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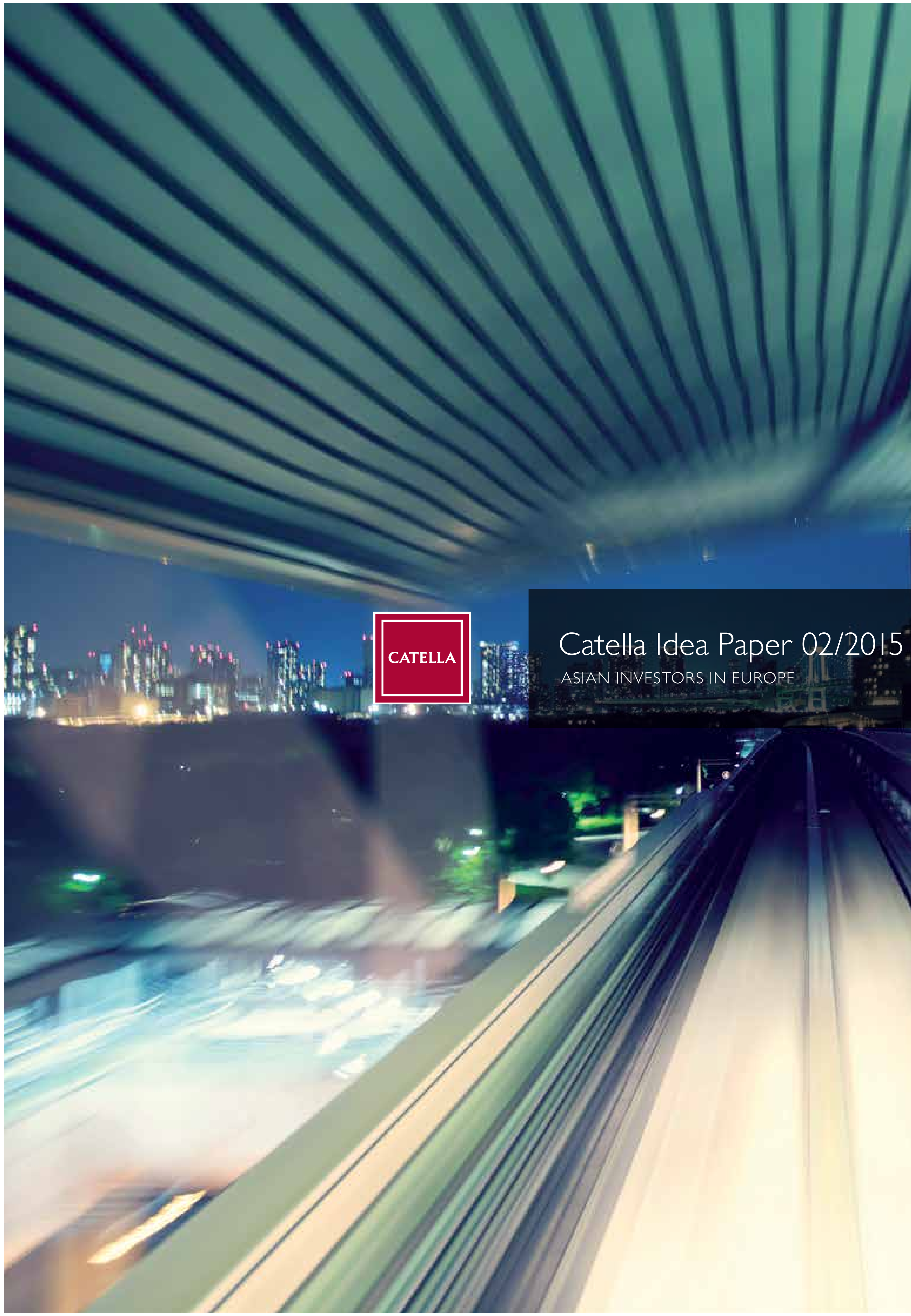

Catella Idea Paper 02/2015

ASIAN INVESTORS IN EUROPE

Catella profile

Catella is one of Europe's leading financial advisor and asset management companies involved in real estate, fixed income and equity activities. Our extensive geographic reach, with offices in 12 different countries and around 500 employees, forms the basis for our market success.

Catella has been a name in the German real estate sector since 1990 and today, Catella Property Deutschland and Catella Real Estate AG employ some 80 people at five different locations. Our offices in Düsseldorf, Hamburg, Berlin, Frankfurt and Munich offer a portfolio of services relating to every aspect of real estate, putting us in a position to offer excellent consultancy services to investors during every phase of the investment cycle and to companies requiring tailored solutions.

This portfolio comprises research and valuation, investment and letting, product management and development, capital markets, equity and debt advisory services. In 2007, our subsidiary Catella Real Estate AG opened its doors in Munich, where it develops fund products for international investors and affluent private clients. Each individual fund concentrates on a separate field, both with regard to geographic region and asset class.

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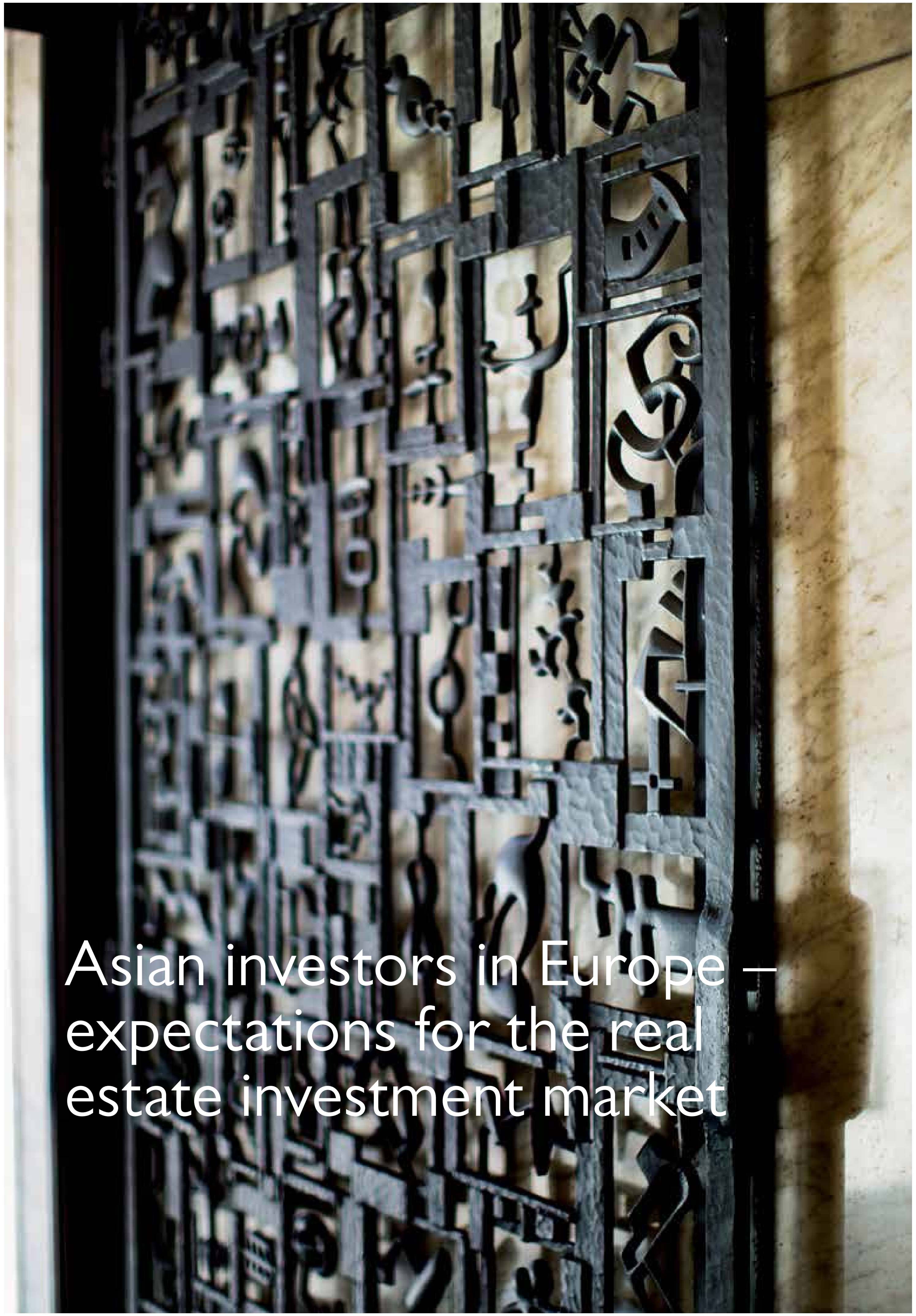


Asian investors in Europe – expectations for the real estate investment market

1 Has the Asian era dawned for the real estate market?

When talking about investors from Asia, many still tend to have an unclear picture, marked by certain expectations and preconceptions. For several years, these investors have been shifting their focus and investing in real estate in Europe. However, outside of London, only few have seen them. Despite the many pronouncements and announcements made about them, the scale of their investments across Continental Europe has been modest. Nevertheless, if looked at more closely, the pattern of investment visible so far reveals a strategy that extends from opportunistic purchases to actions clearly focused on core areas, as it encompasses different countries, cities, asset classes and investment approaches. Most Europeans interested in the issue see the signs of Asian capital either in the form of capital flow arrows from Asia to Europe or in the positive sentiment surveys conducted at the start of the year. These prompt the usual real estate reports and press releases to predict a substantial upswing in activity compared to previous years.

The explanations outlining why Europe can expect a massive influx of investment from Asian, or more precisely, Chinese property investors coming to the continent sound altogether convincing. Asian influence is permeating Europe's real estate market – maybe even marking the dawn of an Asian era. The new Catella Research idea paper addresses precisely this complex situation, in addition to providing a quantitative analysis of what these expectations have so far entailed and will in future entail.

On taking a quantitative approach to the topic, it becomes clear that foreign investment capital has indeed recently started making its presence felt on Europe's real estate market. The total figure for 2014 was in the region of €9.7 billion (Asia-Pacific to Europe), while the same figure for 2010 was a mere €3.2 billion. Quite a difference. Structurally speaking, this development is the result of globalisation in the investment markets.

"Diversification", "exploitation of different real estate cycles" or, the current explanation, "market liquidity" combined with "attractive interest rate considerations" – these are the classic arguments used to justify any international investments in property, regard-less of who is behind them: private equity, sovereign wealth funds or insurance corporations. One point particularly worth mentioning is the fact that the first measurable direct investments in real estate take place some eight years after conventional investment activities in other economic products and sectors. Asian investors' financial involvement in European companies has preceded their expected direct investment in the continent's real estate market.

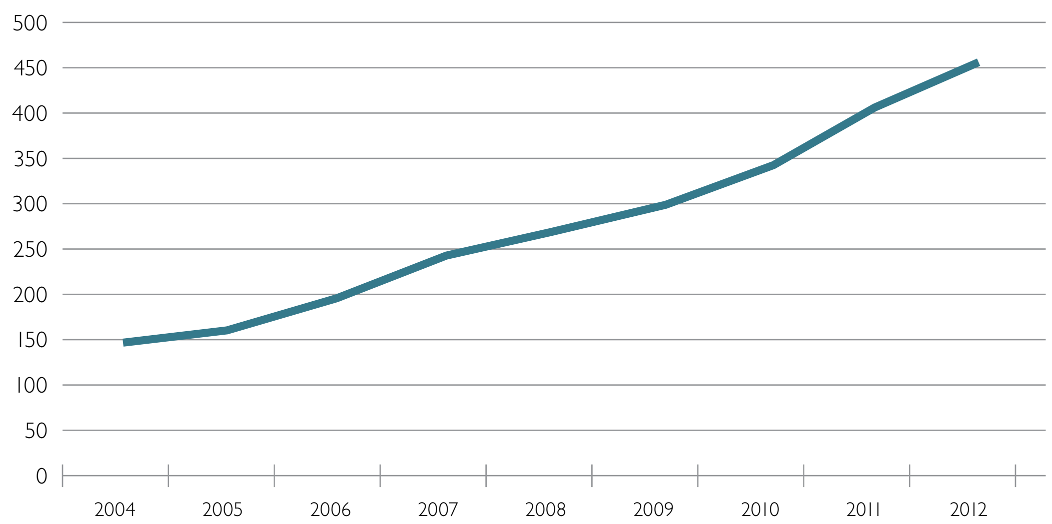
As a group, Asian investors are unique. They were virtually absent from Europe's real estate market during the last economic upswing between 2004 and 2008. And while the image many observers have of them seems clear and uncomplicated, their sheer heterogeneity must not be overlooked. Not only are these investors' actions defined by the variety of regional characteristics present in Malaysia, Singapore and China, they also make use of a panoply of investment vehicles and intermediaries that run the gamut from private equity funds to sovereign wealth funds and pension funds. These last two, in particular, dovetail with expectations on mainland Europe. Carrying the designation "long-term investors", these funds are expanding their investments in Europe's real estate sector as they search for secure opportunities that will deliver stable growth for their capital. In other words, their interests overlap to a large extent with the investment profiles of European investors. Competition on Europe's markets is entering a new phase, resulting in greater demand for an economic asset – which is evident in more than just the prices. The many factors that shape the motivation and demand for these investment opportunities are set out below.

2 Capital movements from Asia to Europe and structural composition of investments

The overall trend towards increasing capital flow from Asia to Europe is revealed by a study of the direct investments* undertaken in Europe by Asian investors. Since 2007, these have doubled within five years. A similar trend, albeit one weakened in the wake of the global financial crisis, can be observed when analysing Asian transaction volumes or the flow of capital into Europe's market for office and retail property. Both have seen continuous growth since 2008, a development progressing synchronously (though at a low level) with the development of the overall volume of European transactions.

Looking at the number of transactions, it is noticeable that this figure is following a similar trajectory, but not to the same extent. This implies that Asian investors are increasingly concentrating their efforts on bigger deals.

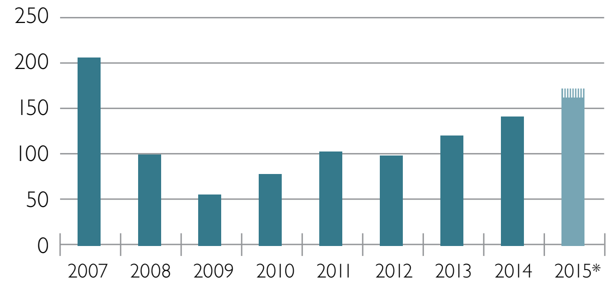
Direct foreign investment from Asia to Europe
In € bn



Source: Catella Research, based on Eurostat

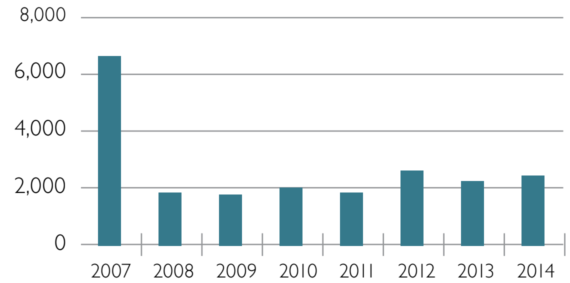
* Form of foreign investment, which sees the capital of domestic investors used overseas and of foreign investors used on the domestic market for activities such as forming companies, buy-ups or mergers.

Volume of investment in Europe
In € bn



*Forecast

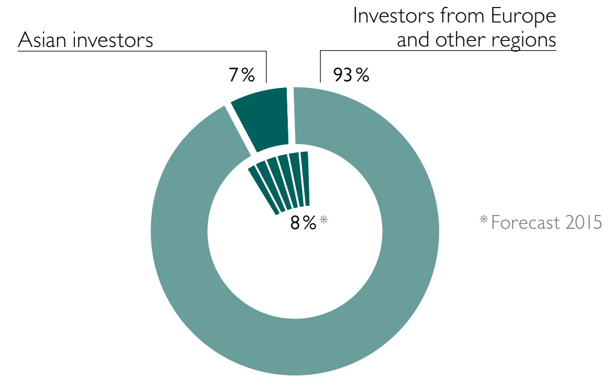
Properties traded in Europe
Number



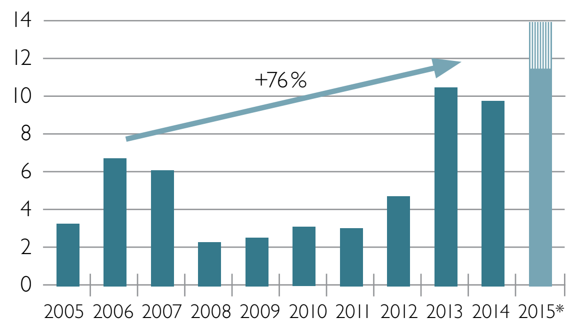
In 2014, Asian investors accounted for a 7 % share of Europe's market for office and retail space. According to Catella Research, however, this figure is set to increase in the coming years.

Catella Research believes that volumes in 2015 could potentially reach €11.5–14 billion, representing an 8 % increase in total European volumes. Compared with 2014, there will be no significant growth in terms of market percentage as a result of the synchronous development characterising both figures.

Percentage of Asian investments in Europe in 2014

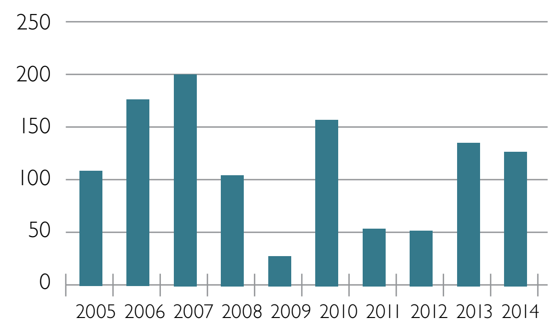


Asian investment volumes in Europe
In € bn



*Forecast

Properties traded by Asians in Europe
Number



3 Source and main target markets of this capital

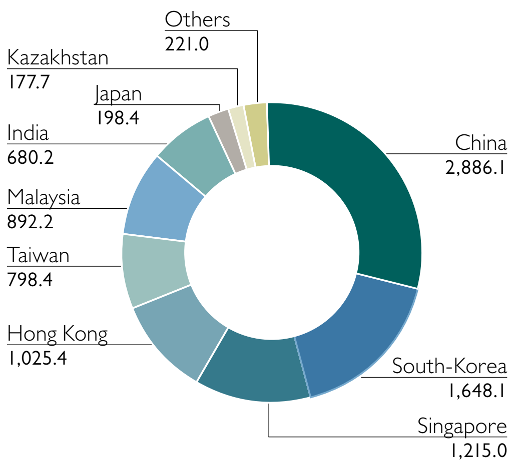
An analysis of the geographical source of capital invested in Europe's real estate market (office and retail space) reveals that just over half of all investments have come to Europe through Chinese and South Korean investors. If we then look at the number of transactions, we can see that China might be the source of the largest investment volumes, but its share of actual transactions is small, coming in at just 12. In other words, the average size of a Chinese transaction is approx. €240 million per property. However, Taiwan and South Korea were also the sources of transactions with large average volumes in 2014 – €266 million and €120 million respectively.

Turning to the target regions favoured by Asian investors in 2014, London dominates: the city absorbed over half of the capital originating in Asia (€5.42 billion). As the major centre for investment in Europe, London is also head and shoulders above other cities in terms of the number of investments (36). Combined, these figures generate an average transaction volume of €150 million. In terms of total investment, Frankfurt comes in second place with approx. €800 million, followed by Paris with €511 million. These three European financial hubs account for some 70 % of total investment in the continent.

What stands out, however, is that secondary locations such as Bristol, the East Midlands and eastern England attracted approx. €950 million in investment. This implies that Asian investors are becoming less risk-averse and more interested in diversifying their portfolios. By and large, they select London as the site for their first purchase, and their strategy is to then branch out into regions outside the capital. Catella Research expects to see a similar development in the French and German real estate markets.

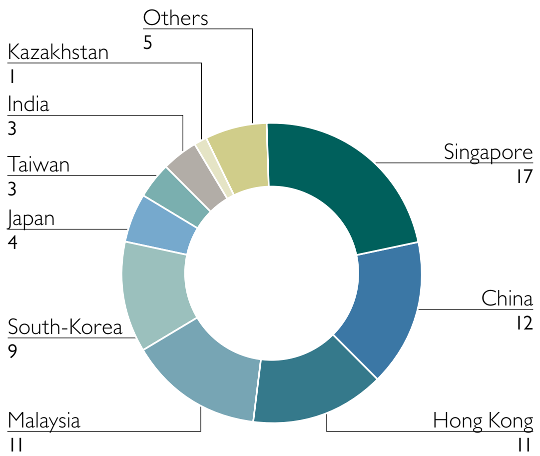
Investment volumes in Europe by source country in 2014

In € m



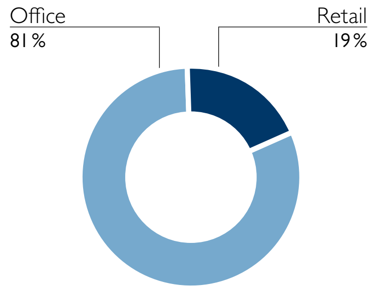
Properties traded by Asian investors in Europe in 2014

Number



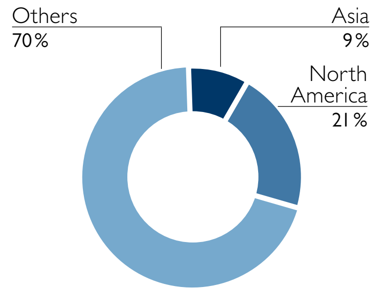
Distribution of Asian investments according to asset class in Europe in 2014

In %



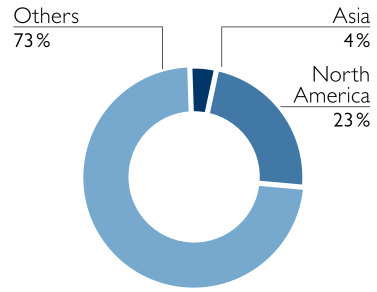
Distribution of office investment volumes: comparison in Europe in 2014

In %



Distribution of retail investment volumes: comparison in Europe in 2014

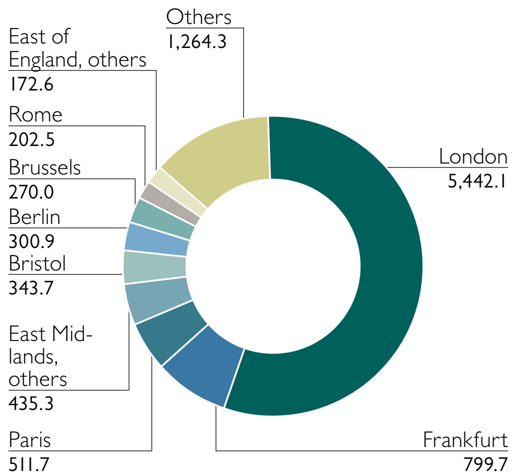
In %



On comparing Asian investors' activities in the market for office and retail properties, the first thing we see is that they have a clear preference for investing in office properties: €7.932 billion, or 81 %. At 9 %, office real estate also represents a higher share of overall volume in the office and retail sector, with retail accounting for 4 %. On comparing these figures with the corresponding data from North America (21 % and 23 % respectively), we see that Asian investors could potentially increase their spending.

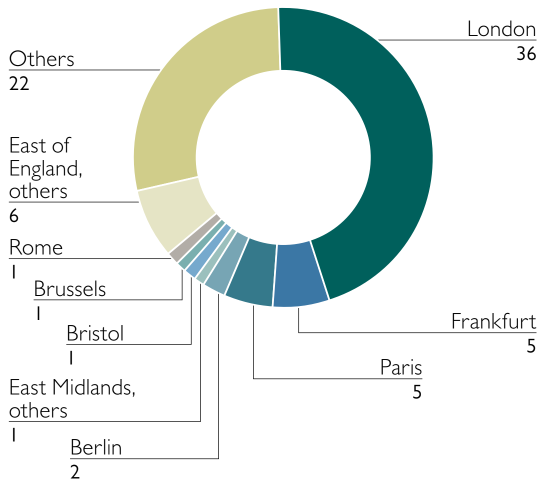
Main target markets in Europe in 2014

In € m



Properties traded in target markets in 2014

Number



4 Reasons behind this "new" demand

The reasons for the relatively new demand from Asian investors for European real estate are largely due to political and economic factors. A major political factor driving demand is the liberalisation of Asian nations' markets with regard to foreign investment and investment in alternative product types, which generally include property. In this field, many Asian states were and continue to be subject to strict legal regulations, but these have been relaxed gradually over time. For example, in 2012, China's insurance sector regulatory body did away with some of the restrictions the country's insurance corporations were obliged to observe for foreign investments. Facilitating investment in other markets is an objective of China's process of economic transformation. Similarly, the Taiwanese government is currently working to remove restrictions in place for domestic investors that would like to invest in real estate overseas. This move towards political liberalisation enables a larger share of capital to move from Asia to Europe, where it is invested in property.

One property-related economic factor behind the surge in investment activity in European markets is the structural composition of real estate markets throughout Asia. When looking for investment opportunities, institutional investors from Asia concentrate above all on office property in key locations. As supply is, structurally speaking, low in their home countries, these investors are increasingly focussing their attention on (Continental) Europe's real estate sector. Catella Research therefore expects capital flows to increase.

General demand factors

There are currently a range of factors that will continue to drive investments in Europe's property sector in general and stimulate demand from Asian investors in European real estate in particular.

- Current low interest rates, a weak bond market and the resulting low returns from the stock and financial markets are viewed as the main reasons for the investments in real estate.
- The euro's present (and increasingly) weak showing is driving demand among Asian investors as it increases their purchasing power and boosts the attractiveness of Europe's property markets.
- Another contributing factor is the structural composition of these markets, which positively promote diversification. The UK, France and Germany in particular are freely accessible, as well as being home to very transparent or semi-transparent structures.
- Furthermore, potential for growth increases the appeal for European real estate markets. Germany, Sweden and Finland, for example, are already seeing greater investment by domestic and foreign investors in secondary locations. They are characterised above all by stable employment figures and positive economic development.

Asian push and pull factors

The larger economic picture and relatively accessible markets in many European states serve as pull factors for Asian capital/investors. The situation in Asian markets, in contrast, acts as a push factor.

- Yield compression in Asia's economic centres is one push factor. Sustained demand coupled with limited supply mean that yield (as low as 2%) is substantially below that available in European investment centres.
- Then there are the aggressive pricing policies pursued by local investors, making real estate investments an unrewarding prospect. In their search for higher yields combined with stable performance and low risks, Asian investors are therefore turning in ever-growing numbers to Europe's leading locations.
- Another factor influencing demand results from the "build and hold" strategy followed by many construction companies in Asia. Many newly constructed buildings are not part of regular trading, which inevitably has a drastic impact on liquidity in local markets.
- A final factor arises from the strategy adopted by Asian investors, who view property in Europe as a means of diversifying their holdings and offering an attractive yield-to-risk profile. Investing in Europe is therefore ideal for regional diversification.

Exchange rate: euro (EUR) to renminbi (RMB)

Source: European Central Bank

5 The largest European transactions undertaken by Asian investors in 2014

Looking at the ten largest transactions undertaken by Asian investors, we see that they all concentrate on European investment hubs: eight in London, one in Paris, one in Frankfurt. London is therefore not just a location for the most investments and largest transactions, but it is also the prime investment destination for the largest purely Asian transactions.

Turning to the capital groups, we notice that institutional investors accounted for over half of total transaction volumes by value in 2014, up from 44 % in 2007. The importance of this group has therefore increased visibly. The most significant decline was recorded by the public sector (-26 %).

The institutional investor group largely consists of pension funds and sovereign wealth funds from China, Malaysia and South Korea. It also includes insurance companies and banks. One exception aside, participants from the public sector are limited to real estate operating companies (REOCs)* from Hong Kong, India, Malaysia and Singapore. Their share in total European investment dropped by 46 % on 2007's figure. The growth in volumes attributable to institutional investors from Asia underscores how these players generally prefer low-risk products. Particularly notable is the rise in investments from private sources, up approx. €700 million on 2007 (+345 %). These private investors are predominantly from India, Hong Kong, China and Malaysia.

Largest transactions in 2014**

Country	City	Real estate item	Asset class	Buyer	Seller	Volume (€)
UK	London	Canary Wharf Tower	Office	China Life Insurance JV Qatar Holding	Songbird Estates	977,375,058
GER	Frankfurt	Silberturm Frankfurt	Office	Samsung Group (South Korea)	IVG Deutschland Immobilien AG	450,000,000
UK	London	Tower Place	Office	GAW Capital OBO Ping An Insurance (China)	Grundbesitzeuropa (RREEF)	419,889,028
UK	London	Woolgate Exchange	Office	Cathay Life Insurance (Taiwan)	PointPark (P3) AKA TPG Capital JV Ivanhoe Cambridge	389,324,167
F	Paris	Sanofi HQ	Office	IGIS OBO Hanwha Life JV Kyobo Life (South Korea)	KanAM Grund	300,000,000
UK	London	The Chimes Shopping Centre	Retail	KWAP (Malaysia)	Intu Properties	268,778,141
UK	London	Milton Gate	Office	Taikang Life Insurance JV Gaw Capital (China)	AGC Equity Partners	248,268,674
UK	London	Exchange Tower	Office	Gaw Captal JV Korea Teachers CU (China, South Korea)	BlackRock Real Estate	241,599,650
UK	London	Bow Bells House	Office	Fubon Financial (Taiwan)	Global Property Finance	231,968,205
UK	London	MidCity Place (Equity share 50%)	Office	Temasek Holdings (Singapore)	Beacon Capital Partners	228,316,605

* Companies that invest in real estate and trade shares without distributing profits to shareholders. Instead, these profits are invested in the upkeep or acquisition of new property.
** not included: non asian Joint Ventures

The most active Asian investors in Europe in 2014

Looking at the ten most active investors from Asia, China (slots 1 and 2) and South Korea (3 and 4) are the countries leading the field, each generating an overall transaction volume totalling well in excess of half a billion euros. Again, large deals dominate. Taiwan appears on the 2014 table twice over: casting a look back to 2010, we see that the country produced just one single transaction with a volume of €27 million. This development also underscores the enhanced room for manoeuvre permitted by the relevant authorities in numerous countries in Asia.

Top 10 Asian investors by transaction volumes in Europe in 2014 *

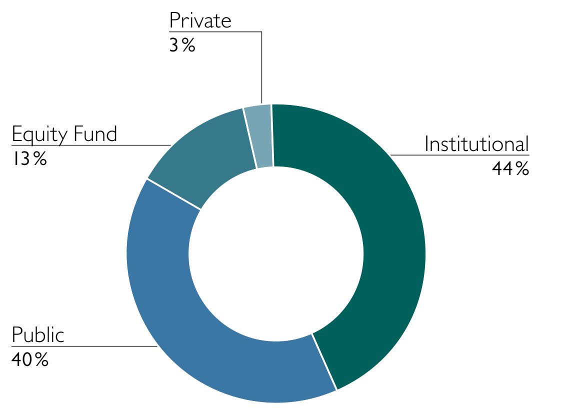
Investor	City	Country	Volume (€)	No. of transactions
SAFE	Beijing	China	1,425,200,000	4
China Life Insurance	Beijing	China	879,600,000	1
Samsung Group	Seoul	South Korea	714,000,000	3
National Pension Service	Seoul	South Korea	626,100,000	4
Gaw Capital	Hong Kong	Hong Kong	489,900,000	2
EPF	Kuala Lumpur	Malaysia	477,700,000	5
Fubon Financial	Taipeh	Taiwan	409,100,000	2
Cathay Life Insurance	Taipeh	Taiwan	389,300,000	1
Hinduja Group	Mumbai	Indien	376,200,000	1
IREIT Global	Singapore	Singapore	279,100,000	4

* international Joint Ventures included

Investor groups/structural composition of investors in Europe

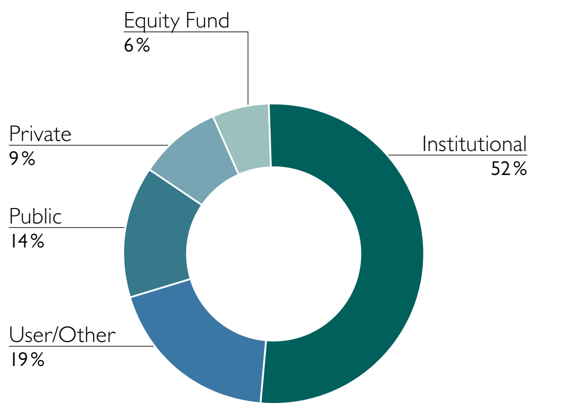
Capital groups from Asia in 2007

In %



Capital groups from Asia in 2014

In %



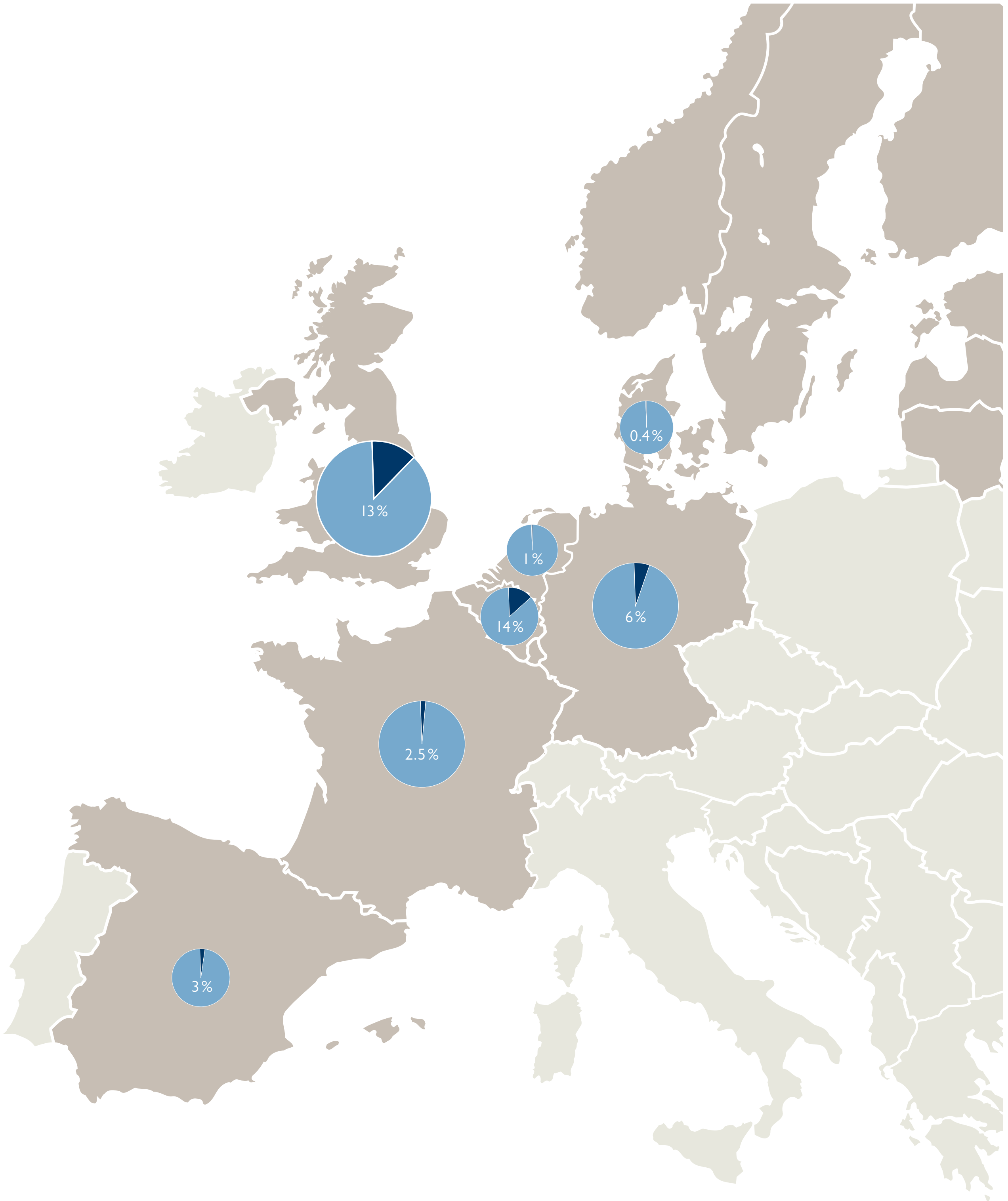
Over the coming years, Catella Research expects investments from a host of Asian countries to grow apace, with China representing the main player in new real estate purchases in Europe.

In the medium term, it is likely that many Chinese investors will step up their activities in Europe. We expect firms already active in this field, such as Reignwood Group, Ping An Insurance and China Life Insurance, to be joined by new Chinese companies entering the market. London will remain the prime focus for new investments, as the majority of investors will favour core assets. For both experienced and new investors alike, the property market in Germany will grow in importance thanks to its stability in terms of value and its potential with regard to diversification. A surge in capital from institutional investors is due to Beijing's 2012 liberalisation of laws governing insurance companies' foreign investments. A similar relaxation for domestic insurance companies is currently under discussion in Taiwan. Alongside institutional investors, more and more private investors and real estate operating companies (REOCs) will also channel financial resources to Europe.

Selection of likely future investors/"new names"

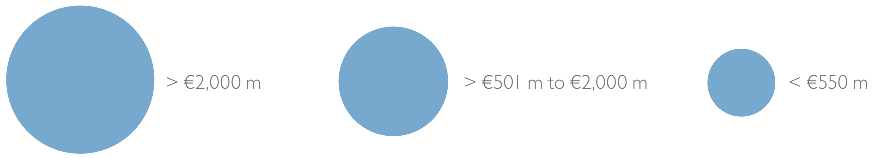
Investor	Investment volume in Europe since 2007 in € m	Target markets in Europe so far
Vanke	-	-
Reignwood Group	108	London
Greenland Group	-	-
PICC – People´s Insurance Company of China	-	-
Fosun Int`l Ltd.	75	London
Ping An Insurance	724	London
China Life Insurance	880	London
Genzon Group	-	-
Dalian Wanda Group	375	London, Madrid
China's largest sovereign wealth funds		
SAFE Investment Company	-	-
China Investment Corporation	1,452	London, Madrid, Berlin, Frankfurt, Bremen, Hanover, Leipzig, Paris
HKMA – Hong Kong Monetary Investment Authority	944	Paris, London

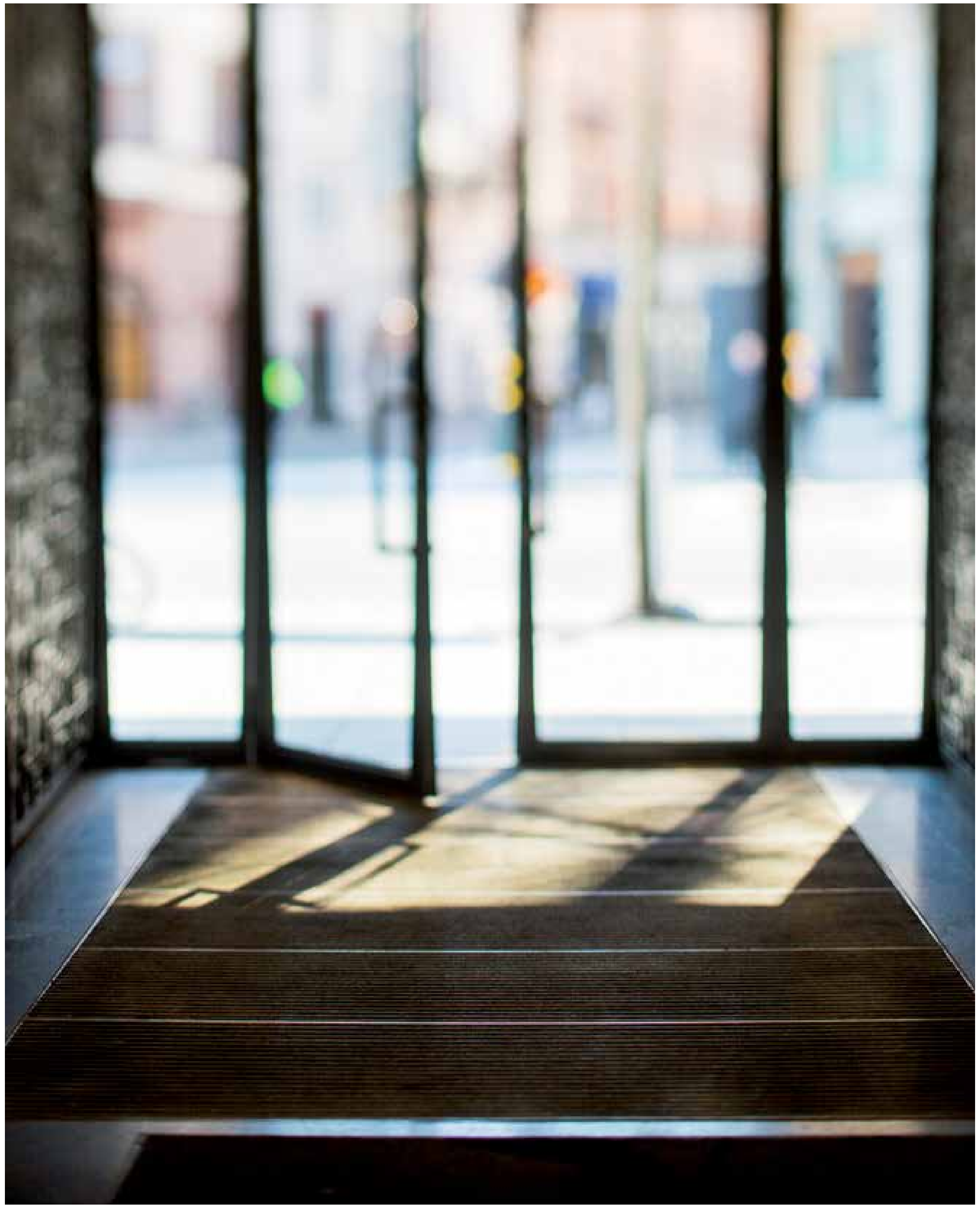
Percentage of Asian investors in European countries in 2014/2015



Circle size corresponds to 2014 transaction volume:

As at 31.01.2015





6 Outlook

Scores of factors suggest that real estate in Europe will remain in demand among Asian investors. The expected political liberalisation in their home countries could make it easier for them to invest in Europe.

Catella Research therefore expects stable to increasing investments in European real estate holdings by foreign, in particular Asian, investors over the coming years, with London continuing to serve as the most popular location for such investments. Further purchases across Continental Europe are to be expected only in the course of a second step across the Channel and increasing involvement in the Ile de France region. Germany, Spain, the Netherlands and Poland will also serve as target regions. Core office real estate at Europe's top locations will form the foundation for purchasing strategies and acquisition activities. There are no traces of the frequently noticeable opportunistic forms of investment within the current cycle, which results in stiffer competition for core property types.

Due to the constantly shrinking pool of potential properties in the core segment, the high level of demand from foreign as well as domestic investors can no longer be satisfied. As a result, attention is shifting to individual secondary locations (Lyon, Copenhagen–Malmö, Utrecht) as potential investment opportunities. This development is, however, at best hesitant. Though towns and cities in many other countries will remain attractive as potential investment locations over the coming years because of their stable and varied economic structures, lot sizes are generally upward of €100 million and therefore too big.

Nevertheless, yields at these locations are coming under growing pressure, leading to the assumption that foreign investors will, in the medium term, display a greater propensity to take risks. At Catella Research, we believe that first signs of this shift towards greater risk-taking are already discernible in the UK and will spread to other countries during the coming quarters. Since France (Paris) is home to a very transparent and liquid market and Germany is considered a "safe haven", these two countries will play a key role in this development. The property markets in Germany's five leading cities are regarded as being particularly safe and stable. For this reason, Germany in particular can expect to see an increase in investment activities in the next few years.

Catella Research's expectations for the coming 5 years

- Increased market activity on the part of Chinese pension funds
- Greater liberalisation in the home countries of investors acquiring assets in European markets
- An increase in equity ratios from the current level of approx. 15% in European investments to approx. 25%
- Increased interest in value-added properties and entry into asset management services as a result
- An investment volume between €11.5 and €14 billion for 2015; a potential volume of up to €25.0 billion by 2019

The following image results from an analysis of current investor estimations and discussions:

- In macroeconomic terms, the attractive package that Europe represents for Asian investors will, in the foreseeable future, comprise legal certainty, political stability, market transparency and market standards, a single currency zone, and economic strength.
- At a market and microeconomic level, the factors are the fungibility of the properties and liquidity of the regional market, the investment climate, regional economic structure and location within metropolitan areas.
- In the source countries' markets, internationalisation – i.e. the route to Europe – is driven primarily by three key factors: diversification, stability and inflationary considerations.

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Sources: Unless stated otherwise, the study makes use of the following sources: Catella Research, PMA, RCA

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