



DUFF & PHELPS

Real Estate Advisory Group

# European Real Estate Market

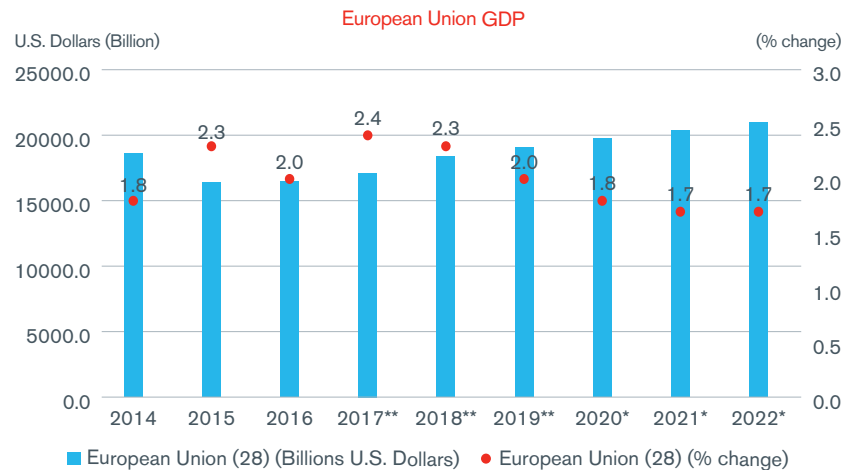
APRIL 2018



# The European Union

## MACROECONOMIC OVERVIEW

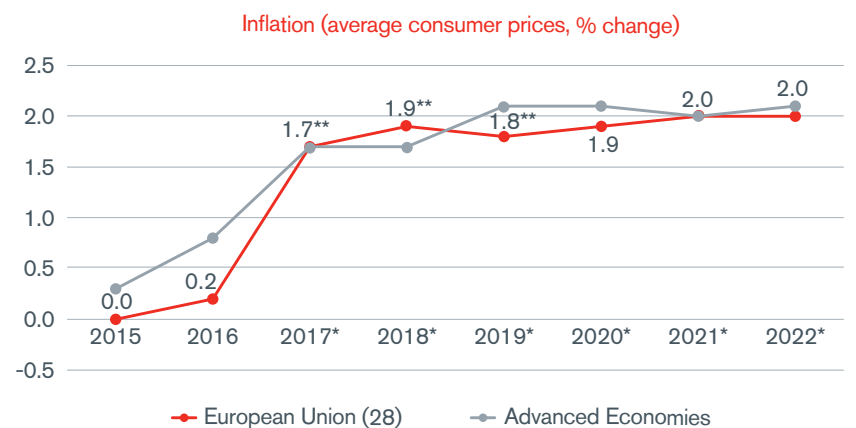
- The stronger cyclical momentum in Europe and the positive unexpected rise of global trade are supporting the European Union (EU) economies transition from recovery to expansion.
- EU GDP data reported by the International Monetary Found (IMF) have grown, and according to European Commission (EC), EU economies are estimated to increase from 2.1 to 2.3% for this year.
- Inflation in the EU reached 1.7% in 2017, and is forecasted to grow in 2018. However, it is expected to slightly decrease in 2019 (1.8%).
- If short-term economic growth exceed expectations, in the medium-term, high global asset prices could be vulnerable to a re-assessment of risks and fundamentals.
- The outcome of Brexit negotiations remains uncertain and geopolitical tensions/protectionist polices are main threats for EU economies.



\* IMF forecast

\*\* EC Winter 2018 forecast

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



\* IMF forecast

\*\* EC Winter 2018 forecast

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# The European Union

## REGIONAL COMPETITIVENESS

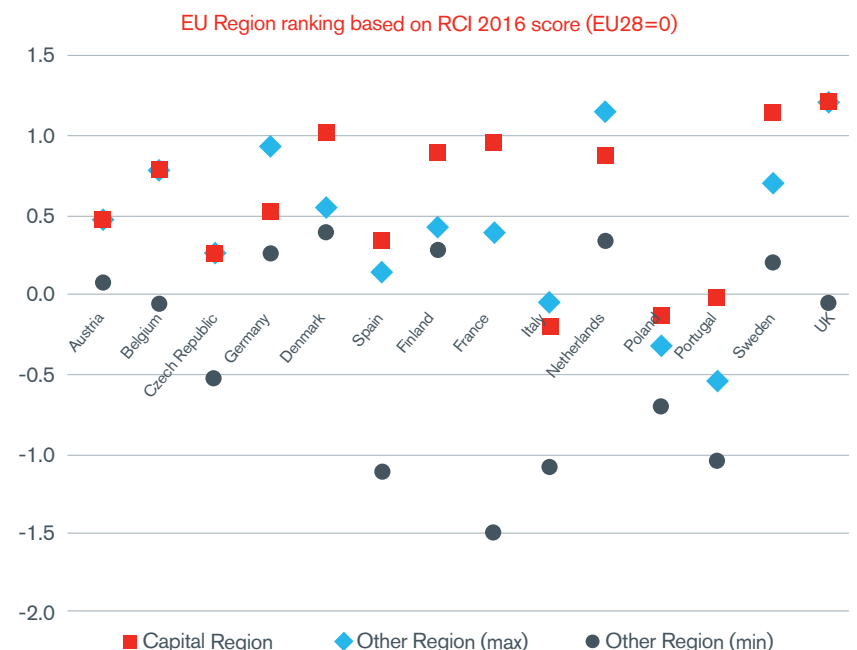
- According to the European Commission ("EC"), regional competitiveness is the 'ability of a region to offer an attractive and sustainable environment for firms and residents to live and work.'
- The tool used for measuring and assessing the competitiveness at regional level in the EU is the Regional Competitiveness Index (RCI).
- The factors which determine RCI are: Basic dimension (institution, macroeconomic stability, infrastructure, health and basic education), Efficiency dimension (higher education and lifelong learning, labour market efficiency and market size) and Innovation dimension (technological readiness, business sophistication and innovation).
- The RCI shows a more polycentric pattern with strong capital and metropolitan regions in many parts of Europe. London and its commuting zone ranked top in 2016.
- Capital regions tend to be the most competitive region in their Country, but there are exceptions. In the Netherlands, the capital region is ranked second, while in Italy, Lombardia, a historically highly productive region, continues to be the best. Many other German regions outperform Berlin, which may be due to its relatively short history as the capital of a reunited Germany.

Top 10 and Bottom 10 EU regions

Rank*	Country	Region name	Rank*	Country	Region name
1	United Kingdom	London and regions covered by its commuting zone	254	Romania	Sud-Muntenia
2	United Kingdom	Berkshire, Buckinghamshire and Oxfordshire	255	Romania	Sud-Vest Oltenia
3	Netherlands	Utrecht	256	Greece	Ionia Nisia
4	Sweden	Stockholm	257	Greece	Dytiki Ellada
5	United Kingdom	Surrey, East and West Sussex	258	Greece	Peloponnisos
6	Denmark	Hovedstaden	258	Bulgaria	Severozapaden
7	Luxembourg	Luxembourg	258	Greece	Stereia Ellada
8	France	Île de France	261	Greece	Anatoliki Makedonia, Thraki
9	Germany	Oberbayern	262	Romania	Sud-Est
10	United Kingdom	Hampshire and Isle of Wight	262	France	Guyane

\*Equal same rank is assigned to two regions if their score difference (on a 0-100 scale) is not above 0.1

Source: Duff & Phelps REAG R&D on EU Regional Competitiveness Index 2016



Source: Duff & Phelps REAG R&D on EU Regional Competitiveness Index 2016

# The European Union

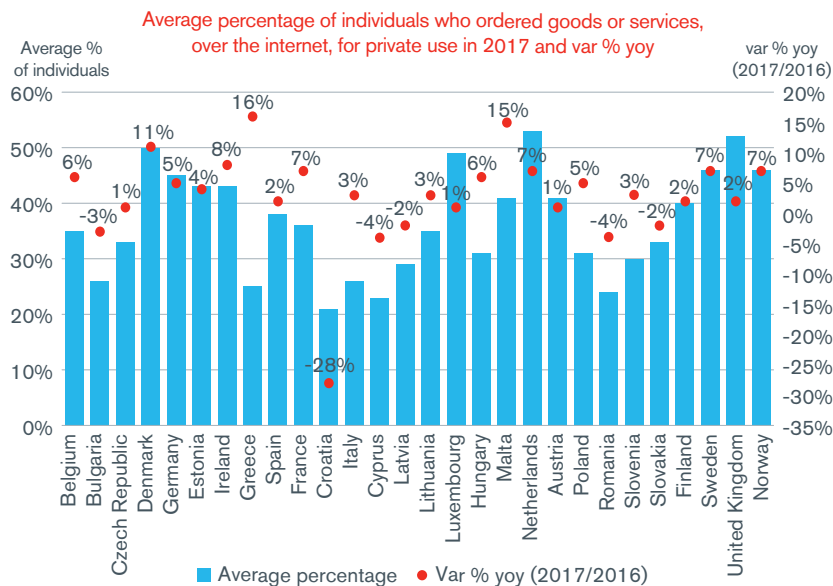
## DIGITAL ECONOMY AND SOCIETY

### E-shopping

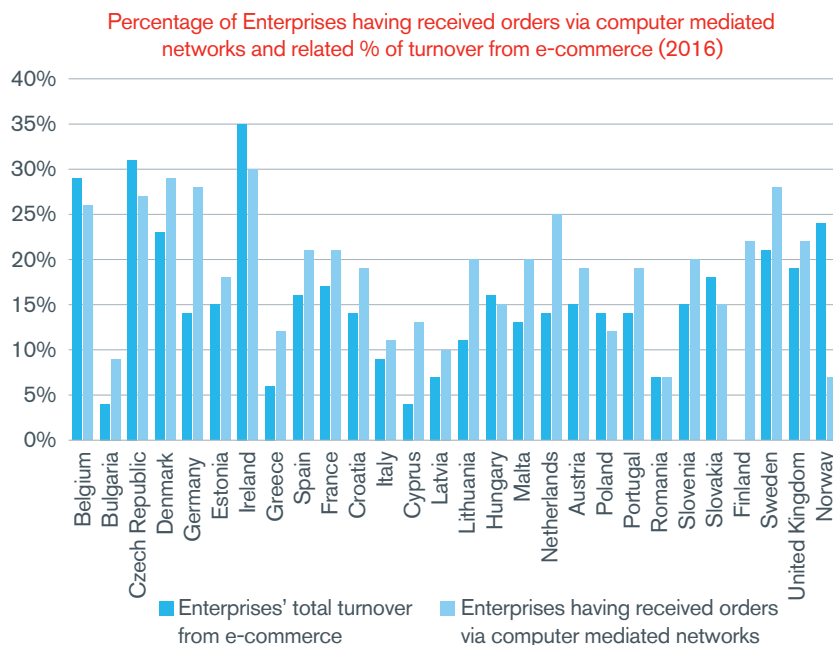
- In the EU 66% of all age groups internet users ordered good or services online
- In 2016, clothes & sports goods are the most popular online purchases, followed by travel/holiday accommodation, household goods and tickets for events. Less common were online purchases of food or groceries and medicine.
- Looking at e-shopping data using age-users criteria, it comes to light that clothes & sports are mainly ordered by "millennials"(aged 16 to 34 years). Booking travel and holiday accommodation online are purchased by shoppers aged 45 to 64 year (57%). Finally, the age group of 35 to 44 year old had the highest share of e-shoppers who bought household goods online (52%).

### E-sales

- According to Eurostat, in 2016, '20% of EU businesses reported that they conducted e-commerce sales (e-sales) to consumers, other businesses and/or public authorities; this is a moderate increase compared with 15 % in 2010'. The turnover derived by e-sales amounted to 16% of the total (11% of EDI-type sales and 5% of web sales).
- In the EU, in 2016, web sales to other business (B2B) were 12% and to consumers (B2C) were 13%. Of the 5 % of total turnover generated by web sales, 2 % came from B2C sales and 3 % from B2B sales.



Source: Duff & Phelps REAG R&D on Eurostat

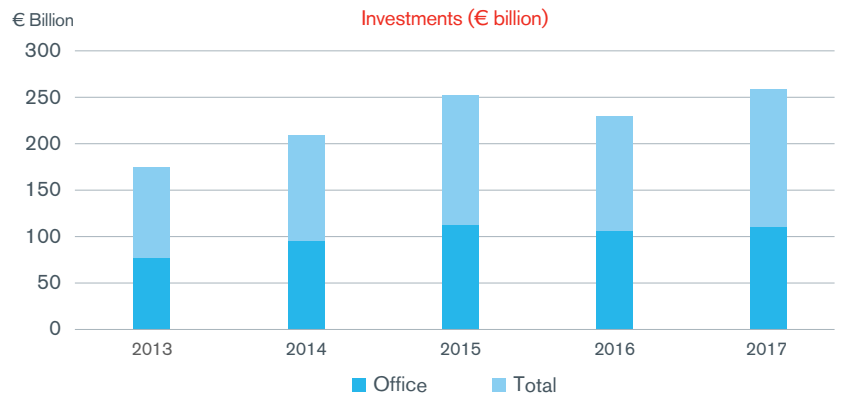


Source: Duff & Phelps REAG R&D on Eurostat

# European Office Market

## INVESTMENTS VOLUME

- In 2017, the volume of investments in the office sector increased by 5% on an annual basis.
- Office still remains the most attractive sector for investors, with the 43% of total investments.
- Strong investments were registered in Spain, Netherland, Italy and Ireland, but Germany remains the most attractive country with several deals greater than 10,000 m2.



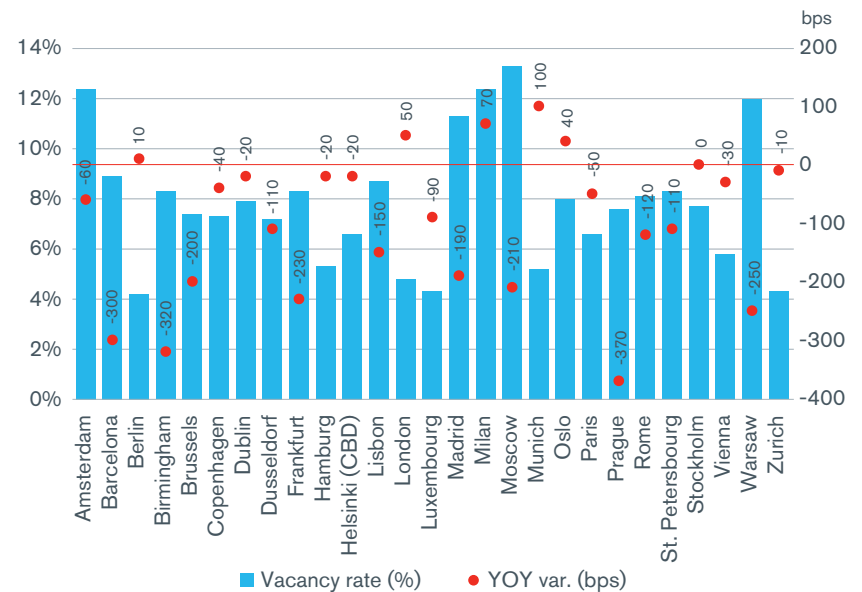
Source: Duff & Phelps REAG R&D on various sources

## KEY DRIVERS

- Management of innovative office space (smart-working)
- Technology will increase the demand in the main tech district
- Lack of supply core asset
- Shorter leases
- Efficiency, quality and flexibility

## VACANCY

- On half-yearly basis, vacancy rates remained stable at 7.7%, compared to 2016 which decreased by 0.7% across European markets.
- The greatest compressions were registered in Prague (-3.7%) and Barcelona (-3%).



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

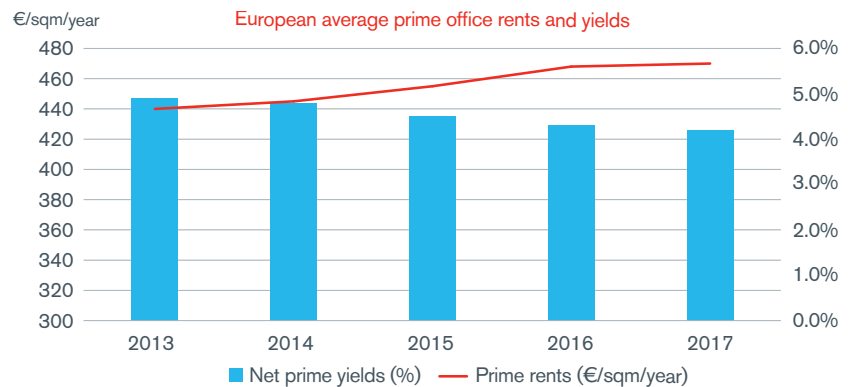
# European Office Market

## PRIME RENTS AND YIELDS

- In 2017, average prime rents slightly increased (+3%) and average prime yields are under compression, reaching 4.2% on annual basis.
- For 2018, this trend of rental growth and yields compression is expected to continue.

## MARKET HIGHLIGHTS:

- London: 'The Brexit effect' represents a potential risk for investments, in particular for those related to relocation.
- Milan: Remained the most dynamic Italian location. In particular CDB and Centre sub-markets registered an important take up increase.
- Barcelona: In line with the Spanish economic recovery, the take up of the CBD increased due to national and international investments.
- Paris: Take up in 2017 increased by 2% and vacancy rate remained stable. On the other hand, investments saw an important decrease compared to the previous year, mainly due to a lack of mega-transaction.
- Rents in prime cities in Germany rose again and are expected to grow in 2018 due to the operator in co-working spaces



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



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

# European Office Market

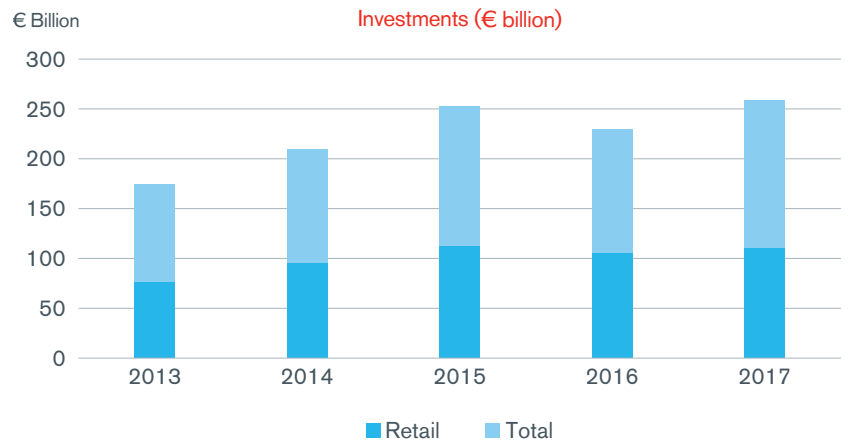


Source: Duff & Phelps REAG R&D on various data

# European Retail Market

## INVESTMENTS VOLUME

- In 2017, the volume of investments in the retail sector increased by 3% over the prior year.
- Retail investment represents 22% of the European ones.
- Investor demand is expected to experience a strong recovery in 2018.
- Investors are looking for core properties in the emerging markets.
- In 2018, private consumption will increase thanks to the higher consumer confidence and the tourism growth.



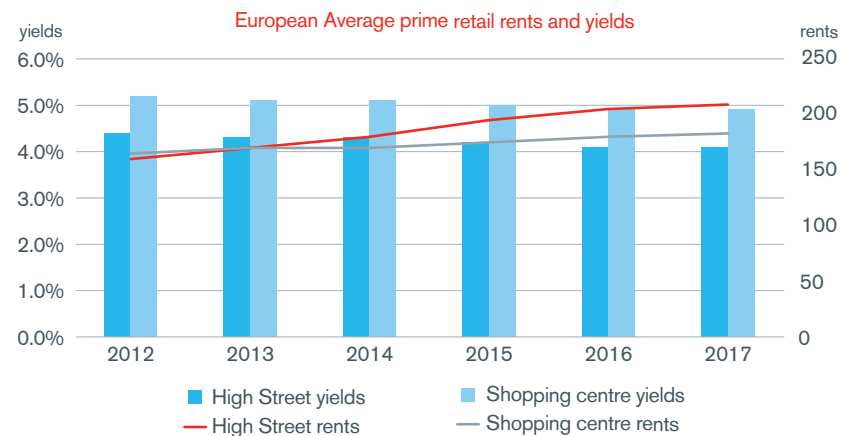
Source: Duff & Phelps REAG R&D on various sources

## KEY DRIVERS

- Growth of tourism in prime locations
- Population growth
- Digital economy
- Lack of supply in prime location

## VACANCY

- The strong demand in the main European markets led to a compression in vacancy rates that in 2017 reached 4.7%.



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



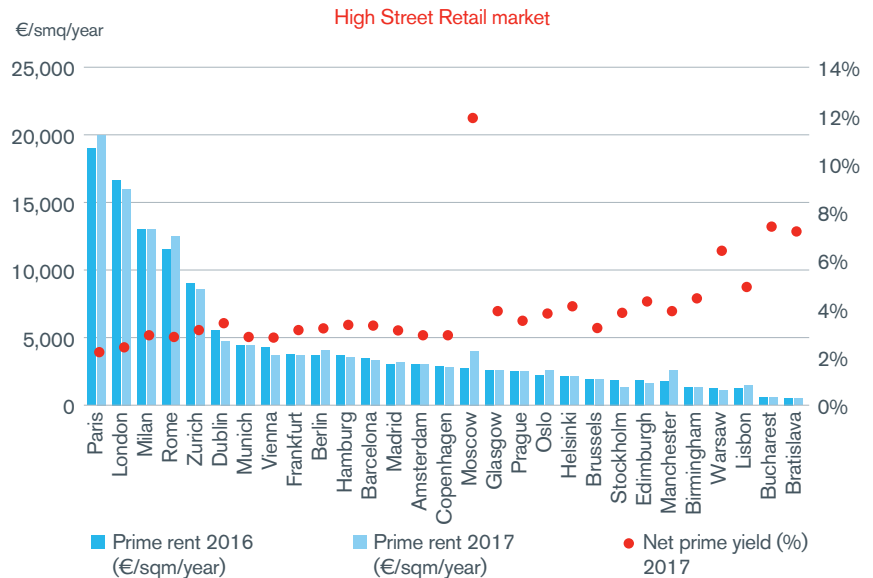
# European Retail Market

## PRIME RENTS AND YIELDS

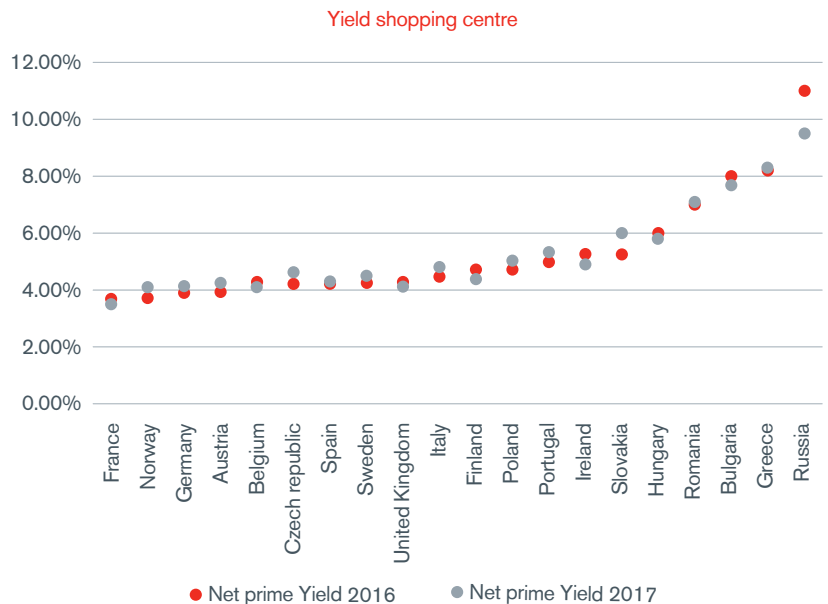
- In 2017, average prime rents registered an increase of 1.2% for High Streets and 1.6% for shopping centers, respectively.
- Average net prime yields slightly decreased, reaching 4,1% for the High Street market and 4.9% for shopping centers
- Further yields compression in the main European markets is expected in 2018.

## MARKET HIGHLIGHTS

- UK: Investments are dominated by the political uncertainties caused by Brexit. Nonetheless, London remains one of the most expensive cities.
- Italy: prime rents in the main cities are growing sustained by tourism. Market is still dominated by international player.
- Germany: Secondary locations are taking advantage of the lack of supply in prime areas. Rents remained stable compared to 2016.
- France: Demand in Paris remained resilient thanks to the attractive environment and the impact of tourists. On the contrary, demand for secondary locations is weakening.
- Spain: Growth of tourism and economic improvements helped to maintain stable rents and yields for the High street. An increase in turnover is expected in 2018.

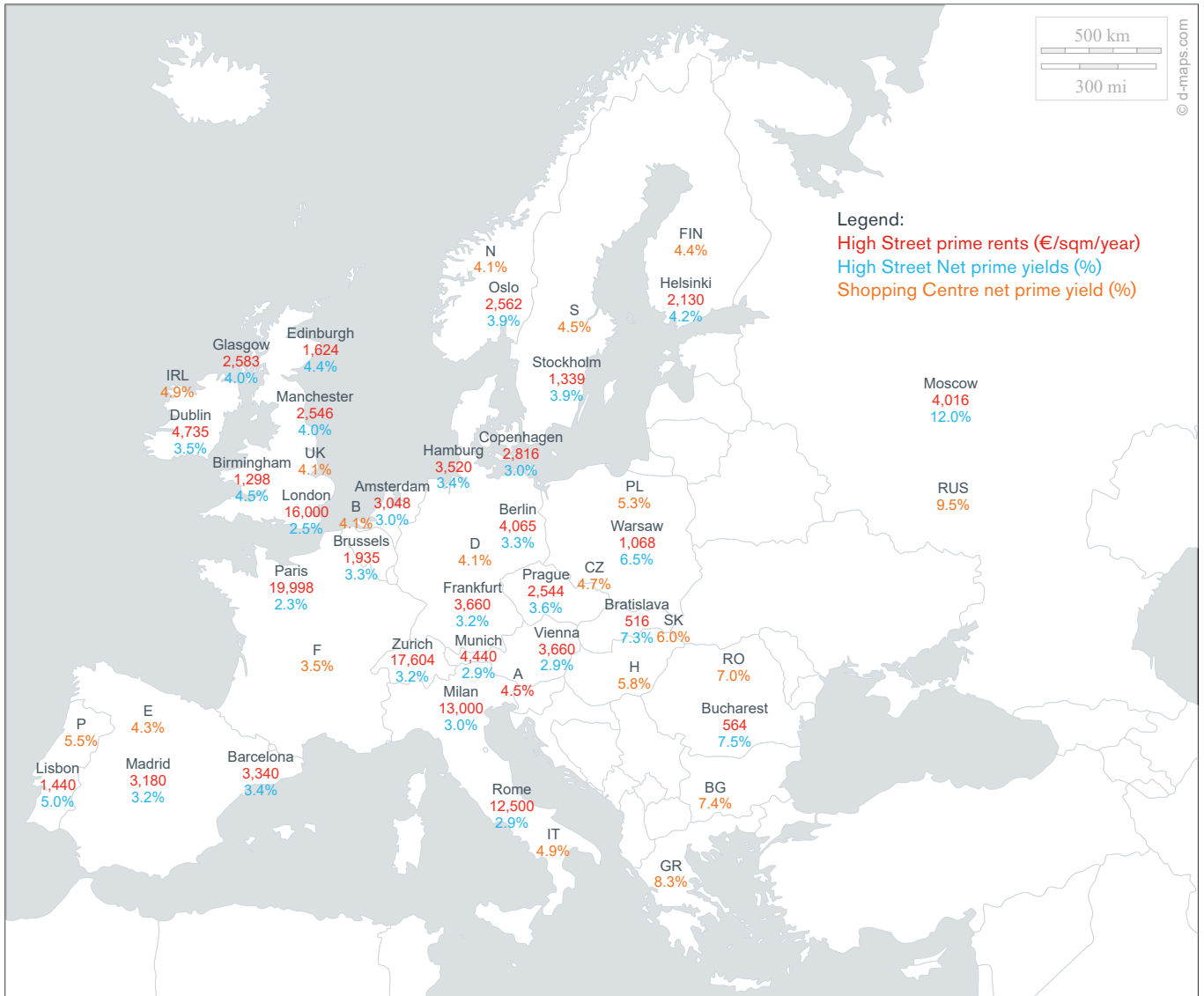


Source: Duff & Phelps REAG R&D on various sources



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

# European Retail Market

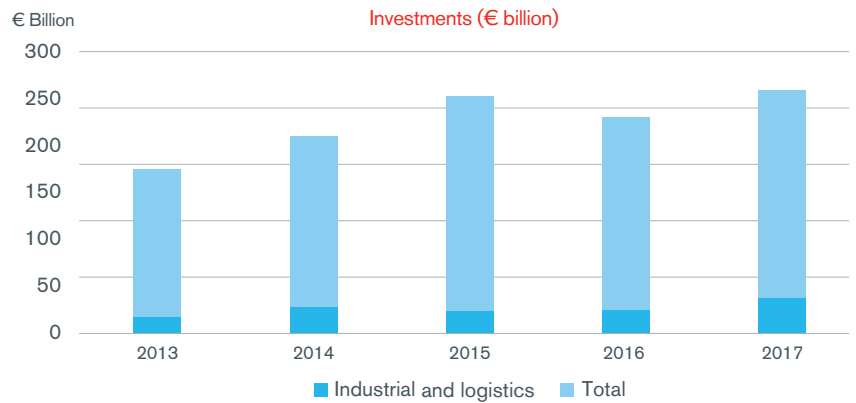


Source: Duff & Phelps REAG R&D on various sources

# European Logistics Market

## INVESTMENTS VOLUME

- In 2017, the volume of industrial investments increased by 54% on an annual basis.
- The Industrial sector was the most attractive commercial real estate market in terms of investments.
- Industrial investments absorbed 15% of the total. Investments in this sector doubled compared to 2016.
- UK registered the highest volume of investment.



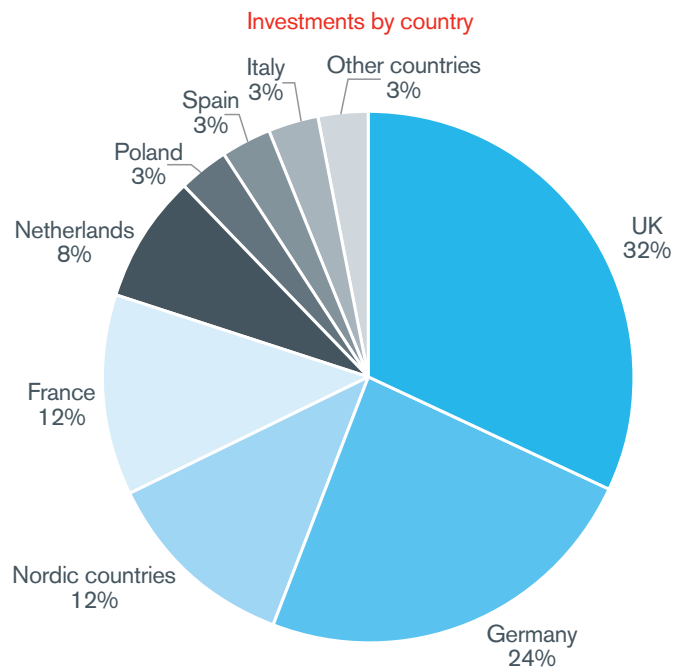
Source: Duff & Phelps REAG R&D on various sources

## KEY DRIVERS

- Warehouse spaces
- Drones
- High quality greenfield and brownfield required
- Build-to-suit developments
- Well-connected assets
- Digital economy

## VACANCY

- Vacancy rates continued to decline in most of the major markets, reaching the lowest level in the past five years



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

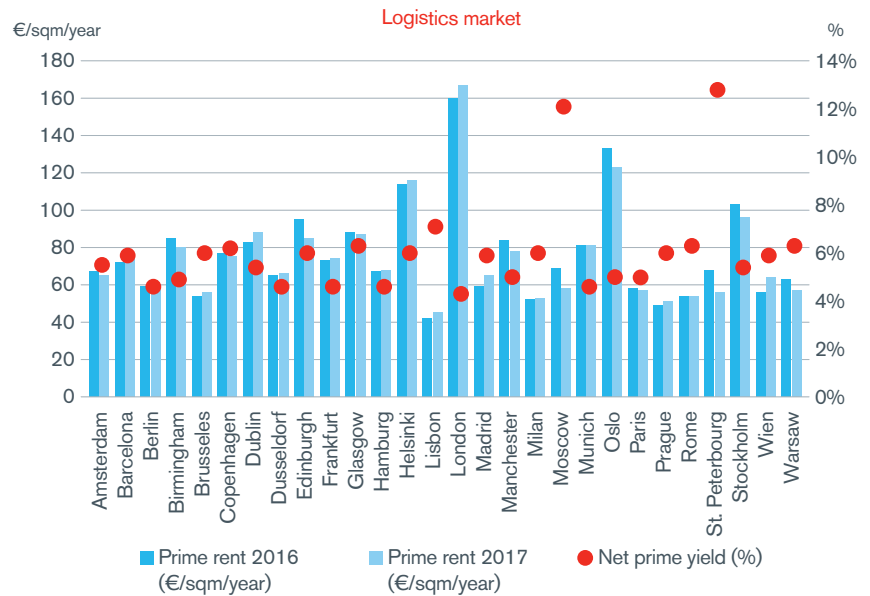
# European Logistics Market

## PRIME RENTS AND YIELDS

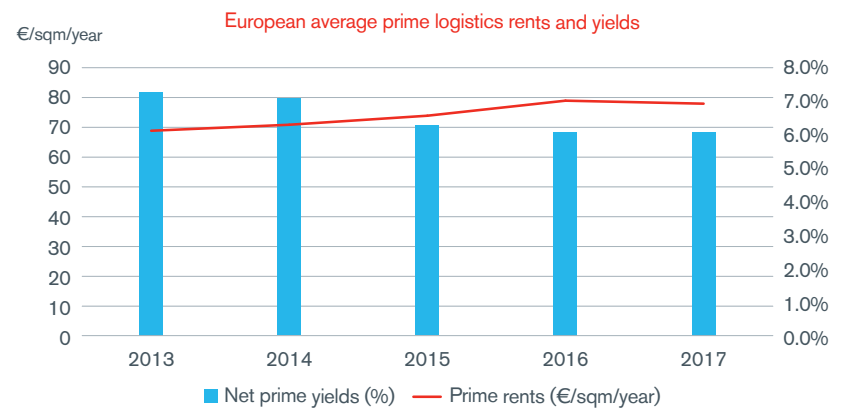
- In 2017, rents remained stable in most countries.
- Average net prime yields remained stable at 6%.
- In 2018, yield compression and rental growth is expected for the main markets due to the lack of investment products.

## MARKET HIGHLIGHTS

- UK: Despite the low yields, e-commerce and positive rental growth continue to attract the investors.
- Italy: 2017 registered a record in terms of annual volume. Demand is dominated by built-to-suite projects.
- Germany: Strong demand for quality space and the lack of land increased the speculative construction
- France: Rents and yields are stabilizing. Supply is increasing in secondary regions.
- Spain: 2017 ended with a take up above the average of last year, but it was not recorded levels of 2016. Rents are expected to grow, while yields will see a slight compression.
- Netherlands: The positive economic development impacted the transportation sector, which saw a sharp growth of new logistics buildings.



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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