INVESTMENT MARKET UPDATE

FY 2015 volume to reach new record

Europe Q1 2015

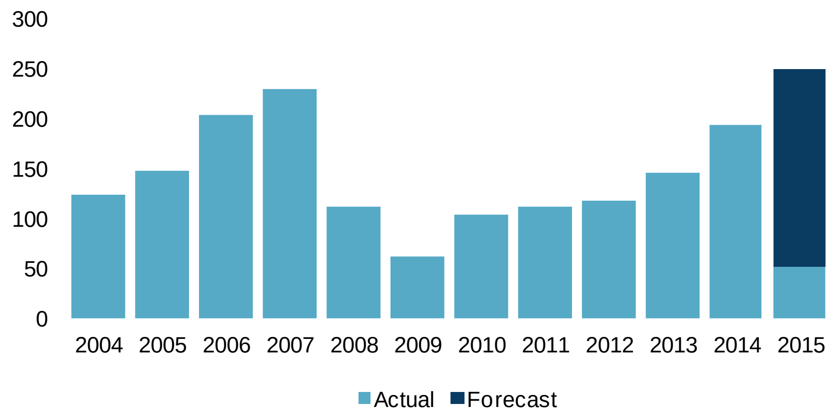
8 May **2015**

Contents

- European commercial real estate investment totalled EUR51.4bn in the first quarter of 2015, a 40% increase on a year ago. Following a strong final quarter in 2014, in which EUR 71bn was invested, the latest figures mean volumes over the last 12 months climbed to EUR208bn. This is the first time since 2007 that the EUR200bn mark has been exceeded in a 12 month period.
- Dynamic investment across the continent in Q1, with investors increasingly looking beyond the core markets. The UK, France and Germany saw their share of activity slip from 74% in Q1 2104 to 65% in Q1 2105. Spain and Italy continue to welcome massive capital flows, resulting in triple digit growth, while Benelux and the Nordics posted 93% and 48% increases in volume.
- Offices continued to drive investment activity across Europe with 39% of market share – although this was its lowest share since 2011. The retail segment has shined with volumes reaching a record quarterly level of EUR18bn in Q1 2015 driven by pan-European shopping centre portfolio sales.
- Domestic and overseas investors played an equal part in the European volume in Q1 2015. Although the share of activity by non-European investors slowed marginally this quarter, they have invested a record EUR60bn in the past twelve months supported by US, Asian and Middle Eastern capital.
- Commercial real estate is expected to remain attractive despite on-going yields compression with a record EUR125bn of new capital targeting the region. This will lead to increased market activity with the likelihood that investment this year could surpass its previous peak of EUR230bn in 2007 (Figure 1).

Figure 1

European investment volume, EUR bn



Source: DTZ Research

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Europe Q1 2015

Investor volume

Momentum continues as volumes reach 2007 levels

Q1 2015 saw commercial real estate activity in Europe totalling EUR51.4bn, a 40% upsurge on the same period last year. This continues the trend of increasing investment volumes and follows a strong final quarter in 2014, in which EUR 71bn was invested. Rolling annual volumes as at the end of Q1 2015 have climbed to EUR 208bn (Figure 2). Investment volumes have thus exceeded the EUR200bn threshold over a 12 month period for the first time since 2007.

Growth moves away from UK, France and Germany

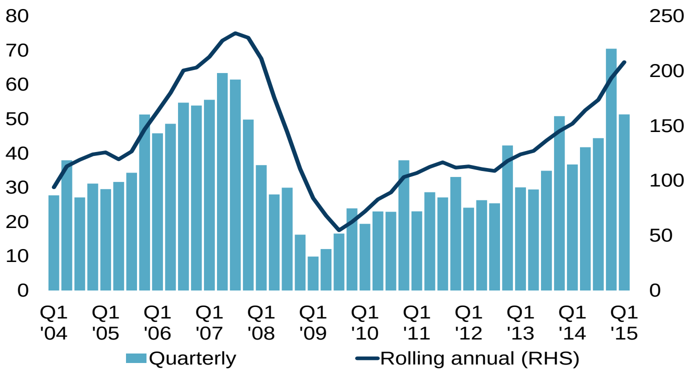
Activity in the past twelve months continues to rise above levels seen in the previous twelve month period across all major European markets. However the core 3 markets of the UK, France and Germany have seen their share of total investment fall to 65% in Q1 compared to 74% a year ago. Activity continues to grow in these three markets, albeit at lower levels compared to other markets (Figure 3).
In particular we have seen an increased shift into peripheral markets – Ireland, Italy and Spain – albeit off a low base (see Map 1). Combined investment volumes reached EUR 21.4bn in the last twelve months, resulting in a growth of above 100% on the previous 12 months when there was 9.7bn recorded. Italy has now joined the other two nations boasting a substantial 106% year on year increase in activity to EUR7.8bn in the last twelve months.
The Benelux region was another key driver in the recovery as investment activity grew 95% to EUR12.9bn over the past 12 months. The level of investment into the Netherlands a particular driver.
The Nordics have also experienced growth but to a much lesser extent. Activity rose to EUR23.1bn year on year in Q1 2015, a 48% increase on the previous 12 months. Most of this has been driven by stronger activity in Denmark and Norway.

Increase in EUR100m + activity drives lot size higher

The first quarter of the year saw growing levels of investment into larger transactions, particularly deals priced above EUR100m. Larger transactions accounted for more than half of Q1 investment. Deals ranging between EUR100m and EUR500m remained the most active, with a varying scope of investors contributing to the majority of markets including the Core, Peripheral and Benelux markets.
Deals priced above EUR500m have increased for the third successive quarter (Figure 4), and accounted for 20% (EUR10bn) of capital invested. This reflects the huge appetite of investors in Europe and their willingness to deploy the vast array of capital raised. The volume invested in the EUR500m+ bracket is largely a result of several substantial deals, notably Klepierre's acquisition of the Corio pan European portfolio, the Palladium shopping centre in Prague Union Investment, and the Porto Nuovo portfolio in Milan acquired by Qatari fund.

Figure 2

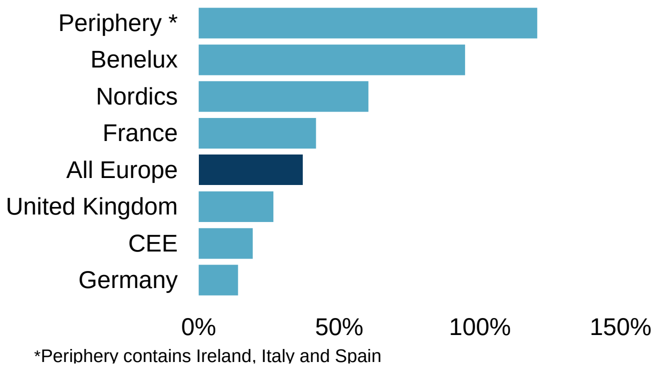
European Investment activity, EUR bn



Source: DTZ Research

Figure 3

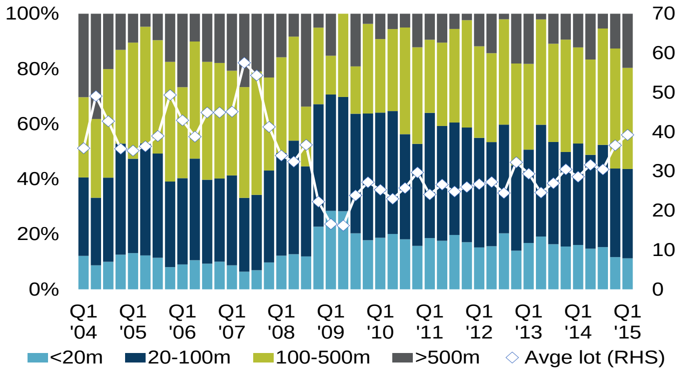
Change in investment activity Q2 14-Q1 15 v Q2 13-Q1 14



Source: DTZ Research

Figure 4

Investment activity by lot size and average lot size, EUR m

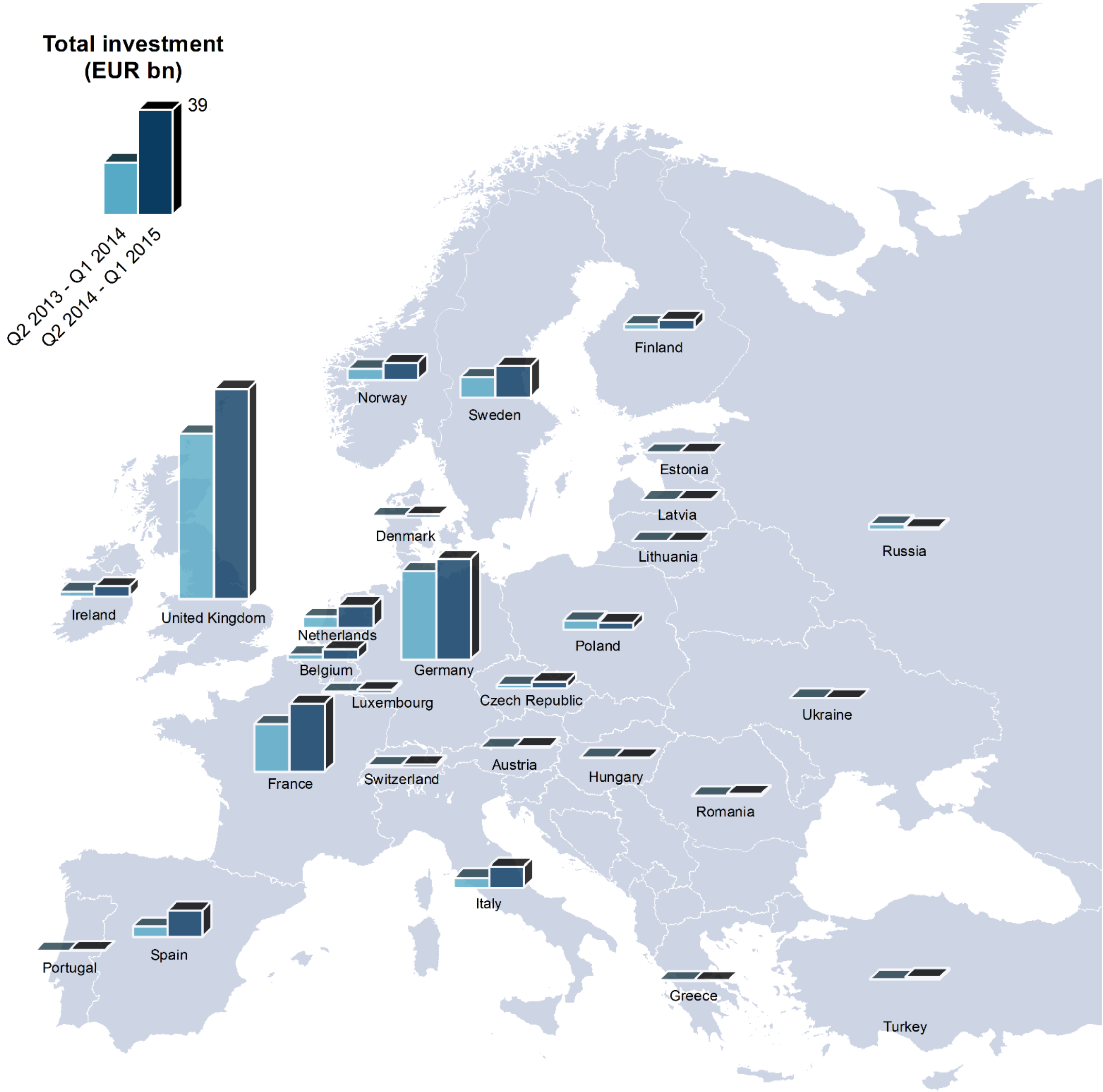


Source: DTZ Research

Europe Q1 2015

Map 1

Investment volume, Q2 14-Q1 15 v Q2 13-Q1 14



Source: DTZ Research, ESRI

Source of capital

Volume of non-European investment at record level

The growth in investment activity across the European market could be attributed to an increasing level of investor sentiment from all capital sources. Domestic investors continue to dominate the market, accounting for 50% of all purchases.

Cross border investment into Europe continued its growing trend rising to EUR97.2 in the last twelve months. This marks a 51% increase over the same time period last year. European cross border investors have increased their share, accounting for a quarter of Q1 activity. As a result, non-European investors have seen their overall share of the European transaction market slip slightly on a rolling annual basis (Figure 5). Even so, they have deployed a record EUR60bn over the past 12 months.

Domestic and European investors remain net sellers

Despite being the biggest investors, domestic players remain major sellers continuing the trends seen over the past decade. European cross border investors also remained net sellers despite some renewed buy-side activity. As a result non-Europeans continued to grow their overall holdings in the region (Figure 6).

Asian and Middle East net buyers; US increase trading

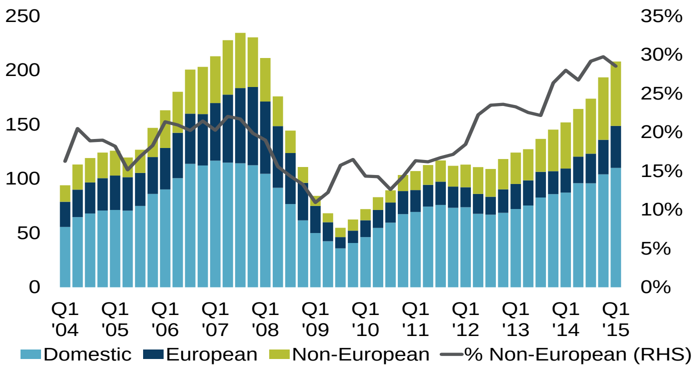
North American investors have continued their activity in Europe with a further EUR4.2bn invested in Q1, taking investment to over EUR18bn in the past year (Figure 7). The depreciation of the Euro against the dollar is clearly spurring growing investment activity. Despite being one of the more active sellers, North American investors were the biggest net non-European buyers over the past 12 months.

Asian capital continues to flow into Europe with Chinese capital now leading the way with EUR0.7bn invested in Q1. Australian, Malaysian, Singaporean and South Korean investors also remained active with over USD200m invested each. Middle Eastern capital, most notably from Qatar and UAE also continues to flow into the region. International investors accumulated a net EUR3.3m over a 12 month period as at Q1.

Whereas the UK and London was the main focus with see growing levels of foreign activity on the Continent (see Map 2). Recent deals include the South Korean NPS acquiring the Deutsche Bank Campus in Frankfurt and a Qatari fund completing its purchase of the Porto Nuovo scheme in Milan.

Figure 5

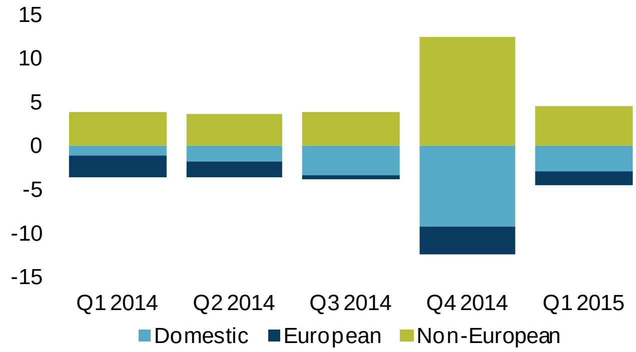
European investment by capital source, EUR bn



Source: DTZ Research

Figure 6

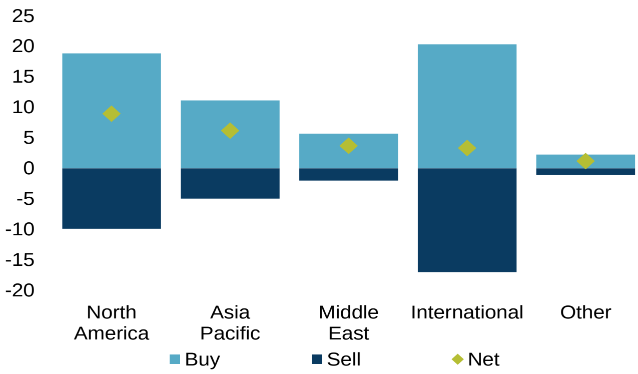
Net investment by source of capital, EUR bn



Source: DTZ Research

Figure 7

Net investment by non-European investors, Q2 2014-Q1 2015, EUR bn



Source: DTZ Research

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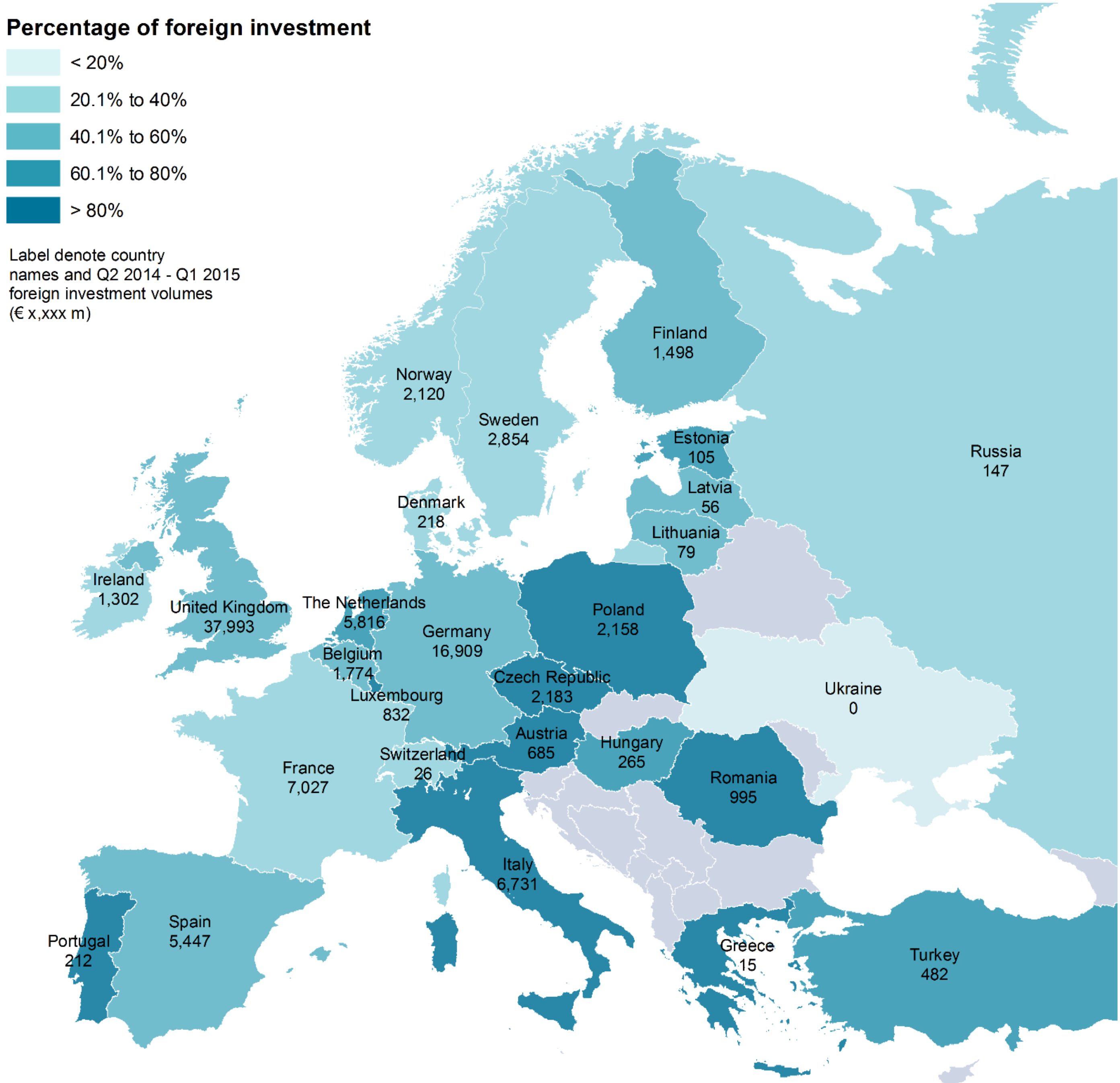
Map 2

Foreign investment across Europe, Q2 2014-Q1 2015



Source: DTZ Research, ESRI

Note: No reported foreign investment in Ukraine

Europe Q1 2015

Investor type

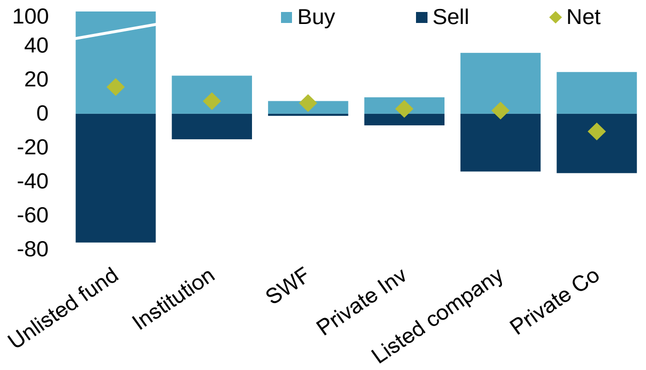
Strong net investment from listed companies

Having notoriously been heavy net sellers over recent years, the listed sector is now firmly a net buyer in the market (Figure 8). This is not only true for Q1 2015 but for the 12 months leading to end-March 2015. The strong investment level into Europe from the listed sector in Q1 was as a result of stronger investment form newly formed Spanish REITs in Spain. Although net neutral we also saw Kleppiere's acquisition of Corio.

Sovereign wealth funds also remained net positive with institutions also strong net investors and at a similar level to unlisted funds who were yet again the greatest net investors into Europe. A buoyant market in Q1 saw private property companies as the only investor type to be net sellers in the quarter.

Figure 8

Net investment by investor type, EUR bn



Source: DTZ Research

Property type

Strongest growth outside of offices

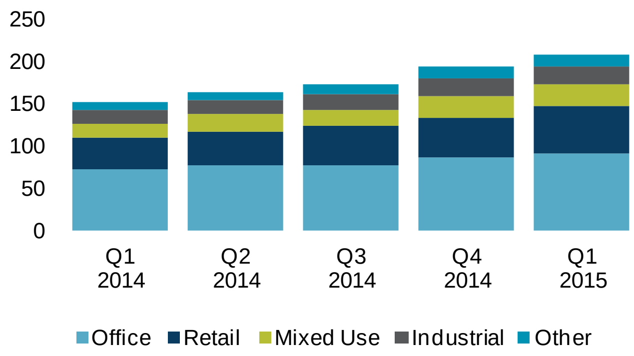
There was growth in the investment volumes of all property types in Q1 continuing the trend seen on a rolling annual basis. The office sector remained the most sought after asset type accounting for EUR89bn of the EUR208bn invested into Europe in the 12 months prior (Figure 9).

Despite offices appearing the most desirable asset type to those investing in Europe, growth in investment volumes was most felt in other asset types. In terms of overall growth, the retail sector has seen the biggest increase over the last twelve months, up 55% to EUR56bn. This represents the highest volume invested into the retail sector.

Strong growth in investment into mixed assets and industrial were also recorded continuing the trends seen in recent quarters.

Figure 9

Investment by property type, rolling annual, EUR bn



Source: DTZ Research

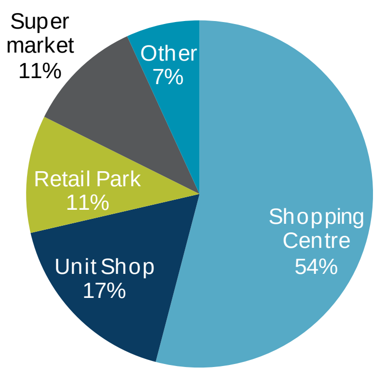
Retail volume boosted by shopping centre sales

As well as recording an absolute record investment volume over the course of the 12 months, investment into the retail sector in Q1 2015 alone was strong with EUR18bn recorded into the sector. Shopping centres have historically had the greatest investment volume of the sub-sectors within the retail sector accounting for 54% of the volume invested in retail over the course of the year (Figure 10). The volume invested into the retail sector in Q1 alone was driven primarily by absolute record levels invested into shopping centres (EUR11bn). The Klepierre and Corio transactions played a large part in this record figure; but single assets sales have also reached their highest levels.

Other retail types all saw investment volumes grow over the last 12 months, Unit Shops and Supermarkets up 90% and 65% on investment levels from the previous year respectively.

Figure 10

Retail investment by use, Q2 14 – Q1 15, EUR bn



Source: DTZ Research

Yield trends

Weight of money maintains downward pressure

Figure 11 displays a comparison between prime office yields in Q1 2014 and current yield levels. Yields are also compared to the lowest recorded yield over the past ten years. On the far left prime yields in London and Paris are at their lowest level with little movement over the year.

Dublin saw strong yield compression, as did Madrid, reflecting the aforementioned greater levels of capital inflows into the peripheral countries.

Many of the cities across Europe are approaching their pre-crisis lows, if they haven't already surpassed this figure. Toward the far right we see the only city to experience outward movement over the last year which was Moscow, and reflects the continued aversion of investors to the city and Russia overall.

Biggest reduction on industrial yields

As a whole, transaction yields continued to fall in Europe, however retail yields have stabilised. The compression of transaction yields over the past year could be accredited to the increasing levels of movement of capital into industrial assets. Industrial yields have reduced at a swift rate, falling 140bp on a rolling annual basis from the market peak and currently lies at 7.6%. Whilst not as substantial as the compression of yields in industrial assets, yields in the office sector continue to reduce as office yields in some markets approach record lows.

Outlook

Wall of new capital at new record level

There has been a continued increase in the level of new capital targeting the European commercial real estate market in recent history, and with commercial real estate expected to remain attractive despite on-going yields compression, there is a record EUR125bn new capital targeting the market (Figure 12).

Market heading for record year

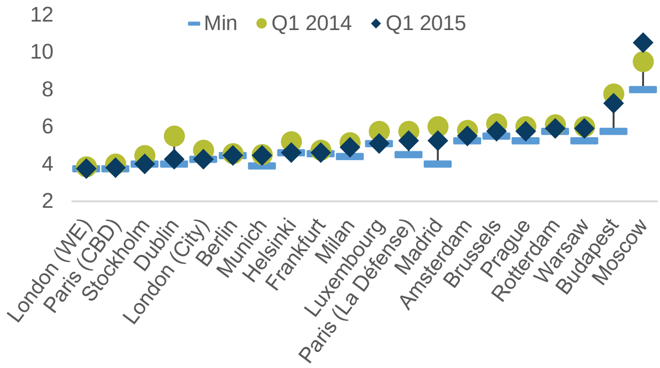
In the light of strong Q1 investment figures combined with the increase in new capital targeting the region, our previous forecast of EUR210bn of capital to be invested into Europe released in Q4 2014 looks set to be more of a minimum level of investment to be reached by the end of the year 2015.

Portfolios and entity level transaction will continue to provide large lot size transactions. The commercial real estate market will also continue to benefit from strong attractiveness due to expectations that interest rates will remain low.

In this context we expect investment activity to surpass its previous peak of EUR 230bn in 2007 (Figure 13).

Figure 11

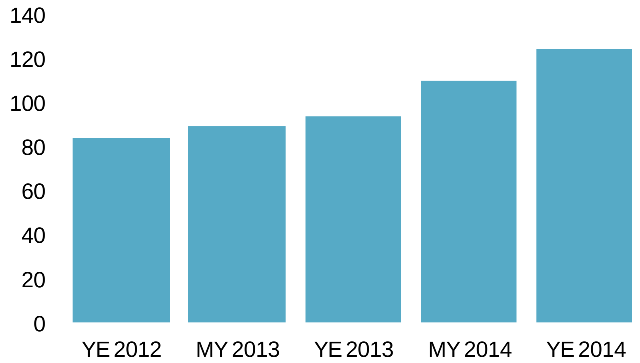
Prime office yield trends 2005-Q1 2015, %



Source: DTZ Research

Figure 12

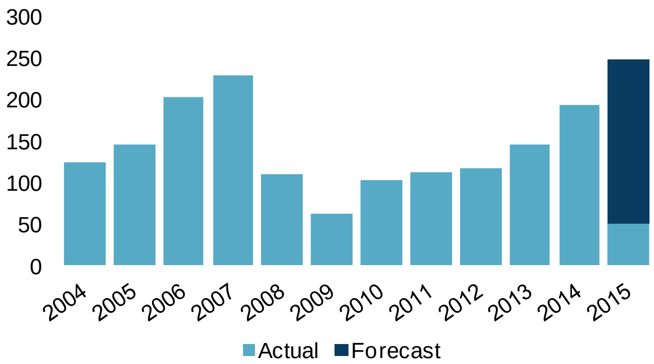
New capital targeting European CRE, EUR bn



Source: DTZ Research

Figure 13

Transaction volume forecast, EUR bn



Source: DTZ Research

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