

RESEARCH



# EUROPEAN

COMMERCIAL PROPERTY  
OUTLOOK **2018**

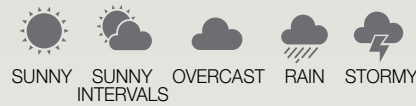


MIPIM SPECIAL



**KEY**

The weather symbols represent our view of investment sentiment for commercial property in 2018.



# EUROPEAN OUTLOOK

European property markets have made a strong start to 2018.

The Eurozone economy performed above expectations in 2017, with the economy expanding by 2.5%, its highest level in a decade. Although Eurozone growth may ease slightly in 2018, the consensus is that it will be above 2.0%.

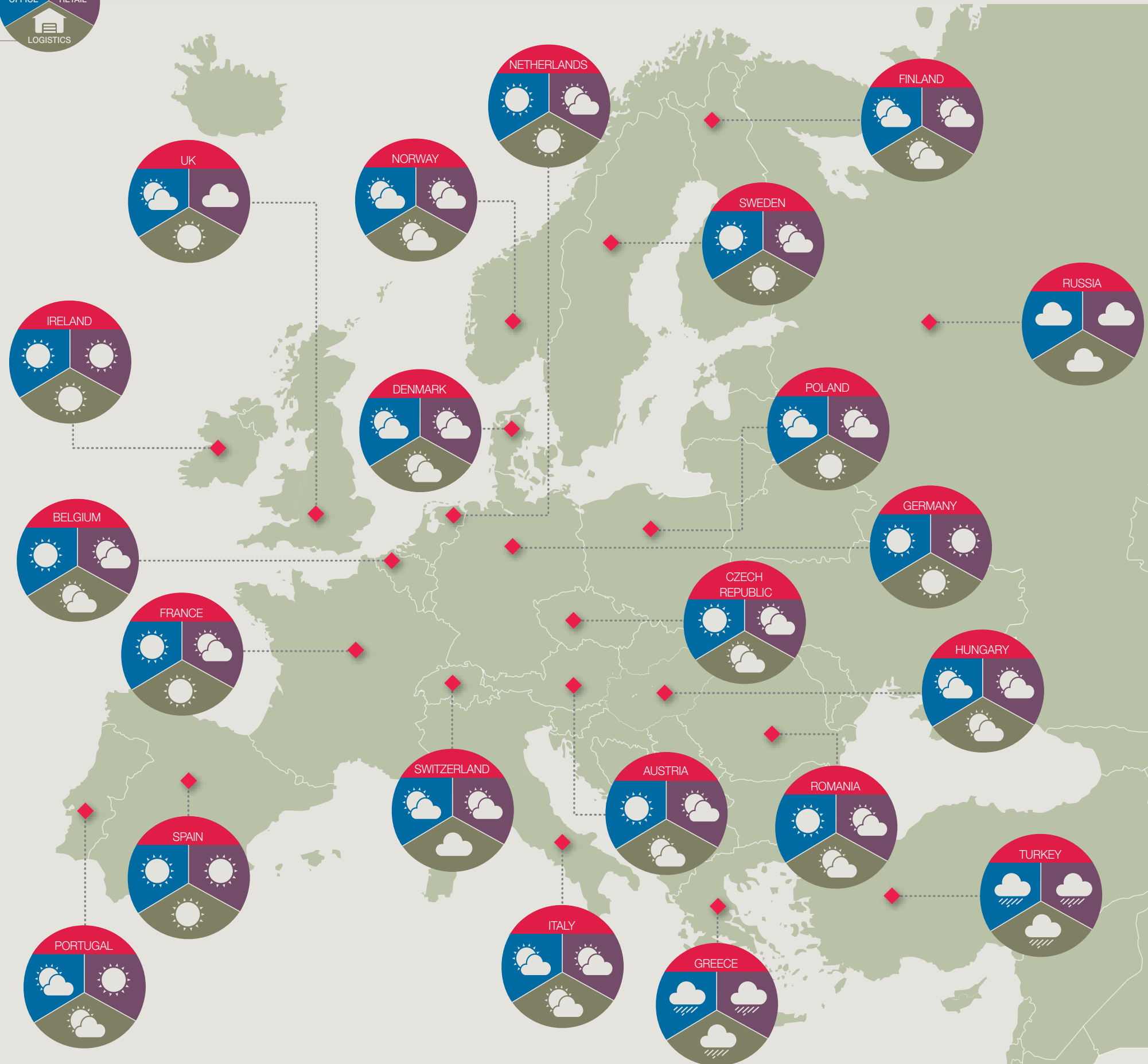
The strong European economic recovery has come despite a backdrop of political uncertainty, with France and Germany both holding dramatic elections in 2017. In Germany, a new coalition government is finally set to be formed after six months of political deadlock. A similar period of uncertainty may be seen in Italy after the general election in March delivered a hung parliament. Meanwhile, the progress of the Catalan independence movement will be monitored closely, and uncertainty in the Barcelona property market may cause investors and occupiers to increasingly gravitate to Madrid as a relative safe haven.

Despite improving economic growth, the European Central Bank is expected to keep interest rates on hold at their current record lows until 2019. Government bond yields are likely to edge upwards during 2018, but the margins to property yields should remain attractive. There is the potential for further moderate prime yield compression in select European markets in 2018, but a general stabilisation of yields is anticipated by the year-end. Interest rate rises may start to put upward pressure on prime yields from 2019.

In 2017, European commercial property investment volumes increased by 8% to reach €231.8 billion, albeit this remained below the market peak of 2015 when €256 billion was invested. Knight Frank expects 2018 transaction volumes to be similar to 2017. Significant amounts of capital continue to be allocated to real estate, and the increasing prevalence of large-scale platform and portfolio deals will help to support investment volumes.

## 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 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.
- Flexible offices:** Flexible workspace and co-working is now a phenomenon. Technology, the growth in self-employment and evolving workforce demands are redefining the traditional workspace. The growing appetite for flexible offices is permeating across European markets, with London, Berlin and Paris witnessing the strongest growth. The sector will continue to expand, as new styles of workspaces are developed to service a growing variety of occupier needs.
- 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

### Lee Elliott

Partner, Head of Commercial Research  
+44 20 7629 8171  
lee.elliott@knightfrank.com

### Matthew Colbourne

Associate, International Research  
+44 20 7629 8171  
matthew.colbourne@knightfrank.com

### Vivienne Bolla

Senior Analyst, International Research  
+44 20 7629 8171  
vivienne.bolla@knightfrank.com

## EUROPE

### Chris Bell

Managing Director, Europe  
+44 20 7629 8171  
chris.bell@knightfrank.com

### Andrew Sim

Head of Global Capital Markets  
+44 20 7629 8171  
andrew.sim@knightfrank.com

### Nick Powlesland

Head of European Valuations  
+44 20 7629 8171  
nick.powlesland@knightfrank.com

### Colin Fitzgerald

Head of International Occupier Services  
+44 20 7629 8171  
colin.fitzgerald@knightfrank.com



## RECENT MARKET-LEADING RESEARCH PUBLICATIONS



[Active Capital – The Report 2017](#)



[Central London Quarterly - Q4 2017](#)



[European Quarterly - Q4 2017](#)



[Global Occupier Dashboard - Q4 2017](#)

### Important Notice

© Knight Frank LLP 2018 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.