

FORECASTS 2012

Five real estate leaders predict the challenges and outline the trends that will shape the industry in the year ahead



PHILIP CHARLS

‘REITs can boost stagnant markets’



MATTHIAS THOMAS

‘We will pursue new regulations’



SIMON RUBINSOHN

‘We may be surprised by macro events’



MARCUS WILD

‘Developers will have to cut their debt’



STEVEN QUICK

‘Rents will remain flat across Europe’



Philip Charls, EPRA

How will the eurozone debt crisis affect the European real estate market in 2012?

The key theme is quality and location of assets. Looking at the asset mix of the listed companies in Europe, they offer investors exposure to some of the best property on the market. Combined with good quality management teams, we believe the listed sector is better placed to deal with the debt crisis than other forms of real estate investment vehicle and other industry sectors. Since 2008, listed companies have proved their ability to raise capital – both equities and bonds. In fact, they raised over €60 bn in equal proportions over the past 10 years. At a currency level, broad diversification across Europe means exposure to six separate currencies and investors should be mindful of currency movements.

How will your organisation deal with an extended crisis and possible new recession?

We strongly believe exposure to property is a key component of any multi-asset portfolio. Using McKinsey data, we estimate that property assets comprise close to 15% of global financial assets. The key for investors is to understand which vehicle fits their investment profile. Over the coming years, an uncertain economic environment and low interest rates mean investors will continue to be attracted to ‘real’ assets offering attractive yields – ‘cash is king’.

What other pressing issues will shape the real estate industry/affect your organisation?

Without doubt, European legislation will have a significant impact on the real estate industry – both good and bad. EPRA’s activities have, and will continue, to focus on:

- minimising the negative impact of poorly drafted legislation (AIFM Directive, Derivatives (EMIR) and Financial Activities Tax);

- addressing significant uncertainties in the scope and application of EU legislation (Solvency II) and;
- taking advantage of legislative opportunities to grow the listed property sector in Europe (pension fund reform and the recognition of REITs as an accessible form of real estate investment).

What are the main goals of your organisation for 2012?

Investor outreach and promotion to the global investment community and regulators

‘REITS can breathe new life into stagnant markets’

of the benefits of listed property remain a priority – after all we represent a strong asset class. At a very basic level, this means we need to communicate effectively the ‘bricks and mortar’ aspects of the business our members operate in. The real estate sector provides the environment in which businesses operate and communities live and function effectively. At a more sophisticated level, we need to properly communicate the benefits that the listed sector brings to the economy (transparency, liquidity, quality management and robust business models) and map out the path to achieving a larger listed sector. Key EPRA goals which address

this latter point are the emergence of a more uniform and widespread ‘best in class’ European REIT sector and the proper recognition of real estate equities as a liquid form of exposure to real estate within defined contribution pension plans.

Will the coming year yield anything beneficial for your organisation?

We live in tough and uncertain times. However, we believe opportunities to expand the European listed market may lie ahead. History tells us that the introduction and effective use of REITs in the US and Australia, for example, can offer governments a way to galvanise stagnant property markets. Countries such as Spain, Italy, Ireland and Greece may view REITs as an effective route to breathe life into their markets. Countries with REIT structures currently in play may see tweaks going forward – for example, residential REITs are on the agenda in the UK. In Germany, around 30% of open-ended funds remain closed and the market is significantly under-represented in terms of listed vehicles. This subsequently offers plenty of potential for growth.

Philip Charls is CEO of EPRA

ABOUT EPRA

EPRA is the voice of the European publicly traded real estate sector, representing companies with over €250 bn in real estate assets. Based in Brussels, the organisation works to encourage greater investment in listed real estate companies in Europe by providing better information to investors and improving the general operating environment.



Matthias Thomas, INREV

How will the eurozone debt crisis affect the European real estate market in 2012?

The current economic outlook is clearly not promising. We have inflation at 3% and forecast expected real GDP growth of less than 2%. The ECB can do little to reduce the refinancing rate to much less than 1.5% so a yield compression in real estate investment markets triggered by the debt markets is unlikely. However, as investor confidence in virtually every other asset class deteriorates, real estate fund investments which promise secure cash flows and carry little vacancy and development risk look like a relatively safe haven. Consequently, investors are flocking to them. The question is to what extent these investments might turn out to be riskier than perceived. In the medium term, capital values are likely to be preserved, but a yield shift upwards in the longer term would pose a challenge for investment managers.

How will your organisation deal with an extended crisis and possible new recession?

Deepening economic pressures will doubtless affect our members. As the industry association for non-listed real estate funds, we will continue to have a pivotal role in representing their interests and supporting their businesses wherever we can. This is exactly what we did when the financial crisis first hit in 2007. Currently we have over 350 members and I expect the membership to stay broadly as it is. Investors, fund managers, consultants and other industry participants join INREV because they see value in accessing the data, knowledge and insight we are able to provide.

What other pressing issues will shape the real estate industry/affect your organisation?

The regulatory environment will continue to impact the non-listed real estate funds sec-

tor in 2012 and beyond. INREV is focused on three key areas of proposed new regulation: Solvency II, EMIR and AIFMD. Each of these issues will have consequences for the way in which investors and fund managers organise and manage their funds going forward. Our public affairs team, led by Jeff Rupp, has taken a very active role, engaging with policymakers in Brussels. We have entered a constructive dialogue to help improve regulators' understanding of the specific needs of the non-listed real estate sector and so help shape proposed new regulation

‘We will continue to pursue new regulations assiduously’

in a way that is more equitable for our market. We need to fully understand how the various proposals might affect our members so we can help them prepare for the implementation of new regulations. This is a very important part of INREV's activities and we will continue to pursue it assiduously in the months and years ahead.

What are the main goals of your organisation for 2012?

The coming year looks set to be another busy one for INREV. We will continue to provide advice and support for our members and work towards establishing greater

transparency and professionalism within the non-listed real estate industry, focusing on Europe and Asia via our sister association ANREV. We have reorganised our senior management team to give greater focus to the three key planks of our activity: research, public affairs and professional standards and governance. In 2011 we launched the INREV Quarterly Index. This is something we will continue to improve upon, working towards the creation of a de-facto benchmark for performance measurement. We will work at increasing the Index coverage as well as implementing possibilities to drill down further to the drivers of fund performance. Likewise, we will review and revise the INREV Guidelines, which are now well established within the market – 97% of our members already use more than 50% of the guidelines.

Will the coming year yield anything beneficial for your organisation?

We have recently invested in people and resources. I am excited about the new shape of the INREV team and how this will enable us to strengthen the quality of the services we provide to members during the uncertain and challenging times ahead.

Matthias Thomas is CEO of INREV

ABOUT INREV

INREV is the leading platform for sharing and disseminating knowledge about the European non-listed real estate fund market. Its strategy is to promote greater transparency, accessibility and standards of best practice. INREV has over 350 members which include some of Europe's leading institutional investors, fund managers and advisers.



Simon Rubinsohn, RICS

How will the eurozone debt crisis affect the European real estate market in 2012?

One inevitable consequence of the ongoing crisis in the eurozone is that both business and household confidence will remain depressed. This will in all probability have a bearing on the economic performance of the region, particularly in the first half of the year. Consumers may well refrain from spending as unemployment continues to climb to new highs while businesses could focus on building up a war chest rather than expanding capacity. In this environment, demand for commercial property is likely to be relatively subdued which will predictably impact on the rental environment. The nature of the crisis means that some economies will suffer more than others with Germany, for example, still expected to post positive growth in 2012. The other relevant issue for the property sector is how the crisis feeds through into the behaviour of mortgage lenders. Banks may post more write-downs as countries grapple with the refinancing of their existing borrowing needs. This is likely to make it more difficult for investors in the commercial property sector to secure the finance necessary to make acquisitions and suggests that the trend in both pricing and activity will disappoint for much of 2012.

How will your organisation deal with an extended crisis and possible new recession?

RICS is clearly well-placed to benefit from a buoyant property market with strong real estate companies and expanding employment opportunities, but in some respects its relevance becomes even more apparent in challenging market conditions. RICS is a professional body geared towards enforcing professional standards in the property sector and arguably, the importance of these stand-

ards is even more relevant when the going is tough. In the current circumstances there is even more need for an objective and informed voice on real estate which provides a further opportunity for RICS to stand out from the crowd and deliver value for its members. That said, we would be foolish not to be mindful of the macro risks which justifies our broader strategy focused on a generally prudent, but not unambitious, approach to investment.

‘We may be pleasantly surprised by macro events’

What other pressing issues will shape the real estate industry/affect your organisation?

Macro issues and the ongoing sovereign debt crisis are clearly going to be key drivers for much of the year. The nature of the single currency entity that emerges will also be significant. Will it, for example, have much more stringent fiscal rules built into the structure or more fundamentally, will it survive in its current format? However, just as important could be the discussion taking place at both an EU and wider level on the emerging regulatory framework for the banking sector. This could have widespread ramifications for the provision of bank finance for property transactions.

What are the main goals of your organisation for 2012?

In the coming year, RICS will concentrate on opportunities to advance the recognition of its standards with employers, opinion formers, policy makers and society as a whole. The organisation will focus on capability growth in Asia-Pacific, Latin America and Europe. Special attention will be given to Greater China, South East Asia, Brazil and Mexico. In Europe, RICS will focus on Germany, France, Poland and Russia. Creating new European guidance is also on the agenda, as well as working with regulators, government bodies and the EU to optimise RICS’ recognition as the mark of property professionalism globally, nationally and locally.

Will the coming year yield anything beneficial for your organisation?

With so much bad news anticipated, it is conceivable that we may be pleasantly surprised by macro events. An acceptable outcome may be reached on the eurozone, confidence could return and economic data could surprise on the upside. In any event, RICS is well positioned to take advantage of any opportunities that may emerge.

Simon Rubinsohn is RICS Chief Economist

ABOUT RICS EUROPE

RICS Europe is the European arm of the Royal Institution of Chartered Surveyors (RICS), which represents professionals working in property, land and the built environment worldwide. Based in Brussels, RICS Europe has offices and staff throughout Continental Europe. As at December 2011, RICS had 5,342 qualified members in Europe.

Marcus Wild, ICSC Europe



How will the eurozone debt crisis affect the European real estate market in 2012?

The only constant is change. This has been an axiomatic truth for the real estate market over the last few years, with volatility having become a byword to describe it. There has been little or no respite from this state of flux. The US and European debt worries have added to the uncertainty. In recent months, the real estate market has been beset by reduced growth expectations and a potential tightening of the liquidity squeeze. This is an unsettling time for the market, and obviously for real estate investors as well.

How will your organisation deal with an extended crisis and possible new recession?

With global liquidity issues escalating, these are challenging times. In the coming months, these sentiments will be reflected in the financial profile of the real estate sector. Banks will inevitably impose selective lending with stricter verifications. Interest rates will stabilise but liquidity will continue to be tight. Developers will be under pressure to reduce their debt-to-equity ratios. These dynamics will lead to a separation of the wheat from the chaff. In other words, listed developers with better disclosure standards, good corporate governance, better speed of project delivery and records of consistent dividend payments will see better share price performance. At the same time, the distressed projects of smaller developers will be acquired by medium-to-large players at prices significantly lower than their original valuations.

What other pressing issues will shape the real estate industry?

With banks and institutional lenders becoming more cautious about lending to the real

estate sector, demand for capital from private equity funds and non-banking financial companies (NBFCs) will increase. At the same time, the risk appetite of private equity investors will weaken further. Those that continue to invest will display a preference for core and core-plus type investments. High interest rates, increased vacancy levels and lower demand will impact the earnings of developers. A natural consequence will be a slowdown of construction activity, leading to fewer new launches, and also delayed

‘Developers will be under pressure to reduce debt-to-equity ratios’

project delivery. We will see developers resorting to a volume-led strategy rather than focusing on margins.

What are the main goals of your organisation for 2012?

ICSC consistently supports members in the development of their businesses through networking, education, research, information, deal-making and action on legislation and regulation. ICSC membership increases visibility within the industry, enables members to grow their business and engage in a vibrant community of tens of thousands of colleagues around the globe. In the current economic climate, this ambition is more important than ever before.

Will the coming year yield anything beneficial for your organisation?

European consumers are sending out diverse signals. Retail trade across the Continent experienced moderate growth over the past year with genuine signs of strength in parts of Europe. However, the average is being dragged down by very poor economic conditions in southern Europe that reflect fiscal austerity measures imposed in Portugal, Italy, Ireland, Greece and Spain. Despite the many challenges, or perhaps because of them, the industry continues to progress. Shopping centres keep people entertained, connected and provided for. They have to be efficient and they have to be vibrant; achieving these objectives will secure the industry’s future.

Marcus Wild is ICSC’s European Chair and CEO of SES Spar European Shopping Centers

ABOUT ICSC

The International Council of Shopping Centres is the global trade association of the shopping centre and retail property industry with some 55,000 members in more than 90 countries. ICSC Europe has 2,000 members from across the EU and beyond, including shopping centre owners, developers, managers, investors, architects and other professionals. ICSC’s principal aims are to advance the development of the shopping centre industry, to improve research and communication on the sector and to promote professional education.

Steven Quick, Corenet Global



How will the eurozone debt crisis affect the European real estate market in 2012?

The perceived failure of leaders to tackle the eurozone crisis decisively has caused uncertainty and erratic market behaviour. The prevailing insecurity will remain as long as there is talk of some countries defaulting and leaving the eurozone. The fact that European banks rushed to accept cheap three-year financing from the European Central Bank (ECB) illustrates that funding will be tight in 2012. However, the ECB's additional capital is short-term relief rather than a cure. Rent levels largely mirror the wider economy, so will remain flat across Europe. Net absorption levels will also remain depressed as companies look to consolidate their portfolios. There is a danger that Europe could be left behind. According to the latest figures from the Centre for Economics and Business Research (CEBR), Brazil overtook the UK as the sixth largest economy in 2011, and by 2020 it is predicted that Russia, India and Brazil will produce more in terms of GDP than even Germany.

How will your organisation deal with an extended crisis and possible new recession?

From a CoreNet Global perspective, we must continue to demonstrate that we deliver networking opportunities and content that creates proven competitive advantage for members. In 2012, we will work on developing the leadership aspect of the corporate real estate executive, not just for the benefit of the real estate team but the whole company. Real estate is not merely a support function, but a strategic asset that drives innovation, competitive advantage and profitability.

What other pressing issues will shape the real estate industry/affect your organisation?

It will be interesting to see how the industry

responds to the implementation of the new Financial Accounting Standards 13 (FAS 13). These will require lease liabilities to be accounted for as capital leases rather than monthly operating leases, so many international corporations will have to account for the entire future liability of their leases on a quarterly basis. This means that companies' perceived debt could balloon on their balance sheets. The new rules could also affect brokers, as tenants may prefer shorter term deals to reduce the perceived liability on their balance sheets. Inevitably there will also be pres-

'Rent levels will remain flat as uncertainty continues'

sure to reduce occupancy costs, which will lead to an increasing number of companies adopting flexible working practices. However, intelligent organisations will see this as an opportunity to transform their workplace strategies to support their core business.

What are the main goals of your organisation for 2012?

The goal for CoreNet Global is to deliver increased value to real estate professionals through the provision of high-quality networking opportunities and education. We'll build on the content that we have and ensure that we deliver it effectively and to the broadest audience possible. In 2012, we will also look at how to expand membership in new

and emerging markets and continue to be an advocate for the industry.

Will the coming year yield anything beneficial for your organisation?

The global economic crisis forced organisations to fundamentally reconsider their business models. Many companies which had previously managed real estate in-house took the strategic decision to outsource their non-core functions to a specialist. Even those in third- or fourth-generation relationships consolidated suppliers to achieve greater value. Companies may consolidate further by integrating real estate, projects, workplace and FM services into single agreements. It will also be interesting to see the results of CoreNet Global's Corporate Real Estate 2020 research project, which is investigating how real estate professionals expect the nature of work and the workplace to change by the year 2020. A substantial cross-section of our members from Asia, Australia, Europe and the Americas are contributing their views.

Steven Quick is a CoreNet Global Board Member and Vice President and General Manager EMEA at Johnson Controls Global Workplace Solutions

ABOUT CORENET

CoreNet Global is the world's leading association for corporate real estate and workplace professionals, service providers and economic developers. It has 7,000 members, which include 70% of the top 100 US companies. In the EMEA region, CoreNet has chapters in the Benelux, Central Europe, the UK and Middle East, plus a France Networking Group.