

RESEARCH



EUROPEAN

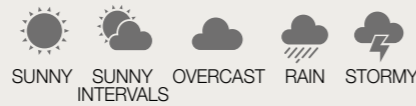
COMMERCIAL PROPERTY
OUTLOOK **2017**



PROPERTY WEATHER MAP FOR 2017

KEY

The weather symbols represent our view of investment sentiment for commercial property in 2017.



EUROPEAN OUTLOOK

Investor appetite for European real estate remains strong despite heightened levels of geopolitical uncertainty across the globe.

With several major elections upcoming in 2017, increased political uncertainty clearly has the potential to impact on the Eurozone's fragile economic recovery. Yet it may also create opportunity for agile investors.

Sentiment in the UK property market is expected to remain volatile while Brexit is being negotiated, and in some of the weaker sub-markets, pricing could come under renewed pressure. A series of elections in the Netherlands, Germany and France later this year may also potentially have at least a short-term cooling effect in these countries.

The European Central Bank has kept rates on hold at zero per cent and has prolonged its quantitative easing program. Though return expectations on property are being scaled down, real estate remains an attractive value proposition. Capital deployment will continue although some equity bound to the UK may be targeted at other markets. In France, Switzerland and Germany where government bond yields are trending low to negative, the pressure to invest is being exacerbated, with heightened capital flows expected throughout this year.

In 2016, the investment market lost momentum. European investment volumes were at least 20% below the exceptional levels of 2015. Knight Frank's forecast is that investment activity in 2017 will stabilise at 2016 volumes. A prolonged low interest rate environment will foster further yield compression, although the rate of compression will slow. The potential for yield softening is likely in markets facing political uncertainty.

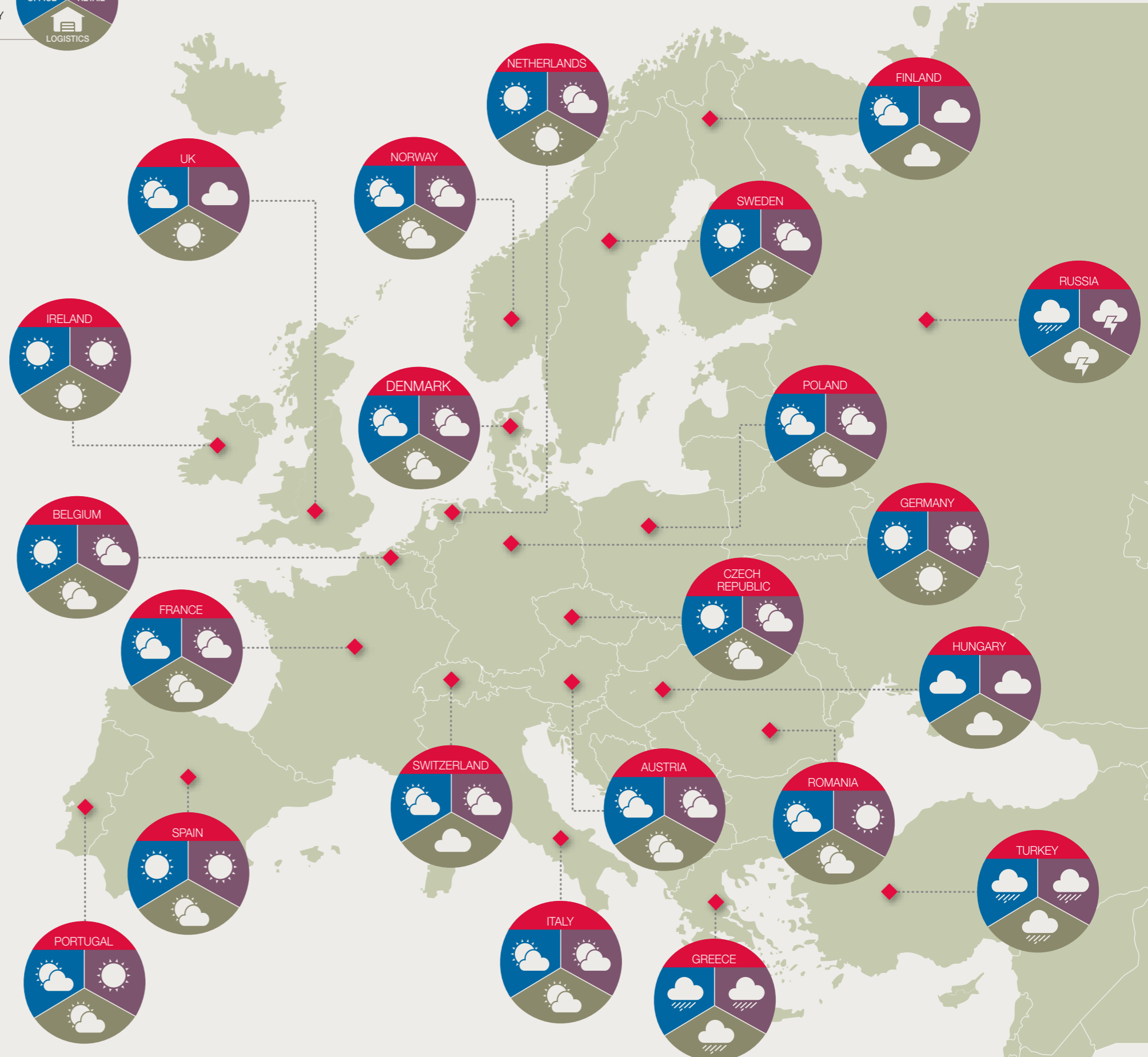
As rising capital requirements will place banks under pressure to meet lending volumes, global investors will be on the quest for safe assets providing reliable income streams.

OPPORTUNITIES FOR 2017

- **Political opportunities:** Short-term volatility in markets may open up some attractive investment opportunities in property markets where pricing has recently been overstretched.
- **Currency movements:** A weaker pound may have multiple effects on the UK economy. Some investors will be in wait-and-see mode until the macro environment becomes less clouded, while long-term offshore investors may see the inherent value of UK property in view of the weakening sterling and softening values.
- **Specialist sectors:** While often seen as difficult to access, specialist sectors such as healthcare and student accommodation are growing in popularity due to their relatively high returns. They are evolving in line with shifting demographics and provide diversification and stability of income returns compared to mainstream real estate, which is becoming more expensive and susceptible to economic uncertainty.

Investment hotspots

- Smaller capitals and second-tier cities are appearing on the radar, particularly as competition is intensifying and major markets are becoming 'fully priced'.
- Germany is widely regarded as the safe haven for capital in continental Europe, and in the risk-off climate many investors are willing to sacrifice some yield for lower risk. German investment volumes have overtaken UK volumes post-Brexit, although political uncertainty may dampen activity.
- Rental growth prospects in cities such as Madrid, Dublin, Berlin and Stockholm are compelling, buoyed by improving occupier demand, and are attracting a significant weight of capital.



Source: Knight Frank Research



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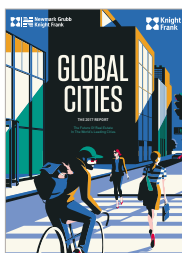
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