

Corporate Real Estate Sales

Quick Stats

	Compared to	
	H1 09	H2 08
Volume	↑	→
% of market	→	↑

OVERVIEW

Corporate real estate disposals have been a growing feature of the European property investment market in recent years, rising from 6% of turnover in 2004 to nearly 20% in 2008.

Last year the European property investment market shrank by 40% to around €73 billion. Occupier sales declined by slightly more, from nearly €23 billion in 2008 to €12.3 billion last year, thereby accounting for 17% of total turnover. In the second half of last year (when turnover was far stronger than in the first half) corporate disposals totalled €7.7 billion, or 16.5% of total investment.

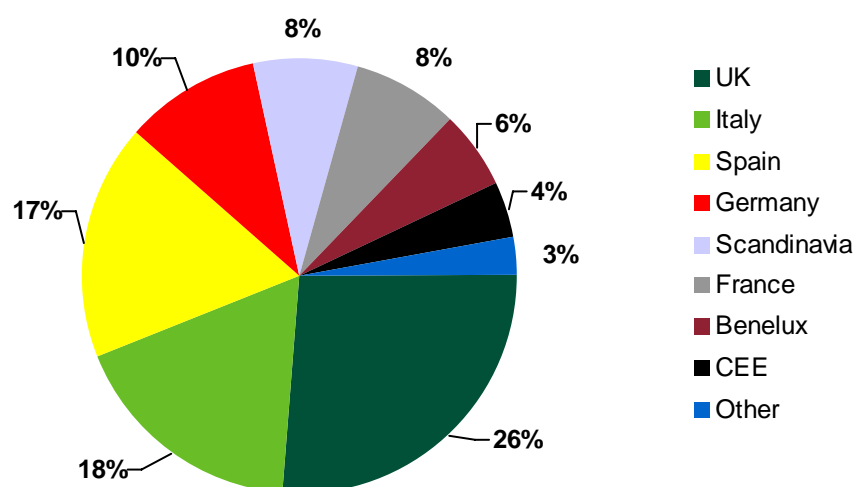
Despite a weakening investment market and falling prices, therefore, corporate disposals have sustained a significant contribution to the market.

Indeed several of the most notable cross-border transactions in 2009 were sale and leasebacks, including the Korean Pension Fund's €860 million acquisition of HSBC tower in Canary Warf, London.

Part of the explanation is the increased acceptability among corporates of the idea of raising capital by disposing of real estate assets. This has been helped by the recent evidence of some very large and high-profile sales by major players, such as HSBC and BBVA.

Another key factor is the limited availability (and high cost) of conventional forms of debt finance. It is our view, however, that even if these constraints ease, with the market recovery expected to be slow most corporates will continue de-leveraging and looking to restore equity ratios. This will encourage them to continue looking at different ways of raising capital. Corporate disposals are therefore likely to remain a prominent feature of the European investment market.

Occupier sales in Europe by market, 2009



Source: CB Richard Ellis / Property Data

ITALY AND SPAIN ON THE RISE

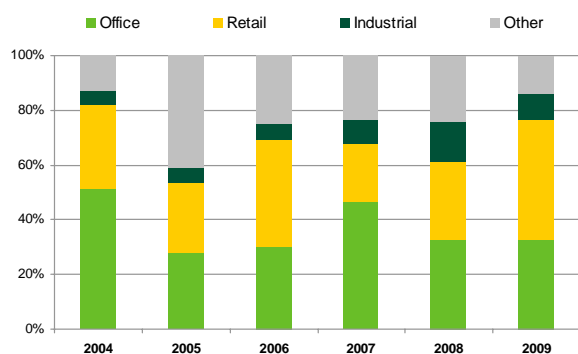
The UK, Italy and Spain between them accounted for over 60% of last year's occupier disposals. The UK has long been a key part of the market and, combined with Germany, these two markets accounted for around 50% of all occupier sales in Europe in previous years. The UK's contribution to corporate disposals in 2009 was 26%, while Germany slipped to fourth place with only 10%. The focus instead was on Spain and Italy, which between them accounted for 35% of the market with around €2.2 billion worth of corporate sales each.

This was heavily influenced by a number of large deals that took place in these two markets last year. Three out of the five €500 million plus corporate sales recorded in Europe in 2009 took place in Spain and Italy. BBVA's sale-and-leaseback of its Spanish high street bank branches for €1.15 billion was the largest corporate sale in Europe. Two sale-and-leasebacks by UniCredit in Italy, one comprising office properties and the other retail assets, fetched over €500 million each.

GROWING PROPORTION OF RETAIL SECTOR ACTIVITY

There have also been some significant sectoral shifts in corporate sales recently. Dominated in its early days by city centre office disposals, activity has since spread to other sectors. Recent years have seen an increase in retail property's share of the market, which measured 44% in 2009.

Occupier sales in Europe by sector



Source: CB Richard Ellis / Property Data

There are two main reasons for this. Firstly retailers (especially supermarket chains) have been quick to recognise the opportunity to leverage their covenant strength and lock in low rents by exercising sale-and-leasebacks on their real estate. The UK, France and Finland were among the markets to see such deals in 2009, with Tesco, Sainsburys, Casino and Kesko all carrying out transactions.

Secondly, in response to the profitability issues faced by many banks, financial institutions have been particularly active vendors of their owned/occupied real estate. Disposals of high street bank branches in particular was a very prominent feature of 2009 – as highlighted in some of the deals mentioned earlier – boosting the retail share of corporate sales significantly.

CONCLUSIONS

As was the case in 2008, many of the corporate sales that occurred last year took the form of sale-and-leasebacks. Most of the corporate sales over €100m were sale-and-leasebacks including all of the largest owner-occupier sales shown in the table overleaf. Sale-and-leaseback transactions often create precisely the sort of bond-like investment characteristics that are most highly-sought after in the current market: good covenant, long lease, fixed or indexed rent. The €574 million office portfolio sale by UniCredit, for example, resulted in 18-year leases, with an option for a further six-year extension.

They therefore play directly to the priorities of a range of investor types, including institutional investors such as local pension funds and insurance companies. This is precisely because their income and covenant characteristics protect the buyer from exposure to a still-fragile underlying occupier market.

Their appeal to institutional investors is reflected in the fact that institutional buyers accounted for nearly a third of last year's corporate disposals, compared with 20% of the market as a whole. With economic recoveries still tentative across most of Europe, these characteristics are likely to remain highly attractive to investors.

Largest bank disposals, 2009

Date	Market/sector	Buyer	Price €m
Q3 2009	Spain Nationwide/Retail	RREEF, AREA	1,150
Q4 2009	London/Office	NPS Central London LP	860
Q3 2009	Italy Nationwide/Office	Ream	574
Q2 2009	Italy Nationwide/Retail	Firmit Fund Immobiliare	530
Q4 2009	London/Office	M1 Real Estate	173
Q1 2009	Spain Nationwide/Retail	Private investors	110
Q3 2009	Spain Nationwide/Retail	Private investors	100
Q1 2009	Barcelona/Office	Deka Immobilien Global	82
Q3 2009	Spain Nationwide/Office	Private investors	72
Q2 2009	Barcelona/Office	Private investors	59

Source: CB Richard Ellis

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