



INSTITUTIONAL INVESTORS SHOW INCREASED INTEREST IN REAL ESTATE, SAYS FIDELITY INTERNATIONAL

- **Capital markets continue to drive European real estate recovery**
- **Income yields attractive compared to bonds**
- **Industrials expected offer high and attractive yields in 2010**

London, 18 December 2009 – Strong performance in equity markets is allowing institutional investors to allocate more cash to the real estate sector, according to Fidelity Real Estate Investment Management (FREIM).

Matthew Richardson, Head of Research at FREIM, says the health of capital markets will continue to be the most important driver of the recovery in European real estate markets in 2010.

Richardson comments: “The income yields available from real estate are attractive compared to their long-term average and when compared to the yields available on bonds.

“The increased attraction of ‘real’ versus ‘paper’ assets is another factor that will support investment in real estate as investors take steps to hedge their portfolios from the potential inflationary results of recent stimulus spending. Equally, the behaviour of currency markets will remain an important factor, especially for inflows into the UK market.”

In terms of sectors, Richardson believes industrials will be the strongest performer in 2010 as subdued consumer spending continues to impact the retail sector. However, he expects the sector’s outperformance to fade by 2011 as the retail and office sectors catch up.

Richardson comments: “We think the retail sector will be the weakest performer in 2010. We have a neutral rating on the sector and will invest opportunistically. We take the view that consumer spending will remain subdued, particularly in the UK, Ireland and Spain, where consumers will be focusing on reducing their high level of indebtedness.



“We expect a further correction in retail yields relative to office and industrial yields, given the more mixed outlook for the sector. The prospects for capital growth in retail rely more heavily on rental growth and there is little prospect of that until 2011, although specific sub-sectors may offer short term capital growth from yield compression, such as high-quality, large-scale retail warehouses.”

The recovery in European commercial property began in 2009 with prime quality properties in London and Paris. Richardson says the recovery in these two centres is already spreading out into other major Western European cities.

Richardson comments: “Broadly speaking, increased risk appetite coupled with improving fundamentals will support investment in real estate in 2010. Regionally, we tend to favour those countries more able to control their own macroeconomic destinies, which are less susceptible to external economic shocks. The most attractive markets will be UK, France, Germany, Benelux and the Nordics.

“Central and Eastern Europe, Southern Europe and the Baltic states remain too risky until a suitably attractive premium is re-established to tempt investors, many of whom are now much more cognisant of the extra risk involved in these markets.

“Opportunistic investors will begin to take advantage of ‘points of light’ in some of these markets by the end of the year, notably Madrid and Barcelona, provided values become more realistic. And, as we move through 2010, Italy and Ireland could also offer some interesting deals for shrewd investors, looking to take on risk.”

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