

# Press release



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## **DIVERGENCE BECOMES MORE EVIDENT AS CONTINENTAL EUROPEAN PROPERTY SET FOR A BETTER YEAR IN 2010**

According to the latest research report produced by Invista Real Estate Investment Management (“Invista” / the “Company”), Continental European property appears set to benefit from more stable economic conditions, subdued development activity and attractive relative pricing. Investor demand is expected to be characterised by demand for high and stable income returns in the short term, and cyclical growth opportunities in the medium-term. However, divergence is expected to become more pronounced as positive property investor sentiment is in the short term faced by challenging conditions in the underlying leasing market.

Invista expects that property returns in 2010 could surpass the modest growth reported in 2009. With the return to economic growth from a sharp decline and the subdued development pipeline expected to provide a degree of stability in the leasing market, Invista expects that rental declines will begin to slow in 2010 as confidence in the economic outlook improves and tenants take advantage of better rental affordability.

Another key factor to consider is the relative pricing of commercial property. In the past two years property yields have risen, resulting in the significant spread between Eurozone property yields and bond yields, which should attract new capital to the property sector in 2010. It is also worth noting that the outlook for inflation in the Eurozone is subdued over the next year, increasing the likelihood that the attractive yield premium of property over bonds will be maintained.

In 2010 Invista expects European property capital values to be influenced by the positive impact of yield compression. However, it is anticipated that this trend will benefit some sub-markets in the largest, most transparent property markets such as France and Germany, where the process of property capital re-pricing has largely ended.

This is consistent with Invista’s view that economic growth in the Eurozone will continue to diverge between ‘Core’ and ‘Periphery’ countries. Within the preferred Core Eurozone, which includes Belgium, France, Germany and the Netherlands it is thought that investment turnover will initially rise in established sub-markets of the largest cities, as investors seek assets with stable or high income return characteristics. This is in contrast to the less liquid property markets on Europe’s periphery, such as Spain, Italy, parts of Scandinavia and Eastern Europe, where yield-driven capital growth is likely to lag due to cautious investor sentiment and lower investment volumes.

France looks set to perform strongly, with prospects for rental growth in the medium term considered to be good in Paris’ CBD Office Market, where low vacancy rates and negligible future supply are expected to lead to strong competition amongst tenants for good quality space. By contrast, markets underpinned by more cyclical economies, such as Ireland, Portugal and Spain



are not expected to see strong improvements in returns until after 2010-2011 when capital re-pricing abates and rental growth resumes. Belgium and the Netherlands are expected to see ungeared returns in the 7% to 8% per annum range, driven primarily by high and stable income returns.

**Tim Francis**, Director, Continental European Strategy & Research at **Invista**, commented: “Looking beyond the next two years we believe economic, capital and rent cycles will be advancing at different speeds across Europe. To an extent this would represent a return to normal diversified property total returns, where relative performance is determined more by income return levels and the rate of rental growth, than by the degree of movement in yields; these circumstances should present opportunities to outperform by identifying liquid markets that could benefit from future cyclical growth.”

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**About Invista Real Estate Investment Management**

Invista Real Estate Investment Management is the largest UK listed real estate fund management group. The Group manages both commercial and residential property across the UK, Continental Europe and Asia, and has a total of £5.3 billion of assets under management as at 31 December 2009. Invista Real Estate manages a total of 23 funds as at 31 December 2009, some of which are for the largest UK providers of savings and investment products such as Clerical Medical, Halifax and St. James's Place. Invista Real Estate also manages a number of collective investor funds, including real estate investment trusts and open ended funds such as Invista Foundation Property Trust and Invista European Real Estate Trust which are listed on the main market of the London Stock. Invista Real Estate has offices in London, Paris and Guernsey and operations in Luxembourg, Singapore and Hong Kong.

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