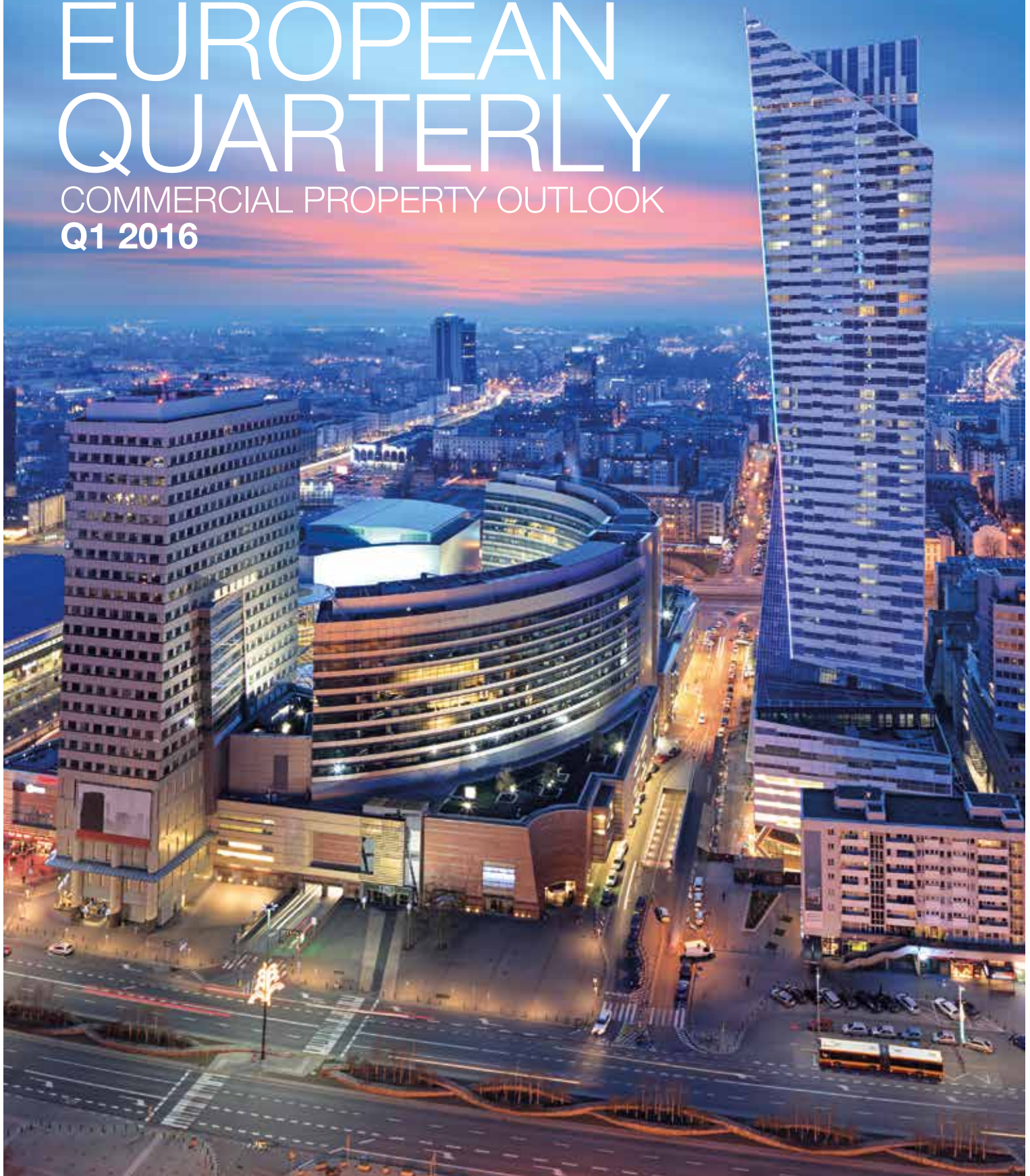


RESEARCH



# EUROPEAN QUARTERLY

COMMERCIAL PROPERTY OUTLOOK  
**Q1 2016**

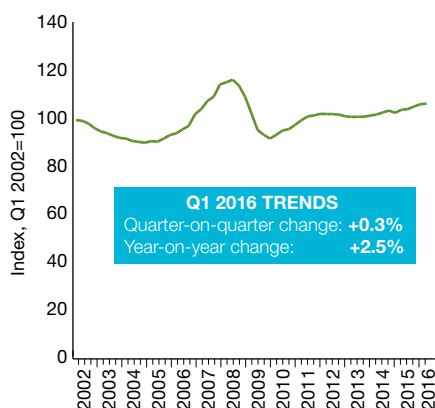


OCCUPIER TRENDS

INVESTMENT TRENDS

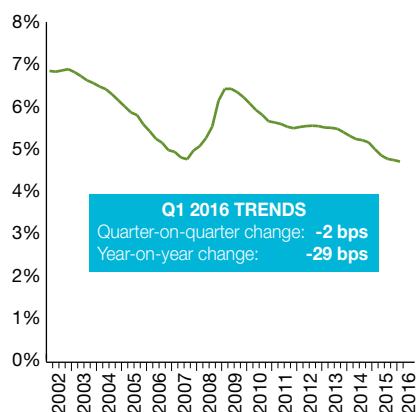
MARKET INDICATORS

FIGURE 1

**European prime office rental index**

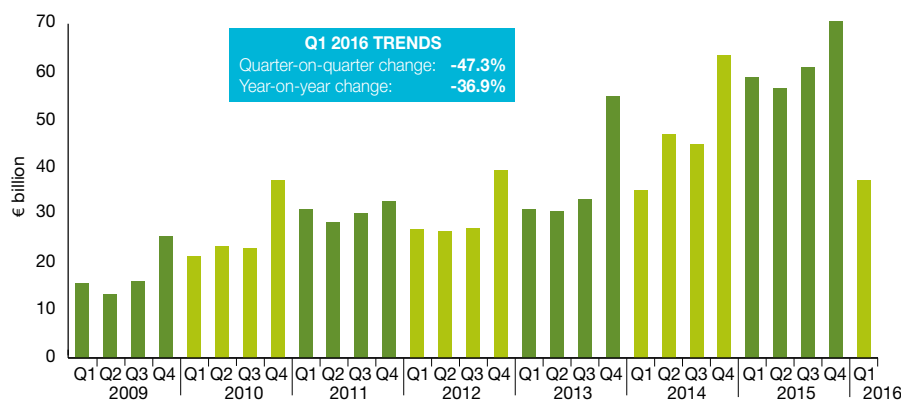
Source: Knight Frank Research

FIGURE 2

**European weighted average prime office yield**

Source: Knight Frank Research

FIGURE 3

**European commercial property investment volumes**

Source: Real Capital Analytics / Knight Frank Research

# EUROPEAN OUTLOOK

The European investment market slowed in Q1 2016, but the majority of office occupier markets saw increased take-up.

A total of €37.4 billion was invested in European commercial property in Q1 2016, a 36.9% decrease compared with Q1 2015. This was the largest year-on-year fall in activity since Q3 2009, and brought an abrupt end to the recent run of rising investment volumes. Nonetheless, the Q1 volume was enough to make it the second strongest opening quarter of the post-global financial crisis era, beaten only by 2015.

The fall in investment activity reflects growing concern among investors over a range of global economic and political risks. In Europe's largest market, the UK, investor caution over June's Brexit referendum contributed to a 38.4% fall in volumes in Q1. However, with significant decreases in activity recorded in other major markets such as Germany and France, the decline in the UK appears to have been not just Brexit-driven, but part of a wider slowing of European investment.

Over the coming quarters, it will become clearer whether the decreased activity in Q1 was a short-term pause for breath, or the start of a longer period of reduced volumes. In the UK, at least, Brexit

concerns are likely to keep investment subdued in Q2, although there is the possibility of a resurgence in the second half of the year, should the referendum result bring more certainty to the market.

The decreased investment activity in Q1 was not accompanied by a similar fall in prices. Prime office yields remained stable in most markets, but hardened in a small number of cities including Brussels, Munich and Stockholm. As a result, the Knight Frank European Weighted Average Prime Office Yield declined by 2 basis points, to a record low of 4.76%.

The robustness of pricing in the context of decreased investment volumes suggests that investors still see value in the European commercial property market, but they are becoming more selective about which assets to buy. There remains a fundamentally strong case for real estate investment, with prime property yields at attractive levels compared with other asset classes. Unexpectedly high Eurozone GDP growth of 0.5% in Q1 2016 will also have provided a fillip to investor confidence.

In contrast to the investment market, European occupier market activity showed positive growth in Q1 2016. Aggregate office take-up in the major markets monitored by Knight Frank was up by 12% in Q1 compared with the same quarter of 2015. This was boosted by the robust performance of the major German markets and Paris, where take-up increased by 47%, year-on-year.

The strong leasing activity in Paris helped the French capital to record its first increase in prime office rents since 2011. Elsewhere, rental growth was generally subdued in Q1, although there were pockets of growth in cities such as Milan and Stockholm. The Knight Frank European Prime Office Rental Index ticked up slightly, by 0.3%, during the quarter.



## MARKET HIGHLIGHTS

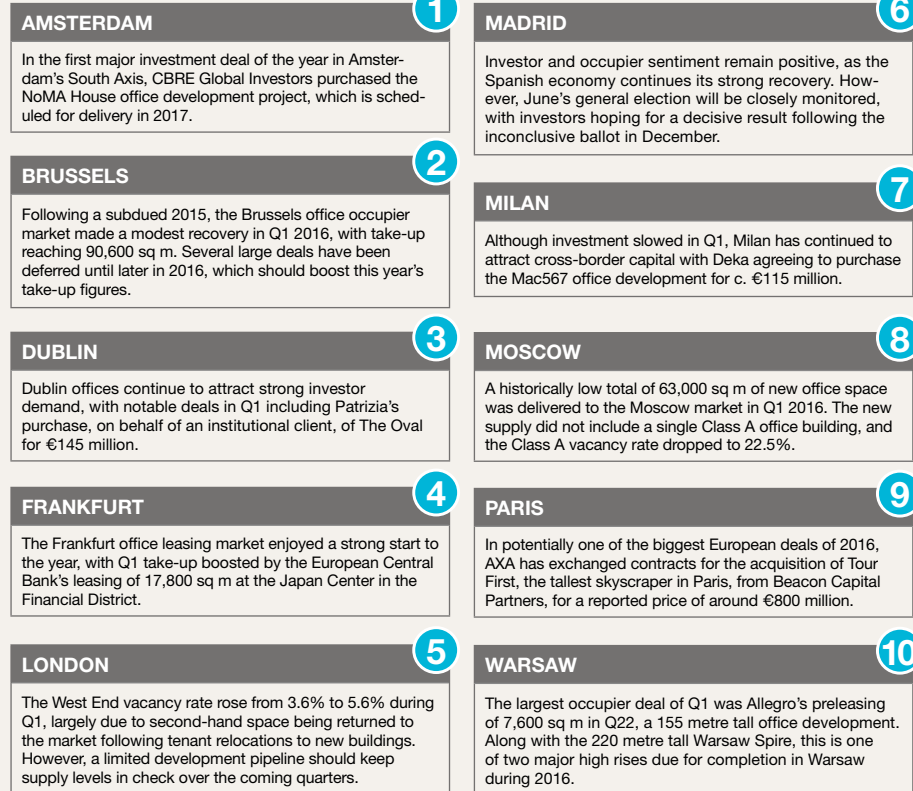
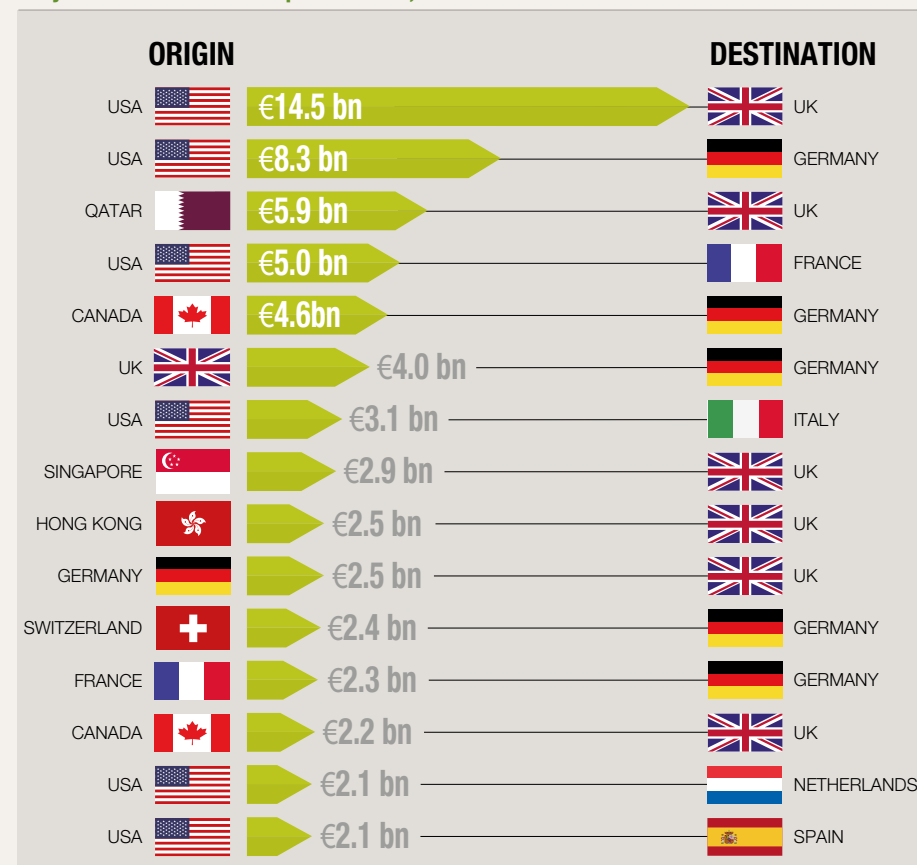
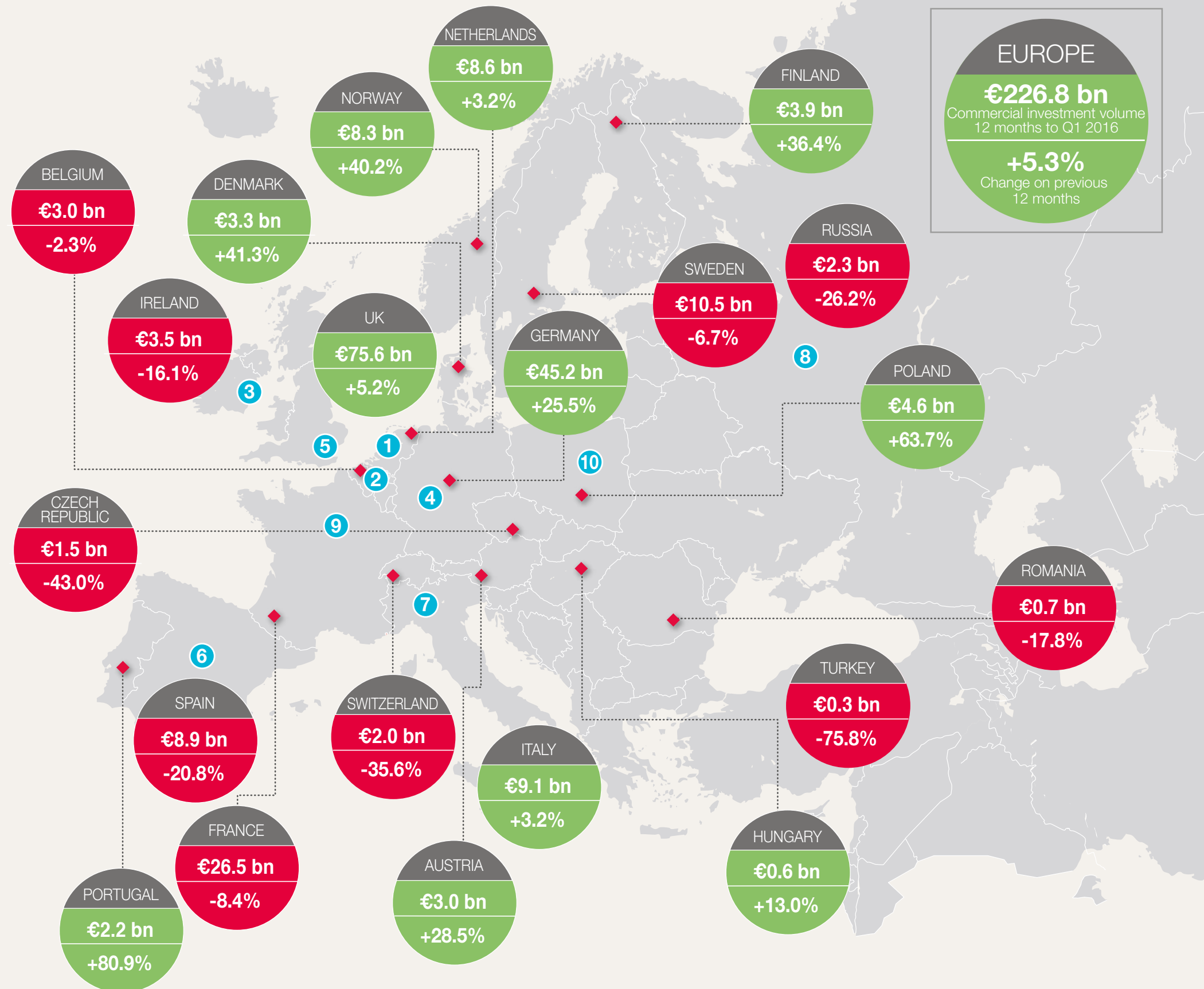


FIGURE 4  
Major Cross-Border Capital Flows, 12 months to Q1 2016



Source: Real Capital Analytics / Knight Frank Research

FIGURE 5  
European commercial property investment volumes, 12 months to Q1 2016



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

# EUROPEAN MARKET INDICATORS

European prime office rental growth slowed in Q1, although there were increases in Stockholm (+3.8%), Milan (+2.0%) and Paris (+1.3%).

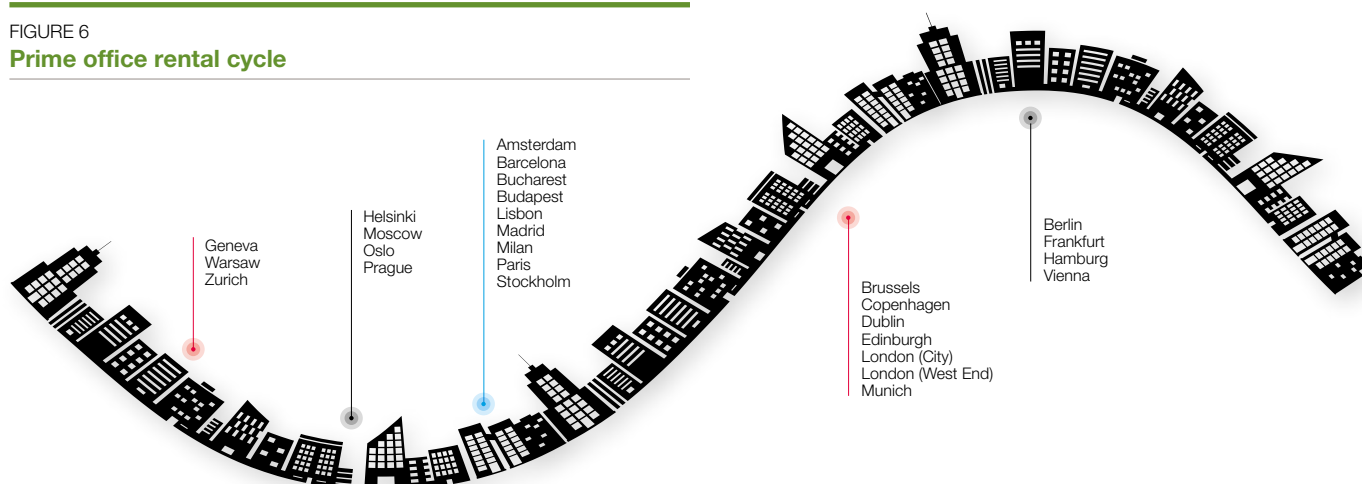
## Commercial property prime rents and yields

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	340 ▲	5.00 ▼	85 ►	5.75 ▼	1,000 ►	5.25 ►	135 ►	6.00 ▼
Barcelona	255 ▲	4.50 ►	59 ►	6.85 ▼	552 ►	5.00 ►	120 ►	6.00 ►
Berlin	288 ▲	4.00 ▼	69 ►	5.75 ▼	1,380 ►	4.25 ▼	150 ►	5.50 ▼
Brussels	300 ►	5.50 ▼	55 ►	6.50 ►	1,800 ►	5.25 ►	170 ►	5.75 ►
Bucharest	216 ►	7.50 ►	45 ►	9.00 ►	720 ►	7.75 ►	120 ►	9.50 ►
Budapest	252 ▲	7.00 ▼	42 ►	8.50 ▼	1,140 ►	6.75 ▼	90 ►	7.75 ▼
Copenhagen	241 ►	4.25 ►	77 ►	6.25 ►	697 ►	5.25 ▼	164 ►	6.50 ►
Dublin	619 ▲	4.50 ►	75 ▲	5.25 ▼	3,100* ▲	5.25 ▼	290 ▲	5.50 ▼
Edinburgh	433 ►	5.25 ►	105 ▲	6.25 ►	2,936* ►	4.75 ►	419 ▲	6.00 ►
Frankfurt	462 ►	4.25 ▼	80 ►	5.50 ▼	1,560 ►	4.20 ▼	170 ►	5.50 ▼
Geneva	730 ▼	3.25 ▼	183 ►	6.00 ►	1,041 ►	4.00 ▼	164 ►	5.25 ►
Hamburg	300 ►	4.00 ▼	72 ►	5.75 ▼	1,650 ►	4.25 ▼	150 ►	5.50 ▼
Helsinki	396 ►	4.50 ►	120 ►	6.25 ►	1,200 ►	5.00 ▼	120 ►	6.50 ►
Lisbon	222 ▲	5.50 ▼	45 ►	7.25 ▼	1,140 ►	5.25 ▼	108 ►	7.50 ►
London	1,608 (WE) ► 979 (City) ►	3.50 (WE) ► 4.00 (City) ►	196 ▲	4.25 ►	6,220* ►	4.00 ►	657 ►	4.25 ►
Madrid	324 ▲	4.00 ►	59 ▲	6.85 ▼	530 ►	5.00 ►	132 ►	6.00 ►
Milan	500 ▲	4.50 ►	50 ►	7.00 ►	850 ►	5.75 ►	300 ►	7.00 ►
Moscow	670 ►	10.50 ▲	66 ►	12.50 ►	3,112 ►	11.00 ►	N/A	N/A
Munich	414 ▲	3.60 ▼	84 ▲	5.40 ▼	1,900 ►	3.90 ▼	180 ►	5.00 ▼
Oslo	452 ►	4.25 ►	128 ►	5.50 ►	1,262 ►	5.00 ►	137 ►	6.25 ►
Paris	760 ▲	3.50 ►	55 ►	5.75 ▼	2,500 ▲	4.00 ▼	180 ►	5.00 ▼
Prague	234 ►	5.50 ▼	48 ►	6.50 ▼	840 ►	5.25 ▼	120 ►	7.75 ►
Stockholm	580 ▲	3.75 ▼	113 ►	5.75 ▼	851 ►	4.50 ▼	225 ►	5.75 ▼
Vienna	309 ►	4.40 ►	72 ►	7.00 ►	1,320 ►	5.10 ▼	168 ►	6.00 ►
Warsaw	276 ►	6.00 ►	60 ▼	7.00 ►	1,800 ▲	6.00 ►	132 ►	7.50 ►
Zurich	730 ►	3.25 ▼	228 ►	5.75 ►	1,369 ►	4.00 ▼	183 ►	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



Rents Bottoming

Rental Growth - Accelerating

Rental Growth - Slowing

Rents Declining

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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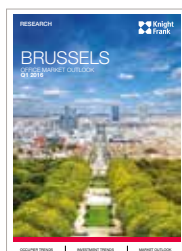
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