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## CB RICHARD ELLIS FORSEES HIGHER PROPERTY PRICES TO MEET EUROPEAN PENSIONS SHORTFALL

Higher prices in the European commercial property market will be a key impact from greater involvement in commercial property by pension funds seeking to make up the predicted shortfall in pensions. This is one of five forecasts made by CB Richard Ellis in its report, "The Pensions Crisis and the European Property Market."

CBRE, the world's leading commercial real estate services firm, has stated that it is essential for pension funds to make a greater investment in commercial property if the predicted pensions shortfall is to be alleviated. The firm notes that, without reform, by 2040 state pensions spending across the 15 European Union countries will have risen to 13.6 percent of GDP (from 10.4 percent in 2000) in order to meet commitments.

For individual countries, the costs of providing a state pension will vary greatly. Greece, which in 2000 spent 12.6 percent of GDP on state pensions, will see that figure rise to 23.8 percent by 2040. In Spain, the figure will rise from 9.4 percent (2000) to 16 percent, and in Ireland it will rise from 4.6 percent to 8.3 percent of GDP by 2040. The UK is the only EU-15 country in which public pension expenditure will decline, from 5.5 percent in 2000 to 5 percent in 2040.

The pensions shortfall, predicated upon declining birthrates and increased life expectancy, is a major problem for every European economy and presents a very significant funding challenge. Across Europe, the annual investment needed to fund future pensions is between €150 billion and €300 billion, or about 1.5-3 percent of GDP.

Analysis using a multi-asset modeling exercise shows that the most appropriate allocation to real estate within a pension fund is in the order of 10-15 percent. The current weightings of pension funds' investments in real estate average around 6.5 percent in Europe, although over the past few years there has been a tendency for this to increase. CBRE has calculated that, allowing for reweighting of existing portfolios and the necessary new investment, this will ultimately direct at least €24 billion per year into the EU-15 real estate market.

CBRE believes that based upon previous experience (including the effect that German open-ended real estate funds had on the commercial property market in 2002-2003) a shortage of suitable property will drive prices upwards. Secondly, very significant amounts of owner

occupied property will be released for investment as a result of the increased demand and increased prices.

The third consequence, according to CBRE's analysis, will be a substantial increase of investment in secondary sectors. (This could embrace leisure property and care homes, both of which would benefit from the demographic changes taking place.) The fourth of major impacts on the European real estate market, according to CBRE, will be an expansion of the locations in which investment takes place with greater involvement of secondary locations.

Finally, CBRE forecasts that the extra pension investment funds coming into the commercial real estate market will result in a major increase in indirect investment. It would certainly bring a further incentive for European countries to develop tax transparent REIT type vehicles to absorb this extra funding.

Nick Axford, European Head of Research for CBRE, said: "At a time when the prevailing theme across the European investment market is lack of stock, it may seem difficult to see how an increase in demand for property could be accommodated. We are already seeing a myriad of new funds and vehicles entering the market, and this growth is set to accelerate. The principal beneficiaries will be those markets and sectors that have until now have been underexploited by major investors. In these areas of the market we are likely to see substantial growth in investor demand and a consequent increase in property values over the medium term."

### **About CB Richard Ellis**

CB Richard Ellis (NYSE:CBG), a FORTUNE 1000 company headquartered in Los Angeles, is the world's leading commercial real estate services firm (in terms of 2004 revenue). The company serves real estate owners, investors and occupiers by offering strategic advice and execution for property leasing and sales; property, facilities and project management; corporate services; debt and equity financing; investment management; valuation and appraisal; research and investment strategy; and consulting. Including partners and affiliates, the company has over 300 offices in more than 50 countries around the world. Please visit our Web site at [www.cbre.com](http://www.cbre.com).