



European Real Estate Market 2016

April 2017

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The European Union

The EU

- When European countries started to cooperate economically in 1951, only Belgium, Germany, France, Italy, Luxembourg and the Netherlands participated
- The Union reached its current size of 28 member countries with the accession of Croatia on 1 July 2013
- On June, 23rd, the people of the UK voted to withdraw from the European Union. The UK remains an EU Member State until negotiations on the terms of exit are completed.

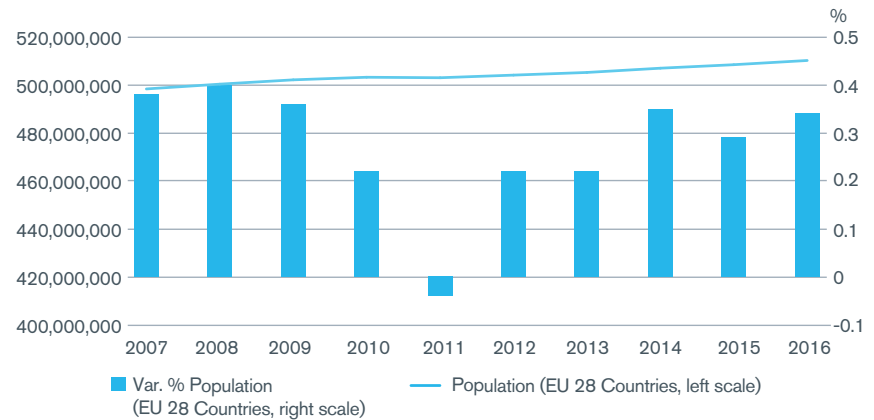
The European Union



Demography

- The current demographic situation in the EU-28 is characterized by continue population growth
- 2015 was the first year (since the series began in 1961) when there was a natural decrease in population numbers in the EU-28
- On 1 January 2016, the population of the EU-28 was estimated at 510.1 million inhabitants, which was 1.8 million more than a year before
- A total of 17 Member States observed an increase in their respective populations, while the population fell in the remaining 11 Member States

EU 28 Population



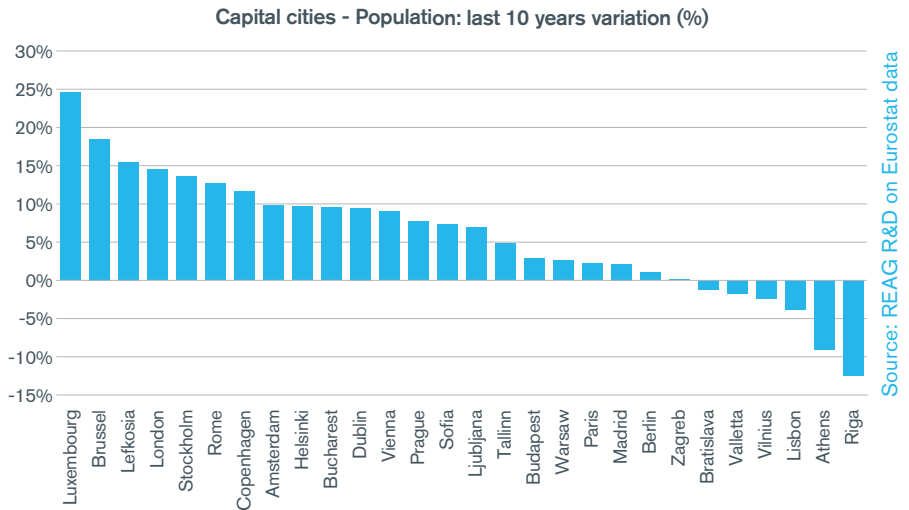
© European Union, 2013
Source: EC – Audiovisual Service

Source: REAG R&D on Eurostat data

The European Union

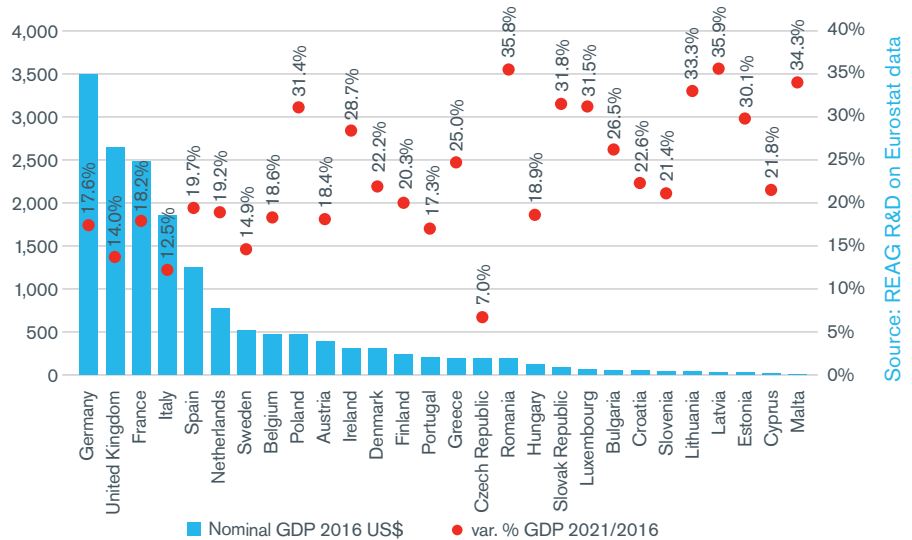
Urbanization

- Almost three quarters of the European population lived in an urban area in 2015
- According to the United Nations (World urbanization prospects 2014) in Europe the share of the population living in urban areas projected to rise to just over 80% by 2050
- Capital cities have the highest population growth. Population growth in the capital metro regions is more than double the total EU-28 population
- Cities attract more working-age residents
- Over the next decade, with the exception of Ireland, Greece and Spain, all capital metro regions are expected to grow faster than their respective national average

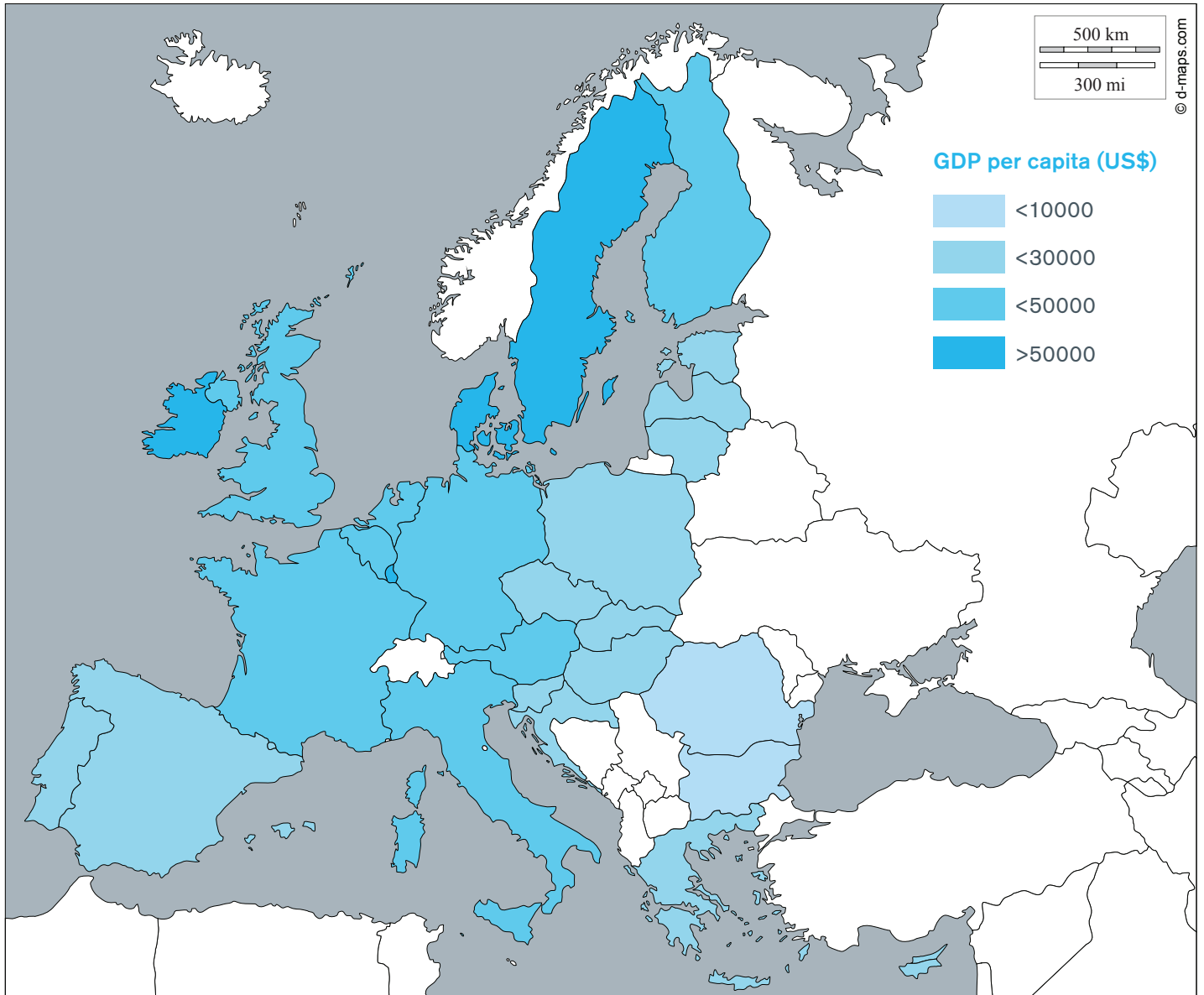


Economy

- The year 2016 heralded great changes that altered the international scene
- The return to expansive budget policies may aid the recovery of international trade, but the risk of "protectionism" is rising simultaneously
- Insecurity undermines the trust of companies and families and leads to the postponement of investment plans
- Our outlook of the national and international real estate market continues to be based on the fundamental aspects of the market that appear to be recovering, although sustained by a feeble, erratic economic growth



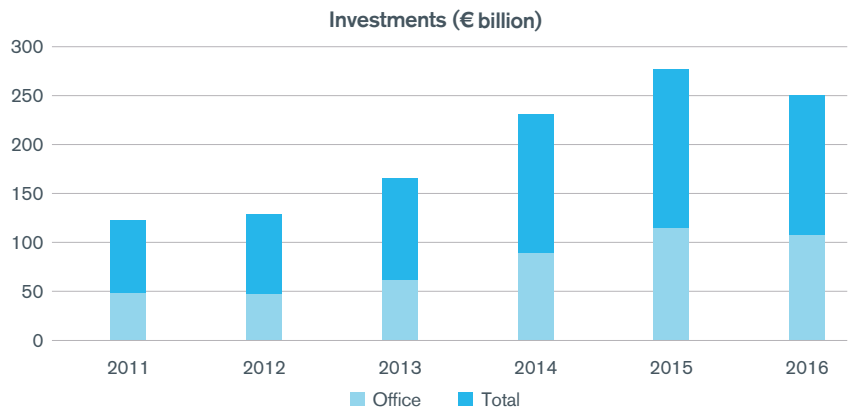
EU 28 Countries: GDP pro-capita US\$



European Office Market

Investments volume

- Political uncertainty could affect investment volume
- Investors look for core properties in the liquid markets of Western Europe
- In 2016, the volume of investments in the office sector decreased (-5%) but demand is strengthening in Western Europe
- In 2016, demand in CEE markets was lower respect 2015 but it was still solid in some areas like Germany, UK and Poland



Source: REAG R&D on various sources

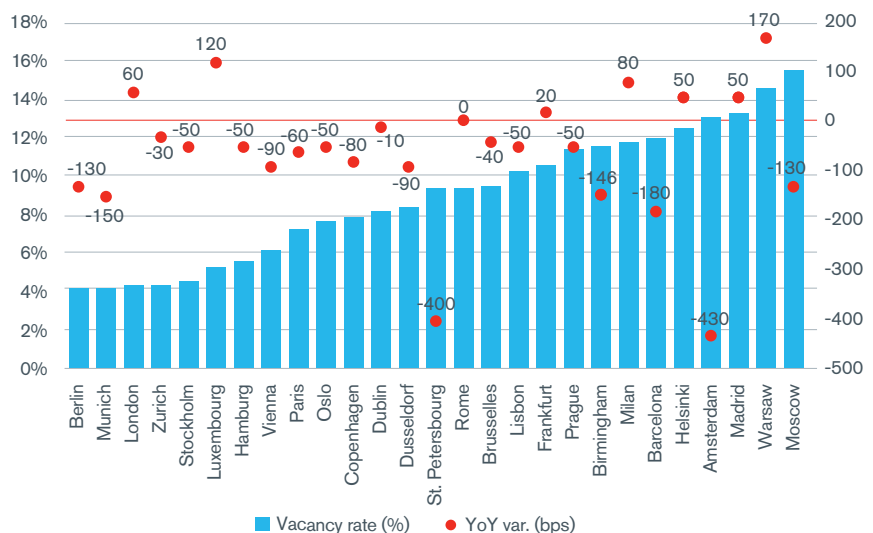
Key drivers for 2017

- Management of office space
- Technology
- Shorter leases
- Co-working facilities
- Risk averse investors
- German market will lead the way
- The short-term trend for yields is still down
- The trend of strengthening demand for office space continues

Lack of supply of core assets

Vacancy

- Vacancy rates continue to decline in most of the major markets reaching at 8.2% in average across European markets
- The greatest yearly decline was registered in Amsterdam (-430 bps)

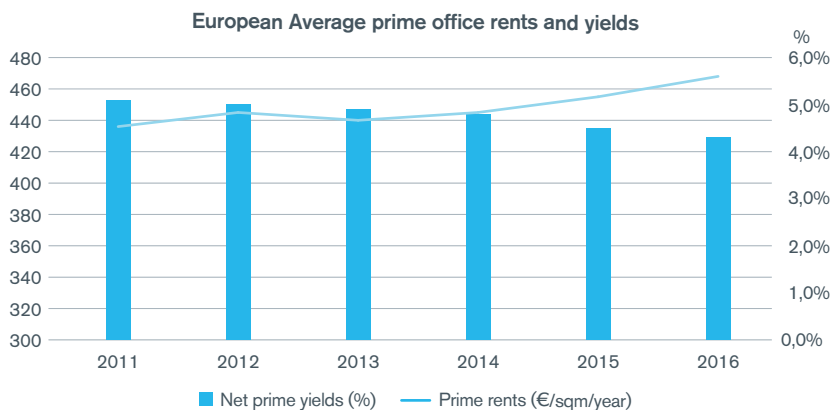


Source: REAG R&D on various sources

European Office Market

Prime rents and yields

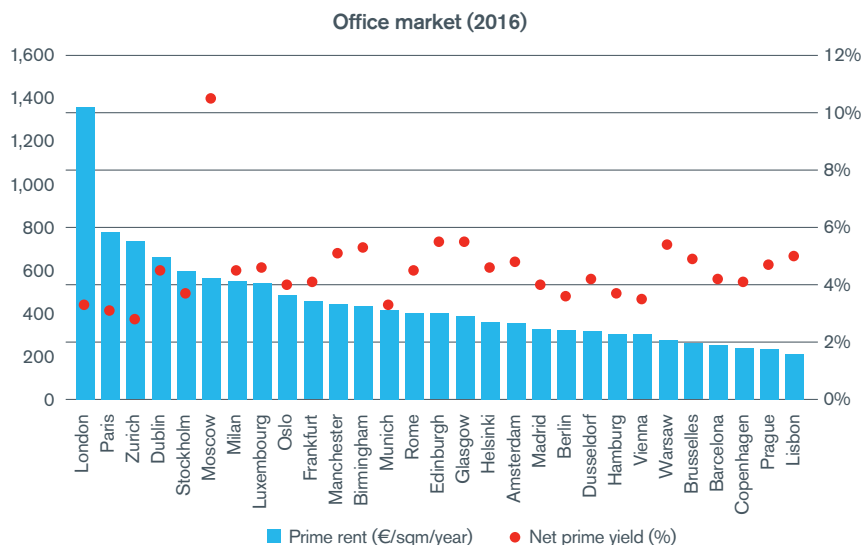
- In 2016, average prime rents grew by 3%
- The strongest growth can be observed in the Western Europe
- Rental growth prospective are still positive but with different patterns for each Country
- Average prime yields declined, reaching 4.3%
- In 2017, further yields compression is expected in many markets
- The long-trend for yields is up, reflecting a probable increase of interest rates



Source: REAG R&D on various sources

Market highlights

- London: take-up of office space in Central London increased by 26% in Q4 2016. Prime rents remained unchanged in the City
- Milan: domestic investors are growing. Prime yields are slightly decreasing
- Frankfurt: take-up of office space increases by 36% in 2016. Vacancy rate increases by 20 bps
- Munich: vacancy continues to decrease. Scarcity of supply is limiting deals
- Paris: the volume of projects in pipeline is equal to 1.8 mln sqm. Vacancy is at the lowest level since 2016
- Dublin: prime office yields remained quite stable. Take-up is in line with the record level of 2015
- Madrid: take-up decreased by 11% in 2016. Prime rents continue to upward



Source: REAG R&D on various sources

European Office Market

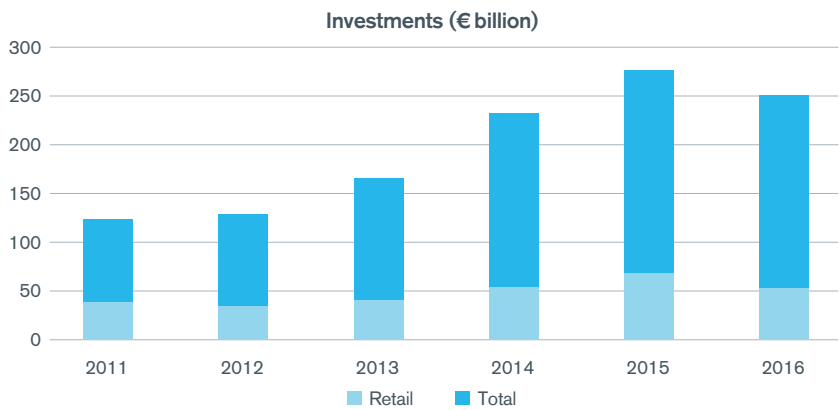


Source: REAG R&D on various data

European Retail Market

Investments volume

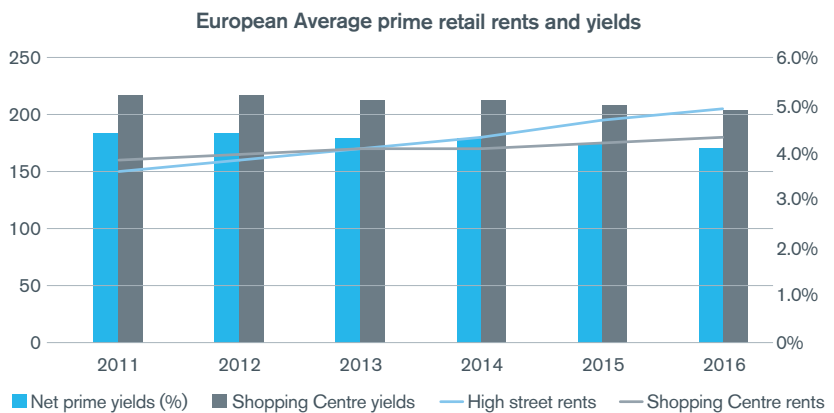
- Low inflation and wage growth boosted private consumption
- In H2 2016 confidence in EU improved
- Investors look for core properties in the liquid markets of Western Europe
- In 2016, the volume of investments in the retail sector decreased (-22%) but demand is strengthening in Western Europe
- In 2016, demand in CEE markets was lower respect 2015 but it was still solid in some areas like Germany, UK and France



Source: REAG R&D on various sources

Key drivers for 2017

- Technology
- Sharing economy
- Growth of tourism in prime locations
- German market will lead the way
- The short-term trend for prices is up but slowly
- Lack of supply in the high streets of Western Europe cities
- Retail sales volume will grow but slower than in 2016
- Gap between prime and secondary assets



Source: REAG R&D on various sources

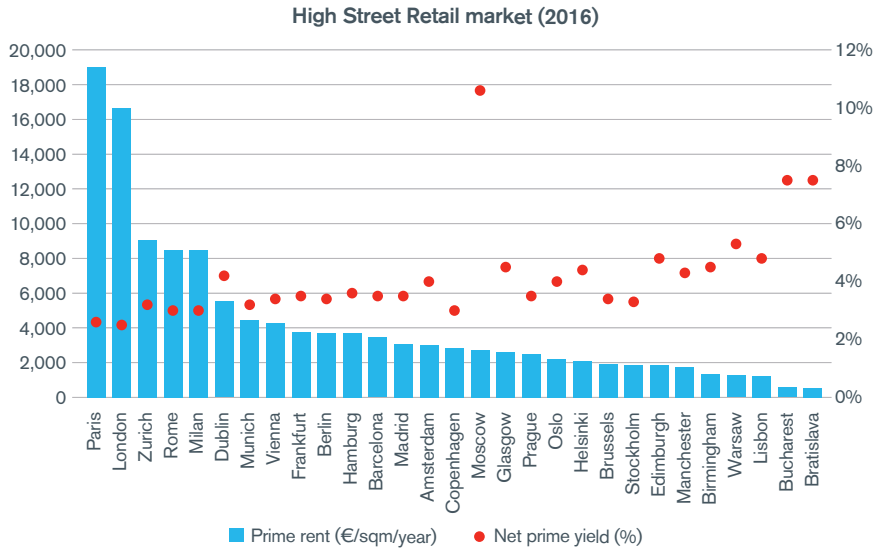
Vacancy

- Vacancy rates continue to decline in most of the major markets reaching at 5% in average across European markets

European Retail Market

Prime rents and yields

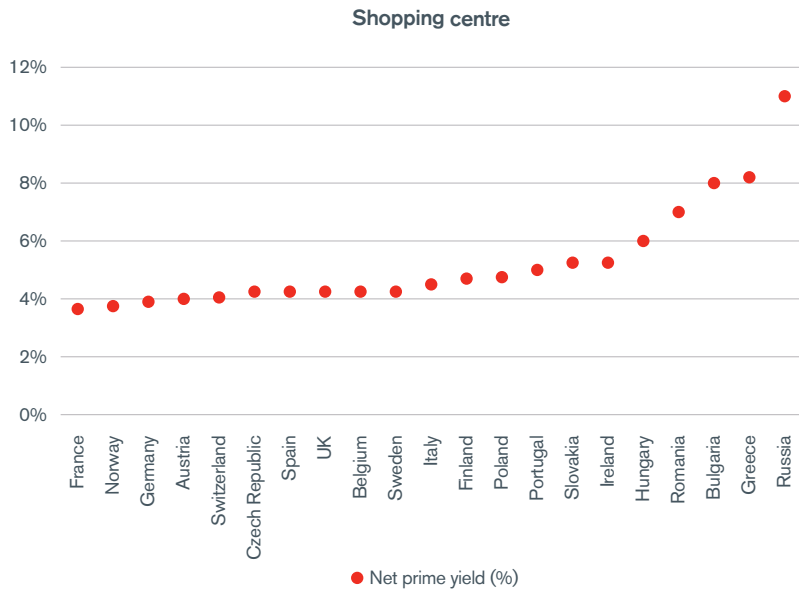
- In 2016, average prime rents grew by 5% for high street market and by 3% for shopping centers
- Rental growth prospective are still positive but with different patterns for each Country
- Average prime yields declined reaching 4.1% for high street market and 4.9% for shopping centers
- In 2017, further yields compression is expected in many markets
- The long-trend for yields is up, reflecting a probable increase of interest rates



Source: REAG R&D on various sources

Market highlights

- UK: take-up of retail space in UK decreased by 11% in Q4 2016. Prime rents doubled in London West End
- Italy is seen as one of the most active countries for new openings in Europe
- Germany: growth of rents in luxury locations. Supply in high streets is limited. New supply is concentrated in secondary locations
- France: for luxury locations in Paris rents will see a growth also in 2017. Demand is sizeable. Yields will remain at a historical low level
- Ireland: investors demand slowed down by the lack of new supply and of prime assets
- Spain: retail turnover is improving so investors demand will remain high also in the next year. The lack of supply in prime locations will move interest towards secondary ones



Source: REAG R&D on various sources

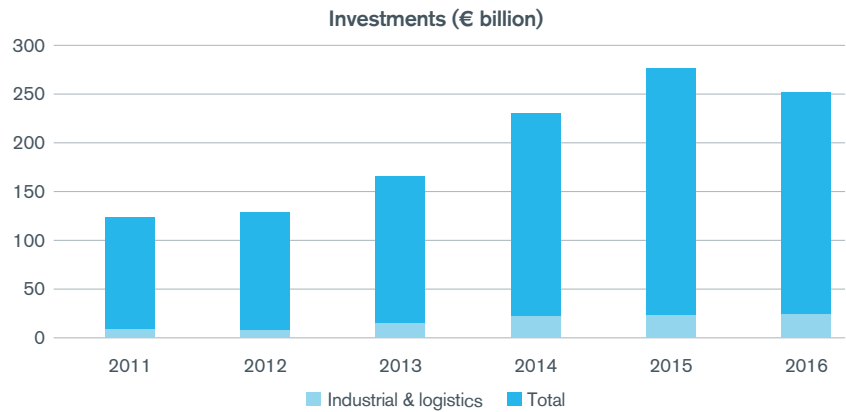
European Retail Market



European Logistics Market

Investments volume

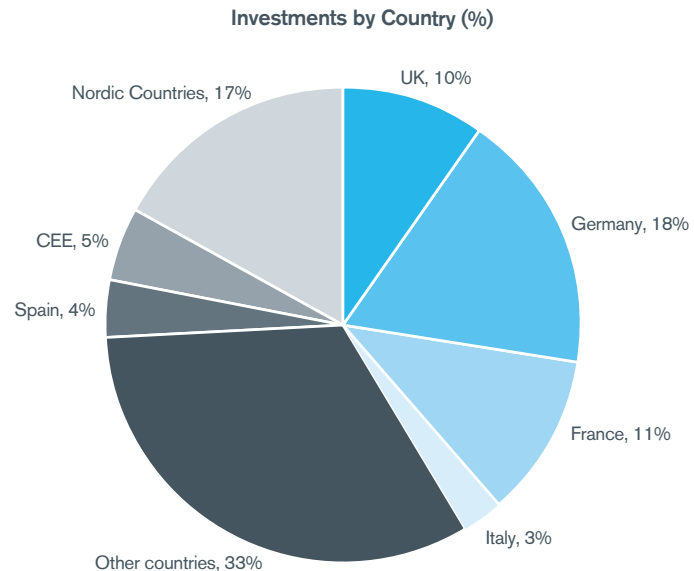
- Political uncertainty could affect investment volume
- Investors look for assets in the core markets of Western Europe
- In 2016, the volume of investments in the logistics sector increased (+4%). It was the best sector of the commercial real estate in terms of investments
- In 2016, demand in CEE markets was solid, particularly in South Europe
- The UK logistics sectors was affected by Brexit effects. Uncertainty impacted investments market
- Speculative projects might cause oversupply in some secondary markets



Source: REAG R&D on various sources

Key drivers for 2017:

- Sharing economy
- Well connected assets
- Proximity to key markets
- E-commerce warehouse space
- Demand for warehouse over 50,000 sqm and for smaller units close to urban areas
- German market will lead the way
- Build to suit developments
- Lack of land availability around big European cities
- Rents will grow in many markets



Source: REAG R&D on various sources

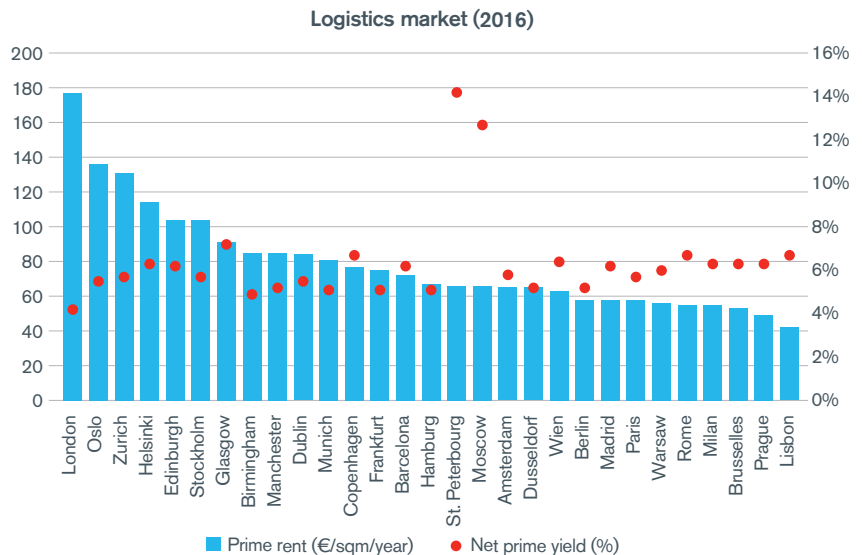
Vacancy

- Vacancy rates continue to decline in most of the major markets reaching at 5.9% in average across European markets

European Logistics Market

Prime rents and yields

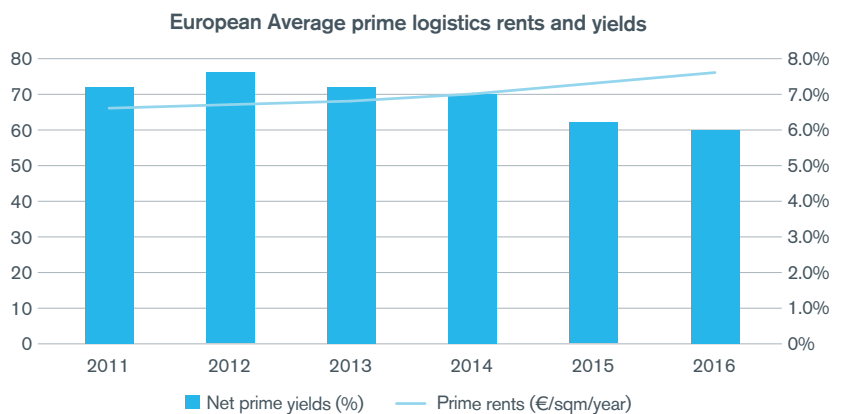
- In 2016, average prime rents grew by 4%
- The strongest growth can be observed in the Western Europe
- Rental growth prospective are still positive but with different patterns for each Country
- Average prime yields declined reaching 6%
- In 2017, further yields compression is expected in many markets
- The long-trend for yields is up, reflecting a probable increase of interest rates



Source: REAG R&D on various sources

Market highlights

- UK: the reduction of development and supply could produce further rental increase
- Italy: prime assets and build to suit development in strategic areas. Yields compression for core properties will continue
- Germany: quality supply is limited. Further yields compression is expected also in 2017
- France: lack of supply of modern logistics space. Demand is sizeable. Prime yields will see further decline
- Ireland: increase in development activity. Prime rent are expected to grow in 2017
- Spain: in Barcelona investors demand will remain high also in the next year. The lack of supply of modern warehouses will cause a further rental increase in 2017

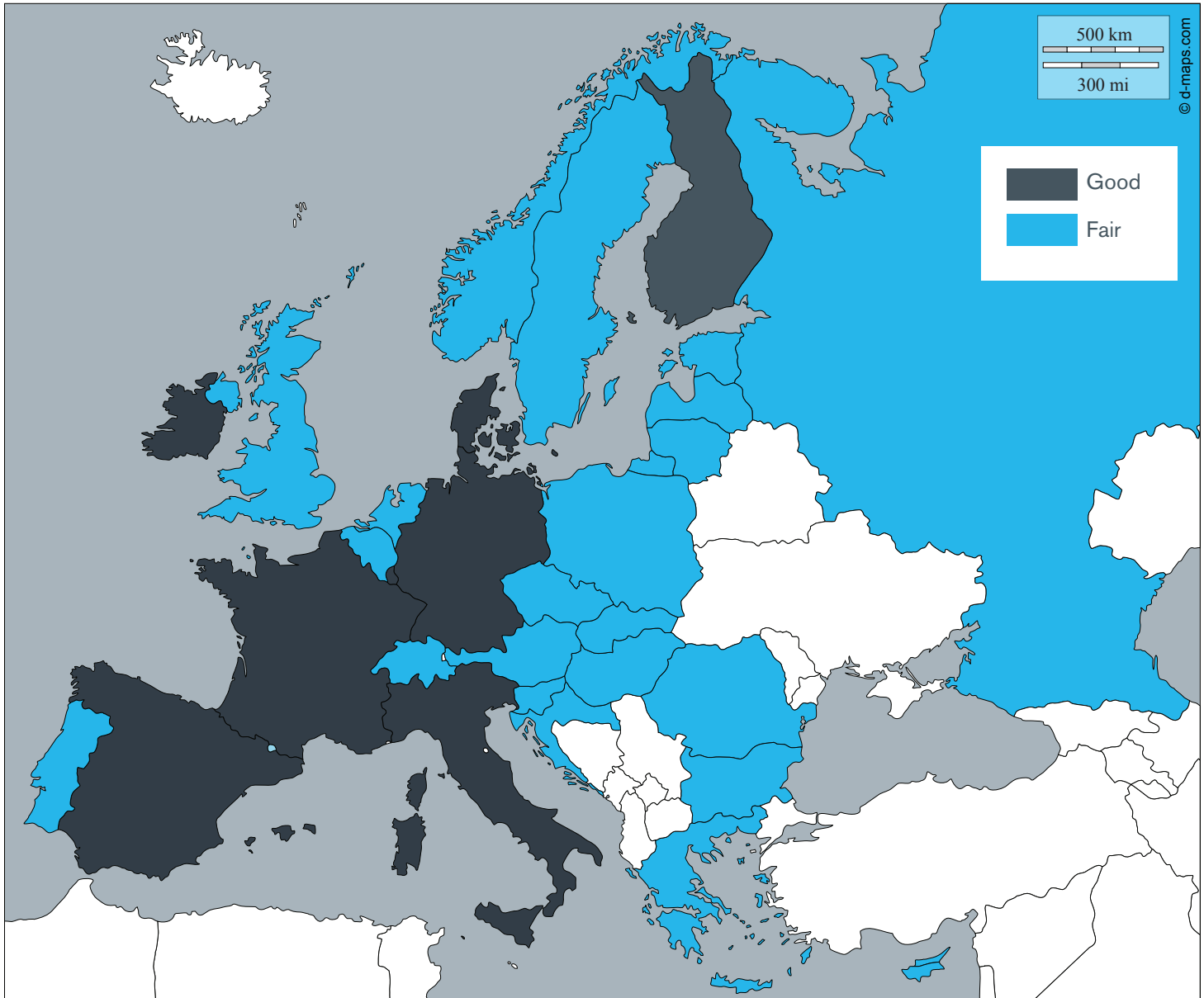


Source: REAG R&D on various sources

European Logistics Market



Real Estate Investment Outlook



For more information please visit:

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