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German Cities Top Commercial Real Estate Investment Prospects as Investors Continue to Seek Safe Havens

New Emerging Trends in Real Estate® Europe 2013 Report released by Urban Land Institute and PwC

German cities dominate the investment prospects for Europe's commercial real estate sector as investors continue to favour safe haven locations according to *Emerging Trends in Real Estate® Europe 2013*, a real estate forecast published jointly by the Urban Land Institute (ULI) and PwC. The ranking of 27 cities across Europe, based on respondents' expectations for market performance in 2013, sees Munich top the league table followed closely by Berlin in second place and Hamburg in fifth position, with investors taking comfort from each of the cities' strong local micro-economic climate and resilient property market conditions.

London, which is seen by many as Europe's ultimate safe haven market, is the largest riser in this year's report taking third position. Investors continue to be attracted by the size and liquidity of its real estate market, the stability of sterling as a currency and its ability to stand alone from the rest of the UK and Europe's economic issues.

Overall, the cities that are ranked highest are the larger Western European centres with international appeal and better economic prospects. In contrast, the worst performing cities were those in countries at the heart of the eurozone crisis or struggling to cope with the consequences of the 2008 financial meltdown such as Athens, Lisbon, Dublin, Madrid and Barcelona.

Approximately 80 percent of the respondents surveyed for the report believe that the eurozone crisis has presented their own business with new opportunities. However this relative optimism is tempered by a general consensus that there will be little improvement in the overall European economy or the region's real estate market during 2013. Survey participants were more pessimistic about the outlook for cities'

property markets than they have been since 2004 and 45 percent of the respondents expect capital values to remain stagnant until 2017.

The report notes that the tempered optimism is a result of real estate companies restructuring their business over the past five years and now beginning to deploy new strategies to profit in challenging economic and property market conditions. This adaptation to the 'new norm' sees businesses mitigating risks wherever possible and focusing capital on specific assets and opportunities rather than adopting pan-regional or sector specific investment positions.

"Almost five years since the start of the financial crisis, real estate investors remain cautious about capital deployment and the availability of debt," comments Joe Montgomery, chief executive of ULI Europe. As a result, investors are focusing on the harder to find opportunities in blue-chip cities such as Munich, Berlin, London and Paris rather than turning to secondary locations in search of higher returns."

Simon Hardwick, real estate partner at PwC Legal, said: "Our report shows that real estate investors are approaching opportunities with a new mindset, conscious that the environment in which they are operating is 'the new normal' and is set to stay the same for some time yet. Investors face ongoing challenges but are cautiously optimistic about their prospects for the first time in many years."

Top Investment Markets for 2013
The top five European real estate investment markets in 2013 are predicted to be:

1. **Munich** -The city's strong and liquid market is appealing to investors looking for dependable locations that can withstand economic turbulence. Munich has a mixture of global and mid-sized business occupiers and has expanding biotechnology, environmental sciences and media industries. Low vacancy rates and constrained supply mean that investors are confident of rental growth in 2013, while a rapid increase in tourist numbers, especially from BRIC countries, provides a positive outlook for Munich's retail market.

2. **Berlin** – Dubbed by many as Europe's "Silicon Allee", the city has a growing reputation as a technology hub with over 15,000 tech companies generating turnover of €19 billion per year. The influx of skilled technology workers has had a boost on the city's residential market where the inner-city luxury apartment market is growing, especially in districts such as Mitte which has seen significant rental increases. Berlin's reputation as a cultural centre ensures it receives high visitor numbers benefitting both the apartment and hotel sectors.

3. **London** – The UK capital is one of the biggest risers in the 2013 survey, driven by its status as one of the world's ultimate safe havens. There is some speculation that the recovery of values is complete but many see micro-market opportunities especially in the residential sector where super-prime homes in the very best postcodes and the under-explored private rented sector are favoured. The City and Canary Wharf office markets are still attracting trophy hunters but the development of new offices for financial services businesses is out of favour as the sector sheds jobs. Opportunities exist to develop space for the city's growing technology and creative industries.

4. **Istanbul –** While the other cities in the top five appeal to investors because of their inherent safety, Istanbul remains the most popular location for future development opportunity. The city's exciting real estate potential is driven by economic growth which rivals China and demographics where the average age in Turkey is only 29. Recent changes have eased restrictions on foreign ownership of real estate, which is estimated by Turkey's Association of Real Estate Investment Companies that these changes will boost investment in real estate by $5 billion a year.

5. **Hamburg** – Investor interest in Germany's second largest city is driven by its safe-haven status. Hamburg benefits from a diverse mix of global occupiers and domestic small and medium sized businesses. Investors are favouring offices, where prime yields of 4.75% are their lowest since 2002, as they are willing to pay the high price for the stability the market offers. However, with constrained office supply, appealing assets are becoming increasingly hard to source and some investors are switching to the city's industrial sector.

One of the areas causing the industry the most concern is the availability of debt and the estimated £350bn -£600bn lending gap caused by the banks continuing to undertake a structural reduction in commercial real estate lending. The report shows that up to 43 percent of businesses found it harder to secure debt during 2012, with 56 percent of the industry expecting there to be less debt available for refinancing and new investment in 2013.

This pessimism is particularly felt in Portugal, Greece and the Benelux countries although a reduction in debt availability is also expected in Spain, Italy and Turkey. In contrast, over 60 percent of businesses in the UK expect an unchanged or improved borrowing environment, even though individual banks remain reluctant to act as sole lenders on deals of more than £50 million.

The report outlines the following "best bets" for 2013:

Concentrate on value-added locations in key cities - Core properties might be hard to find but there are pockets in key cities that appeal to dominant occupiers such as telecommunications, media and technology (TMT) firms and creative enterprises.

Hunt for institutional-quality properties in suspended animation - Banks are more willing to release good assets in need of capital expenditure and clever asset management, before values decline further.

Look for deals in Ireland and Spain - Develop relationships in the right places. Ireland may be most accessible through lenders outside of NAMA, while in Spain, now is the time to start conversations with key players such as SAREB.

Opportunities from buyers of distress - Buy loans and properties out of larger portfolios acquired by opportunity funds and use management expertise to increase income and value.

Follow the money - Europe is a key destination for tourists from China and other emerging markets and tailoring retail, hotels and leisure investments for this spend can bring rewards.

Team 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 what properties are about to come to market.

Refurbish buildings to green standards - Seek out good buildings with slight "blemishes" and turn them into strong performing green assets.

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Notes for editors

To download a copy of *Emerging Trends in Real Estate® Europe 2013* and to view a short video of industry leaders discussing the implications of the report please visit www.pwc.com/etreeurope

Top 10 European Cities for Existing Property Investments

	2013 Ranking	2012 Ranking	Change
1	Munich	2	↑1
2	Berlin	4	↑2
3	London	10	↑7
4	Istanbul	1	↓3
5	Hamburg	7	↑2
6	Paris	6	↔0
7	Zurich	8	↑1
8	Stockholm	5	↓3
9	Moscow	9	↔0
10	Warsaw	3	↓7

Emerging Trends in Real Estate® Europe

Emerging Trends in Real Estate® Europe is a joint report published annually since 2003 by the Urban Land Institute (ULI) and PwC. The report provides an outlook on European real estate investment and development trends, real estate finance and capital markets, as well as trends by property sector and geographical area. It is based on the opinions of more than 500 internationally renowned real estate professionals, including investors, developers, lenders, agents and consultants.
Analysis from Dirk Brouen, professor of real estate economics at Tilburg University, which compares actual IPD property market performance data with past Emerging Trends predictions, demonstrates that the report has correctly predicted what the overall trend for European real estate would be in eight out of the past 10 years.

About the Urban Land Institute

The Urban Land Institute (www.uli.org) is a global nonprofit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. Established in 1936, the Institute has nearly 30,000 members representing all aspects of land use and development disciplines.

About PwC

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