Real Estate Focus

Since the announcement that American Mortgage giants Fannie Mae and Freddie Mac had gone into administration in 2008, the global Real Estate Market has been reeling from the impact of the worldwide financial crisis. All sectors have been affected but the Hotel industry has been particularly hard hit. The residential real estate sector was the first to show signs of being affected by the economic crisis and is still ahead of the commercial real estate sector in the downward trend. Experts say that recovery of the real estate market is going to depend enormously on government action.

In the UK with a hung parliament being predicted as a likely outcome of the upcoming general election, the outlook for the property market remains uncertain. The market is extremely vulnerable at the moment, so even though general elections do not usually have a big impact on the real estate market this one might as it is already in a state of low turnover and only partially functioning due to the financial crisis and thus is sensitive to even the slightest political changes.

In spite of who wins, it seems that an outright majority would be the best outcome for the housing market in 2010 as low transaction levels are expected to continue up to the election and through the immediate aftermath as political uncertainty makes buyers and sellers cautious. This could cause unpredictability in price movements, with possible more short term downward pressure on prices in the mainstream market that has been seen in the last 12 months. Therefore a hung parliament could indirectly suppress turnover levels and limit the prospects of price growth for even longer.

The UK and Global Property Markets

According to property website Rightmove.com, property prices rose by the smallest margin on record (0.1%) in March suggesting that the real estate market in the UK could be facing a double-dip recession. Prices in London fell by 2.5%. The low figure is said to be attributed to the increase in the number of properties being placed on the market for sale which jumped by 17.5% to its highest level for 18 months. Stiff competition among sellers means that people are unable to increase their asking prices. However, it is unknown whether February's data was skewed by the severe weather conditions in the UK.

The rental market is looking fairly robust as the latest residential letting survey from the Royal Institution of Chartered Surveyors shows that there is a rise in rental expectations. A major source of increasing demand for good rental properties is the pool of would be first time buyers that cannot obtain enough credit in order to purchase their first property. The survey showed that 33% of respondents believed rents will rise over the coming quarter which is up from 22%. Houses remain more popular than flats.

The global picture looks very similar to the UK situation with most real estate markets struggling to recover from the worst global recession for 70 years. Of course there are exceptions to the rule such as Asia who have experienced a huge uplift and China is another top performer as prices in Shanghai rose by over 50% last year according to Knight Frank's Prime International Residential Index. In 2008's report some 41% of the prime markets saw annual price falls but in 2009 it was a massive 73%.With the steepest price drops being in Dubai (45%), the Western Algarve (30%), Dublin (25%) and the Caribbean (20%). Location was also a factor in where prices crashed the most. Coastal and country second home locations saw prices fall by 14% and 11.9%, respectively. European ski resorts fell by 12% but prime city locations were much healthier posting an average rise of 0.4%.

Capital Markets and Emerging Trends

As highlighted previously Asia appears to be leading the world out of the financial crisis, having growing economies compared to the rest of the world and banks reluctant to foreclosures. The US and Europe are still dressing the wounds suffered when the credit crunch began to bite. Kees Hage, Global Real Estate Leader at PricewaterhouseCoopers commented;

"There is cautious optimism as Europe's economies are recovering and transactions are coming back, but there are uncertainties overshadowing these positive trends. There is uncertainty about the impact of the economy: what happens when state aid ends. And there are big concerns about the refinancing needs: the needs and volumes for refinancing in the coming years are very large."

Real Estate Capital flows have decreased by more than 70% over the last 3 years in both domestic and cross border investments. Over the last year the UK has attracted within Europe the most of the cross border investment volumes (more than 40%), followed by France and Germany.

Trends for equity financing include; traditional institutional investors have equity and the will to spend it; SWF's are rethinking their strategies, and publicly listed vehicles/REITS are making a come back.

The banking environment is difficult, but real estate managers feel they can borrow once more, albeit on lower loan-to-values and higher margins. There is still more pain to come to the surface though in the next 2-3 years. Most believe there will not be many fire sales. In comparison: equity is expected to be far less undersupplied than debt. In fact for debt, nearly 50% expects it to be substantially undersupplied and another 35% expects it to be moderately undersupplied

Kees Hage informed us that Sentiment regarding investment prospects for European cities has stabilised and on the development side it continues to decline. He also stated that regarding existing property performance, the general view is that the worst is over in terms of falling capital values. For new property acquisitions, investors are concentrating on the markets they know, the deeper liquid markets such as UK, France and Germany. Furthermore he discussed the real estate market in relation to property types;

"Investors focus only on the high-quality assets, already rented to very good tenants and based in the vest central locations. Centre city offices, high end street retail and shopping centres are the top commercial investment choices for 2010.Green development is becoming a determining decision factor. There will be a lot of money chasing the same assets, and this drives up prices in some places already again: the key issue is the availability of good assets to acquire. The difficult period will continue for some time. Investors want more control and will take away some discretion from investment managers. Regulation will be a big changing factor in the global arena"

Forecasts from the Emerging Trends in Real Estate Europe

A joint undertaking of the Urban Land Institute (ULI) and PricewaterhouseCoopers forecast publication reveals; an outlook on European real estate investment and development trends, real estate finance and capital markets, property sectors, metropolitan areas and other real estate issues. The findings are derived from interviews and survey responses from over 600 leading real estate experts, including investors, developers, property company representative, lenders, brokers and consultants.

Europe's real estate industry has been described as experience a 'long, slow haul' to recovery as the economy remains fragile due to an unhealthy combination of high unemployment and low consumer spending. Additionally the report notes the looming problem of massive refinancing of billions of Euros of real estate debt. The industry is apprehensive as it is not clear how this will play out, in terms of whether financial institutions will sell real estate assets and loans or "extend and pretend." This challenge for the real estate sector is compounded by uncertainty over how, and when, European governments might wean their respective economies off the massive injections of state support. An abrupt withdrawal of the stimulus funds could derail the recovery, and even push the economy back into recession, the report notes.

Institutions such as insurance companies, sovereign wealth funds and private property vehicles have allowed substantial equity to become available for European real estate in 2010. The report states, however, that;

"They are very selective about what they will buy, focusing on prime income-producing property. Private property vehicles are sitting on a large amount of equity earmarked for European real estate: around US$35 billion. But there is widespread disillusionment with the fund format amongst investors, and those seeking to raise fresh equity in 2010 will find it difficult."

In terms of both property markets and the broader economy, Germany is still as being much more stable that other countries and remains at the top spot for investment prospects in the survey. For new property acquisitions, two broad views on the market appear regularly in the interviews for this year's report;

"We will be concentrating on the markets we know" and "the deeper, liquid markets—the U.K., France, and Germany." This is a sentiment shared by both investors and lenders. The key issue across Europe is the availability of assets to acquire."

Top Tips

Some useful guidelines for buying smart in the currently unpredictable real estate market according to some of the 600 experts survey include:

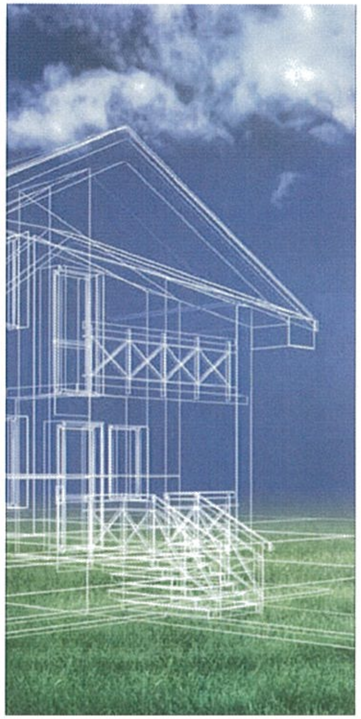
"Keep it simple: Go for "plain vanilla real estate investments that everybody understands."

"For best buys, core is king. Stick to core and core-plus investments in large, liquid markets."

"Development: For those with the stomach for risk, buy land and start building up a pipeline of projects. Residential and mixed-use are the best sectors."

"Go for debt: Buy a bank or set up a lending platform. Now is a great time to lend on real estate, if you have the right skill-set and no legacy issues. Values are low and "the gap between cost of funds and loan margins is as good as it gets". Or, buy distressed debt at a discount."

"Green is good: Real estate is on the front line in the battle against climate change. "There is now a clear realisation that environmental and social responsibility is connected to economics. It has become an action issue."



BCS Advogados - Portugal

Margarida Lima
Senior Associate
+351 213 190 640
mel@bcs.pt
www.bcs.pt

Baião, Castro & Associados | BCS Advogados is a Lisbon based law firm that has earned a prestigious reputation and is internationally recommended by The Legal 500. Margarida Lima, senior associate at the firm highlights what distinguishes Baião, Castro & Associados | BCS Advogados from other law firms;

"The crucial element that distinguishes our law firm is our effective policy of working with the client instead of working only for the client. It means that our expertises work in a creative "partnership" with the clients. Besides this specific way of dealing with our clients and our client's interests, as well as the promptness of our services, we work based on loyalty, integrity, respect, independence and ethical and deontological standards to pursue each goal. Moreover, at "Baião, Castro" any client may be assured that a partner or a senior associate will actually be directly involved and committed."

The effects of the global economic crisis still remain in various sectors in Portugal. Investors' lack of cash flow led to the recession of real estate businesses and thus market confidence is seriously lacking. Despite this, and according to recent statistics, Portugal is the only EU country where some real estate prices still go up while the economy suffers its biggest recession since 1929. Structural reforms may promote competitiveness and this could be the way of achieving economic growth, thus helping the real estate sector.

However even with global investments activity stagnated, there are still some real estate opportunities in the Portuguese market. Particularly in urban development and in the redevelopment of former industrial areas, there are some interesting projects about to kick off involving the renewal and rebuilding of critical city areas. Margarida Lima explains other profitable projects that are emerging;

"Public projects, like the new airport for the capital and the high-speed railway shall be very interesting both for investors and for those involved in businesses and industries connected to urban planning and construction. Also, the Algarve still has an important, but not leading, role in the development and promotion of real estate businesses in Portugal."

Vilau & Mitel- Romania

Iuliana Dejescu
iuliana.dejescu@vilaumitel.ro
+40 21 314 31 55 / 57
www.vilaumitel.ro

Victor Savi-Nims
victor.savinims@vilaumitel.ro
+40 21 314 31 55 / 57
www.vilaumitel.ro

The global economic crisis has affected the residential sector in Romania as well as causing the commercial development of new projects to almost cease over the last 12 months. In order to boost the number of transactions, the Romanian government initiated the "new house" programme, designed to help buyers acquire their first home. Under the programme the government offers a state guarantee currently set at €75,000, this is meant to facilitate access to credit and thus give a leg up to those Romanian citizens hoping to get a foot on the property ladder.

Vilau & Mitel law firm provides legal services for every phase of real estate projects including; acquisition, development, litigations and exploitation. Iuliana Dejescu, partner at Vilau & Mitel tells us about one of their most interesting and significant cases in the real estate sector;

" We recently worked with Adama, a leading real estate development company active in Romania and other Central & Eastern European markets, in connection with multi-million EUR acquisitions of lands in Bucharest and also the development of its multifunctional real estate projects in Bucharest (Edenia Titan, Evocasa Optima, Evocasa Armonia, Evocasa Selecta, Evocasa Swiss Cottage, City Center Exclusive), Bacau (Evocasa Completa), Brasov (Evocasa Viva), Ploiesti (Evocasa Uptwon) and Cluj, with total investment cost estimated at EUR 1 billion."

The firm also has experience with cross border real estate transactions, mainly performed with the purpose of extending the businesses of Romanian investors on the Central and Eastern European markets. Their work also encompasses securitisations of cross-border multi-million financings. Iuliana Dejescu, partner at Vilau & Mitel, explains some of the difficulties that the firm has to deal with during these tricky transactions;

"In dealing with cross border/international transactions we take particular care to tackle with the specificity of the legal system applicable in the country of interest to our clients, moreover in terms of securitization and enforceability of obligations as well as on the particulars of how the risk is handled under the relevant laws of such countries. In view of the above, we reached the conclusion that mitigating our client's exposure is of the essence, thus we are constantly doing our best to develop and encourage cross-border collaboration with law firms within the EU region."

Cabinet Me Ndoye - Senegal

Cabinet Me Ndoye

Moustapha N'Doye
Partner
memndoye@orange.sn
+22133-821-7071
www.orange.sn

With around 1.4 million tourists visiting Senegal per year, the industry is rapidly growing, which is no surprise seeing as the country boasts a Californian climate and great beaches. Foreigners can own property in Senegal. The only problematic part of the process is getting money out of Senegal can be difficult. Officially the Investment Code stipulates free transfer of capital. But in reality transfers to countries other than members of the West African Economic and Monetary Union are still subject to numerous requirements, controls, and authorizations. Also, opening a foreign exchange account requires approval of both the Central Bank and government.

After the economy contracted by 2.1 % in 1993, with the help of the international donor community, Senegal undertook an ambitious economic reform program in 1994 which began with a 50% devaluation of Senegal's currency. The reform has been fairly successful with Gross Domestic Product (GDP) growing on average by 5% year on year from 1995 to 2008. As a member of the West African Economic and Monetary Union (WAEMU), Senegal is working toward greater regional integration with a unified external tariff and a more stable monetary policy. High unemployment, however, continues to prompt illegal migrants to flee Senegal in search of better job opportunities in Europe.

Despite these encouraging figures Senegal still relies heavily on outside donor assistance as has been set back by the energy crisis and a struggling phosphate industry which has directly affected GDP. Under the IMF's Highly Indebted Poor Countries (HIPC) debt relief program, Senegal has benefited from eradication of two-thirds of its bilateral, multilateral, and private-sector debt. In 2007, Senegal and the IMF agreed to a new, non-disbursing, Policy Support Initiative program.

Cabinet Me Ndoye is a Senegalese law firm which specialises in real estate law; its legal professionals offer a range of comprehensive services to aid both domestic and international clients operate in Senegal's fragile economy.