European Commercial – Investment

MARKET IN MINUTES
Savills Research

European yields Q2 2019

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City	GDP growth % 2019 (f)⁴	Prime Office rental growth %	Market Prime Office yield %	Net Prime Office yield %	Prime Office yield shift (bps)	Prime Industrial yield %	Prime Industrial yield shift (bps)	Prime SC yield %	Prime SC yield shift (bps)
Amsterdam	2.2	na	3.50	3.02	0	na	na	5.00	na
Athens	1.6	0.0	6.25	5.83	-100	8.75	-50	6.75	-25
Barcelona	2.2	10.2	3.75	3.64	0	5.25	-50	4.25	0
Berlin	2.0	7.0	2.90	2.90	-10	4.10	-90	4.60	20
Brussels	1.1	na	3.60	3.03	0	6.00	0	4.25	0
Bucharest**	3.2	0.0	7.15	7.21	-10	8.00	-50	7.00	-25
Copenhagen***	2.3	-0.2	3.75	3.72	-25	5.75	-75	4.00	0
Dublin	2.8	0.0	4.00	4.00	0	5.00	-25	4.50	0
Dusseldorf	1.4	3.7	3.20	3.20	-10	4.20	-80	4.30	20
Frankfurt	1.4	5.0	2.90	2.90	-20	4.20	-20	4.20	20
Hamburg	1.5	5.9	3.00	3.00	-30	4.20	-30	4.00	20
Helsinki****	2.2	na	3.50	3.50	0	5.50	0	4.25	0
Lisbon	1.6	4.8	4.25	3.65	-50	6.25	-50	4.75	-25
London	2.2	7.5	3.75	3.75	50	4.00	0	5.25	50
Luxembourg	2.5	na	4.00	4.00	0	na	na	na	na
Madrid	2.6	6.3	3.25	3.15	0	5.25	-50	4.25	0
Manchester	2.4	6.1	4.75	4.75	0	na	na	0.00	na
Milan	0.5	9.1	3.50	3.50	0	5.25	-75	5.00	10
Munich	1.6	1.4	2.90	2.90	0	4.20	-20	3.70	20
Oslo*****	2.9	3.9	3.75	3.75	0	4.90	5	4.50	25
Paris	1.4	6.8	3.00	3.00	0	4.75	0	5.25	75
Prague	3.4	5.6	4.00	3.81	-75	4.25	-150	5.00	15
Stockholm	2.4	0.8	3.50	3.50	0	4.50	-75	4.00	0
Warsaw	4.2	2.1	4.50	4.35	-50	5.15	-125	4.75	-25

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

Note 2: Yield shift is annual - in basis points

Note 3: GDP is annual and it is the Oxford Economics forecast

Note 4: SC=Regional Shopping Centre. Rental growth refers to prime standard unit of approx 100sqm

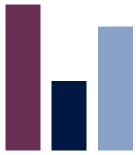
Note 5: London offices refer to West End

Note 6: Net yield is net of purchase and non recoverable costs

Source: Savills **Crosspoint/***Nordicals/****GEM Property/*****Malling

> “Low and compressing prime yields in the office and logistics sectors are still supported by good market fundamentals, positive rental growth prospects and low interest rates”

1/3
of the prime office markets only offer yields of 4% or higher



-47bps
was the average annual yield compression for prime logistics

Investors show confidence in real estate

Investment activity in the European capital cities was down by -8% in the first half of the year, compared to -17% overall drop across their national markets. Despite the economic slowdown, unprecedented global liquidity has been driving demand for real estate in Europe. However, limited availability of quality product is restricting the activity. Additionally, investors are holding assets for longer as they are focusing on income, but also because there are less reinvestment opportunities.

Nevertheless, there are a number of capital cities that saw their investment activity rising compared to last year: Prague (124%), Warsaw (119%), Athens (53%), Stockholm (46%), Berlin (37%), Dublin (26%) and Milan (16%). The economies of the majority of these cities are outperforming the average, especially the capitals of the CEE countries, which top the league of GDP growth for 2019.

Prime office yields have stablisied in 58% 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.

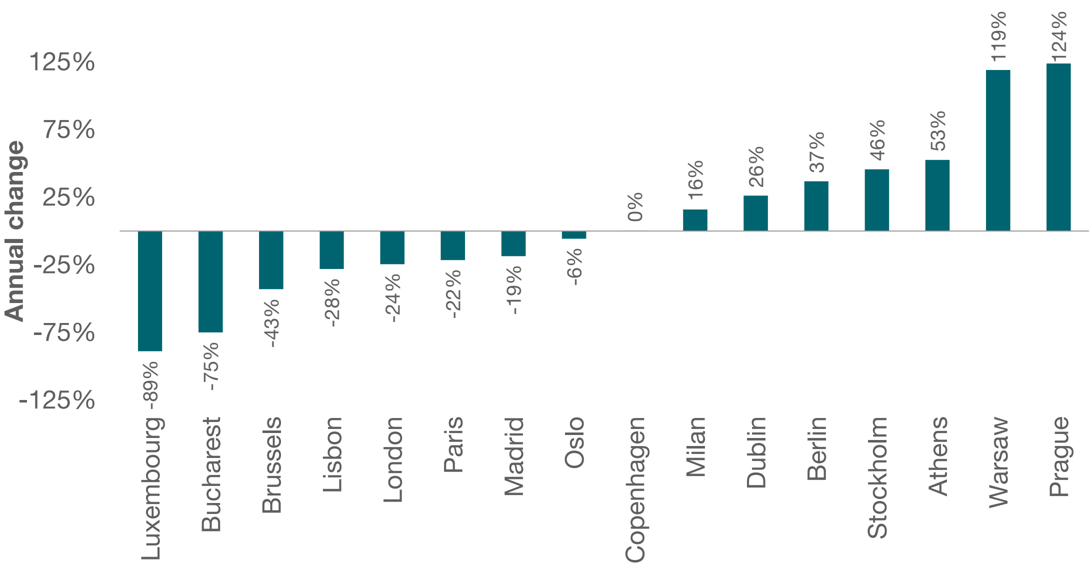
Athens, Warsaw, Lisbon and Bucharest are the only markets where shopping centre yields moved in by 25bps yoy. In all other markets shopping centre yields remained stable or softened by 10-25 bps and by up to 50bps in London and 75 bps in Paris, following the structural changes in the sector.

On the contrary logistics yields are compressing fast across markets, an average of -47 bps yoy this quarter, pricing in positive sector outlook.

We expect prime yields in the most mature markets to stabilise supported by good fundamentals, accommodative monetary policy and low borrowing costs and to compress further in the higher yielding markets. However investors will become more cautious towards riskier assets with uncertain future income flows.

With regards to offices, rental growth in Q2 averaged at 4.3% pa, with zero or positive changes across all markets. This is a trend expected to continue over the next year.

In H1 investment volumes increased in some CEE and peripheral markets



Source Savills Research

Savills team

Please contact us for further information

Eri Mitsostergiou
European Research
+30 6946500104
emitso@savills.com

Marcus Lemli
Head of Investment
Europe
+49 69 273 000 11
mlemli@savills.de