European Investment

MARKET IN MINUTES
Savills Research

savills

2019 European commercial investment volumes forecast to reach €219bn.

BASED ON Q1 NUMBERS, SWEDEN AND ITALY ARE EXPECTED TO PULL OUT BETTER THAN OTHER COUNTRIES.

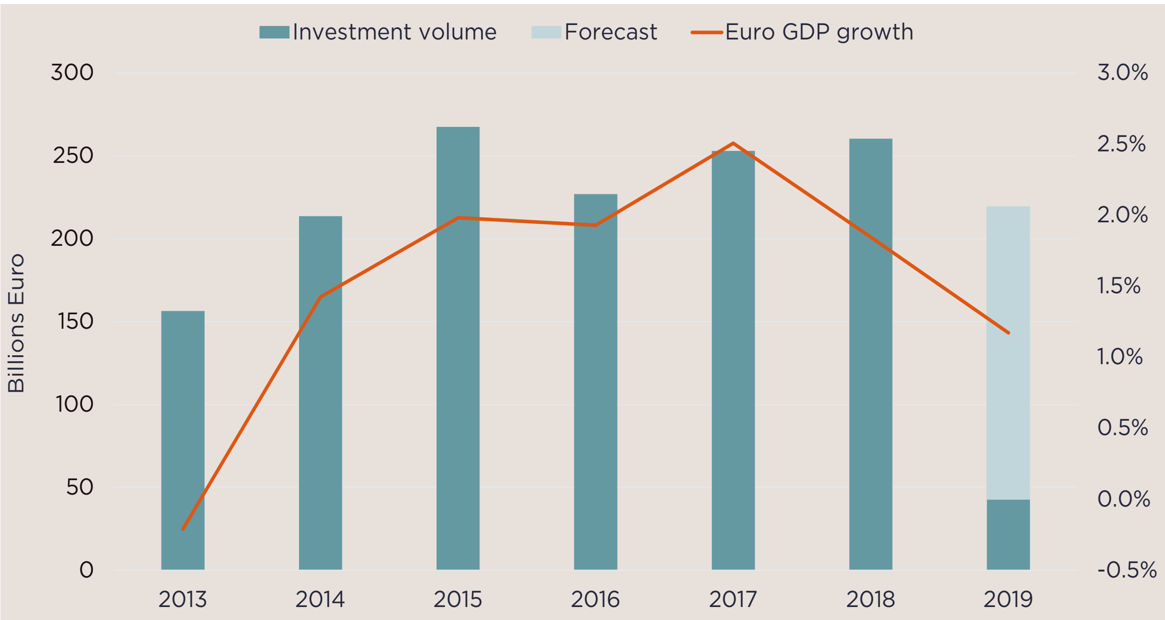
During the first quarter of the year, European commercial investment volume totalled €44.7bn, 21% down compared to Q1 2018, off the back of the second highest Q1 recorded last year. This decline is widespread in almost all European countries except Greece (+165%), Romania (+161%), the Czech Republic (+160%) and Sweden (+72%). In Sweden, the commercial investment volume amounted to €2.9bn (SEK 31bn). This is the highest volume ever observed for a first quarter, notably resulting from particularly large deals. This is the fourth largest volume after the UK (€14bn), Germany (€11bn), and France (€4bn). Hence the share of the Nordics accounted for 14.5% of the total European volume compared to 11.2% last year, whilst the share of core countries remained relatively unchanged (63.5% in Q1 2019 – 64.9% in Q1 2018).

The decrease in investment turnover was also witnessed across sectors. The retail segment recorded the sharpest decline in activity, -39% compared to Q1 2018. Investors' demand for retail assets is becoming increasingly picky, targeting prime assets of the right size with strong grocery and food presence and less fashion. Still, divergent price expectations often leave negotiations between buyers and sellers deadlocked. Investor demand remained mainly focused on offices, accounting for 41% of the total, followed by alternative assets (30%). The share of logistics investment (14%) remained relatively unchanged compared to last year.

Despite this tentative start in 2019, European real estate continues to attract capital, almost 50% of which is cross -border. The lack of disposable stock continues to be the main drag on investment activity. Additionally, strong pressure on prices is often lengthening the duration to close deals. In the face of the slowing economy and geopolitical uncertainties, investors' demand for European property remains strong but has reinforced a conscious flight to quality.

A low-interest rate environment and the most likely extension of the QE programme by the ECB will continue to offer an attractive yield spread for prime commercial products. We expect the 2019 European commercial investment volumes to reach €219bn by the end of the year, which will be approximately 13% below last year's turnover. Sweden, where development activity is fuelling the market with forward-funding opportunities, is expected to particularly stand out this year (+8%), whilst in Italy, the end-year investment volume should be in line with 2018.

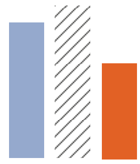
European commercial investment volume



Source Savills Research, Focus Economics

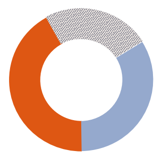
> **"The Economic slowdown causes a flight back to prime and core assets for which the supply is limited and prices are high. Constrained investment activity is likely to lead to a 13% turnover decrease yoy projected for 2019."**

Key figures

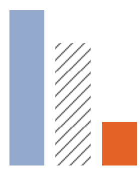


-21%
Investment volume in Q1 2019 compared to the same period last year. It is projected to be 13% down at the end of the year.

14.5%
Share of the Nordics investment out of the total European volume, thanks to a surge in activity in Sweden.



41% and 29%
The share of office and alternative investments out of the total.



-39%
The retail segment recorded the sharpest decline in activity compared to Q1 2018.

50%
Approximately half of the European investment volume is cross-border.

Mixed picture is showing first signs of average yields softening across Europe's commercial real estate.

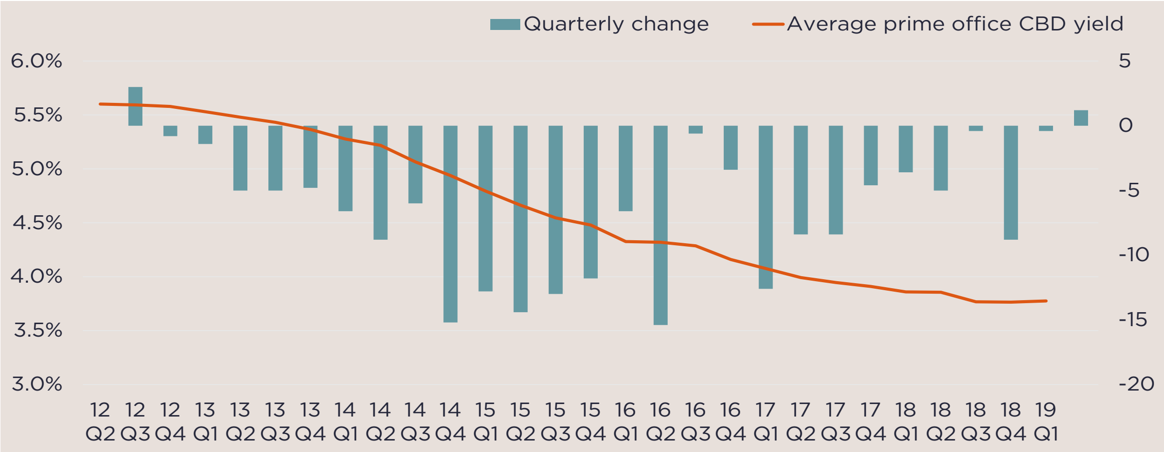
The average prime yield for CBD offices stands at 3.9%, which is 7bps down compared to last year but 2bps up on last quarter. This is the first time since Q2 2012 that the average prime office CBD yield has moved out. However, looking at quarterly yield movement by city, only London WE, London City and Amsterdam moved out by 25 bps. Dusseldorf and Cologne prime office yields moved in by -10bps whilst the rest remained stable. The prime CBD and non-CBD office yield gap continued narrowing to 89bps, from 99bps in Q1 2018, due to the tight supply situation in CBD markets. However, the gap between prime and secondary CBD office is stabilising at 109bps (110bps in Q1 2018), reflecting risk aversion amongst investors.

Overall prime retail yields moved out regardless of the retail format. The average prime high street yield (3.41%) softened by 1bp yoy and by 5bps qoq with quarterly outward movements recorded in Prague (50bps), Luxembourg (30bps) and Helsinki (10bps) and inward movement recorded in Dusseldorf (-10bps), whilst it remained stable in all other cities. The average prime retail warehouse yield (5.16%) hardened by 6bps yoy but softened qoq notably due to downward price correction in London and Paris. The format remained resilient in the top six German cities where prime yields kept moving in (-10bps qoq). The average prime shopping centre (4.58%) moved out by 9bps annually and remained broadly stable on a quarterly basis, only London moved another 25bps out qoq and Warsaw -25bps qoq.

The picture is quite different in the logistics sector. Strong investors' appetite for logistics assets keep putting downward pressure on prime yields. Year on year the average prime logistics yield was -43bps down at around 5.15%. The contraction of the spread between logistics yields and retail yields has no precedent. Only 57bps separates the average prime logistics yield (5.15%) and the prime SC yield (4.58%), compared to the 10-year average of 157bps.

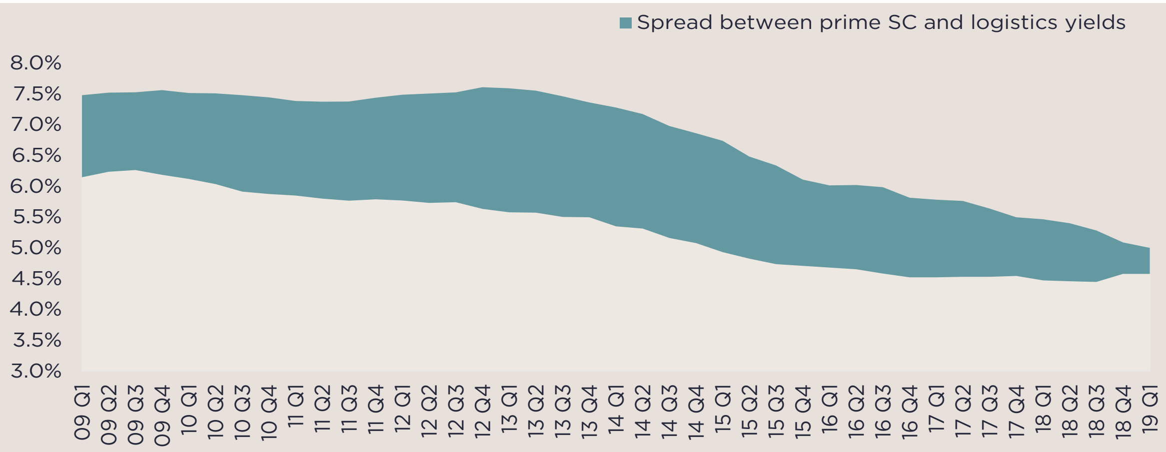
For the coming 12 months, we still expect some yield compression in the logistics and the office sectors. Prime retail yields will remain stable in most European countries; it will soften in the UK, Ireland, Belgium, Norway and Finland.

European prime office CBD yield



Source Savills Research

Spread between prime shopping centre and logistics yields



Source Savills Research

Savills team

Please contact us for further information

Marcus Lemli
European investment
+49 (0) 69 273 000 11
mlemli@savills.de

Lydia Brissy
European research
+33 (0) 624 623 644
lbrissy@savills.fr

Eri Mitsostergiou
European research
+30 (0) 694 650 0104
emitso@savills.com

Mike Barnes
European research
+44 (0) 207 075 2864
mike.barnes@savills.com