

RESEARCH

A photograph of a tall, modern skyscraper with a glass facade, illuminated by the setting or rising sun, creating a bright starburst effect. The building is set against a city skyline and a clear sky. In the foreground, there is a bridge and some greenery.

# EUROPEAN QUARTERLY

COMMERCIAL PROPERTY OUTLOOK  
Q3 2017

OCCUPIER TRENDS

INVESTMENT TRENDS

MARKET OUTLOOK

# EUROPEAN OUTLOOK

A strong Q3 has put 2017 European investment volumes on course to beat 2016.

A total of €47.4 billion was invested in European commercial property in Q3 2017, a 13% increase on the same quarter of 2016 (Figure 1). The strong performance of Q3 took commercial investment volumes for the first three quarters of 2017 to €144.4 billion, up by 3% year-on-year.

The increase in investment compared with last year partly reflects the fact that Q3 2016 was a low point for volumes, due mainly to a slump in UK investment after the Brexit vote. Having fallen behind Germany for four successive quarters, the UK re-established itself as the most active investment market in Europe in Q3 2017. The recovery in UK volumes has been

primarily driven by the sale of large assets in London to overseas buyers, particularly from Hong Kong.

The German market slowed in Q3, with commercial volumes reaching €8.5 billion, a 27% decrease on the same quarter of 2016. However, total volumes for the year-to-date remain well ahead of 2016 and investor sentiment towards Germany continues to be extremely strong, evidenced by continued downward pressure on yields.

Elsewhere, stand-out performers in Q3 included Finland, where investment volumes were swelled by Blackstone's acquisition of the Finnish real estate firm

Sponda, in a record deal for this market. The Polish market also had a strong quarter, driven primarily by transactions in the retail sector. Investment activity remained healthy in Spain and the Netherlands, and these markets continue to be in vogue with investors attracted by their improving occupier market fundamentals.

Investment activity in France was relatively sluggish in Q3, despite increased market confidence following the presidential and legislative elections. French commercial investment volumes reached €4.3 billion in the third quarter, down by 28% year-on-year. However, an early boost to Q4's figures has come from the €1.8 billion sale of the Cœur Défense building in Paris to a partnership between Amundi, Crédit Agricole Assurances and Primonial.

The Cœur Défense deal is one of a number of blockbuster deals across Europe that have either been transacted in the early part of Q4 or are pending completion. As a result, Q4 has the potential to be a particularly strong final quarter.

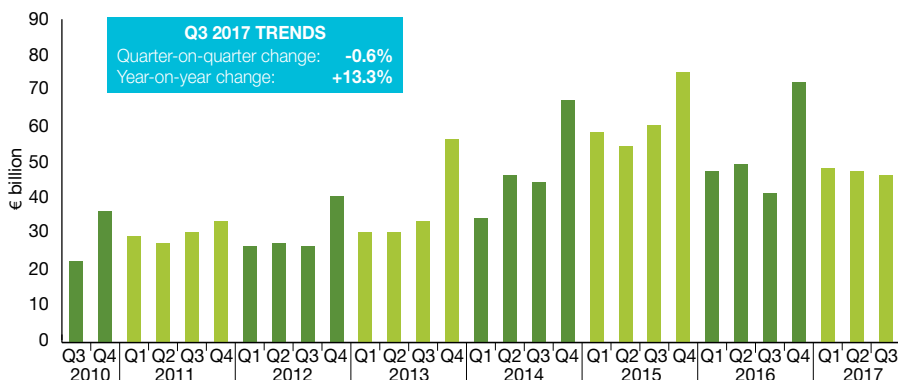
High levels of demand will exert further downward pressure on prime yields, which are already at record lows across much of Europe. The Knight Frank European Weighted Average Prime Office Yield hardened by seven basis points in Q3 to a new low of 4.28% (Figure 2).

European occupier markets performed strongly in Q3, with aggregate office take-up in the major cities monitored by Knight Frank up by 7% year-on-year. This was driven by continued high levels of leasing activity in the major German cities, as well as significant increases in take-up in markets including London, Madrid, Milan and Warsaw.

The Knight Frank European Prime Office Rental Index rose by 1.0% during the quarter, on the back of rental increases in markets including Berlin, Dublin, Madrid, Milan and Stockholm (Figure 3). Continued upward pressure on rents can be expected into 2018 due to the tightening availability of prime space in most major European markets.

FIGURE 1

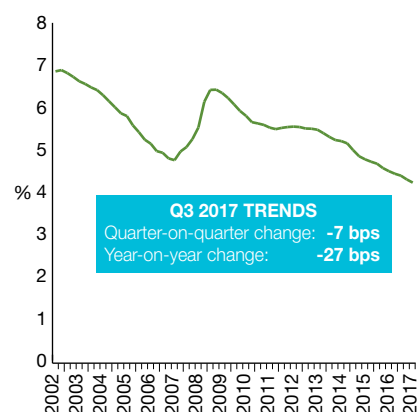
## European commercial property investment volumes



Source: Real Capital Analytics / Knight Frank

FIGURE 2

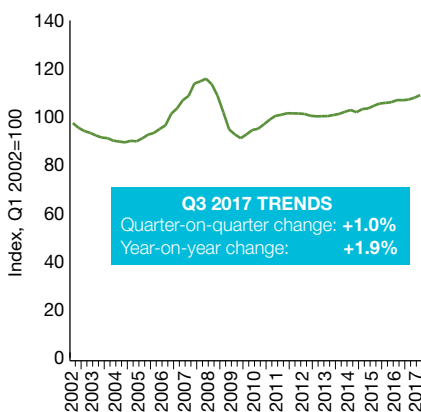
## European weighted average prime office yield



Source: Knight Frank Research

FIGURE 3

## European prime office rental index

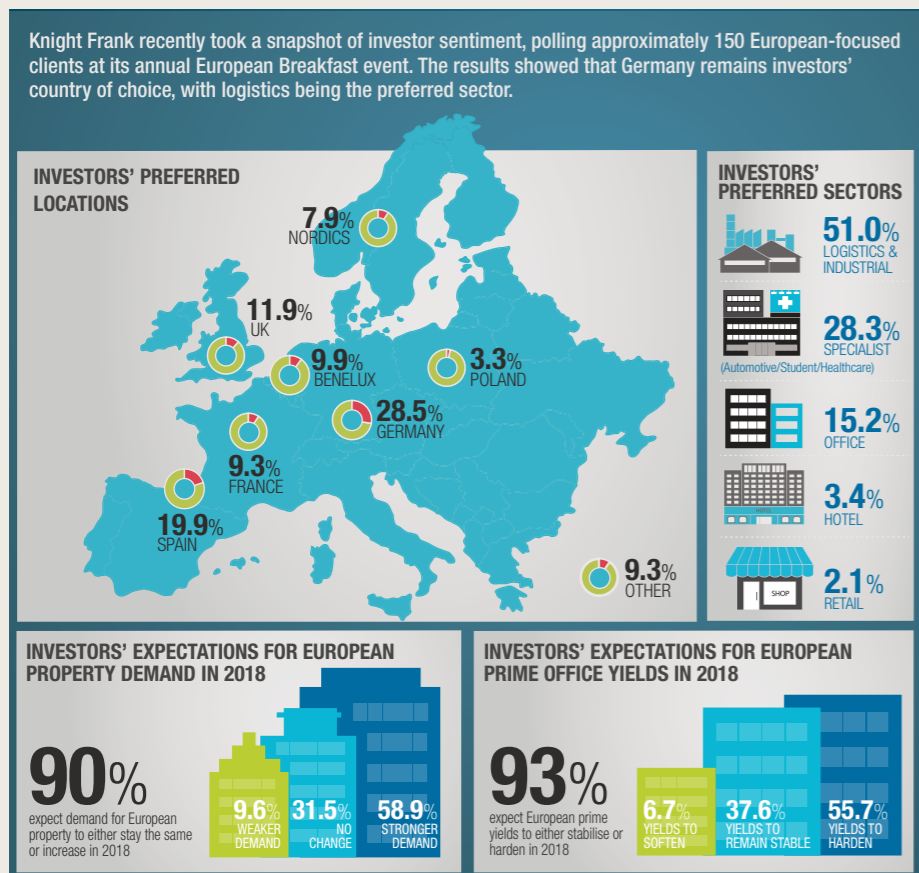


Source: Knight Frank Research

## MARKET HIGHLIGHTS

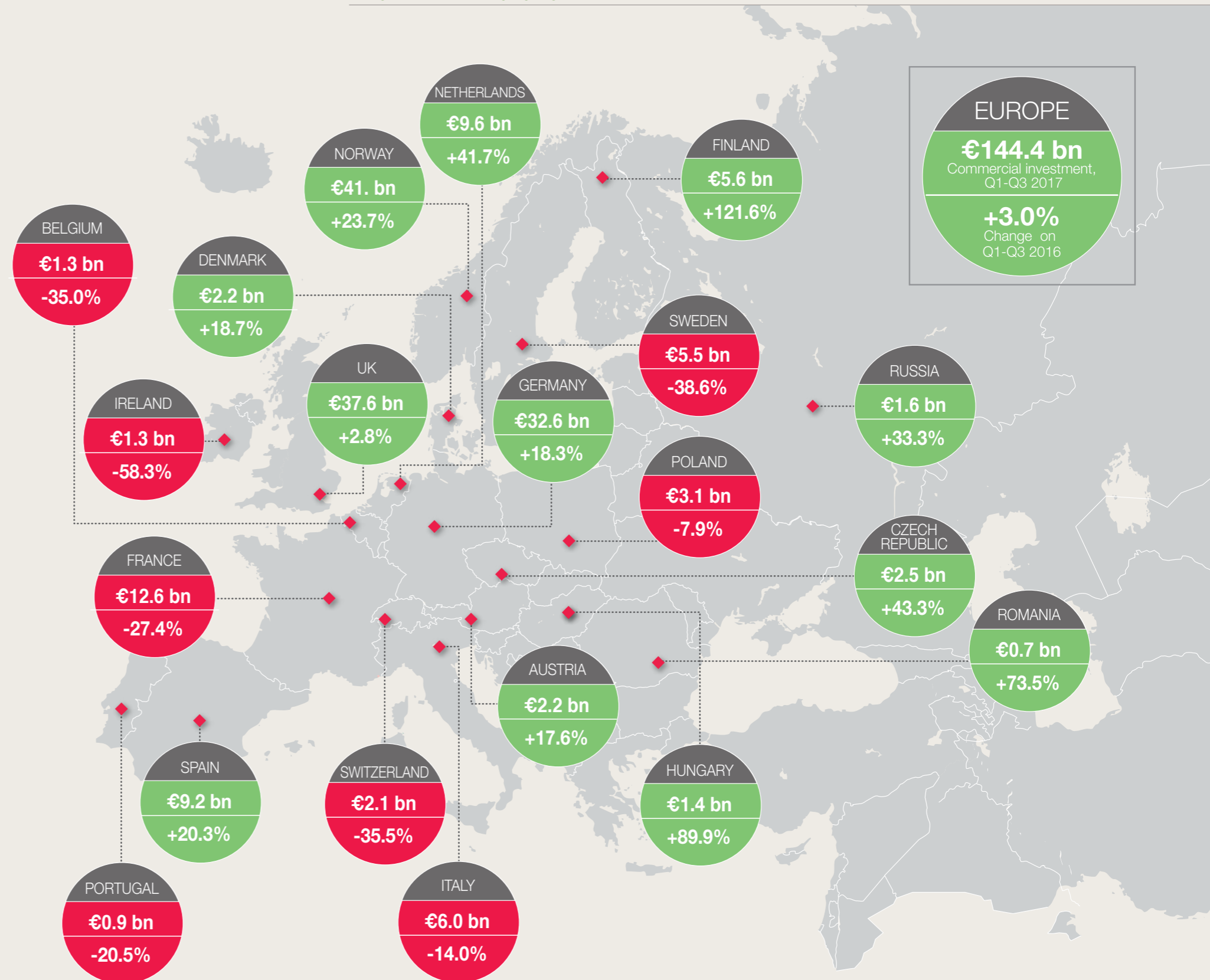
<b>BERLIN</b> Oxford Properties and Madison International Realty's purchase of the Sony Center from the National Pension Service of South Korea has been announced. The sale price of approximately €1.1 billion is almost double the amount paid for the asset in 2010.	<b>MILAN</b> Foreign investors continue to target Milan with, for example, Allianz Real Estate acquiring Gioia 26 and Porta Nuova 21, two prime office buildings, from Blackstone in Q3.
<b>DUBLIN</b> Dublin prime office rents increased for the first time in over a year in Q3, to €62.50 per sq ft per annum. This is just 4% below the level reached at their peak in 2007-08.	<b>MOSCOW</b> Following a long period of decline, average Class A rents in Moscow edged upwards for the first time in six years in Q3, increasing to US\$439 per sq m per annum.
<b>FRANKFURT</b> Office take-up in Frankfurt was 205,500 sq m in Q3, making it the strongest third quarter in a decade. The largest transaction was Hessische Landesbank's owner-occupier deal at Kaiserlei for 27,500 sq m.	<b>MUNICH</b> Large-scale transactions involving cross-border capital in Q3 included BlackRock's acquisition of the Kustermann Park office complex and the purchase of Loopside by Amundi.
<b>LONDON</b> Far Eastern investors were the most active in London in Q3, with Hong Kong's LKK Health Product Group's acquisition of 20 Fenchurch Street for £1.3 billion (c. €1.4 billion) being the largest deal of the quarter.	<b>PARIS</b> Île de France office take-up reached 616,700 sq m in Q3, making it the strongest third quarter since 2012. There was one exceptionally large deal, which saw Orange pre-lease 57,000 sq m at the Bridge project in Issy-les-Moulineaux.
<b>MADRID</b> Prime office rents in Madrid continue to trend upwards in response to demand and supply pressures. In Q3, rents reached €29.50 per sq m per month, increasing by 6% over the last year.	<b>WARSAW</b> Gross take-up reached 213,617 sq m in Q3 2017, making it one of the strongest quarters on record. The Warsaw vacancy rate declined to 12.7%, down from 14.2% at the start of the year.

FIGURE 4  
European investor sentiment



Source: Knight Frank Research

FIGURE 5  
European commercial property investment volumes, Q1-Q3 2017



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

# EUROPEAN MARKET INDICATORS

The strongest prime office rental growth over the last 12 months has come in Berlin (+14.3%), Stockholm (+13.6%), Amsterdam (+6.8%) and Madrid (6.3%).

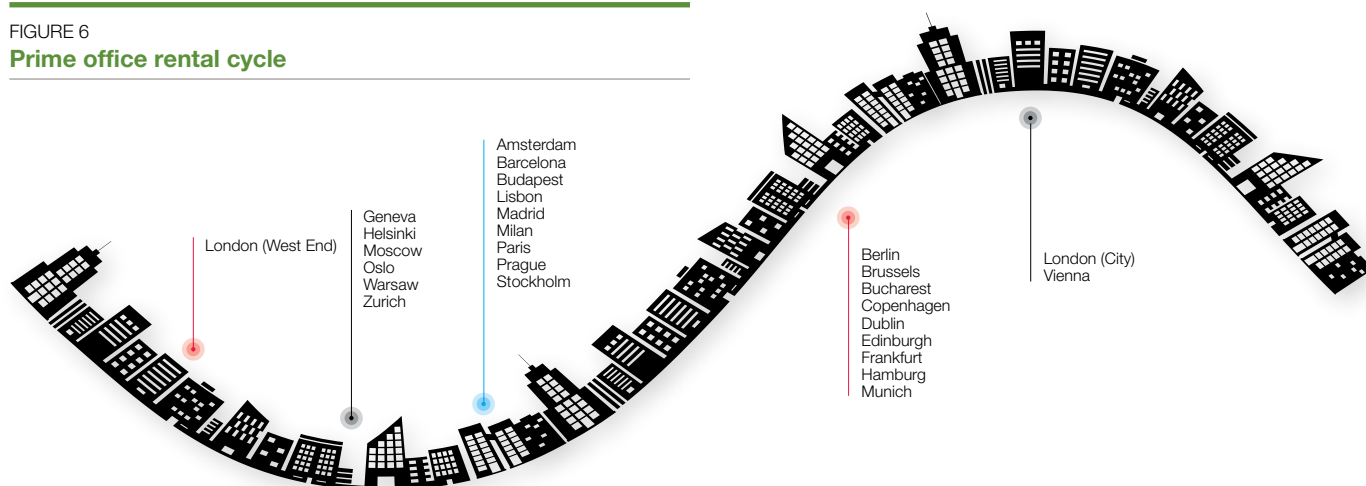
## Commercial property prime rents and yields

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	390 ▲	3.75 ▼	85 ▶	5.00 ▼	1,000 ▶	4.75 ▼	135 ▶	5.50 ▼
Barcelona	270 ▲	4.00 ▼	82 ▶	5.75 ▼	600 ▶	4.25 ▶	129 ▶	5.50 ▶
Berlin	384 ▲	3.25 ▼	69 ▲	4.75 ▼	1,380 ▶	3.75 ▼	150 ▶	5.25 ▼
Brussels	300 ▶	4.50 ▼	55 ▶	5.50 ▼	1,800 ▶	4.25 ▶	185 ▶	5.50 ▶
Bucharest	216 ▶	7.50 ▶	48 ▶	8.50 ▼	720 ▶	7.25 ▶	120 ▶	9.50 ▶
Budapest	264 ▲	6.00 ▼	45 ▲	7.75 ▼	1,140 ▲	5.85 ▼	102 ▶	7.50 ▼
Copenhagen	249 ▶	4.00 ▶	77 ▶	5.75 ▶	699 ▶	4.25 ▶	165 ▶	6.00 ▶
Dublin	673 ▲	4.25 ▼	98 ▲	5.25 ▼	3 500* ▲	4.50 ▼	290 ▲	5.25 ▼
Edinburgh	409 ▶	5.25 ▶	104 ▲	5.75 ▼	3,055* ▲	5.00 ▲	367 ▶	6.00 ▶
Frankfurt	474 ▲	3.60 ▼	80 ▲	4.75 ▼	1,560 ▶	3.75 ▼	170 ▶	5.25 ▼
Geneva	655 ▶	3.00 ▶	175 ▶	5.50 ▶	996 ▶	4.00 ▶	157 ▶	5.00 ▶
Hamburg	306 ▲	3.30 ▼	72 ▲	4.75 ▼	1,650 ▶	3.75 ▼	150 ▶	5.25 ▼
Helsinki	396 ▲	4.00 ▼	120 ▶	5.75 ▼	1,200 ▶	4.50 ▼	120 ▶	6.00 ▼
Lisbon	228 ▲	4.75 ▼	45 ▶	6.50 ▼	1,200 ▶	5.00 ▼	120 ▶	7.00 ▼
London 1,222 (WE) ▼ 856 (City) ▶ 3.50 (WE) ▶ 4.25 (City) ▶			183 ▶	4.25 ▼	5,438* ▶	4.25 ▶	574 ▶	4.50 ▶
Madrid	354 ▲	3.75 ▼	63 ▲	5.75 ▼	600 ▶	4.25 ▶	156 ▶	5.50 ▶
Milan	530 ▲	4.25 ▶	50 ▶	7.00 ▶	850 ▶	5.50 ▶	300 ▶	7.00 ▶
Moscow	669 ▶	9.75 ▼	68 ▶	11.00 ▼	2,965 ▶	10.25 ▶	N/A	N/A
Munich	432 ▶	3.15 ▼	85 ▶	4.75 ▼	1,900 ▶	3.75 ▼	180 ▶	5.00 ▼
Oslo	458 ▶	3.75 ▶	130 ▶	5.50 ▶	1,277 ▶	4.25 ▶	138 ▶	5.75 ▶
Paris	778 ▲	3.00 ▶	58 ▲	5.00 ▶	2,500 ▶	3.75 ▶	180 ▶	4.75 ▶
Prague	240 ▶	4.75 ▶	58 ▶	6.00 ▶	1,560 ▶	4.75 ▶	126 ▲	6.50 ▲
Stockholm	697 ▲	3.50 ▶	109 ▶	5.50 ▶	825 ▶	4.25 ▶	218 ▶	5.50 ▶
Vienna	309 ▶	3.90 ▶	72 ▶	5.90 ▼	1,320 ▶	4.95 ▶	168 ▶	5.85 ▶
Warsaw	276 ▶	5.25 ▶	60 ▶	6.75 ▶	1,800 ▶	5.50 ▶	132 ▶	7.50 ▶
Zurich	699 ▶	3.00 ▶	218 ▶	5.25 ▶	1,310 ▶	4.00 ▶	175 ▶	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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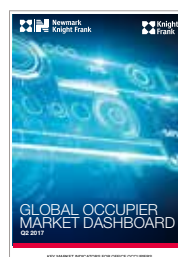
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