

# Investors eye end of European property downturn

18,000 real estate investors gathered in Cannes, France, this week to brainstorm ways out of Europe's deepening commercial property slump. Despite forecasts for further price corrections this year, small glints of optimism are penetrating the smog of uncertainty hanging over the sector.

This report has been compiled by Sinead Cruise based on stories by Reuters journalists from the MIPIM 2009 conference and other EMEA property market stories.

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## LATEST STORIES FROM MIPIM 2009

### MIPIM-European property market may not recover till 2012

Fri 13 Mar, 2009

Banks claim interest in new lending  
Cynical investors braced for more tough times ahead  
By Juliette Rouillon

CANNES, France (Reuters) – Europe's debt-strapped commercial real estate market may not experience a turnaround for up to three years, delegates at the MIPIM trade fair told Reuters this week.

Persuaded by bigger margins and weak competition, opportunistic banks are gingerly casing the market for deals but many buyers fear a sustained market recovery is years away.

Patrick Lesur, head of French operations for Eurohypo, is convinced the stricken market will not be back to normal or near-normal levels before 2011 or 2012.

"We haven't yet touched the bottom of the crisis," Lesur said. "It could just take one traumatic event to prolong it by six months to a year", he said, predicting a 25 percent to 40 percent price drop on the French commercial real estate market by the end of 2010.

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Experts said much-needed debt restructuring of the European property market could take up a decade, but some banks claim they are keen to resume lending activity — at the right price.

“Today, banks are lending. There is financing for good projects,” said Alain Lemaire, chief executive of French state-owned bank Caisses d’Epargne. “The financial shock has been, not digested, but integrated,” he said.

Lemaire’s comments echo sentiments from real estate lender Hyporeal, which recently said it has started a “very gradual” comeback, after six months of complete paralysis.

Many investors do not yet believe it, noting the absence of credit is still stifling the market.

“There are very few transactions because there is very little financing,” said Christophe Kullman, chairman of French real estate investment company Fonciere des Regions.

“The market freeze will go on for some time. The situation is not in the hands of investors but of lenders.”

Others believe the market paralysis is also due to recessionary economic conditions, which are making it harder for buyers and sellers to agree on how far values have sunk.

“Today in France, even if rates have gone up by 100 to 150 basis points, we’re facing a market with forced sellers on one side, and hesitant buyers on the other,” said Philippe Zivkovic, chairman of BNP Paribas Real Estate.

“It is important for financing problems to be worked out, and for price cuts to come into force,” Benoit du Passage, head of Jones Lang LaSalle for southern Europe.

“If access to financing is freed up ... that would be very good for the market,” he said.

Morgan Stanley, and Germany’s Allianz among others, are predicting discount purchases in the second half and in 2010, in low-risk markets like London, where there is liquidity and where average prices have plunged more than 37 percent since the June 2007 peak.

“London has seen the strongest reduction in values since 2008. I’ve seen meetings (at MIPIM) and I’d be surprised if they didn’t come to something,” Mark England, chief executive for BNP Paribas Real Estate unit Atisreal said. (Writing by Helen Massy-Beresford; Editing by Sinead Cruise and Andrew Macdonald)

## **MIPIM-Recession, credit woes rock European property mkt**

Tue 10 Mar, 2009

Commercial property values fall in major Europe cities  
Lack of debt keeps investment markets subdued  
UK seen attractive due to early correction, stg weakness  
By Daryl Loo

CANNES, France (Reuters) – Commercial property values are expected to come under massive pressure across Europe this year, with some cities in France and Spain seeing further corrections of as much as 40 percent, reports said on Tuesday.

Euro zone economies are forecast to continue contracting until the second half of 2009, while a lack of available debt will keep investment markets subdued, further depressing values, said researchers at the MIPIM property trade fair.

“Western Europe is going into a recession that may be deeper and longer than anticipated — the credit-fuelled illusion is over with a vengeance,” said Angus McIntosh, Head of Research at property agency King Sturge.

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“Central and Eastern Europe will follow with a mixed outcome — some suffering worse than Western Europe,” he said.

Among the worst-hit markets, King Sturge is forecasting capital values to fall between 25-40 percent in the major cities in France and Spain, while emerging markets like Slovakia, Hungary, and Poland will see drops of as much as 25-35 percent.

The correction is seen milder in Turkey, where capital values are seen falling 12-18 percent this year, while the UK will see another 15-18 percent decline, it said.

Separately, property services company Savills said the economic and financial outlook in Europe is worse than a previous downturn in 2003, and “is gradually reflected in weakening occupational demand and higher tenant default risk”.

“Under the current conditions investors may continue to apply a higher risk premium until the first signs of economic recovery become apparent,” said Giles Wilcox, European Investment Director for Savills.

## LESS DEBT

Credit conditions continue to worsen as Euro zone banks, which toughened credit standards at the end of 2008, say they expect to continue tightening into 2009 albeit at a slower pace, the European Central Bank said in its latest bank lending survey.

Less available debt should keep the investment markets subdued and lead to lower capital values as potential buyers will have to use higher levels of equity, said Savills.

“Opportunities may arise from distressed or highly leveraged investors and developers who acquired assets at the top of the market,” it said.

Property researchers expect British properties in particular to look more attractive as they have seen the earliest and sharpest re-pricing, while also benefiting from the pound’s sharp falls, which makes UK assets cheaper to buy.

Benchmark data from real estate performance firm IPD showed commercial property values in the UK have sunk 37.4 percent since the market peaked in June 2007, while consensus forecasts from the Investment Property Forum suggest another 18 percent fall this year and a 3.8 percent drop in 2010.

“The ‘grave dancers’ with cash to invest, may have a field day. With the collapse of sterling, European and USA investors will see exceptional returns in the UK,” said King Sturge’s McIntosh.

## **MIPIM-UBS to re-open German property funds in April**

Wed 11 Mar, 2009

By Daryl Loo

CANNES, France (Reuters) – UBS plans to re-open its property funds in Germany next month, the head of its real estate investment arm said on Wednesday, allowing it to make new property acquisitions.

UBS froze redemptions on the open-ended funds, which usually allow investors to inject or redeem their money on a daily basis, at end-October because of a flood of cash calls following the collapse of Lehman Brothers.

This meant new investments were put on hold because German open-ended funds cannot make such acquisitions if they have frozen investor redemptions.

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"I'm confident that we can keep them open as we have seen the signs from our investors," said Tilman Hickl, CEO of UBS Real Estate Kapitalanlagegesellschaft, in an interview at the MIPIM property trade fair.

Hickl, who is also head of EMEA business development for global real estate at UBS Global Asset Management, said the firm is targeting the acquisition this year of at least 600 million euros (\$761.3 million) worth of real estate in Europe, where values have dropped sharply alongside the global economic downturn.

The Munich-based company has a total of 4.8 billion euros in assets under management, including open-ended funds Euroinvest, with a portfolio of 3.3 billion euros, and the 3 Kontinente fund, which has 619 million euros in assets.

Hickl said the firm has surveyed its existing investors, and about 60 percent have indicated they intend to invest more money into the funds.

"Based on commitments made by investors and interest from new investors, I am confident of receiving 200-250 million euros in net new money this year in the Euroinvest fund," he said.

"What we want to try and avoid is to open the fund, and then on the same day have to close it," he said.

## DOMINO EFFECT

Hickl said some German investors had rushed to redeem their money in October because they feared being prevented from exiting the funds, and this created a domino effect amongst investors.

"But they know now they are not completely locked in. Some funds have already opened, and others will start to do so," he said.

Hickl said it would be difficult to time the bottom of the market, but acquisitions at the current inflated yields would be extremely attractive in some markets.

"UK and Germany are attractive and if you wait a little longer, Spain will become attractive again, especially if you dare to buy development properties," Hickl said.

"If you can buy in London for 6.5, 7 percent yield, I don't think you can do a lot of wrong with that even if it is not the bottom of the market."

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## MIPIM-Kuwait's St Martins eyes Europe trophy assets

Wed 11 Mar, 2009

By Daryl Loo

CANNES, France (Reuters) – St Martins, the British-based property investment arm of the Kuwaiti government, is looking for trophy assets in top European cities and sees the end of 2009 as the best time to buy, a senior manager said.

Richard den Hartigh, St Martins senior investment manager for Europe, declined on Wednesday to name specific buildings that he was eyeing, but said they would be properties in well-known areas such as the Champs Elysees in Paris, Munich's Maximilian Street, and the banking quarter in Frankfurt.

"We are looking for trophy assets in the best locations, providing long term rents ... rare products that don't come on the market very often," den Hartigh told Reuters in an interview at the MIPIM property trade fair.

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Den Hartigh said he was looking at deals worth between 100 million and 500 million euros (\$128 million-\$638 million) and that the firm remained a mainly all-cash buyer, with no need for financing.

"It's difficult to buy at exactly the bottom of the market, but I think if you are close to it (it's a good time to buy). And we feel that the second half of 2009, maybe early 2010, that's increasingly looking like the best time," he said.

"We understand that some parties are experiencing some difficulties in financing and may have to sell."

He said St Martins' stated aim of significantly increasing its portfolio size had not changed, despite steep falls in the price of oil, one of Kuwait's main exports, in the past year.

"The ambition is still there, but we are investing cautiously," he said.

## **MIPIM-Morgan Stanley AIP sees "vintage" in property downturn**

Tue 10 Mar, 2009

By Daryl Loo

CANNES, France (Reuters) – The massive downturn in global property markets will create a "vintage" period of strong returns for funds with cash to invest in the next two years, a senior executive of Morgan Stanley's real estate funds of funds business said.

"We see the second half of 2009, and 2010 being really exceptional vintage years, where people will start ... buying into depressed markets around the world," said Paul Vosper, chief operating officer for real estate at Morgan Stanley's Alternative Investment Partners (AIP) unit.

Exceptional opportunities have been carved out by "unprecedented" price reductions in global real estate as the credit crisis forces debt-heavy owners to deleverage through asset sales, Vosper told Reuters on the sidelines of the MIPIM property trade fair.

"... And in five or six years time, you start to sell those assets in maybe 2012, 2013, 2014, and you will be selling into a rising market," he said.

Morgan Stanley, one of the world's largest real estate managers with over \$100 billion invested in direct and listed properties, set up AIP in 2000 to manage portfolios of hedge funds, private equity investments and real estate fund stakes for institutions and wealthy individuals.

While confident that property investment activity would gather momentum in the second half of the year, Vosper said it was not possible to predict precisely when the market will hit bottom.

"Nobody can time the market exactly. In real estate you don't have the luxury of being able to press a button and execute a trade," said Vosper, who previously ran Morgan Stanley Real Estate's private capital markets for Europe, the Middle East and Africa.

To help shape his investment strategy, Vosper said he would take a macro view of the most interesting markets, and then seek out managers he consider to be experts in their local market.

The firm favours locally based small to mid-sized property funds of between \$300-750 million, Vosper said, but declined to name the funds in which it has invested.

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“Our general view is that the developed markets look very attractive right now because they are deep liquid markets with multiple exit strategies,” he said. They include New York and London, which has seen a major repricing since the U.K. property peak in mid-2007.

He said emerging markets are currently less attractive relative to developed markets.

“For example, Central and Eastern Europe property markets tend to be smaller and less liquid, while significant macroeconomic risks are emerging,” Vosper said, but Brazil and the Far East remain attractive.

(Editing by Jeffrey Benkoe)

## **MIPIM-Sochi Olympic budget cut to \$6.1 bln-Russia DPM**

Tue 10 Mar, 2009

By Daryl Loo

CANNES, France, (Reuters) – Russia has slashed its building budget for the 2014 Sochi Winter Olympics to 218 billion roubles (\$6.10 billion), but is confident it can deliver venues two years ahead of time, the minister overseeing the project said on Tuesday.

The state will fund 108 billion roubles of the project in the new budget, and the private sector will pay the remainder after a 15 percent cut to its initial cost estimates, Russian Deputy Prime Minister Dmitry Kozak told Reuters in an interview.

“Obviously this figure is subject to adjustments, depending on the situation on the construction materials market. It can be revised either upwards or downwards,” said Kozak at the MIPIM property trade fair, speaking through a translator.

These funds will cover the cost of the Olympic facilities and infrastructure supporting their operations, he said, adding that Russia’s national reserves of 4 trillion roubles will be adequate to offset any future cost increases.

Russia had earlier pledged to spend \$12 billion on developing Sochi, a resort on its Black Sea coast, of which \$7 billion would be public funds and the rest from private sources.

Winning the right to host the Olympics — the first in Russia since the boycott-hit 1980 Moscow Games — was presented by the Kremlin as international recognition of the country’s resurgence, but the global downturn has raised concerns about the country’s ability to deliver the games on time.

“The construction schedule has been defined and we believe it is a quite feasible and realistic one,” said Kozak, a former minister for regional development promoted by President Dmitry Medvedev last October to oversee the games.

He said construction for all the Olympic facilities will start by the end of this year, in order to complete the venues for event testing, two years ahead of the games.

### STATE AID

Russian real estate developers and construction firms are among the most heavily leveraged in the economy and have been among those hit hardest by the credit crisis, which has choked off their ability to finance large projects.

Kozak, who has travelled to Cannes to seek foreign investors for 11 Olympic investment projects worth a total of \$3 billion — acknowledged that attracting private sector participation is growing harder.

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“But all the (Russian) investors who took the liability to build projects before the crisis, no one has pulled out. They are still sticking to it,” he said.

Some of these firms have requested aid, and the government has extended state loans to four developers of infrastructure and sport facilities, as these “do not offer very high econ returns and take a long time to pay back,” Kozak said.

(Editing by Matthew Lewis)

## **MIPIM-Turkey's Sinpas postpones Bursa project sales**

Thu 12 Mar, 2009

Says longer-term prospects for home building unit healthy  
Says sales in Istanbul's commercial centre holding up  
Has 14 residential sites under development, 9 by Istanbul  
By Daryl Loo

CANNES, France (Reuters) – Sinpas GYO, Turkey's largest residential real estate investment trust, said on Thursday it has postponed sales at one of its development projects as the global financial downturn squeezes demand.

The longer-term prospects for its home building business, mainly targeted at Turkish buyers, remained healthy due to the young and growing population and a positive economic outlook, its Chief Financial Officer Murat Parmakci said.

“There isn't a big increase in unemployment in Turkey so demand is still there, but people are more cautious and don't want to make big investments at the moment,” Parmakci told Reuters in an interview at the MIPIM property trade fair.

He said the company has postponed the sales launch of new phases in its 2,300 unit project in the city of Bursa by about a year. However, sales in the main commercial centre of Istanbul were still holding up, he said.

“It's a smaller city and the major industries in Bursa are automotives and textiles, so Bursa is one of the cities that is being hurt by the economic crisis,” he said.

The company now has 14 residential sites under development, of which 9 are near Istanbul, Turkey's largest city. Parmakci said the firm does not intend to purchase more land banks until about 2011.

“Our landbank is enough to keep us busy for five years, so after processing some of it, only then will we be adding new pieces to our portfolio,” he said.

Despite the credit crisis, he said Sinpas GYO has no difficulties linked to project finance. It raised \$390 million following its IPO in 2007 and is using the proceeds to buy land, while funding construction with revenues from pre-sales.

### VACATION HOMES

Sinpas GYO is also making its first foray into the vacation homes sector targeted at foreign buyers, after it bought a site last September in the southern Turkish tourist hotspot of Marmaris, a 45 minute flight from Istanbul.

Parmakci said the company will invest about \$250 million to develop the site, and plans to start marketing the homes to buyers in Europe and the Middle East in 2010, when he expects the economic turmoil to have subsided.

“It is more risky, but the potential is also more as we can market to anybody in the world. Instead of buying a summer home here in Cannes for four times the price, you can enjoy the same beach in Turkey,” he argued.

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## **MIPIM-Germany's DekaBank to stay active in property lending**

Wed 11 Mar, 2009

By Daryl Loo

CANNES, France (Reuters) – Germany's DekaBank expects to lend actively to credit-starved real estate firms this year as terms become more attractive to banks, a senior executive at the property fund manager said on Wednesday.

"Lending is interesting because if you now lend, you get LTVs (loan-to-valuations) which are much more conservative than they were a year ago," DekaBank board member Matthias Danne told Reuters in an interview at the MIPIM property trade fair.

"I won't do anything less than 150 bps (basis points) above my refinancing, liquidity costs, and at least an upfront fee of 75 to 100 bps fee of the loan amount," said Danne, adding that typical LTVs ranged between 50 percent and 65 percent.

The collapse in global credit markets has meant funding for real estate transactions has virtually dried up in recent months, leaving property owners desperate to refinance mortgages forced to accept stricter and more costly loan terms.

In the United Kingdom, where the commercial property price correction has been one of the steepest, less than 12 percent of banks are prepared to lend more than 25 million pounds to prospective buyers, a report from real estate broker Savills showed on Tuesday.

"The most scarce resource now is debt, and potential clients ... are definitely prepared to accept conditions like that," Danne said.

DekaBank, one of Germany's largest property fund managers, is looking to execute property loans in markets it is familiar with from past equity investments, including Germany, UK, France, Italy, and Japan, Danne said.

The group told Reuters in January it expected to invest about 1.7 billion euros in 2009 in bricks and mortar real estate, even as other German funds hold back due to lack of liquidity.

Despite the shift in the balance of power towards cash-rich lenders, Danne said DekaBank would take a cautious view on new lending and the volume of 2009 property loans could be lower than the 3.5 billion euros it lent out in 2008.

"I don't want to rush in just to gain market share at the moment, because the current situation is so opaque that no one exactly knows how the world will turn out," he said.

"Yes, you should be active, but do it prudently. And that's how we expect to move in the market in the next 12 months."

(Reporting by Daryl Loo; editing by Karen Foster)

## **MIPIM-Henderson targets UK, France for property funds**

Fri 13 Mar, 2009

Sees UK property investment mkt bottom in H2 '09  
Expects Germany, France recovery to follow in 2010



# Reuters Real Estate

Plans to raise 500 mln euros in property funds

By Daryl Loo

CANNES, France (Reuters) – Henderson Global Investors is looking to raise at least 500 million euros (\$643.5 million) in funds this year to invest in real estate, and will focus on developed markets as investors seek to avoid risk.

Henderson, which manages about 10 billion euros in property assets worldwide, plans to launch at least two new funds, targeting mainly prime offices and malls in London and Paris, executives told Reuters at the MIPIM property fair.

“Central London offices is our strong ‘buy’ recommendation because of the recovery story ... we also like French retail due to the strong supply and demand fundamentals,” Alice Breheny, Henderson’s head of property research, said in an interview on board the yacht “Hero”, moored on the French Riviera.

She expects the investment market in the UK, where commercial property values have seen the sharpest falls, to bottom out by the end of this year, followed by key European markets such as France and Germany in 2010 as attractive prices lure investors to return.

The biggest risk to this recovery, Breheny said, was if cash-strapped banks refused to finance property transactions.

Henderson has always been keen to acquire prime offices and shopping centres in Paris, but a small number of players control the market and currently do not intend to sell, said Christopher Linney, Henderson’s head of property investments in France.

“But what we might see is that everyone is touched by the crisis and these people might need the liquidity ... we see that as an opportunity to get into this market,” said Linney.

## RISK AVERSE

The ongoing global financial crisis, sparked by a collapse in risky U.S. home loans, has meant property investors prefer to avoid unfamiliar territory and turn to core markets closer to home, Henderson said.

“We’re back to a situation where we can get excellent returns in Paris or London, where we already have teams in place,” said Timothy Horrocks, the firm’s Amsterdam-based director of property portfolio management.

“Someone could come to me with an idea for, say, a Panamanian fund, or a South America fund offering 20 percent returns ... but I can probably, on my doorstep in London, get 8-10 percent, and that will take me further for next to no risk at all,” he said.

While the sharp declines in the share price of Europe’s listed property firms has meant their stock is trading at steep discounts to net asset values, investors are still avoiding the sector due to the massive volatility, Henderson said.

“Anything in the listed arena, the volatility is just immense ... if you look at some of the British REITs, their share prices are being decimated,” said Horrocks.

“Listed property prices look very cheap, but unfortunately some of these companies will be forced to sell some of their best assets, which then makes them less attractive stocks,” added Breheny.

(Editing by Jon Loades-Carter)

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## INSTANT VIEW-Property players weigh on real estate's future

Fri 13 Mar, 2009

CANNES, France (Reuters) – Property executives and investors ended a gloomy week at the MIPIM trade fair, the largest gathering for commercial real estate, with property assets continuing to tumble and uncertainty about the future.

Following are some forecasts of when the real estate market might hit bottom and what to buy:

DIETRICH HEIDTMANN, EXECUTIVE DIRECTOR, MORGAN STANLEY GERMANY

WHEN WILL IT HIT BOTTOM?: “Some factors will put a lid on the recovery. A lot of the debt needs to be rolled over. This will take time. I am more optimistic after MIPIM, because I have yet to meet someone who thinks going into real estate was the wrong thing to do four or five years ago.”

MATTHIAS DANNE, BOARD MEMBER, DEKABANK

WHEN WILL IT HIT BOTTOM?: “I think London has been the most advanced in the cycle and the bottoming out in London can be expected in the second half of 2009, maybe early 2010.”

“I would expect to see in the next few months a relatively strong correction in the US, which is good because pricing will be attractive again.”

WHAT TO BUY: “The most interesting markets at the moment are the most transparent and liquid ones. The big, old real estate markets that you have in the world. That is London, that is Paris, Manhattan, Tokyo.”

RICHARD DEN HARTIGH, SENIOR INVESTMENT MANAGER, ST MARTINS, KUWAIT WEALTH FUND

WHAT TO BUY: “We expect to see more attractive investment opportunities in the second half of 2009. We are already seeing a few and we try to focus more on the mature, liquid markets. We believe the lower risk countries like Germany, Poland, and France will provide us with the best opportunities.”

“We are considering all sectors, mainly offices, retail, leisure. But it should meet our criteria, which is trophy assets in prime locations providing stable income — so good covenants, good tenants.”

PETER REILLY, UK MANAGING DIRECTOR, JP MORGAN ASSET MANAGEMENT

WHEN WILL IT HIT BOTTOM?: “Nothing’s going to happen real quick. Investors have lost a lot of money, they are sort of shell shocked. A lot of them would rather come into the market six months after the bottom than three months before.”

“With prospects of slow growth or no growth, we’re adopting a defensive policy and reducing risk throughout the portfolio to get through the recession period. Opportunities will come in an 18 month to two year period.”

HANS OP’T VELD, HEAD OF REAL ESTATE, PGGM

WHEN WILL IT HIT BOTTOM?: “We have hit bottom in terms of sentiment but when the market will pick up will depend on several factors, such as what governments are going to do and how consumers are going to react.”

“It might take five to seven, maybe 10 years, to work through the debt problem. The general consensus today was that the bottom would be some time in 2010. To my opinion the US and UK will come back to life earlier in 2010 than others.”

TILMAN HICKL, CEO, UBS REAL ESTATE KAPITALANLAGEGESELLSCHAFT

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WHAT TO BUY: "UK and Germany are attractive. And if you wait a little longer, Spain will become attractive again, especially if you dare to buy development properties."

"If you can buy in London for 6.5, 7 percent yield, I don't think you can do a lot of wrong with that. In the long run you will be all right, and real estate is a long-term business."

ERI MITSOSTERGIU, ASSOCIATE DIRECTOR EUROPEAN RESEARCH, SAVILLS:

WHEN WILL IT HIT BOTTOM?: "There's the anticipation that in 2009 we will have a further decompression of yields, but towards the end of the year this trend is expected to slow down especially for markets heading the cycle like London, Paris, Madrid. Properties are definitely going to become much cheaper than they were a couple of years ago."

WHAT TO BUY: "People are keen to grasp these bargains in the market, but I think deep inside they are still ... risk averse."

JONATHAN HULL, EMEA HEAD OF INVESTMENT, CB RICHARD ELLIS

WHAT TO BUY: "We're still seeing quite a strong demand from investors for the Central Europe markets. Even if you like London, as a diversified investor you are never going to put all your money into one basket, and therefore a lot of our clients still find core markets in Central Europe attractive."

"Today you'd got a differentiation between markets towards the west of Central Europe and towards the east. Those that have truly emerged would be Poland and the Czech Republic, and perhaps Slovakia, whereas the markets towards the east — Ukraine, Romania, etc — are those that in terms of recovery, may lag."

(Compiled by Daryl Loo and Juliette Rouillon in Cannes, France, and Sinead Cruise in London; editing by Karen Foster)

## OTHER EMEA PROPERTY STORIES

### Bruised banks shy of UK property lending - reports Tue 10 Mar, 2009 Reuters PDF

LONDON (Reuters) – Less than 12 percent of banks are prepared to lend more than 25 million pounds to prospective commercial property buyers in the United Kingdom, a report from Savills showed on Tuesday.

Savills' study and a separate report from Fitch ratings agency, also released on Tuesday, showed that many banks remain reluctant to lend or act on loan defaults — compounding a hiatus in the battered real estate market.

In interviews with more than 100 global lenders, Savills found that the appetite for UK property lending has waned dramatically in the past year, with less than half those surveyed keen to do business in Britain despite sharp property re-pricing and currency changes.

Only twelve lenders are still actively considering deals in excess of 25 million pounds — Societe Generale, The Bank of London and the Middle East, Abbey, Nationwide Building Society, Helaba, Deka Bank, WestImmo, Landesbank Berlin, Munich Hyp, Deutsche Postbank, LBBW and D G Hyp, the Savills report showed.

"I know of at least half a dozen other lenders who may also be on the list, but the level of actual loans committed is variable," said William Newsom, head of Savills UK valuations.

"Whilst many of the big banks are out of the market due to their exposure to toxic activities ... for lenders with liquidity there are good returns to be made from lending secured against good quality assets."

# Reuters Real Estate

Savills said about 40 of the 100-plus lenders surveyed claimed to have an interest in UK property lending, although they had varying borrowing terms. However, many organisations are lending strictly to existing customers only and approvals processes have become slower and more detailed.

Savills said the banks viewed secondary investment properties and development projects as generally unfinanceable, with the rare exceptions subject to much stricter lending terms, including average loan-to-value limits of 60 percent and higher margins of 200-plus basis points.

In a separate report, Fitch said that lenders had largely suspended UK mortgage lending but remained reluctant to act on loans in default following the record fall in UK property values.

Such contradictory behaviour has added to the high levels of uncertainty in the UK property market, Fitch said.

“By failing either to provide new finance or call in existing loans, banks are suppressing the impetus towards price discovery that would accompany property transactions,” the report said.

(Reporting by Sinead Cruise; editing by Karen Foster)

## Property broker CBRE signs up Bulgarian affiliate

Tue 10 Mar, 2009

LONDON (Reuters) – The world’s largest property broker CB Richard Ellis has signed an affiliation agreement with Bulgarian agent MBL EOOD, reflecting its long-term confidence in Eastern and Central Europe’s burgeoning property markets.

CBRE said the relationship would further enhance its coverage of the region after last year’s acquisition of Eurisko Consulting in Romania and affiliation with Greece’s Atria Group.

Established in 2007, MBL employs 15 people and is based in Sofia. The company specialises in valuations, investment transactions, retail, office and industrial lettings, landlord representation, land transactions and property management.

Bulgaria’s economy has been growing at an annual rate of over 5 percent for the past five years, but its relatively immature commercial real estate market offers significant long-term growth potential, CBRE said in a statement. (Reporting by Sinead Cruise, editing by Will Waterman)

Swiss office vacancies seen up as econ cools-rprt  
Tue 10 Mar, 2009

LONDON (Reuters) – Swiss office vacancies could rise for the first time in three years in 2009 as an expected surge in financial sector job losses squeezes demand for business space, a report from Credit Suisse showed.

Economists at the bank said the Swiss commercial property sector — broadly seen as one of Europe’s most resilient real estate markets — would feel the effects of a cooling economy this year as up to 18,000 layoffs and a rise in office supply threatened to put rental growth into reverse.

The average office vacancy rate in Geneva and Zurich was 2.2 percent in 2008, compared to 5 percent in London, 6 percent in Paris, 7 percent in Barcelona and 13 percent in Frankfurt, Credit Suisse said.

“The prospect of substantial job reductions coupled with the end of the consumer boom will bring about a slump in demand,” the report showed.

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“Although (we are) not expecting office users to downsize their floorspace drastically, only very few companies are now planning to expand their office accommodation.”

In contrast, Credit Suisse said the Swiss housing market would remain relatively stable in 2009 compared to debt-drenched markets in Britain and Spain.

According to the report, a continued spurt of immigration into Switzerland was likely to prevent any sharp fall-off in residential property demand.

“Thanks to unexpectedly high immigration, the residential property market has not yet seen the sort of supply overhang that typifies the late stages of the house-building cycle,” Credit Suisse said, adding that population growth is estimated to reach an above-average 1 percent in 2009.

(Reporting by Sinead Cruise; Editing by Rupert Winchester)

## London, Paris dominate office investment -report

Wed 11 Mar, 2009

LONDON (Reuters) – London and Paris accounted for one in three European office property investments in 2008, highlighting a flight to quality among bargain-hunting real estate buyers, research from CB Richard Ellis showed.

Despite a drop in overall commercial real estate investment activity last year, the two cities have maintained their dominance of the European office market, accounting for 36 percent of all transactions and 44 percent of those worth more than 100 million euros (\$127 million).

Madrid, Stockholm and Moscow rounded off the top five cities for European office investment last year, followed by Berlin, Copenhagen, Munich, Hamburg and Brussels. These top 10 European cities accounted for 61 percent of the total value of office transactions, CBRE said.

A persistent shortage of debt drove the average office deal size down to 34 million euros last year, compared with 48 million euros in 2007. Of around 1,500 office deals recorded in Europe last year, 83 percent were for less than 50 million euros, the report showed.

London accounted for 23 of the 96 deals priced at 100 million euros or more in 2008. Paris came second with 19, illustrating greater liquidity in those two markets.

Six deals over 100 million euros were recorded in Stockholm last year, while Moscow and Warsaw each reported four. (Reporting by Sinead Cruise, editing by Will Waterman)

## Russia's Mirland slashes NAV, posts 2008 loss

Wed 18 Mar, 2009

MOSCOW (Reuters) – Mirland, a developer of residential and commercial projects in Russia's provinces and capital, posted a 2008 loss of \$103.8 million after writing down assets, the second local developer to do so this week.

Its 2007 profit was \$70.3 million.

The company slashed the net asset value of its portfolio to \$487 million, a decrease of 60 percent, in line with a revaluation by peer AFI Development, which was unveiled on Tuesday.

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Mirland said it maintained “modest” leverage of 28 percent, including financing from the European Bank for Reconstruction and Development for a mall in the Volga river city of Saratov. None of the debt falls due in the next 12 months, it said.

(Reporting by Melissa Akin; Editing by Hans Peters)

## Dubai 2009-2012 property plans cut by half-study

Mon 9 Mar, 2009

DUBAI (Reuters) – Over half the residential and commercial property projects due for completion in Dubai between 2009 and 2012 have been put on hold or cancelled, Jones Lang LaSalle said on Monday.

The emirate’s once-booming real estate sector, which boasts an indoor ski slope and the world’s tallest tower, has been hit hard by the financial crisis as developers halt or cancel projects, property prices fall and jobs are slashed.

Delays and cancellations to Dubai’s projects “reflects the lack of available funding and projections of declining population along with continuing job cuts,” the real estate service company said in a report.

Dubai’s property sector is suffering from a slump in prices after a six-year building boom spurred by the emirate’s move to allow foreign investors to buy properties as economic growth boomed during an oil price rally.

Prices have fallen by an average of 25 percent since their peak in September and some \$263 billion worth of projects throughout the United Arab Emirates have been delayed or cancelled, Morgan Stanley said in a report last month.

Vacancies in the emirate’s office market have doubled to around 16 percent over the past six months, the highest rate recorded, Jones Lang LaSalle said, adding that the hospitality market is suffering its lowest occupancy rate in five years with an average of 79 percent.

The report said it expects activity in the residential sector to slow further in the first half of 2009 adding the government needs to take “more radical measures” to support the market, including a removal of the link between employment and residency status and a clarification of the law providing for residency for expat buyers of residential units.

“Nervous investor sentiment coupled with lower rental rates will encourage residents to lease rather than buy as investors continue to adopt the “wait-and-see” approach,” it said.

Office rents in Dubai are likely to decline in most locations over the first half of 2009 while the outlook for the hotel market for the year was expected to be “less optimistic than previously expected” due to a fall in visitors

It said Dubai’s retail market would be challenging due to tightening credit standards, a lack of job security, an increase in consumer saving and a decline in both immigration and tourism.

(Reporting by Jason Benham; Editing by Thomas Atkins and Simon Jessop)

## POLL-Spain house prices unlikely to find floor before 2011

Thu 12 Mar, 2009

6 of 10 analysts see house price floor in 2011 or beyond  
Prices seen falling around 30 percent from peak to trough  
Excess property, structural economic problems delay bounce  
By Ben Harding

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MADRID (Reuters) – Spanish house hunters should wait until at least 2010 before dipping a toe in the market due to huge stocks and recession, economists polled by Reuters said.

Five Spanish and five foreign-based economists surveyed this month said prices would drop 20-50 percent by the end of the downturn, or 32 percent on average from their 2007 peak when prices stood three times higher than at the start of the boom a decade before.

Sellers face as bad a market as anywhere in Europe, said Veronique Riches-Flores, senior European economist for Societe Generale in Paris.

“Prices are ridiculous when you look at the state of the economy,” said Riches-Flores, who expects prices to fall 40-45 percent from their peak, and who like six other economists polled said the market would not bottom out until 2011 or beyond.

Spain’s unemployment rate is around 15 percent as a deep recession worsens, and foreign economists emphasise the country’s economic model needs a radical overhaul to boost its competitiveness and unwind the debts that drove a decade of growth. Spain could suffer a lengthy ‘L-shaped’ recession, bearish analysts warn.

Against this backdrop of weakness, Spain has a supply overhang estimated at 1 million unsold homes — three times the number of households created in Spain each year. Banks are now adding to that by releasing repossessed homes onto the market.

A similar Reuters survey in Ireland indicated house prices would not start rising for more than a year, with a risk that soaring unemployment could delay that.

## HALF-FINISHED ESTATES

All 10 experts said the overhang of empty apartments and half-finished estates around Spanish towns had to be absorbed in the next two or three years before prices gained some traction.

“What I don’t expect in Spain is a rapid bounce-back,” said BNP Paribas economist Dominic Bryant. “Prices might stop falling but you will need quite a sustained period of robust demand to clear the backlog to help prices come back.”

According to government data, prices only fell 3.2 percent last year, though analysts say this massively under-reports the real size of the fall. Housing Minister Beatriz Corredor said in November they may already have dropped 15 percent.

Gregorio Izquierdo, head of economic studies at the National University of Distance Learning (UNED) said oversupply should begin to stabilise in the last quarter of 2009 as a 40 percent fall in housing starts in early 2008 begins to feed through.

However economists agreed demand will remain fragile, even when lenders start to unfreeze credit.

Speculators who snapped up new builds and flipped them for quick profit have vanished. They made up 70 percent of the market in the boom’s latter years, said Inversis analyst Ramon Ortega. Foreign buyers, particularly Britons hit by the weak pound, have deserted, sapping the second-home market.

## BABY-BOOM DEMAND

Intermoney chief economist Jose Carlos Diez said falling prices would help unblock pent-up demand from 30-somethings born in Spain’s 1970s baby boom who are priced out of the market.

An average 100 square metre new build in a city cost 271,000 euros last year, according to valuation firm Sociedad de Tasacion, while the average wage was 21,400 euros. By comparison, the average German wage is 41,200 euros

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according to IESE, but the same sized town or city apartment would cost 187,000 euros on average, say German finance group Hypoport.

Economists agree Spain will never again see conditions it enjoyed at the start of the decade, when a historic drop in interest rates, bank offers of 100 percent mortgages and soaring immigration turbo-charged the market.

“This story is dead, because we will not see such a steep fall in interest rates again,” said Ralph Solveen at Commerzbank in Frankfurt. “For the next 10 or 15 years we will not see a return to this (boom).”

Spain also has the highest unemployment rate among major developed countries, set to top 20 percent by the end of next year according to think tank FUNCAS.

“This correction could take 10 years to happen. A 50 percent fall (in house prices) would not be unexpected,” said economist Luis Garicano of the London School of Economics, pointing to falls of over 30 percent in U.S. cities like Phoenix and Miami in the space of a year even though the overhang there was only one year’s supply. (Reporting by Ben Harding; Editing by Ruth Pitchford)

## **INTERVIEW-Astaldi confident about its order portfolio**

Fri 13 Mar, 2009

Company aims for 2009 net debt similar to 2008  
Does not expect slowdown in contracts  
Says govt infrastructure plans to help revenues in 2010  
Shares up 4.2 pct  
By Danilo Masoni

MILAN (Reuters) – Italy’s second-largest builder Astaldi has no need to rush for new contracts thanks to a \$10.9 billion order portfolio, one of its two chief executives told Reuters, adding that it aims to keep net debt under control.

The executive, Stefano Cerri, also said the Italian government’s plans to spend 17.8 billion euros (\$22.91 billion) in infrastructure projects would boost revenues starting next year.

“We have no need to push too much in acquiring (contracts) because our revenues are covered for the next three or four years,” he said in a telephone interview.

Cerri said Astaldi’s policy was to accept contracts with a margin of at least 7.5 percent on revenues. He added he did not expect future contracts to generate pressure on margins.

“100 percent of 2009 revenues is already in our order portfolio and more than 90 percent of 2010,” he said on Thursday.

Astaldi is a family-owned company that builds railways, motorways, and operates in the concession business. It competes in Italy with bigger rival Impregilo and operates in 18 countries outside Italy.

Foreign operations made up half of its revenues last year.

The economic crisis “could have repercussions” in some areas where Astaldi operates, like eastern Europe, Cerri said.

“We haven’t seen (a slowdown in contracts) and we don’t expect it, but it does not depend on us,” he said.

CAUTIOUS OPTIMISM

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Turning to Italy, Cerri said he was cautiously optimistic about government plans to boost infrastructure projects this year, but said any effect on revenues would be likely felt next year.

Cerri, an ex-Ernst & Young partner who was previously Astaldi's finance director, said the company was increasingly focusing on cash generation in order to keep debt under control.

He said 2009 net debt will fall in the second part of the year. "The objective is to keep net debt at volumes close (to those of 2008) with percentage growth in economic results similar to last year."

Last month the Rome-based group posted an 11 percent rise to 42 million euros in its 2008 net profit with revenues up nearly 15 percent.

Its net debt fell to 387 million euros, which Cerri said was 80 million euros lower than budgeted.

Astaldi will approve a new five-year business plan at the end of April or in May, he said.

Astaldi shares have lost about two-thirds of their value from an all-time peak in April 2007. They are trading at their lowest levels since January 2004.

Astaldi shares were up 4.2 percent at 2.73 euros at 1044 GMT which gives the company a market value of over 250 million euros.

(Reporting by Danilo Masoni; Editing by Sharon Lindores)

## **FUND VIEW-Hungarian fund investors halve real estate assets**

Fri 13 Mar, 2009

By Marton Dunai

BUDAPEST (Reuters) – Hungarian investors have nearly halved their assets in real estate funds since last October, prompting some funds to switch to a more predictable, closed-ended model, according to an industry association.

Total investments in real estate funds shrank from about 600 billion forints (\$2.61 billion) in September to about 330 billion now, including funds-of-funds, said Andras Temmel, chief of the Hungarian Association of Investment Funds (Bamosz).

"No fund faces insolvency, although they will need cash to cover redeemed shares," Temmel told Reuters in an interview.

"We can start with a clean slate now."

Investors started to withdraw funds when Hungary was hit by the global financial crisis and was forced to hike interest rates by 3 percentage points to 11.5 percent in late October, to stem losses in the forint currency.

Legislation passed in November allowed funds to switch to a fixed-term, closed-ended model as long as they let go investors who opted out. Four funds, including the local fund of Raiffeisen International, chose to do this.

Although most Hungarian funds maintained a 30 to 50 percent liquidity ratio, the withdrawals pushed some of them very near the end of their cash and bond holdings as they repaid investors who left, Temmel said.

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Interest rates on bank deposits soared last year, offering investors a competitive alternative, and the real estate market took a direct hit as well. Prices fell back to 2007 levels as indicated by the local real estate fund index of Bamosz.

## CASHING OUT

Andras Balogh, chief executive of Raiffeisen's investment fund in Budapest, told Reuters the company lost 60 percent of its investor base. For those who wanted to keep their investments in the fund, that posed a risk, so they chose to switch to become closed-ended.

"We wanted to avoid angering them and instead, asked them to decide whether they wanted to cash out now or stay on for the long term," Balogh said.

Real estate funds have been popular among small investors in Hungary, who sought safe ways to invest small amounts of capital. Many of them wanted to use their savings to cover rising costs elsewhere, Temmel said.

In November, Hungary's financial watchdog PSZAF suspended trading in the funds for 10 days.

Emergency legislation was also passed, allowing 90 days instead of three days for the funds to pay for shares that their holders redeem, using the time to liquidate assets in less of a rush. Funds will begin disbursement of those payments in April.

(Reporting by Marton Dunai; Editing by Jon Boyle)

## Russia axes \$2.8 bln plan to save developers Fri 13 Mar, 2009 Reuters PDF

MOSCOW (Reuters) – Russia's government has axed a plan to spend \$2.8 billion on buying residential property from indebted developers after they failed to bring down prices to "adequate" levels, a top government official said on Friday.

"If companies do not want to cooperate with us, it is their problem," said First Deputy Prime Igor Shuvalov, a top anti-crisis manager in the cabinet of Vladimir Putin.

"We won't spend the money on buying residential property at such high prices and believe we can channel this money to building residential property for social needs," he told a meeting with members of Russia's regional parliaments.

"We believe that in the current environment we should aim for a price of newly-built economy class apartments of 30,000 roubles per square metre, which is at the moment a fair price".

By comparison, Moscow's residential property prices were among the highest in the world before the crisis hit the country at the end of last year ranging from a minimum of \$5,000 (175,000 roubles) per square metre to as high as \$100,000.

In November, Shuvalov announced a plan to spend 100 billion roubles (\$2.83 billion) on buying residential property from top developers, which have been among the worst hit by the crisis after the credit crunch halted expansion and refinancing plans.

Some of the most leveraged developers such as PIK and Mirax are now holding restructuring talks with foreign lenders, while others, such as AFI Development have slashed the number of projects.

A failure to build residential property on time could result in social discontent, as some 150,000 to 300,000 Russians have taken mortgages to fund new projects, which are now stalled.

# Reuters Real Estate

Ratings agencies have warned of bankruptcies and forced asset sales in Russia's real estate sector. (Reporting by Yulia Komleva, writing by Dmitry Zhdannikov)

## SAfrica takes over farm in 'use or lose' policy

Fri 13 Mar, 2009

By Muchena Zigomo

JOHANNESBURG (Reuters) – The South African government took over a farm this week for the first time under a controversial new policy of taking back unproductive farms allocated to blacks as part of a land redistribution programme.

Agriculture and Land Affairs Minister Lulu Xingwana announced the “use it or lose it” initiative last week for farms which the black beneficiaries have left idle.

Xingwana said the ostrich farm in Hammanskraal, north of the capital Pretoria, was repossessed “following demeaning reports regarding the poor conditions of the ostriches”.

The government had leased the farm to a cooperative since 2007 but the new farmers did not run it productively, she said.

“I have requested Phaphamang Ma-Africa (cooperative) beneficiaries to relinquish themselves from the lease agreement they have with the Department of Land Affairs,” Xingwana said in a speech seen by Reuters on Friday.

She said the government was appalled at the deterioration of the farm since the cooperative took over two years ago.

“Of the 77 ostriches originally on the farm, only 57 could be accounted for,” she said.

“Several of the birds were limping and they were in a chronic condition which would therefore probably not respond to treatment. This would consequently result in infertility.”

The land affairs department will try to revive the farm and make it productive, treat the ostriches, repair the farm infrastructure and establish markets for the project.

Farmers organisations have given mixed responses to the government's repossession policy.

### SENSITIVE ISSUE

Land reform is a sensitive issue in South Africa, brought into focus by the decline in agriculture in neighbouring Zimbabwe, where President Robert Mugabe's government often violently evicted white commercial farmers.

“Clearly this ‘use it or lose it’ policy is a noble idea in terms of ensuring that our people are going to farm,” said Motsepe Matlala, president of the National African Farmers Union, which represents new black farmers.

“Obviously we can't all be farmers... The challenge now is (that) all the people that want to approach government for farms must be selected carefully,” he told Reuters.

The redistribution programme is part of a government plan developed after the fall of apartheid in 1994 to hand 30 percent of all agricultural land to the black majority by 2014.

Apart from redistribution, which enables blacks to secure loans to buy or lease land from the government, the land reform programme also includes restitution, by which black communities recover ancestral land taken from them under apartheid.

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But critics say the government has dragged its feet on giving land back to blacks, while others say the programme has been poorly implemented, with the government failing to provide adequate support to new farmers once they are allocated land.

(Reporting by Muchena Zigomo)