

Emerging Trends in Real Estate

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Emerging Trends in Real Estate

Availability of credit is at the lowest level ever recorded during the six years the Emerging Trends in Real Estate® Europe survey has been conducted.

As Europe slides into recession, the focus for the real estate industry for 2009 will be managing through the continuing downturn.

European investors, developers, bankers, and brokers confirm that 2009 will be “a very difficult” year according to the report Emerging Trends in Real Estate® Europe, 2009. Capital for real estate will continue to be in short supply during 2009, in both equity and debt markets and there is real uncertainty as to when this trend will reverse. It is not yet clear whether it is holding off for pricing to improve or whether the reason is more fundamental. Indeed, the ratings for overall availability, on a scale of one to nine, are the lowest ever recorded by Emerging Trends in Real Estate® Europe.

In its sixth year, the report published by the Urban Land Institute (ULI) and PricewaterhouseCoopers¹ is based on surveys and interviews with nearly 500 of the industry’s leading authorities.

Overwhelmingly, respondents report that it is virtually impossible to get new debt and it will continue to be tough to obtain in 2009. As a result, buyers are adopting alternative strategies to keep them in a deal, such as looking for seller financing or talking to the existing lender.

The report also reveals that the current real estate capital markets crisis could turn into an occupier crisis as Europe slides deeper into recession. Economic growth continued to decline across Europe in 2008 and this trend will persist in 2009 as European economies continue to struggle in current market conditions. Even the fastest growing countries will face production declines through the year ahead and expectations are that these will feed through into tenant demand and a corresponding increase in vacancies, with rents stalling or facing a correction.

For those investors who bought at the top of the market it could be a struggle for survival, particularly if banks become more aggressive in dealing with covenant breaches. On the other hand for those with equity to invest, there will be opportunities as the banks start to take action. Although new debt will remain in very short supply, banks may have little alternative to remaining as lenders during the restructuring of defaulting borrowers. For all, there will need to be a clear focus on real estate fundamentals – managing costs and maximising cash flows. Comments from interviewees included: “Asset management takes precedence over new deals.” “Try to decrease vacancies and improve tenant quality.” “Stabilise debt.” The report ranks sentiment regarding the investment and development prospects for 27 cities across Europe. For the first time ever prospects fell for all of the cities ranked in the report,



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¹ “PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

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with overall investment prospects dropping from a rating of 5.6 (modestly good) in 2008 to 4.7 (fair) in 2009. Development prospects fell even further, from 5.6 to 4.3 (modestly poor). Risk ratings have also worsened. The league tables are, therefore, more of a measure of the cities that are expected to fall least rather than those that are expected to do well.

Germany ranked highly for investment prospects

Munich has emerged as the lead real estate investment market in Europe moving up three places from its 2008 rank. It is important to remember, however, that although Munich has come out on top this year its investment prospects, along with each of the other cities in the survey, have fallen in comparison with the previous year. Germany is considered 'less volatile with more long-term investors' helping

Hamburg to second place with Frankfurt and Berlin also ranking among the top ten for investment prospects in 2009.

Survey respondents ranked Istanbul third for investment prospects, falling from first place last year as investors continue to seek opportunities in the city. Istanbul secured the top place for development prospects although investors are still concerned with the risk Istanbul brings, viewing it as the eighth riskiest city in which to invest.

At the other end of the spectrum, Spain and Ireland are at the foot of the table. The countries that boomed most in the good times are expected to struggle most as things become tougher. As one investor put it: "Ireland is a real struggle – a bubble that's popped."

Exhibit 3-2 European Investment Market Prospects

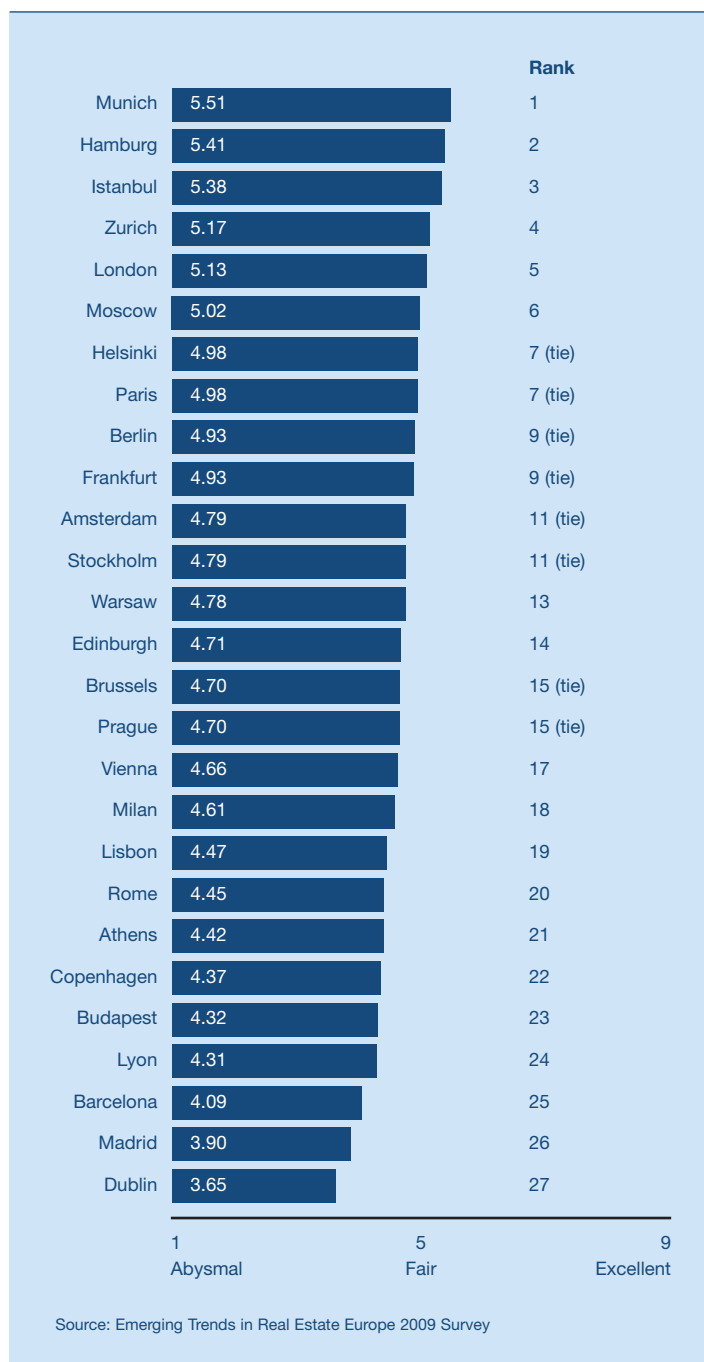
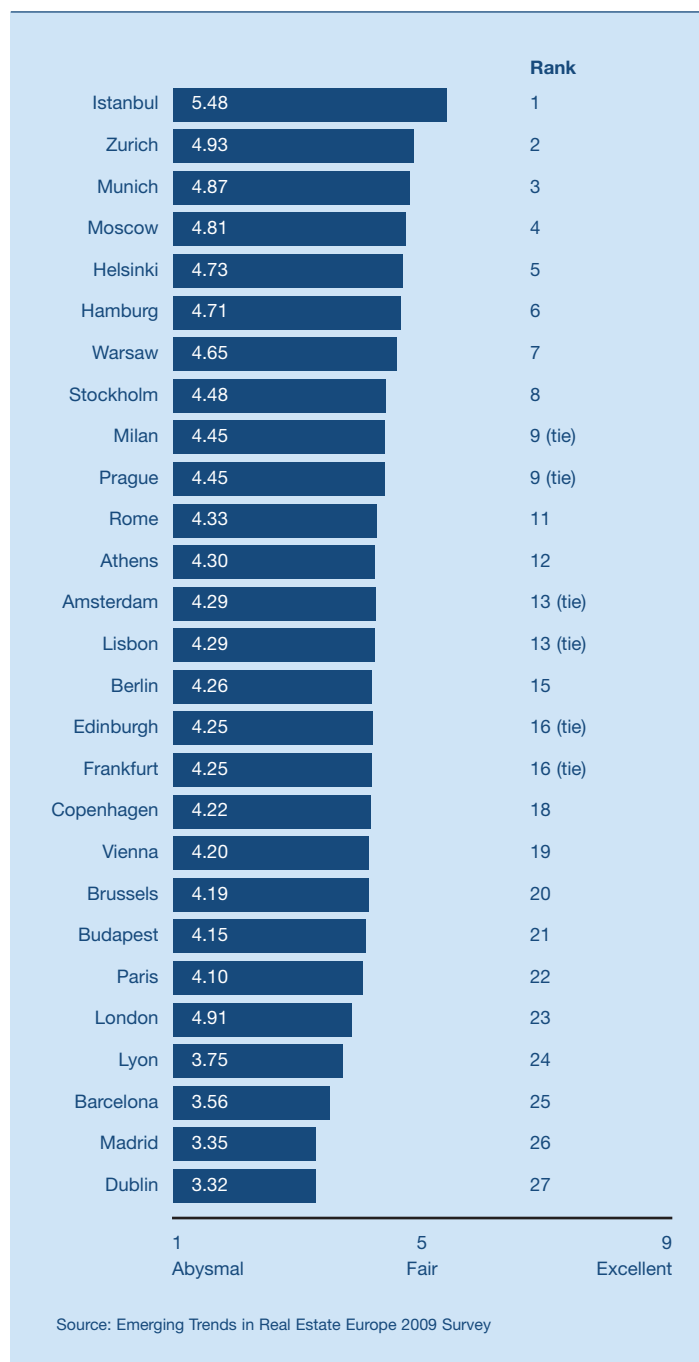


Exhibit 3-3 European Development Market Prospects



Investment Management and Real Estate contacts

IMRE News is produced by experts in their particular field at PricewaterhouseCoopers, to address important issues affecting the investment management industry. If you would like to discuss any aspect of this document, please speak to your usual contact at PricewaterhouseCoopers or one of those listed on these pages.

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