

# P R E S S   R E L E A S E

## **RISING PUBLIC DEBT ENCOURAGING SALES OF GOVERNMENT PROPERTY ASSETS**

### **Several European governments reviewing scope for major property disposals**

**London, 18 June 2009** – Rising public debt levels in response to the global banking crisis and recession appear to be encouraging a new wave of government property sales across Europe, according to new research from CB Richard Ellis (CBRE). CBRE has today released a new report, *Governments Turn to Property Sales?*, which considers the scope for sales of government property and reviews asset disposal plans in a number of major markets including France, Germany, Greece and the UK.

The report follows the announcement by the UK Government that it is to sell up to £20 billion of commercial property and related assets during the next 10 years while generating a further £5 billion in annual operating cost savings. With other governments also developing similar plans, the report analyses the investor appeal of such assets in the current market and considers the potential for these dispositions to become a more powerful global trend in the coming 12 months.

Nick Axford, Head of EMEA Research and Consulting, CBRE, said: “Most governments across the world are seeing a deterioration in public finances as they battle with the impact of the recession and the banking crisis. Many governments are running large deficits and incurring debt to finance bank and other company bailouts. With concerns being expressed about the depth of investor appetite for government bonds, selling off real estate could be a means of raising much needed capital.”

John Wilson, Head of Corporate Strategies, CB Richard Ellis, said: “Without a doubt, the global recession has had an acute effect on governments, as tax receipts have fallen but spending on stimulus plans, social welfare and bailouts has sky-rocketed. With investor demand for vacant property currently more limited and prices at low levels relative to historic norms, sales of surplus property could be harder to achieve. Yet sale and leasebacks of good quality occupied stock could be attractive to investors whilst also raising substantial amounts for governments.”

The volume of government property sales has risen rapidly in recent years. Almost €16 billion of government property was sold from 2006-08 across Europe. This compares to almost €4 billion sold from 2003-05. Current financial conditions are expected to continue to drive this trend.

This approach by governments recognises the fact that overall investor appetite for sale and leasebacks has been growing. In 2004, the European sale and leaseback market totalled just €6.7 billion largely through a small number of large deals. By 2007 that total had risen to €46 billion and comprised more than 670 separate transactions, boosting the proportion of occupier real estate disposals in the European investment market (including government and corporate sales) to nearly 20 per cent in 2007 compared to 6 per cent in 2004. Part of this growth was due to rising property values. However, in 2008 - a year of significantly reduced investment turnover and a fall of around 13 per cent in average commercial property values - sale and leasebacks still totalled over €22 billion and maintained a 19 per cent share of the total European investment market.

Mr. Wilson continued: “The current financial climate may actually enhance the opportunity for governments to sell and leaseback assets. With active investors remaining highly risk-averse and with demand focused on prime property in liquid transparent markets, public authorities are often the ideal candidate to offer long, secure income streams from quality covenants. Reduced stock in the market provides further opportunity to convert these assets at the moment. For investors who fear the prospect of rising government bond yields and/or a higher level of inflation in the years ahead, a building let to the state on a long lease has attributes similar to index-linked government bond, with the benefit of owning a real asset at the end of the lease.

Sale and leasebacks only form one part of any government’s strategy. Attention will be focussed not only on operational office space, but also on infrastructure and public service facilities such as schools, hospitals and student accommodation. Investment appetite for these public investment opportunities is mixed. In the current environment, many active investors are focusing on the quality of tenants and length and security of income streams above all other considerations. From this perspective, state sale and leasebacks may be viewed relatively favourably by the market. Other investors are more cautious of government-backed assets that will have less arbitrage over time being a less volatile investment.

“The longer the recession holds across Europe, the more we will see government assets being offered to the market to help bolster public finances,” Mr. Wilson concluded.

**Government Property Sales, 2006-8 (€16 bn)**

