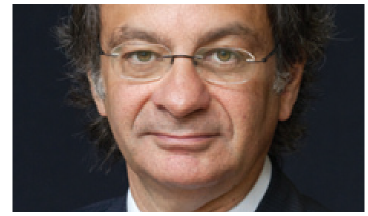
# Urban Land Institute Europe Newsletter December 2013

**2 A Financial Note of Caution**
Dr Pippa Malmgren, Founder of Principalis, shares her views on the outlook for the global economy.


**2 ULI Europe Annual Conference Programme**
Detailed information on the programme for 5 February 2014.

**3 Europe Gets to Grips with Debt**
Olivier Piani talks about commercial real estate debt issuance and the re-emergence of liquidity across Europe.



**4 Confidence on the Rise in Southern Europe**
Pere Viñolas talks about the changing face of real estate in Southern Europe.

## CEO'S COLUMN

**Our busy Autumn calendar saw a strong ULI presence at Expo Real, Barcelona Meeting Point and Moscow Urban Forum as well as a successful ULI Germany Leadership Forum in Berlin.**

Joe Montgomery, CEO ULI Europe

Our inaugural Charitable Trust Dinner was held in early December with over 150 members from across Europe coming together to raise funds for educational outreach, research and to provide opportunities to people in the early stages of their career through our Young Leaders programme. Our attention now turns to next year and to our first major pan-European event which is the Annual Conference and Leadership Dinner in Paris on 4th and 5th February. This year's event is themed "Rethinking, Reinvention & Recovery" which reflects the improving sentiment towards many of Europe's real estate markets.
The conference programme includes keynote presentations from experts in the fields of economy and urbanism as well as discussions on current real estate issues led by prominent industry leaders. We are grateful that a number of our speakers have provided insights into their presentations in this edition of our newsletter.
We look forward to seeing many of you in Paris for what we hope will be our most successful Annual Conference yet. Further information on the conference programme and details on how to register can be found online at: uli.org/parisconference

## ULI Europe Annual Conference 2014: Rethinking, Reinvention & Recovery

**The 18th ULI Europe Annual Conference in Paris on the 4th and 5th February will deliver a full programme, combining thought-provoking presentations, interactive panel sessions and inspirational speakers.**

Giancarlo Scotti, CEO of Generali RE

The conference will be chaired by Giancarlo Scotti, CEO of Generali Real Estate, and will include sessions covering the economic outlook, capital flows, Southern Europe, sustainability and healthy cities delivered by speakers of the highest calibre. Companies represented include Inmobiliaria Colonial, Hines, Apollo Global Management, Allianz Real Estate, Bank of America Merrill Lynch and Tishman Speyer. Attendees come from a broad cross-section of disciplines including real estate developers and owners, fund managers, financiers and senior public officials. As we tentatively embrace signs of economic recovery, the conference provides an ideal forum to examine the opportunities in real estate in the year ahead and share ideas and experiences.

*To find further information on the conference programme or to register for the event visit uli.org/parisconference*

## Urban Land App Launched

Urban Land magazine is now available to ULI members as a digital edition to download on smartphones and tablets. The digital edition is available on both Android and iOS platforms, through the relevant download store, and offers a host of benefits including the ability to share features via e-mail and social media; save articles and access further information through web links. Most importantly the digital edition is available to download on the day the magazine is published, meaning that members do not have to wait to receive their copy in the post to enjoy the latest news and articles.

**ANNUAL CONFERENCE 2014**

# A Financial Note of Caution

**Dr Pippa Malmgren, Founder of Principalis, shares her views on the outlook for the global economy.**

The appointment of Janet Yellen to the Chairmanship of the US Federal Reserve will cause property prices to scream upward worldwide. Central banks in most industrialised countries are following the Fed's lead, so it matters that she is now moving the goalpost.

Outgoing Chairman Ben Bernanke's view was that the threshold for tightening monetary policy was 6.5% unemployment in the US. Yellen prefers 5.5%. Bernanke was comfortable with a 2% inflation target. Yellen prefers 2.5%. She also believes that the economy has been so far below 2% inflation for so long that it should be permitted to rise above the inflation target for a while in order to offset this. So, the Fed will now tolerate inflation above 2.5% and consider it lucky if they can achieve this.

The implications for hard asset prices are obvious. Already stock markets and property valuations are screaming record highs. Markets have a habit of doing whatever is the most painful thing for the majority of investors. Right now, that would be a "melt up" of asset prices, which few are prepared for.

But, you say, this is a sure recipe for a profound asset bubble. Too true. Remember though, Yellen's view on Japan. She would argue that the Bank of Japan got scared when asset prices rose too much and too fast when they pursued Quantitative Easing (QE) years ago. After all, the stock market collapse had been preceded by a property valuation in which the Imperial Palace and its grounds became worth more than all the real estate in California, which was then the fifth largest economy in the world.

Yellen's view is that the reason that the QE failed was because the Japanese lost their nerve and withdrew the QE too soon. The moral of the story, for her, is to let asset prices do what they will. The Fed will both bless and ignore the asset bubble their actions will inevitably create. The Bank of England and the Bank of Japan will follow suit. The European Central Bank (ECB) is doing its best to join the bandwagon, though the Germans remain staunch opponents of such reckless gambling with price stability. This, in part, explains why investors are so very keen on German property. Though it is worth noting the record prices paid in Paris too in spite of the threat of the weak economy and record taxation.  Sovereign Wealth Funds and other large investors are increasingly focused on property purchases across the Eurozone in spite of floundering economies.

The new property story is urban residential because higher inflation will push more people out of home ownership. Rents are rising everywhere. The solution should be straightforward: build more multi-family apartment buildings. But, as it turns out, pension funds and endowments have never viewed this as an investable asset class. The Wellcome Trust recently broke cover by announcing it would enter this space. How amazing in 2013 to find that the big money is so entrenched in urban commercial and only just discovering urban residential as an asset class.

We should not forget that governments benefit from higher property prices because this increases the tax take.

Property may prove, yet again, to be a great inflation hedge but investors should be aware that any profits will inevitably be shared with the government.

*Pippa Malmgren, President of Principalis Asset Management, and a former Special Assistant to the US President, will deliver an outlook for the European and global economy on the opening morning of the conference. Twitter: @DrPippaM*

Dr Pippa Malmgren, Founder of Principalis

> The Fed will both bless and ignore the asset bubble their actions will inevitably create.

### ULI Europe Annual Conference Programme

### Main Conference Day: 5 February 2014


| | |
|---|---|
| 08:45 | Welcome & Introduction |
| 09:00 | Economic Outlook |
| 09:25 | Capital Flows & City Success |
| 09:50 | Southern Europe – What is Really Happening on the Ground |
| 10:30 | Infoburst: ULI Awards for Excellence |
| 10:45 | Coffee Break |
| 11:15 | Which Countries Are Really Getting to Grips with their CRE Loan Problems? |
| 12:00 | Concurrent Sessions<br>1. Alternative Investments – Growth of Hotels as a Core Sector<br>2. Occupiers |
| 13:00 | Networking Lunch |
| 14:30 | "Empire State of Mind" – Going Green Means Good Business – Learnings from the Empire State Building |
| 15:15 | Healthy Cities: Does the Theory Work in Practice? |
| 16:00 | Coffee Break |
| 16:30 | Concurrent Sessions<br>1. Young Leader 'X' Factor Session - Sustainability<br>2. Opportunities in Africa |
| 17:35 | What's Next? |
| 18:00 | Conference Close |

ANNUAL CONFERENCE 2014

# Europe gets to grips with debt

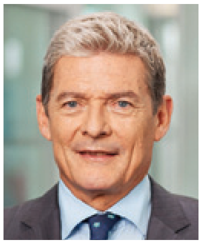
**Olivier Piani, CEO of Allianz Real Estate, discusses commercial real estate debt issuance and the re-emergence of liquidity across Europe.**

Things are starting to look up. If we think about where funding is coming from and how different markets are dealing with real estate debt, I would say that liquidity and debt are making a significant return to the market. Although we saw some CMBS issuance in 2012 and into 2013 it was mainly restricted to German and residential assets, and this is the first time the market has truly reopened.

Real estate companies are still going directly to the financial markets to raise money, but they are looking for persistently low interest rates. Against this backdrop an increasing number of non-financial institutions, like insurance companies or people putting together funds, are entering the real estate lending market and taking over an area traditionally dominated by the banks.

This has been a dominant feature of the market in the UK and US for some time, but logically there is a likelihood that this trend towards alternative forms of financing will begin to extend into new territories like Spain and Italy. In my opinion, once people feel more comfortable putting equity at risk, we will see an upswing in lending across some of the more exotic locations around Europe.

However, aside from what is happening in the UK, insurance companies across Europe are still only able to fulfil a tiny proportion of the financing need. Although they will undoubtedly want to do more, the overall amount of money coming through will still be limited and there remains some way to go before we are able to plug the lending gap.



Olivier Piani, CEO of Allianz Real Estate

Looking ahead to 2014, I think overall we will see much of the same. Despite what we hear about economic growth and upturns in employment data, I don't think the real estate environment will change significantly. Although there is more liquidity and the financial markets are working more efficiently, margins will continue to be compressed for some time. A lot of financial institutions are willing to lend, but not at any cost, and if prices fall too far then, of course, they will stop lending for a while. Ultimately there are no quick solutions and, until the markets completely stabilise, some of the fundamental issues around funding will remain.

*Olivier Piani will be participating in a panel session entitled 'Which Countries Are Really Getting to Grips with their CRE Loan Problems?' at this year's ULI Europe Annual Conference.*

# Capital Flows and City Success

**Colin Lizieri, Grosvenor Professor of Real Estate Finance and Fellow of Pembroke College at Cambridge University, examines the relationship between real estate, capital flows and city success.**

Commercial real estate investment became increasingly global in nature in the decade leading up to the onset of the global financial crisis. Jones Lang LaSalle figures suggest that some 50% of private commercial real estate transactions were by foreign buyers in 2007. This trend survived the market correction with the foreign share of transaction activity exceeding 40% in 2012. Investment in many major urban markets is dominated by non-domestic buyers, creating downward pressure on cap rates and reversing the price corrections of the 2007-2009 period. Many domestic buyers have been priced out of prime markets in global or gateway cities.

However, commercial real estate investment is strongly concentrated. RCA figures for acquisitions from 2007 to the end of the first half of 2013 show that 33% of investment occurred in just eleven cities. Indeed, 32 cities capture half of all real estate investment. Office investment is still more concentrated. What drives this pattern of investment? What do investors seek in the small number of global cities that dominate their acquisitions? Our investment theories suggest that international investors should seek diversification gains to maximise their portfolio risk-adjusted returns; that they should be motivated by expected return.

Colin Lizieri, Professor of Real Estate Finance at Cambridge University

In volatile, uncertain market conditions investors may seek safe havens or focus on cities and regions that appear to offer liquidity right across the cycle, allowing them to place capital quickly in hot markets and exit without undue delay in cold markets.

Do those cities really provide these claimed investment benefits? Certainly weight of capital has driven prices upwards in such cities but there is evidence that these markets experienced larger falls in value and greater volatility over the financial crisis - when diversification was most needed. In the crisis, office capital values in European cities that were highly ranked as global centres on average fell by 7% more than cities that were less tied into international networks; the global cities exhibited greater capital value and rental volatility.

Furthermore - an idea explored in my book Towers of Capital - values and returns in major global markets tend to move more closely together and are more linked to price movements in other asset markets and shocks in capital markets. This suggests that a careful assessment of the qualities of cities as targets for investment and as a basis for diversification may be needed.

A more general question arises - one central to ULI interest in successful, sustainable and liveable cities. What is the relationship between indicators of a city's success and commercial real estate capital flows? Do capital flows follow city success or do they lead and contribute to that success? What are the barriers to property investment and how do these affect urban development?

These issues are the subject of a programme of research under way at the University of Cambridge's Centre for Real Estate Research. Finding robust and consistent data to investigate these questions is challenging - but the results should be of interest not only to investors but to urban planners and city managers alike.

*Colin Lizieri will address the ULI Europe Annual Conference on Capital Flows and City Success.*

ANNUAL CONFERENCE 2014

# Confidence on the Rise in Southern Europe

**Pere Viñolas, CEO of Inmobiliaria Colonial, talks about the changing face of real estate in Southern Europe.**

Pere Viñolas, CEO of Inmobiliaria Colonial

Confidence in European real estate is gradually rising, with investors seemingly more willing to take on risk than at any other time since the 2008 financial crisis. However, in an industry that is increasingly global in nature, the way in which capital is being deployed is starting to shift, as investors shut out of previously core markets seek yields elsewhere.

Against this backdrop Southern Europe is starting to look increasingly attractive, particularly with many of the leading banks and financial institutions across the region now making headway in working out their loan portfolios and divesting distressed assets.

Inmobiliaria Colonial is one of the leading players in the Spanish property sector with a European portfolio valued at more than €5.3 bn, and for them, the opportunities are clear. "We have seen a dramatic change in sentiment across Southern Europe in the last six months, particularly in our home country of Spain," comments Pere Viñolas, CEO of Inmobiliaria Colonial. "This has led to a major increase in transaction volumes, where significantly the main driver has been investment from abroad rather than local money. A year ago we were only seeing a very limited number of domestic transactions, but now foreign money is entering the market in a very real way, particularly from opportunistic fund companies,"he explains. "There has been a common assumption that Spain is undergoing an interesting period in its economic cycle, particularly in terms of pricing compared with historical data," Pere adds. "Yet until now investors have held back from entering the market because of fears around the wider restructuring of the Spanish financial system. While we were experiencing so much macro imbalance, with a very real risk of Spain leaving the Euro, there was too much uncertainty. However, now that it seems clear we won't experience a macro disaster, investors are far more comfortable with the fundamentals, and this seems to be the main driver."

Looking outside Spain, Pere sees similar levels of interest across Southern Europe, and emphasises how important it is not to look at any country in isolation. "As a global investor, you need to look holistically at Europe as a whole and see how one country looks relative to other markets. A couple of years ago, it was a safe bet for investors to remain in core continental European cities, but today the returns are not so obvious. When yields are low, it starts to become more appealing to look at alternative regions, particularly when the core markets do not look as strong as they did by comparison. There are good returns to be had, but you need to look for them."

In terms of what the future holds, Pere believes that alternative forms of investment, including pension funds and insurance companies, will play an increasingly significant role in the southern European real estate market.

He concludes by saying: "We have only seen isolated examples of alternative forms of investment in the southern markets so far, but this is likely to change over the coming years. At the moment alternative investors are concentrating on core markets like London, but their natural strategy will be to expand into Spain and Southern Europe once the markets become more stabilised. The next few years look to be very exciting for Southern European real estate."

Pere Viñolas will be participating in a panel session entitled 'Southern Europe - What is Really Happening on the Ground?' at the ULI Europe Annual Conference.

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## KEY DATES

**ULI Europe Annual Conference**
4-5 February, Paris, France

**ULI @ MIPIM 2014**
11-14 March, Cannes, France

**ULI Spring Meeting**
9-11 April, Vancouver, Canada

**ULI Asia Pacific Summit**
20-22 May, Hong Kong

**ULI Real Estate Trends Conference**
18-19 June, London, U.K.

**ULI Germany Urban Leader Summit**
2-3 July, Frankfurt, Germany

**ULI Europe Leadership Retreat**
18-20 September, Madrid, Spain

**ULI @ Expo Real**
6-8 October, Munich, Germany

**ULI Fall Meeting**
21-24 October, New York City, U.S.

**ULI Germany Leadership Award and Urban Leader Forum 2014**
27 November, Hamburg, Germany

**ULI Charitable Trust Dinner**
2 December, London, U.K.

## ULI MEMBERSHIP

Since we launched in Europe ten years ago, ULI's programme of work has grown enormously. We are now providing members with in-depth research, high quality events, premium networking opportunities and pro-bono work for the greater good of local communities.

*Join us today at europe.uli.org*

This newsletter is generously supported by ECE