The Eurozone economy has performed below expectations in 2014, with GDP growth of 0.3% in Q1 and 0.1% in Q2. Annual growth of around 0.8% is generally forecast for 2014, rising to about 1.3% in 2015.

Compounding the weakening growth outlook, concerns over the threat of deflation have intensified, with Eurozone inflation standing at 0.4% in October, and negative inflation recorded in several European countries, including Italy, Greece and Poland. While a period of low inflation in Europe remains more likely than outright deflation, this could still depress economic and property market activity, and would have particular implications for European property owners and occupiers with index-linked leases.

Despite the wider economic uncertainty, European investment market activity remained healthy in Q3 2014, with commercial property investment volumes reaching €37.0 billion. Although this was a slowdown from the exceptionally strong performance of Q2, it was a 10.3% increase compared with Q3 2013. Investment volumes for the first nine months of the year amounted to €114.9 billion, a 22.3% increase on the same period of 2013.

The core markets of the UK, Germany and France have continued to post healthy year-on-year increases in investment. However, the strongest improvements have been in recovering non-core markets, as countries such as Spain, Ireland and the Netherlands have benefited from investors’ increased willingness to move up the risk curve and invest across a broad range of geographies and property types.

With Q4 investment volumes likely to be boosted by investors seeking to close deals by the year-end, it is forecast that European commercial investment for 2014 will break the €160 billion barrier. Investment activity is expected to remain strong into 2015, as there is a large wall of capital continuing to target the sector.

European property yields will retain attractive margins over other asset classes, particularly as it seems increasingly unlikely that the European Central Bank will raise interest rates before 2017.

European occupier market trends remain varied, and there was a marked contrast between the performances of the continent’s two biggest markets in Q3. The central London office market recorded its highest quarterly take-up for seven years, but leasing activity in Paris was at its lowest level since Q3 2009.

Prime rental growth was fairly modest in Q3, with the Knight Frank European Prime Office Rental Index rising by 0.6%. This was on the back of continued strong growth in Dublin, and more modest increases in markets such as London (West End), Barcelona and Vienna. Rising supply levels continue to restrict rental growth prospects in a number of Eastern and Central European markets including Moscow, Warsaw and Prague.

Prime office rental growth is expected to be modest over the coming quarters, and largely restricted to strong core cities with limited supply and the recovering peripheral markets.
MARKET HIGHLIGHTS

**AMSTERDAM**
Demand from TMT occupiers has boosted office take-up in Amsterdam. Two of the largest deals of the year have been in the High Tech Campus, with an R&D lab in Holand and a 5,300 sq m in Westerparkplein 24-48.

**BRUSSELS**
Office leasing activity slowed during Q3, with large take-up in H1 now being matched by several large public sector transactions. The Flemish Government’s 50,000 sq m pre-lease at the Brussels Business Park was boosted by several large public sector transactions. Office leasing activity slowed during Q3, after take-up in H1 was boosted by a large public sector transaction at the Brussels Business Park.

**BUCHAREST**
Large prime office rents have stabilized at €741 per sq m, with occupier sentiment remaining cautious, retail growth is not anticipated in the short-term.

**COPENHAGEN**
A growing range of international investors are seeking opportunities in Denmark. The US investor Blackstone has made its first Danish office acquisitions in Q3, acquiring a portfolio comprising two office parks in Aarhus and one in Odense for c. €230 million.

**DUBLIN**
Demand from TMT occupiers has boosted office take-up in Dublin. Two of the largest deals of the year have been in the High Tech Campus, with an R&D lab in Holand and a 5,300 sq m in Westerparkplein 24-48.

**FRANKFURT**
There has been a strong investor demand for Frankfurt office towers, which was underlined in Q3 by Blackstone’s €375 million acquisition of the Sapphire Portfolio, which comprises office and retail assets.

**FUERSTENBERG**
The strength of international investor demand for Frankfurt office towers was underlined in Q3 by Blackstone’s acquisition of the Sapphire Portfolio, which comprises office and retail assets.

**HELSINKI**
Although Q3 was a weak quarter, the Finnish office market is expected to reach the highest annual total since 2008. The overall vacancy rate is now 10.5%.

**MADRID**
Top Q3 deals were Amazon’s pre-lease of 47,000 sq m at the future Amazon distribution centre in Alcalá de Henares and a large pre-lease of 1.87 million sq m in Brookfield’s Principal Place development.

**MILAN**
Continuing an exceptionally active year for the Milan office market, Green REIT confirmed in October that it had completed the €475 million acquisition of the Pollux tower, for c. €1.3 billion.

**MUNICH**
The strength of international investor demand for Frankfurt office towers was underlined in Q3 by Blackstone’s acquisition of the Sapphire Portfolio, which comprises office and retail assets.

**MOSCOW**
Office completions in Moscow during Q3 2014 are expected to reach the highest annual total since 2008. The overall vacancy rate is now 10.5%.

**MOSCOW**
The strength of international investor demand for Frankfurt office towers was underlined in Q3 by Blackstone’s acquisition of the Sapphire Portfolio, which comprises office and retail assets.

**MOSUL**
A growing range of international investors are seeking opportunities in Poland. The US investor Starwood Capital has made its first Polish office acquisitions in Q3, acquiring a portfolio comprising two office parks in Warsaw and one in Katowice for c. €392 million.

**PARIS**
Paris Q3 was a weak quarter. In the office sector, take-up over the first nine months of 2014 amounted to 61,000 sq m, putting the market on course to overtake the 1.87 million sq m leased in 2013. The overall vacancy rate has remained stable and in decline, at 5.2%, as a result of limited development activity.

**PRAGUE**
The largest deal of the quarter was Amazon’s pre-lease of 47,000 sq m at the future Amazon distribution centre in Alcalá de Henares and a large pre-lease of 1.87 million sq m in Brookfield’s Principal Place development.

**SWEDEN**
A growing range of international investors are seeking opportunities in Sweden. The US investor Blackstone has made its first Swedish office acquisitions in Q3, acquiring a portfolio comprising two office parks in Stockholm and one in Uppsala for c. €1.6 billion.

**Warsaw**
The largest deal of the quarter was Amazon’s pre-lease of 47,000 sq m at the future Amazon distribution centre in Alcalá de Henares and a large pre-lease of 1.87 million sq m in Brookfield’s Principal Place development.

**ZURICH**
The strength of international investor demand for Frankfurt office towers was underlined in Q3 by Blackstone’s acquisition of the Sapphire Portfolio, which comprises office and retail assets.

**EUROPEAN QUARTERLY Q3 2014**

**FIGURE 5**
European commercial property investment volumes, 12 months to Q3 2014

**FIGURE 4**
European prime office capital values (€ per sq m)

**Source:** Knight Frank Research / Real Capital Analytics

Range Image: Investment volumes comprise office, retail, industrial and hotel transactions.
Dublin was the stand-out performance. European prime office rental growth slowed in Q3, but quarterly growth of 12.5% in Dublin was the stand-out performance.

### 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 trends.