

Briefing European Investment

March 2018



SUMMARY

Another strong year for European commercial markets

■ The full-year investment volume was close to €234bn, about 7% higher than the previous year thanks to a pick up in investment in the second half of 2017.

■ Strong property fundamentals have led to a competitive market where demand continues to outweigh supply. In core countries, big ticket investors will continue to target trophy assets in core markets instead of diversifying capital across portfolios.

■ The number of deals across the largest markets fell yet the number of mega-deals were on the up, particularly in France and Germany.

■ Cross border investors accounted

for 50% of the total volume with capital from Asia leading the cross border volumes. Despite the uncertainties surrounding the Brexit negotiations, London is still destination of choice for foreign capital.

■ Despite high prices and lack of potential yield movement, offices continue to be the preferred asset class accounting for 46% of the total investment volume.

■ Investor appetite for industrial assets and the alternative sectors remains high thanks to attractive pricing and potential for further yield movement.

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“Global cross-border capital is fuelling demand with the majority of investors chasing prime assets across all markets.” Alice Marwick, Savills European Research
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An introduction to Savills

Savills European Commercial Offices

- | | |
|-----------------------|-------------------------|
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| • Vienna | • Amsterdam |
| | • Utrecht |
| Belgium | Northern Ireland |
| • Brussels | • Belfast |
| Czech Republic | Norway |
| • Prague | • Oslo |
| Denmark | • Stavanger |
| • Aarhus | • Drammen |
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| Finland | Poland |
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| France | • Poznan |
| • Paris | • Warsaw |
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| Germany | Portugal |
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| • Dusseldorf | Romania |
| • Frankfurt | • Bucharest |
| • Hamburg | Spain |
| • Munich | • Barcelona (2) |
| • Stuttgart | • Madrid (2) |
| | • Malaga |
| Greece | Sweden |
| • Athens | • Gothenburg |
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| • Budapest | • Stockholm |
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| Luxembourg | |
| • Luxembourg | |



Source: Savills

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company, established in 1855, has a rich heritage with unrivalled growth. The company now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

In continental Europe, Savills has 71 offices covering Belgium, France, Germany, Greece, Italy, the Netherlands, Poland, Spain and Sweden. We also have associate offices in Austria, Denmark, Finland, Norway, Portugal, Romania and

Switzerland. Savills provides a comprehensive range of advisory and professional property services to developers, owners, tenants and investors. These include consultancy services, facilities management, space planning, corporate real estate services, property management, leasing, valuation and sales in all key segments of commercial, residential, industrial, retail, investment and hotel property.

A unique combination of sector knowledge and entrepreneurial flair gives clients access to real estate

expertise of the highest calibre. We are regarded as an innovative-thinking organisation supported by excellent negotiating skills. Savills chooses to focus on a defined set of clients, offering a premium service to organisations and individuals with whom we share a common goal. Savills is synonymous with a high-quality service offering and a premium brand, taking a long-term view of real estate and investing in strategic relationships.

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European overview



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



Alice Marwick
European Research
+44 (0) 20 7016 3833
amarwick@savills.com

Economic & political background

The Eurozone economy is enjoying the strongest period of economic growth in more than a decade, despite lingering political uncertainty surrounding Brexit negotiations. Political unrest remains high in Spain following the victory of separatist parties in the 21 December regional election in Catalonia and their decision to re-elect Carles Puigdemont as president of the region.

Positive economic sentiment has continued into Q1 2018 with the outlook for the remainder of year looking optimistic. The Euro area is experiencing the strongest growth in more than a decade with business sentiment at a high across the majority of the countries in our survey area. Falling unemployment levels are boosting consumer confidence across the Eurozone. France has been enjoying renewed consumer confidence and better than expected growth thanks to the newly implemented reforms and increase in foreign trade.

GDP growth across the Eurozone is forecast at 2.2% in 2018 before slowing to 1.9% in 2019. Ireland is forecast to be the fastest-growing economy in our survey area, with growth forecast at 3.9% in 2018. Italy on the other hand will be the region's slowest-growing economy, with growth forecast of 1.4%.

The Economic Sentiment Indicator (ESI) decreased slightly from its 17-year high in both the euro area (by 0.6 points to 114.7) and the EU (by 0.4 points to 114.7).

Strong investment surge in H2

The total investment volume across our survey area totalled €234bn, a 7% increase yoy thanks to strong investment growth in the second half of the year. The countries to experience the greatest increase in annual growth were Austria (74%),

Romania (54%), the Netherlands (46%) and Denmark (32%). On the other hand, Ireland, Sweden and France saw the investment volume fall by 49%, 27% and 13% respectively. France's annual fall was largely due to sluggish performance in the first half of the year caused by the presidential election. The second half of year saw French investment double to €16bn with the largest deal on the continent recorded in Paris. Poland too experienced a large pick up in the second half of the year where the investment volume was 111% higher than H1.

Buyers from Asia driving volumes

Cross border investment accounted for over 50% of the total activity (compared to 44% the previous year) with Asian investors overtaking the US to become the largest overseas investors in Europe. However, the US still dominates cross-border volumes in mainland Europe. Despite Brexit uncertainty, London is still destination of choice for foreign capital. The UK experienced better than expected investment volumes with Asian capital into London being the main cause of the surge. Overseas investors focussed primarily on lower yielding big ticket, single trophy assets whereas domestic investors targeted

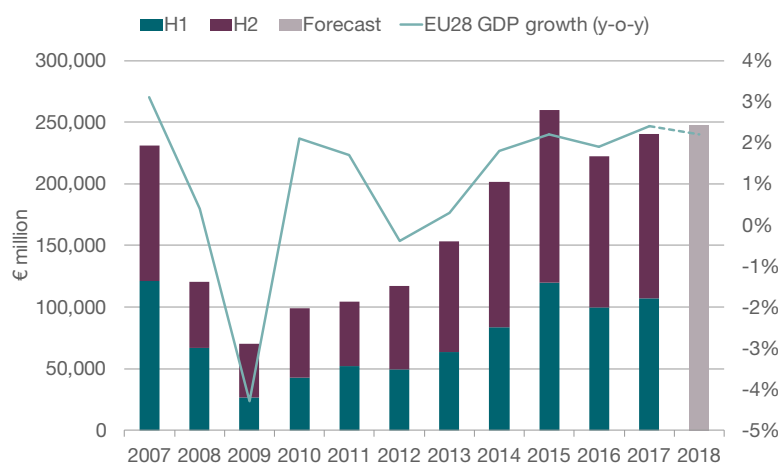
secondary locations with more room for yield compression and favourable returns. Due to a lack of core product in 2018, portfolio deals will fall and we will likely see the trend for single asset mega-deals continue as investors aim to deploy capital.

The number of deals across the largest markets fell yet the number of mega-deals were on the up, particularly in France and Germany where mega-deals in France accounted for €17bn of the total volume and in Germany they accounted for €30bn.

Core investors will continue to pay for low yields and even lower returns for the best asset in core locations, because of the lack of product. Opportunistic investors will move to B-locations pushing up prices. In 2018, it is likely we will see volumes rising at a faster pace in secondary cities such as Manchester, Rotterdam and Dusseldorf.

Despite high prices and lack of potential yield movement, offices continue to be the asset class of choice accounting for 46% of the total investment volume. However, lack of stock and competitive pricing have driven investors to other asset classes. Of particular note, value-add

GRAPH 1
European growth at fastest pace since 2006



Source: Savills/Oxford Economics

investors have been targetting the industrial sector which has seen the biggest increase in investor demand accounting for 15% of the total investment volume, up from 11% in 2016 and 9% in 2015.

The industrial investment volume reached €65.9bn across our survey area, a 23% increase yoy compared to the 3% yoy increase for offices. Across our survey area, Belgium (+240%), Germany (+75%), Norway (+74%) and Italy (70%) experienced the greatest yoy increases with the 2017 industrial volumes well above their long-term average. Both cross-border and domestic investors investment volumes were searching for industrial investment opportunities in the logistics sector. High yields compared to other asset classes and the growth of e-commerce will push industrial values up even further in the upcoming years and put downwards pressure on yields.

Yields are still compressing

Prime office yields have been compressing further in most markets, by -25bps on average yoy. The highest differences compared to 2016 were noted in markets considered 'safe havens' Berlin (-50bps) and Frankfurt (-80bps), as well as in La-Defense (-75bps), Lisbon (-50bps) and Milan (-50bps). Overall prime office yields are at historic lows, with the average at 3.9% compared to 4.6% five-year average. They are still above 4% only

in Athens (7.5%), Lisbon (5.0%) and Warsaw (5.0%).

Prime shopping centre yields have stabilised across the markets and they stood at 4.5% on average in Q4 2017, compared to 4.83% five-year average. The lowest yields were recorded in Munich at 3.7% and Copenhagen, Hamburg, Stockholm and Vienna at 4.0%. It is unlikely we will see further yield hardening across the core markets in 2018, however in the Nordics and peripheral markets we will likely see yields move in slightly before stabilising towards the end of the year.

Non-CBD yields have been compressing at a faster pace than CBD locations with the average non-CBD yield at 4.9%. Indeed, cities experiencing the lowest CBD yields such as the German cities have seen non-CBD yields fall below 4.0% as investors are searching for product with Frankfurt seeing yields falling 110bps yoy to 3.7%. Non-CBD yields will continue to harden in 2018 thanks to a lack of supply in core locations.

The ongoing yield compression is also squeezing the real estate risk premium over the national 10 year government bond yields. The average spread was 297 bps at the end of 2016 and 254bps at the end of last year. Nevertheless, this is still above the long term average of about 230 bps. The widest spread compared to the local risk free rate is found in Paris La Defense,

(413bps), Amsterdam (329 bps) and Copenhagen (325 bps).

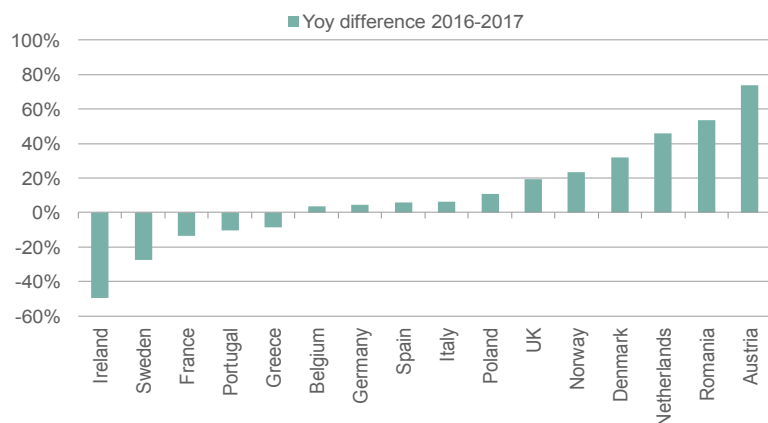
Industrial yields experienced the highest yield compression of all sectors at -47bps yoy on average. The average prime yield is also at a historic low at 5.5% compared to the five-year average of 6.4%. The sharpest inward shifts were noted in Copenhagen (-125bps), Nord-Pas-de-Calais (-125bps) and PACA France (-100bps).

Strong start to Q1

A number of deals that were in the negotiations stage in Q4 2017 have spilled over into Q1 2018, boosting the investment volume in some markets. The spillover of deals, however, will not be enough to match the high volumes set in 2015. Across our survey area, Savills expects the Q1 investment volume to equal that of the same period last year. Prime office yields across our survey area are forecast to move in slightly, falling 20bps yoy to 3.8%. ■

GRAPH 2

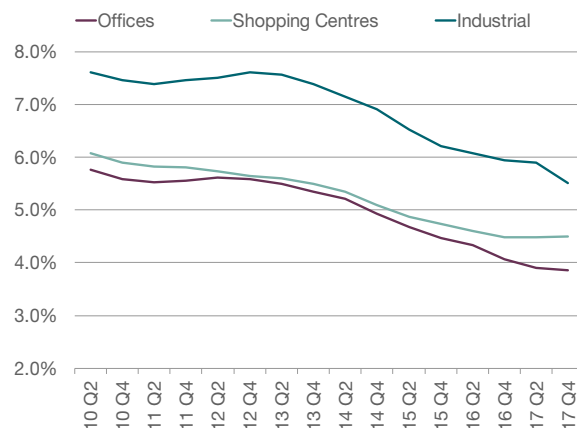
Annual investment growth



Source: Savills

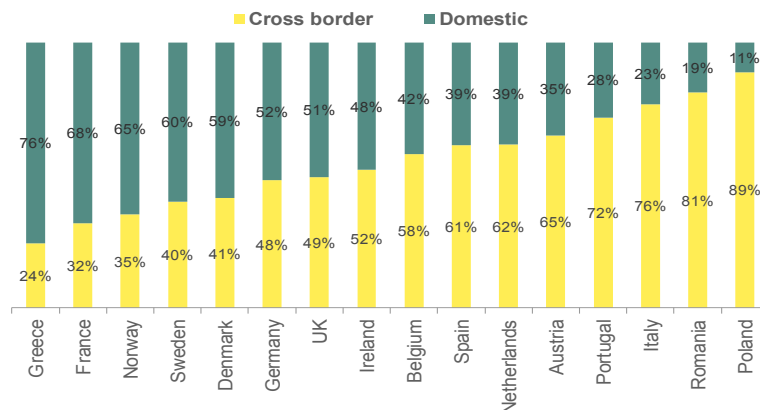
GRAPH 3

European average prime yield



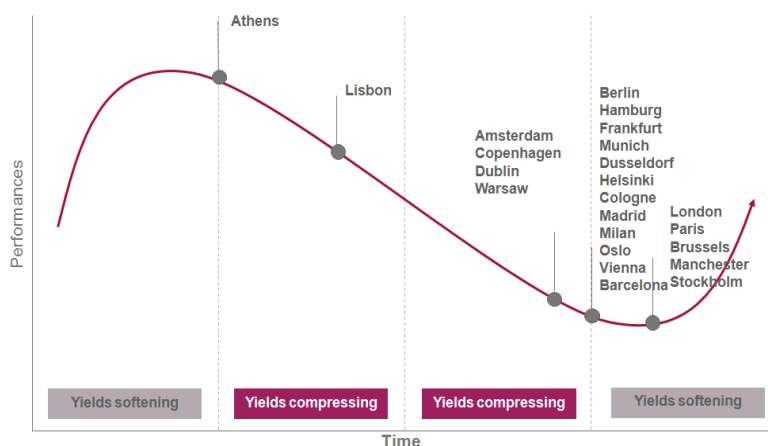
Source: Savills

GRAPH 4
European prime CBD yields



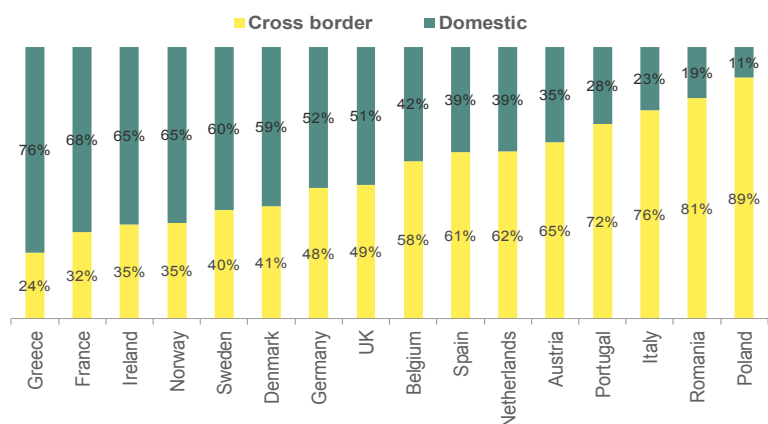
Source: Savills

GRAPH 5
Investment office yield cycle



Source: Savills

GRAPH 6
Cross border investment volumes 2017



Source: Savills

OUTLOOK

2018 will see more markets benefitting from cross-border demand

■ The outlook for the European and the world economies is positive for 2018, with the ECB confident that the Eurozone economy is no longer in 'recovery' but 'expansion'. Growth dynamics are expected to be underpinned by accommodative monetary policy, improving labour market and positive sentiment.

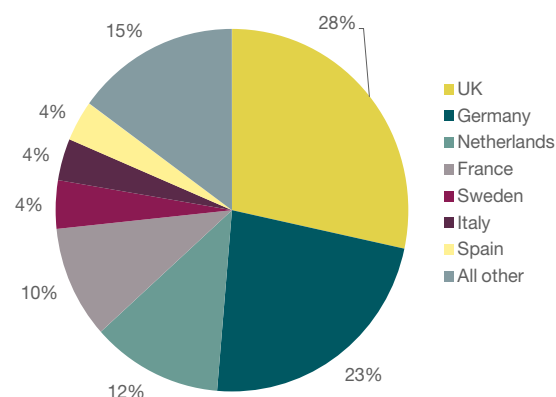
■ Prime real estate will remain an asset class of choice due to attractive yield spreads over long term interest rates and positive rental growth prospects.

■ As we are reaching the late stages of this cycle, investors will focus on structural rather than cyclical themes that drive fundamentals and good quality, long-term income streams. Logistics, residential and alternative sectors should benefit. With less opportunities for capital growth, investors are searching for alternative income streams.

■ Non-domestic demand for European property will continue in 2018 with Asian investors adding further pressure on pricing levels. Secondary cities will likely be the biggest targets of cross-border capital in 2018.

■ Prime yields should stabilise and remain at historic low levels as interest rates remain low, institutional allocations in real estate increase and Asian inflows continue to rise.

GRAPH 7
Investment share by country 2017



Source: Savills

Austria



Franz Poeltl
Investment Austria
EHL
+43 (0) 1 512 7690 890
f.poeltl@ehl.at



Thomas Schanda
Research Austria
EHL
+43 (0) 1 512 7690 705
t.schanda@ehl.at

2017 marked a new record year for the Austrian real estate investment market. With €4.7bn the transaction volume increased by 74% compared to the previous year. This was due to several large-scale office transactions. The office segment dominated the market and accounted for 65% of the transaction volume, followed by retail with 12 % and residential as well as student housing with 6% each. The sale of the office property "Austria Campus" for more than €500m in the form of a forward deal to PGIM Real Estate was not only the biggest transaction of the year, but also the largest office transaction on the Austrian market ever.

In 2017 the market was dominated by German and Austrian investors, who accounted for almost 90% of the transaction volume. While German-speaking investors will most likely remain the biggest investor group in 2018, it is noteworthy that more and more international investors, who have not yet been present in Austria, are currently screening the market. Particularly investors from Asian countries and from North America are actively seeking investment opportunities and this influx of capital will further boost the market.

The outlook for 2018 is positive and a very active year is expected. Demand continues to be high in all market segments and considerably exceeds supply. With the price level steadily rising, prime yields continue to decline and are currently at 3.75% for top office properties, 4.0% for shopping centres and 5.0% for retail parks. A further increase in prices is expected and yields remain under pressure.

Office properties continue to be the most-sought segment. Investments

in residential properties, including student housing and assisted living for the elderly, are becoming more and more popular due to the population growth.

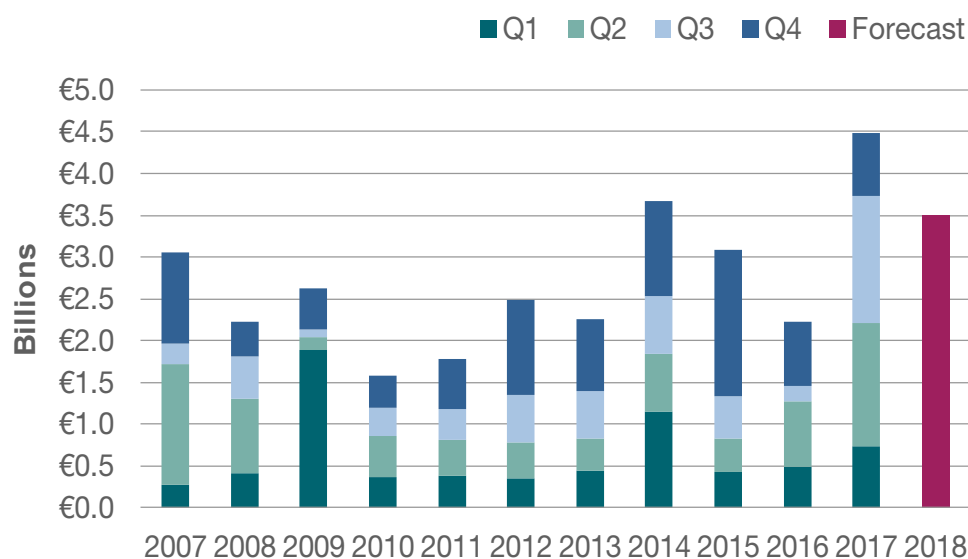
The logistics segment is also on the rise. However, the lack of available large-scale properties, especially in the office sector, somewhat limits the market and the amount of large deals will likely decrease in 2018 compared to the previous year. The majority of the transaction volume will stem from

the small and medium segment and therefore it will be difficult to match last year's record volume. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	↓
Retail	↓
Industrial	↓

GRAPH 1
Austria Investment volume 2007-2018



Source: EHL

TABLE 1
Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Austria Campus	Vienna	€550m	PGIM Real Estate	Office
The Icon Vienna	Vienna	€530m	Allianz	Office
ORBI Tower	Vienna	€100m	Bank Austria Real Invest	Office

Source: EHL

Belgium



Gregory Martin
Belgium Investment
+32 2 542 40 52
gmartin@savills.be



Henry Colle
Belgium Research
+32 2 542 40 54
hcolle@savills.be

The investment volume in Belgium in 2017 stood at around €3.67bn, compared to 2016 this is a 1.6% increase. 2017 is the second best year post crisis just after the exceptional year of 2015. The volume for 2017 was mainly boosted by office transactions (48%). Out of the total commercial real estate investment volume, offices reflected over nearly €1.75bn or 48%, Retail performed at lower level than 2016 at 16% or €584m, Industrial stood at a very strong 14% or €512m.

The Brussels Capital region reflected €1.82bn, 49.5% of total investment volume which is in line with the average of 50% during the last 10 years.

Belgian investors represented over 58% of total buyers in 2017 (compared to 2016 where for the first time Belgian investors only represented 55% of the transactions due to, amongst others, the acquisition of Korean Investors of the 60% share in the Engie Tower (€245m). Asian investors (Taiwan and Korea) accounted for around 13% and German and French investors represented over 5% of the active buyers.

In 2017, investors were mainly interested in core products located in the CBD. 2017 was indeed an exceptional year in terms of transactions with long term leases let to public administrations or international corporates. Value-add deals, opportunistic deals and buildings in the decentralised district or periphery faced much more difficulties to trade.

Prime office yields saw downward pressure of 100 bps compared to 2015 and stand at 4.25% for standard 3/6/9 year's leases. Prime office yields on long-term leases stand at 3.70%, an all-time low and which was a drop of even 55 bps yoy. Yields for prime retail stands at 3.25% for prime high street locations, 4.25% for prime

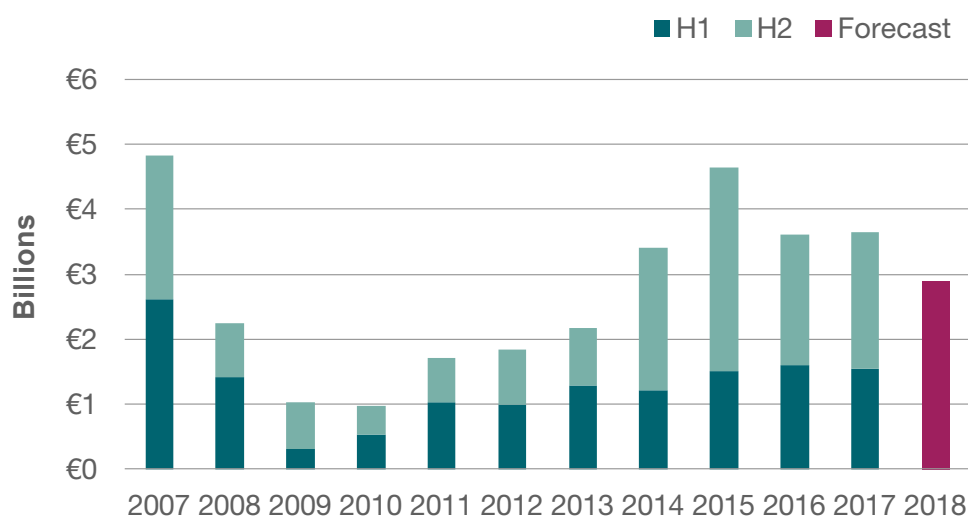
shopping centers and 5.25% for retail warehousing. Prime logistics stand at 6.0%. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	➔
Retail	➔
Industrial	➔

GRAPH 2

Belgium investment volume 2007-2018



Source: Savills

TABLE 2

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Engie Tower	Brussels	€245m	La Française	Office
Ghelamco arena	Gent	€124.3m	Ghelamco European Property Fund	Office
Arts 56	Brussels	€116m	Befimmo	Office

Source: Savills

Czech Republic



Stuart Jordan

Czech Republic Investment
+420 220 413 000
stuart.jordan@savills.cz



Jakub Gajdoš

Czech Republic Investment
+420 220 413 004
jakub.gajdos@savills.cz

In 2017 the Czech economy continued on the path of steady growth with real GDP increasing by 4.5% yoy – the second best result in the last ten years. Current outstanding economic performance is sustained by strong household consumption and revived growth of investment activity.

Unemployment hit a record low of 2.4% by the end of 2017, making it the lowest unemployment rate not only in the EU, but in the world. In 2018 real economic growth is expected to slightly decrease, yet stay safely above 3%.

Overall real estate investment volume reached €3.5bn in 2017, which marks a slight decrease compared to the record year of 2016 (€3.6bn), making 2017 the second strongest year in recorded history. 2017 also saw the highest rolling 12 month total when transaction levels reached almost €5bn between Q3 2016 and Q3 2017. The retail sector dominated with 43% share of the overall volume. Stable economic conditions and an educated workforce pushed investors to the office sector with volumes accounting for 29% of the total. The Industrial sector followed with an almost 13% share.

Within the volume, most notably was the acquisition of Olympia in Brno, a shopping centre in the Czech Republic's second largest city, by Deutsche Euroshop for €382m and the sale of Prague's Letnany Shopping Centre for ca. €230m by Tesco to CBREGL. Office investment activity was almost exclusively centred around Prague. Among the largest office transactions were the acquisitions of Škoduv palác (the seat of the Prague City Hall) by GLL for approx. €95m and The Blox (leased almost exclusively to Amazon) by CHF Group for €68.5m. Over 70 qualifying transactions were recorded in 2017, putting an average transaction size at ca. €50m.

Domestic investors represented the largest group on the Czech market with a 35% investment share. Capital coming from Germany made up 19% of the total volume and 12% of capital flowing to the Czech Republic originated in the USA. Due to strong demand and unavailability of product, prime yields continued to compress throughout 2017. Prime office, retail and industrial yields stood at 4.85%, 5.0 % and 5.75% respectively.

In 2018, we can expect an intensified

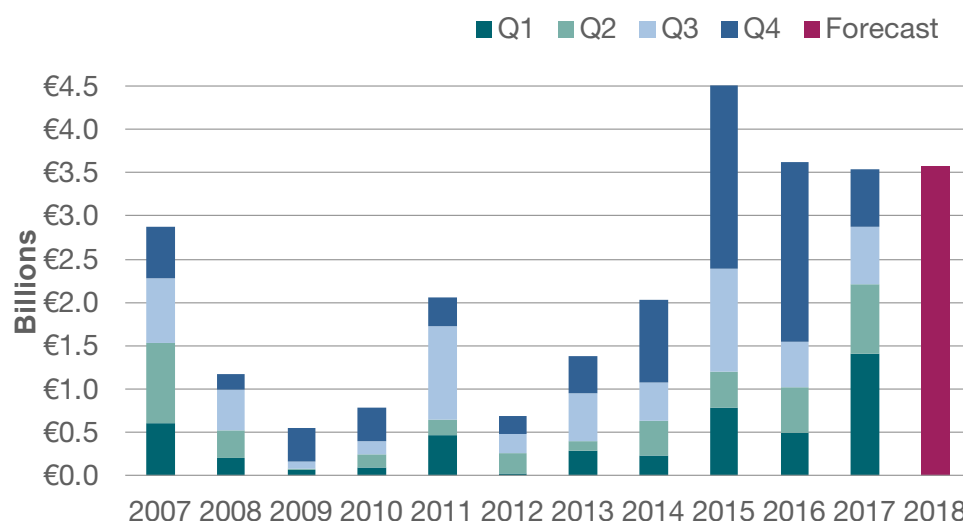
inflow of Asian cross-border capital. Furthermore, the scarcity of product in the CBD and inner city locations will likely lead investors to look towards more fringe locations. We expect the yield delta between prime and secondary product to stay steady at its current levels throughout 2018. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	➔
Retail	➔
Industrial	➔

GRAPH 3

Czech Republic investment volume 2007-2018



Source: Savills

TABLE 3

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Metropole Zlicín (50% share)	Prague	€120m	Unibail Rodamco	Retail
Avion Shopping Park Prague	Prague	€62m	Pradera	Retail
Palác Andel	Prague	€56.5m	LaSalle E-Regi	Office

Source: Savills

Denmark



John Lindgaard
Denmark Investment
Nybolig Erhverv
+45 33 64 6500
jli@nybolig.dk



Stig Plon Kjeldsen
Denmark Research
Nybolig Erhverv
+45 33 64 65 65
spk@nybolig.dk

2017 became another record setting year for the transaction volume in Denmark. The investment activity is driven by a further intensification of international investors' acquisitions in Denmark. The geographical interest has spread from Copenhagen to the other larger cities in the country, which is illustrated in the high number of larger 2017 transactions, within all segments.

Copenhagen high-street properties remain a favoured investment product among international investors. Supply is comparatively limited and recent years' acquisitions have entailed that the absolute best properties are owned by a small select group of investors. The increased competition for the properties sporadically offered for sale has throughout 2017 prompted decreasing yield levels within the segment. One of the most distinctive high street transactions in 2017 was Amagertorv 19, which was disposed at a record setting yield. Shopping centre transactions had a breakthrough in 2017.

The largest real estate transaction of the year was ATP's acquisition of 50% of Danica's Shopping Centre portfolio with a view to enter into a partnership concerning future shopping centre operations. The transaction amounted to approximately DDK 7bn (€940m). BlackRock also invested in a shopping centre located centrally in Zealand.

We expect that 2018 will bring about a continued high investment interest where the amount of transactions will be determined by the available supply.

Within the office segment the investment activity is helped along by an increased supply of prime

properties. In recent years the supply of this property type has been limited, but in 2017 the supply increased significantly, as several property owners decided to take home their profits, just as project developers completed actual prime properties. An example is PFA's investment of DKK850m (€114m) in Pakhusene located at Aarhus Harbour. This investment helps cement Aarhus' ability to attract the large investments. In Copenhagen Kløvern invested DKK620m (€13.2m) in the office-and education property let by Copenhagen Business School.

In an international context, Denmark maintains its position as a "safe haven" which attracts large amounts of foreign capital. We expect that this trend will continue in 2018 where the total investment activity definitely will be determined by the available supply of prime properties rather than the demand for them.

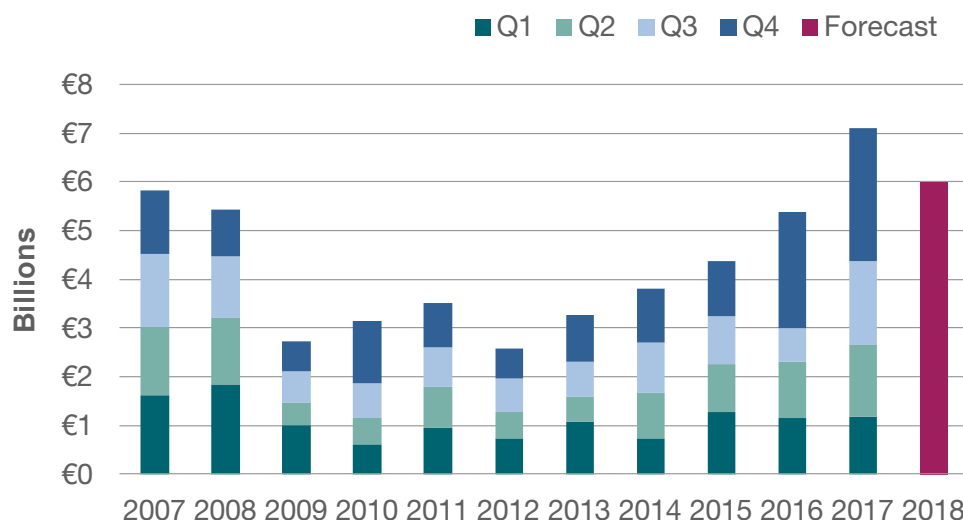
So far in 2018, we can ascertain that the high activity from 2017 has continued into 2018. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	↘
Retail	↘
Industrial	↘

GRAPH 4

Denmark Investment Volume 2007-2018



Source: Nybolig Erhverv

TABLE 4

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Shopping Mall Portfolio (50%)	Nationwide	€927m	ATP	Retail
Næstved Shopping Mall	Zealand	€132m	BlackRock	Retail
Pakhusene	Aarhus	€115m	PFA	Office
Office Portfolio	Copenhagen	€90m	Jeudan	Office

Source: Nybolig Erhverv

France



Boris Cappelle
France Investment
+33 (0) 1 44 51 77 17
bcappelle@savills.fr



Marie-Josée Lopes
France Research
+33 (0) 1 44 51 17 50
mjlopes@savills.fr

Following a slow start to the year, the second half of the year was boosted by the re-emergence of deals over €100m, which brought the volume invested to €25bn (-13% year-on-year).

This reduced level of investment is not reflective of a demand on behalf of investors – in fact this is increasing rapidly. The reduction in investment is principally due to a lack of supply. The number of transactions fell by 22% in 2017, mainly effecting the sector for deals valued over €100m. In contrast, the number of mega deals (>€500m) has been increasing for the last 3 years (6 deals in 2017, 5 in 2016 and 4 in 2015). This sector is usually driven by portfolios of alternative assets, however in 2017 it saw a lot of purchasing activity for isolated office assets (Coeur Défense, Ecowest and Westin Paris).

Retail and alternative assets both saw strong reductions in volumes of investment (-41% and -74% respectively). In contrast, the industrial sector saw a very significant annual increase of 39%, principally thanks to the mega-deal signed by Logisor (€1.8bn). The most dominant asset remains offices. Despite a reduction in the number of deals, the sector has only been very slightly affected – registering a small 0.3% decrease in total investment compared to 2016. A large geographical disparity emerged this year, with suburbs clearly very popular with investors.

Following several quarters of compression, prime yields in Paris stabilised at 3% in 2017. The investment market is thus experiencing a shift in focus towards the periphery, driven by investors. The compression of yield rates is expected to escalate in the Suburbs where the buildings benefit from

good transport links. This shift is expected to increasingly affect the Greater Paris areas situated around the main train stations.

The French market is becoming increasingly international – foreign capital investment capital has grown to represent 33% of total investment in 2017. The year saw the return of German (6% vs 2% in 2016) and English (8% vs 6% in 2016) investors to the market, as well as a reinforcement of the Asian presence

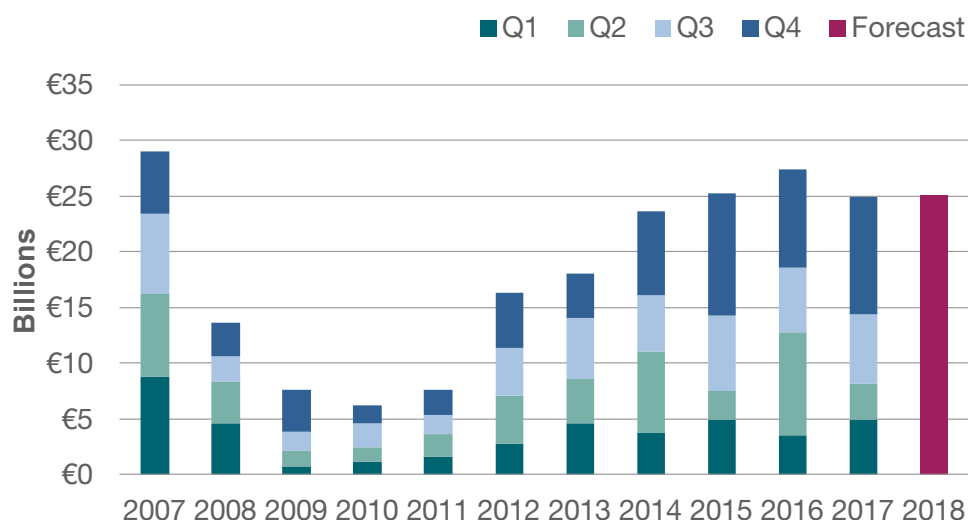
in the market (11% vs 5% in 2016). In 2018, we expect a level of investment in France equivalent to that of 2017, between €25bn and €30bn. Market conditions remain strong, notably thanks to an increasing cash flow and an excellent profitability/risk trade-off. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	➔
Retail	➔
Industrial	➔

GRAPH 5

France Investment Volume 2007-2018



Source: Savills

TABLE 5

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Coeur Défense	Paris	€1.82bn	Amundi	Office
Logisor Portfolio	Nationwide	€1.74bn	China Investment Corp	Industrial
Ecowest	Paris Levallois-Perret	€700m	ACG Equity Partners	Office

Source: Savills

Germany



Marcus Lemli
Germany Investment
+49 (0) 69 273 000 11
mlemli@savills.de



Matthias Pink
Germany Research
+49 (0) 30 726 165 134
mpink@savills.de

In 2017, commercial property changed hands for almost €57.1bn, which represents an increase of 4% against the same period of the previous year. In contrast, the number of transactions declined by 8% which was likely a reflection of the supply shortage. However, the average size of transactions grew significantly and stood at around €27m last year, which represents an increase of 13% against the previous year. As the number of large-volume deals was in line with the average of the past five years, the growing transaction size is most likely a consequence of higher prices in a broad scale.

Especially the investment market for industrial and logistics properties gained momentum last year. The transaction volume of these properties grew by 78% against the previous year. In total, industrial and logistics property for more than €8.4bn changed hands in 2017. Institutional investors in particular, including Asian sovereign wealth funds and pension funds, are capitalising on the structural growth in this sector.

In contrast, the transaction volumes for office property (-3% compared with 2016) and retail property (+2% compared with 2016) were largely unchanged. With a transaction volume of €23.4bn or a share of 41% of the total volume, office property was again the most important type of use. As demand by tenants is still high and modern office space is scarce in many cities, investors expect rising rents on the long-term. Therefore, German office property will remain a sought after asset class. With a transaction volume of €14.1bn, retail properties accounted for the second largest share of the total volume (25%). However, retail investors are acting highly selective and are predominately seeking properties with food anchor.

In retrospect, 2017 was the year in which Asian investors made a grand entry into the German commercial property market. Overall, these were responsible for more than 9% of the

acquisition volume, occupying second place behind American investors (10%).

Overall, long-term investors with buy-to-hold strategies are the dominating purchasers of German property.

Open-ended special funds accounted for around one fourth of the total transaction volume, followed by asset and fund managers which accounted for 18% of the transaction volume. The third most active purchaser group were listed property companies and REITs with a share of 11% of the transaction volume.

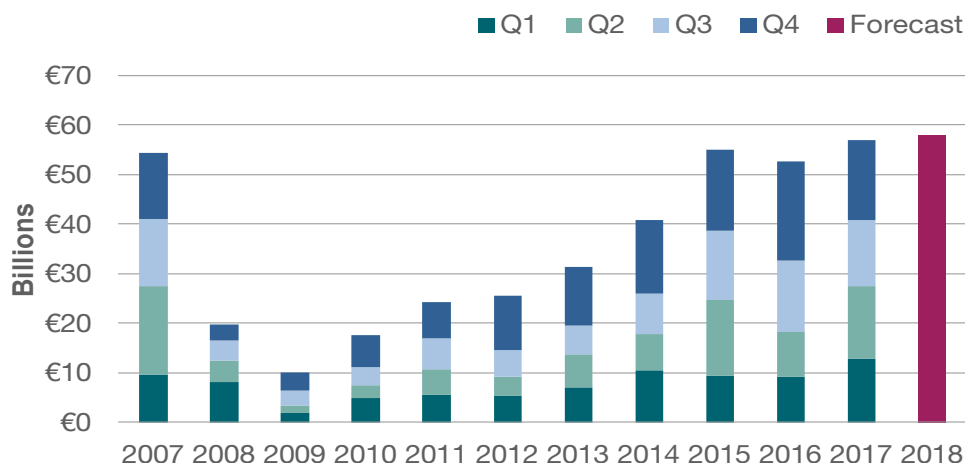
The majority of purchasers will continue to be long-term investors seeking stable income. In view of the favourable economic projections, German real estate is likely to remain in high demand. The transaction volume in 2018 is expected to exceed the €50bn mark. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	↘
Retail	→
Industrial	↘

GRAPH 6

Germany Investment Volume 2007-2018



Source: Savills

TABLE 6

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Portfolio (5 properties)	Berlin, Frankfurt, Hamburg, München	€1.5bn	SIGNA Holding	Office / Retail
Tower 185	Frankfurt am Main	€775m	Deka Immobilien Investment GmbH	Office
Steinmetz-Portfolio (13 properties)	i.a Dresden, Hamburg, Nürnberg	€650m	RFR-Holding GmbH	Retail
Springer Quartier	Hamburg	€400m	Pension schemes	Mixed-use

Source: Savills

Greece



Dimitris Manoussakis
Investment Greece
+30 210 6996 311
dman@savills.gr



Stefanos Giannoulakis
Research Greece
+30 210 6996311
s.giannoulakis@savills.gr

In the first half of 2017 we witnessed significant investment activity in the Greek property sector with the total investment volume amounting to approximately €135m.

The breaking record momentum of the Greek tourism sector, has been a major driver for investments in the hospitality sector. The US equity fund Hines has recently acquired another iconic hotel, the Athens Ledra, located in Athens South). The unit was acquired for €33.05m and with a total surface of 4,304 sq m disposes 616 beds and two function halls. As in the case of Hilton, the unit was offered through a tender process, as it had been repossessed by Alpha Bank.

The Athenian Riviera experienced one more transaction that of Asteria Glyfada, which has been acquired by Grivalia for €29.5m. Another hotel transaction has taken place in Thessaloniki, the second largest city in Greece, under a joint venture between Grivalia Hospitality SA and Makedonika Xenodochia SA, who acquired the historic hotel Olympos Naoussa for €5.46m.

Moreover, the largest Greek REICs have continued hand-picking commercial prime assets with an emphasis on supermarket units. One of the most notable transactions was the acquisition of four supermarket units by Pangaea REIC for a total of €47m. The units feature a total retail area of 87,000 sq m and three of these are located in Athens while the fourth is located in the city of Patra. The units are leased to Sklavenitis one of Greece's leading supermarket chains.

Similarly, Grivalia REIC in Q4 acquired two supermarket units in Greater Athens for a total of €22.57m. Trastor REIC has been particularly active in the market with the acquisition of two retail units in the high streets of Kifisia, one of the most expensive suburbs in the north of Athens for a total of €2.12m, one retail unit in Chalandri (Athens North) for €780,000 and of a

commercial building in Thessaloniki for a total of €8.45m. The latter lies along Tsimiski Street, Thessaloniki's most sought-after retail location, and disposes eight levels with a total area of 2,322.75 sq m. Lastly, Trastor REIC has further diversified its portfolio by acquiring an office building in the Athens North for €2.1m.

Current prime gross yields in the office market stand at c. 7.50%-8.0%, in the retail market approximately between 6.0% and 7.0% for prime high street retail units of small or medium size and c. 7.25%-7.75%

for well performing shopping centres. Equivalently in the logistics market yields are currently lying approximately between 9.0%-10.0%.

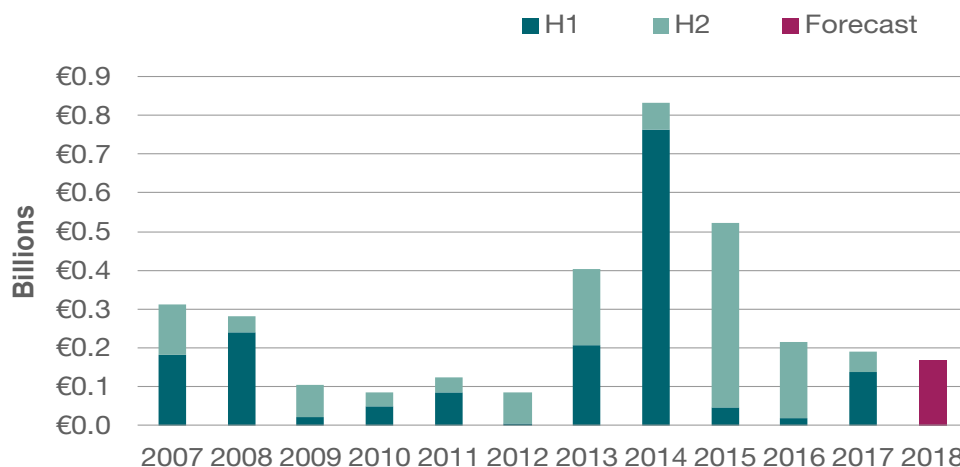
In 2018 we expect further investments to take place in the hospitality sector, as many of the domestic REICs have started diversifying their portfolios with hotel units, particularly in the largest cities of Greece. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	➔
Retail	➔
Industrial	➔

GRAPH 7

Greece Investment Volume 2007-2018



Source: Savills/RCA

TABLE 7

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Portfolio 24 supermarket units	Attica	€22.6m	Grivalia REIC	Retail
Office building	Athens North	€2.1m	Trastor REIC	Office
Hotel Unit	Athens South	€29.5m	Grivalia Hospitality SA	Hotel

Source: Savills

Ireland



Fergus O'Farrell
Investment Ireland
+353 1 618 1311
fergus.ofarrell@savills.ie



John McCartney
Head of Research
+353 (0) 1 618 1427
john.mccartney@savills.ie

Following three years of extraordinary trading between 2014-2016, non-residential investment turnover returned to more normalised levels in 2017. A strong final quarter of the year saw €907m of income-producing commercial property assets changing hands. This brought total turnover for the year – excluding residential assets – to €2.13bn. This represents a 49.4% decline compared with 2016.

Office investments accounted for the largest share of turnover. €856m of assets traded in the year, with 37% of this activity taking place in the final three months of 2017. The largest office deal in Q4 was the off-market sale of an eight-building portfolio in Cherrywood, a suburban location to the south of Dublin. This lot traded for a reputed €145m. Most of the office sales in Q4 involved older Grade B and C stock, or properties in fringe and suburban locations. In part this reflects a scarcity of standing Grade A investments; following years of very brisk trading many of the best buildings have now found their way into the hands of their long-term owners. However this also reflects the attraction of rental growth which has been displaced into secondary locations as the CBD vacancy rate has fallen.

The consumer economy in Ireland has recovered remarkably in the last five years and expectations of further growth have created an appetite for investments in prime high street locations and prime shopping centres. Retail assets accounted for €372m of sales in the quarter (41%) and €658m in the year (31%).

Post Brexit Sterling weakness has made it more expensive for UK visitors to come to Ireland.

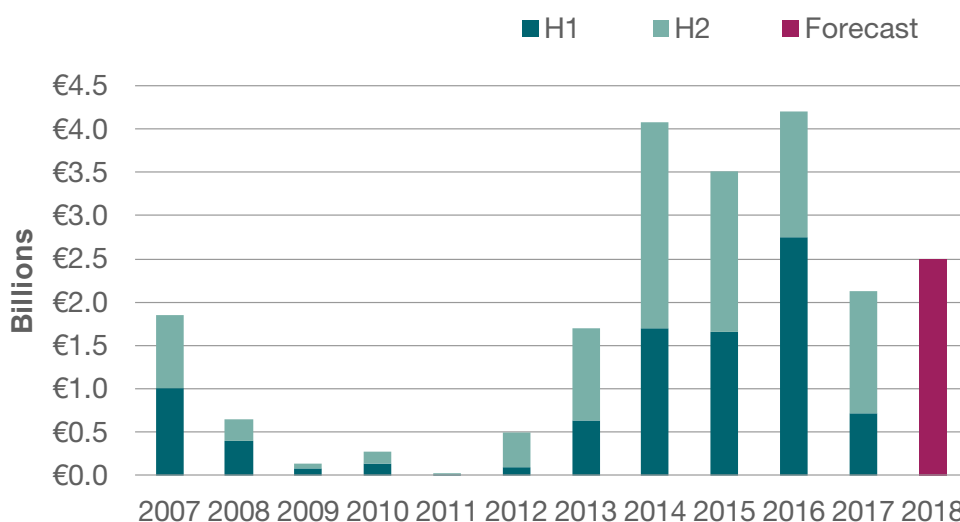
However, a 5% decline in visitor numbers from Ireland's biggest overseas market was more than compensated for by large increases in arrivals from the US and elsewhere in Europe. Overall there was a 3.6% increase in overseas trips to Ireland in 2017 and an increased weighting of higher-spending North American visitors (+16.2% yoy) has ensured strong investor demand for prime hotel assets where they become available. It is clear that the era of ultra-low

interest rates which have driven capital into property is coming to an end. With economic conditions in the Euro Area now improving rapidly and uniformly, the prospect of the ECB completing its QE programme in September is now very real. However, given expectations of further rental growth across-the-board in 2017 and 2018, our view is that pricing for Irish commercial property assets will remain well underpinned for the foreseeable future. ■

PRIME YIELDS END-YEAR OUTLOOK	
Offices	↘
Retail	→
Industrial	↘

GRAPH 8

Ireland Investment Volume 2007-2018



Source: Savills

TABLE 8

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Clayton Hotel Cardiff Lane, Dublin 2	Dublin	€40m	Dalata	Hotel
Park Office Portfolio	Dublin	€39m	Cantor Fitzgerald Syndicated Fund	Mixed
One Grand Parade	Dublin	€23m	Doric	Office

Source: Savills

Italy



Marco Montosi
Investment Italy
+39 02 36006749
mmontosi@savills.it



Maddalena Panu
Research Italy
+39 02 632814214
maddalena.panu@savills.it

Strong investment volumes were characterised by high levels of confidence among consumers and businesses, especially during the last quarter of the year. The dynamic of the labor market remains positive with an increase in employment rate and a stability in unemployment rate.

Investment volumes in 2017 reached circa €10bn confirming another record year and the strong interest for Italian CRE characterised by the growth of transactions and portfolios above €100m accounting for circa 60% of total transacted volumes.

The significant yield compression started in 2016 continued during 2017, confirming the positive trend of the Italian real estate market with particular reference to core products.

The office investment sector registered over €4bn in 2017 of single and portfolio transactions. As a result, the office segment was the main driver of the total investment volume accounting for 45%. Competition for prime investment products was fierce as prime yields further sharpened with an average of 50 bps on a yoy base, now reaching 3.5% for Milan prime products.

In 2017 the investment volume on the retail market reached over €2.2bn accounting for circa 25% on total invested volumes and registering a slight decline when compared to 2016. However, at the end of December, sizeable opportunities have been preliminarily signed for a total volume of circa €500m.

Yield compression was mainly driven by a scarcity of product and huge demand from property investors for retail assets with further compression for shopping centres now at 4.90% net cap rate and 50 bps decrease on a year-to-year base for high street products, circa 2.75% net yield for Milan and Rome prime high street.

Alternative asset class and logistic represent the third most sought after CRE product sizing 20% (€1.75bn) of total transacted volumes.

2018 is expected to register a healthy investor's appetite considering the strong demand for Italian CRE and several investors having missed out on previous opportunities in 2017 and under pressure to deploy capital in Italy. Savills foresees a positive outlook for 2018 with strong Q1 performance thanks also to some

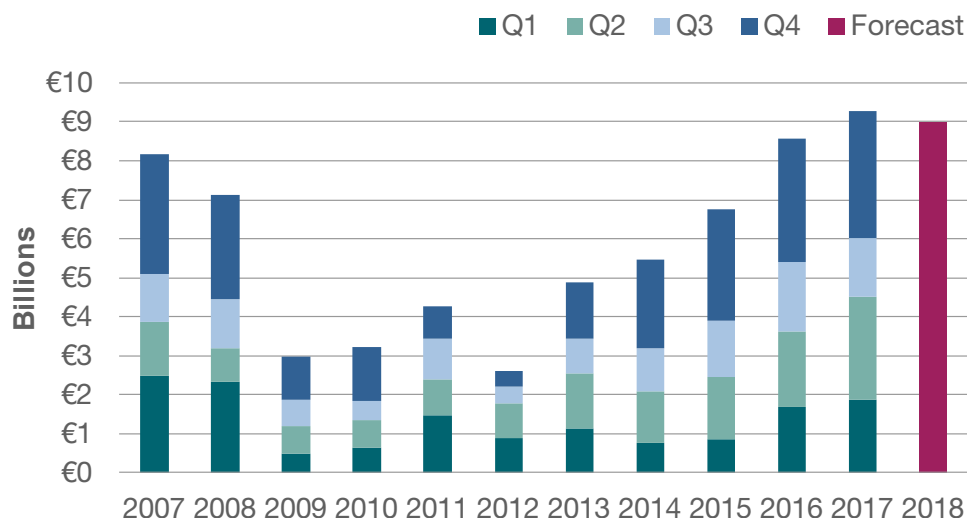
sizeable transactions slipping over from Q4 2017. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	➔
Retail	➔
Industrial	➔

GRAPH 9

Italy Investment Volume 2007-2018



Source: Savills

TABLE 9

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
14 mixed use assets	Nationwide	€409m	Cromwell	Mixed
Edison building - Foro Buonaparte - Milan	Milan	€272m	DeA Capital RE SGR	Office
PERF II Shopping Centre Portfolio	Nationwide	€210m	Marathon Fund	Retail
Via Tortona, 25	Milan	€115m	BNP Paribas REIM SGR	Office

Source: Savills

Netherlands



Jan de Quay
Investment Netherlands
+31 (0) 20 301 2030
j.dequay@savills.nl



Jordy Kleemans
Research Netherlands
+31 (0) 20 301 2094
jordy.kleemans@savills.nl

As the vacancy rates decrease and rents rise, investors have shown more willingness to invest in Dutch real estate which is seen in the sharp increase of the investment volume. In 2017, the investment volume rose to €14.9bn compared to €10.4bn in 2016 (+37%). The investment volume of solely offices increased from €6.4bn to €7.6bn (+19%). Volumes for the industrial market rose from €1.9bn to €2.7bn (+42%) and the retail volume increased from €2.2bn to €4.6bn (+109%). Thereby, the share of cross-border investments stabilized at approx. 65% in 2017.

The current economic situation of the Netherlands will maintain the high interest in Dutch real estate for both domestic as well as cross-border investors in 2018. However, as product in the major commercial real estate market become scarce, investors will likely broaden their horizon in search for new investment opportunities in different regions as well as in different asset classes.

The office sector is recovering from the high vacancy rates. Savills expects the vacancy rates to further decline due office transformations and an increasing demand for office space in 2018. This will also result in a further increase of office rents. The scarcity of product will decrease yields to under 3.75%.

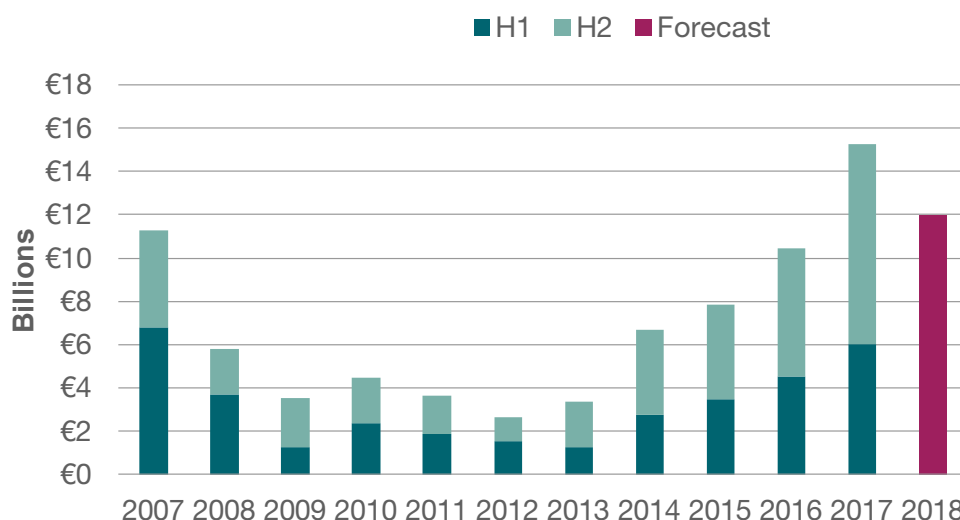
As investors are diversifying, the industrial market is a profitable option. With the large pipeline of new developments in the logistics market as a key driver, Savills expects the industrial market to continue growing throughout 2018 and this will result in yields contracting towards 4.5%-5.0%.

The retail market will continue to remain stable with an exception of prime high street. Yields of 3.75% will continue to be achieved, however, the market will further

develop itself to the online variant which, in the long term, will reduce the demand to brick-and-mortar shops. ■

PRIME YIELDS	
END-YEAR OUTLOOK	
Offices	↘
Retail	→
Industrial	↘

GRAPH 10
Netherlands Investment Volume 2007-2018



Source: Savills

TABLE 10
Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Portfolio	Nationwide	€190m	Real Estates	Retail
Mr. Treublaan 7	Amsterdam	€165m	Hannover Leasing	Office
Vijzelgracht 50-58	Amsterdam	€115m	Hines	Office

Source: Savills

Norway



Morten A. Malling
Investment Norway
Malling
+47 934 98 882
mm@malling.no



Haakon Ødegaard
Research Norway
Malling
+47 24 02 80 00
haakon.odegaard@malling.no

The transaction volume in the Norwegian CRE market ended at NOK 85bn (€8.8bn) in 2017, only beaten by the record year of 2015 with an historical volume of NOK 128bn (€13.3bn). However, we have never recorded such a high amount of transactions, counting approximately 295 at year end 2017.

Going forward we expect the Norwegian CRE market to still perform strong, mainly due to the financial institutions eagerness to lend to the CRE market as many of them now are fully capitalised, along with increasing rent levels. As a result, we estimate a total transaction volume of NOK 90bn (€9.4bn) in 2018.

Over the past year we have seen a compression of prime office yields from 3.8% to 3.65%, and normal yields around 6.0% to 5.1%. We believe that this has been a result of the low interest rates, and the continued high demand for good property. Our yield outlook remains flat for the coming 12 months, however attractive logistic properties with long contracts are still in high demand, and could potentially put downward pressure on prime logistic yields.

The two most prominent segments have been office and retail, accounting for roughly 53% and 17% of the total volume respectively in 2017. For 2018 we expect that this share will be slightly lower for both segments, triggered by a slightly higher share of industrial/logistics transactions as the demand for good logistics properties is very high.

2017 began with a vast number of foreign transactions, account for as much as 40% of the total transaction volume in Q1. However, as the year ended the share came down to 16% of total investments. This is close to

the average level we have seen the past years, but significantly lower than what we observed in 2014 and 2015.

With a market share of 45%, the Oslo region continues to dominate the total market. This is an increase from 3 % in 2016, confirming our belief that CRE in Oslo as a liquid region for commercial real estate. However, worth mentioning is the continued demand for regional properties outside of the major cities which

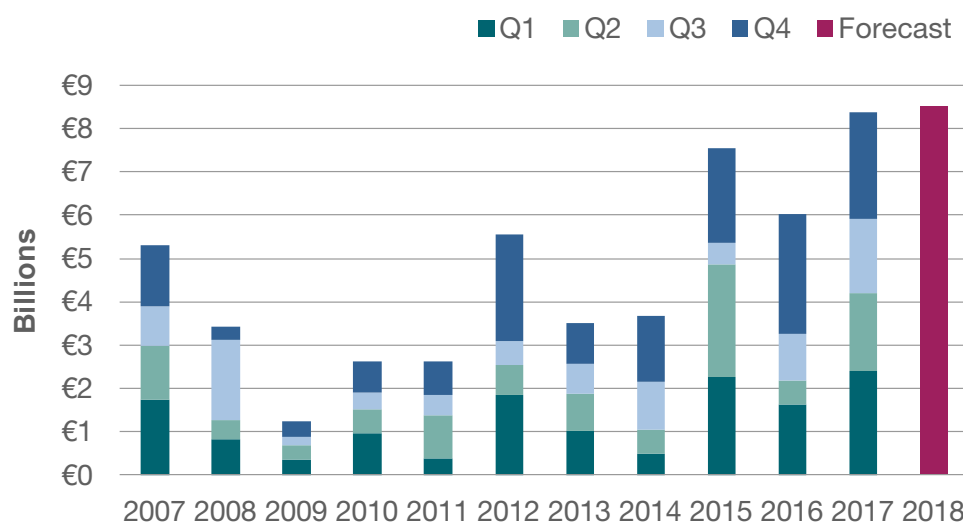
became very apparent in 2017, and that we expect to continue in 2018. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	➔
Retail	➔
Industrial	➔

GRAPH 11

Norway Investment Volume 2007-2018



Source: Malling

TABLE 11

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Østre Aker Vei 264	Oslo/Lysaker	€109m	NRP	Office
Akersveien 24-26	Oslo/Bjørsvika	€77m	DNB Markets	Office
Christian Kroghs gate 32	Oslo/Majorstuen	€68m	Arctic	Office
Gaustadaleen 21 (Building A)	Oslo/Lysaker	€43m	NRP	Office

Source: Malling

Luxembourg



Esther Himbert
Investment Luxembourg
+352 20 60 65 24
ehimbert@savills.lu



Sophie Leblon
Research Luxembourg
+352 20 60 65 20
sleblon@savills.lu

Commercial investment activity for the whole year 2017 reached €1.2bn. Although this is the second highest level since the record year of 2007, it is also a 17% decrease compared to 2017 with a volume of €1.4bn as attractive investment opportunities are becoming scarce. The largest transaction of the year was the acquisition by Allianz an office property in the Cloche d'Or district, "Vertigo", for ca. €180m.

Investments in the major real estate markets such as UK, France and Germany are becoming more and more expensive which makes investors look for alternative markets such as Luxembourg. Due to the fact that vacancy rates in central districts remain among the lowest in Europe (0.8% in Kirchberg, the largest office district) and rents are following an upward trend, the Luxembourg real estate market is of high interest for both domestic and cross-border investors.

Driven by the high demand and the lack of available investment products the market is very competitive and prime yields are declining. In the central districts prime office yields are facing downward pressure standing at 4.5% (3/6/9 leases) but are significantly below for long-term leases (<4.0%). Given that investments in real estate still offer a yield premium to bonds, and investment managers and institutional investors have a significant capital inflow seeking property investments, the demand for core assets keeps being on a high level which could lead to further yield compression in the central districts in 2018.

In 2017 Luxembourg was clearly on the radar of foreign investors. The major foreign investor groups come from the neighboring countries Germany (21%) and Belgium (21%)

but also from Switzerland and UK with a share of around 7% and 6% respectively. Domestic investors, in particular insurance companies, were also active in 2017 reaching a share of 32% of the total investment volume.

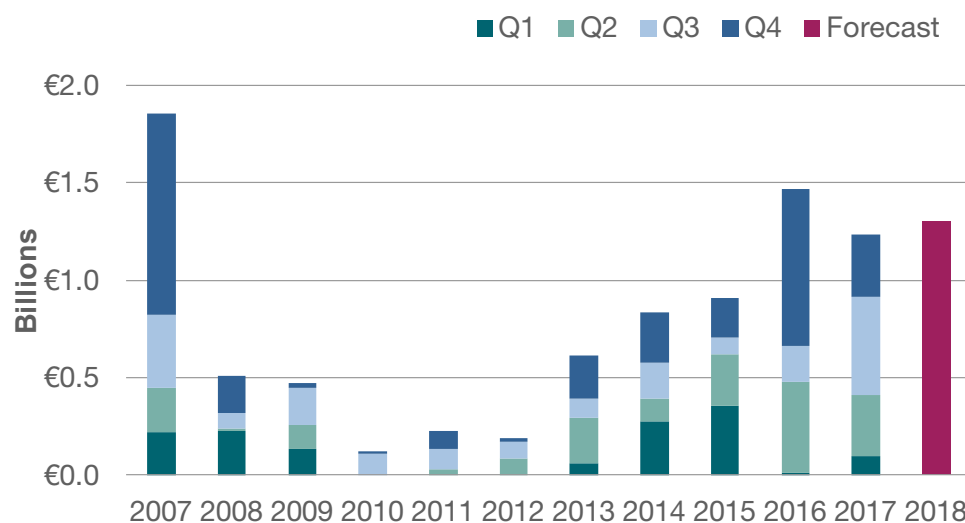
Luxembourg's economy is expected to continue to grow strongly through 2017 and 2018 and the country is experiencing increasing

attractiveness which results in rapidly growing office and residential markets. The combination of these factors and the importance of available equities in the market will certainly attract national and foreign real estate players in 2018. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	➔
Retail	➔
Industrial	➔

GRAPH 12
Luxembourg Investment Volume 2007-2018



Source: Savills

TABLE 12
Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Infinity	Avenue JF Kennedy 1	€80m	Real I.S.	Office
Corec	Boulevard Prince Henri, 3B	€80m	Private	Office
Brasseur	Rue Jean-Pierre Brasseur, 14	€38m	Private	Office

Source: Savills

Poland



Marek Paczusi
Investment Poland
+48 (0) 22 222 40 10
mpaczuski@savills.pl



Wioleta Wojtczak
Research Poland
+48 (0) 600 422 216
wojtczak@savills.pl

2017 was the third consecutive year with intense investment activity in Poland. The total investment volume reached the record level of above €5.0bn, with the highest share of retail deals, including strategic portfolio and platform transactions. Strong investor demand and volumes of equity exceeding availability of product, especially in the prime segment of the market, as well as inflow of new capital, put pressure on prime yields which achieved the lowest levels in history. It is expected that 2018 will be another record year, as the volume of transactions finalised and deals in the advanced stages of negotiations already exceed €3.0bn.

Appetite for prime retail assets in core locations is still strong, however, the availability of prime product has been limited. Core/core plus investors will extend their interest towards secondary markets and dominant schemes located in smaller cities, while value-add and opportunistic buyers will still seek for established assets requiring remodeling or redevelopment. Sunday ban on retail trading will be subject to careful observation, especially in terms of the impact on performance of retail schemes and consumer behaviors, nevertheless, Poland is not the only European country where shops are forced to close on Sundays, and it is expected that Sunday losses will be at least partly compensated sales on working days and by e-commerce growth.

Since the retail sector has been undergoing significant evolution globally, resulting from structural market changes, investors may temporarily shift their focus towards office, industrial or alternative sectors.

2017 was the first year when investment activity in regional office

markets outpaced activity in Warsaw. While regional markets are maturing and attract increasing investment, we expect more activity in Warsaw this year. Investment into office assets in Warsaw is boosted by rental levels at or close to their historical lows and good prospects for net effective rental growth.

As 2017 was also a record year for the industrial sector, we expect

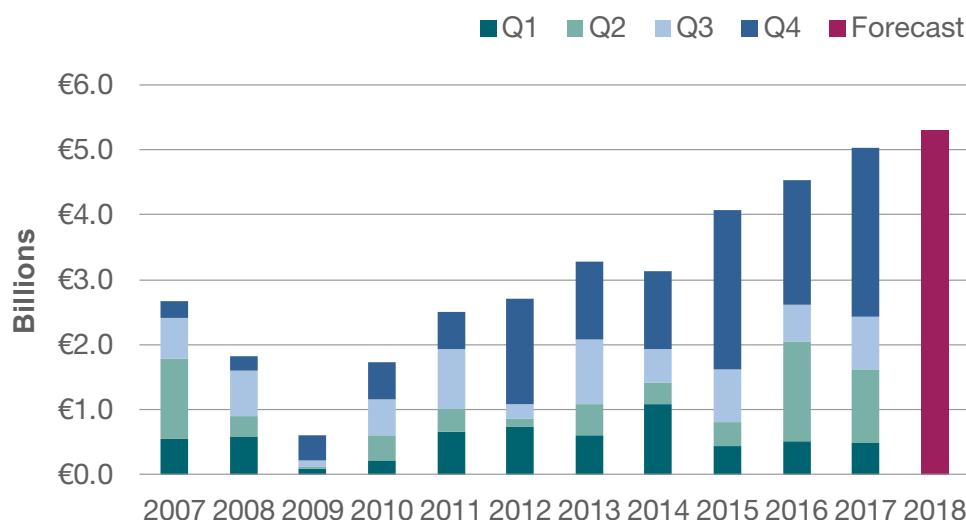
more transactions in 2018, including portfolio sales and growth in forward funding of new developments by investors, giving access to stock before it comes to the market. Demand for alternative asset classes (still a new phenomenon in Poland) will gradually increase driven by structural market changes such as the ageing population, a growing number of overseas students and technological shifts. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	↘
Retail	↘
Industrial	↘

GRAPH 13

Poland Investment Volume 2007-2018



Source: Savills

TABLE 13

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Nobilis Business House	Wroclaw	€44m	Catalyst Capital	Office
EPP Office Portfolio	Nationwide	€160m	Griffin Premium Real Estate	Office
Magnolia Park	Wroclaw	€380m	Union Investment	Retail

Source: Savills

Portugal



Paula Sequeira
Investment Portugal
+351 21 311 4001
paula.sequeira@savills-
aguirrenewman.pt



Miguel Mesquita Figueiredo
Research Portugal
+351 918 783 344
miguel.figueiredo@savills-
aguirrenewman.pt

Following the trend of the past few years, real estate investment in Portugal continued to register a very favorable performance. In 2017, the volume in commercial investment stood at approximately €1.7bn. This figure represents an increase of 30% compared to the previous year. The major volume of transactions were registered in the first half of the year, accounting for €1bn, most corresponded to operations of 2016 that required an extension of the negotiation period.

Retail was the favoured asset class accounting for approximately €704m invested in 2017. Shopping centres were the most sought after sector, totaling €493m in 2017. As a result, the top transactions were Forum Coimbra & Forum Viseu (€220m), Vila do Conde Style Outlet (€127m) and Maia Shopping & Guimarães Shopping (€90m).

Office assets accounted for 32% of the total investment volume with €590m invested in 2017. On this sector, two of the most relevant transactions were the sale of Entrepasto Building, in the oriental zone of Lisbon, for a total of €65.5m, by Signal Capital & SAM, and Marquês de Pombal 3, in the prime CBD, for €60m to Merlin Properties.

International investment continue to lead the market accounting for 78% of the total volume. Although, Portuguese investors are increasing their investment capacity, a portfolio of Staples (27 buildings) were acquired by a Portuguese entity, as well as Sintra Business Park (6 buildings), for €45m and €20m, respectively. Currently, due to the liquidity on the market, several asset managers and private investors have been diversifying their risk on investments, looking for both core/core-plus as and value-add assets. The outlook for 2018 appears to be

very positive. For the beginning of the year, we expect a strong H1 2018 due to some transactions that slipped over from 2017.

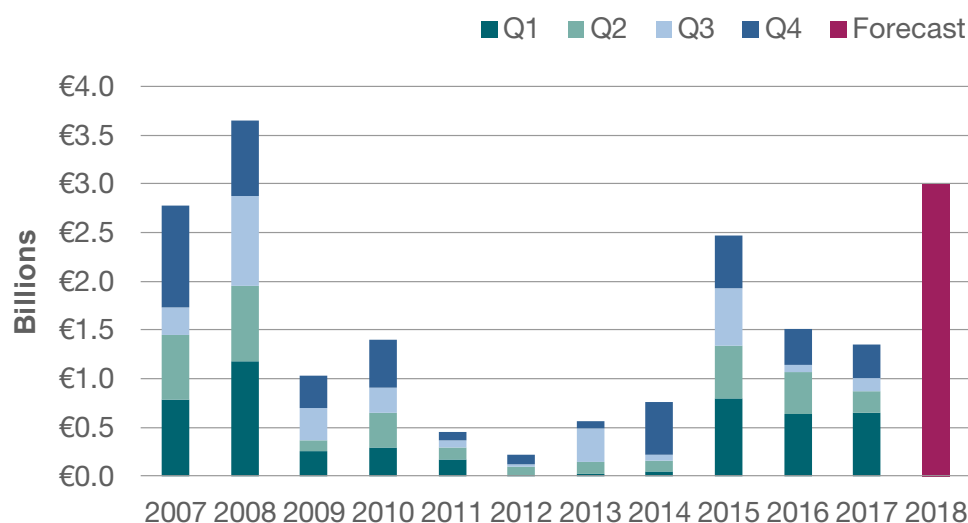
The interest of investors is very concentrated in the office, retail and hospitality sectors. Following what we observed in 2017, demand will continue to largely exceed the available supply. These market constraints will have impact on yields, accordingly we foresee a

compression of yields mainly in prime assets. For offices in prime locations yields may reach 4.5%. Investors will focus on the high street retail segment which will result in yields compressing to ca. 4.0%-4.5%. ■

PRIME YIELDS END-YEAR OUTLOOK	
Offices	➔
Retail	➔
Industrial	➔

GRAPH 14

Portugal Investment Volume 2007-2018



Source: Savills Aguirre Newman

TABLE 14

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Maia Shopping + Guimarães Shopping	Maia & Guimarães	€91m	Ocidental Seguros	Retail
27 Staples Buildings	Nationwide	€80m	Square Asset Management	Mix
Portimão Shopping Center & Alfubeira Shopping Center	Portimão & Albufeira	€92m	Square Asset Management	Retail
Mar Vermelho	Lisboa	€71m	FP Banco de Portugal	Office

Source: Savills Aguirre Newman

Romania



Codrin Matei

Investment Romania
+40 21 2324540

codrin.matei@crosspoint.com.ro



Cosmin Grecu

Research Romania
+40 21 232 45 40

cosmin.grecu@crosspoint.com.ro

In 2017, the investment volume was registered at around €1bn. Bucharest market concentrated most of the concluded deals activity (€400m).

The largest office transaction recorded in Q1 was the acquisition of the Polona 68 building by Smartown Investments in a deal worth over €15m. In Q2, ArtGroup Business Center was bought by the Maltese group Hili Properties in a €30m transaction, while Q3 recorded the sale of Green Court C office building in Bucharest for €38m and Q4 the sale of Coresi Business Park in Brasov for €50m.

The significant transactions in 2017 showed a positive investor confidence in the industrial market. In the largest recorded deal, the Japanese company Yusen Logistics acquired Tibbett Logistics Romania's portfolio from Keswick Enterprises in a transaction estimated at over €60m. Tibbett Logistics owned facilities in Bucharest, Deva, Constanta, Oradea and Timisoara, with a total GLA of 116,000 sq m.

The increase in the gross minimum wage and tax cuts have stimulated a growth in Romanians' purchase power. This has helped the closing of the largest retail transaction, the sale of 50% of the Iulius Mall shares to Atterbury Europe (€100m). Taking into account the market's evolution over the years, the average growth rate for the Romanian real estate investment market hovers around 15% yoy. With a few office and retail transactions still pending, a steady economic growth and competitive yields as well as we expect the 2018 investment market to record large transactions due to the recent consolidation of portfolios. The factors influencing the state of the market will remain at constant levels and therefore we can expect a growth rate of 10%-15%.

It is expected that more attractive office products will be available for

purchase in the next 12 months as there will be consistent growth in stock (driven by Portland Trust, Skanska, Globalworth, and Austrian landlords) and take-up (Amazon, IBM, Bitdefender, ING Bank).

The increasing demand for industrial space and the growing interest from new players in 2017 have started a trend that will most likely continue in the next years, making Romania one of the most competitive markets in Europe. Most of the newly built

space is pre-leased, a fact that encourages developers to extend their portfolios.

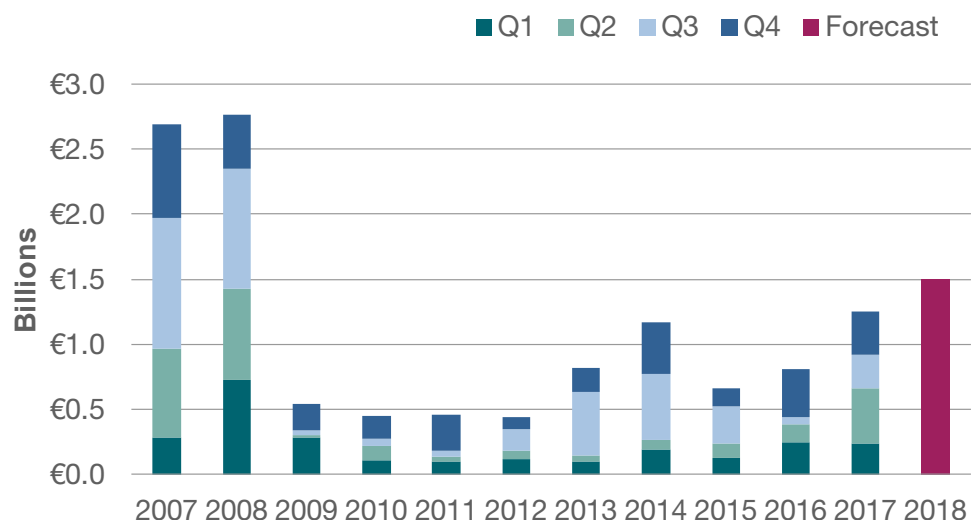
In 2017 most of the investment activity has been registered in the retail segment (45% in total). 2018 is expected to continue this trend but the investors' interest will likely shift more to secondary cities. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	↓
Retail	↓
Industrial	↓

GRAPH 15

Romania Investment Volume 2007-2018



Source: Crosspoint

TABLE 15

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Radisson Blu	Bucharest	€169.5m	Revetas Capital	Hotel
North Gate	Bucharest	€16.8m	One United Properties	Office
Chitila Logistic Park	Bucharest	€17.3m	CTP	Industrial
Tibbett Logistics Romania	Nationwide	€62.4m	Yusen Logistics	Industrial

Source: Crosspoint

Spain



Luis Espadas
Investment Spain
+34 (91) 310 1016
luis.espadas@savills-
aguirrenewman.es



Gema de la Fuente
Research Spain
+34 (91) 310 1016
gema.fuente@savills-
aguirrenewman.es

Just over €9.2bn was transacted in 2017 in the commercial investment market, making it a record year in the last decade and being the second best year in terms of volume in the historic series, only 14% below the peak of the market, registered in 2007 with €10.7bn. 2017 annual volume grew 9% with respect to the previous year and 19% in the number of transacted assets. However, each sector, due to their different circumstances, performed differently.

Hotel and Retail grew 52% and 18% respectively, reaching in both cases the peak of their historic series, while offices dropped 22% mainly due to the lack of product in open sale processes. Logistics, registered a similar level to 2016, only 5% below, due to the lack of high quality product. Some investors interested in this segment are acquiring land to develop the type of product required by the current occupier demand, or are buying portfolios. Some are corporate deals (not included in the investment figures), such as the acquisition of Logisor, the main European logistic platform by China Investment.

Although the annual volume exceeded slightly the 2016 figure, the investment activity slowed down in the last quarter of the year. The annual comparison of volumes recorded in Q4 was down 33% in 2017 because of the postponement of several deals due to the delays in the buying process, which are expected to be closed in 2018, and on the other hand, the Catalonia situation which stalled some sale process waiting for the result of the current situation.

The economic outlook for 2018 shows a positive scenario with economic growth and employment creation. The easy access to credit and the low interest rates are also important factors to the investment activity. The uncertainty with the Catalonia situation will be solved when the new regional government has been established, which will always have

to work within a legal framework. The institutional stability will be the key to recover the investor confidence.

Rents in upward trend in all the markets will be the main fundamentals in the investors purchase strategy.

Forecasts for 2018 for the investment volume and activity are optimistic, although the dynamics in each sector will make a difference. In the retail market €2.5bn have been identified to be potentially transacted during

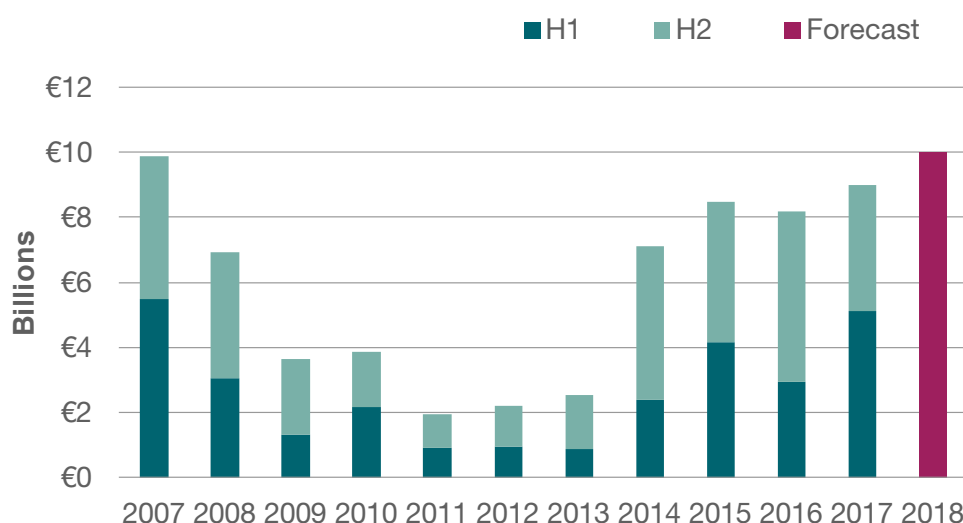
the first half of the year. The scarcity of product will continue being the general keynote in the office and logistic sectors and investors will develop the product which doesn't exist today. In this sense, Inmobiliaria Colonial has just bought a plot of land with 110,000 sq m buildable in the surroundings of Atocha Train Station (southern Madrid). ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	↓
Retail	↓
Industrial	↓

GRAPH 16

Spain Investment Volume 2007-2018



Source: Savills

TABLE 16

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Portfolio Hi Partners	Nationwide	€630m	Halley Holdco (Blackstone)	Hotel
Portfolio Aula Hoteles	Nationwide	€165m	Hispania Activos Inmobiliarios	Hotel
Carrer dels Mercaders, 10 - Mango	Palau de Plegamans	€110m	Invesco	Industrial
Berceo SC	Logroño	€102m	Barings Real Estate	Retail

Source: Savills Aguirre Newman

Sweden



Peter Wiman
Research Sweden
+46 (0) 8 545 85 462
pwiman@savills.se

The Swedish economy is performing well and most forecasts have gradually been upgraded over the past year. Consensus forecast indicates a growth of 2.4% in 2017 with a similar growth expected for 2018. The growth is mainly fuelled by strong domestic consumption, the construction industry and an upswing in exports due to a relatively weak Swedish krona.

The Bank of Sweden has kept the lending rate at record low levels and have indicated that the lending rate will be remaining throughout 2018. The low interest rates and solid property market fundamentals in Sweden have led to a continued competitive property market where demand outweighs supply. The total transaction volume for 2017 failed to reach the record level from 2016, but amounted to a very strong SEK 152bn (€15bn), which is almost 40% higher than the long-term average of SEK 110bn (€10.9bn).

The transaction pace also remained at high levels with just over 600 transactions carried through. The commercial volume amounted to SEK 100bn (€9.9bn), down from SEK 140bn (€13.9bn) in 2016. The transaction volume in the office sector was fairly average and amounted to SEK 29bn (€2.9bn), and thus accounted for a modest 19% of the total transaction volume. Retail properties were in high demand with a turnover of SEK 25bn (€2.5bn), which was the highest figure since 2008 and retail parks set an all-time high at SEK 13bn (€1.3bn).

The Swedish property market seems to have been largely unaffected by global uncertainties and may even strengthened Sweden as investment option for many international investors. Foreign investors were very competitive in 2017 and accounted

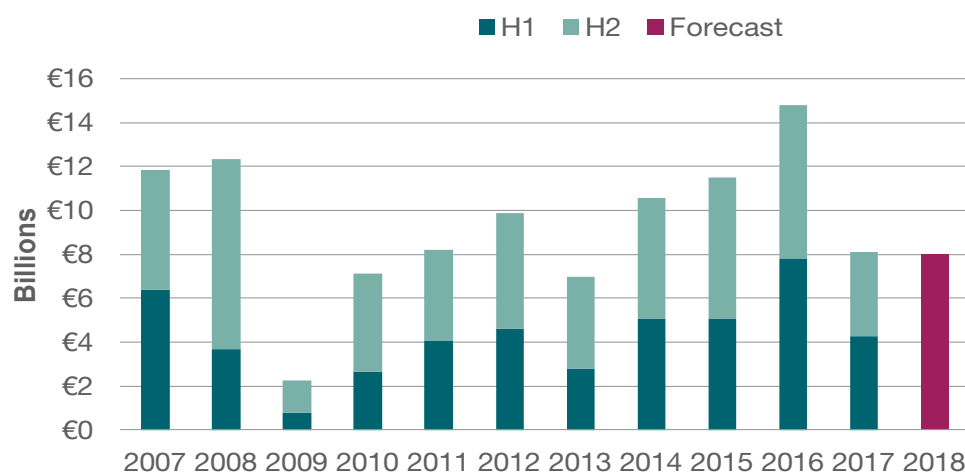
for 26% of the total transaction volume, a significant increase compared to the last few years. We expect that the high interest from foreign investors will remain throughout the year and 2017 was the first year since 2008 when domestic investors were net-sellers. The outlook for the rest of the year is positive and property investments are expected to remain attractive. Transaction volumes are likely to remain high throughout the year.

Property yields across most sectors are expected to remain stable throughout the year, but given the strong demand, lack of alternative investments and the amount of capital seeking property investment, it is likely that we will see new lows in some sectors or geographical markets. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	➔
Retail	➔
Industrial	➔

GRAPH 17
Sweden Investment Volume 2007-2018



Source: Savills

TABLE 17
Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Residential Portfolio	Helsingborg	€195m	Willhem	Residential
Eldaren 6 "Linnaeus University"	Kalmar	€147m	Intea	Public (Education)
Residential Portfolio	Umeå	€121m	Heimstaden	Residential
Logistics Portfolio	Nyköping, Norrköping, Jönköping	€121m	Bråviken Logistik (Pareto Securities)	Industrial

Source: Savills

UK

**Richard Merryweather**

Investment UK
+44 (0)20 7409 8838
rmerryweather@savills.com

**Mat Oakley**

Research UK & Europe
+44 (0) 20 7409 8781
moakley@savills.com

The investment market in the UK surprised on the upside in 2017, with turnover for the full year of just under £66bn (€73.8bn) against our forecast at the start of 2017 of £55bn (€61.5bn). This means that 2017 was the second best year on record, a startling result given the negativity around Brexit that was rife at the start of last year.

Just under half of last year's acquisitions were by non-domestic investors, with this proportion rising to 80% in the Greater London market. The single most active source of capital was Asia Pacific, whose investors put over £13bn (€14.6bn) into the UK market, much of which went to London. However, both European and American investors also invested more in the UK in 2017 than they had in 2016.

While the office market remained the most active of the three main sectors last year, the biggest growth in activity was in the industrial sector where the global appetite for income security combined with an enthusiasm for the growth prospects for distribution property. Other income-producing asset classes also saw a sharp increase in investor demand last year.

Domestic investors remained dominant in the smaller lot size and higher yielding segments of the UK market, while non-domestic investors remained heavily focused on lower yielding and larger lot sizes.

The strength of investor demand for "prime" and "secure" was sustained in 2017, and this maintained prime yields at or close to their record lows last year. While London yields were broadly flat in 2017, it was the markets outside London that saw the most yield hardening, and we expect this story to be sustained in

2018.

We expect that non-domestic investor demand for UK property will be sustained in 2018, supported by the widening yield gap between the UK and much of the rest of the world. In particular, we expect to see more European investor activity in the UK this year. Investment decisions will be driven by comparative risks and returns. While we do not expect prime yields to harden much further in the UK, there will be some softening in

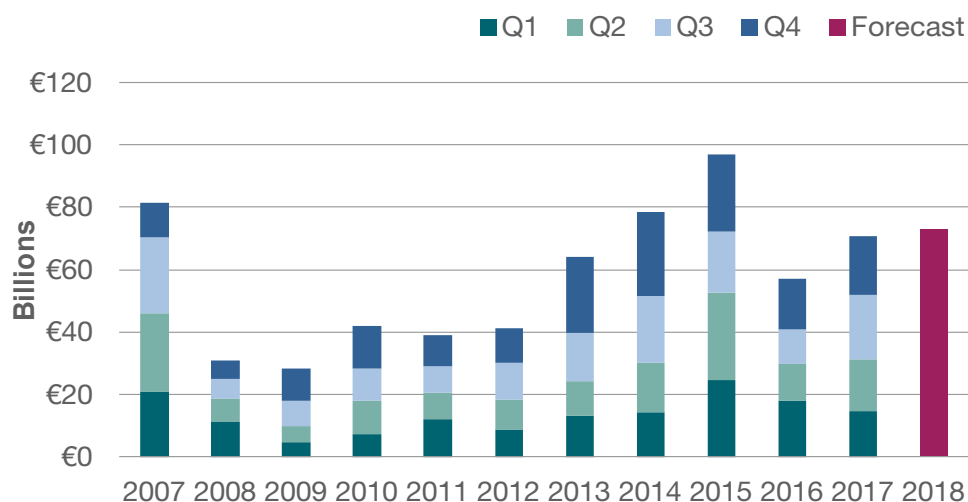
tertiary segments as well as where vendors have been over-optimistic on pricing. ■

PRIME YIELDS END-YEAR OUTLOOK

Offices	➔
Retail	➔
Industrial	➔

GRAPH 18

UK Investment Volume 2007-2018



Source: Savills

TABLE 18

Major investment transactions Q4 2017

Property	Location	Price	Buyer	Usage
Canada Square, 20	London E14	€360m	Cheung Kei Group	Office
Grosvenor House Hotel	London W1	€527m	GH Equity UK	Leisure
Nine Elms Square site	London SW8	€413m	Wanda (Hong Kong)	PRS
Cannon Street, 78	London EC4	€426m	DEKA Immobilien	Office

Source: Savills

Key investment indicators

GDP growth, prime rental growth¹, prime yields and yield shift² in Q4 2017

City	GDP growth 2018 (f) ⁴	Office rental growth	Office yield	Office yield shift	Industrial yield	Industrial yield shift	SC ⁵ rental growth	SC yield	SC yield shift	<p>Note 1: Rental growth is annual and calculated in local currencies</p> <p>Note 2: Prime yield shift is annual - in basis points</p> <p>Note 3: First estimations</p> <p>Note 4: GDP is national, growth is annual and it is the Oxford Economics forecast for the year 2018</p> <p>Note 5: SC=Regional Shopping Centre. Rental growth refers to prime standard unit of approx 100sqm</p> <p>Note 6: London offices refer to West End</p> <p>Note 7: Yields are quoted Net unless noted otherwise</p>
Amsterdam	2.2%	3.9%	3.75%	-35	5.25%	0	2.6%	5.15%	0	
Athens	2.5%	4.3%	7.5%	0	9.0%	-50	n/a	7.25%	0	
Berlin	2.4%	12.4%	3.0%	-50	3.0%	-40	n/a	4.6%	0	
Brussels	1.5%	5.3%	3.7%	0	6.0%	-50	0.0%	4.25%	0	
Bucharest*	4.4%	n/a	7.25%	n/a	8.5%	n/a	n/a	7.25%	n/a	
Copenhagen**	1.9%	2.0%	4.0%	0	6.5%	-25	0.0%	4.0%	0	
Dublin	3.8%	5.0%	4.0%	-25	5.5%	-25	3.6%	4.5%	0	
Dusseldorf	2.4%	3.8%	3.7%	-30	5.0%	-30	n/a	4.3%	0	
Frankfurt	2.4%	2.6%	3.1%	-80	4.4%	-50	n/a	4.2%	0	
Hamburg	2.4%	0.0%	3.3%	-30	4.5%	-50	n/a	4.0%	0	
Lisbon	2.2%	n/a	5.0%	-50	n/a	n/a	n/a	n/a	0	
London ⁶	1.5%	11.4%	3.25%	0	4.25%	-50	0.0%	4.75%	50	
Luxembourg	3.6%	4.4%	4.0%	-10	n/a	n/a	n/a	n/a	n/a	
Madrid	2.7%	10.7%	3.25%	0	6.0%	-25	0.0%	4.25%	0	
Milan	1.4%	6.0%	3.5%	-50	7.0%	0	0.0%	4.90%	-10	
Munich	2.4%	1.4%	2.9%	-40	4.4%	-40	n/a	3.70%	0	
Oslo****	2.3%	n/a	3.65%	-15	4.9%	-35	n/a	4.25%	0	
Prague	3.6%	5.13%	4.9%	0	5.75%	-25	n/a	5.0%	0	
Paris	1.9%	9.1%	3.0%	0	5.0%	-50	0.0%	4.25%	25	
Stockholm	2.6%	12.2%	3.5%	0	5.2%	-20	n/a	4.0%	0	
Vienna*****	2.4%	0.0%	3.75%	-25	6.4%	0	n/a	4.0%	0	
Warsaw	3.8%	n/a	5.0%	-25	6.75%	0	n/a	5.0%	-25	

Source: Savills *Crosspoint/**Nybolig Erhverv/***Realia/****Malling/*****EHL

Savills European Research Contacts



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



Eri Mitsostergiou
European Research
+44 (0) 20 7499 8644
emitso@savills.com



Lydia Brissy
European Research
+33 (0) 1 44 51 73 88
lbrissy@savills.com



Alice Marwick
European Research
+44 (0) 20 7016 3833
amarwick@savills.com



Mat Oakley
Research EMEA
+44 (0) 20 7409 8781
moakley@savills.com

Savills Local Research Contacts



Jordy Kleemans
Research Netherlands
+31 (0) 20 301 2000
jordy.kleemans@savills.nl



Matthias Pink
Research Germany
+49 (0) 30 726 165 134
mpink@savills.de



Marie Josée Lopes
Research France
+33 (0) 1 44 51 1750
mjlopes@savills.fr



Gema de la Fuente
Research Spain
+34 (91) 310 1016
gema.fuente@savills-
aguirrenewman.es



Peter Wiman
Research Sweden
+46 (8) 545 85 462
pwiman@savills.se



Jakub Gajdoš
Research Czech Republic
+420 220 413 004
jakub.gajdos@savills.cz



Maddalena Panu
Research Italy
+39 02 632814214
maddalena.panu@savills.it



John McCartney
Research Ireland
+353 (0) 1 618 1427
John.McCartney@savills.ie



Wioleta Wojtczak
Research Poland
+48 (0) 600 422 216
wwojtczak@savills.pl



Henry Colle
Research Belgium
+32 2 542 4054
hcolle@savills.be



Esther Himbert
Research Luxembourg
+352 20 60 65 24
ehimbert@savills.lu



Miguel Mesquita Figueiredo
Research Portugal
+351 918 783 344
miguel.figueiredo@savills-
aguirrenewman.pt

Associate offices



Thomas Schanda
EHL
Research Austria
+43 (0)1 512 7690 705
t.schanda@ehl.at



Stig Plon Kjeldsen
Nybolig Erhverv
Research Denmark
+ 45 33 64 65 65
spk@nybolig.dk



Stefanos Giannoulakis
Savills Greece
Research Greece
+30 210 6996311
s.giannoulakis@savills.gr



Haakon Ødegaard
Malling & Co
Research Norway
+47 938 14 645
haakon.odegaard@mall.no



Cosmin Grecu
Crosspoint
Research Romania
+40 21 232 45 40
cosmin.grecu@crosspoint.com.ro

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