

Market in Minutes

Mega deals and portfolio sales drive activity in Europe

April 2015

Economy: Positive outlook

■ The economic outlook for the European Union looks positive due to the sharp fall in oil prices, the depreciation of the euro against the dollar, the Quantitative easing programme and the EU Investment Plan. Falling oil prices have caused deflationary pressures but have also aided industrial companies, consumers and retailers.

■ Unemployment was at 10.2% in February with Austria and Germany recording the lowest rates of unemployment. Spain and Greece continue to record worryingly high levels of unemployment.

■ In line with the improved economic outlook, in March the Economic Sentiment Indicator (ESI) improved in Europe, continuing the upward trend observed since the beginning of 2015.

Q1 investment volume driven by mega deals

■ The strength of the last quarter of 2014 could not be matched in Q1 15. Total commercial investment volume for the countries we survey was about €50 bn which was almost a third lower compared to Q4 14. Nevertheless, last quarter was 29% stronger than the same quarter last year and 38% above the past five year average.

■ Investors continued to favour the core markets with Germany and the UK accounting for almost two thirds of the activity. The UK's share has been rising steadily over the post crisis years to reach a historic high of 47% this quarter, compared to the long-term average of about 37%. This reflects investor trust in London and a spread

of interest to secondary segments of the market.

■ Overall investors are more open to transactions that may involve secondary properties, value-add opportunities, alternative sectors or more complex deals such as cross sector or cross country portfolios. Most of these deals tend to be large-scale transactions that may exceed €0.5 bn. According to RCA nine portfolio deals of this size took place in Q1 2015, a historic high matched only in Q4 13 and Q2 14.

■ One of the most notable cross country deals last quarter was the completion of the merger between Klépierre S.A. and Corio N.V. This has created the second largest listed retail company in Europe with gross assets worth over €21 bn.

■ Another cross country deal involved the acquisition of Jurys Inn hotel group by Lone Star for more than €900 m. The group owns 31 hotels in the UK and Ireland.

■ Focusing on mega deals (>€100 m) we notice an increase of 18% yoy in Q1 15, while the number of portfolio deals in particular increased by 23% yoy accounting for more than two thirds of the value of all mega deals and about 45% of all transaction value.

■ Mega deals were driven predominantly by UK, US and German investors who accounted for more than half of the activity in terms of number of deals and 62% in terms of total value. According to RCA data German investors invested the highest amount of money, representing about 28% of mega deals value in the market. About 12% came from Australasia and almost

OUTLOOK

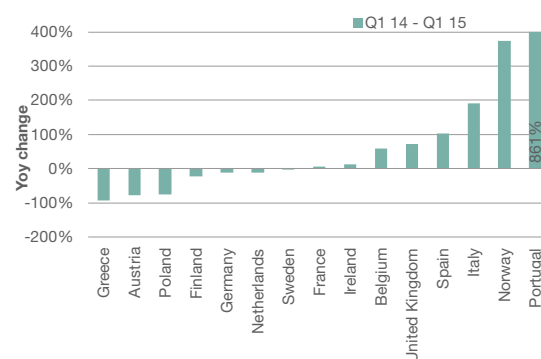
More mega deals anticipated

■ Due to low interest rates and the ECB purchase programme, demand for real estate should rise further and volumes are expected to match or exceed last year's levels particularly in the stronger markets such as Germany and France and the recovering ones, such as Spain, Ireland and The Netherlands. The UK, being outside the Eurozone and ahead of the European economic and property cycle, offers a good diversification case. Prime and attractively priced secondary should continue to drive activity.

■ We believe that portfolio deals will underpin activity throughout the year. Sellers are trying to benefit from favourable market conditions and rising investor tolerance to risk. This type of product may also suit new entrants into Europe from overseas who are trying to exploit favourable financing conditions and the market cycle pick up.

■ The share of overseas investors is expected to increase further this year with more institutional money from US, Asia and Middle East seeking exposure to the European markets.

GRAPH 1
Investment activity in the first quarter of the year increases in non-core markets



Graph source: Savills

→ 5% from Middle East and Israel.

■ The office sector continues to be the dominant sector in investment activity accounting by as much as 84% in France and 45% in The Netherlands of the total investment activity. The retail sector is however picking up in some markets such as Germany where its share was more than three times higher last quarter compared to the previous one reaching 35% of the total investment activity. In Spain the share of retail investment also increased from 34% in Q4 14 to 65% and in Sweden from 10% to 43% in Q1 15.

■ It is remarkable that the top deals in the UK were not dominated by the office sector. The largest transaction was the Liberty Living student housing portfolio comprising over 40 residences in 17 university towns. The portfolio and management platform was purchased by CPPIB for over €1.5 bn.

■ In Germany the first quarter saw an increase of the share of retail transactions due to sale of the German part of the Corio portfolio (€1.1 bn) as well as the acquisition of a €286 m retail portfolio by Patrizia property group from listed fund Eurocastle.

■ In France the two largest deals of the beginning of the year were single office assets. The Ecowest building in the NW suburbs of Paris was bought at €477 m by the Abu Dhabi Investment Authority, which sold the Siega Amundi building in Paris to Primonial REIM for €318 m.

■ In Spain the four largest deals

accounted for 57% of the activity in Q1 15. Two involved the sales of prime shopping centres by Orion, Puerto Venezia in Zaragoza (€451 m) and Plenilunio in Madrid (€375 m).

■ The contribution of REITs in investment activity was once again significant. In Ireland Starwood Property Trust was the first US REIT into the market with a €452 m investment in an office portfolio sold by LoneStar.

Yields continue to harden

■ Competitive market conditions have led to further yield compression across sectors. The average prime CBD office yield stands at 4.87%, 6 bps lower compared to the previous quarter and 34 bps lower compared to a year ago. There is evident yield hardening (yoy) from the recovering markets of Madrid (-100 bps), Dublin (-50 bps) but also secondary cities in core markets such as Dusseldorf (-40 bps) and Cologne (-40 bps).

■ Prime shopping centre yields shifted by -27 bps qoq and -48 bps yoy to and average of 5.3%. The inward shift was once again led by the peripheral markets where achievable yields for prime assets in the capitals moved in by 100-150 bps.

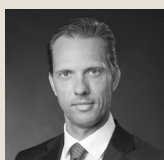
■ Average prime logistic warehouse yields also hardened further in Q1 by 6 bps qoq and they are at 7.39%, which is 39 bps lower compared to last year.

TABLE 1
Prime yields Continued hardening across markets and sectors

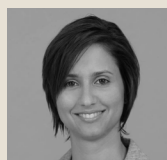
Q1 2015	Prime CBD yields	Prime Shopping centre yields	Prime logistics warehousing yields
Vienna	4.75%	5.50%	7.00%
Brussels	4.50%	5.00%	6.75%
Helsinki	4.50%	4.75%	6.75%
Paris	3.75%	4.25%	6.75%
Berlin	4.20%	NA	NA
Dusseldorf	4.20%	NA	6.20%
Frankfurt	4.30%	4.80%	NA
Hamburg	4.20%	NA	6.30%
Cologne	4.50%	NA	6.20%
Munich	3.90%	4.80%	6.70%
Athens	8.25%	7.50%	10.00%
Dublin	4.50%	4.80%	7.00%
Milan	5.50%	7.00%	8.25%
Amsterdam	4.90%	5.75%	6.75%
Oslo	4.50%	5.00%	6.00%
Warsaw	6.00%	5.75%	7.75%
Belgrade	9.50%	8.75%	12.00%
Madrid	4.50%	5.00%	NA
Stockholm	4.25%	5.00%	6.25%
London	3.25%*	4.25%	5.00%

Graph source: Savills, *West End

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