MIPIM-Special

As markets re-balance, real estate investors target MIPIM

Paul Zilk

Von der durch minderwertige Eigenheimkredite ausgelösten Kapitalmarktkrise sind die Immobilienmärkte nur kurz erschüttert worden, bemerkt der Autor. Zwar mussten einige große Transaktionen aufgrund geplatzter Finanzierungen zurückgestellt werden, doch kamen stattdessen die eigenkapitalstarken Investoren zum Zug. Vor allem die Offenen Fonds würden diese Situation nutzen, um ihre Portfolios global breiter zu diversifizieren. Das große Interesse der Deutschen an ausländischen Immobilien registriert der Mipim-Veranstalter in diesem Jahr anhand einer deutlich gestiegenen Teilnehmerzahl. (Red.)

If a week is a long time in politics, twelve months is a lifetime in the real estate industry. As the property business charged into 2007, investment sentiment was at an all-time high, and real estate markets around the world were enjoying unprecedented levels of activity. In 2008, the industry is looking at an altogether more tentative approach, though not, at least for the moment, a pessimistic one.

Indeed, over 6.600 international investors, credit providers and end-users will travel to MIPIM 2008 including a significant number of first time attendees from Germany, such as Alstria Office REIT AG, German Retail REIT AG, Rickmers Immobilien Management GmbH & Co. KG and Corealcredit Bank AG. And as a sign of how the German Federal government is getting behind its national property industry, the Ministry of Economy is taking a stand to promote investment opportunities throughout Germany.

In the run-up to MIPIM, the international real estate market has reacted sanguinely to events of last year, triggered by the fall-out from the US subprime crisis. Over the course of the fourth quarter of 2007, the market saw a slowing in investment activity caused by the squeeze in the credit markets – a trend which is expected to continue well into the first half of 2008.

According to Jones Lang Lasalle (JLL), investment into European property fell by some 25 percent over the second half of 2007 to 100 billion euros and is set to continue at this level for the first half of 2008, as price adjustments take place. JLL adds, however, that the real estate funds remain in good health, and the economic forecast for 2008 is strong enough to generate positive demand in Europe's occupier markets.

While the industry adopts a "wait and see" attitude in the short term, the underlying appetite for investment in real estate around the world remains strong. As Cushman & Wakefield put it, though yields are rising for the first time since 2003, strong rental growth has been maintained, and there is still good demand for quality product.

So, as the real estate sector gears up for its 19th MIPIM, the industry's premier international forum, the questions will be focused on who's in the market, where the opportunities lie, and how the current, softer market conditions (which many believe will be short-lived) can be capitalised upon.

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MIPIM delegates will get the chance to debate these issues during the extensive conference programme, particularly on 13 March, when the Urban Land Institute and Pricewaterhouse-Coopers unveil and discuss their "2008 Market reality check – where to invest and where to avoid."

As to who is investing, there are a number of investor types that are showing a continuing desire for commercial property, for a variety of reasons. According to CB Richard Ellis, some of the largest players in the market right now are the equity-rich German open-ended funds (GOEFs) and sovereign wealth funds, whom it predicts will support market activity in Europe this year. A recent survey by the company indicates that the GOEFs invested some 3.9 billion euros in cross-border purchases in the first half of 2007 – three times the level for the same period in 2006 – and points to this trend accelerating over 2008, as cash continues to flow into them. Some 6.9 billion euros was invested in GOEFs in the first eight months of last year (compared to German bond and equity funds which saw combined net withdrawals in the region of 27 billion euros over the same period).

GOEF buying activity in 2007 also reflects the large amounts of capital raised through the disposal of real estate assets in Germany over the past two years: according to a 2006 report by JLL, global funds dominated the German market, buying 40 percent (by value) of all German property traded. As a result of the cash raised and the high liquidity of the GOEFs, CB Richard Ellis believes that such funds will continue to buy throughout 2008, looking for higher diversification around Europe and increasingly around the globe.

The German appetite for international investment is reflected in the country's participation at MIPIM 2008. At the time of writing, 121 German investment and credit providing companies were set to travel to Cannes – a 15.24 percent increase on last year.

Cushman & Wakefield reports that foreign investors remain dominant in many European markets, with their market share averages rising over 2007 to 57 percent from 44 percent the previous year. The particular investor profile, it says, tends to be the long-term equity or

Figure 1: MIPIM Attendance Figures (individuals)

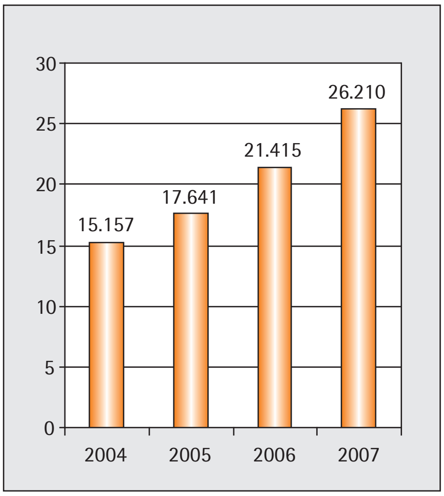


Figure 2: MIPIM Attendance Figures (companies)

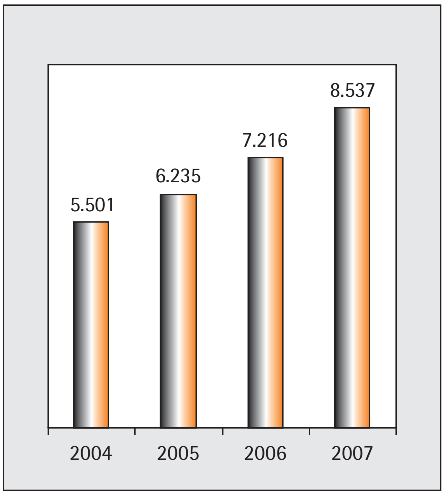
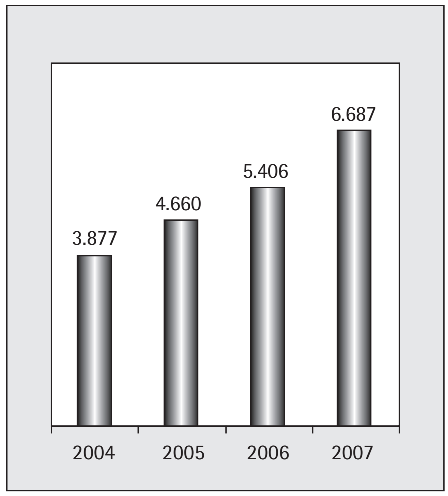


Figure 3: Property Investors and End-users at MIPIM (individuals)



lowly geared buyer from the Middle East, Australia and North America.

Overall, Cushman & Wakefield is predicting yields to rise by 25 to 50 base points in 2008, which, balanced by a forecast increase in rents by four to five percent across the sector, is likely to generate a prime total return of three to four percent in Europe over the year. And while some markets have seen a dip in trading volumes, such as the UK, others such as France and Germany have seen increases – in this case, by 24 percent and 21 percent respectively. As to individual markets, the company believes that offices in Central and Eastern Europe, Nordic countries and Benelux are showing well fundamentally, as are some centres in France and Germany. Retail property, it indicates, is likely to perform best in modern shopping centres and retail parks in France, Germany, the Netherlands as well as Nordic, Central and Eastern Europe.

While the UK experienced a less buoyant market in the latter part of 2007 than it has become used to, the British property sector does seem to be self-correcting in terms of pricing, and consequently international investors are still attracted to it. In particular, German funds have begun to make a big impact on the UK market – and in City of London offices in particular.

At the time of writing, Hansa, one of Germany's oldest investment companies with more than ten billion euros of assets under management, is believed to be buying a 125-year lease on One London Wall for 145 million British pounds; and CS Euroreal (managed by Credit Suisse), is rumoured to be interested in British Land's Plantation House for 120 million British pounds. Local observers confirm that they are expecting further interest from the German funds over coming months.

In summary, the market faces an interesting year ahead, with both risk and reward running above recent levels; hence market data, information and contacts will be critical in making the right decisions. Since MIPIM's launch in 1990 the event has successfully positioned itself at the centre of the global real estate markets, bringing together investors, developers, city administrations and property end-users from around the world. The international reach of MIPIM, combined with the scale of the event and the quality of delegates, will give attendees, this year more than ever, critical understanding of market movements, and real insight into what 2008 has in store.