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Deka Immobilien Monitor

Issue 2019

DekaBank Deutsche Girozentrale

Finanzgruppe

Editorial

Dear Reader,

There are many signs indicating that global economic growth is slowing slightly. The moderate monetary policy used by the ECB and US Federal Reserve (Fed) suggests a soft landing – i.e. just a slowdown in growth rates. The markets and economy have been carefully prepared over a very long period of time for a normalisation of monetary policy. There are, however, many risks for the economy: protectionist threats and sanctions by the US government, geopolitical tensions and Brexit. The real estate business is still running well due to declining unemployment rates generating robust demand in office markets, together with moderate construction activity. Falling vacancy rates are causing rents to rise. Rent growth continued to broaden in 2018. With a few exceptions, 2019 will also likely bring further rent increases. Rent growth can, however, be expected to slow overall in following years. European retail is benefiting from robust consumption. The online boom, however, is putting pressure on physical retail and worsening existing structural problems. This especially applies to clothing retail, which traditionally represents the backbone in prime locations. Retail parks with large food market anchors are less vulnerable to online retail and are increasingly becoming the focus of investors. For logistics markets, the online boom is both a blessing and a curse at the same time: very high demand for ever larger logistics spaces along with increased pressure on yields. The spread between logistics and office yields has shrunk to a level not seen since 2007. Hotel markets recorded further increases in room prices and revenue in 2018. Occupancy is very high compared to the long-term average. Real estate remains very desirable due to a lack of profitable alternatives, as underscored by the continued high level of investment in all asset classes. Uncertainty about the expected interest rate turnaround has, however, increased in Europe. We expect property returns to rise again, after a lag, if the ECB increases interest rates. We nevertheless expect that the interest rate increases will be moderate and returns will settle again at a historically low value. Abrupt price corrections should therefore not be expected in real estate markets. Instead, we expect price increases to be gradual and return increases to be relatively small. In the US, the continuous interest rate increases previously performed by the Fed have so far had no major effect on investment markets. However, given that the rent cycle is already quite long and the difference between cap rates and government bond yields is comparatively small, we expect US property returns to increase starting in 2019. Due to the caution exercised by the US Federal Reserve (Fed), the increases will also likely remain within limits.

Sincerely,

Ulrich Kater

Dr Ulrich Kater
Chief Economist

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Management summary

Global investment markets

■ Thanks to higher volumes in the US and Asia-Pacific, global investment volume will likely be around USD 730 billion higher in 2018 than the previous year.

■ The investment volume for retail real estate was the same as the previous year. Office and logistics property each recorded 10% increases up to and including September, while hotels declined 5%.

■ Logistics yields in Europe continued to decrease. The spread versus office yields was at the lowest level since 2007. Office and retail property yields have started to bottom out. Since the central banks are only making cautious changes to their monetary policy, the countermovement will likely be moderate.

■ The times when extraordinarily high returns were earned due to yield compression are now over. Rental income will become more important in the future due to the lack of increases in capital value. The outlook is better for office real estate in Europe than in the US in 2019/20.

Office markets worldwide

■ In Europe, robust demand, ongoing space conversion and continued moderate construction activity are causing vacancy rates to fall and rents to rise. Net additions will increase again in the future.

■ The stable economic environment continues to provide support for US office markets. New construction volume is rising moderately and rent increases will likely continue to slow in coming years.

■ In Asia, Singapore in particular will likely record even larger rent increases in 2019/20. In Australia, we only expect prime rents to increase moderately in Sydney and Melbourne.

European retail markets

■ Polarisation between high-priced sellers and discounters and warehouse consolidation are continuing. The sector mix in prime locations is increasingly moving away from clothing towards more restaurants, pharmacies and fitness studios.

■ The shopping centre pipeline remains modest, with a focus on repositioning and modernisation of older properties.

■ In spite of the decrease in customer traffic, physical retail remains important in the age of digitalisation. Increasing cost pressure due to the implementation of new technologies and high rents in prime locations are, however, limiting the potential for rent increases.

European hotel markets

■ Hotel markets also predominantly recorded increases in room prices and revenue in 2018. Occupancy rates were generally very high from a historical point of view.

■ Paris and Brussels were the leaders in RevPAR growth, with Barcelona and Düsseldorf recording the poorest performance.

■ For German metropolitan areas, Hamburg and Frankfurt have the largest absolute project pipelines, while Düsseldorf will have the largest future percentage increase in existing stock. The lively construction activity will likely affect future occupancy rates and limit the growth in returns.

European logistics markets

■ The robust economy and online boom are generating a steady, high level of demand, mainly due to logistics service providers and retail (incl. e-commerce). Space optimisation and consolidation continue to be significant drivers of space take-up.

■ The vacancy rate continues to be low in spite of a record volume of completions. Companies with a need for modern space must choose from new construction projects. The developer market is also receiving a boost from high investor demand.

■ The potential for rent increases remains modest, in part due to competition from new construction projects.

European housing markets

■ In the German residential market, large urban areas in particular continue to show a gap between supply and demand.

■ In the Eurozone, the recent rapid price increases in Germany, Ireland, the Netherlands and Austria are particularly noteworthy.

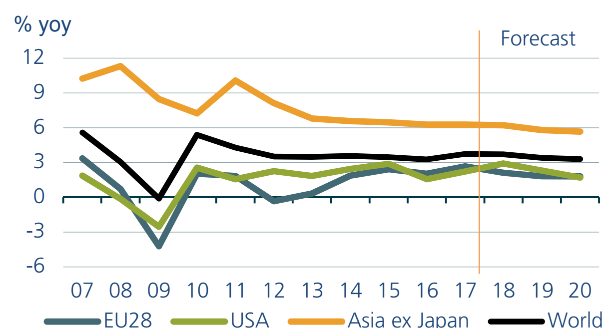
■ Due to rising construction and personal costs, the higher level of construction activity is not reducing price pressure. The increase in financing costs due to the exit from low interest rate policy will, however, likely dampen future price changes.

Global environment

There are many signs indicating that global economic growth is slowing slightly. After 3.7% in 2018, we forecast a decrease to 3.4% in 2019 and 3.3% in 2020. The moderate monetary policy used by the ECB and US Federal Reserve (Fed) suggests a soft landing – i.e. just a slowdown in growth rates. The markets and economy have been carefully prepared over a very long period of time for a normalisation of monetary policy. The new movement towards protectionism in the world economy has so far not had a major effect on economic activity. The volume of tariffs is (still) too small and there are sufficient ways to circumvent them. Additional measures would mostly affect open economies like China and Germany. Overall, the foreseeable negative effect of tariffs on the global economy is below the level that would trigger a downswing. Economic activity in the Eurozone is based on stable private consumption. The growth in capital investments is continuing, although at a slower rate than immediately after the crisis. Net exports are having a braking effect, because imports are once again increasing faster than exports. Overall, we expect the Eurozone to record economic growth in the area of 1.6% per year in 2019/20. The trade conflict with the US, lack of clarity with respect to the United Kingdom's exit from the EU, the situation in Italy and ongoing protests by the yellow vests in France nevertheless present considerable risks for the economic outlook. The fiscal policy of the new Italian government is capable of triggering a new euro crisis. Ein Satz mit falscher Schriftart und -farbe. Growth is being limited by the deterioration in monetary conditions and high level of capacity utilisation in the US economy. We expect gross domestic product to increase 2.3% in 2019 and 1.7% in 2020.

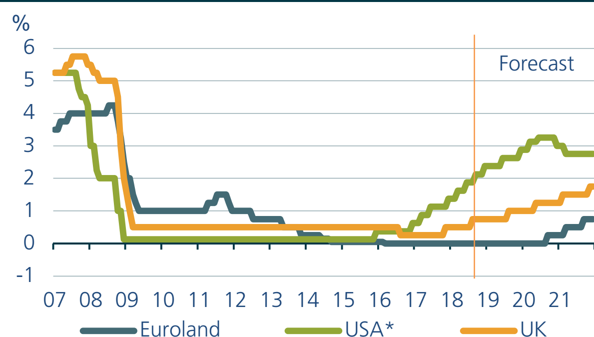
The US Federal Reserve began reducing its expansive monetary policy in 2015, initially by allowing bond purchases to expire and then using interest rate increases. In 2018, the ECB also began its exit, initially by reducing bond purchases. This reduced the strength of one of the key drivers of capital markets, which had received extraordinary support from the unconventional measures used by the central banks. The central banks nevertheless have a great deal of freedom in how they can structure their exit, given that inflationary pressures remain very low. They will use this freedom to minimise the negative effects on the economy. In the US, we expect the four interest rate increases performed by the Fed in 2018 to be followed by further increases in 2019/20. The ECB is still following a slow turnaround. Bond purchases will end in 2019 and we expect the first increase in the deposit rate in March 2020 and the first increase in the money market rate half a year later. In the US, we do not expect any appreciable increase in long-maturity Treasury yields in 2019, since the bond markets have already largely priced in the increases in the key interest rate and national debt. Long-maturity yields can be expected to increase moderately in the Eurozone, although developments in Italy will likely have a dampening effect. Even though financing expectations have deteriorated slightly in the real estate market, the low interest rate environment should ensure that conditions remain attractive for investors in Europe in 2019.

Gross domestic product by region



Source: National statistical offices, IMF, DekaBank forecast

Key interest rates



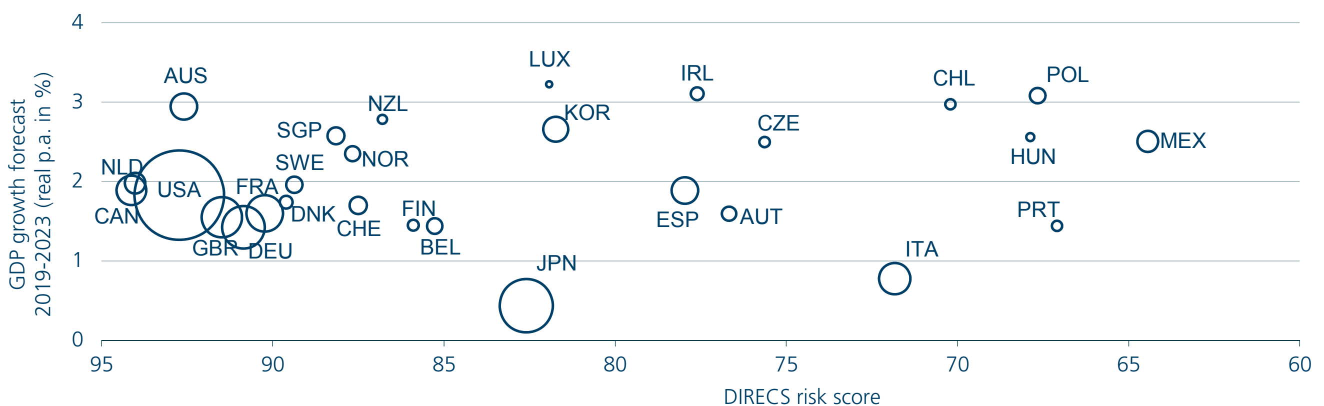
Source: Bloomberg, DekaBank forecast average *Since Dec. 2008 interval

Country strategy

An assessment of the structural attractiveness of real estate investments in the individual countries is performed below based on investment risks and return prospects. DIRECS (Deka Immobilien Real Estate Country Score) is used as a risk measure for commercial property investments at the country level. It combines a number of indicators reflecting macroeconomic, institutional and political risk factors and provides a point score between 0 (highest risk) and 100 (lowest risk) for each country. Potential future returns are estimated using forecasts for the real growth in gross domestic product up to 2023 inclusive. This country level analysis does not include regional or real estate-specific factors in either of the two measures.

With respect to the risk assessment, eight countries are currently allocated to the "core" segment (min. 90 points). Canada and the US are among the countries with the lowest investment risk. Both of these North American countries have similar growth prospects and therefore nearly identical risk-return profiles. The two countries nevertheless differ significantly with respect to the estimated size of their commercial real estate markets, as the US has by far the largest market worldwide. Five of the eight countries in the "core" segment are in Europe. Three of them, the Netherlands, Germany and France, are members of the Eurozone, and the other two are the United Kingdom and Denmark. The Netherlands has the most attractive risk-return profile in the group. Although British return prospects are decreased by the upcoming exit from the EU, its risk-return profile is actually slightly better than the two heavyweights in continental Europe, Germany and France. Australia is expected to have by far the fastest economic growth of the countries in the "core" segment. Singapore, New Zealand, South Korea and Japan are other investment targets in the Asia-Pacific region for investors with relatively low risk appetites. All four of these countries are in the "core plus" (80 to 89 points) segment. While the growth forecasts for the first three countries are relatively good, the prospects are very poor for Japan, the country with the second-largest commercial real estate market worldwide. In Europe, Sweden and Norway have attractive risk-return profiles. Although both countries have slightly worse risk scores than the third Scandinavian country, Denmark, they have the advantage of better growth forecasts and also have somewhat larger real estate markets. Their neighbour to the east, Finland, is somewhat less attractive in terms of risk-return profile and market size. Other European countries in the "core plus" segment include Switzerland, Belgium and Luxembourg, with growth prospects being particularly good for Luxembourg. The next risk class, the "balanced" segment (70 to 79 points) includes Ireland, Spain and Italy, three peripheral Eurozone countries, with Ireland expected to have the fastest economic growth. Of the two other countries, Italy has the larger commercial real estate market, but Spain has a significantly better risk-return profile. Portugal cannot match its neighbour Spain, particularly with respect to risk score, and has been assigned to the "value add" segment (50 to 69 points). Another Eurozone country, Austria, also belongs to the "balanced" risk class, as does the Czech Republic, which has a considerably better risk score than Poland and Hungary (both in the "value add" risk class). Poland nevertheless has the best growth prospects and largest real estate market of the Eastern European countries mentioned. Chile is the only Latin American country to have secured a spot in the "balanced" segment. Mexico, the country with the largest market in the region, cannot quite match Chile, either in terms of its economic growth forecast or risk score.

Growth outlook and structural risks of selected countries



Source: IMF, DekaBank; Circle size corresponds to estimated size of the commercial real estate market

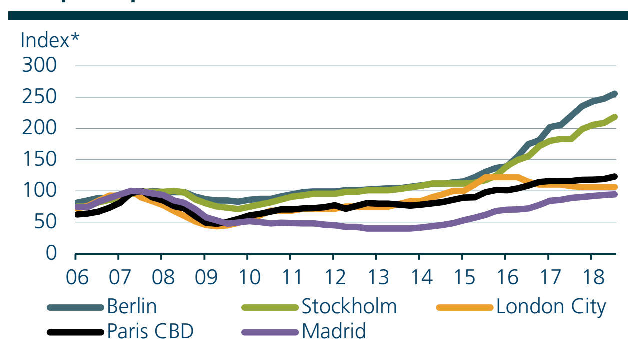
Total Return prospects

To estimate current and future capital appreciation in office real estate markets, changes in capital values are analysed below. As there is no comprehensive data for sale prices at market level, the capital values are mainly derived from prime rents and yields. In doing so, it must be noted that this tends to overestimate the actual performance of the markets. In order to calculate the forecast total return, current rental income - as a percentage of net initial yields - and location-specific expenses are considered in addition to capital values.

Europe

The trend of rising capital values remained unbroken in Europe in 2018. With the exception of the two London submarkets, all 25 of the office markets analysed recorded increases in the first three quarters of the year. The size of the increases nevertheless slowed significantly. While more than half of the locations were still recording double-digit percentage increases in 2017, Milan was the only market to achieve this by the third quarter of 2018. Based on the highs reached in 2007/08, Berlin continues to be the solitary leader in performance, with capital values 155% higher than the value at that time. It is followed by Stockholm, which recorded an increase of 118%. Capital values have approximately doubled in Stuttgart (+112%) and Amsterdam (+99%) compared to the previous cycle. Capital values in the third quarter of 2018 fell slightly below their reference values in the Spanish locations, but most significantly in Warsaw (-18%).

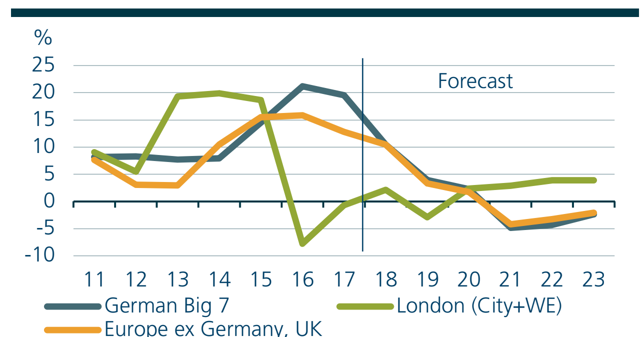
Europe: Capital values



Source: PMA, DekaBank; * High point 2006-08 = 100

The smaller value increases likely led to lower total returns in 2018 than the previous year. Yield decreases and rent increases, both in Germany and the rest of Europe (not including the UK), should nevertheless be adequate to generate returns in the range of 10%. This is an impressive value given that the upswing has already lasted nine years in German office markets. In view of the level of capital values achieved and the prospects of moderate increases in interest rates, returns should fall considerably in coming years. Based on the forecast for yield increases, losses should be expected starting in 2021. In the short term (2019/20), returns will likely be in the range of 2 to 4% per year in most locations, with Amsterdam having the best return prospects. Over a five-year period, the overwhelming majority of locations will likely record small losses. The two London submarkets are expected to have the highest returns. They have been decoupled from the trend in the other European markets since the Brexit vote in 2016, so the potential for value corrections should be lower. The forecasts for London are nevertheless highly uncertain due to the uncertainty involved in the Brexit process.

Europe: Total return by region*



Source: PMA, DekaBank forecast; * stock-weighted

USA

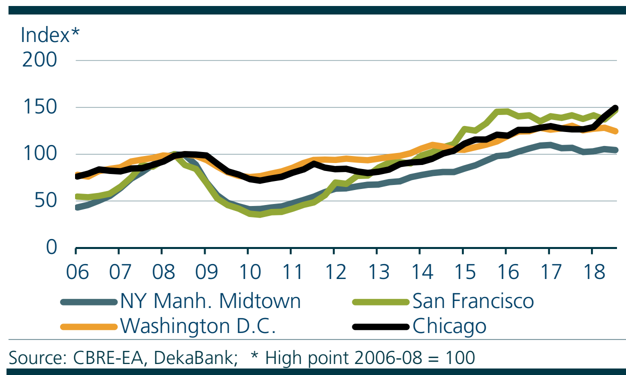
Changes in capital values were once again mixed in the US in the first nine months of 2018. Thanks to significant reductions in cap rates, Chicago was the leader with an increase in capital values of 18%. In Downtown Manhattan, a small decrease in the cap rate combined with large rent increases, so that capital values also recorded a double-digit percentage increase. Capital values fell moderately, on the other hand, in Washington D.C. and Los Angeles. Compared to the highs in 2007/08, Downtown Manhattan, San Francisco, Chicago and Atlanta had the most significant increases of 45 to 55%, while Midtown Manhattan and Houston were only slightly above the values at that time.

After two years with major decreases in total returns, a significant increase should once again be recorded in 2018. The value-weighted average will likely increase from around 4% in the previous year to more than 7.5%. This is based on the reduction in cap rates in around half of the eleven locations analysed, with Chicago and Houston standing out with particularly strong yield compression. Rent increases, however, likely slowed in 2018, thereby having a negative effect on the bottom line. We expect this trend to continue in coming years until rents remain unchanged in 2021 – with increases in this return component only likely after this point has been reached. The return of rising cap rates in the investment

Total Return prospects

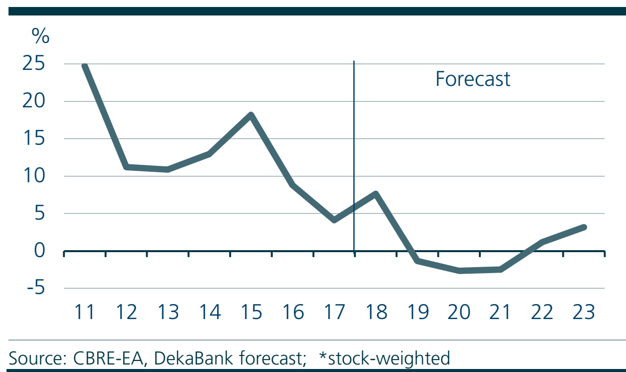
market will likely not just reduce the return contribution from this source, but instead already turn it negative in 2019. Increasing interest rates should produce moderate yield increases in coming years. The losses should, however, be limited due to the caution being exercised by the central bank. Atlanta has the best return prospects for the next two years and next five years.

USA: Capital values



Source: CBRE-EA, DekaBank; * High point 2006-08 = 100

USA: Total return*



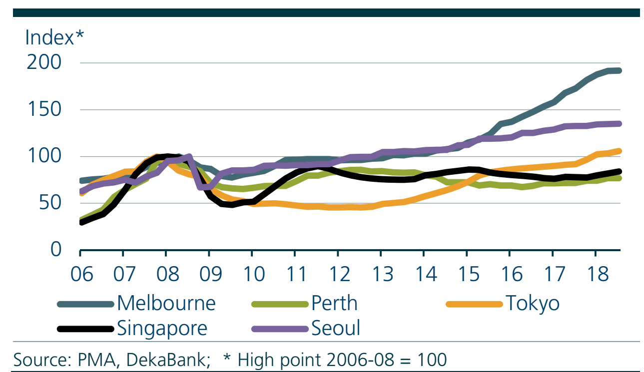
Source: CBRE-EA, DekaBank forecast; *stock-weighted

Asia-Pacific

Capital values continued to increase in Australia in the first three quarters of 2018, although at a considerably slower pace. Only Perth, the location with the smallest value increase in 2017, recorded a slightly higher rate than the previous year. Using the highs in 2007/08 as a reference, the Australian market is now divided into two segments. While Sydney and Melbourne are now 80 and 92% above their values at the time, capital values in the commodity-dependent locations of Brisbane and Perth are 13 and 23% below their reference values. Tokyo and Singapore recorded large increases in value in the first three quarters of 2018. This put the Japanese capital above the high point reached in 2007 for the first time again. The rental market was the main factor preventing this mark from being reached earlier. At the end of the period, prime rents were still around one quarter below their level in 2007. Rents are even further below the reference level in Singapore, so that capital values at the end of the period were still 16% below the high in 2008. In Seoul, the reference value has already been exceeded by one third, although the increase in value continued to weaken in the first three quarters of 2018.

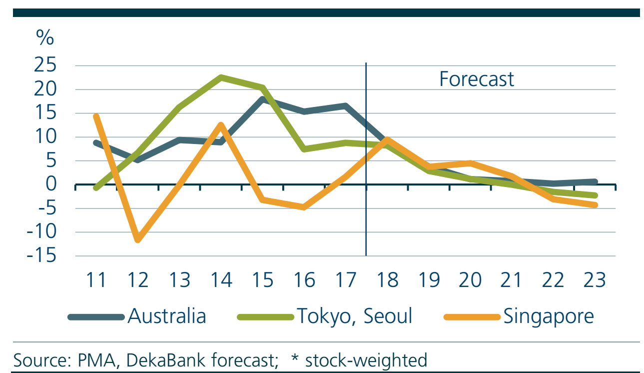
Total returns will also likely fall in the Asia-Pacific region in coming years. Rent increases will likely weaken and decreases in prime yields almost slow to a stop. The slight increase in yields expected at the beginning of the next decade should lead to small losses in total returns in some locations. Brisbane and Perth likely have the best return prospects, both in the short term (2019/20) and over a five-year period. The short-term prospects are also good for Singapore due to a forecast of large rent increases.

Asia-Pacific: Capital values



Source: PMA, DekaBank; * High point 2006-08 = 100

Asia-Pacific: Total return by region*



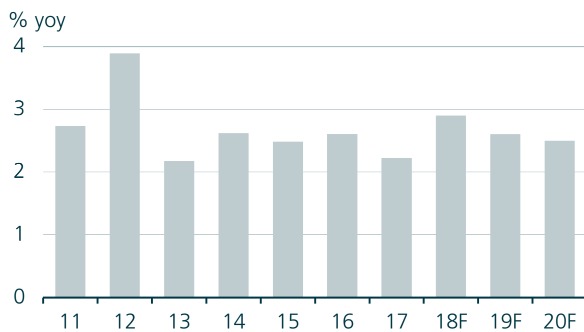
Source: PMA, DekaBank forecast; * stock-weighted

Australia

Economy

The economic upswing is in its 27th year in Australia, an international record length. After a relatively weak year in 2017, the economy grew strongly again in 2018, at least in the first half of the year. Economic growth was, however, disappointingly weak in the third quarter. Higher mortgage rates were presumably to blame for slowing the increase in consumption. In any case, the growth in equipment investment was unaffected. Economic growth will likely be slower in 2019 and 2020 than in previous years. Due to continued moderate inflation, the Royal Bank of Australia decided not to perform any key interest rate increases yet in 2018 and will likely not begin these increases until the middle of 2019.

Gross domestic product

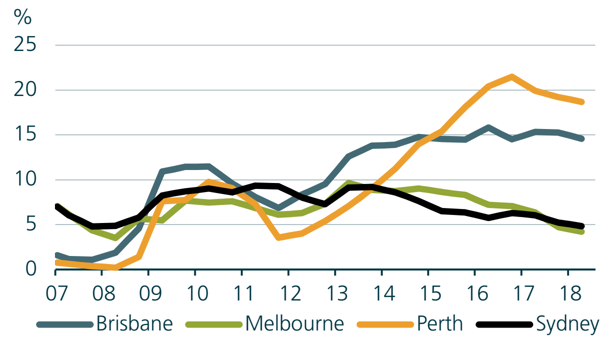


Source: IMF, DekaBank

Office markets

The office markets in the four major metropolitan areas of Sydney, Melbourne, Brisbane and Perth recorded high demand in the first three quarters of 2018 due to good economic activity and continued growth in office employment. At the same time, very little new construction space came onto the market, leading to an overall decrease in vacancy rates. In Sydney and Brisbane, the space removed from the market due to conversion and renovation even exceeded the new space that was added. The vacancy rate in Sydney will likely approach a cyclical low in 2019. Due to the low supply reserve and high rents, many companies are now choosing locations outside the CBD. The vacancy rate in Melbourne is also at a historical low, but will likely rise again in 2019/20 due to a higher volume of new construction. The vacancy rate should remain in the double digits in Brisbane and Perth for the foreseeable future. Sydney and Melbourne recorded steady increases in both nominal and effective rents in the first three quarters of 2018. Rent increases will likely slow in 2019/20. Rents rose moderately in Brisbane and remained unchanged in Perth. Rent increases will likely not pick up here again before 2020 at the earliest.

Vacancy rate

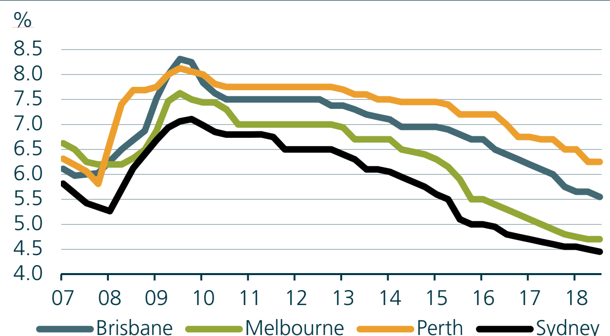


Source: PMA, DekaBank

Investment market

The transaction volume for office properties was AUD 13.3 billion nationwide in the first three quarters of 2018, representing an increase of 6% over the same period in the previous year. The office segment contributed 53% of the total commercial real estate volume. 31% of the total transaction volume was due to foreign investors, primarily from Asia, as well as a global mix. Prime yields for office buildings decreased the most in Brisbane and Perth. Sydney and Melbourne, where a significantly lower level has already been reached, recorded comparatively moderate reductions. We expect further small reductions in yields in 2019.

Office prime yield (net)



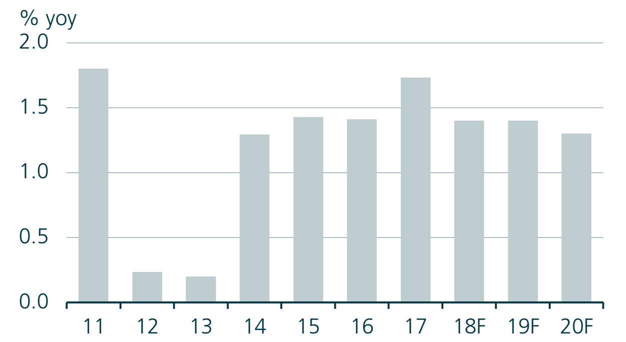
Source: PMA, DekaBank

Belgium

Economy

Thanks to a diversified economic structure, Belgium has made a contribution to economic growth in the Eurozone in recent years. The labour market has proven to be very robust. The unemployment rate is less than 8%, and therefore below the Eurozone average. High national debt however requires fiscal consolidation. This is supported by good funding terms in the capital markets and by solid economic growth. International competitiveness, however, has continued to decrease due to increasing wage costs. This is having a negative effect on the economy, which is very open. Economic growth continued to be below-average for the Eurozone in 2017/18. We expect GDP growth of 1.4% in 2019, the same as the previous year.

Gross domestic product

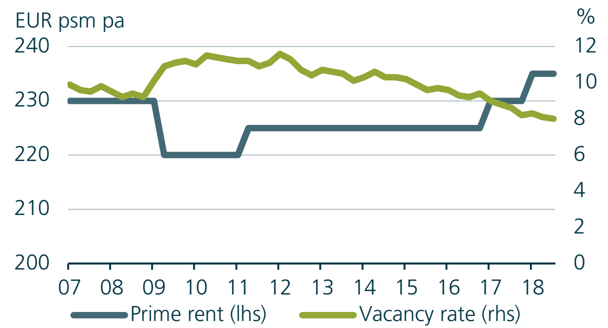


Source: IMF, DekaBank

Brussels office market

Demand continued to be quite restrained in 2018. Take-up was 246,000 m² in the first three quarters, 14% below the value in the previous year. Thanks to moderate construction activity and space conversion, the vacancy rate has decreased steadily in previous years to 8.0%, the lowest value since 2001. The reserve of immediately available supply has fallen to 4% in central locations, and below 15% in submarkets outside the centre. The vacancy rate will likely stop decreasing due to the pick-up in construction activity, and could trend in the direction of 9% over the medium term. Prime rents rose again for the first time in 2017/18, increasing a total of 4.4% to EUR 235/m²/year. For top properties in the small-unit segment of the Léopold submarket, which is dominated by EU institutions, significantly higher leases of 300 EUR/m²/year and more are also occasionally possible. The growth in average rents was small. The outlook for coming years is also modest in light of the challenges faced by the EU.

Vacancy rate and prime rents

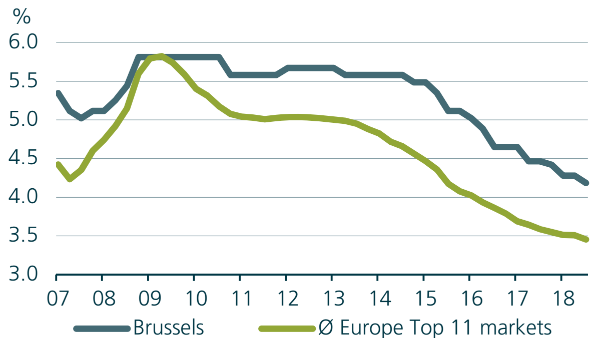


Source: PMA, DekaBank

Investment market

At EUR 1.4 billion in the first three quarters of 2018, investment volume nationwide for office real estate was 29% higher than in the same period in 2017. Brussels was the regional investment focus, representing around 90% of the volume. Foreign investors were responsible for a major share of the total volume. Prime yields declined again in the Belgian capital, but at 4.2% they remain considerably higher than the average of the top 11 office markets in Europe. Further downward potential is likely limited. We expect moderate rent increases starting in 2021.

Office prime yield (net)



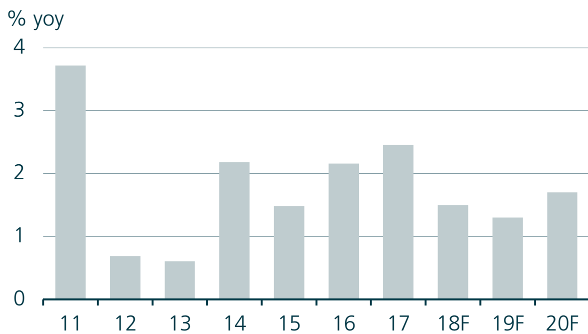
Source: PMA, DekaBank

Germany

Economy

German economic activity passed its high point at the end of 2017 and has settled again at a more moderate pace since then. Overall economic growth was repeatedly impacted by one-off factors in 2018, such as a flu epidemic, strikes, and approval problems in the automobile industry. While foreign trade is having more of a negative than positive effect in 2019, domestic demand continues to provide stimulus. Consumption is rising due to increases in employment and wages, and soaring tax revenues mean the government is also prepared to spend. The government's lack of economic policy initiative remains a problem.

Gross domestic product

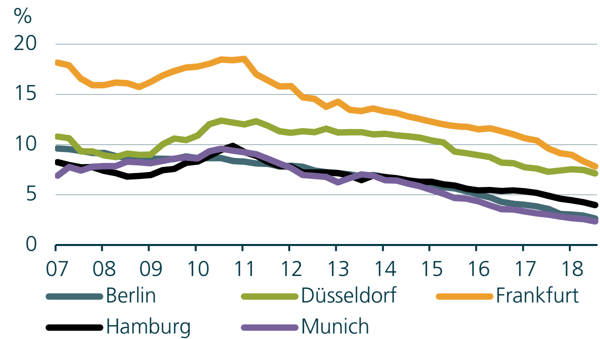


Source: IMF, DekaBank

Office markets

Although take-up in the BIG 7 rental markets in 2018 was around 4 million m², or 6%, below the high level achieved in the previous year, it was still quite high compared to the long-term average. Demand could not be adequately satisfied, however, due to a shortage of space, particularly in central locations. Providers of flexible working space (including coworking) benefited from high demand by office users and are helping to compensate for space shortages in the short term. The low level of new construction in recent years and the demolition and conversion of considerable space has caused the cumulative vacancy rate to drop below 4%. Rates were below 2.5% in Berlin, Munich and Stuttgart. Rents continued to rise due to the discrepancy between supply and demand. Berlin was by far the leader in this respect, followed by Frankfurt and Cologne. We expect prime rents in class A cities to increase by an average of around 4% in 2019, followed by decreasing growth rates in subsequent years. Frankfurt could see larger rent increases if demand by UK companies rises significantly due to Brexit. In spite of increased new construction activity, no relief can be expected on the supply side in the short term, which means vacancy rates should continue to fall in top markets.

Vacancy rate

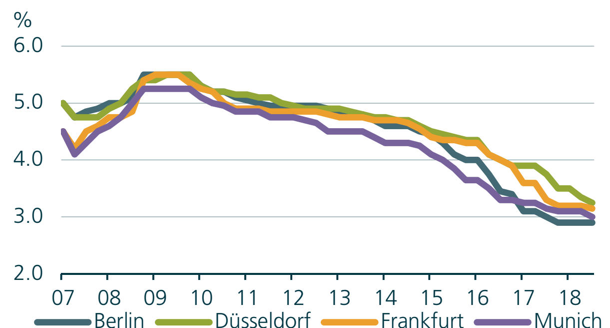


Source: PMA, DekaBank

Investment market

Commercial real estate transaction volume was around EUR 60 billion in 2018. This exceeded the value in the previous year by 6% to reach a new all-time high. Office properties in top locations played a major role in this. 58% of the total investment volume was generated in the BIG 7, as there are few alternatives for big deals. 48% of the volume was due to office buildings. Frankfurt was the leader, with a total investment volume of EUR 10 billion, followed by Berlin (EUR 6.8 billion) and Munich (EUR 6.0 billion). Net initial yields for top office buildings continued to decline. We expect bottom formation to begin in 2019. Given the ongoing low interest rate environment, increases are unlikely before 2021.

Office prime yield (net)



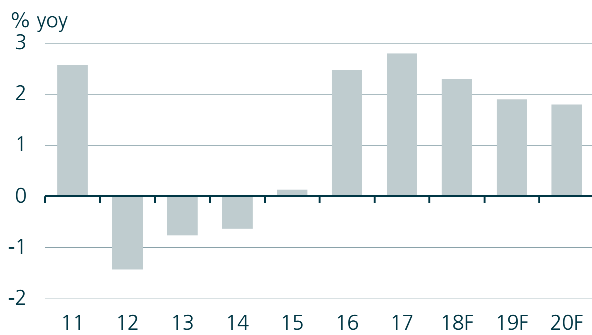
Source: PMA, DekaBank

Finland

Economy

The Finnish economy continued to grow strongly in 2018. Strong domestic consumption and investment increased considerably at the end of the period. Falling unemployment and rising real wages should support consumption in coming years. Domestic demand will likely remain the most important driver of growth in the future. Although measures to increase competitiveness should compensate at least partially for declining global demand, the overall rate of growth will likely slow somewhat. Solid growth and an almost balanced budget allowed the debt ratio to fall below 60% of GDP in 2018 for the first time since 2013. Although inflation remains significantly below the EU average, the labour market is approaching full capacity utilisation, which suggests upwards pressure on wages in coming years.

Gross domestic product

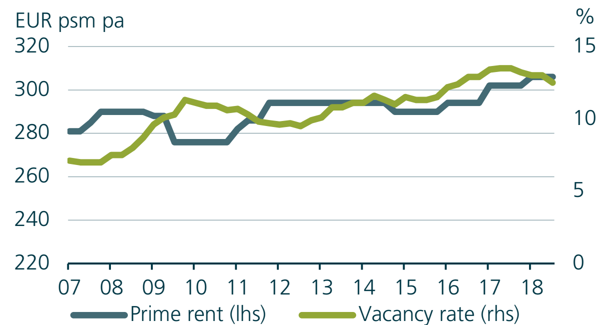


Source: IMF, DekaBank

Helsinki office market

The solid growth of the economy is only slowly becoming noticeable in the rental market of the Finnish capital. After reaching a record high, the vacancy rate has decreased steadily since the end of 2017 to reach a two-year low of 12.5% in the third quarter of 2018. A large part of this, however, was due to demolition and conversion. Net absorption has been negative in previous years, as many companies are relying on consolidation and, therefore, more efficient use of space. Central locations, in particular, are still in demand. The moderate level of demand has limited increases in prime rents. Prime rents, which apply to not just the CBD in Helsinki, but the entire city centre, increased only 1.3% compared to the previous year up to and including the third quarter of 2018 to EUR 306/m²/year. This is nevertheless still higher than the barely positive average rate of growth recorded in the last ten years. Given the continued high vacancy rate and recent increase in new construction activity, rent increases will likely also be moderate in coming years.

Vacancy rate and prime rents

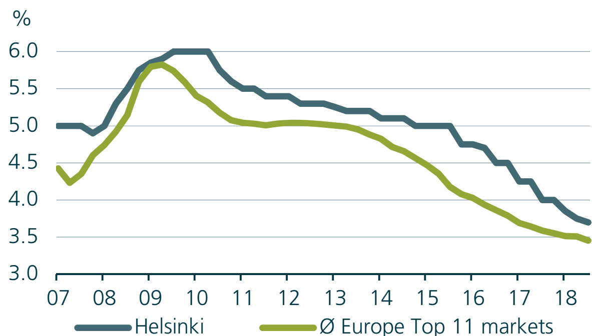


Source: PMA, DekaBank

Investment market

The investment volume for office buildings was around EUR 1.6 billion nationwide in the first three quarters of 2018. This was, as expected, considerably lower than the volume in the previous year due to an unusually large transaction in the third quarter of 2017. Although investment demand in the market as a whole was once again primarily from abroad, the share was considerably lower, at 55%, compared to almost 84% in the previous year. The prime yield in Helsinki fell sharply again by 30 basis points, moving even closer to the average for the top 11 markets in Europe.

Office prime yield (net)



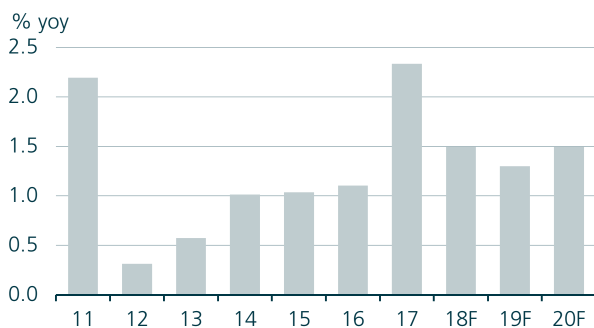
Source: PMA, DekaBank

France

Economy

French economic growth was likely below the Eurozone average in 2018, but we nevertheless expect it to be higher than normal for France. Although unemployment fell below 10% and is therefore at its lowest point since 2012, structural problems in the labour market remain an important obstacle to productivity. With regard to government expenditures, France also occupies first place in the currency union. In addition to private consumption, government consumption is also an important supporting pillar. The election of Macron as President and his victory in the parliamentary elections was initially a breath of fresh air for reforms. The reforms implemented to date helped support sustainable economic growth. Public discontent over further reforms has now risen sharply and the first concessions have been made.

Gross domestic product

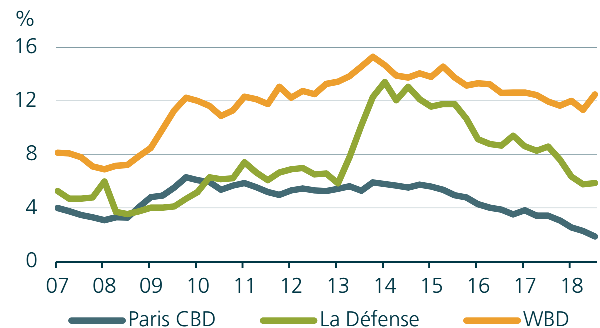


Source: IMF, DekaBank

Paris office market

Take-up in the Paris region was almost 1.9 million m² in the first three quarters of 2018. Thanks to solid growth in employment, both the results of the previous year and the ten-year average were exceeded. Take-up rose strongly for units between 2,000 and 10,000 m² in size, while falling slightly for even larger units. The Western Business District (WBD) and Paris Centre West (CBD) attracted roughly a quarter of the total space take-up. The vacancy rate fell to less than 2% in the CBD and to 5.1% in Ile-de-France as a whole. New and renovated space is little affected by vacancy. Although the rate in the WBD remained above-average, it applies to a collection of very different sub-locations. A total of around 1.1 million m² was under construction in La Défense, the WBD and CBD at the end of 2018. The projects in the CBD are mainly refurbishments. The Grand Paris infrastructure project is one of the drivers of development activity. Prime rent in the CBD rose 4.5% to EUR 810/m²/year by the end of September, bringing it almost back to the historical high achieved in 2001. La Défense and the WBD also recorded small increases. Rents will likely continue to increase slightly in coming years. Large incentives are still being offered in the region. Rent incentives, particularly for small and medium-sized units, are decreasingly sharply in the district.

Vacancy rate

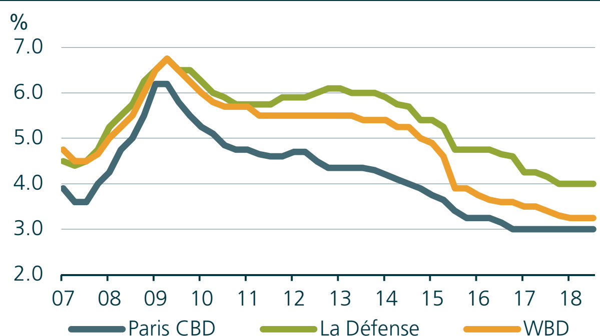


Source: PMA, DekaBank

Investment market

The investment volume for French office buildings was EUR 13.8 billion in the first three quarters of 2018, 29% higher than the same period in 2017. At 90%, the region around the French capital generated most of the demand in this centralised country. After the large drops in previous years, initial yields are likely very close to bottoming out. Prime yields in the Paris CBD have remained at the low level of 3.0% since the end of 2016. Yields also remained practically unchanged in the WBD and La Défense in 2018 up to and including the third quarter. Since the low interest rate environment will continue for a while longer, we do not expect increases until 2021 at the earliest.

Office prime yield (net)



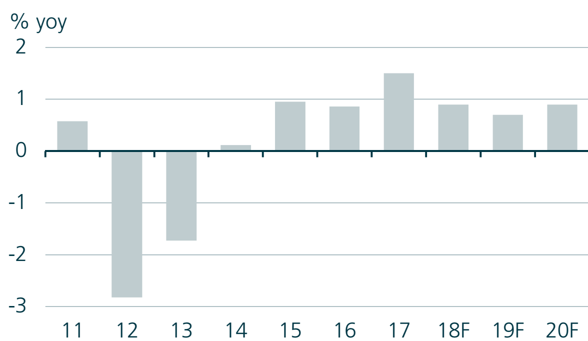
Source: PMA, DekaBank

Italy

Economy

Italy provided a number of surprises in 2018. First there was a coalition of left and right-wing populists, followed by a direct conflict with the EU over budget issues. The budget conflict was temporarily put on ice after Italy reached agreement with the EU Commission. There are still doubts about the soundness of the budget plan, and the conflict could erupt again if there are signs that a target will be missed. The Italian economy is suffering as a result. Growth was already slow and was further weakened by the uncertainty generated by this conflict. What Italy urgently needs, however, is reforms that can unleash growth potential. Not only are these lacking, but achievements gained by the previous government are also being reversed. We expect growth of less than 1% in 2019.

Gross domestic product

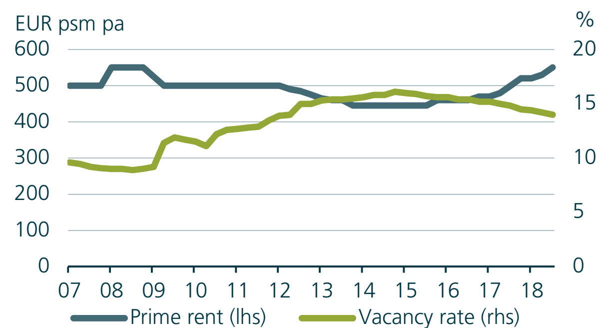


Source: IMF, DekaBank

Milan office market

Take-up was 240,000 m² in the first three quarters of 2018, around one fifth higher than the same period in 2017. Around 30% of the space take-up was generated in the CBD and Porta Nuova Business District submarkets. The vacancy rate has dropped to 14% from its last high of 16.1% (2014). Both the CBD and Porta Nuova Business District had vacancy rates of slightly more than 5% at the end of September. Prime space is rare. New construction volume will likely only increase moderately in coming years. The prime rent received for class A office space in the traditional CBD rose around 6% since the beginning of 2018 to EUR 550/m²/year. The highest value in the Porta Nuova Business District was EUR 500/m²/year. Very few leases, however, are concluded in this price class. Prime rent reached EUR 300/m²/year in the Semi Centro district. In peripheral locations, rents are declining to considerably lower levels depending on microlocation and building quality. We expect moderate rent increases in 2019/20.

Vacancy rate and prime rents

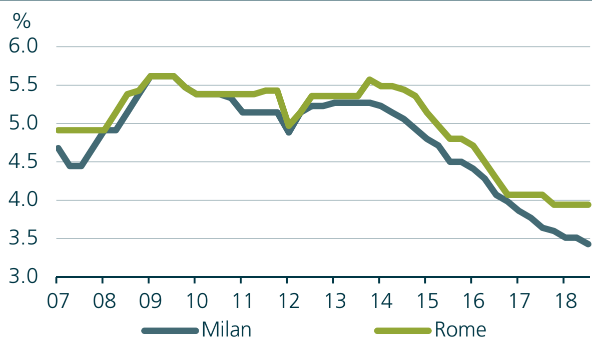


Source: PMA, DekaBank

Investment market

The transaction volume for commercial real estate in Italy was around EUR 5 billion in the first three quarters of 2018. Of this, just under EUR 1.7 billion is attributable to office real estate, 76% of which was traded in Milan. The (net) prime yield for Milan office real estate declined 20 basis points to 3.4% in the first three quarters of 2018. The difference between the CBD and Semi Centro district was 1.6 percentage points and between the CBD and peripheral areas 2.1 percentage points. We expect yields to bottom out in 2019.

Office prime yield (net)



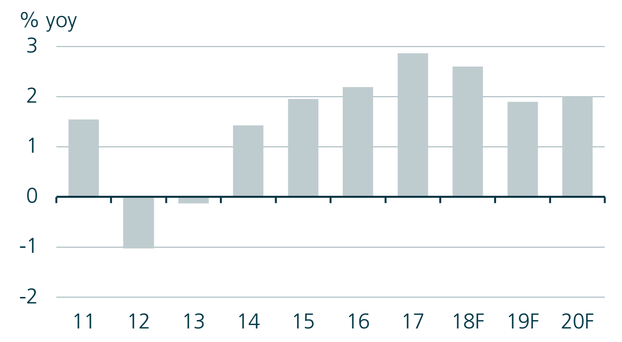
Source: PMA, DekaBank

Netherlands

Economy

The Netherlands economy continued to expand. Although private household debt in the form of long-term loans remains high, it is decreasing. Private consumption plays an important role in overall economic growth and is benefiting from a very low unemployment rate of less than 4% and rising home prices. Due to the high degree of openness of the economy, good position in the global value chain and high international competitiveness, foreign trade remains an important driver for the economy. We expect the extraordinary growth achieved in 2017 to be followed by slower growth in 2018/19, although still likely at a rate higher than the Eurozone average.

Gross domestic product

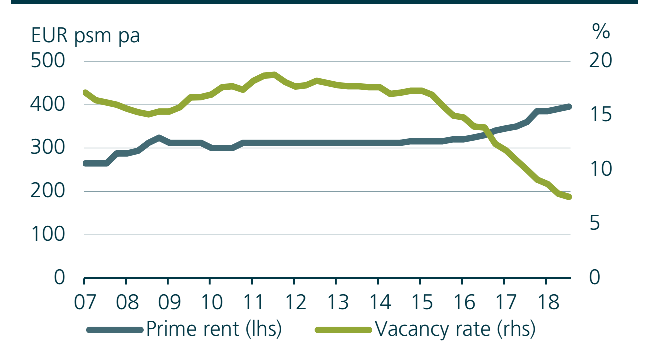


Source: IMF, DekaBank

Amsterdam office market

Take-up was 200,000 m² in the first three quarters of 2018, 15% below the high level achieved in the previous year. Thanks to large deals, the results achieved in 2017 were the highest since 2006. One of the driving factors is the expansion of flexible office space providers, which are also responsible for quite a large share of space take-up throughout Europe. Good digital infrastructure is generating lively demand by technology firms. In addition to increasing demand, demolition and extensive conversion of obsolete office space and restrictive planning requirements have also helped reduce the vacancy rate sharply in previous years. Most of the space conversion took place in the western and southeastern submarkets outside the city centre. The vacancy rate fell strongly again from 10% the year before to 7.5%, the lowest rate since 2001. The previously very modest level of construction activity has picked up. Completions will likely be 120,000 m² in 2019, somewhat higher than the previous two years. For the first time in six years, net additions are once again expected to be positive in 2019. Construction is concentrated in the South Axis and West districts. Growth slowed markedly after the large increase in prime rents in 2017. A new record of EUR 395/m²/year was set in 2018. A higher level of construction activity and an expected increase in net additions expected starting in 2021 should drive the vacancy rate above the 10% mark again and lead to an end of the rent cycle.

Vacancy rate and prime rents

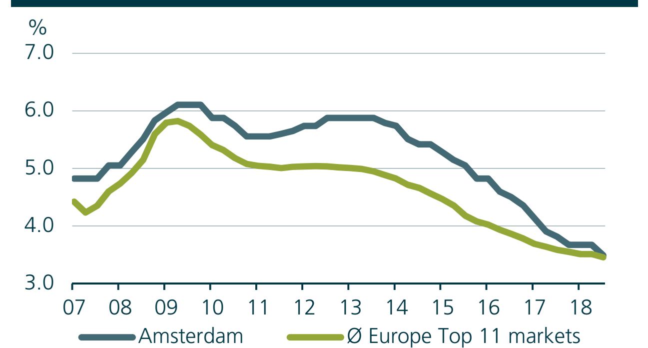


Source: PMA, DekaBank

Investment market

Office buildings generated an investment volume of around EUR 4.4 billion in the first three quarters of 2018 in the Netherlands, 9% below the volume in the previous year. The capital city's share of the investment volume fell from 53% to 28%. The large decrease recorded by Amsterdam prime yields in previous years was followed by another 20 basis point drop to 3.5% at the end of the period, which corresponds to the low average yield of the top 11 markets in Europe. We expect yields to bottom out in 2019. Due to the ongoing low interest rate environment, we do not expect increases until 2021 at the earliest.

Office prime yield (net)



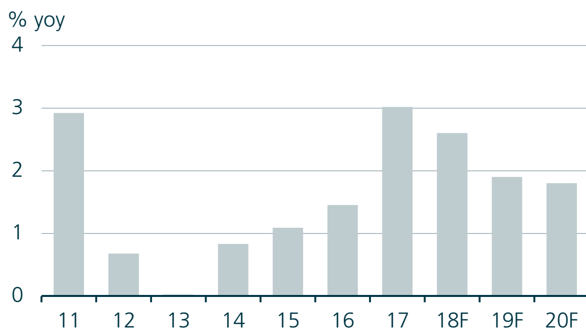
Source: PMA, DekaBank

Austria

Economy

2017 marked the high point of the current upswing in Austria. The economy cooled significantly after a strong first quarter in 2018, and appears to be settling approx. at its potential at the end of 2018. Private consumption continues to play a reliable part, while investment growth will weaken somewhat. Global and European uncertainty – the trade war, Italy, Brexit – are also dampening investment sentiment in Austria. The slowdown in global economic growth is also playing a part, and is also reducing the stimulus due to net exports. Gross domestic product will likely increase 1.9% in 2019, once again greater than the rate in Germany.

Gross domestic product

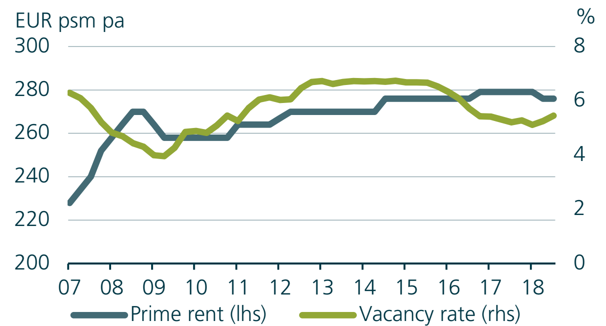


Source: IMF, DekaBank

Vienna office market

Office space take-up was 204,000 m² in the first three quarters of 2018, an increase of 76% over the same period in 2017. 2018 as a whole, however, will probably not quite reach the ten-year average of 322,000 m². Some of the largest contributions were due to leasing by service providers and the public sector, followed by retail companies. The vacancy rate increased slightly to 5.5%. Completions will likely be around 280,000 m² in 2018, which is significantly greater than the five-year average of 133,000 m². 160,000 m² of this, however, is due to the new Bank Austria campus on Lassallestraße. Around 210,000 m² was under construction in the third quarter, with around 40% already pre-leased. Prime rents in the city fell 1% to EUR 276/m²/year in the first half of 2018, as no leases were concluded for top properties. Rents have increased, on the other hand, in the new construction areas close to the city centre, rising from EUR 204 to 222/m²/year in the area of the main railway station. We forecast small increases in rents in 2019/20.

Vacancy rate and prime rents

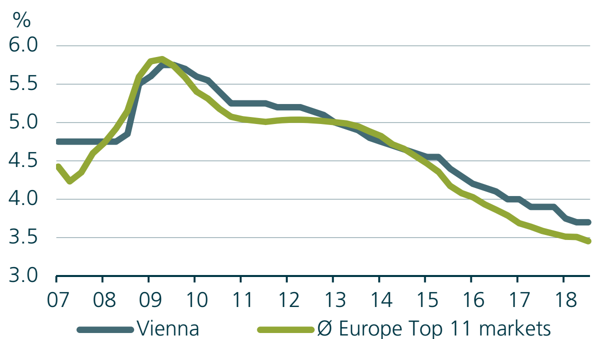


Source: PMA, DekaBank

Investment market

Around EUR 800 million was invested in office buildings in Austria between January and September 2018. This was a return to normal after the extraordinary volume achieved in the previous year. The lack of core properties also played a role. Office property represented 30% of the total commercial volume. The prime yield in Vienna fell 20 basis points to 3.7%. 4.1% was achieved in locations around the city centre, and 4.65% in peripheral locations. We expect a bottoming out to take place in 2019.

Office prime yield (net)



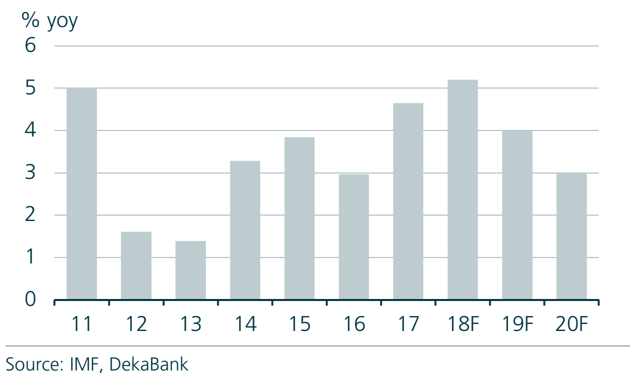
Source: PMA, DekaBank

Poland

Economy

The Polish economy has benefited from the booming labour market and the strength of private consumption in recent years. The expansive stimulus of fiscal policy should decrease starting in 2019, meaning that GDP growth will likely weaken somewhat. There is no indication of a tightening of monetary policy soon. With the average rate of inflation falling below the 2.5% target, the Polish Central Bank expects to keep its key interest rate on hold at 1.5% in 2019. While economic growth is not creating any serious concerns, attention is turning to political factors. The PiS government's confrontation with the EU over its controversial domestic policy course of restricting the rule of law will likely continue. A number of proceedings have been initiated against Poland at the European Court of Justice, along with a procedure under Article 7 of the Treaty of the EU. Due to the lack of unanimity in the EU Council, our main scenario does not include extensive sanctions. EU subsidies might, however, be reduced starting in 2021, which could depress investment activity in the medium term.

Gross domestic product

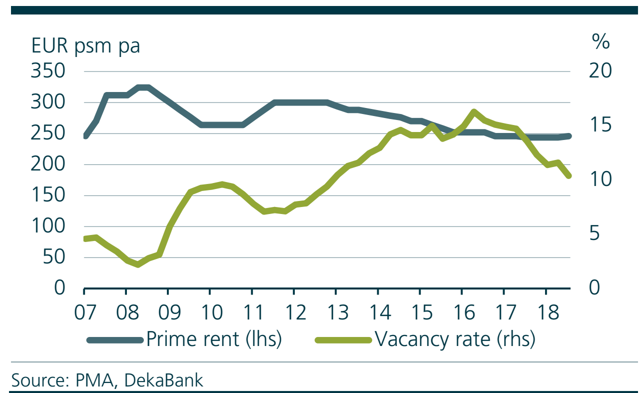


Source: IMF, DekaBank

Warsaw office market

Take-up was around 400,000 m² in the first three quarters of 2018 (not including lease renewals) and the figure for the year as a whole will likely exceed the record value in the previous year (520,000 m²). Demand is concentrated in the central business district (CBD) and neighbouring locations of the city centre. Advisory and financial service providers and industry were the most active, thanks to the ongoing good state of the economy. A number of providers of flexible office space have also now entered the market. The vacancy rate dropped significantly compared to the previous year to 10.6%. It was higher in locations outside the city. Pressure has decreased somewhat from the supply side, but Warsaw continues to have the largest volume of new construction relative to existing stock. At the end of 2018, approximately 0.6 million m² was under construction, primarily in the west part of the city centre, 90% of which was speculative. In the medium-term, vacancy rates will therefore likely increase again. Prime rent in the CBD rose slightly for the first time again in the third quarter of 2018 to EUR 246/m²/year. Warsaw nevertheless remains a very tenant-friendly market, with the largest lease incentives in all of Europe. We only expect marginal increases in rents in 2019/20.

Vacancy rate and prime rents

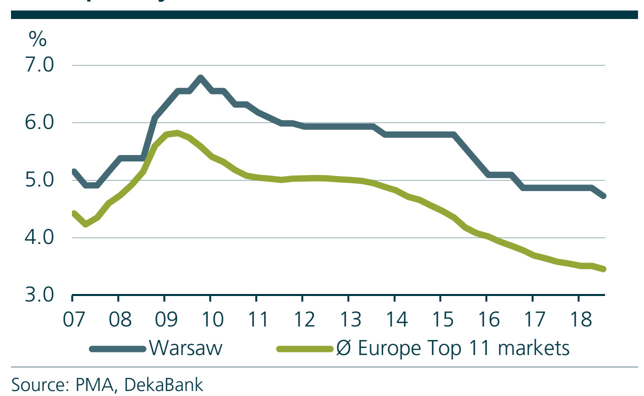


Source: PMA, DekaBank

Investment market

Office investment volume was approximately EUR 2.1 billion in Poland during the period from January to September 2018, three times the volume in the same period in 2017. Commercial property represented 40% of the total volume. The investment market was dominated by foreign capital from the US and Western Europe. The prime yield (net) in Warsaw decreased 15 basis points to 4.75% by the end of the third quarter. The difference in yields between the city centre and locations outside the centre was up to 2 percentage points. We expect a bottoming out to take place in 2019.

Office prime yield (net)



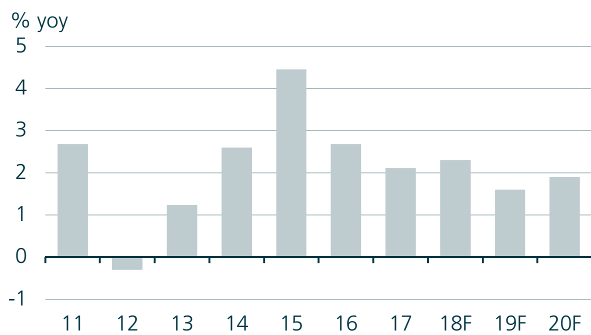
Source: PMA, DekaBank

Sweden

Economy

The Swedish economy will likely to continue to grow at a constant rate. Government finances are sound and the banking system is well capitalised. The high demand for residential real estate is restrained by higher capital requirements and restrictions on loan-to-value ratios. In spite of a surprisingly weak third quarter in 2018, which was mainly due to temporary factors, the central bank raised its key interest rate for the first time again in December. Worries that inflation might not be able to establish itself sustainably above the 2% target nevertheless continue. The high level of capacity utilisation, however, suggests the Riksbank will continue to pursue an exit from its ultra-loose monetary policy, even if it takes a long time. Even though rising interest rates and falling global demand will likely slow growth in coming years, Sweden remains on a solid growth path for the foreseeable future.

Gross domestic product

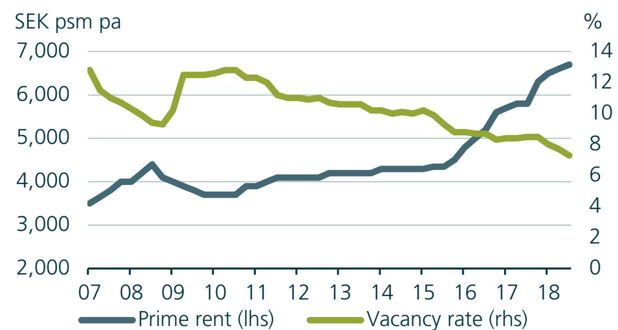


Source: IMF, DekaBank

Stockholm office market

The rental market continued its dynamic growth in 2018. Take-up rose considerably following a weak previous year. Demand was concentrated mainly in the city centre and areas with good transport access. The vacancy rate reached 7.3% in the third quarter of 2018, the lowest level in 17 years. Local differences do, however, exist. Kista, in particular, is falling behind the general trend with its double-digit vacancy rate of more than 15%. The addition of new space likely picked up considerably in 2018 compared to the previous year, and a high new construction volume of around 200,000 m² is also expected in 2019. This, combined with a small decrease in economic growth, considerably reduces the outlook for rents. After a still respectable increase of 12.5% in 2017, the growth in prime rents fell by half to 6% in the first three quarters of 2018. Prime rents are now SEK 6,700/m²/year. The growth rate will likely continue to fall in coming years.

Vacancy rate and prime rents

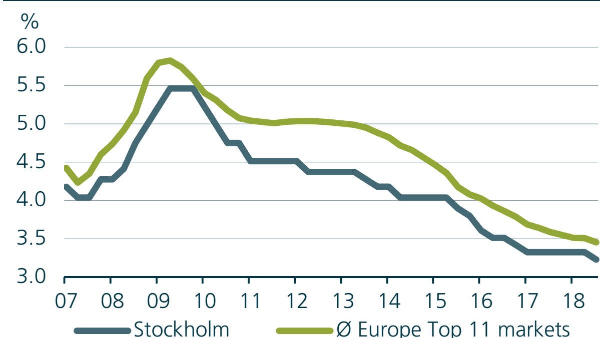


Source: PMA, DekaBank

Investment market

The investment volume of EUR 1.9 billion for Swedish office real estate in the first three quarters of 2018 was almost unchanged compared to the two previous years. Around half of the volume was generated in Stockholm in the first half of the year. Demand was once again mainly due to domestic investors. The prime yield continued to decline in Stockholm, although only slightly by 10 basis points to 3.2%. It therefore remains low for Europe. Given the interest rate turnaround, anti-inequality measures and small decrease in economic growth, yields should have largely bottomed out. We do not expect yields to rise before 2021.

Office prime yield (net)



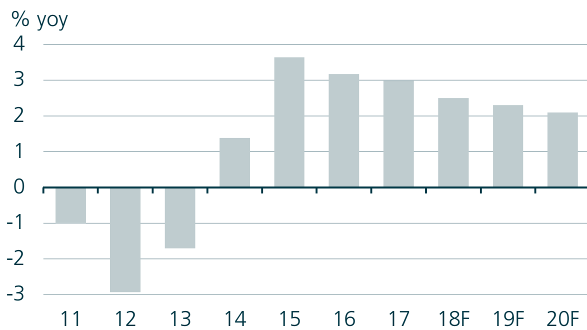
Source: PMA, DekaBank

Spain

Economy

Economic growth will likely be lower in 2018 than the previous year, but will still be among the highest in Europe. Growth should only be marginally lower at 2.3% in 2019. While net exports are having a braking effect, domestic demand, in particular consumption, remains a reliable source of stimulus due to the sustained improvement in the labour market. Investment will slow somewhat following the high rate of growth in 2018. The previous two-party system (plus regional parties) is turning into a multi-party system. In addition to Podemos (left-leaning) and the liberal Ciudadanos party, which are already represented in parliament, a right-wing populist party has now also made its way into the Andalusian regional parliament with double-digit results. The efforts of the social democratic minority government to obtain a majority and Catalonia's independence efforts present further challenges.

Gross domestic product

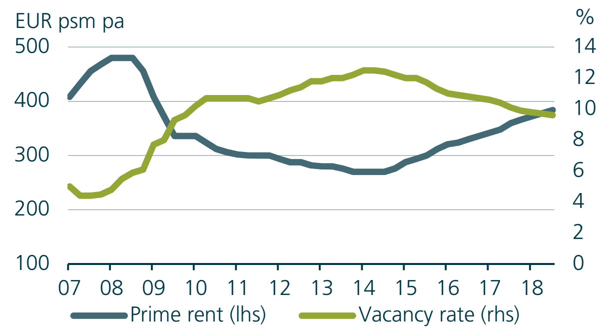


Source: IMF, DekaBank

Office markets

The rapid economic growth is also reflected in the demand for space in 2018. Take-up in the first three quarters was 280,000 m² in Madrid and 230,000 m² in Barcelona, which was 7% higher on average than the same period in the previous year. In Barcelona, a large share of the take-up was generated by the trade & industry sector and business service providers, including providers of flexible office space. The vacancy rate continued to decline in both cities. Barcelona recorded another sharp decrease to 8.5% thanks to further space conversion. That means the rate is now almost half what it was at its high of 16% in 2014. Construction starts increased again during the course of the year in Barcelona. Completions and net additions were already comparatively high in 2018 following previous weak years. Madrid, on the other hand, has relatively little space under construction compared to the existing stock. We nevertheless also expect development activities to pick up here in the future. This, combined with an economic slowdown, will likely end the rent cycle in both markets. Prime rents rose 5% by the end of the third quarter of 2018 in both Barcelona and Madrid to EUR 282 and 384/m²/year, respectively. They are now 13% and 20% below the highs reached in 2008 before the outbreak of the financial crisis. Average rents rose particularly sharply in Barcelona in 2018. Both prime and average rents will likely continue to rise in 2019, although at a slower rate.

Vacancy rate and prime rents in Madrid

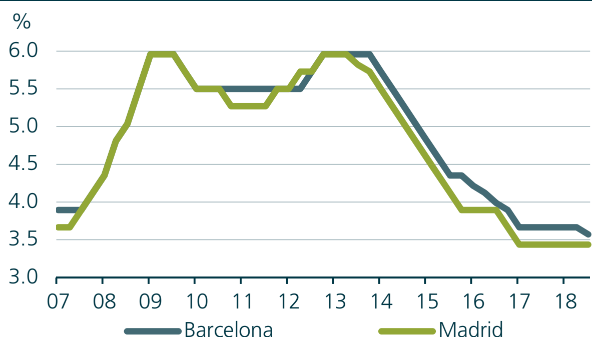


Source: PMA, DekaBank

Investment market

Office investment volume was high in Spain, reaching EUR 3.1 billion by the end of September 2018. This includes the Axiare takeover by Immobiliaria Colonial. Madrid's share was 78%. There are signs that yields are bottoming out following the long decline starting in 2014. The low levels in Madrid and Barcelona remained practically unchanged at 3.4% and 3.6%, respectively. Due to the ongoing low interest rate environment, we do not expect increases until 2021 at the earliest.

Office prime yield (net)



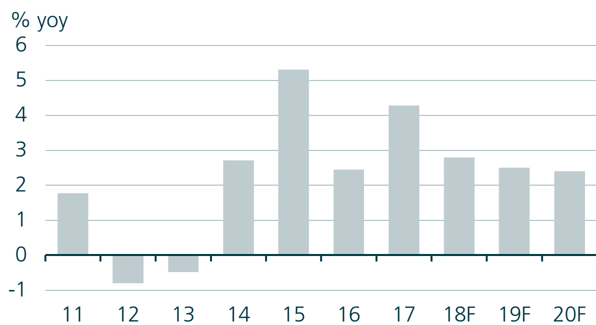
Source: PMA, DekaBank

Czech Republic

Economy

Czech economic growth slowed following the boom year in 2017. This was due to the dip in Eurozone growth, a shortage of skilled workers and the use of more restrictive monetary policy by the Czech central bank. It was the first EU central bank to begin tightening monetary policy. Starting in 2017, it has since raised its key interest rate from 0.05% to 1.75%. Further key interest rate increases will likely follow in 2019. The ANO party, the clear winner of the parliamentary elections in the autumn of 2017, formed a minority government with the social democratic and communist parties after lengthy negotiations in the summer of 2018. Prime Minister Babis, however, is under investigation due to charges that he misappropriated EU subsidies. The political turbulence is nonetheless unlikely to endanger his stability-oriented economic policy.

Gross domestic product

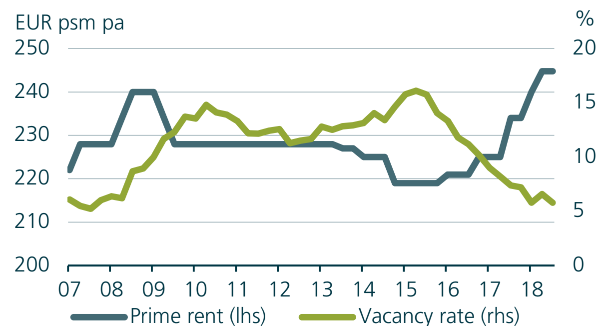


Source: IMF, DekaBank

Prague office market

Take-up was 205,000 m² in the first nine months of 2018 (not including lease renewals). The value for the year, however, will likely fall below the record set in 2017. Demand was mainly driven by moves to higher quality space and expansion by existing companies. With respect to sectors, the TMT (technology, media and telecommunications) sector was particularly active, followed by advisory and financial service providers and industry. Locations around the city centre, in Prague 4, Prague 5 and Prague 8 were particularly in demand. The vacancy rate for the market as a whole has dropped considerably since 2015 and is now less than 6%. Vacancy rates are the lowest in the city centre and districts around the centre, but are still high in some peripheral submarkets. Construction activity picked up moderately during the period. 255,000 m² was under construction at the end of 2018, 70% of which was speculative. The vacancy rate should therefore increase slightly again in 2019. Prime rents in the city rose around 5% by the third quarter to EUR 245/m²/year, although market transparency in this segment is poor. Rents remained stable around the city centre and in outlying districts. We forecast continued rent growth for 2019/20.

Vacancy rate and prime rents

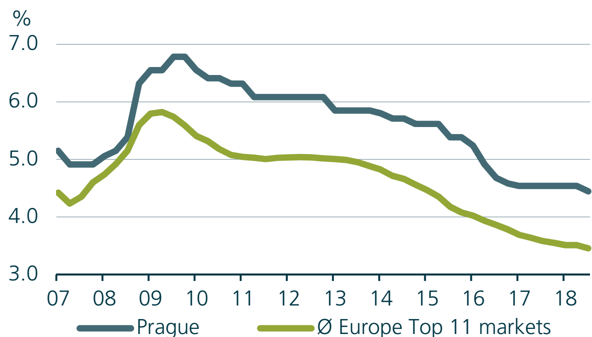


Source: PMA, DekaBank

Investment market

The investment volume for Czech office real estate was around EUR 620 million in the first three quarters of 2018, 22% less than the same period in 2017. Office real estate represented a good half of the total commercial transaction volume. Due to a shortage of core properties, more leases were concluded outside Prague. The market was dominated by domestic investors. The prime (net) yield for Prague office buildings declined 10 basis points by the third quarter to 4.45%. There was a yield difference of up to 140 basis points for outlying districts. We expect yields to bottom out in 2019.

Office prime yield (net)



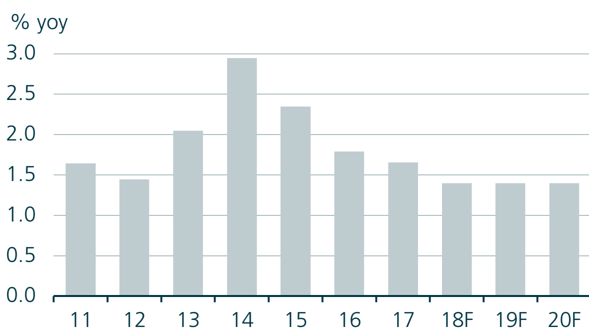
Source: PMA, DekaBank

UK

Economy

The future of the United Kingdom remains uncertain. Although Brussels and London have agreed on a deal, it appears increasingly unlikely it will be accepted by the British Parliament. The ongoing uncertainty is having a negative effect on the economy, particularly investments, which have fallen considerably. Ratification of a treaty would therefore provide an opportunity for catch-up effects to occur, but given that efforts are still being made to exit the EU, the flow of jobs and investment to the EU would likely continue. Interest rate policy is also now increasingly being oriented to the Brexit process. If the transitional phase begins soon, the next interest rate increase would likely be performed in the middle of 2019, despite the expected appreciation of the pound in this scenario, as the focus would still be on the risk of inflation due to weak potential growth.

Gross domestic product

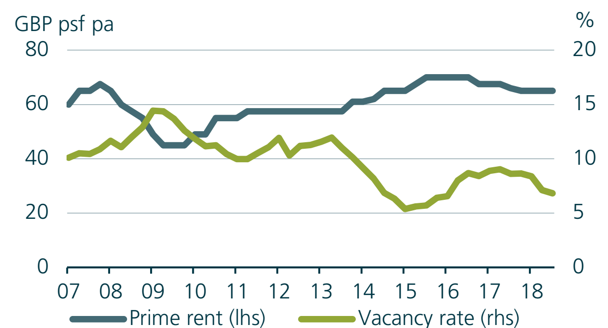


Source: IMF, DekaBank

Office markets

The London leasing market proved to be robust, in spite of the uncertainty associated with Brexit. Take-up in Central London was around 645,000 m² in the first nine months of 2018, 8% more than the same period in the previous year. This included many large leases, some outside the traditional office locations. Banks and financial service providers, creative businesses (social media, etc.) and business service providers generated the most demand. Flexible office space providers (WeWork, etc.) are particularly noteworthy. They were responsible for 16% of the space take-up. The vacancy rate in Central London decreased to 7% by the end of September. New construction volume was likely around 520,000 m² in 2018, 80% of which was in the City. Although completions will decrease in 2019/20, they are nevertheless expected to remain above the long-term average. A large share of the space is already pre-leased. Prime rents remained at the levels reached at the end of 2017 in all submarkets. We expect rents to move sideways in 2019 and 2020. They should increase slowly again starting in 2021. A sharp reduction in rents would be expected in a "hard Brexit" scenario due to weaker expected demand leading to higher vacancy rates in 2019/20. Space take-up in the regional centres was a good third higher in 2018 than the previous year. Brexit risks did not play a major role. Many locations benefited from large requests for space by the public sector and expansion of flexible office space providers. We expect moderate rent increases in the regional markets in 2019.

Vacancy rate and prime rents in London City

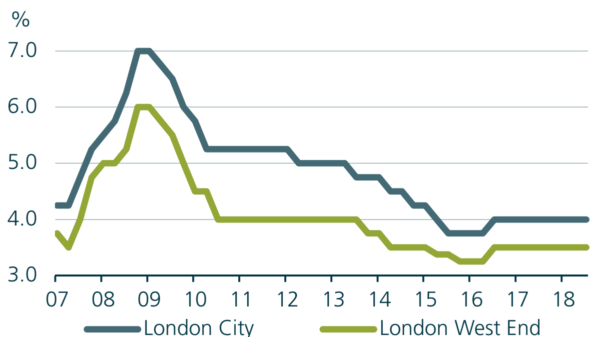


Source: PMA, DekaBank

Investment market

Office property generated an investment volume of EUR 22.4 billion nationwide by the end of September 2018, 5% less than the same period in the previous year. Around 70% of the volume was attributable to Central London, where the share due to foreign investors was around 85%. Two transactions had values in excess of EUR 1 billion. Yields remained unchanged in Central London, while the regional centres recorded decreases of up to 50 basis points. We expect yields to rise moderately in 2019, with larger increases likely in the event of a hard Brexit.

Office prime yield (net)



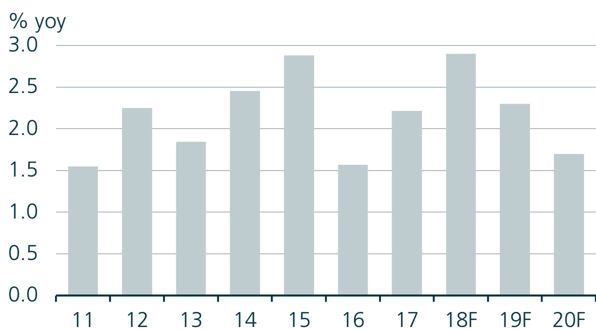
Source: PMA, DekaBank

USA

Economy

The US economy has reached the late phase of the upswing that began in 2009. The fiscal stimulus induced by tax cuts at the beginning of 2018 will lose strength in 2019/20. Monetary policy will also only be mildly accommodating or may even enter the slightly restrictive range. Taken together this implies a deterioration in general economic conditions and a slowdown in growth. The lack of a clear boundary between necessary monetary policy normalisation of economic growth (soft landing) and stalling the economy (hard landing) is a problem. The fact that there are no inflationary tensions and no noticeable excessive lending occurred during this upswing suggests that monetary policy will be more successful compared to the past, and the central bank will be able to quickly end its monetary policy tightening should there be increasing signs of undesirable economic slowdown.

Gross domestic product

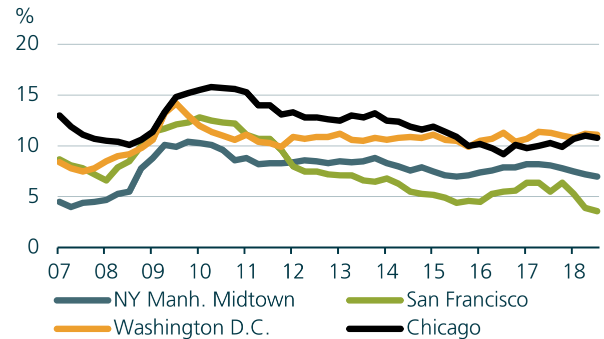


Source: IMF, DekaBank

Office markets

The demand for class A office space was higher in the first nine months of 2018 than the same period in 2017. Technology companies generated the highest demand, particularly on the west coast, followed by financial and advisory service providers. The country-wide vacancy rate declined slightly, both in the city centres and peripheral locations, indicating that supply and demand are balanced. Although new construction volume increased compared to previous years, it is at a manageable level and will likely only increase moderately again in coming years. A large share of the space under construction is already pre-leased. New construction in city centre locations is highly concentrated in the Midtown Manhattan, San Francisco, Seattle and Chicago markets. Rent increases were generally moderate, except for Boston, Downtown Manhattan and San Francisco, which recorded larger increases. We expect Atlanta, Downtown Manhattan and Seattle to have the largest rent increases in 2019/20. Overall, however, rent increases will likely be smaller after the large increases recorded in the past.

Class A vacancy rate

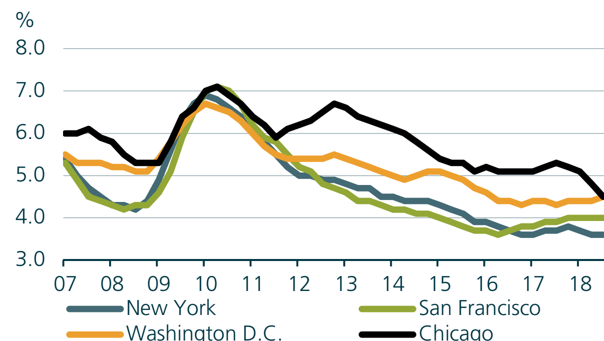


Source: CBRE-EA, DekaBank

Investment market

Commercial real estate transaction volume was around USD 190 billion in the first three quarters of 2018, 15% more than the same period in 2017. Around 50% of the volume was attributable to office real estate. Domestic investors predominated and in addition to core properties also pursued alternative strategies in secondary markets and the value-add segment. One quarter of the nationwide transaction volume was generated in the three leading locations of New York, Los Angeles and Chicago. Cap rates for class A office buildings continued to decline in some markets in the first three quarters, particularly Chicago and Houston. We expect cap rates to rise moderately due to the cautious increases in the key interest rate.

Class A office cap rate



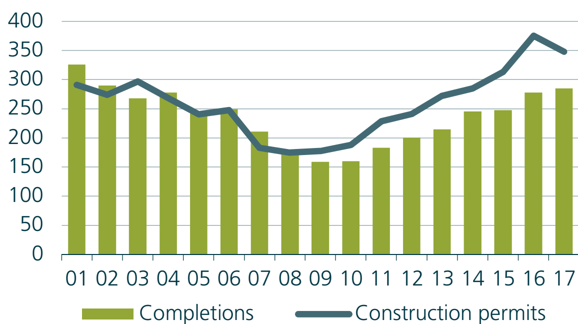
Source: CBRE-EA, DekaBank

European housing markets

Germany

Even political measures, such as rent control, have scarcely changed the basic problem affecting the German housing market. Large urban areas, in particular, continue to show a large gap between supply and demand. Approval was given for the construction of around 263,000 units in the first three quarters of 2018, a good 2% more than the same period in 2017. The increase was 8.3% for multi-family buildings, while single-family and two-family houses recorded decreases. However, a significant gap exists between approvals and completions due to limited capacity in the construction industry (shortage of skilled workers) and increased construction costs. As a result, around 300,000 units will likely be completed in 2018, considerably less than the forecast of 350,000 to 400,000 units needed annually until 2020.

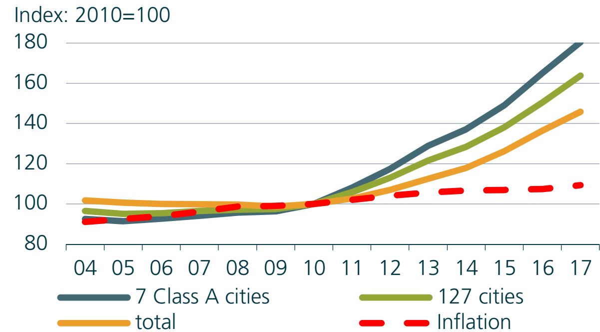
Housing construction in Germany in thousands of units



Source: Federal Statistical Office of Germany, DekaBank

The large amount of excess demand will likely cause further increases in purchase prices and rents, especially in the seven class A cities, but also in major cities with small and medium-sized populations that are experiencing rapid growth. According to data from the Bundesbank and bulwiengesa, prices have risen considerably faster in class A cities than the overall market since 2010. Purchase prices rose 80% until 2017 and rents 42%. Prices in Germany as a whole rose 46% over the same period and rents rose around 33%. There is no lack of suggestions to slow the price spiral: designate more land for construction in outlying areas with good access to local public transport, increase the share of residential in mixed-use inner city districts, accelerate the approval process, reduce land transfer taxes, lower-cost production methods. No relief can be expected, however, in the short term.

Housing prices in Germany

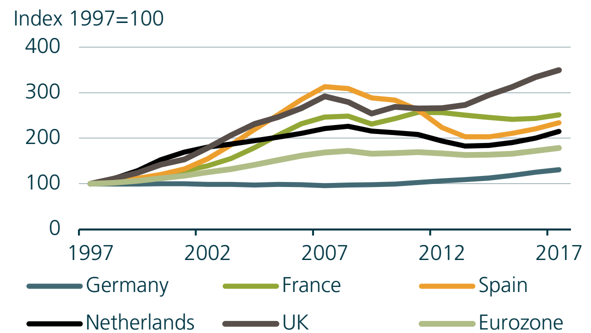


Source: Bundesbank, bulwiengesa, Destatis, DekaBank
Terraced houses, freehold flats and single-family houses; transaction-based property and regional weighting

Europe

The upward trend in home prices is not limited to Germany alone, but is instead taking place across Europe. Low interest rates, falling unemployment and rising real wages continue to awaken the dream of home ownership in many people, which then creates a high level of demand. Even though average nominal housing prices in the Eurozone have only risen about 6% since the financial crisis according to OECD data, if one looks at just the last three years the increase was 10%. With the exception of Italy and Greece, a major recovery began in this period in most European countries. Sweden, Norway and Switzerland, where central banks were concerned about the rise in home prices, were able to slow the rapid increases in the last one or two years. Macroprudential measures, such as limits on loan-to-value ratios (LTV) and higher capital requirements for banks helped in this regard.

Nominal house prices in Europe



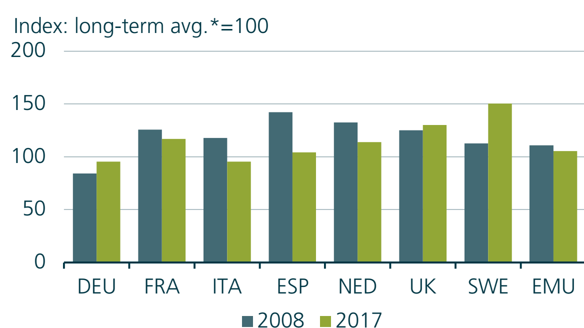
Source: OECD, DekaBank

European housing markets

In the Eurozone, the recent rapid increases in Austria, Germany, Ireland and the Netherlands are particularly noteworthy. A number of significant price increases also took place in Eastern Europe.

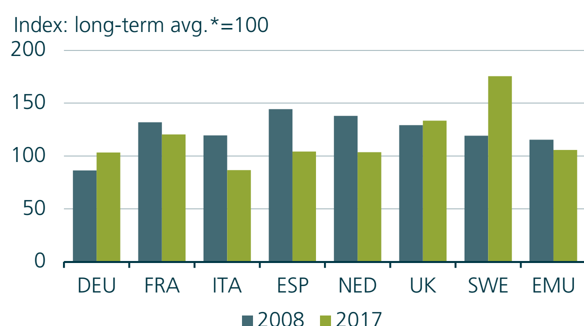
The picture painted by the ratio of home prices to income is considerably more mixed. While income has lagged behind home prices in Sweden, in particular, as well as Germany and the UK, over the last ten years, the opposite is true for Spain and the Netherlands. In spite of the rapid increase in home prices in the Netherlands since 2015, income has risen considerably more over the last ten years than home prices. The ratio of home prices to rent also fell considerably in both countries between 2008 and 2017. In Sweden, the UK and Germany, on the other hand, rents were also unable to keep up with the increase in home prices.

European house price to income ratios



Source: OECD, DekaBank; *since 1980, EMU since 1996

European house price to rent ratios



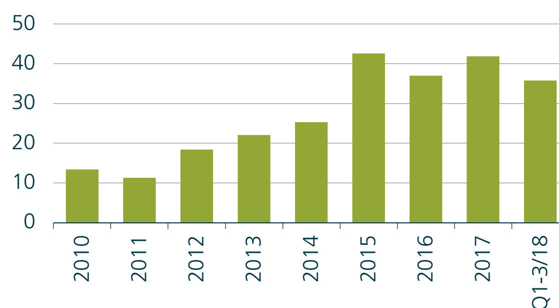
Source: OECD, DekaBank; *since 1980, UK since 1987

The high level of demand and shortage of supply, particularly in cities, has led to an increase in construction activity. Due to rising construction personnel costs, however, this has not yet reduced the pressure on prices. As the major central banks exit from their low interest rate policy, the resulting increase in financing costs should nevertheless prevent further significant price increases. The downward pressure on prices should, in turn, remain limited, as interest rates are expected to remain at a historically low level for the foreseeable future. In addition, ongoing economic growth – even though at a diminishing rate – will continue to provide support for the European labour market and income growth.

Investment market

European investment volume in commercial residential real estate was around EUR 36 billion for the first three quarters of 2018. This was around one fifth higher than the same period in the previous year, which means that a new record might be set for the year as a whole. This is suggested by the figures for Germany, by far the largest market, which had a transaction volume of EUR 16.3 billion for the year as a whole, 16% higher than the previous year. The high share of development projects and special forms of housing (e.g. micro-apartments) underscores the need for new housing that satisfies the needs of the market. Berlin has been the most popular investment location for several years, both for domestic and foreign investors. The focus is increasingly shifting to attractive class B and C cities as well as class A cities. After Germany, the UK, Netherlands and Nordic countries are the highest volume markets. This reflects the higher liquidity of these countries. Demand in France, on the other hand, is limited by extensive legal regulations. Initial yields remained generally unchanged in 2018. According to Catella, the European average is around 4%. Stockholm, Zurich, London, Paris, Munich, Vienna and Oslo are the most expensive locations, with yields between 1.5% and 3.0%. Cities in Eastern Europe, such as Prague, Warsaw and Krakow, are on the other end of the scale, in a range of 5.3% to 7.5%.

European residential investment volume in EUR billions



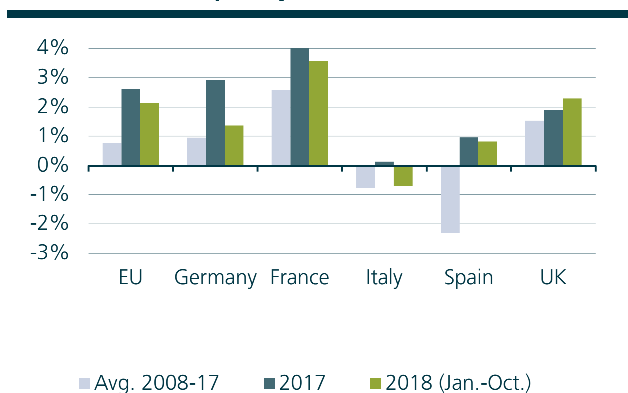
Source: CBRE, DekaBank; excluding France

European retail markets

Rental markets

Retail sales rose 2.6% in the EU in 2017 after adjusting for inflation, and 2.1% year-on-year in 2018 up to the end of October. After a major increase of 2.9% in 2017 as a whole, retail sales growth slowed to 1.4% in Germany. Above-average growth in German textile, clothing and shoe sales was followed by a decrease of 2.5%. The growth in mail order and Internet sales also slowed compared to previous years. Retail sales in France and the Netherlands, on the other hand, continued to grow at the same rate in 2018. Growth has been moderate in the UK since the referendum. The uncertainty due to Brexit is negatively affecting consumer confidence and causing the British to cut back. Growth in the UK is nevertheless still above the long-term average. Ireland and the countries of Eastern Europe recorded the largest increases, while retail sales weakened in Italy. Among the retail segments, mail order and internet sales continued to show the largest increases. The markets in Southern and Eastern Europe in particular have a great deal of structural catch-up to achieve in this area.

Retail sales, % vs. prev. yr.



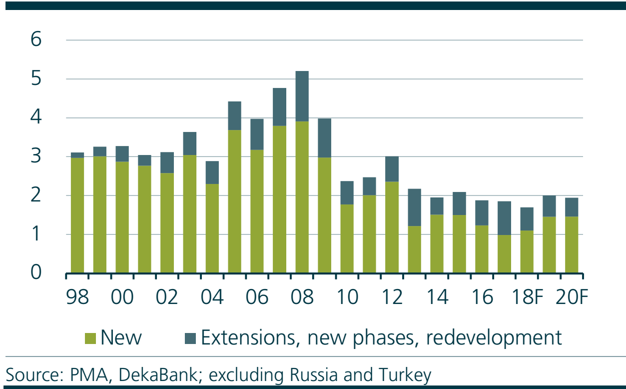
Source: Eurostat, DekaBank; inflation and seasonally adjusted, excluding cars and fuel

The online boom is putting physical retail under intense pressure, especially clothing retail, which is the traditional backbone of prime retail locations. Price transparency and the implementation of new technologies is causing retailer profitability to fall. New technologies, together with demographic change and changes in consumer behaviour, are forcing retailers to rethink their business models. Traditional retailers are reacting to the boom in online sales by expanding into digital distribution channels. Omnichannel retail offers networked customers a seamless buying experience across all channels. Physical retail has to provide added value to customers that online retail cannot offer, and is focusing on optimising the store network. Overall expansion is only taking place at a moderate pace. The general trend is towards small units, and lease renewals have become more difficult for large spaces. There are, however, international retail companies that continue to expand. The market continues to be divided. There is high consumer demand for the high-price quality segment, although luxury retailers are also starting to feel the effects of the online boom and make adjustments. Demand in the bottom segment of the market, on the other hand, is lively due to increased consumer price sensitivity. Due to low prices, clothing discounters like Primark suffer less from competition with online sales. The losers are in the middle segment, where there is a high level of competitive pressure and often a lack of market positioning. As a result, the restructuring of department store chains continues in Europe, as shown by the example of Kaufhof/Karstadt in Germany. Many retail concepts can no longer afford the high rents in top locations. Shorter leases, incentives and revenue-based rents are increasingly being demanded. Even prime locations are being affected by the ongoing consolidation. The sector mix is increasingly moving away from clothing towards more restaurants, more pharmacies and fitness studios. Retail agglomerations have particularly benefited from a high demand for basic consumer goods and considerably more affordable rents. Big boxes and retail parks have undergone major changes in recent years, moving away from the typical warehouse atmosphere to adjust to changes in consumer needs. Supermarket space has been strongly decimated and smaller convenience stores opened. The previously austere atmosphere of food markets has been replaced by merchandise displays appealing to emotion and comfort.

The structural problems and effects of the online boom are shown by increasing vacancy rates across Europe, both in city centre locations and shopping centres. Small shopping centres of up to 15,000 m² are being particularly affected, while large malls are proving to be relatively resilient. Shopping centre construction remains moderate across Europe. The focus is increasingly turning to repositioning older properties by expansion and modernisation. In the clothing sector, new concepts and brands are being used to meet the challenges of online retail. Attractive food courts and leisure areas are being used to meet the consumer need for experience orientation. The UK and Italy have the biggest pipelines of space under construction and in planning, followed by France, Poland and Spain. The largest percentage increases in space are expected in Ireland and Finland, followed by Poland, Italy and the UK.

European retail markets

Shopping centre completions in Europe in million m²



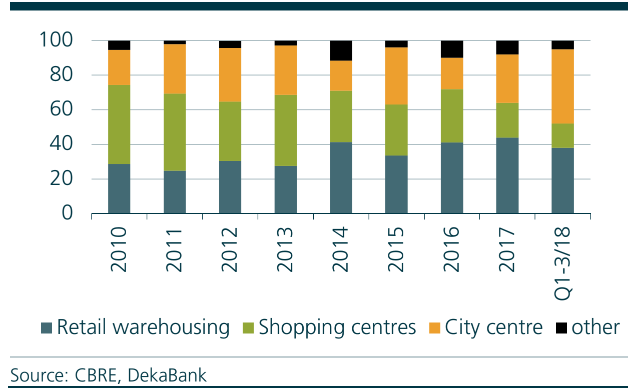
Source: PMA, DekaBank; excluding Russia and Turkey

In spite of the decrease in customer traffic, physical retail stores will continue to be important in the future. Stores allow customers to touch and try out merchandise, and are places of inspiration. E-Commerce providers are using temporary or permanent physical stores to generate synergies and create additional demand. Attractive major cities, in particular, will likely continue to be important retail locations. The differentiation between top and secondary locations will, however, continue to escalate in the cities. Prime locations with a high level of foot traffic in areas with high purchasing power generally have the advantage, particularly tourist hotspots. Structurally weak city centres, locations in the shadow of attractive major cities, outlying districts and poorly positioned shopping centres, on the other hand, are in a more difficult position. Large regional shopping centres with a balanced tenant and sector mix and correspondingly high leisure value will likely be able to cope better with online competition. The same applies to modern retail parks, thanks to their importance as local supply centres and more affordable rents.

Investment market

The European investment volume for retail real estate was EUR 36.2 billion in the first three quarters of 2018, 5% higher than the same period in the previous year. In spite of an 11% decrease compared to the previous year, Germany ended in first place with EUR 8 billion, followed by the UK (EUR 7.6 billion). Around half of the volume in Germany was generated in the third quarter, the period in which the merger of Kaufhof and Karstadt occurred. This is also the reason for the above-average ratio of city centre commercial buildings to total volume. Retail parks once again reached a high share of 38%, with investors also focusing on food markets. Retail parks have become increasingly attractive due to higher returns than commercial buildings and shopping centres, and greater resilience to the online boom. The declining trend continues for shopping centres. While shopping centres only generated 14% of German volume, the share in Europe as a whole was considerably higher at 39%. Shopping centres generated 44% of retail investment volume in the UK, and even represented the major share of volume in Belgium, Italy and Portugal.

Retail investment in Germany by segment, in %



Source: CBRE, DekaBank

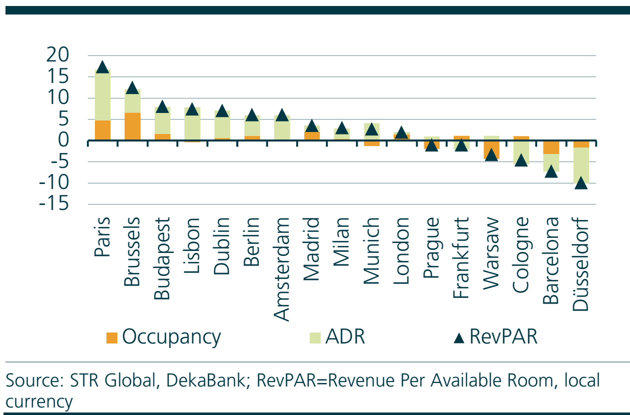
The picture is mixed for changes in yields. Shopping centres recorded initial yield increases. Due to high demand and limited supply, the yields for retail parks could continue to decrease in 2019. Commercial buildings in prime locations have started to bottom out, with prime yields remaining unchanged in many locations to the end of September 2018. German markets are still recording small decreases. Paris had the lowest yield of 2.5% for commercial buildings in prime locations. Amsterdam, Munich, Milan, Rome and London also recorded yields less than 3%. Initial yields for prime locations in London and Manchester rose due to Brexit. Unlike the UK, we do not expect any yield increases in Continental Europe before 2020. In combination with small rent increases, this will likely keep total returns in positive territory at the market level. The years when strong yield compression generated high returns are now behind us. The largest rent increases are expected in Dublin, the Eastern European markets and two Spanish markets, and returns should also be higher than the European average until 2023. In the UK, on the other hand, further small increases in yields and declining rents will likely temporarily move returns into negative territory.

European hotel markets

Market performance

Europe-wide room revenues recorded a year-on-year increase of 3.5% during the period from January to October 2018. Lively demand mainly caused further increases in room prices. In the markets we analysed, Paris was the leader with 17.4%, followed by Brussels with 12.5%. Both occupancy and room prices rose in Brussels. The weakest growth was recorded in Düsseldorf and Barcelona. Barcelona was likely affected by political escalation. Düsseldorf was affected by the cycle of trade fairs, due to events not occurring on a yearly basis. Dublin had the highest occupancy rate of 85%, with average room rates rising strongly for the eighth year in a row. In spite of expansions in capacity, London and Amsterdam achieved very high occupancy rates of 83%. Occupancy is very high in European markets compared to the long-term average.

Performance in 2018 (to the end of Oct.), % vs. prev. yr.

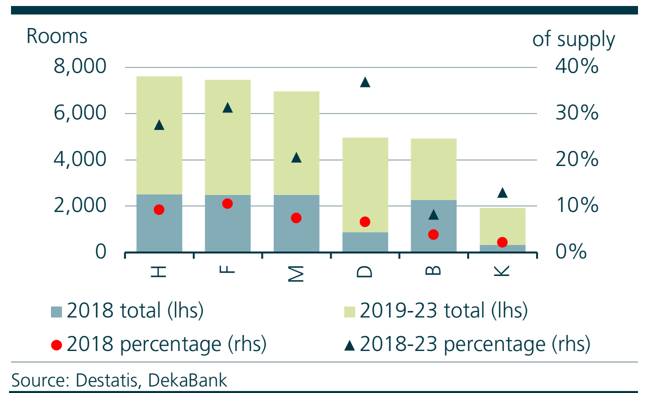


Source: STR Global, DekaBank; RevPAR=Revenue Per Available Room, local currency

Supply

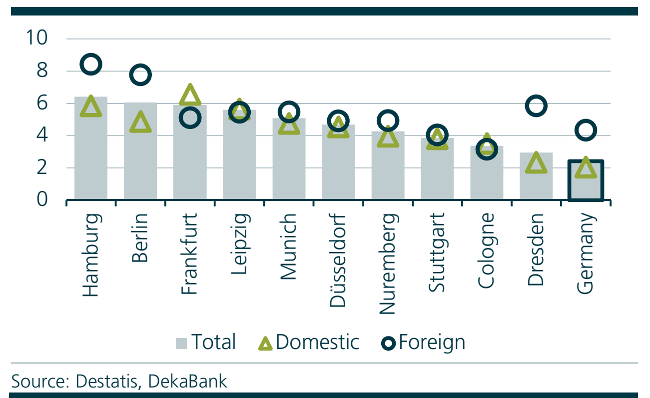
More than 385,600 rooms were in the pipeline in Europe in October 2018, including 142,300 (37%) under construction and a further 23% in the final planning stage. The main focus is on the UK and Germany. The hotel market is benefiting from the increasing trend of Germans to holiday in their own country. The trend to multiple but shorter trips favours city trips. Around 11,000 rooms are expected to have been completed in 60 projects in the six top markets in Germany in 2018. Another 23,000 rooms are under construction or firmly planned for completion by the end of 2023. Hamburg has the biggest project pipeline, followed by Frankfurt. Given the large number of projects, a look at the demand side helps answer the question of how sustainable this growth is. The growth in overnight stays gives a rough indication. Hamburg, Berlin and Frankfurt recorded the fastest growth since 2007. Düsseldorf recorded slower growth, and is also expecting the largest increase in supply relative to existing stock. This lively construction activity is likely to increasingly impact on future occupancy rates and limit the growth in returns. A market consolidation cannot, in general, be ruled out. New brands and concepts are forcing their way onto the market and increasing the level of competition. Given the shortage of construction workers, it nevertheless remains to be seen whether all the projects can actually be realised.

German hotel projects in progress and in planning



Source: Destatis, DekaBank

Growth in overnight stays since 2007, in % p.a.



Source: Destatis, DekaBank

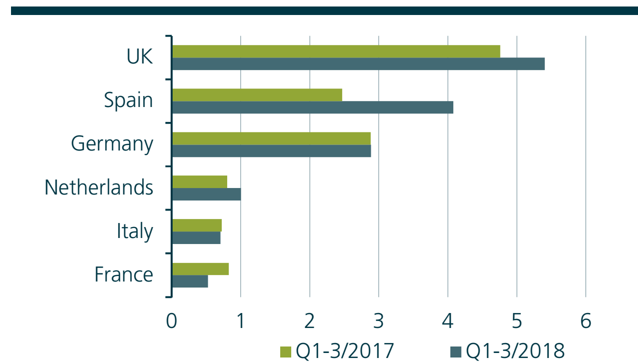
Construction activity also increased in London. Despite the upcoming Brexit, London might have added more rooms in 2018 than the 2012 Olympics year. Capacity also continues to expand in Amsterdam. The effects of the more restrictive approval policy will likely be felt after 2020. Dublin and the Nordic capitals also have extensive project pipelines thanks to good performance in previous years. This is particularly the case in Copenhagen, which had a previous period of little construction activity.

European hotel markets

Investment market

Almost EUR 16 billion was invested in European hotels in the first three quarters of 2018, 6% more than the same period in the previous year. One third, or EUR 5.4 billion, of the volume was generated in the UK, representing an increase of 13% over the previous year. Spain overtook Germany with a 65% increase to more than EUR 4 billion. Volume in the Netherlands rose by a quarter compared to the first three quarters of 2017 to around one billion. France, especially, and Italy recorded decreases. At 4.0%, London, Stockholm, Vienna and the German top markets recorded the lowest initial yields for hotels with operational lease agreements. Paris, Amsterdam, Brussels and Dublin offered yield spreads of 50 or 100 basis points. The yield differential for the markets in Eastern and Southern Europe averaged 125 basis points. Initial yields in Brussels, Helsinki, Milan, Warsaw and Vienna declined 25 basis points by the end of the third quarter of 2018, with the market otherwise remaining unchanged. There are signs that a trough has been reached. High demand and limited supply will likely keep yields low for the time being in this ongoing low interest rate environment and limit future increases.

Investment volume by country in EUR billions



Source: CBRE, DekaBank

Hotel key figures

Location	ADR in EUR	Occupancy in %	RevPAR in EUR	ADR in EUR	Occupancy in %	RevPAR in EUR	RevPAR in local currency
		Jan.-Oct. 2018		Percentage change vs. previous year			
Amsterdam	153.5	82.9	127.3	5.8	0.2	6.1	6.1
Barcelona	141.4	78.8	111.5	-4.1	-3.2	-7.2	-7.2
Berlin	101.4	78.7	79.9	4.9	1.1	6.1	6.1
Brussels	114.5	72.4	83.0	5.5	6.6	12.5	12.5
Budapest	87.7	80.1	70.2	2.4	1.6	4.1	8.1
Dublin	147.2	85.4	125.7	6.5	0.6	7.1	7.1
Düsseldorf	107.6	69.1	74.3	-8.4	-1.7	-9.9	-9.9
Edinburgh	120.3	83.5	100.4	0.0	-1.4	-1.4	-0.6
Frankfurt	122.6	70.4	86.3	-2.1	1.1	-1.0	-1.0
Helsinki	110.2	72.0	79.3	2.5	1.5	4.0	4.0
Cologne	112.4	73.8	83.0	-5.6	1.0	-4.6	-4.6
Copenhagen	146.2	80.7	118.0	2.4	0.4	2.8	3.0
Lisbon	124.9	80.0	99.8	7.9	-0.4	7.5	7.5
London	167.6	83.2	139.5	-0.7	1.5	0.8	2.0
Madrid	109.4	74.4	81.4	1.5	2.1	3.6	3.6
Milan	144.4	71.6	103.4	2.5	0.4	3.0	3.0
Munich	169.2	77.5	131.2	4.1	-1.3	2.8	2.8
Paris	221.2	79.4	175.7	12.0	4.8	17.4	17.4
Prague	91.3	79.0	72.2	3.5	-2.0	1.5	-1.0
Vienna	100.3	76.7	77.0	4.9	2.1	7.1	7.1
Warsaw	75.8	76.1	57.7	0.7	-4.3	-3.7	-3.3
Europe	**112.6**	**73.4**	**82.7**	**2.2**	**1.2**	**3.5**	**n.a.**

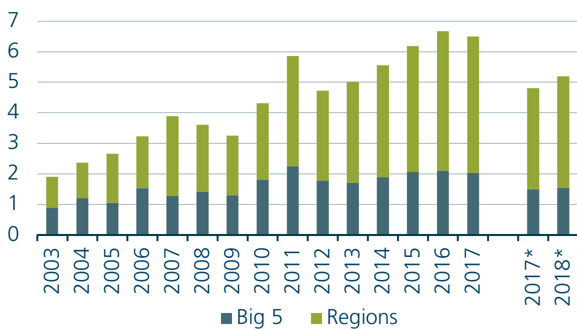
Source: STR Global, DekaBank; ADR = average daily rate; RevPAR = revenue per available room

European logistics markets

Rental markets

After record results in the previous year, the robust economy and online boom kept take-up high and above the long-term average in 2018. Logistics service providers and retail (including e-commerce) generated the most demand. Space optimisation and consolidation nevertheless continue to be significant drivers. The increase in turnover due to shorter lease terms, especially for existing properties, is also causing a general increase in take-up compared to previous years. Germany set a new record of 5.2 million m² in the first three quarters of the year, exceeding the previous year by 8% and the five and ten-year averages by as much as 15% and 32%. Most of the take-up, 70%, took place outside the major metropolitan areas of Berlin, Düsseldorf, Frankfurt, Hamburg and Munich (BIG 5).

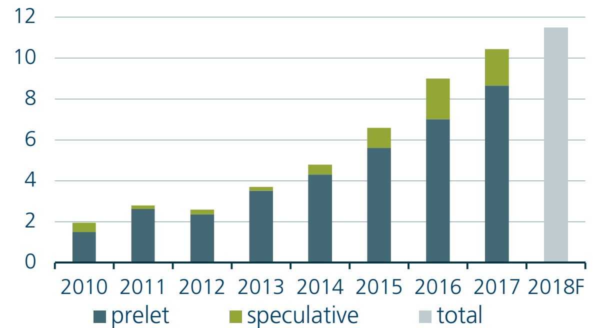
Take-up in Germany in million m²



Source: JLL, DekaBank; *each up to and incl. Q3

The vacancy rate continues to be low across Europe. Due to the low availability of large, modern logistics space, companies often need to cover their needs through new building projects. Pre-leasing and owner-occupancy dominate. Amazon alone secured more than 1.2 million m² of new construction space since the beginning of 2017, followed a significant distance behind by other retailers like Carrefour, Metro, Lidl and Zalando. Completions have increased steadily across Europe since 2013. A new record was likely set in 2018. Germany is the strongest market, followed by Eastern Europe and the Netherlands. Construction is also increasing due to the great demand for appropriate investment products. The speculative share was around 17% lower in 2017 than the previous year. The increase in speculative projects in Germany and Southern Europe was offset by decreases in the UK and Poland. Speculative projects increased again in the first half of 2018, including in the UK in particular. Close to a quarter of completions Europe-wide were speculative, and there was an increase in the share of smaller lot sizes compared to 2017.

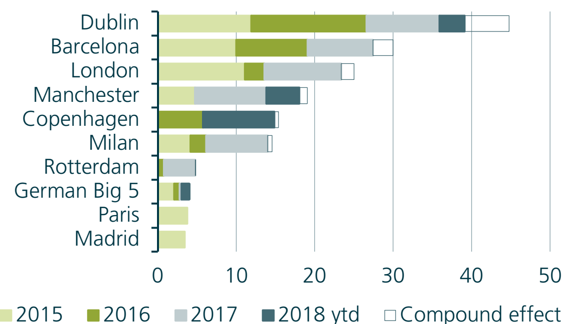
Completions in Europe in million m²



Source: PMA, DekaBank; 16 countries, area >10,000 m²

Prime rents rose an average of 1.4% across 30 markets in the first three quarters of 2018. The largest increases of up to 9% were recorded in Copenhagen, Budapest and Lisbon. Berlin, Manchester and Dublin also recorded strong increases. The Irish capital has been the leader in rent increases since 2015. Most of the markets remained unchanged in 2018. The low margins of logistics service providers and retail companies and competition from new construction space will continue to limit potential rent increases in the future. Investment demand, including by institutional investors, leads to greater competition between developers searching for users. The increase in construction costs is reflected more in higher purchase prices than rising rents. The outlook to 2023 is modest, with expected rents increasing an average of one per cent per year. Due to higher property prices and competition from other usage types, properties for the so-called “last mile” are recording larger rent increases than large logistics units.

Prime rent, vs. prev. yr. in %



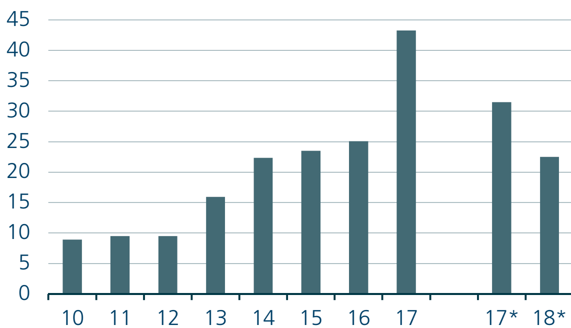
Source: PMA, DekaBank; ytd: Q1-Q3

European logistics markets

Investment market

Logistics and industrial real estate with a total value of EUR 22.5 billion changed hands in the first three quarters of 2018. As expected, volume fell considerably below the record set in the previous year due to the sale of the Logicor portfolio, among other things. It was nevertheless the second-best result ever achieved. Following a previous high level of 17%, the logistics share of total commercial transaction volume (not including residential) was 12.5% up to the end of September 2018. Despite the short supply of available product and risks associated with Brexit, the UK recorded the highest volume of EUR 6.1 billion. Germany followed with around EUR 5 billion from 160 deals. The share due to foreign investors was 71%, compared to 45% for all commercial usage types. Logistics portfolios in Germany and Europe are in great demand by Asian investors. France was the third largest market (EUR 2.5 billion), followed by the Netherlands (EUR 1.5 billion) and Spain (EUR 1.1 billion).

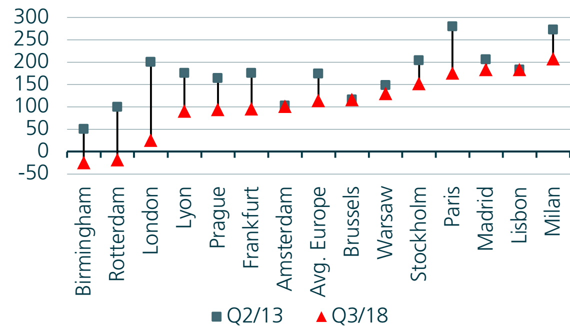
European investment volume in EUR billions



Source: CBRE, DekaBank; *each up to and incl. Q3

Due to lively demand and limited supply, prime yields fell another 30 basis points on average in the first three quarters of 2018. Amsterdam, Rotterdam, Helsinki, Lille, Lyon, Milan and Stockholm recorded the strongest compression of 50 basis points. Initial yields fell 40 basis points in the German BIG 5. At 3.75%, London is the most expensive location in terms of prime yields, followed by the German market with 4.1%. The spread between logistics and office yields has shrunk significantly since 2013 to a level not seen since 2007. In some UK markets and in Rotterdam, the biggest sea port in Europe with a comparatively weak office market, logistics yields are below or only slightly higher than the prime yields for office buildings. Due to the high level of demand, the downward pressure on logistics yields will likely continue for the time being before starting to bottom out towards the end of 2019.

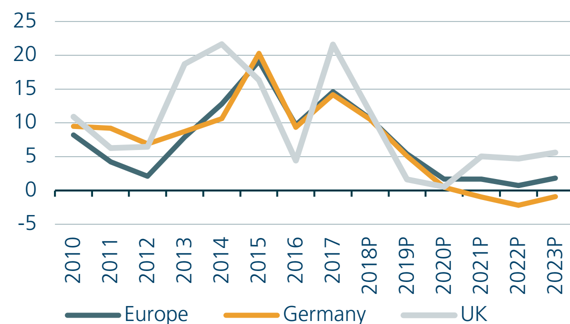
Yield gap between logistics and office in basis points



Source: PMA, DekaBank

Due to strong yield compression, logistics markets across Europe generated very high total returns of almost 15% in 2017. A double-digit return of around 10% will likely also be recorded in 2018. The following years will show a downward trend, with yields expected to bottom out or even record first small increases from 2020 onwards. We expect a total return of around 5% in 2019, followed by a further growth slowdown to 1.5% per year until 2023. The stimulus from rental markets will likely remain limited and insufficient to offset the effect of rising initial yields. The ongoing low interest rate environment should, however, keep yield increases within limits and at worst push returns just slightly into negative territory. Starting in 2021, the return outlook for UK markets will likely be higher than the European average in expectation of highly stable yields and faster rent growth.

Logistics total returns by region, in %



Source: PMA, DekaBank

Forecasts

Global economic development

Country/ country group	Gross domestic product Change vs. prev. year in %					Consumer prices[1] Change vs. prev. year in %				
	2016	2017	2018F	2019F	2020F	2016	2017	2018F	2019F	2020F
Germany	2.2	2.5	1.5	1.3	1.7	0.4	1.7	1.9	1.5	2.0
France	1.1	2.3	1.5	1.3	1.5	0.3	1.2	2.1	1.3	1.8
Italy	0.9	1.5	0.9	0.7	0.9	-0.1	1.3	1.2	1.0	1.6
Spain	3.2	3.0	2.5	2.3	2.1	-0.2	2.0	1.7	0.9	1.7
Netherlands	2.2	2.9	2.6	1.9	2.0	0.1	1.3	1.6	1.3	2.0
Belgium	1.4	1.7	1.4	1.4	1.3	1.8	2.2	2.3	1.8	1.9
Austria	1.5	3.0	2.6	1.9	1.8	1.0	2.2	2.1	1.6	2.1
Portugal	1.6	2.7	2.1	1.6	1.4	0.6	1.6	1.2	0.6	1.6
Finland	2.5	2.8	2.3	1.9	1.8	0.4	0.8	1.2	1.2	1.9
Luxembourg	3.1	2.3	4.2	3.2	3.6	0.0	2.1	2.1	2.0	2.3
Eurozone	**1.9**	**2.4**	**1.9**	**1.5**	**1.6**	**0.2**	**1.5**	**1.7**	**1.3**	**1.8**
UK	1.8	1.7	1.4	1.4	1.4	0.7	2.7	2.5	2.2	2.1
Sweden	2.7	2.1	2.3	1.6	1.9	1.1	1.9	2.0	1.9	1.8
Denmark	2.0	2.3	1.1	1.9	1.6	0.3	1.1	0.7	1.2	1.6
Poland	3.0	4.7	5.2	4.0	3.0	-0.6	2.0	1.7	1.9	2.4
Czech Rep.	2.5	4.3	2.8	2.5	2.4	0.7	2.4	2.2	1.9	1.8
Hungary	2.2	4.0	4.8	3.4	2.6	0.4	2.4	2.9	3.1	2.9
EU-28	**2.0**	**2.7**	**2.1**	**1.8**	**1.8**	**0.2**	**1.7**	**1.9**	**1.5**	**1.9**
USA	1.6	2.2	2.9	2.3	1.7	1.3	2.1	2.4	2.1	2.4
Japan	1.0	1.7	0.7	0.7	-0.1	-0.1	0.5	1.0	1.5	2.4
Canada	1.4	3.0	2.1	1.8	1.6	1.4	1.6	2.2	1.4	1.8
Australia	2.6	2.2	2.9	2.6	2.5	1.3	2.0	1.9	1.6	2.3
Switzerland	1.6	1.7	2.6	1.6	1.8	-0.4	0.5	1.0	0.6	1.1
Norway	0.8	3.1	2.4	2.1	1.8	3.6	1.9	2.7	1.9	1.5
Russia	-0.2	1.5	1.8	1.4	1.6	7.1	3.7	2.9	4.8	3.9
Turkey	3.2	7.4	3.1	-0.1	2.9	7.8	11.1	16.2	15.5	10.9
Ukraine	2.4	2.5	3.3	2.8	2.1	13.9	14.4	11.0	8.7	8.0
Brazil	-3.5	1.0	1.3	2.5	2.2	8.7	3.4	3.8	4.4	3.9
Mexico	2.9	2.0	2.1	1.8	2.0	2.8	6.0	4.9	4.5	3.8
Argentina	-1.8	2.9	-2.6	-1.3	2.1	10.6	25.7	33.6	35.6	20.2
Chile	1.3	1.5	4.0	2.9	3.0	3.8	2.2	2.5	3.2	2.7
China	6.7	6.9	6.6	6.2	6.0	2.0	1.6	2.1	1.9	2.3
India	7.1	6.7	7.6	7.2	7.1	4.5	3.6	4.0	4.3	4.7
South Korea	2.9	3.1	2.6	2.6	2.6	1.0	1.9	1.5	1.1	1.9
Hong Kong	2.2	3.8	3.8	3.3	1.9	2.4	1.5	1.5	2.4	2.1
Singapore	2.4	3.6	3.6	3.2	2.5	-0.5	0.6	0.6	0.4	1.3
World[2]	**3.3**	**3.7**	**3.7**	**3.4**	**3.3**	**2.8**	**3.2**	**3.2**	**3.2**	**3.2**

1) For the Eurozone, Denmark, Sweden and United Kingdom: the harmonised index of consumer prices.
2) Due to hyperinflation, Venezuela consumer prices were not included starting in 2017.

Source: National statistical offices, IMF, Oxford Economics, DekaBank forecast

Forecasts

European office markets: Prime rents

	EUR/m²/year*	Change vs. previous year-end (%)						
	Q3/18	Q3/18	2018F	2019F	2020F	2021F	2022F	2023F
Berlin	390	8.3	10.0	4.0	2.0	2.0	1.5	1.5
Düsseldorf	306	2.0	2.0	4.0	2.0	1.0	1.0	1.0
Frankfurt	480	5.3	7.0	3.0	2.0	1.0	1.0	1.0
Hamburg	324	1.9	4.0	3.5	1.0	0.0	1.0	1.0
Cologne	252	5.0	5.0	4.0	2.0	1.0	1.0	0.0
Munich	450	2.7	4.0	4.0	2.5	1.0	1.0	1.0
Stuttgart	264	0.0	2.0	2.5	2.0	1.0	0.0	0.0
Avg. Germany**	**n.a.**	**4.1**	**5.5**	**3.6**	**1.9**	**1.1**	**1.0**	**0.9**
Amsterdam	395	2.6	4.0	5.0	2.0	0.0	0.0	0.0
Barcelona	282	5.6	7.0	3.0	0.0	0.0	0.0	0.0
Brussels	235	2.2	2.5	0.0	0.0	1.0	1.5	1.5
Budapest	220	1.7	2.0	1.0	1.0	0.0	0.0	0.0
Helsinki	306	1.3	2.5	2.0	1.5	1.5	1.0	1.0
Lisbon	198	0.0	0.0	3.0	2.0	0.0	0.0	0.0
London City	793	0.0	0.0	0.0	0.0	1.0	2.0	2.0
London West End	1,256	0.0	0.0	0.0	0.0	0.0	1.0	1.0
Lyon	255	6.3	7.5	2.0	0.0	0.0	0.0	1.0
Luxembourg	564	0.0	0.0	2.0	0.0	0.0	0.0	1.0
Madrid	384	4.9	6.0	3.0	0.0	0.0	0.0	0.0
Milan	550	5.8	7.5	3.0	0.0	0.0	1.0	1.0
Oslo	406	5.3	5.5	4.0	2.0	0.0	0.0	0.0
Paris CBD	810	4.5	4.5	3.0	1.5	1.5	1.0	1.0
Prague	245	4.6	5.5	4.0	1.0	0.0	0.0	0.0
Stockholm	674	6.3	7.5	4.0	2.0	1.0	1.0	1.0
Warsaw	246	1.0	1.0	2.0	0.0	0.0	0.0	1.0
Vienna	276	-1.1	-1.0	2.0	2.0	1.0	1.0	1.0
Avg. Europe ex Germany**	**n.a.**	**3.1**	**3.7**	**2.4**	**1.0**	**0.6**	**0.7**	**0.8**
Avg. Europe incl. Germany**	**n.a.**	**3.5**	**4.4**	**2.9**	**1.3**	**0.8**	**0.8**	**0.8**

Source: PMA, DekaBank forecast; *constant exchange rates Dec. 2017, **stock-weighted

European office markets: Prime yield

	Multiplier	Net initial yield (%)						
	Q3/18	Q3/18	2018F	2019F	2020F	2021F	2022F	2023F
Berlin	34.5	2.9	2.8	2.8	2.8	3.0	3.2	3.4
Düsseldorf	30.8	3.3	3.2	3.2	3.2	3.4	3.6	3.7
Frankfurt	31.7	3.2	3.1	3.1	3.1	3.3	3.5	3.6
Hamburg	32.8	3.1	3.0	3.0	3.0	3.2	3.4	3.5
Cologne	29.4	3.4	3.4	3.4	3.4	3.6	3.8	4.0
Munich	33.3	3.0	3.0	3.0	3.0	3.2	3.4	3.5
Stuttgart	30.3	3.3	3.3	3.3	3.3	3.5	3.7	3.9
Avg. Germany*	**n.a.**	**3.1**	**3.1**	**3.1**	**3.1**	**3.3**	**3.5**	**3.6**
Amsterdam	28.7	3.5	3.4	3.4	3.4	3.6	3.8	4.0
Barcelona	28.0	3.6	3.5	3.5	3.5	3.7	3.9	4.1
Brussels	23.9	4.2	4.1	4.1	4.1	4.3	4.4	4.5
Budapest	18.9	5.3	5.2	5.2	5.2	5.4	5.6	5.8
Helsinki	27.0	3.7	3.6	3.6	3.6	3.8	4.0	4.1
Lisbon	22.6	4.4	4.4	4.4	4.4	4.6	4.8	5.0
London City	25.0	4.0	4.0	4.2	4.2	4.2	4.2	4.2
London West End	28.6	3.5	3.5	3.7	3.7	3.7	3.7	3.7
Lyon	25.6	3.9	3.8	3.8	3.8	4.0	4.2	4.3
Luxembourg	23.8	4.2	4.1	4.1	4.1	4.3	4.4	4.5
Madrid	29.1	3.4	3.4	3.4	3.4	3.6	3.8	4.0
Milan	29.2	3.4	3.4	3.4	3.4	3.7	3.9	4.1
Oslo	27.8	3.6	3.5	3.5	3.5	3.7	3.9	4.1
Paris CBD	33.3	3.0	2.9	2.9	2.9	3.1	3.3	3.4
Prague	22.5	4.4	4.4	4.4	4.4	4.6	4.8	5.0
Stockholm	31.0	3.2	3.2	3.2	3.2	3.4	3.6	3.9
Warsaw	21.2	4.7	4.7	4.7	4.7	4.9	5.1	5.3
Vienna	27.0	3.7	3.7	3.7	3.7	3.9	4.1	4.2
Avg. Europe ex Germany*	**n.a.**	**3.7**	**3.6**	**3.7**	**3.7**	**3.9**	**4.0**	**4.2**
Avg. Europe incl. Germany*	**n.a.**	**3.5**	**3.4**	**3.4**	**3.4**	**3.6**	**3.8**	**4.0**

Source: PMA, DekaBank forecast; * stock-weighted

Forecasts

US office markets: Average class A rent (gross asking rent)

	USD/sf/year	Change vs. previous year-end (%)						
	Q3/18	Q3/18	2018F	2019F	2020F	2021F	2022F	2023F
Atlanta Downtown	30.9	6.6	7.0	2.0	1.0	0.5	1.5	1.5
Boston Downtown	64.9	6.1	6.5	3.0	0.0	-1.0	0.0	1.0
Chicago Downtown*	26.3	2.1	2.5	1.5	1.0	0.0	1.0	1.0
Dallas*	23.5	1.9	2.0	0.5	1.0	0.0	1.0	1.0
Houston*	21.2	-2.8	-3.0	-1.0	0.0	0.0	1.0	1.0
Los Angeles Downt.	35.1	-4.4	-3.0	1.0	0.0	0.0	1.5	1.0
Manh. Downt. (NYC)	63.2	7.8	8.0	2.5	0.0	0.0	2.0	2.0
Manh. Midtown (NYC)	81.2	-3.5	-2.0	1.0	0.0	0.0	1.0	1.0
San Francisco City	64.2	6.7	7.0	2.0	1.0	0.0	1.0	1.0
Seattle Downtown	37.3	-2.5	3.0	2.0	0.0	0.0	2.0	2.0
Washington D.C.	51.7	1.3	2.0	-1.0	0.0	0.0	1.0	1.0
Average**	**n.a.**	**0.7**	**1.5**	**1.0**	**0.4**	**0.0**	**1.2**	**1.1**

Source: CBRE-EA, DekaBank forecast; *net asking rent ** stock-weighted

US office markets: Cap rate

	Cap rate (%)						
	Q3/18	2018F	2019F	2020F	2021F	2022F	2023F
Atlanta Downtown	5.3	5.3	5.2	5.4	5.6	5.6	5.6
Boston Downtown	3.9	3.9	4.1	4.3	4.5	4.6	4.6
Chicago Downtown*	4.5	4.5	4.7	4.9	5.1	5.2	5.2
Dallas*	4.7	4.7	4.8	5.0	5.2	5.3	5.3
Houston*	5.2	5.2	5.4	5.7	6.0	6.1	6.1
Los Angeles Downt.	4.1	4.0	4.2	4.4	4.6	4.7	4.7
Manh. Downt. (NYC)	3.6	3.6	3.8	4.0	4.2	4.3	4.3
Manh. Midtown (NYC)	3.6	3.6	3.8	4.0	4.2	4.3	4.3
San Francisco City	4.0	4.0	4.2	4.4	4.5	4.5	4.5
Seattle Downtown	4.3	4.3	4.4	4.6	4.8	4.9	4.9
Washington D.C.	4.5	4.4	4.6	4.8	5.0	5.2	5.2
Average*	**4.4**	**4.3**	**4.5**	**4.7**	**4.9**	**5.0**	**5.0**

Source: CBRE-EA, DekaBank forecast; * stock-weighted

Asia-Pacific office markets: Prime rents

	EUR/m²/year*	Change vs. previous year-end (%)						
	Q3/18	Q3/18	2018F	2019F	2020F	2021F	2022F	2023F
Seoul	512	1.6	1.7	1.7	-0.2	0.8	2.2	2.5
Singapore	795	8.0	8.9	7.9	5.8	3.6	-1.4	-2.4
Tokyo	941	3.9	4.0	1.3	0.0	0.2	-1.1	-0.5
Brisbane	350	1.0	1.0	1.0	1.8	1.7	0.4	0.1
Melbourne	367	3.5	4.7	0.5	-1.0	1.7	2.1	2.5
Perth	352	0.0	0.3	0.8	2.6	3.2	2.5	0.9
Sydney	640	5.1	6.0	2.7	0.5	-1.9	-2.5	-2.0
Average**	**n.a.**	**3.7**	**4.1**	**2.2**	**0.8**	**0.9**	**-0.1**	**0.1**

Source: PMA, DekaBank forecast; *constant exchange rates Dec. 2017, ** stock-weighted

Asia-Pacific office markets: Prime yield

	Net initial yield (%)						
	Q3/18	2018F	2019F	2020F	2021F	2022F	2023F
Seoul	4.4	4.4	4.5	4.6	4.6	4.7	4.8
Singapore	3.3	3.3	3.4	3.5	3.6	3.7	3.8
Tokyo	2.5	2.5	2.5	2.5	2.5	2.6	2.8
Brisbane	5.6	5.6	5.5	5.6	5.6	5.7	5.8
Melbourne	4.7	4.7	4.6	4.7	4.7	4.8	4.9
Perth	6.3	6.3	6.2	6.2	6.3	6.4	6.5
Sydney	4.5	4.5	4.4	4.5	4.6	4.7	4.8
Average*	**3.7**	**3.7**	**3.7**	**3.7**	**3.8**	**3.9**	**4.0**

Source: PMA, DekaBank forecast; * stock-weighted

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