

European Commercial – Summer 2020

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SPOTLIGHT
Savills Research

European Investment

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Cross border investment • Sector by sector analysis • End-year projections



€36.2bn of investment transactions recorded in Q2 bringing the H1 turnover to €118.9bn.



Germany recorded a turnover rise of 31.5% compared to H1 last year.



Cross border investment accounted for 44% of the H1 volume and 33% of the Q2 volume.



In the first half of the year, multifamily investment totalled €20.2bn, this is 32% above last year's H1.



Office investment volumes reached €39.3bn during H1 2020, down 15% on H1 last year.



European Retail investment volume reached €18.3bn, up 1% on H1 last year.



Logistics investment totalled €13.3bn in H1 2020 reflecting an annual decrease of 8%.

H1 volume surprisingly resilient

European investment volume totalled €36.2bn in Q2, the lowest quarterly volume since 2013 and 47% down compared to the same period last year. However thanks to a strong start of the year, the accumulated volume since the beginning of the year reached €118.9bn, a 1.3% decrease compared to H1 2019, which is a relatively solid result given the pandemic situation. Germany, was the most resilient country, recording a turnover rise of 31.5% compared to the first six months of last year, which in volume translates to €10bn additional investment. Other countries reporting investment turnover growth include Luxembourg (173.1%), Portugal (42.2%), Republic Czech (11.2%), Poland (4.6%) and Romania (3.2%). Whilst at the other end of the spectrum, Ireland (-44.5%), Norway (-38%) and Italy (-29.5%) underwent the strongest

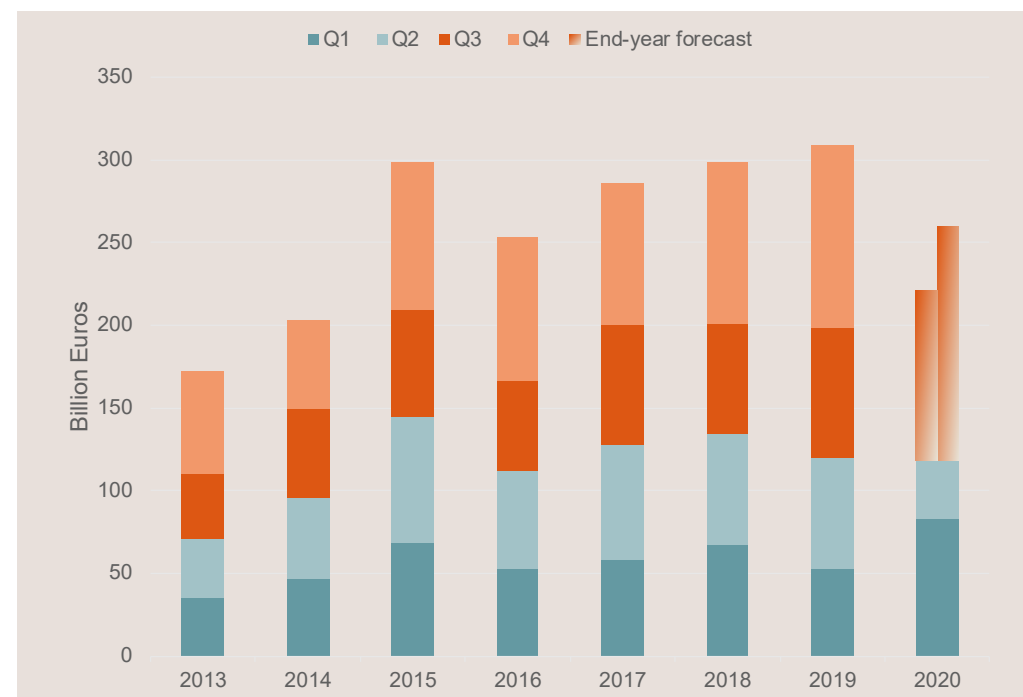
investment drops. The proportion of capital targeting core countries increased to 6%, from 58% in H1 2019, confirming the current targeted investors' appetite for core and liquid markets.

As expected, due to the lockdown restrictions, the volume of non domestic capital reaching the European real estate market decreased. During the first half of the year, cross border investment accounted for 44% of the total volume compared to 47% during the same period last year. Looking more specifically at the second quarter of the year, this share falls to 33%. Nevertheless, in recent months we have seen increasing activity from investment managers and a rising number of joint venture (JV) acquisitions or entity deals enabling international funds to invest abroad. Additionally, whilst Asian investment activity into Europe

has been rather muted, American funds which often have a footprint in Europe remain active.

With the lockdown restrictions in Q2 precluding site visits and slowing down due diligence processes and the following quiet summer period, we believe investment transaction volumes in the third quarter of the year will remain relatively low. However, investors' appetite for European real estate remains solid, notably fuelled by the increasing spread with long-term interest rates. Hence, we expect investment activity to bounce back in the final quarter of the year. All in all, we expect the end-year volume to range between €220bn (-29% yoy) and €260bn (-16% yoy), providing that the current health crisis does not further deteriorate and the risk of a second wave can be contained.

European investment volume



Source: Savills Research

Multifamily in vogue, offices still a must-have

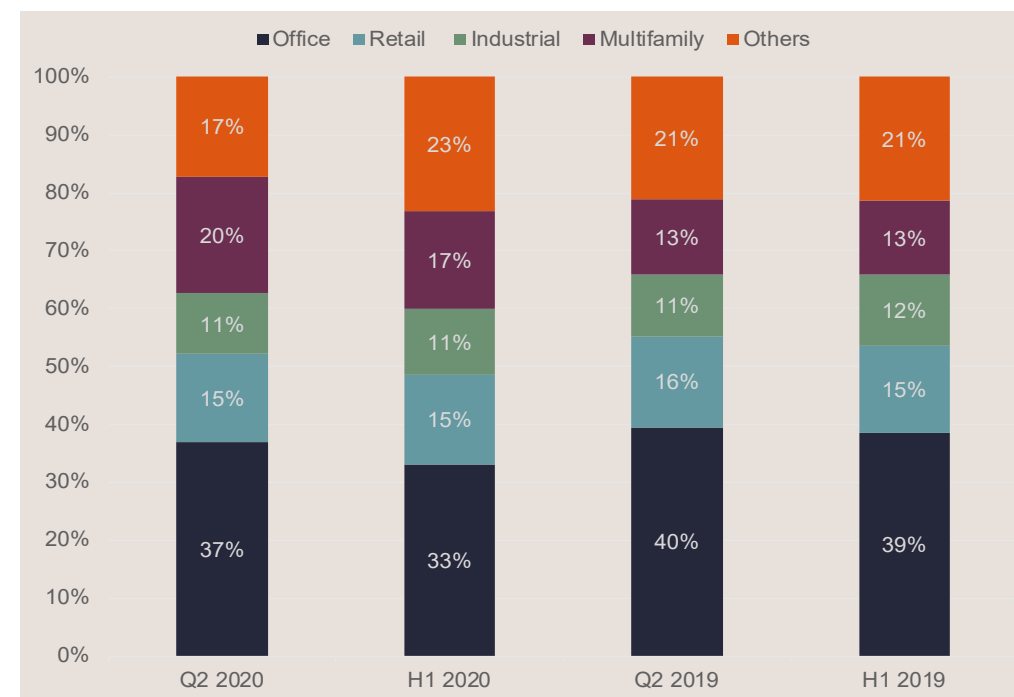
Overall the breakdown per asset class has not changed significantly apart from a bigger appetite for multifamily. In the first half of the year, multifamily investment totalled €20.2bn; this is 32% above last year's H1. Germany was once again the largest market capturing 62% of the total with nearly €12.5bn of transactions. The sector accounted for 17% of the overall H1 European volume, and this proportion goes up to 20% looking at Q2 figures. Multifamily is a long and secured income-producing asset, which offers diversification as its fundamentals are driven by structural factors. We expect investors' allocation for the sector will continue to rise for the next 12 months.

European office investment

volumes reached €39.3bn during H1 2020, down 15% on H1 last year. The sector remains the main asset class, accounting for 33% of the total volume compared to 39% in H1 last year and back to 37% in the sole second quarter. Despite the rising concerns around the sector brought by COVID-19, during which homeworking was largely adopted, we believe offices will remain the predominant workplace for quite some time. Various surveys suggest a consensus amongst both employers and employees for the need of a workplace in the office, at least for part-time if not full time depending on the business sectors and job positions. Additionally, in many European countries, a more general homeworking adoption will require a legal framework

which will take some time to set up. As the office sector is the largest investable existing stock for institutional investors, it will remain a prime asset class for some more years.

Investment breakdown per asset class



Source: Savills Research

The retail and logistics symbiosis takes roots

Logistics investment totalled €13.3bn in Europe during the first half of the year compared to €14.5bn in the same period last year, reflecting an annual decrease of 8%. A relatively robust result, given the circumstances. During the lockdown period, distribution activities became more crucial than ever and benefited from the compelling shift to online retail. Large portfolio deals located mainly in the UK, Netherlands, Sweden, Germany, France, Poland and Spain boosted the European volume. Nevertheless, the sector accounted for 11% of the overall investment turnover, still in line with the five-year average. Whilst,

investors’ demand for logistics is expanding, the lack of suitable existing stock is, for now, still constraining investment activity in the sector. What’s more, debt pricing has remained fairly stable with pre-COVID levels for core logistics assets.

European Retail investment volume reached €18.3bn, up 1% on H1 last year. Hence the sector accounted for 15% of the overall volume, in line with the five-year trend. Increased retail activity was particularly noticeable in Germany, France, Spain and Sweden. The retail investment was fuelled by large portfolio

deals, including notably, the sale of five shopping centres in France by Unibail-Rodamco-Westfield for €1.1bn. The grocery segment along with logistics has become a real sector of choice for investors. The retailers’ imperative to build, implement or review their omnichannel strategy will trigger further portfolio consolidations or sale and leaseback considerations. At the same time, significant retail discounted pricing may unlock negotiations between buyers and sellers.

Prime office, logistics and multifamily yields still holding

Prime CBD office yields remained broadly unchanged on a quarterly basis in Q2 2020, at 3.73% on average across Europe and 15bps below Q1 2019. Only Stuttgart and Oslo moved in by 20 and 5bps respectively, while Manchester, Warsaw and Amsterdam moved out by 30, 25 and 5bps respectively. For the end of the year, we expect prime office yields to slightly soften in most European markets as investors review long-term rental growth projections.

The average prime industrial yield also remained stable quarter

on quarter at 4.58% (-2bps) and 37bps below last year’s level. Madrid and Barcelona (4.85%) experienced a 30bps inward yield shift compared to the previous quarter and Oslo (4.45%) -10bps, while the prime yield moved out by 5bps in Helsinki (5.15%). Due to the growing investors’ interest for the sector combined with the lack of product, we expect prime logistics yields to remain stable until the end of the year. A number of ultra prime assets, mostly with Amazon as a tenant, commanded even lower yields, however, we believe these are exceptional and cannot be used to set the market

benchmark.

Prime multifamily yields also remained steady on a quarterly basis at 3.35% on average across Europe. Yields are stabilising in most markets, after a significant inward yield shift trend over the past five years. Despite the growing investor appetite for the sector, we expect prime achievable yields to stand still until the end of the year due to muted rental growth anticipated in most European markets.

Discounted pricing spreading to most retail formats

With the pandemic affecting the retail industry particularly hard and the share of online sales on a steeper ascending curve than in the pre-COVID-19 period, most retail yields moved out except for supermarkets.

The retail warehouse was the most affected segment with the prime European average yields currently at 5.27%, which is 14bps above last quarter and 17bps above last year’s level. Prime retail warehouse yields moved out in London (50bps at 6.75%), Paris (25bps at 5.25%), Madrid (25bps at 5.00%), Dublin (25bps at 4.50%)

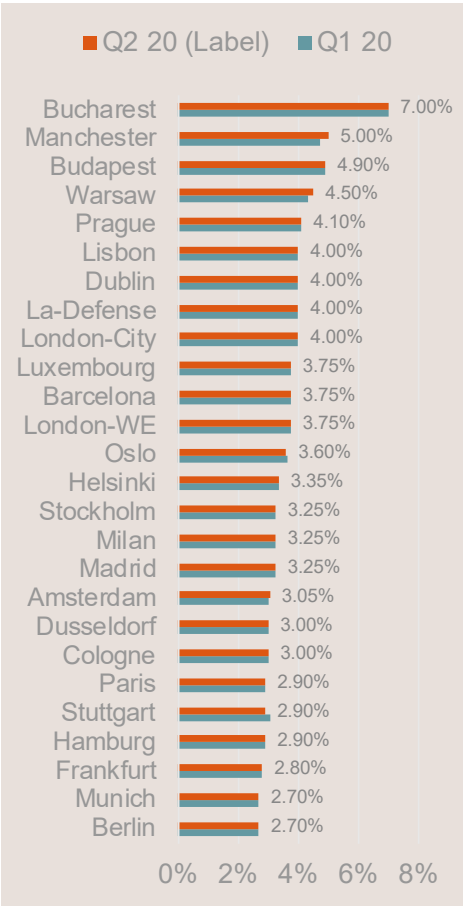
and the German cities (20bps at 4.10%) and remained stable in all other European cities.

Prime shopping centre yields have moved out by 5bps on average across Europe compared to the previous quarter and by 17bps compared to last year to 5.1%. The most significant yield softening in one quarter was noted in the German cities (70bps to 5.75%). Prime yields in Madrid (5.00%), Dublin (5.25%), Lisbon (5.00%) and Warsaw (5.25%) moved out by 25bps and by 15bps in Oslo (5.15%) and Helsinki (4.50%). Whilst in Amsterdam (5.20%) the prime

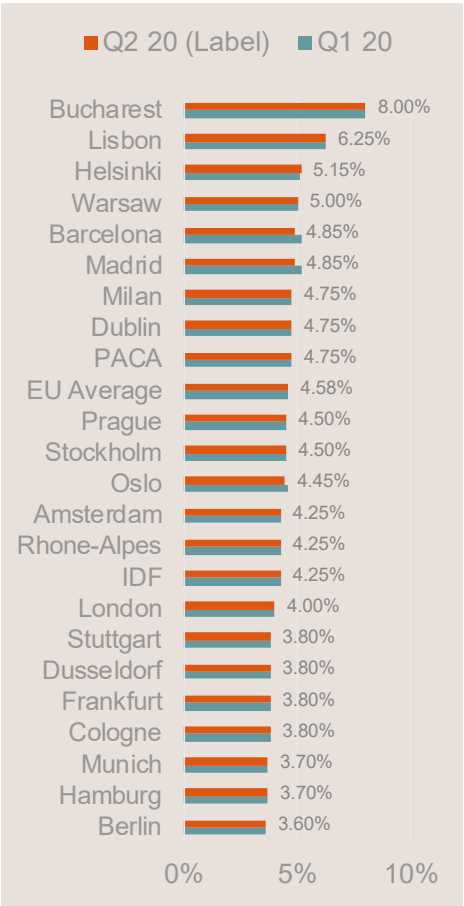
shopping centre moved in by 30bps.

In the same vein, the European average prime high street yield moved out by 6bps qoq and by 11bps yoy with Paris (50bps at 3.00%), Madrid (25bps at 3.50%), Dublin (25bps at 4.00%), Amsterdam (25bps at 3.75%), Helsinki (20bps at 4.70%) and Oslo (15bps at 4.55%) all softening on a quarterly basis, whilst the prime high street yield hardened by 40bps in Stuttgart at 4.10%. We anticipate a further softening shift in European retail yields until the end of the year.

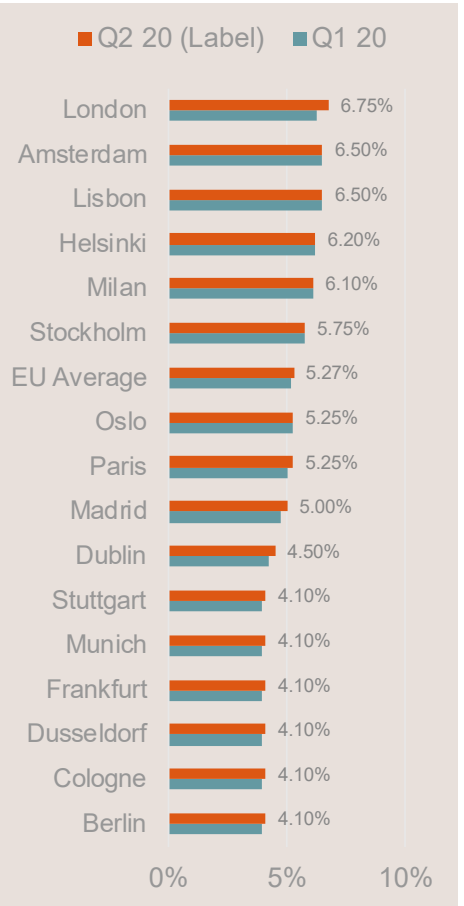
Prime office CBD yields



Prime logistics yields



Prime retail warehouse yields



Source: Savills Research



Savills Commercial Research

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