

RESEARCH



EUROPEAN QUARTERLY

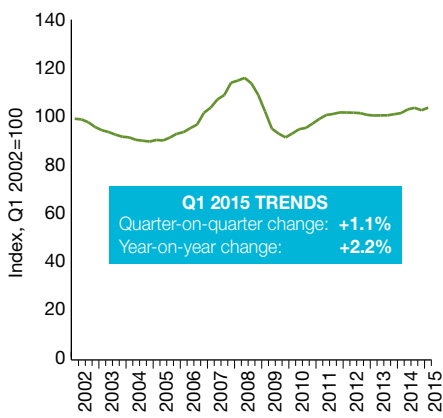
COMMERCIAL PROPERTY OUTLOOK
Q1 2015

OCCUPIER TRENDS

INVESTMENT TRENDS

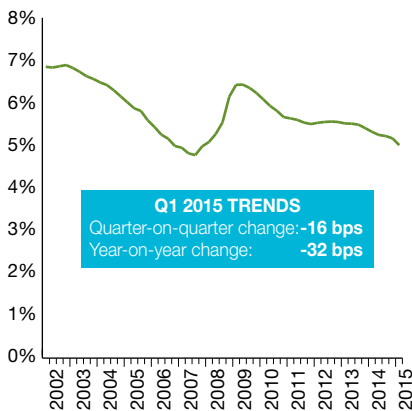
MARKET INDICATORS

FIGURE 1
European prime office rental index



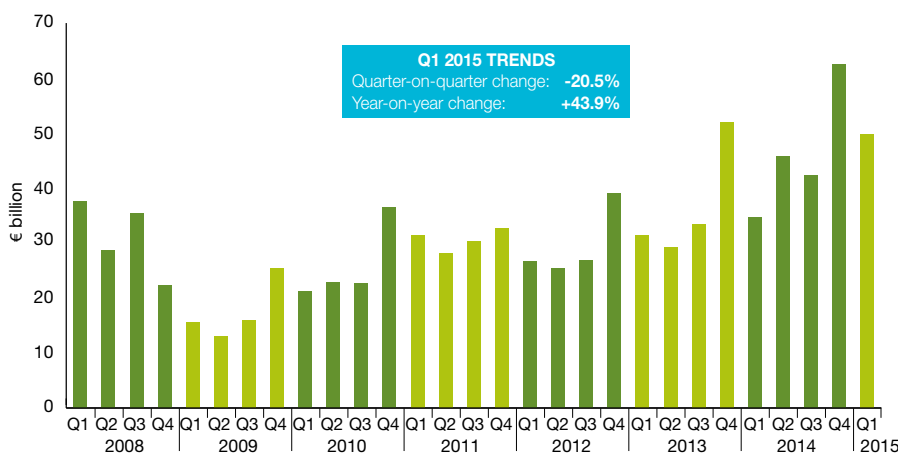
Source: Knight Frank Research

FIGURE 2
European weighted average prime office yield



Source: Knight Frank Research

FIGURE 3
European commercial property investment volumes



Source: Real Capital Analytics / Knight Frank Research

EUROPEAN OUTLOOK

Europe's brightening economic outlook is providing a further boost to the already-buoyant investment market.

After a year of tentative economic growth in 2014, the first quarter of 2015 brought increased optimism for Europe. Economic activity improved, aided by low oil prices, the European Central Bank's (ECB) quantitative easing (QE) programme and the weak Euro, which has boosted the competitiveness of European exports. Eurozone GDP grew by 0.4% in Q1, and growth expectations for the year have been upgraded. Consensus forecasts suggest that the single currency area will see annual growth of around 1.5% in 2015.

The improving economic outlook has provided further support for the European investment market. The market maintained its positive momentum in Q1 2015, with a total of €50.1 billion invested in commercial real estate across Europe. This was a 44% increase compared with Q1 2014 and the strongest first quarter since 2007.

While Q1 would have been a strong quarter anyway, investment volumes were elevated by French retail property owner Klépierre's completion of its takeover of Corio, in an all-stock deal which valued the latter at c.€7.2 billion. Other major transactions included the Qatar

Investment Authority's acquisition of the 60% share that it did not already own of the Porta Nuova development project in Milan, which is valued at over €2 billion.

Investors continue to display an increased willingness to explore opportunities across a wide range of geographies and sectors, and investment volumes have remained on an upward trend in many secondary cities and peripheral markets. Following the remarkable revival of the Spanish and Irish investment markets throughout 2014, activity has picked up strongly in Italy and Portugal over the last two quarters.

Competition for assets in Europe's most prestigious markets also remains strong, causing further prime office yield compression in cities such as London, Paris and Munich in Q1. The Knight Frank European Weighted Average Prime Office Yield fell by 16 basis points during Q1 to 5.05%; this was the largest quarterly movement since Q2 2010.

Given the healthy start to the year, 2015 is set to be another strong year for the investment market, and transaction volumes may approach the levels seen during the 2006/07 market peak. The ECB's QE programme should help to preserve favourable conditions for property investment throughout the year, and the weak Euro will boost the attractiveness of European property prices to many overseas buyers, particularly US Dollar-denominated investors.

Although recent quarters have brought signs of improving occupier sentiment across Europe, the strength of office leasing activity varied in Q1. Compared with the same quarter of 2014, office take-up fell in Paris and London, but it improved healthily in markets including Madrid, Milan, Munich and Warsaw.

During Q1, prime office rents remained stable in most European markets, although there were pockets of rental growth in cities such as Dublin, London, Milan and Stockholm. As a result, the Knight Frank Prime Office Rental Index rose by a modest 1.1% over the quarter.

MARKET HIGHLIGHTS

<p>1 AMSTERDAM</p> <p>A large amount of office space is expected to come back on the Amsterdam market as a result of the Royal Bank of Scotland's decision to scrap nearly all of its jobs in The Netherlands. RBS currently occupies 10,000 sq m in the UNStudio building in the South Axis.</p>	<p>6 MADRID</p> <p>The Spanish retail sector continues to attract a heightened level of investment. In Q1, Klépierre acquired the Plenilunio shopping centre in Madrid from Orion Capital Partners for €375 million.</p>
<p>2 BRUSSELS</p> <p>The Brussels office market made a modest start to the year, due mainly to a lack of public sector deals. However, a number of large transactions involving European and Belgian institutions are expected to be completed in the coming quarters.</p>	<p>7 MILAN</p> <p>Largely driven by the Qatar Investment Authority's purchase of a 60% share in Porta Nuova, Q1 commercial property investment in Milan reached €1.8 billion; more than was transacted in the whole of 2014.</p>
<p>3 DUBLIN</p> <p>Union Investment acquired 4 and 5 Grand Canal Square, occupied by Facebook, for €232 million in Q1, in a deal which confirmed the recent growth of interest in the Irish market from German funds.</p>	<p>8 MOSCOW</p> <p>Office tenants in Moscow are increasingly seeking to negotiate rent reductions, and to switch to leases with Ruble-denominated rents. Class A average asking rents denominated in US Dollars dropped to US\$530 per sq m per annum in Q1, more than 30% down on a year earlier.</p>
<p>4 FRANKFURT</p> <p>A total of €1.3 billion was invested in Frankfurt commercial property in Q1, making it one of the best first quarters on record. The National Pension Service of Korea is reported to have completed its acquisition of the MainZero office development for c.€250 million.</p>	<p>9 PARIS</p> <p>Île de France office take-up reached just 377,400 sq m in Q1, the lowest level since Q3 2009. Office demand held up relatively strongly in the CBD and La Défense, but there was limited activity in peripheral locations.</p>
<p>5 LONDON</p> <p>Central London office rents continue to be driven upwards by the diminishing availability of space. Prime rents rose by 4% in the City and by 7% in the West End during Q1, taking rents in both submarkets above their 2007 peaks.</p>	<p>10 WARSAW</p> <p>The Warsaw office market started the year healthily, with Q1 gross take-up reaching just under 170,000 sq m. The largest transaction was PZU's lease of c.18,000 sq m at Konstruktorska Business Center.</p>

FIGURE 5 European commercial property investment volumes, 12 months to Q1 2015

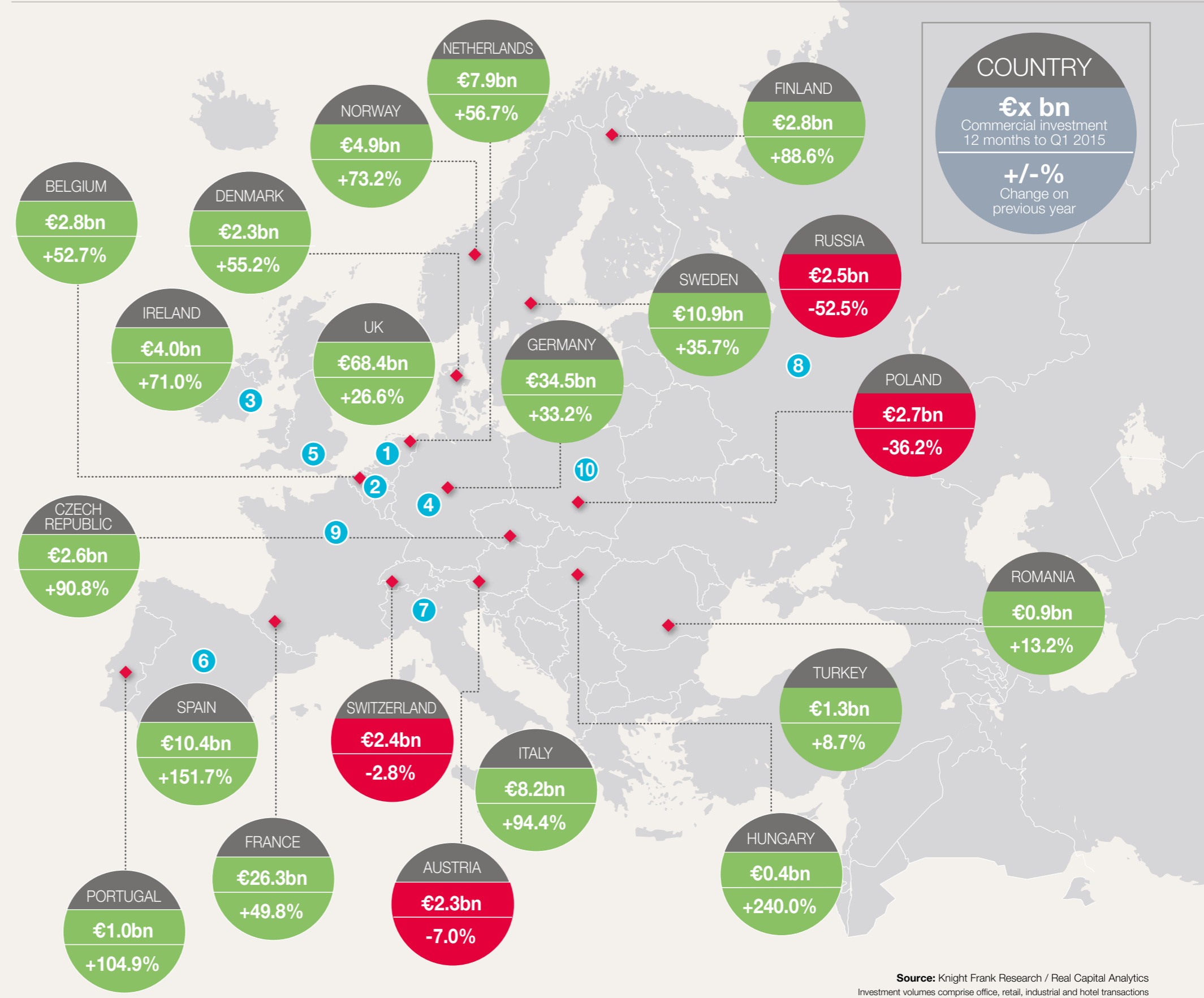
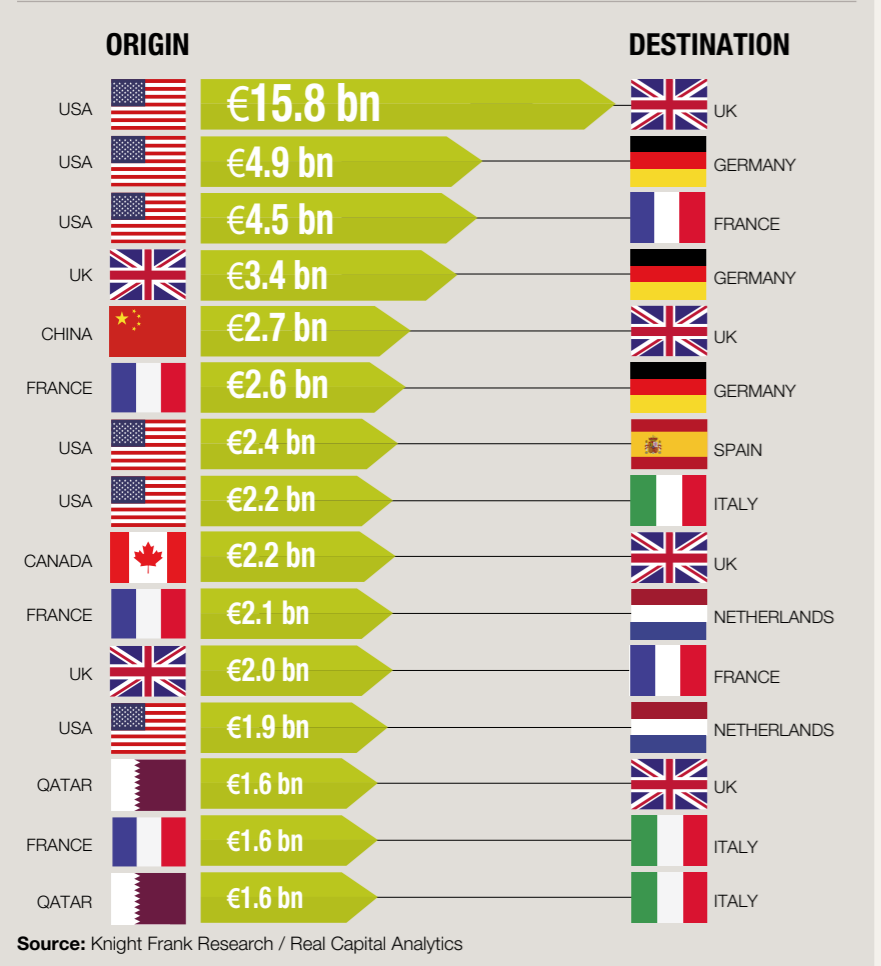


FIGURE 4 Major cross-border capital flows, 12 months to Q1 2015



Source: Knight Frank Research / Real Capital Analytics
Investment volumes comprise office, retail, industrial and hotel transactions

EUROPEAN MARKET INDICATORS

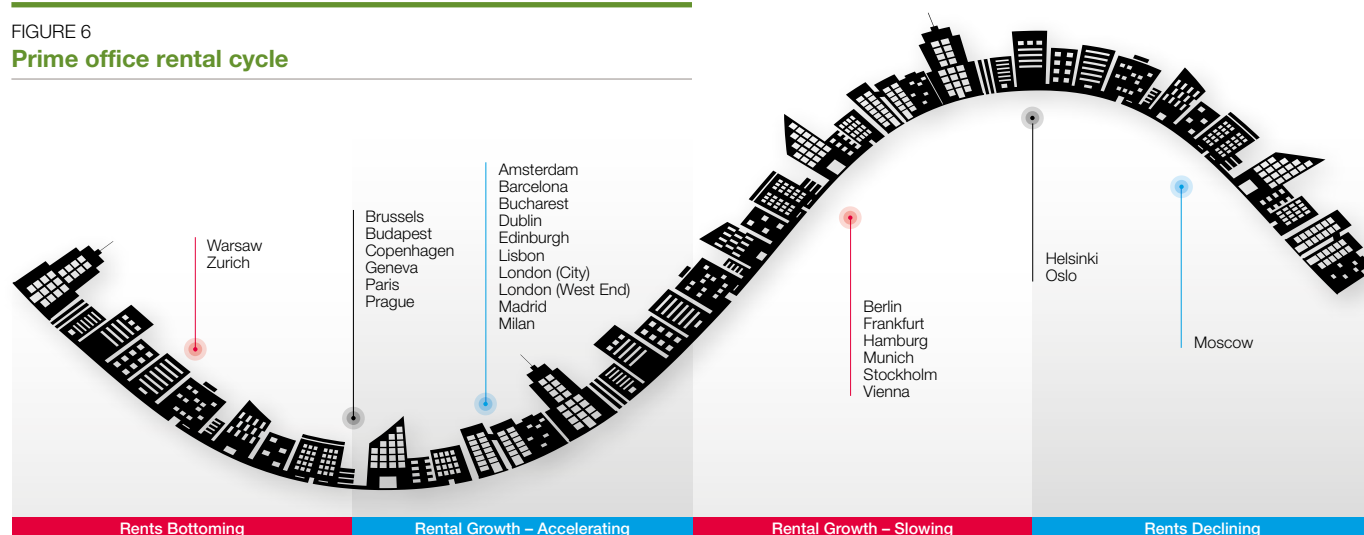
In Q1, the largest increases in prime office rents came in London West End (+7.0%) and Dublin (+5.2%).

Commercial property prime rents and yields

City	Offices		Logistics		Shopping centres		Retail warehousing	
	Prime rents (€/sq m/yr)	Prime yields (%)	Prime rents (€/sq m/yr)	Prime yields (%)	Prime rents (€/sq m/yr)	Prime yields (%)	Prime rents (€/sq m/yr)	Prime yields (%)
Amsterdam	340 ▶	5.75 ▶	85 ▶	6.50 ▼	1,000 ▶	5.50 ▶	135 ▶	6.75 ▶
Barcelona	222 ▲	5.00 ▼	57 ▶	7.25 ▼	552 ▶	5.00 ▼	120 ▶	6.75 ▶
Berlin	282 ▶	4.50 ▼	66 ▶	6.25 ▼	1,380 ▶	4.75 ▶	150 ▶	6.25 ▶
Brussels	280 ▶	5.75 ▶	45 ▶	7.00 ▶	1,800 ▶	5.35 ▶	170 ▶	6.00 ▶
Bucharest	216 ▶	8.00 ▶	45 ▶	9.50 ▶	600 ▶	8.00 ▶	96 ▶	10.00 ▶
Budapest	240 ▶	7.25 ▶	42 ▼	9.00 ▶	960 ▶	7.00 ▲	90 ▶	8.00 ▶
Copenhagen	240 ▲	4.75 ▶	67 ▶	6.75 ▼	696 ▶	5.50 ▼	164 ▲	6.75 ▶
Dublin	538 ▲	4.50 ▼	65 ▲	7.25 ▼	2,520* ▶	6.50 ▼	200 ▲	7.25 ▼
Edinburgh	412 ▶	5.75 ▶	89 ▶	6.50 ▶	2,943* ▶	5.00 ▼	368 ▶	6.25 ▼
Frankfurt	456 ▶	4.70 ▼	80 ▶	6.25 ▼	1,560 ▶	4.50 ▶	168 ▶	6.00 ▶
Geneva	625 ▶	3.75 ▶	200 ▶	6.00 ▶	1,100 ▶	4.50 ▶	166 ▶	5.50 ▶
Hamburg	300 ▶	4.25 ▼	68 ▶	6.00 ▼	1,620 ▶	4.75 ▶	150 ▶	6.25 ▶
Helsinki	378 ▶	5.00 ▶	120 ▶	7.00 ▶	1,200 ▶	5.25 ▶	145 ▶	6.50 ▶
Lisbon	216 ▶	6.25 ▼	45 ▶	7.50 ▼	1,020 ▶	6.50 ▼	102 ▶	8.75 ▶
London	1,692(WE) ▲ 956(C) ▲	3.50(WE) ▼ 4.00(C) ▼	202 ▶	4.50 ▼	6,548* ▶	4.25 ▶	692 ▶	4.25 ▲
Madrid	336 ▲	4.75 ▼	57 ▶	7.00 ▼	528 ▶	5.00 ▼	120 ▶	6.75 ▶
Milan	500 ▲	5.25 ▶	50 ▶	8.00 ▶	850 ▶	6.25 ▶	300 ▶	7.50 ▶
Moscow	760 ▼	10.00 ▲	84 ▼	12.50 ▲	3,450 ▼	11.00 ▲	N/A	N/A
Munich	414 ▶	4.00 ▼	78 ▶	6.00 ▼	1,900 ▶	4.25 ▼	180 ▶	6.00 ▼
Oslo	531 ▶	4.75 ▶	150 ▲	6.00 ▶	1,382 ▲	5.25 ▶	150 ▶	6.25 ▶
Paris	750 ▶	3.75 ▼	55 ▶	6.75 ▼	2,200 ▲	4.50 ▼	180 ▶	5.25 ▼
Prague	234 ▶	5.75 ▼	46 ▶	7.00 ▼	840 ▶	5.75 ▼	120 ▶	7.75 ▲
Stockholm	493 ▲	4.25 ▶	111 ▶	6.25 ▶	840 ▶	5.00 ▶	226 ▶	6.00 ▶
Vienna	300 ▶	4.75 ▶	72 ▶	7.25 ▶	1,320 ▶	5.25 ▶	168 ▶	6.00 ▶
Warsaw	294 ▶	6.00 ▶	66 ▶	7.50 ▶	1,200 ▶	6.00 ▶	132 ▶	7.50 ▶
Zurich	764 ▼	3.50 ▲	239 ▶	6.00 ▶	1,433 ▶	4.00 ▶	191 ▶	5.00 ▶

Indicative prime yields, as quoted locally, based upon a hypothetical Grade A unit. Office rents are for prime city area Grade A space, 2,000 sq m. Shopping Centre rents are based on prime covered shopping malls, quoted on best position, 100 sq m units. Retail Warehouse rents are for units of 1-5,000 sq m located in purpose built parks. Typical Retail Warehouse schemes vary between countries. Logistics rents are for prime industrial space of units over 5,000 sq m. The data above is provided for general reference purposes only. Local market conditions will vary. *Zoned/weighted figure. Arrows provide a broad indication of recent movements and the short-term outlook for prime rents and yields. London office data is quoted for the West End (WE) and City (C) submarkets.

FIGURE 6
Prime office rental cycle



The above diagram is intended to provide a comparative guide to the current positions of European prime office markets in their rental cycles. Markets will move through their cycles at different speeds and, sometimes, in different directions. The positions indicated in the diagram do not constitute formal forecasts of future rental trends.