

RESEARCH



EUROPEAN COMMERCIAL PROPERTY OUTLOOK 2015



PROPERTY WEATHER MAP FOR 2015

KEY

The weather symbols represent our view of investment sentiment for commercial property for the first and second half of 2015.



EUROPEAN OUTLOOK

While there are some lingering doubts about the strength and uneven nature of Europe's economic recovery, both the EU and the Euro area are poised for positive growth in 2015.

Downside risks include weak growth, persistently high unemployment, geopolitical tensions and possible deflation in some areas. However, growth continues to improve on the whole, while unemployment appears to have peaked and is edging down in many places.

Regarding inflation, while some countries are experiencing price falls, our view remains that there will be a lengthy period of low inflation rather than outright deflation. The recent downward trend in prices has been largely due to lower food and energy costs and surveys show that consumers still expect prices to rise in the medium term. Importantly, the European Central Bank has finally taken action to try and stimulate growth and raise inflation, with interest rate reductions, cheap loans and the purchase of asset-backed securities.

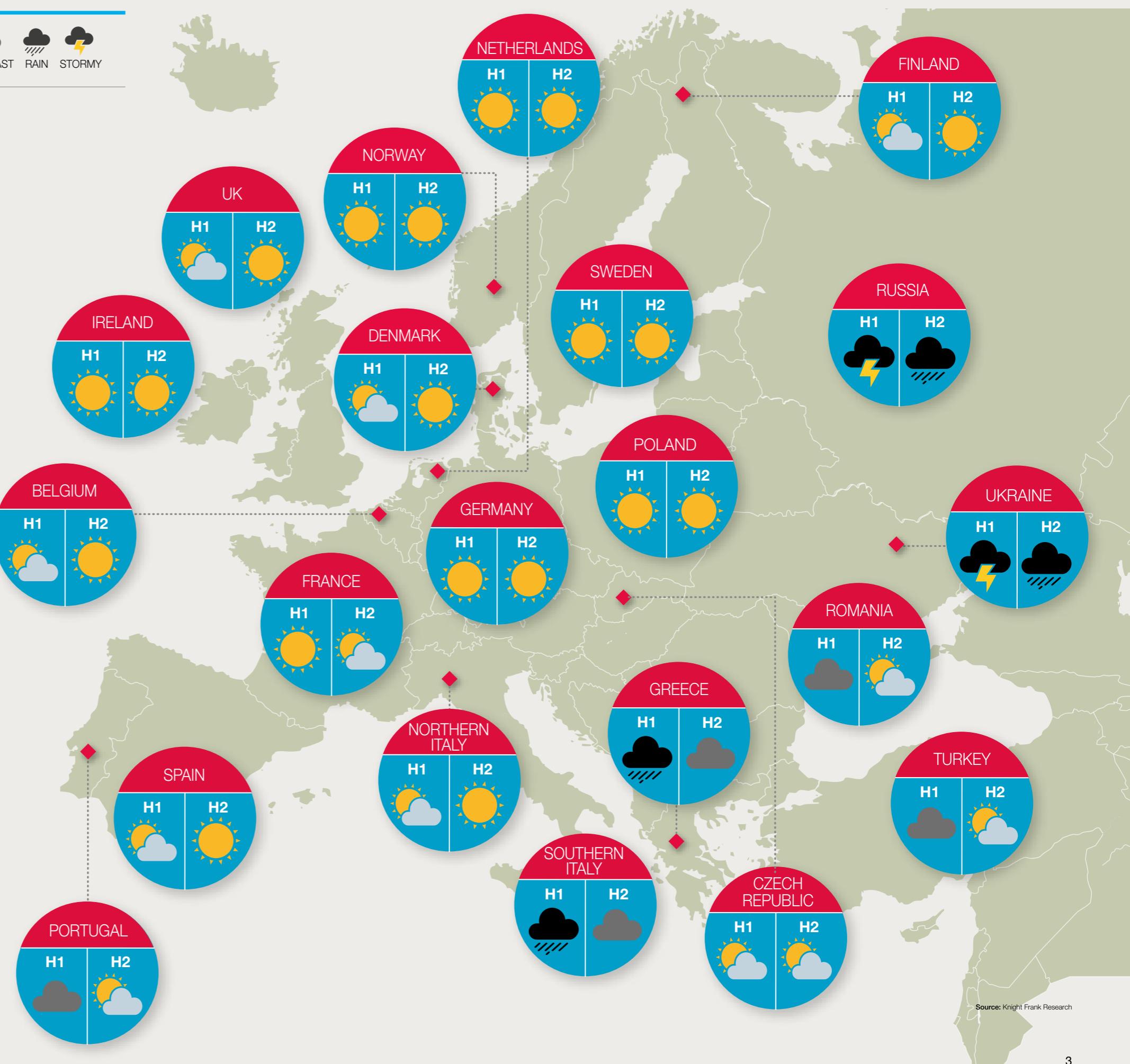
With European interest rates expected to remain very low (or even negative) for the foreseeable future, property yields continue to look attractive. In addition, while economic growth is forecast to remain muted, the steadily falling supply of prime space should help rental growth to re-emerge more widely in 2015, thereby further fuelling investor demand.

Occupier markets are likely to continue to move in line with wider economic trends, with the Nordic countries and the Baltics currently seeing a significant improvement in occupier sentiment, while the UK is finally seeing a pick-up in its regional city markets. However, perhaps the most encouraging trend is the rebound in Ireland and parts of Southern Europe, with Dublin and Madrid in particular recording solid rental increases in 2014 and further growth expected in 2015.

Despite the recent dip in economic performance, major French and German cities are also expected to perform well on the back of limited availability, with development yet to accelerate significantly in either country. The Russia-Ukraine crisis meanwhile continues to weigh heavily on those countries and, while property markets in the wider Central and Eastern European region have remained relatively untouched by the conflict, plentiful supply has constrained rental growth in key cities such as Prague and Warsaw.

In the investment market, while data for the whole year is not yet available, early indications show that transaction volumes for 2014 are likely to exceed the €160bn mark – around 10% up on 2013. A significant amount of capital continues to target commercial real estate and our forecasts suggest a similar rate of growth in 2015, with total volumes expected to be in the range of €175-180bn. All the main commercial sectors are attracting strong interest, while specialist sectors such as hotels, healthcare and student accommodation are becoming increasingly part of the mainstream property universe.

However, the really good news for both occupiers and investors is that rents in most markets remain lower than their pre-recession peaks – in some cases significantly below. This should provide a further boost to activity in 2015, with more occupiers looking to take advantage of good deals, while investors will seek to cash in on better rental growth prospects as the economic outlook continues to improve.





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