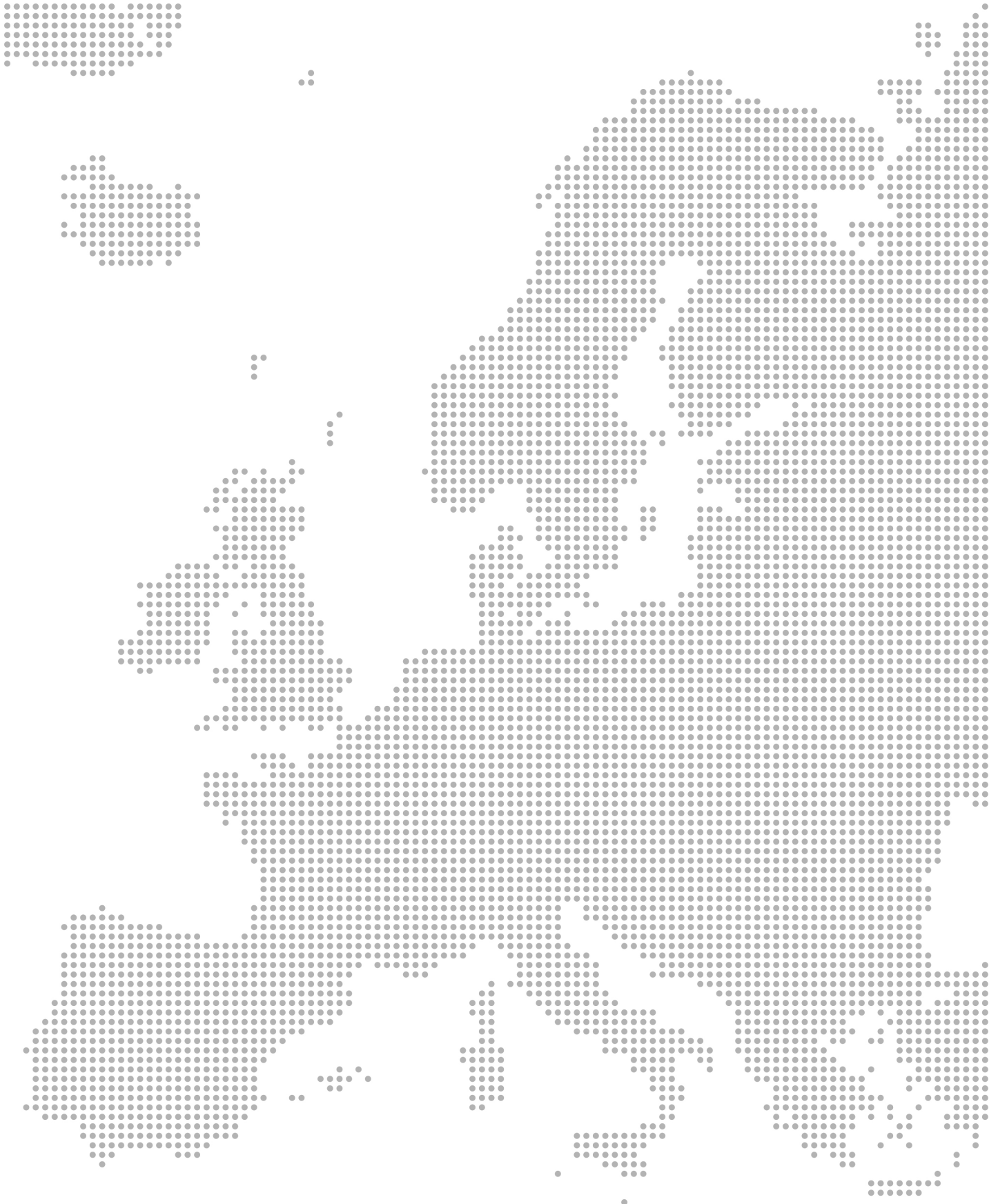


European Investment





€111bn of investment transactions recorded during H1 2019.



European investment volume 2% below the long term average.



The share allocated to Nordic counties increased from 14% in H1 last year to 18% in H1 2019.



Offices accounted for 41% of the total investment volume.



We expect the full year investment volume to reach €241bn, 18% below last year's turnover.

European investment volumes to reach €241bn by year-end.

European total commercial and residential investment volume reached a total of €111bn in H1 2019, 16% below the equivalent level last year, and 2% below the long-term average for the first half. Annualised investment fell 3% from €282bn for the year to Q1 2019 to €274bn in Q2 2019. In two thirds of the countries we survey, investment volumes were below their respective levels for H1 2018, whilst investment levels were higher in Greece (+120%), Czech Republic (+59%), Italy (+44%) Ireland (+34%), Sweden (+42%), Norway (8%) and France (3%).

The proportion of investments allocated to the three core countries decreased from 63% in H1 2018 to 60% in H1 2019, to the benefit of the Nordics countries (14%-18%), Southern Europe (9%-10%) and at a lesser extend to CEE

countries (3.5%-4%). This is an indication that the price level may have become a drag on investment activities in core countries.

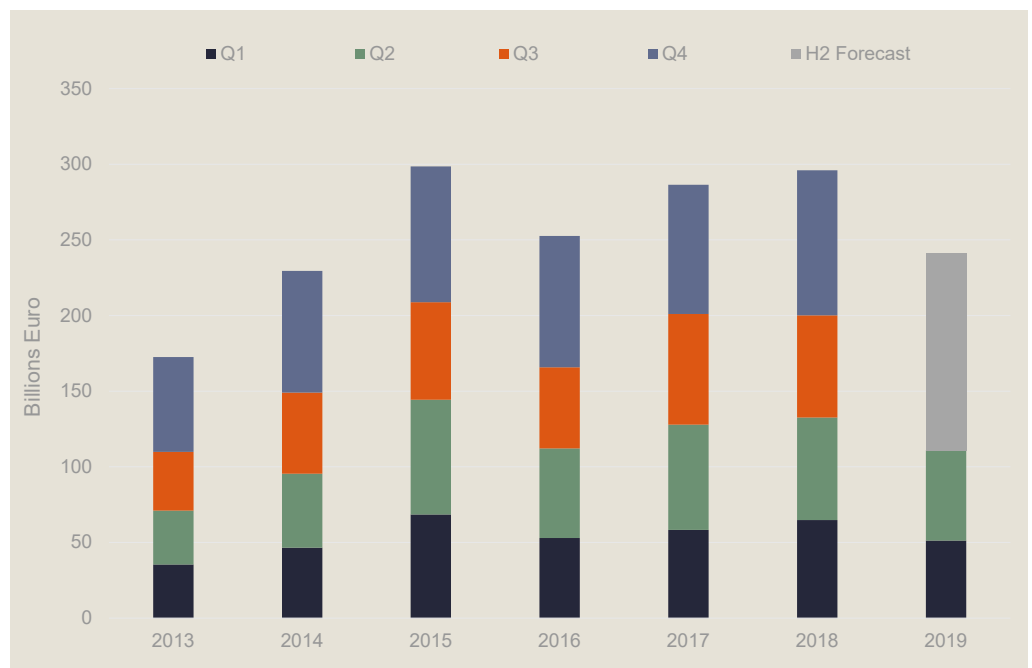
Despite the US remaining the largest cross border investor into Europe, South Korean investors acquired a total of €6.2bn in H1 2019, up from €5.4bn for the full year last year and the highest year on record.

Offices remain the preferred asset class, totalling €44.4bn, which is 41% of the total compared to 37% in H1 2018. Strong labour markets in nearly all European countries and the rising need for modern space to adjust to the new flexible ways of working are the main drivers for the sector. Logistics investment totalled €12.4bn, 16% down on last year level but still accounting for 11% of the total

European investment volume. In the current challenging context of the retail industry, retail investments decreased by 28% compared to H1 2018 year, now accounting for 15% of the total compared with 17% last year.

The low interest rate environment will continue to offer an attractive yield spread for prime commercial products. But as the European economy is slowing down and geopolitical uncertainties are rising, investors will increasingly scrutinise the fundamentals backing each investment opportunity to justify for its price level. In this context, we expect the 2019 European investment volumes to reach €241bn by the end of the year, which will be approximately 18% below last year's turnover.

Graph 1: Total investment volume in Europe



Source: Savills Research

Yields stabilising for offices, hardening for logistics and softening for retail.

Prime office yields have stabilised in over half of the markets, but they are 4% or lower in almost all markets covered in this report, with the exception of Lisbon (4.25%), Warsaw (4.5%), Manchester (4.75%), Athens (6.25%) and Bucharest (7.15%). This is another factor that justifies the rise of investment volumes in some of these locations, as investors are seeking higher returns. The average prime yield for CBD offices stands at 3.7%, which is 12bps down compared to last year and 6bps down on last quarter.

The prime CBD and non-CBD office yield gap continued narrowing to 86bps, from 96bps in Q2 2018. This is reflecting the tight supply situation in CBD markets and the growing investors'

appetite for prime properties located in peripheral areas well-served by public transport.

We forecast prime office CBD yields to move in by more than 5bps over the next 12 months in Belgium, Czech Republic, France, Greece, Luxembourg, Romania, and Sweden supported by resilient investor interest.

Athens, Warsaw, Lisbon and Bucharest are the only markets where shopping centre yields moved in by 25bps yoy. In all other markets, shopping centre yields remained stable or softened by 10-25bps and by up to 50bps in London and 75 bps in Paris, following the structural changes in the sector. Some softening of yields in the retail sector is forecast in Belgium, Czech

Republic, Ireland, Norway, Portugal, Spain, and UK markets. Romania is the only market forecasting any inward movement of yields in the retail sector in the next 12 months as a mismatch between buyers and sellers expectations continues.

On the contrary, logistics yields are compressing fast across markets, an average of -47bps yoy this quarter, pricing in positive sector outlook. Looking forward over the next 12 months, further industrial yield compression is expected across Czech Republic, France, Germany, Greece, Poland, Portugal, Romania, Spain and Sweden. In all other markets, industrial yields are forecast to remain stable.

AVERAGE EUROPEAN YIELDS IN Q2 2019

3.7% Prime office CBD
- 12bps yoy

4.6% Prime office non-CBD
- 21bps yoy

4.9% Secondary office CBD
- 5bps yoy

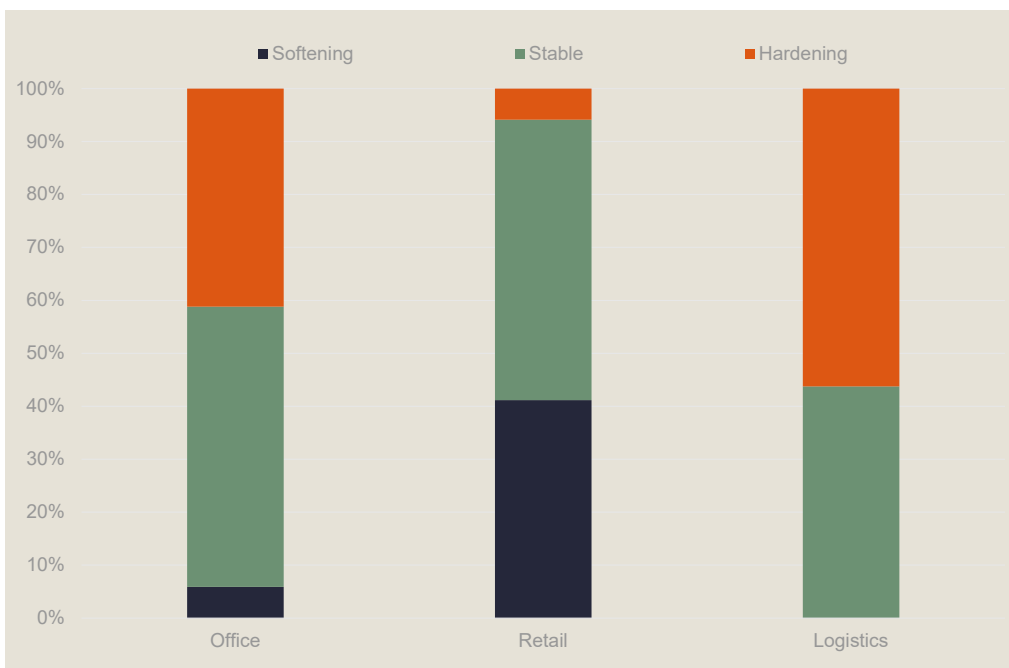
5.1% Prime logistics
- 41bps yoy

4.6% Prime shopping centre
+ 11bps yoy

5.1% Prime retail warehouse
- 11bps yoy

3.4% Prime high street
+ 1bp yoy

Graph 2: European prime yield trends over the next 12 months



Source: Savills Research

European Core, Core+ and Value-add investment opportunities - Top picks

Core, Core+ opportunities

- Overall, core investors should continue looking at prime offices in European capital cities, including Amsterdam, Barcelona, Bucharest, Copenhagen, Dublin, London, Luxembourg, Madrid, Milan, Paris, Prague, Stockholm and Warsaw. Due to the limited availability of quality products and high price level in some CBDs, prime office schemes located in peripheral areas well-served by public transports will increasingly become attractive. From a tenant perspective, increasing traffic congestions in city centres, the lengthening time to commute and the quick adoption of new flexible ways of working, all suggest a need for less centralised business centres. Regional cities with strong office rental growth prospects, such as in the UK, should also be considered, as they offer competitive prices.
- Rising e-commerce is driving demand for logistics space in the major German logistics regions where we expect rents to increase above the long-term average going forward.
- In Helsinki and in the major Portuguese touristic cities, hotels have seen record occupancy levels, thanks to the growing number of tourist's arrivals, notably Chinese overnights. In Portugal, rebranding of existing hotel units provides a margin of growth of the average price per room.
- In Sweden and in the top four Dutch cities, where urbanisation trend is strong and the housing shortage severe, prime residential properties offer great opportunities for core investors seeking secured long term income streams assets types.

Value-add opportunities

- In Lisbon, Luxembourg, Paris and Stockholm, where solid fundamentals support good prospects for future office demand, office development or office refurbishment in both prime and non-prime locations, provide good upside opportunities for value-add investors.
- In the Czech Republic, Denmark, Netherlands and Poland where the e-commerce penetration rate is high and/or online sales are growing fast, good logistics schemes are becoming scarce, which will continue to put upward pressure on rents.
- In Helsinki, there is a real potential to convert secondary office buildings in apartment blocks. Both the strong demographic trend and the accelerating migration in Helsinki increase the demand for apartments. Rising population in the capital region of Denmark is leading to a growing need for new dwellings. Hence, forward funding residential deals provide good opportunities for value-add investors.
- Some retail assets should also be considered by value-add investors as long as the scheme is dominant in its catchment area. Increasing retail repricing in some European countries, notably in the UK, bring to the fore some opportunities for good values. In Germany, repositioning of old and underperforming but well-located shopping centres are alternative options for value add investors. In the Irish market, suburban retail parks have been the star performers with yields for prime assets compressing by 100bps over the last 18 months and rents now rising by 6.5%pa.

TOP PICKS CORE

Stockholm, London, Paris, Oslo, Amsterdam, Luxembourg and Barcelona offices

TOP PICKS CORE+

Germany, Netherlands and Poland logistics

Swedish and Dutch residential

TOP PICKS VALUE-ADD

Office development in Stockholm and Paris

Retail repositioning in UK and Germany

Country	Core	Value-add
Czech R.	Prime offices in Prague Notably newly built and modern office schemes near metro stations. Strong office demand is backed by a very low unemployment rate (2.2% in 2018, the lowest of all EU countries), which is forecast to remain low in the next five years. The decreasing level of supply adds upward pressure on prime office rents.	Industrial assets in regional cities Notably in strong regional and manufacturing hubs such as central Bohemia, Hradec Králové, Karlovy Vary, Liberec and Pardubice regions where demand is strong, existing suitable supply is low and land availability is scarce.
Denmark	Prime offices in Copenhagen The Danish office market is projected to remain solid in the next years. Strong occupier demand and low level of supply in Copenhagen will maintain the prime rent at high levels. The market is also backed by solid economic prospects, forecasted to show an above European average GDP employment growth.	Residential & logistics development The demand for residential units and for logistics properties is increasing fast due to the strong urbanisation trend in large cities and the rise of e-commerce in Denmark. Limited level of supply in both sectors put an upward shift on rental levels.
Finland	Hospitality in Helsinki The tourism industry keeps growing and Finland has been a go-to spot for Asian tourists, as evidenced by the increase of Chinese overnight stays by 17% between January and July in 2019 compared to the previous year. Hotels have seen record occupancy and demand for both high-end hotels and boutique hotels is strong.	Helsinki inner-city secondary office conversions or refurbishments There is a real potential to convert secondary office buildings in apartment blocks or hotels in Finland. Both the strong demographic trend and the accelerating migration in Helsinki increase the demand for apartments for which, the supply is low and the tourism industry is doing particularly well. For well-located secondary offices, refurbishment is a better option. There is a growing need for modern office space in Helsinki. Finnish workers have fast adopted the new flexible ways of working. The office market is going through a transition from traditional offices to co-working and shared offices, which offer services such as communal spaces, restaurants, cafés...
France	Office buildings close to major Paris transport hubs Three criteria are essential for French employees: the length to commute, the urban environment and the quality of the building. In a context of tight supply and increasing rental level of Grade A offices, the quality of the building appears to be a "secondary" variable as it can always be improved through refurbishment works. Hence, extensive public transport services, with a premium for multimodal poles (Metro, Train, RER, Bus, Tramway) and good urban environment are the two essential criteria for Core / Core + strategy.	Office devolvement in new areas of Greater Paris The "Greater Paris" urban plan is offering new lively areas, which will be well connected to all the main transport hubs and which are away from the dense traffic congestion of the city centre. These new areas offer great opportunities for office development at a time when modern office space is so much in need.
Germany	Logistics There is a growing demand hence a lack of qualitative supply in the major German logistics regions, particularly those dominated by e-commerce players. The sector offers longer lease terms than other asset types. Initial yields are at a record low but still, have room for further compression. Prime logistics rents are expected to increase above long-term average going forward.	Secondary shopping centres refurbishment Over the course of the past 10 years, the yield gap between prime and secondary shopping centre rose from 98bps in 2009 to 170bps in Q2 2019. Refurbishment of well-located secondary shopping centres, notably with a high share of fashion stores and a low weighted average remaining lease term, offer great opportunities for value-add investors.

Country	Core	Value-add
Ireland	Prime offices in Dublin The amount of newly completed office space has been surprisingly well-contained. This looks set to continue for now, with 2019 completions likely to be down on both 2017 and 2018. At the same time, the demand side remains strong with H1 take-up nearing record levels. Despite the headwind created by the ongoing US / China trade war, the “lower-for-longer” approach to monetary policy is continuing to drive US investment into Dublin.	Retail parks Although the rate of growth in new dwelling completions is now slowing, the pick-up in home-building over recent years has driven demand for bulky goods such as furniture, hardware and white goods – all the things that trade in retail parks. As a result, suburban retail parks have been the star performers of the Irish market with yields for prime assets compressing by 100bps over the last 18 months and rents now rising by 6.5%pa. However, the challenge for investors will be finding opportunities to buy these assets.
Italy	Prime offices in Milan The office vacancy remains relatively high compared to other European cities as the main driver continues to be high quality spaces and location together with iconic building to represent corporate identity. Therefore demand for new and modern office buildings is growing and puts upward pressure on prime rents which hit a record high level in Q2 2019 at €600/sq m/year, reflecting a 9.1% rental growth yoy.	Hospitality in touristic destinations With 123 million tourists in 2017, of which 58 million foreigners, Italy is the fifth most visited country in international tourism arrivals. Tourism is one of Italy’s fastest-growing and most profitable industrial sectors, with an estimated revenue of €189.1 billion. The industry represents approximately 13% of the total GDP in 2017. The average hotel room price in the country increased from €91 per night in 2016 to €93 per night in 2017.
Luxembourg	Central offices in City of Luxembourg Luxembourg is set to become the first country in the world to make all its public transport free as from spring 2020 – an innovation that will certainly boost the demand for central locations, close to public transport hubs. The country is forecasted to be one of the fastest economies of the Euro area in 2019 (2.7% GDP growth) and is one of a few countries recording a government budget surplus. Business expansion and employment growth increase the demand for office space and vacancy rates have reached record lows which in turn put upward pressure on rents.	Office development in secondary locations The existing office supply and the development pipeline planned for the near future don’t fulfil the rising demand, and some 80% of the office pipeline is already pre-let until 2021. Hence, secondary locations are becoming more and more popular and forward funding a project in strategic areas can be attractive to value-add investors.
Netherlands	Residential in the top 4 cities & Prime offices in peripheral Amsterdam The housing shortage is around 250,000 units at the moment and will increase in the coming years. This makes the Dutch market very interesting for all kind of investors. As prime office space is very limited in the city centre of Amsterdam, companies are increasingly looking at peripheral options, hence pushing rents up in secondary locations.	Logistics across the country The logistics sector is booming. High e-commerce penetration rate triggers strong occupier demand for logistics properties. Not to mention that the Netherlands has a close and long relationship with the freight and logistics industry, thanks to its major container port in Rotterdam which provides a gateway in Europe.
Norway	Prime office in Oslo city centre After years of yield compression, the primary driver for value growth will come from the rental side. And the effect of this shift towards rental income should be a higher value on centrally located office buildings with high demand compared to other segments more prone to experience pressure on the cashflow of the property. Centralization and urbanization drivers clearly indicate that the clustering effect in Oslo city centre is accelerating. Both the demand and supply side are in the medium term very positive, and the long-term outlook for the workforce and population growth in Oslo is solid.	Prime offices in Oslo and tier two cities The same drivers are applicable to seeking out opportunities for value-add cases in the Greater Oslo office clusters, as well as in the city centres of the top three tier two cities of Bergen, Stavanger and Trondheim. There are still older and undeveloped buildings suited to meet the demands of the workforce coming with the increased activity level in the wake of the before mentioned centralization trend.

Country	Core	Value-add
Poland	Prime offices in Warsaw and major regional cities Strong economy, strong occupier demand, limited level of supply, good rental growth prospects, all participate in making prime offices located in the major Polish cities, attractive opportunities for investors. The prime office segment in Warsaw also offers one of the best returns compared to European cities.	Warehouse development in emerging locations Due to the surge in e-commerce growth and the strategic location of the country in between Western and Eastern Europe, there is a record high level of occupier demand for logistics and warehouse, which remains unsatisfied by the inadequate supply. Good access to a qualified labour force and improving road infrastructure are additional factors that make the sector appealing.
Portugal	Hotels in touristic cities Including Lisbon, Porto and Algarve, all showing excellent performance of touristic indicators. Additionally, the undergoing rebranding and renovation processes of existing hotel units and the opening of new units are providing a margin of growth of the average price per room.	Office development in peripheral Lisbon Stable or positive rental growth, low vacancies, lack of supply of good quality space in the inner city. This scenario is not expected to change in the next 2 years.
Romania	Prime offices & Large retail schemes With a 4.4% GDP growth in Q2 2019, Romania has exceeded expectations from both the European Commission and the National Bank. The first half of 2019 has registered a high take-up in office space buildings in the capital and regional cities. In Bucharest, over 35% of the spaces were pre-leased and the vacancy rates in sought-after central areas are reaching an all-time low. Large retail schemes are also an attractive asset in the Romanian market, mainly due to a 6.8% yoy increase in consumer spending.	Secondary offices in peripheral Bucharest As demand for office space drifts away from peripheral areas and towards central Bucharest, the low availability of land plots raises the potential of older office buildings located in key secondary areas near metro stations, especially since the traffic in Bucharest is expected to reach record limits. Given the very low unemployment rate (4.2% in 2018), in their race to win and keep the best-qualified employees, employers will have two options. Either to lease a well-connected A+ class office space or to choose multiple flexible spaces throughout the city.
Spain	Prime offices in Madrid and Barcelona non-CBD areas As prime CBD-office properties are becoming scarce and highly-priced in Madrid and Barcelona, prime and modern office buildings located in secondary locations, well-connected to public transport, become an attractive option for occupiers. Strong fundamentals, including low vacancy and good rental growth prospects, make these locations increasingly attractive.	Business parks in decentralized areas Rising interest in new flexible ways of working and increasing concerns about the length to commute trigger more interest for business parks notably located in decentralised areas. There is a significant upside opportunity for investors by providing intense management and good marketing in order to increase the rent. In some decentralized areas there is still some room for yield compression.
Sweden	Residential & Prime offices in secondary locations For core investors, residential properties offer stable income streams with a low-risk profile and new developments are typically sold at 4 – 4,75 % yield, which is significantly higher than prime office CBD yields. For core+ investors looking to increase returns through rent reversion, a non-CBD office is a good option. As office market rents in CBD have plateaued, other city locations offer greater opportunities in terms of rent reversion potential as the high CBD rents have pushed rents in all other city locations.	Secondary offices in Stockholm non-CBD locations Repositioning of secondary offices in non-CBD locations in Stockholm will benefit from the strong rental market and low vacancy rates.
UK	London and regional offices Take-up in regions is running at record levels due to the serviced-office boom. The level of Grade A office supply is low, corresponding to one year of the average take-up level. 31% of regional office pipeline is already pre-let. Central London office market is similarly tight in supply terms, with 20% more lease events over the next five years than the last five. Rental growth prospects across all locations are looking positive.	Regional office development & Prime retail warehouse parks and shopping centres Rents have rebased 20-30% over the last 12 months, and prime yields have risen by 150bps since Q4 2017. While the retail malaise is not over, there are some strong consumer signals in the UK, and there will be distressed selling of prime assets, which will enable buyers to get good assets cheap. Key is to focus on rent/income rather than yield and to ensure that the scheme is dominant in its catchment.



Savills Commercial Research

We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.

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