

# Market in Minutes

## Investment activity solid as interest in non-core is picking up

June 2014

### Investment activity robust as economic sentiment improves

■ After signs of economic recovery in the Eurozone at the end of last year, Q1 GDP data showed that growth has stalled again, and slowed down to 0.2% on average across the region (from 0.3% in Q4 13). On the positive side, the ESI indicator published by the European Commission has continued to improve in the Eurozone (to 102) as well as the EU as a whole (to 106.2) which puts both values at about 10% above the 5-year average.

■ The positive sentiment is also reflected in the robust transaction activity - about 33% above the 5-year average - although on a quarterly basis there has been a decrease of 31%. However, the first quarter of the year is usually weaker than the rush at year end and, in addition, Q4 13 has been the strongest quarter since 2007. Ireland (+43%) and the Netherlands (+31%) did nonetheless see some notable growth in transaction volume compared to the previous quarter.

■ Year-on-year, the upbeat mood is more pronounced. The total investment volume was 24% higher than in Q1 13, driven by strong increases in, again Ireland (+164%, €934m), Spain (+490%, €888m), the Netherlands (+218%, €1.7bn), Austria (+140%, €480m) and Sweden (+100%, €2.1bn).

### Prime office yields harden further

■ Robust demand for Grade A offices is reflected in the prime CBD yield hardening by 8 bps to 5.3% on average, indicating a downward movement for the seventh consecutive quarter.

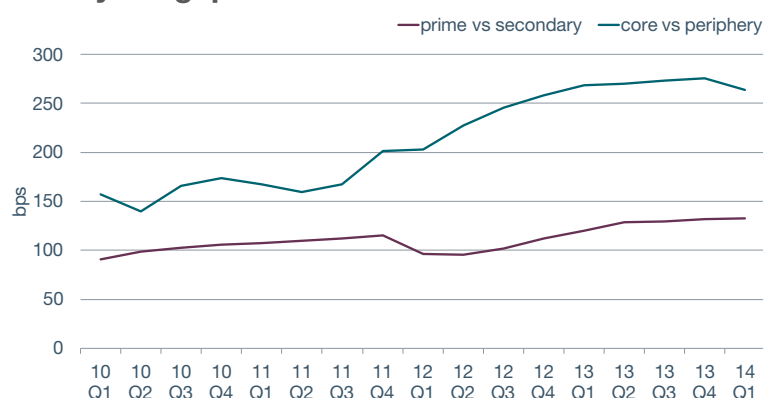
■ Looking at just the core markets London, Paris, and the German top 5 the prime CBD yield is as low as 4.3% ranging from 3.25% in London's West End to 4.7% in Berlin. In the periphery (ES, IT, GRE), it stands at 6.8%.

■ Dublin prime offices have seen the highest yield compression year-on-year, (-175bps) followed by Madrid (-50). Prime yield levels in both cities

TABLE 1  
Achievable CBD office yields Q1 2014

City	Prime	y-o-y change in bps	Secondary	y-o-y change in bps
Amsterdam	5.15%	-25	7.50%	0
Athens	8.75%	0	9.50%	0
Belgrade	9.00%	0	9.25%	0
Berlin	4.70%	-10	5.50%	-20
Brussels	5.10%	-15	NA	NA
Dublin	5.00%	-175	6.50%	-150
Frankfurt	4.50%	-10	4.90%	-40
London City	4.50%	-25	6.50%	0
London West End	3.25%	-25	6.25%	-25
Madrid	5.50%	-50	7.25%	-25
Milan	6.25%	0	NA	NA
Munich	4.25%	0	4.70%	0
Oslo	5.20%	-30	8.00%	0
Paris	4.00%	0	5.00%	-25
Stockholm	4.50%	-25	5.25%	-25
Warsaw	6.00%	0	8.50%	+150

GRAPH 1  
Office yield gap remains attractive



Graph source: Savills

Table source: Savills

→ have now almost returned to pre-crisis levels. Demand for prime office stock here is high, driven by improving economic figures and a rebound in take up levels, while supply of these sought after properties remains limited.

## Looking for higher returns outside the prime CBD/core

■ Given the ongoing pressure on prime CBD yields, investors' search for higher returns has been observed for some quarters now. Although demand for Grade A properties in London, Paris, Munich and Frankfurt is still high, the limited availability of stock and high prices are fuelling interest in either non-CBD areas or completely outside the main investment markets (namely the capital regions). Historically high yield gaps between core and non-core assets support this trend.

## Prime vs secondary CBD

■ On a local level, the gap between prime and secondary CBD yields has been widening to 132 bps compared to 119 bps in Q1 13. Secondary yields are in fact moving in (for the fourth consecutive quarter) to 6.6% on average in Q1 14, but prime yields have moved even faster.

■ In comparison the gap between prime office yields in core and peripheral markets has been closing in again after diverging in the quarters before. This is due to inward movement in the core while with the exception of Madrid prime office yields

remain stable in the periphery. At 263 bps it is 5 bps lower than in Q1 2013, but still at some of the highest levels recorded in the past five years.

## Capital vs regional cities

■ In the most mature and largest markets, UK and Germany, prime properties in the regional cities have seen a surge in demand, coming increasingly and particularly in the case of Germany, from cross-border buyers. Prime yields in London (4.5%), Munich (4.25%) and Frankfurt (4.5%) are at historically low levels, so well established regional economic centres may be a good investment alternative. There is a clear increase in activity year-on-year: the total transaction volume increased by 91% in Manchester and 76% in Birmingham, while office investment jumped by 150% in Dusseldorf, 130% in Hamburg and still 93% in Munich.

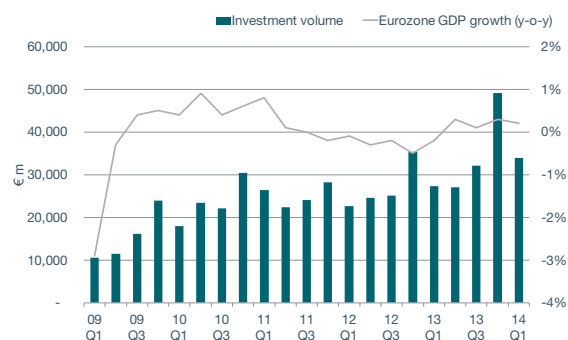
■ On the other hand, in smaller markets like Belgium but also in centralist France, where 30% of GDP is generated in the Ile-de-France, there is limited foreign buyer interest in secondary assets and/or regional locations.

## Outlook

■ We believe that while the market for core assets will remain highly competitive, investors will continue to seek value through attractive pricing in recovering regions, solid secondary cities and core plus or value add opportunities.

GRAPH 2

## European investment volume vs economic growth



Graph source: Savills, Eurostat

GRAPH 3

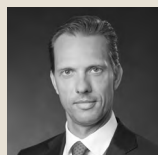
## Prime office yield in capital and secondary cities



Graph source: Savills

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