

THE CURATES EGG

At the start of 2004 European occupational property markets sit on the brink of new growth as the Eurozone economy twitches back into life, but, like the curates egg it will be good only in parts.

~ ~ ~

Positive GDP data in the third quarter of 2003 have encouraged forecasters to revise growth predictions for 2004 upwards.

Rapid growth in demand in some of the Eurozone's major trading partners, particularly the US, has produced higher export growth forecasts, domestic demand remains subdued, however.

The "outsiders" continue to outperform the Eurozone, led by the UK. Much to the surprise of most economic commentators, the Chancellor's growth forecasts for 2003 will be within his predicted range, albeit with the assistance of a huge surge in public spending.

Public borrowing, forecast at £27 billion for 2002-03 in May 2003, has risen to £37 billion by November, one of the biggest budget shortfalls in modern financial history.

All this should be good news for occupational property markets. For the last three years, property performance has been driven in the main by the weight of money coming into the asset class. This has almost been in spite of the gloomy prognostications on rents.

As equities improve, conventional wisdom has it, investors will fall back onto these much more liquid markets as their mainstay, leaving property to rely upon income growth to drive performance.

There are a number of reasons why that might not happen this time around. Firstly investment strategies are like supertankers – very slow to turn around. Fund Managers, badly burned by the equity markets, are minded to increase their allocation to property. Secondly, equity markets themselves, despite a considerable improvement, remain volatile. Thirdly, for the UK, there is the potential arrival of a REIT. This holds the potential to attract significantly more funds into property. However the detail of the structure remains to be resolved. Given Gordon Brown's tendency to micro manage change it may yet prove to be hedged in with sufficient constraints to make it unattractive.

Nevertheless, this may not be good news for all property types. Cast your mind back a few years to the heights of the technology boom when there was much wild talk of massive improvements in productivity wrought by technology.

Although it has become fashionable to dismiss anything to do with technology, it is interesting to note that, despite a recovery in the US that is fast becoming vigorous – unemployment is still high and showing few signs of beginning to fall. Protectionists are quick to blame "offshoring" of jobs, but actually it has far more to do with all that expenditure upon technology finally delivering. Jobless recoveries mean less space.

And then there is the retail sector. It is possible to split Europe into "spenders" and "savers". The spenders, the UK for example, have seen retailers benefiting from the continued strength of consumer spending. This has contributed, in turn, to the strength of High Street rents. The savers, Germany for example, have seen declining rental values. The question that is begged here is how long the spenders consumer expenditure can continue to rise at the rates seen over the past five years.

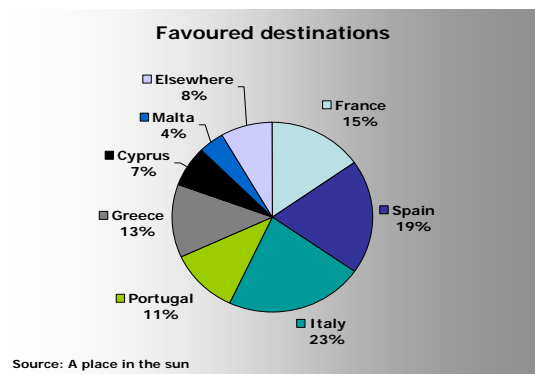
When looking at the distribution sector, the adoption of pan-European infrastructure seems little more than common sense – certainly from the perspective of the logistics providers.

However, from the standpoint of those awarding distribution contracts, there is plenty of evidence to suggest that hitherto, most contracts are being awarded on a national or local basis.

The accession of the central European members and the increasing availability of genuinely pan-European services will start to change that in 2004, opening up opportunities for investment.

Disparities in residential markets are often held up as reasons for the apparent mismatch between UK and other European economies. Certainly there is a big differential between prices in the UK and many attractive destinations, particularly in southern Europe.

Early results from new research on consumer aspirations indicates that some 60% of homeowners in the UK aspire to a place in the sun and increasing numbers of them are actually making the leap into both second homes and full-blown relocation.



This is an important trend, not just for residential development, but also for the provision of retail and leisure facilities in the sun-belt regions around the Mediterranean.

For core markets I suspect that 2004 will be another difficult year. Some office markets may begin to see modest improvements but markets like Frankfurt are likely to see stabilization at best.

In retail the best returns are likely to be seen away from the High Street in those non-core regions where demographics and infrastructure are changing – Greece perhaps or Italy.

Industrial should remain a strong candidate for funds across mainland Europe in 2004.

Bob Thompson – January 2004

SUBSCRIPTION DETAILS

PROPECONOMY is published quarterly with monthly supplements and is available by subscription only priced at €350/£250/\$450 per annum.

To subscribe please email your details to propecon@retrigroup.com or write to:

PROPECONOMY
44 Stewart Avenue
Upminster
RM14 2AF
UK

PROPECONOMY, or individual articles from it, are available for republication.

Please email bt@retrigroup.com for further information.

PROPECONOMY is published by :

RETRI Group, 44 Stewart Avenue, Upminster, RM14 2AF, UK
+44 (0)1708 223064

<http://www.retrigroup.com>

The editor is Bob Thompson - bt@retrigroup.com +44 (0)7703 234251

Disclaimer: While every effort has been made to ensure that the data used in this newsletter is reliable, there is no guarantee that it is correct and RETRI Group can accept no liability whatsoever in respect of any errors or omissions. This newsletter contains real estate research and does not constitute investment advice.