

RESEARCH



EXPO special

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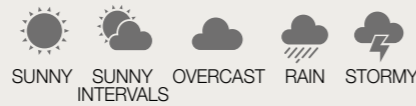
# European Commercial Property Outlook 2017

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**KEY**

The weather symbols represent our view of current investor sentiment towards commercial property.



# EUROPEAN OUTLOOK

Despite persistent global geopolitical uncertainties, there have been positive improvements in the backdrop for European property investment during 2017.

The Eurozone economy has performed above expectations, growing by 0.5% in Q1 and by 0.6% in Q2. Consensus forecasts suggest that annual GDP growth for 2017 will be close to 2.0%, with Ireland, Spain and the Netherlands being among the fastest growing economies.

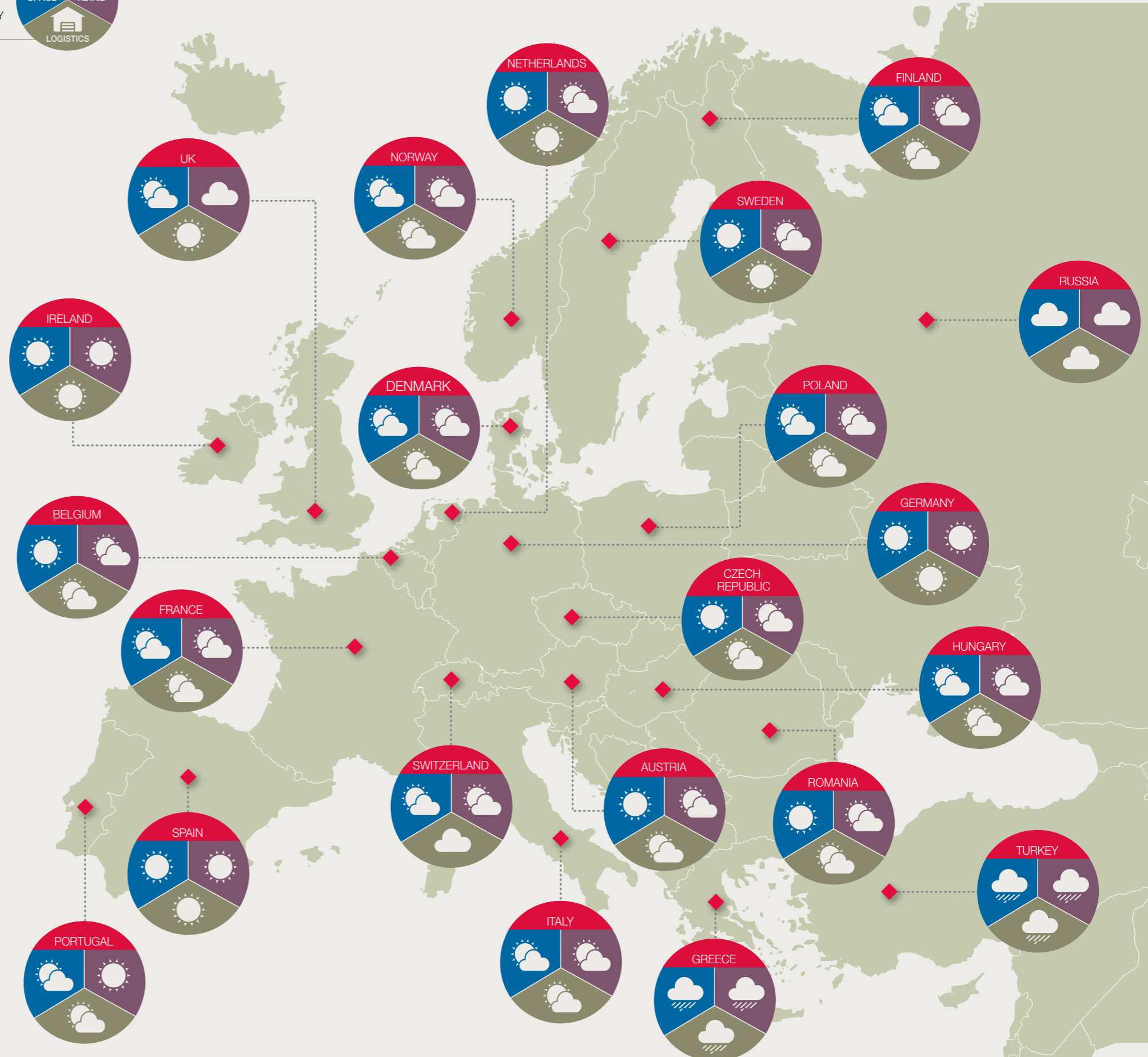
Fears that the series of major elections across Europe in 2017 would result in a lurch towards politicians with disruptive populist agendas were calmed by election results in France and the Netherlands. However, a more complex German political landscape has emerged due to the improved showing of smaller parties – including the populist-right AfD – in September’s federal elections.

Despite improving growth prospects and rising inflation, the European Central Bank appears to be in no hurry to raise interest rates. The ECB may begin to scale back its quantitative easing programme over the coming months, but the current record-low interest rates are expected to be maintained until at least late 2018, preserving a supportive environment for real estate investment.

European commercial property investment volumes were down slightly in H1 2017 compared with the same period of 2016. However, provisional data for Q3 points to a strong quarter that has put 2017 back on course to match last year’s volumes. Although Germany has been the most active investment market in Europe over the last twelve months, a recovery in the Central London market may help the UK to regain top position by the year-end. However, strong economic growth, combined with very favourable occupier market dynamics, will continue to attract international capital to markets including Germany, Spain and the Netherlands.

## INVESTMENT OPPORTUNITIES

- Rental growth hotspots**  
 As the real estate cycle progresses, investors will increasingly need to look to rental growth, rather than continued yield compression, to drive returns. Hotspots are likely to include markets where rental increases have been relatively slow to come through in the current cycle, particularly Amsterdam and Madrid, both of which are now seeing rental growth gain momentum. Although the German markets appear to be further ahead in the rental cycle, the fundamentals for growth – high occupier demand, constrained supply and limited development – are especially strong in Berlin and Munich.
- CEE market growth**  
 Yield compression in the CEE region has lagged core Western markets, and this part of Europe offers opportunities for investors seeking higher-yielding assets. Although there are political uncertainties in parts of the region, its market fundamentals are strong; economic forecasts are improving and office take-up is at historically high levels across all major cities. A recent influx of capital from South Africa into CEE markets has demonstrated their appeal to investors who have higher yield expectations and are comfortable with emerging markets.
- Urban logistics centres**  
 The European logistics sector has significant investment appeal due to its relatively high yields, income-producing qualities and the impact of the booming e-commerce sector. Online retailing is causing structural changes to demand, particularly by generating an increased need for urban logistics centres used for last-mile delivery. Combined with the current scarcity of logistics property in cities, this has created an attractive supply/demand dynamic for both investors and developers.



Source: Knight Frank Research

## EUROPEAN RESEARCH

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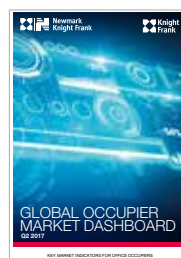
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