DTZ Research

Investment Market Update
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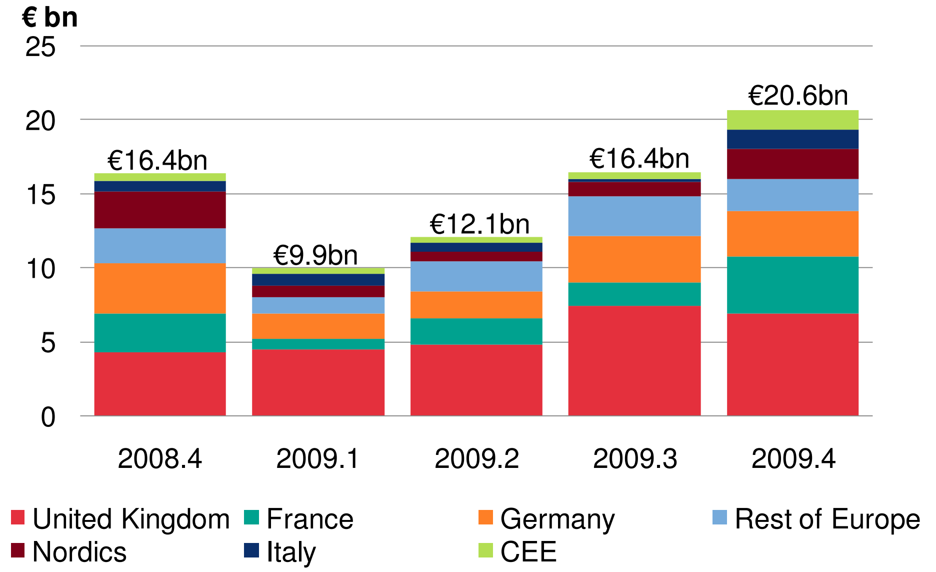
- In Q4 2009 European investment volumes reached €20.6bn (Figure 1), a 26% quarter on quarter increase from Q3. But annual volumes of €59bn in 2009 remained 47% lower than the €111bn recorded on 2008.
- Growth in volumes was broad based across markets, but disappointing in the region's largest markets, the UK and Germany. The story on the French investment market is quite different with France posting strong growth in Q4 compared to Q3 2009.
- Over the quarter investors retreated further to their home markets with foreign investment accounting for 31% of the total transactional activity in Q4 down from 35% in Q3.
- We expect the recovery in Europe's commercial real estate investment markets to continue and estimate there to be €106bn of capital available and targeting investment opportunities across Europe in 2010. This would represent an 80% increase in volumes if all capital is spent.

Figure 1

Total real estate purchasing activity by country



Source: DTZ Research

Investment Market Update

Investment volumes increased, but not in the major markets of UK and Germany

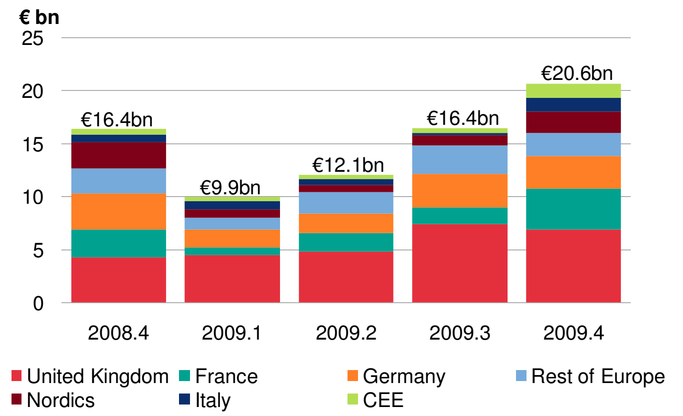
- European investment volumes reached €20.6bn in Q4 2009, representing a 26% increase on Q3 (Figure 2). This is the third consecutive quarter on quarter increase, bringing the annual volume to €59bn. However, this is still 47% lower than the €111bn recorded in 2008.
- The big three markets of UK, Germany and France continued to dominate activity, although accounting for proportionally less of the total; 67% in Q4 compared to 74% in Q3. This underscores a broad based recovery across the European markets.
- But growth in two of the largest markets disappointed as UK volumes fell by a moderate 7% from €7.4bn (£6.4bn) to €6.9bn (£6.2bn) and by 3% in Germany from €3.2bn to €3.1bn. Spain witnessed a 75% decrease to €0.3bn but this is largely attributed to the €1.15bn BBVA sale and leaseback recorded last quarter.
- France recorded a 145% increase from €1.6bn in Q3 to €3.9bn in Q4 as a growing number of investors targeted the market, particularly for good quality assets. This reflects the perceived value in the French market. Italy and the CEE also witnessed a significant growth, albeit off a low level, with volumes rising from €0.3bn in Q3 to €1.3bn in Q4 and from €0.4bn in Q3 to €1.2bn in Q4 2009 respectively. In Italy growth was primarily driven by three deals which represented half of the volumes. Sweden continued a positive course over Q4 2009 recording a 46% increase to €0.8bn.

Investors retreated to their domestic markets

- Over Q4 2009 investors retreated to their home markets with foreign investment accounting for 31% of total activity, compared to 35% in Q3. Since the market's peak, the proportion of foreign purchases has slipped from 52% in 2007 to 45% in 2008 and 34% in 2009 (Figure 3). This reflects investors' aversion to risk and their preference to seek opportunities in the home markets they know well.
- UK investors continued to be the most active purchasers having bought €4.8bn worth of European property in Q4 2009. They were predominately focused in their home market, spending 86% of it domestically. This can be attributed to their perception on the pricing of other markets along with the continuing weak sterling. Yet, UK investors remained net sellers in Europe for the seventh consecutive quarter, albeit at a slower pace.
- German open ended funds continued their buying spree with acquisitions totalling €1.4 billion in Q4, following investments of €1.2bn in Q3. Activity was dominated by some of the largest investment managers, for example Union Investment and Deka Immobilien. However, a number of smaller funds still struggle with liquidity issues with three still remaining frozen.

Figure 2

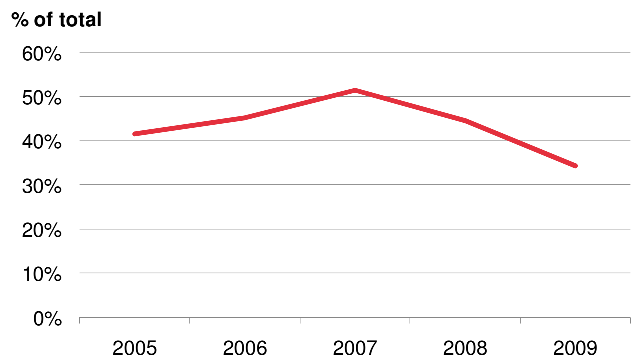
Total real estate purchasing activity by country



Source: DTZ Research

Figure 3

Foreign real estate purchasing activity



Source: DTZ Research

Investment Market Update

- Third party managed funds continued to dominate investment volumes in Europe with purchases of €9.5bn, accounting for 46% of the total investment volumes in Q4 2009 (Figure 4). After staying quiet for a year, quoted property companies/vehicles came back on the acquisition side posting an increase in purchases from €0.5bn in Q3 to €2.8bn in Q4. Institutions also were active during the quarter with investments totalling €3.0bn, a 55% increase from Q3.

Lot sizes increased with offices dominating activity in most markets

- The average lot size increased for the second consecutive quarter from €26.6m in Q3 to €32.7m in Q4. Of note was an increase in the number and value of deals over €100m. This could reflect some early signs of credit easing with the use of syndicated deals and the continued use of stapled finance providing some liquidity in the markets.

- In Q4 2009 offices proved to be the most attractive sector accounting for 59% of total activity (€12.2bn), up from 44% (€7.3bn) in Q3 2009 (Figure 5). The increase reflected a number of large scale deals primarily in the UK, France and Italy. Retail volumes increased by 6% to €4.6bn although accounting for proportionally less of the total than in the previous quarter; 22% in Q4 from 26% in Q3 2009.

Market has potential to grow by 80% in 2010

- We expect the recovery in Europe's commercial real estate investment markets to continue and estimate there to be €106bn of capital available and targeting investment opportunities across Europe in 2010[1]. This would represent an 80% increase in volumes if all capital is spent.

- The majority of capital is from two investor groups - third party managed funds (72%) and institutions (17%). The remaining capital is largely from German funds, sovereign wealth funds and quoted property companies/vehicles.

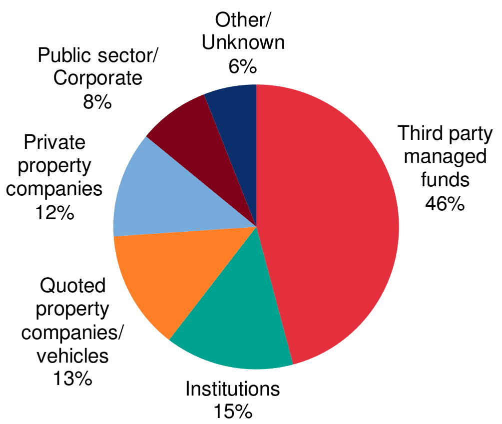
- Most investors are adopting multi-sector or multi-country strategies providing investment managers with the flexibility to deploy capital and enabling investors to easily switch target markets.

- There is one major caveat, that is the capital required for deleveraging, and much depends on governments and central bank policies and their impact on banks. While some of this capital will be diverted, we expect the deleveraging and unwinding of support policies to be phased in over time limiting the immediate impact in 2010.

[1] See paper 'The Great Wall of Money' 16 December 2009, DTZ Research

Figure 4

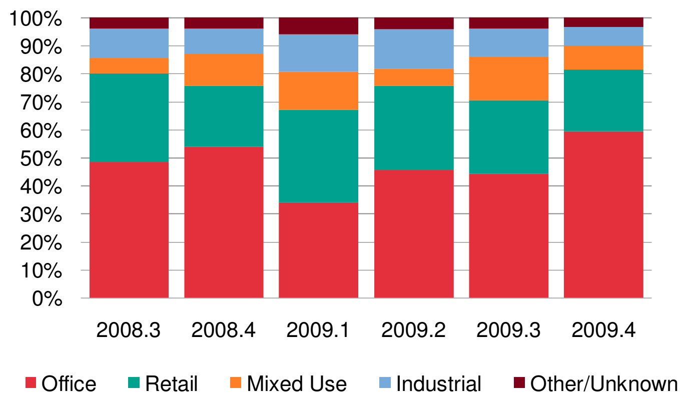
Real estate purchasing activity by investor type, Q4 2009



Source: DTZ Research

Figure 5

Real estate purchasing activity by sector



Source: DTZ Research

Table 1

Significant deals					
Address	**Town/City**	**Property type**	**Purchaser**	**Vendor**	**Price (€ million)**
8 Canada Square	London, UK	Office	National Pension Service of Korea	HSBC	855
Maciachini Centre	Milan, Italy	Office	Generali Immobiliare Italia Sgr	IVG Immobilien	300
Mayland Portfolio	Multi-city, Poland	Shopping centre	MGPA	Mayland	231
Rue Cambon	Paris, France	Office	Deka Immobilien	Unibail-Rodamco	180
Silver City	Moscow, Russia	Office	Evans Randall	RP Capital	180
Dresdner Bank	Düsseldorf, Germany	Office	DFH Deutsche Fonds Holding	Eurocastle (Fortress)	130

Source: DTZ Research

Table 2

Investment market								
	Q4 2008	**Q1 2009**	**Q2 2009**	**Q3 2009**	**Q4 2009**	**Yr to Q2 2009**	**Yr to Q3 2009**	**Yr to Q4 2009**
Total investment volume (€m)	16,361	9,936	12,074	16,412	20,641	68,404	54,783	59,064
Total real estate purchasing activity by sector (€m)								
Offices	8,816	3,393	5,488	7,266	12,244	32,274	24,963	28,391
Retail	3,564	3,269	3,650	4,311	4,584	19,991	14,794	15,815
Industrial	1,424	1,331	1,691	1,660	1,337	7,587	6,106	6,019
Mixed	1,897	1,340	727	2,549	1,779	5,578	6,513	3,395
Other	659	603	518	627	697	2,973	2,406	2,445
Total real estate purchasing activity (domestic vs. foreign) (€m)								
Domestic	11,385	6,968	6,976	10,586	14,213	42,665	35,915	38,743
Foreign	4,976	2,968	5,098	5,826	6,428	25,738	18,869	20,320

Source: DTZ Research