

# Market in Minutes

## Global investor interest rising

December 2013

### European investment market gained pace

■ The investment market gained pace in Q3 with €30.4bn transacted, bringing the total 2013 volume to €80.6bn, 13% more than in the same period last year. Most of the activity is still concentrated in the three core markets UK, Germany and France with 83% of the total volume aggregated here.

■ The downward pressure on prime CBD yields has continued for the fifth consecutive quarter, driven by increased demand in Dublin, Amsterdam and the German cities. The average prime CBD yield now stands at 4.9%.

■ The office yield gap between prime and secondary as well as core and periphery continued to narrow as investors are increasingly looking at opportunities outside the core (Graph 1).

■ Prime shopping centre yields have moved in as well to 5.6% on average, although this is only driven

by downward pressure in Dublin. In contrast, the average yield for regional shopping centres moved out slightly, due to some upward trend in Warsaw and Milan.

### Cross-border investment accounts for 45% of the total

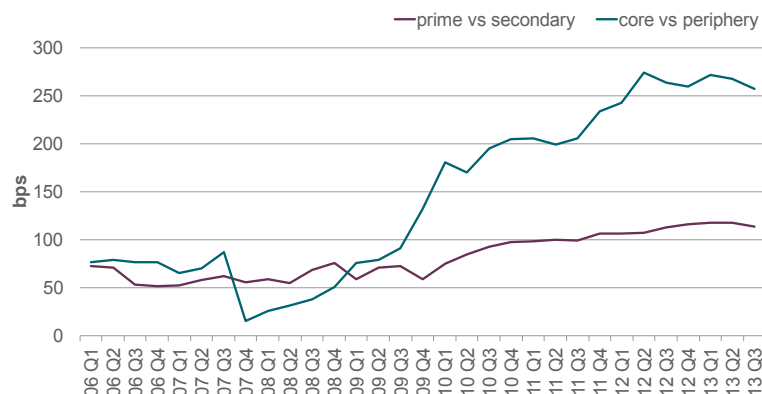
■ Cross-border investment in our survey area stands at €36.3bn, or 45% of the total volume in 2013 YTD. The share of cross-border investment varies between countries, it is highest in Italy (89%) and Poland (85%) and lowest in Sweden (8%) (Graph 2). In the latter country, foreign investors traditionally find it hard to compete with domestic buyers.

■ The UK and Germany account for about 67% of the total cross border volume, which is equal to the share they have over total investment (Graph 3). Germany is still a predominantly domestic buyers' market but its safe haven status has attracted increasing amounts of cross border investment. In 2013, €6.1bn (33% of the total) of transactions were signed by foreign buyers.

TABLE 1 Prime achievable yields Q3 2013

City	Offices	y-o-y change in bps	Shopp. centres	y-o-y change in bps
Amsterdam	5.30%	-30	6.75%	0
Berlin	4.70%	-10	4.90%	0
Brussels	5.20%	-5	5.40%	-10
Cologne	4.90%	-20	NA	NA
Dublin	6.00%	-150	6.50%	-200
Frankfurt	4.40%	-30	4.80%	-10
Hamburg	4.50%	-20	NA	NA
London City	4.75%	-50	5.00%	-50
London West End	3.50%	-25	5.00%	-50
Madrid	6.00%	0	6.75%	0
Milan	6.25%	0	7.00%	25
Munich	4.25%	0	4.90%	-10
Paris	4.00%	-50	4.75%	0
Stockholm	4.50%	-25	5.25%	0
Warsaw	6.00%	0	5.75%	0

GRAPH 1 Office yield gap



Graph source: Savills

Table source: Savills

➔ ■ The majority (47%) of investment deals in the UK was signed by non-European buyers, while inward flows from the continent have been weak this year, only accounting for 8% of all transactions. The UK and London in particular were the first to recover from the financial crisis and offer the liquidity and price safety international buyers are looking for. Prime CBD yields at 3.5% in the West End (4.75% in the City) have, however, led some investors to widen their horizon to consider other markets as well. Germany has benefitted most from this development as it has a stable economy and healthy property fundamentals. Its share of total cross-border investment into Europe has accordingly increased from 13% in 2010 to 17% in 2013 YTD. The UK still remains the most important destination, catching between 45% and 50% of the total cross-border volume in each year, 2010-2013 YTD.

■ Foreign buyers have bought €4.7bn worth of property in the European periphery, Italy, Spain and Ireland in 2013 YTD, 96% above the sum achieved in 2012. Qatari and US investors accounted for almost half (46%) of the total cross-border volume in these three markets. While risk-averse buyers have largely retreated from the periphery e.g. German investment has fallen from €1.4bn in 2010 to €268m in 2013 YTD, more opportunistic buyers have embraced the opportunity to acquire high-quality assets, including through distressed sales, for higher yields than in core markets. The hotel and high street

retail sectors are of particular interest here.

### Cross-border market driven by non-European buyers

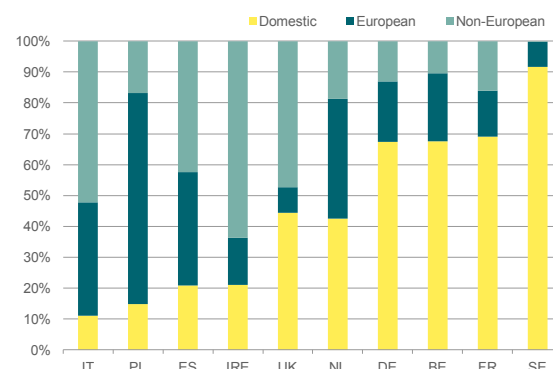
■ Non-European buyers have increased their presence this year, they accounted for 29% (€23bn) of the total investment volume, up from 25% in 2012. Intra-regional flows have weakened over the same period, falling from 24% in 2012, to 16% (€13bn) this year.

■ US investors are the most active cross-border buyer in the survey area (€7.2bn in 2013 YTD). They have been buying in all surveyed countries this year, although the vast majority of their investment goes to the UK (49%) and Germany (16%).

■ Buyers from the Middle East and AsiaPac are a growing source of capital coming to Europe. They have purchased €11.8bn of property in the survey area in 2013 YTD, which is 22% more than in the whole of 2012. The UK usually is the entry point to the other European markets and concentrates 74% of investment coming from these regions. Qatari and Chinese buyers have been most active with an investment volume of €2.3bn (€2.4bn in 2012) and €2bn (€1.4bn in 2012) respectively. While the first investor group has largely focussed on prime retail and hotel assets, including in the peripheral markets, the latter one has not shown a consistent pattern yet. ■

GRAPH 2

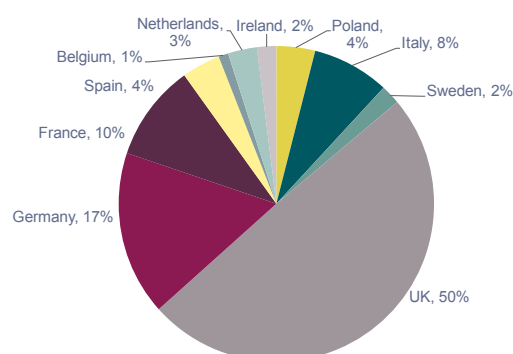
### Share of domestic, European and global investment by destination country (2013 YTD)



Graph source: Savills, RCA

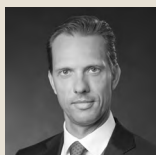
GRAPH 3

### Cross-border investment share by destination country (2013 YTD)



Graph source: Savills, RCA

Please contact us for further information



**Marcus Lemli**  
European Investment  
+49 (0)69 273 000 11  
mlemli@savills.com



**Julia Maurer**  
European Research  
+44 (0)20 7016 3833  
jmaurer@savills.com

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