59.913869° N
10.752245° E
OSLO

52.370216° N
4.895168° E
AMSTERDAM

51.507351 ° N
0.127758° W
LONDON

52.520007° N
13.404954° E
BERLIN

48.856614° N
2.352222° E
PARIS

40.416775° N
3.703790° W
MADRID

EMEA INVESTOR INTENTIONS SURVEY 2017

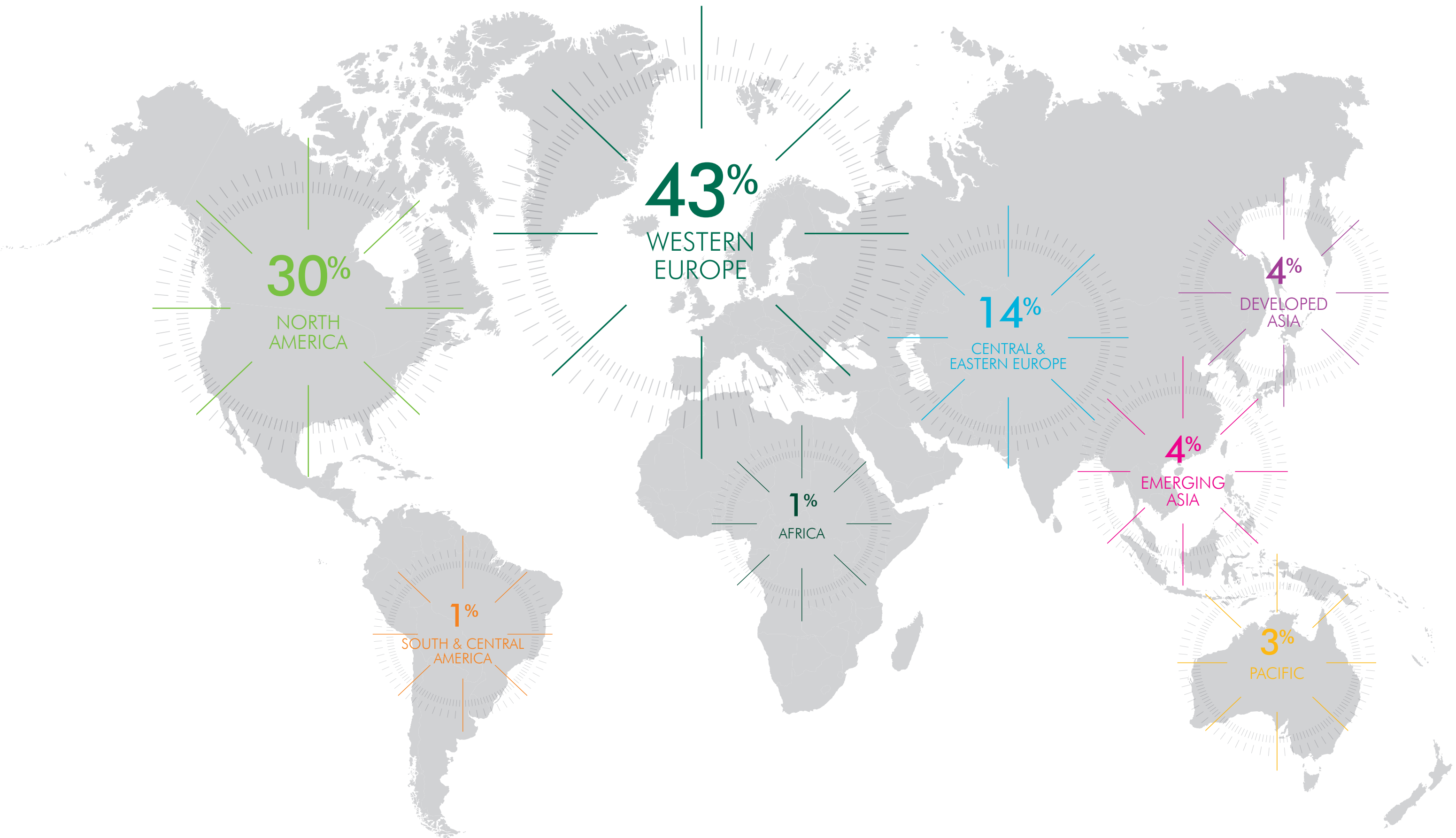
CBRE

CBRE Research

Executive summary

- Economic conditions are positive and investors have ample capital to deploy in real estate
- In EMEA, investors are planning for $475 billion in real estate investments in 2017
- For 2017, 85% of investors intend to spend at least as much as in 2016, and 40% expect to spend more
- Germany is ahead of the UK as the most attractive place to invest, as was the case in 2016, but investors are showing an increasing tendency to invest in the UK despite uncertainty over Brexit
- The Nordics enters the top three with a significant jump compared to 2016
- London retains the top spot as most popular city to invest in with an increased share, but Berlin shows the biggest increase, moving into second place
- 'Pricing' and 'Availability of product' are the biggest obstacles to investing in EMEA real estate
- Office is the most popular sector: interest in logistics has increased
- Risk appetite has increased slightly
- Income related factors such as 'Yield relative to other asset classes' are investor's key motivations for investing in real estate

Figure 1: Most attractive regions for property investment purchases by EMEA investors



Source: CBRE EMEA Investor Intentions Survey, 2017

Preferred countries

The results are strongly divided when asked about the most attractive country for real estate investments in EMEA. Germany (22%) retains the top spot, beating the UK (20%) for the second consecutive year (Figure 2). Compared to 2016 however, this year's survey results show an increasing tendency to invest in the UK.

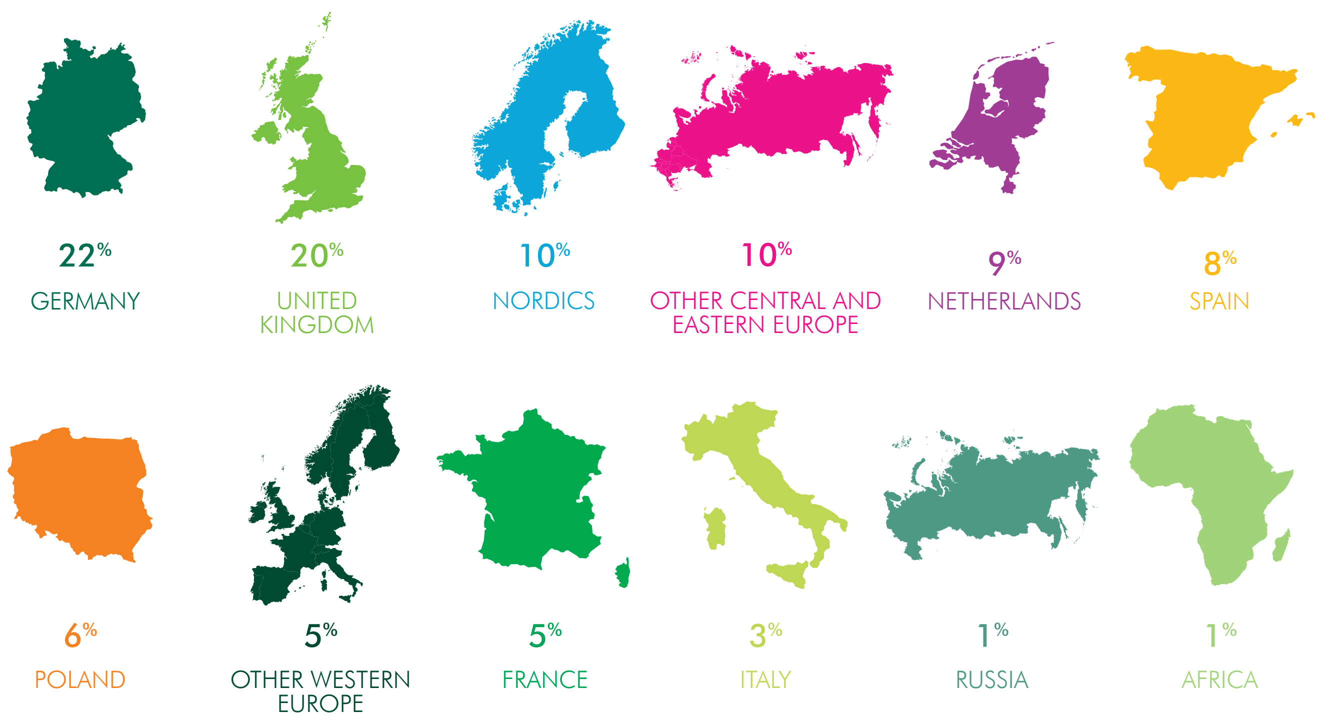
Investors favouring Germany and the UK value both markets for their relatively high liquidity and transparency. Germany distinguishes itself through its stable geo-political environment and strong economic fundamentals that are driving rental values.

The Nordics (10%) enter the top three with a significant jump compared to last year's survey results. The rising popularity of the Nordics is also reflected by actual investment activity in the region. In 2016, the investment volume recorded in the Nordics was 66% above the 10-year average, with a particularly strong performance for Denmark, Finland and Sweden. Investors preferring the Nordics' are attracted by its favourable risk-return profile.

Investors continue to perceive Central and Eastern Europe (CEE) as an attractive market to invest in (17%), although results are slightly less positive than 2016. While yield compression in the Czech Republic and Poland was in line with Europe's gateway markets (measured in bps), yields are still considerably higher, making CEE attractive for investors seeking yield.

One of the key events in Europe in 2016 was undoubtedly the UK referendum on its membership of the European Union and the vote to leave. Despite uncertainty over how the Brexit negotiations will unfold, our survey shows that investors are increasingly interested in the UK.

Figure 2: Most attractive countries for investment in EMEA



Source: CBRE EMEA Investor Intentions Survey, 2017

Preferred cities

Most of the trends visible at the country level also show through at the city level, but some distinctions emerge when looking in more detail at the cities that respondents picked as the most attractive destinations for real estate investment in EMEA.

In line with last year's survey, the results are extremely diverse with 52 different cities mentioned by the respondents. London is most frequently cited as the most attractive investment market and retains this place for the sixth consecutive year (Figure 3).

However, London's lead over other cities is less pronounced than in the first four years that we asked this question in our survey (from 2012 to 2015).

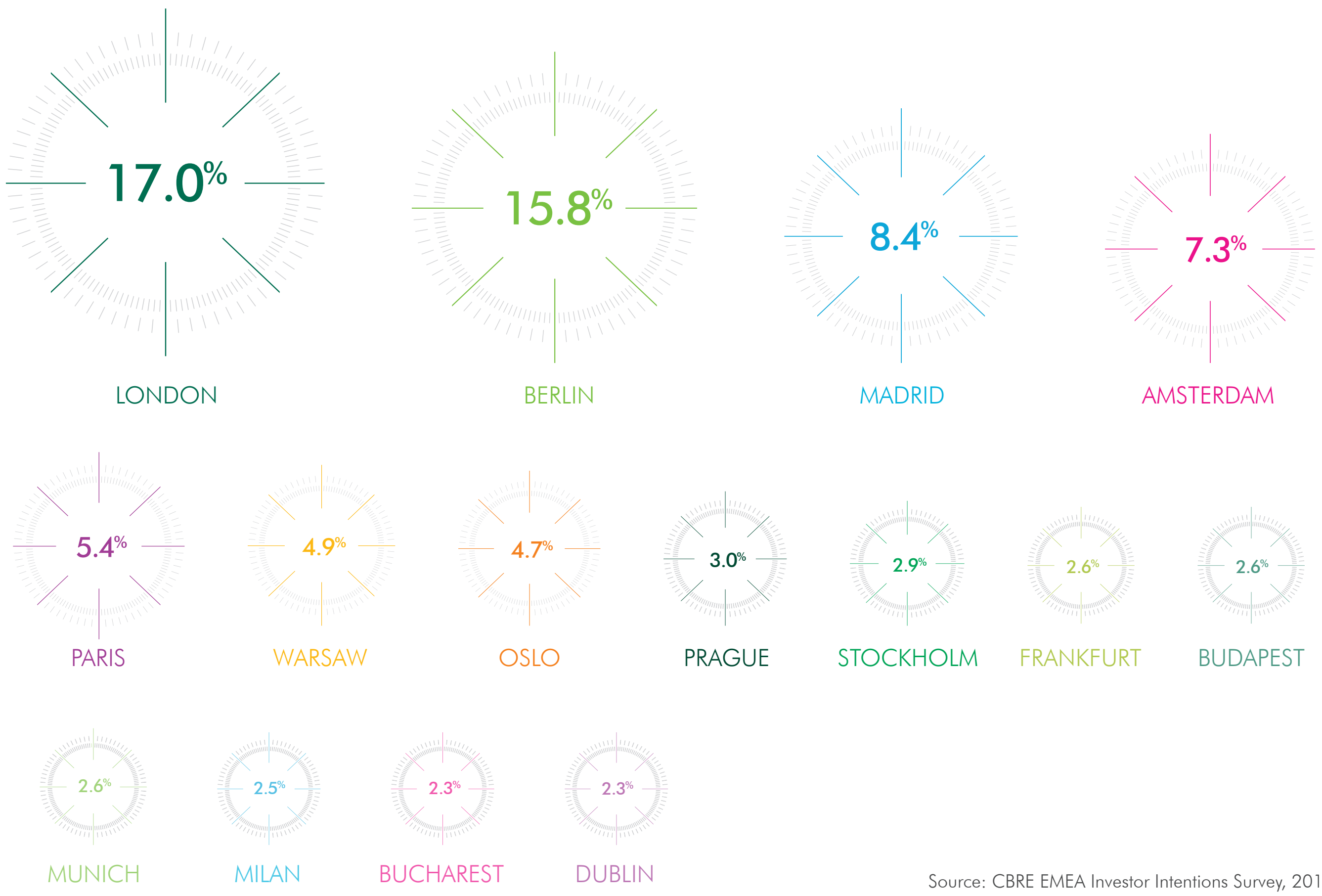
Surprisingly, several of Europe's other traditional gateway markets fell below the long-term trend. Hamburg, Milan, and Munich dropped out of the top 10. After years of substantial yield compression, this points to growing concerns over pricing in some of Europe's core markets.

Paris is retaining a top 5 position as one of Europe's most attractive cities, expressing keen interest in the city despite aggressive pricing and potential political risk.

Prominent new entries in the top ten are Oslo and Stockholm, reaffirming the strong investor interest in the Nordics. Occupier markets are performing well and the outlook for rental growth in both markets is strong.

Berlin has climbed the rankings and jumped to second place from fourth in 2016 at the expense of Madrid. The German capital can count on strong investor demand for several years now, but limited availability of product is a growing concern.

Figure 3: Most attractive cities for investment in EMEA



Source: CBRE EMEA Investor Intentions Survey, 2017

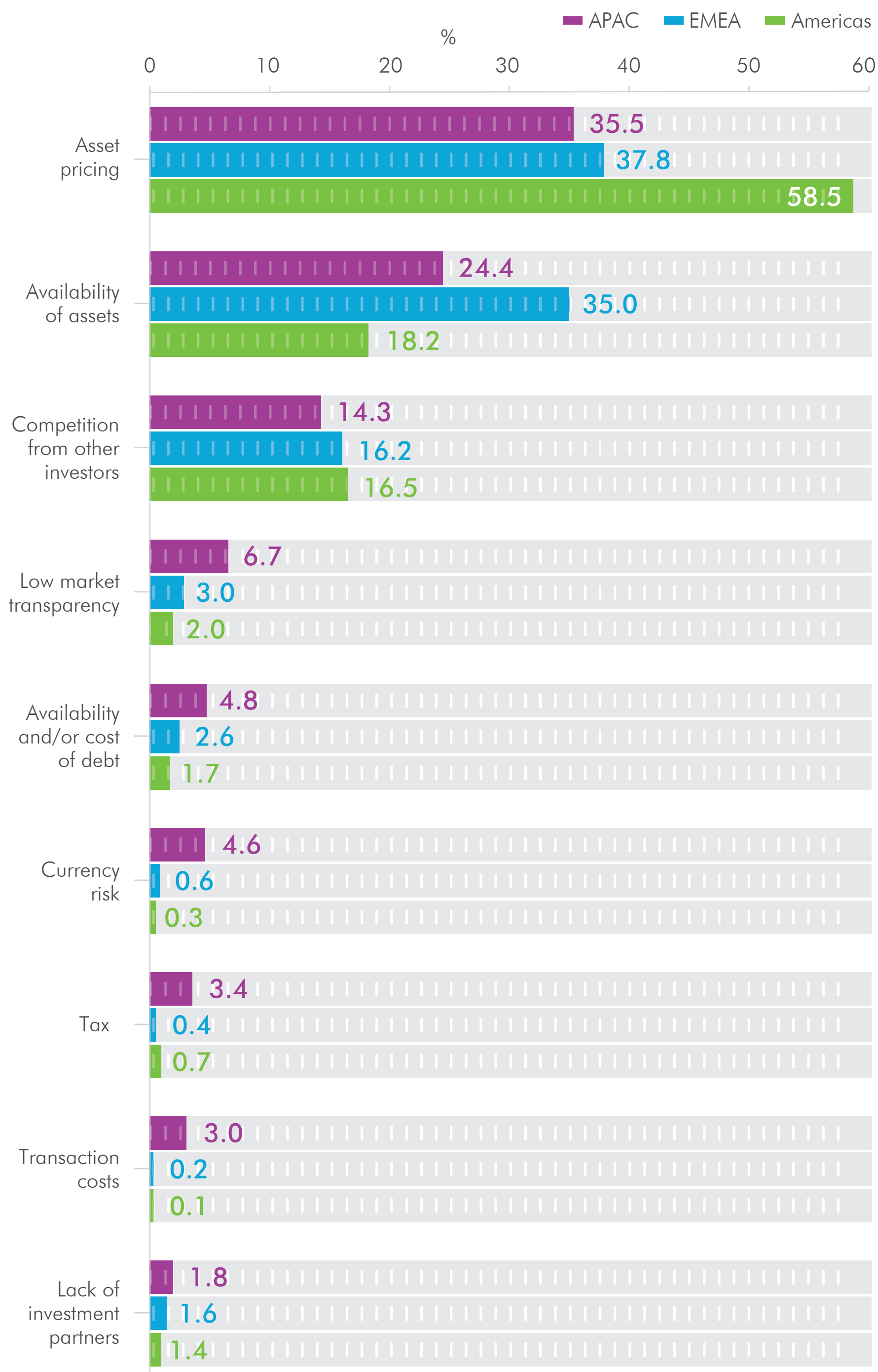
Biggest obstacles for investment

A new question that was added to our Investor Intentions Survey in 2017 investigates the major obstacles investors face in concluding real estate investments. Aggressive asset pricing (38%) is most frequently cited as an obstacle (Figure 4), which is not entirely surprising given the highly competitive environment for prime property in Europe's gateway markets. However, this is an obstacle often cited in other global regions and is by no means unique to EMEA.

Relative to other global regions, investors in EMEA frequently express their concern over the availability of product (35%) in the markets where they want to invest. This is the biggest obstacle in Germany, Italy and the Netherlands, but there are few markets in EMEA where finding suitable product is not perceived to be an issue.

Investors perceive asset pricing as the main obstacle to acquiring assets in EMEA. Almost equally important is the limited availability of assets, which is a key concern in a growing number of markets.

Figure 4: Biggest obstacles to acquiring assets in EMEA



Source: CBRE EMEA Investor Intentions Survey, 2017

Preferred sectors

In this year's survey, office remains the most attractive sector amongst the respondents although its lead over the other sectors is narrowing (Figure 5).

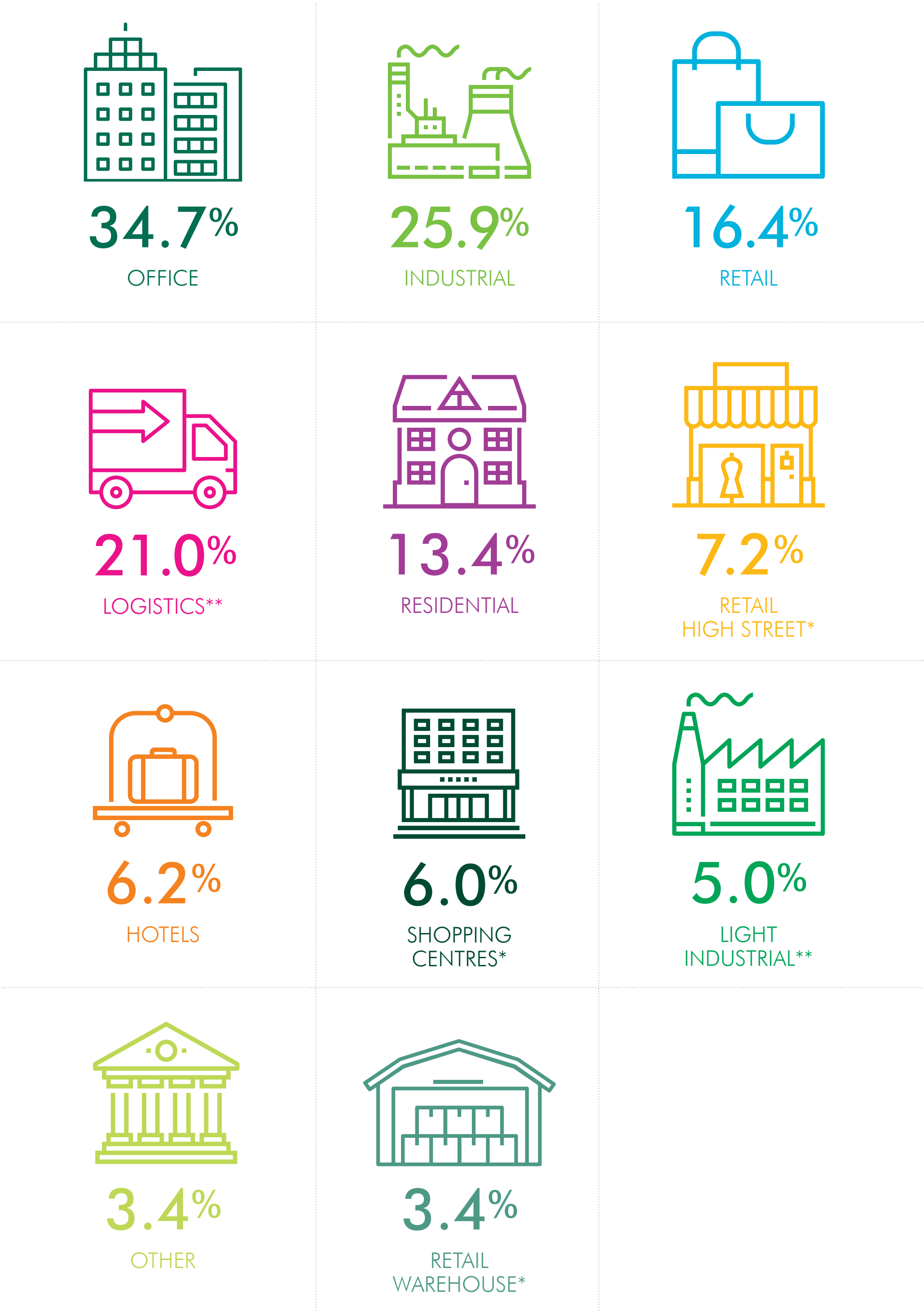
In line with structural changes such as broad-based integration of e-commerce in the supply chain and the development of logistics into an institutional investment product, investors now perceive industrial as the second most attractive sector for investment.

The rising popularity of industrial is at the expense of retail, and particularly shopping centres. Despite a solid outlook for private consumption and retail turnover growth, market sentiment is subdued as 2016 was still a patchy year for retailers, while online retail sales continued to grow. The impact of internet retailing is influencing the disparity between prime and secondary locations. While prime locations are relatively resilient to this trend, it is particularly challenging for secondary retail locations.

After its jump in popularity in 2016, residential has reaffirmed its position as an attractive sector for 2017. Appetite for residential is particularly strong with investors that perceive Germany, the Netherlands, the UK and other Western European markets as the most attractive investment destinations.

Driven by solid structural fundamentals, industrial is seeing a substantial increase in investor interest. This is at the expense of retail, although rising consumer confidence and a positive outlook for private consumption growth will likely improve investor sentiment for shops.

Figure 5: Most attractive sectors for investment in EMEA

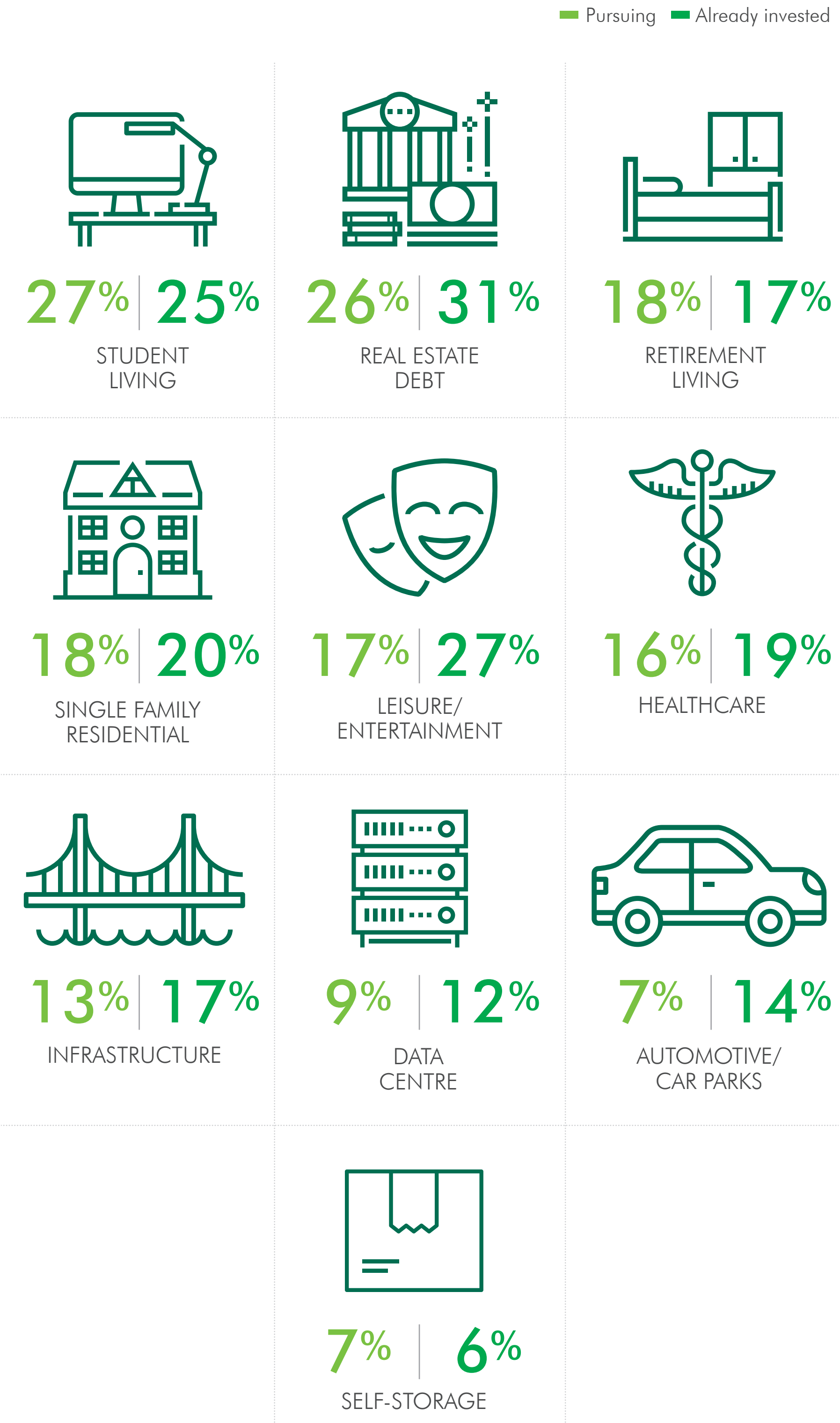


* Subcategory of retail
** Subcategory of industrial

Source: CBRE EMEA Investor Intentions Survey, 2017

Alternative investments

Figure 6: Actively pursuing investment in 'alternative' sectors



Source: CBRE EMEA Investor Intentions Survey, 2017

Due to yield compression and changes in the structure of the economy, the last ten years has seen strong growth in interest in real estate 'alternatives'.

The survey results show that alternatives are increasingly in favour with investors (Figure 6). A large majority of all respondents have indicated they are already invested in alternatives (71%) or are actively pursuing investment opportunities (64%).

In line with previous years, real estate debt is the segment that has the greatest existing market penetration (31%). However, the debt market is now quite mature and most of those still actively investing already have some exposure to the sector.

The sector where investors increased their exposure most substantially compared to 2016 is leisure (27%). This is a surprising result when comparing it with investors' intentions expressed in last year's survey, when just 16% of the respondents indicated to actively seek opportunities in this sector. For student living (25%), investors' exposure and last year's results are well aligned.

Risk appetite

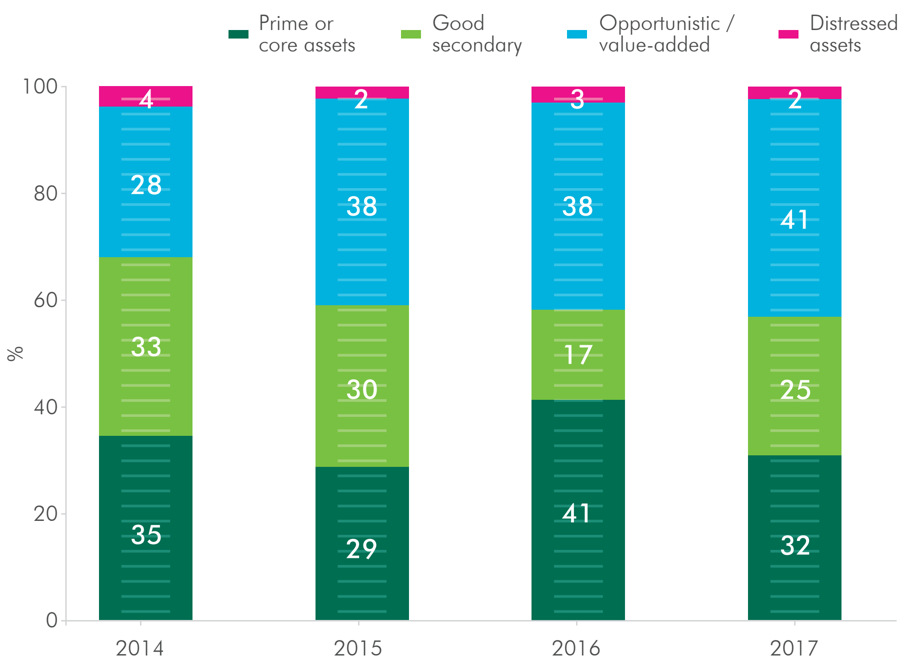
2017 is likely to see a gradual increase in investors' appetite for risk compared to 2016. The survey shows that investors favour opportunistic or value-add (41%) opportunities most, although the differences per market in EMEA are substantial (Figure 7).

Markets where investors remain most conservative are Germany and the Netherlands. In the UK, the market is relatively well-balanced with opportunities for a wide diversity of investor types and risk-return profiles.

Amongst the respondents, interest in distressed assets is limited overall. A notable exception is Italy, although this demand for loan sales may be partly opportunity-driven, as the stock of legacy debt is still considerable despite increasing deleveraging activity.

Investors are looking to move up the risk curve in 2017, although the differences per market are substantial. The UK is attracting a wide variety of investors with different risk-return profiles, while Germany and the Netherlands are predominantly in favour amongst investors seeking core opportunities.

Figure 7: Type of property assets most attractive to purchase in 2017



Source: CBRE EMEA Investor Intentions Survey, 2017

Investor motives

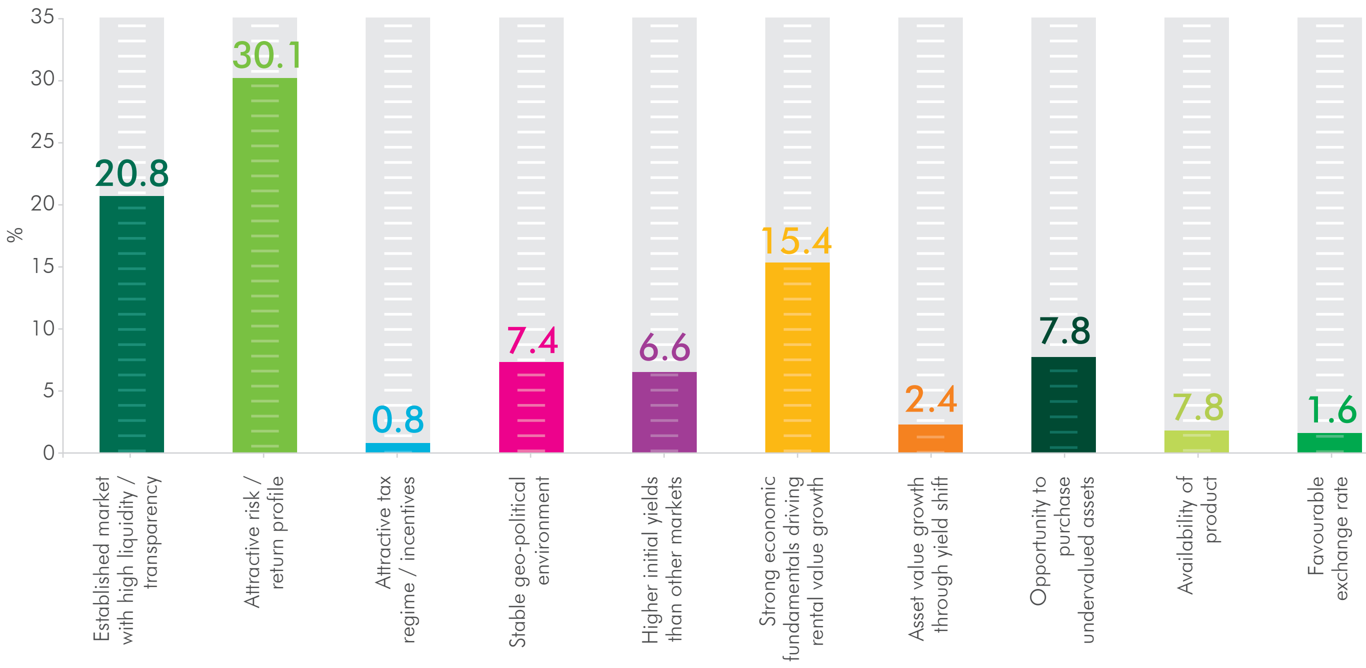
This is the second year that we have asked investors about their motivation to invest in real estate.

In 2016, investors' most important drivers were a 'steady income stream from rents' and the 'expectation of capital value growth'. While both are still important elements for respondents in this year's survey, the key motivation for investing in real estate in 2017 is its yield relative to other asset classes (Figure 8). The results show that relatively high yields on real estate are particularly an important consideration for pension funds, insurance companies and sovereign wealth funds – all institutional investor types that typically have a long investment horizon.

Although prime property in Europe's gateway markets has recorded strong yield compression in 2016, the gap between yields on government bonds and real estate investments is still high by historic standards. The so-called risk premium on real estate in the European Union currently ranges around 310 bps, which is more than 130 bps higher than its 15 year average.

On the back of broadening economic growth across Europe and higher commodity prices, inflationary pressures are building. In the light of this outlook of rising inflation, it is surprising that one of the traditional reasons for investing in real estate 'hedging against inflation' is still virtually absent from the responses. Investor sentiment is likely still affected by years of muted price increases in mature economies globally, although Oxford Economics expects inflation in Europe to accelerate and forecasts inflation to increase by 2.6% in 2017.

Figure 8: Investor main motivations for investing in real estate



Source: CBRE EMEA Investor Intentions Survey, 2017

Investor main concerns

Although the outlook for 2017 is broadly positive, investors identified several risks that could affect the investment market. While 2016 was an eventful year in terms of political events and 2017 will see three major elections in Europe, most respondents focus on the economic climate rather than geo-political events.

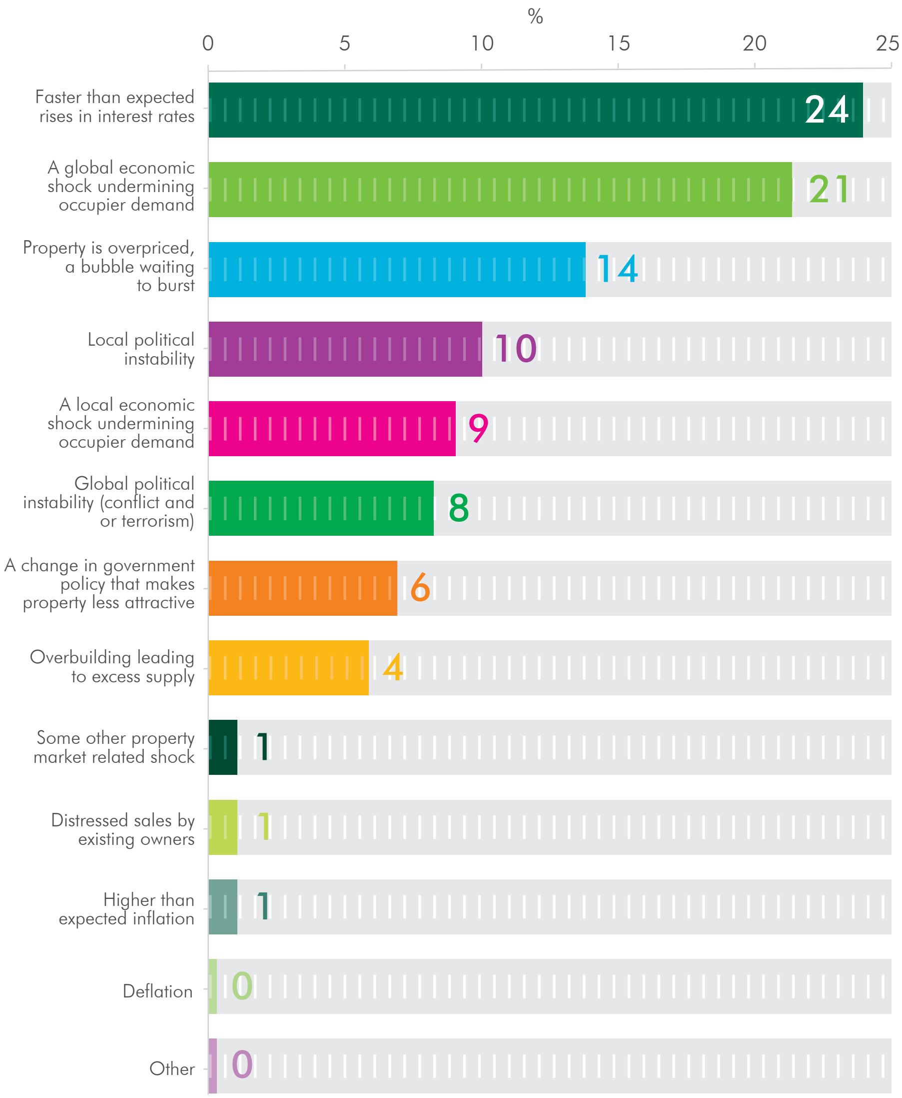
The most frequently cited risk is 'faster than expected rises in interest rates' (24%) (Figure 9). Despite the outlook for rising inflation and higher US rates, the European Central Bank (ECB) will not increase its main refinancing rate from 0% as long as its assets purchasing programme is in effect, to which they have committed until December 2017.

Investors are probably looking further out though. Long-term interest rates are expected to drift up in the expectation of future changes to short rates. The Bank of England cut the UK policy rate in the aftermath of the EU referendum. Higher than anticipated GDP growth and building inflationary pressures mean that further cuts now look unlikely and it is even possible that last year's cut may be reversed if growth and inflation surprise on the up-side.

Respondents also expressed their concern that a global economic shock could undermine occupier demand (21%). While the global economic outlook is improving, this indicates the nervousness that investors still have about the state of the world economy.

In line with earlier comments made about pricing and lower growth expectations, investors indicated pricing of real estate as a risk (14%). The low interest-rate environment has resulted in strong liquidity in the financial system, which has been partially allocated to real estate. As this capital has been largely focused on the prime end of the market, property yields in this segment have moved below pre-crisis levels in most gateway markets. The impact of rising interest rates is expected to have an effect in the medium term, but as the current gap between property yields and yields on government bonds is close to its historical peak, the impact may not be immediate.

Figure 9: Investor main concerns



Source: CBRE EMEA Investor Intentions Survey, 2017

Purchasing and selling activity

Investors remain positive about their purchasing activity and intend to further increase their real estate investments in 2017, although not to the same extent as in 2014 and 2015. The survey results indicate that 41% of the respondents expect to deploy more capital than last year and almost half of those (19%) expect to increase their purchasing activity by 20% or more. This compares with just 15% who expect to be less active, resulting in a positive balance of 26%.

Figure 10: Compared to 2016, do you expect your purchasing activity in 2017 to be

41% HIGHER	48% IN 2016
26% BALANCE	32% IN 2016
15% LOWER	15% IN 2016

Source: CBRE EMEA Investor Intentions Survey, 2017

Figure 11: Compared to 2016, do you expect your selling activity in 2017 to be

36% HIGHER	43% IN 2016
20% BALANCE	28% IN 2016
16% LOWER	15% IN 2016

Source: CBRE EMEA Investor Intentions Survey, 2017

Conclusions

Two themes stand out in this year's Investor Intentions Survey.

While 2017 will be an eventful year with major elections coming up in Europe, investors' focus is on the economic climate rather than geo-political events. In fact, despite uncertainty over how the Brexit negotiations will unfold, investors show a growing tendency to invest in the UK again.

Limited availability of product and asset pricing are the major obstacles investors face investing in real estate. Some investors see pricing of real estate as a risk to the market. However, despite keen pricing, respondents' key motivation for investing in real estate is its yield relative to other asset classes such as government bonds. Particularly for institutional investors with a long investment horizon this is an important consideration.

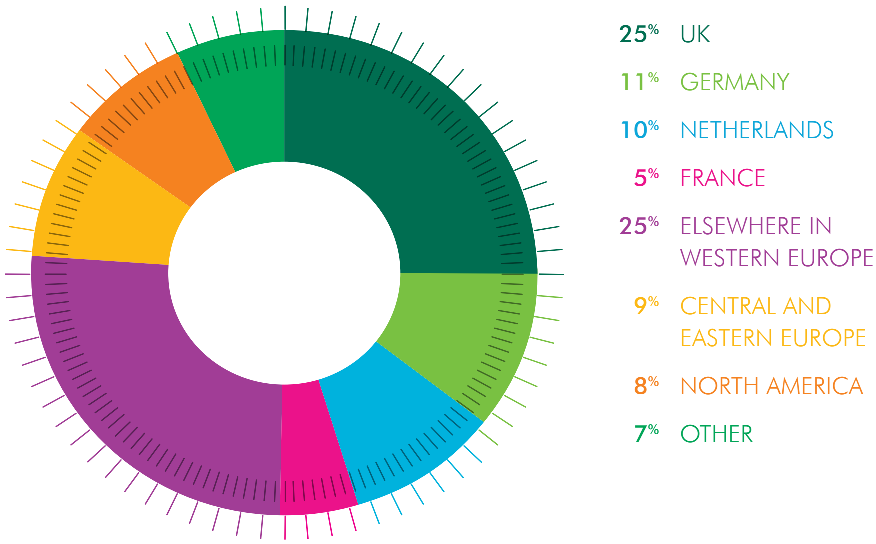
Other striking findings are that investors seem to be moving up the risk curve, albeit only slightly and differences by market remain substantial.

Germany remains the most attractive country to invest in, and the Nordics are a prominent new entry in the top three. London retains its top spot at the city level.

Methodology

Survey method and composition of responses

Figure 12: Country/region in which respondents' organisation is domiciled



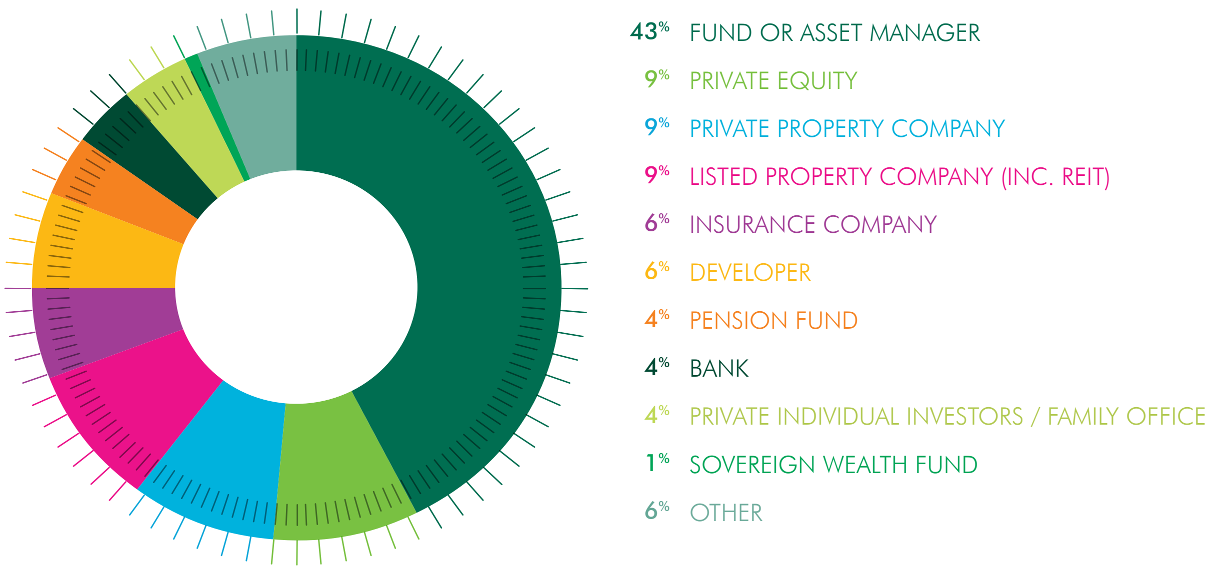
Source: CBRE EMEA Investor Intentions Survey, 2017

The Investor Intentions Survey was carried out between 26 December 2016 and 4 February 2017. The survey attracted 1,968 respondents globally. This report covers the 501 respondents who indicated to be responsible for investments in EMEA.

The responses were spread across a range of investor types. The most numerous were fund / asset managers, who accounted for 43% of survey participants. Insurance companies, pension funds and sovereign wealth funds were responsible for 12%. The other most numerous respondents were private equity (9%), private property companies (9%), listed property companies (inc. REITs) (9%) and developers (6%). The respondents were predominantly investors domiciled in Europe (85%).

UK-domiciled investors were the most numerous, making up 25% of the total, followed by Germany (11%), the Netherlands (10%), and France (5%). Investors from elsewhere in Western Europe accounted for 25% of survey participants. The respondents from outside Europe were mainly from North America (8%).

Figure 13: Business sector which best describes respondents organisation's main activity



Source: CBRE EMEA Investor Intentions Survey, 2017

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