Research &
Forecast Report

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EMEA | Investment

A New Era for Institutional Investment:

From Risk Averse to Risk Aware

Accelerating success.

A New Era for Institutional Investment: From Risk Averse to Risk Aware

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Introduction

In this report we analyse a range of market trends and regulatory factors influencing global property to consider the outlook for the European investment market in 2014 and beyond.

With global real estate investment volumes up 25% y/y in 2013, global property looks firmly back on track. However, the AsiaPac property investment cycle appears to be peaking, and investment in Europe and the Americas, whilst up on 2012, is still only 60% of the 2007 peak.

The strength of the US economic recovery, the tapering of US quantitative easing, positive UK economic growth and increasing signs of European economic stability should provide the fundamental support for a continued recovery in real estate investment in the European market. These changes also suggest that the period of safe-haven institutional investment may be over, with government bond rates unlikely to satisfy the return targets of institutional investors seeking to match their growing liabilities. Equally, current academic research suggests that equity pricing is getting ahead of its fundamentals, particularly in the US.

Collectively, this may well provide a hefty push for institutions back into real estate - in their search for higher yielding assets. However, despite conditions seemingly favorable to a shift into real estate, regulatory concerns present obstacles - notably new capital solvency requirements.

These are the themes covered in our report - it makes Europe a very interesting landscape for investors in the years ahead in the search for assets and locations which tick the right 'risk profile' boxes.

Full Recovery Mode

Ben Bernanke's farewell gesture in December 2013 seems to have signaled an end to the biggest monetary policy experiment in modern history. The muted response by the markets was helped not only by the gentle tapering of US$10 billion per month, but also by the message that the recovery in the US economy would come with interest rates remaining close to zero for the foreseeable future.

Coupled with a distinct recovery in the UK economy and signs of the more beleaguered European economies bottoming out as of the end of 2013, most – if not all markets - are pointing upwards.

Whilst this is largely good news for the institutional investment world, the fear from tapering is that without a buyer of last resort, there will be less liquidity in the sovereign bond market, leading to price volatility. This reduced liquidity could impact all asset classes as the flow of funds diminishes.

However, this reduced investment liquidity does not appear to be impacting the world of Commercial Real Estate (CRE) investment. In fact, the reverse appears to be happening, with global investment flows topping the US$1 trillion mark for the first time since the onset of the crisis. Global investment volumes reached 92% of their global 2007 peak as of end-2013.

A quick review of this growth in global investment highlights one significant difference between now and 2007. Notably, that CRE investment into AsiaPacific (AsiaPac) has been the driving force behind increasing global capital flows, having doubled in size to over US$550 billion in 2013. Investment into EMEA and the Americas, on the other hand, is only at ca 60% of their peak, 2007 volumes.

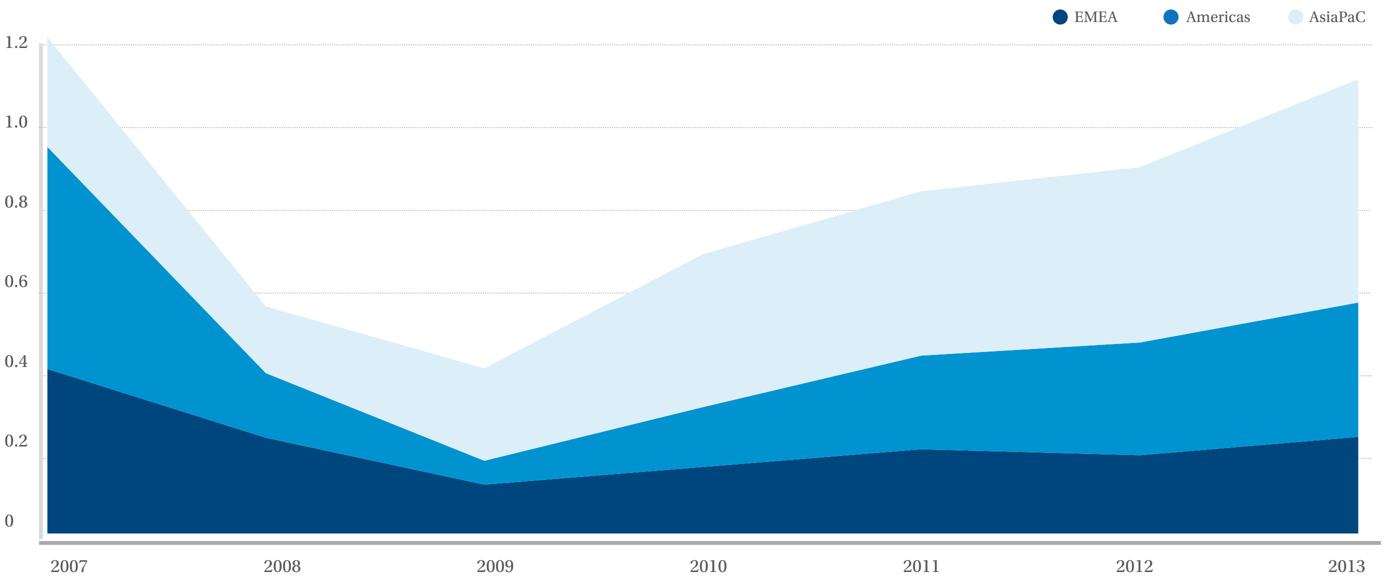
Whilst CRE investment into AsiaPac may be peaking in the current investment cycle, this suggests significant investment 'recovery capacity' remains in both EMEA and the Americas in the years ahead, now backed by (sustainable) economic growth. With institutional investment flows into European property increasing in the second half of 2013, and with evidence of an increasing number of bids for assets across a range of European geographies, sectors and quality profiles, the purpose of this report is to examine the various 'push and pull' factors likely to influence real estate investment into Europe in the years ahead.

- Is the weight of capital chasing European property investment getting ahead of itself – is the market in danger of over-heating; what's different from last time?
- With assets being actively sought out and closed in Tier 2 and 3 locations across Europe, is risk really back on?
- Are increasing deal volumes probable and/or sustainable, and what is the likely impact on yields?
- Are we likely to see differing and/or more creative forms of investment as the market seeks out returns?

A particular focus of the report is to examine the market and regulatory conditions impacting the main institutional investors driving activity in the European market, and this is where we will start.

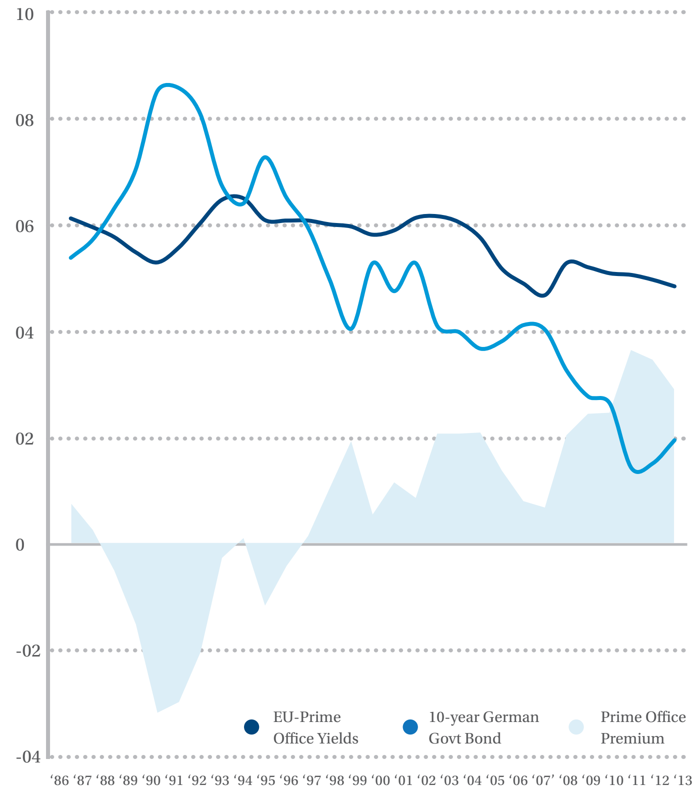
Let's begin with the Big Push.

Fig. 1: Global CRE Investment Flows
[2007-2013; US$ Trillion]



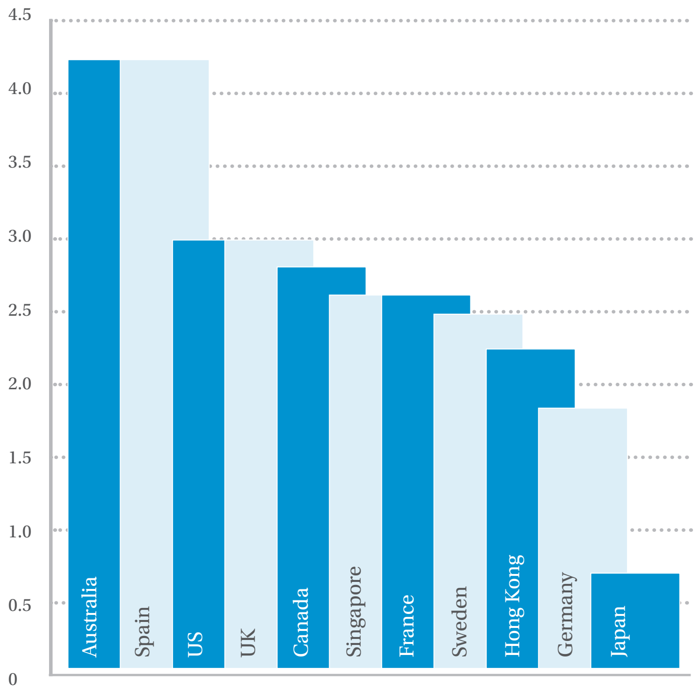
Source: RealCapitalAnalytics/ Colliers International

Fig. 2: European Property Yields & Bond Spreads [1986-2013; %]



Source: Colliers International

Fig. 3: 10-year Govt Bond Rates [2013; %]



Source: RealCapitalAnalytics/ Colliers International

Institutional Investment: Higher Returns Needed

The foreboding H1 2013 Sustainability Report from the European Insurance and Occupational Pension Authority (EIOPA) states that sustained low interest rates have led to an accumulation in the gap between investment returns being delivered and the size of the current obligation to policyholders.

These obligations, certainly for pension funds, are also impacted by increases in life expectancy so that the growth rate of the policy liability can be bigger than the growth rate of the underlying investment assets. For example the Canadian Public Pension Investment Board (CPPIB) is mandated to deliver annualised five-year returns of 4% over CPI. CPPIB's 10-year average return as at 30th September 2013 was 6.8% on a portfolio of 50% equity, 33% fixed income and 17% infrastructure and real estate.

Looking forward, being 'overweight' in 3% sovereigns will not continue to deliver this.

Bond Market Movements

As you may recall in our '***Mind The Gap***' report of May 2013, we identified that safe-haven bond market pricing had already started to soften and the expectation was this would continue as major markets moved into economic recovery and growth mode. As of the start of 2014, German Bonds had risen 45% over the year to reach 1.93% at end 2013, while 10-year rates for US T-Bills and UK gilts had increased by around 70% to just over 3%.

With bond market rates having increased significantly over 2013, the impact on institutional investors is twofold.

- Firstly, the risk-spread over property has diminished since its 2011 peak as prime yields across Europe have gradually, albeit marginally hardened. That said, the risk-spread over bonds continues to be at one of its highest of the last 30 or so years, and has yet to fall below 2%. The last time these levels were seen was during the 2004-05 period, prior to the last big push into CRE in 2006-07.
- Secondly, a bond rate rise of 45-70%, depending on which safe-haven you invested in, equates to a loss, if you bought at peak pricing. This will negatively impact the investment returns of any investor who bought in heavily during the safe-haven period from around mid-2011 to mid-2013, although fixed income will have been spared thanks to the recovery of the corporate bond market on the back of economic recovery.

While the jury remains out on the extent to which, and when, safe-haven bond rates will move out further – a recent report by Colliers ***'Will interest rate rises undermine commercial property values?'*** Feb 1014 suggests conditions will not lead to a significant rise in long or short-term rates in the foreseeable future.

This provides some capacity for property yields to harden further, although many of the core European markets, such as London and Munich, are already believed to be at their peak pricing.

Equally, European bond rates ranging from 0.74% to 4.24% will not necessarily satisfy the returns being sought by institutional investors.

Going into 2014-15, this is expected to lead to a reallocation of funds from fixed income towards equities.

But what of Equities?

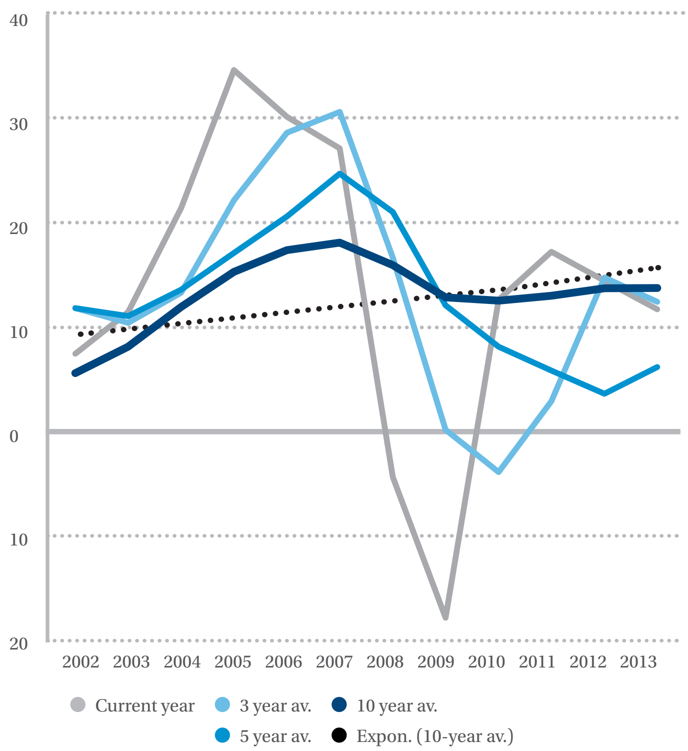
As we see in Table 1 below, equities have had a mixed performance over the past five years, although 2013 proved to be a strong year for global indices. The UK was consistent with its five-year average, the EU recovered as eurozone worries diminished and the US took off once it became clear its recovery was gathering pace.

Tab. 1: Global Equity Returns

	2013	ABSOLUTE '09-'13	ANNUALISED '09-'13
FTSEuro 300	14.0%	51.0%	8.6%
FTSE 100	11.0%	66.0%	10.7%
S&P 500	25.7%	102.0%	15.0%

Source: Colliers International

Fig. 4: Inflection Points - CRE Global Benchmark Returns [2002-2013; Total Returns; %]



Source: AON Hewitt/ IPD/ Colliers International

Current academic research, however, is suggesting that equity pricing is getting ahead of its fundamentals with cyclically adjusted price-earnings ratios (CAPE) currently approaching their 2008 peaks for S&P 500 stocks. According to Goldman Sachs research, European stocks are less frothy, with the differing stages of recovery across the EU acting as a brake.

So where does that leave investment-grade real estate as an option? Traditionally seen as offering the cash returns, inflation hedging and diversification benefits of fixed income plus a similar potential for capital upside as equity, has its moment returned?

Real Estate Returns: On an Upward Curve

Figure 4 shows global annualised total returns over one, three, five and 10-year time frames. The current one-year curve shows the impact of excessive leverage (irrational exuberance) between 2002 and 2007, and the severity of the correction as credit is cut off between 2007 and 2009. The 10-year curve represents a smoothed longer-term view of returns and underpins the fact that the real estate market cycle is firmly back on the way up – much in tune with renewed global investment flows returning towards their 2007 peak.

This also implies that the previous period witnessed an eight-year investment cycle in property, in this case 2004-2012. If current spreads to bonds are at 2003 levels, and with renewed economic growth likely to spur rental growth, this suggests at least another three years of growth in investment volumes and returns is possible – all things being equal.

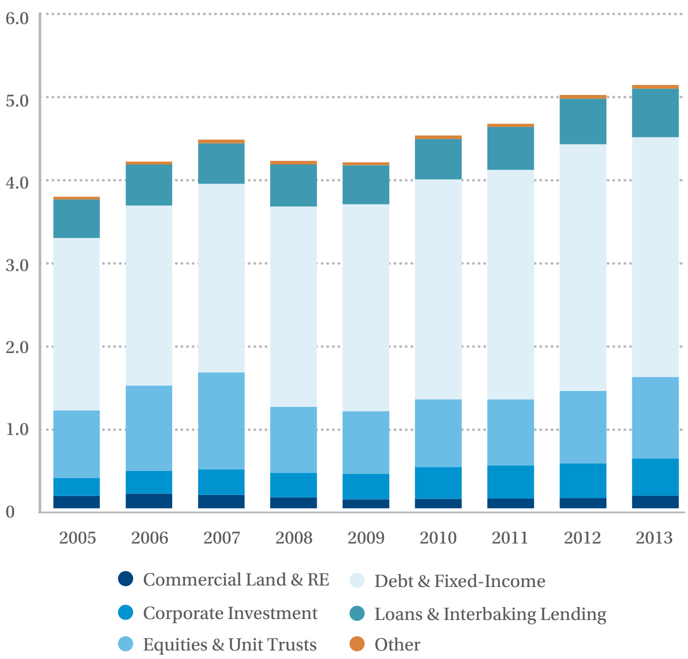
Yes there will be some volatility between 2014 and 2019 as unknown short-term shocks impact the market and the adoption of Solvency II, the European Building Performance Directive and Basel III are transitioned in. However, these risks can be accommodated by medium-term rewards for those who take a long view. The upward trend of the five-year curve supports the view that real estate market returns are on a positive trajectory.

With this in mind, and evidence of an increase in investment volumes into Europe – RCA data shows that EMEA investment volumes increased by 23% in 2013 – is this recent uplift in transactions likely to be due to one-off transactions, or driven by increasing allocations into real estate?

Institutional Allocations: Out of Balance?

As the crisis took hold we know there was as a 'dash for cash, quality and protection' the latter being focused on G7 government and investment-grade corporate bonds at low yields. However, in terms of asset allocation the supplementary data from the EIOPA's sustainability report combined with our own analysis suggests that portfolio concentration on fixed income was not actually that great. We have supplemented the EIOPA's report (up to 2012), by analysing 14 of Europe's biggest pension and life insurers with investment asset totals of 54% of the EIOPA sample, based on data from balance sheets from 30th June 2013.

Fig. 5: Asset Allocations within EU Life and Pension Funds
[2005-2013; € Million]



Source: Colliers International

Although we don't have full-year results for all the funds we analysed (we expect to present a supplementary report in May 2014 regarding the 2013 performance of our sample), we have arrived at the following findings:

- Debt and fixed income has stayed at around 56% of invested assets ranging from 54.2% in 2005 to a peak of 58.3% in 2012. Although it had fallen off again by H1 2013, the full-year extent of this will not be clear until after the 2013 reporting season. CMBS/RMBS are reported under debt and fixed income.
- Loans to policyholders and general borrowers have fallen back 2% so there is evidence of shrinking balance sheets having taken hold here.
- Equities have recovered in the same period. In 2008 they only took 15.8% of allocations, whereas now they hold 18.3%.
- Directly owned/acquired property and identifiable JV CRE transactions have accounted for 3.46% of the investment portfolio over the past five years (on average). Direct CRE investment accounts for 2.86% and identifiable JV CRE investments 0.6%.

When an optimal (albeit academic) allocation to real estate is considered to be between 15%-25% of a total portfolio, and UK property fund weightings have typically been in the 8-15% range in recent history, an allocation of 3.46% of the funds analysed does not seem like a great deal to us.

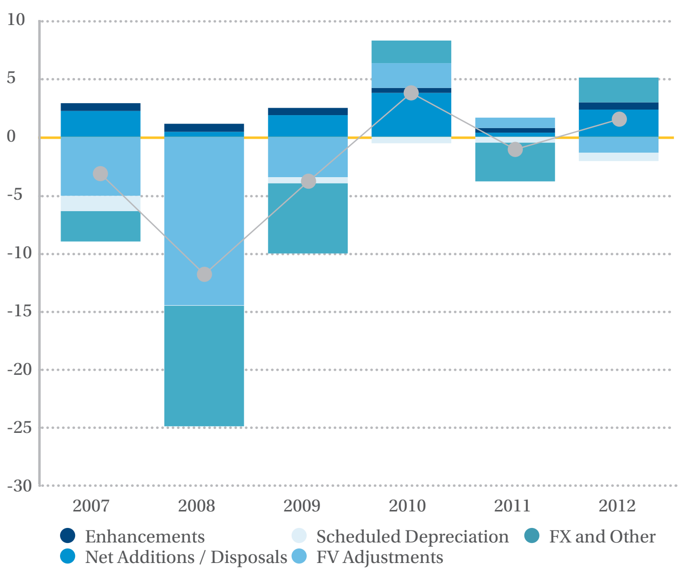
Clearly, a number of institutions invest indirectly into CRE via equities, REITs and other property funds (which are not always transparently reported) and this would increase the total CRE allocation. But given the position of various investment cycles and the long-term return and diversification benefits of direct/JV CRE investment, what is the likelihood of this investment medium increasing across EMEA in the near future?

Is this it for Real Estate Allocations?

In numerical terms, a 3.46% direct and JV CRE investment holding equates to around €208 billion - relative to the total value of investment portfolios held across the EIOPA universe (as of mid-2013, this was almost €6 trillion in short-scale terms i.e. €6,000,000,000,000). The official EIOPA figure puts direct real estate investment at €142 billion (2.4% of the total portfolio), but excludes identifiable JV CRE investment. This roughly equates to total EMEA CRE investment volumes in 2013, as recorded by RealCapital Analytics – a sizeable sum.

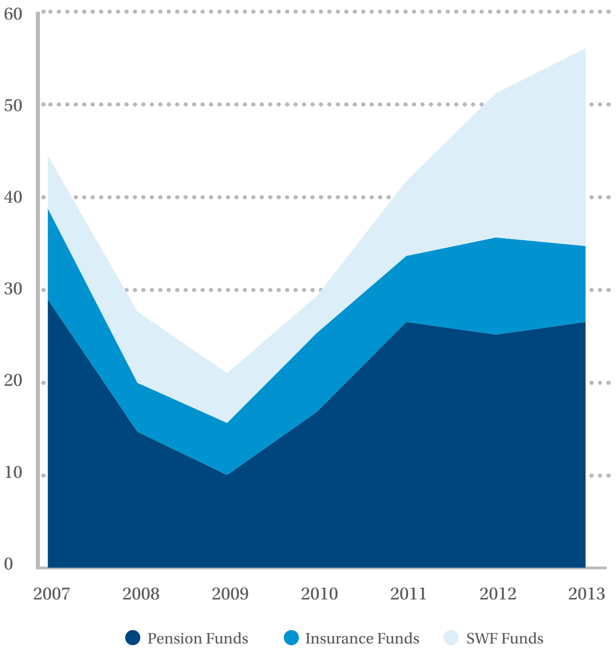
Our own analysis of the 14 chosen institutions shows how committed the insurance and pension industry has been to direct property investment in recent years. Figure 6 shows how there has been no net disinvestment of physical investment property since 2007. For the period 2010-12 the rolling three-year average investment rate is between 2.1-2.3% of the current capital value (brought forward carrying value), which equates to an extra €4 to €5 billion being pumped into the market.

Fig. 6: Capital Value Movements of Directly Owned CRE
[2007-2012; € Billion]



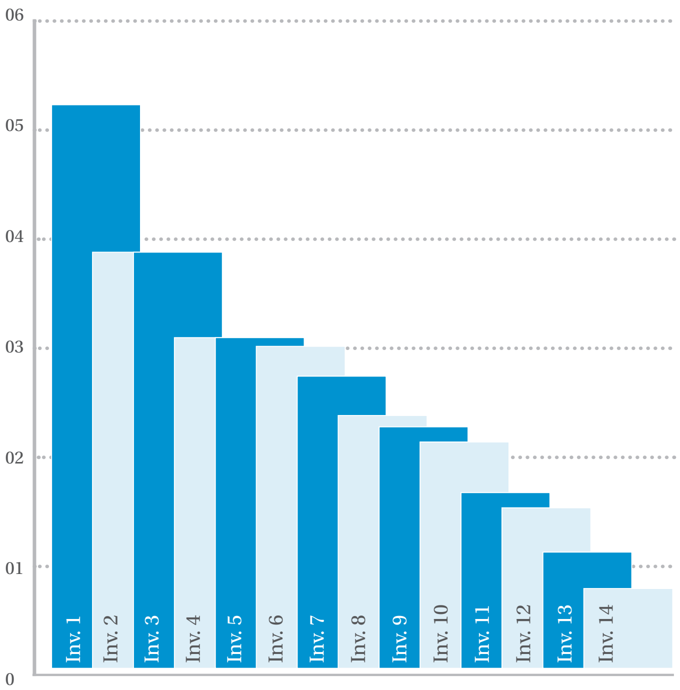
Source: RealCapitalAnalytics/ Colliers International

Fig. 7: EMEA Acquistions by Pension, Insurance & Southern Wealth Funds [2007-2013; US$ Billion]



Source: RealCapitalAnalytics/ Colliers International

Fig. 8: Direct CRE Allocations as of mid-2013: Anonymised EU Funds [H1 2013; %]



Source: EIPOA/ Colliers International

Figure 7 shows the extent to which Pension and Insurance fund investment slowed down after the initial ramp up in investment from 2009-11, which tallies with Colliers EIPOA fund analysis.

Looking forward, we suspect this is just the tip of the iceberg. Firstly, it is noticeable that many of the funds analysed have allocations below the 3.46% average.

This suggests plenty of room for growth into 'direct' real estate - especially when other funds are known to have direct CRE allocations above 10%. For instance, Ilmarinen, one of Finland's largest three pension funds, had a property investment allocation of 11.7 % based on 2012 results, of which 9.9 % was direct and 1.8 % was in indirect property investments.

More recently, CalPers has announced a new three-year allocation strategy, including a shift in its real estate allocation from 9-11% (Pensions and Investments Online, 17th Feb, 2014) with a subsequent drop in global and private equity allocation.

In summary, given that the equity and fixed-income allocations of European pension and insurance funds are higher than average in the current cycle, and both look set to see a shift in allocation towards property, this could significantly increase the pool of money available for investment into European CRE. At mid-2013 values, every 1% switch is worth an estimated €60 billion to the European institutional pension/life insurance industry.

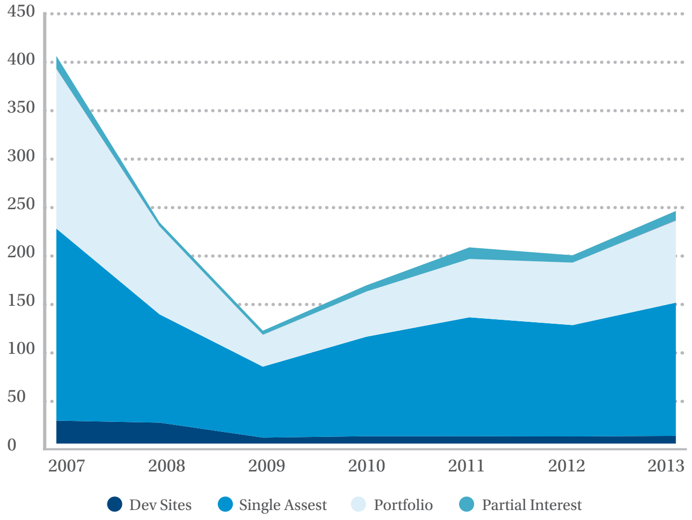
So if an extra 3% was shifted to CRE investment – a not unreasonable amount given the potential 6% by which funds are overweight in bonds and equities - this would equate to an additional €180 billion seeking assets in an increasingly competitive market i.e. the total 2013 figure for EMEA. Whilst this is all somewhat hypothetical, it gives us some indication of the size of the wall of money potentially lining up for a renewed surge into European real estate.

The big question then becomes, how to spend it?

Figure 9 overleaf shows EMEA investment levels by type i.e. single asset (standing investments), vs portfolios, development sites and entity/partial-interest level transactions up to the end of 2013.

This illustrates the dominance of direct, single-asset investment and a more recent growth in the trading of investment portfolios, which collectively account for ca 91% of the EMEA CRE investment market.

Fig. 9: EMEA Investment Deal Types
[2007-2013; US$ Billion]



Source: RealCapitalAnalytics/ Colliers International

With evidence of more existing investors adopting a much longer-term hold model, and with development activity at a naturally lower ebb at this point in the economic/property market cycle, we suspect that such (large-scale) JV investment activity may not be limited to these one-off transactions.

Equally, there are increasing indications that investors are needing to consider more secondary locations and products in order to satisfy return requirements. This, together with more investors adopting a longer-term holding model, suggests that the use of joint ventures and shared ownership of unlisted property companies could become one of the main conduits for real estate investment in future.

There are several reasons for this.

1. **Scale.** Many institutional investors have reached the size at which their positions move markets. This in turn this affects their own returns, so the timing and control over placing significant volumes becomes a serious consideration.

2. **Expediency.** A lot of institutional investors have real estate teams run on small headcounts. In many cases, they may not possess the in-house skills to seek out, acquire and manage large real estate portfolios. It may therefore be more efficient for them to sub-contract these skill requirements to regional and/or specific asset specialists.

3. **Regulation.** While this may not apply to all funds, those with insurance company investors subject to Solvency II will find that such investors have to retain more equity against their investments, and will therefore see these investors targeting higher returns to justify the capital cost.

The Impact of New Regulations: Solvency II & IORP

In November 2013, the draft directive (the Omnibus II Directive) legislation introducing Solvency II by the EU's legislative bodies set an application date of 1st January 2016, with transition starting from 1st January 2014. The Directive now has to be passed by the EU Parliament, with the date for the vote being set as 11 March 2014.

Most of the quantitative requirements are not included in the Directive itself, but are in the level 2 regulations. These have not yet been published but are widely believed to have remained intact from the consultative stage. So for insurance companies modelling their Solvency Capital Requirement under the Standard Model for investment property this means a 25% capital reserve will be required against gross asset values – i.e. each institution will need to assume that the market value of assets can fall by 25% when calculating the adequacy of their capital buffer.

Figure 10 shows that that in absolute monetary terms considerable capital reserves have been in place since 2005, when based on the old capital adequacy rules. However, if the capital buffer required by insurance funds increases depending on the mix of assets held (it could be anything from 25% for directly held real estate to 49% of the net equity value of unlisted shares), current solvency levels may not be as substantial as first believed.

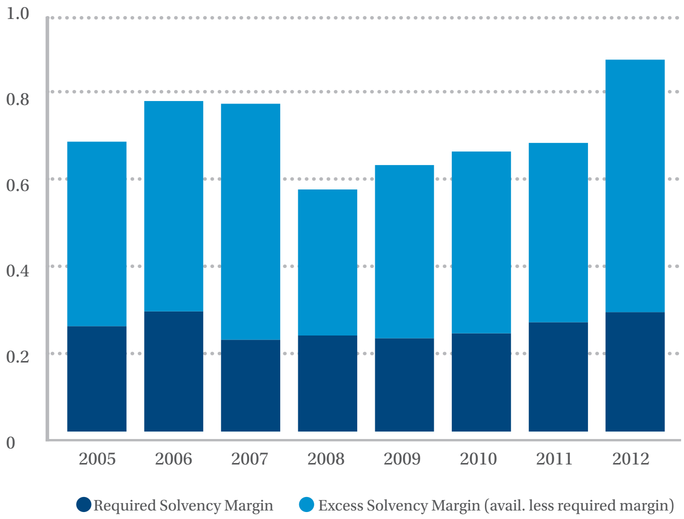
This sounds a bit restrictive, especially when research performed by IPD at the request of the insurance real-estate industry suggested that 15% might be more appropriate. It should be noted that most large insurers are expected to seek regulatory approval to use their own, internally generated models.

Following behind Solvency II is the "Institutions for Occupational Retirement Provision" (IORP) Directive, which proposes to introduce similar provisions for pension funds. The IORP Directive initially followed the Solvency Capital Requirements of Solvency II, but this part of the Directive has been deferred, pending the clarification of the Solvency II provisions. What does this mean for the real-estate investment-management industry?

- In the short term, there will be a period of uncertainty as the rules are clarified and internal models are approved. The changes can therefore be expected to accelerate the move to unit-linked and defined-contribution old-age provision. The real-estate investment-management industry has yet to adapt to this new environment.
- In the medium term, insurance and pension investors will be more demanding in terms of asset performance. An asset that ties up capital without delivering returns is a heavy burden to carry.

- In the longer term, the regulatory changes are likely to accelerate a fundamental shift in the industry. The Solvency Capital Requirements only apply to risks carried on the insurer or pension fund's balance sheet. In terms of the market risk of investment underperformance, if this is passed on to policyholders then no SCR provision is required. It therefore applies only to traditional life products and defined-benefit pension schemes.

Fig. 10: Insurance Solvency Margins
[2005-2012; € Million]



Source: EIOPA/ Colliers International

From a market perspective, it seems unlikely capital reserves margins will be drastically reduced by a correction in bond values in the second half of 2013. However, with the increase in competition for good-quality real estate hotting up across Europe and yields starting to compress, direct investment could become increasingly less likely to generate the 4%+ risk-free returns required to match increasing fund liabilities. A critical question for the real estate industry is how it will be able to create vehicles and/or opportunities to match emerging institutional needs?

Unfortunately, both the three and five-year profitability margins of funds are averaging down. This is a key concern of EIPOA, which is worried about the sustainability of returns in low interest rate and low GDP growth environments. This falling profitability impacts the accumulation of retained earnings / earned capital, which could negatively impact the ability of a fund to support expansion into riskier, alternative assets such as property. This is a real risk to the genuine possibility of increased investment into real estate.

Concluding Notes

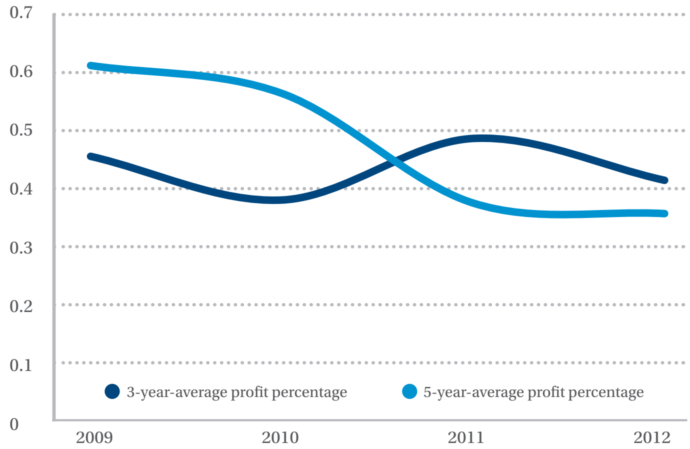
Both Basel III and Solvency II are about making risk management effective and pricing in its cost via increased capital buffers. While there will be some uncertainty as rules are clarified and internal models approved, the insurance industry should have the reserves to accommodate a shift in portfolio mix where risk is properly priced according to the regulators.

There is currently uncertainty as to the treatment of real estate lending under Solvency II. A number of insurers are increasing their activity in this area and it may well be that senior lending provides a better risk and capital adjusted exposure to core real estate than owning the assets directly. It certainly has the capacity to tick the scale and expediency boxes. Alternatively, we are now seeing the arrival of new types of semi-open-ended real estate funds to allow for longer-term investment. These various pooled investment vehicles could become one of the main conduits for real estate investment in the future.

Investment Property Returns

Investment property holds alternative ground for portfolio managers. It offers solid, cash income every year, with an inflation-hedge potential, though this can be impaired in markets with short leases, below-average demand and a large supply chain. It also offers the potential for capital gains, but again subject to balanced fundamentals in supply and demand. From a yield compression perspective, the timing of acquisition and sale is often critical (as indeed it is with most asset classes), although with property this can sometimes be impacted by the transaction time frame, which has increased post-crisis.

Fig. 11: Returns on Assets for EU Life Assurance and Pension Companies
[2009-2013; %]

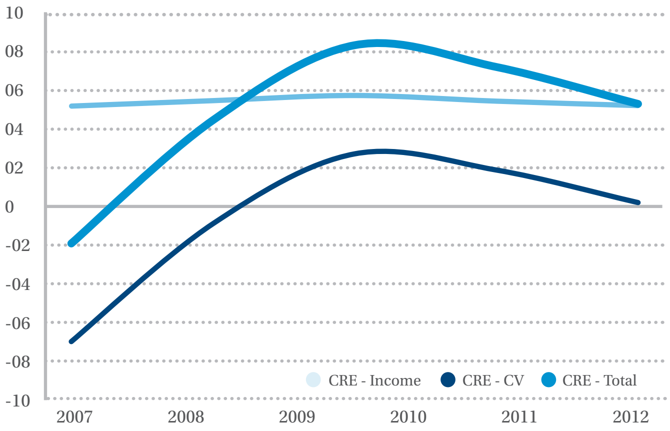


Source: EIOPA/ Colliers International

From our analysis of Europe's largest life assurance and pension companies, we've have established a five-year view of how property income and capital returns have driven total unleveraged returns. We see that income returns, net of direct costs but before tax, have been stable post-crisis at just below 6%. Total returns, as we know, were severely impacted by markets freezing post-2007 as yields softened and thus capital values fell.

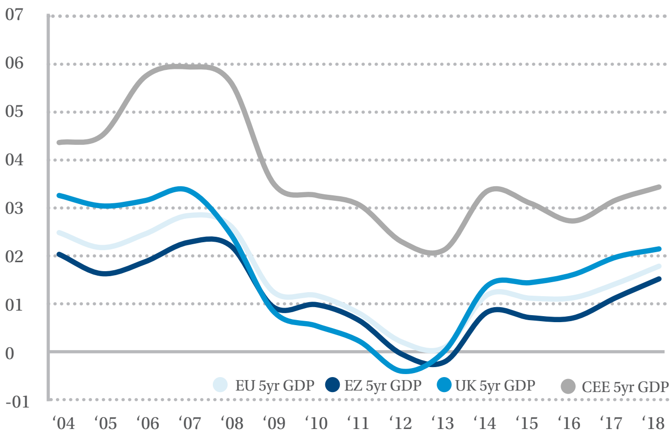
As of 2009, yields have continued to harden and thus capital values have continued to grow, albeit at slower rates, with markets seeing a modest but continued return to normality since 2010.

Fig. 12: Components of Investment Property Returns [2007-2012; %]



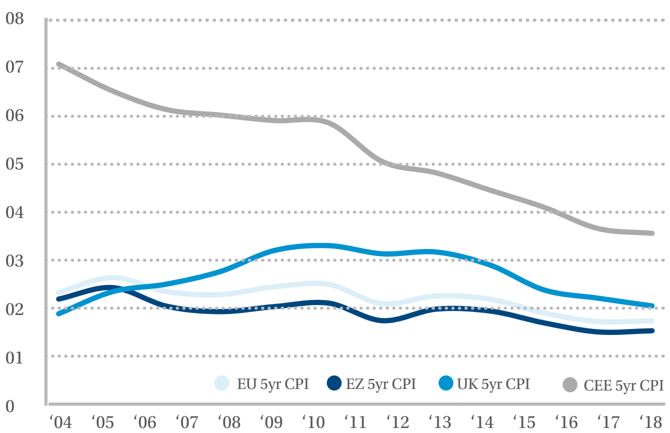
Source: Colliers International

Fig. 13: Real GDP - Average of 5 Years prior to Market Date [2004-2018; %]



Source: IMF World Economic Outlook (October 2013)/ Colliers International

Fig. 14: CPI - Average of 5 Years Prior to Market Date [2004-2018; %]



Source: IMF World Economic Outlook (October 2013)/ Colliers International

This is illustrated by an increase in transaction volumes in most markets, reducing investment liquidity risk. This would imply that in the medium-to-long term, total returns will need to be driven primarily by net rental growth in core markets (where prime yields are most probably at their peak), after consideration of inflation and vacancy trends.

Outside of core locations, there are several pockets of opportunity across the European continent for yield compression to further drive returns. This would be within increasingly established Tier 2 markets such as Poland, secondary locations in Germany, and further up the risk curve in deeper markets coming out of a protracted recovery e.g. Spain, and less mature markets such as Romania and Russia. Understanding the risks and the realistic possibility of sustainable growth in rents will become increasingly critical.

Generating Rental Growth

Helping to drive this rental growth is an eventual, if not laborious, return to economic growth across the eurozone. That said, signs of relief over Christmas and the New Year period appear to be getting replaced by more bullish sentiment regarding economic growth. Figure 13 shows GDP trends using 5-year averaging to put property investment into a more fitting mid-term planning horizon.

The key points from Figure 13 are:

- GDP contraction looks to have bottomed out in 2012-13.
- 2014 is a bounce-back year, but from that date GDP volatility reduces.
- From 2016 onwards, expect growth in Western Europe to stay under 2.5-3.0% and for Eastern Europe under 4.0- 4.5%. Remembering that in the longer term, convergence for Eastern Europe has a price of more-muted economic growth as EU 'grant' benefits may recede after 2020 and increasing productivity and efficiency becomes more challenging to realise.

The other driver of rental growth is inflation. In Figure 14 we show five-year averages post-2007, as prior to that CEE CPI was in the 18-25% range and therefore more of a distraction. That said, we can see the significant impact that EU membership has had on CEE inflation, having halved over our assessment period. We also see how Poland, CEE's pin-up, has taken on a more mature-market inflation profile.

From this we can say that income returns will be less about inflated rental growth, but more about the asset management of potential obsolescence and vacancy, and any impending shift in the overall balance of supply and demand of investment-grade inventory.

In addition to understanding specific property and asset market cycles, property investment decisions will need to fully incorporate the impact of structural market changes – such as the impact of on-line retailing on both the retail and logistics sector – and the increasingly important role of sustainability in corporate/acquisition matters. The recent ULI Emerging Trends in Real Estate Europe report shows that 75% of respondents now include sustainability in their business strategy.

Conclusion

- The gradual end of QE heralds the closing of a chapter in modern financial history. The book of which it forms a part - the one about protecting taxpayers from systemic shocks in financial systems - is still being written, though the ink is drying on the regulation chapters.
- Both Basel III and Solvency II are about making risk management effective and pricing in its cost via increased capital buffers. While there will be some uncertainty as rules are clarified and internal models approved, the insurance industry should have the reserves to accommodate a shift in portfolio mix where risk is properly priced according to the regulators.
- Our analysis has shown that the insurance industry has not shied away from direct property ownership, but in order to minimise the impact of capital allocation rules, it may need to grow its portfolio by investing more in non-core property assets as they go in search of higher risk-adjusted returns. There is a risk that core assets will soon be dominated by the global sovereign wealth funds (SWF's) such as Norges, CIC and numerous gulf states, whose aims may not simply be yield/returns, but a greater defensive need for asset, location and currency diversification. Transactional evidence from 2011-13 illustrates that SWF investors have been by far the most significant direct investors in European real estate.
- At present, there is uncertainty as to the treatment of real estate lending under Solvency II. A number of insurers are increasing their activity in this area and it may well be that senior lending provides a better risk and capital-adjusted exposure to core real estate than owning the assets directly. It certainly has the capacity to tick the scale and expediency boxes. Alternatively, we are now seeing the arrival of new types of semi-open-ended real estate funds to allow for longer-term investment. These various pooled investment vehicles could become one of the main conduits for real estate investment in future.
- Overall, given the position of other asset classes in their cycle relative to the position of real estate, property looks set to continue to play an increasingly important part in asset allocations for years to come. Let's remember that the investment market was trading at only 58% of its previous (2007) peak by end-2013, with at least a further two to three years to run in its current cycle.
- The significant potential volume of equity from insurance and pension-fund institutions, coupled with continued appetite from SWFs and other forms of private-sector capital should lead to real estate investment volumes in Europe outperforming 2013 levels – in both 2014 and 2015.
- The inevitability of all this is that the market will peak again, it is a cycle after all, with yields compressing across the board – bar those which have already hit their floor in the core markets of Germany and London. Yet there is a difference this time around, at least for now. Debt availability remains very conservative across the continent and although there are signs of this improving, we are unlikely to witness the irrational exuberance of 2007.
- There is now greater emphasis on understanding the structural challenges to real estate assets – such as energy efficiency and on-line retailing - and how assets can be managed to perform against what will be a relatively flat property-market growth cycle. For those wishing to scale-up to the JV/corporate level, it is fully understanding the management skill sets required to meet and manage these newer market challenges which will be key.

482 offices in 62 countries on 6 continents

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$2
billion in annual revenue

1.12
billion square feet under management

13,500
professionals and staff

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About Colliers International

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