

RESEARCH



EUROPEAN QUARTERLY

COMMERCIAL PROPERTY OUTLOOK
Q4 2017



OCCUPIER TRENDS

INVESTMENT TRENDS

MARKET OUTLOOK

EUROPEAN OUTLOOK

European commercial property markets have entered 2018 with strong momentum.

In Q4 2017, European commercial property investment reached one of the highest quarterly totals on record, at €80.7 billion. This took investment for the whole year to €231.8 billion, an increase of 8.4% on 2016.

Following a slow start to the year, investment in the UK accelerated in H2, bringing annual volumes to €59.3 billion. The continued flow of capital from Greater China into the Central London office market supported this improvement. The UK regained its position as Europe's most active market from Germany, which had edged ahead in H1. Nonetheless, the German

investment volume of €50.9 billion was a ten-year high, and the country was the leading destination for US capital entering Europe in 2017.

The French investment market had an extremely slow start to the year, but it recovered in Q4, when more capital was invested than in the three previous quarters combined. This was partly due to a revival in investor confidence following political uncertainty earlier in the year. Domestic investors dominated the market in 2017, accounting for more than 70% of transaction volumes.

Elsewhere, stand-out markets in 2017 included the Netherlands and Finland,

both of which had record years, on the back of large inflows of cross-border investment. While North American and European investors were the main sources of capital in these two markets, there was also increased investment from Asian investors, who are showing growing interest in a broadening range of European markets.

The logistics and industrial sector had an outstanding 2017, with investment volumes rising 42% year-on-year to a record €38.9 billion, or 17% of the total commercial market. Volumes in this sector were boosted by CIC's purchase of Logisor for over €12 billion and GLP's acquisition of Gazeley for €2.4 billion. As well as demonstrating the strength of demand for logistics property, these deals are also indicative of the appetite for platform and portfolio deals from investors seeking to deploy large volumes of capital into real estate.

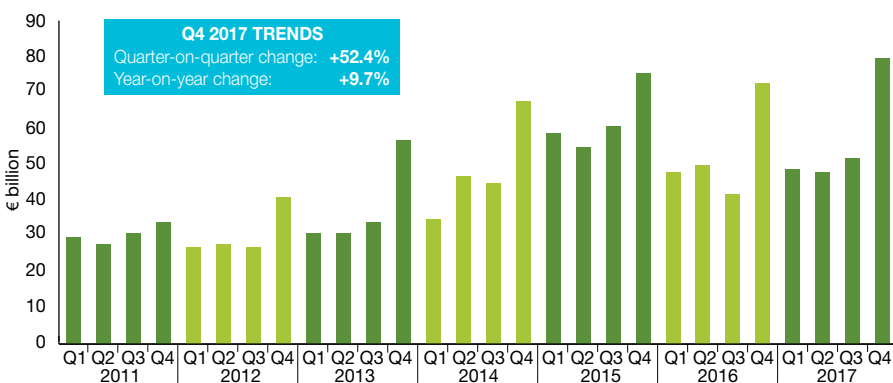
Despite already being at record low levels across much of Europe, further yield compression was recorded in Q4 in markets including Amsterdam, Dublin, Frankfurt and Milan. As a result, the Knight Frank European Weighted Average Prime Office Yield hardened by seven basis points to a new low of 4.20%. There is room for further yield compression in some markets in 2018, although a general stabilisation of European prime yields may be reached by the year-end.

Q4 was a stellar quarter for a number of European office occupier markets, with take-up in Dublin, Madrid, Munich and Prague increasing by well over 50% year-on-year. For 2017 as a whole, aggregate take-up in the major European markets monitored by Knight Frank was up by 9% compared with 2016.

On the back of strong demand and tightening availability, European rental growth gathered momentum in Q4. Markets such as Amsterdam, Berlin, Brussels, Frankfurt, Madrid and Paris all recorded increases in prime office rents, pushing the Knight Frank European Prime Office Rental Index up by 1.5% during the quarter.

FIGURE 1

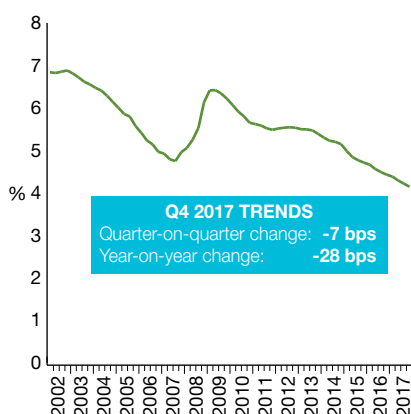
European commercial property investment volumes



Source: Real Capital Analytics / Knight Frank

FIGURE 2

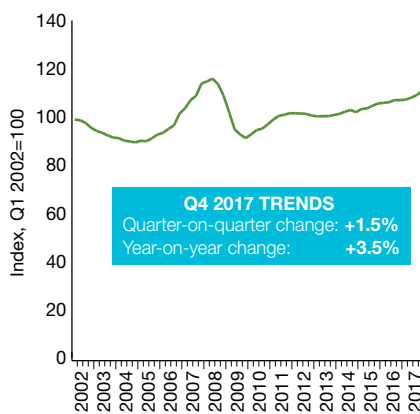
European weighted average prime office yield



Source: Knight Frank Research

FIGURE 3

European prime office rental index

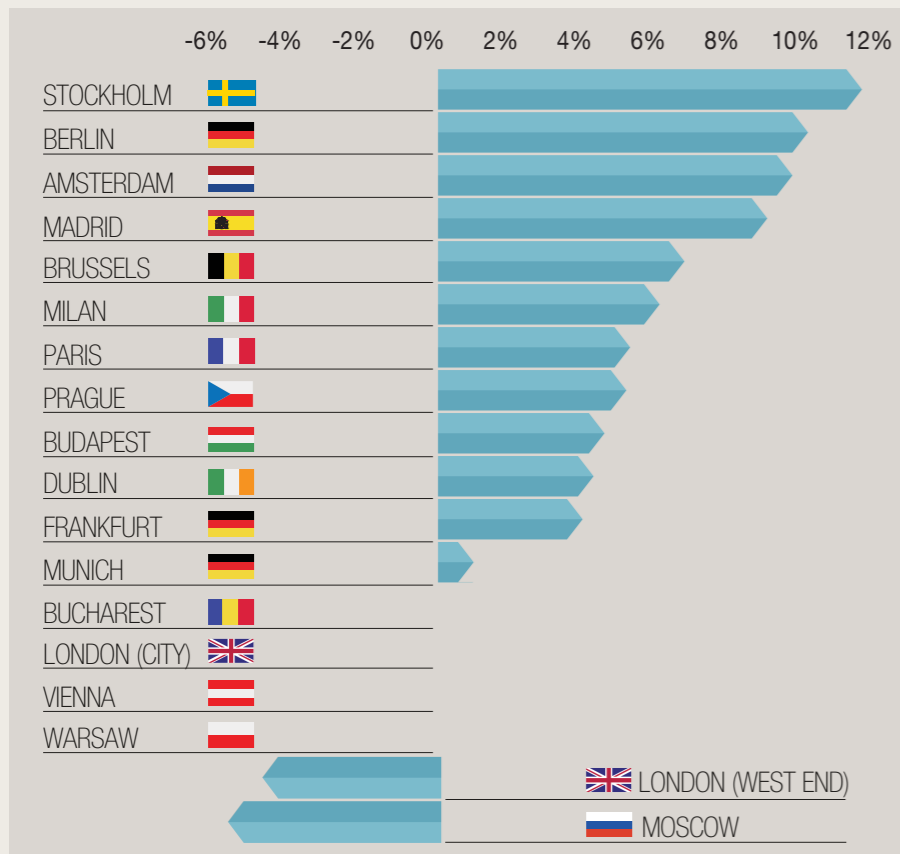


Source: Knight Frank Research

MARKET HIGHLIGHTS

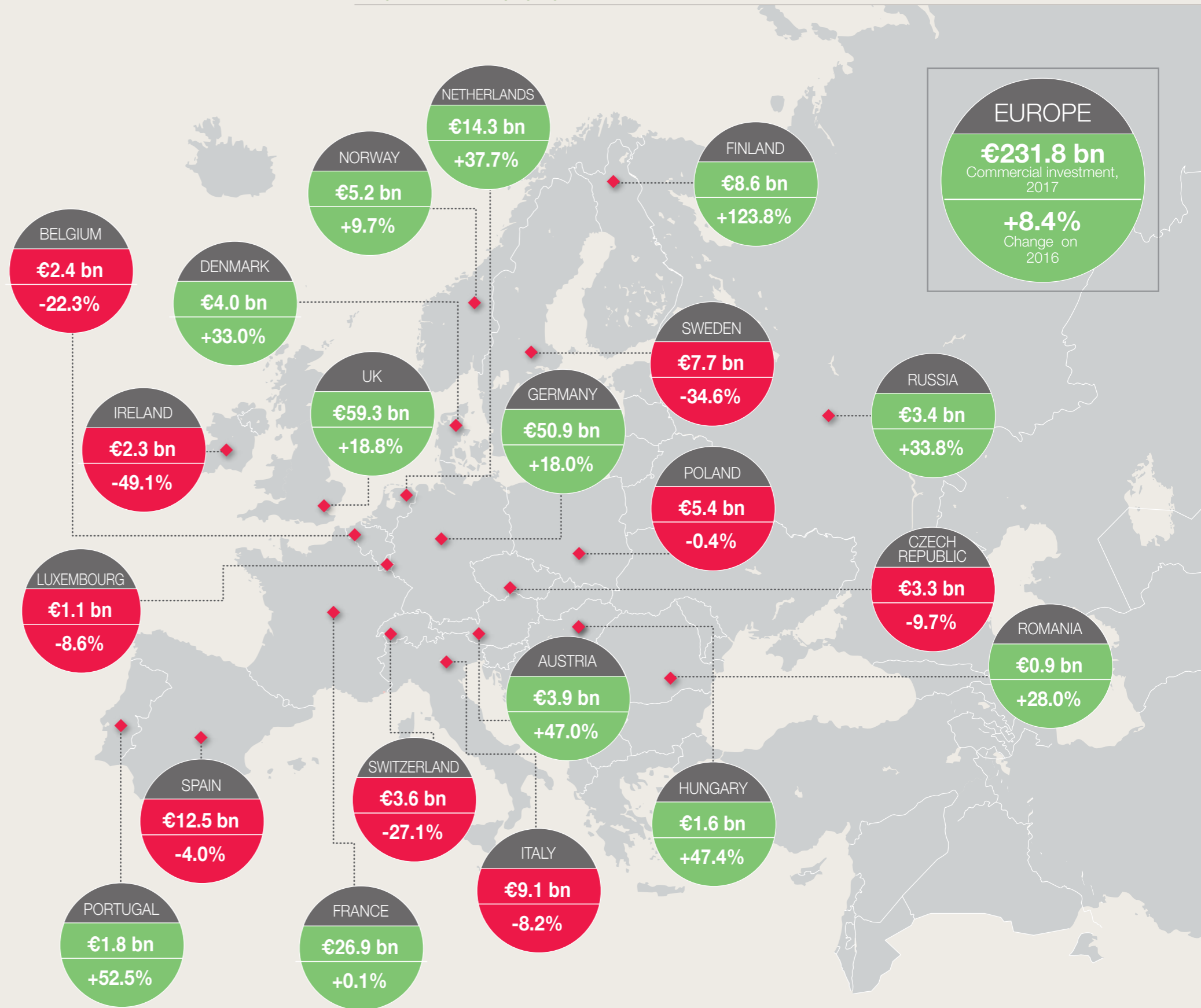
| | |
|---|--|
| BERLIN International providers of co-working space have become increasingly active in Berlin, with WeWork's lease for 13,000 sq m at Atrium Tower being the largest deal in Q4. | MILAN Notable investment transactions in Q4 included the purchase of Deloitte's Milan headquarters by BNP Paribas REIM for €115 million. |
| DUBLIN A very strong final quarter took Dublin office take-up for 2017 to a record total of more than 330,000 sq m, helped by large transactions involving Microsoft (27,900 sq m) and Indeed (19,600 sq m). | MOSCOW A strong final quarter helped annual office take-up to reach 726,000 sq m, which was 29% up on 2016, but still 18% below the ten-year average. |
| FRANKFURT The Frankfurt investment market ended 2017 strongly, boosted by Deka Immobilien's purchase of Tower 185 for €775 million, in the city's largest single-asset deal of the year. | MUNICH Office take-up in Munich was a record 985,000 sq m in 2017, with nearly 40% of this coming in Q4. The figures were boosted by two major owner-occupier deals involving BMW, which totalled approximately 160,000 sq m. |
| LONDON Central London office take-up reached 1.3 million sq m in 2017, up 17% from 2016. Activity in Q4 was boosted by the continued expansion of WeWork, which leased more than 62,000 sq m in a series of transactions, mostly in the City. | PARIS Île de France office take-up reached a ten-year high of 2.6 million sq m in 2017. With CBD office space in short supply, occupiers have increasingly gravitated to non-central locations, such as the Western Crescent where take-up increased by 45% in 2017. |
| MADRID Several large public sector transactions were completed in Madrid in Q4, helping quarterly take-up to reach a bumper 210,000 sq m. For the whole year, take-up was 573,000 sq m, the highest total since 2007. | WARSAW The Warsaw office vacancy rate decreased to 11.7% at the end of 2017, its lowest level in five years. This came on the back of strong leasing levels and a moderation of development activity. |

FIGURE 4
European prime office rental growth, 2017



Source: Knight Frank Research
Changes calculated in local currencies

FIGURE 5
European commercial property investment volumes, 2017



Source: Real Capital Analytics / Knight Frank Research
Investment volumes comprise office, retail, industrial and hotel sectors

EUROPEAN MARKET INDICATORS

Amsterdam was arguably Europe’s most dynamic market in 2017; prime office rents increased by 9.6%, while prime yields hardened by 90 basis points.

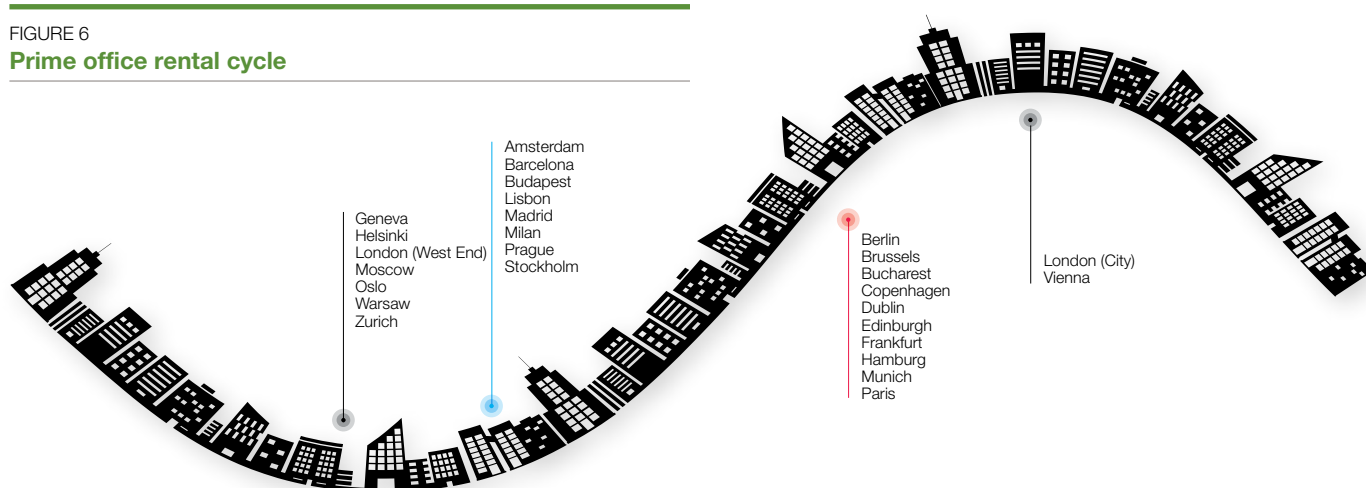
Commercial property prime rents and yields

| City | Offices | | Logistics | | Shopping centres | | Retail warehousing | |
|--|-------------------------|------------------|-------------------------|------------------|-------------------------|------------------|-------------------------|------------------|
| | Prime rents (€/sq m/yr) | Prime yields (%) | Prime rents (€/sq m/yr) | Prime yields (%) | Prime rents (€/sq m/yr) | Prime yields (%) | Prime rents (€/sq m/yr) | Prime yields (%) |
| Amsterdam | 400 ▲ | 3.60 ▼ | 85 ▶ | 5.00 ▼ | 1,000 ▶ | 4.75 ▼ | 135 ▶ | 5.50 ▼ |
| Barcelona | 270 ▶ | 4.00 ▶ | 82 ▶ | 5.75 ▶ | 600 ▶ | 4.25 ▶ | 129 ▶ | 5.50 ▶ |
| Berlin | 396 ▲ | 3.10 ▼ | 69 ▲ | 4.50 ▼ | 1,380 ▶ | 3.75 ▶ | 150 ▶ | 5.00 ▼ |
| Brussels | 320 ▲ | 4.50 ▶ | 55 ▶ | 5.50 ▶ | 1,800 ▶ | 4.25 ▶ | 185 ▶ | 5.50 ▶ |
| Bucharest | 216 ▶ | 7.50 ▶ | 48 ▶ | 8.25 ▼ | 720 ▶ | 7.25 ▶ | 120 ▶ | 9.50 ▶ |
| Budapest | 276 ▲ | 6.00 ▼ | 45 ▲ | 7.75 ▶ | 1,140 ▲ | 5.85 ▼ | 102 ▶ | 7.50 ▼ |
| Copenhagen | 255 ▲ | 4.00 ▶ | 77 ▶ | 5.75 ▶ | 698 ▶ | 4.25 ▶ | 165 ▶ | 6.00 ▶ |
| Dublin | 673 ▲ | 4.00 ▼ | 100 ▲ | 5.25 ▼ | 3 500* ▲ | 4.50 ▼ | 290 ▲ | 5.25 ▼ |
| Edinburgh | 406 ▶ | 5.00 ▼ | 103 ▲ | 5.00 ▼ | 3,030* ▲ | 5.50 ▲ | 364 ▶ | 5.75 ▶ |
| Frankfurt | 480 ▲ | 3.25 ▼ | 80 ▲ | 4.50 ▼ | 1,560 ▶ | 3.75 ▼ | 170 ▶ | 5.00 ▼ |
| Geneva | 641 ▶ | 3.00 ▶ | 171 ▶ | 5.50 ▶ | 975 ▶ | 4.00 ▶ | 154 ▶ | 5.00 ▶ |
| Hamburg | 312 ▲ | 3.20 ▼ | 72 ▲ | 4.50 ▼ | 1,650 ▶ | 3.75 ▼ | 150 ▶ | 5.00 ▼ |
| Helsinki | 396 ▶ | 4.00 ▼ | 120 ▶ | 5.75 ▼ | 1,200 ▶ | 4.50 ▼ | 120 ▶ | 6.00 ▶ |
| Lisbon | 234 ▲ | 4.75 ▼ | 45 ▶ | 6.50 ▼ | 1,200 ▶ | 5.00 ▼ | 120 ▶ | 7.00 ▼ |
| London 1,212 (WE) ▶ 848 (City) ▶ 3.50 (WE) ▶ 4.25 (City) ▶ | | | 182 ▲ | 4.00 ▼ | 5,394* ▶ | 4.50 ▲ | 570 ▶ | 4.50 ▶ |
| Madrid | 366 ▲ | 3.75 ▶ | 63 ▶ | 5.75 ▶ | 600 ▶ | 4.25 ▶ | 156 ▶ | 5.25 ▼ |
| Milan | 530 ▶ | 4.00 ▶ | 50 ▶ | 6.50 ▼ | 850 ▶ | 5.00 ▶ | 300 ▶ | 6.00 ▶ |
| Moscow | 654 ▶ | 9.75 ▼ | 62 ▼ | 11.00 ▼ | 2,921 ▶ | 10.25 ▶ | N/A | N/A |
| Munich | 436 ▲ | 3.00 ▼ | 85 ▲ | 4.50 ▼ | 1,900 ▶ | 3.75 ▼ | 180 ▶ | 5.00 ▼ |
| Oslo | 437 ▶ | 3.75 ▶ | 124 ▶ | 5.50 ▶ | 1,219 ▶ | 4.25 ▶ | 132 ▶ | 5.75 ▶ |
| Paris | 810 ▲ | 3.00 ▶ | 58 ▲ | 5.00 ▶ | 2,500 ▶ | 3.75 ▶ | 180 ▶ | 4.75 ▶ |
| Prague | 246 ▲ | 4.75 ▶ | 58 ▶ | 6.00 ▶ | 1,560 ▶ | 4.75 ▶ | 126 ▲ | 6.50 ▶ |
| Stockholm | 691 ▶ | 3.50 ▶ | 107 ▶ | 5.50 ▶ | 805 ▶ | 4.25 ▶ | 213 ▶ | 5.50 ▶ |
| Vienna | 309 ▶ | 3.90 ▶ | 72 ▶ | 5.75 ▼ | 1,320 ▲ | 4.10 ▼ | 168 ▶ | 5.85 ▶ |
| Warsaw | 276 ▶ | 5.25 ▶ | 60 ▶ | 6.75 ▶ | 1,800 ▶ | 5.50 ▶ | 132 ▶ | 7.50 ▶ |
| Zurich | 684 ▶ | 3.00 ▶ | 214 ▶ | 5.25 ▶ | 1,282 ▶ | 4.00 ▶ | 171 ▶ | 5.00 ▶ |

Indicative prime yields, as quoted locally, based upon a hypothetical Grade A unit. Office rents are for prime city area Grade A space, 2,000 sq m. Shopping Centre rents are based on prime covered shopping malls, quoted on best position, 100 sq m units. Retail Warehouse rents are for units of 1-5,000 sq m located in purpose built parks. Typical Retail Warehouse schemes vary between countries. Logistics rents are for prime industrial space of units over 5,000 sq m. The data above is provided for general reference purposes only. Local market conditions will vary. *Zoned/weighted figure. Arrows provide a broad indication of recent movements and the short-term outlook for prime rents and yields. London office data is quoted for the West End (WE) and City (C) submarkets.

Source: Knight Frank Research

FIGURE 6
Prime office rental cycle



The above diagram is intended to provide a comparative guide to the current positions of European prime office markets in their rental cycles. Markets will move through their cycles at different speeds and, sometimes, in different directions. The positions indicated in the diagram do not constitute formal forecasts of future rental trends.

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