

REAL ESTATE INVESTORS IN EUROPE SEE NO RISE IN RETURNS BEFORE 2019

- ▶ Further increase in focus on security in Germany and UK
- ▶ High prices for office and retail drive shift to alternative strategies
- ▶ Upbeat mood in France after Macron victory



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Only one in four real estate investors in Europe believes that the current market cycle will peak soon and that the initial rate of return on real estate will start to rise again. The overwhelming majority of respondents (75%) do not expect a turnaround until 2019. Of that figure, 43% expect it to come even later. Those are the findings of the latest property investment climate study by Union Investment. The study, which is carried out twice a year, this time involved a representative survey of 168 professional property investors in Germany, France and the UK.

The expectation of a continuing late-cycle environment correlates with a rising focus on security, which is most apparent in the fact that German and UK investors are prepared to accept lower returns in exchange for greater security. An investment strategy based on “same risk – lower return” is being pursued by 71% of investors in Germany and by 74% of respondents in the UK. Compared to the last but one survey, carried out a year ago, this represents a rise of 15 and 14 percentage points respectively among those surveyed. In France, the tolerance of risk is somewhat higher, even in the current market environment, with 41% of investors stating that they are taking on more investment risk in order to achieve the

same yield targets as before. The remaining 59% expect to achieve lower returns with the same level of risk.

Shift to alternative asset classes

Overall, the surveyed investors are somewhat sceptical about the European investment climate for office and retail real estate. Almost a third of professional investors are pessimistic about the opportunities for attractive office investments in the coming 12 months. Retail property is assessed even more negatively – a narrow majority of 51% currently sees few prospects for compelling investments. Against this backdrop, alternative asset classes within the real estate world are attracting more and more attention. Due to the prevailing high prices for office and retail property, around half of those surveyed are pursuing dedicated alternative strategies. Logistics properties, hotels and residential property are the main targets of this shift in focus. Among UK investors looking for alternative investment products, logistics properties are most popular, at 83%, followed by hotel and residential, both at 61%. Among the equivalent group of German investors, around 50% intend to focus increasingly on these three property types.

As part of this strategic realignment, specialised products such as student accommodation and social housing are generating significant interest among European investors. A quarter of all French respondents, 29% of the German investors surveyed and 67% of UK survey participants who have defined an alternative investment strategy are looking to acquire micro housing. This segment includes the student housing referred to above, which is only used on a temporary basis.

In recent months, high prices for office and retail real estate in the core markets have sparked the creativity of professional investors and caused them to take a broader view of the property

market. This development is already being reflected in new fund ideas.

Investment climate also affected by political sentiment

The presidential election in France and the Brexit preparations being undertaken by the British government have had a palpable impact on the real estate investment climate in Europe. 61% of French investors believe that the French real estate markets will perform better under the new administration in the Élysée Palace than was forecast prior to the election. This mood reflects French investors’ assessment of the general economic situation of their country over the coming 12 months. 48% expect that the French economy will be in better or significantly better shape in a year’s time. Across all three countries, however, only 30% of those surveyed share this opinion.

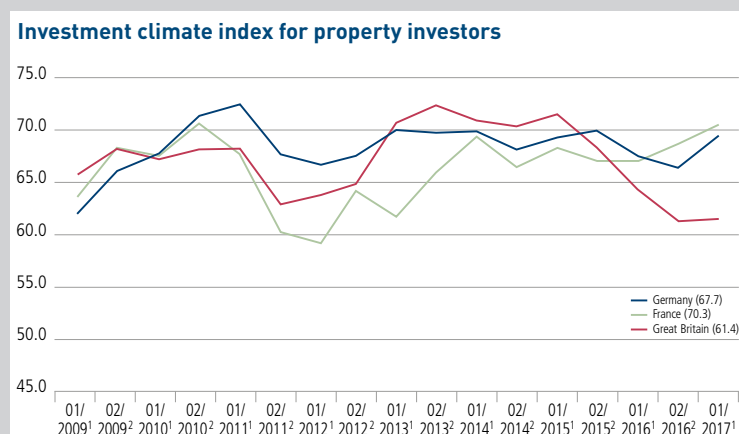
With regard to the UK, meanwhile, professional real estate investors expect a high level of economic stability in the country over the next 12 months. 49% of respondents expect the situation to remain largely unchanged, while 46% anticipate an improvement. Having said that, the “Expectations” parameter in the investment climate index for the UK markets has reached an all-time low of just 42.5 points. That is also the lowest value recorded anywhere in the current survey. Despite the prospect of economic stability, European investors will thus continue to adopt a more defensive stance in the UK. The example of the UK clearly

shows that political uncertainty around Brexit continues to outweigh the core data on the general economic situation. At the same time, some European investors have already returned to the UK markets and are finding suitable conditions for new investments if they are willing to accept more risk.

The overall picture: France ahead of Germany and the UK

The Union Investment study conducted twice a year allows a real estate investment climate index for the European core markets to be compiled, making it possible to track trends. The most recent study shows that the German market is highly stable with a slight upward trend. Compared to the last survey six months ago, the investment climate in Germany has improved by 1.2 points to 67.7. France has experienced an even bigger increase. Since the last but one survey, carried out a year ago, the index has risen by 3.3 points to hit a current peak of 70.3. In the UK, the investment climate has stabilised since the last survey, which was strongly impacted by the ramifications of Brexit. At 61.4 points, there has actually been a slight improvement.

Further information:
realestate.union-investment.com



Source: Union Investment, property investment climate study I/2017 (survey of 168 property investors in Germany, France and Great Britain) ¹Survey period: summer ²Survey period: winter