Catella: End of price increase in sight?

- No further price increase expected in most European markets
- Investors keep focusing on Germany, followed by France
- Structural shift of investment activity from retail to logistics

Catella Research has released current yield figures based on the latest data from August 2018. In the course of the analysis, Catella looked at top yields for the asset classes office, retail and logistics for a total of 40 European locations. The actual top yields recorded in the first half of 2018 are compared to expectations regarding the full year.

The result: A clear majority of European markets do not expect any further increase in prices across the asset classes under analysis. The strong price rally appears to be over in the area of retail properties, in particular. Investor interest remains high only with regard to office properties. In this class, yield expectations until the end of the year are stable in 26 out of the 40 locations that were examined.

Throughout Europe there are no outliers with the exception of Helsinki, which is the only location where yields are going to continue to decline in all asset classes. The reason for that is the high international attractiveness of Finland's capital.

Germany remains in the spotlight of investors

Investors are still focusing on the German market the most, followed by France. In contrast, investments remain subdued in the UK, where there is still uncertainty with regard to the final terms of Brexit. Generally, investors are making very rational, coolly calculated decisions right now. There are first clear signs of a structural shift of investments from retail towards logistics properties.

According to Dr Thomas Beyerle, Head of Group Research at Catella, "Expectations that price growth will slow down in Europe reflect a very rational perspective on the part of investors, which mainly focuses on the mid- to long-term exit of today's investments. Many assumed political uncertainties and risks are priced into the numbers."

As for the individual classes, the analysis shows the following developments.

Asset class office

Yields are going to remain stable until the end of the year in 26 locations. However, top yields are expected to decline further in the remaining 14 locations including Brussels, Helsinki, Paris, Berlin, Frankfurt, Munich, the Baltic states, Luxembourg, and Oslo. Nevertheless, investors still see growth potential in these locations and therefore stay in buying mode.

Asset class retail

In the asset class of retail properties, yields remain stable in almost all of the locations under analysis. In Helsinki, Munich and Stuttgart they are expected to decrease, though. According to Catella, markets will slow down significantly across the board. Prices may continue to increase only in Southern Germany. Apparently, the issue of online shopping has now largely been recognised in prices by many investors.

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Asset class logistics

As the asset class of logistics properties is characterised by certain particularities, it was examined not only with regard to the respective urban area but to the entire corresponding regional cluster. The Catella experts predict that top yields will remain stable until the end of the year in 24 out of the remaining 39 locations. In the other 15 locations including Vienna, Helsinki, all German regions under analysis, Rome and Milan, Amsterdam, Lisbon, Barcelona and Zurich, yields are expected to fall. On the whole, the European market for logistics real estate investments remains rather dynamic. Interest focuses on the identification of growth areas, especially in European urban agglomerations. Germany is the target market number one, followed by the Netherlands and certain parts of France.

You will find the complete analysis on catella.com/research

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