REAL ESTATE INVESTOR INTENTIONS SURVEY 2013

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INTRODUCTION

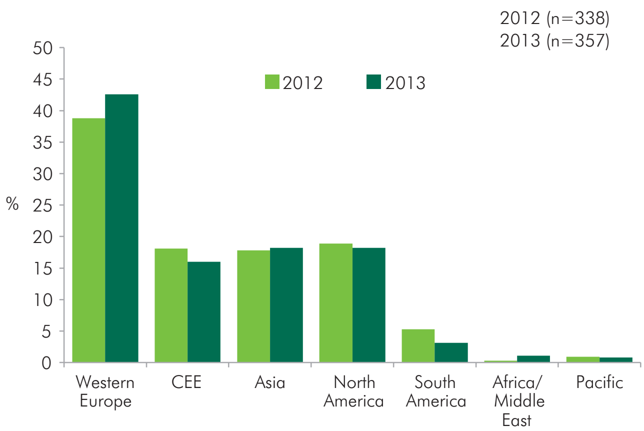
Over 360 investors took part in the CBRE 2013 online survey of European Investor Intentions, drawn from across the property investment community. The survey was designed to provide high level insights into investor sentiment and preferences with respect to regions, countries, cities, sectors and asset types and the impact of key influences on investor attitudes and activity. Comparisons with the 2012 survey results highlight some significant shifts in investor sentiment and preferences which are likely to impact on activity in the coming year. The economic environment clearly remains challenging for investors but the survey revealed a more positive tone in investor intentions for 2013 in terms of expected levels of purchasing activity and the appetite for a range of opportunities beyond prime property.

WHICH GLOBAL REGION IS MOST ATTRACTIVE?

Europe was overall the most favoured region for investment purchases among the 2013 survey respondents, reflecting the predominance of investors domiciled in Europe in the survey. There was a small shift in favour of Western Europe (chosen by 43% of respondents) compared to the 2012 results with a slight fall in the proportion choosing Central & Eastern Europe (CEE) to 16%. Asia and North America were each favoured by 18% of respondents, virtually unchanged from 2012.

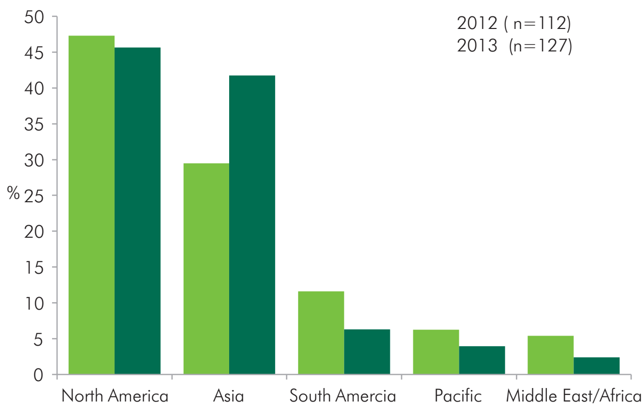
Just over one-third (36%) of respondents indicated they would invest outside Europe in 2013. Among these investors, North America was marginally the most favoured global region, chosen by 46%. Compared to the 2012 survey, there was more interest in Asia this year, selected as the most attractive by 42% of respondents investing outside Europe.

"Which global region do you believe to be the most attractive for investment purchases in 2013?"



Source: CBRE European Investor Intentions Survey 2013

Investing outside Europe in 2013: "Which global region is most attractive?"



Source: CBRE European Investor Intentions Survey 2013

MOST ATTRACTIVE COUNTRIES/REGIONS IN EUROPE

Within Europe, Germany took first place in this year's survey as the most attractive country for making investment purchases, selected by 35% of respondents and showing an increase in popularity compared with the 2012 survey. The UK was chosen as most attractive by a lower proportion of respondents (24%) than in 2012. In part at least this apparent shift in sentiment in favour of Germany may reflect the higher proportion of German investors among the 2013 respondents compared to last year's survey.

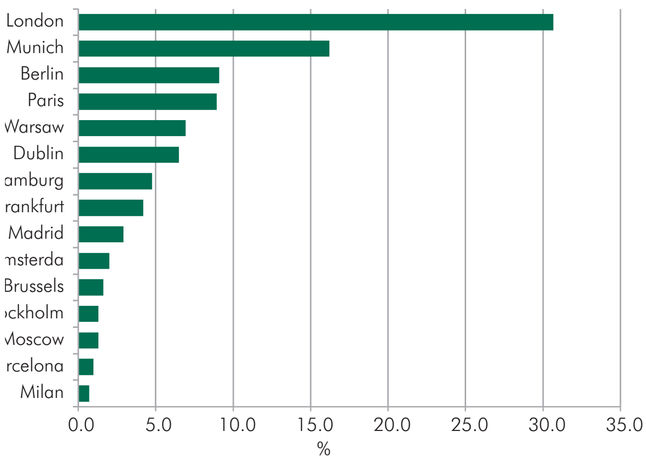
"In Europe, which country/region do you believe to be the most attractive for making investment purchases in 2013"

Source: CBRE European Investor Intentions Survey 2013

MOST ATTRACTIVE CITY FOR INVESTMENT PURCHASES

Respondents were asked to identify the individual city in Europe they consider most attractive for investment in 2013. Over 300 respondents collectively identified 32 cities but there was a high concentration of choices on a relatively limited number. As in the 2012 survey London was the single most favoured city, but with a somewhat lower share of the vote, 31% compared with 37% last year. London's investment market recorded strong activity in 2012 with its highest volume of transactions since 2007. Purchases were dominated by cross-border investors. London's attraction owes much to the size and liquidity of its investment market with its perceived 'safe haven' status recently adding to its pull on international capital flows.

"Which European city is most attractive for purchases in 2013?"



rce: CBRE European Investor Intentions Survey 2013

CEE markets were also less popular this year, chosen by 14% of investors compared with 19% in the 2012 survey. More detailed country choices showed that the majority of investors choosing the CEE region considered Poland to be the most attractive market for purchases, with limited interest in markets elsewhere in the CEE region. Poland's selection by 10% of respondents exceeded the votes given to France, Spain and the Nordics which were each chosen by 5%-6% of investors. Spain's tally of 6% was an improvement on its share last year, but Italy slipped to only 2%.

The pattern of responses on which markets are most attractive to investors appears closely linked to perceptions of economic fundamentals and risk. Overall, the 2013 survey shows a very similar aggregate concentration of investors' choices of Germany and the UK as the most attractive countries for purchase to that found in last year's survey. Europe's next largest investment, France, again recorded apparently low attractiveness relative to its size. Within CEE markets, investor interest has become strongly focused on Poland. Investors also continue to show low preferences for Southern European markets suffering economic contraction and higher sovereign debt risk.

Germany does not have a single dominant city on a par with London or Paris, but four German cities appear in the top ten choices for investment this year and their overall popularity increased significantly compared with the 2012 survey. Munich appears in second place, chosen by 16% of investors as the most attractive city, followed by Berlin. Hamburg and Frankfurt were also included in the top ten choices and the four German cities together collected 34% of the vote in the 2013 survey compared with 21% last year.

Paris closely followed Berlin in the city ranking and interestingly got a somewhat higher proportion of votes as the most attractive city than France achieved as the most attractive market. Warsaw's position in fifth place reflects the strength of investor interest in opportunities in the Polish market, underpinned by relatively favourable economic performance.

Dublin's appearance in the top ten is noteworthy, not least for its more frequent selection than a number of much larger city markets. This seems likely to reflect investor perceptions of value and potential for recovery in this market, supported by evidence that Ireland is on the way to surmounting its economic difficulties. Madrid's inclusion in the top ten choices suggests there is a strand of investor confidence in the recovery potential of the Spanish real estate market.

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WHICH PROPERTY SECTORS ARE MOST ATTRACTIVE?

Offices were the single most attractive sector for investors in this year's survey with a marginally higher vote (29%) than in 2012. The big change in investors' sector preferences this year saw logistics property move in to second place in popularity, with 20% choosing this sector as most attractive, up from 14% last year. Investor interest in logistics was widely spread among investors grouped by their choice of country as the most attractive for purchases, indicating that investment demand for logistics property is geographically diverse.

"Which sector is most attractive for purchases in 2013?"

Source: CBRE European Investor Intentions Survey 2013

The popularity of retail property, taking the three retail sub-sectors in aggregate, was somewhat reduced, with the proportion of investors selecting retail as most attractive for purchases falling to 30% from 35% in 2012. There was also a marked shift in investors' preferences between the different categories of retail property. Shopping centres were marginally less favoured this year but there was a bigger drop in the proportion of investors choosing retail warehouses as the most attractive sector. In contrast, the proportion of investors favouring High Street retail increased compared with the 2012 survey, making town centre shops more popular than retail warehouses.

These shifts in investor preferences can be related to the contrasting fortunes of different retail property segments in the context of weak retail spending growth in many European economies, retail market polarisation and structural changes resulting from the expansion of online and multichannel retailing. Prime city centre retail has recently been the strongest performing real estate market in rental growth while retail warehouse markets have been vulnerable to the subdued state of household goods spending and growth in internet shopping. Online retailing is in turn adding a new dimension of occupier demand in the logistics sector.

Residential property maintained its share of the vote as the most attractive sector at 11%. Investors favouring residential were concentrated among those who selected Germany and the UK as the most attractive markets for investment.

WHAT TYPES OF ASSETS ARE MOST ATTRACTIVE?

Respondents were asked for their preferences across four types of asset of different quality and risk characteristics and could select more than one as most attractive for purchase. A second question sought to identify which was the single most preferred asset type.

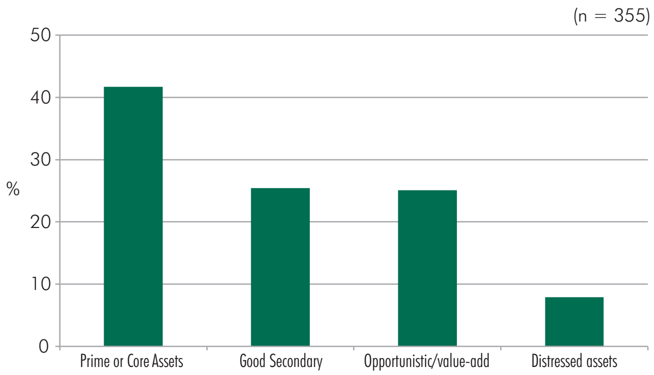
"What type of property assets are most attractive for you to purchase?"

Note: Respondents could select more than one asset type.
Source: CBRE European Investor Intentions Survey 2013

The rank order of investors' preferences by asset type was the same as in the 2012 survey results. Prime/core properties were selected by a majority (53%) of respondents this year as attractive for purchase, a higher proportion than in 2012. However, there were larger increases compared with last year in the proportions of investors indicating that 'good secondary' and 'opportunistic/value-add' assets were attractive, in both cases rising to over 40%. The proportion favouring distressed assets was virtually unchanged at 22%.

These results indicate that, while there is still a bias towards prime/core assets in investor preferences, there is significantly greater interest among the 2013 survey respondents in assets further up the risk spectrum compared to the pattern of responses seen last year. This could reflect investors' need and willingness to consider a broader range of assets as prime/core markets have become crowded and, in some cases, more expensive. It could also reflect some increase in risk tolerance with more positive investor sentiment generally in response to reduced uncertainties over the eurozone. In other investment markets outside real estate, secondary assets have seen significant positive re-pricing as eurozone tensions have lessened.

"What single type of property asset is most preferred for purchase in 2013?"



Source: CBRE European Investor Intentions Survey 2013

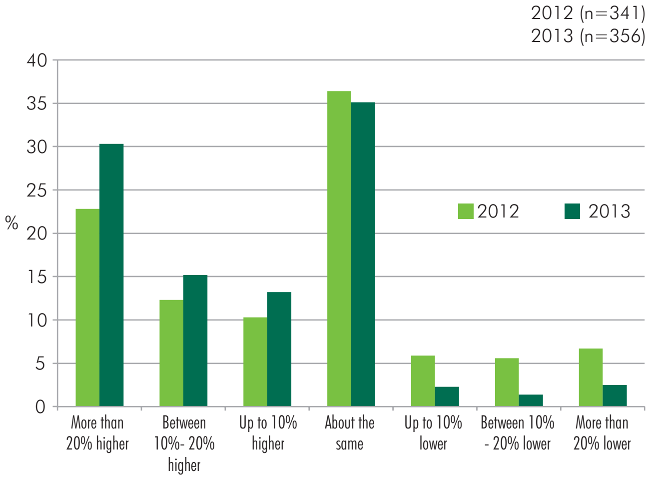
The conclusion that there is now growing investor interest outside prime/core assets is supported by the pattern of responses on the 'single most preferred' type of asset for purchases in 2013. Prime/core assets got the highest vote (42%), but a majority of respondents overall chose other asset types. Good secondary and opportunistic/value-add assets were each selected by 25% of investors as their most preferred asset type for purchase.

The implication from the survey results is that the trend towards greater investor interest and activity in secondary assets, evident since the final quarter of 2012 in some European markets, will gather pace during 2013.

EXPECTED PURCHASING ACTIVITY IN 2013

Total investment turnover in European real estate markets in 2012 was 6% higher than in 2011, largely due to the strength of activity in the final quarter in non-UK markets. European investor intentions for 2013 point to increased purchasing activity compared to 2012. A clear majority (58%) of respondents in this year's survey said they expected their purchases in 2013 to be higher than in 2012. This compares with 45% giving the same answer last year. In 2013 as many as 30% of investors expect to be spending over 20% more on investment purchases in 2013 than they did in 2012. The proportion of investors intending to spend less this year than in 2012 dropped to only 6%; the comparable figure in the 2012 survey was 18%.

"Investor intention for purchasing activity in 2013?"



Source: CBRE European Investor Intentions Survey 2013

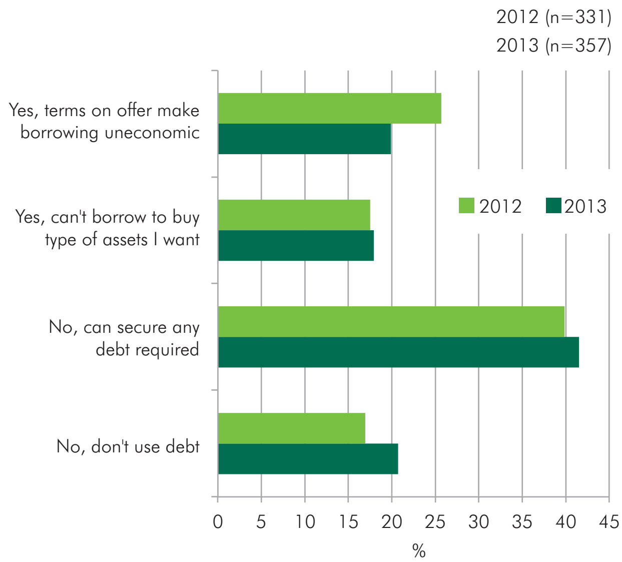
Further evidence of increased investor demand in European markets is given by the finding that 71% of survey respondents expected to be net investors with purchases exceeding sales. Again this is a stronger picture than year when 61% of respondents indicated they would be net investors.

These results clearly imply that investors are looking to commit more capital to European real estate in 2013 and there is potential for increased transaction volumes in the coming year.

IMPACT OF DEBT AVAILABILITY

Constraints on the availability of debt for property investment have been a key influence on market activity in Europe since the onset of the financial crisis. The survey asked investors if debt availability was affecting their investment activity and why. The pattern of responses was similar to the 2012 results but with a somewhat lower proportion (38%) of respondents this year reporting that debt availability and/or lending terms were negatively affecting their investment activity; the comparable figure last year was 43%. The main difference in results was that a lower proportion of respondents claimed that the lending terms on offer made borrowing uneconomic and more respondents this year stated they did not use debt.

"Is the availability of debt finance affecting your investment activity?"



Source: CBRE European Investor Intentions Survey 2013

The survey results indicate that constraints on debt availability remain a significant influence among a substantial proportion of investors but with tentative signs that the constraints have eased a little over the past year. The impact of debt availability on investment differs significantly between different types of investors. Just over half the private equity/venture capital and private property companies in the survey reported problems with access to debt. In sharp contrast, three-quarters of listed property companies said they could secure any debt they required.

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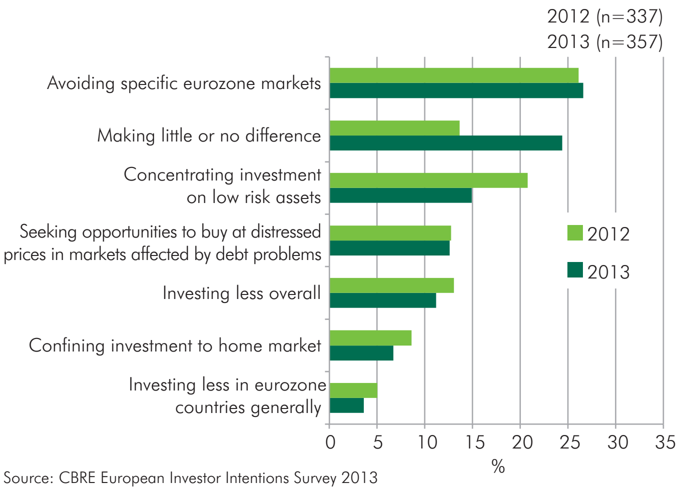
EFFECTS OF THE EUROZONE CRISIS ON INVESTMENT ACTIVITY

Fears of a disintegration of the eurozone escalated over the first half of 2012 but have receded following last September's announcement by the European Central Bank of a commitment to purchase unlimited amounts of sovereign bonds of countries facing excessive borrowing costs. While this helped lift the existential threat hanging over the euro area, the impact of austerity programmes and weakness in the European banking sector has continued to depress underlying economic performance. The UK and the eurozone saw GDP contract in the final quarter of 2012 and the short term growth outlook is weak.

"How is the eurozone debt crisis affecting your investment activity?"



Source: CBRE European Investor Intentions Survey 2013

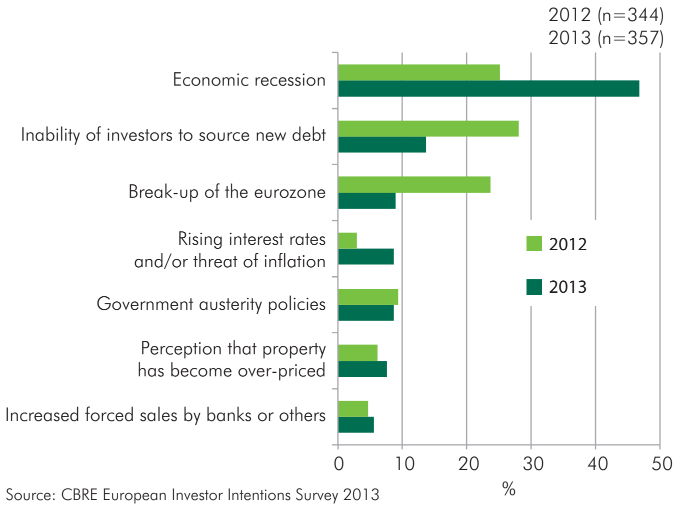
The 2013 survey again asked respondents how the eurozone crisis was affecting their investment activity. As in the 2012 results, the pattern of responses showed widely varying reactions among respondents, but overall it appears the euro area's problems are having less effect on investment activity than a year ago. The most common response (26%) was again to avoid specific eurozone markets but almost as many respondents (24%) said the crisis was not affecting their investment activity, a rise from 14% this time last year. Fewer investors are concentrating on lower risk assets in response to the crisis, 15% compared with 21% last year, and there were also lower proportions of investors reporting other risk-averse reactions.

Overall, the balance of responses indicates the eurozone crisis continues to tilt investors towards caution and risk avoidance but the effect has reduced compared to the situation a year ago. A different reaction to the crisis is demonstrated by a minority (13%) of investors seeking opportunities to buy at distressed prices in the markets most affected by sovereign debt problems.

THREATS TO PROPERTY MARKET RECOVERY

In the 2012 survey, the three most commonly cited threats to a recovery of the European property market were the inability of investors to source new debt, economic recession and a break-up of the eurozone. This year, as recession has become a reality in much of Europe, it is seen as the biggest threat to market recovery by almost half (47%) of the investors in the survey. Recession has displaced the other principal threats to recovery in investors' perceptions. A eurozone break-up was selected as the biggest threat by only 9% of respondents this year, down from 24% in 2012. Concern over debt availability as a threat to recovery was cited by half as many respondents (14%) as last year.

"Which of the following do you believe poses the greatest threat to recovery of the European property market?"



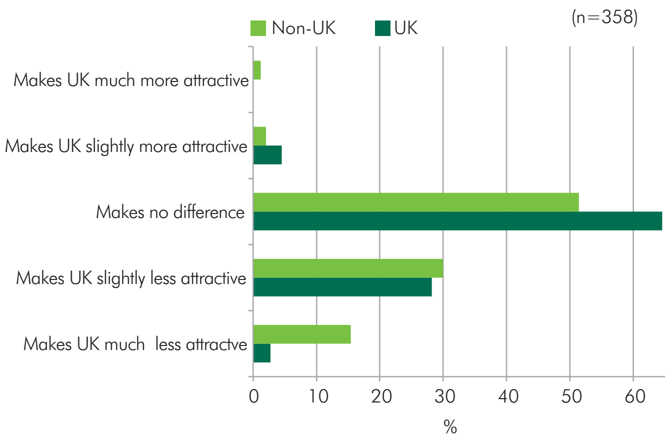
Source: CBRE European Investor Intentions Survey 2013

Other potential threats to recovery attracted fewer selections by investors. However, it is worth noting that, alongside the widespread concern over the threat from economic recession, the proportion of investors seeing the biggest risk in rising interest rates and/or inflation increased to 9% from only 3% last year. Thus, there is a minority view among investors that current ultra-low interest rates will not prevail indefinitely and a return to normalised rates at some point could threaten property market recovery.

UK EU MEMBERSHIP REFERENDUM

The UK Prime Minister recently announced his government's intention to negotiate the terms of the UK's membership of the EU and put the outcome to the test in a referendum on the UK's membership after the next general election, assuming his party is still in government. This will be a long drawn-out process with successive uncertainties over the outcome of the EU renegotiation, the next UK election and any referendum that follows in 2017.

"Effect of announcement of a referendum on EU Membership on UK's attractiveness for investment?"



Source: CBRE European Investor Intentions Survey 2013

The survey asked what effect the announcement of the referendum had on the attractiveness of the UK as a location for investment. Almost two-thirds (65%) of UK-based investors in the survey felt it made no difference to the UK's attractiveness, a view shared by 51% of non-UK investors. Among respondents who said it did affect the UK's attractiveness, there was a large balance who viewed it negatively, particularly among non-UK investors. Similar proportions (28% and 30%) of UK and non-UK investors thought the referendum announcement made the UK 'slightly less attractive' for investment, while 15% of non-UK investors judged that it made the UK 'much less attractive'.

These results need cautious interpretation. They do not necessarily signify how the UK's attractiveness for property investment would be affected by whether the UK ultimately remains a member of the EU. Rather, the announcement of the intended referendum has introduced a new element of uncertainty into the future position of the UK with respect to the EU. At this stage, for some investors, that uncertainty itself is a negative factor in the UK's attractiveness.

CONCLUSIONS

Despite a difficult economic backdrop, the 2013 survey results provide evidence of improved sentiment among European real estate investors compared to the mood a year ago. The findings reflect a more positive tone in investor intentions and attitudes in several respects:

- expectations of higher spending on investment purchases in 2013 compared with 2012 among a majority of investors, with a high proportion (71%) intending to be net investors this year;
- signs that debt availability is somewhat less of a constraining influence on the market;
- significantly greater appetite for non-prime assets, with a majority of investors saying these are their most preferred type of assets for purchase this year;
- while recession is a key concern, investors' fears of a euro break-up have subsided and the overall impact of the eurozone crisis on investment activity appears to have lessened.

Alongside this more positive attitude, investor intentions for 2013 continue to be shaped strongly by perceptions of market risk and the relative strength of economic fundamentals in different parts of Europe. The most favoured markets for purchases remain heavily concentrated in northern Europe, notably Germany (this year's most popular choice), the UK and Poland. At sector level, the survey highlights a further strong shift in investor preferences in favour of logistics property, with its relatively high income returns, and caution towards retail.

Investors are still wary of southern European markets, although there are some signs that Spain is beginning to attract renewed interest this year. Confidence that Ireland's economy is healing has encouraged interest in Dublin, which could be a positive harbinger for other troubled European markets once they display clearer signs of recovery potential.

The survey findings fit with several emerging trends in European investment activity over recent months. These include signs of increased liquidity overall and more transactions in non-prime property and in certain peripheral European markets. The investor intentions revealed in the survey suggest these trends are set to continue and potentially gather pace during 2013. The next twelve months could mark the beginning of a reversal of the strong polarisation that has characterised European property investment markets over the past two years.

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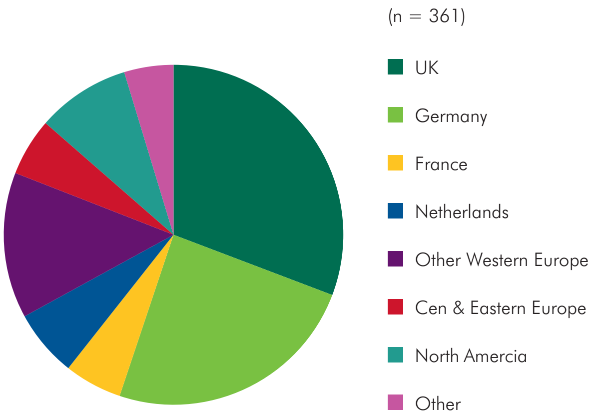
SURVEY METHOD AND COMPOSITION OF RESPONDENTS

The survey was carried out between 6-13 February 2013. It was distributed electronically for online completion to a wide range of investors in CBRE's client and contacts database. A total of 362 respondents completed the survey. Just under half (48%) were classified as fund or asset managers; a further 8% were pension funds and insurance companies The other most numerous groups of respondents by type of organisation were private property companies (14%), listed property companies (11%) and private equity/venture capital companies (9%).

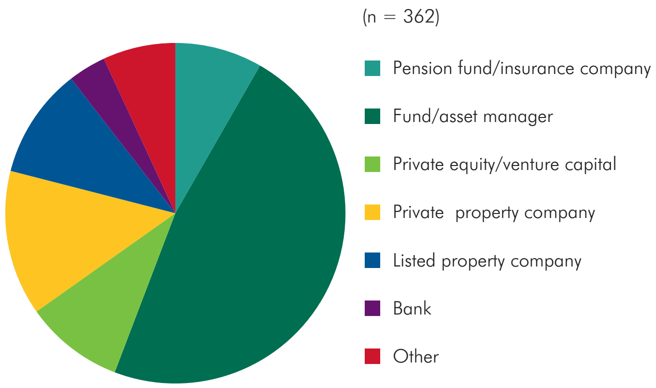
Respondents were predominantly based in Europe in terms of their country of domicile (87%). UK-based investors made up 31% of respondents with those based in Germany accounting for 24%. Respondents domiciled elsewhere in Western Europe comprised 26% of respondents with 6% based in CEEE countries. The largest group of respondents based outside Europe originated from North America (9% of the total).

Survey respondents by country domicile



Source: CBRE European Investor Intentions Survey 2013

Survey respondents by type of organisation



Source: CBRE European Investor Intentions Survey 2013

CBRE GLOBAL RESEARCH AND CONSULTING

This report was prepared by the CBRE EMEA Research Team, which forms part of CBRE Global Research and Consulting – a network of preeminent researchers and consultants who collaborate to provide real estate market research, econometric forecasting and consulting solutions to real estate investors and occupiers around the globe.

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