Investment Market Update
Europe Q2 2013
Cross border flows boost volume

24 July 2013

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- European commercial real estate investment activity reached EUR26.5bn in Q1 2013. Although an 8% decrease on Q1, investment activity in the first half of the year, totalled EUR55.1bn, a 9% increase on H1 2012 (EUR50.4bn) as sentiment continues to improve across many European markets. Investment remains focussed on the UK, Germany and France, representing 69% of volumes in Q2. Although only France and Germany saw volumes in the first half of the year grow on the same period last year, with UK volumes edging lower.

- The pattern of activity has remained mixed across the rest of Europe during the second quarter. Volumes remained stable in the Nordics at EUR3.7bn in contrast to decreasing market activity in Central Eastern Europe (-19%) where volumes totalled EUR700m. Interestingly, Southern Europe reached a turning point as foreign investors pushed Italian volumes to EUR1.1bn and to EUR531m in Spain. A resurgence of activity has also been noticed in Benelux which ended the second quarter at EUR1.7bn, up from EUR1.2bn in Q1 2013. Positively all these regions saw much stronger first half volumes when compared with the same period last year.

- Foreign investment remained strong over the quarter and represented over 40% of all acquisitions, with particularly strong activity from inter-regional investors who represented 26% of all European investment. Their purchases totalled EUR6.9bn in Q2 2013, a 19% increase on Q1. On a net basis, they have increased their exposure to the European market by EUR2bn – the only investor group to consistently show positive net investment since 2010.

- The industrial sector again benefitted from a strong activity in Q2 2013 as volumes totalled EUR3.3bn in Q2. Overall, offices remained the most popular asset type with EUR12.6bn of acquisitions recorded in Q2 2013. Activity has been less dynamic in the retail sector at EUR6.3bn in Q2 2013; this partly reflects a lack of product.

- We expect the current momentum in the market to continue over the rest of the year with investment volumes expected to reach EUR119bn, marginally ahead of 2012 volumes.

Europe Q2 2013

European investment volume

Quarterly decrease but half year volume up by 9%

After a solid start to the year with EUR28.7bn invested in Q1, the European investment market maintained its momentum with EUR26.5bn invested in Q2 (Figure 1). Despite volumes being weaker in Q2, overall volumes in the first half of the year reached EUR55.9bn, a 9% increase on the same period last year.

This is the best start to the first half of the year since 2008. This reflects improving sentiment across many European markets on the back of more positive economic prospects anticipated for 2014 and beyond and a reduction in the downside risks. The second quarter has showed some interesting new trends regarding the country focus of investors (Map 1).

Resurgence of activity in Southern Europe and Benelux

The majority of investment remains focussed on the UK, Germany and France, representing 69% of volumes in Q2. The UK continued to perform well with EUR8.7bn of transactions recorded in Q2 2013, up 4% over the quarter. France posted a solid 9% increase to EUR3.8bn, although investment activity in Germany declined 8% over the quarter to EUR5.9bn. But, while France and Germany saw volumes in the first half of the year grow year-on-year, the UK registered weaker activity.

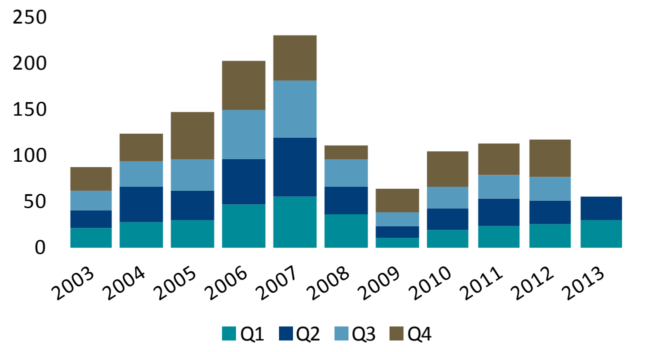
The pattern of activity has remained mixed across the rest of Europe during the second quarter. Volumes remained stable in the Nordics at EUR3.7bn in contrast to a 19% decreasing in market activity in Central and Eastern Europe to EUR700m. Interestingly, Southern Europe reached a turning point with tentative signs that investors are now willing to undertake deals in the region. The mega deal by Qatari Investors in Milan pushed Italian volumes to EUR1.1bn whilst Spain (EUR531m) benefited from the return of foreign investors. Improved activity has also been noticed in Benelux which ended the second quarter at EUR1.7bn, up from EUR1.2bn in Q1 2013. Positively all these regions saw much stronger first half volumes when compared with the same period last year.

Fewer mega-deals in Q2

Deals on the segment above EUR200m have been less numerous in Q2, the biggest transaction having been the purchase of Porta Nuova in Milan for an estimated price of EUR600m. Overall, all the other segments posted increase in volume with stronger activity on the segment from EUR100m to EUR200m for a total EUR5.9bn. As a consequence, average lot size in Q2 decreased to stand EUR25.7m compared EUR27.9m in Q1 2013 (Figure 3).

Figure 1

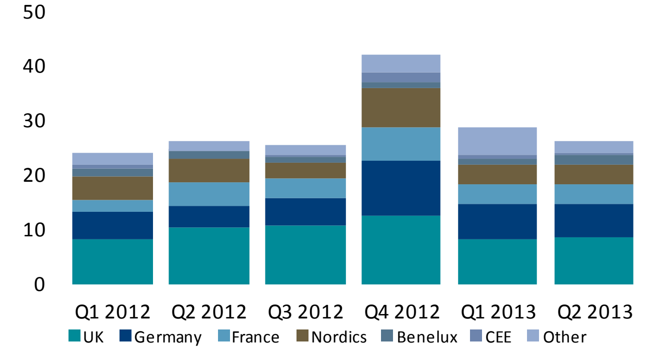
European investment activity by quarter, EUR bn



Source: DTZ Research

Figure 2

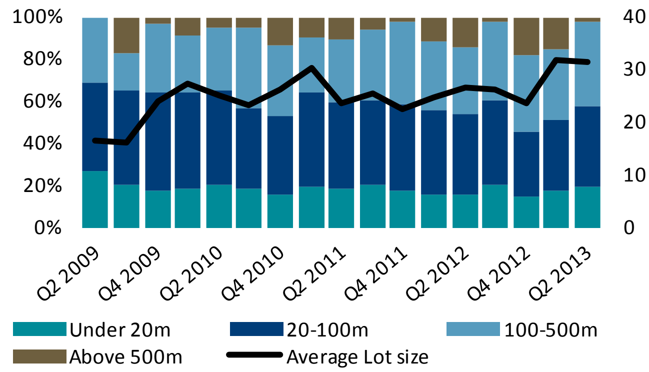
European investment activity by market, EUR bn



Source: DTZ Research

Figure 3

European investment activity by lot size and average lot size, EUR m



Source: DTZ Research

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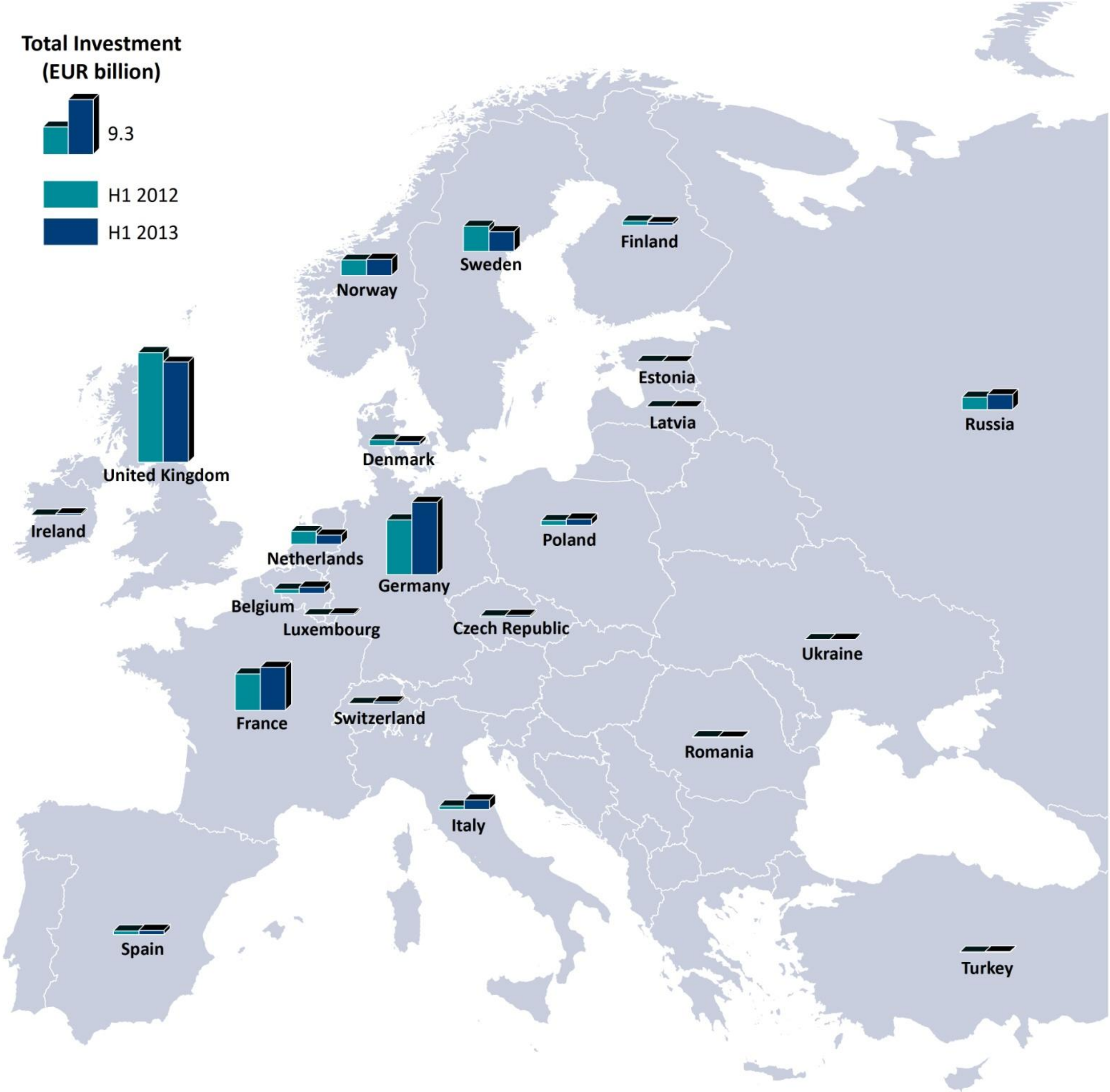
Map 1

Investment volume H1 2013 versus H1 2012



Source: DTZ Research; ESRI

Europe Q2 2013

Source of capital

Strong activity from inter-regional investors

Domestic investors saw their market share shrink in Q2 2013, representing 59% of the investment activity, down from 64% recorded in Q1. Cross-border investors increased their activity to 41% this quarter. Inter-regional investors – those investing from outside of Europe – remained by far more active accounting for over a quarter of total investment (Figure 4).

The European market continues to attract capital from North America (EUR2.5bn), Asia Pacific (EUR1.7bn) and the Middle East (EUR1.5bn). Just over half of this capital (53%) was concentrated on the UK.

UK on the top for non-European investors

The analysis of cross-border activity by country in Q2 shows some interesting trends amongst the 3 core markets.

In the UK the cross-border activity mainly comes from inter-regional investors with EUR3.8bn invested in Q2 2013, up from EUR2.8bn last quarter. Most of their purchases took place in London where lot sizes above EUR100m are more plentiful. In contrast, they have been less active in Germany and France where domestic investors are still dominant despite increasing market share of cross-border flows (See Figure 5 and Map 2).

In CEE where investment volumes are down, intra-regional investors have been the most active on the office and retail sector. The strong Inter-regional investment reflected the PSP/SEGRO joint venture where a high proportion of assets were located in Poland.

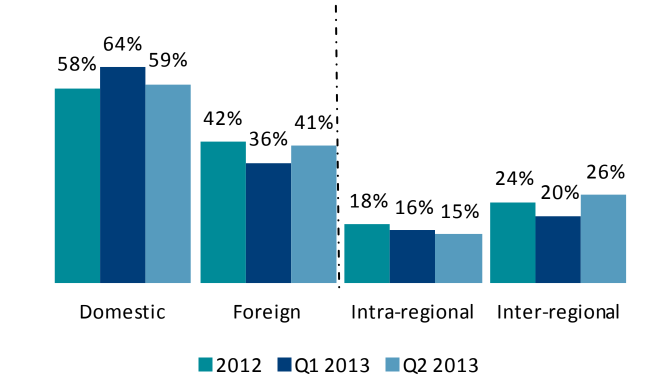
Inter-regional investors maintained their net investment

Inter-regional investors continued to increase their exposure on the European market with a net investment of EUR2bn in Q2 2013. This followed positive net investment of EUR14bn recorded in 2012 (Figure 6). Both domestic and European cross border investors were net sellers in Q2 2013 by EUR1.2bn and EUR800m respectively.

We now see a wider range of investors, not only from the US and Canada, but also new sources with Chinese institutions entering for the first time.We expect this trend to increase, especially in core European markets.

Figure 4

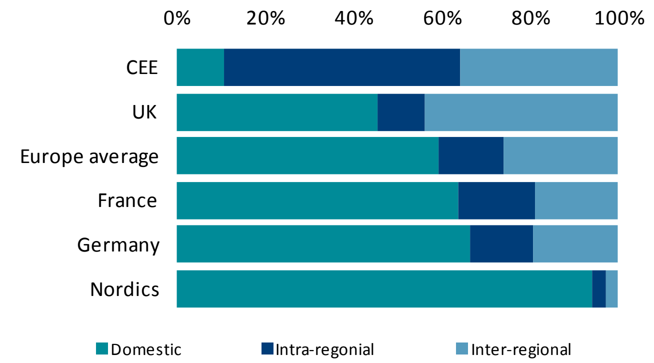
European investment activity by source of capital



Source: DTZ Research

Figure 5

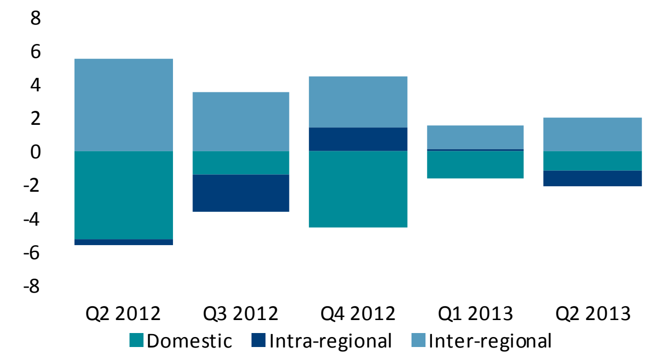
Cross-border investment by country, Q2 2013



Source: DTZ Research

Figure 6

Net investment across Europe by source of capital, EUR bn



Source: DTZ Research

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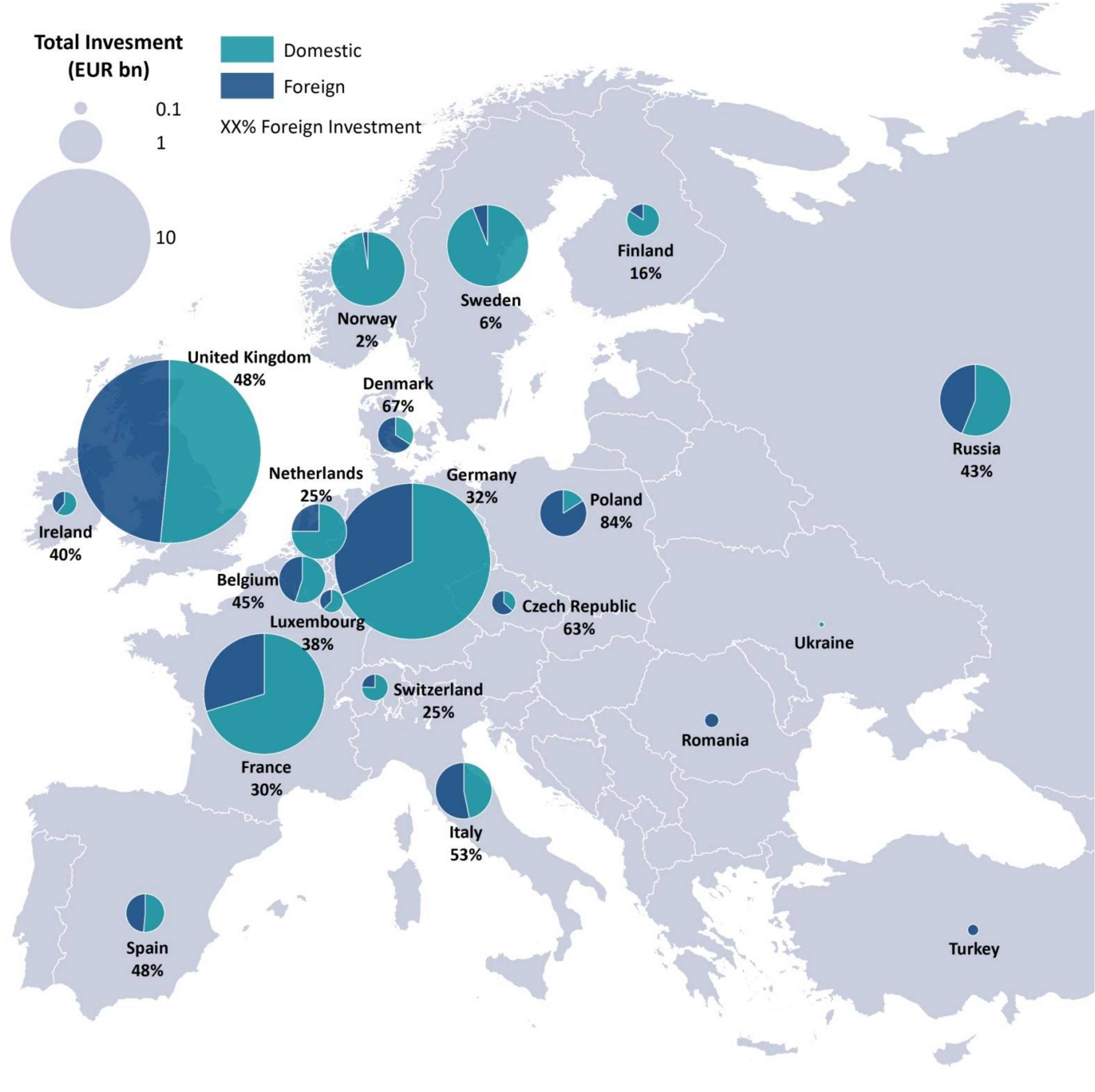
Map 2

Domestic and foreign investment, H1 2013



Source: DTZ Research, ESRI

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Investor type

Private property vehicles still dominate but institutions rebound

Private property vehicles continued to remain the most dominant players across the European investment market. Their acquisitions totalled EUR9.7bn this quarter, representing 37% of activity (Figure 7). Institutions were more active than in the past on the buy side, accounting for EUR3.9bn or 15% of activity in Q2, up from EUR2.7bn in Q1. Institutions have diversified their investments with more activity recorded on the retail and industrial sectors. The increase was supported by increased activity from pension fund who invested ca EUR2bn over the quarter.

By contrast, the listed sector lost momentum with acquisitions totalling EUR2.7bn. This reflects a market share of 10%, well below the long-run average of 10% Most of their acquisitions took place in their home market whilst cross-border activity remained limited to a handful of acquisitions.

Other investors, notably sovereign wealth funds continued to deploy their capital across the European market. The most active have been from the Middle East with notable deals in the UK (20 Grosvenor Square acquired by Abu Dhabi Investment Council) but also Qatari funds in Italy (Porta Nuova in Milan) and in Belgium.

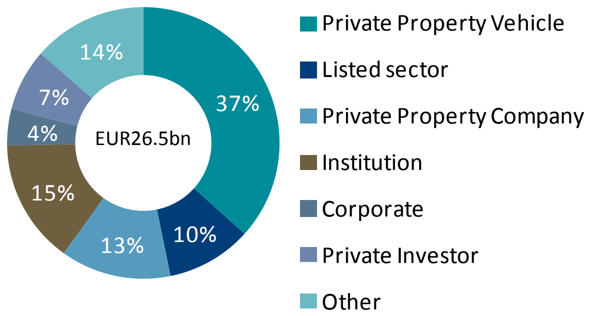
Net investment still strong for the investment funds

Private property vehicles (mostly unlisted funds) were also active on the sell side, with their overall net investment shrinking further this quarter to a net EUR1.7bn (Figure 8). Institutions took advantage of sales from the listed sector (EUR3.2bn) and private company (EUR5.6bn) fully engaged into a deleveraging process to help grow their net position this quarter, this included the joint venture signed by SEGRO selling 50% of its pan-European logistics portfolio to PSP.

Listed companies, including REITs, remained net sellers over the quarter as they continue to restructure their portfolios and reduce gearing. Net sales of EUR500m were nearly half the level in Q1, providing tentative signs that much of the planned restructuring may be complete

Figure 7

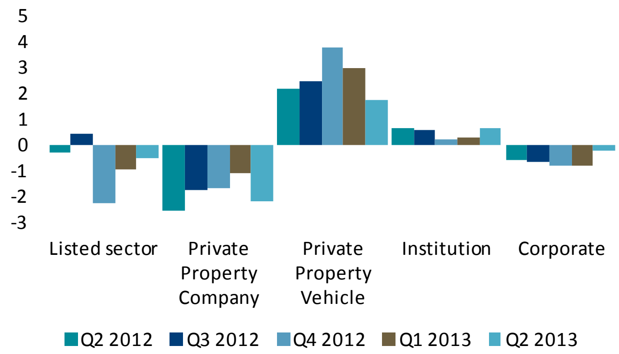
European investment activity by investor type, Q2 2013



Source: DTZ Research

Figure 8

Net investment across Europe by investor type, EUR bn



Source: DTZ Research

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Property type

Industrial is up but office still dominated

The industrial sector again benefitted from a strong activity in Q2 2013 as volumes totalled EUR3.3bn in Q2. On the back of NBIM and Prologis entering a joint venture in Q1 quarter, Q2 2013 saw Canadian pension fund PSP enter into a JV with SEGRO for the majority of its core continental European portfolio.

Overall, offices remained the most popular asset type with EUR12.6bn of acquisitions recorded in Q2 2013, slightly down from EUR13.1bn in Q1. Office assets continue to attract cross-border capital flows, accounting for 58% of their acquisitions this quarter, compared to 47% on average.

Market activity has been less dynamic in the retail sector which accounted for EUR6.3bn in Q2 2013; the appeal to investors remains strong, but market opportunities were rare, especially in relation to large lot sizes where shopping centre volumes we close to EUR1bn lower over the quarter.

Mixed-use continued to gain momentum with EUR2.4bn sold in Q2 2013, up from EUR2.2bn in Q1. Half of this volume was invested in the UK where cross-border investors from Asia and North America have purchased assets for a total of EUR600m this quarter.

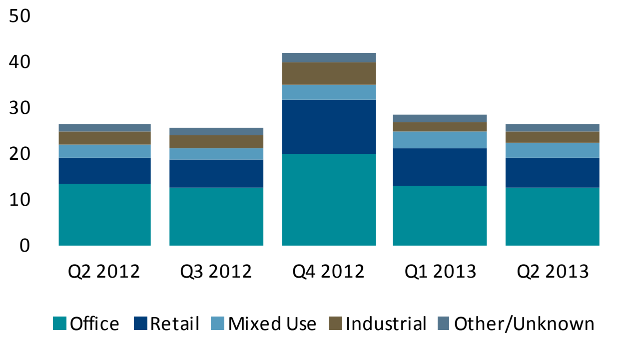
Strong appeal for shopping centres but opportunities remain rare

Shopping centre sales slipped from EUR3.8bn last quarter to EUR2.9bn in Q2. At 49% of retail activity they remained the dominant sector ahead of retail parks/ warehouses at 20% (Figure 10). Prime, well let retail assets continue to be seen as safe haven for a majority of investors which mainly focus on prime assets in core markets. In this context, Germany and the UK account for more than 70% of the purchases over the quarter. Some deals have also been recorded in CEE, mainly in Poland where Unibail Rodamco increased its shareholding into Zlote Tarasy, and the Peripherals.

Investment volume in shopping centres is expected to grow in the second half of the year as some trophy assets are currently entering into marketing process in the UK and France.

Figure 9

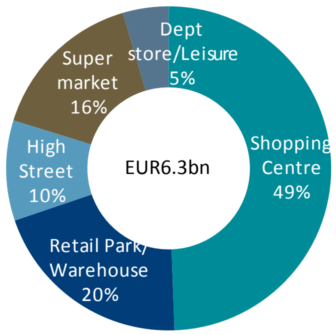
European investment activity by property type, EUR bn



Source: DTZ Research

Figure 10

European retail investment activity by type, Q2 2013



Source: DTZ Research

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Yields trends

Down for Paris and up in Madrid

Overall, prime office yields have remained static in the major European markets in Q2 (Figure 11). Prime office yields remain at low levels: 4.25% in London's West End, 4.25% in Paris CBD down by 25bps over the quarter, and 5.05% in Frankfurt.

In the Southern European markets of Italy and Spain, yields are expected to increase slightly in 2013. This has already happened in Madrid which recorded a 25bps upward move in Q2. This repricing will bring some clarity on where are the current prices in these two countries, where we see growing interest from a range of funds including institutions such as AXA or Allianz.

Figure 12 shows the range of yield movements across Europe over the past five years (indicated by the green line) and the current prime office yield at the end of Q2 2013 (indicated by the dark blue dot).

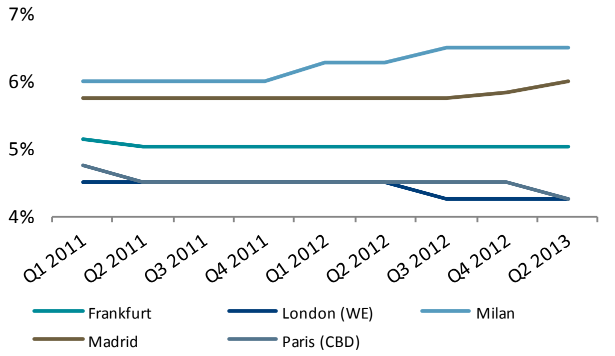
Yields in many markets such as in the UK, Germany and France, have moved back to their level at the peak of the market in 2007. Yields in Geneva and Zurich are currently below their 2007 level, reducing the room for further compression. In contrast, prices are expected to increase in markets where current yields are still far from their peak level for example Dublin, Bucharest and Budapest where the gap is ranging from 200 to 325 bps.

Overall prime property in Europe is expected to deliver returns averaging 8.0% per annum over the next five years. However, market selection can boost return prospects significantly, and we expect the Central and Eastern European markets and Dublin to deliver higher returns compared to core markets. This mainly reflects the fact that yields are currently higher in these markets. In this context, Dublin is particularly attractive, as returns are expected to average 15% pa across all sectors.

As some investors struggle to source prime product we see growing interest towards secondary assets. Based on our analysis of transaction yields, we see the gap between prime and secondary yields stabilising, with tentative signs that the gap is beginning to narrow from historically high levels (Figure 13). With growing interest and greater clarity in pricing we would expect theis gap to narrow further over the next 12-18 months.

Figure 11

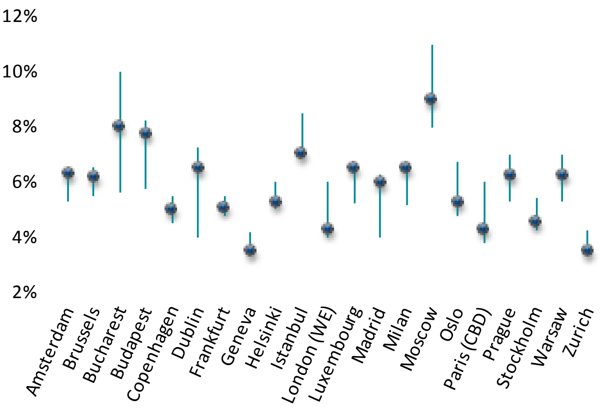
Prime office yields in Europe



Source: DTZ Research

Figure 12

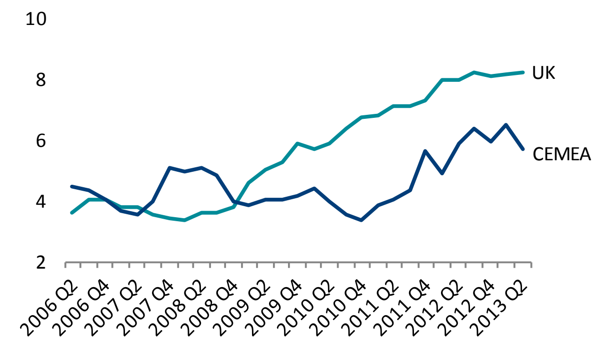
Prime office yields in Q2 2013 – changes 2007-2012



Source: DTZ Research

Figure 13

Gap between prime and secondary transaction yields



Source: DTZ Research

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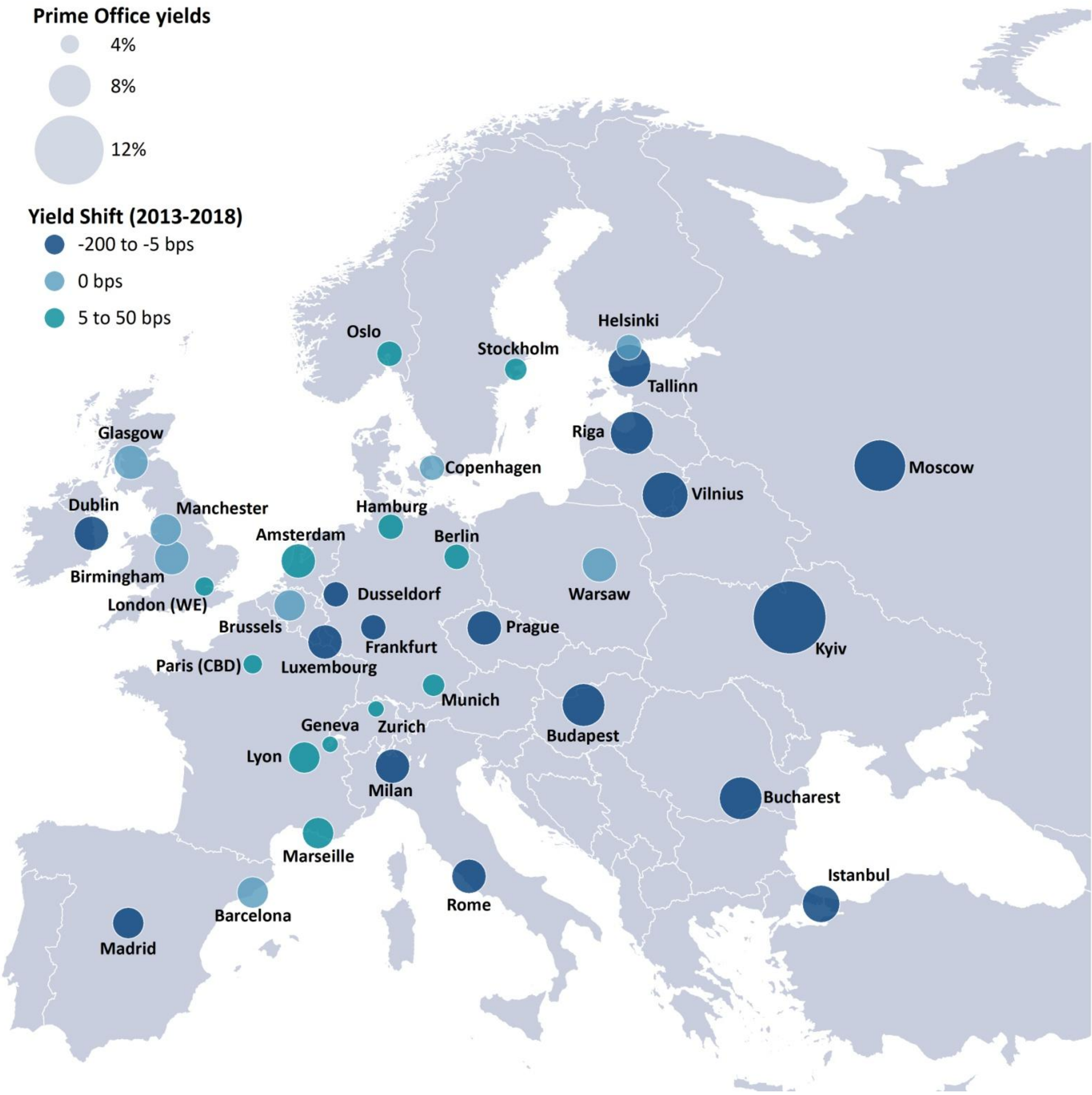
Map 3

Office prime yields, Q2 2013



Source: DTZ Research, ESRI

Europe Q2 2013

Outlook

On track to outperform 2012 volumes

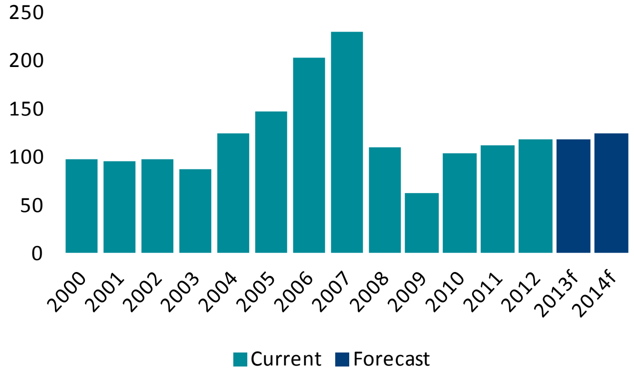
In contrast to the occupational markets, investment activity in Europe has performed quite well during the first half of 2013. Investor appetite for the commercial real estate remains strong, and with demand for the limited prime product becoming crowded-out, we see increasing evidence of investors' appetite to move up the risk curve in terms of country focus and a shift towards non-prime assets.

Southern Europe is returning to the agenda with strong indications that volumes will be elevated by year end and increasing further into 2014. UK, Germany and France will continue to attract a wider range of investors which now includes Chinese companies such as Ping An.

Given this, we anticipate that full year volumes for 2013 will reach EUR119bn, marginally ahead of last year. We would expect this trend to continue into 2014 with a further modest uplift in volumes predicted. (Figure 14).

Figure 14

European investment volume forecast, EUR bn



Source: DTZ Research

Europe Q2 2013

Definitions

This report presents data from the DTZ Research Investment Transactions Database (ITD). The ITD is based on commercial property investment deals reported in the press (both property and general), company and fund reports, information supplied by external data providers and by DTZ local offices around the world.

Transactions	Commercial transactions refer only to direct property. However, entity level transactions where real estate is substantial proportion of assets are treated as purchases of direct property. Development transactions are included if the purchase of commercial real estate occurs during the development / construction / comprehensive refurbishment phase and when the completion date is known. Transactions that involve more than one purchaser or vendor are classified as Joint Venture with appropriate weighting allocated to the transaction. Transactions cover European deals in excess of EUR1 million
Prime Yield	Represents the initial yield estimated to be achievable for a notional office property of highest quality and specification in the best location fully let and immediately income producing in a market at the survey date. The yield is derived from the rental income divided by the purchase price.
Property type	DTZ tracks commercial property transactions made primarily in the office, retail, industrial and mixed use sectors. Land sales are not recorded unless the land is purchased in the development phase or is acquired specifically to construct a building or complex of buildings.
Purchaser / vendor type	Classification of purchasers and vendors by type enables us to track trends in transactions and also to assess the type of capital committed to property investments. Purchaser/Vendor Type and subtype definitions are as follows: - Institution: financial institutions/banks, pension funds and insurance companies. - Private Property Company: companies and developers, whose principal activities involve the development, buying and selling of commercial real estate but which do not have a stock exchange listing. - Private Property Vehicle: non-listed investment vehicles whose principal activities involve the development, buying and selling of commercial real estate. - Private investor: private individuals. - Quoted property company: companies and developers, whose main activities involve the development, buying and selling of commercial real estate that is listed under Real Estate on a stock exchange. - Quoted property vehicle: listed real estate vehicles i.e. funds and tax efficient structured vehicles, whose main activities involve the development, buying and selling of commercial real estate - Corporate: companies whose main activities do not involve development or investment in real estate

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Great Wall of Money – March 2013
European Retail Guide - Shopping Centres – March 2013
China Property Market Sentiment Survey - January 2013
India Special Economic Zones - December 2012
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