RESEARCH

Knight Frank

EUROPEAN QUARTERLY

COMMERCIAL PROPERTY OUTLOOK

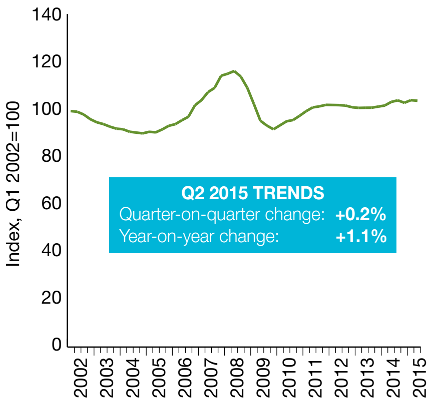
Q2 2015

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET INDICATORS

EUROPEAN OUTLOOK

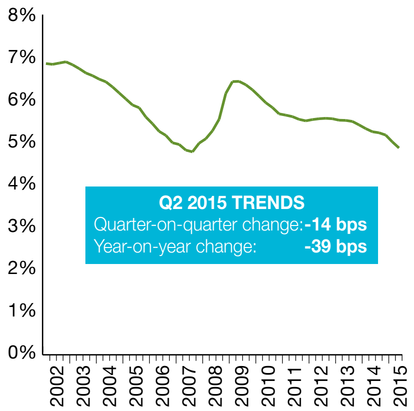
The European investment market gained further momentum in Q2, supported by the Eurozone's continuing economic recovery.

FIGURE 1
European prime office rental index



Source: Knight Frank Research

FIGURE 2
European weighted average prime office yield



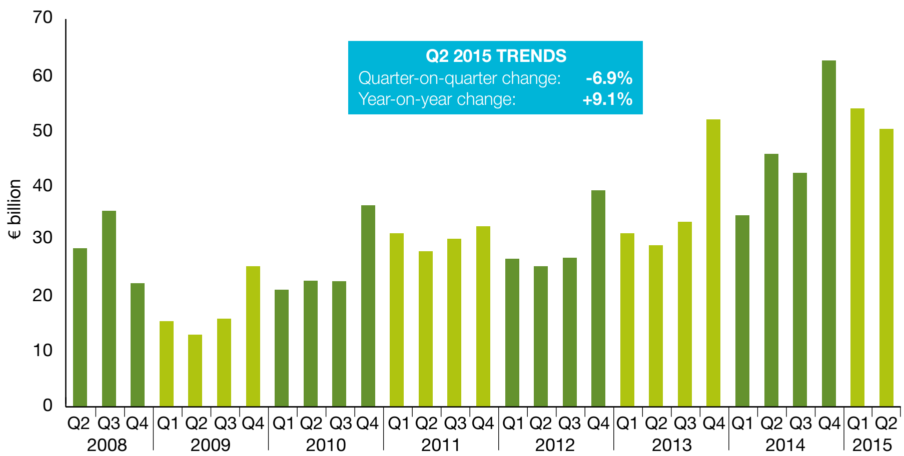
Source: Knight Frank Research

The Eurozone recorded positive GDP growth for the ninth consecutive quarter in Q2, expanding by 0.4%. This was bolstered by 0.4% growth in Germany, but dragged down by a flat quarter for France. Unexpectedly, Greece grew by 0.9%, despite the recent intensification of its debt crisis. Greece's immediate future in the single currency area appears to have been secured by a new bailout deal agreed in August but, even if a Greek exit were to transpire, the Eurozone looks to be much better placed to withstand it now than it was 2-3 years ago.

Consensus forecasts for 2015 suggest that Eurozone GDP will increase by c. 1.5%, with growth prospects aided by the European Central Bank's ongoing programme of quantitative easing (QE) and the depreciation of the Euro. Positively, the threat of a prolonged period of Eurozone deflation, which some commentators had warned about earlier in the year, has receded in recent months.

Against the backdrop of a steady economic recovery, European commercial property investment reached €50.6 billion in Q2, a 9% increase compared with the same quarter of 2014.

FIGURE 3
European commercial property investment volumes



Source: Real Capital Analytics / Knight Frank Research

Following the very strong performance of Q1, this took investment volumes for the first half of the year to €104.9 billion, 29% up on H1 2014.

Deal volumes in Q2 were supported by the continued strength of Europe's two largest markets, the UK and Germany, which between them attracted approximately 60% of all European investment. London was the location of the continent's largest single-asset transaction in Q2; Cathay Financial's UK£575 million (c.€774 million) acquisition of the Walbrook Building.

The revival of investment activity in Europe's peripheral markets has gathered pace. Spain and Ireland, which have led the peripheral market recovery over the last 18 months, have continued to attract heightened levels of investment, but the most impressive increases in activity during H1 came in Italy and Portugal.

Following the strong first half to 2015, Knight Frank forecasts that annual European commercial property investment will reach approximately €230 billion. This would make 2015 comfortably the best year since the market peak of 2007, when investment reached €257 billion.

The weight of money targeting the property sector led to continued yield compression in Q2, both in core and peripheral markets. Prime office yields hardened in cities such as Amsterdam, Lisbon, Madrid, Milan and Paris. Knight Frank's European weighted average prime office yield moved in to 4.90%, its lowest level since Q3 2007.

While investment activity is buoyant in the large majority of European markets, occupier market trends remain more varied. Rental growth was patchy in Q2, with Dublin, Madrid and Vienna being among the small number of European markets to record increases in prime office rents. The Irish capital remains Europe's standout performer for rental growth, with prime office rents rising by 28% year-on-year.

MARKET HIGHLIGHTS

AMSTERDAM 1

Amsterdam is attracting increased demand from Asian investors. Singapore's First Sponsor Group bought two Holiday Inn hotels in Amsterdam in Q2, after leading a group of Singaporean investors in the acquisition of the Zuiderhof I office building in Q1.

BRUSSELS 2

Q2 saw the first major leasing transaction of the year involving a European institution, with the Single Resolution Board pre-leasing 9,800 sq m in the Treurenberg building in the Pentagon.

DUBLIN 3

German investors continue to show an increased appetite for Irish real estate. In recent months, Union Investment has acquired 4 and 5 Grand Canal Square, and committed to the forward funding of the development of Burlington House. Additionally, Real I.S. made its debut in the Dublin market in June by purchasing Beaux Lane House.

FRANKFURT 4

Two of Frankfurt's landmark office towers were transacted in Q2. The US investor NorthStar Realty Finance bought Trianon for €540 million, while IVG acquired Eurotower in a deal that valued the property at €480 million with the vendor RFR retaining a small minority stake.

LONDON 5

Office rental growth paused in Q2, as prime rents remained steady in both the West End and the City. However, with vacancy rates at historically low levels in both submarkets, rents are expected to rise during H2 2015.

MADRID 6

Office leasing volumes in H1 2015 were boosted by three transactions of over 10,000 sq m. KPMG and BNP Paribas both leased more than 19,000 sq m in Q1 while OBS leased 11,170 sq m in Q2.

MILAN 7

Demonstrating the increased international demand for Italian property, the Chinese investor Fosun has won the bidding to buy Palazzo Broggi, Unicredit's former headquarters in Milan, for a reported €345 million.

MOSCOW 8

Although most international investors are currently extremely cautious towards the Russian market, a joint venture of Hines and PPF Real Estate recently acquired the Metropolis Office Buildings I and III in Moscow.

PARIS 9

Île de France office take-up reached approximately 912,000 sq m in H1 2015, 22% down on H1 2014. Leasing activity was relatively strong in the CBD, but overall take-up was dragged down by the weak performance of suburban locations.

WARSAW 10

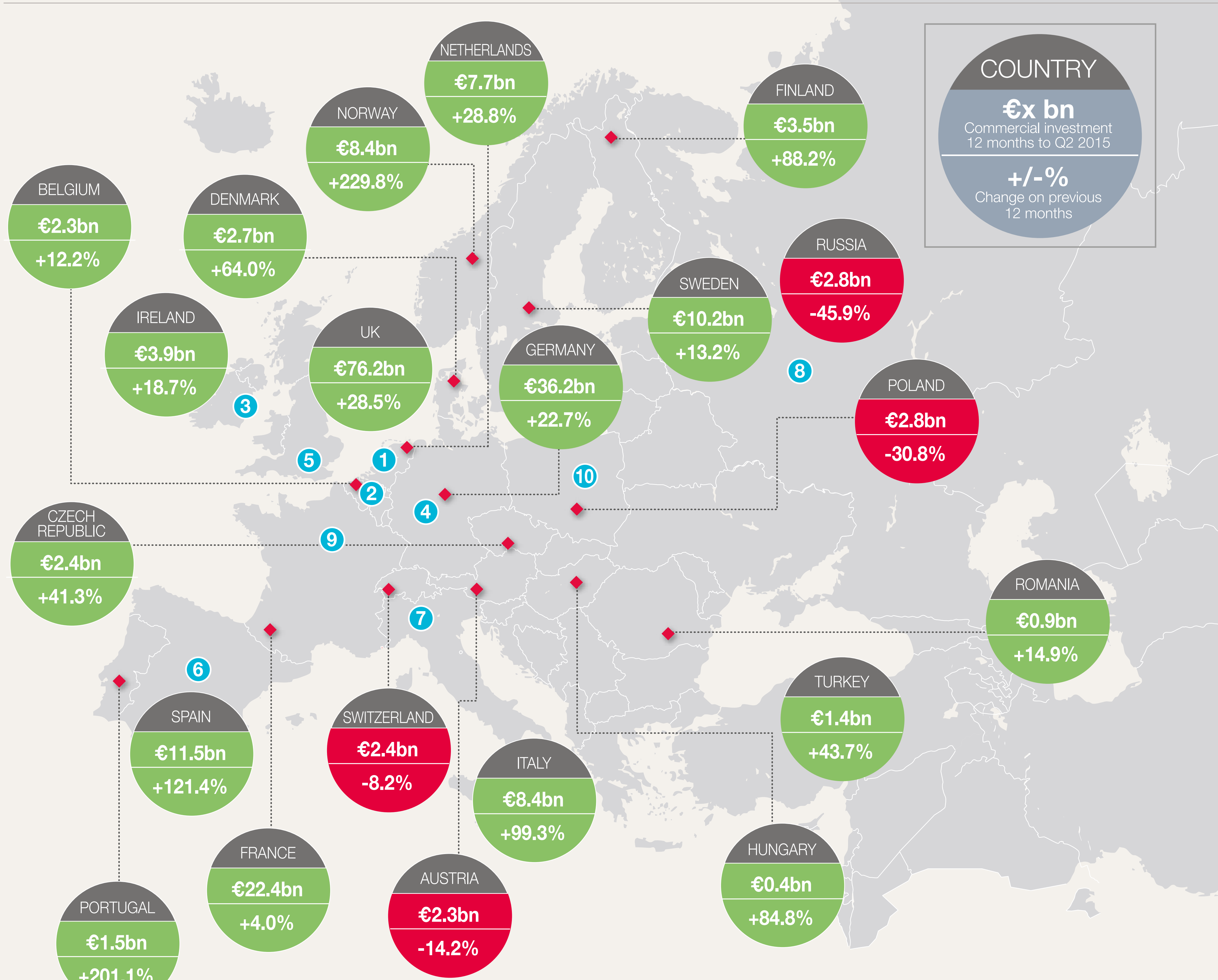
In one of the biggest ever occupational deals in Warsaw, Samsung has pre-leased more than 21,000 sq m of offices in Ghelamco's Warsaw Spire tower. This building will be the second-tallest in Poland upon its completion in 2016.

FIGURE 4
Major cross-border capital flows, 12 months to Q2 2015

ORIGIN		DESTINATION
USA	€15.5 bn	UK
CANADA	€5.8 bn	UK
USA	€5.6 bn	GERMANY
QATAR	€4.0 bn	UK
USA	€3.7 bn	FRANCE
UK	€3.7 bn	GERMANY
USA	€2.3 bn	ITALY
FRANCE	€2.2 bn	GERMANY
USA	€2.2 bn	SPAIN
USA	€2.2 bn	NETHERLANDS
FRANCE	€1.9 bn	NETHERLANDS
FRANCE	€1.9 bn	SPAIN
USA	€1.9 bn	NORWAY
CHINA	€1.7 bn	UK
FRANCE	€1.6 bn	ITALY
TAIWAN	€1.6 bn	UK
QATAR	€1.5 bn	ITALY
NORWAY	€1.5 bn	UK

Source: Real Capital Analytics / Knight Frank Research

FIGURE 5
European commercial property investment volumes, 12 months to Q2 2015



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

EUROPEAN MARKET INDICATORS

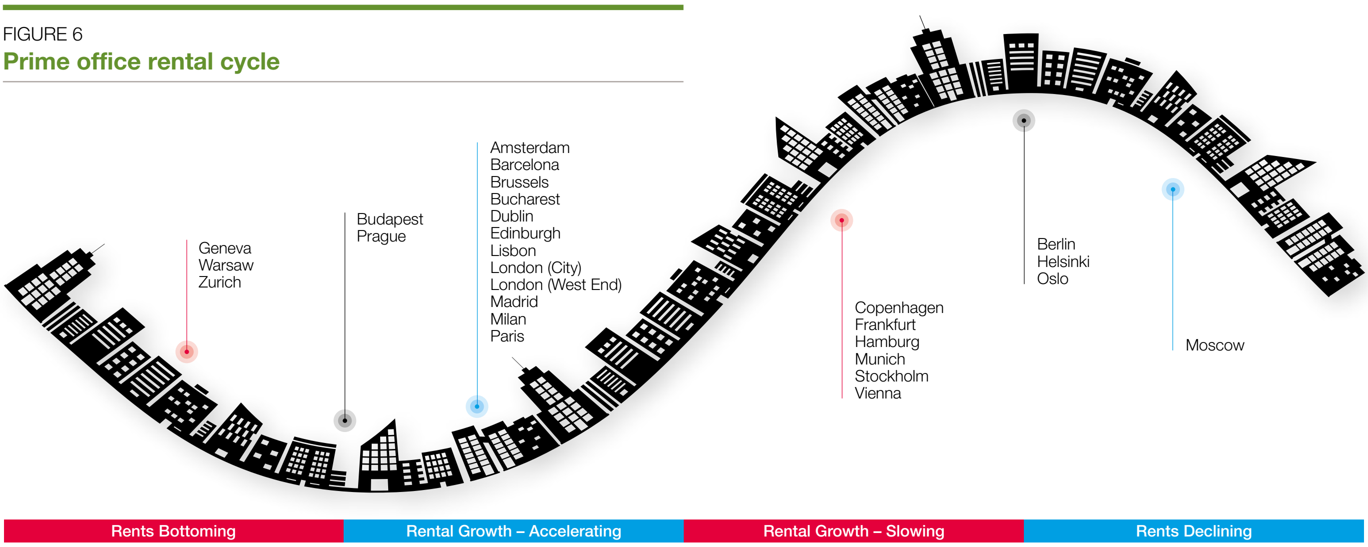
Prime office rents increased in Dublin, Madrid and Vienna during Q2, but continued to fall in Moscow.

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 ▶	5.50 ▼	85 ▶	6.25 ▼	1,000 ▶	5.25 ▼	135 ▶	6.50 ▼
Barcelona	228 ▲	5.00 ▼	57 ▶	7.00 ▼	552 ▶	5.25 ▼	120 ▶	6.20 ▼
Berlin	282 ▶	4.25 ▼	69 ▶	6.00 ▼	1,380 ▶	4.50 ▼	150 ▶	6.00 ▼
Brussels	300 ▲	5.75 ▶	45 ▶	6.50 ▼	1,800 ▶	5.35 ▶	170 ▶	6.00 ▶
Bucharest	216 ▶	8.00 ▶	45 ▶	9.50 ▶	720 ▲	8.00 ▶	120 ▶	10.00 ▶
Budapest	240 ▶	7.25 ▶	42 ▶	9.00 ▶	1,080 ▶	7.00 ▶	90 ▶	8.00 ▶
Copenhagen	241 ▶	4.75 ▶	77 ▶	6.50 ▼	697 ▶	5.50 ▶	164 ▶	6.75 ▶
Dublin	552 ▲	4.50 ▼	70 ▲	6.50 ▼	2,700 ▲	6.00 ▼	240 ▲	6.50 ▼
Edinburgh	435 ▲	5.50 ▼	76 ▶	6.25 ▼	3,200 ▲	4.85 ▼	381 ▶	6.00 ▼
Frankfurt	459 ▲	4.40 ▼	80 ▶	5.90 ▼	1,560 ▶	4.50 ▼	169 ▶	6.00 ▼
Geneva	820 ▼	3.75 ▶	193 ▶	6.00 ▶	1,100 ▶	4.25 ▶	170 ▶	5.25 ▶
Hamburg	300 ▶	4.25 ▼	70 ▶	6.00 ▼	1,650 ▶	4.50 ▼	150 ▶	6.00 ▼
Helsinki	378 ▶	5.00 ▶	120 ▶	7.00 ▶	1,200 ▶	5.25 ▶	145 ▶	6.50 ▶
Lisbon	216 ▲	6.00 ▼	45 ▶	7.50 ▼	1,080 ▶	6.25 ▼	108 ▶	8.50 ▼
London	1,692 (WE) ▲ 956 (C) ▲	3.50 (WE) ▶ 4.00 (C) ▶	202 ▶	4.25 ▼	6,785 ▶	4.15 ▼	717 ▶	4.25 ▶
Madrid	312 ▲	4.00 ▼	57 ▶	7.00 ▼	530 ▶	5.25 ▼	120 ▶	6.20 ▼
Milan	500 ▶	4.75 ▼	50 ▶	7.50 ▼	850 ▶	6.00 ▼	300 ▶	7.00 ▼
Moscow	697 ▼	10.00 ▲	82 ▼	12.50 ▲	3,442 ▼	11.00 ▲	N/A	N/A
Munich	414 ▶	4.00 ▼	78 ▶	5.90 ▼	1,900 ▶	4.25 ▶	180 ▶	6.00 ▼
Oslo	491 ▶	4.50 ▼	139 ▶	5.75 ▼	1,369 ▶	5.25 ▶	148 ▶	6.25 ▶
Paris	750 ▶	3.50 ▼	55 ▶	6.50 ▼	2,200 ▲	4.25 ▼	180 ▶	5.25 ▼
Prague	234 ▶	5.75 ▶	46 ▶	7.00 ▼	840 ▲	5.50 ▼	120 ▶	7.75 ▶
Stockholm	508 ▶	4.00 ▼	115 ▶	6.00 ▼	866 ▶	4.75 ▼	233 ▶	6.00 ▶
Vienna	309 ▲	4.75 ▼	72 ▶	7.25 ▶	1,320 ▶	5.25 ▶	168 ▶	6.00 ▶
Warsaw	276 ▼	6.00 ▶	66 ▶	7.00 ▼	1,200 ▶	6.00 ▶	132 ▶	7.50 ▶
Zurich	730 ▼	3.50 ▶	227 ▶	6.00 ▶	1,433 ▶	4.00 ▶	190 ▶	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.

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.

EUROPEAN RESEARCH

Lee Elliott
Partner, Head of Commercial Research
+44 20 7629 8171
lee.elliott@knightfrank.com

Matthew Colbourne
Associate, International Research
+44 20 7629 8171
matthew.colbourne@knightfrank.com

Heena Kerai
Analyst, International Research
+44 20 7629 8171
heena.kerai@knightfrank.com

EUROPE

Chris Bell
Managing Director, Europe
+44 20 7629 8171
chris.bell@knightfrank.com

Andrew Sim
Head of European Capital Markets
+44 20 7629 8171
andrew.sim@knightfrank.com

Nick Powlesland
Head of European Valuations
+44 20 7629 8171
nick.powlesland@knightfrank.com

Emma Goodford
Head of EMEA Tenant Representation
+44 20 7629 8171
emma.goodford@knightfrank.com

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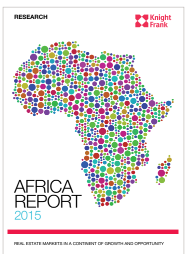

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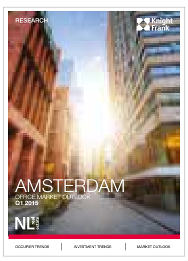
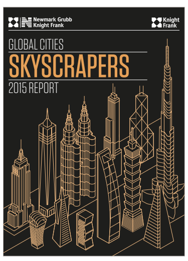


Amsterdam Office Market Outlook Q1 2015

Central London Quarterly Q2 2015



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