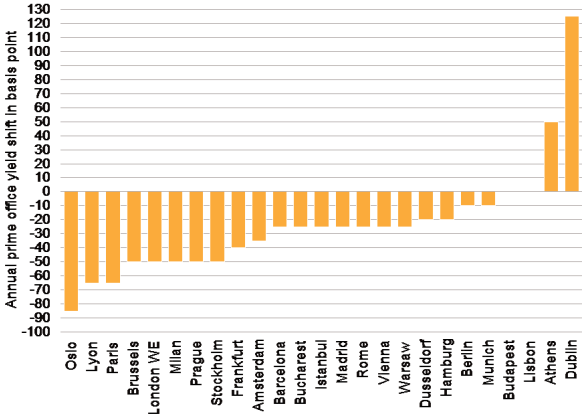
European investment bulletin

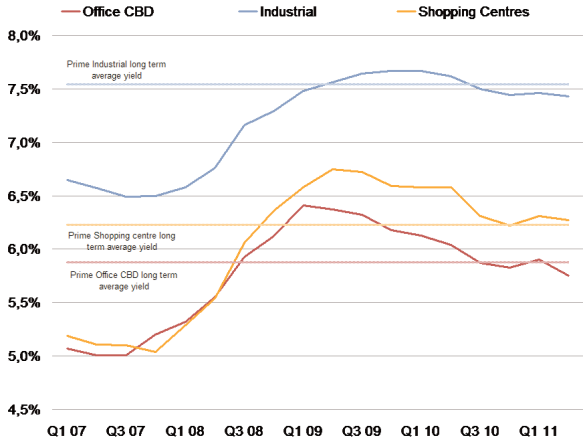
Summer 2011

Lack of prime product supports yield compression



Source: Savills Research

Prime yields back to their long term average levels



Source: Savills Research

"Prime yields are back to their long term average levels, following a period of strong investor interest for prime assets. Overall investors remain wary of secondary markets amid downside risks to the European economic outlook; however some specialist players have started exploring the best opportunities in this market segment. "

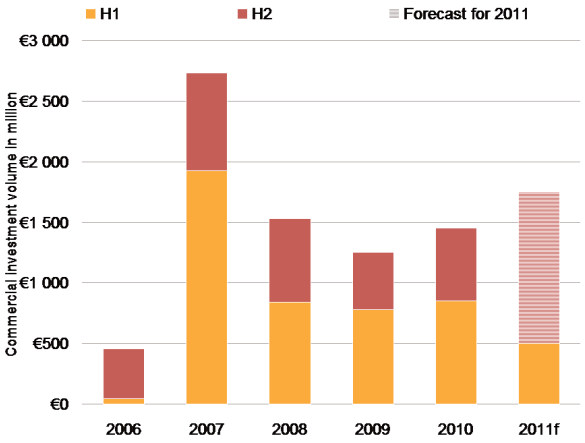
Eri Mitsostergiou - European Research

- The rising trend reported in Q4 2010 in our survey area continued in the first and second quarters of 2011 and the total commercial real estate investment volume in the first half of the year exceeded by about 8% last year's levels (same period). We expect the full year turnover to be in line with last year's result (+2%).
- Romania and Hungary to showed the highest annual rises over the first half of the year, as investors show renewed interest in the region. Spain and Greece experienced a fall in total volume, due to the uncertainty caused by the sovereign debt crisis in the region.
- UK, Germany, France, Sweden and The Netherlands have been the most active markets and they accounted for over 80% of the total transaction volume in our survey area in H1 2011.
- The average prime yields of our survey area remained stable in Q2 2011 compared to Q1 2011 for prime shopping centres and prime industrial warehouses at 6.3% and 7.4% respectively. Prime CBD office yields moved in by 15 basis points to 5.75%.
- Compared to Q2 2010 prime yields have moved in once again across most markets except the peripheral ones. On average prime office CBD yields have compressed by 24 basis points, prime shopping centre yields by 21 basis points and prime industrial warehouses by 10 basis points.
- The prime-secondary CBD office yield gap expanded by almost 60% compared to its lowest historic levels in 2007, and it stands at 97 basis points.

Austria, Belgium, Czech Republic

Austria

The first quarter of 2011 showed very little investment activity in the Austrian commercial market. Despite the fact that investor demand for core office buildings and shopping centres remained strong and yields have become under pressure, the lack of available product in the prime segment kept the investment volume within narrow limits, approx at €200 million. In this respect the core market is driven by the German and Austrian open ended funds, which absorbed by far the largest share of the product and will continue to do so. Besides core plus and value add investors have started looking into the Austrian commercial property market again and we do anticipate that these investors with more risk appetite will push the market to higher turnover figures, whereas we do not expect to see significant turnover in this segment in the first half of the year 2011.

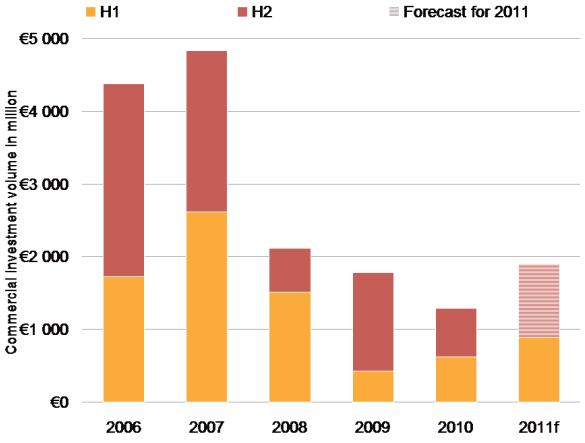


Source: EHL Immobilien Gmbh

2009 - 2010	+16.0%
2010 - 2011 forecast	+20.7%

Belgium

Investment market appetite during the first quarter of 2011 remained strong with a total investment turnover of €416 million, which represents a 234% increase compared to Q1 2010 for the Brussels market. In Belgium investment activity reached a total of €616 million which is 48% higher than the the total volume achieved in 2010. Prime office yields compressed for 9 to 18 year leases to 5.0% - 5.25% whilst 3/6 year leases now stand at 6.25% - 6.5%. Interest rate increases could halt further yield compression in the coming months. The investment volume so far has already reached half of its full year 2010 level, which already points to a more buoyant and active year. Landlords will place more product on the market in 2011 and therefore, investment levels should reach around €2.0 - 2.25 billion - back to the annual average levels seen during the period 2001 - 2005.

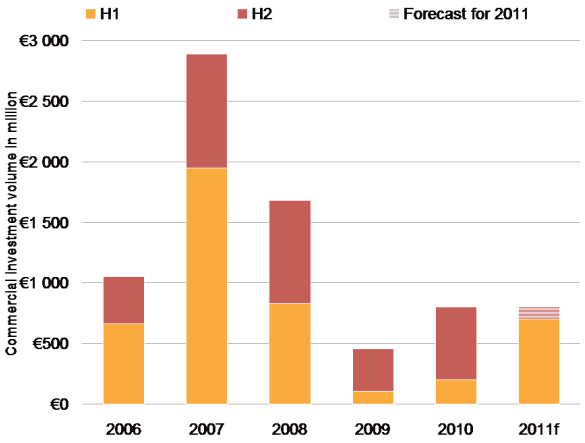


Source: Savills Research

2009 - 2010	-27.7%
2010 - 2011 forecast	+47.0%

Czech Republic

Total investment volume increased from €500 million in 2009 to €800 million in 2010 and yields compressed in all major market segments. Particularly retail yields compressed by 50 to 75 basis points. Generally, the yield gap between prime properties and other market segments has widened. During the first quarter of 2011 the market activity improved further and the investment volume for Q1 was about €400 million. Investors focus on first-class properties in the office and retail sector but transactions in the industrial sector have picked up significantly for prime assets with long-term rental contracts. As expected, the market has seen a significant rise in the activities not only by foreign investors, but in particular by Czech investors, who discover the domestic real estate market as a promising investment opportunity. However, Austrian and German investors will also keep a leading role.



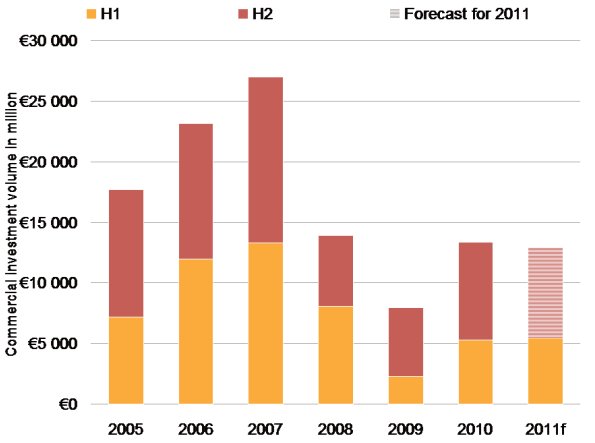
Source: EHL Immobilien Gmbh

2009 - 2010	+75.1%
2010 - 2011 forecast	0.0%

France, Germany, Greece

France

Some €3.8 billion were invested in the French commercial property market during the first quarter of 2011. Although below the volume of the previous quarter (€4.5 billion) fuelled by end-year closings, the Q1 2011 turnover confirms the growing investor appetite. More than 50% of investment was concentrated in the Paris region. Investors are predominantly targeting offices, representing 60% of the total invested amount. Domestic investors remain the main market players accounting for nearly 80% of total activity. We anticipate investors to take advantage of the current high demand for prime stock to put their assets on the market, thereby creating investment opportunities. We expect the annual turnover in France to reach approximately €14 billion by year-end, up from €13.3 billion in 2010, bringing the volume back to just below the 10-year average of €14.2 billion. Prime yields tend to stabilise in most markets.



Source: Savills Research

2009 - 2010	+67.8%
2010 - 2011 forecast	-2.7%

Germany

Commercial real estate worth approximately €5.53 billion changed hands in Germany throughout Q1 2011. The investment activity was dominated by transactions of retail properties (55% or €3.07 bn.), followed by the office sector (20% or €1.08 bn.), mixed-used properties (9% or €0.46 bn.) logistics and light industrial properties (6% or €0.34 bn.) and development sites and hotel investments (5% or €0.29 bn. each). Apart from two major deals in the retail sector with a volume of €700 million each another eight transactions totaling over €100 million were completed. Single asset transactions accounted for approximately two thirds of the total transaction volume. For 2011 it is expected that the total investment volume will exceed the 2010 result of €19.7 billion so that more than €20 billion are likely to be invested in commercial real estate.

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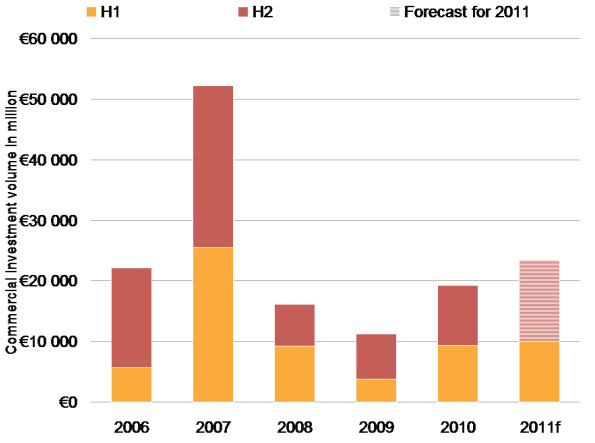
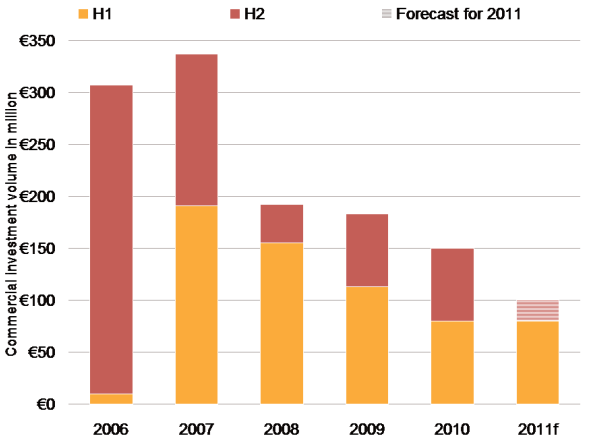


Source: Real Capital Analytics / Savills Research

2009 - 2010	+72.3%
2010 - 2011 forecast	+21.9%

Greece

GDP growth contracted by 4.5% last year and is set to decline by another 3.5% in 2011, as fiscal consolidation is dampening domestic demand. Unemployment rate exceeded 15% in 2010 as employment opportunities are fading both in private and public sector. Declining wages and rising inflation reduce consumer demand. Under these economic conditions and with high spreads keeping the cost of financing at high levels, property investment activity has come to a standstill. Local private investors and banks are mainly involved in the recent transactions. Office, retail and industrial properties are less appealing to investors, while the tourism sector appears to attract most of the attention as it is key for the recovery of the economy. The privatisation of public assets as part of the government's plan to achieve its deficit goal should also attract investor interest as it will involve prime development sites across the country.



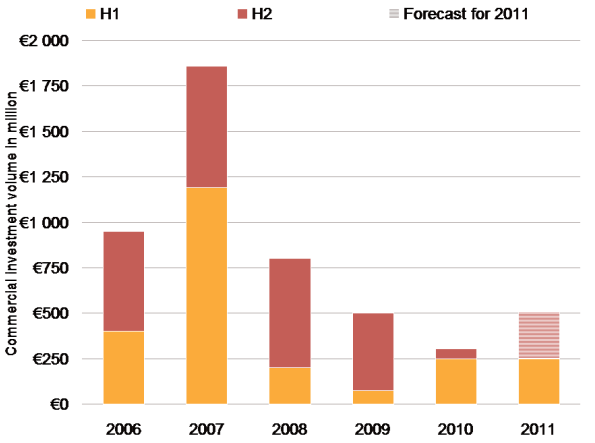
Source: Real Capital Analytics / Savills Research

2009 - 2010	-18.0%
2010 - 2011 forecast	-33.3%

Hungary, Ireland, Italy

Hungary

The market remained weak last year, with the total investment volume hardly exceeding €300 million, compared to the threshold of €2.0 billion that was exceeded in the years prior to the financial crisis. The only market segment to attract interest was core properties in top locations with first-class lease contracts. Although the economic recovery remains weak and new legislation is unfavourable for foreign companies, the market is set for some growth and the transaction volume should climb over €500 million in 2011, as there are several deals in the pipeline. Indeed in Q1 2011 the investment volume was above €200 million driven by the take over of Europolis by CA Immo and the partial divestment of Arkad Shopping Centre by Unibail-Rodamco. The focus will continue to be on core assets. Yields will remain stable, but as the yield gap with neighbouring markets widens, Hungary may become relatively more appealing.

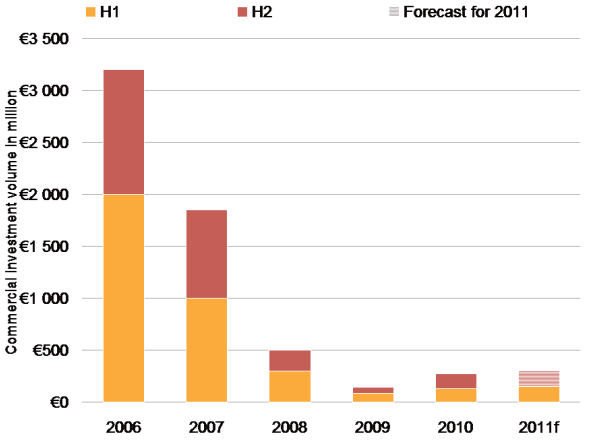


Source: EHL Immobilien Gmbh

2009 - 2010	-39.0%
2010 - 2011 forecast	+67.2%

Ireland

Investment market turnover reached €270m in 2010. The majority of transactions completed were to Irish investors who typically acquired smaller lot sizes. Activity in 2011 has been hampered by a continued lack of funding and fragile confidence. The market has been affected particularly by the position of the new government to potentially retrospectively review rent provisions in existing commercial leases. Uncertainty around this decision has put a halt to many investment deals that may otherwise have completed at the end of last year and in Q1 2011. As a result, if the issue is clarified in the coming months then turnover could potentially reach €300 - €400 million in 2011 – otherwise investment market transactions may remain very limited. Prime yields are considered to have moved out by 0.5% since the middle of 2010 – but more deals need to complete in 2011 in order to provide sufficient evidence of this.

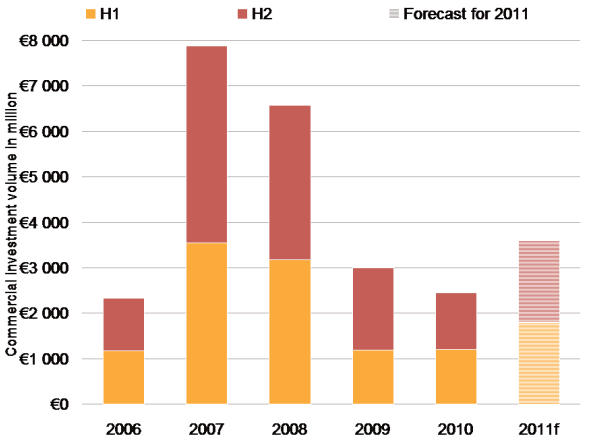


Source: Savills Research

2009 - 2010	+91.5%
2010 - 2011 forecast	+11.1%

Italy

The commercial investment market in Italy showed varying degrees of activity across different sectors. Investment yields for prime office properties and locations in the Milan marketplace edged downwards in the first quarter of 2011, in more than one submarket. This tightening was seen alongside increased activity and interest by investors in the marketplace and is the first downward movement in prime yield levels since the end of 2007. In Rome office investment yields remained stable, however, and this is expected to continue into the year. Overall, the healthy levels of investment activity already seen at the beginning of the year are expected to continue into the year. Retail transactions remained limited and market conditions confirmed an ongoing yield stability. The logistics sector showed least activity with the severely limited demand levels remaining low.



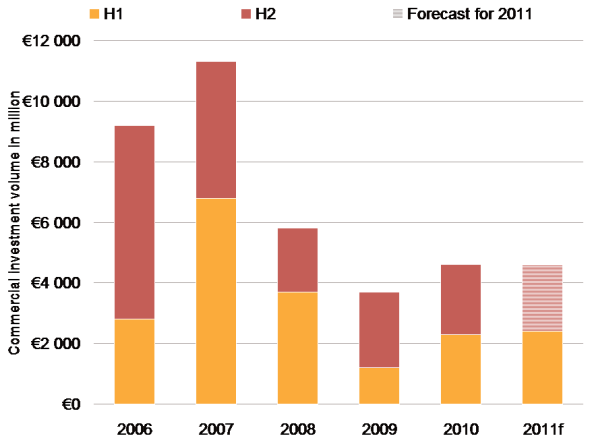
Source: Real Capital Analytics / Savills Research

2009 - 2010	-18.1%
2010 - 2011 forecast	+46.6%

Netherlands, Norway, Poland

Netherlands

Commercial property investment volume in 2010 reached €4.6 billion, an increase of 24% compared to 2009 and a clear indication that investor interest has returned. The sale of a large part of the Unibail-Rodamco portfolio resulted in a strong increase in retail investments (+74%). Office investments grew 16% to €2.3 billion, while investments in industrial property dropped 36% to €415 million. In Q1 2011 investments reached €1.0 billion, precisely the same level as Q1 2010. Offices were responsible for 45%, industrial for 28% and retail for 27%. Buyers are still very interested in and highly focused on prime property, and it seems that it is mainly the lack of good quality property that hampers further increase in investment volume. For 2011 we forecast an investment level similar to that of 2010 but we expect the retail sector to account for a smaller share in total activty. Prime yields should remain stable.

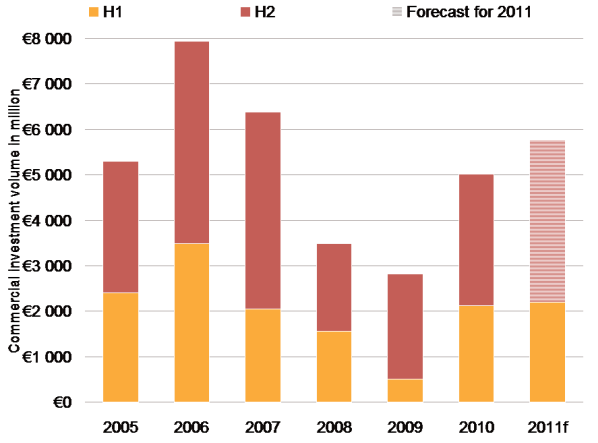


Source: Vastgoedmarkt / Savills Research

2009 - 2010	+24.3%
2010 - 2011 forecast	0.0%

Norway

The transaction volume in 2010 reached NOK39 billion, underpinned by high investment activity during the last quarter of the year. This trend was not maintained during the first quarter of 2011, however we expect several deals to be concluded by the end of the first half of the year and the total transaction volume for 2011 to even exceed the 2010 level. Norwegian closed-end funds were the largest buyers in 2010 with a market share of 25%. International investors achieved a market share of 16% although these investments were divided into just a few large transactions. Retail and office sectors accounted for two thirds of total investments in 2010 and we expect a similar trend this year. The rising interest in prime office properties with long term leases was translated to a number of deals in the first half of 2011 and yields have compressed to about 5.25% for this type of assets.

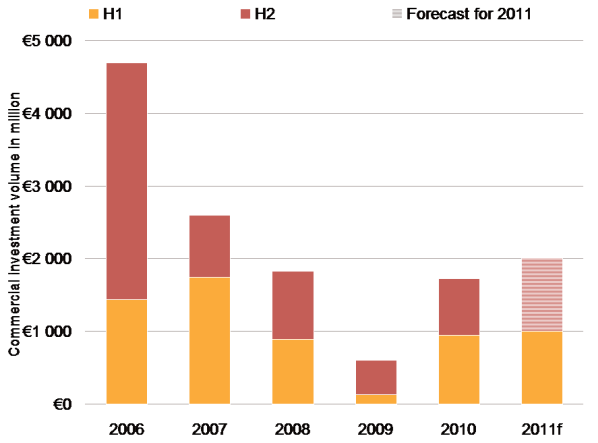


Source: Heilo Eiendom AS

2009 - 2010	+88.8%
2010 - 2011 forecast	+14.9%

Poland

2011 Q1 investment volume in Poland reached €665 million, almost 40% of the total in 2010, and 10% higher than in the entire transaction activity in 2009. This confirms the upward trend in investment activity, with Poland accounting for over one-third (ca 35%) of the entire deal volume in Central-Eastern Europe. Warsaw offices were the most targeted investment product in 2011 Q1, although investor interest in the regional cities is rising. Overall offices accounted for 45% of the number of deals and the rest was shared between retail and warehouses. Austrian and German investors were the most active players in the market. We anticipate that the retail sector will once again increase its share by the end of this year and we expect the total volume to exceed €2 billion. Pre-purchase and forward financing transactions should become more popular, together with the acquisition of retail centres in the medium-sized towns.



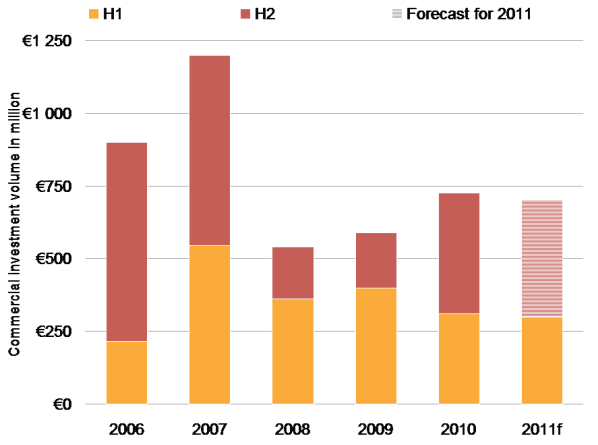
Source: Savills Research

2009 - 2010	+184.8%
2010 - 2011 forecast	+15.7%

Portugal, Romania, Spain

Portugal

The retreat from the market of both Portugal's domestic property investment funds and many of the major international funds has left the investment market in a much less liquid position and investment activity has dropped. Moreover, there is a lack of investment product, as vendors have not been willing to sell at a loss. Investors are focusing almost entirely on the security and length of the income stream, looking for long contracts to secure companies. Nevertheless, 2010 volume reached circa € 700 million, topping by more than €100 million 2009 values. The local funds were responsible for 60% of the investment volume, although international players were involved in the larger transactions. For 2011 we expect investment activity to remain at the same levels as last year, but yields are likely to move out further, depending on how the market reacts to the implementation of the IMF/ECB austerity measures.

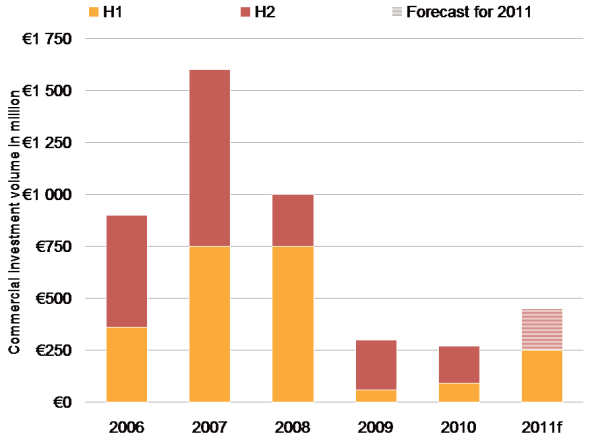


Source: Abacus Savills Research

2009 - 2010	+23.1%
2010 - 2011 forecast	-3.6%

Romania

The investment market gained some momentum in 2010 but is still way below the transaction volume reached in 2007, at the peak of the market. During the first half of last year retail investments accounted for the lion's share of the total volume driven by forward purchases from 2008 and stake acquisitions by the stronger partners in co-developments, while in the second half office transactions prevailed. In 2011 there will be more prime office and retail properties on the market at increasingly attractive price levels, especially in Bucharest. This should lead to a rise in the transaction volume, which in Q1 was close to €200 million, compared to a total of about €380 million last year. However we still do not expect pre-crisis level of activity to be reached. There may be more distressed properties for sale, but as banks are still reluctant to foreclose on breached loan agreements, this will not become a major burden for the market.

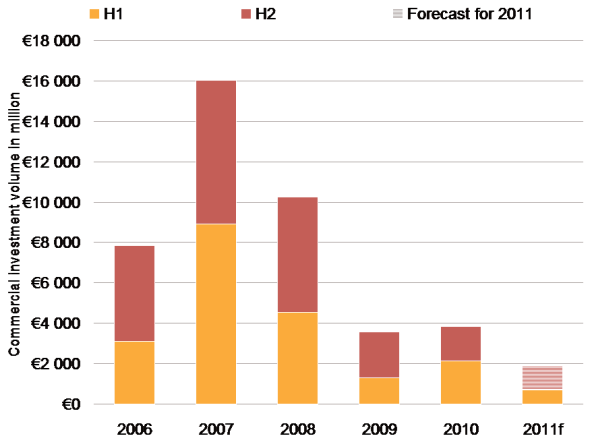


Source: EHL Immobilien Gmbh

2009 - 2010	-10.7%
2010 - 2011 forecast	+67.9%

Spain

2010 closed with a commercial investment volume close to €3.8 billion. More than 51% of the total was concentrated in the retail sector, followed by the office sector, with little more than 31%. The hotel sector represented almost 14% and the industrial sector had a residual presence, at just 4% of the investment total. It is important to highlight that, as in 2009, the bulk of the retail transactions were portfolios of bank branches. During the first quarter of this year, the investment volume reached €483 billion, a level similar to the one registered in the same period of the year 2010. It is worth emphasizing that, €120 bn of the total volume corresponds to the acquisition of two shopping centers. In the office sector, the CBD continues to be the focus of interest for both national and international investors. As with last year, the lack of quality supply for sale and the strong demand are contributing to the compression in yields in order to get the most competitive offer.



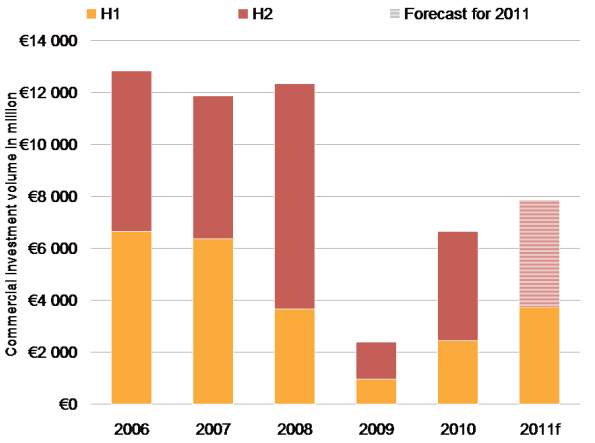
Source: Real Capital Analytics / Savills Research

2009 - 2010	+7.5%
2010 - 2011 forecast	-50.5%

Sweden, Turkey, UK

Sweden

The commercial investment volume amounted approx. SEK16 billion in Q1 2011 compared to SEK66 billion for the full year 2010. The property market recovered significantly during 2010 and the positive trend has continued into 2011 with the 2011 Q1 figure exceeding the volume for Q1 2010 by 35%. The market has been heavily dominated by domestic investors in spite of a continued strong interest from international investors. We predict a continued strong interest for commercial properties on a market where foreign investors will face fierce competition from domestic investors. Financing is still scarce compared to the peak years and financing secondary properties is problematic. In spite of this, we expect that secondary yields will converge further with prime yields due to the lack of availability of prime assets in the investment market.

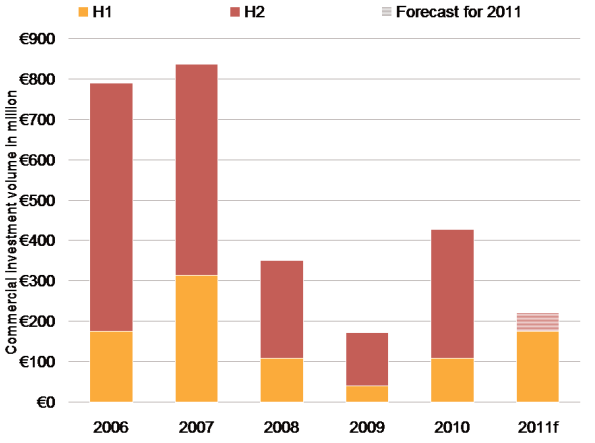


Source: Savills Research

2009 - 2010	+178.5%
2010 - 2011 forecast	+18.5%

Turkey

The investment market has entered a period of recovery since the first half of 2010. The total investment volume in 2010 reached €427 million, which was almost 150% higher than the previous year. The second half of 2010 in particular saw a high volume of investments, underpinned by the transaction of shopping center projects in İstanbul, İzmir, Trabzon and Bursa. During 2010, demand for office assets in Istanbul was also significant. The hotel investment market was particularly active especially in Istanbul, Muğla, İzmir and Antalya while the logistics investment activity was mostly concentrated around Istanbul. Prime yields have compressed since the second quarter of 2010. With the economic recovery since the end of 2010 the interest from national and international investors in the Turkish market has been increasing. The total volume for H1 2011 is expected to he as high as €175 million, which mainly accounts for offices.

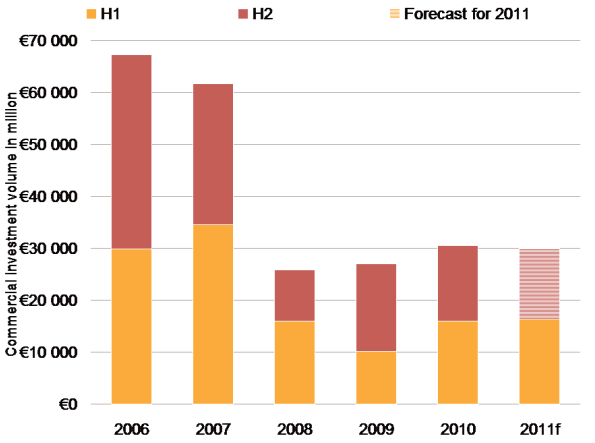


Source: Kuzey Bati

2009 - 2010	+148.3%
2010 - 2011 forecast	-48.5%

UK

The first quarter of 2011 has seen the UK continue to benefit from a global appetite for risk-averse investments. The central London office market alone recorded a turnover of £2.88 billion in Q1 2011, with a high proportion of purchases being from non-domestic investors. While investors are still questioning the strength of the UK economic recovery, there is an increasing expectation of selective upward rental growth beginning to emerge outside London in 2011. Prime assets and locations remain very popular, and we are beginning to see a re-emergence of downward pressure on prime yields. Investors remain wary of secondary markets due to the lack of transactional evidence, and questions about the timing and strength of the economic and leasing market recovery in some UK markets. However, as prime yields begin to harden again domestic investors are increasingly focusing on asset management opportunities where the potential returns could be higher.



Source: Property Data / Savills Research (forecast)

2009 - 2010	+45.5%
2010 - 2011 forecast	-12.7%

Key data

National annual GDP growth, prime rental growth[1], prime yields[2] and yield change[3] in Q2 2011(Q1*)

Cities	GDP Growth 2011f	CBDOffice rental growth	CBD Office yield	CBDOffice yield change	Industrial[4] rental growth	Industrial yield	Industrial yield change	SC[5] rental growth	SC yield	SC yield change
Amsterdam	2.2%	0.0%	5.35%	-35	5.6%	6.75%	-50	0.0%	6.50%	-25
Athens	-3.5%	0.0%	8.00%	50	-10.0%	9.0%	75	0.0%	7.50%	25
Barcelona	0.7%	-5%	5.50%	-25	NA	NA	NA	0.0%	6.50%	-75
Berlin	3.3%	1.6%	5.20%	-10	0.0%	NA	NA	0.0%	5.00%	-50
Brussels	2.4%	13.5%	6.00%	-50	0.0%	7.50%	0	0.0%	5.50%	-50
Bucharest	1.5%	-8.3%*	8.75%*	-25*	NA	10.0%*	NA	-5.6%	9.00%*	0
Budapest	2.8%	0.0%*	7.75%*	0	NA	9.25%*	NA	NA	7.50%*	0
Dublin	0.6%	-7.2%	8.50%	125	-13.3%	9.50%	100	0.0%	8.50%*	100
Dusseldorf	3.3%	0.0%	4.90%	-20	-3.4%	6.50%	-40	0.0%	5.50%	-30
Frankfurt	3.3%	-1.6%	4.60%	-40	1.4%	6.50%	-20	0.0%	NA	NA
Hamburg	3.3%	-0.7%	4.80%	-20	1.6%	6.90%	-40	0.0%	NA	NA
Istanbul	6.1%	2.7%*	7.50%	-25	4.0%	8.50%	-25	10.0%	8.25%	-25
Lisbon	-1.7%	5.4%*	7.00%*	0	-5.3%*	7.50%*	50	NA	6.75%*	0
London[6]	1.5%	7.5%	3.75%	-50	0.0%	6.25%	0	5.0%	5.50%	-25
Lyon	2.0%	-1.3%	5.50%*	-65	NA	7.25%	NA	NA	NA	NA
Madrid	0.7%	-5.3%	5.50%	-25	NA	NA	NA	0.0%	6.50%	-75
Milan	0.9%	6.3%	5.50%	-50	NA	NA	NA	0.0%	6.50%	0
Munich	3.3%	4.6%	4.60%	-40	-5.3%	7.80%	NA	NA	5.80%	30
Oslo	2.7%	9.1%*	5.25%	-85	0.0%*	6.50%*	-50	20.0%	6.00%*	-100
Paris	2.0%	9.2%	4.50%*	-65	0.0%	7.00%	-50	0.0%	5.25%	-25
Prague	2.3%	0.0%*	6.50%*	-50	NA	8.50%*	0*	0.0%	7.00%*	0
Rome	0.9%	5.3%	5.75%	-25	NA	NA	NA	NA	NA	NA
Stockholm	3.3%	14.6%	5.00%	-50	0.0%	6.75%	-25	6.5%	5.50%	-50
Vienna	2.9%	4.8%	5.40%*	-25	-4.0%	7.50%	-25	-8.3%	6.00%	-25
Warsaw	3.9%	4.0%	6.50%	-25	0.0%*	7.75%*	-75	10.0%	6.50%	-50

Source: Savills Research, Focus Economics Consensus Forecast, European Commission Economic Forecasts

Note 1: Rental growth is annual and calculated in local currencies

Note 2: Prime yields refer to modern, minimum 1,000 sqm, fully let, standard leased building

Note 3: Prime yield change is annual - in basis points

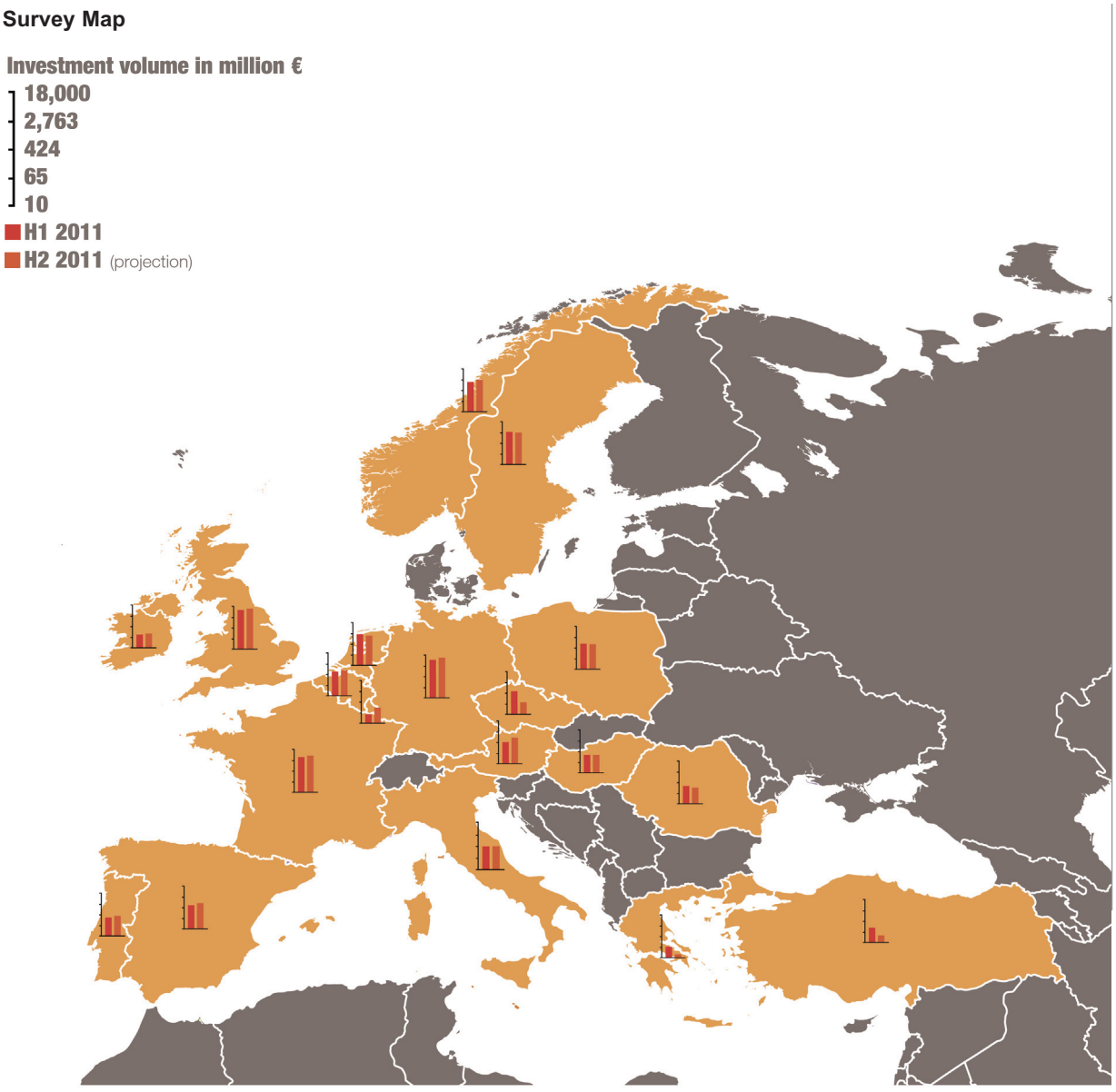
Note 4: Industrial refers to warehouses

Note 5: SC = Shopping Centres

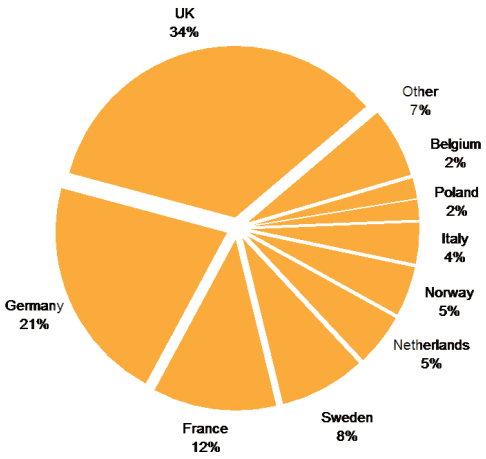
Note 6: London West-End for the office market

Survey map

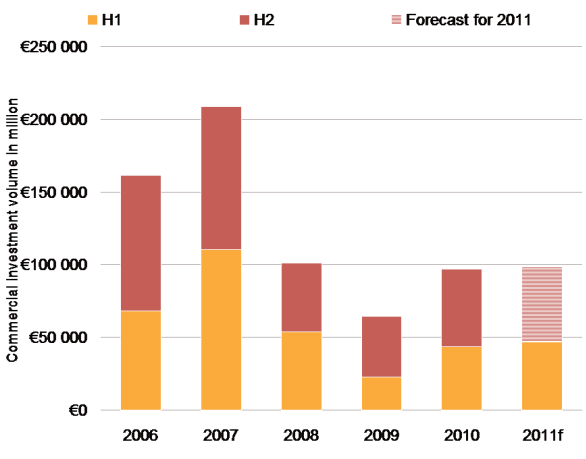
Survey Map



Global investment volume by geography - Q1 2011



Survey area investment volume



Source: Real Capital Analytics / Savills Research

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