strategies have lost their sense. Once upon a time, these were easy to support with debt, but today, no one in their right mind will lend in three different markets.”

Exhibit 1-3
European Economy in 2013

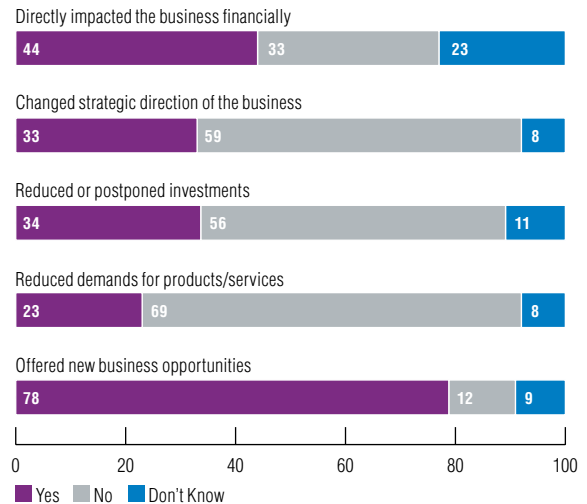


Source: Emerging Trends in Real Estate Europe 2013 survey.

Who Are the Optimists?

Reasons for optimism vary. The well capitalised are hopeful of a bigger deal flow in 2013. Those who have asset management expertise believe more value-added opportunities could be coming from banks or others flipping distressed assets. Fifty percent believe more equity will be available for investments or refinancing as capital seeks safe havens, relatively stable income return, and yields – especially compared with sovereign bonds. Those specialising in a particular field also feel confident about attracting capital: “People aren’t giving money to intermediaries anymore. They want to work directly with businesses that have niches.”

Exhibit 1-4
Impact of Eurozone Crisis



Source: Emerging Trends in Real Estate Europe 2013 survey.

Even those finding life tougher are more confident they can work with routes that provide sustenance and allow them to grind out the hard times ahead: “It’s about doing business in a different way. We have forgotten about raising money and are looking at how we create income in other ways – fees for asset management, fees for finding deals, and a small profit share.”

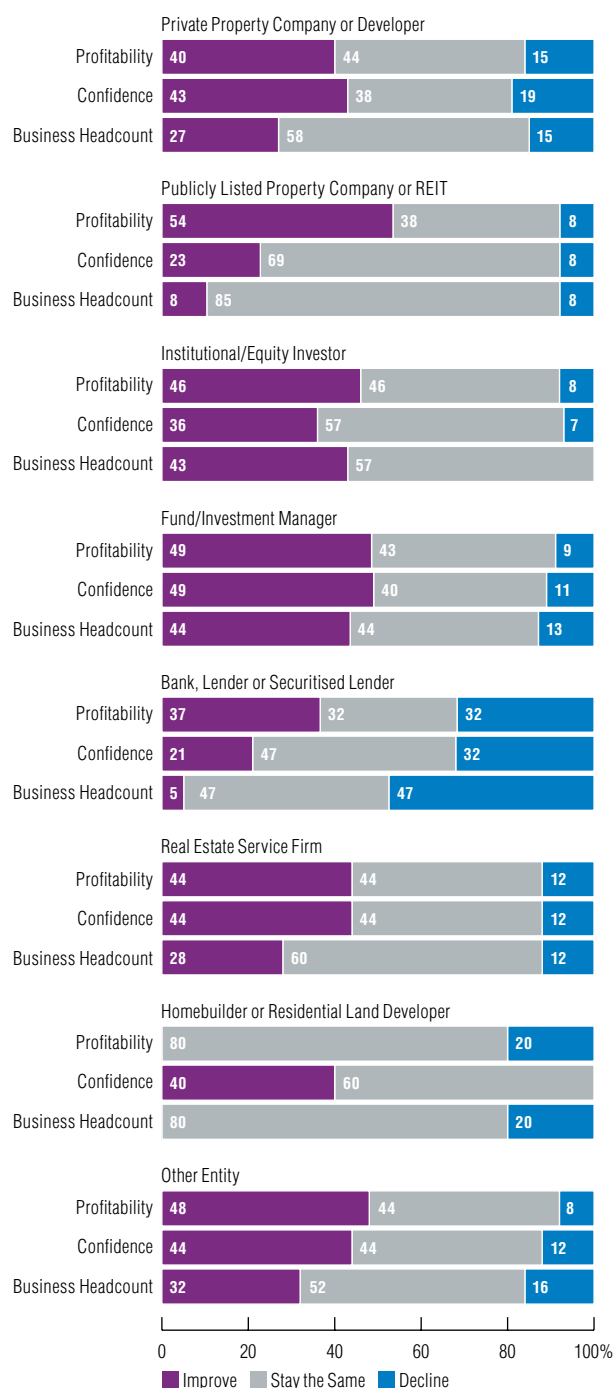
“The field is wide open for the large listed firms. They are viewed by the markets as being able to add value, buy assets with angles, and exploit them to improve income.”

Publicly listed companies are the most upbeat about their business prospects. Fifty-four percent believe profits will increase in 2013. They are set to make the most of their low cost of capital and relatively good access to debt to take advantage of property that banks will shed as they deleverage. Smaller private firms, which once could have outbid them for assets, cannot get the debt to compete. “The field is wide open for the large listed firms. They are viewed by the markets as being able to add value, buy assets with angles, and exploit them to improve income.”

Fund managers are also buoyant. Forty-nine percent predict increased profits and confidence ahead. Though they confess first closings are tough to settle, they are encouraged by continued capital flows into real estate. They also foresee a bigger flow of distressed stock from banks in 2013 (see chapter 2).

Exhibit 1-5

Business Prospects for 2013, by Business Type



Source: Emerging Trends in Real Estate Europe 2013 survey.

Those with a proven track record in asset management are especially hopeful, both about getting access to deals and capturing capital: “Throw away everything you thought you knew about opportunistic funds. Going forward, the main driver of returns will be asset management and not leverage.”

Lenders are the least optimistic. They are saddled with large amounts of difficult assets that the majority of capital available for real estate is not interested in, as equity remains picky and largely risk averse. Only 21 percent of lenders are more confident about their business in 2013; the largest portion (47 percent) sees no change ahead. On profits improving, they are pretty evenly split: 37 percent say yes, 32 percent say no, and 32 percent expect no change.

Access to capital in 2013 continues to be binary; if a business has capital, there is opportunity. But there are plenty that do not and therefore cannot find a place in the “rehabilitation” story.

Because confidence remains fragile, both equity and debt will continue heading to the larger, well-capitalised players in 2013. But in general, investors have a greater willingness to engage with less-privileged sectors and undertake more risk. “Everyone is talking to everyone,” says one interviewee. “Banks are approaching us with deals more and more. More borrowers are out in the market trying to find solutions. Agents will bring you ideas they’ve stumbled across doing a leasing.”

Whether this results in more transactions is the bigger question. “People are talking to one another, but the velocity is still not there,” says one. “A few are being more adventurous and looking at buying debt or working on restructuring with banks. But the majority have not been prepared to dip their toe in the water.”

Globalisation Meets Specialisation

The rehabilitation of the market is being shaped by two major trends – globalisation of capital and specialisation of strategies.

Capital seeking European real estate is becoming ever more global. The market is benefiting from greater interest from new Far Eastern investors, buying cross-border for the first time. But much of that is flowing to the top of the market – equity to large fund management houses, debt to large REITs, sovereign wealth fund money to leading world-class cities.

The latest figures confirm this: almost €20 billion of the €92 billion of investment turnover in Europe in the first three quarters of 2012 was focused on London, with a further €8 billion invested in Paris. Just €5 billion ended up in Italy, Spain, and Portugal, according to Real Capital Analytics. But at the same time, capital is also becoming more local within those key markets as it seeks safety and growth.

Those who cannot or do not want to compete for core assets are moving towards strategies that are focused on micro-opportunities just outside their comfort zones.

That means finding assets with a story, investigating secondary or tertiary deals with “a local sharpshooter” onside, or hunting out cities where the demographics look promising. “It could be a deal in a regional U.K. city that isn’t so great, but the specific asset and location is very good.”

Lenders are focused on a more rigorous, detailed analysis of micro-economic factors, too. Loan applications now “couldn’t be more different” from those precrisis. “Demographics, employment, social issues, where the micro-competition will be – we see all of these factors on a credit document. We see potential borrowers and they’ve done this level of analysis. For all the right reasons, we are going back to where we should have been, spending time assessing the location and its details.”

This focus on the local is encouraging the savvy to look behind Europe’s economic problems. At the opportunistic end, there are “massive price disconnects” between capital and secondary cities. “Prime stock in capital cities is expensive, but outside, no one is bidding for assets. When the U.K. economy kicks back, everyone will realise Manchester was okay after all.”

“In Germany, there’s also a major differentiation between Frankfurt and the next tier of cities: where Frankfurt is a 5 percent yield, Dresden is 9 percent. Sweden is the same.” Cross-border players are linking up with local firms that can provide the necessary depth. “They know who’s in trouble in their own markets and can bring us ideas, or put us in touch with lenders.”

Unable to justify prime investment, some traditionally core players are stepping down a rung, buying institutional-quality properties with only one or two flaws that other buyers and banks lack the skills or expertise to fix. “Most of the time the impairments are correctable. Almost always when you talk to the tenant, you’ll find it wants to stay. You just need to refurbish the lobby or fix the lift.”

This is bread and butter for medium-sized to smaller operators, with larger players focused on big distressed portfolios. “It’s the kind of stuff banks were holding on to in the hope of a value recovery, but these assets are being priced to the point where deals are capable of being done.” “The bank assumes the tenant will leave and price these at worst-case scenarios. Most of our deal flow now looks like this.”

“It is difficult for those who still believe Armageddon will occur, but we don’t think it will. Politicians are negotiating for the right outcome, the will is there, and a solution will be reached incrementally.”

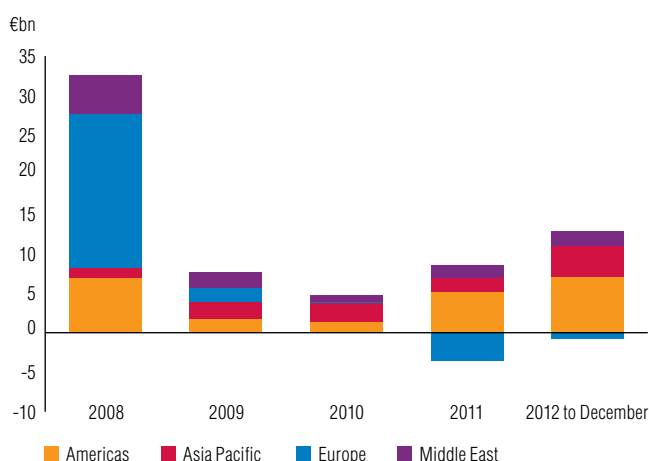
It’s this kind of story that fund managers will be selling to investors in 2013 because buyers see core as being “priced to disappoint.”

“Investors have been nervous about risk, but those same investors are now realising there isn’t as much return in it.” Another says: “The prime recovery is done. Maybe there will be a bit of income growth there but no yield compression, and without the positive effect of debt the total returns will not be spectacular.”

But this is only the beginning of a thaw towards Europe and should not be overstated. Some detect evidence that U.S. capital is more open to the idea of Europe as an opportunity, willing to entertain taking the risk for a 15 percent return. U.S. opportunity players are “feeling the distressed game in the U.S. is winding down and seeing that Europe hasn’t blown up”; pricing is becoming more attractive. In contrast, Asian capital is so far focusing on safe core investments in capital cities (though keeping a close eye on events in southern Europe, say interviewees).

Europe largely remains a difficult sell to the more conservative international institutional investors from the United States and Asia, which would have traditionally invested in the region through core funds.

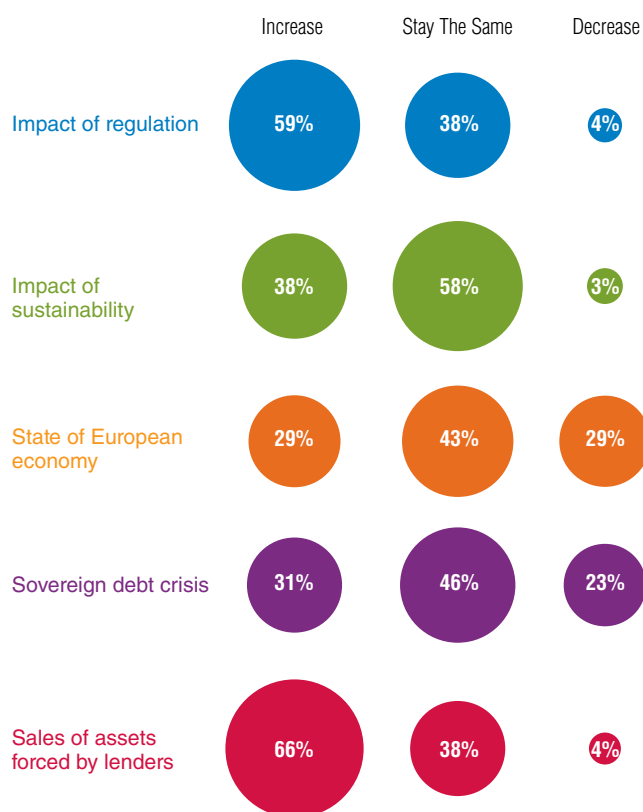
Exhibit 1-6
Net European Cross-Border Acquisitions, by Source of Capital



Source: Real Capital Analytics.

While European capital can be more discerning about under taking more risks for greater rewards in its market, some of these outsiders still view Europe as a homogenised mess and still are not prepared to move up the risk curve. “Investors want the best return that a low-risk strategy can bring, and they are still underwriting prices on the basis of worst-case scenarios.” “It is difficult for those who still believe Armageddon will occur, but we don’t think it will. Politicians are negotiating for the right outcome, the will is there, and a solution will be reached incrementally.”

Exhibit 1-7
Business Issues for 2013



Source: Emerging Trends in Real Estate Europe 2013 survey.

Nosing Out Niches

Hunting for opportunities is also about identifying interesting medium- and long-term trends. Below the scary country-level stats, local trends and niches are being investigated. What will the growing numbers of Chinese tourists to Paris mean for retail concepts? Does the emergence of the “digerati” mean old loft space in London will rise in value as these tech entrepreneurs shun modern steel-and-glass offices? “We seem to be sufficiently distant from the crisis to pick up on niches. There should be a demographic side to a hypothesis about Europe. Sentiment is one thing, but it must be driven by something else.”

Levering Out the Assets

Wherever one sits in the market, there is an expectation of greater asset sales by lenders this year. This is the biggest business issue for 66 percent of survey respondents and foreshadows an increased deal flow for those able to act. “Over recent months, we have seen banks writing down assets at prices closer to buyers’ expectations. For those assets that are outside of the core space, they are getting valued lower by the day; it’s in this market that the bargains will be found.” Interviewees are gearing up for more sales in Ireland and the U.K. and are positioning themselves for a Spanish sell-off (see chapter 2).

Sustainability Gets a New Agenda

Sustainability is still rising up the corporate agenda. Interviewees, be they REITs, residential developers, banks, or investors, say environmental concerns are now intrinsic to their due diligence. In the consumer world, brands are considering how to manage down carbon footprints and how to supply more sustainable products – an agenda which is beginning to influence retail development.

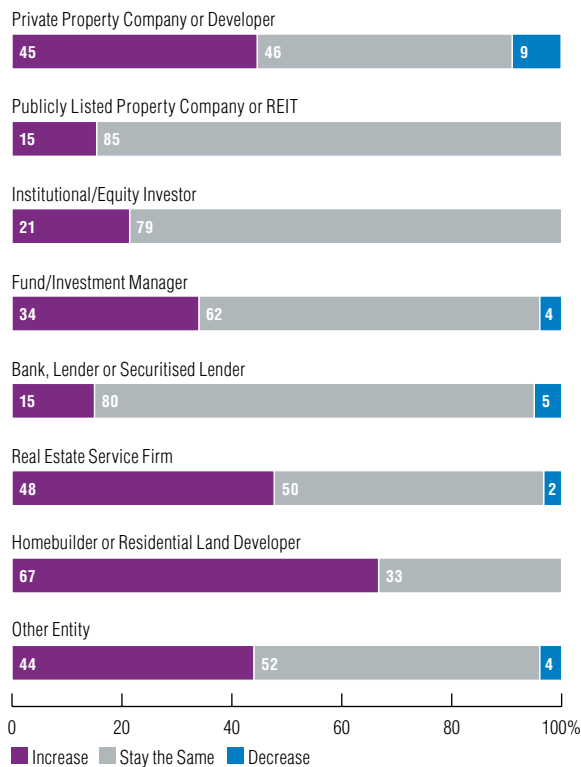
“We are looking at asset management initiatives that seek to refurbish good assets with green credentials.”
“It’s the only thing tenants want to talk about.”

“Government will force people to make buildings greener. There is a cost associated with that, and occupiers will be taxed if they aren’t green.” Sustainable properties are increasingly commanding higher rents and values, say interviewees. “We are looking at asset management initiatives that seek to refurbish good assets with green credentials.” “It’s the only thing tenants want to talk about,” says another. “We are designing room for bikes and doing everything else we can.”

For lenders, the green agenda is tied up with refinancing risk. “The most important aspect of lending today is how that asset will look five years down the line. In five years’ time, will I get my money back? For that reason sustainability is very, very important.”

The approach to green buildings is maturing. “The market needs to move away from box-ticking and think about what sustainability means in the context of 100 years into the future.” “The most green thing is reactivating assets. This should be taken into account in the scoring.” Or as one retailer says: “Sustainability is also about how that shopping centre works with the community around it. What role are you playing in the local life of that place? This is the next stage of the sustainability debate.”

Exhibit 1-8

Impact of Sustainability on Real Estate Business in 2013, by Business Type

Source: *Emerging Trends in Real Estate Europe 2013 survey*.

Sustainability is also about cities; local government will increasingly engage with its residents on this issue. It's a challenge being embraced by Copenhagen, which is exploring how green initiatives can boost economic growth long term (see chapter 3).

Old Products in a New World

As attention focuses on green issues, there is a small yet growing consciousness of the need to reappraise how developers, architects, and planners approach the built environment. "Building design has not changed, but people have. It's not about giant lobbies but great public realm and interesting environments."

Schemes delivered to market this year might not reflect these changes, but those conceived in 2013 and onwards will begin to factor these ideas in – especially in leading cities like London.

Driving this trend is the changing nature of Europe's occupiers and consumers. For the first time ever, take-up by technology and telecom companies outstripped that of banks and finance companies in the first half of 2012, according to CBRE.

As smartphones, tablets, and cloud computing drive growth in the sector, tech capitals such as London, Berlin, and Dublin are benefiting most from this demand.

Those able to capture the attention of these occupiers will be those who understand their need for different kinds of offices. "Tech companies don't want to operate out of office towers; it's not cool." "This is a workforce which has grown up with climate change; it wants responsible buildings that are edgy, too." "These firms will seek underspecified buildings that they can adapt to their needs." Outside, they look for buzzing neighbourhoods where clients can be entertained in hip bars or cafés. "They want local experiences, places that are individual and quirky. They aren't looking for globalised streetscapes."

"We must all look at the tech world, with its different needs, and start taking that as the norm. We need to look forward as an industry."

This could open up opportunities in the urban suburbs or close to the central business district, making previously overlooked locations an attractive bet; the transformation of London's Shoreditch is a case in point. Transport infrastructure must be solid and provide quick links to the city centre.

Polycentric rather than compact cities could be a theme in years to come as people seek work, live, and play environments that provide access to green spaces – though some interviewees believe inner-city locations are best for retail, allowing shoppers to access centres in a more eco-friendly way.

"What buildings do people really want and need? Those that are inventive, that have public realm, space, and comfort."

Asia: A Force for Europe

One trend emerging from globalisation is the impact Asian consumers are having on European cities and the opportunities these consumers may present.

"It's mathematical. The developing middle classes of China and elsewhere in the world have the financial wherewithal and ambition to travel. There is no constraint in demand. And it's going to grow ever further."

The Asian tourist in Europe is a large driver of retail demand and is creating opportunities in markets like Paris. Similarly, Hamburg – which moved to fifth from seventh place in *Emerging Trends Europe* rankings this year – is an important trading partner with the Far East. "Europe needs to think about how it accommodates this important consumer of retail and residential.

Asians have a big appetite for off-plan apartments and other countries will follow that. Anything that connects Asia with European businesses makes them more successful. But it takes a certain amount of vision.”

Asian tourism in Europe is now big business: 8.6 million Chinese tourists will visit by 2020, according to the London School of Oriental and African Studies. In 2010, Chinese tourists spent €35 billion in Europe. They’re using social media to make travel decisions and plans, flocking to Paris’s luxury shops (which are staffed with Mandarin speakers), then to Brussels for chocolate and on to Frankfurt’s factory outlets. “It’s mathematical. The developing middle classes of China and elsewhere in the world have the financial wherewithal and ambition to travel. There is no constraint in demand. And it’s going to grow ever further.”

Value-Sapping Regulation

While there are a few instances of deregulation creating opportunity in Europe (see chapter 4), the growing amount of red tape is a thorn in the real estate industry’s side.

Almost 60 percent of those surveyed cite regulation as the biggest issue for 2013. They say the multitude of new rules – from the Alternative Investment Fund Managers Directive (AIFMD) to Basel III – is “undermining entrepreneurship”, creating “distortions between geographies”, and requires “ever larger teams of people”, “new IT systems”, and increased financial capacity.

Meanwhile, the complexities and lack of clarity on implementing Solvency II across Europe mean costs and uncertainty rumble on for insurers. As *Emerging Trends Europe* went to press, plans to implement the new capital rules for insurers look set to be delayed until 2016.

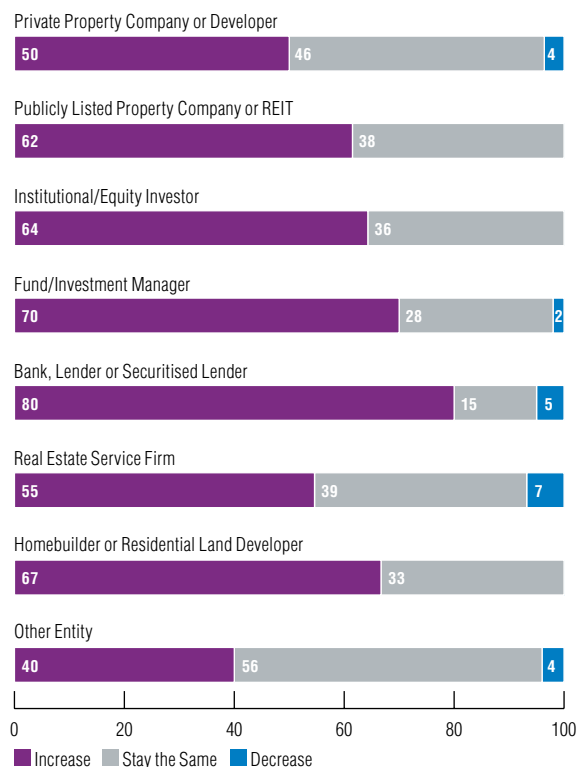
“Out of 45 employees, seven to eight spend all of their time on regulation. We spend our time reporting to comply with ever-increasing regulations, and we no longer have the time to work and to create value.”

Bankers are most concerned. Regulation is an issue for 80 percent; according to one interviewed, regulatory capital requirements imposed by Basel III had forced his firm out of property lending. Another admitted it makes his firm “hesitant.” And across the board, interviewees are feeling “indirect effects” of Basel III on the debt market in the form of increased costs and lack of debt as banks price the regulation into deals.

Fund managers are similarly worried. Many predict more consolidation. “There will be a minimum size that will be viable” to deal with the fixed costs of compliance. “European regulators don’t understand the impact on the property industry and don’t want to.”

Exhibit 1-9

Impact of Regulation on Real Estate Business in 2013, by Business Type



Source: *Emerging Trends in Real Estate Europe 2013 survey*.

The outcome of Germany’s Capital Code (Kapitalanlagegesetzbuch) – the local application of AIFMD – on the country’s fund industry is being watched with interest. As drafted, it would have prevented the creation of new open-ended property funds and was expected to trigger €20 billion of sales from existing ones. This stance has been softened to allow new open-ended vehicles, though new holding periods and restrictions will still apply.

Best Bets 2013

Concentrate on value-added locations in key cities.

Core properties might be out of reach, but there are pockets in key cities that appeal to dominant occupiers such as telecommunications, media, and technology firms and creative enterprises. These firms might switch city centre working for offices in the urban suburbs if they have good transport links and sustainable credentials (see chapter 3).

Hunt for institutional-quality properties in suspended animation.

Banks are pricing good assets with just one or two impairments as secondary because they are worried about values falling further on account of these issues. But investors say they’re attractive because all they need is a touch of TLC to improve

prospects. “There are tons of these assets on banks’ books. The owner’s lost all the equity. The banks won’t put more money in. You don’t need a growth environment to create value there.”

Saddle up for more deals in Ireland and Spain. Develop relationships, networks, and contacts in the right places to ensure that you’re in line for distressed opportunities. Ireland may be most accessible through lenders outside of the National Asset Management Agency (NAMA), which is hamstrung by 2009 prices. In Spain, now is the time to start conversations with key players as bad bank Sareb gets organised. If you can’t get in with the banks, consider how you might work with those who buy the distress.

Find quick-flip opportunities from buyers of distress.

Buy loans and properties out of larger portfolios acquired by opportunity funds. Use management expertise to increase income and value. Get in with an offer just after they’ve bought an asset or just before.

Follow the money. Europe is a key destination for tourists from China and other emerging markets. Tailoring retail, hotels, and leisure for their spend can bring rewards. Top markets are Paris, Germany, Belgium, and Turkey.

Consider teaming up with a local player in a local market.

Find a company in a secondary city that can provide intelligence about where bargains can be found, which assets for sale should be investigated or avoided, and which properties are about to come to market.

Refurbish buildings to green standards. Seek out good buildings with slight “blemishes” and turn them into good green assets.

In the months ahead, the marketplace promises to be busier. While some feel optimistic about what the banks will do this year, what’s distinct about 2013 is the greater interest of investors in looking beyond the big-picture concerns about debt and the economies of Europe and hunt for growth – whether that is to be found in major emerging trends like the internet or sustainability, or in the details of a particular location.

But whatever the activity, it’s a focus on the micro – the economics, the demographics, and the potential of a specific location or asset – that matters. “It’s important to have a global view, but not so much these days. Being the big wizards of the world is not the aim. We want to be better locally, build teams and expertise in specific places. It is a question of depth as everyone seeks to make the highest margins in a shrinking world.”



Real Estate Capital Markets

“Capital is as choosy as it has ever been, and it’s the squeezed middle that is suffering most.”

Equity and debt flow freely in the search for safety or return to parts of the industry where “it’s needed least”. Meanwhile, Europe – a distressed game to most – is offering more discounted opportunities, as banks take “prices they hate today because they could be worse tomorrow”.

But attracting debt and equity remains hard work for the ordinary mid-sized property company or noncore assets. The majority of the market is stuck “off limits”, struggling to make itself relevant to the capital markets. Those in that camp know becoming bigger isn’t just an “optimization strategy”, but a “way of surviving; capital flows to the biggest and best”. As one interviewee concludes, “Europe: a great place to deploy capital, but a tough place to find it.”

Emerging Trends Europe survey results say it all. Between 35 and 43 percent of respondents say their business found it harder to access finance in 2012, and a third reported no change.

Looking ahead to 2013, 56 percent predict less debt for refinancing and new investment. Only 20 percent think more will be available.

This jibes with Morgan Stanley’s outlook, which warns that unlike in previous downturns, banks’ reduction in their exposure to real estate is structural rather than cyclical – with the impact being felt for the next ten years. It estimates a debt shortfall of €350 billion to €600 billion for commercial property.

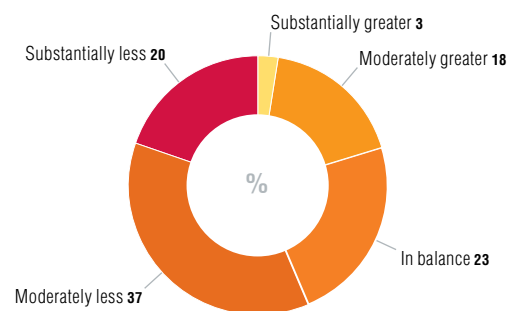
The pessimism about access to debt is spread across Europe (see appendix 1). Most countries or regions surveyed expect less debt in 2013. Portugal, Benelux, and Greece are the most downbeat; Spain, Italy, and Turkey also foresee scalebacks, though of varying severity. In France, Germany, and the Nordic countries, respondents are split nearly 50:50 between those

who think the availability of debt will be sufficient or better and those who think it will fall. The two exceptions to the trend are central and eastern Europe and the U.K., where more than 60 percent expect an unchanged or improved borrowing environment.

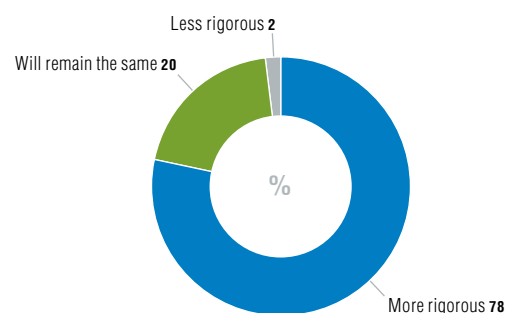
Exhibit 2-1

Real Estate Capital Market Forecast for 2013

Availability of Debt for Refinancing or New Investment



Debt Underwriting Standards

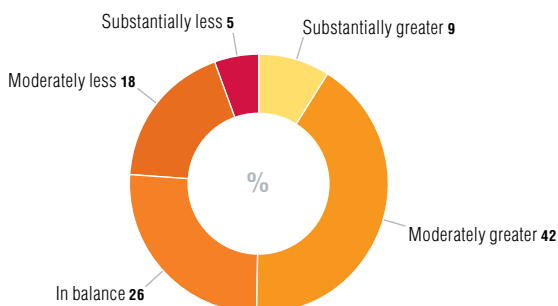


Source: *Emerging Trends in Real Estate Europe 2013* survey.

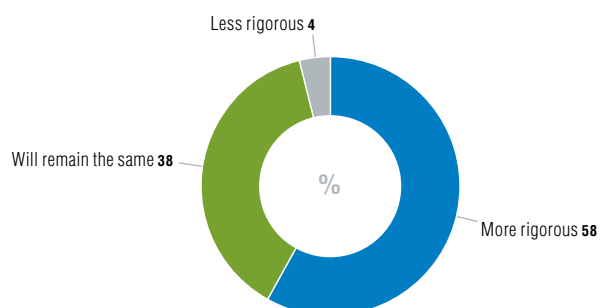
Exhibit 2-2

Real Estate Capital Market Forecast for 2013

Availability of Equity for Refinancing or New Investment



Equity Underwriting Standards

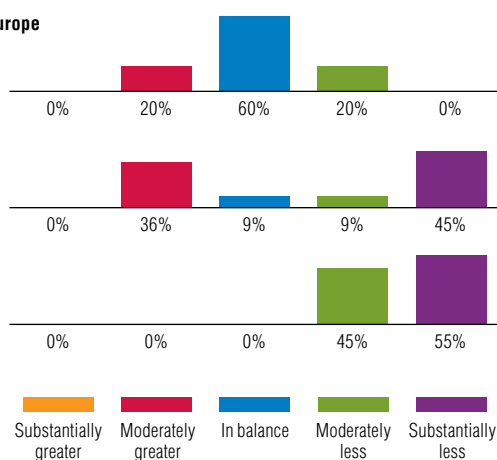


Source: Emerging Trends in Real Estate Europe 2013 survey.

Exhibit 2-3

Availability of Debt Capital for Refinancing or New Investment in 2013, by Country or Region

Central & Eastern Europe



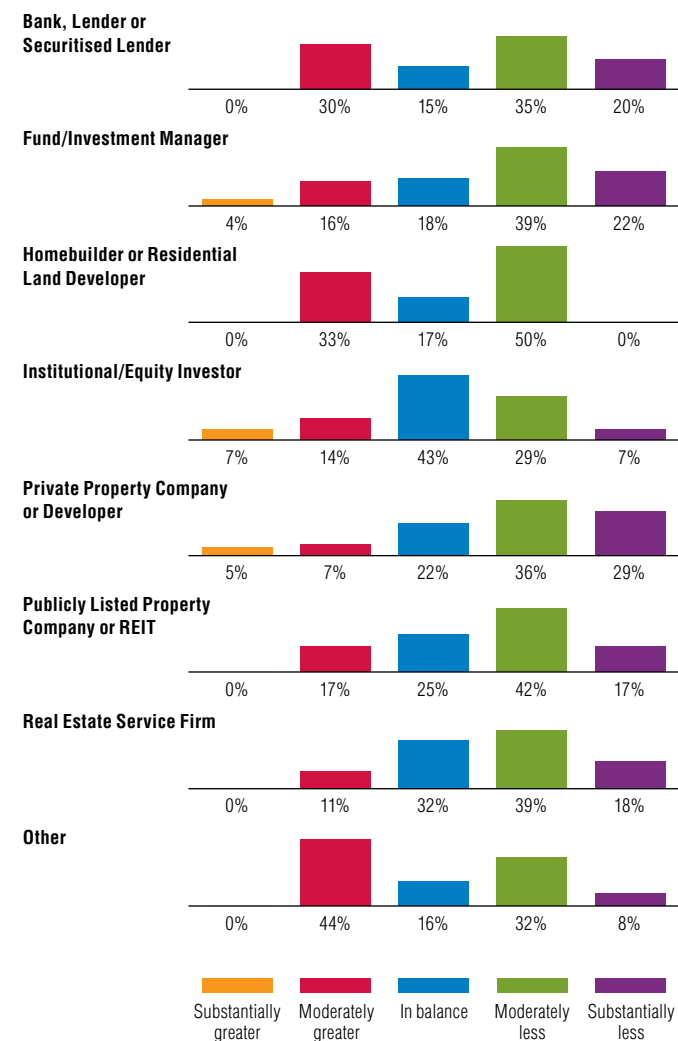
Source: Emerging Trends in Real Estate Europe 2013 survey.

Across professions, it's developers who are the gloomiest. But everyone is subdued; even 58 percent of listed firms – those perceived as being in the best position in this cycle – think there will be less finance around next year.

But when it comes to equity flows, the outlook is the reverse. Almost half predict greater amounts of equity capital for refinancing or investment in 2013. That is driven by institutional and retail investors' enthusiasm towards the sector's performance. Real estate still provides a "hard yield in a low-yielding world". As with debt, investors are still seeking safety first, returns second.

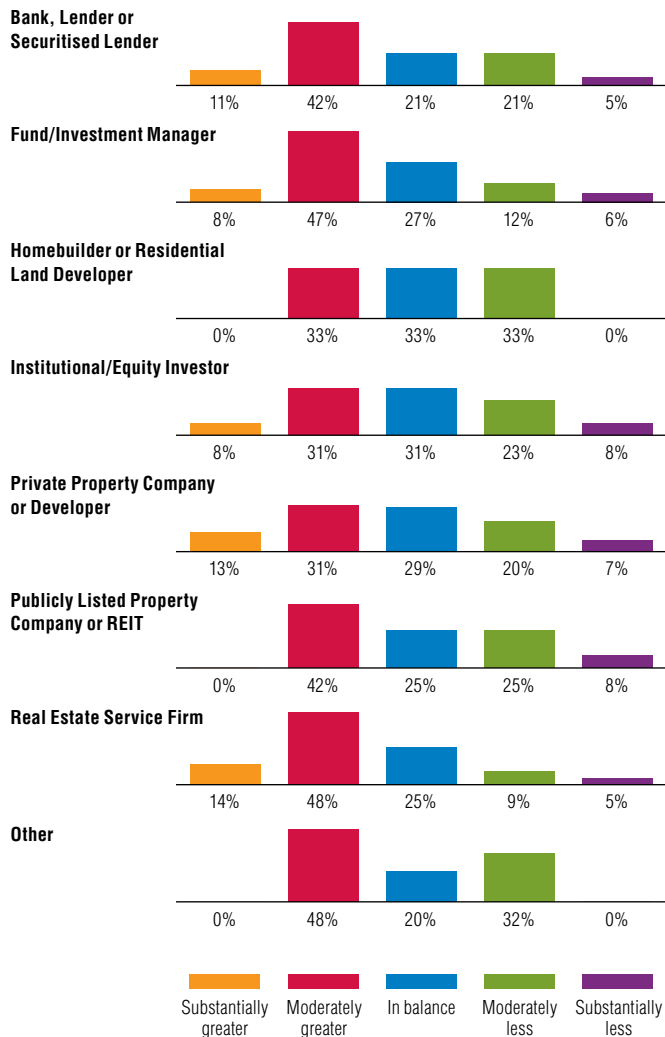
Exhibit 2-4

Availability of Debt for Refinancing or New Investment in 2013, by Business Type



Source: Emerging Trends in Real Estate Europe 2013 survey.

Exhibit 2-5

Availability of Equity for Refinancing or New Investment in 2013, by Business TypeSource: *Emerging Trends in Real Estate Europe 2013 survey*.

Debt Drought

Last year, a list of lenders withdrew from all or parts of the real estate market, including Eurohypo, Société General, NordLB, and Landesbank Berlin. In 2013 that will continue, with more banks either cutting property loose or sticking close to home, as survey and interview data indicate.

Many banks have retreated to domestic lending, partly for the “efficiency of relationships that brings”. But that doesn’t make debt any more accessible for those borrowers in a bank’s backyard. Domestic investors in troubled southern European markets are finding debt capital hard to access, whatever their position or assets.

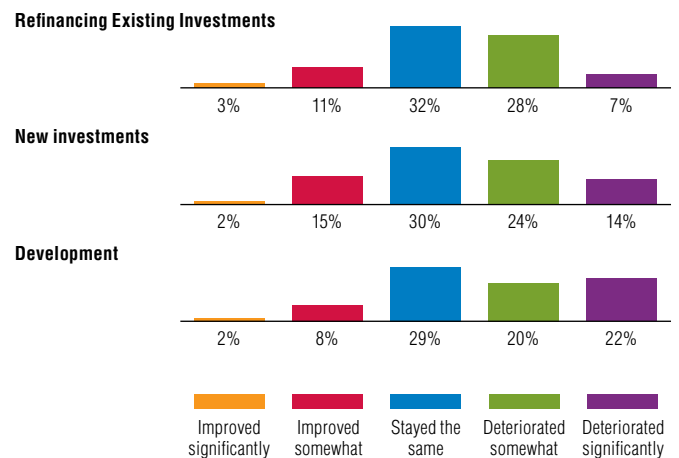
“Debt is at 600 basis points over Euribor on a core asset transaction. For other asset classes, it’s not even thinkable to receive a loan”, says one Italian investor.

In Portugal – where 100 percent of *Emerging Trends Europe* respondents expect less debt in 2013 – one interviewee reports: “The last mortgage we received for development was in 2010 and at 650 basis points over Euribor.”

Even in London: “No one bank will do more than a £50 million deal alone. And they’re all scrambling for the same four deals. The rest of the market is totally off limits.”

Fresh debt is increasingly expensive. As banks seek to meet higher funding costs and their required return on equity, margins have ticked up. But low interest rates are helping to keep the all-in cost of borrowing at affordable levels. And 78 percent of survey respondents expect underwriting standards to become more rigorous over the course of 2013.

Exhibit 2-6

Ability to Secure Bank Loans Compared With a Year AgoSource: *Emerging Trends in Real Estate Europe 2013 survey*.

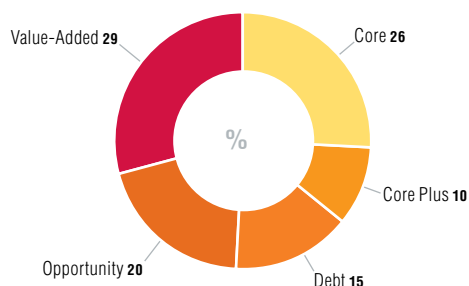
The New Lenders

Equity is “steadily getting its head around” opportunities in the debt space, interviewees say. According to Private Equity Real Estate, 23 percent of the fundraising last year – US\$9 billion (€6.9 billion) – is targeting debt.

Playing it safe remains the strategy for most debt funds, as investors support vehicles targeting newly originated loans in core, western European markets. The year 2013 will see an evolving market for these vehicles, but there’s no sign they’ll be seeking to take on more risk.

Exhibit 2-7

Private Equity Real Estate Funds in Market by Strategy



Source: Research & Analytics.

A track record with such investments is the key to fundraising success. Investors remain nervous about ventures in this new territory and seek to place capital with those managers who have one or two debt funds under their belt.

In these cases, fund managers are testing the waters to see if there is any appetite for senior debt products offering up to 65 percent loan to value. Starwood's closing of £228 million for a fund capable of lending up to 75 percent of value will encourage the market.

Fund managers will "educate" investors in alternative debt products. "There is a huge wave of money looking for yield, but it is not informed about the risk and reward of debt funds. But investors want platforms that have track record. And they are keen to stick to new origination as they don't want to get involved in the conflicts of others' mistakes."

Other alternative debt providers are similarly focused on the safe slice. The insurers – "even more prudent than bankers" – are happy to replace loans on prime, long-leased assets in key cities, but won't finance noncore assets.

"Most insurers are providing debt and there are debt funds around, but they're playing in the top 5 percent of the market."

Lack of underwriting experience is also holding alternative debt providers back from anything riskier. "Loans are being sourced by banks and then syndicated to these new players who are dependent on the originator for due diligence." And, "A lot of alternative debt providers aren't suitable for us. We're talking to everyone and looking at everything from insurers to bonds but not finding traction. It's the biggest reason why secondary values are languishing," says one borrower.

At best, interviewees hope that these emerging lenders will lead to a slightly more balanced market. But there is no hope their

new capital will plug Europe's enormous bank debt gap. As one says: "Most insurers are providing debt and there are debt funds around, but they're playing in the top 5 percent of the market."

Banking on Sales

Deleveraging is a dynamic story. Forced sales by lenders are a major issue this year for 66 percent of interviewees, and many investors are saddling up for opportunities in Ireland and Spain.

Five years into the crisis, banks are more organised and more realistic about values. In the U.K. and Ireland, more of them are ditching "hope as a strategy", interviewees say.

Lenders are eager to head off further value declines for assets on their books, underwriting "considerable" tenant distress to be on the safe side. "Prospects do not look good for nonprime and secondary properties. There is still a lot of downside potential."

"We have our focus, but over the course of the year that could turn on its head. We might lose appetite for Ireland quickly if Spain gets priced right."

Borrowers are spooking lenders with reports that their cash flows are "chilly". "We hear trade on the high street is a mess, and in regional offices they are offering up to four years rent-free on a ten-year lease," says a U.K. interviewee.

As banks anticipate the worst in economies like the U.K. and de-risk their balance sheets, loan sales are picking up. Morgan Stanley estimates that 25 percent of the deleveraging which needs to be undertaken by European banks had been done by mid-2012.

This is by no means an even picture, however. Interviewees say they are finding most sales are still coming from U.K. and Irish banks. Although there is talk of Germany being a "closed book" when it comes to accessing deals from its bad bank FMS Wertmanagement, Morgan Stanley believes 69 percent of the deleveraging undertaken was German banks as well as those in the U.K. and Ireland.

Spain, which has set up a state-run "bad bank", is expected to begin operating in 2013, though interviewees believe deals might be slow to emerge. Nevertheless, the market is watching Spain closely. "We have our focus, but over the course of the year that could turn on its head. We might lose appetite for Ireland quickly if Spain gets priced right."

Small Can Be Beautiful

The bulk of distressed portfolios on the market are made up of small, tertiary assets that are difficult to manage, supplemented with a handful of sexier properties to entice buyers. But investors are finding a market for junk assets they've purchased from banks, as microtrading markets emerge in some locations.

In the U.K., local entrepreneurs view regional assets more positively than the average institution and are bidding. "We are buying rubbish and selling rubbish. But local businessmen are prepared to buy a betting shop that yields 8 percent. They want real estate in their local town. I'm not saying it is easy or comes at the right price, but we're still getting bids," says one opportunistic investor.

In Ireland, American private equity firms may be grabbing headlines, but it is also high-net-worth Irish investors who are helping banks deleverage. "The majority of the deals we're doing are all cash purchases below €2 million," says one.

Banks like working with microdeals, too. Dealing with sophisticated players who have confidence in their ability to work with a property means the discounts applied to those assets will be lower. "That's where distress is getting exciting; a £4 million loan with four years of income, but where you'll get £3 million back from the tenant."

"Private equity investors just want to cherry-pick your book and apply a discount across the whole lot. But we're now doing the same, showing them one loan here or there because we have plans for the rest," says one banker.

Ireland: Action Stations

More distressed deals in Ireland will be a feature of 2013. While still relatively fragile, a trading market is emerging at both the prime end and in distressed opportunities. "Everyone is there and everyone is having a look", though "horrific" standards of documentation are holding up many would-be sales.

While there's appetite, investors still worry they could be buying assets they can't resell, especially as debt finance is hard to come by. "We are bidding on nonperforming loans, but we are being conservative. Assets used to trade at a 6 percent yield and now they trade at a 9. If banks want to improve pricing, then they need to offer stapled finance. If I can offer that 9 percent-yielding asset with 60 percent debt, then I have a way out."

The major deal flow is not expected to come from Ireland's National Asset Management Agency (NAMA), which is hamstrung by its commitment to sell at 2009 prices. "The market has fallen by 20 percent since it was set up, and anyone

wishing to buy in Ireland wants to pay 20 cents in the euro. NAMA can't sell at those prices."

But there are Irish banks that are prepared to deal at these levels. Some interviewees claim to be seeing "twice as many deals" from Irish banks compared with the state-owned organisation. "Our outlook for our Irish portfolio in 2013 is to get out as quickly as we can," says one lender.

"NAMA can't sell in Ireland because it can't get paid what it wants. Other banks are now clearing their balance sheets at market prices and will sell billions ahead of NAMA," says another.

The Spanish Sell-Down

Will Spain follow Ireland's example? Spain's €100 billion bad bank, Sareb, is expected to begin selling assets towards the end of 2013. Spanish banks outside of Sareb's remit are also expected to provide deals to market. "Investment managers know they can't ignore Spain, and so their opportunistic capital keeps going in, having a look, and coming out again."

"Investment managers know they can't ignore Spain, and so their opportunistic capital keeps going in, having a look, and coming out again."

While investors are positioning themselves for action, some believe that deal flow will be stunted for a long time. "Sareb will make the same mistakes as NAMA; it will buy bad assets and pay too much. At the moment, it's quiet as everyone tries to figure out how it's going to work. The year after next will be the most active years," says one.

Some are still wary: "Spain is not Ireland. Its macroeconomic situation is more complex. Unemployment is so high in Spain it's going to be difficult to find fundamentals you are happy to live with."

European Buyers: Where's the Opportunity?

The distressed game in Europe is being led by opportunistic American investors. But European firms with good asset management skills are finding a way onto the playground: buying assets off them or putting expertise and a bit of cash in joint venture with a foreign investor.

Savvy European investors are finding traction in "wholesale to retail" opportunities. They are buying loans and properties out of the larger portfolios bought by opportunity funds, using management expertise to increase income and value. "The strategy for NPL buyers is to sell underlying assets off quickly.

The clever guys know that and get in with an offer just after they've bought an asset or just before it. It's a good opportunity for investors who have capital to put to work."

Finance for distressed portfolios is steadily improving, interviewees report. "Increased deal flow by the European banks is partly down to banks getting to grips with what they own. But it is also down to improvements in financing for assets. Loan-on-loan financing is far more prevalent than it used to be."

Banks providing NPL finance are becoming more competitive, say interviewees. Margins remain high, but investors are seeing better repayment terms. Instead of demanding a full sweep of excess income from portfolios to repay the loan as quickly as possible, some banks are requiring only partial amortisation.

Banks: It's the Relationship

So, who are the 20 percent of *Emerging Trends Europe* respondents who are optimistic about debt? They are the ones who can offer a solid capital base and bolt-on business. This is relationship banking for a new era: lenders won't simply "rent out a balance sheet", even if your custom is long term.

Banks want "a bigger share of the wallet", as regulation such as Basel III places demands on their capital and dilutes their returns. "Risk isn't the issue. We understand risk now. We want to lend in situations where we get something back." Borrowers need to be "a profitable franchise"; to undertake bond issues or private placements, provide deposits, or buy derivatives.

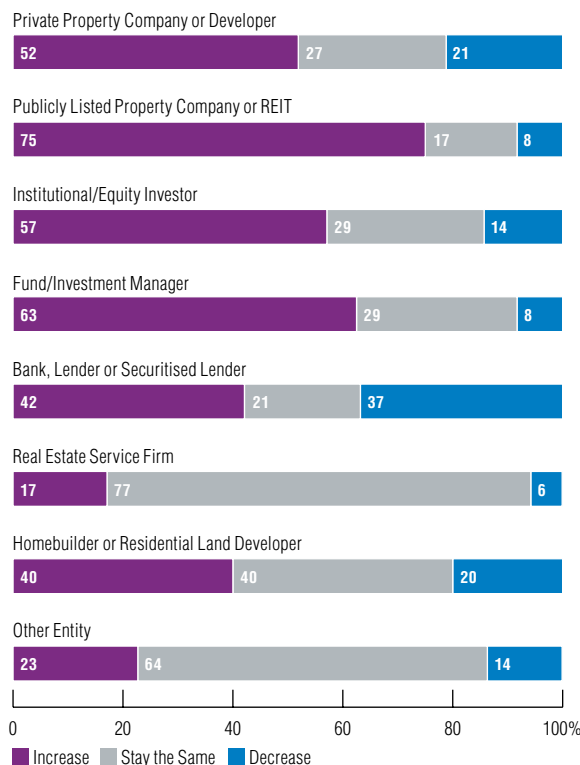
Real estate investment trusts (REITs), well-established private companies, and already well-capitalised firms can get debt, as they have the best management teams and assets to boot: portfolios of core properties with stable cash flows that are keeping them insulated from valuation turmoil. These holdings include assets that sovereign wealth funds and major institutions would like to own.

For the rest, it is difficult. As the CEO of a medium-sized firm says: "We are looking at all of these avenues, but it is really tough. We're a capital-intensive business and the secondary world is entirely reliant on debt. Now we can't gear. We used to be relaxed about our borrowing and wait six months before the end of a loan to talk about our options. Now, it's halfway through. Managing liabilities is the biggest part of our business."

Another interviewee reports having to take a 40 percent loan-to-value (LTV) ratio because the bank "thought the tenant might leave in five years' time." Bankers agree that refinancing risk is "the biggest issue on the table". "We look five years ahead and see how we're going to get out."

Exhibit 2-8

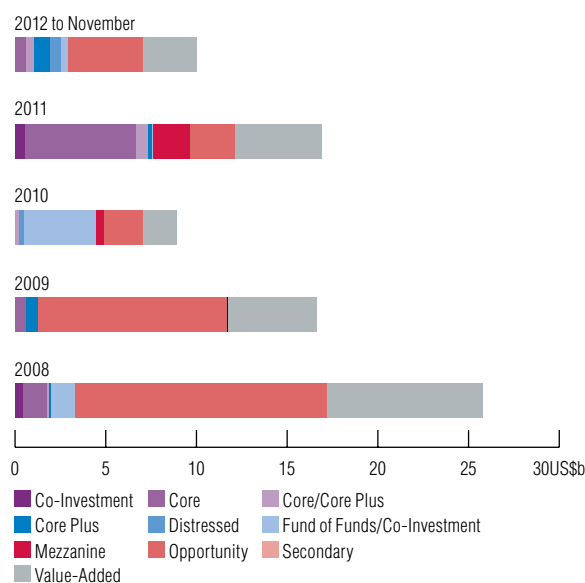
Capital Deployed in Real Estate Investments in 2013, by Business Type



Source: *Emerging Trends in Real Estate Europe 2013* survey.

Exhibit 2-9

Private Equity Capital Raised, by Strategy



Source: *Research & Analysis*.

Equity Seeks Opportunity

“The globalisation of real estate has allowed well-established firms to thrive ever further.” Capital from the United States and Asia invested at both the asset and corporate levels in 2012 and Europe’s real estate industry feels good about what’s in store. “Large players from overseas now have a risk appetite for Europe, especially the U.K.”

Investment from Southeast Asia, North America, and the Nordics will benefit large European institutions, catapulting them into a premier league worldwide through either joint ventures or advisory mandates.

As the core universe becomes ever more crowded, capital is switching to the value-added and opportunistic; two-thirds of the private equity raised in 2012 (through the third quarter) is targeting these strategies.

Interviewees also expect more action in the public markets. “The listed market in Europe has to develop either through current public companies expanding or new ones being created.” Recent figures indicate that European REITs are providing investors with a dividend yield of more than 1.5 percentage points higher than U.S. equity REITs, posting a year-to-date total return of 24.7 percent.

Demand for German multifamily companies will create opportunity, leading to a “handful of deals in 2013”; LEG has already indicated it is likely to undertake an initial public offering. Others will follow. And as Europe’s immature logistics sector develops, there are opportunities to assemble or develop portfolios destined for public offerings (see chapter 3). “There is no way to gain access to listed logistics property in Europe. That’s an anomaly and someone’s going to fill it in.”

In the mergers and acquisitions space, firms looking for top-line growth will seek stakes in others. Simon Properties’ purchase of a 28.7 percent interest in French shopping centre operator Klépierre is “not a one-off”.

CMBS Rise from the Ashes?

Investment bankers and opportunistic investors are optimistic that 2013 will throw up more CMBS deals. Royal Bank of Scotland’s successful securitisation of part of its Project Isobel loan portfolio last year is encouraging. “There are those say it’s no big deal because only the AAA tranches were securitised, but we see it as a big thing,” says one investor in distressed assets.

Moreover, European insurance companies and pension funds – some new to this debt instrument – backed the FLORE 2012-1 securitisation of German multifamily housing.

Residential portfolios work for CMBS due to the granularity of the collateral and its reliable and steady cash flows; any appetite for issues backed by commercial real estate will be focused on assets that are of the same pedigree breed as Chiswick Park, the London office complex securitised in 2011.

Investors can expect a handful more CMBS deals over the coming months, aided by the declining spreads on senior tranches (which have fallen 300 basis points since the end of 2011).

But not many; the revival of CMBS continues to be slow-paced. The buy-side in Europe remains thin; the banks and special-purpose vehicles that were the main investors precrisis have melted away. Optimists hope real-money U.S. investors – who are more familiar with the product – will be attracted to the higher-than-U.S. spreads on European CMBS. But “attracting new investors is an extremely slow process. If there are four or five more deals in 2013, that could spark a bit of momentum.”

Meanwhile, the European CMBS industry has been tackling the structural issues that caused such problems for investors postcrisis, such as transparency and payment priority. Some believe that commercial mortgage-backed securities are the “only credible solution” for refinancing Europe’s Everest of real estate debt. “There are investors out there who want to own debt, and want to own it in note or bond form, not as loans.”



Markets to Watch

“Everyone needs to be in it for the long term these days.”

Capital is hard won. Growth – be it capital value, income, or economic – is also hard won. Returns are created through management and hard work, not leverage. “Once upon a time, bank debt would have stitched all the pieces together and made a deal work. But it’s now down to us to find value.”

Investors are being forced to dig deeper for diamonds worth working. This makes the idea of buying into a city wholesale unattractive, especially given the need to mitigate economic risks.

This psychology may explain why respondents in this year’s survey are as pessimistic as they have ever been on the outlook for cities. They score the prospects for investment and development in Europe’s main centres in 2013 as an average 2.9 and 2.59 respectively on a scale of 5, with 5 representing “excellent” and 1 “very poor”. That is the lowest score registered in *Emerging Trends Europe* since 2004.

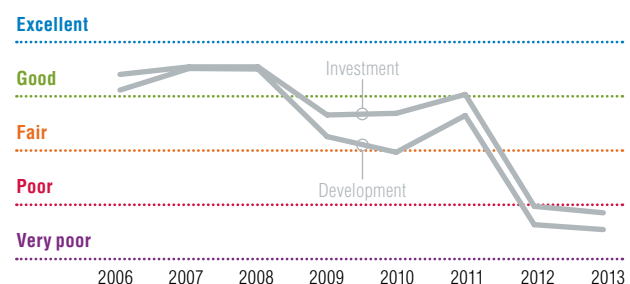
Survey respondents view Europe as a series of separate markets with micro-opportunities rather than a problem-prone region. They are drilling down to details – where demographic trends are promising, or where the specific asset is surrounded by a thriving mini-economy.

“Rather than worry about breakup, a scenario we can do little about, we’ve taken the view that there are demographics and long-term trends that are appealing.” This contrasts sharply with 2012, when interviewees were downing tools, believing that Europe was about to collapse.

The cities that score the best are the larger western European centres with liquid international appeal and better economic prospects. Munich, Berlin, London, and Hamburg make it to the top ten. Paris, Zurich, and Stockholm are equally popular.

The emerging cities of Istanbul and Moscow also score highly. Though Istanbul has been rated more highly in past *Emerging Trends Europe* surveys, deal data show transactions are limited by comparison – €538 million for Istanbul to the third quarter of 2012 versus €3.3 billion for Moscow.

Exhibit 3-1
Average City Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey*.

Exhibit 3-2
European City Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey.*

The markets that score worst are mostly in those countries at the centre of the euro crisis or coping with the consequences of the 2008 financial meltdown: Athens, Lisbon, Madrid, Barcelona, Rome, and Dublin, plus Budapest and Amsterdam. Expectations for 2013 growth in rents, capital values, and investment volumes for cities follow a similar pattern.

Exhibit 3-3
City Investment Prospects

	Existing Investments	New Investments	Development
1 Munich	3.73	3.56	3.29
2 Berlin	3.72	3.46	3.09
3 London	3.57	3.23	3.13
4 Istanbul	3.55	3.47	3.46
5 Hamburg	3.49	3.45	3.21
6 Paris	3.36	3.20	3.08
7 Zurich	3.33	3.28	3.25
8 Stockholm	3.31	3.13	2.90
9 Moscow	3.31	3.15	3.08
10 Warsaw	3.24	3.20	3.12
11 Frankfurt	3.20	3.16	2.73
12 Copenhagen	3.11	3.14	2.69
13 Vienna	3.10	3.07	2.89
14 Edinburgh	3.03	2.95	2.61
15 Lyon	2.90	2.78	2.60
16 Milan	2.75	2.55	2.16
17 Prague	2.73	2.68	2.38
18 Brussels	2.70	2.62	2.42
19 Helsinki	2.68	2.67	2.41
20 Dublin	2.66	2.88	2.30
21 Rome	2.61	2.48	2.12
22 Amsterdam	2.49	2.55	2.03
23 Barcelona	2.42	2.31	1.73
24 Madrid	2.29	2.37	1.79
25 Budapest	2.07	2.17	1.90
26 Lisbon	2.03	2.24	1.85
27 Athens	1.67	1.97	1.65

Good Fair Poor

Note: On a scale of 1 to 5
Source: *Emerging Trends in Real Estate Europe 2013* survey.

Exhibit 3-4
Expectations Regarding Amount Invested, Rents and Capital Values for 2013

	Amount Invested	Rents	Capital Values
1 Istanbul	2.19	2.31	2.26
2 Zurich	2.37	2.80	2.84
3 Munich	2.46	2.63	2.58
4 Hamburg	2.54	2.63	2.68
5 London	2.55	2.70	2.84
6 Warsaw	2.60	2.64	2.71
7 Paris	2.65	3.17	3.14
8 Stockholm	2.65	2.86	2.77
9 Copenhagen	2.67	2.95	3.06
10 Moscow	2.67	2.79	2.78
11 Frankfurt	2.68	2.93	2.93
12 Helsinki	2.71	3.06	3.18
13 Dublin	2.75	3.05	3.30
14 Vienna	2.79	3.06	2.94
15 Brussels	2.79	3.19	3.19
16 Prague	2.94	3.26	3.32
17 Edinburgh	3.05	3.30	3.30
18 Lyon	3.13	3.35	3.32
19 Athens	3.21	3.63	3.83
20 Milan	3.28	3.50	3.55
21 Amsterdam	3.28	3.46	3.64
22 Berlin	3.37	2.47	2.55
23 Madrid	3.41	3.65	3.78
24 Barcelona	3.50	3.62	3.83
25 Budapest	3.55	3.74	3.73
26 Rome	3.56	3.52	3.68
27 Lisbon	3.65	3.74	3.95

Increase Stay the same Decrease

Note: On a scale of 1 to 5
Source: *Emerging Trends in Real Estate Europe 2013* survey.

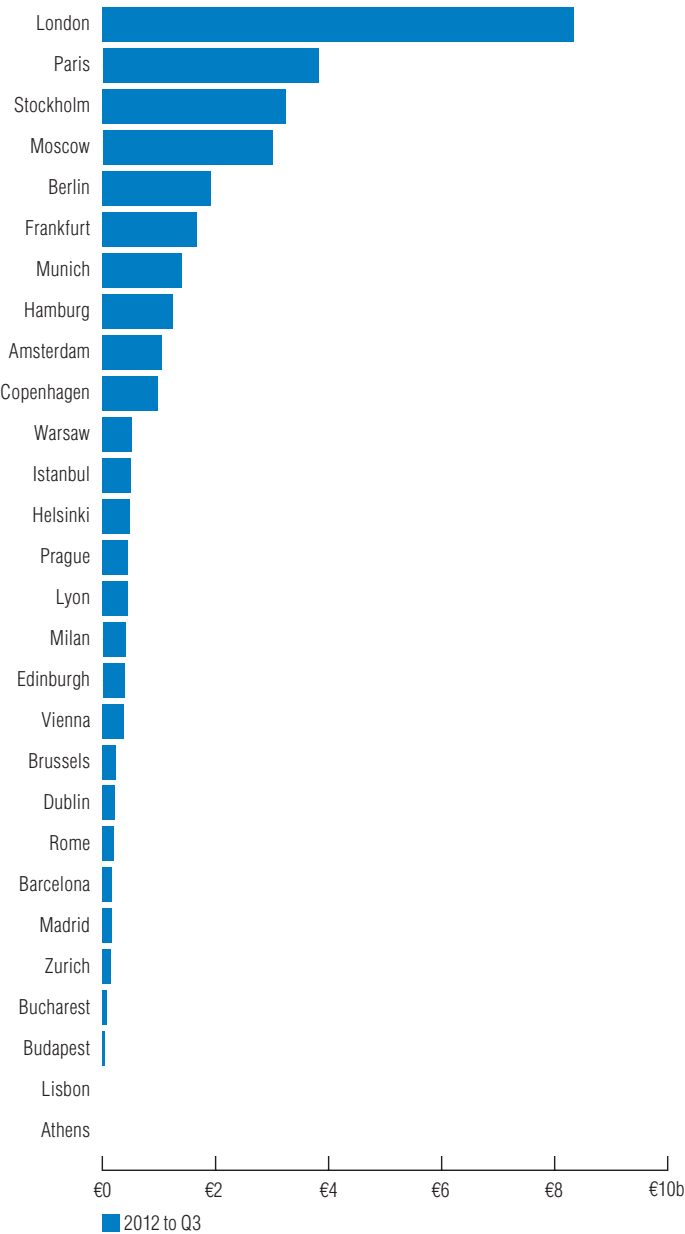
While investors seem prepared to entertain slightly more risk in 2013, their focus is limited to riskier opportunities in core markets.

London is a great example. It is the biggest riser in this survey. Investors are now looking beyond prime locations or assets for value, talking about what Crossrail might do for values in Farringdon or how the areas around the former Olympic site in Stratford will work. Similarly, residential in Germany – once a turn-off for its lack of exciting rental growth – is now an attractive investment.

Although it remains at the bottom of the rankings, Dublin also benefits from a big improvement in sentiment, moving in rank from 26 to 20. This reflects Ireland’s improving economy and the expectation that the flow of distressed assets will increase in 2013. There’s also greater confidence in prime central offices, which are attracting strong demand from the thriving TMT sector.

Warsaw takes the biggest tumble down the rankings. The Polish capital lost rank to German cities, which are perceived to offer more opportunities. Even so, interviewees have confidence in the Polish economy, which is the European Union’s fastest growing. Meanwhile, Amsterdam fell from 19 to 22, a result of recent deals highlighting that the value of Dutch real estate has fallen as much as that of Ireland and southern Europe.

Exhibit 3-5
Transaction Volumes in 2012, by City



Source: Real Capital Analytics.

City Rankings and Returns

Do the rankings that *Emerging Trends Europe* surveys award European cities for their investment prospects correlate well with their performance as measured by Investment Property Databank? Not at all in 2007 and 2008; not too badly in 2009-11.

The correlations – calculated using Spearman's rank correlation coefficient – are disastrously low in 2007-08, statistically significant at the 5 percent confidence level in 2009 and 2010, and at the 1 percent level in 2011. Perhaps *Emerging Trends Europe* respondents are getting better at evaluating their cities. Interestingly too, the standard deviation of their sentiment about the coming year's investment performance has increased through time: they seem a bit more willing to express stronger feelings (i.e. give higher and lower numbers than they used to).

Although real estate returns in cities vary significantly from year to year, thus showing very little correlation (0.5, 0.6), there is a fairly significant correlation (0.8 to 0.9) between their

investment prospects as assessed by respondents year to year. In other words, they seem to stick to their views much more than is warranted.

Are there any persistent errors? Yes, if one looks at the gap between what actually happened to returns and what respondents thought would happen over the period as a whole. They have been massively over-optimistic about Germany, especially Frankfurt, but also Hamburg, Berlin and Munich, listed in the order of overrating. In this year's survey, they continue to be optimistic about Germany. Paris and London have also been overrated, though in the case of London only because it was rated so highly in 2007.

The cities that *Emerging Trends Europe* respondents have regularly underestimated are Zurich, Vienna, and Copenhagen. The city they got exactly right was Dublin – it was last in every year, bar 2007, in both total returns and in their rankings.

Andrea Boltho

Emeritus Fellow of Magdalen College
University of Oxford

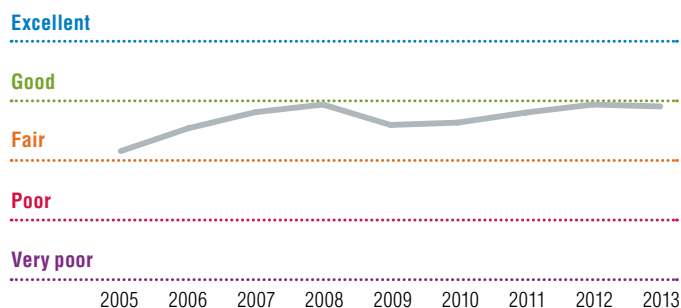


The Cities

Emerging Trends Europe has analysed the real estate markets in 27 major European cities and ranked them according to their investment prospects, as indicated by respondents in this year's survey. The number in parenthesis is the city's ranking for 2013.

Munich (1)

Exhibit 3-6
Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey*.

It is no surprise that a German city tops the bill for 2013, knocking two-time winner Istanbul off the top spot.

As investors hunt for dependable cities in economies that can shoulder headwinds, this strong, liquid market has them won over. "Munich rates with central London for its ability to withstand the crisis."

Munich has the lowest unemployment rate in Germany, and its job market is growing as biotechnology, environmental sciences, media, and genetic engineering expand. Its population is also rising, with close to 1 million forecast to live in Bavaria's state capital by 2025.

The city is a mixture of global and medium-sized businesses; it has a strong, service-based economy. Office vacancy rates are low compared to Frankfurt and other major German cities. Investors are confident that this, combined with supply constraints, will lead to rental growth in 2013.

Inhabitants in the city and surrounding region have a purchasing power unrivalled elsewhere in Germany. Tourist numbers look set to reach record highs in 2012, with a rapid increase in visitors from the emerging BRIC – Brazil, Russia, India, and China – economies. As a result, interviewees are positive about the outlook for Munich's retail market, which is the first stop for international retailers expanding in Germany.

Berlin (2)

Exhibit 3-7
Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey*.

"Berlin is at the very top." "The fundamentals are simply good".

The buzz around Berlin is rooted in its hip, young scene. Not only is it the city of choice for tech entrepreneurs, fashion designers, and artists, but also Twitter will be opening an office in Berlin.

Dubbed "Silicon Allee", Berlin's technology, media and creative industries total almost 37,000 companies with an annual turnover of €26 billion. While the clean technologies sector employs more there than anywhere else in Germany.

The real estate market is responding to this growth, especially in residential – the most popular sector with survey respondents.

Historically, Berlin's attraction for young people has been helped by cheap rents. But this is changing as interest in inner-city luxury apartments grows. This is especially true in districts such as Mitte, which has seen significant rent increases. Pension funds, listed firms, and private equity players, as well as wealthy Germans, are now among the city's residential landlords.

And the apartment sector is also taking its share of tourists: five million of the 11 million who visited Berlin in 2011 stayed in a private apartment rather than a hotel.

Retail also attracted strong support in the survey. It is a diverse market of mainstream and luxury stores and quirky second-hand shops. The city offers retailers a variety of prime locations to choose from, too.

London (3)

Exhibit 3-8
Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey*.

The U.K. capital has been restored to the top five this year, climbing up from tenth place in 2012.

Again, it's the widespread search for safety that's boosted its popularity. As a member of the global super league, London is perceived as sitting apart from the economic woes of Europe and the rest of the U.K. "It has to be London. Its size, strength, and liquidity are so broad that the same opportunities are hard to find anywhere else in Europe."

Although some think London has the worst prospects in Europe because "the recovery of values" is complete, others say plenty of micro-opportunities still exist. They are homing in on residential space in "golden postcodes" like Mayfair, where safe-haven capital from the Far East, Greece, and Spain helps prices "defy gravity". International institutions are hunting for development sites, targeting the underexplored private rented sector.

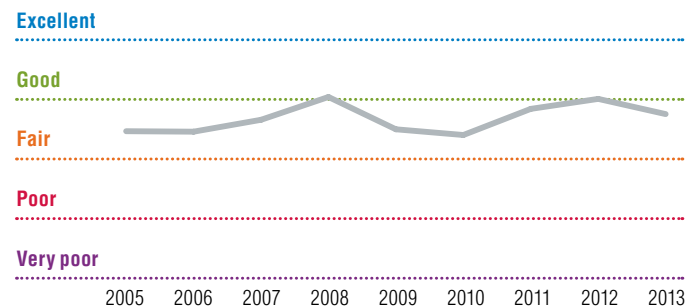
Investors also like local economies like the West End, a destination for growing numbers of TMT firms and international shoppers. The regeneration of King's Cross is widely seen as a success story, providing a new business hub for creative industries. And some are keen to see what values do in Stratford, where opportunities exist at the former Olympics site and surrounding areas.

High-profile offices in the City and Canary Wharf are still attracting trophy hunters, but developing new buildings designed for financial services is a turn-off, as this sector sheds jobs. However, there is potential in catering to the expanding technology and creative industries (see page 47).

Crossrail is expected to boost real estate values in outer districts when it arrives in 2019. So, for value-added locations, there's plenty for investors to play with.

Istanbul (4)

Exhibit 3-9
Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey*.

"It's Berlin and London for core. But it's Istanbul for opportunity."

The Turkish city was ranked first in the previous two *Emerging Trends Europe* reports, and is another top pick this year. It is Istanbul's exciting economic and demographic potential that keeps it popular with interviewees. With half of its 75 million people under the age of 29, Turkey's demography is hard to ignore, and its economic growth rivals China's.

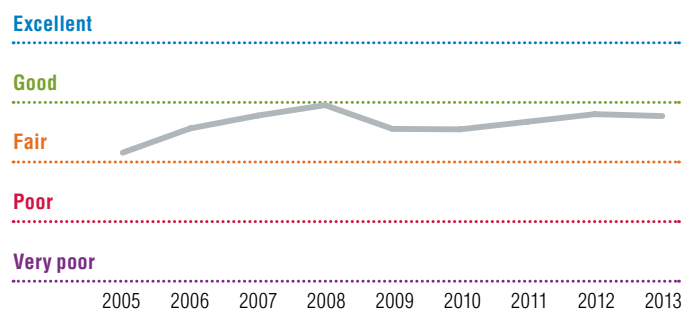
As a result, Istanbul is changing fast. Auction house Sotheby's has set up shop there, one of a band of international luxury names keen for a foothold as incomes rise. Global companies such as Nestlé and Microsoft, as well as newcomers from banking and insurance, are establishing bases, drawn by the proximity to cities in Russia and the Middle East. Strong demand for prime retail space keeps the city centre thriving.

Recent changes have eased restrictions on foreign ownership of Turkish real estate, as the government seeks to court international capital and transform Istanbul into a regional financial centre. GYODER, Turkey's Association of Real Estate Investment Companies, estimates the change will boost investment in real estate by \$5 billion a year. But a fragmented market and lack of institutional-quality assets make deals hard to secure.

Hamburg (5)

Exhibit 3-10

Investment Prospects

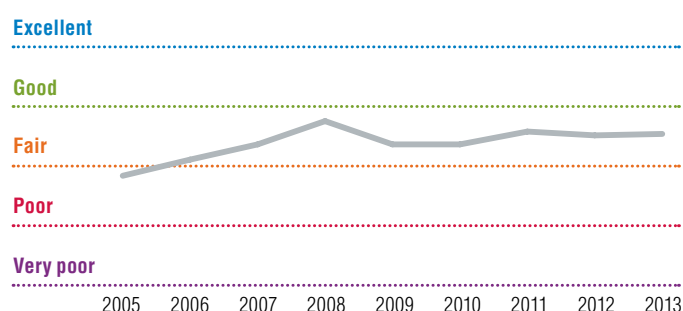


Source: Emerging Trends in Real Estate Europe 2013 survey.

Frankfurt (11)

Exhibit 3-11

Investment Prospects



Source: Emerging Trends in Real Estate Europe 2013 survey.

Promising population growth makes Hamburg's apartments a popular buy for investors. They are also focused on offices, where prime yields of 4.75 percent are at their lowest levels since 2002. "Hamburg has a high price, but it's a stable market."

Demand in Germany's second-largest city is driven by perception that it's a safe haven. There's a diverse mix of global occupiers and homegrown small- and medium-sized businesses. The new mixed-use district Hafen City – which is expected to double the city centre population – is becoming well established, and rental increases of 4 percent were recorded there over 2012.

Media is one of the largest employers, while the Port of Hamburg is an important trade hub for goods from the Far East; hundreds of Chinese companies are based in the city. Businesses in the warehouse and logistics sector say headcounts will rise.

But in a constrained office market, "high competition makes appealing assets hard to come by". Some investors are switching into the city's industrial sector as a result.

Frankfurt is benefiting as investors focus on "good bets should the euro break up". A well-developed, liquid market, it attracted Norway's sovereign wealth fund in 2012, which teamed up with AXA Real Estate Investment Managers to buy an office building there. Domestic investors therefore see 2013 as a "year to sell".

There are concerns about office vacancy, which stands at 13 percent. Demand from the banking and financial services sector – a key occupier in the city – is weak. Some investors also believe yields are too low. "You must keep away from the German market. In Frankfurt, nobody gained."

"The real estate market in Frankfurt has to be considered as differentiated. There are many risks due to a large offer and partly decreasing demand."

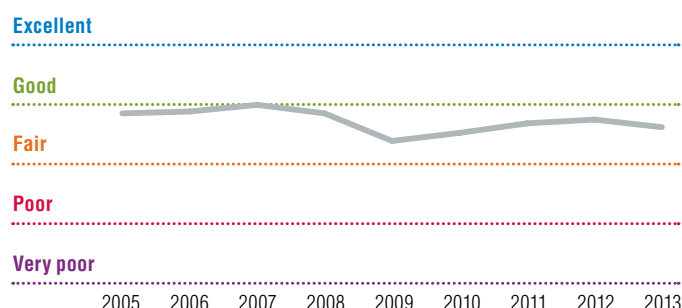
Residential is an emerging investment theme, as obsolete office properties are being converted into apartments to cater to the growing population. The government has been subsidising conversions in designated areas. Local experts say prices jumped 13 percent in the first half of 2012.

Interestingly, domestic investors are gloomy about their own market. "The German economy is slowing down, and we see that with our tenants; they are becoming more sensitive. People need less space rather than more. Much of the liquidity aimed at the market is not reachable by 90 percent of the market." "Germany has to prove confidence is justified."

Paris (6)

Exhibit 3-11

Investment Prospects



Source: Emerging Trends in Real Estate Europe 2013 survey.

France’s new president has not managed to halt rising unemployment or economic stagnation. But Paris’ top-ten ranking indicates it is still viewed as “a city to survive hard times to come”.

“Private clients are still focused on Paris and London. They are seeking trophy assets without caring about the yield.” “Whether it is Paris or London, investors want capital cities that are less impacted economically by the countries where they are located.”

Not everyone is so enthusiastic. Offices are viewed as the best buy, but there are real concerns about 2013. “Paris offers worse prospects, especially for offices.” Central Paris is holding up well, but rents in Ile-de-France and La Défense are falling as companies seek savings.

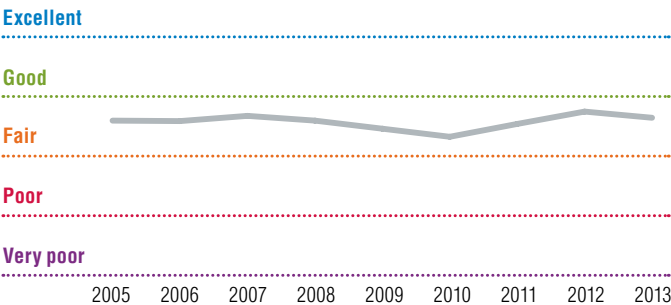
“In the past, I would have mentioned Paris as one of the best cities with the best prospects. But nowadays I think there will be a price correction because the city is on the last stretch of the road before a cliff.”

Pessimism has deepened since last year’s *Emerging Trends Europe* suggested that the market had “passed the peak”. However, Paris ended 2012 as one of Europe’s most active investment markets.

There is excitement about the city’s retail and hotel markets. Paris is the destination of choice for Chinese tourists, and the luxury retail sector is booming. Such is the demand that French daily *Le Figaro* now publishes a luxury goods supplement in Chinese.

Zurich (7)

Exhibit 3-13
Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013* survey.

Switzerland’s largest city, Zurich makes it into the top ten even though international investors see it as a “closed shop”. But they also view the Swiss franc as a safe currency, while Swiss-based interviewees report the recent crisis has had little impact on them.

“Zurich and Geneva generally offer good prospects in a European context despite the ambitious pricing in both cities.” Norway’s sovereign wealth fund paid \$1 billion for an office complex outside the city centre last year.

Interviewees like Zurich’s retail market, where vacancy rates are low and international retailers are expanding. The consumer has been relatively robust through the financial crisis. Chain store expansion has been a key driver in recent years.

However, the market is dominated by Swiss investors – real estate companies and funds, insurers, domestic pension funds, and, to some extent, family offices. That means prime assets are hard to come by for outsiders. “There are no big opportunities in Zurich any longer.”

Stockholm (8)

Exhibit 3-14
Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013* survey.

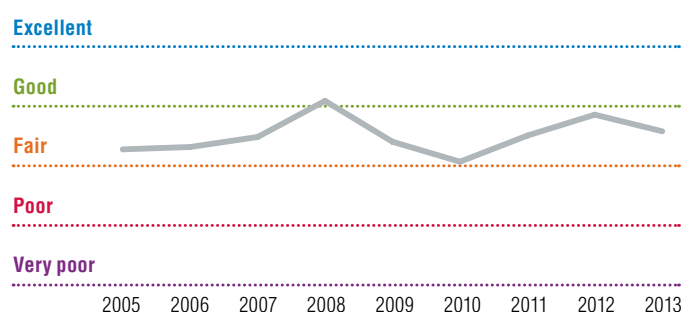
Survey respondents rank Stockholm number eight for prospects this year, and RCA lists it as the third-most-active market in the first three quarters of 2012. However locals seem somewhat concerned. “No real new opportunities; we just hope for stable growth.” “Sweden will continue to go into recession, where Europe has been for a long time.” “What is important for the E.U. is important for Sweden also. We have the same financial markets.”

However, demographics are working in Stockholm's favour. Sweden's population is expected to reach 10 million by 2018, from both an increase in birthrate and migrants attracted by Stockholm's reputation as one of the world's most liveable cities. This growth is prompting a €30 billion investment in the city's infrastructure and strategic development.

Global brands have made Stockholm their Nordic headquarters, making the office market popular with investors (although retail is the top pick in the survey). The lack of restrictions on foreign ownership is a plus, as is the fact that half its property market is institutionally owned. "I do not foresee any major changes in 2013. Stockholm is doing all right."

Moscow (9)

Exhibit 3-15
Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey*.

Moscow has yo-yoed in the rankings since *Emerging Trends Europe* began, but has remained firmly in ninth place for two years running.

Russia-based interviewees think international investors are underplaying the opportunities by sticking to steadier but less exciting markets. "The storm is more important than the boat right now. Russia is a sailboat that's doing well and the design is right, but in a storm, it is the big tankers where everyone heads for safety."

Domestic banks are active, viewing real estate as a "big source of growth". Moscow was the fourth-most-active European market in the first three quarters of 2012, according to RCA – with more invested there than Berlin, Munich, or Istanbul.

Retail is the most popular sector. Muscovites spend around 70 percent of their disposable income in brand-new shopping streets and centres, so strong retailer demand keeps rents high.

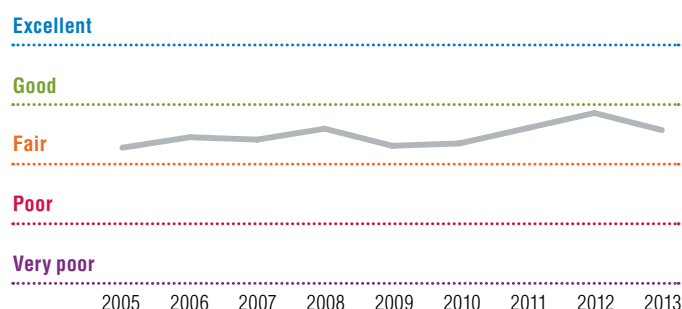
Holding investors back is a fear of the "narrow possibilities for exit" and the absence of long-term stabilising forces such as pension funds. But local firms report that profits are better than ever. "Moscow is the reverse of many European cities: there is GDP growth and rents are growing in double digits."

Turnkey projects are more prevalent as office occupiers demand higher standards of space to suit their image. The industrial sector is of interest to developers, while oil and gas companies are providing good demand for logistics facilities.

Central Europe:

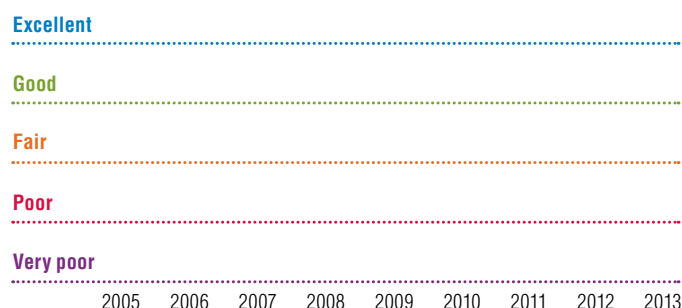
Warsaw (10)

Exhibit 3-16
Investment Prospects



Prague (17)

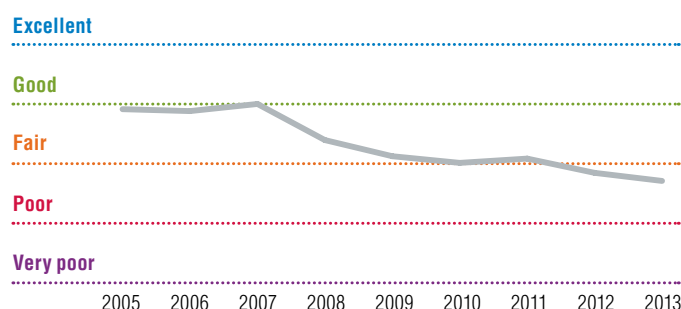
Exhibit 3-17
Investment Prospects



Budapest (25)

Exhibit 3-18

Investment Prospects



Source: Emerging Trends in Real Estate Europe 2013 survey.

Warsaw's shops are benefiting from confident domestic consumers who are spending an increasing amount of their income, as opposed to saving it. Consequently, retail is the most popular sector, driven by good performance in 2010 and 2011.

The economic fundamentals are good. Poland has escaped recession and is the fastest-growing economy in the European Union. "It has the growth of emerging markets but benefits from E.U. integration."

Poland is currently central and eastern Europe's most active real estate market (according to figures to the year September 2012) and investors are seeking core rather than opportunistic assets. "Warsaw has institutional product, institutional demand, and financing at reasonable pricing," says one interviewee.

Aside from retail, foreign buyers are keen on the expanding logistics market. As a key distribution point linking western and eastern Europe, Poland is benefitting from E.U.-funded infrastructure improvements; several high-profile international investors bought portfolios here last year.

Prague's fortunes have slipped this year, moving the city three places lower to 17th. The Czech economy is in recession, with government austerity measures hitting domestic consumption. "We are working for food, not coffee; margins are low," says one interviewee.

But despite stressed consumers, local agents say luxury brands are reporting record sales and double-digit growth. So investors are keeping an eye on Prague. "Retail with a track record which has proven it works could be interesting."

"Warsaw if you are conservative; Budapest if you are opportunistic," one interviewee recommends. Budapest

lingers at the bottom of the table. "The economic and political turmoil of the last nine to 12 months makes the market extremely soft," says one international investor. It is also a small investment market.

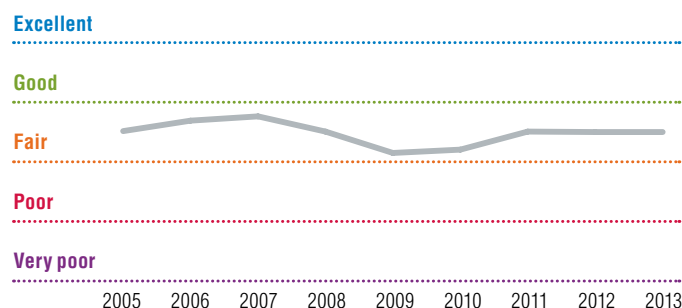
Hungary's centre-right government has unsettled investors both domestically and abroad. Moves to undermine the independence of the central bank and judiciary sparked public protests and a challenge from the European Commission last year. "Budapest is the worst opportunity in Europe because of the uncertain macroeconomic situation."

Despite this, retail brands see the long-term opportunity in a market of 1.7 million people. Starbucks and the Body Shop have expanded, and prime centres enjoy good occupancy levels and footfall. "Long term, you might even look at cities like Budapest, which could be an opportunity. Central Europe also has a younger population and so doesn't face the same pension hole as many western European economies."

Copenhagen (12)

Exhibit 3-19

Investment Prospects



Source: Emerging Trends in Real Estate Europe 2013 survey.

Copenhagen's growing population has high living standards, keeping its prime pitches and shopping centres in demand from a variety of domestic and international retailers. The city's focus on green initiatives means all its main shopping districts can be reached on foot or by bike.

"We are focusing on Copenhagen only, which is on a positive trend – increasing population, heavy investment in infrastructure, and reasonably strong economy. We expect that Copenhagen will continue its improvement in comparison with other European capitals."

The population of Greater Copenhagen is expected to enjoy above-average growth to 2025, as the densely populated city develops in districts like South Harbour. Some 33,000 new dwellings are needed over the next decade to cater to this growth, according to the city council.

Investors like the residential sector, which is attracting institutional capital. “Residential is the top opportunity in the market.” “Copenhagen is interesting but only for apartments.”

The city wants to boost its economy with green policies for growth and urban development. It aims to become carbon neutral by 2025; exports of green services and products are rising – achievements that prompted the Organisation for Economic Co-operation and Development to call Copenhagen a “globally leading” green economy.

Interviewees predict domestic funds will be allocating more to real estate, in preference to lower-yielding bonds. There will also be asset management opportunities for foreign players as banks “increasingly take real estate into their control”.

Vienna (13)

Exhibit 3-20

Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey*.

High purchasing power, low unemployment, strong tourism, and reliable sales – the Viennese retail sector is a winner with survey respondents. “Retail rents in city centre have outperformed other European cities.”

The city houses one-fifth of Austria’s population, but it also has a catchment of 6.5 million consumers from Bratislava and the Czech Republic, who are within daytrip distance. Vienna is also a favoured place for the headquarters of companies with a strong standing in the central and eastern European and southeast European regions.

Constrained city centre retail space is expanding as new shopping centres emerge at rail stations. “Retail offers best prospects for 2013.” Retail warehouses are also benefiting from improved-quality assets and demand from retailers previously focused on shopping centres.

The residential market is experiencing strong demand from equity investors, with pressure on yields in the inner districts.

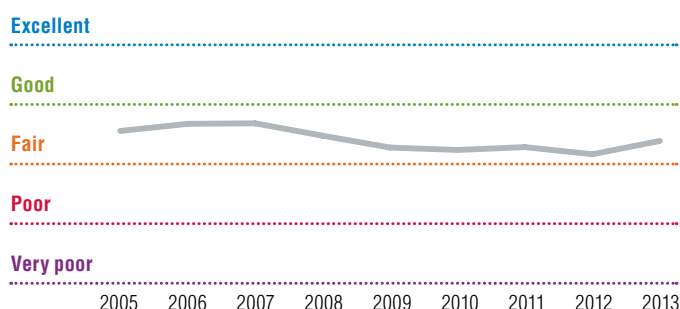
“But there is no bubble,” says a banker. Investors are not looking for high yields but putting their money in “safe” houses.

Regional Centres:

Edinburgh (14)

Exhibit 3-21

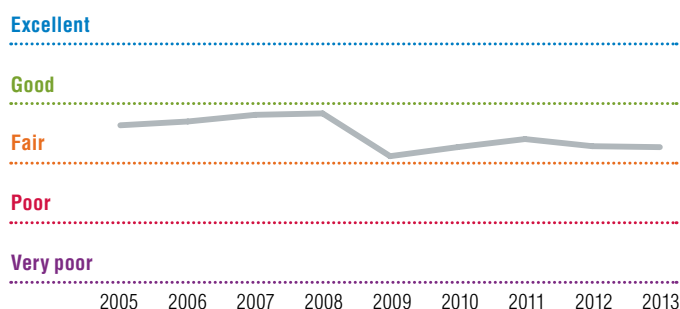
Investment Prospects



Lyon (15)

Exhibit 3-22

Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey*.

There were no comments about Edinburgh from interviewees, so its ranking is difficult to explain. Lyon was similarly ignored, though both cities moved up the table, from 17th and 16th place, respectively.

Edinburgh takes a moderate jump in 2013 – the only city of the 27 to score higher for both new and existing investment and development prospects, perhaps on account of the perceived safety of U.K. sterling. As political, legal, and financial capital of Scotland, Edinburgh is seeing notable leasing deals: Blackrock, Tesco Bank, Amazon, and Swiss banking software company Avaloq all took space last year. Local agents say incentives of 30 months on ten-year leases are shortening.

Life sciences developments Edinburgh Bio Quarter and Edinburgh Science Triangle – a project aimed to attract investment to the city’s scientific industries – are an important focus for the city council, which views this industry as offering the greatest potential for growth.

Lyon, France’s second business capital, is a major industrial centre specialising in chemical, pharmaceutical, and biotech. Small- and medium-sized businesses are the backbone of its economy, and unemployment rates have been slightly below the national average while purchasing power is high.

The office sector is also rated highly by interviewees; top locations and new properties are attracting rental increases. While large pre-lets are keeping take-up healthy.

Italy: Milan (16)

Exhibit 3-23

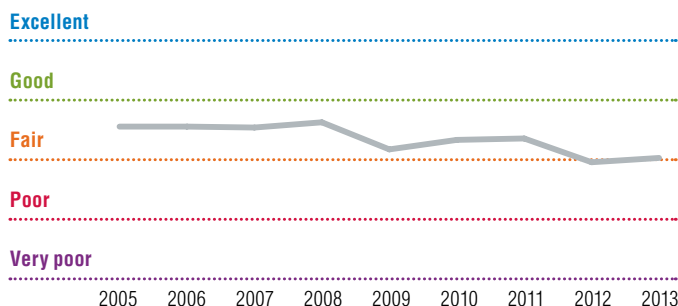
Investment Prospects



Rome (21)

Exhibit 3-24

Investment Prospects



Source: Emerging Trends in Real Estate Europe 2013 survey.

Milan and Rome have climbed the table this year. But they remain in the bottom half largely due to Italy’s lacklustre economy. “We cannot cope with the recessive situation for much longer,” says an interviewee.

Locals are “gloomy”, with activity at “near static” levels, as Italy’s recession heads for another year. Interviewees say they are exploring opportunities abroad or in infrastructure in order to survive.

“Debt providers are licking their wounds and have barely adjusted their books,” says one. “The Eurozone crisis has increased the risks we face as a business: letting risk, burdensome bureaucracy, and financial risk due to debt shortage.” Both debt and equity are hard to obtain.

Some hope the elections this year would keep Mario Monti’s technocratic government in place, and having resigned last December, Monti is aiming to form alliances to win a majority in February. “It all comes down to politics. We need stability, so I hope the current government continues in some form. If we can clamp down on tax evasion and inefficient public entities, then we’d probably improve GDP by a few percentage points.”

Outsiders are unwilling to take the risks. “We wouldn’t go near Milan or Italy, and nor would our investors.”

Milan’s office sector suffers rising vacancy as tenants move to buildings they can occupy more efficiently.

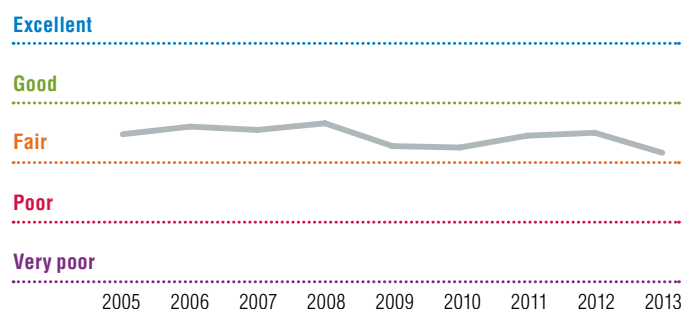
Retail is the most popular choice for both Milan and Rome by far, as they remain among the world’s preeminent fashionable capitals. The main shopping streets of Italian cities are seen as a refuge asset in uncertain times and have proved popular with Italian real estate investment funds in recent months. The sector attracted €1.2 billion to Italy last year, according to RCA.

Residential is being explored by domestic funds, which are purchasing distressed properties and converting them into social housing.

Brussels (18)

Exhibit 3-25

Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey.*

Brussels offices stand out as the best opportunity in the city, but the sector is suffering from weak tenant demand and high vacancy rates of around 11 percent.

Demand from European institutions has been positive, and the Flemish government is reported to have requirements out for space. But total take-up is at a ten-year low and rents are declining; tenant incentives are prevalent. Locals say cash-rich investors are focusing on the CBD, where the vacancy rate is lower, at around 6 percent.

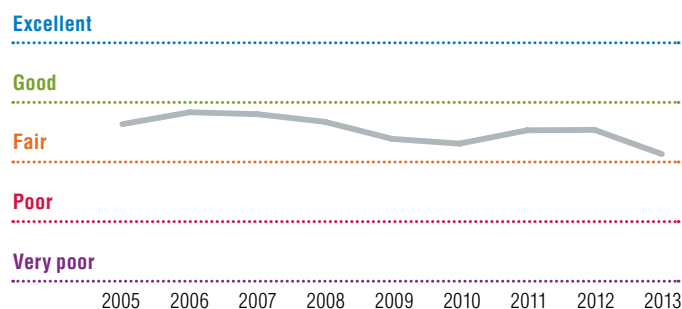
Residential is attracting private investors seeking safe-haven assets, and “distressed prices for residential developments” in the city could represent a “big opportunity”.

But local agents say retirement homes are a key trend. Nursing homes represented almost one-fifth of investment market volume last year, as investors seek out predictable cash flows and long-term leases. Demand is high; Belgian REIT Cofinimmo estimates that 1,600 to 3,000 new senior care beds are needed annually to cope with the country’s aging population. (See chapter 4, p49).

Helsinki (19)

Exhibit 3-26

Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey.*

“The bad shape of others is impacting us positively. Less competition, less players in the game today. Those struggling have already left.”

Locals are relaxed about the Eurozone crisis, given that Finland is one of only a handful of European countries that retains an AAA rating. Interviewees say there’s been “no adverse impact” on the real estate market; Nordic banks are active, “picking and choosing deals” as competition pulls out.

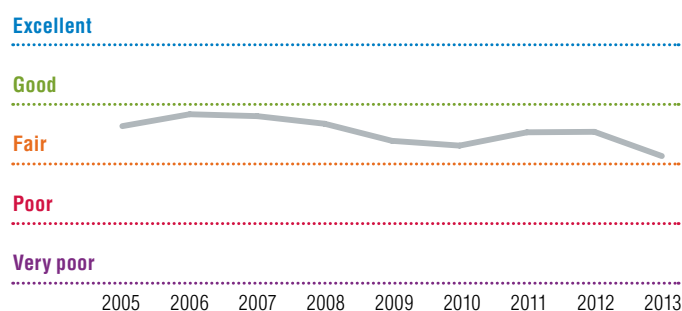
International investors have been quiet of late, accounting for only 35 percent of transactional activity in Helsinki in the first three quarters of 2012, according to DTZ. However, domestic pension funds are increasing commitments to real estate.

Interviewees describe retail as “sexy”. But local experts urge caution; lower consumer spending is expected due to uncertain economic prospects.

Dublin (20)

Exhibit 3-27

Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey.*

“The economy is odd. We have the real estate market, which is a disaster. The retail economy is struggling. But everything else is okay: good tax rate, large inward investment, unemployment has dropped a little, pharmaceutical and tech have a good workforce.”

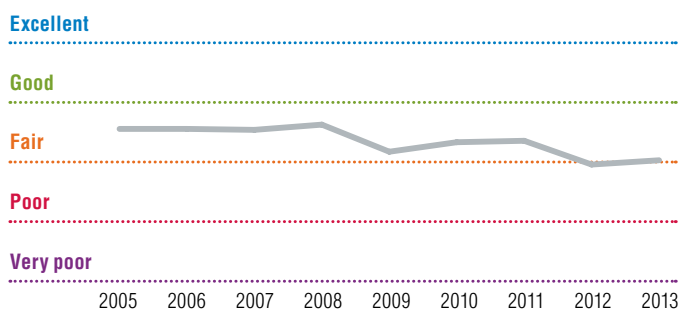
The TMT sector is boosting confidence in Dublin, with Google and LinkedIn establishing bases there. Kennedy Wilson’s recent €108 million investment in the Irish headquarters of U.S. bank State Street showed the city appeals to investors seeking prime property. Nonetheless, office vacancy remains around 22 percent.

While the improving economy is encouraging, the clarification of upward-only rent reviews has also helped to “calm the market”. Plans to pass legislation that would have allowed commercial tenants to remove upward-only rent clauses have been scrapped. “Prior to that, most investors were not prepared to invest in Irish property.”

The investment market remains extremely thin, though this could improve substantially over the coming months. Interviewees predict increased opportunities to invest in distress, as Irish banks begin to release properties to market. U.S. opportunity funds are circling; last year Apollo Global Management bought a €1.8 billion portfolio of Irish loans.

Amsterdam (21)

Exhibit 3-28
Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey*.

“The Dutch market is not healthy. Foreign investors are hesitant to step in. The sale of the Unilinvest portfolio is known by all foreign investors and scares them off.”

Against the backdrop of weak economic growth (0.3 percent in 2012), it has not been a great year for the Netherlands’ real estate market, where capital values are down 35 percent from their pre-crisis peak.

Last year, U.S. investors TPG Group and Patron Capital Partners bought distressed office company Unilinvest for €360 million, a big fall in value from almost €1 billion in 2005. This and other office portfolio sales have highlighted the market woes. “Too many vacant buildings and too much uncertainty on the capacity to keep tenants.”

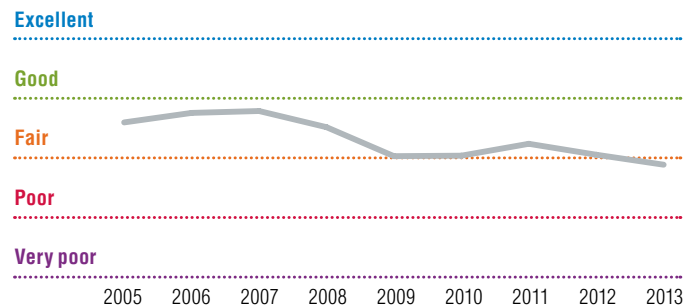
However, interviewees do not see the same pressures in the hotel sector, as national and international hotel chains expand and room occupancy grows. Offices are being converted into hotels across a range of accommodation types.

Residential may also be an opportunity in the medium term, as the government seeks to deregulate the housing market (see page 48).

Spain:

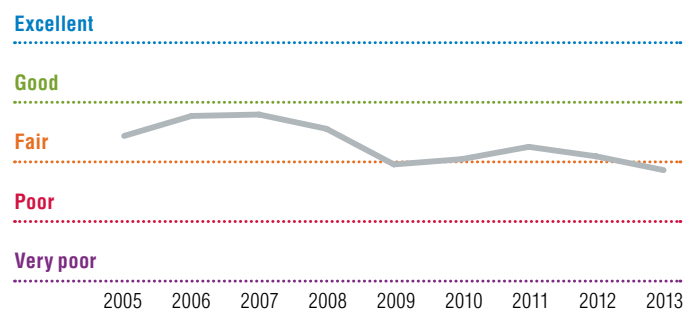
Barcelona (23)

Exhibit 3-29
Investment Prospects



Madrid (24)

Exhibit 3-30
Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013 survey*.

Spain's economic troubles are well known: a recession that is not set to end until late 2013 and, at 25 percent, the highest unemployment in the industrial world.

Real estate fundamentals are also poor: there are an estimated 600,000 unsold homes, and residential prices for new homes have dropped by 21 percent since 2006, according to PwC.

In Barcelona, the outcome of regional elections in Catalonia was nervously awaited during *Emerging Trends Europe* interviews. Nationalist parties had put independence for the region on the agenda. They lost, but at that time, local interviewees were concerned that the separatist movement was "worsening prospects" for Barcelona, a factor that may have influenced respondents' rating of the city in this year's survey. "The political situation created big alarm among real estate investors over Barcelona."

Office vacancy in Barcelona is 14 percent. "We are trying to survive: fighting vacancy, staying loyal to tenants."

Although Madrid's prospects are ranked lower than Barcelona's, many interviewees are more positive about the outlook for the Spanish capital.

"The only attractive city in Spain is Madrid." "The crisis is widening the differences between Madrid and Barcelona markets due to the industrial and corporate structure. Barcelona is home for subsidiary locations of large corporates and many medium-sized companies, so it is suffering more with cost reductions."

International investors are positioning themselves for when Spain's "bad bank" Sareb begins to sell off assets. It will take time for these to materialize, but capital from both the United States and Asia is perched on the edges of the market. "When the smoke clears, there will be a market with a great future and very competitive prices. But now we are in a wait-and-see situation."

"As long as Spain does not go bust, Madrid is starting to be an interesting market, with very good absolute prices in yields and rents."

Lisbon (26)

Exhibit 3-31

Investment Prospects



Source: *Emerging Trends in Real Estate Europe* 2013 survey.

Portugal is facing another year of recession, with GDP forecast to shrink 1 percent in 2013.

Locals complain of a "dead deal" market, where it is "impossible to find debt". "Even the wealthy Portuguese do not invest here," says one.

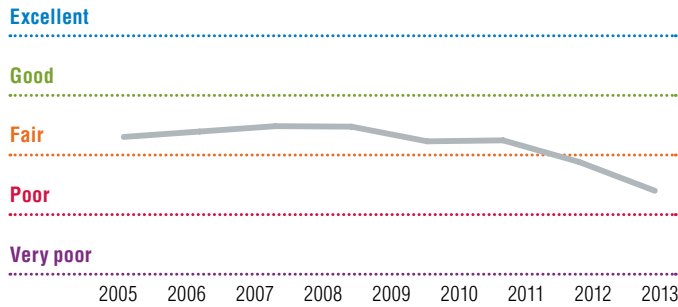
International investors are not hunting down distressed opportunities in Lisbon either. Meanwhile, domestic businesses are seeking to expand operations into new international markets, and some are investigating infrastructure projects to keep busy. "If Portugal wants to expand its export market, then it needs to improve rail, road, and airports."

Interviewees are as gloomy about 2013 as they were about last year. "Portugal's economic situation and reduction of consumption and investment are the biggest threats to our business." "Stopping tenants exiting are the largest opportunities for our business."

Athens (27)

Exhibit 3-32

Investment Prospects



Source: *Emerging Trends in Real Estate Europe 2013* survey.

The economic environment and uncertainty surrounding Greece's future in the Eurozone has led to a "wait and see" stance for both local and international investors. Greek economic performance is the worst in Europe, with GDP forecast to shrink by between 4 and 6 percent in 2012 and 2013. The market is moribund; no transactions have been recorded in Athens by RCA since the fourth quarter of 2011. "Liquidity and ability to raise finance are biggest threats," says a local.

Greece's privatization programme is a key hope, but it is off to a slow start. The government, via the Hellenic Republic Asset Development Fund, plans to raise €11 billion by 2016 and another €14 billion by the end of 2020. Bidders like Qatari Diar Real Estate Investment are short-listed to buy Hellinikon, the €5 billion regeneration of Athens's old airport. International bidders are short-listed for other projects, including resorts in Corfu and Rhodes.



Property Types in Perspective

“Property has become an asset-specific game; you can’t rely on a whole class of assets being lifted on the rising tide.”

The best assets will be well insulated from negative macroeconomic and demographic forces in 2013. Whether it’s shops dedicated to nondiscretionary spending, central business district (CBD) offices designed to the highest environmental standards, or distribution centres that support e-commerce and internet-driven retail strategies – there is an angle in all sectors.

While occupational demand across the board is vulnerable to the economic climate, each sector is displaying interesting emerging themes. In Europe, technology, media, and telecommunications (TMT) companies overtook finance and banking as the dominant force in leasing last year, keeping office markets in London, Dublin, Berlin, and Munich moving.

Prime shop rents in Germany, France, and central London are rising as international fashion brands remain committed to expansion. And in logistics, there are opportunities as occupiers realign supply chains to meet the demands of internet retailing and multichannel distribution.

But it’s not all about the conventional sectors. Expect to see greater investment in student accommodation and health care, too, as Europe’s ageing demographic boosts demand for services. With €1.5 billion invested in 2011, transaction volumes for alternative real estate assets now exceed 2007 levels, according to AXA Real Estate Research. Pension funds in particular like the long-term, index-linked, and government-backed leases that allow them to mitigate inflation and meet liabilities.

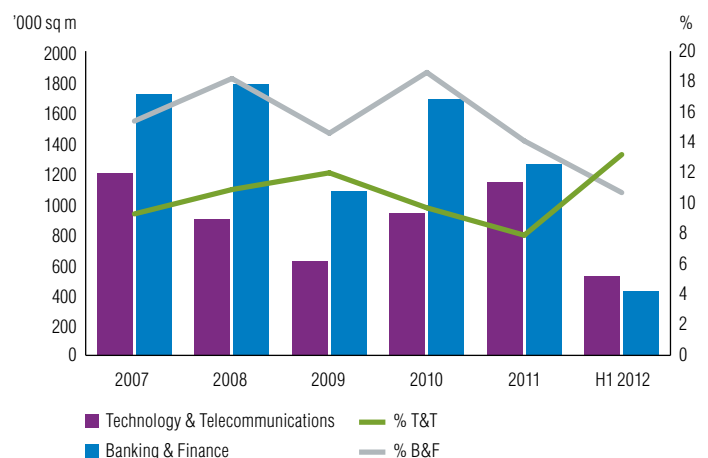
These trends are strengthening the concentration of capital on just a thin slice of the current offer. “The industry is building old products in a new world,” one interviewee says. “There are people out there who foresee 40 percent of the high street becoming obsolete within a few years, so our strategy is focused on convenience or experience.”

Large office lettings are few and far between these days, with the majority of take-up in Europe last year at the 3,000-square-metre mark or below. Investors see that businesses are downsizing, because caution and the rise of “flexible working and the internet is changing the way people are working”. “Office design hasn’t changed since the Johnson Wax Building. Why has the glass box stayed where it is, when growth sectors want buildings with character and interesting environments?”

“Where do we get growth? It’s about looking at what the consumer actually wants and the industry isn’t providing it.”

Exhibit 4-1

Floorspace Leased by Technology and Telecommunications



Source: CBRE.

Exhibit 4-2

Best Sectors for Acquisitions in 2013, by City

	Office	Retail	Industrial	Apartment	Hotel	Acquisition in the City
Amsterdam	8	9	5	9	2	Retail, Apartment
Athens	4	6	0	3	10	Hotel
Barcelona	10	13	4	8	12	Retail
Berlin	13	21	5	40	10	Apartment
Brussels	15	13	4	9	3	Office
Budapest	6	9	2	3	1	Retail
Copenhagen	2	12	0	9	1	Retail
Dublin	12	5	3	7	5	Office
Edinburgh	8	4	3	6	5	Office
Frankfurt	20	22	9	18	6	Retail
Hamburg	17	22	16	24	8	Apartment
Helsinki	7	10	2	4	1	Retail
Istanbul	16	16	14	10	17	Retail
Lisbon	8	9	2	5	3	Retail
London	31	15	12	31	17	Office
Lyon	11	11	12	7	2	Industrial
Madrid	12	14	1	9	9	Retail
Milan	8	24	3	12	8	Retail
Moscow	8	10	7	5	4	Retail
Munich	28	26	7	25	11	Office
Paris	33	28	6	10	8	Office
Prague	10	11	3	3	0	Retail
Rome	3	18	2	10	8	Retail
Stockholm	10	15	4	11	4	Retail
Vienna	10	10	0	5	3	Office, Retail
Warsaw	16	17	7	5	3	Retail
Zurich	11	12	3	11	3	Retail

Sector recommended by: ■ 30 or more ■ 15-29 ■ 14 or fewer respondents

Source: *Emerging Trends in Real Estate Europe 2013* survey.

Retail

Retail is the most popular sector for acquisitions across Europe – with 385 voting for the sector, against offices (377), apartments (299), hotels (175), and industrial (137).

Although consumer confidence across the region is low, there are pockets where sales are holding up – Moscow, Warsaw, London, and Vienna. Shops in luxury shopping quarters, city centres, dominant regional shopping centres, or malls offering retail and leisure will benefit.

Retail investors are either going more global or more micro. Those with big horizons are creating destinations for the “long-haul visitor to Europe”. “The store-based experience has to improve because expectations are rising,” says one. Even in Spain and Ireland, investors report double-digit growth in retail designed for the emerging class of wealthy “shopping tourists”.

International brand demand is keeping prime pitches healthy, but must-have locations are “almost as powerful as brands”, as consumers focus their spending on the best.

Retail investors playing in the big leagues want to work with brands that have a “plausible internet strategy”, the ones “not hiring more execs but investing in a ten-year internet-based plan”, or those “building their businesses around global trends”. It’s “not about being defined by the U.K. or even Europe”.

As online sales rise across Europe, investors are seeking locations that tie in with the multichannel age. Consumers are shopping both in stores and online, so it’s about designing assets where landlords can capture the benefit. “If a retailer has a good Saturday in store, it tends to have a good Sunday online, so it’s about owning the stores where people shop on a Saturday.” The growth in click-and-collect will favour retail parks, say some interviewees: “large car parks are great for the click-and-collect offer.”

At the other end, low interest rates are “giving tenants an artificial boost”. “What’s gone wrong in the high street is that it’s not a neighbourhood parade which enables people to buy what they want on a daily basis.” In a time of high petrol costs, the local co-operative or shopping parade looks attractive. Recession is changing the daily shop; consumers are seeking cost efficiencies and heading where they do not need to use the car,

avoiding parking charges and outlay on petrol. Investors report low voids in neighbourhood parades with convenience stores.

Even if properties look tertiary, investors like this retail because it gives “consumers what they need”. As U.K. interviewees point out, it’s easy to have the London-centric view, but in reality most are living in the regions, “working hard and earning modest salaries”. “In the northwest of England, fish and chips are a nondiscretionary spend, or people want to visit a hairdresser in their local area.”

Throughout the retail spectrum, Twitter, Facebook, and other internet-based strategies are an ever-increasing part of good asset management. “Social media is a conversation with your customer. It’s not just about having followers, you have to interact.” Investors are installing free wi-fi in shopping centres, collecting email details to push offers from stores, and using location data to understand more about their catchment area. “We’re monitoring feedback about asset management initiatives and seeing where we can make slight adjustments on the back of it. Through Twitter, we’re learning what’s going right and what’s going wrong.”

Offices

Europe’s office market is a two-tiered one. Offices in CBD prime pitches and other core locations are benefiting from the flight to safety. With supply constrained and building starts low, their rents are rising and values are holding up; investors compete for prime. But secondary offices are unloved.

Against this backdrop, the best bets for 2013 are in core space that caters to the small- to medium-sized occupier: 3,000 square metres and below dominate take-up. Office buildings in good locations sold by stressed owners will also provide opportunities. In troubled southern European markets like Lisbon and Madrid, refurbishing existing stock is a risk-averse way of delivering new space to market, while in Rome, offices are being converted to other uses.

Environmentally sound properties will attract the best tenants and score plus points with lenders and investors, who like the “increasingly differentiated rents and values” compared with those offered by nongreen assets.

Long-term investors are looking for urban offices with mixed-use angles; they like city centre submarkets that offer business space “intertwined” with “lifestyle uses”. “The occupier doesn’t want to be in a building by itself. It’s about campuses and a return to cities. Single-building offices will be turned into residential.”

“It’s not about being stuck in an office in the middle of nowhere.” Tenants want to be where employees can bike to work or hang out in quirky cafés at lunchtime. “Office developers these days need to know what their occupiers want to eat for lunch and how they want to spend their time before and after work,” says one. “Do they eat sushi? Where do they want to drink their coffee?”

The TMT sector is now the *tour de force* in European leasing, as demand for computer equipment, online remote access, and cloud computing fuels its growth. Smartphones, laptops, and web-based services are necessities, not luxuries, for consumers and businesses alike. Tech-based businesses are operating in a virtual world away from the global economic slowdown.

These firms are demanding a fundamentally different kind of office space than that sought by finance and banking. While they want the best backup power and internet speeds, they also want more creative spaces. The “digerati” or cyber elite – with their casual work wear, ethical values, and long-hours culture – want holistic environments, not “glass boxes”. “Spaces that allow for spontaneous interaction, or for people to work away from their desks.”

The office sector is on the precipice of an entirely new era, say interviewees. “Media companies don’t like office buildings to be too overspecified.” They look for buildings with variety that allows for socialising, quirky meeting spaces, and “an interesting public realm”.

Exhibit 4-3
Office Yield Spreads to Government Bonds

	10-Year Government Bond	Office Yield	Spread
Italy	4.4%	7.2%	122
Spain	5.3%	7.4%	127
Ireland	4.6%	8.6%	179
France	2.0%	6.7%	380
Sweden	1.6%	5.5%	473
United Kingdom	2.0%	6.4%	496
Germany	1.4%	6.9%	507

Source: Real Capital Analytics.

Industrial

Demand for high-quality, efficiently managed, and well-located industrial property is healthy. “Industrial is a strong performer in a zero-growth environment.” Heavy-duty investors are placing faith in the sector, which is relatively underdeveloped compared with that in the United States.

Although values have scarcely moved since their postcrisis plunge, the sector’s ten-year track record of returns is second only to retail. Interviewees believe its credentials can only improve, as it looks well positioned to take advantage of changing patterns in global trade, distribution, and consumption – and demand for prime space increases.

“Industrial is the best sector because the drift to online produces demand for big storage sheds.” International distribution giant

ProLogis estimates that every €1 billion of online sales has generated warehouse demand for 72,000 square metres in Germany, France, and the U.K. over the last five years. “Products are going from the producer to the warehouse. It’s leading to a reduction in retail space but providing industrial with new requirements for space.”

Warehouses are the new retail spaces, and occupiers are seeking large premises to store larger amounts of new stock and handle returns. It’s a trend reflected in the United States also, where there’s growing demand for build-to-suit facilities from e-commerce companies willing to pay for customized space.

The assets in demand are large, dedicated properties for the likes of Amazon or smaller facilities located close to urban centres, allowing for efficiency and speed between when customers place orders and receive their goods.

“Logistics is a sector to watch given the extremely low values. It is a sector where good investments may be at hand, not for a single asset but for a portfolio.” “Leasing is good as long as the quality of assets is there.”

However, prime assets are difficult to come by in Europe’s highly fragmented market, so scale is tough to assemble.

Residential

“Residential is the best bet, as a basic need.” “We believe in residential assets in stable E.U. countries. This will only get better over the coming period.”

For residential investors, especially in the United Kingdom and Germany, 2013 will be a key year. “There will be more institutional investors to invest in residential, both national and international.”

In Italy, residential is being explored by domestic funds, which are purchasing distressed properties and converting them into social housing. Cash-rich buyers have been placing equity in Belgian housing. Copenhagen’s fast-paced population growth is creating demand for 33,000 new homes over the next decade. And over the last year, residential assets have been one of the most popular sectors in Sweden, with €2.2 billion invested.

Expect cross-border investors to focus on Germany’s multifamily housing in 2013 because billions of debt is maturing in the sector. The companies that own these portfolios are currently working on refinancing strategies. Some – like Gagfah – may look to refinance partly through new CMBS issues, a move that would help kick-start that market. Others, like Terra Firma-backed Deutsche Annington, have indicated they will use initial public offerings to raise fresh capital.

In the U.K., the private rented sector – dominated by small landlords – is now attracting interest from institutions, REITs,

and developers. But they are concentrating on the better areas of London, where supply is tight and there are large numbers of young professionals who can afford high rents but cannot get mortgages to buy their first residence.

Investors are buying blocks of flats in the city’s central postcodes and renovating them, or acquiring large sites to develop in sufficient scale. “The mortgage market might return, but the demand will be incredibly fragile for home ownership for a while. There is a lot of latent demand for purpose-built stock that allows tenants long leases.” Some institutions and pension funds are also teaming up with local authorities that are providing public land to build much-needed housing.

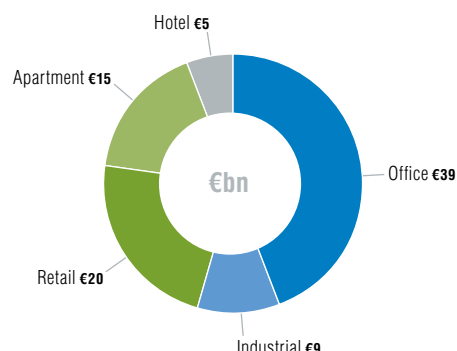
Developers are also shifting their focus from commercial to residential properties, especially in gateway cities. They are tapping into strong demand from wealthy individuals in the Middle East and Southeast Asia who are investing in Europe, either buying second homes or diversifying into stable markets. Berlin, for instance, is seeing more demand for luxury city centre apartments, while in Rome and Milan, vacant office stock is being converted into residential use.

Longer term, the Dutch housing market could be one to watch, as the new coalition government explores housing market reforms. The private rented sector, a mere 9 percent of the housing stock in the Netherlands, has been squeezed by homeownership and social renting, both subsidised. Rent controls also cover rented stock below a certain threshold.

There are now proposals to transfer the controlled rents in social housing and some private properties to a more private rental model, allowing landlords to set income-related rents – of up to 6.5 percent plus inflation for higher earners. Investors may also be able to link rents to property values in prime urban areas. This could open up opportunities in city centres like Amsterdam’s, where wages are higher.

Exhibit 4-4

Transaction Volumes in 2012 by Sector



Source: Real Capital Analytics.

Alternatives

Europe's population is ageing: the over-60s will account for over a third of its residents by 2050. So interviewees are already identifying the growing need for assets to cater to these changes: from nursing homes to assisted living facilities and outpatient care.

Belgian REITs are tapping into demand in their home market, where it's estimated that one new nursing home a month is required. While in Germany – one of the largest healthcare markets in Europe – thousands of new facilities will be needed to cater to its rapidly ageing population. As one interviewee says: "We will be focusing on which social and economic functions are in need of space to rent. This could be student housing and healthcare property."

Such demand dynamics mean that healthcare real estate is gaining traction with investors, who think the development of such sectors as "necessary" amid a climate of government cuts. But there are other pull factors: these properties are not low-yielding, expensive core holdings. If well chosen, they can provide stable, long-term income, possibly index-linked or at least mitigating inflation.

Pension funds in particular are now allocating to more alternative real estate like this – as well as infrastructure – because it helps them match their liabilities and offers a better yield than government bonds. "Investing in real estate related to healthcare and public/private partnerships are the best opportunities for our business in 2013." "Senior housing, healthcare, and grocery stores are the best sectors today."

The appeal of the secure income and long-dated, quasi-government-backed leases has seen U.K. firms like Medix and Primary Health Properties expanding, raising new debt and equity in the public markets.

But there are pitfalls. The income and value of these assets depend on specialist operators. And as with mainstream sectors, there are prime and distressed, with very little in between.

At the same time, the sector suffers from debt hangover and is being squeezed by government austerity programmes. Refinancings are due and will be a major source of deals for private equity in 2013. U.K. opportunity fund Terra Firma already invested last year, and U.S. ones like KKR and TPG are eyeing deals.

Last year, student accommodation saw a sharp uptick in transactions in the U.K., and 2013 is likely to see investors and developers moving in on other European countries. Several private equity firms that have been unable to find opportunities in the U.K. are now looking to set up platforms on the continent.

"Germany is 20 years behind the U.K., but it has more students," one interviewee says. While in Spain, 100 percent student

occupancy rates in main university cities combined with rising registration rates mean there are opportunities for this niche investment in an otherwise tricky market.

In the hotel sector, sovereign wealth funds and high-net-worth individuals still seek trophy assets in capital cities. But at the other end of the scale, the sector was hugely overleveraged during the boom, and banks have not yet begun to flush out distressed stock, as the market is less liquid than traditional sectors. But 2013 will see a greater number of loans coming to maturity – and borrowers forced to find solutions.

Best Bets

Sentiment in the real estate industry is more positive than it has been since 2008, despite continuing uncertainty about the macro economic outlook. While most sectors are facing pressure from changing occupational trends, there are angles for those prepared to think laterally, as technology, sustainability and demographics reshape the built environment.

Retail in turmoil: Prime shopping centres and luxury retail destinations will thrive, as will small local convenience parades. Secondary high streets and non-destination town centres will continue to decline. Tenant expectations and demand for retail property will continue to change rapidly as online shopping grows. Incorporate these factors into your strategy in order to future-proof your investments.

Tomorrow's world: The conversion of redundant commercial buildings into residential accommodation in town and city centres will gather pace. Shape offices around a new kind of occupier – one who is looking for buildings that accommodate new ways of urban living, such as bike parks and access to green spaces.

Sustainable credit: Lenders increasingly see green buildings as a way of reducing refinancing risk. Seek sustainability in real estate to maximize finance, mitigate obsolescence and underpin security of income.

Logistics: As e-commerce increases, retailers are re-evaluating distribution channels and exploring new ways of serving consumers. Investors and developers who can capitalise on this fragmented market will reap rewards.

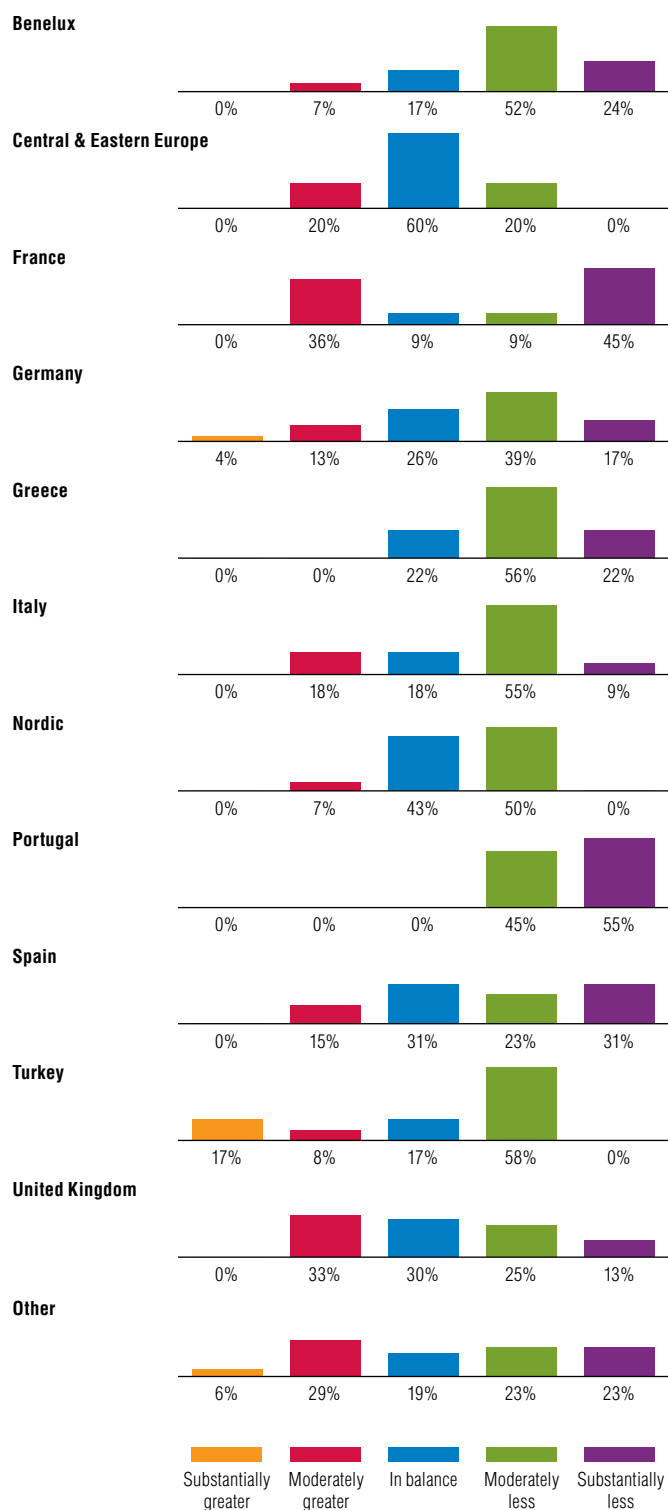
Residential: Long-term population growth drives investment in cities such as Copenhagen, while the private rented sector in central London and build-to-rent joint ventures with U.K. local authorities offer new opportunities. Cash-rich investors seeking safe havens focus on Berlin, Brussels and London.

Appendices



Appendix 1-1

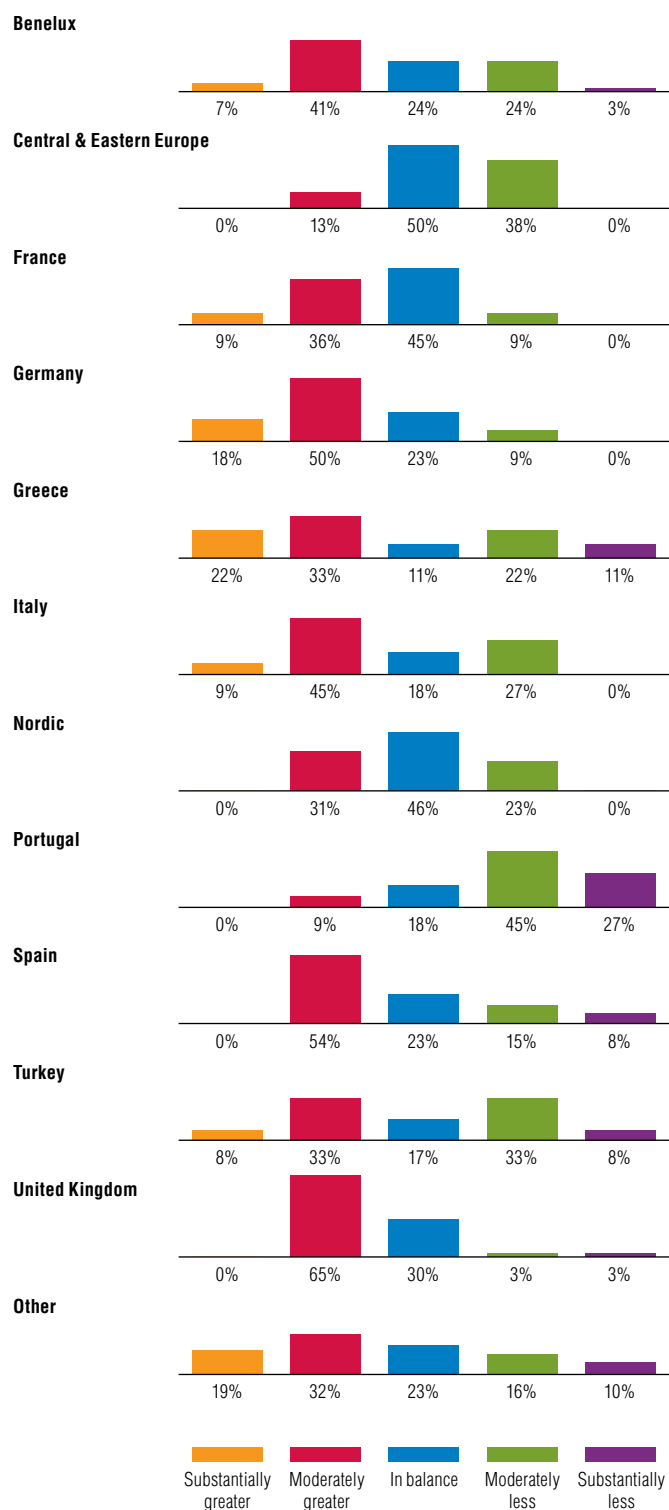
Availability of Debt Capital for Refinancing or New Investment in 2013, by Country or Region



Source: Emerging Trends in Real Estate Europe 2013 survey.

Appendix 1-2

Availability of Equity Capital for Refinancing or New Investment in 2013, by Country or Region



Source: Emerging Trends in Real Estate Europe 2013 survey.

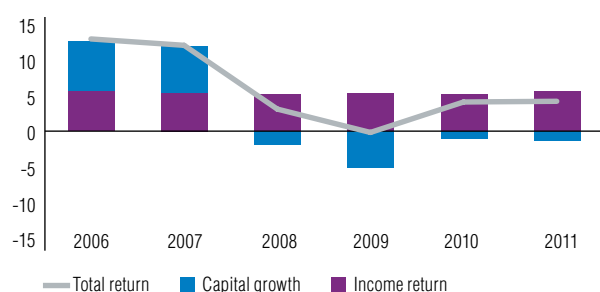
Amsterdam

Appendix 2-1

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Poor	2.49	22nd
New Property Acquisitions	Fair	2.55	21st
Development Prospects	Poor	2.03	22nd

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013 survey*.
All-property returns: Investment Property Databank.

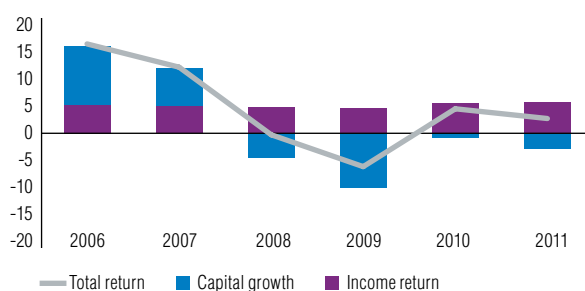
Barcelona

Appendix 2-3

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Poor	2.42	23rd
New Property Acquisitions	Poor	2.31	24th
Development Prospects	Poor	1.73	26th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013 survey*.
All-property returns: Investment Property Databank.

Athens

Appendix 2-2

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Poor	1.67	27th
New Property Acquisitions	Poor	1.97	27th
Development Prospects	Poor	1.65	27th

Investment Property Databank does not produce an index for Athens

Source: *Emerging Trends in Real Estate Europe 2013 survey*.

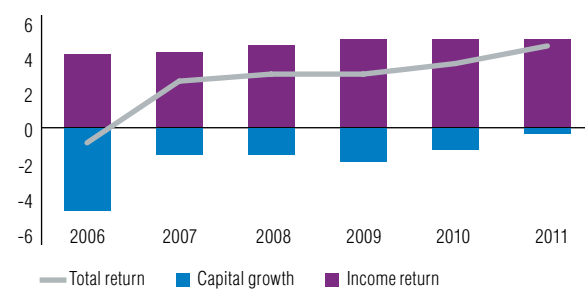
Berlin

Appendix 2-4

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Good	3.72	2nd
New Property Acquisitions	Fair	3.46	3rd
Development Prospects	Fair	3.09	7th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013 survey*.
All-property returns: Investment Property Databank.

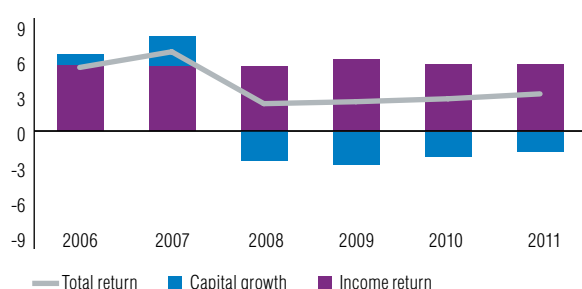
Brussels

Appendix 2-5

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	2.70	18th
New Property Acquisitions	Fair	2.62	19th
Development Prospects	Fair	2.42	16th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013 survey*.
All-property returns: Investment Property Databank.

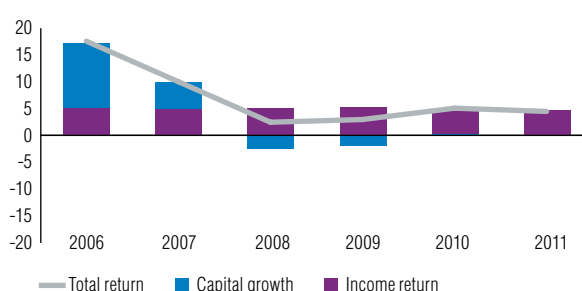
Copenhagen

Appendix 2-7

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	3.11	12th
New Property Acquisitions	Fair	3.14	11th
Development Prospects	Fair	2.69	13th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013 survey*.
All-property returns: Investment Property Databank.

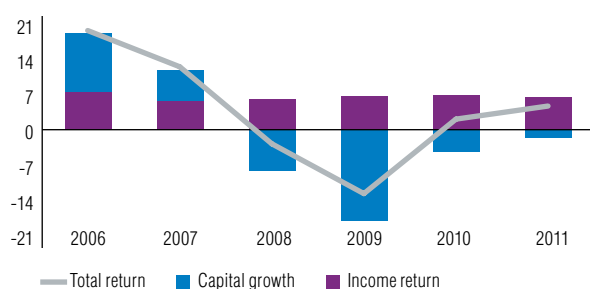
Budapest

Appendix 2-6

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Poor	2.07	25th
New Property Acquisitions	Poor	2.17	26th
Development Prospects	Poor	1.90	23rd

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013 survey*.
All-property returns: Investment Property Databank.

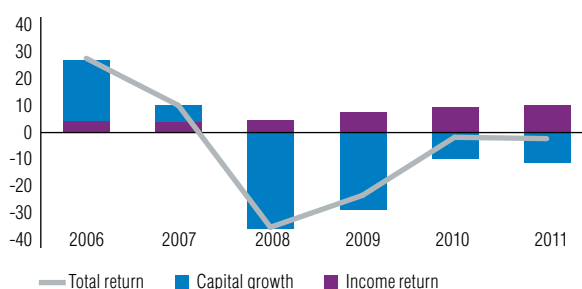
Dublin

Appendix 2-8

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	2.66	20th
New Property Acquisitions	Fair	2.88	15th
Development Prospects	Poor	2.30	19th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013 survey*.
All-property returns: Investment Property Databank.

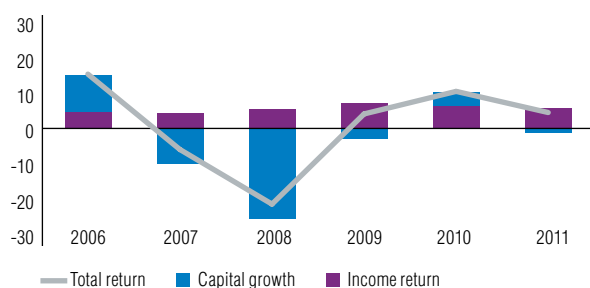
Edinburgh

Appendix 2-9

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	3.03	14th
New Property Acquisitions	Fair	2.95	14th
Development Prospects	Fair	2.61	14th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013* survey.
All-property returns: Investment Property Databank.

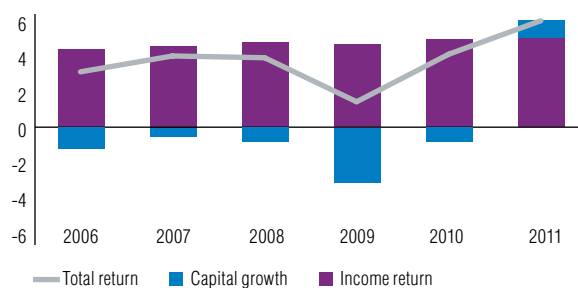
Hamburg

Appendix 2-11

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	3.49	5th
New Property Acquisitions	Fair	3.45	4th
Development Prospects	Fair	3.21	4th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013* survey.
All-property returns: Investment Property Databank.

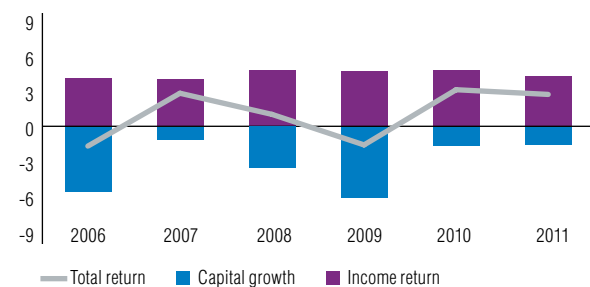
Frankfurt

Appendix 2-10

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	3.20	11th
New Property Acquisitions	Fair	3.16	9th
Development Prospects	Fair	2.73	12th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013* survey.
All-property returns: Investment Property Databank.

Helsinki

Appendix 2-12

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	2.68	19th
New Property Acquisitions	Fair	2.67	18th
Development Prospects	Poor	2.41	17th

Investment Property Databank does not produce an index for Helsinki.

Source: *Emerging Trends in Real Estate Europe 2013* survey.

Istanbul

Appendix 2-13

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Good	3.55	4th
New Property Acquisitions	Fair	3.47	2nd
Development Prospects	Fair	3.46	1st

Investment Property Databank does not produce an index for Istanbul.

Source: Investment prospects: *Emerging Trends in Real Estate Europe 2013* survey.

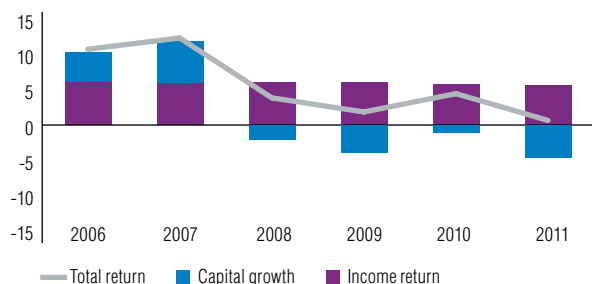
Lisbon

Appendix 2-14

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Poor	2.03	26th
New Property Acquisitions	Poor	2.24	25th
Development Prospects	Poor	1.85	24th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013* survey.
All-property returns: Investment Property Databank.

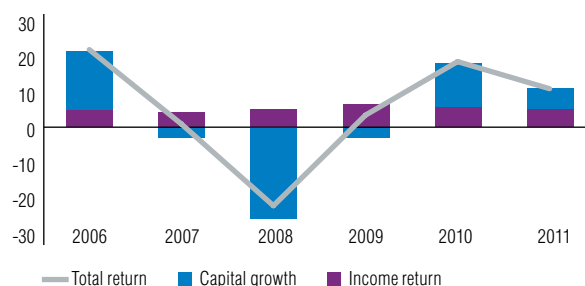
London

Appendix 2-15

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Good	3.57	3rd
New Property Acquisitions	Fair	3.23	6th
Development Prospects	Fair	3.13	5th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013* survey.
All-property returns: Investment Property Databank.

Lyon

Appendix 2-16

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	2.90	15th
New Property Acquisitions	Fair	2.78	16th
Development Prospects	Fair	2.60	15th

Investment Property Databank does not produce an index for Lyon.

Source: *Emerging Trends in Real Estate Europe 2013* survey.

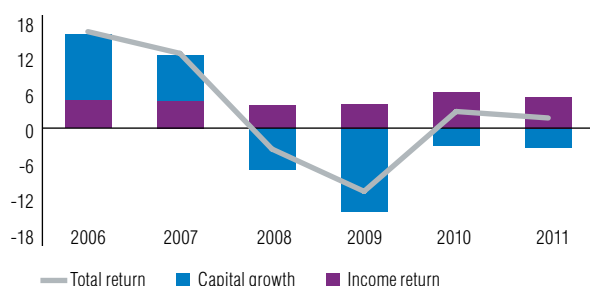
Madrid

Appendix 2-23

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Poor	2.29	24th
New Property Acquisitions	Poor	2.37	23rd
Development Prospects	Poor	1.79	25th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013 survey*.
All-property returns: Investment Property Databank.

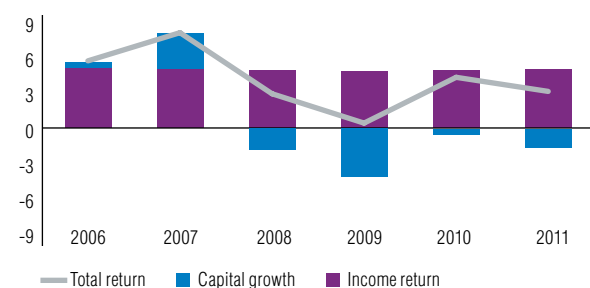
Milan

Appendix 2-17

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	2.75	16th
New Property Acquisitions	Fair	2.55	20th
Development Prospects	Poor	2.16	20th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013 survey*.
All-property returns: Investment Property Databank.

Moscow

Appendix 2-18

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	3.31	9th
New Property Acquisitions	Fair	3.15	10th
Development Prospects	Fair	3.08	9th

Investment Property Databank does not produce an index for Moscow.

Source: Investment prospects: *Emerging Trends in Real Estate Europe 2013 survey*.

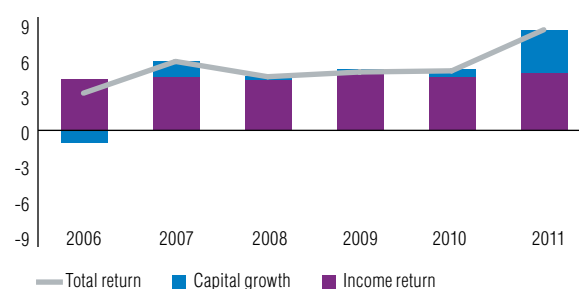
Munich

Appendix 2-19

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Good	3.73	1st
New Property Acquisitions	Good	3.56	1st
Development Prospects	Fair	3.29	2nd

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013 survey*.
All-property returns: Investment Property Databank.

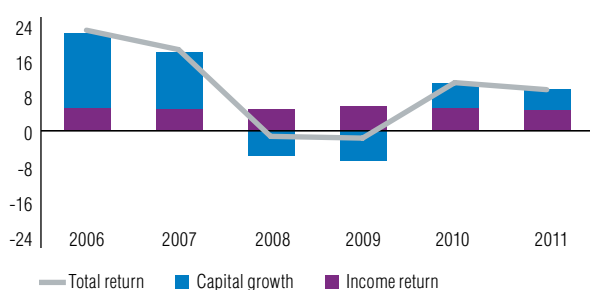
Paris

Appendix 2-20

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	3.36	6th
New Property Acquisitions	Fair	3.20	7th
Development Prospects	Fair	3.08	8th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013* survey.
All-property returns: Investment Property Databank.

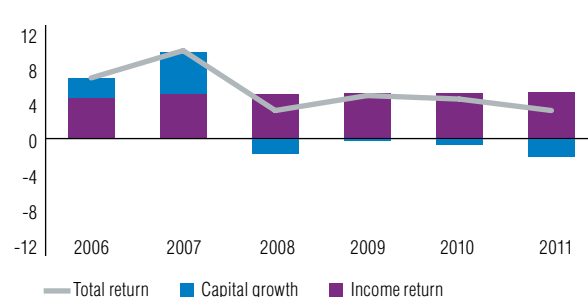
Rome

Appendix 2-22

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	2.61	21st
New Property Acquisitions	Poor	2.48	22nd
Development Prospects	Poor	2.12	21st

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013* survey.
All-property returns: Investment Property Databank.

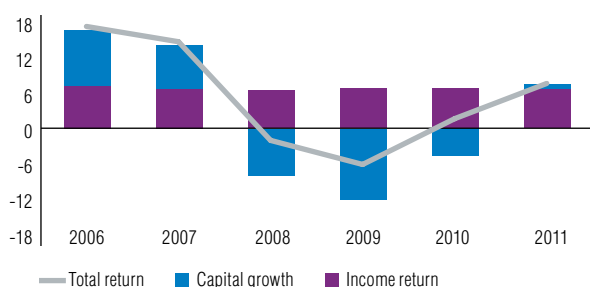
Prague

Appendix 2-21

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	2.73	17th
New Property Acquisitions	Fair	2.68	17th
Development Prospects	Poor	2.38	18th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013* survey.
All-property returns: Investment Property Databank.

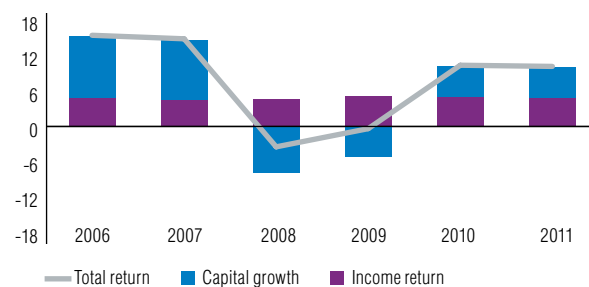
Stockholm

Appendix 2-24

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	3.31	8th
New Property Acquisitions	Fair	3.13	12th
Development Prospects	Fair	2.90	10th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013* survey.
All-property returns: Investment Property Databank.

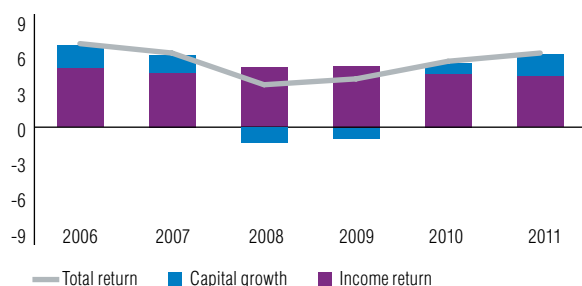
Vienna

Appendix 2-25

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	3.10	13th
New Property Acquisitions	Fair	3.07	13th
Development Prospects	Fair	2.89	11th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013* survey.
All-property returns: Investment Property Databank.

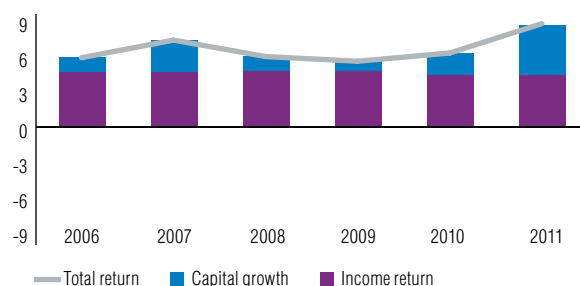
Zurich

Appendix 2-27

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	3.33	7th
New Property Acquisitions	Fair	3.28	5th
Development Prospects	Fair	3.25	3rd

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013* survey.
All-property returns: Investment Property Databank.

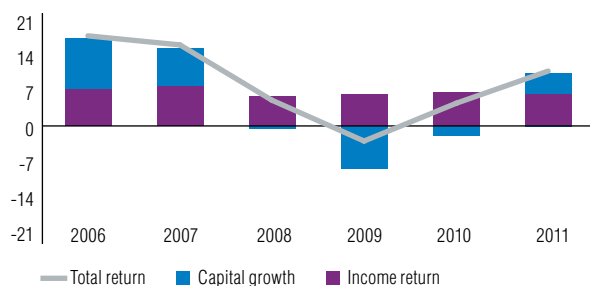
Warsaw

Appendix 2-26

Investment Prospects

	Prospects	Rating	Ranking
Existing Property Performance	Fair	3.24	10th
New Property Acquisitions	Fair	3.20	8th
Development Prospects	Fair	3.12	6th

All-Property Returns



Sources: Investment prospects: *Emerging Trends in Real Estate Europe 2013* survey.
All-property returns: Investment Property Databank.

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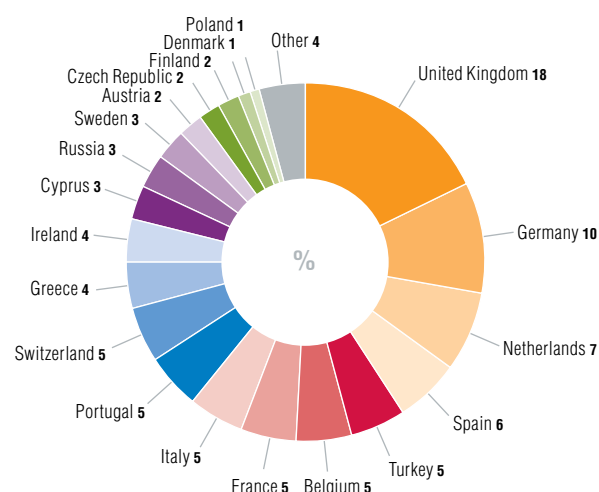
Emerging Trends in Real Estate® Europe, a trends and forecast publication now in its tenth edition, is a highly regarded and widely read report in the real estate industry. Undertaken jointly by PwC and the Urban Land Institute, the report provides an outlook on real estate investment and development trends, real estate finance and capital markets, cities, property sectors, and other real estate issues throughout Europe.

Emerging Trends in Real Estate Europe® 2013 reflects the views of over 500 individuals who completed surveys or were interviewed as a part of the research for this report. The views expressed, including all comments appearing in quotes, are from these surveys and interviews and do not express the opinions of either PwC or ULI. The interviewees and survey participants represent a wide range of industry experts, including investors, fund managers, developers, property companies, lenders, brokers, advisers, and consultants. ULI and PwC researchers personally interviewed more than 340 individuals and survey responses were received from over 222 individuals, whose company affiliations are shown below.

Private property company or developer	24%
Fund/investment manager	22%
Real estate service firm	20%
Bank, lender, or securitized lender	9%
Publicly listed property company or REIT	6%
Institutional/equity investor	6%
Other entity	14%

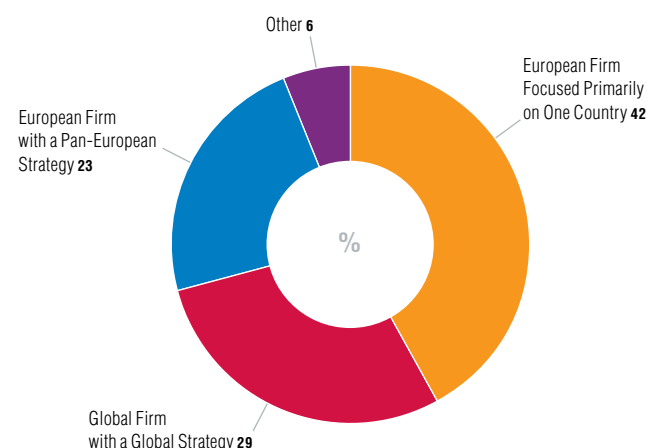
A list of the interview participants in this year's study appears at the end of this report. To all who helped, the ULI and PwC extend sincere thanks for sharing valuable time and expertise. Without their involvement, this report would not have been possible.

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Source: *Emerging Trends in Real Estate Europe 2013* survey.

Survey Responses by Geographic Scope of Firm



Source: *Emerging Trends in Real Estate Europe 2013* survey.

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Bob Reidsma

ABN AMRO

Robert van Deelen

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Emerging Trends in Real Estate® Europe 2013

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What are the best bets for investment and development across Europe in 2013? Based on personal interviews with and surveys from more than 600 of the most influential leaders in the real estate industry, this forecast will give you the heads-up on where to invest, what to develop, which markets and sectors offer the best prospects, and trends in capital flows that will affect real estate. A joint undertaking of PwC and the Urban Land Institute, this tenth edition of *Emerging Trends Europe* is the forecast you can count on for no-nonsense, expert insight.

Highlights

- Tells you what to expect and where the best opportunities are.
- Elaborates on trends in the capital markets, including sources and flows of equity and debt capital.
- Reports on how the economy and concerns about credit issues are affecting real estate.
- Discusses which metropolitan areas and property sectors offer the most and least potential.
- Describes the impact of social and political trends on real estate.
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