

# Market in Minutes

## US and Chinese investors riding the European property curve

October 2015

### A cheap opportunity for American investors

■ Significant increase in property prices in their home country and strong dollar against the euro make European property comparatively cheap.

■ According to RCA, US institutions invested more than €56bn in the 17 European countries we cover since the beginning of the year, a record high. This is 26% up on the full year in 2007.

■ US acquisitions include mainly large single assets or portfolio deals with no specification in terms of assets class. Yet they have an above average appetite for logistics products they source mainly in Poland, Czech Republic and in the Nordics. Their risk spectrum is generally large from landmark products in core markets to relatively opportunistic investments.

■ This year more than 75% of US investment volume was allocated to Norway, Sweden, the UK and Denmark; non-euro countries. Low interest rates have weakened the Nordic currencies below their long term average against the dollar. This improves the perceived value of the region for US investors.

■ Europe has become an opportunity to catch product earlier in the cycle than in their domestic country.

### A diversification option for Chinese investors

■ Strong volatility in their stock market, the property market and currency exchange have brought Chinese investors to seek balance through diversification.

■ In spite of the devaluation of the Yuan, the Chinese are increasingly looking overseas to invest, notably in Europe. According to RCA, Chinese investment has already reached €3.4bn

since January. This is already 58% above the volume recorded for the full year in 2014.

■ They seek diversification through markets, currencies and assets. The share of investments allocated to the UK went down to 23% from 84% last year to the benefit of euro zone countries.

■ In the past 12 months, the size of Chinese deals has been increasing including large portfolios such as the Celsius shopping centre portfolio spread in Belgium and France bought by the Chinese sovereign Wealth fund CIC.

### Pace of activity expanded during Q3

■ Preliminary data indicates Q3 investment volume in our survey area totalled nearly €55bn. This brings the total turnover since the beginning of the year to €157.5bn, 20% up on the same period last year.

■ Portugal (804%), Norway(190%) and Italy (107%) have witnessed the

## OUTLOOK

### Prices will continue hardening

■ We anticipate rental growth in countries we monitor to range between 2.5% and 3% on average in 2016. Strengthening confidence in the occupational market brings further appeal to the European property market already benefiting from positive spread between bond and property yields.

■ Overseas investors will continue focusing on the European property market. Both US and Chinese investors are increasingly big ticket investors. They will play an increasing role in tomorrow's European turnover.

■ In China, there are rumours that capital controls might be introduced, and this might boost investment activity in the short term.

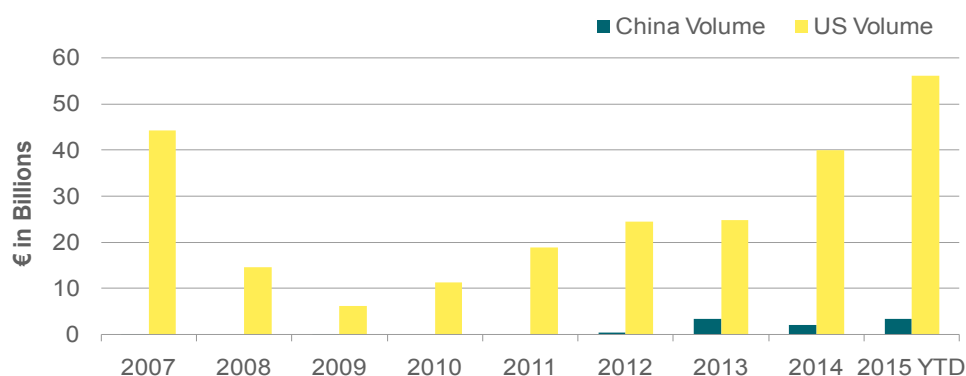
■ Record high prices is an opportunity to sell. More products may arrive on the market and fuel investor demand.

■ We anticipate a particularly strong fourth quarter. The European turnover is set to reach €234bn at the end of the year; this would be a new peak.

■ The share of logistics properties could slowly rise as US investors are increasingly present in Europe.

■ Growing competition will inevitably put downward pressure on yields. The gap between prime and secondary will continue to close.

GRAPH 1  
US and Chinese investment in Europe



Source: RCA

→ biggest increases whereas volumes decreased most significantly in Greece (-62%), Austria (-40%).

■ The UK, France and Germany remain the dominant destinations for real estate investment, although their collective share of investment volume decreased slightly from 71% in Q3 2014 to 69% in Q3 2015.

■ More than half of the turnover (€28bn) originated from overseas, of which 59% is directed into two countries; the UK and Germany.

■ The share of regional investment continue to expand in most cases thanks to portfolio deals.

### Prices continue to rise

■ This quarter again, the average prime office yield across Europe moved in by a further 12 bps qoq. In Lisbon and Paris la Defense the prime office yield

compressed by 50bps and in Warsaw, Milan and Athens by 25bps.

■ The average prime office CBD yield stands at 4.53%. This is 22bps below its low recorded seven years ago at the bottom of the cycle.

■ London West End, Paris CBD and Munich are below 4%. On the other side, Warsaw, Milan, Lisbon and Athens are above 6%.

■ Since Q2 2012, the yield gap between the core markets and the peripheral markets has been closing, reflecting improving investor confidence in the markets of Ireland, Spain, Italy and more recently Portugal. Nevertheless it remains far above its bottom level (23bps) recorded in Q4 2007. It is currently 143bps which is close to its long term average (145bps). ■

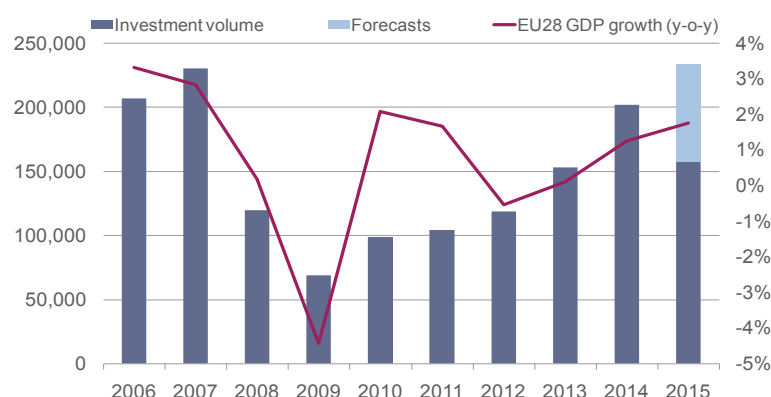
TABLE 1

**Q3\* yields** Historic lows are reached in most markets

Q3* 2015	Prime CBD yields**	yoy change	qoq change
Amsterdam	4.40%	-60	-40
Athens	8.00%	-25	-25
Berlin	4.10%	-40	0
Brussels	4.25%	-75	0
Copenhagen	4.50%	-25	0
Dublin	4.25%	-50	-10
Dusseldorf	4.10%	-40	0
Frankfurt	4.10%	-30	0
Hamburg	4.10%	-30	0
Helsinki	4.50%	-25	0
Lisbon	5.75%	-125	-50
London WE	3.00%	-25	0
London City	4.00%	-50	0
Madrid	4.00%	-100	0
Milan	5.25%	-50	-25
Munich	3.80%	-45	0
Oslo	4.50%	-60	0
Paris CBD	3.50%	-30	-25
Paris La Defense	5.00%	-100	-50
Stockholm	4.00%	-50	-15
Vienna	4.70%	-30	-5
Warsaw	5.75%	-25	-25

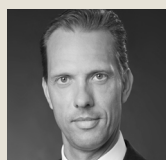
Source: Savills / \*first estimations / \*\*yields are quoted Net unless noted otherwise

GRAPH 2 **European investment** set to reach a peak at year-end

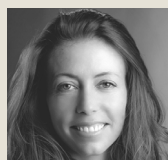


Graph source: Savills

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