

RESEARCH



EUROPEAN QUARTERLY

COMMERCIAL PROPERTY OUTLOOK
Q2 2017



OCCUPIER TRENDS

INVESTMENT TRENDS

MARKET OUTLOOK

EUROPEAN OUTLOOK

Although overall European investment volumes were down year-on-year in Q2, sentiment remained buoyant in many key markets.

European commercial property investment totalled €43.3 billion in Q2 2017, slightly below the previous quarter's level (Figure 1). Transaction volumes for the first half of the year amounted to €90.3 billion, representing an 8% decrease year-on-year.

Germany remained a stand-out performer among major European markets throughout H1, with commercial investment volumes for the first half-year reaching €22.4 billion, 41% up on H1 2016. With the UK market affected by political uncertainty, Germany has become the leading European investment

destination for North American investors and the dominant location for intra-European cross-border investment.

The investment markets of Spain and the Netherlands were also buoyant throughout H1, with investors attracted by strengthening rental growth prospects. Conversely, investment volumes in the UK remained well below the levels seen prior to last year's Brexit vote, despite an increased volume of Asian capital flowing into the London market.

The French investment market was very subdued during H1, reflecting investor

caution in the run-up to the presidential and legislative elections. However, there is a significant backlog of deals in the pipeline and volumes are expected to pick up in the second half of the year.

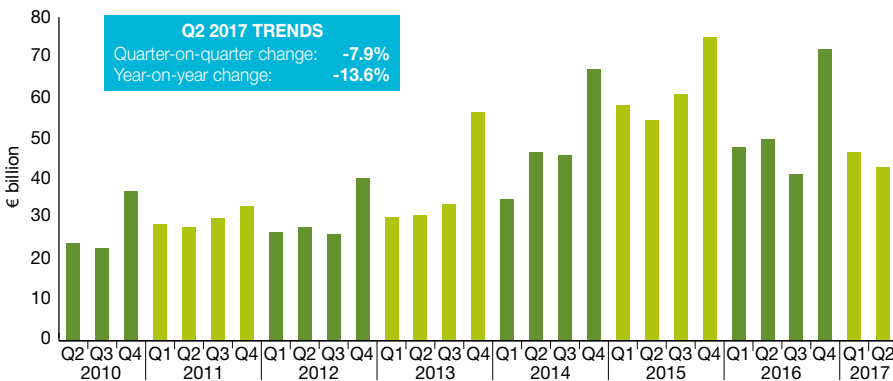
During H2, European investment volumes should also receive a boost from the completion of China Investment Corporation's €12.25 billion acquisition of Blackstone's pan-European logistics company, Logicor. This deal was agreed in Q2 and, on its expected closure later this year, will be the largest-ever European real estate deal.

European prime yield compression showed no signs of abating in Q2, with prime office yields hardening in markets including Amsterdam, Brussels, Milan and Vienna. Prime yields also continued to fall in the major German office markets, and are now over 100 basis points below previous record cyclical lows in Berlin, Frankfurt, Hamburg and Munich. The Knight Frank European Weighted Average Prime Office Yield hardened by nine basis points over the quarter to a new low of 4.35% (Figure 2).

Aggregate office take-up in the European markets monitored by Knight Frank was up by 4% in the first half of the year, driven largely by the continued strength of the major German markets, as well as increased activity in Spain following a relatively subdued 2016. However, mirroring the investment market, occupier activity in France slowed around the elections in Q2.

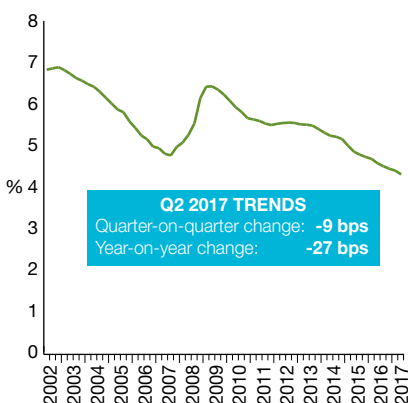
Office rental growth gained traction in the tightening Amsterdam and Madrid markets during Q2, while moderate increases in prime rents were also recorded in Frankfurt, Milan, Paris and Stockholm. In contrast, prime rents declined in the West End of London, where they are now down by 13% year-on-year. Overall, the Knight Frank European Prime Office Rental Index climbed by 0.7% during Q2, to reach a nine-year high (Figure 3). The diminishing availability of prime CBD office space should drive further rental growth, particularly in key markets in Germany, the Netherlands, Spain and Sweden.

FIGURE 1
European commercial property investment volumes



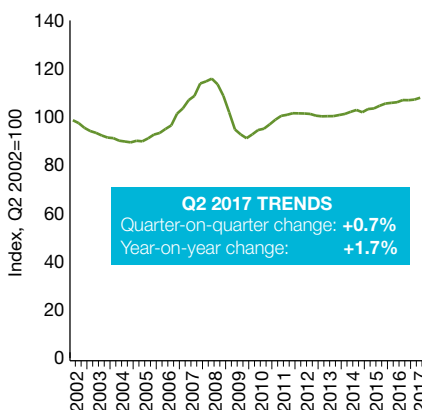
Source: Real Capital Analytics / Knight Frank Research

FIGURE 2
European weighted average prime office yield



Source: Knight Frank Research

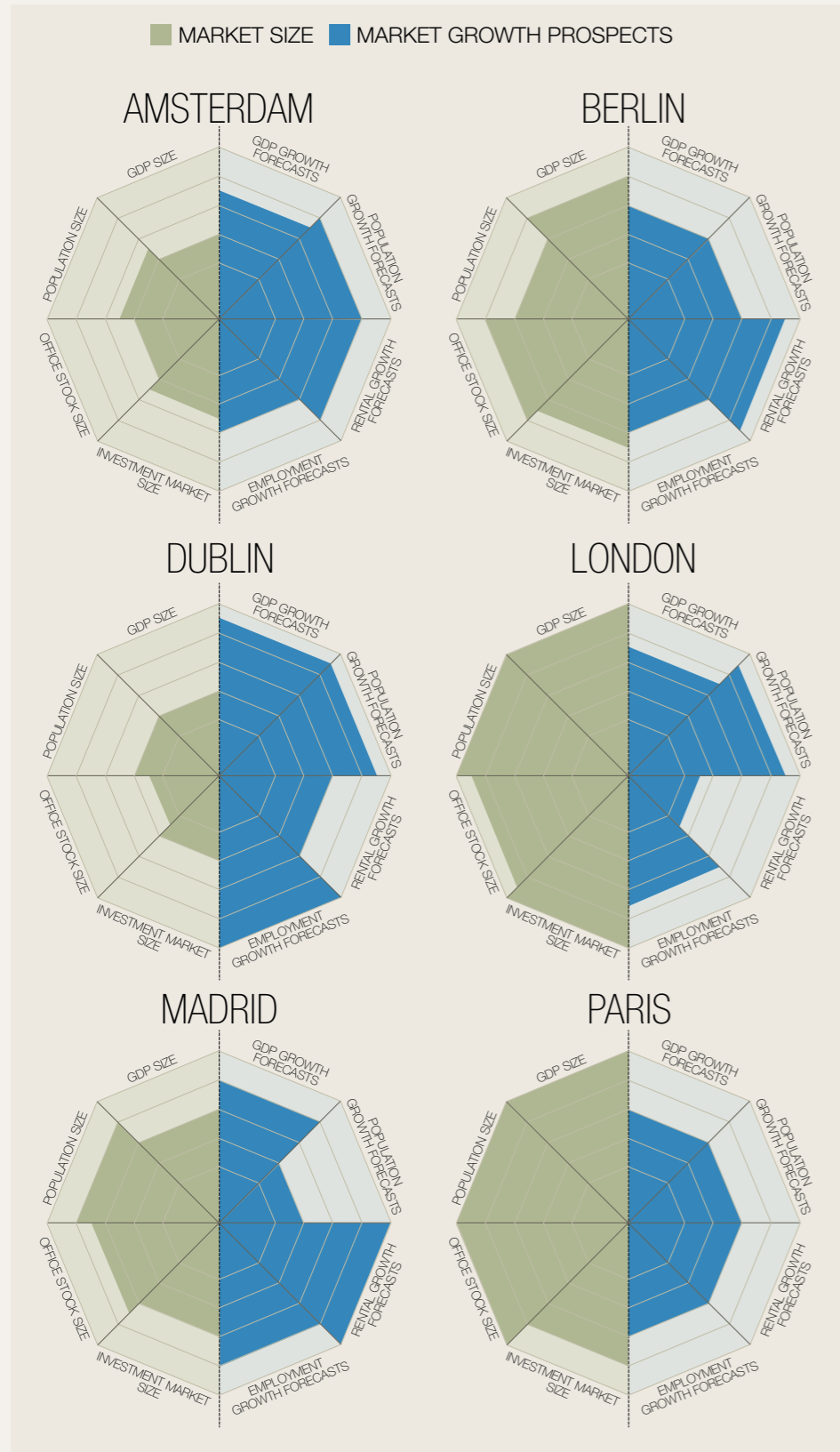
FIGURE 3
European prime office rental index



Source: Knight Frank Research

CITY RADAR CHARTS

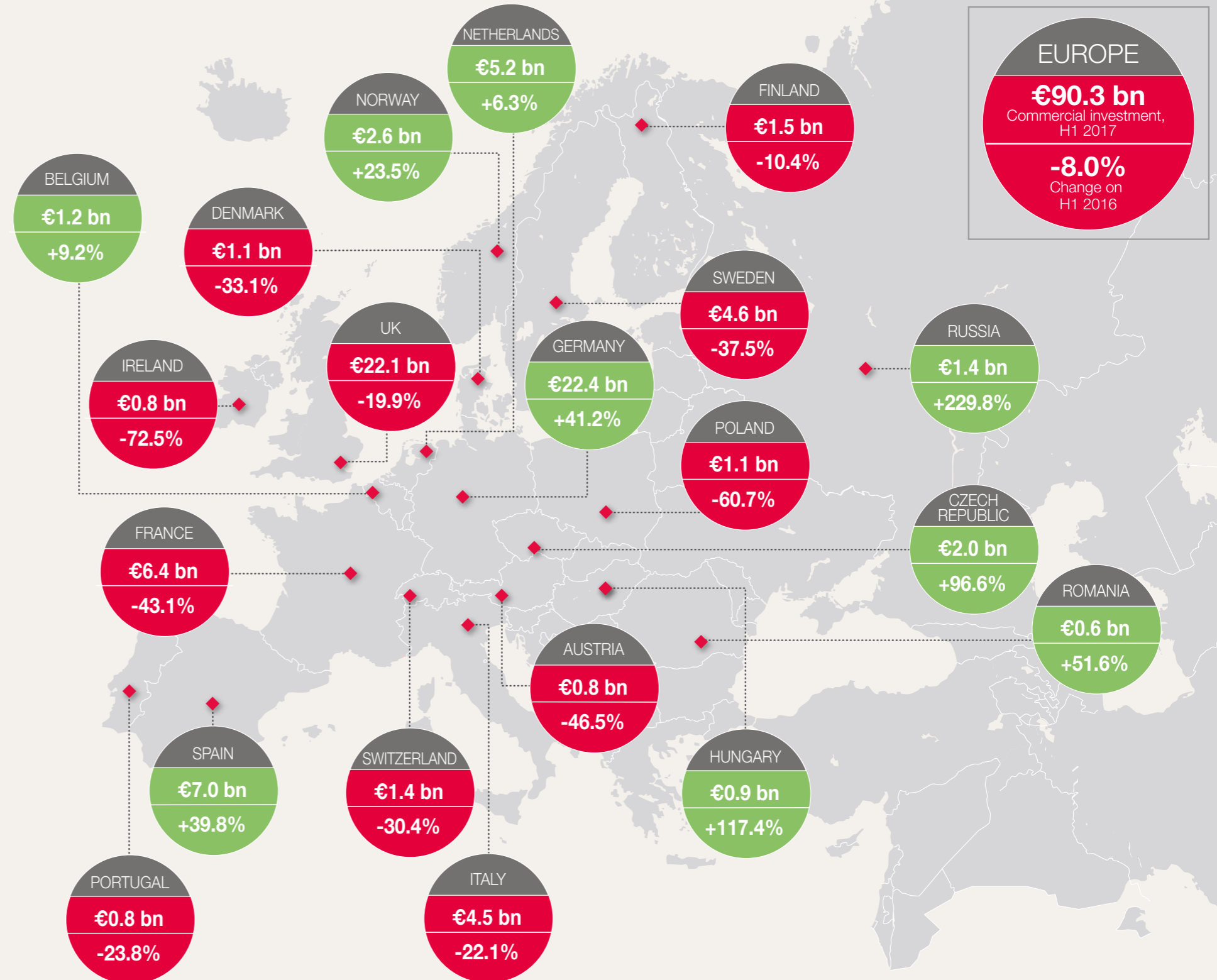
Our city radar charts provide a visual representation of the comparative market size and medium-term growth prospects of selected European cities. Each city is given a score between 1 and 5 for eight key measures. The broader the shape, the larger the market and the stronger its growth prospects.



Source: Knight Frank Research

FIGURE 4

European commercial property investment volumes, H1 2017



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

EUROPEAN MARKET INDICATORS

After several years of relative stability, prime office rents in Amsterdam have risen by nearly 15% over the last 12 months.

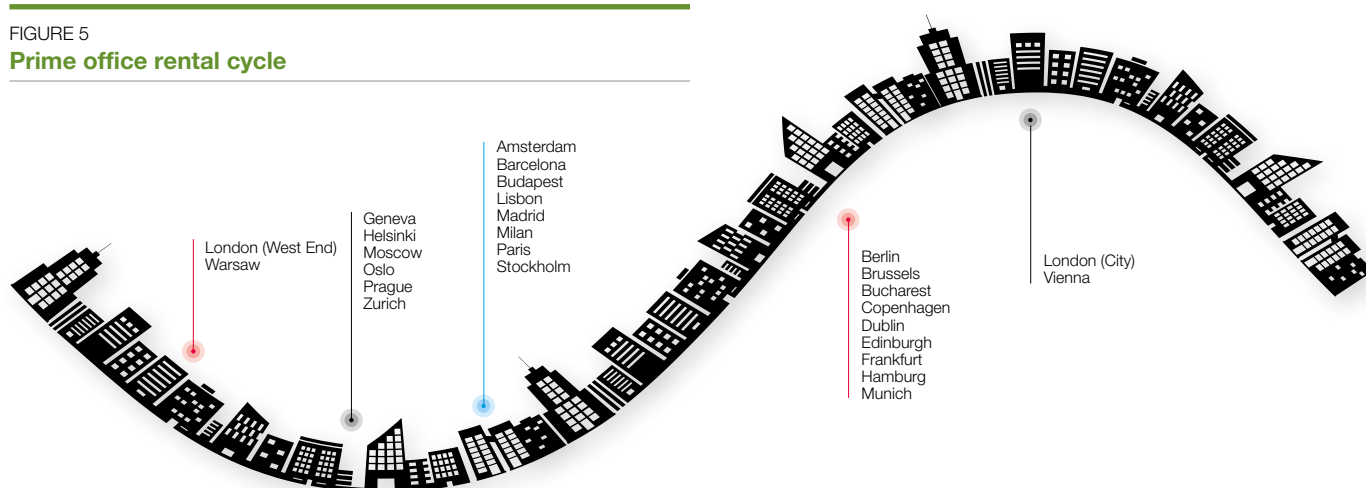
Commercial property prime rents and yields

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 ▲	4.00 ▼	85 ▶	5.25 ▼	1,000 ▶	5.00 ▼	135 ▶	5.75 ▼
Barcelona	270 ▲	4.00 ▼	82 ▲	6.00 ▶	600 ▶	4.25 ▼	129 ▶	5.50 ▼
Berlin	360 ▲	3.25 ▼	69 ▶	5.00 ▼	1,380 ▶	3.75 ▼	150 ▶	5.25 ▼
Brussels	300 ▶	4.75 ▼	55 ▶	5.50 ▼	1,800 ▶	4.25 ▼	185 ▶	5.50 ▶
Bucharest	216 ▶	7.50 ▶	48 ▶	8.75 ▶	720 ▶	7.25 ▶	120 ▶	9.50 ▶
Budapest	264 ▲	6.25 ▼	42 ▶	7.75 ▼	1,140 ▶	6.00 ▼	96 ▶	7.50 ▼
Copenhagen	249 ▶	4.00 ▶	77 ▶	5.75 ▶	699 ▶	4.50 ▼	165 ▶	6.00 ▶
Dublin	646 ▶	4.50 ▶	98 ▲	5.25 ▶	3,500* ▶	4.50 ▶	290 ▶	5.25 ▶
Edinburgh	410 ▶	5.25 ▶	101 ▲	6.00 ▼	2,692* ▶	5.00 ▶	367 ▶	6.00 ▶
Frankfurt	474 ▲	3.80 ▼	80 ▶	4.75 ▼	1,560 ▶	3.75 ▼	170 ▶	5.25 ▼
Geneva	686 ▶	3.00 ▶	183 ▶	5.50 ▶	1,043 ▶	4.00 ▶	165 ▶	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	222 ▶	5.00 ▶	45 ▶	6.50 ▶	1,170 ▶	5.00 ▶	120 ▶	7.00 ▶
London 1,223 (WE) ▼ 856 (City) ▶	3.50 (WE) ▶ 4.25 (City) ▶	184 ▲	4.50 ▶	5,444* ▶	4.25 ▶	575 ▶	4.50 ▶	
Madrid	348 ▲	3.90 ▶	66 ▶	6.00 ▶	600 ▶	4.25 ▼	156 ▶	5.50 ▼
Milan	520 ▲	4.25 ▼	50 ▶	7.00 ▶	850 ▶	5.50 ▶	300 ▶	7.00 ▶
Moscow	684 ▼	9.75 ▼	70 ▼	11.00 ▼	3,067 ▲	10.25 ▼	N/A	N/A
Munich	432 ▶	3.15 ▼	85 ▶	4.75 ▼	1,900 ▶	3.75 ▼	180 ▶	5.00 ▼
Oslo	448 ▶	3.75 ▶	127 ▶	5.50 ▶	1,251 ▶	4.25 ▶	136 ▶	5.75 ▶
Paris	772 ▲	3.00 ▶	58 ▶	5.25 ▼	2,500 ▶	3.75 ▼	180 ▶	4.75 ▶
Prague	240 ▶	4.75 ▶	48 ▶	6.00 ▼	1,560 ▲	4.75 ▼	120 ▶	7.00 ▼
Stockholm	669 ▲	3.50 ▼	108 ▶	5.50 ▶	816 ▶	4.25 ▶	216 ▶	5.50 ▶
Vienna	309 ▶	3.90 ▼	72 ▶	6.50 ▼	1,320 ▶	4.95 ▶	168 ▶	5.85 ▶
Warsaw	276 ▼	5.25 ▶	60 ▶	6.75 ▼	1,800 ▶	5.50 ▶	132 ▶	7.50 ▶
Zurich	732 ▶	3.00 ▶	229 ▶	5.25 ▼	1,372 ▶	4.00 ▶	183 ▶	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 5
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.

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



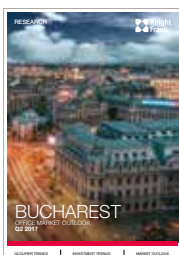
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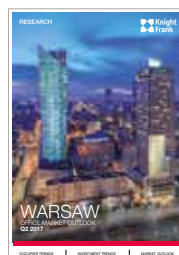
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