

EMEA Investor Intentions Survey 2015



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Executive summary

- There were 280 responses to the 2015 CBRE online survey of investor intentions, from across the EMEA property investment community. Comparisons with previous years suggest that 2015 will be another strong year for investment activity, with some owners also taking advantage of the strong market to sell as well as buy.
- Not surprisingly, given the level of interest in real estate and the capital value growth that has been seen in recent years, access to competitively priced stock is the biggest problem for investors in today's market. Nearly all (91%) of investors cited one of 'Availability of Assets', 'Asset Pricing' or 'Competition from Other Investors' as the biggest obstacle to acquiring assets in the EMEA region. In contrast factors such as 'Availability/Cost of Debt', which were huge issues just a few years ago (nearly 30% in the 2012 survey) have disappeared from investors' lists of concerns.
- The search for yield is having a significant effect on investor intentions: in particular interest in 'alternative' real estate sectors is high and growing. Two thirds of respondents already had holdings in at least one of the alternative sectors listed and some of the segments are represented in a high proportion of investors' holdings. Real Estate Debt had the greatest penetration, with 34% of investors already having some investment in debt, followed by Leisure/Entertainment (30%) and Student Housing (27%).
- Search for yield also continues to drive investors up the risk curve. 40% of investors said that they would be looking to take more risk in 2015 than in 2014, compared to just 9% who said that their appetite for risk was lower than last year.
- Target markets showed some changes compared to previous surveys: the UK (31%) topped the list of 'most attractive markets for property investment' as was the case last year, with Germany and Spain tied for second place (15% each). The movers compared to last year were France (10%) and Italy (6%), both of which attracted noticeably more preferences.
- At the city level the top two markets were the same as last year; London (30%) and Madrid (14%), both attracting nearly the same proportion of preference as in the 2014 survey. Reflecting the change in country preferences, Paris (10%) jumped to third place and Milan (5%) also saw an increase in preferences. The major German cities between them were picked by 14% of investors, with Berlin (6%) the highest of these.

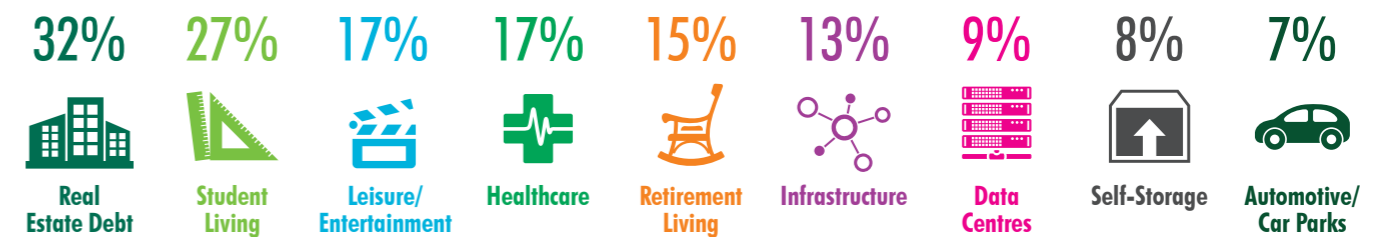
Real Estate investors' intentions in 2015 Western Europe is the region most preferred among European investors:



Most attractive countries for investment

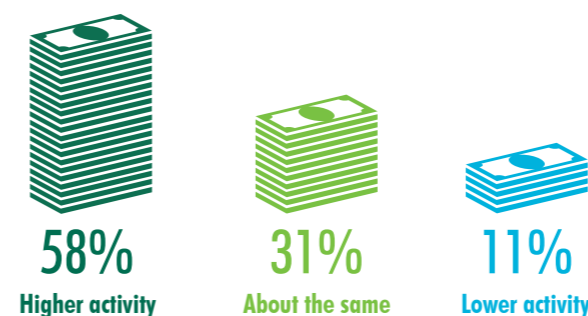


Actively pursuing investment in 'alternative' sectors



Buying/selling activity in 2015 compared to 2014

Expected purchasing activity in 2015:



Expected selling activity in 2015:



Most attractive markets

Most attractive country in Europe for investment

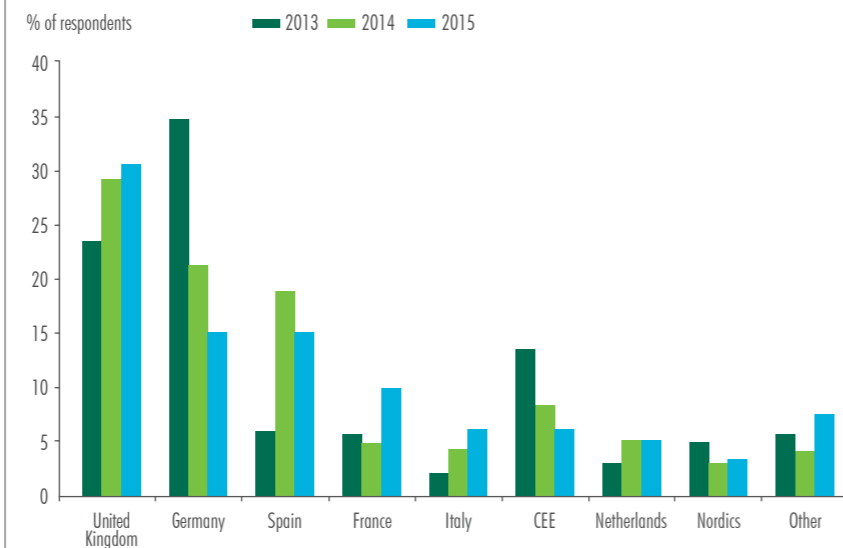
As was the case last year, the UK topped the list of markets in the EMEA region considered most attractive for real estate investment; selected by 31% of respondents. However beyond that there have been some substantial shifts.

The most significant change in the 2014 survey was the sharp increase in the number of investors selecting Spain. This result was reflected in the direct investment market, with Spain recording a record level of investment in 2014 at €10.1 billion. In this year's survey Spain fell to 15% of respondents, but given the high level of investment and substantial yield shift last year it is not surprising that the result has fallen away slightly.

The most interesting change in the results of this year's survey was the 10% of investors who selected France as EMEA's most attractive market, up from just 5% in the 2014 survey. Italy also saw an increase attracting 6% of responses in 2015 compared to 4% last year. Both countries saw a jump in investment activity in the final quarter of 2014, and in the case of Italy very nearly half the turnover for the year was seen in the final quarter. This result suggests that 2015 could see further growth in investment in France and Italy.

Also worth mentioning is the growth in preferences for 'Other' countries in the region, part of a trend towards greater diversity in investment that is evident in responses from other parts of the survey as well. This seems to be a trend that is driven from both sides.

In EMEA, which country/region do you believe to be the most attractive for making property investment purchases in 2015?



Source: CBRE Research

Greater confidence about the future means that investors' appetite for risk is increasing, while at the same time growing competition in the region's principle investment markets is encouraging investors to look elsewhere for more opportunities and higher returns.

The proportion of investors identifying Germany and the CEE as the most attractive markets in the region fell further in 2015. In the case of the CEE, the political and economic issues in Russia are likely to have had an effect not just there, but in neighbouring markets. The continued fall in investor preferences for Germany is harder to explain. Economic growth accelerated in 2014 and investment activity was close to €40 billion for the year. Although, perhaps not at the very top of investors' preferences, there are clearly many investors attracted by the stability and liquidity of the German market.

“The most interesting change in the results of this year's survey was the 10% of investors who selected France... up from just 5% in 2014”

Most attractive city in Europe for investment

Respondents' selections for city preference closely followed their country level preferences. London was the most frequently chosen option at 30%, with Madrid second at 14%. In both cases these results are almost exactly the same as in the 2014 survey.

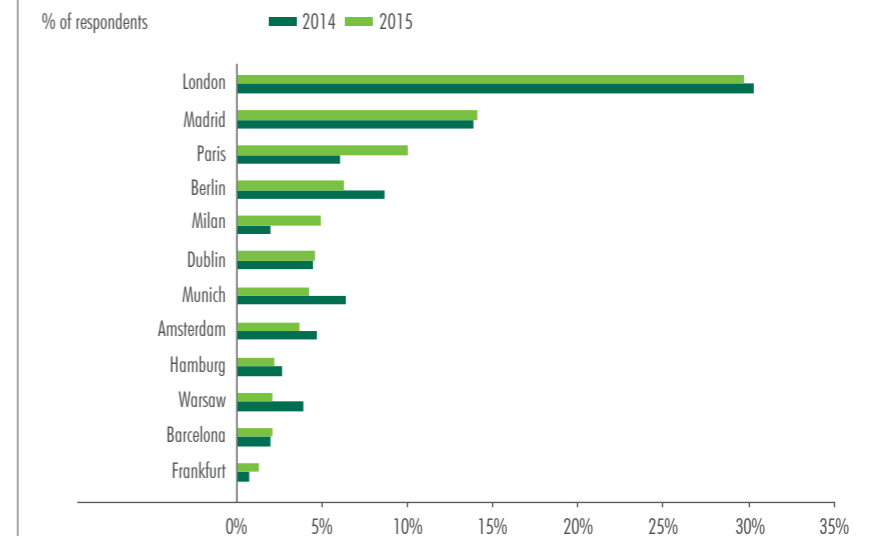
In line with the jump in preferences for France, Paris also produced a strong result, with 10% of investors rating it as their preferred market for investment. Given that Paris consistently records the second highest level of investment activity in the EMEA region (just over €18 billion in 2014) it is perhaps surprising that the city does not top more investors' preferences. Another significant mover in the 2015 survey is Milan, which attracted 5% of preferences, in keeping with the growing attractiveness of Italy.

Although individually the main German cities did not attract a high proportion of preferences, taken together the four major cities were considered the most attractive location for investment by 14% of respondents. Berlin received the most preferences individually, selected by 6%.

In keeping with the theme of greater diversity of investment, cities outside the top ten attracted a substantial share of investors' preferences, 19% in 2015, versus 17% in 2014 and just 9% in the 2013 survey.

“In keeping with the theme of greater diversity of investment, cities outside the top ten attracted a substantial share of investors' preferences”

In EMEA, which city do you believe to be the most attractive for making property investment purchases in 2015?



Source: CBRE Research

Most attractive sector in Europe for investment

Offices stand out as investors' preferred sector for investment, as has been the case for all the previous surveys. Given that in a typical year investment in offices accounts for a little under half of all investment activity in the EMEA region, the consistency of this result is not surprising. The result that does stand out is the strong investor preference for Logistics Assets, which is well in excess of the overall level of investment activity in the sector, suggesting that demand is much stronger than supply for this type of asset.

Looking over the longer term, the results of CBRE's investor intentions survey over the last five years show a continuing decline in investor preferences for retail property – from a peak in 2011 when Shopping Centres, Retail Warehouses and High Street Retail attracted 43% of preferences in total, to this year's survey when between them these three segments attracted 22% of preferences. However, in practice the pattern is not quite as clear as this result suggests. The retail sector has become increasingly polarised over that period, with high-end retail assets on the most prominent shopping streets, dominating shopping centres and the most accessible retail parks, remaining in strong demand (and short supply).

In EMEA, which sector do you believe to be the most attractive for making property investment purchases in 2015?

| | Investor Intentions Survey 2015 | Investor Intentions Survey 2014 | Actual Investment in 2014 |
|--------------------|---------------------------------|---------------------------------|---------------------------|
| Offices | 44 | 39 | 45 |
| Logistics | 17 | 16 | 6 |
| Other Industrial | 7 | 8 | 5 |
| Shopping Centres | 12 | 11 | 11 |
| High Street Retail | 7 | 9 | 7 |
| Retail Warehouse | 3 | 2 | 4 |
| Residential | 5 | 11 | 5 |
| Hotels | 2 | 2 | 6 |
| Other | 4 | 2 | 11 |



“The result that does stand out is the strong investor preference for Logistics Assets”

In EMEA, which sector do you believe to be the most attractive for making property investment purchases in 2015?



Source: CBRE Research

“Investment in debt has taken off over the last two years. From under €10 billion in 2012, investment in commercial real estate debt in Europe increased to €21 billion in 2013 and €49 billion in 2014”

Investment in alternative sectors

In keeping with the theme of greater diversity in the real estate investment market, the survey revealed the extent to which ‘alternative’ sectors have gone mainstream. Two thirds of respondents were already invested in at least one of the nine ‘alternative’ sectors identified, the most common being real estate debt at 34%.

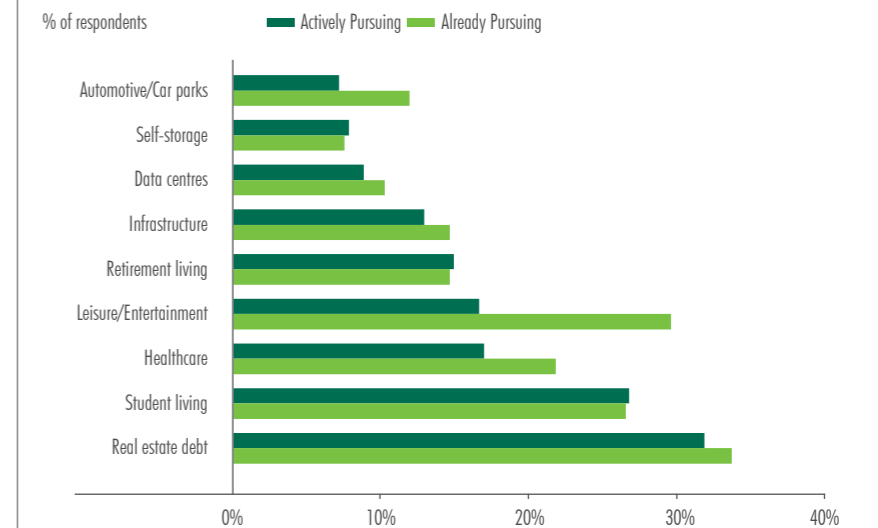
Investment in debt has taken off over the last two years. From under €10 billion in 2012, investment in commercial real estate debt in Europe increased to €21 billion in 2013 and €49 billion in 2014, with substantial further investment in residential debt. However, the vast majority of buyers of European debt have been US based, suggesting that most European investors are currently getting their exposure by investing in funds rather than directly.

Several other sectors have also already achieved substantial penetration in terms of representation in investors’ existing portfolios. 30% already have exposure to Leisure/Entertainment properties, 27% existing holdings of student living properties and 22% exposure to the healthcare sector.

Looking ahead there is also strong interest in extending exposure to these types of property, driven by the continuing search for investment product and yield, with Real Estate Debt and Student Living markedly ahead of the other sectors.

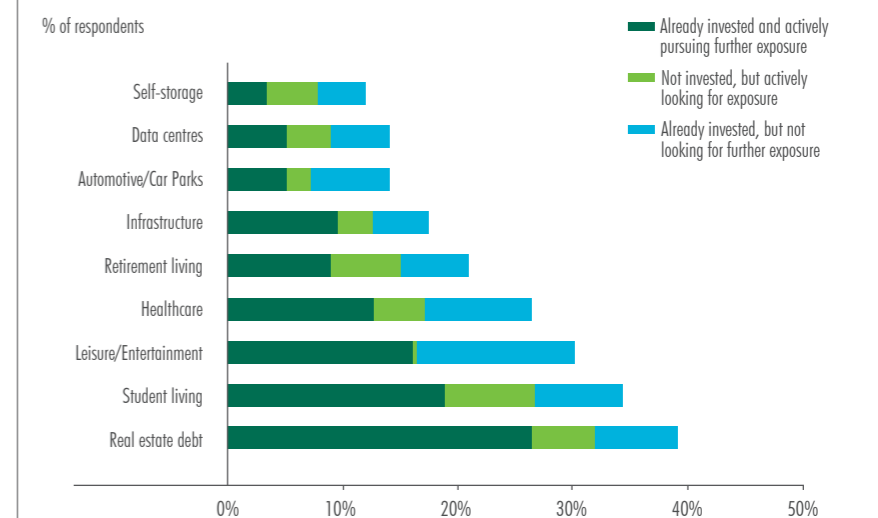
A third of investors (32%) were actively pursuing investment in real estate debt, although a high proportion of these were investors that already had some exposure to the sector. Student Living recorded 27% of investors actively pursuing investment, but with a higher proportion of those being new to the sector.

Are you already invested/actively pursuing investment in any of the following alternative sectors?



Source: CBRE Research

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Source: CBRE Research

Preferred form of investment

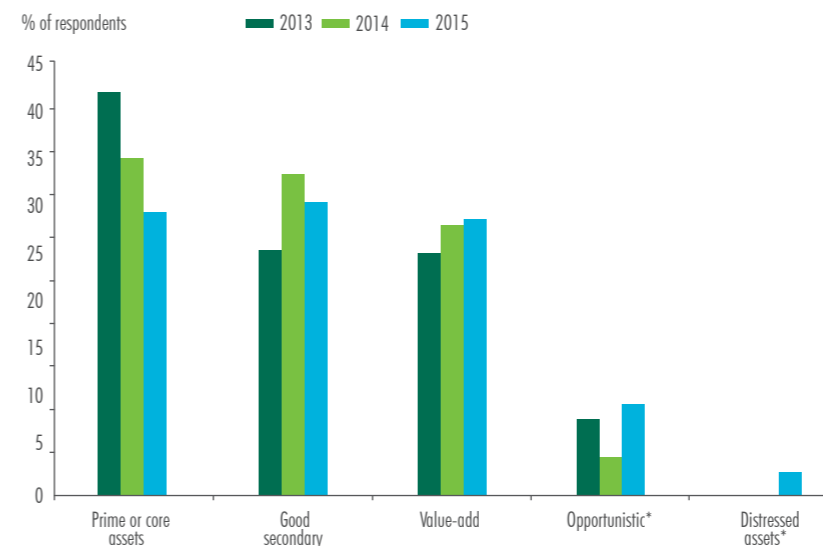
Most attractive type of asset

Two factors pushing in opposite directions impacted on the CRE investment market in the EMEA region in the second half of 2014. The continuing fall in prime yields around the region means that in most cases prime property looks expensive relative to historic norms pushing investors towards more secondary property in search of higher yields. However, at the same time the spread between government bond yields and prime property has never been higher in most cases due to the recent sharp fall in government bond yields.

“The spread between government bond yields and prime property has never been higher”

Our survey reveals that overall the yield side of this argument continues to prevail and that investors will be looking further up the risk curve in 2015 compared to 2014. Spain and Ireland benefitted greatly from this last year, as did the UK regions and parts of the German market. Looking ahead, investors are likely to be ranging further this year in search of markets that are expected to benefit from recovery. Italy will be one to watch, although the country preferences discussed earlier did not show the same scale of shift towards Italy as was seen towards Spain at the start of last year. Secondary property in markets beyond the UK and Germany seem most likely to benefit therefore.

What type of property assets are most attractive for you to purchase in 2015?



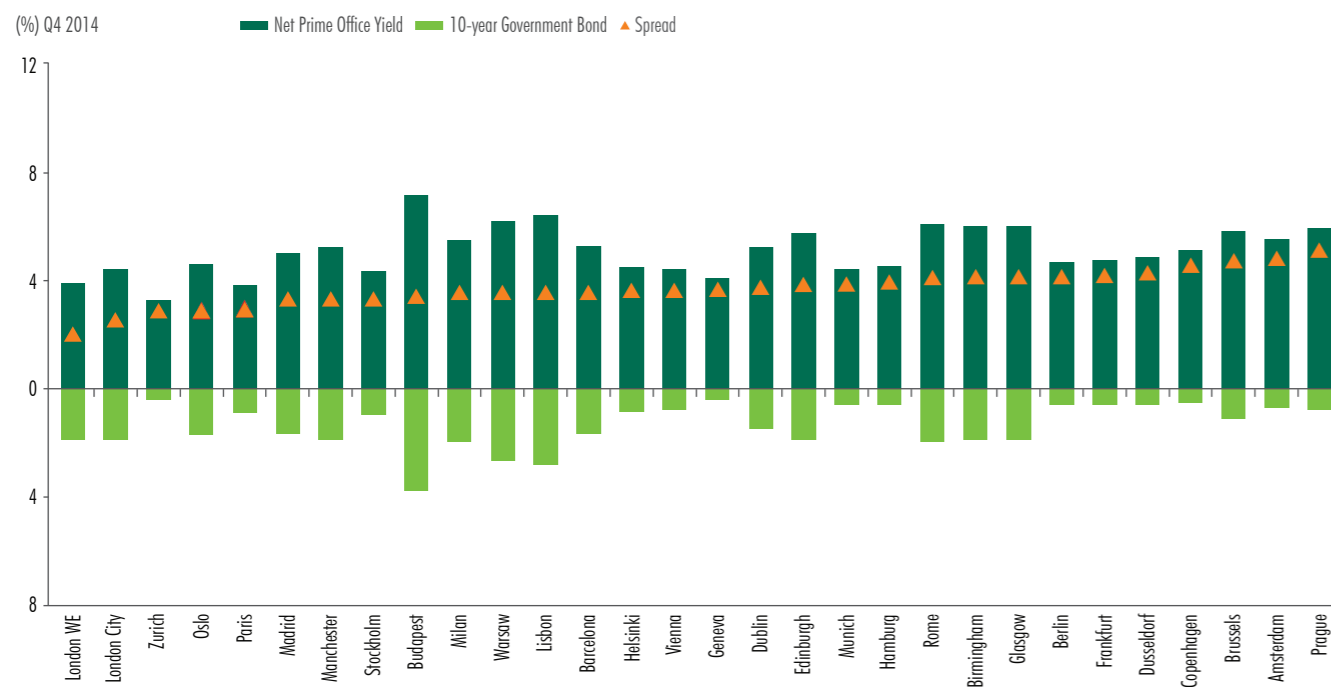
Source: CBRE Research

* Opportunistic / Distressed assets were offered as a single option in the 2013 and 2014 surveys.

“The yield side of this argument continues to prevail and investors will be looking further up the risk curve in 2015 compared to 2014”

The Real Estate Yield Gap

Prime office yield (net) relative to 10-year government bond



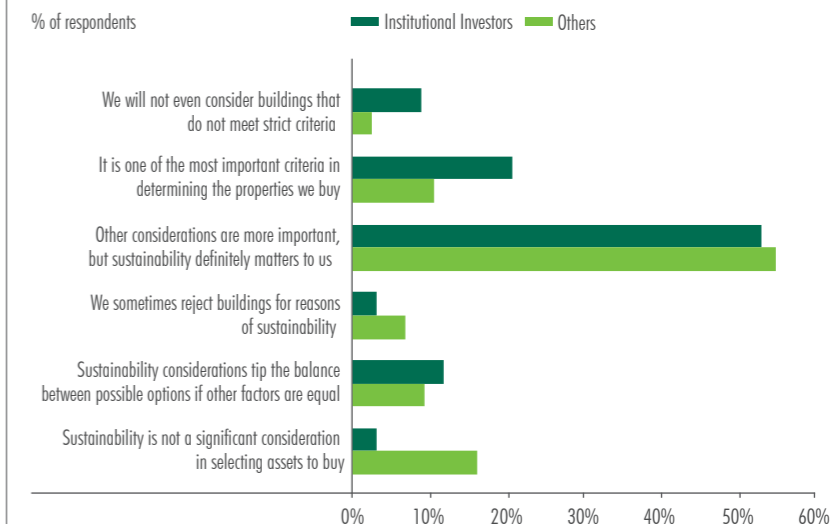
Source: CBRE Research

Sustainability

The issue of sustainability in real estate investment is one that divides opinion within the real estate industry. Definitive evidence that the sustainability of a building has a direct influence on its investment performance has proved elusive. Yet with the built environment accounting for a substantial proportion of carbon emissions, the sector attracts attention from legislators. If for no other reason than protection against future changes in regulations, the sustainability credentials of an investment could prove crucial to its future performance.

Our survey revealed that only 15% of investors had sustainability at or close to the top of their criteria for selecting real estate investments. Significantly this rises to 30% of institutional style investors (Pension Funds, Insurance Companies and Sovereign Wealth Funds) compared to 12% in the rest of the sample. These institutional style investors will typically be looking at a longer investment horizon on average, which may explain the greater importance that they place on sustainability. Institutional investors will have, on average, a higher spending power in the real estate market than the other survey respondents, increasing the importance of this distinction.

Which of the following statements most closely describes your approach to Sustainability in asset selection?



Source: CBRE Research

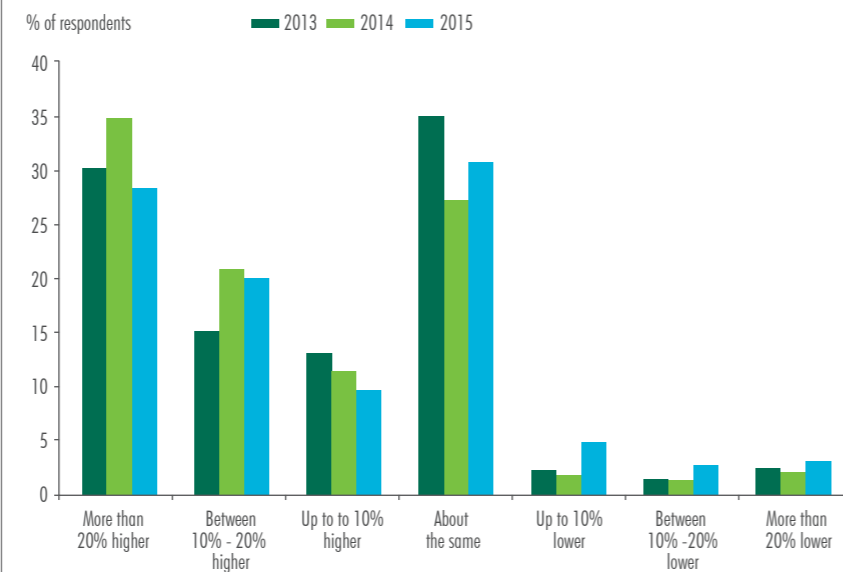
Expected investment activity in 2015

Last year's survey revealed a very high balance of investors who intended to increase their purchasing activity relative to 2013, with 67% expecting higher investment and just 5% expecting their activity to be lower. This proved to be the case with total CRE investment in Europe of €223 billion, up by 35% on the previous year. The results of this year's survey suggest that 2015 will be another year of strong growth investment activity, with 58% expecting to increase their purchasing activity, compared to 11% expecting a decrease.

For the first time we also asked investors what change they were expecting in their selling activity. With no past results to compare to it is difficult to draw strong conclusions. However, with 46% expecting increased selling against 13% expecting a decrease it looks as though 2015 will be a year with substantial amounts of trading activity.

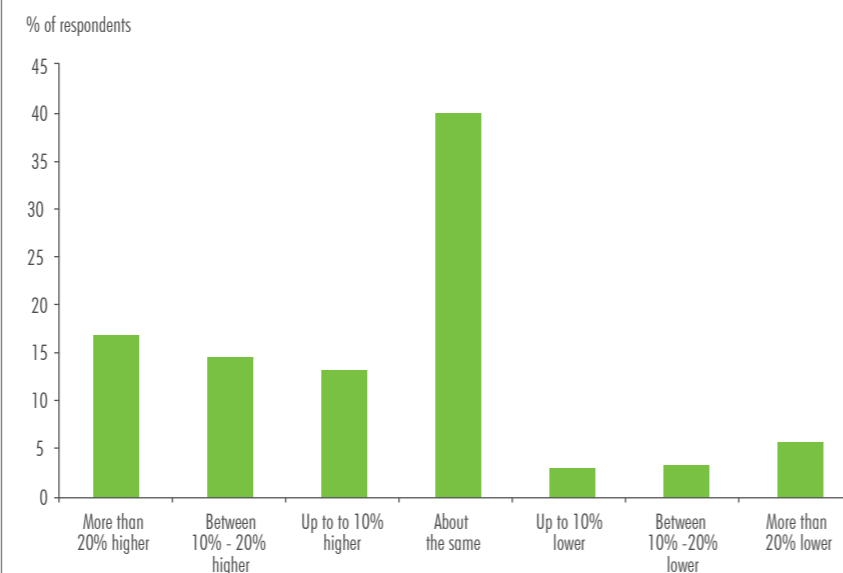
“2015 will be another year of strong growth investment activity, with 58% expecting to increase their purchasing activity”

Compared to 2014, do you expect your purchasing activity in 2015 to be:



Source: CBRE Research

Compared to 2014, do you expect your selling activity in 2015 to be:



Source: CBRE Research

Risks and opportunities

Threats to property markets in EMEA

Despite the fact our survey was carried out in the run up to the general election in Greece, the possibility of a break-up of the euro area barely registered in terms of the potential threats to the real estate market in the EMEA region. Investors' greatest concern remains the perception that property has become over-priced with 32% of responses (exactly the same result as last year).

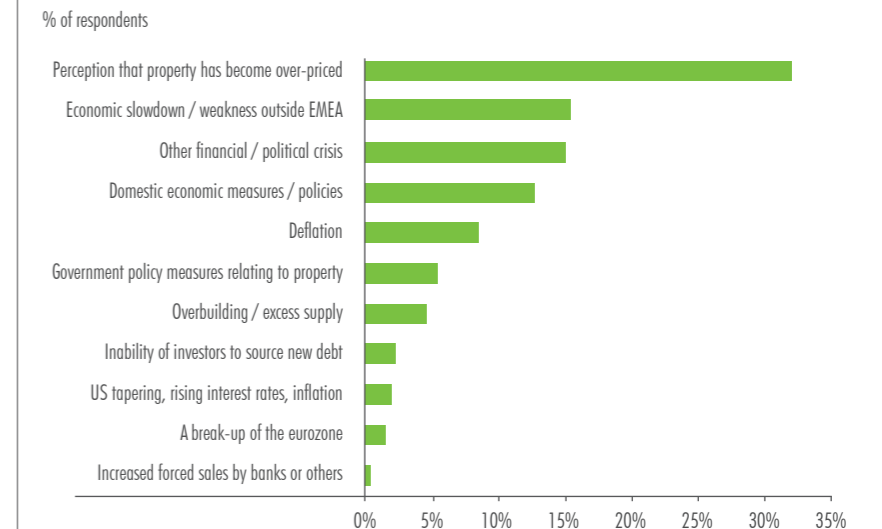
Economic issues elsewhere in the world were considered a greater threat to EMEA's property market, with the continuing slowdown in China likely to be the most significant of these. The plunge in the oil price, with consequent effects on Middle Eastern economies may also have been part of this even though the effects on European GDP will be nearly all positive.

There must be a possibility that lower oil prices would reduce the investment flows into Europe from Middle Eastern investors. However, the region's sovereign wealth funds are mostly still underweight in property compared to their target allocations and the end of 2014 saw Middle Eastern investors extremely active in the property market, particularly in London.

Although the possibility of a vote is still quite a long way away, the prospect of the UK leaving the EU is clearly something that investors would not welcome. Some 69% thought that a UK exit from the EU would make it a less attractive place to invest, with only 5% believing that it would improve the UK's attractiveness (a balance of -64%). This represents a slight hardening of opinion against a UK exit compared to last year (balance -58%).

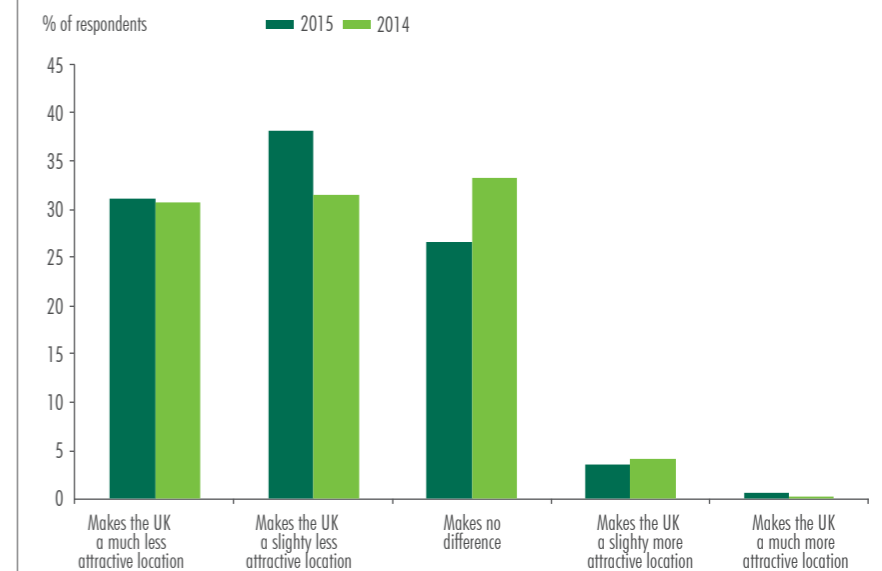
Unlike the 2014 survey, when there was a distinct difference between the UK domiciled respondents and the rest, there was relatively little variation in response between these two groups in 2015.

Which of the following do you believe poses the greatest threat to EMEA property markets?



Source: CBRE Research

How would it affect the attractiveness of property investment if the UK voted to leave the EU?



Source: CBRE Research



Conclusions

Looking broadly at the pattern of the results of the latest investor intentions survey there are a few things that stand out:

The turnover of the investment market has increased strongly in each of the last two years, increasing from €128 billion in 2012 to €165 billion in 2013 (+29%) to €223 billion in 2014 (+35%) and yet the survey suggests that there will be further strong growth in 2015. Not only is there a strong positive balance of investors who will be looking to increase their purchasing activity in 2015, but there was also a strong balance of investors that were looking to increase their sales over the year as well.

Nearly all European countries have benefitted from the growth in investment activity over the last few years, but Ireland and Spain stand out as having seen the fastest growth in investment activity over the last two years. The growth in Spanish investment was predicted by previous surveys and looking at the results of the 2015 survey there is a suggestion that France and Italy may be set for acceleration in investment

activity. The results are not as strong as those that preceded the boom in the Spanish market, but there is a definite increase in interest.

The third theme that appears strongly throughout the report is the diversification of investment that is being driven by the strong level of competition for investment product. This shows up in the greater levels of risk that investors are intending to take in 2015 and particularly in the level of interest in 'alternative' sectors such as real estate debt, student housing and healthcare facilities.

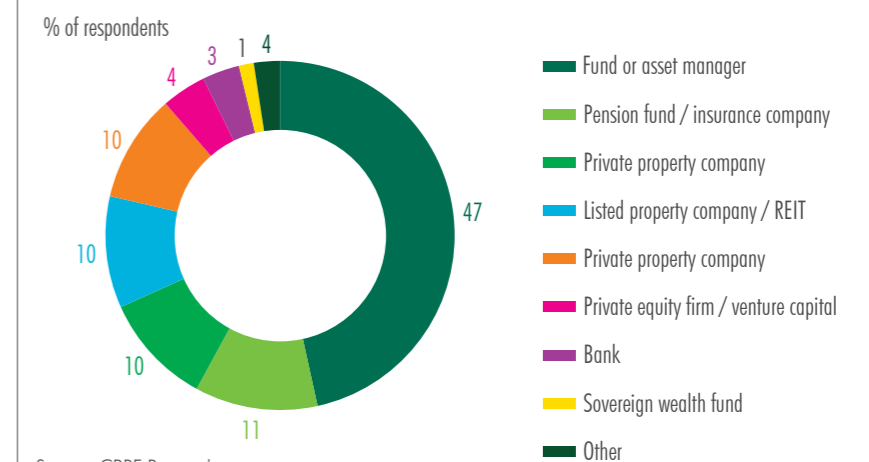
Finally, focussing just on the UK, it appears that attitudes are hardening towards the prospect of the UK leaving the EU – even more so than in last year's survey. There was a negative balance of -64%, comparing those that thought it made the UK a more attractive investment destination with those that thought it made the UK a less attractive destination. At the moment this is still quite a distant possibility. Even if there is a referendum, the polls suggest that the vote would be in favour of staying in the EU.

Survey method and composition of responses

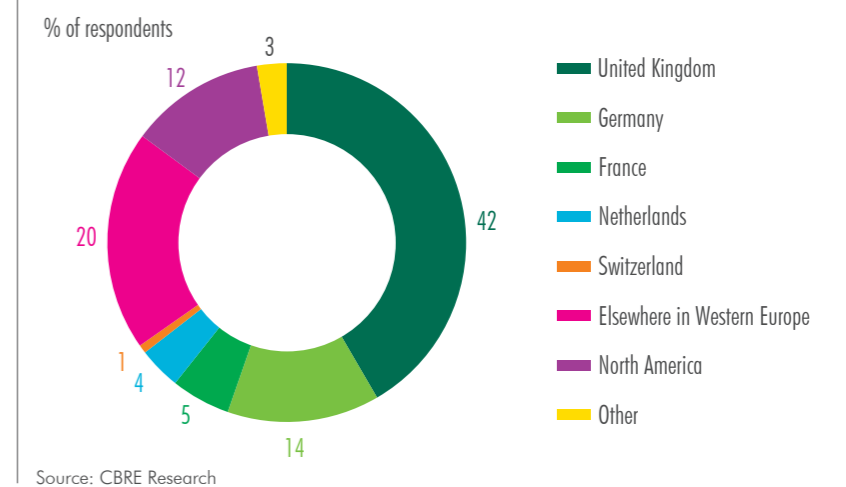
The survey was carried out between 6th January 2015 and 6th February 2015, with a total of 280 responses spread across a range of types of real estate investors. The most numerous were fund/asset managers, who accounted for 47% of survey participants. A further 13% were pension funds, insurance companies or sovereign wealth funds. The other most numerous respondents were private property companies (10%), listed property companies/REITs (10%) and private equity/venture capital firms (10%).

The respondents were predominantly from Europe (85%). UK-domiciled investors were the most numerous, making up 42% of the total, with Germany (14%) the next biggest group. The respondents from outside Europe were mainly from North America (12%).

Please indicate which business sector best describes your organisation's main activity:



Please indicate the country/region in which your organisation is domiciled:



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