At a glance  Q4 2015

MAIN INVESTMENT MARKETS IN WESTERN EUROPE

A NEW HIGH FOR THE EUROPEAN INVESTMENT MARKET

As 2016 begins, Europe’s economy is holding up fairly well in the face of a slowdown in emerging markets. Cheap money, credit and oil are providing it with support, while trade and capital flows are shifting in directions that are favourable for the single market. After working very hard to improve their fiscal and trade position, southern European countries continue to make up ground. The volume of investment is the best result ever recorded; amounting to nearly € 96bn. The commercial real estate investment volume in the 14 markets monitored in this report showed great dynamism over 2015, increasing by 16% compared to 2014. Central London remained quite stable these last 12 months, while Berlin investment volume soared in 2015 posting €8.3 bn. Milan recorded the largest growth (+265%), reaching a new high of € 4.5bn, also Madrid saw its volume increasing to € 5.6bn. Only Amsterdam and Dublin showed downside results but on these markets 2014 was already the new reference.

The buoyancy of the investment markets in Western Europe is supported by foreign investors that represent 56% of the total investment volume. Among cross border investors, Europeans were the most active (34%) during 2015 replacing North Americans for first place. Indeed, North American investors who represented 33% of the foreign investment volume last year, have seen their share drop to 30% targeting other markets than the main ones.

The drop in office prime yields continued during Q4 2015 recording a new low point. They decreased by 55 bp over last year and by 12bp over Q3 2015. The decline in prime yields is expected to continue, with the yield gap between government bond yields remaining very attractive.

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AT A GLANCE - MAIN INVESTMENT MARKETS IN WESTERN EUROPE - FEBRUARY 2016

Commercial real estate investment volume

Office investment volume

Net office prime yields

Retail investment volume

Net retail prime yields
BNP Paribas Real Estate is working on producing indicators which are as comparable as possible. This is a complex issue, due to cultural differences from market to market. Nevertheless, as we aim to actively contribute to the transparency of the markets, we have highlighted those definitions and indicators which are strictly comparable, so that our readers can understand what the indicators mean.

Furthermore we have decided to adopt the PEPCI1 definitions, on which most of the following indicators published by BNP Paribas Real Estate are based. Other indicators are from INREV2 and from BNP Paribas Real Estate.

**Central Business District average rent** is the average of each of the last four quarters’ average headline rent in the CBD. Each quarterly average rent is weighted by the surface of each lease signed during the quarter, in either new or second-hand premises. The definition of CBD corresponds to local conventions.

Completions represent the total amount of floor space that has reached practical completion and is occupied, ready for occupation or an occupancy permit where required has been issued during the survey period.

**Central London** includes the following districts: West End, Midtown, City, Docklands, Southbank, Western Fringe and Northern Fringe.

**Central Paris** includes the following districts: CBD, Paris out of CBD, La Défense, Western Crescent and Inner Rim.

**Core Investment Vehicles** target returns at 11.5% and lower, with gearing level up to 60% of Gross Asset Value.

**Closed Ended Fund** is a vehicle that has a targeted range of investor capital and a finite life.

**Development Pipeline** represents the total amount of floor space for all developments under construction and/or schemes (including major refurbishments) that have the potential to be built in the future through having a secured level of planning permission but remain unimplemented at the survey date. It includes all proposed new buildings, those constructed behind retained facades and buildings (or parts of buildings) undergoing a change of use to offices.

Exchange Rate from £ into € for rents is the average value observed over the quarter.

Exchange Rate from £ into € for investment volumes for each quarter is the average value over that period. Full-year investment volumes in both currencies are made up by adding the four quarters of each year.

**German Open Ended Fund** is a public vehicle that does not have a finite life, continually accepts new investor capital, and makes new property investments. The list of German Open Ended Funds is published by the BVI (Bundesverband Investment und Asset Management e.V.).

**Gross Asset Value** is the sum of the Gross Capital Value of properties, cash and marketable securities and other (non-operating) assets.

**Investment volume** takes into account all commercial properties BNP Paribas Real Estate is aware of, whose owner has changed during the studied period, whatever the purchasing price. It includes Office buildings, Retail (supermarkets, hypermarkets), Industrial and Logistics Warehousing and Others (Hotels, Cinema, Leisure, Car Parks, Care Homes, parts of portfolio which can not be split up by product, and Development Sites in Germany).

Quoted investment volumes are not definitive and are consequently subject to change.

**Initial Prime Gross Yield** is defined as Gross income (or NOI) over purchase price and a finite life.

**Initial Prime Net Yield** is defined as Net income (or NOI) over purchase price plus all other costs of acquisition.

**Prime Rent** represents the top open-market rent at the survey date for an office unit:

- of standard size commensurate with demand in each location
- of the highest quality and specification
- in the best location in a market

**Investment volume by investor/seller type** refers to the following categories: Insurance, Private Investors, Public Sector, Corporates, Property Companies & REITS, Consortium, Funds and Other.

**Investment volume by investor/seller nationality** refers to the following categories: Eurozone, Non-Eurozone, North America, Other America, Asia, Middle East, Australia, International and Other.

**Major Refurbishments** represents refurbishments, where building work must involve either structural alteration, and/or the substantial replacement of the main services and finishes. The quality of the floor space must have been substantially improved from its previous condition so as to offer accommodation of a modern standard – although not necessarily to the standard of a completely new building.

**Opportunistic Investment Vehicles** target returns in excess of 17%, with gearing levels above 60% of Gross Asset Value.

Actual transactions are used in France, Germany and Belgium to support the headline prime rental quoted, but one-off deals, which do not represent the market, are disregarded. In the UK & Spain, if there are no prime transactions during the survey period a hypothetical rent is quoted, based on expert opinion of market conditions.

Space calculation differs in Spain, where figures in m² (Take-Up, Vacancy, Pipeline, Completions) as well as Rental values are based on Gross Letting Area space, contrary to the other main European markets, which use Net Letting Area. In order to make the Spanish figures comparable across all monitored markets, they should be multiplied by 0.82 (NLA = 0.82 GLA). This ratio is applied by BNP Paribas Real Estate to produce international indices and benchmarks.

**Take-Up** represents the total floor space known to have been let or pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period.

It does not include space that is under offer

- A property is deemed to be “taken-up” only when contracts are signed or a binding agreement exists
- Pre-let refers to take-up that was either in the planning or construction stage
- All deals (including pre-lets) are recorded in the period in which they are signed
- Contract renewals are not included
- Sales and leasebacks are not included as there had been no change in occupation
- Quoted take-up volumes are not definitive and are consequently subject to change.

The breakdown of take-up by business sector is compatible with the European NACE code.

**Under Construction** represents the total amount of floor space in properties where construction has commenced on a new development or a major refurbishment (see separate definition) at the survey date. It includes properties for owner occupation, which are reported separately. It does not include sites being cleared for possible development in the future.

Property that is under construction but pre-let or for owner occupation is recorded separately where appropriate.

**Value-added Investment Vehicles** target returns of 11.5% to 17%, with gearing levels between 30% and 70% of Gross Asset Value.

**Vacancy** represents the total floor space in existing properties, which are physically vacant, ready for occupation in the next three months (this period covers fit-out time) and being actively marketed at the survey date. Vacancy includes sublet space (except in Germany), but where possible, vacant sublet space is recorded separately.

In France, vacancy excludes premises which the owner will renovate only once a lease is signed. Spain only counts immediately available space.

**Vacancy Rate** represents the total vacant floor space including sub-lettings divided by the total stock at the survey date.

1. Pan-European Property Common Interest Group. This group assembles a wide range of European advisors and investors and major agents.

2. European Association for Investors in Non-listed Real Estate Vehicles.

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