

# European Real Estate Market

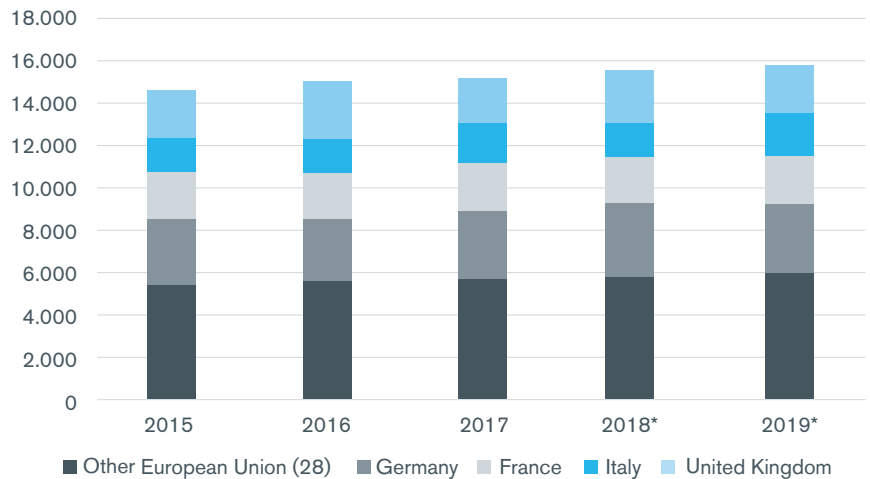
H1 2018

# The European Union

## MACROECONOMIC OVERVIEW

- Globally, economic growth remains solid, but less synchronized across countries and regions. Activity slowed somewhat in the advanced economies, while emerging markets recorded both growth (India and China) and downturn (South Africa and Brazil).
- The Gross Domestic Product (GDP) growth of the Euro Area (EA) remains solid, but moved at a slower pace compared to the past year.
- According to the European Commission, the GDP breakdown for 2018-Q1 shows that the expansion in the EA was mainly supported by private consumption and investment, whereas the contribution of public consumption was neutral. At the same time, net exports became a drag (-0.2 pps.), following two consecutive quarters of positive contributions to GDP growth.
- The instability recorded in some emerging economies pushed investors back to the safe-haven of sovereign bonds.
- Geopolitical tensions/protectionist policies are the main threat for EU economies. Benchmark yields for some EA Member States fell back in the past few months amid weaker-than-expected economic data.

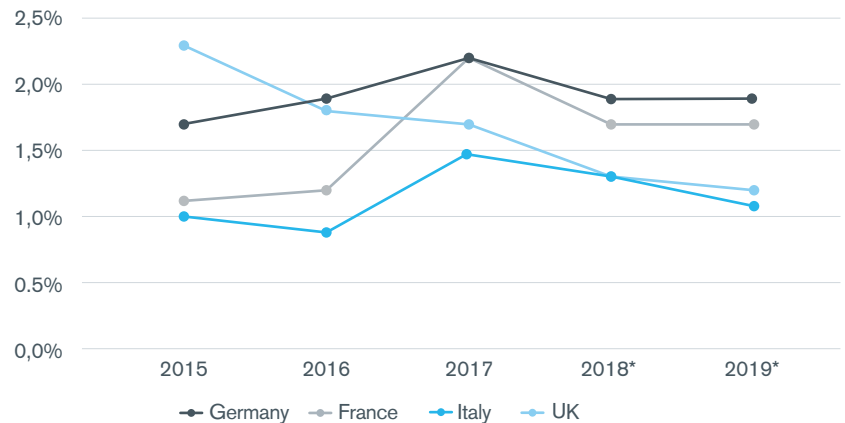
Contribution of some Member States to the EU-28 GDP (million euro)



\* forecast

Source: Duff & Phelps REAG R&D on European Commission (EC) data

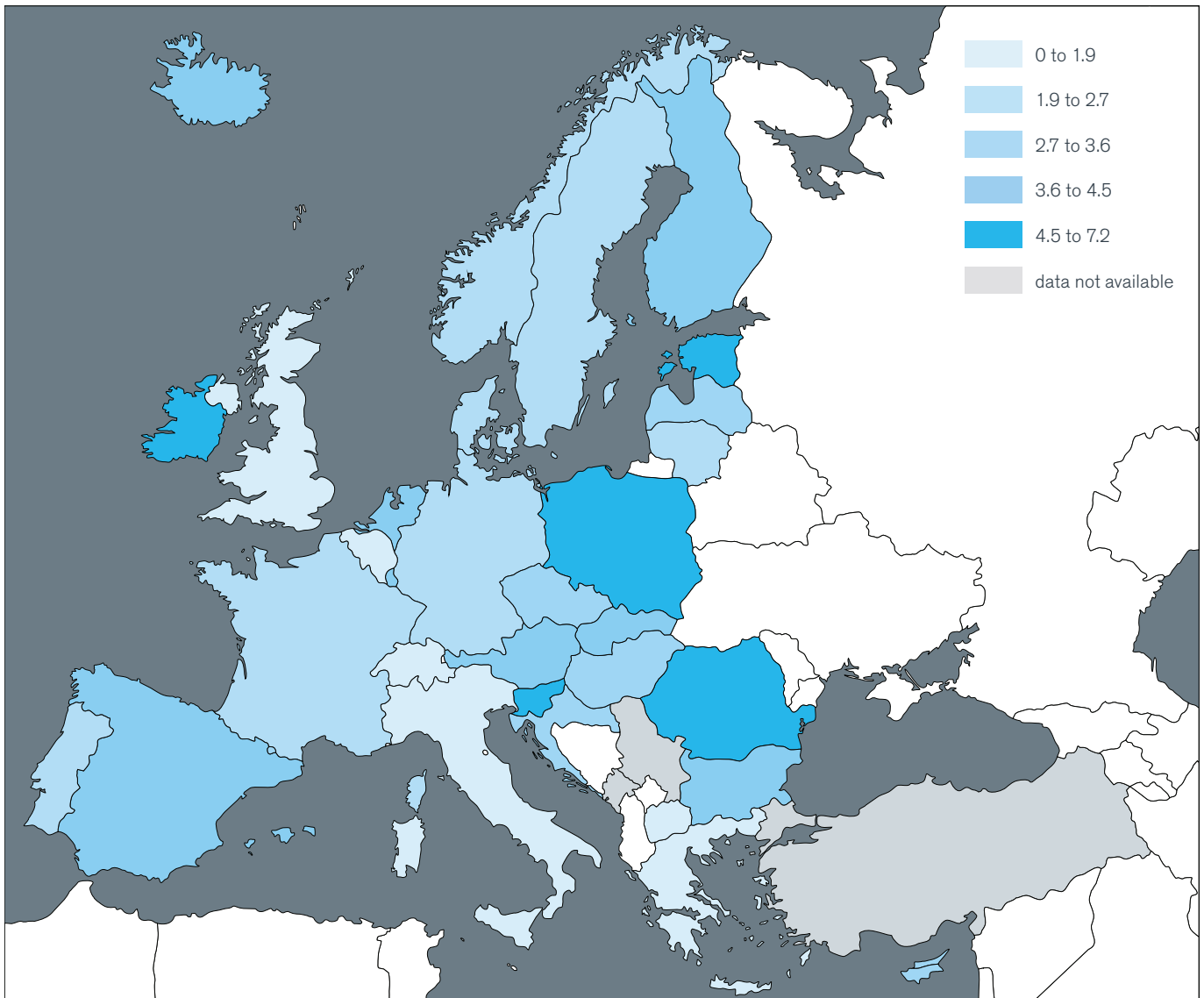
Some Member States GDP var % yoy



\* forecast

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## EU 28 Countries Real GDP growth rate (2017)

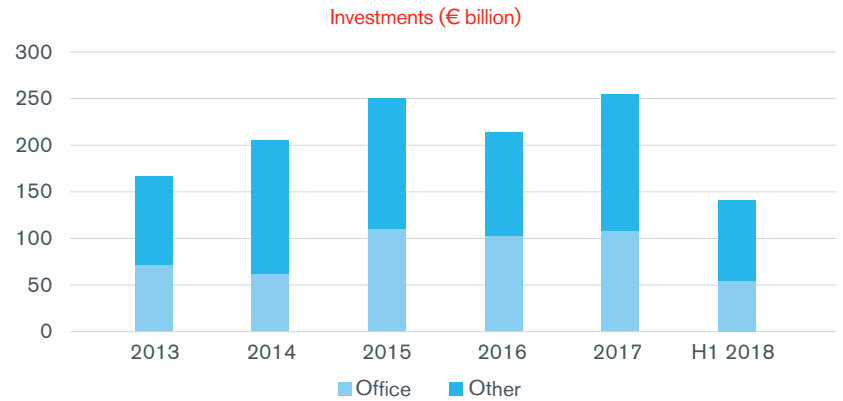


Source: Duff & Phelps REAG R&D on European Commission data

# European Office Market

## INVESTMENTS VOLUME

- In the first half of 2018 (H1 2018), the volume of investments in the office sector increased by 6.9% on an annual basis.
- Office still remains the most attractive sector for investors, totalling 44% of the overall investments.
- In recent years, office demand in Central and Eastern Europe (CEE) rapidly increased, particularly in Russia and Poland.



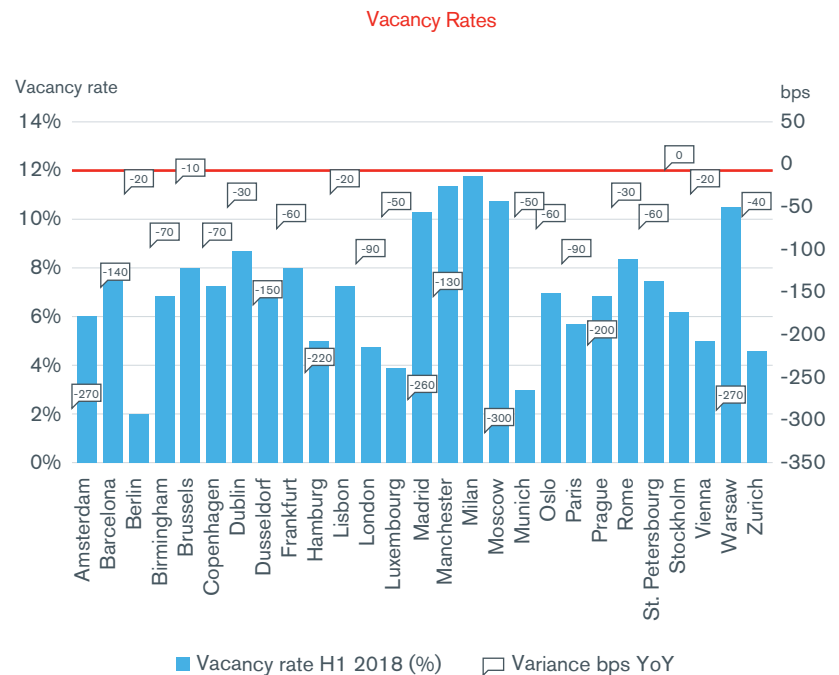
Source: Duff & Phelps REAG R&D on various sources

## KEY DRIVERS

- Smart working and office wellness
- Technology and flexibility
- Building efficiency and quality
- Build-to-suit
- Shorter leases
- Emerging CEE markets

## VACANCY

- On a yearly basis, vacancy rates decreased by 0.6% and lined up at 7.1% across European markets.
- A compression of vacancy rates has been registered in all the analysed cities due to the slow-down of new developments.
- Berlin registered the lowest vacancy rate in Europe (2%), and further decreases are expected.

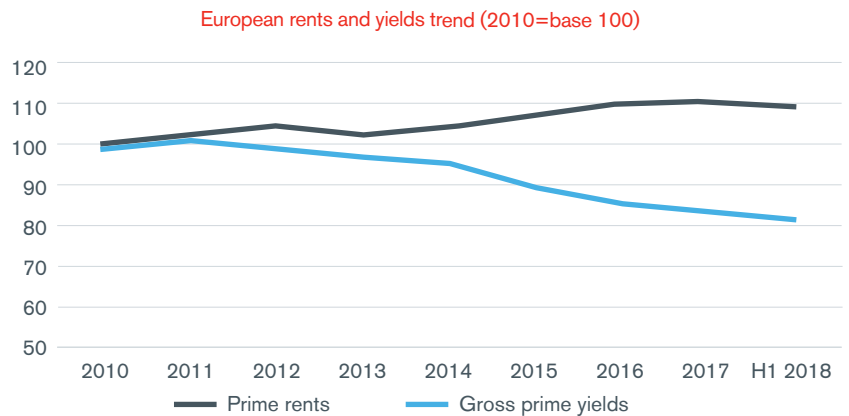


Source: Duff & Phelps REAG R&D on various sources

# European Office Market

## PRIME RENTS AND YIELDS

- In H1 2018, average prime rents remained stable compared to 2017.
- On an annual basis, average prime yield registered a compression, reaching 4.1%.
- Compared to 2013 rents grew by 5.7%, while yields saw a compression of 1%.
- For the second half of the year, the trend of yield compression is expected to continue and rents are expected to grow.

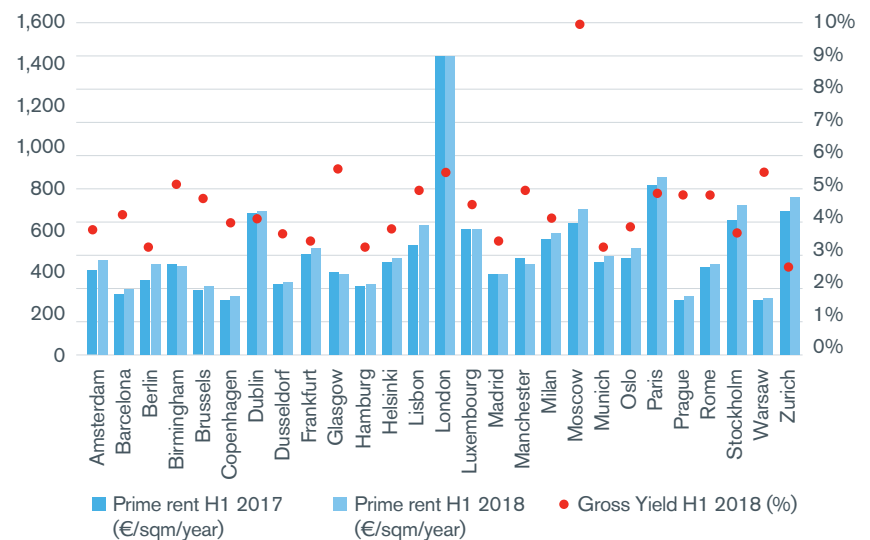


## MARKET HIGHLIGHTS

- London: Brexit uncertainties did not stop foreign investors, who accounted for 75% of the investments volume, in particular from China and South Korea.
- Milan: even though investments registered a slight decrease compared to H1 2017, the growing number of deals shows the dynamism and attractiveness of the market.
- Paris: the city registered good performance in the first half of the year and continues to attract foreign investors. In H1 2018, Paris observed the highest number of deals in recent years.
- In the H1 2018, investments in Germany increased by 9% compared to H1 2017. The 5 five main cities (Berlin, Dusseldorf, Hamburg, Munich and Frankfurt) contributed 70% of German office volume.
- Despite the volatile Russian economy, investments and take up in the Russian office market are increasing, as of rental rates. Office investments represents 50% of the total investments in Russian market.

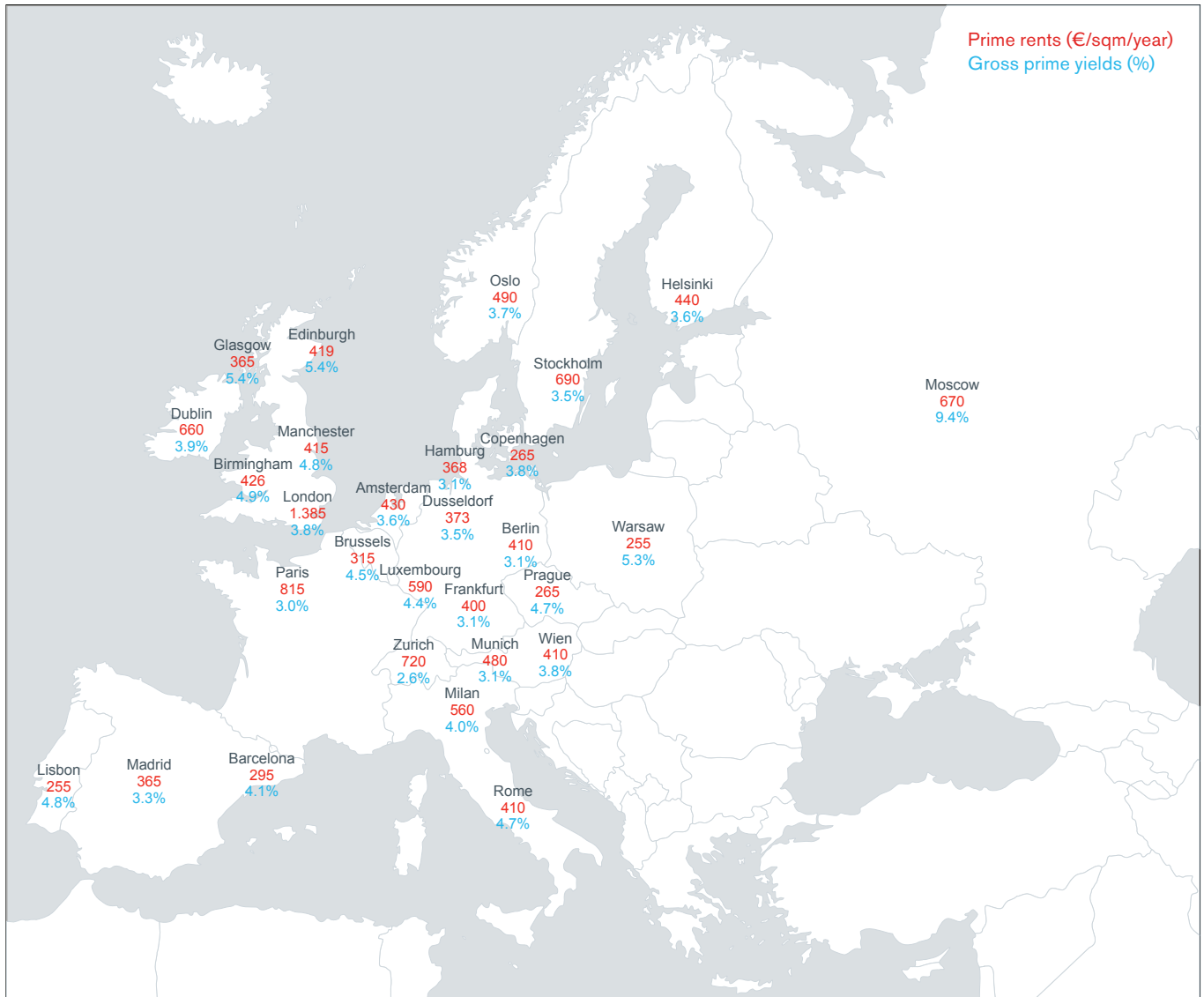
Source: Duff & Phelps REAG R&D on various sources

## Office market



Source: Duff & Phelps REAG R&D on various sources

## European Office Market



Source: Duff & Phelps REAG R&D on various data

# European Retail Market

## INVESTMENTS VOLUME

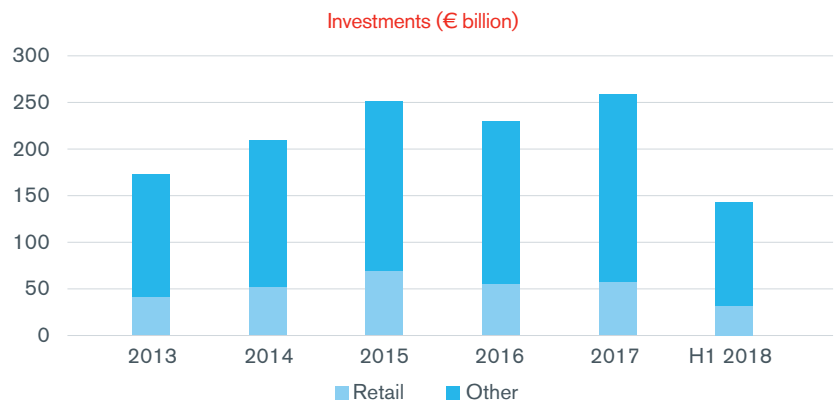
- In H1 2018, the volume of investments in the retail sector remained stable compared to the same period of 2017.
- Retail investment represents 22% of total European investments.
- Compared to 2017, weaker growth in the Western markets is expected this year.
- As observed in the last few years, the demand for retail spaces remained strong in the Central and Eastern Europe area (CEE), in particular Poland and the Czech Republic.
- For the remainder of the year, the outlook remains positive due to high consumer confidence and the expected growth of wages.

## KEY DRIVERS

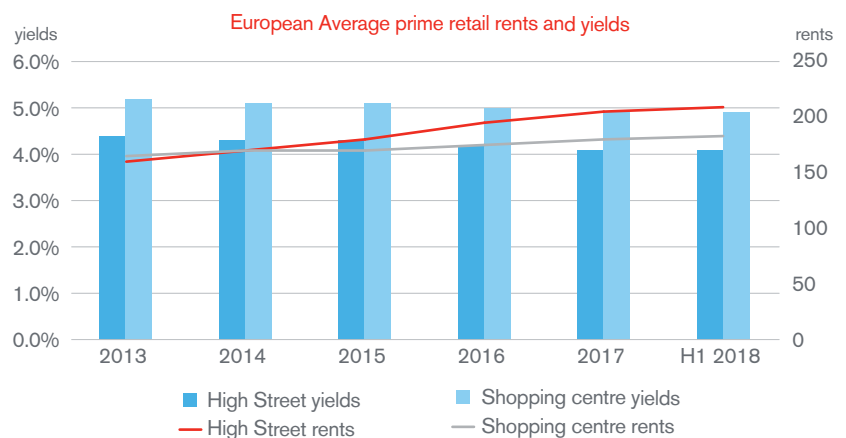
- Sharing economy
- Growth of tourism in prime locations
- Adaptation to consumer preferences
- E-commerce
- Internet of Things
- Reduction of physical spaces

## VACANCY

- Despite the slow down in investments, also due to the lack of spaces, the vacancy rate continues to drop.



Source: Duff & Phelps REAG R&D on various sources



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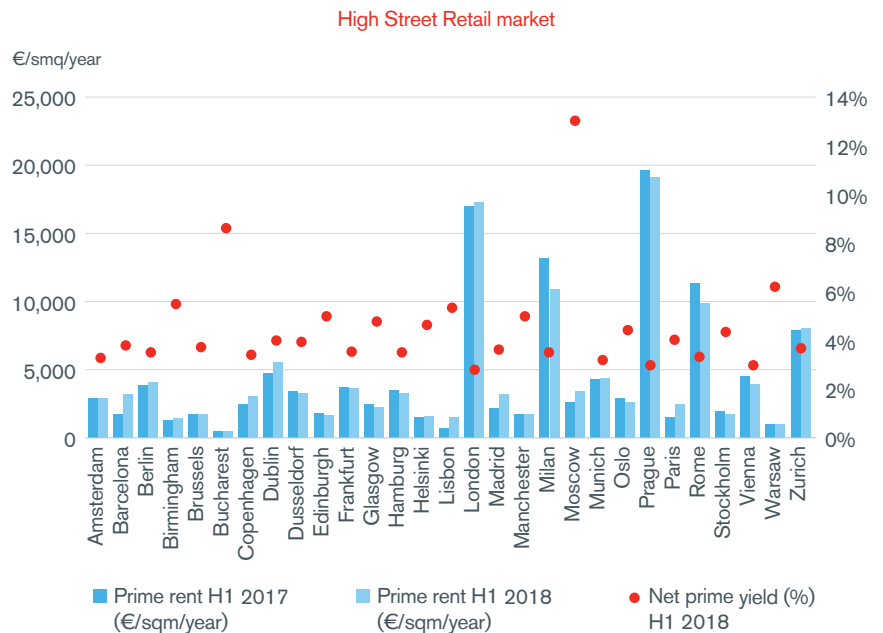
# European Retail Market

## PRIME RENTS AND YIELDS

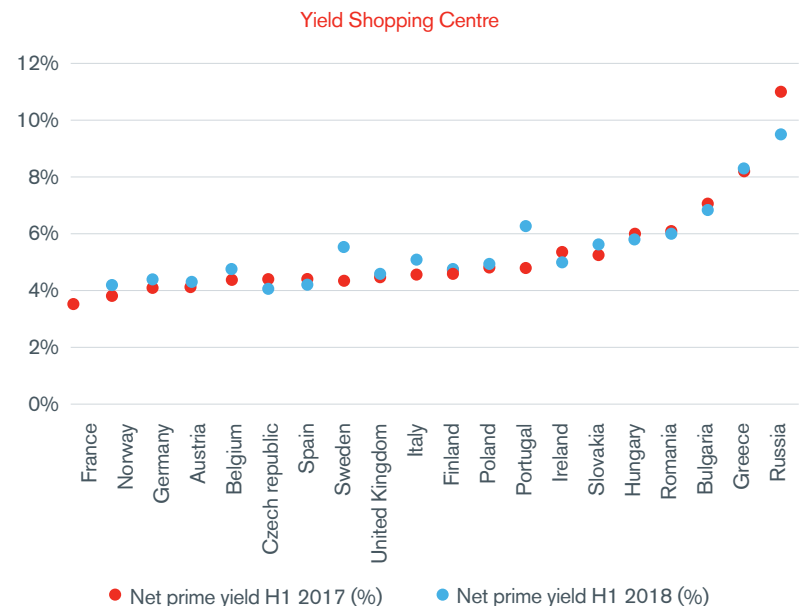
- In H1 2018, average prime rents stabilized both for High Streets and shopping centres.
- Among European countries, in H1 2018, average net prime yields decreased by 10 bps in the High Street, reaching 4.0%, while shopping centres remained stable.
- A compression of yields is expected for the second half of the year.

## MARKET HIGHLIGHTS:

- UK: Brexit continues to influence investors. Demand remains focused on prime locations, where the possibility of rental growth is limited; but good performances are expected in regional markets for next year.
- Italy: in H1 2018, the opening of top level shopping centres continued, absorbing more than half the investments in the retail sector.
- Germany: the refurbishment of retail shops and shopping centres will allow more attractive shopping experiences.
- France: luxury units in Paris registered positive rental trends and investments. However, restrictive planning laws could slow down the future supply, especially for medium and large units.
- Russia: the scarcity of new developments will lead to a downturn in vacancy rate. Retailers are searching for unique formats attracting new customers.



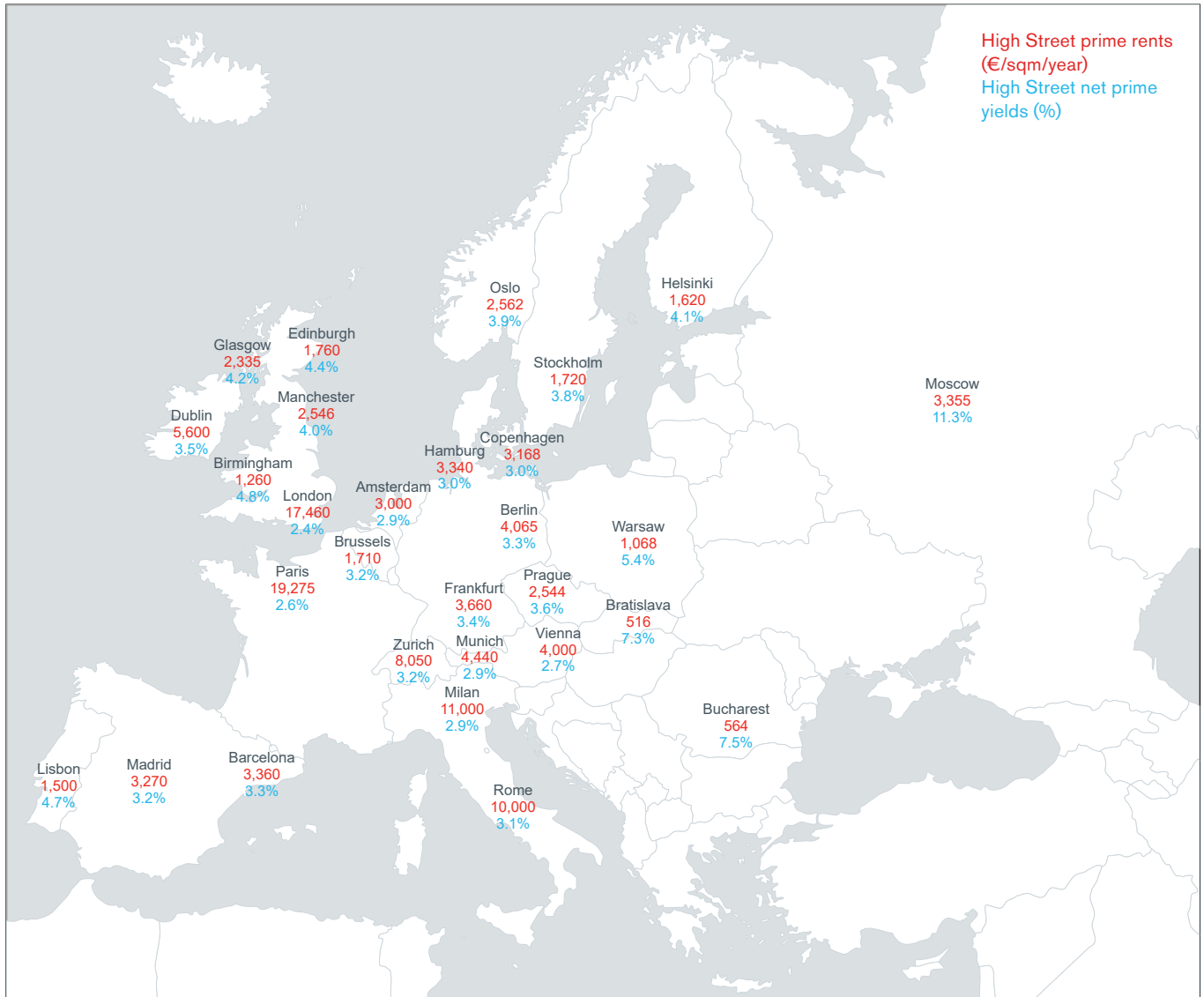
Source: Duff & Phelps REAG R&D on various sources



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# European Retail Market

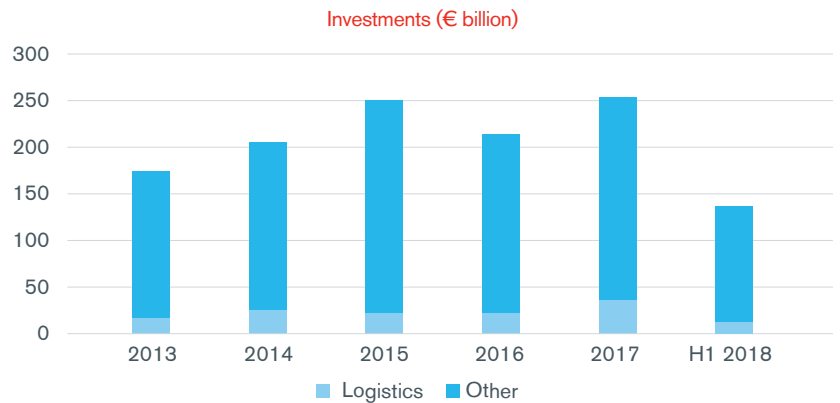


Source: Duff & Phelps REAG R&D on various sources

# European Logistics Market

## INVESTMENTS VOLUME

- After an extraordinary 2017, volume decreased in H1 2018 by 8% compared to the same period of 2017.
- Nevertheless, the logistic sector is still very attractive for investors: about 14 billion euro has been transacted in H1 2018.
- The level of transacted volume remains above average for the last five years.
- Logistics assets are considered to be a means for international investors to extend their portfolios.



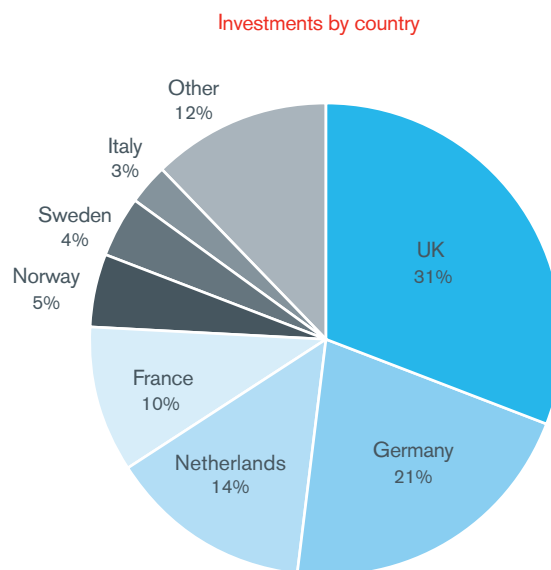
Source: Duff & Phelps REAG R&D on various sources

## KEY DRIVERS:

- E-commerce warehouse spaces
- Greenfield vs Brownfield
- Build-to-suit developments
- Proximity to key markets
- International trading
- 3PL providers

## VACANCY

- Across the main European markets, vacancy rates continue to decline and in the first half of 2018 they recorded average values lower than 5%.
- This reduction is due to the strong take-up activity.
- This trend is expected to continue for the second half of the year.



Source: Duff & Phelps REAG R&D on various sources

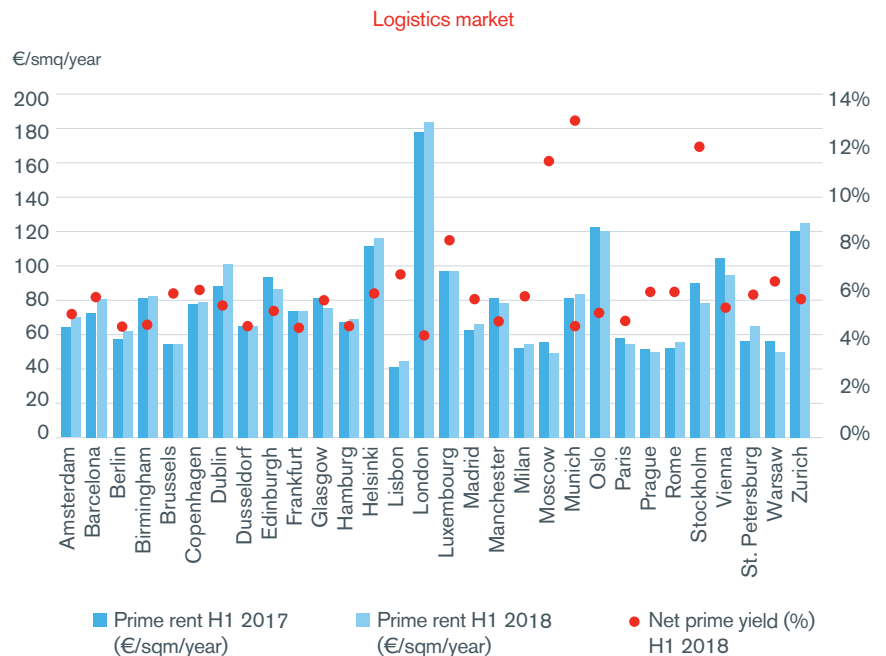
# European Logistics Market

## PRIME RENTS AND YIELDS

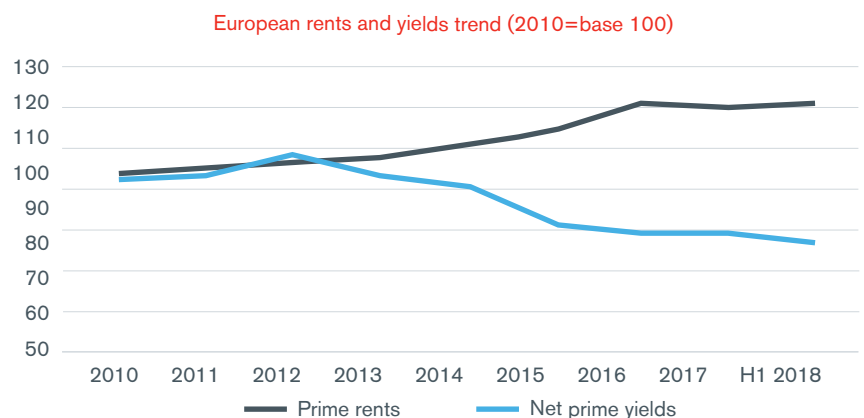
- In H1 2018, rents increased by 1.3% across Europe, on an annual basis.
- Dublin and Vienna registered the highest rental growth, on an annual basis.
- Average net prime yields decreased by 20 bps and a further compression is expected for the main markets.
- Yields are at their lowest level, due to the slow down of investments.

## MARKET HIGHLIGHTS:

- Italy: investors are looking for alternative and innovative locations. The closing of some new developments in the second half of the year could lead to a compression of yields.
- Germany: the available land close to the main cities is extremely limited, so investors are looking for brownfields along the most important motorways. The high demand could lead to a yield contraction.
- France: the take-up decline in Paris highlighted secondary markets, where obsolete warehouses came back on the market.
- Spain: the lack of product and the strong take-up activity continue to push up the rental fees and reduce the vacancy rates.
- Russia: demand for logistics assets is low, except for the Moscow region, where about 800,000 sqm of warehouse spaces are expected to be built in 2018.



Source: Duff & Phelps REAG R&D on various sources



Source: Duff & Phelps REAG R&D on various sources

## European Logistics Market



Source: Duff & Phelps REAG R&D on various sources

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