

RESEARCH



# EUROPEAN QUARTERLY

COMMERCIAL PROPERTY OUTLOOK  
Q4 2016

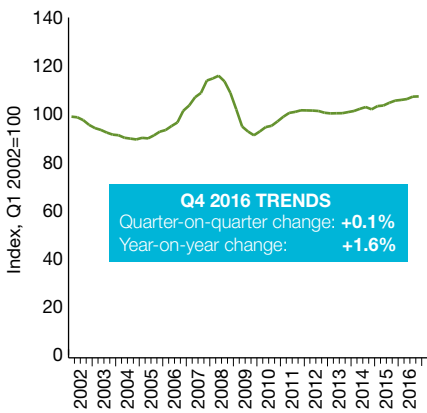


OCCUPIER TRENDS

INVESTMENT TRENDS

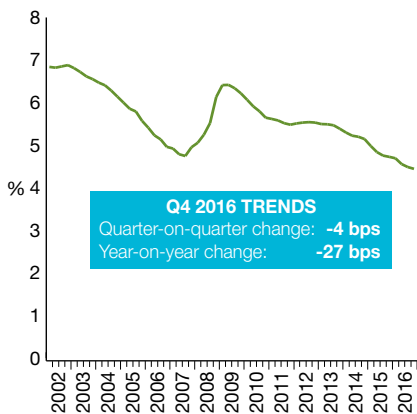
MARKET INDICATORS

FIGURE 1  
European prime office rental index



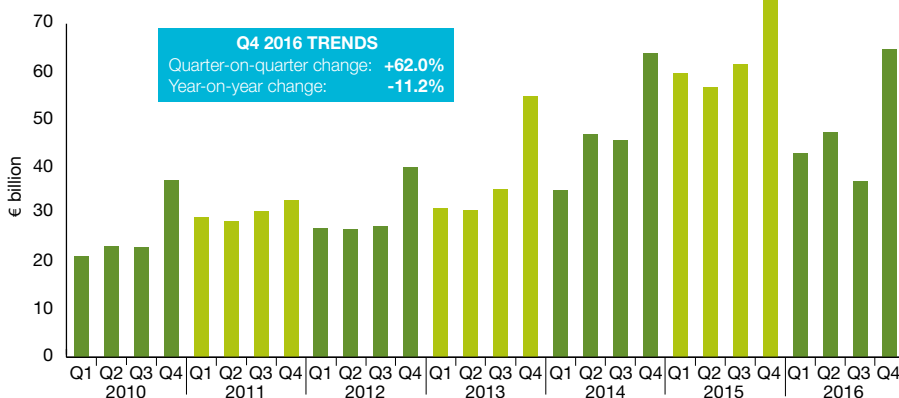
Source: Knight Frank Research

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

Despite a surge of activity in Q4, European investment volumes for 2016 fell short of a stellar 2015.

The European commercial property investment market ended 2016 strongly, with €65.1 billion transacted in Q4, a 62% jump from Q3. This took volumes for the whole year to €201.7 billion, a 20% decrease from 2015. Nonetheless, 2016 was the second-strongest year since the previous market peak of 2007, with volumes 25% above the 10-year average.

The drop in investment activity in 2016 primarily resulted from a sharp decline in the UK in the wake of the Brexit vote in June, which was exaggerated in Euro terms by the depreciation of the Pound. There were smaller, but still significant, decreases in activity in Europe's two other largest markets, Germany and France. However, countries including the Netherlands, Poland and the Czech Republic had strong years, driven partly by investors seeking pricing opportunities in non-core markets.

Although the UK remained the most active market in Europe for 2016 as a whole, it was second to Germany during H2. With geopolitical uncertainties increasing elsewhere, Germany has become the favoured European location for investors seeking a "safe haven" market. Its low-risk reputation should boost investment activity throughout

2017, as long as the German federal elections later in the year have no negative impact on sentiment.

Although transaction volumes have fallen in the UK, this market will attract investor demand in 2017, albeit with a much-changed buyer profile. The London market is currently seeing a wave of new market entrants from Asia, who are taking advantage of currency movements and reduced competition from more cautious established investors.

European prime office yields came under further downward pressure in Q4 2016, with the Knight Frank European Weighted Average Prime Office Yield hardening by 4 basis points. This was primarily driven by yield compression in markets such as Budapest, Lisbon and Prague which have, to date, lagged core Western European markets. However, prime office yields also hardened in Munich to an all-time low of 3.30%. Despite being at record low levels, it is anticipated that German prime yields will harden further in 2017 on the back on strong investor demand.

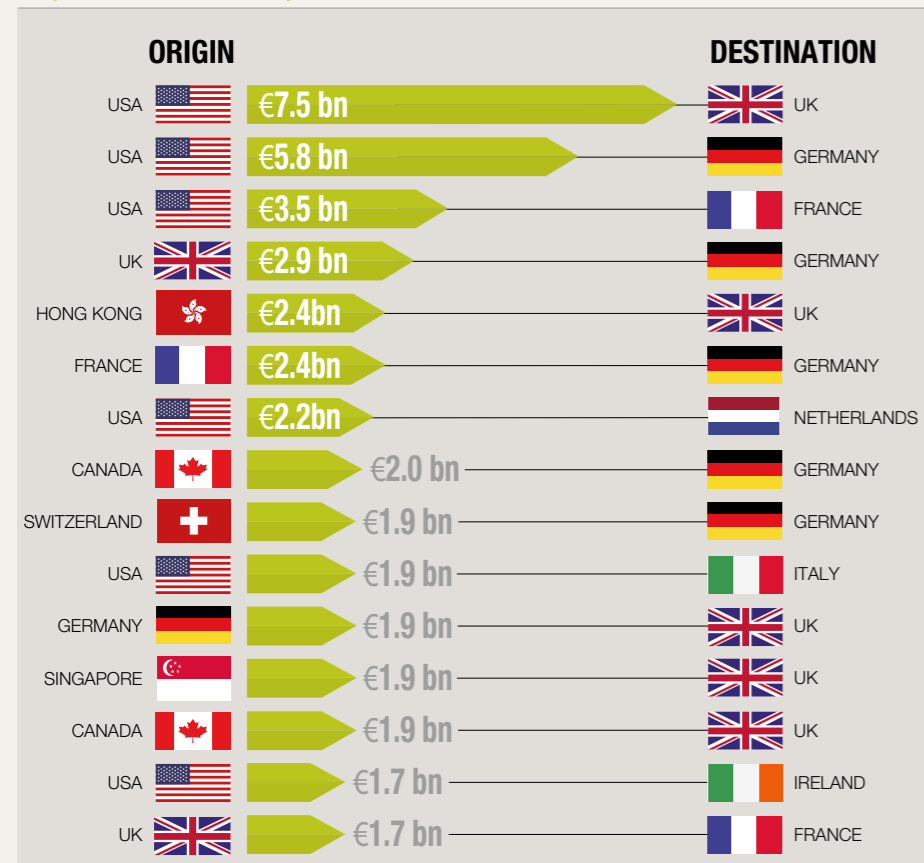
Aggregate office take-up in the major European markets monitored by Knight Frank increased by 3% in 2016. Markets including Amsterdam, Berlin, Brussels, Frankfurt and Paris all recorded significant improvements in leasing activity, although these were to some extent counterbalanced by reduced take-up in London, Madrid and Milan.

European prime office rental growth was limited in Q4, although increases were recorded in Berlin, Madrid, Munich and Stockholm, all of which have a diminishing availability of Grade A CBD space. However, prime rents decreased in the West End of London for the second successive quarter, and have fallen by 8.7% in six months. With the exception of London, most major European markets are forecast to record moderate rental increases in 2017, with the most likely rental growth hotspots being markets in Ireland, Spain, Sweden and Germany, particularly Berlin and Munich.

## MARKET HIGHLIGHTS

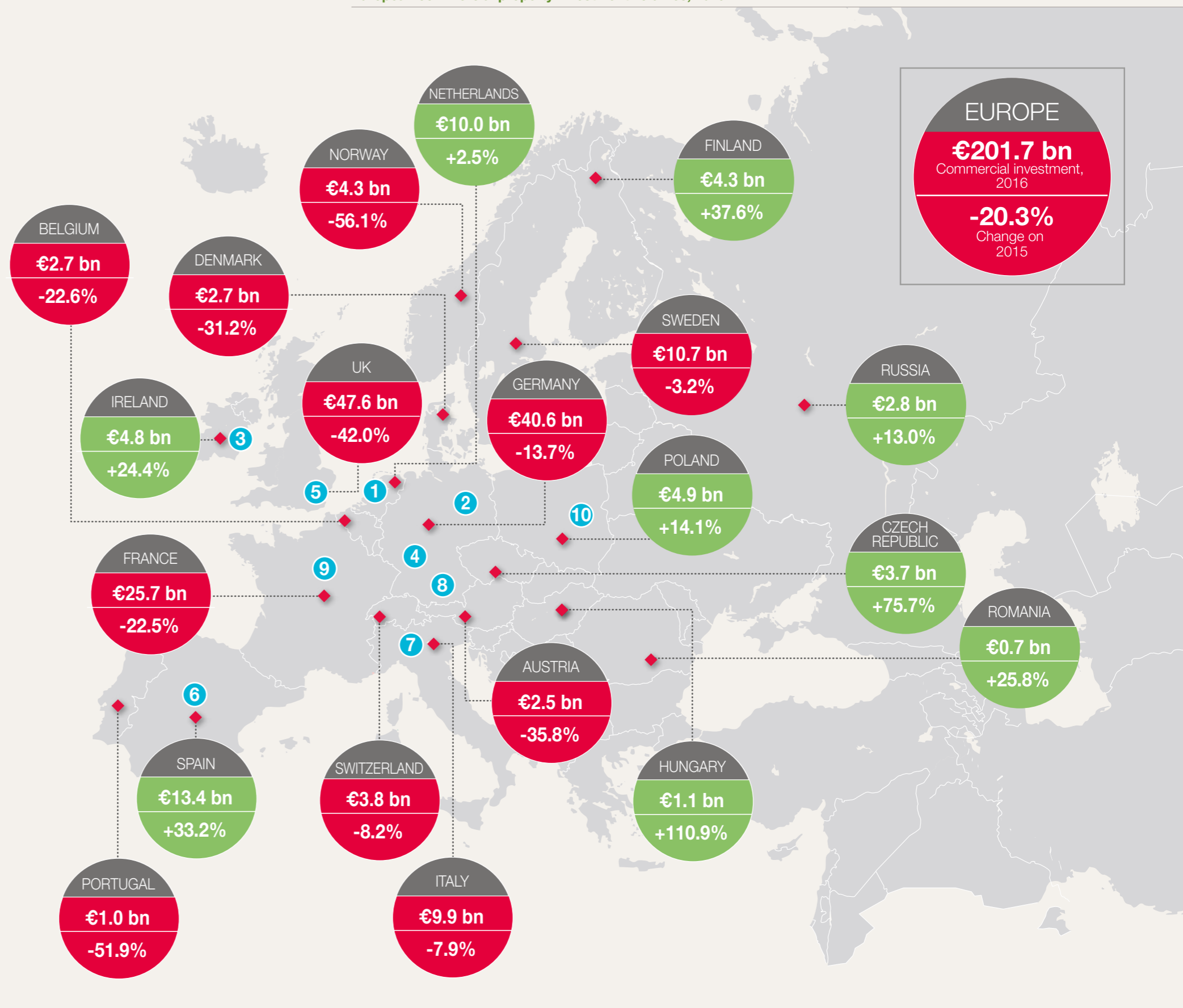


FIGURE 4  
Major Cross-Border Capital Flows, 2016



Source: Real Capital Analytics / Knight Frank Research

FIGURE 5  
European commercial property investment volumes, 2016



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

# EUROPEAN MARKET INDICATORS

Berlin was Europe’s rental growth hotspot in 2016, with prime office rents increasing by 25% over the course of the year.

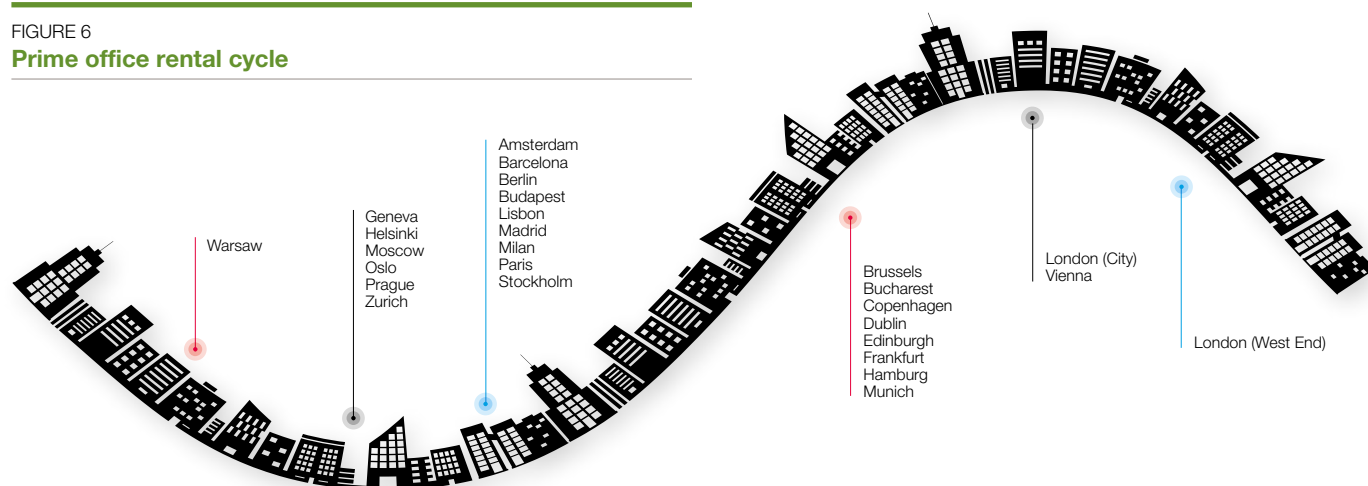
## Commercial property prime rents and yields

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	365 ▲	4.50 ▼	85 ▶	5.75 ▼	1,000 ▶	5.25 ▼	135 ▶	5.75 ▶
Barcelona	258 ▲	4.50 ▶	66 ▶	6.25 ▼	552 ▶	4.75 ▼	129 ▲	5.80 ▶
Berlin	360 ▲	3.50 ▼	69 ▶	5.25 ▼	1,380 ▶	3.90 ▼	150 ▶	5.50 ▼
Brussels	300 ▶	5.00 ▶	55 ▶	6.25 ▶	1,800 ▶	5.25 ▶	185 ▶	5.75 ▶
Bucharest	216 ▶	7.50 ▶	48 ▶	8.75 ▶	720 ▶	7.50 ▶	120 ▶	9.50 ▶
Budapest	264 ▲	6.50 ▼	42 ▶	8.00 ▼	1,140 ▶	6.25 ▼	96 ▲	7.50 ▼
Copenhagen	242 ▶	4.00 ▶	77 ▶	6.00 ▶	699 ▶	5.00 ▶	165 ▶	6.25 ▶
Dublin	646 ▶	4.50 ▶	80 ▲	5.25 ▶	3,250* ▲	4.50 ▼	290 ▶	5.25 ▶
Edinburgh	416 ▶	5.25 ▶	101 ▲	6.50 ▶	2,775* ▶	5.00 ▶	378 ▶	6.00 ▶
Frankfurt	462 ▶	4.00 ▼	80 ▶	5.00 ▼	1,560 ▶	4.00 ▼	170 ▶	5.50 ▼
Geneva	699 ▶	3.25 ▶	186 ▶	5.75 ▶	1,063 ▶	4.00 ▶	168 ▶	5.25 ▶
Hamburg	300 ▶	3.50 ▼	72 ▶	5.00 ▼	1,650 ▶	4.00 ▼	150 ▶	5.50 ▼
Helsinki	396 ▶	4.00 ▼	120 ▶	5.75 ▼	1,200 ▶	4.75 ▼	120 ▶	6.25 ▶
Lisbon	222 ▶	5.00 ▼	45 ▶	6.75 ▶	1,140 ▶	5.25 ▶	108 ▶	7.00 ▶
London 1,324 (WE) ▼ 883 (City) ▶	3.50 (WE) ▶ 4.25 (City) ▶	177 ▶	4.50 ▲	5,614* ▶	4.25 ▶	593 ▶	4.50 ▶	
Madrid	336 ▲	3.90 ▶	66 ▲	6.25 ▼	556 ▶	4.75 ▼	156 ▶	5.75 ▼
Milan	500 ▶	4.50 ▶	50 ▶	7.00 ▶	850 ▶	5.50 ▶	300 ▶	7.00 ▶
Moscow	760 ▶	10.00 ▶	68 ▶	12.50 ▲	3,326 ▶	10.50 ▶	N/A	N/A
Munich	432 ▲	3.30 ▼	85 ▶	5.00 ▼	1,900 ▶	3.90 ▼	180 ▶	5.00 ▼
Oslo	473 ▶	4.00 ▼	134 ▶	5.50 ▶	1,319 ▶	4.50 ▼	143 ▶	6.00 ▶
Paris	770 ▲	3.00 ▼	58 ▶	5.75 ▼	2,500 ▶	4.00 ▶	180 ▶	5.00 ▶
Prague	234 ▶	5.00 ▼	48 ▶	6.25 ▼	1,380 ▶	5.25 ▶	120 ▶	7.50 ▶
Stockholm	636 ▲	3.75 ▼	110 ▶	5.50 ▼	827 ▶	4.25 ▼	219 ▶	5.75 ▼
Vienna	309 ▶	4.00 ▼	72 ▶	7.00 ▼	1,320 ▶	4.95 ▶	168 ▶	5.85 ▶
Warsaw	288 ▶	5.25 ▶	60 ▶	7.00 ▶	1,800 ▶	5.50 ▶	132 ▶	7.50 ▶
Zurich	746 ▶	3.00 ▶	233 ▶	5.50 ▶	1,398 ▶	4.00 ▶	186 ▶	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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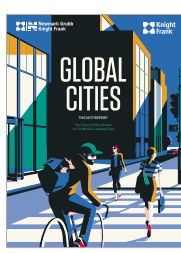
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