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## NEWS : EUROPEAN

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### Emerging Trends in Real Estate Europe report: Paris is Europe's top property investment prospect in 2007

By Finfacts Team  
Feb 6, 2007, 09:10

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Paris leads this year's list of top real estate investment markets in Europe, according to a report published by the Urban Land Institute (ULI) and PricewaterhouseCoopers. **Emerging Trends in Real Estate® Europe\*** interviewed 400 of the industry's leading authorities to identify Europe's top cities for real estate investment.

Paris rates highly for both total return prospects and low risk, and thus its risk-adjusted total return prospects were judged the best in Europe. Survey respondents pointed to the city's economic stability and sustainability, in addition to its status as a global gateway, as major reasons for its top ranking as an investment market. Ample urban regeneration and redevelopment opportunities also attract investors, noted the report. As a top market for the past several years, "Paris still has good prospects for the next two years," the report said.



**Bill Kistler, President of Urban Land Institute Europe**

Paris is a favorite among those looking to buy property as well; about 54 per cent of the respondents recommend buying office space in Paris, 57 per cent recommend buying retail, and 41 per cent recommend buying industrial/distribution properties.

#### **Bill Kistler, President of ULI Europe remarked:**

"New urban regeneration projects such as Défense district have boosted Paris, and continue to attract investors with money to spend. In contrast some of the strongest markets in 2007, such as London, are now becoming "hold" markets because they are close to the end of their cycle and there is a risk that yields will soften. Understanding local property market

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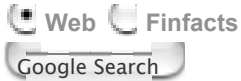
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fundamentals is the key to successful investments in 2007 whether that is appreciating labour force issues in London in the run-up to the 2012 Olympics, or rising Eurozone interest rates and heavy levels of household debt in Spain.”

ULI, based in Washington, D.C., is a global education and research institute dedicated to responsible land use. Its Europe headquarters, ULI Europe, serves the Institute's 2,100 European members. Emerging Trends, which covers 27 markets in countries throughout Europe.

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London is rated a close second to Paris as an investment market. Survey respondents named London as the European city offering the least investment risk and the best prospects for rental growth, “reflecting optimism for property value trends supported by income growth,” the report said. However concerns over the demands of major construction projects such as King's Cross, Heathrow Terminal 5 and the 2012 Olympics may have prevented London from taking the top spot. Investors rated London a strong “hold” market, 44 per cent of the participants recommended holding office space in London; nearly 41 per cent advised holding retail; and nearly 59 per cent advised holding industrial/distribution space.

Stockholm, in third place, continued to move up the list for overall investment ratings, as its redevelopment prospects continued to strengthen. It is considered a “balanced” market, in terms of an even distribution of buy and holdsell ratings: 50 per cent advising holding office space, 49 per cent, retail; and 44 per cent, industrial/distribution.

## Ranked table of city return/risk prospects

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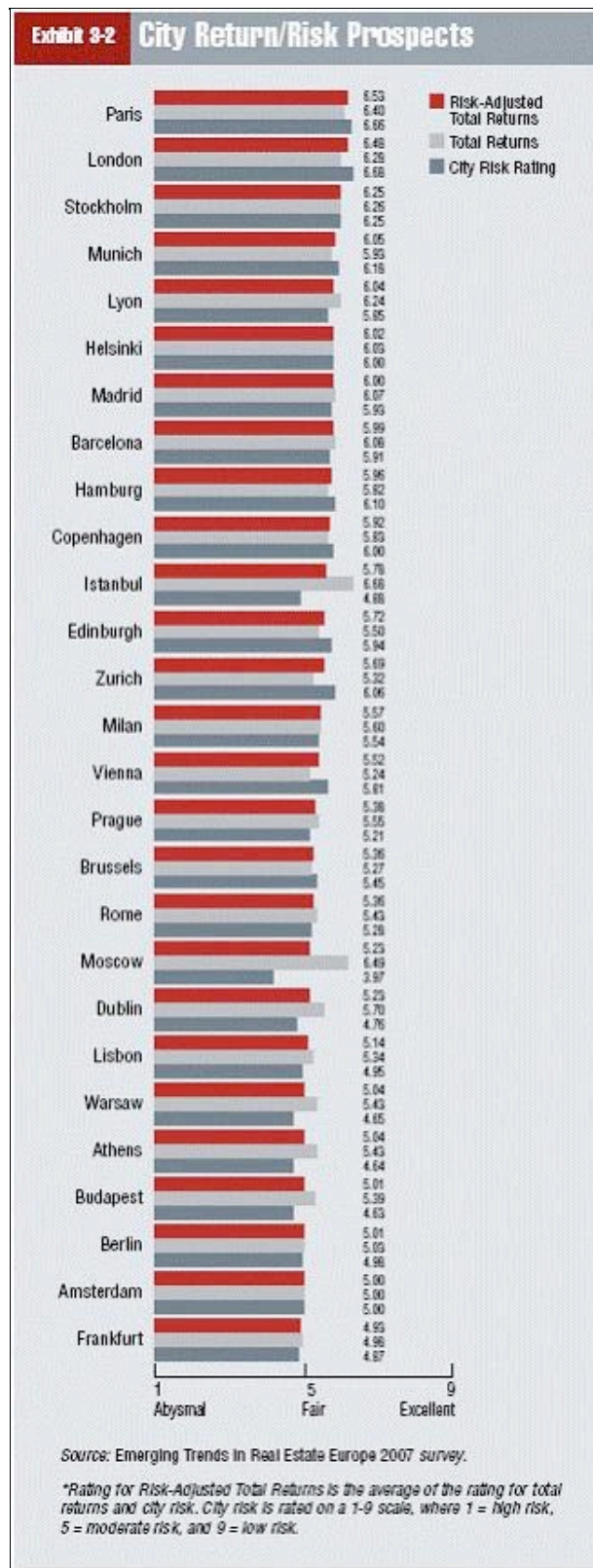
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A German property investment boom is predicted, taking two spots in the top ten for the first time in the report's four year history. Munich has risen 13 places to fourth place while Hamburg rose five places to be the ninth top investment prospect for 2007. "Rising office demand, a vibrant city centre, and an educated workforce create synergy for this city," said the report. It is a strong "buy" market, with nearly 65 per cent of the survey participants advising buying office space in Munich; nearly 55 per cent, retail space; and nearly 48 per cent, industrial/distribution space.

Kistler added: "Germany has been resurgent in the last two years. International investors with capital to spend have targeted the market and this has flushed out institutional and government stock. This, combined with improving fundamentals, ensures that Germany will be the hottest market for 2007."

Lyon rounded out the top five investment markets, with many respondents

viewing the city as an attractive lower-cost alternative to Paris. More than 56 per cent of the respondents recommended buying office space in Lyon; more than 62 per cent, retail; and more than 47 per cent, industrial/distribution properties.

Other cities listed as strong “buy” markets: Madrid, Barcelona, Hamburg, Istanbul and Moscow. Other cities with strong “hold” ratings: Copenhagen, Edinburgh, Vienna, Brussels, Dublin and Amsterdam. In addition to Stockholm, other cities with relatively balanced buy-sell-hold ratings: Helsinki, Zurich, Milan, Prague, Rome, Lisbon, Warsaw, Athens, Budapest, Berlin and Frankfurt.

In terms of city development prospects, the report ranked Istanbul highest, pointing to its movement as a maturing global market. “The market still needs many developers rather than pure investors...real estate sectors are now in a learning curve,” noted one respondent. Said another: “Istanbul will be the star of the next decade.”

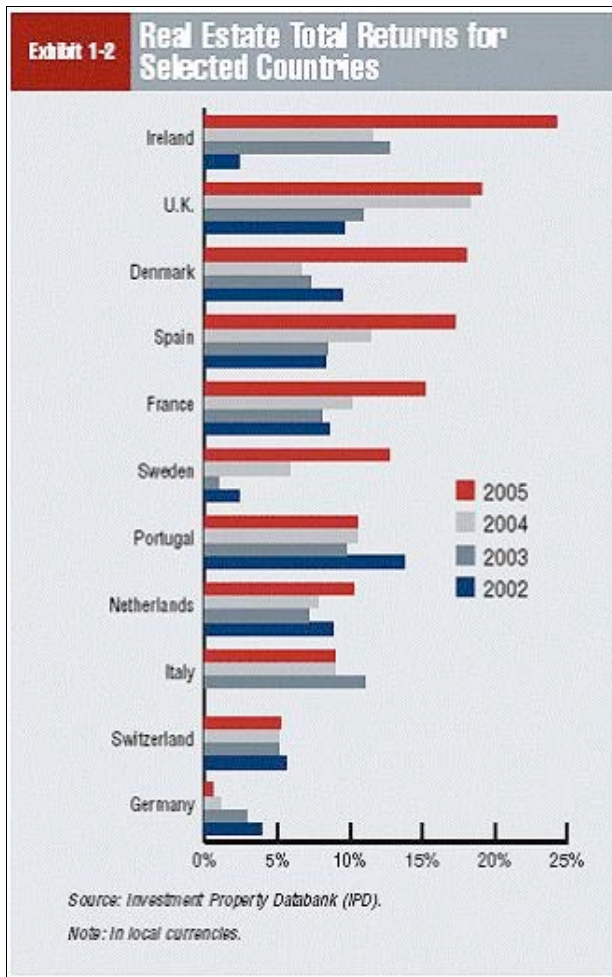
Emerging Trends noted that prospects for profitability were considered favourable for real estate firms of all types, and the report showed that buyers outweigh sellers by two to one. Despite some concerns about foreign investors bidding up prices, few respondents indicated that European real estate is “in the grip of completely irrational exuberance,” the report said. “The assumptions people are making may be optimistic, but not fundamentally ridiculous or irrational.”

In terms of investment worldwide, European private real estate vehicles ranked highest among survey participants, above international equities, European equities, U.S. properties and bonds.

#### **Dublin falls from Top 10 rankings**

Dublin’s drop from the top ten rankings in 2006 to 20th in 2007 appears to correlate with the lack of foreign investment in the city over the last year. Capital flows are now dominated by domestic investors who may have different motivations and strategies than foreigners in the market.

But recommendations are quite low for all property types, and the market is now viewed as riskier than most. Sell ratings for retail jumped from 25 percent in 2006 to 44 percent in 2007, whereas hold ratings for office and industrial/ distribution remain fairly consistent with 2006 levels.



**Henrik Steinbrecher, European real estate leader, PricewaterhouseCoopers, said:**

"Despite predictions of a calmer investment environment in 2007 and single-digit returns, equity capital is continuing to pour into the European real estate sector. This trend is expected to continue with strong growth flows from the Middle East, Asia and Australia. Increases in debt capital are also expected, however, rises in interest rates may keep the market in relative balance."

The report noted that the "chase for higher yields" is causing investors to look at alternative investment properties as varied as petrol stations, student housing, marinas, motorway services, prisons, car parks and windmills – "anything producing income." Income-producing infrastructure – such as toll roads, airports, and port and rail facilities – is singled out as a particularly promising investment type. Sustainability is gaining importance among investors and developers. While tenants have yet to demand "green" buildings, a major issue is "when the occupiers are going to take it (sustainable development) seriously," the report said.

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Shopping centres are again expected to produce the highest total returns in 2007, followed by hotels, mixed-use, city centre offices and retail parks. Mixed-use properties are listed as top choice for development and market balance prospects, followed by residential, hotels, warehousing/distribution space and shopping centres. The report noted that sluggish economic prospects in many Western European countries could have a negative impact on consumer spending.

In general, real estate is becoming a global asset class, Emerging Trends noted. "Not only are investors worldwide pouring capital into property – an estimated \$600 billion (in U.S. dollars) was purchased directly in 2006 – but they are also crossing frontiers to do so... Five years ago, hardly anyone was 'Pan-European'; now it is the only way to operate," the report said.

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