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# European Regional Economic Growth Index (E-REGI) 2009

The results of this year's E-REGI reflect the consequences of the global financial crisis, which have resulted in severe downward revisions of economic growth forecasts.

E-REGI now favours wealthy locations, such as the Swiss and Nordic cities, whose strong fundamentals help protect their economy from the effects of slower growth.

Munich is the first German city ever to lead the E-REGI ranking. Its diverse economy and strong small and medium sized sector weather the storm better than its competitors, and the ongoing commitment to R&D will support an eventual rebound.

Despite its importance as a global financial centre, London slipped down the rankings to 8th place. Expectations were downgraded severely as the city has been hit very hard by the global financial crisis.

Cities in Spain and the CEE countries have lost ground, as they are paying for their imbalances and recent overheating and have materially lower growth forecasts; they are the biggest losers in this year's E-REGI.

# Executive Summary

## The European Regional Economic Growth Index (E-REGI)

identifies cities across Europe where demand for real estate is likely to be strongest in the medium term. Our analysis complements more qualitative approaches and is a valuable tool when combined with detailed real estate knowledge, notably on the supply side, and relative pricing. In that sense, the E-REGI provides investors, developers and occupiers with a guide to the likely medium term winners and losers in Europe.

### Headline Results

- The outcome of this year’s E-REGI reflects the consequences of the global financial crisis, which have resulted in severe downward revisions of GDP and employment growth forecasts across all locations. As a result, E-REGI now favours wealthy locations, such as the Swiss and Nordic cities, whose strong fundamentals help protect the economy from the effects of slower growth.
- For the first time ever, Munich tops the E-REGI ranking. The city performed better than its competitors on the back of sustained growth forecasts despite the crisis, owing to a robust and diverse economy with an ongoing commitment to R&D.
- Paris maintains its second rank, only marginally behind Munich. This was achieved partly on the back of sustained growth prospects through its diverse economy and its high wealth levels, which shield it from the full effects of the global slowdown.
- London, which had been among the top performers for six consecutive years, has now slipped to rank no. 8. The credit crunch is having a serious impact on Europe’s largest financial centre, resulting in London’s GDP and employment growth expectations being revised downward dramatically. However, E-REGI does not reflect real estate pricing levels and these have corrected more quickly than for its competitors.
- Cities in Spain and CEE countries have plummeted, as they are paying for their imbalances and recent over-heating and have very pessimistic growth forecasts. Therefore, for the first time since 2001, there is no Spanish city in the top-10, and CEE locations have seen record declines.
- For the first time ever, it has become possible to include selected Russian and Turkish cities in the analysis. Moscow immediately secured a place in the top-10, reflecting its size and exceptional growth platform.
- Although the Turkish cities benefit from a growing population and workforce, they are unable to compete on the wealth metric.

### Top 20 E-REGI Rankings 2009

1. Munich	↑
2. Paris	↔
3. Stockholm	↑
4. Oslo	↑
5. Luxembourg	↑
6. Moscow	n/a
7. Helsinki	↑
8. London	↓
9. Stuttgart	↓
10. Gothenburg	↑
11. Utrecht	↑
12. Zurich	↑
13. Vienna	↑
14. Bern	↑
15. Mannheim-Karlsruhe	↓
16. Copenhagen/Öresund Region	↓
17. Warsaw	↓
18. Amsterdam	↑
19. Brussels	↑
20. Frankfurt	↓

## E-REGI

LaSalle Investment Management has developed a quantitative model, the European Regional Economic Growth Index or E-REGI<sup>1</sup>, to help identify the cities and regions across Europe that have the greatest economic growth potential over the short-to-medium term, and hence where demand for real estate is likely to be strongest. E-REGI complements more qualitative approaches and is a valuable tool when combined with detailed real estate knowledge.

This paper presents the latest results from the E-REGI model, and is the eleventh consecutive annual iteration of the service. The coverage of the model is continually updated to take into account current and anticipated market developments. The 2009 model covers 288 regions across 31 countries in Europe with a total population in excess of 540 million. As data availability is improving, it has now become possible to add four Russian and three Turkish city-regions to the model in order to reflect their growing importance in Europe.

The analysis is focused on a subset of 98 major cities, representing the locations with  $\geq 500,000$  inhabitants, plus all national capitals. The full ranking is set out on pages 9 and 10.

## The E-REGI Model

E-REGI is a multi-factor model that ranks each city based on the weighted average score of 15 variables. The variables contained in the model together with their respective weights are set out in the Technical Note (Page 11). In summary, the model combines economic growth factors, the overall level of wealth, and measures of the relative attraction of the business environment, as follows:

- **Growth measures** (accounting for 60% of the model) include change in overall regional output and market services employment, as the principal source of real estate demand. We have used the recent trend in growth (to capture momentum), as well as forecasts of future growth, in both absolute and relative terms. A measure of research & development (R&D) expenditure has been included to capture innovation potential, an important driver of growth.
- **Wealth measures** (20% of the model) act as a further screen so that cities catching up from a low base are not overly represented. Furthermore, experience indicates that wealth levels are correlated with demand for real estate.
- **Business operating environment measures** (20% of the model) have been included, as future economic strength is likely to be substantially determined by the attractiveness of the business environment, particularly to foreign investors. Best prospects are likely to be in those cities that can offer the most flexible labour markets, a favourable tax regime, and those that are least regulated.

<sup>1</sup>Prior to 2007 E-REGI was produced jointly by the European research teams of Jones Lang LaSalle and LaSalle Investment Management

## E-REGI 2009 Results

After a period of severe downward revisions to European GDP growth forecasts as a result of the global financial crisis, more recent developments suggest that the downturn might be approaching its floor. The latest expectations were for European GDP to contract in 2009 and to stabilise in 2010. Forecasts are not being reduced as aggressively as previously anymore, indicating a stabilisation, albeit at a very low level. France, Spain and the UK are expected to outperform the European average in 2009 whilst Sweden, Italy and Germany look set to experience a sharper decline. The CEE countries, including Russia and Turkey, are forecast to record more severe contractions in GDP growth in 2009. The stabilisation which is tentatively pencilled in for 2010 is likely to be selective and favour regions with a strong structural competitive position.

JLL reports that European commercial real estate investment volumes in H1 2009 stood at €24bn. This was down 42% on the previous H2 2008 and down 67% on H1 2008. Quarterly volumes stood at around €12bn in both Q1 and Q2 2009. This stabilisation is a significant shift in the market, as for the past seven quarters transaction volumes had been declining by an average quarterly rate of 22%. Cross-border activity in Q2 2009 rebounded to 52% (from 27% in Q1) of total investment. While France (+83%), Italy (+51%) and Spain (+46%) saw their investment volumes increase markedly in Q2 2009, the CEE markets continue to suffer from slowing activity (-19%).

As a result of the economic uncertainty, coupled with the scarcity of debt financing and the weakening of the European occupier markets, yields have moved out significantly, causing severe capital value declines. Going forward, the markets are probably approaching the bottom. In fact, JLL expects trading to increase in H2 2009. However, a recovery will be selective with larger, more liquid markets seeing a growing share of activity, particularly in the prime segment.

The E-REGI provides guidance as to what can be expected of the European property markets, identifying the cities that look set to provide the best medium term prospects for real estate demand. As a result of the financial and economic turmoil, there are significant changes to the top of the ranking in 2009, to the benefit of wealthy cities and at the expense of locations whose ranking used to be driven by strong economic growth prospects. The inclusion of Russia and Turkey has also affected relative performance.

### Munich

- **Munich** is the first German city to top the E-REGI ranking. The location benefits from strong wealth levels and a highly diversified local business structure, consisting of a mix of strong global players and a growing SME sector from various industries, which protects the local economy from the full impact of the global financial crisis.
- Munich offers particularly favourable business conditions, which are complemented by extensive R&D activities. In combination, this results in comparatively strong economic and employment growth forecasts despite the current slowdown.
- However, Munich is partially dependent on the car industry (BMW) and thus an eventual cut-back on the Government's support packages could have a negative impact on the city's position going forward.

### Rest of Germany

- Germany is expected to show the worst short term performance among the major Western European economies. Nevertheless, the recent increases in the Ifo business sentiment index indicate that the economy may have turned a corner. Thus far, strong government support has avoided major employment cuts. Once these measures expire, the labour market could deteriorate. Moreover, the country largely relies on exports, so a sustainable recovery will depend on the development of world trade. But given its strong competitive position, Germany is expected to bounce back quickly once a broader recovery is underway. As a result, Germany is the only country with four cities ranked in the top-20.
- In the 2009 update, **Stuttgart** (9/-3) remains the second-most attractive location in Germany, mainly on the back of high levels of wealth and its strong commitment to R&D activities. This results in sustained economic growth in spite of the slump in manufacturing affecting the local car industry. However, the car industry is effectively being subsidised by the government, so an eventual cut-back on those measures will inadvertently affect the location.
- Approximately half of the other German cities moved up the ranking on the back of above average wealth levels. For instance, **Saarland** (40/+32), **Hannover** (32/+26) and **Leipzig-Dresden** (49/+14) have been able to improve their position as did **Bielefeld** (41/+16), **Bremen** (36/+11) and **Nuremberg** (27/+3).
- The **Ruhr** area (59/-15), **Berlin** (64/-14) as well as **Cologne/Bonn** (30/-17) and **Frankfurt** (20/-8) all slipped down the rankings meaningfully. This was mainly due to serious revisions of growth forecasts, reflecting the relatively weak competitive position of these locations, and, in the case of Frankfurt, the dependence on the financial sector.
- Traditionally stable locations, such as **Mannheim/Karlsruhe** (15/-4), **Hamburg** (31/-3) and **Dusseldorf** (34/-1) were better able to sustain their position in this year's ranking.

## Paris

- **Paris** has retained its second place; in terms of the actual score, it is only marginally behind Munich, as in previous years. This was achieved partly on the back of sustained growth prospects; mainly however it is due to high wealth levels.
- As a result of the centralised political system, Paris is a major hub of administrative, economic and financial activity in France. It also serves as an important transport and logistics centre in France. However, while the local economy seems to be more resilient to the downturn than other major European locations, the downside of Paris's role as the main business hub in France is greater exposure to variations in (office) employment.

## Rest of France

- GDP growth in France is expected to be negative in 2009 and stabilise in 2010. France is expected to outperform the Eurozone average in 2009 and perform in line with it in 2010. This positive outlook is based on the greater balance in the structure of the French economy and the significant share of the traditionally stable public sector. Going forward, the hope is that incentives supporting car sales, muted inflation and tax cuts (e.g. the recent VAT cut on restaurant food from 19.6% to 5.5%) will offset the surge in unemployment (9.5% in June 2009) on the consumption front.
- Most French cities, with the exception of **Toulouse** (22/-6) and **Basel/Mulhouse** (28/-1), have been able to improve their rankings. In the case of Toulouse, the situation of EADS is of particular importance. The company is being hit hard by the collapse in aircraft orders for its affiliate Airbus as well as the controversial A400M military transport aircraft programme.
- **Rouen/Le Havre** (42/+33), **Lille** (53/+16), **Bordeaux** (33/+12) and **Strasbourg** (39/+12) have recorded strong increases in their rankings, due to relatively modest downward revisions of growth forecasts and slightly improving wealth levels. In fact, the French cities are among the winners in the E-REGI 2009.

## Stockholm

- Reflecting Sweden's recent period of strong growth and its comparatively high levels of wealth, **Stockholm** (3/+1) has achieved its best ranking since 2000.
- In general, GDP in Sweden is projected to contract in 2009, reflecting the fall in confidence and activity in the wake of the global downturn. A key concern is the prospect of weak export sales. Meanwhile, domestic demand is forecast to shrink as households struggle to cope with unemployment and disrupted credit markets. Corporate investment will be curtailed as businesses endure falling demand, limited credit availability, and high bank lending rates.

- However, as the strongest city in the largest Scandinavian economy, Stockholm remains its natural financial centre. The city has the highest regional gross domestic product and the highest growth rate among Scandinavian capitals. A recent survey by Statistics Sweden showed that 45% of all Swedish companies with  $\geq 250$  employees have their headquarters in Stockholm. Moreover, Sweden's friendly attitude towards private equity companies may turn into a competitive advantage.

## Rest of Nordics

- The Nordic countries experienced strong economic growth in the recent past, with the exception of Denmark. They have innovative and flexible labour markets, sound fiscal surpluses and large welfare states. However, they are also characterised by comparatively high levels of household debt and some overheating in 2007 as well as fragile exports that suffer from the downturn in global trade. Moreover, Nordic banks are exposed to the Baltic States, making them prone to their economic and currency woes.
- **Oslo** (4/+5) is Norway's premier business centre and has a diverse economy with one of the highest wealth levels in Europe. It also benefits from a strong infrastructure network with an important port. As a result of the high standard of living, Oslo attracts a wealthy and highly skilled workforce and its population is growing rapidly. With more than 20 higher education institutions, Oslo ranks high on innovation. Its competitive strength is based on a service-orientated economy with more than 80% of the workforce employed in private and public services.
- **Helsinki** (7/+1) gained one rank on 2007, and hence maintained its long-standing position in the top-10. The economy of Helsinki is primarily service-based. Most large Finnish companies have their headquarters in the Helsinki metropolitan area, primarily due to connections to the Russian and Baltic markets, an excellent logistics network and the availability of a highly skilled workforce.

## Luxembourg

- **Luxembourg** (5/+2) remains the wealthiest city in Europe, and gained three ranks on 2008, as high levels of wealth protect it from the effects of lower growth forecasts.
- GDP growth has turned negative in 2009 as the operations of financial institutions, notably corporate lending and capital flows to investment funds, are impaired by the damage inflicted on the balance sheets of domestic banks. The global economic slowdown is hurting exports and limiting the scope to do business with financial institutions in Luxembourg. The government is set to fight against the introduction of new laws for investment vehicles as it worries about the impact of more stringent EU rules could have on its attractiveness to the financial services industry.

### Rest of Benelux

- **Brussels** (19/+17) has improved its ranking in 2009, mainly due to stable growth prospects (given the large public sector) and wealth levels improving slightly. This is in spite of Belgian GDP being projected to contract in 2009 after showing sustained growth in the past. The current financial crisis and tight lending conditions are likely to restrict consumer spending going forward. Fiscal policy will continue to be limited by high levels of public debt.
- All of the **Dutch** cities improved this year over their 2008 rankings, in particular owing to improved wealth levels. However, the Netherlands is highly dependent on trade, and slowing global demand is set to hit Dutch exports hard in 2009. Nevertheless, in particular **Rotterdam** (26/+30) performed well, as the start of Maasvlakte 2, an extension project to increase the port capacity by 20%, drives growth and prosperity forecasts.

### Moscow

- **Moscow** (6/n.a.) premiered in this year's E-REGI analysis and immediately secured a place in the top-10. This is due to its size and exceptional growth in its recent boom. But its wealth and business environment scores are below average. Russia's centralised political system means that Moscow contributed as much as 1/3 to the total national growth during 2000-2008. While Moscow has the best business environment score in Russia, this component still detracted from the city's overall score. Nevertheless, Moscow remains the principal growth driver in Russia.
- Russia's structural advantage is its wealth in natural resources. However, the fall in commodity prices and the reduced ability to obtain external financing has devastated Russian industry. Business and consumer confidence have eroded as financial conditions deteriorate and unemployment rises. Government support looks inadequate to revive bank lending and numerous SME as well as regional banks are likely to fail.
- Against this background the other Russian cities featuring in this year's E-REGI are all ranked at the bottom end of the scale: **Yekaterinburg** (91), **St. Petersburg** (92) and **Nizhny Novgorod** (94). Despite their shrinking populations, these cities benefitted strongly from the recent Russian boom and still have above-average growth prospects as they attract workers and businesses from the rural regions. But their overall scores are reduced significantly by low wealth levels and serious operational risks to the business environment, which reflects why some institutional investors are not ready to enter Russia.

### Rest of Central & Eastern Europe

- With the exception of **Szczecin** (87/+1), all of the Polish cities deteriorated markedly in this year's E-REGI: **Warsaw** (17/-7) has lost the ground it had gained in 2008 when it

entered into the top-10 for the first time. **Wroclaw** (83/-60) and **Katowice** (71/-46) saw some of the worst declines across all cities in the 2009 ranking.

- Poland is the strongest of the CEE economies and has avoided a deep recession so far, but the recovery could be slow as a result of falling regional demand, rising unemployment, and the credit crunch. Bearish corporate sentiment and consumer confidence signal that risks are on the downside. Major export markets are unlikely to rebound quickly. The share of non-performing loans in the portfolio of Polish banks is likely to increase, while unemployment will rise as companies cut costs. Moreover, budget austerity could be threatened by political conflict, delaying the Euro adoption. Regional contagion could still spill over to Poland although IMF support (US\$20.5 billion standby credit) calms concerns somewhat.
- Several countries in the CEE region are facing a painful recession due to high current-account deficits, extensive foreign-currency borrowing and deficient fiscal policy. These factors are leading to a severe downturn in spite of cash and guarantees offered by the IMF, e.g. to Hungary and Romania. Consequently, almost the entire bottom third of the ranking consists of CEE cities, e.g.: **Budapest** (82/-48), **Bucharest** (84/-36), **Sofia** (72/-4).
- Besides Warsaw, **Prague** (21/-1) was the only CEE location to achieve an above average ranking in the 2009 E-REGI. However, the second round effects of the global financial crisis look set to be profound as Czech exports and industrial production have plummeted. Nevertheless, Prague managed to keep up, mainly on the back of sustained growth forecasts, as the city is keeping its unemployment rate at the lowest level in the country.
- **Bratislava** (50/+3) has slightly moved up the scale as it benefits from tax reforms that were introduced in the recent past and boost disposable income; hence they support consumption growth and wealth levels. However, exports are declining, putting the country's position at risk.
- **Ljubljana** (46/+19) has improved significantly. Slovenia's education, science and technology minister intends to increase funds for research and development from €24 million in 2008 to €40 million in 2009. In order to cope with the economic crisis, the Government also plans to invest additional €58 million in new projects. It wants to cooperate more closely with universities and make the country's research facilities more autonomous.
- **Vilnius** (97/-18), **Riga** (98/-14) and **Tallinn** (96/-13) are among the main losers this year, due to reduced growth expectations. The Baltic countries are seeing the sharpest falls in GDP across the CEE region. Monetary policy cannot counteract this, since all three are pegged to the Euro. Fiscal policy offers no respite either. Politicians are pushing through spending cuts in order to reassure external lenders and to meet the Maastricht deficit target of 3% of GDP in order not to lose the opportunity of adopting the Euro eventually.

## London

- As a result of the financial and economic crisis, London (8/-7) has slipped from its long-standing top ranking. The downward revision to growth forecasts has only been exceeded in Dublin and Wrocław. In terms of the components of growth, employment forecasts have been cut back most severely. Also, given the lower output in 2008, wealth levels (GDP/capita) have already reduced.
- But the effects of the 2012 Olympic Games in London are expected to provide at least a temporary boost. The Games are also expected to speed up development in the Lower Lea Valley, one of the priority areas for regeneration in London. The Games themselves will provide numerous job opportunities and the influx of spectators will offer a boost to the local hospitality industry.
- Moreover, preliminary work has started on Cross Rail which should transform east-west communications across the London area.

## Rest of the UK

- After a series of downward revisions to GDP growth, the rate of economic contraction in the UK seems to have slowed and 2009 is now widely perceived to be the low point of this cycle. However, sustainable growth will only slowly develop in 2010, as unemployment depresses consumption. The UK has been hit particularly hard by the global financial crisis, with a number of banks having been partially or fully nationalised. The financial-sector problems are having a significant effect on an already struggling economy, especially through very tight credit conditions, which are hitting business, consumer, and mortgage activity.
- Against this background, 10 of the 13 UK locations dropped in this year's E-REGI, leaving only two of them, **Manchester** (35/-9) and **Nottingham/Derby** (38/-3) in the top half. While **Leeds** (60/+6), **Newcastle** (78/+4) and **Liverpool** (54/+22) actually managed to improve their rankings, they are still unable to move up to the top half of the scale.

## Dublin

- Compared to 2008, **Dublin** (73/-68) saw a record fall in this year's E-REGI, as it experienced a sharp reduction in GDP and employment growth prospects. Dublin has been the engine of Ireland's strong economic growth over the past few years, accounting for about half of Ireland's GDP. The recent slowdown in Dublin's economy has to be seen in context with the gloomy economic situation in Ireland as a whole.
- The Irish economy is in a deep recession, with real GDP declining already in 2008, the worst performance in 30 years. The scale of the contraction in 2008 makes it likely that the Irish economy will decline by around 7-8% in 2009. In

addition, an extended, sharp housing market correction is having a marked negative impact on consumer spending, as rising house prices had boosted confidence and personal wealth in recent years. The construction sector is suffering hugely too, while public finances are weakening significantly. In response to a deteriorating fiscal position, the government increased taxes and cut spending sharply in April 2009, which is set to hit consumer spending hard, increasing the downside risks to economic growth.

- The government is expected to repeat the referendum on EU reform treaty by the end of October 2009. If the treaty is not passed in a second referendum, the Irish administration might find itself sidelined when significant decisions are made at EU meetings. On the bright side, business ties with Northern Ireland have improved markedly.

## Switzerland

- In general, wealthy locations performed better in this year's E-REGI because strong fundamentals partly protect these cities from the immediate effects of reduced growth projections. The Swiss cities clearly demonstrate this point as all of them have improved over their 2008 ranking due to high wealth scores, and have thus achieved positions in the top quartile of the scale: **Bern** (14/+24), **Geneva** (25/+12), **Zurich** (12/+10).
- In Switzerland, weakening financial sector balance sheets are hurting financial sector inflows and slowing down the financing of business activity and thus domestic demand.
- The Swiss National Bank has implemented rate cuts quantitative easing measures, including foreign-exchange intervention to prevent the Swiss Franc from appreciating too much. In an attempt to be removed from the OECD's tax-haven "grey list", the government is signing new tax agreements. The increased scrutiny of Swiss banking and tax regulations encourages investment by lowering uncertainty, but might also damage Switzerland's appeal to investors less interested in transparency. Nevertheless, Zurich and Geneva still occupy top ranks in the Global Financial Centres Index.

## Austria

- **Vienna** (13/+5) has improved over its 2008 ranking due to high wealth scores, and has thus also achieved a top quartile ranking.
- The ongoing banking-sector woes and the global slump in demand will continue to restrain economic activity in Austria, especially since most CEE economies are not looking likely to recover anytime soon. The government is attempting to weather the storm with tax cuts and by extending regulations relating to short-term work. The European Commission has accepted the arguments of the Austrian government for upholding labour market restrictions on citizens from CEE states in certain sectors. However, the Commission has urged to ensure that the labour market is prepared for liberalisation in 2011.

- The Freedom Party (FPÖ) and Alliance for Austria's Future (BZÖ) both performed well at the 2008 snap parliamentary election, putting the far right in a strong political position.

## Iberia

- With the exception of **Zaragoza** (69/+9), all of the Spanish cities dropped markedly in this year's E-REGI. **Madrid** (44/-23) and **Barcelona** (68/-51), traditionally the strongest Spanish locations, have fallen significantly due to drastically revised growth forecasts.
- The Spanish economy is struggling with excessive levels of private debt, a falling property market, and an over-extended construction sector, coupled with weaker demand from key export markets. Unemployment has risen to almost 20% in H1 2009. In an effort to support the 17 regions, the central government will distribute an extra €11 billion, thereby potentially increasing the budget deficit to 12% of GDP. Add to that the uncompetitive and inflexible labour market with strict redundancy rules, and it becomes clear that Spain has major structural issues to resolve before a sustainable recovery can set in.
- **Lisbon** (52/+25) improved its ranking on the basis of relatively sustained growth forecasts while **Porto** (89/-8) has fallen behind as a result of a weaker employment outlook.
- Plummeting activity among Portugal's trade partners will continue to take its toll on exports, which recently represented c. 35% of GDP. Meanwhile, the EU launched legal action against Portugal over protectionist policies. Also, the country's public deficit is once again likely to rise above the 3%-of-GDP ceiling stipulated by the Eurozone.

## Italy

- **Bologna** (47/+7) is once again the best performing Italian city, but all locations, with the exception of **Palermo** (93/-2), showed strong improvements over last year's ranking, e.g. **Florence** (58/+29), **Rome** (56/+29) and **Genoa** (74/+16), highlighting the persistent North-South divide.
- In Q1 2009, Italian GDP recorded its sharpest decline since the series began in 1981. Although the pace of the decline has slowed since then, the economy is still expected to contract in 2009. Activity has been derailed by weaker global demand, coupled with plummeting confidence. In addition, banks, enterprises, and households are struggling to obtain finance in the wake of the global financial crisis. The government has pledged some limited fiscal stimulus measures, but more extensive support is ruled out by the country's poor public finances. This will likely result in a deterioration of the labour market, depressing confidence further.
- Sustained economic prosperity in Italy is likely to be dampened as long as structural issues remain unresolved. In recent years Italy has made strides in creating a more liberal, competitive, and business-friendly legal environment, with

fewer barriers to market entry, simpler and more cohesive legislation, and less bureaucracy, but over-regulation remains a problem. Also, the court system remains slow. Reforms have been promised, but little change has materialised.

## Greece

- The two Greek cities featuring in this E-REGI ranking, **Athens** (43/-4) and **Thessaloniki** (81/-19), both lost ground as compared to last year's analysis, due to lower growth scores on all measures (GDP, employment and R&D activity).
- Low demand from trade partners, tighter credit conditions, and weaker activity in the key tourist and shipping sectors will continue to hit the Greek economy during 2009.
- The main risk comes from a large and lagged deterioration in the labour market, which will weigh down on private consumption. In addition, exposure to CEE markets is putting Greek banks under pressure. The rating agency Moody's announced at the start of 2009 that it might downgrade lenders with exposure to Eastern European economies as a result of the problems facing these economies.
- The €28 billion stimulus package implemented by the Greek government might be enough to provide liquidity and maintain banks' capital ratios, but the administration may have to take extra measures should the worsening of the economy escalate.

## Turkey

- The 2009 edition of the E-REGI is the first one to include a number of Turkish Tier-1 locations, namely **Istanbul** (75/n.a.), **Ankara** (90/n.a.) and **Izmir** (95/n.a.). While Istanbul (un-surprisingly) achieved the highest position, all other locations are ranked close to the bottom end of the scale.
- Reforms put in place after Turkey's own 2001 financial crisis have helped buffer the country against the current crisis. But even if the financial meltdown has been avoided, macroeconomic conditions have deteriorated sharply. Turkey's financial markets have become unstable as external obligations look increasingly onerous. However, the government has been resistant to IMF calls to increase fiscal austerity. Instead, it is actually allowing greater laxity in hope of stimulating growth and preserving jobs. With inflation down markedly, the central bank is cutting interest rates, but they remain among the highest in Europe in real terms. Moreover, the downturn has increased public anger at the ruling Justice and Development Party, which now has to fight to retain its prime position.
- From a structural point of view, Turkey has the advantage of a young and growing population as well as expanding workforce. In terms of drivers for property demand, financial and business service employment is forecast to increase by 20% until 2020, and consumer markets are expected to rebound strongly as well. Although the momentum in the negotiations has slowed, a potential EU membership would significantly improve Turkey's position as it would encourage further reforms and foreign investment as well as strengthen its links with Western markets. However, tension remains between Islamic and secular forces in Turkey.