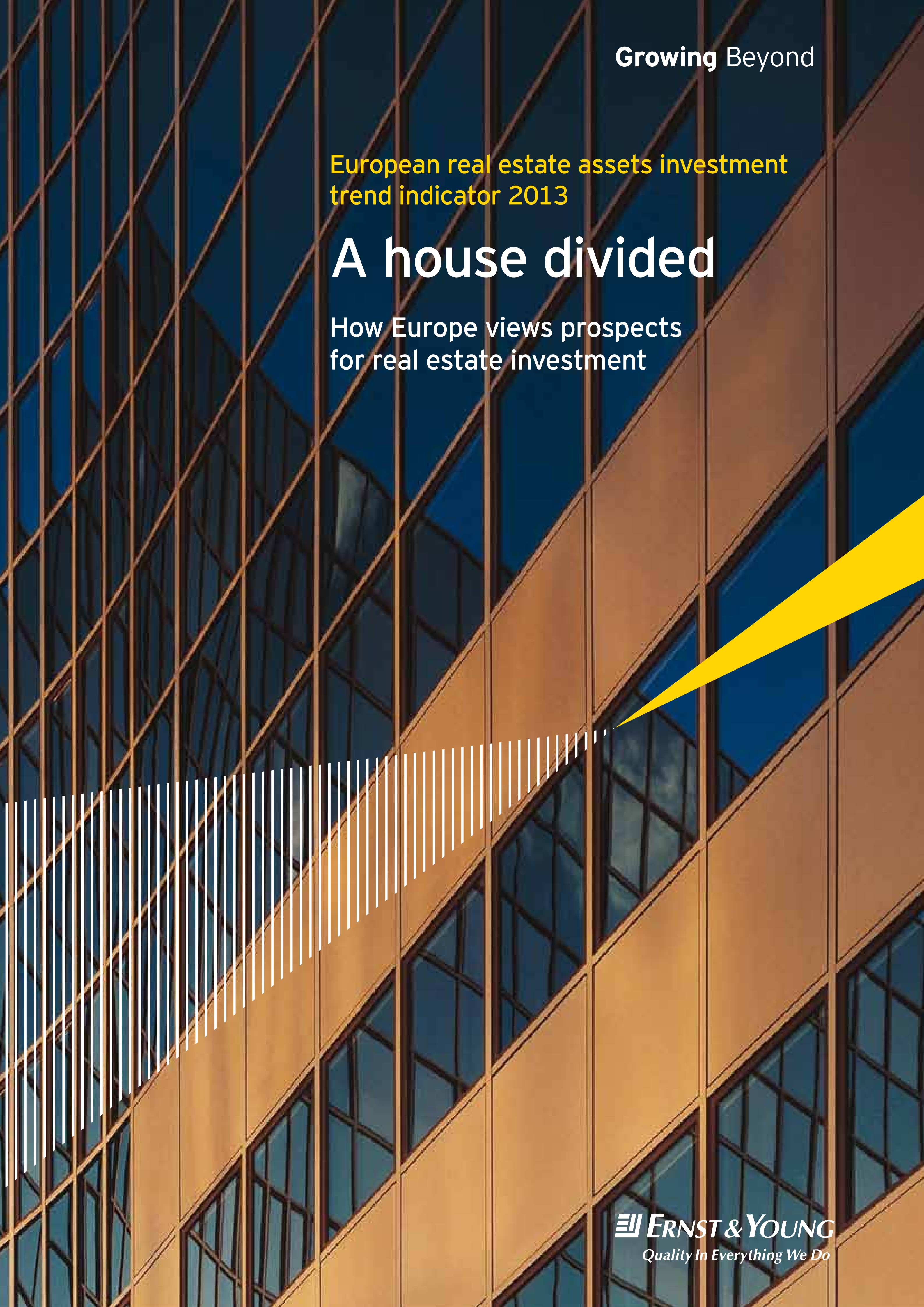


Growing Beyond

European real estate assets investment trend indicator 2013

A house divided

How Europe views prospects for real estate investment

Ernst & Young
Quality In Everything We Do

About this report

Ernst & Young's second annual European real estate assets investment trend indicator is based on a forward looking survey of executives from organizations across Europe who invest capital in real estate assets. Opinions were canvassed in December 2012 by Ernst & Young and the Economist Intelligence Unit (EIU).

This report summarizes investors' outlook on transactions and opinions on market attractiveness, together with insight into the drivers of these views and expectations around financing of real estate transactions.

Further details of individual markets, transaction pricing and asset classes may be obtained through the contacts listed on each country page or page 44.

This report is based on a survey of more than 500 real estate investors including selected Ernst & Young clients and regular EIU contributors. Participants were based in 15 countries: Austria, Belgium, France, Germany, Italy, Luxembourg, Netherlands, Poland, Russia, Spain, Sweden, Switzerland, Turkey, Ukraine and the UK.

M&A AWARDS
WINNER 2012
FT FINANCIAL TIMES
mergermarket

#1 Ernst & Young – recognized by mergermarket as top of the European league tables for accountancy advice on transactions in calendar year 2012

mergermarket

In this report

Note: in some cases no answers were provided by the respondents, this is not shown in the graph. Thus, the total might deviate from 100%. This applies to all charts in this report.

A house divided: how Europe views prospects for real estate investment

The future may remain uncertain for many asset classes, but the climate is looking more favorable for real estate investments. Transaction volumes look set to rise in 2013, supported in large part by international investment, while the continuing Eurozone crisis and inflation fears may actually help to stimulate activity rather than dampen it. While questions remain over how real estate investments will be financed and especially the role of banks, there are increasing signs that "alternative" sources of financing may become available.

Investors in real estate assets have different objectives and priorities. Attitudes vary with respect to risk, asset class and quality, and capital growth versus income. But among the more than 500 European investors in real estate assets we surveyed in late 2012, there appears to be consensus on the evolution of the macroeconomic environment. Perhaps the most important development highlighted by the current survey is the evolving perception of the impact of the Eurozone crisis on real estate markets. Most now believe the difficult climate will act as a catalyst for increased investment in the real estate sector in 2013, rather than deterring it. Most also expect both volumes and transaction size to exceed levels seen in 2012.

While many of the investors surveyed share a common view on most of the broader questions, one striking finding of this report is the range of investment attitudes, objectives and priorities across Europe when more detailed questions are asked. The traditional dividing line between mature and emerging markets is increasingly giving way to other divisions — between Eurozone and non-Eurozone countries, and between smaller groups of countries that don't necessarily share the same immediate neighborhood or linguistic group. Thus, while some questions reveal differences in investor appetites between markets such as Germany and Sweden, others indicate areas of shared experience for countries as diverse as Spain and Switzerland.

There is, however, agreement among investors on the change in how real estate asset investments will be financed, with many respondents predicting a shift from traditional bank lending to other sources of capital.

Key findings – expectations for 2013

The most important finding of the survey involves a change in perception that is likely to give a positive boost to sentiment. This is that the Eurozone sovereign debt crisis, which was previously seen as undermining real estate investment, is now viewed as a potential stimulus for activity. Other main findings include a more balanced interpretation of recent regulatory developments, and conclusions related to the likely characteristics of the real estate market in 2013:

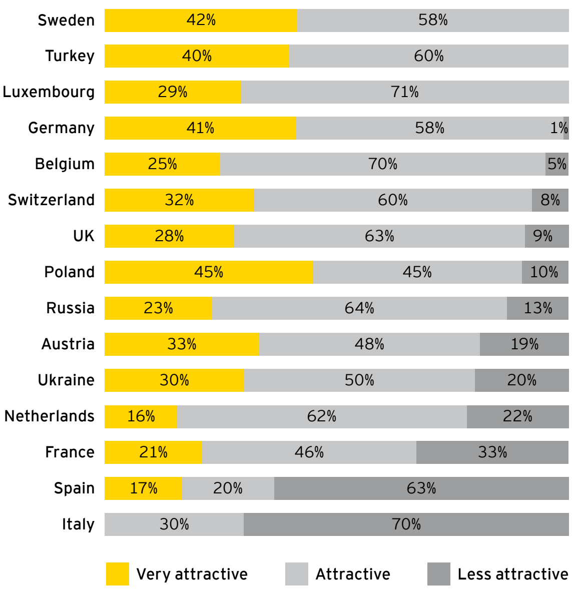
- Investors still view most European countries as attractive investment destinations; this is particularly true for non-Eurozone countries such as the UK.
- Investors think it likely that Basel III regulation will have an adverse effect on bank financing availability for real estate investment.
- Investors anticipate that insurance companies and pension funds will likely pick up some of the volume of debt financing for real estate transactions.
- Investors expect transaction volumes to rise, driven in large part by cross-border international investments.
- Investors think green-building standards are playing a key role in many markets.
- Investors perceive speculative project developments to be returning only gradually in many markets.
- Investors in most European countries expect stability and also some growth potential for prime offices or rising prices for prime retail and residential property.

Market outlook

Market attractiveness remains strong across Europe

Global capital markets remain under pressure from the continuing Eurozone crisis, but there are suggestions that investors are increasingly viewing real estate markets as a safe haven. While some new regulations are likely to make traditional sources of financing harder to access, other changes in regulatory regimes could mean that alternative sources of debt funding become more plentiful. Our survey of European investors again poses the question "What does 2013 hold for the real estate markets?" Respondents to our survey indicate the likely direction for real estate transactions in 2013 and beyond.

Figure 1: Market attractiveness



Source: EIU/Ernst & Young

Question: How do you rate your country's attractiveness as a location for real estate investments in 2013?

Non-Eurozone countries are currently seen as more attractive

Although individual countries vary in their assessment of the prospects for transactions involving domestic real estate assets, confidence has risen in most since the last survey. More than two-thirds of respondents in 13 of the 15 countries surveyed rated their country as attractive for real estate investment in 2013, both in an absolute sense and in comparison with other European locations. In a few cases – Sweden, Turkey and Luxembourg – all respondents viewed their country as very attractive or attractive. There is a notable trend that non-Eurozone-countries are particularly attractive.

Only in Italy and Spain, where the Eurozone crisis continues to weigh most heavily on market sentiment, do the majority rate their country as less attractive for real estate investment, both compared with other markets and in an absolute sense.

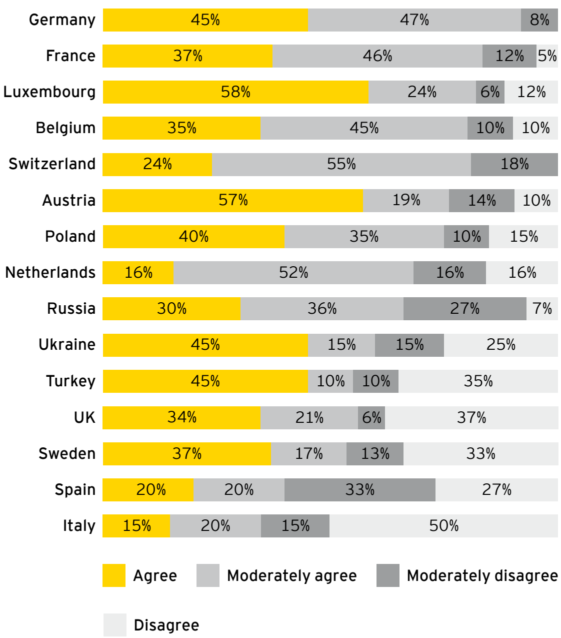
Real estate capital markets

Eurozone debt crisis will increase investment

Almost three-quarters of investors surveyed now say that the ongoing Eurozone debt crisis will increase European investors' activity in the real estate markets. This is a reversal from a year ago, when gloomy conditions in the Eurozone were expected to reduce European real estate asset investment activity.
This dramatic change could be explained in part by investors' perception that the future of the Eurozone itself seems safer than it did a year ago. Central Bank policies have reduced the immediate risk of a breakup, while progress has been made toward a banking union that would put the currency on a stronger long term footing. Yet, differences remain in the extent to which opinions have reformed across European countries.

While investors in Germany have maintained a similar level of confidence in the real estate sector's ability to shrug off the crisis, France, like most other countries participating in the survey, has reversed its previous caution and become exceptionally bullish, with 83% now believing that the poor economic backdrop will drive increased investment. Negative sentiment is restricted to Spain, which is still struggling with the after-effects of its own overheated property market, and Italy. Optimism in other countries is more cautious; Swedish respondents' bearish view of the impact of the Eurozone crisis has turned to guardedly positive, with 54% now expecting it to lead to an increase in investment, in contrast with the 86% who saw it undermining activity in the previous survey.

Figure 2: Perceptions of the euro crisis



Source: EIU/Ernst & Young

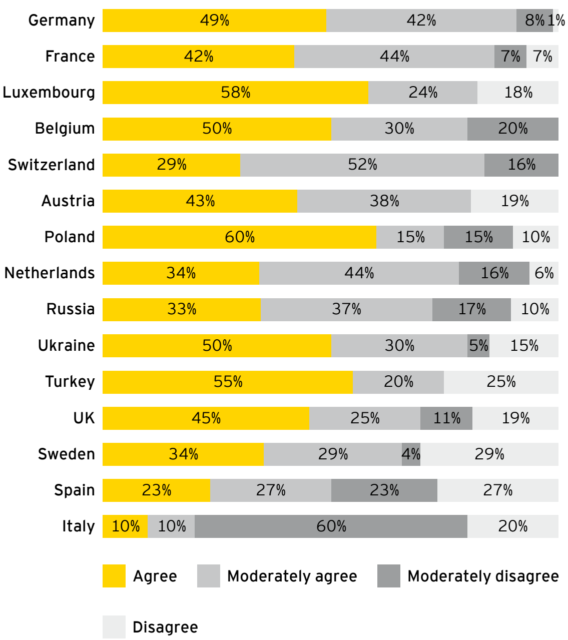
Question: Do you agree with the following statement: the Eurozone sovereign debt crisis will increase investments by European investors in the real estate markets.

Inflation still viewed as an investment driver

Inflation levels in many European countries have fallen below 3%. But they remain higher elsewhere, notably in the Eastern part of the continent, where Russian and Turkish inflation rates still exceed 6%. Not surprisingly, therefore, the overwhelming majority of survey respondents – in 13 out of 15 countries – believe inflationary pressures will propel investors toward real estate assets in the medium term. Yet here too, the degree varies by country.

Despite Spain's current economic difficulties, investors in Spanish real estate assets are evenly divided over whether inflation fears will drive investment in the real estate sector. Only Italian investors are clearly skeptical, with just 20% agreeing that inflation is likely to be an investment driver. By contrast, 80% or more of investors in Germany, France, Luxembourg, Belgium, Switzerland and Austria agree that inflationary fears will underpin real estate investment.

Figure 3: Fear of inflation



Source: EIU/Ernst & Young

Question: Do you agree with the following statement: fear of high inflation in the medium term will drive investors towards the real estate market.

M&A activity in the real estate sector likely to increase

European investors were more divided over the prospects of M&A activity in the real estate sector than they were on other questions. Responses appeared to have little connection with cross-regional trends or other clear-cut factors, suggesting that market conditions were paramount in setting the climate for M&A.

Turkey was the most bullish about the potential for M&A activity, with 85% of respondents predicting an increase in 2013. By contrast, Russia, Luxembourg and Poland were more evenly divided about M&A prospects, while others, such as Switzerland and Spain, said they didn't expect an increase in M&A in 2013.

Limited availability of debt funding remains an obstacle

A majority of investors in all countries except Switzerland expect limited availability of both junior and senior debt funding to remain an impediment to deal flows. Most saw levels of required equity as an impediment, and a majority of respondents in all countries agreed that the ongoing price mismatch between buyers and sellers could also act as a brake on deals flow.

Against this backdrop, all of the countries surveyed were united in expecting banks to extend repayment periods for distressed loans.

Regulation

New regulations could help shape financing

Investors remain concerned about the impact of a more stringent regulatory environment on the availability of debt financing. In particular, the Basel III regulations that strengthened bank capital requirements and tightened rules relating to liquidity and bank leverage are viewed as having a potentially chilling effect on financing for the real estate sector.

All of those surveyed expect Basel III to make real estate loans less appealing for banks and lead to further restraint in the mortgage business. Austria, Sweden and the UK were among the strongest proponents of this view, with respectively, 85%, 83% and 81% of respondents saying they were in agreement.

At the same time, other recent directives aimed at harmonizing other parts of the financial services industry could create new funding sources. In the case of the Solvency II regulations, a majority of respondents from most European countries see potential for insurance companies and pension funds to act as debt providers for real estate investments in the future, with only Italian respondents disagreeing.

Figure 4: Basel III regulations

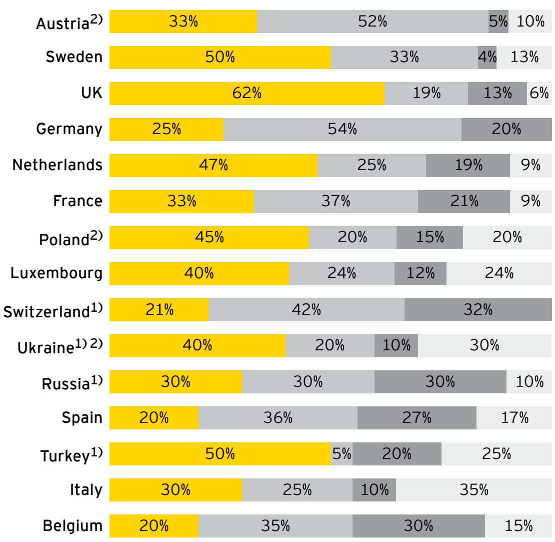
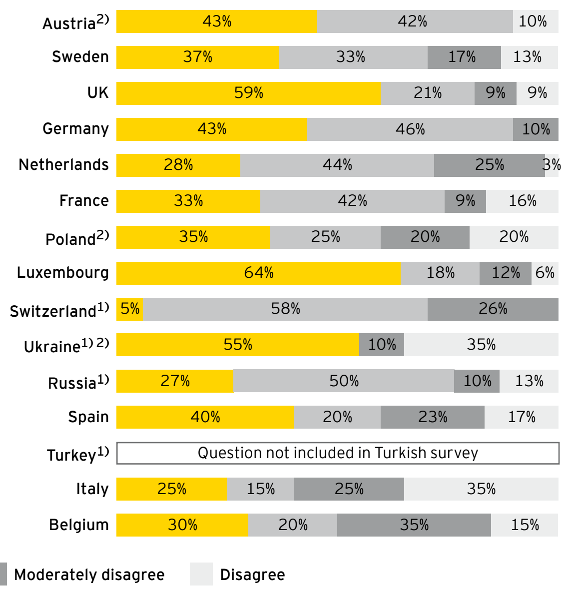


Figure 5: Solvency II regulations



Source: EIU/Ernst & Young

Question: Do you agree with the following statement: Basel III regulation will make real estate loans less attractive for banks and lead to greater restraint in the mortgage business.

Question: Do you agree with the following statement: due to Solvency II regulation, insurance companies and pension funds increasingly act as debt providers for real estate investments in the future.

1) Not a member of the European Union, Solvency II not legally binding.
2) Not a member of the Basel Committee on Banking Supervision, Basel III not legally binding.

Real estate transaction market

Overall volume and transaction size set to increase in 2013

Across Europe, nearly three-quarters of respondents expect transaction volumes in 2013 to exceed the levels seen in 2012. Spanish respondents are equally divided over the likely direction of transaction volumes and only respondents in Italy disagree that volumes are likely to increase.

The majority of respondents expect a similar trend will emerge in volume terms with just Spain and Italy predicting little improvement in deal size.

The upward trend appears to be driven, at least in part, by the expectation of increased cross-border investment activity. A majority of respondents in 12 of the 15 countries surveyed predict higher levels of interest from international real estate investors in 2013, compared with 2012.

Figure 6: Transaction volume

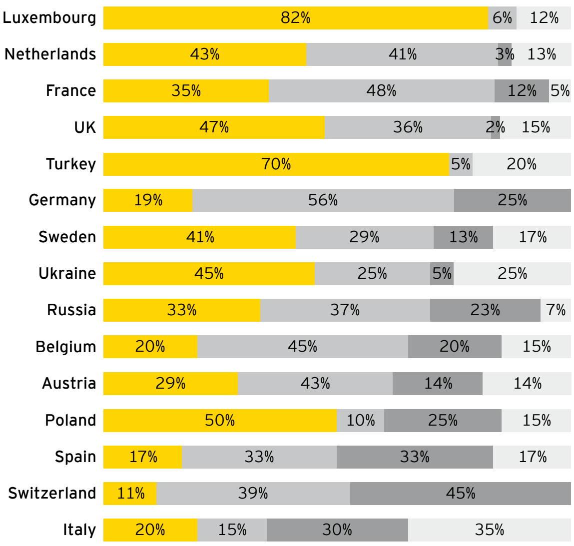
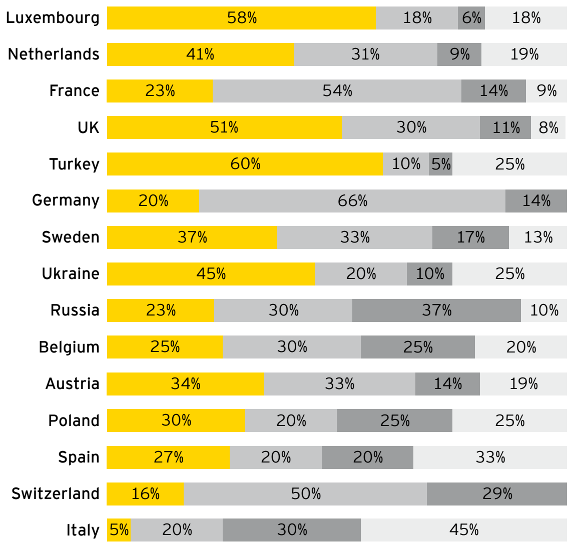


Figure 7: Cross-border activity



Agree Moderately agree Moderately disagree Disagree

Source: EIU/Ernst & Young

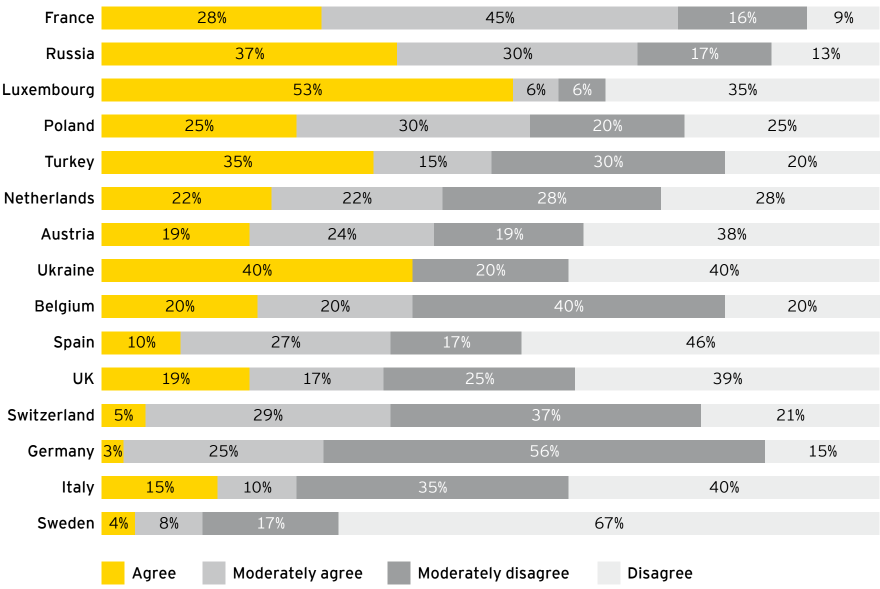
Question: Do you agree with the following statement: overall, transaction volume in 2013 will exceed the levels seen in 2012.

Question: Do you agree with the following statement: investment activity by international real estate investors will increase compared to 2012.

Aversion to risk, despite stock shortage

Speculative project developments, for which tenants have not yet been identified, are also likely to return slowly in many markets, with majorities in just a few countries – France, Russia, Luxembourg and Poland – expecting the return of such investments. In Germany, Italy and Sweden, by contrast, high levels of pre-letting appear to be preconditions for financing project development.

Figure 8: Speculative project developments



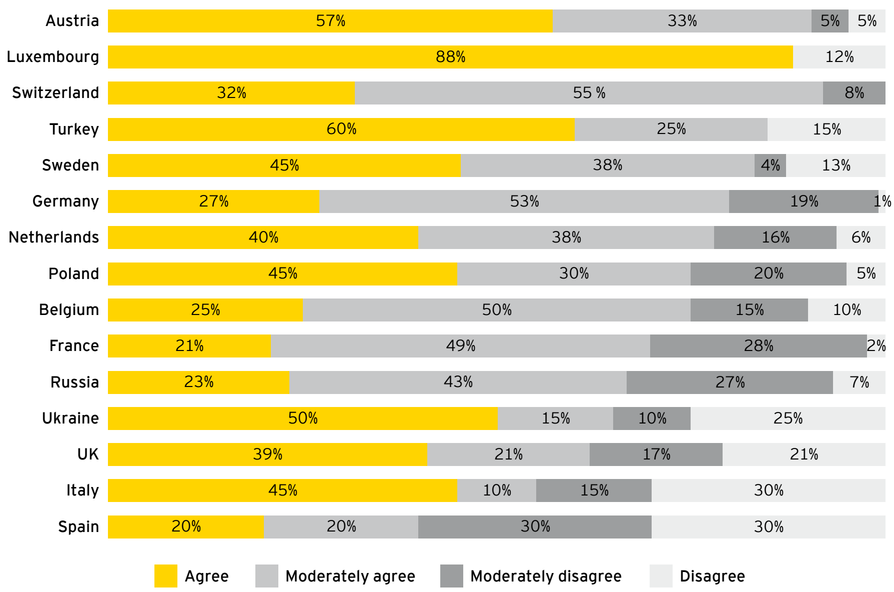
Source: EIU/Ernst & Young

Question: Do you agree with the following statement: speculative project developments will return in 2013.

Green standards gain new prominence

Green-building standards are likely to have more influence on investment properties in almost all countries surveyed in 2013. 85% or more of respondents in Austria, Luxembourg, Switzerland and Turkey said that they expect green-building standards to play a more important role. Those countries with a high number of real estate investment vehicles, including Luxembourg, Germany and the Netherlands, appear to be focused strongly on green-building standards for marketing purposes.

Figure 9: Importance of green-building standards



Source: EIU/Ernst & Young

Question: Do you agree with the following statement: green-building standards will play a more important role with respect to existing investment properties.

Purchase price expectations

Growth potential for prime office space in most countries

Nearly all countries surveyed expect office property prices in prime locations to remain stable or increase, although this upward movement is viewed as somewhat limited in countries as diverse as Spain, Italy, Sweden and Switzerland.

Office prices in peripheral locations are seen as having strong growth potential in countries located in the Eastern part of Europe, particularly Russia, Ukraine and Turkey.

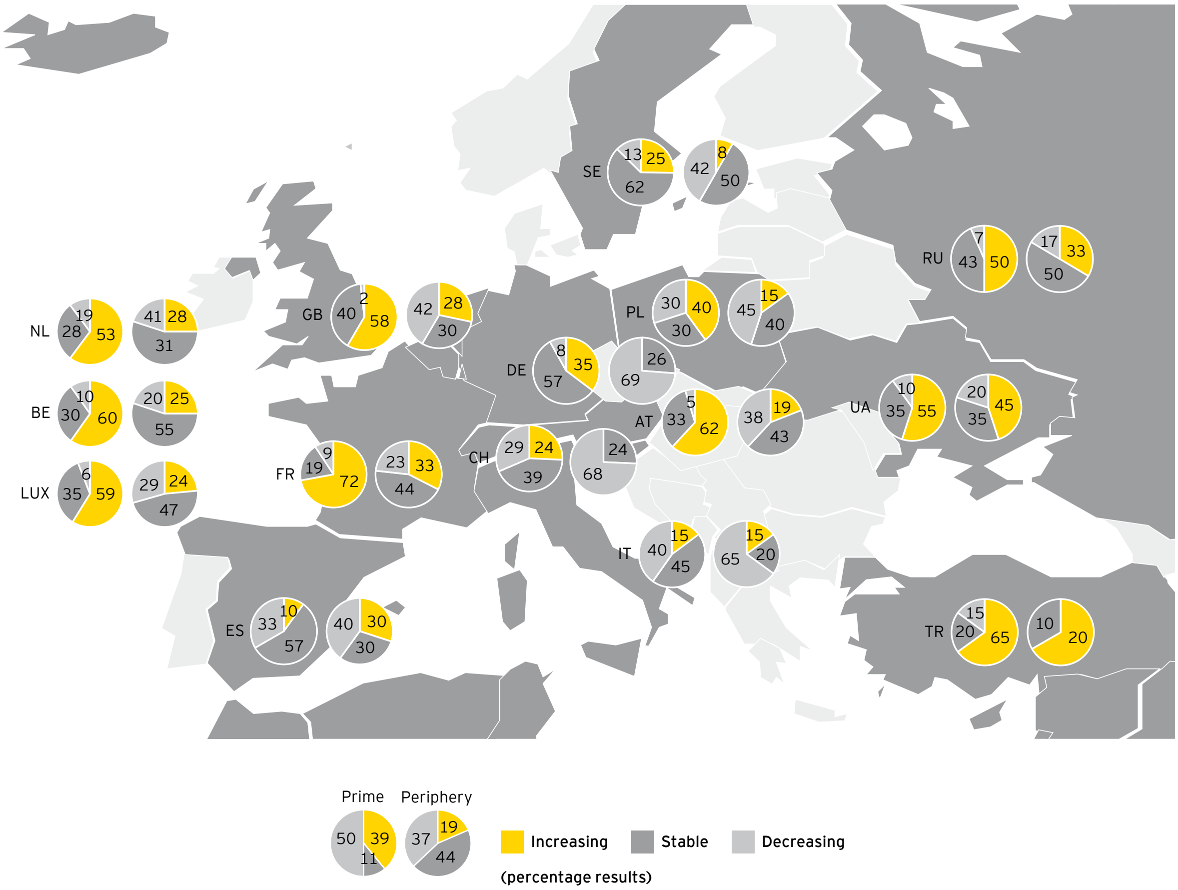
Retail prices stable or rising; residential property seen as “buy”

A majority of respondents in most countries expect retail property prices in prime locations to rise or at least remain stable, with respondents from Austria, Luxembourg and Turkey most likely to expect prices to increase.

Further growth potential for retail properties in peripheral locations is seen once again in the Eastern part of Europe except Poland, as well as in France.

Meanwhile, respondents in a number of countries – especially those in Germany, Austria, the UK and Switzerland – expect residential property prices to move higher in prime locations. Even in peripheral locations, residential prices are generally expected to hold their value.

Figure 10: Price trends, office property (prime/periphery as a percentage of total respondents)



Source: EIU/Ernst & Young

Question: How do you expect purchase prices to develop in 2013 based on the type of use and location?

Seller and buyer groups

Opportunity and PE funds seen as active buyers and sellers

Throughout Europe, residential real estate companies and banks are expected to be among the most active sellers in 2013, while in a majority of countries, private investors and family offices are likely to be more active as buyers. Opportunity and PE funds, meanwhile, are likely to be extremely active on both sides of real estate transactions.

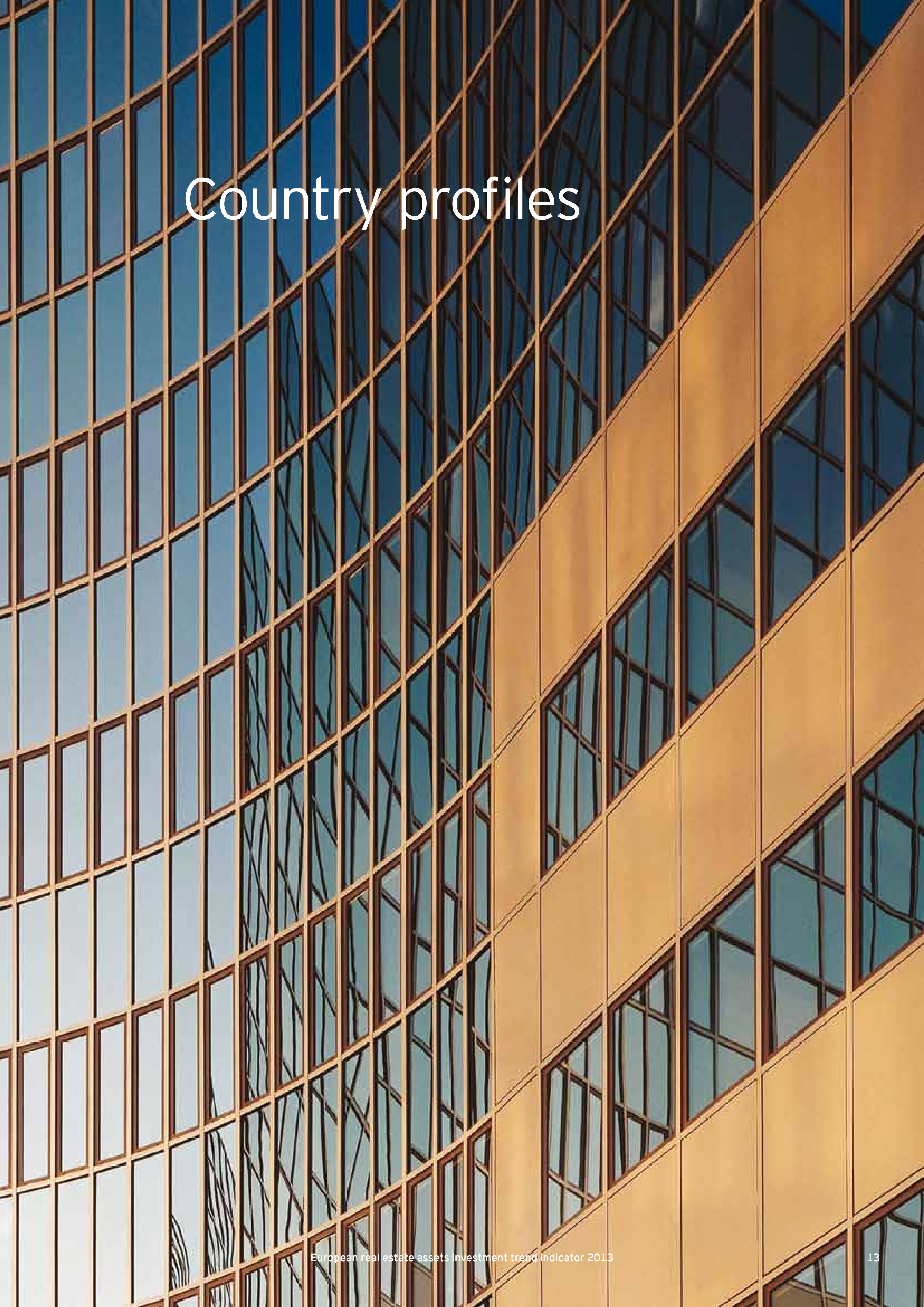
Investment focus

Despite optimism about the direction of office property prices, this category of property is nevertheless likely to be less of a strategic focus for investors than it was last year. Only investors in Sweden, Turkey and France are showing a very strong interest in this property class.

By contrast, investors in most countries are likely to keep at least some focus on retail properties, with retail investments playing a minor role only in Italy and Spain.

Residential properties, meanwhile, will retain a strong to moderate focus in most of the countries surveyed, with the exception of Italy, Spain and Luxembourg, while in Germany and Switzerland they remain highly sought after.

Country profiles



Market overview

Austrian respondents expect an upsurge in M&A activity in the real estate sector in 2013 but are more worried than some of their European neighbors by the potential impact of funding shortages on deal flow. They see the market being shaped by a complex range of other factors.

Contact

Alexander Wlasto

+ 43 1 21170 1306
alexander.wlasto@at.ey.com

Investors still view market as attractive: Austrian investors continue to view their country as an attractive destination for real estate investments, although they are slightly less bullish in their outlook for 2013 than they were in 2012. A solid 81% of Austrian respondents rate their country as an attractive location in 2013, down from 92% in the previous report. A slightly higher percentage of respondents (86%) rate their country as attractive compared to other European locations.

Transaction volumes seen rising: Austrian respondents are more cautious than some of their European counterparts in their predictions about transaction volumes, with just less than two-thirds expecting volume levels to increase in 2013 in comparison with 2012.

Eurozone now seen as investment driver: Austrian opinion about the impact of the Eurozone sovereign debt crisis on European investor sentiment has undergone a dramatic reversal since the publication of the last survey. A majority of respondents — 76% — now say the continuing Eurozone crisis will increase European investors' activity in the real estate markets. This is a near mirror image of the 75% who said the crisis would reduce such investment a year ago.

Inflationary fears continue to underpin investment: Austrians are more anxious about the potential impact of higher medium-term inflation, with 81% of Austrian respondents now saying inflationary fears are likely to drive investors toward the real estate market, up from the 57% who gave the same answer a year ago.

Capital markets

- **Basel III regulations a key constraint:** Of the 15 countries surveyed, Austria has the highest percentage of respondents, (85%), agreeing that Basel III regulations will reduce the appeal of real estate loans for banks and further restrain the mortgage business.
- **Limited funding availability, price gap, to hurt deal flow:** Austrians are most likely to say that limited availability of senior debt funding would be an obstacle to the country's deal flow in 2013, with 90% agreeing. Meanwhile, 76% agree that limited access to junior debt funding would be an impediment to deal flow, with an identical percentage agreeing that the level of equity required could pose an additional obstacle, and 80% say that the price gap between buyers and sellers could pose problems.
- **Banks to extend repayment period for distressed loans:** Nearly 9 out of 10 Austrian respondents expect banks to extend repayment periods for distressed loans, the most of any country surveyed.
- **Solvency II regulations will lead to new sources of debt finance:** Austrians are among the most likely to agree that Solvency II regulation will allow insurance companies and pension funds to play a larger role as debt providers for real estate investments in the future, with 85% agreeing.
- **Austrians see more M&A activity in 2013:** Austrian respondents are also the second most likely, after Turkish investors, to expect an increase in M&A activity, with 76% predicting more transactions in the sector in 2013.

Transaction outlook

Austrian respondents are less bullish than other European countries about the prospects for increased transactions this year, with 72% saying they expect volume levels in 2013 to exceed those seen in 2012. This nevertheless represents a sharp improvement on last year's survey, when just 25% said they expected a recovery in transaction volumes.

Austrians are slightly more confident that transactions will increase in size in 2013, with 62% saying they expect the average size of real estate deals to increase in 2013. Meanwhile, 67% expect investment activity by international real estate investors to increase in 2013.

Just 43% of Austrians expect speculative project developments to return in 2013. At the same time, an overwhelming 90% expect green-building standards to play a more important role with respect to existing investment properties, the highest percentage of any country in the survey.

Price expectations and investment focus

A majority of Austrians predict an increase in property prices in prime locations across all categories in 2013, although the largest percentage see an increase in the prime residential market, followed by prime retail property and prime office property.

Not surprisingly, Austrian respondents are most likely to favor residential property in their investment strategies for 2013, with 47% saying they strongly favor this type of investment, compared with 33% who say the same for retail property and just 10% for office property.

Belgium

Market overview

Belgians are more divided about the impact of recent regulatory changes on the mortgage market than many of their European neighbors. They are concerned about the potential for shortages of debt funding and the valuation gap between buyers and sellers to slow deal flow.

Contact

Tristan Dhondt

+ 32 2 774 6017
tristan.dhondt@be.ey.com

Investors still view market as attractive: Belgian investors are among the most positive about the attractiveness of their country as a location for real estate investments in 2013, with 95% rating Belgium as either very attractive or attractive, up from the 84% who saw their market as attractive a year ago. A slightly smaller 85% of Belgian respondents view their country as an attractive destination for real estate investments compared with other locations in Europe.

Transaction volumes seen rising: Slightly less than two-thirds of Belgian respondents expect transaction volumes in 2013 to exceed the level seen in 2012, although the country's investors are more positive in their outlook than many of their European neighbors.

Eurozone now seen as investment driver: A decisive 80% of Belgian respondents now believe the Eurozone sovereign debt crisis will spur investments by European investors in the real estate markets, in contrast to the 65% who expected the crisis to reduce real estate asset investment a year ago.

Inflationary fears continue to underpin investment: An identical number of Belgian respondents, 80%, believe fears of high inflation in the medium term will help drive real estate investment, up 11% from the 69% to 80% who said so a year ago.

Capital markets

- **Belgians less certain about impact of Basel III regulation:** A slight majority of Belgians, 55%, agree that Basel III regulations will make real estate loans less attractive for banks and help rein in the mortgage business. However, Belgium, along with Italy and Turkey, had the smallest number of respondents agreeing with this proposition.
- **Limited funding availability, price gap, to hurt deal flow:** Belgian investors agree by 80% and 70%, respectively, that limited availability of senior and junior debt funding will be an impediment to their country's deal flow in 2013. In addition, 70% of Belgian respondents see levels of required equity as a potential obstacle, and 75% see the price mismatch between buyers and sellers as a further factor hampering deal flow.
- **Banks to extend repayment period for distressed loans:** Some 65% of Belgian respondents expect banks to extend repayment periods for distressed loans.
- **Belgian opinion divided about Solvency II regulations:** Just half of those surveyed believe Solvency II will allow insurance companies and pension funds to take a more active role as debt providers for real estate investments in the future. Belgium is one of the three most skeptical countries on this issue, along with Italy.

Transaction outlook

Belgian respondents are confident about the prospects for transaction volumes exceeding levels seen in 2012, although less so than some of their European neighbors. Nevertheless, a clear majority of those surveyed — 65% — expect an increase in transaction volumes. This is a significant increase from last year, when Belgian respondents were among the survey's most pessimistic, with just 19% predicting a recovery in volume.

Still, just 55% of Belgians expect the average size of real estate deals to increase in 2013. The same number says investment activity by international real estate investors will increase compared with 2012.

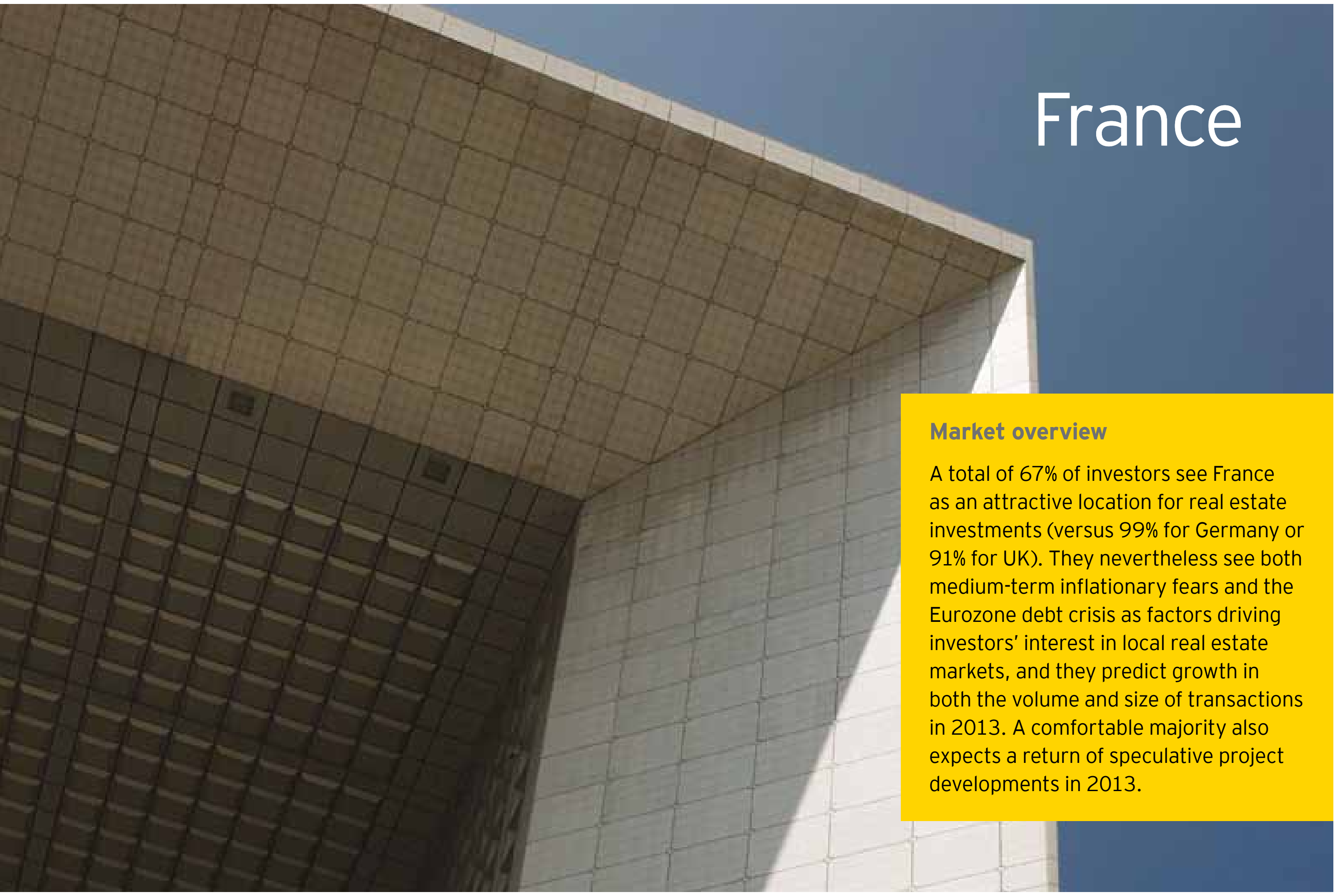
Belgian investors are more doubtful about the prospects for a quick recovery of speculative project developments in 2013, with just 40% agreeing that these will return in 2013. By contrast, 75% expect green-building standards to play a more important role with respect to existing investment properties.

Price expectations and investment focus

A majority of Belgians expect prime office property prices to increase in 2013. Most expect little change in prime residential prices and there is little consensus on the direction of prices for prime retail property.

In the case of properties in peripheral areas, the largest percentage of respondents expects retail, office and residential prices to stay the same, while they expect peripheral office property prices to fall.

Given these divisions, it is perhaps unsurprising that Belgian investors appear to lack a clear focus in their investment strategy for 2013. Most expect a moderate to slow focus on residential property over the next year, with opinions once again divided on the place of retail property in investment strategies. In the case of office properties, half of those surveyed expect to eliminate the category from their investment strategy entirely.



France

Market overview

A total of 67% of investors see France as an attractive location for real estate investments (versus 99% for Germany or 91% for UK). They nevertheless see both medium-term inflationary fears and the Eurozone debt crisis as factors driving investors' interest in local real estate markets, and they predict growth in both the volume and size of transactions in 2013. A comfortable majority also expects a return of speculative project developments in 2013.

Contact

Jean-Roch Varon

+ 33 1 46 93 63 89
jean-roch.varon@fr.ey.com

Majority still view market as attractive: French investors continue to view their country as an attractive destination for real estate investments in 2013, although they are less confident than a year ago. Two-thirds of French respondents rate their country as either very attractive or attractive, down from 77% in the previous survey. In an interesting departure from the responses of some other European countries, a higher number of French respondents (74%) rate their country as an attractive investment destination compared with other locations in Europe.

Transaction volumes seen rising: French respondents are among the most bullish in predicting an increase in transaction volumes in 2013, compared with 2012.

Eurozone now seen as investment driver: 83% of French respondents believe the Eurozone sovereign debt crisis will increase European investors' investment in real estate markets. This contrasts with the previous survey, when 78% thought the crisis would reduce investment.

Inflationary fears continue to underpin investment: French investors are second only to German investors in their belief that inflationary fears in the medium term will continue to drive investors toward the real estate market. Some 86% cite inflation as an investment driver for 2013, up from the 69% who did so a year earlier.

Capital markets

- **Basel III regulation seen restraining mortgages:** Nearly three-quarters of French investors (70%) agree that the Basel III regulation will hold back the mortgage business by making real estate loans less attractive for banks.
- **Limited funding availability, price gap, to hurt deal flow:** French respondents agree with the majority of their neighbors that limited availability of debt funding will be an impediment to the country's deal flow in 2013, but they do so by smaller margins than many. Nearly three-quarters (72%) of French survey respondents see the limited availability of senior debt as an obstacle to transactions, while 65% have the same concern about the limited availability of junior debt. A smaller number (61%) see levels of required equity as an impediment to deal flow, while 67% feel the same way about the price mismatch between buyers and sellers.
- **Opinion split on extended repayment period for distressed loans:** Just 58% of French respondents expect banks to extend the repayment period for distressed loans. This is the lowest percentage among the 15 countries surveyed.
- **Solvency II regulations will lead to new sources of debt finance:** Like investors in other European countries, a clear majority of French respondents (75%) agree that Solvency II regulation will help insurance companies and pension funds act as debt providers for real estate investments to a greater extent in the future.

Transaction outlook

France is among the most bullish of the countries surveyed with regard to its view of the prospects for growth in transaction volumes in 2013. Some 83% believe that real estate transaction volumes this year will exceed the level seen in 2012, up from the 54% who envisaged a recovery in transaction volumes last year.

French respondents are the most likely to predict a growth in the size of transactions, with 84% saying they expect the average size of real estate deals to increase in 2013. Meanwhile, 77% believe cross-border investment activity by international real estate investors will increase in 2013, compared with 2012.

French respondents are also the most bullish in forecasting a return to speculative project developments in 2013, with 73% saying this year will see more speculative projects. French investors also agree that green-building standards will play a more important role with respect to existing investment properties.

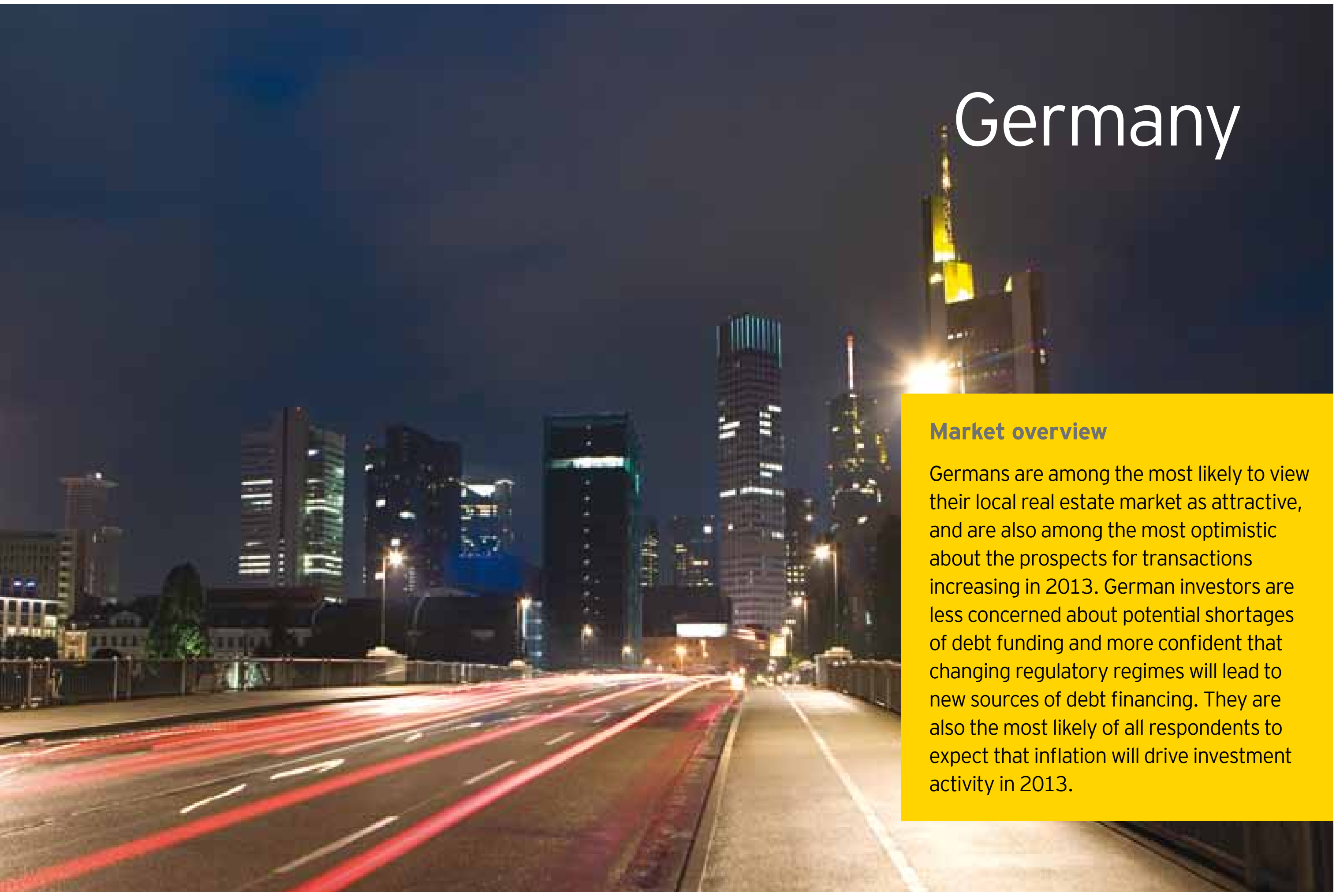
Price expectations and investment focus

A majority of French investors expect purchase prices of prime office property in their country to rise in 2013, with large numbers expecting increases in other prime property classes as well. French respondents are most bullish about the prospects for prime office space, with 72% expecting prices to increase. This compares with 46% who expect higher prices for residential property in prime locations and 44% who expect higher prices for prime retail property.

In the case of property in peripheral areas, the largest percentage of respondents expect office, retail and residential prices to remain unchanged.

When asked about their investment strategy for 2013, French respondents are most likely to favor a focus on office property, with 86% saying they expect office real estate to command a strong or moderate focus. Meanwhile, 77% say the same about residential property and 76% expect a strong or moderate focus on retail investments.

Germany



Market overview

Germans are among the most likely to view their local real estate market as attractive, and are also among the most optimistic about the prospects for transactions increasing in 2013. German investors are less concerned about potential shortages of debt funding and more confident that changing regulatory regimes will lead to new sources of debt financing. They are also the most likely of all respondents to expect that inflation will drive investment activity in 2013.

Contact

Christian Schulz-Wulkow

+ 49 30 25471 21235
christian.schulz-wulkow@de.ey.com

Investors overwhelmingly view market as attractive: German investors are among the most upbeat about the attractiveness of their nation's real estate market in 2013, with 99% rating their country as very attractive or attractive, unchanged from a year earlier. An equivalent percentage of respondents rated Germany as very attractive or attractive in comparison with other European locations in 2013.

Transaction volumes seen rising: German respondents are also among the most upbeat countries in predicting a rise in transaction volumes in 2013.

Eurozone now seen as investment driver: Virtually all the German investors surveyed (92%) believe that the ongoing crisis in the Eurozone will increase investments by European investors in the real estate markets, compared with the 52% who drew the opposite conclusion a year earlier.

Inflationary fears continue to underpin investment: Germans surveyed for the current report are even more convinced that inflationary fears for the medium term will drive investors, with 91% predicting that inflation will spur investors toward the real estate market, up from the 88% who said so a year earlier.

Capital markets

- **Basel III regulations a key constraint:** Germans expect the Basel III regulations to act as a potential brake on real estate loans. Some 79% agree that the regulations will make loans less attractive for banks and lead to greater restraint in the mortgage business.
- **Less concern about impact of funding constraints on deal flow:** German respondents are among the least worried about the prospect that limited availability of debt funding will hamper deal flows in the country in 2013. Just 57% agree that limited availability of senior debt funding poses an obstacle to transactions, and 65% say the same about the shortage of available junior debt funding. German respondents are more worried about the impediment posed in 2013 by the continuing price mismatch between buyers and sellers (83% agreeing) and levels of equity required (74% agreeing).
- **Solvency II regulation will lead to new sources of debt finance:** Germany is the most confident of all the countries surveyed that Solvency II regulations will allow insurance companies and pension funds to increase their role as providers for real estate investments in the future, with 89% agreeing on this likelihood.
- **Germans more skeptical about revival of CMBS market:** German investors are less convinced that the commercial mortgage-backed securities market will revive in 2013. Only 46% of those surveyed agree with this proposition, although this represents an increase from the 29% of Germans who expected a revival last year, the lowest percentage in the 2012 survey.
- **Lower loan-to-value ratios to increase demand for mezzanine financing:** Germans are among the most likely of all respondents surveyed to expect higher demand for mezzanine financing in 2013 as a result of lower loan-to-value ratios, with 84% taking this view.

Transaction outlook

Germans remain bullish about the future direction of transaction volume in 2013. Three-quarters of respondents predict that volumes will exceed that seen in 2012. This response level is up from 56% a year earlier, when Germany was the most optimistic of the countries surveyed.

German respondents are more cautious about the likelihood that deal sizes will increase. 65% predict that the average size of real estate deals will increase in 2013. This is well below the numbers answering in the affirmative in some other European countries.

German investors are most likely to agree that cross-border investment activity will increase, with 86% concurring.

Germans are among the least likely to forecast that 2013 will see a return to speculative project developments, with just 28% saying they agree with this prediction.

Likewise, a majority of Germans (80%) expect green-building standards to play a more important role with respect to existing investment properties.

Price expectations and investment focus

German investors are most bullish about the prospects for prices of residential properties in prime locations. Three-quarters of respondents say prices of this property type are likely to increase in 2013. By contrast, just 43% are equally confident about the potential for price increases in prime retail property, and a mere 35% anticipate upward movement in prime office property.

In the case of properties in peripheral locations, German investors are more downbeat. Majorities of respondents forecast no change in prices of peripheral residential and retail properties, and 69% predict a decrease in the price of peripheral office property.

It is therefore hardly surprising that the majority of German respondents (65%) say they are likely to focus strongly on residential real estate in their 2013 investment strategy.

Italy

Market overview

Few Italians view their country as an attractive destination for real estate investment in 2013, and the majority see little chance of increasing transaction volumes. Uniquely among those surveyed, Italians see neither the Eurozone crisis nor fears of inflation as having much impact on real estate investments. They are also skeptical of the view that Solvency II regulation will help increase alternative forms of debt provision.

Contact

Marco Daviddi

+ 39 667 753 5576
marco.daviddi@it.ey.com

Investors downbeat about appeal of home market: Italian investors surveyed for the first time this year, have the lowest assessment of their own country's overall attractiveness as a location. Just 30% view it as an attractive destination for real estate investments in 2013, and an identical percentage view it as attractive compared with other locations in Europe.

Little expectation of increasing transaction volumes: A majority of Italian investors, alone among the 15 countries surveyed, disagreed that transaction volumes in 2013 are likely to exceed the level seen in 2012. Only 35% of respondents agree that a rise in volume is likely.

Eurozone crisis seen as having little impact on real estate investments: On the question of the impact of the Eurozone crisis on real estate investments, Italian respondents depart again from the view of the majority of other European countries. Just 35% agree that the Eurozone debt crisis would drive investment by European investors in the real estate markets.

Few agree that inflation will drive real estate investment: Italian investors are even less likely to support the idea that fears of high medium-term inflation will drive investors toward the real estate market. Just 20% agree that inflationary fears would spur real estate investors.

Capital markets

- **Basel III regulations a key constraint to market:** Italians share the views of those in neighboring countries that the Basel III regulations will undermine the appeal of real estate loans for banks and further restrain the mortgage business, with 55% agreeing with this view.
- **Limited funding availability, price gap, to hurt deal flow:** Italian respondents, together with those in Sweden and Ukraine, are among the most likely to see the limited availability of both junior and senior debt funding as an impediment to the country's deal flow in 2013, with majorities of 85% agreeing with both questions. An overwhelming majority of Italian respondents (85%) agree that the price mismatch between buyers and sellers is likely to pose a major obstacle to its deal flow in the year to come. This is the largest percentage of any of the 15 countries surveyed.
- **Banks to extend repayment period for distressed loans:** Some 85% of Italians expect banks to extend the repayment period for distressed loans. This percentage is second only to neighboring Austria.
- **Solvency II regulations unlikely to open up new sources of debt finance:** Italian respondents, in comparison with those in most other countries surveyed, are skeptical that Solvency II regulations will allow insurance companies and pension funds to act more frequently as debt providers for real estate investments in the future. Only 40% agree that this prospect is likely.

Transaction outlook

Italian respondents are the most pessimistic about the prospects of transaction volumes improving. Just 35% said volumes in 2013 will exceed the level seen in 2012.

Only 40% expect the average size of real estate deals to increase in 2013, and a mere 25% expect cross-border investment activity to increase compared to 2012. These percentages are well below those of other countries.

Given this level of caution, it is unsurprising that just 25% of Italian respondents agree that speculative project developments will return in 2013. Yet a majority (55%) believe that green-building standards will play a more important role with respect to existing investment properties.

Price expectations and investment focus

Against the backdrop of the continuing difficult economic conditions, a small majority of Italian respondents expect prices of prime residential property to remain unchanged in 2013. In the case of prime retail and office property, respondents are almost evenly divided between those predicting a drop in prices and those forecasting no change.

Clear majorities of Italian investors anticipate price reductions across all categories of property in peripheral areas of the country.

When asked about their strategic investment focus, the largest number of investors say they have no intention of focusing on any of the three asset classes.

Luxembourg

Market overview

Respondents from Luxembourg are unanimous in viewing their market as attractive and are confident that transaction volume will rise over the next year. Nevertheless, the picture is not entirely rosy. Investors anticipate levels of required equity as one of the key impediments to future deal flow with the shortage of available debt funding being a potential obstacle. Yet, they see a positive climate for real estate IPOs and equity capital releases with a small majority (53%) expecting speculative project developments to stage a revival in 2013.

Contact

Alexander Flassak
+ 352 42 124 8491
alexander.flassak@lu.ey.com

Investors still view market as attractive: Luxembourg investors are uniformly positive about the attractiveness of their market as a location for real estate investment, with all respondents rating their market as attractive overall. This is a rise of 11% from a year earlier. In addition, 94% rated the local market as attractive in comparison with other European locations.

Rising transaction volumes: Luxembourg is the most optimistic of the 15 countries surveyed in predicting a rise in transaction volumes over the next year.

Eurozone as investment driver: A clear majority of Luxembourg respondents (82%) believe that the Eurozone sovereign debt crisis will increase investments by European investors in the real estate markets. This contrasts with the 72% who believed that the crisis would reduce real estate asset investment a year earlier.

Inflationary fears continue to underpin investment: Some 82% of Luxembourg respondents also see inflationary fears as a driver of investment, a rise of 28% compared with a year earlier.

Capital markets

- **Basel III regulations a key constraint:** A clear majority of Luxembourg respondents (64%) expect the Basel III regulations to hold back the mortgage business by making real estate loans less attractive for banks.
- **Limited funding and price gap to hurt deal flow:** A significant 76% of respondents are seeing the limited availability of senior debt funding as an impediment to the country's deal flow in 2013 as opposed to 64% anticipating the shortage of junior debt funding as a challenge. Eighty-eight percent of those surveyed see levels of required equity as a potential obstacle to deals, while just 65% feel the same way about the price mismatch between buyers and sellers.
- **Banks to extend repayment period for distressed loans:** Some 82% of Luxembourg respondents expect banks to extend the repayment period for distressed loans.
- **Solvency II regulations will lead to new sources of debt finance:** A majority of respondents (82%) believe Solvency II regulations will extend debt provision for real estate investments to insurance companies and pension funds.
- **2013 to see more attractive climate for IPOs, equity increases:** Luxembourg investors are most confident among all those surveyed in predicting an attractive environment for real estate IPOs and equity capital releases in 2013 (70% agreed with this statement).

Transaction outlook

Among all investors surveyed, Luxembourg respondents are the most optimistic regarding the future development of transaction volume, with 88% expecting an increase in 2013, a rise of 35% from last year (53%). This optimism is likely to be fueled by cross-border investments with 76% of respondents anticipating an increase in transnational transactions.

Nevertheless, just 65% expect the average size of real estate deals to increase over the next year. A similarly light percentage (59%) predicts speculative project developments to return in 2013.

Second after Austria, Luxembourg investors anticipate that green-building standards will play a more important role with regard to existing investment properties. Some 88% agree with this view.

Price expectations and investment focus

A majority of Luxembourg investors expect purchase prices of prime property to increase across all categories in 2013, with 64% anticipating a rise in prices for prime retail space, 59% expecting an increase in prime office prices and 53% predicting higher prime residential prices.

For peripheral areas residential prices are expected to increase (41%) or to remain unchanged (35%).

When questioned about the strategic investment focus regarding the type of real estate, the majority of respondents stated that they will have no particular focus on any type of asset class.

Netherlands

Market overview

Dutch survey respondents are confident about the attractiveness of their real estate market. They anticipate that transaction volumes will rise in 2013, and a majority believes the average size of deals will increase. Most Dutch respondents also expect green-building standards to take on increasing prominence in existing investments.

Contact

Ingmar Dirkse van den Heuvel
+ 31 88 407 09 98
ingmar.dirkse.van.den.heuvel@nl.ey.com

Investors still view market as attractive: A majority of respondents from the Netherlands (78%) view their country as an attractive location overall for real estate investments in 2013. This figure is slightly lower than the 80% recorded last year.

Transaction volumes set to rise: Dutch respondents anticipate that transaction volumes will increase in 2013.

Eurozone now seen as investment driver: Dutch respondents concur with many of their neighbors in believing that the Eurozone sovereign debt crisis will spur investments by European investors in real estate markets. Some 68% take this view, compared with the 71% who anticipated that the crisis would reduce investment last year.

Inflationary fears continue to underpin investment: To a similar extent to their neighbors, respondents from the Netherlands see inflation as a significant medium-term driver for real estate investment, with 78% agreeing with this view. This is up from the 61% who saw inflation fears driving investment a year ago.

Capital markets

- **Basel III regulations a key constraint:** Nearly three-quarters (72%) of Dutch respondents see the Basel III regulations as a potential restraint on the mortgage business.
- **Limited funding availability, price gap, to hurt deal flow:** Investors from the Netherlands agree that limited availability of junior debt funding will constrain deal flow. In contrast with most of the other countries surveyed, just 57% of Dutch respondents agree that the level of equity required will be an obstacle to deal flow in 2013 and that price mismatch between buyers and sellers will also hold back deals.
- **Banks to extend repayment period for distressed loans:** 59% expect banks to extend repayment periods for distressed loans.
- **Solvency II regulation will lead to new sources of debt finance:** More than two-thirds (72%) believe that Solvency II regulations will entice insurance companies and pension funds to fill some of the gap in debt provision in the future.

Transaction outlook

Some 84% of the Dutch respondents expect that transaction volume in 2013 will exceed that seen in 2012.

A similarly majority (78%) expect average deal sizes to increase in 2013, and 72% expect increased investment activity by international real estate investors compared with 2012.

In common with many of their European neighbors, the Dutch are more skeptical about the immediate recovery of the speculative investment market. Just 44% say they expect speculative project developments to return in 2013.

Meanwhile, more than three-quarters of those surveyed (78%) said they expect green-building standards to play a more important role with respect to existing investment properties.

Price expectations and investment focus

Dutch investors expect purchase prices of property in prime areas to increase. A total of 53% anticipate prices to rise in prime offices, compared with the 47% who expect a rise in prime retail property and 44% who predict an upsurge in prime residential prices.

Some 41% of respondents expect retail prices in the periphery to remain unchanged and 46% expect peripheral residential prices to fall.

When asked about their investment strategy for 2013, at least half of those surveyed say they expect a moderate to strong focus on all three classes of property.

Poland

Market overview

Polish respondents are unanimous in believing their real estate market will compete favorably with those in other European locations. They believe transaction volumes will rise in 2013, but confidence is less overwhelming than in other countries. They see levels of required equity as the biggest prospective threat to deal flow in 2013. A comfortable majority of Polish respondents believe green-building standards will play a more important role with respect to existing investment properties.

Contact

Katarzyna Gerl

+ 48 22 557 6606
katarzyna.gerl@pl.ey.com

Anna Kicińska

+48 22 557 7542
anna.kicinska@pl.ey.com

Investors still view market as attractive: Polish respondents are overwhelmingly positive about their local real estate market, with 90% rating it as attractive overall. All Polish respondents believe their market is attractive in comparison with other European locations.

Smaller numbers see transaction volumes rising in 2013: While Polish respondents expect transaction volumes to rise in 2013, they do so by smaller margins than in neighboring countries.

Eurozone now seen as investment driver: Three-quarters of Polish respondents expect the Eurozone debt crisis to increase investments by European investors in the real estate markets, compared with 83% who expected the opposite result a year earlier.

Inflationary fears continue to underpin investment: Three-quarters also expect fears of high inflation to act as a catalyst for real estate investment in the medium term, up from the 63% who thought so in the previous survey.

Capital markets

- **Basel III regulations a key constraint:** Some 65% of Polish respondents view Basel III regulations as a potential brake on the mortgage business.
- **Equity requirement, limited debt availability to hurt deal flow:** An overwhelming 90% of Polish respondents believe the level of equity required will act as a key obstacle to the country's deal flow in 2013. This is the largest percentage of any country surveyed. More than two-thirds of Polish respondents also believe that limited availability of both junior and senior debt funding will act as an impediment to deals in 2013.
- **Banks to extend repayment period for distressed loans:** A decisive 80% of those surveyed expect banks to extend repayment periods for distressed loans.
- **Solvency II regulations will lead to new sources of debt finance:** Just 60% believe Solvency II regulation will allow insurance companies and pension funds to provide debt for real estate investments in the future.

Transaction outlook

Among Polish respondents, 60% believe that transaction volumes in 2013 will exceed the level seen in 2012. This represents an increase from the 46% who thought so a year ago.

An identical percentage believe that the average size of real estate deals will increase in 2013, while just half of Polish investors expect cross-border investment in real estate markets to increase compared with 2012.

A small majority (55%) expects the return of speculative project developments in 2013, but three-quarters agree that green-building standards will play a more important role with respect to existing investment properties.

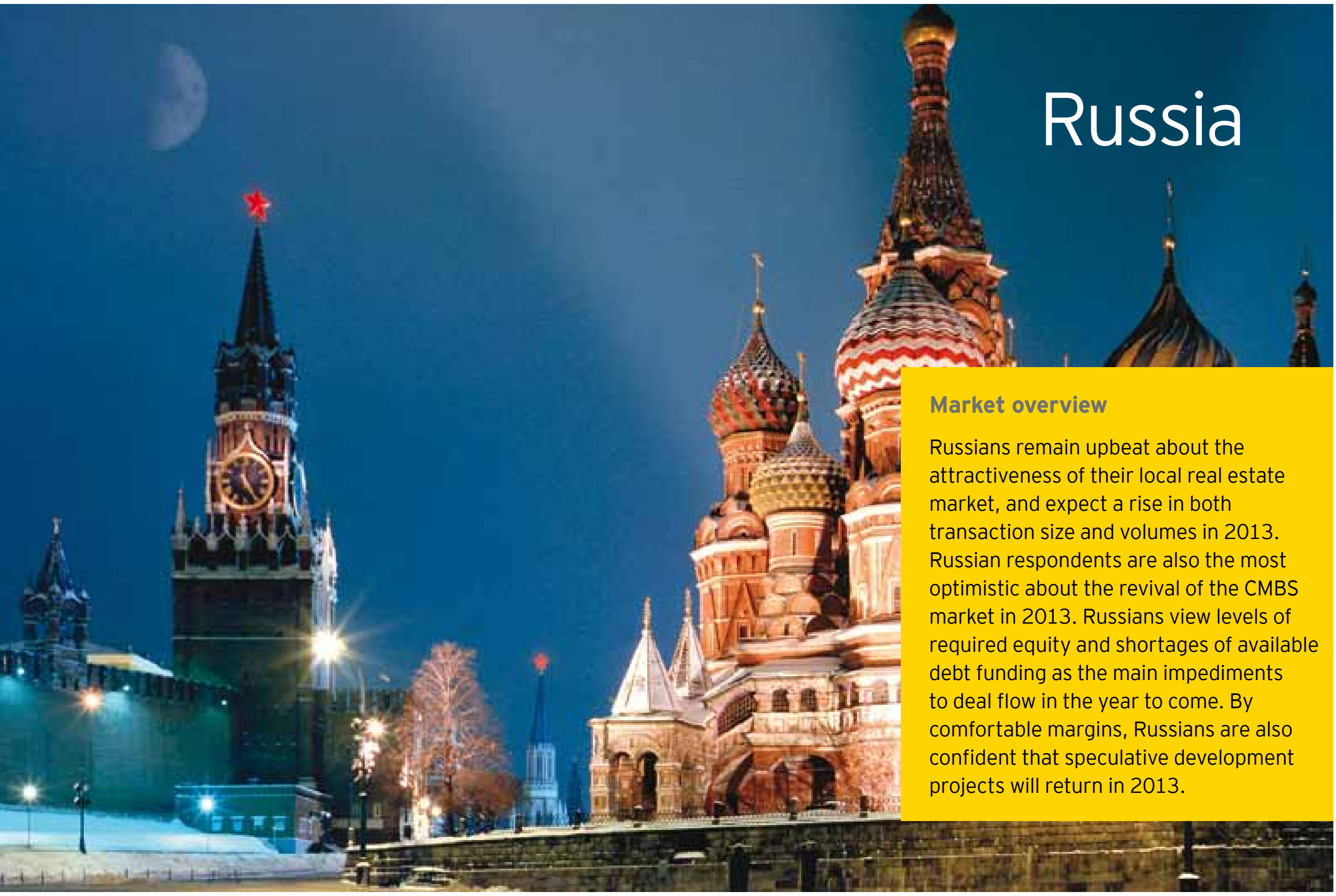
Price expectations and investment focus

Polish respondents are more divided on the outlook for purchase prices of the three main classes of property. In the case of office properties in prime areas, the largest percentage (40%) expect a price increase, while in the case of prime retail property, 60% expect prices to remain unchanged.

Nearly half of the respondents anticipate a stable price level for industrial buildings (45% each).

With regard to peripheral property, between 45% and 50% predict price decreases across the office and retail categories, with the remainder of respondents divided between those expecting little change and those who see price rises ahead.

Although respondents are also divided about their investment strategy for 2013, at least half say they expect to keep a strong or moderate focus on all asset classes this year.



Russia

Market overview

Russians remain upbeat about the attractiveness of their local real estate market, and expect a rise in both transaction size and volumes in 2013. Russian respondents are also the most optimistic about the revival of the CMBS market in 2013. Russians view levels of required equity and shortages of available debt funding as the main impediments to deal flow in the year to come. By comfortable margins, Russians are also confident that speculative development projects will return in 2013.

Contact

Olga Arkhangelskaya

+ 7 495 755 9854
olga.arkhangelskaya@ru.ey.com

Investors still view market as attractive: Russians remain comfortable about the attractiveness of their local real estate market, with 87% rating it as attractive overall. This almost matches the 88% who gave a similar answer in the previous year. A slightly lower 83% rated Russia as an attractive location for real estate investments compared with other European destinations.

Transaction volumes seen rising: A clear majority of Russian respondents expect transaction volumes to increase in 2013.

Eurozone now seen as investment driver: Almost two-thirds of Russian respondents expect the Eurozone sovereign debt crisis to drive real estate investments by European investors. By contrast, 71% of Russians expected the crisis to reduce investment in the previous survey.

Inflationary fears continue to underpin investment: Just under three-quarters of Russian respondents (70%) expect inflationary fears to spur investors toward real estate in the medium term. This is fewer than in other European countries, but higher than the 66% who envisaged inflation as a catalyst for real estate investments in the previous survey.

Capital markets

- **Basel III regulations a key constraint:** Just 60% of Russians expect Basel III regulations to make real estate loans less attractive for banks and hamper the mortgage business.
- **CMBS market seen reviving:** Russians were most likely to agree on the likely recovery of the CMBS market, with 80% saying it will revive in 2013.
- **Limited funding availability, required equity, to hurt deal flow:** More than two-thirds of Russian investors surveyed expect the limited availability of debt funding to act as an impediment to Russia's deal flow in 2013, and 73% see the level of required equity also posing an obstacle to transactions.
- **Banks to extend repayment period for distressed loans:** 70% of Russian respondents surveyed expect banks to extend repayment periods for distressed loans.
- **Solvency II regulations will lead to new sources of debt finance:** More than three-quarters of Russian respondents expect Solvency II regulations to allow insurance companies and pension funds to act more frequently as debt providers for real estate investments.

Transaction outlook

Russians share the opinion of most other European countries surveyed that transactions are likely to increase in 2013. Some 70% say they expect volumes in 2013 to exceed the level seen in 2012. This is more than twice the 33% who said they expected a recovery in real estate volumes in the previous survey.

Russians are also optimistic about the prospects for deals to get larger, with 67% saying they expect the average deal size to increase in 2013. However, less respondents (53%) expect investment activity by international real estate investors to increase compared with 2012.

Russians are among the most bullish about the revival of speculative projects, with 67% predicting the return of speculative project developments in 2013. This is the second-largest percentage to say so after the French.

Two-thirds (66%) believe green-building standards will play a more important role with respect to existing investment properties.

Price expectations and investment focus

Russians are more upbeat about price expectations for their country than many of their neighbors, with respondents expecting prices to remain stable or rise across all asset classes in prime areas. Half of those surveyed expect prices for prime office space to increase in 2013, while 43% say the same about prime retail space. Meanwhile, 40% expect an upsurge in prices for prime residential property.

Even in the case of peripheral properties, a majority of respondents see prices remaining stable or increasing.

With regard to their strategic investment focus for 2013, 70% of Russians say they would have a strong to moderate focus on office property investments. Some 80% say the same about retail investments, and 60% say they would focus in a strong or moderate fashion on residential property.

Spain

Market overview

Spain is one of just two countries surveyed, in which respondents view their local market as less attractive for real estate investment in 2013, both overall and in comparison with other locations. Not surprisingly, less than half of the Spanish respondents believe the Eurozone crisis will help increase investments in the real estate sector. Yet half of Spanish investors expect transaction volumes to rise, although fewer expect average deal sizes to increase.

Contact

Remigio Barroso Cardenal

+ 34 91 572 72 26

remigio.barrosocardenal@es.ey.com

Investors pessimistic about market: With their country struggling at the center of the Eurozone's woes and contending with a troubled property sector, the majority of Spanish respondents (63%) do not view their market as an attractive location for real estate investment in 2013. This is a sharp contrast with the previous year, when 85% rated their local market as attractive. An even larger percentage (73%) view the Spanish market as unattractive compared with other European locations.

Transaction volumes seen rising: Despite their low confidence in the current attractiveness of the market, half of Spanish respondents say they expect transaction volumes to be higher in 2013 compared with the previous year.

Minority see Eurozone crisis as an investment driver: Compared with other European countries, a much smaller number of Spanish respondents are confident that the Eurozone debt crisis will increase investments by European investors in the real estate sector, with just 40% agreeing with this opinion. This is, nevertheless, an improvement on the 83% in the previous survey who thought the crisis would reduce real estate asset investment.

Inflationary fears continue to underpin investment: Half of Spanish investors believe that fears of high inflation in the medium term will drive investors toward the real estate markets. This is a similar figure to the 52% who thought so in the previous survey.

Capital markets

- **Basel III regulations a key constraint:** More than half of Spanish investors (56%) say Basel III regulations will make real estate loans less attractive for banks and further restrain the mortgage markets.
- **Limited funding availability to hurt deal flow:** Spanish investors are most likely to view limited availability of senior and junior debt funding as major impediments to deal flow in 2013, numbering 66% and 67% respectively. Just over half (53%) of Spanish investors identified the price mismatch between buyers and sellers as an obstacle to deals. This is the smallest percentage among the 15 countries surveyed.
- **Banks to extend repayment period for distressed loans:** Some 60% of Spanish respondents expect banks to extend the repayment period for distressed loans.
- **Solvency II regulations will lead to new sources of debt finance:** Nearly two-thirds of Spanish respondents (60%) say that the Solvency II regulations will allow insurance companies and pension funds to act more frequently as debt providers for real estate investments in the future.

Transaction outlook

Just half of Spanish respondents expect transaction volumes in 2013 to exceed that seen in 2012. This is up from the 38% who expected transaction volumes to recover in the previous survey.

Less than half (47%) expect the size of real estate deals to increase in 2013, and an identical number see cross-border investment activity increasing in 2013 compared with 2012.

Just 37% of Spanish investors expect speculative project developments to return in 2013, and 40% expect green-building standards to play a more important role with regard to existing investment properties.

Price expectations and investment focus

Less than a quarter of respondents anticipate property prices in prime locations will increase in 2013. Clear majorities expect no change in price for prime residential and office space, with close to half (47%) predicting that prime retail property prices will fall in the next year.

In the case of prices in peripheral locations, Spanish respondents are more divided. A majority (56%) expects little change in retail prices while the view on office and residential prices is split, with 40% in each case expecting prices to fall.

With regard to their investment strategy for 2013, a majority of Spanish respondents expect no or little focus on all three property classes.

Sweden

Market overview

Swedish investors remain overwhelmingly optimistic about the attractiveness of their local real estate market. Most Swedish investors expect both transaction volumes and average deal size to increase in 2013. A slight majority of Swedish respondents see the Eurozone crisis as a driver of investment in real estate. To a greater extent than respondents in other countries surveyed, Swedish investors believe the supply of real estate assets is likely to increase in 2013, and that the CMBS market is also likely to revive.

Contact

Daniel Öberg

+ 46 70 666 90 82
daniel.oberg@se.ey.com

Investors remain upbeat about market attractiveness: Swedish respondents are the most optimistic about the overall attractiveness of their local real estate market, with 100% rating it as attractive. This is up from 96% a year earlier. An equally buoyant 96% say the Swedish market is attractive compared with other locations in Europe.

Transaction volumes seen rising: Comfortable majorities of Swedish investors expect transaction volumes to rise in 2013.

Eurozone barely seen as investment driver: Just 54% of Swedish respondents expect the Eurozone debt crisis to increase real estate investment by European investors. This is one of the lowest percentages of the 15 countries surveyed. But this still represents a reversal from the 86% of Swedish investors who expected the Eurozone crisis to reduce investment activity last year.

Inflationary fears continue to underpin investment: 63% of Swedish investors agree that inflationary fears will help drive investors toward the real estate market in the medium term.

Capital markets

- **Basel III regulations a key constraint:** Swedish respondents agree by one of the largest margins that the Basel III regulations may constrain the mortgage business. Some 83% say the regulations would make real estate loans less attractive for banks.
- **Supply of real estate assets set to increase:** Swedish investors are most likely to envisage an increase in supply in the real estate market in 2013. A clear majority of Swedish respondents (79%) expect the number of available assets to increase due to maturity of structured debt, disposal of non-performing loans and liquidation of open-ended funds.
- **CMBS market likely to revive:** 70% of Swedish investors surveyed expect the CMBS market to revive in 2013.
- **Limited funding availability, equity levels, to hurt deal flow:** Swedish respondents are among the most likely to see limited availability of debt funding hurting deal flow in 2013. Some 87% see a shortage of senior debt funding as an impediment and 88% are concerned that limited junior debt funding might pose an obstacle. Three-quarters of respondents also worry that the levels of required equity will act as a brake on deal flow in 2013.
- **Banks to extend repayment period for distressed loans:** A large percentage of respondents (71%) say banks are likely to extend the repayment period for distressed loans.
- **Solvency II regulations will lead to new sources of debt finance:** In Sweden, 70% of respondents say Solvency II regulations will allow insurance companies and pension funds to expand their role as debt providers for real estate investments in the future.

Transaction outlook

More than two-thirds of Swedish respondents (70%) expect transaction volumes in 2013 to increase over the level seen in 2012. This is nearly three times the number that expected a recovery in real estate asset transaction volumes in the previous survey.

A further 66% of Swedish investors expect average deal size to rise in 2013, and 70% are confident about an increase in investment activity by international real estate investors in 2013 compared with 2012.

Yet, just 12% of Swedish investors expect speculative project developments to return in 2013. This is the lowest percentage of any country surveyed. Three-quarters of those surveyed expect more commercial real estate portfolio deals in 2013 compared with 2012, and 83% expect green-building standards to play a more important role with regard to existing investment properties.

Price expectations and investment focus

Swedish respondents generally expect property in prime locations to remain stable. Two-thirds expect no change in the price of prime retail property and 62% predict that prices of prime office property will remain unchanged. In the case of prime residential locations, 45% of respondents expect prices to increase, while 42% anticipate no change.

Prices of peripheral office and residential properties in Sweden are likely to remain unchanged, according to survey respondents. 33% of respondents expect peripheral retail prices to remain stable and 25% expect an increase.

With regard to real estate investment strategy, 67% of Swedish respondents expect to focus strongly on office property, and half say they will focus strongly on retail property. Less than half (46%) anticipate focusing strongly or moderately on residential property.

Switzerland

Market overview

Swiss respondents remain broadly upbeat about the attractiveness of their local market. Despite the already high transaction prices, slightly more than half of those surveyed expect transaction volume or size to rise in 2013. Swiss investors identify the valuation gap between buyers and sellers as the most significant potential impediment to deal flow.

Contact

Rolf F. Bach

+ 41 58 286 3870
rolf.bach@ch.ey.com

Investors still view market as attractive: Swiss investors retain a bullish outlook on their local real estate market, with 92% viewing it as attractive overall. This is up 7% from the previous year. In addition, 86% see it as attractive compared with other locations in Europe.

Transaction volumes seen rising: 50% of Swiss respondents expect transaction volumes to continue increasing in 2013.

Eurozone now seen as investment driver: More than three-quarters of Swiss investors (79%) are now convinced that the Eurozone debt crisis will help to drive European investors' activity in the real estate markets. By contrast, in the previous survey, Swiss respondents were divided over whether the Eurozone crisis would increase or reduce real estate asset investment.

Inflationary fears continue to underpin investment: 81% of Swiss respondents believe that inflationary fears in the medium term will help push investors toward real estate investments. This is down from the 88% who thought so in the previous survey.

Capital markets

- **Basel III regulations a key constraint:** Basel III regulations are seen as a key factor leading to greater restraint in the mortgage business by 63% of Swiss respondents.
- **Price mismatch the main threat to deal flow:** More than three-quarters of Swiss respondents (81%) say the price gap between buyers and sellers will be an impediment to their country's deal flow in 2013. By contrast, and in comparison with those surveyed in other European countries, negligible numbers of Swiss respondents expect limited debt funding or levels of equity required to pose a similar obstacle to deal flow.
- **Banks to extend repayment period for distressed loans:** Swiss investors expect banks to extend repayment periods for distressed loans, although by a smaller margin than in other countries surveyed. Some 63% agree that extended repayment periods are likely.
- **Solvency II regulations will lead to new sources of debt finance:** 63% believe Solvency II will lead to insurance companies and pension funds increasing their activity as debt providers for real estate investments in the future.

Transaction outlook

Half of Swiss respondents (50%) expect transaction volumes in 2013 to exceed the level seen in 2012, up 9% from those expecting a recovery in volume levels in the previous survey (41%).

Similarly, only 53% of Swiss investors think the average size of deals will increase in 2013, although 66% expect activity by cross-border investors to rise compared with 2012.

Only 34% see speculative project developments to return in 2013. 87% of Swiss respondents expect green-building standards to play a more important role with respect to existing investment properties.

Price expectations and investment focus

A majority of Swiss respondents (55%) expect no change in prices of prime retail property in 2013. And 39% of those surveyed expect prices of prime office property to remain stable as well. By contrast, 55% of Swiss investors anticipate prices of prime residential property will appreciate in 2013.

In the case of property in peripheral areas the participants expect prices of retail (65%) and office (68%) space to fall, while 63% expect prices of residential property to remain unchanged.

Asked about their investment strategy for 2013, 47% of respondents say they expect to focus strongly on residential property and 57% anticipate having a strong to moderate focus on office property. Less than half (47%) expect not to focus on retail property or to focus on it lightly.

Turkey

Market overview

Turkish investors were uniformly positive about the attractiveness of the Turkish market, and 75% expect an increase in both transaction volume and size in 2013. Turks are most likely to predict a rise in M&A activity over the next year and increased demand for mezzanine finance in 2013.

Contact

Alp Sen

+ 90 212 368 58 25
alp.sen@tr.ey.com

Investors still view market as attractive: Turks, like Swedes, are unanimous in their confidence about the attractiveness of their domestic real estate market. And 95% rate it as attractive compared with other European locations.

Transaction volumes seen rising: Turkish respondents are also bullish about the prospects for rising transaction volumes in 2013.

Some see Eurozone as investment driver: Just half of Turkish investors believe that the Eurozone sovereign debt crisis will increase investments by European investors in the real estate markets, putting them in the minority among respondents to the current survey.

Inflationary fears continue to underpin investment: Three-quarters of those surveyed say fears of high inflation in the medium term will drive investment in the real estate market.

Capital markets

- **Rise in M&A activity seen:** Turkish respondents were the most likely to expect an increase in M&A activity in the real estate sector in 2013, with 85% agreeing with this prediction.
- **Basel III regulations a key constraint:** A little more than half of Turkish respondents (55%) believe the Basel III regulations will make it less attractive for banks to extend loans to the real estate sector and will restrain the mortgage business.
- **Demand for mezzanine financing likely to increase:** Three-quarters of Turkish respondents also expect demand for mezzanine financing to increase in 2013 due to lower loan-to-value ratios.
- **Limited funding availability, price gap, to hurt deal flow:** Among Turkish respondents, 60% are worried about the potential for limited availability of senior debt funding and the price mismatch between buyers and sellers to impede deal flows. Three-quarters are worried that the shortage of junior debt funding will be an obstacle to deals.
- **Banks to extend repayment period for distressed loans:** A clear majority of Turkish respondents (80%) expect banks to extend repayment periods for distressed loans.

Transaction outlook

Turkish investors are largely optimistic about the potential for more deals, with 75% saying they expect transaction volumes in 2013 to exceed the level seen in 2012.

Three-quarters expect the average size of real estate deals to increase in 2013 and 70% expect a year-on-year rise in cross-border activity by international investors.

Just half expect speculative project developments to return in 2013. 85% of respondents believe green-building standards will play a more important role with respect to existing properties.

Price expectations and investment focus

Turkish respondents are especially optimistic about the prospects for prices of property in prime areas to increase across all categories in 2013. Some 60% expect higher prices for prime retail property, 65% for prime office space and 55% for prime residential property.

Even in peripheral areas, Turkish investors are more confident about price rises or stable prices for all use types in their country than their European neighbors are about prices in theirs.

In most cases, this optimism plays out in the investment strategy that respondents say they plan to pursue. Some 85% expect to focus strongly or moderately on office property, with 70% saying the same about residential as well as hotel property and 85% about retail property.

Ukraine

Market overview

Investors see the Ukrainian market as attractive, and most believe transaction volume and average deal size will increase in 2013. Ukrainian respondents anticipate greater M&A activity in the real estate sector in the next year, although they worry that a shortage of available debt funding will become an obstacle.

Contact

Sergii Kekukh
+ 380 44 490 3029
sergii.kekukh@ua.ey.com

Investors still view market as attractive: Ukrainian investors view their market as considerably attractive, with 80% seeing their country as an attractive location for real estate investments overall in 2013.

Transaction volumes seen rising: 70% of Ukrainian respondents believe transaction volumes will move higher in 2013.

Eurozone now seen as investment driver: Investors now expect the Eurozone debt crisis to act as a driver of European investment in the continent's real estate markets, with 60% agreeing that this is a likely prospect.

Inflationary fears continue to underpin investment: Some 80% of Ukrainians believe that inflationary fears in the medium term will also help underpin investment in the real estate market.

Capital markets

- **Greater M&A activity seen:** Three-quarters of Ukrainians expect an increase in M&A activity in the real estate sector in 2013.
- **Limited funding availability as major impediment to transactions:** An overwhelming 90% of respondents say they are worried that a lack of adequate junior and senior debt funding will act as an obstacle to deals.
- **Banks to extend repayment period for distressed loans:** Some 80% of respondents expect banks to extend repayment periods for distressed loans.

Transaction outlook

More than two-thirds of investors (70%) believe transaction volumes in 2013 in Ukraine will exceed the level seen in 2012, although just over half (55%) expect average deal sizes to increase over the same period.

A further 65% believe investment activity of international real estate investors will increase compared with 2012.

Just 40% of Ukrainians expect to see the revival of speculative project developments in 2013. This is in line with the majority of other European respondents.

Price expectations and investment focus

With regard to the real estate investment strategy, 60% of the respondents intend to focus strongly or moderately on retail real estate.

United Kingdom

Market overview

UK respondents are very optimistic about the attractiveness of their local real estate market in comparison with other markets. A substantial number of respondents expect an increase in both transaction volumes and average transaction size in 2013, and most expect more commercial real estate portfolio deals as well. However, UK investors are skeptical that speculative project developments will have a resurgence in the near future.

Contact

Rishi Bhuchar
+ 44 207 951 0055
rbhuchar@uk.ey.com

Investors still view the UK market as an attractive region for investment: UK respondents are strongly upbeat about the attractiveness of their home market, with 91% rating it attractive overall as a location for real estate investment in 2013. They are even more bullish when comparing their location with others in Europe with 100% rating it as attractive compared with other European real estate markets.

Transaction volumes are expected to rise: UK investors expect transaction volumes to rise in 2013.

Eurozone now seen as investment driver: By a slim majority (55%), UK respondents concur with most of their European counterparts in seeing the Eurozone debt crisis as a driver for real estate investments going forward. This contrasts with the 79% who expected the Eurozone crisis to undermine the attractiveness of real estate assets a year ago.

Inflationary fears continue to underpin investment: 70% of UK respondents continue to believe that inflation fears will push investors toward real estate markets in the medium term.

Capital markets

- **Basel III regulations a key constraint:** More than three-quarters of UK respondents (81%) agree that Basel III regulations will make real estate loans less attractive for banks and lead to greater restraint in the mortgage market.
- **Limited funding availability is expected to have a negative impact on deal flow:** More than 80% of UK investors see the limited availability of debt funding as an impediment to the country's deal flow in 2013. A decisive 81% see this as likely to be caused by the shortage of senior debt funding, and 83% see it as due to limited access to junior debt funding. In addition, two-thirds (66%) agree that the price mismatch between buyers and sellers will also be an impediment to deal flow.
- **Banks to extend repayment period for distressed loans:** More than three-quarters of UK respondents (77%) expect banks to extend repayment periods for distressed loans.
- **Solvency II regulations will lead to new sources of debt finance:** Some 80% of UK survey respondents expect the Solvency II regulations to push insurance companies and pension funds to extend their role as debt providers for real estate investments in the future.

Transaction outlook

More than three-quarters of UK respondents (83%) believe transaction volumes in 2013 will exceed the level seen in 2012. This is more than twice the 41% who held the same view in the survey from the previous year.

Two-thirds also believe that the average size of real estate deals will increase in 2013, and 81% expect investment activity by international real estate investors to increase compared with 2012.

UK investors are skeptical about speculative project activity reviving in the near future. Just 36% say they expect speculative project developments to return in 2013.

A decisive 84% of UK investors expect more commercial real estate portfolio deals in 2013, and 60% expect green-building standards to play a more important role with respect to existing investment properties.

Price expectations and investment focus

UK respondents are bullish about the prospects for prices of prime office (58%) and residential property (66%) to appreciate, although they expect prime retail property prices to remain largely stable, with 49% expecting no change.

In the case of property in peripheral locations, those surveyed are most optimistic about prices for residential property, with 40% expecting no change and 17% expecting an increase. By contrast, many UK respondents predict a fall in prices for peripheral office property (42%) and retail property (60%).

Investors are more divided when it comes to defining their investment strategy for 2013. Of those surveyed, 62% say they will have a strong to moderate focus on residential property; 57% expect a strong to moderate focus on office property; and 64% expect a strong to moderate focus on retail property.

Contacts

EMEIA TAS Real Estate		
Sector Leader – Hartmut Fründ	+ 49 6196 996 26351	hartmut.fruend@de.ey.com
Country contacts		
Austria – Alexander Wlasto	+ 43 1 21170 1306	alexander.wlasto@at.ey.com
Belgium – Tristan Dhondt	+ 32 2 774 6017	tristan.dhondt@be.ey.com
France – Jean-Roch Varon	+ 33 1 46 93 63 89	jean-roch.varon@fr.ey.com
Germany – Christian Schulz-Wulkow	+ 49 30 25471 21235	christian.schulz-wulkow@de.ey.com
Italy – Marco Daviddi	+ 39 667 753 5576	marco.daviddi@it.ey.com
Luxembourg – Alexander Flassak	+ 352 42 124 8491	alexander.flassak@lu.ey.com
Netherlands – Ingmar Dirkse van den Heuvel	+ 31 88 407 09 98	ingmar.dirkse.van.den.heuvel@nl.ey.com
Poland – Katarzyna Gerl	+ 48 22 557 6606	katarzyna.gerl@pl.ey.com
Poland – Anna Kicińska	+48 22 557 7542	anna.kicinska@pl.ey.com
Russia – Olga Arkhangelskaya	+ 7 495 755 9854	olga.arkhangelskaya@ru.ey.com
Spain – Remigio Barroso Cardenal	+ 34 91 572 72 26	remigio.barrosocardenal@es.ey.com
Sweden – Daniel Öberg	+ 46 70 666 90 82	daniel.oberg@se.ey.com
Switzerland – Rolf F. Bach	+ 41 58 286 3870	rolf.bach@ch.ey.com
Turkey – Alp Sen	+ 90 212 368 58 25	alp.sen@tr.ey.com
Ukraine – Sergii Kekukh	+ 380 44 490 3029	sergii.kekukh@ua.ey.com
United Kingdom – Rishi Bhuchar	+ 44 207 951 0055	rbhuchar@uk.ey.com
General Enquiries		
Marketing Director – Leor Franks Transaction Advisory Services	+ 44 20 7951 8708	lfranks@uk.ey.com
Marketing Director – Karin Vogt Transaction Real Estate	+ 49 6196 996 16230	karin.vogt@de.ey.com

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

About Ernst & Young's Transaction Advisory Services
How organizations manage their Capital Agenda today will define their competitive position tomorrow. We work with our clients to help them make better and more informed decisions about how they strategically manage capital and transactions in a changing world. Whether you're preserving, optimizing, raising or investing capital, Ernst & Young's Transaction Advisory Services bring together a unique combination of skills, insight and experience to deliver tailored advice attuned to your needs – helping you drive competitive advantage and increased shareholder returns through improved decision-making across all aspects of your capital agenda.

© 2013 EYGM Limited.
All Rights Reserved.

EYG no. DE0378

In line with Ernst & Young's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

ED None

EMEIA MAS 1309.1212

Growing Beyond

In these challenging economic times, opportunities still exist for growth. In ***Growing Beyond***, we're exploring how companies can best exploit these opportunities – by expanding into new markets, finding new ways to innovate and taking new approaches to talent. You'll gain practical insights into what you need to do to grow. Join the debate at **www.ey.com/growingbeyond.**