Real Estate Markets and the Economy: European Insights

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INTRODUCTION

In 2012, the Editor in Chief of Real Estate Issues®
Mary C. Bujold, CRE, *and other Counselors of Real Estate discussed the idea of contacting our fellow CREs in Europe to participate in a European roundtable discussion for this journal. This discussion would be held to have those closest to the various European Union (EU) economies provide insight and perspective on their respective real estate markets and the current economic situation throughout the EU.*

We reached out to a number of CREs and our fellow Royal Institution of Chartered Surveyors (RICS) members, requesting participation in the roundtable discussion. Because of the significant geographic dispersion of these individuals, the format included questions sent to the participants via email, and then followed up with documents to solicit additional input.

About the Moderator

Mary C. Bujold, CRE, *editor in chief of* Real Estate Issues®*, president, Maxfield Research Inc., Minneapolis, Minnesota, is considered a market expert in the field of residential real estate and in market analysis for financial institutions. As well as providing strategic direction for the firm, Bujold heads project assignments for large-scale land use and redevelopment studies, including downtown revitalization for private developers and municipalities in the Twin Cities and in the Upper Midwest. Her work spans public and private sector clients, including institutional clients. Bujold also regularly testifies as an expert witness for eminent domain, tax appeal and other types of real estate litigation. She holds a bachelor's degree in business administration from Marquette University and a master's degree in business administration from the University of Minnesota.*

Context and European Background from Alfons Metzger, CRE

In order to present serious answers to the questions that are posed for this discussion, it is important for readers to be aware and knowledgeable about the development of Europe, primarily during the past decades.

Europe is comprised of separate national states, each of which has an autonomous national government and legislature that varies from country to country. In addition, each country has its own national language. The United States, China and also India are comprised of federal states with a central government. Even though each federal state has its own government, the general administration is governed in one location, for example, Washington, D.C., in the U.S.

A united Europe has its origins in 1947 when the Paris Peace Treaties were signed, establishing peace throughout Europe following World War II. This was an absolute peace project that has developed over time into an economic project.

Until 1989, Europe was a divided continent. On one side was Western Europe, from the United Kingdom to Austria. On the other side was Eastern Europe, from Czechoslovakia to Slovenia and up to Russia/Ukraine. In 1989, the collapse of Communism in Eastern Europe and the fall of the Iron Curtain paved the way for a formerly divided Europe to become a joint economic power.

Europe has evolved into a pan-European region. The former Communist areas had a dramatic, pent-up demand in political, economic, social and other fields, and needed to catch up to Western European countries.

The Eastern European area has become the place for some of the best investment opportunities in the world. Many investments have occurred, including speculative ones. However, development in the political, economic and social arenas has not been consistently uniform.

Because of the integration of the Eastern European states into the European Union, armed conflicts have been avoided similar to those that occurred between the former Yugoslavia and Albania. Most of the Eastern European countries still are considered "developing" nations and have significant pent-up demand in various fields, especially in their respective real estate economies.

The rest of Europe already has provided those countries with support measures in the past, and will continue to do so in the present and future.

In the course of globalization over the past 20 years, the speculative influence of other countries in Europe has also been present.

The indebtedness of various European countries must be viewed from the perspective of the overall development of Europe. If those aspects are considered and economic data is apportioned among all of Europe, then Europe is in an absolute top position to compete internationally as a continent.

The European Union has 27 member states, and Croatia is planned to join in the near future.

The headquarters and the parliament of the European Union are located in Brussels, but there is still a lack of centralized power to control the individual national activities of member states.

To summarize, the European Union remains in a development phase, with many tasks yet to be fulfilled. However, it shows great promise with many significant developments and strong economic forecasts.

DISCUSSION

BUJOLD: Overall, with respect to the economy, the European Union, the European Central Bank and your government: where is your greatest concern?

KUEHMAYER: Global economic ties have reached a level whereby no matter the geographic location of an economic/financial crisis, the entire world will be affected. There is currently an outspoken goal within the European Union to solve the problems that arose from the recent financial crisis. I would be concerned if the leaders of the EU countries would change that goal because of national priorities. In the Fourth Quarter 2012, the euro zone economies faced a recession of 0.6 percent. This is higher than expected and is largely a result of further crisis among the countries of Southern Europe.

METZGER: I am very concerned that Europe and the Europeans are not fully aware of their values and do not react against views from the outside.

BERENDES: I am most concerned about rising unemployment rates in many EU countries, especially for young people. In Spain, the unemployment rate for people under 25 years of age is 50 percent; in Italy, it is 37 percent; and in other countries, it is also high. I believe this is likely to cause social problems in the near future.

SMITHING: The Hungarian government has a well-deserved reputation for unpredictability, taking an unorthodox approach to the economy, and displaying little respect for international organizations or the governments of other countries. In my opinion, they are a little like the North Korean government without the nuclear weapons.

WAINWRIGHT: I am most concerned about the level of public expenditure, which the various EU governments seem incapable of bringing under control, combined with the continuing programme of Quantitative Easing. The UK is still running a budget deficit and the overall level of public debt continues to rise. There has been a strong and aggressive policy toward raising and collecting taxes, but tax receipts are falling because of the contraction in the economy, and public expenditure is still rising. Something will have to change as the current situation is unsustainable. In the UK, one of the greatest threats is the rising level of expenditure on the National Health Service, which has been awarded "sacred cow" status by the British public. While it does not deliver the best or most efficient health services, there seems little willingness to consider alternative solutions as are used in the rest of Europe. There is also concern about the level of public expenditure on income support and benefits, and concerns that the problem will be exacerbated by a rising tide of immigration from new EU states, such as Bulgaria and Romania.

BRISSON: Consumer and economic confidence remains fragile and volatile as stock exchanges continue to move up and down with various news pieces of the euro zone resolution. We need political courage from our European governments to restore confidence and show the sovereign debt crises can be dealt with in an effective and predictable way, and economic recessions and unemployment tamed.

About the Panelists

Hans-Ulrich (Ulli) Berendes, CRE, *owner and CEO, Berendes & Partner Consulting GmbH, Hamburg, Germany (founded in 1995), has been active in real estate for more than 25 years, beginning his career in the real estate leasing division of Deutsche Bank. In 1990 he joined Völkers King & Co. Group Hamburg (later King Sturge Germany and now part of Jones Lang LaSalle) as managing director and shareholder. Berendes is an experienced networker who believes in face-to-face business, and brings all his personality to his client and partner contacts. He holds academic degrees in business administration and master of economics, and is a member of CRE, SIOR and FRICS. His company is affiliated with CORFAC International and has offices in submarkets in Germany, including Hamburg, Berlin, Frankfurt, Munich and Stuttgart. His firm also maintains an office in Poland and is represented around Europe by partners in the Q-Immo Network.*

Marie-Noelle Brisson, CRE, FRICS, *Paris, is currently an independent consultant, serving as strategic advisor for a large French REIT (Icade) and counseling various European investors and servicers in real estate investment. Brisson has more than 20 years of experience in commercial real estate and finance in the U.S. and in Europe. She has held various executive positions in real estate underwriting as a rating analyst, servicer, investor, issuer and lender in the U.S. and Europe for global market leaders such as the World Bank, Bank of America, Security Pacific Bank, E&Y, GMAC Commercial Mortgage, and Standard & Poor's. Brisson holds a degree from Sciences-Po Paris, a post-master degree in urban planning from the Institut d' Urbanisme de Paris, and a real estate diploma from New York University where she taught a seminar on market research, due diligence and feasibility analysis. She is a designated member of the Appraisal Institute and The Counselors of Real Estate, and a Fellow of the Royal Institution of Chartered Surveyors.*

About the Panelists

Tomáš Ctibor, CRE, FRICS, *founder, C.T. Development S.r.o., Prague, Czech Republic, is a real estate developer and consultant specializing in development projects and consultancy in real estate and urban development. Since 2007, Ctibor has been teaching at the Department of Urbanism at Faculty of Architecture of Czech Technical University in Prague. In 1989–1990, following a short political career (member of the advisory board of the Secretary of Education, member of Parliament and advisor to the Deputy Prime Minister), he co-founded a private company, B.I.R.T., which specialized in real estate counseling. Between 1996 and 2000, he served as a chairman of the steering committee of AFI (Association for Foreign Investments). From 1998 to 2000, Ctibor also worked as a member of the steering committee of the Czechinvest investment and business development agency. In 2013, he accepted an offer to become the head of the Strategic Planning Department of Prague's City Development Authority, with the responsibility of leading and coordinating the development of a new strategic plan for the city. Ctibor studied architecture at the Czech Technical University and the Academy of Arts, Architecture and Design in Prague.*

Leopold Kuehmayer, CRE, *managing partner, Central and Eastern Europe, TPA Horwath, Vienna, Austria, is a tax advisor with more than 20 years of experience in real estate counseling. Kuehmayer was involved in project management during the expansion of TPA Horwath in CEE. He specializes in advising on VAT issues in national and cross-border business, tax consulting, financial statements, tax planning and compliance. Much of the focus of his work in real estate lies in operational and external areas and property ownership models as well as the outsourcing of investment portfolios and financing consulting. From a regional perspective, his consultancy focus is on structural advice in investments in Central and South Eastern Europe, as well as in the organization of legal forms. Kuehmayer is a member of the EMEA Tax Committee of Crowe Horwath International.*

KR Prof. Dr. h. c Alfons Metzger, CRE, FRICS, *founder and CEO of MRG Metzger Realitäten Beratungs-und Bewertungsgesellschaft mbH (Metzger Real Estate Group), Vienna, Austria, has been active in real estate since 1966 as a real estate valuer, trustee and national and international real estate consultant. He is qualified as a Court Certified Real Estate Expert and a Licensed Estate Manager. His firm specializes in national and international real estate consulting and valuation. Metzger has served as president of the FIABCI Congress Committee and World President of FIABCI International. Metzger also serves as an executive member of the Global Housing Foundation, which helps solve housing crises worldwide; delegate of UNECE, a real estate market advisory group; and member of the IVSC (International Valuation Standard Committee). Metzger established the national chapter RICS Austria –The Royal Institute of Chartered Surveyors in 1997, and now serves as acting chairman of the Board of Directors/European CRE Chapter.*

Alexander Neuhuber, CRE, founder and CEO, *Magan Holding GmbH, Vienna, Austria, has more than 25 years of experience in real estate, and currently serves as a property investment consultant for wealthy private and institutional clients. Presently, for some clients, his firm also acts as co-investors in Germany, Bulgaria and Rumania. In 2004, his firm expanded to the Berlin market and since 2009, the firm's subsidiary in Berlin has been providing an international clientele with consulting for investments in residential properties in that city. Prior to founding his current firm in 2001, Neuhuber owned DTZ Neuhuber—then considered the number three real estate firm in Austria— which he subsequently sold. Neuhuber began his real estate career in 1988 and shortly thereafter founded his first real estate firm, known as Neuhuber und Partner Immobilien GmbH.*

NEUHUBER: The economic crisis in Europe has become something of a normal phenomenon. The initial panic after the Lehman disaster and fears of a crash in Greece were followed by a mixture of resignation and calculated optimism. Europe must face the big question that any respectable merchant must face: Are we able to repay the debt burdens accumulated in recent years and reduce the inflated amount of money?

CTIBOR: Europe has undergone many unification processes over the past few years, but still remains a diversified union. Solutions that are being put on the table must respect this fact and avoid overgeneralization, which results in a restriction of the existing diversity. Some economic and fiscal tools that have been discussed recently seem to be unreal or in direct contradiction to realizing an effective impact. The main problem, with respect to the EU structures, is the range of instruments that are used for certain goals. It is always necessary to carefully evaluate whether a generalized provision is reasonable and brings measurable benefits. There are some criteria and some regulations that soon after their adoption have turned out to be not beneficial. Holding to previous agreements that have been unsuccessful makes the entire process less credible.

BUJOLD: Where do you have the greatest confidence?

BERENDES: I have the greatest confidence in the euro. Since it was implemented, it is essentially a success story. We started with a currency value against the dollar of nearly $1.10 and even in the hardest economic times today, it is quite stable at around $1.30.

KUEHMAYER: The European Union is an economic union. One of its goals is to integrate most of the European states in order to have the larger Union exert more influence on the member states and solve the problems of these states arising from differences in the economic power (and in that way avoid conflicts between the countries). There are still large differences in the economic power of the individual EU member states. I am confident, however, that the original idea works and the economic hurdles can be solved better in the union than in each state as a single entity. And, there is huge potential for growth in the CEE/SEE (Central East European/ South East European) countries in the long-term. And Germany's forecast for the First Quarter 2013 is already very positive in the short term.

METZGER: I have the greatest confidence in Europe and the European people, as well as their development, since today's Europe has a significant historically grown power to provide the continent with a new form and a positive future leading global competition.

SMITHING: The EU is a stabilizing factor for Hungary. I do not, however, anticipate any significant changes in our economic fundamentals or political situation in the near-or medium-term future.

CTIBOR: It is the difference of each participant's point of view that gives the community the ability to perceive details and particular opportunities. This can lead to finding the right solution.

NEUHUBER: This is not the end of the world. No seriously, I trust in the economic strength in Central and Northern Europe and the readiness to provide services. Europe's economic and political stability are strong enough to overcome this crisis as well.

BRISSON: A first step has been taken to secure EU-wide financial security and make progress in resolving the debt crisis. The European Central Bank will supervise the bloc's largest financial institutions and intervene with struggling smaller banks. Through different formats, bank recapitalization is on the mend and the LTROs (program of the European Central Bank similar to US' quantitative easing) certainly have eased the credit crunch but they also have "kicked the can down the road," not structurally solving the liquidity issues. Capital inflows are improved from the last two years and we should see greater cross-border investments in 2013. The funding gap will likely be partly filled with alternative funding coming primarily from insurance companies and other funds.

About the Panelists

Michael P. Smithing, LEED AP, FRICS, *director/Green Building Advisory Services, Colliers International, Budapest, Hungary, joined Colliers in 1993 as an office broker specializing in tenant representation. For nine years, Smithing led the Hungarian Colliers team. He specializes in creating and executing innovative solutions to problems, and is committed to promoting green building practices across Central and Eastern Europe, with a focus on using sustainable practices to increase asset values. For the past two years, Smithing has focused on sustainability and achieved certification as a LEED professional. He currently leads the Real Estate Management Services Team in Eastern Europe and is working on a number of LEED accreditations for properties in Hungary. Smithing is a member of the Royal Institute of Chartered Surveyors (RICS) and is chairman of the RICS Hungarian Board.*

Simon Wainwright, BSc (Hons) FRICS, *is managing director and co-founder of J Peiser Wainwright, and has more than 30 years' experience in UK commercial property markets. Wainwright began his career at Dron & Wright, Knight Frank and St. Quintin before starting his own practice in 1993. Over the past 20 years, Wainwright has established a reputation for providing independent professional advice on properties throughout Central London. Wainwright is a graduate of the University of Reading and is a Fellow of the Royal Institution of Chartered Surveyors (RICS). He is a board member of the RICS Commercial Property Markets Professional Group, holds an Expert Witness Certificate from Cardiff University School of Law and is a RICS Registered Valuer. Wainwright is the author of several published papers and lectures on the subject of property investment, valuation and development.*

WAINWRIGHT: I have the greatest confidence in London, which is a world-class, vibrant and dynamic city in which to live and work. It sits in stark contrast to the rest of the UK and operates as a "state within a state." What is required is to bring this vibrancy to the rest of the UK? Improved communications and less expensive housing are seen as the solutions to open up London to the rest of the UK. The recent fall in the value of sterling against the euro and dollar has caused significant increases in the price at which real estate is being transacted, with foreign buyers accounting for the majority of recent purchases in London.

BUJOLD: What do you see as the greatest challenges and the greatest opportunities?

SMITHING: The greatest challenge, in my opinion, is restoring confidence among international investors. The greatest opportunity is that the lack of foreign investment may lead to the increased importance of Hungarian capital. Unfortunately, this appears unlikely as financing is essentially unavailable. However, Europe came out of the Middle Ages stronger than it went in. Over the course of the next few years, Hungary may be able to fight its way out of its current situation without external assistance.

BRISSON: From a macro-economic viewpoint, bringing public deficits down and curbing unemployment are certainly the greatest challenges. On the real estate side, I see three areas that are both challenges and opportunities: buying debt or restructuring bank assets and asset/loan management; investments in Southern and Eastern Europe; and, thirdly, the greening of buildings. There are enough troubled assets and loans on bank balance sheets but the disposition of those has been sparse. Even in Ireland, Spain and the UK where there have been the most NPL sales, the disposal activity has been less than the need would lead you to think. Still, good asset management skills for either bricks and mortar, or loans, are sought after.

The crisis in Southern Europe represents buying opportunities, with utmost care. If well-located and well-built assets in Spain, Greece and Italy are well-priced, they could be an attractive alternative to Irish assets.

Finally, European countries have established tough environmental standards for building. "Green credentials" are now a requirement and have generated more expensive new construction and investment. Existing buildings not yet to code will have to be refurbished. But those too far gone or poorly located will need to be either demolished or completely restructured. This creates more investment opportunities and should boost building trade activities.

NEUHUBER: The greatest challenge, as I mentioned, will be to pay back the enormous debts run up by the states. Yet, one has to see first how European national economies react to a future rise in the interest rate (the current interest rate at its level of near zero is not a *perpetuum mobile*). For the moment, I don't see great opportunities for the continent as a whole. Asia and the rapidly growing national economies represent too large a challenge.

METZGER: The greatest challenge is to shape the European central government in Brussels and to place the national aspects as a lower priority. Another challenge is to defend against the influence from outside regarding the standards and principles vis-a-vis the powerful central government. Europe's greatest potential is to effectively balance the Eastern and Western European differential, which will open up significant investment opportunities in the former Eastern Bloc countries.

KUEHMAYER: I see the greatest challenge within the EU as the high unemployment rate among young people within many (especially southern) EU countries (23.4 percent in 2012 was the EU average). Along with the budget deficits and the public debts, this is a situation that is challenging for the involved parties.

The European Union has 27 member states and the euro zone consists of 17 European countries. One reaction of the euro zone countries during the crisis was a rising unemployment rate. Non-euro zone member states had the possibility to devalue their local currencies and could largely avoid a significant increase of their respective unemployment rates by doing so.

The labor law in some countries is much in favor of the (long term) employed people, and that is the reason why young people are in a poor position when applying for jobs. There is the opportunity to solve the legal hurdles involved in these situations and, therefore, increase job opportunities for young people.

WAINWRIGHT: One of the greatest challenges is the planning system in the UK, which is stifling development and economic growth. Radical changes are required to make the UK more pro-development. The high price of housing in London and the South East is the direct result of shortages of supply and high levels of demand. Changing patterns of demand for offices and redundancy in the current stock are providing many opportunities to convert offices to residential units. This trend is set to continue with the proposed relaxation of planning use classes.

Demand for offices in London is currently limited to the smaller end of the market, with few major financial institutions seeking new accommodation. A number of recently completed larger developments remain vacant, with owners reluctant to split floors into smaller units.

The retail sector in the UK is probably the most challenging, with the impact of the larger supermarkets, the online shopping revolution and retail warehouse

parks combined with high business rates (local property taxes) having a marked impact on the traditional high streets, which are in serious decline. This is apparent from the high number of tenant failures in the retail sector, with a new national multiple retailer filing for administration (Chapter 11) every week. The current focus is on transforming high streets, with local specialty shops, restaurants and coffee bars providing personalized service in a rebellion against the national multiple retailers.

CTIBOR: The European Union should abandon unilateral thinking. Debates on the topics of key problems must be open, without prejudice. It is important to enable more EU organizations and groups to be involved in the discussion, not only the European Commission. Without the ability of unrestrained reflection on our situation, we cannot move forward. Directives that did not bring the desired effects have to be reevaluated. Revoking agreements that were unsuccessful at implementation cannot be viewed as a sign of disintegration, but as an important part of a process of facing multiple challenges. The greatest opportunity may be just in the model of a truly open discussion where each member can take part in an integrated process, not a one-way process that is replete with political and emotional precautions and apprehensions.

BUJOLD: What measures do you think should be taken to resolve the current economic situation (political, monetary, economic)?

BRISSON: Confidence in politicians and in the banking system and markets in general has been so eroded, it is difficult to say. There are, however, signs of new directions and improvement bringing us out of the tunnel.

The European Commission's legislative proposals for bank resolution and recovery are a good beginning. As I mentioned earlier, the European Central Bank has stepped up to the plate and has been an effective shock absorber.

By building the single rule book for EU financial markets and ensuring its consistent application across the EU, the ESMA (European Securities Market Authority) now contributes to the supervision of financial services firms and rating agencies with a pan-European reach and also has begun to put some order in the governance of financial institutions. Sovereign debt, of course, needs to be dealt with, and with pain from both private investors and governments.

METZGER: As I mentioned earlier, a powerful government in Brussels is required in order to ensure an expansion of the euro and support attractive positive development of the EU economy.

BERENDES: The members of the European Union have to find a combined solution between austerity and investing in the future. Bureaucracy has to be cut back and states like Spain, Italy, Greece and Cyprus, which spent money like crazy during the past few years, have to come back to a balanced budget. Furthermore, banks' gambling and greed have to be stopped. To divide banks between the investment and so-called normal activities could be a first step in the right direction. I believe that money at the moment is far too cheap and I am worried that what we experienced between 2004 and 2008 may come back. Perhaps in a slightly different way, but investment banks seem to have already forgotten where the mess came from.

CTIBOR: Rational behavior, discussion about differences and no prejudices in political questions—these are elementary principles, always valid, but even more important today. Tools that we are using or discussing these days, such as fiscal union, common taxes, etc., are just formal principles. We have to fill them with reasonable content. If the implementation of a specific tool results in wide resistance, it is not judicious to push it through by force; we must be able to have rational debates about it. The European Union is a great opportunity for each member, but it is necessary to consider how best to integrate all members. Presently, the EU does not pay enough attention—neither in discussion nor in practical implementation—to some themes that are very important for economic growth (e.g., infrastructure, investments in energetics), while others such as CO_2 reduction policy receive the spotlight. An independent evaluation of the advantages and disadvantages of the tools available is necessary to remain competitive as an EU community.

WAINWRIGHT: A dramatic shift in the way the UK delivers public services is required. This calls for some radical thinking, with privatization being the obvious solution and empowering people by giving them the ability to choose their services directly, thereby removing a layer of bureaucracy. This is a significant challenge as outside of London and the South East, between 50 percent and 80 percent of the UK workforce is directly or indirectly employed by the public sector.

There is a proven need for more housing and better infrastructure. The UK is currently facing an energy crisis caused by years of procrastination about building more power stations. Similar decisions about transport

infrastructure have been put off, such as high-speed rail and new runway capacity for London and the South East. These projects and increased homebuilding urgently need to go ahead, which should stimulate the economy. What is required is a re-focusing of public expenditure from the revenue account (health services and benefits) to the capital account (infrastructure) to enable new construction and development by the private sector.

KUEHMAYER: Leaders should find a way out of the unhealthy situation of cutting public spending and, in that manner, creating a climate of non-confidence and a negative investment climate. The way out of this situation is to find a way to stimulate the positive investment climate.

Currently, there is a shortage of loans. Fighting the European banking crisis created a lot of new legal (bureaucratic) rules for banks. The new rules stated that banks had to change their lending/risk policy to a wide range of investments where it was not a problem to receive loan financing until 2009. Currently, there is almost no possibility of being able to obtain a bank loan. There should be a re-thinking of the new regulations in light of the current shortage of bank loans.

SMITHING: Riots, mass insurrection or political assassinations might encourage the Hungarian government to follow the advice of the EU, IMF, international investment community, foreign press and everyone else who have provided detailed, well-reasoned answers to this question.

NEUHUBER: Even Nobel prize winners have a great deal to discuss in terms of mastering the financial and economic crisis ideally. Basically, there is the principle of running up limitless debt (see also the U.S.) as opposed to a stringent monetary policy that has been practiced by the European Central Bank for a long time. For both alternatives, there are "pros" and "cons." The solution will probably be the "happy medium." This may have to do with the classical Austrian attitude toward time; not to run up debts that cannot be repaid (just as in Greece) and at the same time, not to block every kind of economic performance because of austerity measures that are too strict. After imposing a single currency on national economies in different phases of development (Central Europe versus Southern Europe) and with divergent mentalities, it has become clear how difficult it is to implement the idea of a true common economic market and the European peace project. In addition, there are nationalist anxieties (e.g., Great Britain and Hungary), which means that a "shallow" confederation (the idea of federal states) is rather a long-term project. It is, therefore inevitable, even if patriotic feelings are being hurt, to transform the European Council into a European government with a common economic and fiscal policy. The latter is absolutely necessary in order to reduce fiscal competition among EU member states (examples are Greece, where the imposition of taxes is non-existent, and Cyprus, where we mainly bailed out huge foreign assets that had been transferred to Cyprus).

BUJOLD: How do you view the property and investment markets currently and in the future, as a result of the current economic situation? Where do you have confidence?

NEUHUBER: Economically, Europe is a continent that consists of countries whose stages of development and speeds vary. Consequently, the distribution of capital flows differs considerably when it comes to finding a safe "haven" for investments. In many national economies of Southern Europe, such as Spain and Greece, it is difficult to attract investment capital; yet countries that are considered safe as far as property investment is concerned, such as Germany, the largest national economy of the EU, or Austria (to a lesser degree for being smaller) are in great demand.

BRISSON: Prime assets in stable markets such as the UK, Germany and France will feed market flows. London, Berlin, Munich, Hamburg, Frankfurt and Paris were among the most active cities. As they get picked over and overpriced, secondary cities beckon.

Sovereign funds have become very active, and not only from the Middle East; the Norwegian fund, of course, has made a solid commitment to Europe. New ones are emerging such as the Azerbaijan fund buying a trophy asset in Paris. In 2012, France has seen 17 billion euro in commercial real estate investment, half of the 2007 amount, but still better than in the past two years. Insurance companies also have been active and have started to make a small dent in the funding gap where banks have been reluctant.

KUEHMAYER: As a result of the economic crisis, people invested increasingly in real estate in countries with stable property markets (e.g., Germany/Austria/Western Europe). In Central and South Eastern Europe, prices of real estate properties dropped dramatically. Prices in these

regions are now attractive again. This and the fact that there is a huge development potential in these markets are the reasons that economic growth will create a high demand for all kinds of properties as soon as investors trust these markets again.

BERENDES: The property and investment market in Europe is, against all odds, quite stable. Germany is seen as a safe haven, but there is not enough product on the market to feed the demand. Especially in the residential market, prices are increasing and we are seeing the first signs of a real estate bubble, especially in the attractive big cities and regions of Germany. The main problem at the moment is that banks are sitting on their loans and properties without doing anything. Because of the fact that they get the money from the Central Bank for 0.75 percent and still most of the properties sold or bought during the years of the investment hype are still performing, banks are making the best profits ever. However, there is a danger here. They have socialized the debts and are now making significant margins. We all have to face the fact that most of the properties will need new credit facilities within the next one to two years. The first big portfolios will be brought to the market, especially by the UK banks, and there are many to follow. This is again a challenge and an opportunity for all being active in the real estate market, but on the other hand, these distressed properties might flood the market.

SMITHING: From my perspective, I am seeing that banks have begun to take a realistic approach to repossessing and off-loading distressed assets. This process will accelerate over the course of the next 18 to 24 months, increasing market liquidity.

WAINWRIGHT: The market for property across London remains strong in all sectors, with the opportunity to add value by creating residential space remaining a strong imperative. In many cases, this results in mixed-use development with planners seeking to maximize the affordable housing component. The Central London office market is not oversupplied, but demand is down as a result of economic uncertainty. There is a view that a pick-up in demand will result in a rise in office rents once the available supply is absorbed, particularly at the smaller end of the market. Outside of London, property markets remain in the "doldrums."

CTIBOR: Because of a decline in the will to invest, investments have been concentrated in ventures that have the lowest possible risk level. This leads to an "overheating" of these sectors in the market, when prices are dictated by significant demand. This makes the whole market more vulnerable. For example, in the Czech Republic, the Class A office yield is relatively low—fluctuating around seven percent—and is being further suppressed by investors' seeking safety rather than by lack of supply. The higher market volatility is, the higher should be the yield because evolution dynamics shorten the life cycle of buildings.

METZGER: The dynamic development since the fall of the Iron Curtain in 1989 has led to a partly uncontrolled investment strategy, especially in the field of real estate in the former Eastern Bloc countries. Of course, there is high, pent-up demand in these areas. Various investments have occurred, which have not been compatible with the location and the still weak spending capacity; and other issues have led, in various cases, to substantial losses. These situations, however, were not the fault of the national group in charge, but the unprofessional behavior of investors. This was so prevalent in these markets that I had, at one point, considered becoming a valuation appraiser to assist these so-called professional investors who have invested according to the gold digger system rather than appropriately evaluating their risk-return ratios.

BUJOLD: About what are you most concerned?

NEUHUBER: I personally find that, at the moment, growth in the housing market, mainly in German conurbation areas, is too fast. The run does not necessarily have to last. Within the past two years, the housing investment market in Berlin has changed dramatically; demand has risen enormously, and pricing has reached a ceiling of what the local population can afford—a situation that has led to civil resistance. Now, even in Germany, they discuss the so-called bubbles in some areas. It is important to pay attention to the demographic development that greatly differs in various parts of Europe. Without population growth, the formation of a bubble is made easier.

SMITHING: Vacancy rates in the office and industrial sectors are exceptionally high. With little hope of a return to dynamic growth for the foreseeable future, the overhang

is unlikely to disappear, even with new development reduced to a trickle. In the medium term, assets will need to be converted to other uses.

KUEHMAYER: There are still a lot of bad debts in banks in Central and South Eastern Europe resulting from the consumption/purchase of real estate. There is, on the one hand, a risk for the banks that, I believe, they can handle. But the larger risk is a social one, (i.e., problems that politicians do not want to be exposed by homeless people).

BRISSON: Decision-making is slow everywhere and velocity has slowed as well. There is a lot of talk before anything can be done. Fiscal uncertainty is a concern, particularly in France.

WAINWRIGHT: There is a continuing shortage of property financing. New lenders are emerging for senior debt, but this is avoiding the riskier end of the spectrum and development finance. This shortage of debt finance has resulted in new equity buyers entering the market, but is restricting activity in the UK property markets. Private equity funds are also quite active, but seeking returns of 10 percent plus. Banks are still sitting on a large number of non-performing loans, or loans in default of their original loan covenants, and they are slow in releasing these back to the market. Many loans are due for repayment in the next three years and there is currently not sufficient capacity to refinance these. The result is continued loan extensions, and the arrival of Basel III is likely to impose even greater limitations on the banks.

BUJOLD: What are the greatest challenges and the greatest opportunities?

METZGER: Europe, especially the Eastern Bloc countries, belongs among the most important and largest investment markets of the coming decade. The requirement, therefore, is that the investments occur in a controlled and demand-oriented manner.

BERENDES: Though there may be some disagreement over this, overall, I believe that Europe, especially countries such as France, Germany, Switzerland, Austria and Scandinavia are still strong performing markets with good opportunities for foreign and European investors. The European markets, with the exception of the UK market, were never too speculative to trade property, but rather kept properties for long-term investment as a safe part of their portfolios.

SMITHING: I believe that I outlined the greatest challenge in my previous statement. The greatest opportunity will be the purchase of development land at "distressed" prices—although these prices will likely be comparable to land prices in the 2000 to 2003 time frame. Land has not generally come under pressure from banks yet as there is not income potential, and banks are thus hesitant to repossess.

CTIBOR: The local market—the Czech Republic—is currently obsessed by a strong lack of confidence. This common fear has manifested in a significant amount of money being kept away from the market. An increasing disillusionment will certainly only deepen this negativity. Mortgage interest rates of less than three percent cannot lead to an acceleration of the market, but they bind banks into long-term, low profit contracts.

The only chance to avoid this bias is to re-establish the credibility of markets. In many cases, the development is closely related to public money, or institutional private investments. But their behavior can be easily influenced by irrational trends. I believe that only non-institutional private sector entities can solve the problems and avoid solutions that merely conform to the norm.

BRISSON: London is starting to overheat, and more generally the chase for prime assets has raised prices and is pushing investors to take more risks in exploring alternative markets and transactions in local pockets of opportunities. The CMBS market is opening up again after four consecutive moribund years. With maturity walls in 2013 and over the next few years, refinancing remains an issue that will hopefully be addressed by "shadow bankers." Debt will play a key role in 2013.

WAINWRIGHT: There is currently an over-capacity in the UK real estate industry, with insufficient business for the number of real estate professionals. This has resulted in competitive pricing for real estate services, takeovers, mergers and consolidations in the industry. The challenge is for real estate professionals to find new ways of adding value and provide new services against a background of limited occupational demand, an impending shortage of modern stock and a shortage of finance.

For well-financed occupiers, there are some interesting opportunities for owner occupiers as the occupier is undoubtedly "king" in today's market. One simple fact remains: buildings wear out and leases come to an end; these are the opportunities for tomorrow.

The rising cost of energy will continue to be a phenomenon that we must deal with. The current modern stock of offices is very energy efficient and there seems only limited scope for additional improvements from current design standards. Future savings are likely to come from changes in the patterns of building use and the equipment deployed in those buildings. The energy issue also may affect future patterns of how and where people live and work as long distance commuting becomes unaffordable.

KUEHMAYER: It is necessary to look at the individual member states as the picture is different in every country. While some CEE/SEE countries like Poland and the Czech Republic are in good economic positions, countries such as Slovenia and Croatia as well as Bulgaria and Romania are in distressed economic positions. The political leaders of Hungary increased the negative trend of the economy by a lot of unfriendly regulations towards investors.

Very important is that specific development projects and other companies do not have sufficient access to bank loans. The situation can be described as "credit crunch." To create more confidence in the markets, the availability of bank loans has to be increased.

For real estate advisors, there is also the opportunity to restructure existing real estate portfolios. Restructuring will be one of the segments with increased demand in the short term.

There will be opportunity in increased demand for offices with lower energy footprints ("green buildings"). Tenants look at the total costs of a building. The components, net rental fees and additional building expenses will be major elements to distinguish a building from its competitors.

BUJOLD: How do you view the U.S. and other global markets (China, South America) by comparison?

NEUHUBER: To my knowledge, the U.S. property market has always been much more volatile than the Central European one (except for London). We have curves that rise and drop more gently. For the time being, it will probably stay like that. The markets in Europe and Asia, where demographic development and consumer habits are so different, cannot really be compared to one another.

WAINWRIGHT: I think that the U.S. made a far sharper market correction than the UK in 2008 to 2009 and, as a result, is better placed today to take advantage of any economic recovery. The stronger economies in China and South America also give rise to more vibrant real estate markets than in the UK and Europe. The one significant difference between those markets and the UK are supply constraints imposed on the UK by the restrictive planning system and the resultant time lag introduced into the development cycle.

Overall, I believe that the U.S. and BRIC (Brazil, Russia, India and China) countries will experience substantially higher economic growth than the UK and Europe, which will drive the pace of real estate development in those markets. In contrast, the low growth/high tax in the UK will continue to suffer from a shortage of occupier demand, which will limit the pace of new development in all but the prime CBD areas. The CBD area of Central London is one of those exceptions that will continue to experience strong demand.

BRISSON: The U.S. is certainly a land of opportunities, especially with the favorable currency exchange. But it now tends to be seen as one among many other markets. When investors are not looking for core assets, they are aware that the many U.S. submarkets are subject to different cycles, and are more cautious. In general, European players consider that there are enough safer opportunities in or close to their backyards, especially when the markets are more volatile, due diligence is costly and averages reported in surveys do not mean much in analyzing local micro-opportunities. The Middle East and Asia are being looked at but, for the moment, the inflows are much more significant. South America has been, up to now, a more marginal investment destination.

CTIBOR: Although I am not a specialist in the U.S. or the BRIC markets, I see a crucial point in the difference between deficits and market possibilities. The United States is experiencing a significant problem with its effectiveness. It is necessary to focus on specific, innovative and individual solutions. The knowledge economy cannot just be a phase; it has to reach its full potential by finding smarter ways of doing business and bringing new and better products to the market.

To the contrary, China, India and South America all still have strong inner deficits—lack of services, infrastructure that is not fully developed, etc. In comparison to the previous decades, these countries cannot be viewed anymore as pure exporters. A significant level of domestic demand within each of these economies' growth exists now and I expect this will continue for quite some time.

KUEHMAYER: I am not a real expert in these markets. According to my understanding, the U.S. market is already back from crisis. That is not the case in many CEE/SEE countries. The real estate market in China is linked to its high growth rate. Because of an average GDP growth of more than 10 percent, and now shortly below 10 percent, the demand is still very high. There has been no crisis there since the high growth rates began. In general, because of its strong economic growth, the Asian real estate market is in a better position than Europe.

SMITHING: My direct exposure to these markets is very limited in my current role. From my perspective, it appears that the U.S. economy is generally improving and confidence has returned. Movement is in a positive direction, although they are still walking, not running.

BERENDES: Markets like Asia, especially China and some others as well, are getting closer to being the next bubble. On the other hand, as long as this part of the world will have economic growth at a level similar to what has occurred over the past ten years, then real estate investment there will most likely be a profitable investment, but risky on the other hand. The U.S. market, in my opinion, will recover and one can see the first positive signs in the residential market as well as the commercial market.

METZGER: The U.S. market is generally spread onto the larger cities such as New York, or Washington, D.C., where the investment markets are relatively diverse. On the other hand you have areas such as Florida, where you can make investments in vacation properties or vacation homes. For private investors, it is challenging because of the distance to Europe, and the costs of operation and maintenance have become quite expensive. In comparison to the boom of the 80s and 90s, many have attempted to sell their private investments. Overall, I believe that many foreign investors do not trust the U.S. markets because of the subprime crisis.

The Chinese market remains a closed market these days and hardly viable because of the significant language barrier. In addition, there are further issues such as the environment, urban development issues and infrastructure, but principally, the government's dealings regarding human rights.

Referring to the South American market, I can only mention that we are currently engaging with the Brazilian real estate market for investments. Our current knowledge shows that this market holds positive prospects for investors.

SUMMARY COMMENTS

CTIBOR: More than ever, today's European Union must reflect on the partial mistakes of its policies and make clear, specific steps for the future. Being aware of my personal experience with central planned economies, I believe it is imperative that planning and decision-making must be very closely related to objective issues. Rules should be introduced that take into account the common interests and needs of as many participants as possible, so that everyone can accept and abide by them. In this manner will we be able to optimize our creative potential and link different approaches together to implement new and innovative strategies for moving forward.

BUJOLD: I want to extend my sincere thanks to all of the participants for their insightful comments. After listening to the discussion, I feel as though I have a much greater insight into the political, economic and social structures that support the EU and, at times, create challenges to consensus. These are challenges that most democratic societies face, although the national histories of Europe perhaps make consensus on significant issues more difficult. I applaud the EU for the goals it has achieved in developing a common economic union and a currency that is highly respected and valued throughout the world. I look forward to the ongoing success of the EU. ■