

RESEARCH



# EUROPEAN QUARTERLY

COMMERCIAL PROPERTY OUTLOOK  
Q4 2015

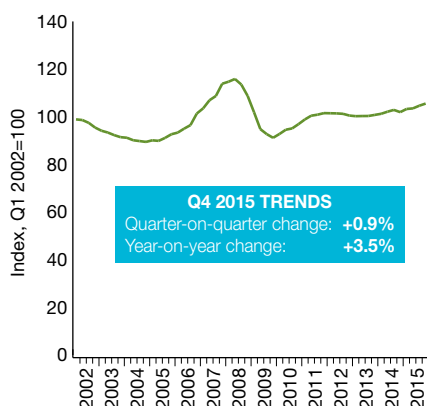


OCCUPIER TRENDS

INVESTMENT TRENDS

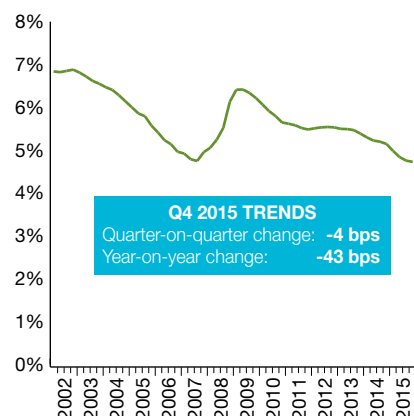
MARKET INDICATORS

FIGURE 1

**European prime office rental index**

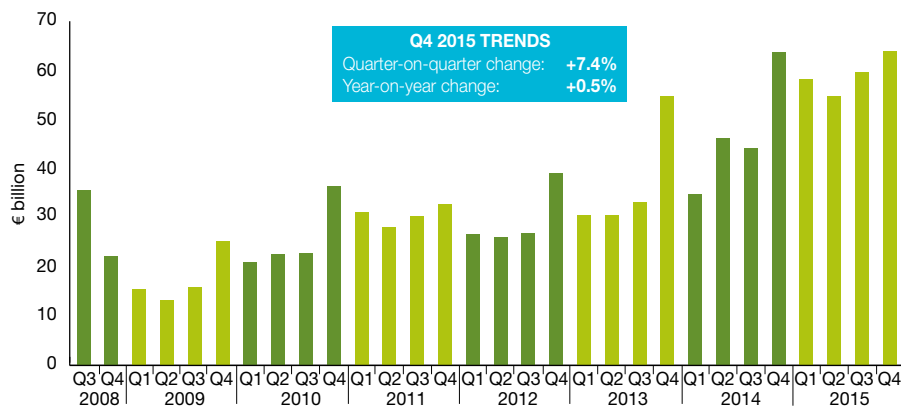
Source: Knight Frank Research

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

European investment volumes rose by 25% in 2015, despite a moderation of growth in Q4.

A total of €64.5 billion was invested in European commercial property in Q4 2015, which took volumes for the full year to €238.5 billion, a 25.0% increase on 2014. However, the Q4 total was only slightly up, by 0.5%, on the same quarter of 2014, indicating that investment growth lost a little momentum towards the year-end.

Increases in investment activity were widespread in 2015, with the core markets of the UK, Germany and France all seeing transactions rise by more than 20%. Among peripheral markets, investment volumes grew particularly strongly in Italy and Portugal, both fuelled by surging demand from international investors.

The strength of investor demand kept European prime yields under downward pressure throughout 2015, although the pace of yield compression slowed in Q4. The Knight Frank European Weighted Average Prime Office Yield came down by 4 basis points in Q4, to an all-time low of 4.79%, largely on the back of yield compression in Amsterdam, Berlin, Brussels, Copenhagen and Lisbon.

With large amounts of capital continuing to target European property, strong investment activity is expected to continue in 2016. However, the exceptional growth in transaction volumes seen in 2015 is unlikely to be repeated. Knight Frank's forecast is that European investment in 2016 will be broadly in line with 2015 volumes.

Many of the factors that supported the investment market in 2015 – including the stabilising Eurozone economy, low interest rates and wide yield spreads to other asset types – look set to remain favourable to property investors throughout 2016. Eurozone GDP growth is forecast to improve modestly to around 1.7%, following an increase of 1.5% in 2015. The European Central Bank has indicated that it may be prepared to make further interest rate cuts to support economic growth; its main refinancing rate is currently 0.05% and the deposit rate is already in negative territory at -0.3%.

Supported by the stabilisation of the Eurozone economy, European occupier market activity improved healthily in 2015. On an annual basis, aggregate take-up in the major markets monitored by Knight Frank rose by 10%. This was despite falling take-up in Europe's two largest markets, London and Paris, and was driven by the strong performance of German, Iberian and CEE markets.

Prime rents remained stable in the majority of European markets in Q4, but the Knight Frank European Prime Office Rental Index rose by 0.9%, driven by increases in Dublin, Frankfurt, London (City), Madrid and Stockholm. Rental growth may spread to a wider range of cities in 2016 with Paris, for example, expected to see prime office rents increase following more than two years of stability.

## MARKET HIGHLIGHTS

### 1 AMSTERDAM

Underlining the strength of German demand for prime Dutch property, Deka Immobilien has agreed to acquire The Bank, a mixed-use property in Amsterdam, for €275 million.

### 2 BRUSSELS

Making its debut in continental Europe, the Taiwanese insurer Fubon has agreed to buy the Ellipse building in Brussels from AG Real Estate.

### 3 DUBLIN

The TMT sector continues to drive Dublin office market activity; during the second half of 2015, major transactions included leaseings to Workday (8,826 sq m), Twitter (7,897 sq m) and Indeed (5,574 sq m).

### 4 FRANKFURT

Commercial property investment reached over €6.5 billion in Frankfurt during 2015, making it the most active city in Germany. Major deals in Q4 included the €175 million acquisition of Garden Tower by a Tristan Capital Partners fund.

### 5 LONDON

Central London office take-up fell by nearly 15% in 2015, to 1.26 million sq m. Despite this, the Central London vacancy rate dropped to 4.4% in Q4, its lowest level since 2001.

### 6 MADRID

The Madrid office market exceeded expectations in 2015, with annual take-up increasing by 40% to 520,000 sq m. In Q4, major deals included EY's agreement to lease Torre Titania, a building with around 20,000 sq m of office space.

### 7 MILAN

Milan has continued to attract high levels of international investment, with noteworthy deals in Q4 including Thor Equities' acquisition of 26 Via Della Spiga, a luxury retail, office and residential property, for c. €160 million.

### 8 MOSCOW

Average Class A asking rents in Moscow fell by a further 3.4% in Q4 2015, to US\$489 per sq m per annum. Class A rents are now more than 40% below the previous peak reached in 2012.

### 9 PARIS

Île de France office take-up fell slightly, by 1%, to 2.1 million sq m in 2015. However, activity in the second half of the year showed a substantial improvement on the slow first half of 2015.

### 10 WARSAW

Warsaw leasing activity reached a record high of 813,000 sq m in 2015, more than 30% up on 2014. This helped the vacancy rate to drop to 14.1% by the year-end but, with large volumes of space in the development pipeline, availability is expected to rise in 2016.

FIGURE 5

European commercial property investment volumes, 2015

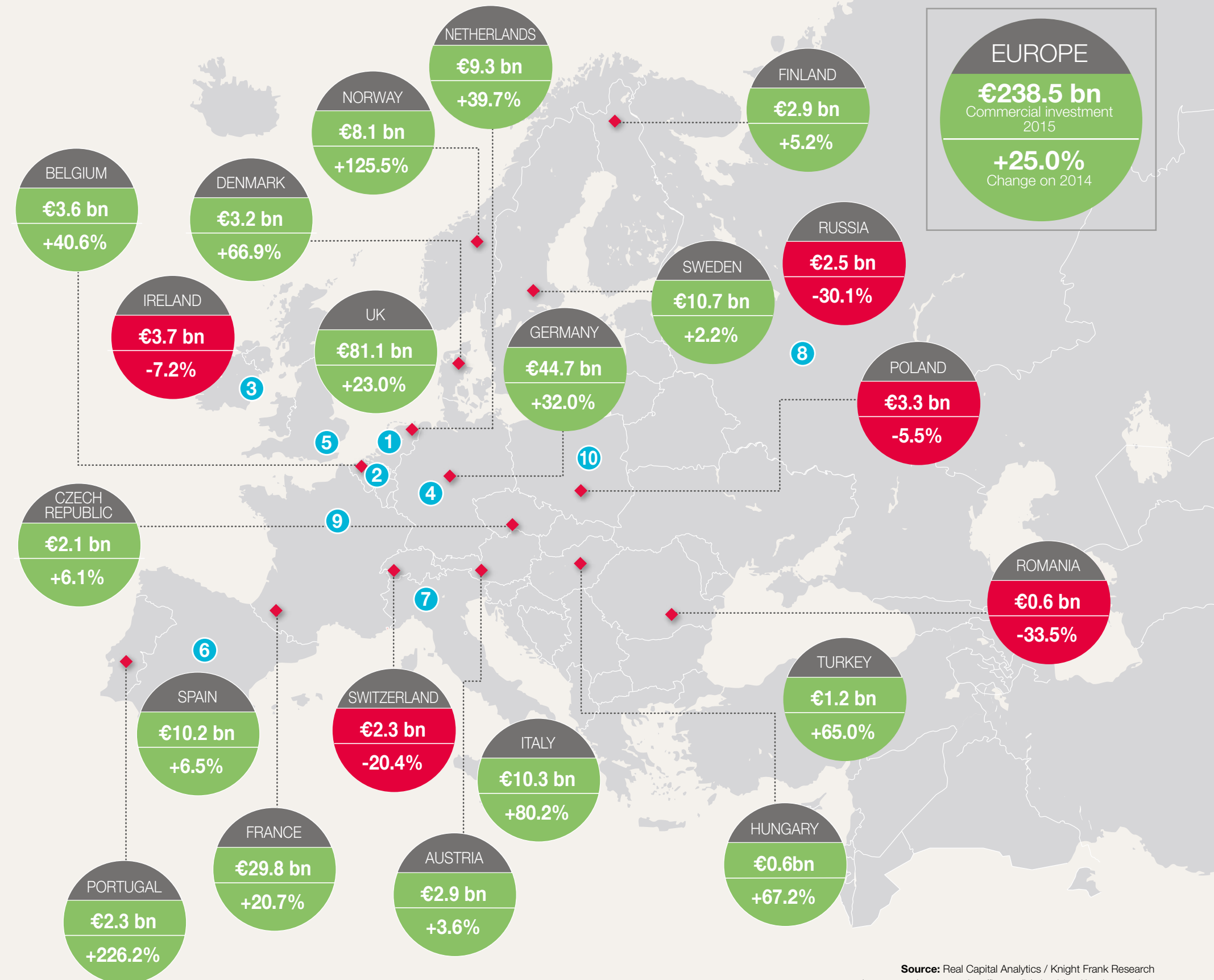
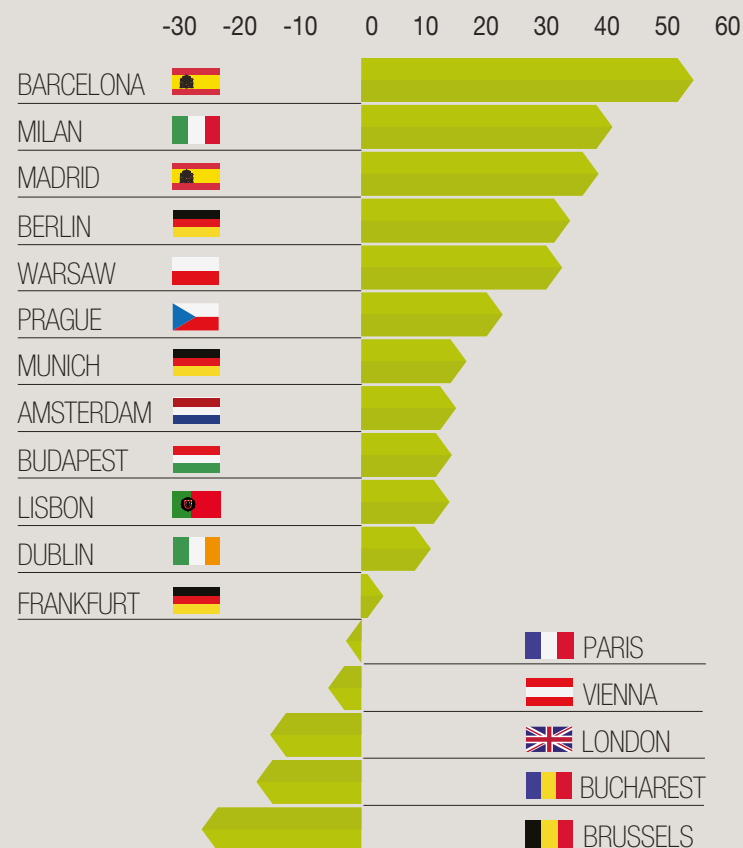


FIGURE 4

Office take-up, 2015 vs 2014, % change



Source: Knight Frank Research

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



# EUROPEAN MARKET INDICATORS

In Q4, the strongest increases in prime office rents were in London City (+5.3%), Dublin (+4.6%) and Stockholm (+4.0%).

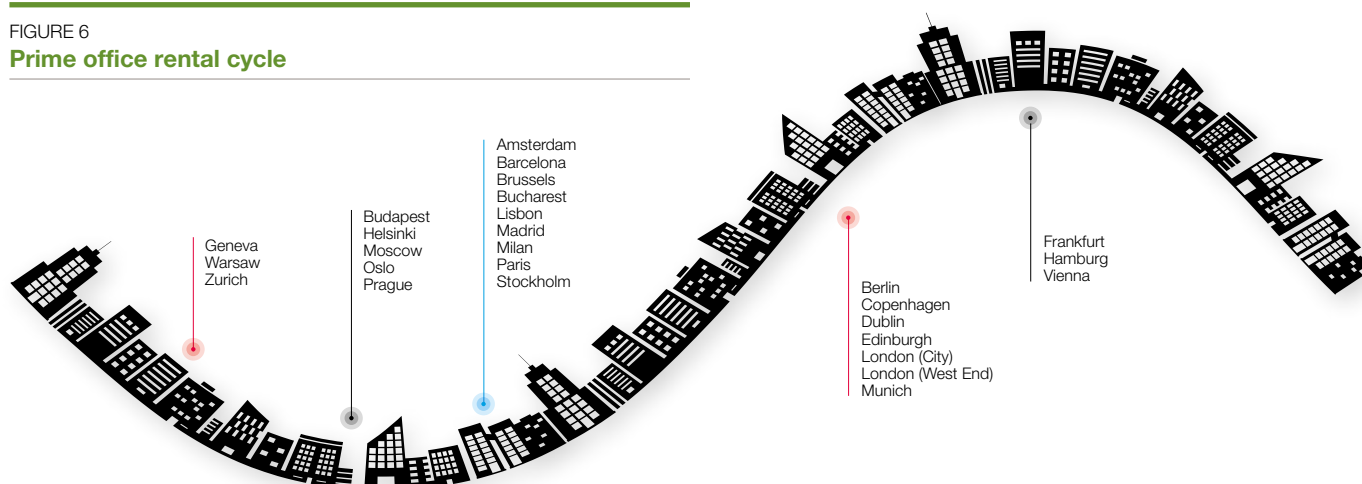
## Commercial property prime rents and yields

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	340 ▶	5.00 ▼	85 ▶	5.75 ▼	1,000 ▶	5.25 ▼	135 ▶	6.25 ▼
Barcelona	255 ▲	4.50 ▼	57 ▶	7.00 ▶	552 ▶	5.25 ▶	120 ▶	6.20 ▶
Berlin	288 ▲	4.00 ▼	69 ▶	5.75 ▼	1,380 ▶	4.25 ▼	150 ▶	5.50 ▼
Brussels	300 ▶	5.60 ▼	55 ▲	6.50 ▼	1,800 ▶	5.25 ▼	170 ▶	5.75 ▼
Bucharest	216 ▶	7.50 ▶	45 ▶	9.00 ▶	720 ▶	7.75 ▶	120 ▶	9.50 ▶
Budapest	240 ▶	7.00 ▼	42 ▶	8.50 ▼	1,140 ▲	7.00 ▶	90 ▶	8.00 ▶
Copenhagen	241 ▶	4.25 ▼	77 ▶	6.25 ▶	697 ▶	5.50 ▶	164 ▶	6.50 ▶
Dublin	619 ▲	4.50 ▶	75 ▲	5.75 ▼	3,100* ▲	5.75 ▼	290 ▲	6.00 ▼
Edinburgh	453 ▲	5.25 ▼	102 ▲	6.25 ▶	3,067* ▶	4.75 ▶	402 ▶	6.00 ▶
Frankfurt	462 ▲	4.30 ▼	80 ▶	5.50 ▼	1,560 ▶	4.20 ▼	170 ▶	5.50 ▼
Geneva	739 ▶	3.50 ▶	185 ▶	6.00 ▶	1,053 ▶	4.25 ▶	166 ▶	5.25 ▶
Hamburg	300 ▶	4.00 ▼	72 ▶	5.75 ▼	1,650 ▶	4.25 ▼	150 ▶	5.50 ▼
Helsinki	396 ▶	4.50 ▼	120 ▶	6.25 ▼	1,200 ▶	5.25 ▶	145 ▶	6.50 ▶
Lisbon	222 ▲	5.50 ▼	45 ▶	7.25 ▶	1,140 ▲	5.50 ▼	108 ▶	7.50 ▼
London 1,679 (WE) ▶1,022 (City) ▲	3.50 (WE) ▶4.00 (City) ▶	204 ▲	4.25 ▶	6,498* ▶	4.00 ▶	686 ▶	4.25 ▶	
Madrid	324 ▲	4.00 ▼	57 ▶	7.00 ▶	530 ▶	5.25 ▶	132 ▲	6.20 ▶
Milan	490 ▶	4.00 ▼	50 ▶	7.00 ▼	850 ▶	5.75 ▶	300 ▶	7.00 ▶
Moscow	670 ▼	10.00 ▲	66 ▶	12.50 ▶	3,217 ▼	11.00 ▲	N/A	N/A
Munich	414 ▲	3.75 ▼	96 ▲	5.50 ▼	1,900 ▶	4.00 ▼	180 ▶	5.50 ▼
Oslo	449 ▶	4.25 ▼	128 ▶	5.50 ▼	1,254 ▶	5.25 ▶	136 ▶	6.25 ▶
Paris	750 ▶	3.50 ▼	55 ▶	5.75 ▼	2,500 ▲	4.00 ▼	180 ▶	5.00 ▼
Prague	234 ▶	5.75 ▶	46 ▶	6.75 ▶	840 ▶	5.50 ▶	120 ▶	7.75 ▶
Stockholm	567 ▲	4.00 ▼	115 ▶	5.75 ▼	864 ▶	4.75 ▶	230 ▶	6.00 ▶
Vienna	309 ▶	4.40 ▼	72 ▼	7.00 ▼	1,320 ▶	5.25 ▶	168 ▶	6.00 ▶
Warsaw	276 ▶	6.00 ▶	66 ▶	7.00 ▶	1,800 ▲	5.50 ▼	132 ▶	7.50 ▶
Zurich	739 ▶	3.25 ▶	231 ▶	5.75 ▶	1,385 ▶	4.00 ▶	185 ▶	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.

FIGURE 6

### Prime office rental cycle



Rents Bottoming

Rental Growth - Accelerating

Rental Growth - Slowing

Rents Declining

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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