



WHAT ROLE FOR PROPERTY SALES IN GOVERNMENT DEFICIT-REDUCTION PROGRAMMES ?

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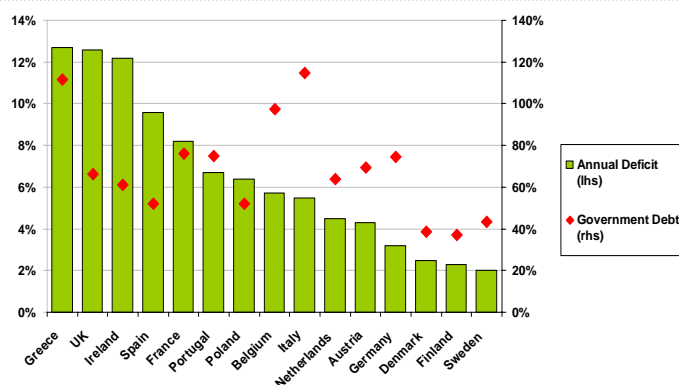
OVERVIEW

With many European governments having announced aggressive deficit-reduction plans, the motive to dispose of government-owned real estate assets remains strong. Several countries had existing commitments to disposal programmes and, although asset sales by governments totalled under €1bn last year, the need to bring deficits under control will have reinforced their intentions. Germany made up nearly half of last year's disposals. Stated intentions by several governments and the general direction of sentiment suggest that activity in this segment of the market will become more widespread.

INTRODUCTION

The global banking crisis and recession have caused a sharp deterioration in public finances in most major economies. From this perspective at least, the rationale for selling public sector real estate to raise capital has strengthened over the past year. While sales programmes may not always be announced publicly – so as to reduce the risk of “distressed” pricing – it is clear that several European governments are looking to secure disposals on a large scale in the coming years, either as a continuation of existing commitments or as an element of deficit-reduction plans. Some may also join the UK in looking to scale down their operational requirements to occupy real estate. Local authorities in some countries are also looking to dispose of surplus properties. In the context of the scale of some deficits, the contribution of these programmes may be negligible but their impact on real estate markets could be a lot more significant.

Government debt and deficit, 2009 (as % of GDP)



Source: OECD

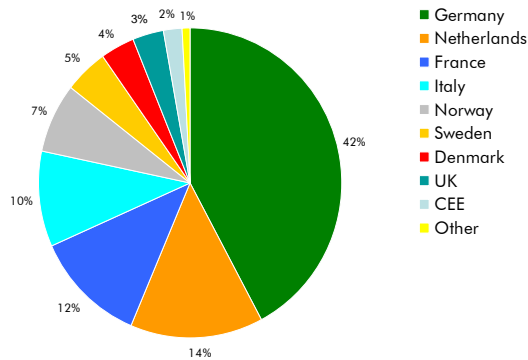
GOVERNMENT DISPOSALS

The volume of government property sales in Europe rose rapidly in 2006-07 totalling over €13bn. This compares with around €3.5bn sold from 2003-05. In line with the contraction in the wider investment market, government sales have decline since, totalling just over €3bn in the two years 2008-09, of which only €840 million occurred last year. Of course this downturn coincides with a significant decline in values, and in aggregate market turnover, removing some of the ability to sell.

Nevertheless 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 (including both government and corporate sales) accounted for 6% of the total investment market. The contribution of this type of transaction rose to a peak of nearly 20% in 2007-08 and, even in the context of lower absolute turnover more recently, still accounted for 17% of the market last year.

Looking at last year's activity in more detail, the total of €840 million in government sales was dominated by Germany which accounted for 42% (€356 million) of the total. This continues the long-standing commitment to public sector sales and residential sales at more local level (Germany's contribution had averaged 30% over the previous four years) and a significant proportion of last year's sales consisted of disposals by various local government bodies. France, Italy and the Netherlands each accounted for 10% or more, such that in total the four largest contributors accounted for nearly 80% of last year's total.

Public sector property sales, 2009



Source: CB Richard Ellis
Total : €840m

Looking forward, varying approaches to this issue are now evident across different European economies.

In **Italy** the government is continuing to market part of its real estate portfolio, with special focus on non-core assets. The aim to dispose (and better optimise) the substantial portfolio still owned is confirmed by the recent decision of Bank of Italy to sell real estate assets (retail, residential, ex-branches and operational offices) for approximately €330m. The Italian Government is also undertaking an exercise to update the list of its owned assets and to better understand their market value - it expects to have received feedback from all public authorities by the end of June.

In **The Netherlands**, by contrast, the government is looking to take advantage of lower asset values by purchasing buildings for owner-occupation rather than renting them. Last year, for example, the government purchased seven law courts from ING REIM for €200m. A number of municipalities have purchased empty office buildings to locate their city offices in. This partly reflects the fact that some municipalities have merged and are in need of more office space, but it is also a government measure to combat high levels of vacancy.

In **Greece**, the government has appointed Lazards to advise on its public finances, including the sale of a number of state-owned assets. The state is also considering the launch of a new real estate investment trust to which it would transfer a large part of its real estate portfolio.

In the **UK** the most recent pronouncements indicated an intention to dispose of £35bn of public sector property assets over the next ten years. This was announced prior to the recent general election and, if anything, it is likely that the scale of proposed sales will increase.

The precise mix of properties involved is unknown, but may include, for instance, infrastructure and student housing. It is also possible that, in addition to straight sales, further savings will be sought through more innovative structures and greater running cost efficiencies.

The **French** government is aiming to sell 6% of its total building stock over the next three years as part of its attempt to cut its fiscal deficit. Budget Minister François Baroin has announced a plan to offload 1,700 of the government's 28,000 property assets in total. Many of the sales will come from local and decentralised services where it is hoped to dispose of 750 buildings or 500,000 sq.m. of office space. The sales target is considered ambitious, particularly in current market conditions, and in light of the failure to meet previous sales programme targets.

In addition, the government is looking to cut the cost of buildings it leases and has imposed a rent ceiling on any office occupation by government. The economy and budget ministries are also planning to save around €22m by relocating 55% of their staff to offices outside Paris.

In **Germany**, there has been little significant development recently in the state property sales segment. The stated intention of BIMA (Bundesanstalt für Immobilienaufgaben), the unit responsible for the disposal of state owned properties, is to dispose of around half of the €6.8bn portfolio of properties with which it is charged, within the next five to six years (the remaining half is considered to be mostly unmarketable).

The fiscal crisis is particularly acute in **Spain**, and the government has introduced various measures designed to address this, but so far these do not include a publicly-announced programme of real estate disposals. However some local governments are considering measures to optimize their portfolios, which may range from workspace rationalisation through to targeted cost reduction programmes through to the disposal of the non-strategic assets. More formal announcements of central government asset disposals may follow.

CONCLUSION

The market's appetite for government-disposed buildings may well vary greatly depending on the motive for disposal and type of asset. Investor demand is likely to be generally stronger for assets that are still needed for operational purposes (and which therefore produce investments with long government-backed income streams) than for surplus buildings that may be in poorer locations and incur possible vacancy risk.

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