

# EUROPEAN PROPERTY MARKET BRIEF

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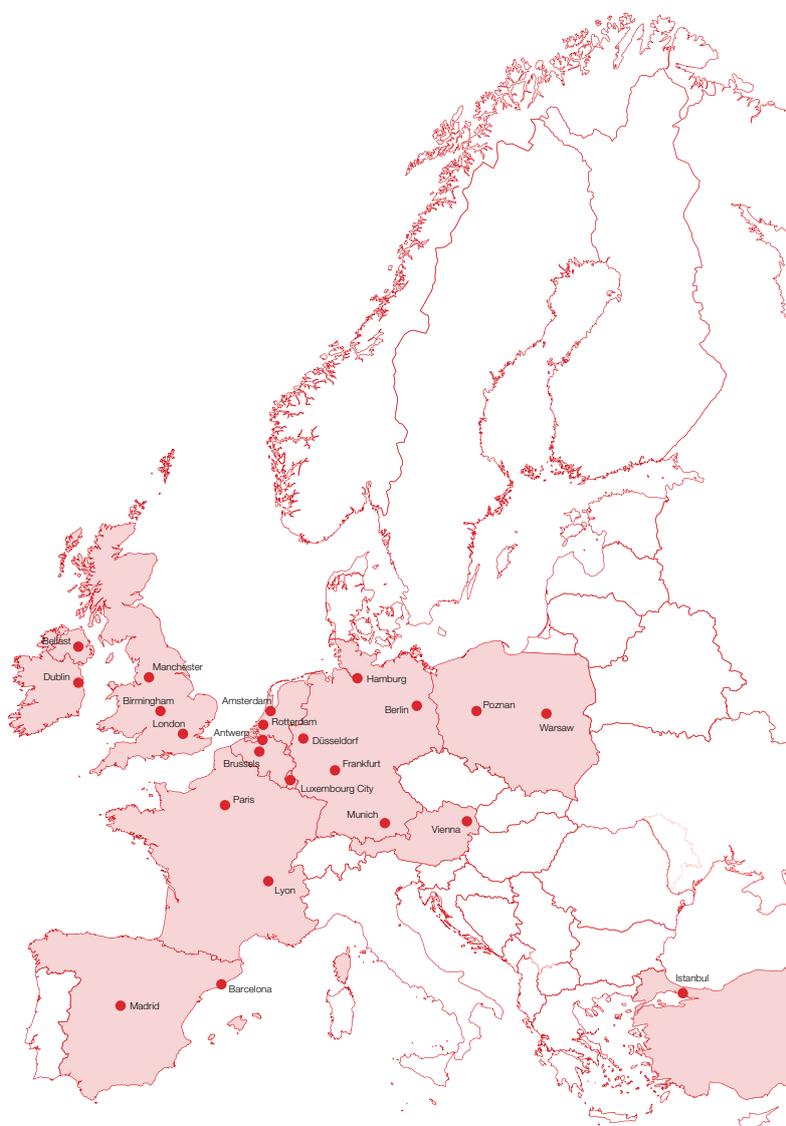
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## Introduction

Welcome to the inaugural edition of Gerald Eve's European Property Market Brief.

We are delighted to bring together the collective experience of over 600 property professionals operating across Europe to help you better understand the opportunities – and risks – that exist in our exciting and diverse market.

Reporting on 11 countries and 23 different cities, our colleagues across the continent have provided not only their expert insight into each market but hard data that allows you to compare the situation across Europe on a consistent basis.

And consistency is a valuable thing these days. In an environment of uncertainty and heightened risk but also of substantial opportunity, being able to trust the information you need to rely on to make informed decisions is vital.

### Most markets strong and strengthening

So what does the data tell us? That there are more strong and strengthening markets in Europe at the moment than there are weakening ones: of the 23 office markets covered in this report, 15 have enjoyed prime office rental growth over the past six months. And eight office markets – Paris, Dublin, Barcelona, Madrid, London, Birmingham, Manchester and Belfast – are all expected to continue to see rents increase after already enjoying rental growth in the past six months.

Logistics markets have also seen many centres enjoy rental growth: six of the 20 logistics markets covered have seen uplifts in rental levels since Q2 2015, and there are another five for which rents have been stable over the second half of the year after having enjoyed rental growth in the first half of 2015. Looking forward, five locations – Dublin, Barcelona, London, Birmingham and Manchester – are expected to see more rental growth in the next six months and all but two – namely Warsaw and Poznan where prime logistics rents are under downward pressure – are expected to see rents stable.

Some retail centres have enjoyed rental growth with three of the 18 markets covered enjoying prime retail rental uplift in the second half of the year with ten markets seeing their rents stable, four of which enjoyed rental growth in the first half of 2015. Prime retail rents are expected to continue to grow in five centres – Dublin, Amsterdam, London, Warsaw and Barcelona – but fall in three – Rotterdam, Poznan and Istanbul – with the remaining ten centres set to enjoy stable rent levels to Q2 2016.

### Occupiers remain hungry for more

Part of the reason for the broad optimism on rents is the expected strengthening of occupier demand across markets: our associates expect that in 13 of the 23 centres covered, occupier demand for offices will increase over the next six months to Q2 2016. And another four cities are expected to enjoy stable occupier demand but at high levels. Just four cities are expected to see a fall in occupier activity and two are expected to see take-up remain at constrained levels over the next six months.

Logistics property markets look set to be similarly active with nine of 20 markets covered expecting occupier demand to increase and the remaining 11 expect demand in 2016 to be in line with 2015. Retail is the only sector which is expecting that some market will see falls in occupier demand: three centres – Frankfurt, Düsseldorf and Istanbul – expect that occupier activity will fall in 2016. Conversely, six of the 18 retail areas covered are expected to see an increase in occupier demand and the remaining nine are all expected to enjoy stable demand from retail occupiers.

### Insatiable investors

The strengthening occupier market is being accompanied by an almost insatiable investor appetite. Interest in the property sector continues to grow despite some markets seeing the some of the highest levels of investment volume recorded: 19 of the 23 office markets expect that investor activity will increase in the next six months and the remaining four are expected to enjoy stable levels of interest from investors.

This activity has meant yields have already been shifting inward, reflecting the strongly positive investor sentiment. To the end of 2015, 16 of the 23 cities experienced falls in yields in the past six months and of the remaining seven which have enjoyed stable yields since Q2 2015, four cities have already experienced significant inward yield shift since the end of 2014.

This trend is also being seen in the logistics sector which for the past two years, has been highly sought after by investors across Europe. Of the 20 markets covered, 16 are expecting investor demand to strengthen in 2016 whilst the remaining four are expecting investor activity to remain stable.

Retail property is also drawing investor attention and of the 18 markets covered, all but three are expecting an increase in investor activity in 2016. Just Amsterdam, Rotterdam and Istanbul expect investor interest to remain stable in the next six months.

### More yield compression to come

Despite some markets – such as London and Paris – achieving historically record low yields, there is further compression expected across most centres: 14 of the 23 cities expect to see further falls in prime office yields and the remaining nine are expected to remain stable.

Prime logistics yields are also expected to continue to fall with nine of the 20 logistics markets covered expecting lower yields by Q2 2016 and the other 11 expected to stay stable. Even more centres are expecting falls in prime retail yields: ten of the 18 markets expected lower yields to Q2 2016 and the other eight are expected to remain stable.

### Development-ready?

Many markets are ripe for developers to bring schemes forward – of course, of the right size in the right location and to the right specification to ensure a more attractive proposition for potential occupiers.

Availability in office, logistics and retail property in all but a handful of markets is expected to either fall or stay stable – typically in an environment of strengthening occupier demand. As a result, 9 of 23 office locations, 11 of 20 logistics areas and 8 of 18 retail markets are all expecting development activity to increase as well.

### Risks and opportunities

Europe is poised at the brink of an unknown future. The political landscape is unsteady: 2016 brings the possibility of a fracturing of the EU with Britain's in-out referendum in June 2016, Spain still does not have a government in place following the general election in December 2015 returning no dominant party and coalition governments across Europe are struggling to maintain partnerships. In addition, the massive influx of refugees into Europe is putting strain on government services as well as infrastructure and jobs markets. In addition, the threat of terrorist attack remains high in many countries and will continue to do so whilst the conflicts in the Middle East and other parts of the world continue.

But whilst there are great uncertainties, there are also great opportunities. All European countries with the exception of Greece are expected to enjoy positive economic growth in 2016 and all including Greece are forecast to expand in 2017. And there are certainly some markets showing marked signs of improvement, notably Ireland and Spain, two of the countries that suffered the hardest as a result of the global economic crisis. Additionally, most countries' growth is being stimulated by domestic demand: consumers are spending more, buoyed by improving jobs markets and spending power over the past 12-24 months, and businesses and governments are investing.

### Property futures

The current climate bodes well for property markets. Expanding economies and growing businesses mean more space is needed which in turn can stimulate development, particularly in environments of constrained supply. Pricing adjusts accordingly which can spur investor interest.

And whilst the threats facing Europe are great, an appetite for – or an aversion to – risk can also create opportunities: some markets – both geographically and sectorally – can provide investors with 'safe havens' for capital and others can be places to buy into at the right time to realise value growth in time.

### Reliable data and advice

The trick, of course, is knowing where and when to buy, sell and hold. And good information and advice is what you need to make the right decisions to achieve your strategic goals.

That is where the Gerald Eve alliance provides you with the strategic advice and strong market knowledge you need to be able to seek out the gems and avoid the pitfalls in this dynamic environment.

So please don't hesitate to contact any of the associates within the alliance to provide you with best-in-class service for your property needs – wherever they take you.



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## Gerald Eve European Property Escalator

The Property Escalator indicates the relative position of the property market (office, logistics and retail) in each European location, based on current and future movement of prime rents.

	OFFICES	LOGISTICS	RETAIL
<b>CURRENT INCREASE</b> <b>FUTURE INCREASE</b> 	Paris Dublin Barcelona Madrid Belfast London Manchester	Barcelona Birmingham London Manchester	Warsaw Barcelona
<b>CURRENT STABLE</b> <b>FUTURE INCREASE</b> 	Vienna Düsseldorf Amsterdam Rotterdam Birmingham	Dublin	Dublin Amsterdam London
<b>CURRENT INCREASE</b> <b>FUTURE STABLE / DECREASE</b> 	Brussels Lyon Berlin Frankfurt Hamburg Munich	Düsseldorf Munich	Manchester
<b>CURRENT STABLE</b> <b>FUTURE STABLE</b> 	Antwerp Luxembourg	Vienna Antwerp Brussels Lyon Berlin Frankfurt Hamburg Amsterdam Rotterdam Istanbul Belfast	Antwerp Brussels Berlin Düsseldorf Frankfurt Hamburg Munich Belfast Birmingham
<b>CURRENT STABLE</b> <b>FUTURE DECREASE</b> 	Poznan	Poznan	Poznan
<b>CURRENT DECREASE</b> <b>FUTURE DECREASE</b> 	Warsaw Istanbul	Warsaw	Rotterdam

More information can be found in the glossary



# AUSTRIA

## Economy

### Economic performance



Preliminary estimates of Austria's economic performance in 2015 steady growth throughout the year and a growth rate for full-year 2015 of 0.9%, compared with 0.4% in 2014.

This expansion was largely down to strengthening public and private consumption albeit suffering the drag of slower investment growth. The external market also provided a boost with exports up 0.8% in Q4, following a 1.5% increase in Q3, whilst imports growth fell to 1.1% in Q4, down from 2.0% expansion in Q3.

### Confidence indicators



Consumer confidence remains pessimistic with leading indices reporting an entrenched negativity: the Fessel-GfK consumer confidence indicator has been below 0 (indicating pessimism) since late 2011 and in January 2016 was only marginally above the six-year low which the index hit in November 2015.

Business confidence, however, is decidedly more positive with Bank Austria Purchasing Managers' Index at a 20-month high in October 2015 and at 51.2, January 2016 marks the tenth consecutive month the index has been reported above the 50-threshold indicating expansion.

### Economic outlook



Austria's economy is expected to move out of the four-year period of sluggish growth and see acceleration in economic performance of 1.7% in 2016 and 1.6% in 2017. This will be driven largely by domestic consumer activity – supported by a low inflation environment and stable labour market – as well as growth in international trade and more significant investment volumes.

## Property market indicators

### Investment activity



Austrian property investment activity was exceptionally strong in 2015 and is estimated at nearly €4 billion, a new record high. Interest remains focussed on Vienna and on office and retail assets with relatively subdued appetite for industrial units. Demand is strong amongst overseas investors with non-domestic investment activity picking up even more strongly towards the end of the year. Whilst most interest has been concentrated at the prime end of the market, some investors – particularly opportunity funds - are now starting to look to non-prime locations and assets.

Given the high level of activity in the Austrian property investment market in 2015, returns may well exceed the performance recorded for 2014 which according to MSCI/IPD was 5.3%.

### Property outlook



Investor activity is expected to remain strong, particularly in core sectors of offices and retail. Continued interest from international investors will drive overall volume of Austrian property transacted which is expected to rise further in 2016.

## Other factors

### Tax reform

In July 2015, the proposed tax reform tabled by the left-right coalition government was passed by the Austrian parliament with the amendments being implemented from 1 January 2016. The main aim of the reform is to reduce direct income tax for lower and middle-income earners which will be off-set by improved tax collection increases to some taxes in other areas, notably on VAT on some goods and services and withholding taxes on capital income.

In addition, there are amendments to real estate taxation which will increase the cost of property transactions in Austria. The rate of tax on the sale of private property (that is, not forming part of a business) has increased from 25% to 30% although the sale of primary residences will continue to be exempt from taxation.

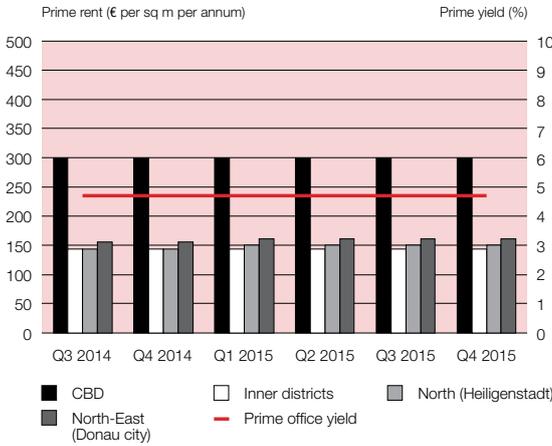
Direct commercial property transactions will remain subject to the 3.5% transfer tax currently levied but transfers of property within families, previously charged a reduced rate of 2%, will now be taxed on a sliding scale based on the market value of the property and will range from 0.5% to 3.5%. Additionally, where previously the purchase of shares in a property holding company would only attract property transfer tax when 100% of shares are pooled in the control a single VAT entity or person, this has now been reduced to 95%, triggering a lower threshold for tax payments at 3.5% of the property market value.

For most direct property investors, the cost of transacting commercial property in Austria will not change but for some indirect investors looking to acquire significant interests in property holding companies, this could mean a new transaction cost.

# AUSTRIA – Vienna

## OFFICES

### Prime rents and yields



### Market outlook

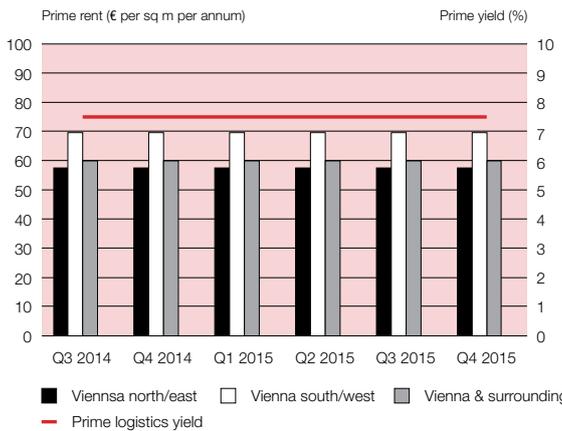
- Market activity** **Expectation of movement to Q2 2016**
- Occupier demand** ↗
- Development supply** ↘
- Availability** →
- Investor activity** ↗
- Prime rents** ↗
- Prime yields** →

### Market comment

The Vienna office market activity in 2016 is expected to remain broadly in line with 2015: occupier demand is expected to continue to strengthen, the development supply will be very low with most development schemes to be delivered in 2017. Therefore rental levels are expected to remain stable in 2016 but start to move on in 2017 and 2018. Investor interest in Austrian property, particularly in Vienna, continues to grow and international investors from UK, USA and Asia are becoming more active in the market.

## LOGISTICS

### Prime rents and yields



### Market outlook

- Market activity** **Expectation of movement to Q2 2016**
- Occupier demand** →
- Development supply** →
- Availability** →
- Investor activity** ↗
- Prime rents** →
- Prime yields** →

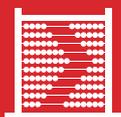
### Market comment

Occupier interest in Vienna logistics and industrial space is expected to continue to remain strong in 2016 on the back of interest in the domestic SME market as well as national and international logistics players. However, development supply is unlikely to increase in the first half of the year but there are new high-quality developments scheduled to be delivered in the second half of the year. Investor interest in Austrian logistics and industrial property continues to grow but is held back somewhat by a lack of available stock; this can be seen as an opportunity for developers in the coming years.

# BELGIUM

## Economy

### Economic performance



According to the National Bank of Belgium (NBB), the Belgian economy expanded by 0.3% in Q4 2015, up slightly from the 0.2% recorded in Q3. This puts full-year 2015 economic growth at 1.3% year-on-year, a modest acceleration compared with the 1.0% observed in 2014. The 2015 performance has been as a result of improvements in both the domestic situation – notably private consumption and business investment – as well as strengthening exports.

### Confidence indicators



Despite improvements throughout 2015, both business and consumer confidence indicators remain stubbornly below the 0-threshold indicating a more pessimistic viewpoint. And in January 2016, both fell back albeit remain close to the high points of the past two years.

The business confidence index from the NBB fell to -3.0 in January, compared with December's -1.4, and the NBB consumer confidence index also deteriorated slightly in January from -3.0 in December to -4.0 in January, reflecting consumers' more pessimistic outlook of the overall economic situation in Belgium.

### Economic outlook



Belgium's economy is expected to continue growing at the modest pace of 1.3% in 2016 and strengthen in 2017 to 1.6% as a result of continuing strong domestic demand driven by competitiveness-enhancing measures, such as tax incentives for investments as well as reductions in social security contributions for employers. These are also expected to contribute to continuing improvements in the labour market which will also positively affect household spending. Belgium's economy is expected to grow even more strongly

## Property market indicators

### Investment activity



Investment activity in Belgian commercial real estate grew strongly in 2015: total investment volume for the year is estimated at around €4 billion, more than a third more than the total for 2014. Several exceptional deals featuring overseas investors played a significant role in this uplift such as the China Investment Corporation and AEW's €760 part-purchase of the Wijnegem and Waasland shopping centres as well as opportunistic investors from the UK and US.

Investor interest in Brussels remains high with offices and retail their preferred targets. As a result, prime yields have continued to harden and the lack of appropriate investment stock is putting further downward pressure on yields and investors are seeking out new opportunities.

Whilst not yet reported for 2015, investment returns for Belgian property are expected to improve on the 7.0% reported by MSCI/IPD in 2014, again broadly driven by improvements in both capital value growth and rental growth.

### Property outlook



Appetite for Belgian property is expected to remain high into 2016, particularly amongst international investors seeking returns in an attractive market. However, overall volumes may be hampered by a lack of investment-grade stock although the pipeline of office assets in particular is strengthening.

With ongoing interesting in a waning supply of available opportunities, the likelihood of further yield compression, particularly in the offices and retail sectors is high, albeit will be limited in its scope amongst prime assets considering the historically low yields already being recorded.

## Other factors

### 2016 Federal budget

In October 2015, the Belgian Government announced it has reached an agreement on the 2016 federal budget which includes an ambitious tax reform or "tax shift" designed to ease the high tax burden on employment and encourage employment growth. Reductions in labour taxes and social security contributions are accompanied by a lowering of the individual income tax rate which is designed to benefit those on low and medium incomes.

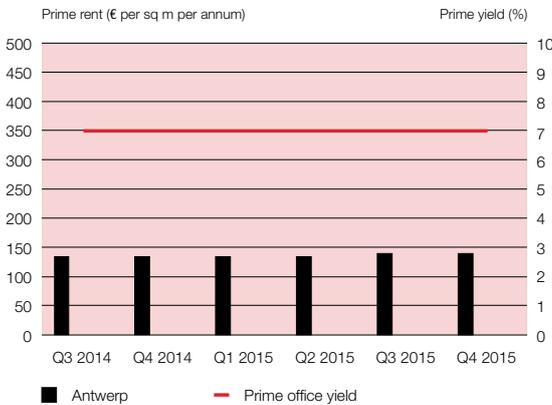
However, in order to achieve these tax cuts, the Government has moved the tax burden to consumers through increases in existing taxes and levies and the introduction of new taxes, including taxes on carbonated drinks and capital gains.

The Belgian Government hopes these measures will help to support jobs growth and economic stimulation as well as improving competitiveness by reducing the cost of labour in Belgium which has been amongst the highest in Europe. As most measures became active on 1 January 2016, the first half of 2016 may provide some indication of the impact of the government action.

# BELGIUM – Antwerp

## OFFICES

### Prime rents and yields



### Market outlook

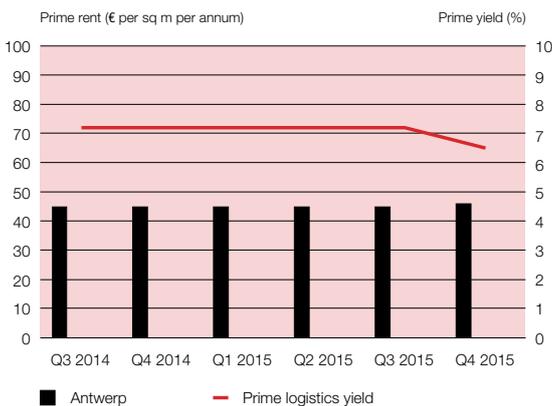
<b>Market activity</b>	<b>Expectation of movement to Q2 2016</b>
<b>Occupier demand</b>	↗
<b>Development supply</b>	↘
<b>Availability</b>	→
<b>Investor activity</b>	↗
<b>Prime rents</b>	→
<b>Prime yields</b>	→

### Market comment

Occupier take-up of Antwerp office space remained broadly stable in 2015 compared with 2014. On the supply side, several large office schemes are under development and are scheduled to be delivered in 2016. For some occupiers, this will create opportunities to relocate to better quality premises and locations which may have a knock-on effect on the vacancy rates in older and poorer-quality buildings. However, this may mean this space may be converted into residential space.

## LOGISTICS

### Prime rents and yields



### Market outlook

<b>Market activity</b>	<b>Expectation of movement to Q2 2016</b>
<b>Occupier demand</b>	↗
<b>Development supply</b>	→
<b>Availability</b>	→
<b>Investor activity</b>	→
<b>Prime rents</b>	→
<b>Prime yields</b>	↘

### Market comment

Occupier activity for Antwerp logistics space fell in 2015 compared with 2014, somewhat in part due to a lack of available product in the market. However, demand may be spurred in 2016 as a result of an agreement between the government and the distribution sector about night work in the e-commerce sector. This could have a positive impact on occupier activity in the Antwerp area, particularly for the logistics-market around the Port of Antwerp.

## RETAIL

### Prime rents and yields



### Market outlook

<b>Market activity</b>	<b>Expectation of movement to Q2 2016</b>
<b>Occupier demand</b>	→
<b>Development supply</b>	→
<b>Availability</b>	→
<b>Investor activity</b>	↗
<b>Prime rents</b>	→
<b>Prime yields</b>	↘

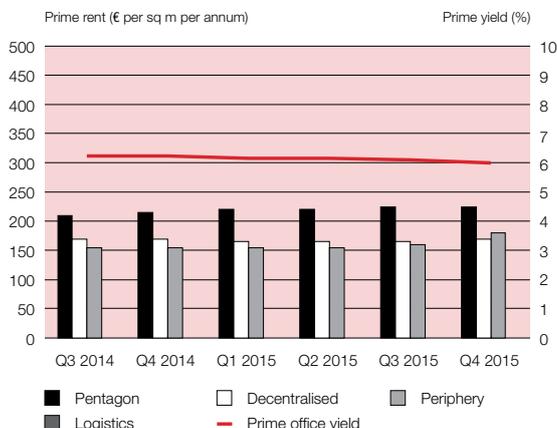
### Market comment

The Antwerp retail market overall suffers from low availability; however, when considering individual areas within Antwerp, the situation differs markedly. In the core shopping streets - including Meir - vacancy remains low, whilst in secondary areas, vacancy is actually growing. Landlords in these areas may consider whether to hold or divest themselves of assets in these locations. Occupier demand is expected to remain broadly stable in 2016 as the impact of the terrorist threat on retail spending was far more subdued in Antwerp than in Brussels.

# BELGIUM – Brussels

## OFFICES

### Prime rents and yields



### Market outlook

Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

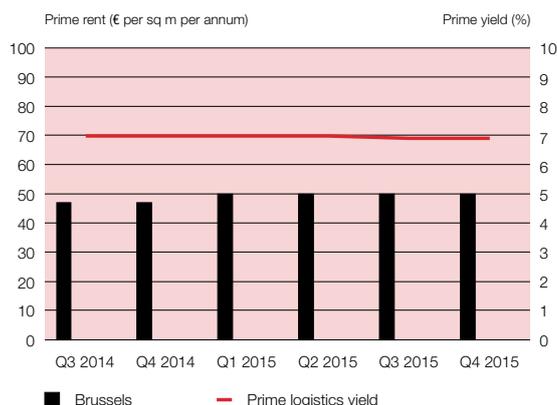
### Market comment

Occupier take-up in Brussels office space is expected to decline in 2016 as a result of some private companies leaving the capital because of transport congestion issues and a trend towards smaller workplaces. However, a relatively low supply of available space – particularly of good quality – will mean that prime rents will remain broadly stable in the first half of 2016. Later in the year, however, there is new speculatively developed space due to be delivered; this new supply, along with subdued occupier activity, may put downward pressure on rents.



## LOGISTICS

### Prime rents and yields



### Market outlook

Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

### Market comment

Although occupier take-up volumes have been subdued, Brussels remains a key location in the Belgian industrial market for occupiers and of the deals done in 2015, some of the largest have been in and around Brussels. Regional markets in Flanders and Wallonia however have seen more activity on the whole. There is little speculative supply in the pipeline in Brussels with developers remaining cautious, especially as land and construction costs continue to rise.



## RETAIL

### Prime rents and yields



### Market outlook

Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

### Market comment

Occupier sentiment has been somewhat muted – not least due to the terrorist threat in November which mainly effected the Brussels city centre and meant that retailer turnover in December was markedly down – and has been translated into lower levels of retailer demand for space. A lack of available supply to the market has also suppressed take-up volumes in 2015 but new supply is due to be delivered in 2016 including a major shopping centre project, the Docks Brussel scheme.

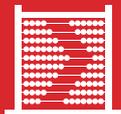




# FRANCE

## Economy

### Economic performance



Following lacklustre growth of just 0.4% in 2014, France's economy appears to have rallied in 2015 with the French statistical office INSEE reporting full-year 2015 GDP growth of 1.3%. This expansion has been driven by improving consumer demand and an acceleration in services and production elements of the economy; encouragingly, exports growth accelerated in Q4 also although imports also grew.

### Confidence indicators



Consumer confidence edged up in January 2016 and at 97, is now at its highest level since October 2007, albeit slightly under the long-term average of 100. Business confidence also continues to improve with INSEE's industrial business climate survey reporting stable in January 2016 at 102; the indicator remains marginally above the long-term average of 100, which is the threshold measure to delineate between improving and worsening business expectations.

Additionally the Markit Purchasing Managers' Index also pushed up from 50.1 in December 2015 to 50.5 in January 2016; the index has now been above the 50-threshold indicating expansion in business activity for 12 months. The improvement in the index was largely as a result of a return to expansion by the services sector, having shrugged off recent financial market volatility.

### Economic outlook



French GDP growth is expected to reach 1.3% in 2016 and 1.7% in 2017, largely fuelled by growth in private consumption (as a result of low inflation and the fall in energy prices) albeit, despite the euro's depreciation, the contribution to economic growth from a positive change in net exports is likely to be subdued as imports are likely to increase alongside the growth in consumer spending.

## Property market indicators

### Property performance



Following an annual total return of 6.7% to the end of 2014, MSCI/IPD reports that annualised total return for French property to the end of the first half of 2015 was 9.5%, driven particularly by strong growth in capital values which offset a dip in rental growth.

### Investment activity



Following an exceptionally strong 2014, volumes in 2015 were similarly high and may even exceed the estimated €23 billion transacted in French property in 2014. Appetite was most acute for offices, particularly in Paris but investors have started to move their positions to look for greater value-add opportunities. As a result, transaction volumes for assets in well-positioned but less-core locations boomed in 2015.

Retail assets were also in demand in 2015 with shopping centres and high street shops, particularly on Paris' prime streets, highly sought after. Logistics assets also proved attractive although volumes were down on the record-high set in 2014 but as supply of investment grade assets is short, yields saw significant compression in 2015.

Overseas investors remain engaged in the French investment property market and volumes continue to increase, fuelled by the supply of capital entering the market and the relatively attractive returns achievable in property compared with other asset types.

### Property outlook



Investor interest remains strong, across all property types, particularly when considering the performance achievable in property relative to other asset types.

Prime locations remain the core area of interest for occupiers although the lack of appropriate investment stock and little new supply coming to market has meant investors are continuing to look at non-prime opportunities.

## Other factors

### Property tax increases

From 1 January 2016, transfer tax and duty payable on property transactions for assets in Paris increased from 6.20% to 6.90%. This means that property transfer taxes in all parts of France are now charged at the same standard rates. However, simultaneously, an additional 0.6% tax on property transactions in Paris has been added to assist financing the newly formed Métropole du Grand Paris. This tax is only levied on transactions for properties which are for commercial use only and if any element of residential is involved, the tax is not applicable.

### Local government reform in Paris

From 1 January 2016, the Ile de France region has undergone a significant, strategic reorganisation with the formation of the Métropole du Grand Paris, a new administrative structure covering the City of Paris and surrounding communes and towns and then subdivided into 12

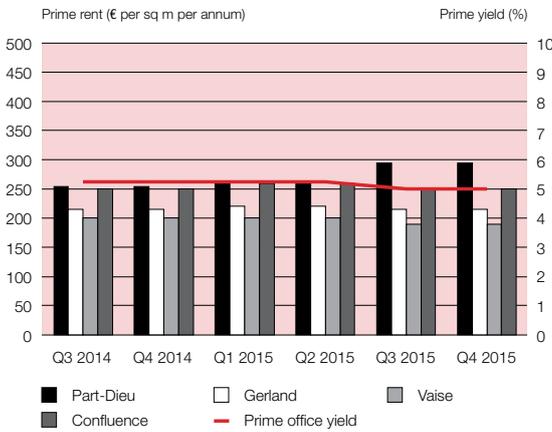
Etablissement Public Territorial. The Métropole itself is run by a council of 210 members and led by the Président de la Métropole du Grand Paris; on 22 January 2016, Mayor of Rueil-Malmaison Patrick Ollier was elected to the post.

The Métropole was formed to reduce confusion over the responsibilities of different elements of government and make processes like seeking planning permission more efficient: no longer will the decision be made at an individual town mayor level but will be in the hands of the president of the EPT in order to make decisions on a territory level. Whilst the legal existence of the Métropole and the EPTs began on 1 January 2016, it is likely that the transfer of responsibilities will take some time to effect but will in time be moved to these new entities.

# FRANCE – Lyon

## OFFICES

### Prime rents and yields



### Market outlook

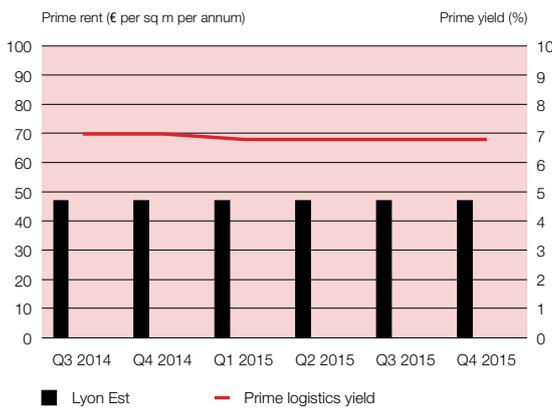
- Market activity** Expectation of movement to Q2 2016
- Occupier demand** →
- Development supply** ↗
- Availability** ↗
- Investor activity** ↗
- Prime rents** →
- Prime yields** ↗

### Market comment

Occupier take-up of Lyon office space in 2015 was one of the strongest results in the past decade: at 272,000 sq m, the total volume was up 10% on the full-year for 2014. One of the largest transactions in 2015 was the letting of 21,000 sq m to energy firm EDF in the Gerland region where RTE also took 14,000 sq m. Occupiers have been particularly attracted to newly-built office space which accounted for about 60% of the total take-up volume in 2015. Investor activity has also been keen: almost €600 million is estimated to have transacted in Lyon offices in 2015.

## LOGISTICS

### Prime rents and yields



### Market outlook

- Market activity** Expectation of movement to Q2 2016
- Occupier demand** →
- Development supply** ↗
- Availability** ↗
- Investor activity** ↗
- Prime rents** →
- Prime yields** →

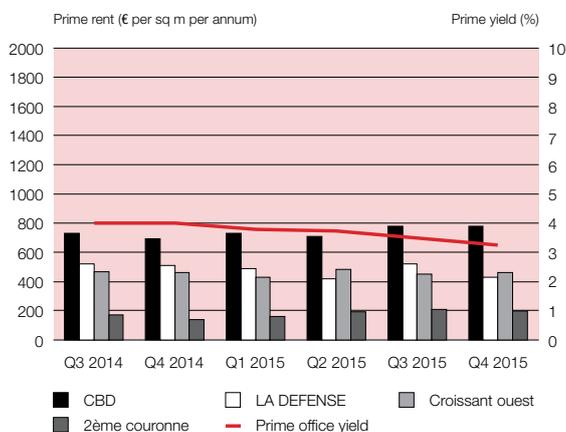
### Market comment

Lyon is a key logistics market for France and occupier activity in Lyon in 2015 was exceptionally strong at 382,000 sq m. The largest deal in 2015 was the letting of 60,000 sq m by AG Real Estate to homewares retailer BUT at the Syntex joint development zone in Pusignan, east of Lyon. However, despite recent developments coming to market, available supply is substantially constrained.

# FRANCE – Paris

## OFFICES

### Prime rents and yields



### Market outlook

**Market activity**

**Occupier demand**

**Development supply**

**Availability**

**Investor activity**

**Prime rents**

**Prime yields**

**Expectation of movement to Q2 2016**



### Market comment

With 2.2 million sq m let in 2015, the Ile de France market has shown its resilience with an increase of 5% year-on-year.

The market remains tenant-orientated, with many opportunities for occupiers to relocate to high-quality space as new product is available at improved pricing. However, this should correct in 2016 as a lack of supply could result in a run on the last available opportunities. On the investment side, the strong market conditions of 2015 remain, with even more money seeking to invest in Paris offices, particularly for prime assets in good locations.



# GERMANY

## Economy

### Economic performance



Germany's economy grew by a solid 1.7% in 2015, marginally up from the 1.6% for 2014. Growth was largely due to surging private consumption, particularly as a result of strengthening labour market dynamics including increasing employment rates and rising real wages in a low inflation environment. Government spending also grew substantially, partly due to the significant influx of refugees into Germany. Conversely, investment slowed over 2015, particularly by corporates investing in machinery and equipment, although the expectation is that this will rally somewhat in 2016.

### Confidence indicators



Recent consumer and business surveys have returned mixed results: GfK's consumer confidence indicator remains broadly stable in February 2016 after moderating over the second half of 2015 having hit a 13-year high in June 2015. Consumers remain broadly confident in the future expectations of the Germany economy. The stable employment situation, real income growth and falling fuel prices continue to improve consumers' financial positions. However, there are concerns that this may wane as rising fears over the threat of terrorist acts and the impact of the influx of refugees could dampen the positive sentiment.

However, the IFO Institute's German business confidence index fell again in January 2016 to 107.3, the third lowest level since January 2015, largely due to businesses' less positive sentiment about the future. Retailers' sentiment remains relatively stable and wholesalers are more positive whilst manufacturers' expectations worsened.

### Economic outlook



The German economy is expected to grow by 1.9% in 2016 and 1.9% in 2017. Private consumption will continue to drive the upswing, which will be boosted by a renewed drop in oil prices, higher earnings and transfers and a lighter tax and social charges burden on households. Uncertainty with regard to the unusually high inflow of migrants into Germany and its economic impact – positive or negative – also remains high.

## Property market indicators

### Investment activity



The boom in the German investment market for commercial property continued throughout 2015: transaction volume totalled €55.0 billion for the year, up 39 % on the already-strong 2014 at €39.4 billion. In Q4 2015 alone, almost €17 billion of property transactions were concluded. Although the majority of the deals and volume was accounted for by transactions for individual assets (accounting for €35.6 billion) there has been a marked increase in the number and volume of portfolio deals: at €19.3 billion, portfolio sales increased by 57.3% compared to the previous year.

Given the strengthening conditions for German property and the high level of activity in the market, total returns may outperform the 6.0% recorded by MSCI/IPD for 2014.

### Property outlook



The commercial property market in Germany is again expected to register a very high transaction volume. At the same time further falling prime yields in the top locations are anticipated in the coming months. It is predicted that the 2016 result will be in the range of €50 billion to €55 billion.

## Other factors

### Volkswagen

In late September 2015, leading car manufacturer and major German company Volkswagen was revealed to have misled authorities over the emissions of its diesel cars. Although severely damaging the firm's reputation and wiping millions off its share price in the following weeks, it is unlikely that the scandal will also dent the reputation of the German manufacturing industry and its reputation.

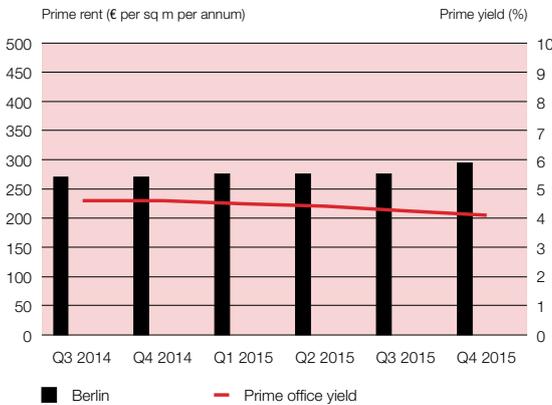
It is estimated that around a fifth of German exports are linked to the automotive industry and given that German exports are the highest of all European countries, serious impacts on the attractiveness of German made goods could have a seriously negative effect on the German economy.

Statistics from the European carmakers' association ACEA show that whilst new car sales across Europe grew by 9.3% in 2015, sales for VW grew by just 6.1%, pushing its European market share down from 24.7% in 2014 to 22.5% in 2015, although is still by far the largest player in the European market. Whether there will be further fall-out of the emissions scandal felt by VW or the broader German automotive industry will remain to be seen, as will whether any compensation or penalties will be enforced against VW in Europe as are being exacted in the US.

# GERMANY – Berlin

## OFFICES

### Prime rents and yields



### Market outlook

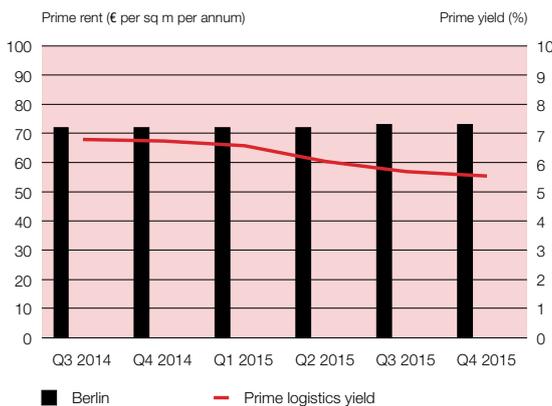
- Market activity** Expectation of movement to Q2 2016
- Occupier demand** ↘
- Development supply** ↘
- Availability** →
- Investor activity** ↗
- Prime rents** →
- Prime yields** ↘

### Market comment

The Berlin office market closed with a new record take-up of 876,000 sq m of lettings and owner-occupiers in 2015, 43.4% higher than in 2014. Whilst there were some large deals for units of more than 10,000 sq m, a huge number of deals for units of less than 2,500 sq m were the key driver of this high volume. At the end of 2015, the vacancy rate stood at 4.9% and has therefore fallen 1.3 percentage points compared to the end of 2014. Occupier take-up is expected to remain strong in 2016 and will be above the long-term average, but is not expected to reach the record level of 2015.

## LOGISTICS

### Prime rents and yields



### Market outlook

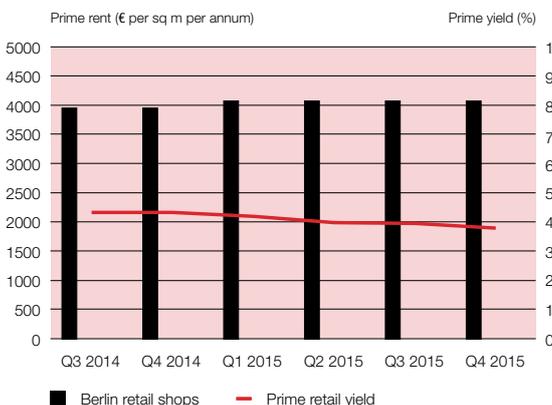
- Market activity** Expectation of movement to Q2 2016
- Occupier demand** →
- Development supply** ↗
- Availability** ↗
- Investor activity** ↗
- Prime rents** →
- Prime yields** ↘

### Market comment

The Berlin logistics market closed with a take-up of 445,000 sq m by lettings and owner-occupiers in 2015, ending the year 36.8% higher than 2014. A number of large deals for units of more than 10,000 sq m in Q4 2015 were key to achieving this strong result. In 2016, a number of speculative developments are expected to complete, which will help to meet the continuing strong demand in the area. The prime logistics rent in Berlin increased by 1.7% compared to 2014 and the current market dynamics mean that there is continued upward pressure on Berlin logistics rents.

## RETAIL

### Prime rents and yields



### Market outlook

- Market activity** Expectation of movement to Q2 2016
- Occupier demand** →
- Development supply** →
- Availability** →
- Investor activity** ↗
- Prime rents** →
- Prime yields** ↘

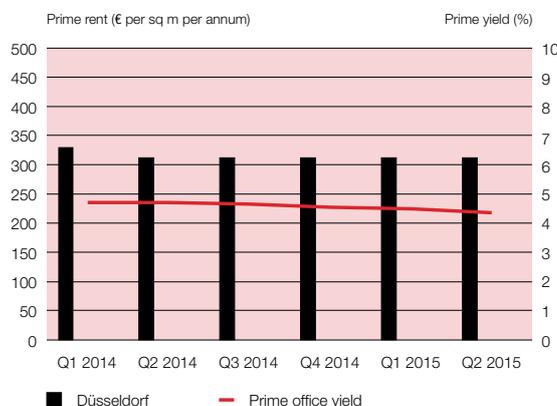
### Market comment

Berlin's retail offering is spread across the city in a number of shopping precincts, rather than being concentrated in a tight geographic area. Strong demand has driven rents to reach some of the highest levels in the country – only rents in the top retail market of Munich exceed that of centre-west Berlin area Tauentzienstrasse. The prime rent for retail spaces in Berlin increased by 3.0% compared to 2014. However, the sentiment is that rents are nearly at their peak and that only specific occupiers will be prepared to continue to drive rents onwards for particular property types, such as flagship units.

# GERMANY – Düsseldorf

## OFFICES

### Prime rents and yields



### Market outlook

Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

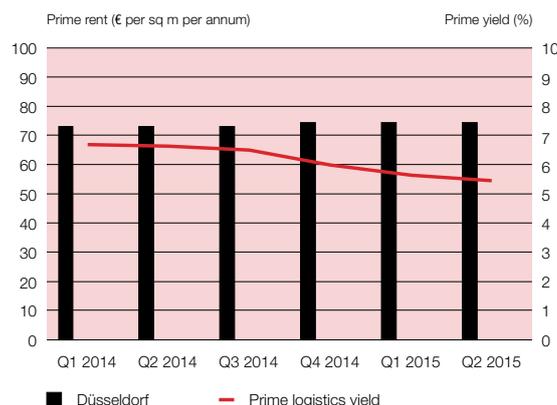


### Market comment

The Düsseldorf office market closed with occupier take-up of 445,000 sq m in 2015. take-up was therefore 129,100 sq m or 40.9% higher than in 2014. Seven large deals for units of more than 10,000 sq m supported this result. At the end of 2015, the Düsseldorf vacancy rate stood at 9.4% and has therefore fallen 1.2 percentage points compared to the end of 2014. Prime rents for offices in Düsseldorf were stable in 2015 and are expected to remain so into 2016. Take-up of around 400,000 sq m is expected in Düsseldorf in 2016.

## LOGISTICS

### Prime rents and yields



### Market outlook

Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

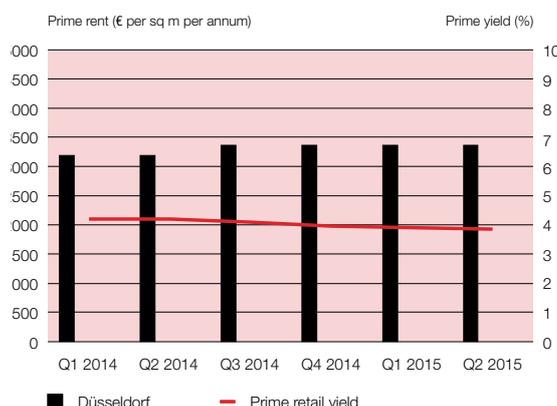


### Market comment

The Düsseldorf logistics market closed with a take-up of 345,000 sq m by lettings and owner-occupiers in 2015. In total, turnover was therefore 67,600 sq m or 24.4% higher than in 2014. The majority of the deals were for units of more than 5,000 sq m, which includes lettings as well as owner occupiers and developments. Availability of large-scale units is scarce and therefore developments are increasingly important. Prime rents for Düsseldorf logistics properties increased by 1.7% in 2015 and are expected to remain stable in 2016. Occupier take-up in 2016 will be curtailed by the lack of available product.

## RETAIL

### Prime rents and yields



### Market outlook

Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields



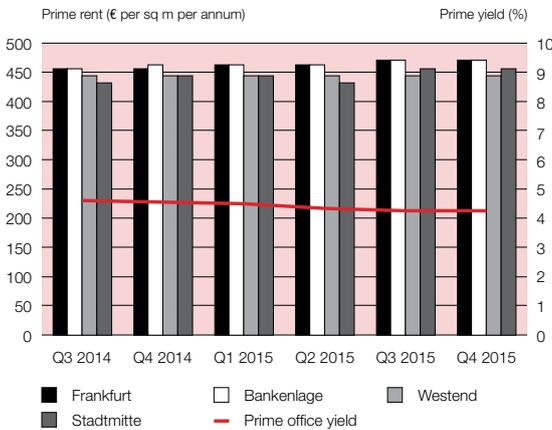
### Market comment

Düsseldorf is considered a key retail market for both domestic and international retailers. International brands in particular are keen to ensure space on the prime shopping street of Königsallee. The prime rent for retail spaces in Düsseldorf increased by 5,6% compared to 2014 and has reached a historically high level. However, it could see further growth as occupier activity is buoyed by strong consumer confidence.

# GERMANY – Frankfurt

## OFFICES

### Prime rents and yields



### Market outlook

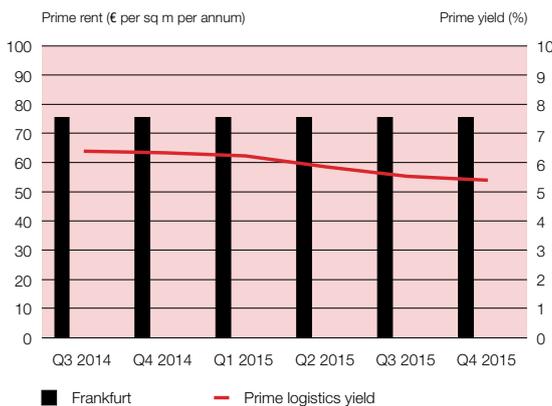
- Market activity** Expectation of movement to Q2 2016
- Occupier demand** →
- Development supply** ↗
- Availability** →
- Investor activity** ↗
- Prime rents** →
- Prime yields** ↘

### Market comment

At 394,000 sq m, occupier demand for office space in Frankfurt – both as lettings and owner-occupier transactions – remained modest in 2015 but still represent a 7% improvement on volumes in 2014. Moreover, the market missed out on approximately 100,000 sq m of turnover due to lease extensions. In 2015, small deals (below 1,000 sq m) dominated the market and accounted for a market share of 46.8 % totalling 184,200 sq m. At the end of 2015, the vacancy rate stood at 10.9%, marginally less than at the end of 2014. Take-up is expected to pick up slightly in 2016.

## LOGISTICS

### Prime rents and yields



### Market outlook

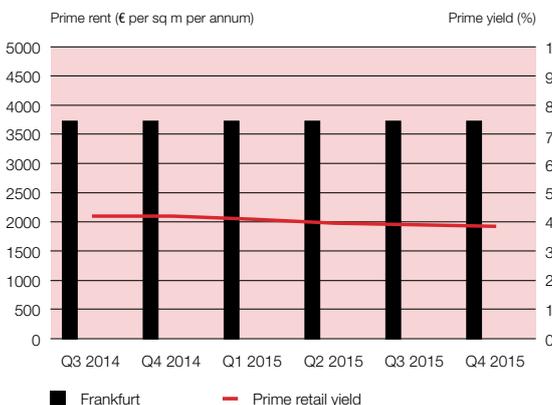
- Market activity** Expectation of movement to Q2 2016
- Occupier demand** →
- Development supply** →
- Availability** ↘
- Investor activity** ↗
- Prime rents** →
- Prime yields** ↘

### Market comment

Take-up in the Frankfurt/Rhine-Main logistics market in 2015 was 629,000 sq m, 16.5 % lower than in 2014, although 2014 was a new record high for the area. About a third of take-up was generated by large deals for units of more than 10,000 sq m. In 2015, pre-let and owner-occupier developments increased in importance, as a result of the lack of available large-scale properties in particular. The prime rent for logistics properties in Frankfurt remained stable compared with 2014. For 2016, take-up is expected to remain in line with the high volumes seen in 2015 which will put upward pressure on rents.

## RETAIL

### Prime rents and yields



### Market outlook

- Market activity** Expectation of movement to Q2 2016
- Occupier demand** ↘
- Development supply** ↗
- Availability** ↗
- Investor activity** ↗
- Prime rents** →
- Prime yields** ↘

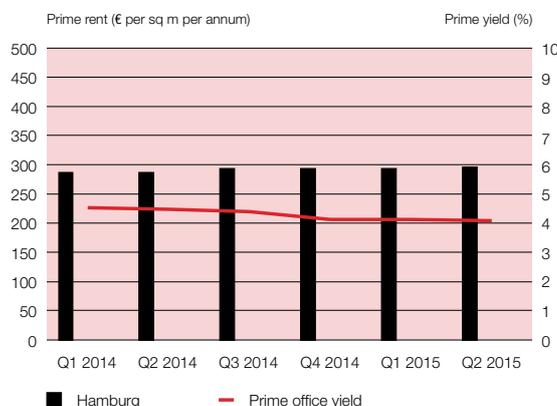
### Market comment

Strong consumer confidence in Germany has boosted retailer demand for space and Frankfurt confirms its position as one of the country's key retail markets. The prime area of the Zeil remains one of the busiest retail areas in the country as well as commanding some of the highest rents. Prime retail rental values in Frankfurt remained stable in 2015 compared with 2014 and are expected to hold at the same levels in the first half of 2016.

# GERMANY – Hamburg

## OFFICES

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

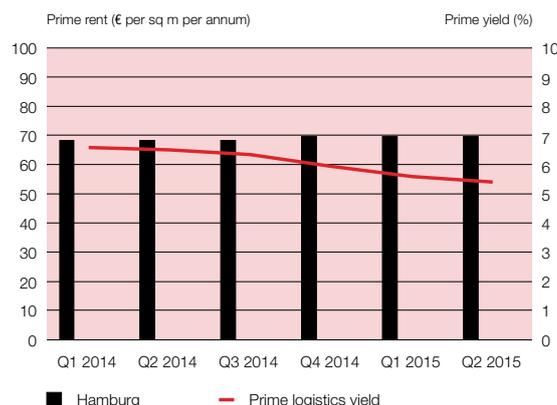


### Market comment

The Hamburg office market closed with a take-up of 538,000 sq m of lettings and owner-occupiers in 2015. In total, turnover was therefore 10,700 sq m or 2.0% higher than in 2014, driven by strong take-up in the final quarter of the year. Eleven deals for units of more than 5,000 sq m were recorded in 2015. At the end of 2015, the vacancy rate was 5.5%, down 1.1 percentage points compared to the end of 2014. Prime office rents in Hamburg increased by 3.3% in 2015 but look to remain stable into 2016. Occupier activity is expected to remain strong in 2016 with annual take-up in line with the long-term average.

## LOGISTICS

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

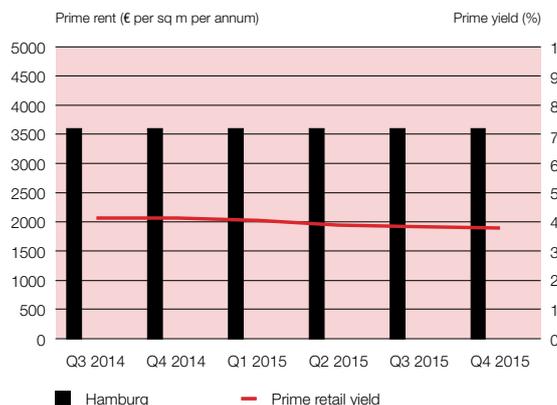


### Market comment

The Hamburg logistics market closed with a take-up of 595,000 sq m by lettings and owner-occupiers in 2015. In total, turnover was therefore 150,400 sq m or 33.8% higher than in 2014. Numerous deals for units of more 5,000 sq m were the key driver to this strong market performance. Available supply of logistics space fell in 2015, especially in the harbour area. Prime rents for Hamburg logistics properties increased by 1.8 % compared to 2014 and are expected to remain stable into 2016. Occupier take-up volume in 2016 is expected to remain broadly stable at the high levels experienced in 2015.

## RETAIL

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields



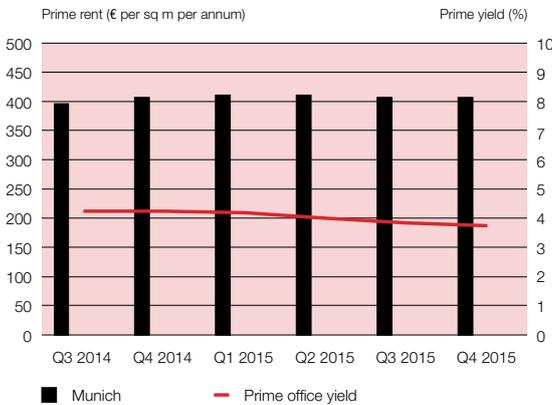
### Market comment

Hamburg's key retail markets have enjoyed strong occupier activity: retailers – particularly international retail chains and fashion retailers – have been taking space in key locations in the inner city. Developers brought key new development projects to the market in 2015, boosting the attractiveness of the area. Prime rents for retail spaces in Hamburg were stable in 2015 and are expected to remain so into 2016.

# GERMANY – Munich

## OFFICES

### Prime rents and yields



### Market outlook

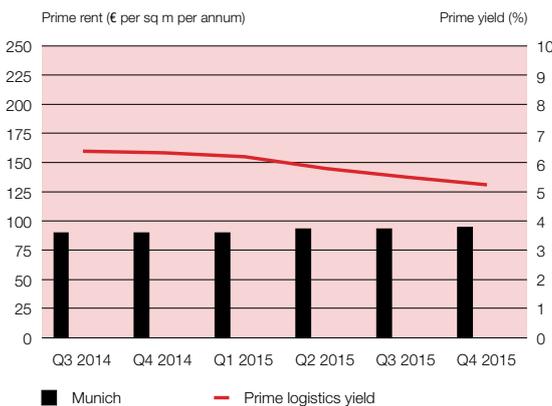
Market activity	Expectation of movement to Q2 2016
Occupier demand	↘
Development supply	→
Availability	→
Investor activity	↗
Prime rents	→
Prime yields	↘

### Market comment

The Munich office market closed 2015 with a take-up of 761,000 sq m, 19.2% higher than in 2014. Take-up was boosted by both large owner-occupier deals as well as lettings above 5,000 sq m. Demand is mainly focused on high-quality space, of which there is very little available supply. At the end of 2015, the Munich office vacancy rate stood at 5.5 %, down from 6.5% at the end of 2014. This strong demand in a low supply environment has meant prime office rents in Munich increased by 3.2% in 2015 and with take-up expected to remain stable at this strong level, rents are expected to increase further.

## LOGISTICS

### Prime rents and yields



### Market outlook

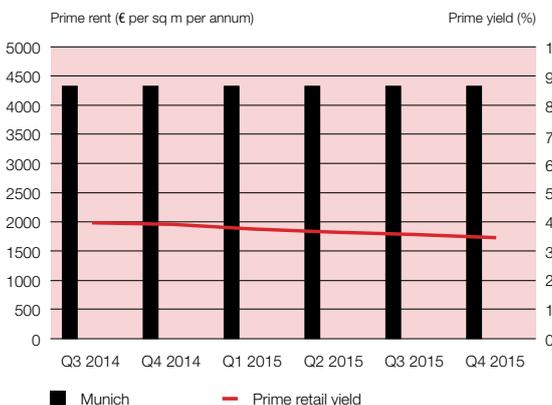
Market activity	Expectation of movement to Q2 2016
Occupier demand	→
Development supply	↘
Availability	↘
Investor activity	↗
Prime rents	→
Prime yields	↘

### Market comment

The Munich logistics market closed with a take-up of 205,000 sq m by lettings and owner-occupiers in 2015. In total, turnover was 23.5% lower than in 2014. However, this is partly due to the limited availability of space as well little new development supply coming to the market. As a result, there were few deals above 5,000 sq m. The ongoing demand and limited supply has meant that prime rents for logistics properties in Munich increased by 5.3% compared to 2014. Take-up is expected to remain broadly stable in 2016 which will put further upward pressure on rents.

## RETAIL

### Prime rents and yields



### Market outlook

Market activity	Expectation of movement to Q2 2016
Occupier demand	→
Development supply	→
Availability	↘
Investor activity	↗
Prime rents	→
Prime yields	↘

### Market comment

Munich remains the top retail market in Germany and commands the highest volume of footfall of all cities. Demand from both domestic and international retailers remains strong, particularly in core-plus locations. This demand has driven rents to their current high which are remain stable in the first half of 2016.

# IRELAND

## Economy

### Economic performance



The Irish economy looks set to be the strongest performing country in the EU for the second consecutive year. Following an impressive 4.8% expansion in 2014, the first three quarters of 2015 indicate an even stronger performance in 2015. Q3 2015 GDP growth was reported by the Central Statistics Office at 1.4%, a deceleration on the 1.9% in Q2 and 2.1% in Q1 but nonetheless substantially higher than most European countries. This indicates a year-on-year change to Q3 of 7.0%, exceeding most expectations, including those of the Irish government.

### Confidence indicators



The latest KBC Ireland/ESRI Consumer Sentiment Index showed that overall consumer confidence hit a 15-year high in January 2016 up from 103.9 in December to 108.6 in January. The strongest driver to the outstanding result was related to consumer's perception of the current buying climate, which indicated that households feel more confident with regard to decisions involving major household purchases.

Business confidence remains high also with both the Investec Services Purchasing Managers' Index and Investec Manufacturing Purchasing Managers' Index entrenched in positive territory for over two and a half years.

### Economic outlook



The Irish economy is expected to continue to grow strongly – albeit at less impressive rates than for the expected result for 2015 of around 7%. GDP growth is expected at 4.5% in 2016 and at 3.5% in 2017. Despite risks from the external market, the Irish economy's exposure to emerging markets is sufficiently limited and the benefits expected from the depreciation of the euro mean that Ireland will be somewhat insulated from these economic headwinds.

## Property market indicators

### Property performance



Total returns for Irish property for 2015 were reported by MSCI/IPD at a massive 25.0%, albeit this was a drop from the exceptional 39.3% in 2014. At over 27%, returns in the offices sector were key to this performance and were particularly fuelled by the continuing phenomenal rate of increase of capital values but also by exceptional rental growth. Retail and industrial returns were also strong with both reported at over 20% but were driven by not only gains in capital values but also in income returns, on the back of improving rental growth.

### Investment activity



The total amount of transacted in the Irish property investment market in 2015 was more than €3.4 billion. Whilst this figure was somewhat down on record-high levels in 2014 of €4.5 billion, there was still a significant number of transactions throughout the year. This trend is expected to continue throughout 2016. Demand will remain strong from domestic investors as well as being boosted by the continued interest from overseas, in particular the UK and Europe. Certain assets that were bought between 2012 and 2014 will be 'recycled' as investors look to 'profit-take' by seeking to benefit from the significant rise in capital values and strengthening yields.

### Property outlook



2016 looks likely to see continuing high levels of activity in the Irish investment market, particularly focused on Dublin property. Investment opportunities will take the form of 'non-core' assets being released by funds as well as assets held in loan portfolios being sold.

Additionally, given the exceedingly short supply of bank financing available, some investors may look to position for margin by establishing partnerships with developers on 'ready-to-go' office sites in the core Dublin CBD.

## Other factors

### General election, February 2016

Following the most indecisive general election in recent years on 26 February 2016, Ireland is now re-adjusting to an election result which could mean that no coalition of like-minded political parties will form to create a majority government. Instead, at this stage, a minority Fine Gael government, led by the incumbent Taoiseach Enda Kenny, could be formed. This will only be possible, however, if, as they have indicated, opposition party Fianna Fáil agrees to a political truce to allow Fine Gael to govern for at least a year and avoid sending Ireland back to the polls in the near future.

In return, Fianna Fáil has said it will reform parliament, pushing for more power to be held by members of the Dáil (Irish Parliament) as well as helping to shape the 2016 budget. The Dáil meets on 10 March 2016 to elect a new Taoiseach but no new government – not even a minority one – is expected to be formed before the end of March with the possibility of a new election if no common ground can be found in forming a government by then.

### 2016-2021 Government investment plan

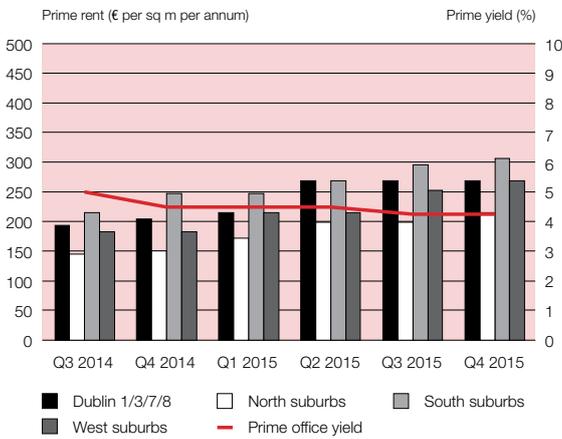
In September 2015, the Irish Government announced a €27 billion investment plan for the 2016-2021 period. This is to include major infrastructure projects such as a €2.4 billion rapid transit system from Dublin city centre to Dublin Airport and the nearby town of Swords, an important commuting town for Dublin and €6.0 billion on road upgrades and new road projects. Further initiatives also include the development of new buildings and related infrastructure to help secure future jobs investments across Ireland and the provision of thousands of new homes.

The six-year spending plan could have a significant impact on the attractiveness of business locations across Ireland but particularly in and around Dublin. The infrastructure projects in particular could mean new locations for commercial and residential schemes becoming more viable and more valuable – a boon to the growing Irish economy.

# IRELAND – Dublin

## OFFICES

### Prime rents and yields



### Market outlook

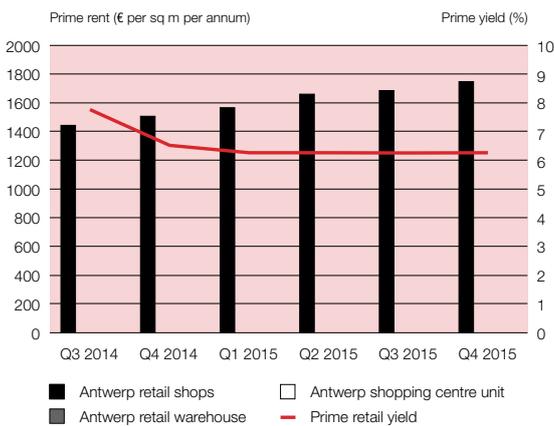
- Market activity** Expectation of movement to Q2 2016
- Occupier demand** ↗
- Development supply** ↗
- Availability** ↘
- Investor activity** ↗
- Prime rents** ↗
- Prime yields** ↘

### Market comment

2015 was another exceptional year for the Dublin office market: annual take-up was 28% up on 2014 and on par with pre-recession levels in 2007. 2015 also saw the highest number of deals – 286 deals – concluded in a single year. The Technology/Creative/Digital (TCD) sector was the most active business group both in terms of number of deals and volume. Speculative development has started again and is focused on prime CBD areas. Prime rents are also close to 2007 levels at €60 per sq ft and are expected to reach €65 per sq ft by year end. Take-up in 2016 is expected to be 200,000 sq m.

## LOGISTICS

### Prime rents and yields



### Market outlook

- Market activity** Expectation of movement to Q2 2016
- Occupier demand** ↗
- Development supply** ↗
- Availability** ↘
- Investor activity** ↗
- Prime rents** ↗
- Prime yields** →

### Market comment

Occupier demand for Dublin logistics property 2015 was almost double the level as in 2014 and take-up reached around 360,000 sq m for the year. There is a shortage of large high-quality units in prime locations and whilst construction commenced for the first time in almost seven years, it is piecemeal and rents will need to appreciate further for any meaningful development to start.

## RETAIL

### Prime rents and yields



### Market outlook

- Market activity** Expectation of movement to Q2 2016
- Occupier demand** ↗
- Development supply** ↗
- Availability** ↘
- Investor activity** ↗
- Prime rents** ↗
- Prime yields** ↘

### Market comment

Recovery in the retail sector was finally cemented in 2015, albeit predominantly in prime city areas rather than regionally. Retailers continue to look to further expand their retail offering with the most dynamic occupiers being the leisure and restaurant sector including a number of UK occupiers agreeing terms on a number of units. 2015 was also the year that produced the first new retail development since 2007 when Hines commenced building a large leisure-based extension to Liffey Valley Shopping Centre, West Dublin. The outlook for retail is very positive in 2016.

# LUXEMBOURG

## Economy

### Economic performance



The Luxembourg economy has rallied in recent years and is expected to show growth of 4.7% in 2015, up from the 4.1% in 2014. Drivers of growth were particularly strong domestic demand from all sources – consumers, businesses, investments and government – as well as the external market with strong growth in financial and non-financial services in 2015.

Despite a VAT hike on 1 January 2015, inflation has remained broadly stable although, due to some consumers bringing their purchases forward into 2014 to avoid the increase in tax, private consumption in 2015 is expected to considerably weaker when comparing year-on-year.

### Confidence indicators



Consumer confidence improved in December 2015 with the Banque Centrale du Luxembourg reporting increases in nearly all areas. At a level of 4, the composite confidence index is now the highest level since July 2011.

Also Fitch Ratings affirmed its AAA rating for Luxembourg in January 2016, noting that the Grand Duchy's economic position and outlook are stable on the back of a high-degree of trade openness and strong and stable institutions.

### Economic outlook



Luxembourg is expected to continue to benefit from improvements in the external market including a broad boost to the European economic recovery and the weaker euro. The country's main driver of economic growth - the financial services sector – has suffered over the past several years from the reorganisation of regulatory financial standards but this now broadly completed and this along with the investment fund industry gaining momentum will mean that the sector will add fuel to the economic growth story.

GDP is forecast to grow by 3.8% in 2016 and 4.4% in 2017, driven largely by domestic demand which will be boosted by an improving labour market and low prices.

## Property market indicators

### Investment activity



Investor interest in Luxembourg as a destination for capital has increased in the past year and yields – especially for prime offices – have shifted in to their lowest position in over a decade. Total investment volume is estimated at around €1 billion in 2015, continuing the trend of growth in annual volumes since 2010.

As the availability of investment-grade stock diminishes and the ease of securing funding remains high, investors are likely to look further up the risk curve to non-prime assets and locations, particularly on the outskirts of the city.

The strong occupier demand for office space and the ensuing very low availability rate which is estimated at around 3% for the CBD has meant that developers are bringing new schemes through the development pipeline, albeit the majority of space is already pre-let.

Overseas investor interest has also continue to grow in 2015, attracted by the Grand Duchy's economic performance, stability and resilience.

### Property outlook



The core CBD office market is likely to continue to attract the majority of investor interest in 2016, particularly from overseas investors whose interest in the Luxembourg market will be further buoyed by the positive economic outlook of the grand Duchy.

Having moved to their lowest level in over a decade in 2015, prime office yields are expected to remain stable in the short term, albeit there is potential for further compression in non-prime yields.

## Other factors

### EU tax investigations

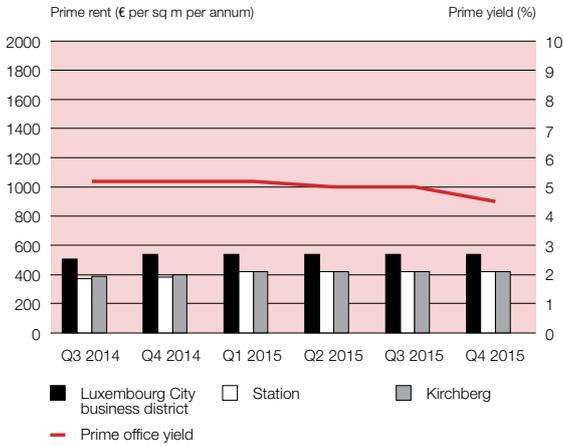
The European Commission is currently conducting a series of investigations into agreements between Luxembourg and a number of multinational companies to determine if they constitute 'sweetheart' tax deals which would be in contravention of EU illegal state aid rules. In December 2015, the EC confirmed that it is investigating a 2009 deal with fast food chain McDonalds and officials are continuing to investigate a tax deal with Amazon in 2003. In October 2015, the commission determined that a tax ruling by Luxembourg to automotive manufacturer Chrysler Fiat was so generous as to constitute unlawful state aid. The Grand Duchy is appealing the decision on the Chrysler Fiat case and refutes the allegations in the cases of McDonalds and Amazon.

The effect on Luxembourg's economy or business environment of a series of rulings against the state could be detrimental to the Grand Duchy's attractiveness as a place for businesses to locate to take advantage of the less onerous tax burden than in other EU states. The government has already had to implement a series of fiscal strategies – including a 2% increase on the basic rate of VAT to 17%, still the lowest rate in the EU – to offset the loss of VAT income on internet retail sales following changes to EU rules around the appropriate rate of VAT to levy.

# LUXEMBOURG – City

## OFFICES

### Prime rents and yields



### Market outlook

**Market activity**

**Occupier demand**

**Development supply**

**Availability**

**Investor activity**

**Prime rents**

**Prime yields**

**Expectation of movement to Q2 2016**



### Market comment

Sustained occupier demand, low availability and little speculative development being delivered mean that rents are likely to remain stable in Luxembourg’s central districts in 2016 and are expected to increase in out-of-town sub-markets. The investment market has been active throughout 2015 with close to €1 billion being transacted. Capital market activity is expected to remain buoyant throughout the first half of 2016 with core property being the main target of investors. A resurgence of the opportunistic investor is being witnessed in peripheral districts and for secondary office property.

# NETHERLANDS

## Economy

### Economic performance



Estimates of growth for the full-year 2015 put the Dutch economy expanding by 2.0%, twice as fast as in 2014 and despite a slowing rate of growth in the second half of 2015. Growth has been fuelled by private investment – particularly on the back of an improving housing market – and growing consumer demand.

Net exports are expected to have contributed only negligibly to overall growth, partly as a result of the Dutch government's decision to scale back gas extraction – and thus exports – over concerns related to the risk of earthquakes in the province of Groningen.

### Confidence indicators



However, Dutch consumers and businesses remain optimistic. Despite falls in overall confidence since November 2015 when the index hit the highest level for over eight years, January's survey by the Dutch Central Bureau of Statistics (CBS) still shows confidence at 4, well above the 0-threshold showing optimism prevailing over pessimism. January marks the eleventh consecutive month that confidence has been in optimistic territory.

The CBS also reported an increase in the producer confidence indicator – a measure of manufacturer sentiment – in January 2016 rising to 3.2. The index has now been in positive territory above the 0-threshold for over 15 months. The Markit/NEVI Manufacturing Purchasing Managers Index also reported positive but slightly softening results in January: although still in positive territory where it has been for over two years,

### Economic outlook



Dutch GDP is forecast to grow by 2.1% in 2016 and by 2.3% in 2017. In both years the most significant driver of growth will be an upswing in domestic demand, particularly private consumption and investment. Although net exports will grow positively, this is slowing despite the deterioration of the euro.

## Property market indicators

### Property performance



According to results from MSCI/IPD, the Dutch property market reported a significant increase in investment property performance in 2015, with total returns almost doubling from 4.4% at the end of 2014 to 8.6% at year-end 2015. Key to this performance has been the reversal of capital value decline which returned to growth of 3.1% for 2015.

### Investment activity



Investment volumes on 2015 are estimated at over €11 billion, exceeding even the strong volumes in 2014. Offices remain the most attractive asset in the Dutch investment market but retail has also proved attractive: the volume of retail property transacted in 2015 was almost double that of 2014. Industrial activity is also strong in the historic context but account for only around 10% of total volumes.

Investment activity centred on the four largest cities – Amsterdam, Rotterdam, Utrecht and the Hague – as follows the trend in previous years.

### Property outlook



Investor interest in the Netherlands is likely to remain high, particular for prime assets in core locations. Overseas interest in the Netherlands will remain keen from both established foreign markets like the UK and Germany but also from emerging sources of capital like Asia Pacific.

Yield compression is likely to slow in all but the most exceptional deals and the gap between Brussels and the other three core locations could narrow as investors seek opportunities outside Brussels.

## Other factors

### Netherlands EU-Ukraine referendum

The Netherlands will be going to the polls on 6 April 2016 to vote in a referendum on enacting a treaty between the EU and Ukraine to establish a political and economic association. Following the passing of the act to approve the establishment of the association in the Dutch parliament, political activism group GeenPeil orchestrated the petitioning of government to force a referendum on whether the association should be enacted. Drawing support from a broad spectrum of Dutch society and politics, the actual EU-Ukraine pact is not considered to be the central issue that is driving the call for the referendum.

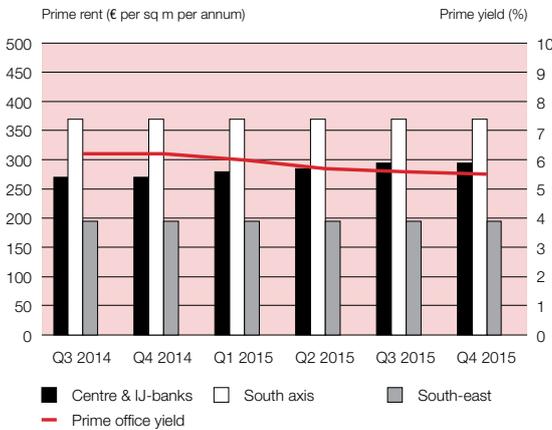
Instead, the key driver is arguably one of disillusionment with political processes, both domestic and European, and the feeling that voters lack a direct voice in the European process. Whilst the sentiment amongst the majority of parliamentarians is that they would prefer to ratify the agreement, a 'nay' result from the referendum could mean amendment or qualifications to elements of the agreement as relate to the Netherlands.

What the referendum highlights, however, is the mobilisation of dissatisfied parts of society to action, echoing the current debate in the UK over EU membership. It also demonstrates the ability of motivated parties to effect change in a broadening political landscape.

# NETHERLANDS – Amsterdam

## OFFICES

### Prime rents and yields



### Market outlook

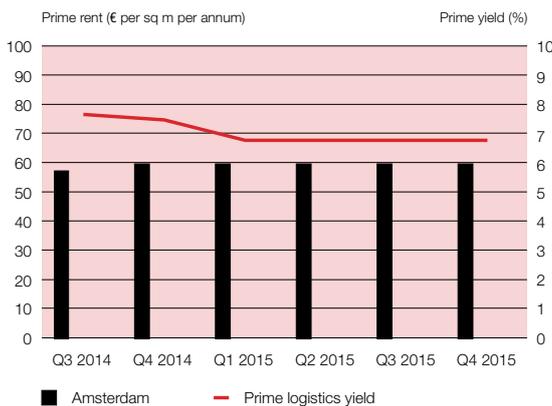
- Market activity** Expectation of movement to Q2 2016
- Occupier demand** ↗
- Development supply** →
- Availability** ↘
- Investor activity** →
- Prime rents** ↗
- Prime yields** ↘

### Market comment

Demand for office space in Amsterdam in 2015 was exceptionally high with 325,000 sq m transacting during the year, up 30% on 2014. Key drivers of this demand were the business services and the technology, media and telecommunications sectors, accounting for over half of all take-up between them. However, the supply of available space – particularly good-quality space in the city centre – is highly constrained and is being further impacted by the removal of outdated space for conversion to residential units. As a result, prime rents have increased over 2015 although are expected to stabilise in 2016.

## LOGISTICS

### Prime rents and yields



### Market outlook

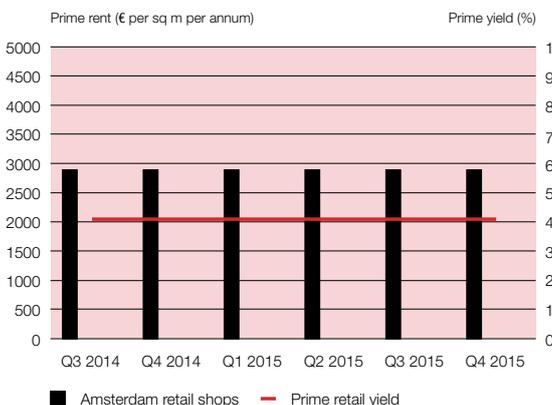
- Market activity** Expectation of movement to Q2 2016
- Occupier demand** →
- Development supply** →
- Availability** →
- Investor activity** ↗
- Prime rents** →
- Prime yields** ↘

### Market comment

Occupier demand for Amsterdam logistics property was somewhat subdued by a lack of available produce, despite occupier demand being strong in 2015. Developers have started bringing both built-to-suit space and speculative developments forward which will bring some welcome relief to the constrained availability. Rents have been stable throughout 2015 and are expected to remain so in the short term. Investor interest in Dutch logistics warehouse assets remains keen and the lack of available investment grade product is putting upward pressure on prime yields.

## RETAIL

### Prime rents and yields



### Market outlook

- Market activity** Expectation of movement to Q2 2016
- Occupier demand** →
- Development supply** ↘
- Availability** ↗
- Investor activity** →
- Prime rents** ↗
- Prime yields** ↘

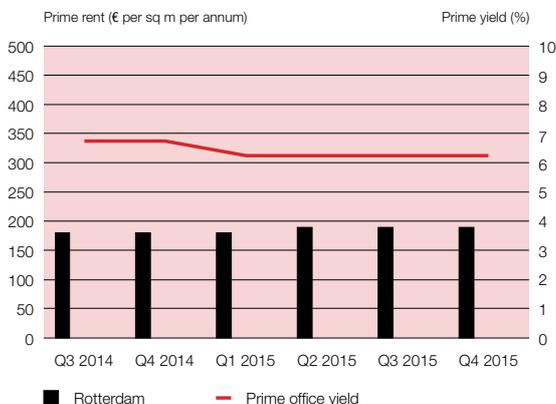
### Market comment

International retailers continue to drive activity in Dutch retail markets and Amsterdam remains a key target for many. At just over 31,000 sq m, availability is relatively stable compared to the past two years but remains constrained at around 3%. The collapse of department store chain Vroom & Dreesman in late 2015 will create new opportunities for retailers seeking single tenant buildings in premium locations. Having been stable, retail rents in Amsterdam are expected rise in 2016.

# NETHERLANDS – Rotterdam

## OFFICES

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

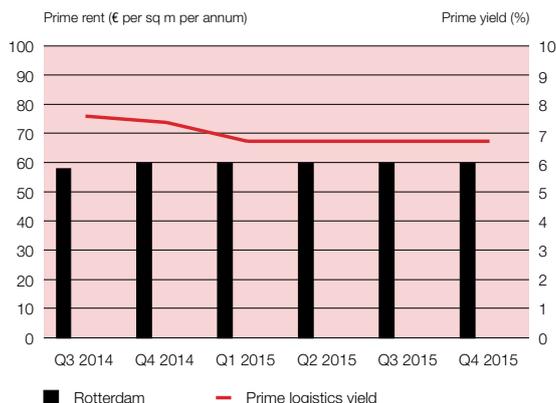
- ↗
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- ↘
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- ↗
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### Market comment

Occupier take-up of offices in Rotterdam was strong in 2015 and is expected to increase. On the back of this strong demand, coupled with a lack of new supply, office availability – particularly for good-quality space – has decreased in Rotterdam and is expected to fall further in 2016. This has been compounded by the trend for conversion of office space to alternative uses such as residential. Rents have increased in 2015 and are expected to continue to move upwards into 2016.

## LOGISTICS

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

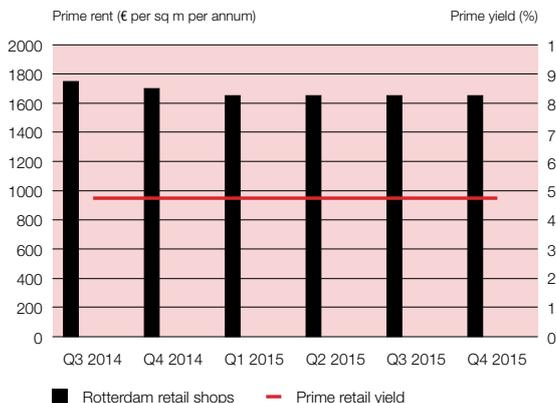
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### Market comment

As the economic recovery has continued, demand for occupational space has been strong for Rotterdam logistics space and is expected to remain broadly stable into 2016. Development supply is expected to continue to be brought forward on both a purpose-build and speculative basis. This will benefit the Rotterdam market given its tight availability of space, particularly of good quality units. Rents are expected to remain stable in the short term and yields are also likely to remain stable over the next six months.

## RETAIL

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

- 
- ↘
- ↗
- 
- ↘
- 

### Market comment

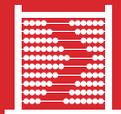
Occupier demand for retail space in Rotterdam has been somewhat subdued – even in the core markets including Lijnbaan – and expected to remain so into 2016. Despite a lack of new development supply, availability is expected to increase in 2016 and rents fall back further following declines in 2015.



# POLAND

## Economy

### Economic performance



The Polish economy has enjoyed strong growth in 2015: GDP growth is estimated at 3.6%, up from 3.3% in 2014. This performance puts Poland's economic growth well above the European average. This growth has been largely fuelled by domestic demand including increased consumer spending – following improved labour market conditions including higher employment rates and rising wages – which will be further boosted in 2016 by an increase in government transfers, notably a new child benefit

Corporate investment was exceptionally strong in 2015 on the back of strengthening exports as well as domestic demand and although set to slow in the next few years is still expected to grow by more than 4% in both 2016 and 2017.

### Confidence indicators



Consumer confidence increased further in January 2016: the Thomson Reuters/Ipsos Poland Primary Consumer Sentiment index edged up 0.4% to 40.6, the third highest level seen in the past twelve months. However, positive sentiment in all other areas was somewhat dampened by a drop in expectation for economic outlook.

Business confidence has also risen in January 2016: after having fallen back to -1.1 and into pessimistic territory in December 2015, confidence rebounded to 0.8 in January 2016 returning to optimism where it was for most of 2015. Strong increases were recorded in several forward-looking categories including expected employment, anticipated production and foreign order books.

### Economic outlook



Polish GDP growth is set to remain above-average over the short term with output forecast to grow by 3.5% in both 2016 and 2017. This will be driven by strong domestic demand – as falling consumer prices will accompany increases in employment and wage rates – and growth in exports.

## Property market indicators

### Investment activity



Following a relatively slow start to the year as a result of the shortage of available investment-grade product in the market, total investment volumes in 2015 are estimated to have topped the €3 billion seen in 2014. Activity in the final quarter of 2015 was particularly high.

Offices have remained attractive, particularly in core markets in Warsaw but also in regional cities such as Kraków, Wrocław, and Łódź. However, it was retail assets that saw a massive increase in volumes with several major deals concluding in 2015 including Deutsche Asset & Wealth Management's €290 million acquisition of the Stary Browar retail/leisure/cultural centre in Poznan and Union Investment's €291 million purchase of the Riviera Shopping Centre in Gdynia. Logistics assets have also proved attractive but volumes have been limited by the availability of appropriate product.

Overseas investors are highly active in Polish property investment and in 2015, investment activity particularly from the US and Germany was strong.

This strong market activity could mean total returns for Polish property in 2015 could outperform 2014 which were reported by MSCI/IPD at 6.3%.

### Property outlook



Investor interest in Polish property will remain keen in 2016 although the availability of appropriate stock is tight, particularly in core markets like Warsaw. Retail assets will continue to be attractive as well modern logistics facilities in well-located positions.

Yield compression in offices is likely to continue albeit at a reduced rate in some markets which have already experienced significant yield shifts, such as Warsaw, although there is more scope in regional office markets.

## Other factors

### General election, October 2015

On 26 October 2015, the conservative Law and Justice (PiS) party secured an absolute majority victory in the country's national elections. Given its more inward focus, a PiS government is more likely to occupy itself more with domestic issues than foreign ones and particularly to address economic imbalances across the country. It plans to increase specific benefits and to provide tax-breaks for small businesses. However, it plans to do this by introducing a new tax on banks, tax big (mainly foreign-owned) supermarkets and improve collection of VAT.

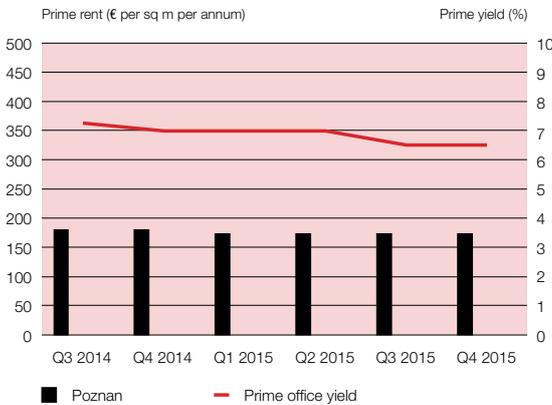
What impact this will have will remain to be seen. However, if Poland becomes a more difficult place for businesses – particularly foreign businesses – to operate, they may consider alternative locations for their business space. Conversely, if Polish businesses find their operating conditions improved – either through government tax relaxation or through a thinning of the competition, there may be more demand from domestic firms taking space.

Of concern for investors will be the EU investigation into the newly formed Polish administration's consolidation of power over key public institutions, particularly the constitutional court. The initial assessment which is seeking to clarify the situation and ensure the rule of law in a member state is upheld is expected to conclude in March 2016.

# POLAND – Poznan

## OFFICES

### Prime rents and yields



### Market outlook

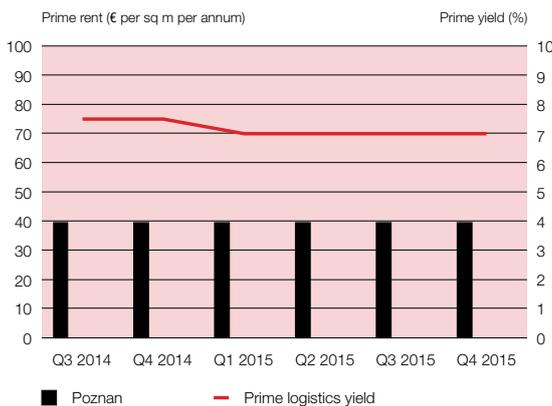
Market activity	Expectation of movement to Q2 2016
Occupier demand	→
Development supply	↗
Availability	→
Investor activity	↗
Prime rents	↘
Prime yields	→

### Market comment

In 2015, the Poznan office market performed in line with expectations. Whilst occupier demand for office space increased, so too did the supply of newly completed schemes and an overall all increase in the vacancy rate was observed. This meant that asking rents slightly decreased in comparison with year-end 2014. The occupier demand levels, volume of available space and asking rent is expected to remain stable in the near future.

## LOGISTICS

### Prime rents and yields



### Market outlook

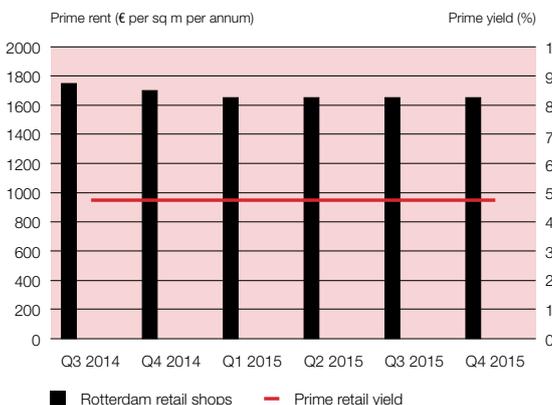
Market activity	Expectation of movement to Q2 2016
Occupier demand	→
Development supply	↗
Availability	↗
Investor activity	↗
Prime rents	↘
Prime yields	→

### Market comment

Dynamic growth of supply was accompanied by relatively strong demand for Poznan logistics space in 2015 with more than 260,000 sq m leased. Rents continue to decline as a result of new speculative space entering the market. Investors were also active in Poznan logistics and interest in the area is expected to remain high. In first half of 2016, occupier activity should remain broadly stable but with new supply being delivered, vacancy rate will increase slightly. Investor interest in Poznan logistics is expected to remain high.

## RETAIL

### Prime rents and yields



### Market outlook

Market activity	Expectation of movement to Q2 2016
Occupier demand	→
Development supply	↗
Availability	↗
Investor activity	↗
Prime rents	↘
Prime yields	→

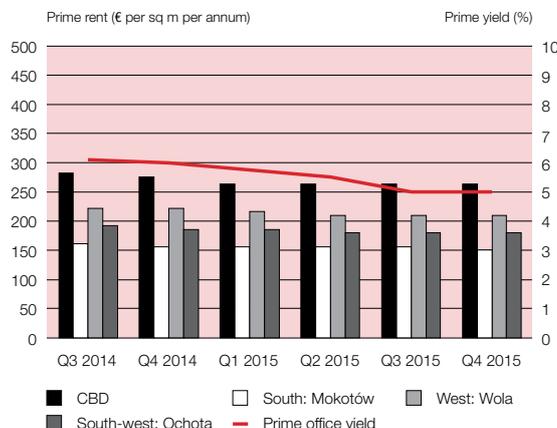
### Market comment

Poznan's retail market is already well supplied and the new 100,000 sq m Posnania shopping centre which is due to be completed in the second half of 2016 will deepen this state. Demand is stable, but not enough in comparison to growing supply. The delivery of a scheme of this size may cause a delay in the completion of other planned retail schemes, an increase in the vacancy rate and a decrease in rental rates, albeit it will be mainly older schemes or those in peripheral locations that will suffer most. Despite this, investor interest in Poznan retail property remains high.

# POLAND – Warsaw

## OFFICES

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

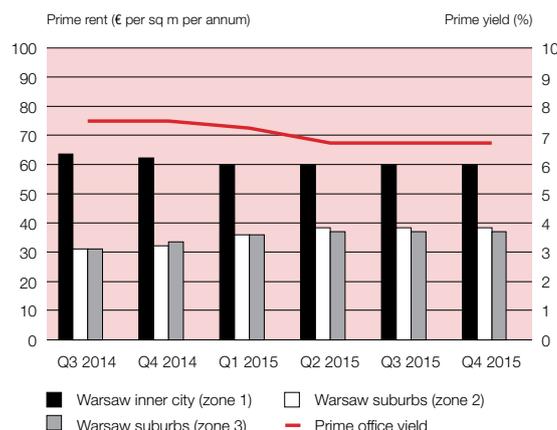
- Occupier demand →
- Development supply ↗
- Availability ↗
- Investor activity →
- Prime rents ↘
- Prime yields →

### Market comment

Warsaw office take-up totalled about 650,000 sq m in 2015, exceeding the full-year 2014 total. Pre-leases have become common in recent months, as tenants take space in the large number of buildings currently under development. In 2015, 23 new projects were delivered and another 30 are scheduled to complete in Warsaw in 2016. The vacancy level decreased to 12% in 2015, but is expected to grow in coming months. 2016 is expected to be challenging for Warsaw offices with downward pressure expected on rents.

## LOGISTICS

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

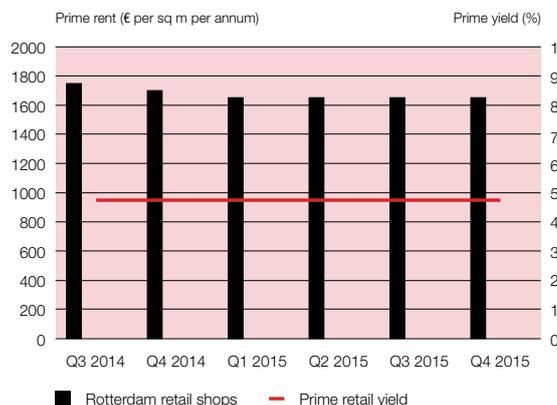
- Occupier demand →
- Development supply ↗
- Availability ↗
- Investor activity →
- Prime rents ↘
- Prime yields →

### Market comment

Occupier demand for Warsaw logistics was exceptionally strong in 2015 and at 660,000 sq m, was the highest annual volume since 2006. Developers responded with new projects and around 100,000 sq m of new industrial space was completed in 2015 with another 218,000 sq m under construction. In addition, new roads and expressway junctions have opened up new locations for logistics schemes. In 2016, demand is expected to remain strong although with new supply coming on to the market, rents are facing downward pressure in Warsaw and suburban markets.

## RETAIL

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

- Occupier demand →
- Development supply ↗
- Availability ↘
- Investor activity ↗
- Prime rents ↗
- Prime yields ↘

### Market comment

Strong occupier demand but low construction volumes in recent years – especially in the city centre – has meant the Warsaw retail market is significantly constrained. As a result, prime retail rents have increase and whilst there is new supply to be delivered to the market over the next two years, the current lack of space in the city centre remains a problem for tenants. Keen investor interest in Polish retail assets particularly in Warsaw are putting continued downward pressure on prime yields.



# SPAIN

## Economy

### Economic performance



The Spanish economy expanded strongly in 2015 with full-year growth estimated by the National Statistics Office at 3.2%, a notable improvement on the 1.4% increase in 2014.

Much of the expansion in 2015 was due to growing domestic consumer and business demand which continued to strengthen as a result of rising employment and uplifts in wages and disposable income as well as growing investment.

### Confidence indicators



Consumer confidence in Spain ended the year on a new record high with the Centro de Investigaciones Sociológicas Spanish Consumer Confidence Index reaching 107.4 in December 2015. This reflects a more positive sentiment from consumers both of their current situation and particularly the expectations for the future.

Business confidence is also buoyant with Markit Spain Services Business Activity Index recorded at 55.1 in December 2015, down slightly from November's 56.7 but still indicating a significant monthly increase in business activity, driven by improving customer demand.

### Economic outlook



Spain's economic growth prospects are relatively stable and an acceleration in consumer spending and investment are expected to be the main drivers of this growth. Spain's strengthening labour market and improved confidence are expected to drive continued expansion in 2016 with 2.7% GDP growth expected for 2016.

## Property market indicators

### Investment activity



Investor activity in Spain in 2015 was exceptionally high: property investment volumes are expected to exceed €12 billion, setting a new record volume. Yields have hardened across sectors and locations as fierce competition – particularly for higher-quality assets – but low levels of available investment-grade stock has meant investors are now looking to non-core locations where returns are higher.

Investor interest – particularly for offices in prime locations in Madrid and Barcelona – remains high and capital value growth is expected to be in excess of 10% for both cities by the end of 2015.

Given the high level of activity in the Spanish property investment market in 2015, returns may well be strong even following the exceptional performance recorded for 2014 which according to MSCI/IPD was 10.1%.

### Property outlook



Spain looks likely to continue to attract investors in 2016 with an improving economic situation meaning increased business and consumer activity having a positive impact on property. With further yield compression and continued capital growth likely as a result of high investor activity, property performance will also benefit from improved occupational markets which will drive rental growth.

Most investment activity is expected to remain focused on Madrid and Barcelona with little appetite – particularly from foreign investors – for more regional locations. Prime yields across sectors are expected to continue to fall.

## Other factors

### 2015 General election, December 2015

The Spanish general election in December 2015 resulted in no majority for either of the two main political parties, the centre-right People's Party or the centre-left PSOE party with newly formed left party Podemos taking a surprise third place. Despite having won the greatest number of seats, the incumbent government of the People's Party has failed to form a coalition government. As a result, the King of Spain called on the second-placed PSOE to try and form a government although the party itself is in the midst of a leadership crisis with elections of new leaders scheduled for early May 2016.

This political stalemate may result in more than just political uncertainty although the economic situation is far more robust than it has been, particularly as a result of structural reforms implemented under the People's Party government since 2011. However, if a viable government solution cannot be reached, the country may face another general election in 2016.

### Catalonian independence

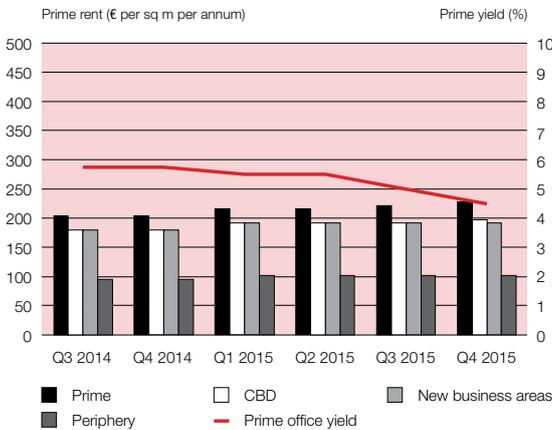
In January 2016, after months of uncertainty following the Catalan parliamentary elections in September 2015, a new head of the Catalan parliament was finally agreed. Mayor of Girona Carles Puigdemont has replaced outgoing president Artur Mas as head of a majority that will restart the push for independence from the Spanish state over an 18-month period.

However, the pro-independence movement faces fierce opposition from the Spanish government which under incumbent PM Mariano Rajoy has refused to consider a Catalonian independence referendum and challenged a 2015 Catalonia parliamentary vote to start the secession process in the Constitutional Court. There are also questions around the level of support for independence amongst Catalonians themselves as well as the significance that independence would have on either Spain or Catalonia itself.

# SPAIN – Barcelona

## OFFICES

### Prime rents and yields



### Market outlook

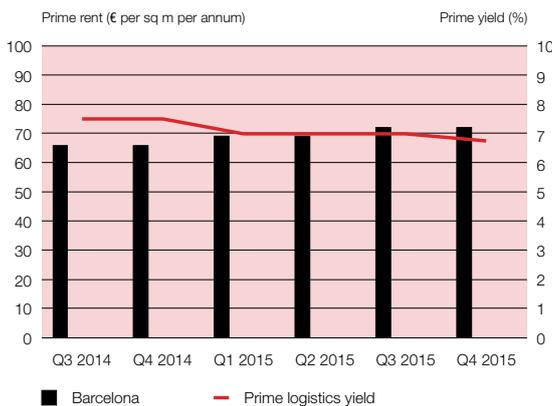
<b>Market activity</b>	<b>Expectation of movement to Q2 2016</b>
<b>Occupier demand</b>	↗
<b>Development supply</b>	↔
<b>Availability</b>	↘
<b>Investor activity</b>	↗
<b>Prime rents</b>	↗
<b>Prime yields</b>	↘

### Market comment

The strong economic recovery in Spain has had a strong positive impact on the prime office market in Barcelona. Occupier demand continues to strengthen with the improving condition of the economy and as a result of this burgeoning demand coupled with relatively low supply of available space, Barcelona office rents have increased over 2015 by 10% to 15%. However, rents still remain 40% below the peak price of 2008 and therefore in 2016 are expected to continue rising. Investment activity in Barcelona in 2015 was also strong which has put downward pressure on yields.

## LOGISTICS

### Prime rents and yields



### Market outlook

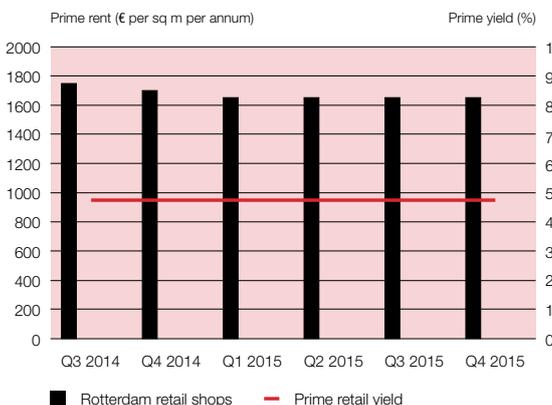
<b>Market activity</b>	<b>Expectation of movement to Q2 2016</b>
<b>Occupier demand</b>	↗
<b>Development supply</b>	↗
<b>Availability</b>	↘
<b>Investor activity</b>	↗
<b>Prime rents</b>	↗
<b>Prime yields</b>	↘

### Market comment

Occupier demand for logistics warehouses in Barcelona was strong in 2015 with around 500,000 sq m taken up. However, the lack of larger-scale logistic units of more than 8,000 sq m in prime Barcelona locations is driving occupiers to consider more peripheral locations. Demand is expected to continue to increase. As a result of the strong market fundamentals, investor interest in Barcelona logistics facilities has been keen in 2015 and is expected to remain so into 2016.

## RETAIL

### Prime rents and yields



### Market outlook

<b>Market activity</b>	<b>Expectation of movement to Q2 2016</b>
<b>Occupier demand</b>	↗
<b>Development supply</b>	↔
<b>Availability</b>	↘
<b>Investor activity</b>	↗
<b>Prime rents</b>	↗
<b>Prime yields</b>	↘

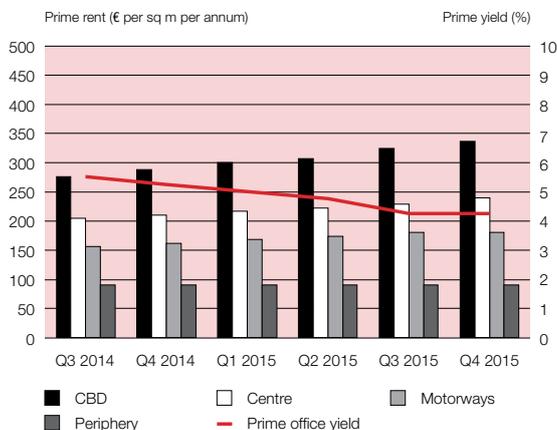
### Market comment

Consumers and investors are driving the renewed economic expansion in Spain, both of which grew strongly in 2015. In addition, the tourism industry has grown remarkably and in 2015 almost 60 million foreigners visited Spain. The retail market in Barcelona is divided into two markets: prime shopping areas are currently enjoying high demand, low availability and increasing rents whilst secondary markets are broadly stagnant due to the lack of tourist visiting these areas.

# SPAIN – Madrid

## OFFICES

### Prime rents and yields



### Market outlook

Market activity

Expectation of movement to Q2 2016

Occupier demand

Development supply

Availability

Investor activity

Prime rents

Prime yields



### Market comment

Demand for Madrid office space in 2015 was robust with almost 500,000 sq m taken up. With development of new space limited in the short term and current availability – particularly for good quality space – constrained, occupiers are now starting to look out of the CBD to more peripheral locations. As a result, there is upward pressure on rents which is likely to continue in 2016. Investor interest in Madrid offices – particularly for core assets – remains strong although the political uncertainty as a result of the December election fall-out may have an impact on investor sentiment if the instability is prolonged.



# TURKEY

## Economy

### Economic performance



The Turkish economy is estimated to have grown by 3.4% in 2015, up from 2.9% in 2014. 2015 appears to have marked a shift from net export-led growth to domestic demand-driven expansion. Consumer spending increased by 4.5% on the back of lower oil prices and favourable financing availability.

Exports however actually declined in 2015 and as private consumption grew, so too did imports, further worsening the net export balance. Furthermore, despite real depreciation of the Turkish lira, exports may well be held back further in 2016.

### Confidence indicators



Business confidence in Turkey has somewhat rebounded after a dip ahead of the recent general election: the Central Bank's Real Sector Confidence Index fell below the crucial threshold of 100 in September to a three-year low of 99.1. Since then however, it has rebounded to optimism with the latest results for December at 103.3.

Results from Istanbul Chamber of Industry (ICI) and Markit show that January's Manufacturing Purchasing Managers' Index softened somewhat to 50.9 from a 13-month high of 52.2 in December 2015. Despite this weakening, the index remains above the 50-threshold marking expansion as opposed to contraction.

Consumer confidence however has fallen back further with the consumer confidence index from the Statistics Institute with the Central Bank of Turkey, declining to 71.6 in January 2016, below the 100-threshold indicating pessimism rather than optimism. The further fall is as a result of worsening sentiment across nearly all measures.

### Economic outlook



Despite the weakening of consumer sentiment, the economic forecast for Turkey is relatively strong with output growth in 2016 is forecast at 3.4% and 3.6% in 2017, driven by growth in consumer spending and more importantly government spending, bolstered by a low inflation and rising real wages environment, not least on the back of a 30% increase in the minimum wage in January 2016.

## Property market indicators

### Investment activity



Investor activity in Turkey tends to be dominated by domestic players although international investors have been showing more interest in investing in the country. However, activity tends to be concentrated on the best properties in core locations across every use class.

Investment activity slowed significantly in the latter half of 2015 as political uncertainty and concerns over the stability and security of the region persisted.

Yields have been compressing somewhat over the past year particularly in prime offices in core locations and investor confidence is increasing, particularly given the resolution of domestic political uncertainty that the November election result has reduced.

### Property outlook



Investors will remain focus on best-in-class assets or in sectors such as logistics, will consider investing in development sites to secure forward commitment from occupiers before building. International investors will remain somewhat cautious, particularly with regard to retail property, and may seek to release some positions in Turkey – which could present opportunities for local investors.

## Other factors

### General election, November 2015

Turkey's incumbent ruling party the Justice and Development Party (AKP) secured a surprise landslide victory in the November 2015 snap general election, following the hung parliament result in the June 2015 election. However, the AKP failed to secure a two-thirds supermajority allowing unilateral amendment of the constitution.

In an environment of rising political tension and violence – including a collapse of the ceasefire with rebel Kurdish groups and the ongoing bombing in Syria – the end of the political uncertainty is likely to bolster confidence in Turkey.

### Regional instability

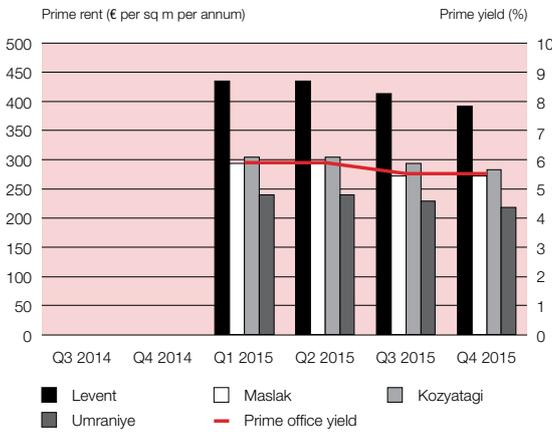
Following the downing of a Russian fighter jet by Turkey in November 2015, Russia has imposed sanctions against Turkey, effective from 1 January 2016, including bans on the import of Turkish goods and limits on Turkish investment in Russia. Russia has also imposed measures affecting Turkish tourism including the reintroduction of visa requirements and a travel warning against Russian tourists visiting Turkey. The impact of these actions on the Turkish tourist industry are already being felt: up to 1,300 Turkish hotels are reportedly up for sale, already struggling and now facing the loss of 4.5 million Russian tourists a year

Coupled with this, fear of further terrorist attacks following the bombings in early 2016 and ongoing conflicts in nearby Syria and Iraq could further dent tourist volumes in the near future. As the tourist industry accounts for 11% of Turkey's GDP, this could have a significant impact on output and jobs and may also effect businesses' decisions to locate or expand in Turkey.

# TURKEY – Istanbul

## OFFICES

### Prime rents and yields



### Market outlook

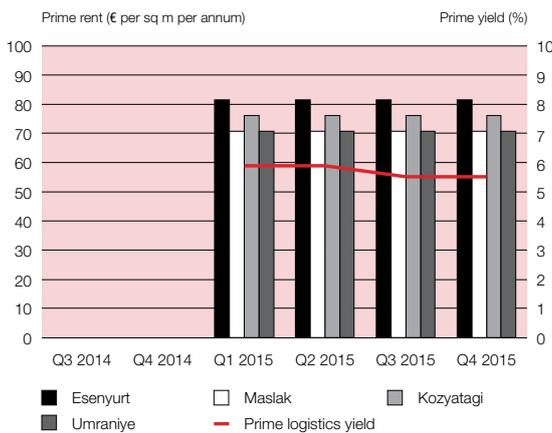
Market activity	Expectation of movement to Q2 2016
Occupier demand	→
Development supply	↗
Availability	↗
Investor activity	↗
Prime rents	↘
Prime yields	↘

### Market comment

Occupier activity in the Istanbul office market stagnated in the second half of 2015 as a result of the political uncertainty at the time. However, as more space was returned to the market – particularly by owner-occupiers and particularly in Levent and Maslak – meant availability, which had been on a downward trend since the end of 2014, shot up in Q3 2015. This has meant prime rents have fallen over the course of 2015 and are expected to remain under downward pressure into 2016.

## LOGISTICS

### Prime rents and yields



### Market outlook

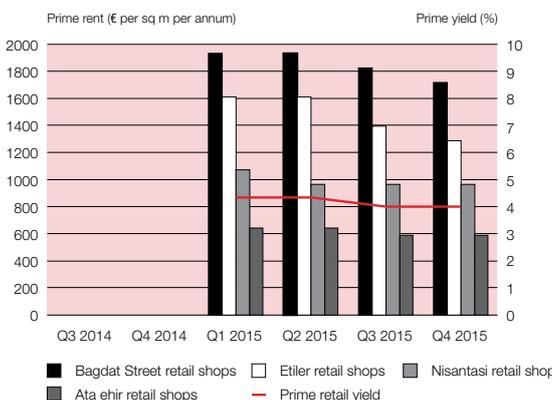
Market activity	Expectation of movement to Q2 2016
Occupier demand	↗
Development supply	↗
Availability	→
Investor activity	↗
Prime rents	→
Prime yields	→

### Market comment

Logistics take-up volume growth has been hampered by a lack of good-quality space and some occupiers are now seeking owner occupier developments to be able to secure the appropriate space for their operational needs. However, rents have remained broadly stable over the first half of 2015 and investor interest has been somewhat subdued down to the lack of appropriate investment grade stock.

## RETAIL

### Prime rents and yields



### Market outlook

Market activity	Expectation of movement to Q2 2016
Occupier demand	↘
Development supply	↗
Availability	↗
Investor activity	→
Prime rents	↘
Prime yields	→

### Market comment

Retail occupier activity in 2015 was relatively stable although internal and external factors have suppressed retailer performance. Prime high streets and shopping centres have been the focus of most activity although few retailers are seeking new space for expansion. Developers are active and a significant amount of new space was delivered to the market in 2015. Investor activity is strongest amongst local investors who have a keen appetite for well-located prime retail assets although there has been some interest in redevelopment opportunities in secondary locations.

# UNITED KINGDOM

## Economy

### Economic performance



The UK economy regained some momentum in Q4 of 2015 reporting growth of 0.5% for the quarter. This translates to an annual growth of 2.2%, down from 2.9% in 2014. Performance was driven by an accelerating services sector but construction and production were both down quarter-on-quarter. Manufacturing growth was flat amid difficult conditions for exporters given weakening global demand.

The slowing growth in Q4 indicated that the UK has entered a slower growth phase than over the past two years as a result of a weakening external market subduing UK exports opportunities. However, consumer demand is buoyant on the back of a strengthening labour market and continuing growth in real disposable incomes.

### Confidence indicators



Confidence remains high amongst UK businesses: both the Markit/CIPS UK Services PMI and UK Manufacturing PMI recorded healthy levels of expansion, broadly in line with the sentiment for the second half of 2015. Both remain above the neutral mark indicating continuing buoyancy in both areas of economy. Additionally the GfK Consumer Confidence Barometer also indicates a healthy picture for domestic consumption with consumers reportedly bullish about their own financial situations and that now is a good time to buy.

However, all three indicators show concerns for the future, particularly as the global economy looks set to weaken which may have a knock-on effect on the UK.

### Economic outlook



While the growth rate slowed in 2015, the UK economy is expected to post solid expansion over the next several years. Inflation remains near zero, the labour market continues to strengthen and confidence is high. This is expected to translate into continuing household spending growth in 2016 and 2017 which will drive overall GDP growth to 2.1% for 2016 and 2.1% for 2017.

## Property market indicators

### Property performance



The UK commercial property market delivered positive total returns across all major sectors in Q4 2015, according to MSCI/IPD. Overall, 2015 total return for all property was recorded at 13.1%, down from the 17.9% in 2014. Key drivers of the continuing strong performance are the office sector with the strongest returns at 17.6% followed closely by the top performer from 2014 – industrial – at 16.5%. Retail property continues to lag the other commercial sectors with just 9.0% total return for 2015.

Returns were down as a result of weaker capital growth and slowing yield compression. However, the continuing improvements in occupier market fundamentals have resulted in continuing rental growth which has positively contributed to overall returns.

### Investment activity



Investment activity was more subdued in 2015 than in 2014 which itself was a record year: CoStar's 2015 Investment Bulletin reported £67.5 billion was invested in UK commercial real estate in 2015, a decrease on the record of £70.7 billion invested in 2014 but still making it the second strongest year on record and 46% above the 10-year average.

Investor demand for property remains keen although the scarcity of appropriate investment-grade assets is likely to subdue volumes further in 2016.

### Property outlook



The outlook for commercial property in 2016 continues to remain positive. Yields are expected remain firm although compression will slow and market fundamentals continue to support strengthening rental growth. Medium-term supply constraints in some key markets – particularly the West End and City office sub-markets – will further drive rental growth. Total return for all property in 2016 is forecast at 9.5%, down from 13.1% reported for 2015 and rental growth is expected to remain broadly stable at around 4%.

## Other factors

### United Kingdom European Union membership

The Conservative government are pushing forward with their pledge to hold a UK-wide referendum on the country's EU membership with the date set for 23 June 2016. In February 2016, the Prime Minister David Cameron agreed a series of amendments to the UK's participation in the EU including limiting some EU migrants' state benefits as well as protecting the City of London as a leading financial centre and ensuring UK firms do not face discrimination for being outside the Eurozone.

The referendum will undoubtedly impact businesses and the property market. Even before a decision has been made, the uncertainty of the outcome – and what the consequences of a vote to withdraw from the EU could mean to the UK – will weigh heavily on the market. This could mean businesses and investors – and even consumers – delaying decisions until the potential impact of any outcome is clearer. This in turn could affect occupier activity, development, rental growth and investment performance.

### Property tax reform

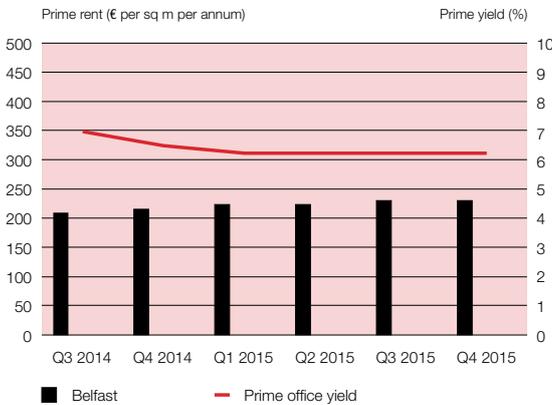
In the upcoming Budget in Spring 2016, the Chancellor of the Exchequer George Osborne is scheduled to announce details of the long-awaited business rates system reform. The key change is expected to be that universal business rates will be scrapped in favour of devolving rates setting to local councils, who will now collect 100% of the tax above a baseline set by central government.

One key element of reform is hoped to be the development of a more responsive system: current valuations from which rates payments are calculated are based on April 2008 rental levels which are hardly reflective of the current market conditions.

# UNITED KINGDOM – Belfast

## OFFICES

### Prime rents and yields



### Market outlook

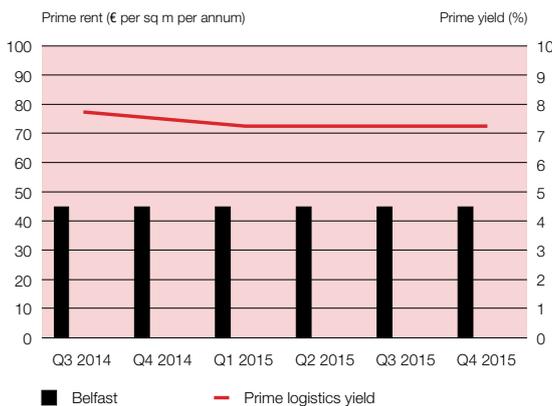
- Market activity** Expectation of movement to Q2 2016
- Occupier demand** ↗
- Development supply** →
- Availability** ↘
- Investor activity** ↗
- Prime rents** ↗
- Prime yields** ↘

### Market comment

After months of political wrangling, the Stormont "Fresh Start" deal was implemented in November 2015; this has alleviated the uncertainty that was hanging over Northern Irish institutions and now paves the way for the corporation tax rate to be reduced to 12.5% (in line with the Republic of Ireland) in April 2018. This, together with increased foreign direct investment, has bolstered the office market. A lack of availability of Grade A space coupled with very few new developments coming out of the ground continues to put upward pressure on rents with headline rents increasing in 2015 and further increases expected in 2016.

## LOGISTICS

### Prime rents and yields



### Market outlook

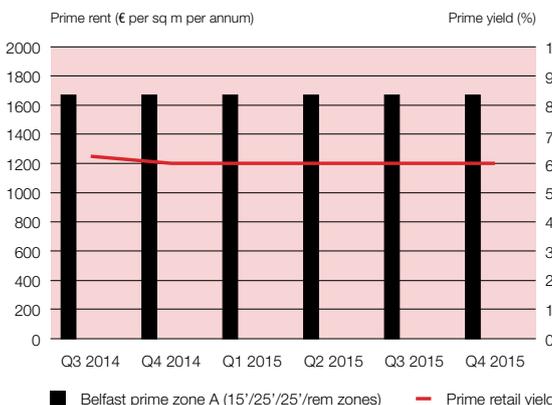
- Market activity** Expectation of movement to Q2 2016
- Occupier demand** ↗
- Development supply** →
- Availability** ↘
- Investor activity** →
- Prime rents** →
- Prime yields** →

### Market comment

There has been limited logistics property development in the last 10 years, with only a handful of purpose-built facilities being delivered. The rise in internet shopping and the growth of some local and national companies has led to an increased number of requirements. Many of these are for properties between Belfast and Newry, on the main Belfast to Dublin corridor. These requirements are expected to result in further take-up of secondhand space. However, rental levels are not yet near what would be required to trigger any speculative development and rents are expected to remain stable.

## RETAIL

### Prime rents and yields



### Market outlook

- Market activity** Expectation of movement to Q2 2016
- Occupier demand** ↗
- Development supply** →
- Availability** ↘
- Investor activity** ↗
- Prime rents** →
- Prime yields** →

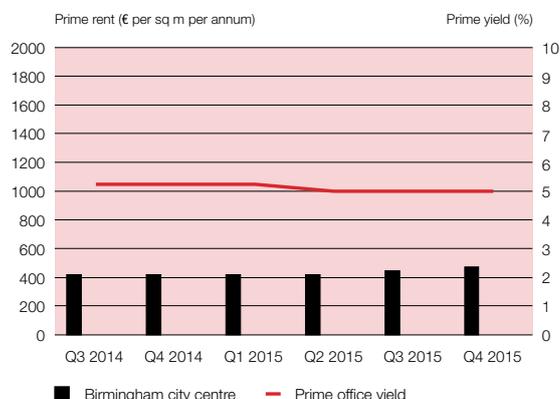
### Market comment

The retail sector is finally seeing positive signs of recovering with vacancy rates falling close to pre-recession levels. The reduction in rents and the introduction of the 2015 Rates Revaluation has helped to reduce occupational costs within Belfast's prime retail pitches. Many retailers have taken advantage of impending lease expiries and break clauses to re-gear their existing leases and renegotiate more favourable terms. New entrants to the market are helping stimulate activity, however, rents are expected to remain broadly stable.

# UNITED KINGDOM – Birmingham

## OFFICES

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

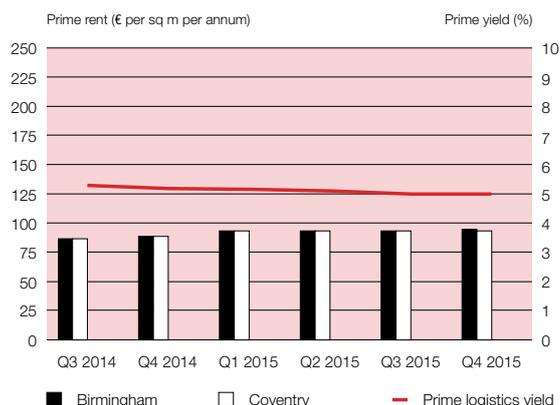
- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

### Market comment

Demand for office space in Birmingham in 2015 was particularly strong with almost 90,000 sq m taken up, an increase of 30% on 2014. The financial sector accounted for more than half of all space taken up in 2015 but as a result of one deal with HSBC taking 20,000 sq m at the Two Arena Central scheme. Despite availability rates falling significantly in 2015, no new schemes are due to be delivered in 2016 although several large refurbishment projects due to complete in 2016 will go some way to providing occupiers with good-quality options. Rents have increased in 2015 and are expected to continue to grow in 2016.

## LOGISTICS

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

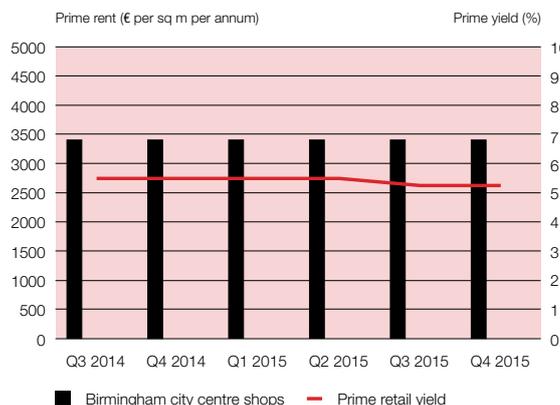
- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

### Market comment

The Southern West Midlands is the largest industrial & logistics market in the UK. It continues to attract significant occupier demand and development activity. Occupier demand in 2015 fell back around 10% on 2014 although still recorded around 500,000 sq m of take-up. Availability rose to 9.3% in Q4 2015 although this is a marginal improvement on Q3 2015 and reflects the new speculative supply being delivered to the market by developers. Investor interest in the region remains high and yields have compressed substantially in the past two years.

## RETAIL

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

### Market comment

Birmingham is one of the largest retail markets in the UK and occupier interest is broad. Prime rents have remained broadly stable although the opening of Grand Central is likely to focus prime retail pitches on the Bullring / New Street / Grand Central axis. The Grand Central Shopping Centre which sits above New Street Station and is anchored by John Lewis – opened in 2015 and Birmingham is now the only city outside London to boast all five major department stores.

# UNITED KINGDOM – London

## OFFICES

### Prime rents and yields



### Market outlook

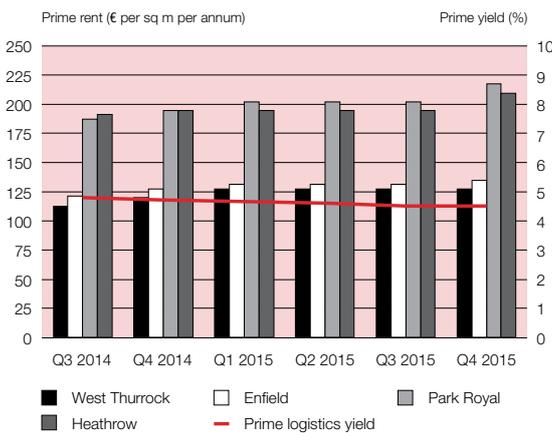
Market activity	Expectation of movement to Q2 2016
Occupier demand	↗
Development supply	↗
Availability	↘
Investor activity	↗
Prime rents	↗
Prime yields	↘

### Market comment

2015 was defined by strong demand – which ended the year strongly up 15% on 2014 – historically very weak levels of supply and double-digit rental growth. Developers are now responding to these market conditions and delivering increased levels of speculative development. This will help to support take-up during 2016 as more good quality space becomes available. However, given that some of these schemes will not be delivered until beyond 2016, upward pressure on rents remains.

## LOGISTICS

### Prime rents and yields



### Market outlook

Market activity	Expectation of movement to Q2 2016
Occupier demand	↗
Development supply	↗
Availability	↔
Investor activity	↗
Prime rents	↗
Prime yields	↗

### Market comment

Occupier demand for industrial and logistics space in London was very strong in 2015, recording 450,000 sq m, the highest level since 2006. Activity was particularly high in East London where some of the largest deals of 2015 across the whole country were agreed including 60,000 sq m pre-let to online supermarket Ocado. Development activity has also been strong in the London region with more than 264,000 sq m completed in 2015, of which around half was speculative. This new space is going some way to help alleviate the low rate of availability which stands at 7.2%.

## RETAIL

### Prime rents and yields



### Market outlook

Market activity	Expectation of movement to Q2 2016
Occupier demand	↗
Development supply	↗
Availability	↘
Investor activity	↗
Prime rents	↗
Prime yields	↗

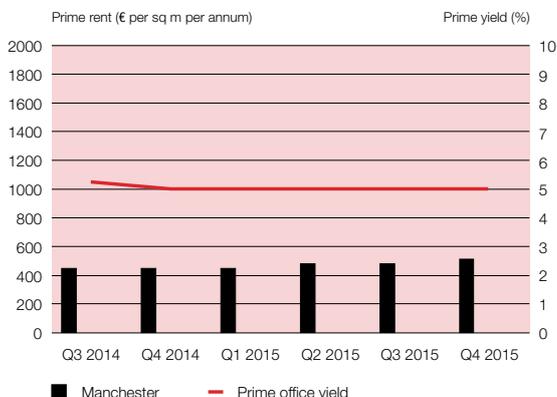
### Market comment

Demand in 2015 has been strong with new entrants establishing their place in the UK retail market and demand increasing from existing retailers. However, the availability of retail space, particularly in prime central London shopping precincts is constrained and the resulting demand-supply imbalance has driven rents upwards. Buoyed by this strengthening demand, new developments are being delivered as extensions to existing areas and in emerging locations.

# UNITED KINGDOM – Manchester

## OFFICES

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

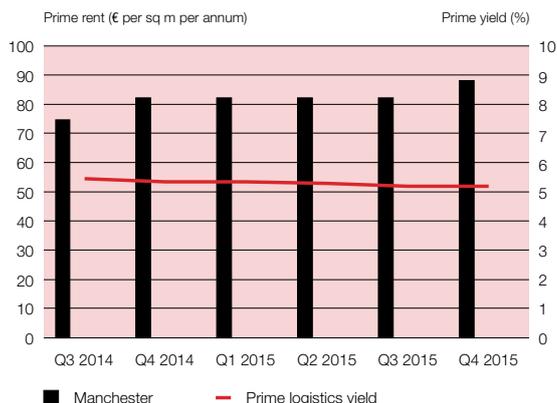
- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

### Market comment

Demand for Manchester office space remained strong in 2015, following a significant uplift in activity in 2014. Financial and business services as well as media and technology sectors continue to be important components of occupier demand, part of which is driven by a relocation of activities from London to the lower cost North West. Responding to the strong occupier demand, developers commenced construction of several large-scale office projects in 2015 which will deliver around 100,000 sq m between 2016 and 2018. Investor activity has been strong and interest is expected to remain high in 2016.

## LOGISTICS

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

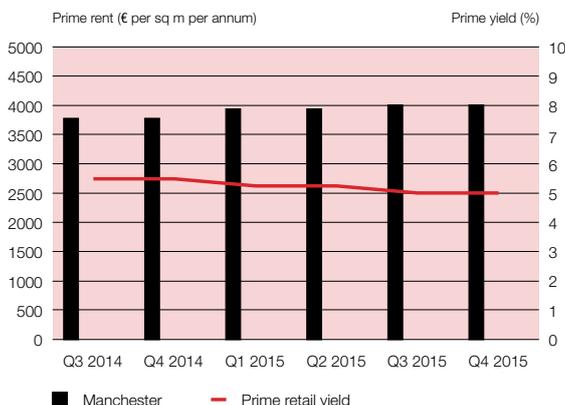
- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

### Market comment

Occupier take-up in Greater Manchester in 2015 was 338,000 sq m, 46% higher than the total for 2014 and one of the most active markets in the UK. Developers have responded to the occupier demand and in 2015, over 100,000 sq m of speculative space was started, much of which is due to complete in early 2016. The new supply is sorely needed with the availability falling to 9.9%, a record low for the region. Investors have also been active in the Greater Manchester area and as well as transacting on standing units, have engaged in forward-funding deals of purpose-built facilities as well as speculative space.

## RETAIL

### Prime rents and yields



### Market outlook

#### Market activity

Expectation of movement to Q2 2016

- Occupier demand
- Development supply
- Availability
- Investor activity
- Prime rents
- Prime yields

### Market comment

Manchester remains a key UK retail centre and continues to attract operators across the retail spectrum. Some of the most active in-movers have been amongst restaurant brands and new branches have been established in Manchester during 2015, notably in the newly-redeveloped Corn Exchange in the city centre, which completed in 2015. Further developments are also expected to complete in 2016, including the regeneration of the Manchester Royal Exchange arcade. Continuing investor interest – particularly in key shopping streets – has driven yields downwards in 2015.

## Glossary

### **Gerald Eve European Property Escalator**

Indication of the relative position of each office, logistics and retail market based on current and future movement of prime rents, which is determined as follows:

#### **Current prime rent movement**

The direction in which prime rents have moved in two of the last three half-year periods. The direction of movement is determined for each half-year (to end-Q2 and end-Q4) for the three preceding periods and the dominant direction of movement is recorded as the current position (for example, rental movement of “stable-stable-increase” would be recorded as “stable” whereas “increase-increase-stable” would be considered “increase”). Where three different directions of movement are observed in each of the three half-year periods, the last direction of movement will be considered the current position.

#### **Future prime rent movement**

The direction in which prime rents are expected to move in the next half-year period, as provided by Gerald Eve European property market professionals

### **Market outlook**

An indication of change in the market that Gerald Eve European property market professionals expect to be experienced over the next half-year period (to end-Q2 and end-Q4)

### **Prime property types**

The following definitions indicate the typical characteristics of each property type considered. Please note that there may be variations on a location-by-location basis and that the following is a guide only

#### **Offices**

Unit of 100 sqm or more at best-quality specification for the area (may include elements such as air conditioning, good ceiling heights, suspended ceilings and raised floors, reception area and passenger lift/elevator)

#### **Logistics**

Unit of 5,000 sq m or more at best-quality specification for the area (may include at least 1 door per every 1,000 sq m and at least 10m eaves heights)

#### **Retail shops**

Unit of 250 sq m or more at best-quality specification for the area (may include clear space/no columns, regular shape and good ceiling heights)

#### **Shopping centre unit**

Unit of 500 sq m or more at best-quality specification for the area (may include clear space/no columns, regular shape and good ceiling heights)

#### **Retail warehouse**

Unit of 1,000 sq m or more at best-quality specification for the area (may include good ceiling heights and good parking allocation)

### **Prime rent**

Represents the top open-market tier of headline rent that could be expected for a unit of appropriate size, of highest quality and specification and in the best location in a market at the survey date, and let on a standard lease term appropriate for each market.

### **Prime yield**

Represents the best (that is, the lowest) yield estimated to be achievable for a notional property of the highest quality and specification in the best location in each market. The property should be let at the prevailing prime market rent to a first class tenant with an occupational lease that is standard for the local market. The prime net initial yield is quoted (that is, the initial net income at the date of purchase, expressed as a percentage of the total purchase price, which includes acquisition costs and transfer tax).



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