EUROPE

STRONG DEMAND FOR STABLE, INCOME-PRODUCING PROPERTY WILL CONTINUE AS FOREIGN INVESTMENT INCREASES, WRITES DAVID HUTCHINGS

With the availability of debt and equity both still rising and an improving occupier market in much of the region, volumes and values are steadily moving back towards pre-crisis levels across much of Europe.

In an environment where interest rates will stay low for longer but investors are nervy of the risks around them, the current period of strong demand for stable, income-producing property should persist and hence this cycle will be longer than usual.

Foreign investment has again been the fastest-growing market segment, with global rather than European players dominating. North America remains the most prolific source of capital, but Middle Eastern activity has been the fastest growing over the last 12 months.

Overall, investment is forecast to rise by 25%, making 2015 the strongest year on record, while pricing will continue to improve, driven by modest further yield compression and slow but steady rental growth for prime property.

Commercial hotspots

With core markets at the fore, the UK and Germany remain the top two targets and saw strong growth last year. The Nordics also saw stronger demand, as did Belgium and the Netherlands. France is seeing demand, but activity has fallen as supply cannot match the high levels that drove the market in 2014.

Offices are the largest sector of activity in most areas, but quality retail and logistics are also in favour. Other sectors, led by residential, health and hospitality, have been the fastest growing, however.

Supply levels are at last improving, with the availability of portfolios key to the market's recent acceleration, feeding a need among many investors to deploy capital quickly and efficiently. As deleveraging, strategy changes and stock churning add to available stock, a further improvement in supply will be notable in the next six to 12 months.

In terms of city-specific hotspots, Berlin, Frankfurt and Munich continue to be favoured by investors, as well as Europe's recovering fringe areas, notably Madrid, Barcelona, Milan and Warsaw.

Residential hotspots

Recent events, including the devaluation

CITY GUIDE BERLIN

OVERVIEW

Considered to be one of the most important and stable economies in Europe, Germany has been a top target for investment since the recovery from the global financial crisis first got under way. If anything, demand has only intensified and for long-term players, it is tech-driven Berlin that should pique most interest.

WHY INVEST?

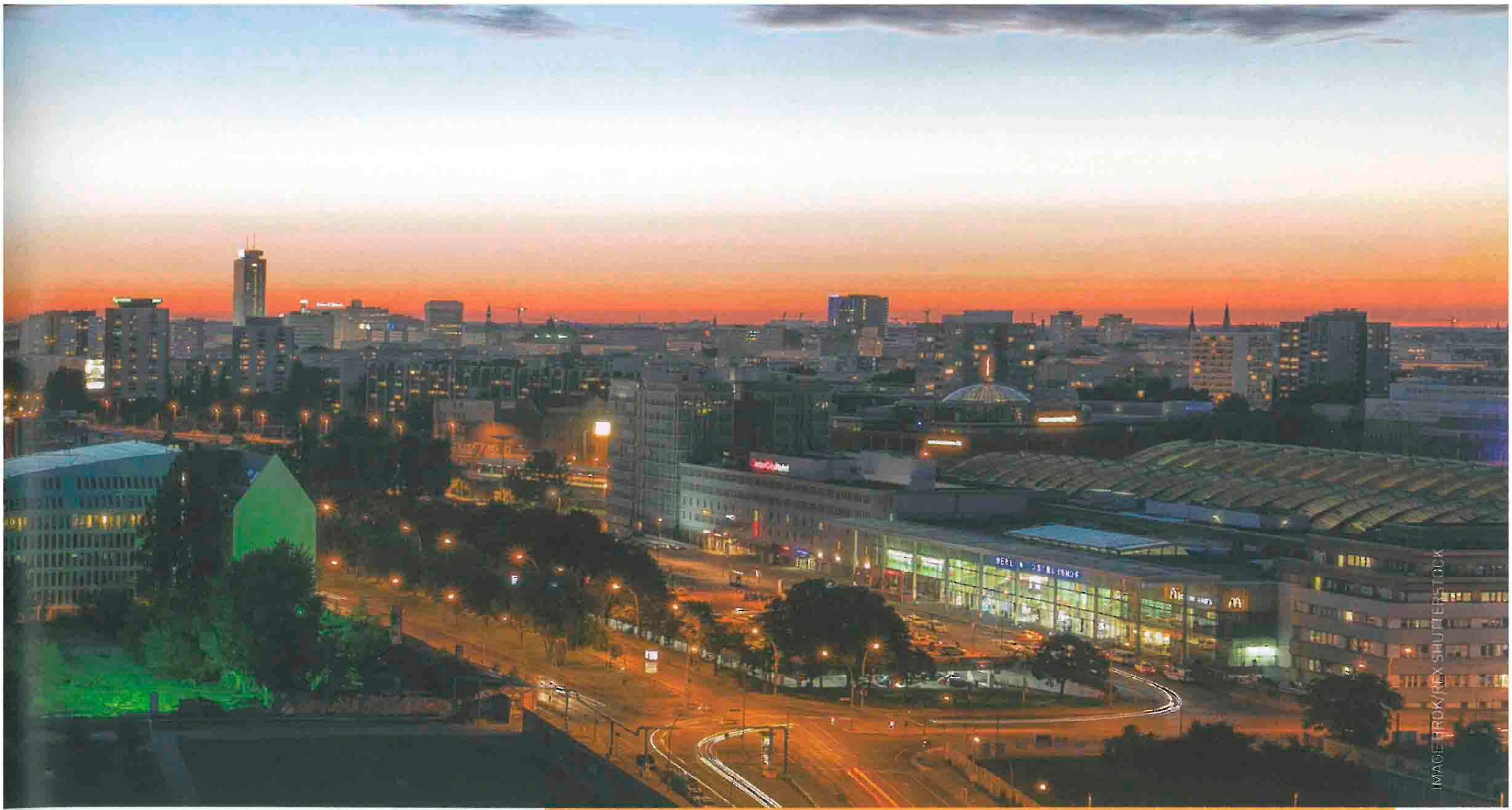
Berlin is growing into its role as the capital and seat of government for Germany, but it is also the country's most populous city, a globally renowned home for culture and the arts, a hub for creative industries and, of course, a major centre for pharma, tech companies and start-ups. Yields no longer stand at a premium to other key German cities, but rents are more affordable, even though rising demand is exposing a shortage of prime supply in all sectors. This all adds up to a diverse and dynamic mix which is drawing in talent and investment, raising population and economic growth forecasts and promising stronger future property performance.

THE NUMBERS

€3bn invested in Berlin in the first half of 2015

4.25% average office yield in Berlin for the first half of 2015

€4.3bn value of the Berlin real estate market



IMAGEBROKER/REX SHUTTERSTOCK

of the renminbi, have led to a slowing of demand from certain Far Eastern buyers of residential property in London. But the underlying desire for property in the UK capital remains strong and the reasons for owning it are unchanged. Other residential hotspots include Barcelona, Slovenia and Stockholm.

MUST-HAVE CONTACTS

Taylor McWilliams, managing partner at Hondo Enterprises. The Texan developer is bringing one of New York's best-known hotel brands to London and Europe.

Robert Varon, development director at Maryapi, the residential developer behind the new Yoo scheme in Istanbul.

John Miu, chief operating officer and executive director at ABP, is the man behind the Chinese developer's Royal Albert Dock scheme in London.

Thimon de Jong, chief executive of Whetston Strategic Foresight, is a Dutch technology futurologist specialising in property and occupier trends.

Growth areas

Economic growth expectations may have edged down this year, but the expansion for 2015 overall will still be stronger than last year. Nervousness about Greece has mostly been taken in everyone's stride, while consumption potential has been boosted by lower commodity prices and exports are being helped by the weaker euro. At the same time, cash-rich businesses are being pushed to invest and corporate activity will increase.

Prime rents rose by 2% in western Europe last year, with growth in prime high streets, distribution and select office markets as still largely cost-sensitive tenants sought space to boost their productivity and profile in a market of limited recent development. More of the same is likely this year. Overall growth is heading above 3%, which is still low by historic standards for a recovery but, when set against current inflation, is a strong proposition for investors.

Alternative sectors are of growing interest, particularly hospitality, healthcare, residential and infrastructure. Geographically speaking, investors are moving to south and central Europe. Particularly strong are Poland and the Czech Republic, with Hungary and Romania also appealing to investors searching for yield and opportunity.

Risks and challenges

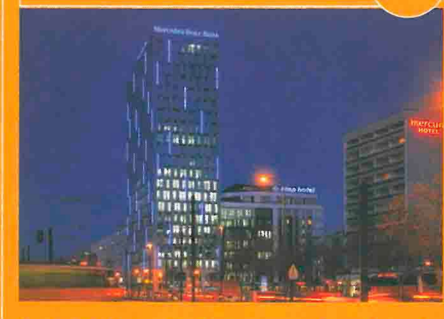
Events in Greece and Ukraine continue to destabilise some markets, and increasing geopolitical instability in the Middle East is affecting neighbouring markets such as Turkey. But investor interest has spread further afield, with the strongest growth in the south, led by Spain but with Italy also on the rise and Portugal at last seeing some recovery. While still selective, investor demand also now embraces central Europe and a range of eastern markets are also up.

David Hutchings is a partner and head of EMEA investment strategy and capital markets at Cushman & Wakefield

THE OPPORTUNITIES

The top five cities in Germany account for 47% of the country's investment volume, or €11.3bn. As in the previous quarter, Berlin contributed the lion's share, with opportunities arising across all sectors and in TMT in particular, thanks to the city's reputation as Germany's creative capital.

STAND-OUT SCHEME



Koenigstadt Carree The 21-storey tower plus atrium and nine-floor connecting building provide more than 32,000 sq m of office, retail and hotel space. The scheme is now fully occupied. The main tenant is Mercedes Benz Bank.

TOP TIPS

Take a Photoautomaten selfie in one of the black-and-white photo booths scattered throughout the city.

Drop into Konnopke's Imbiss on Schönhauser Allee for a traditional Berlin Currywurst. They have been serving them here since 1930.

Check out some of the 14,000 creatures in the Zoologischer Garten & Aquarium in the Tiergarten. The most popular zoo in Europe – and the oldest in Germany – opened in 1841 on the site of King Frederick William IV's pheasantry.