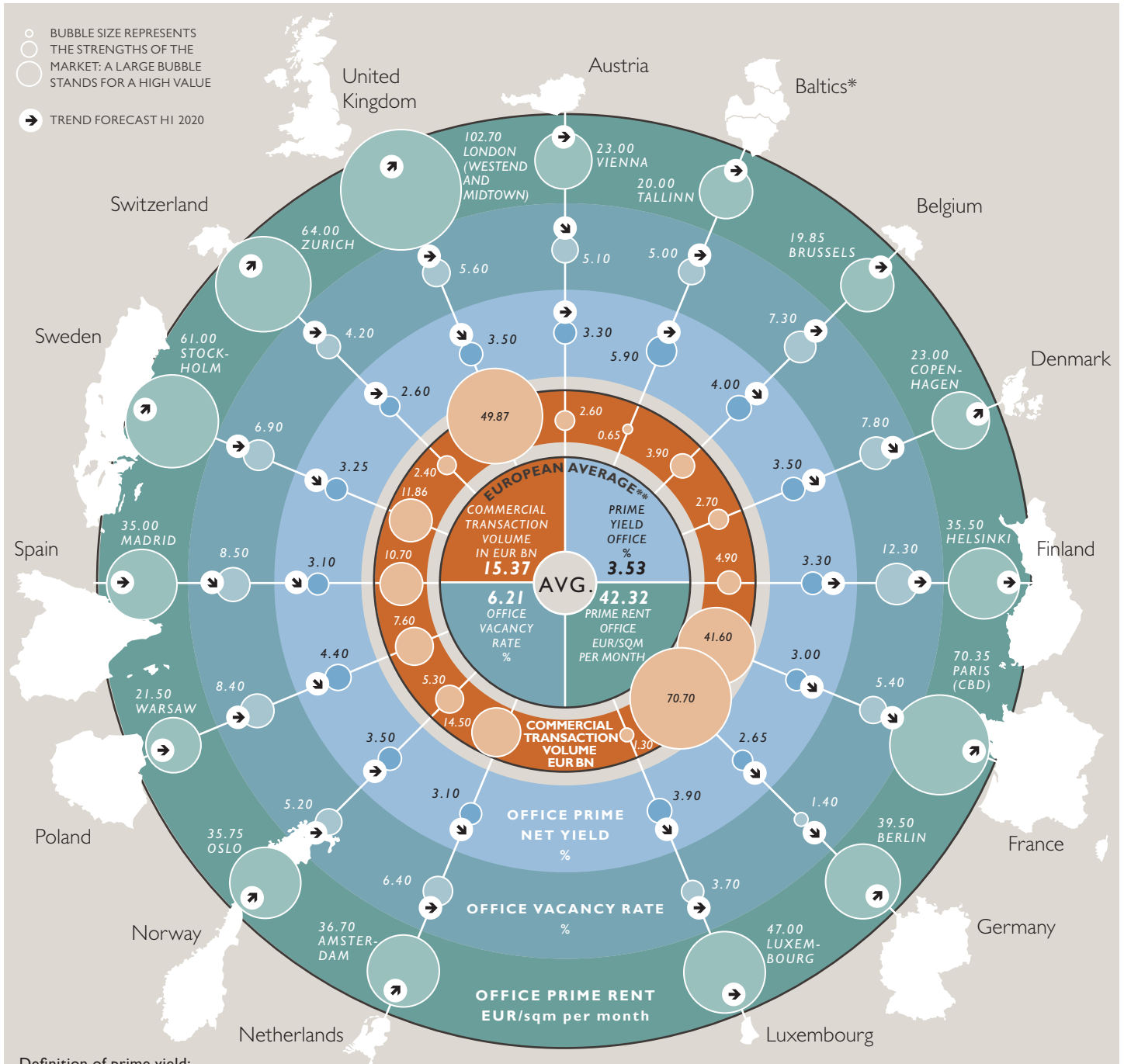


# Investment Market Europe 2020

CATELLA

The eurozone economy gained a bit of momentum at the end of 2019, but continues to grow at a weak pace. Although geo-political tensions are adding uncertainty, some forward-looking indicators are now trending upwards, supporting a moderately optimistic view for the start of the year. Europe's commercial investment market once again reached very positive results in 2019 and prime office yields compressed further in the last 12 months. Office rental growth forecast showing stable or further increasing rents in most major markets, delivering good opportunities for investors with "manage-to-core" strategies.



## Definition of prime yield:

The yield for a property off the highest quality specification in a prime location within the area. The property should be 100% let at the market rent at the time, to blue-chip tenants, with leasing term typical for prime property within that market. The yield should reflect net income received by an investor, expressed as a percentage of total capital value plus expected acquisition costs.

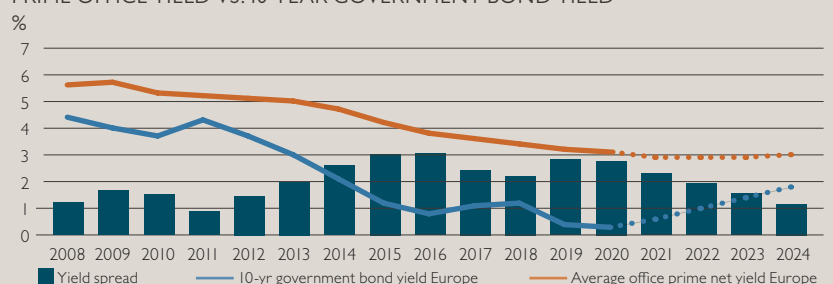
## Definition of prime rent:

Prime rent represents the top open-market rent that can be achieved for a notional office unit (sq m) per month. The unit itself has to feature highest quality and is to be situated in the best location of the local market.

\* Transaction volume is summarised for the Baltic countries

\*\* The volume is the average of the analysed countries. Vacancy rate, prime yield and prime rent are the average of analysed markets/locations.

## PRIME OFFICE YIELD VS. 10-YEAR GOVERNMENT BOND YIELD



Source: Catella Research 2020, PMA

# Investment Intensions and Macroeconomic Framework – Europe 2020

CATELLA

The euro area GDP forecast is now at 1.0% for 2020, with a slight pickup to 1.2% expected in 2021. The recent rise in geopolitical tensions in the Middle East is likely to add further uncertainty. Domestically, employment growth has slowed substantially, a trend we expect to continue given the subdued forward-looking employment data. Inflation rose to 1.3% in December, driven by a moderate pickup in core inflation. Nevertheless, we expect inflation pressures to remain muted and core inflation to continue to hover around its current level this year.

Catella does not expect the boom on the national real estate markets to end in 2020, despite an overall increase in (political) risks at a global level. The commercial investment market is still characterised by high liquidity and strong investor demand. Investors are increasingly favouring real estate in multi-asset portfolio allocations due to persistent real estate premiums over government bonds. We expect monetary conditions to remain loose for an extended period. Overall, there is still no end in sight to the yield compressions, but (office) prime yields are nearing their floors. Compared to our previous-year analysis, prime net office yields decreased by only 20 basis points to a current average level of 3.54%.

In Germany, manufacturing is showing signs of recovery and the business climate has improved markedly. In the service sector, the ifo indicator fell noticeably due to companies' considerably more restrained expectations. In construction, the index fell back. Companies' assessments of the current situation dropped to their lowest level since June 2018.

**Growth drivers:** In 2020, we expect a great deal of market liquidity to flow into niche markets such as microapartments, student & senior housing and hotels, as comparably favourable risk/return ratios still prevail here. Thanks to the booming (online) trade, the logistics sector will remain a strong driver of demand. Global dry powder capital for real estate funds added up to USD 319 billion at the end of 2019, according to prequin.

**The office market** is dominated by high investor demand and new development completions. The high correlation between economic growth and office space should be taken into account given the weakening economy. In numerous European metropolitan cities, the letting market is still highly dynamic and thus will lead to further growth in capital values and rents, supported by the low availability of new space and continuously shrinking vacancy rates.

In operational terms, the megatrend of sustainability increasingly dominates market activities and is gaining momentum – not least because of a further increase in investor demand for green buildings, ESG funds, social real estate and impact investing. Increasingly, capital from sustainable bonds and green funds will explicitly seek out investment opportunities in the real estate market.

## WHAT TO LOOK FOR:

- We expect investment volume to rebound in the UK, regardless of the outcome of the agreement.
- Core global funds will re-enter the UK market, leading to a recovery in the price of non-retail properties.
- Trumps election program may target the trade relation between US and Europe, with the effect of uncertainty and restraint on the investor side.
- Strong demand for prime office assets in Stockholm from value-add, core-plus and foreign/domestic institutional investors.
- In Sweden mixed portfolios with large volume are priced at a premium with strong demand from listed companies and foreign opportunistic investors. We are expecting to see more larger portfolio deals in short- to medium term.
- In Spain, changes in the rental patterns of the Spanish population anticipate a booming build-to-rent market. Student housing and logistics assets will also attract further capital.
- Strong office occupier markets in German Top 7 cities delivering good rental growth potential for value-add properties. Retail centers and logistics properties with heterogenous portfolio structure are getting more attractive.

Source: Catella Research 2020

## MACROECONOMIC INDICATORS 2019–2022

	GDP, real, % change, pa			Consumption private, real, % change, pa			Inflation, % change, pa			Main refinancing rate, end of period, %, pa			10-year government bond yield, period average, %			Unemployment rate, %			Exports, real, % change, pa		
	2019	2020	–2022*	2019	2020	–2022*	2019	2020	–2022*	2019	2020	–2022*	2019	2020	–2022*	2019	2020	–2022*	2019	2020	–2022*
Austria	1.50	↓	1.39	1.39	↑	1.55	1.55	↓	1.48	0.00	→	0.00	0.06	↓	0.24	4.56	↓	4.37	3.03	↓	1.23
Belgium	1.34	↓	1.28	1.24	↑	1.64	1.44	↓	1.15	0.00	→	0.00	0.20	↓	0.50	5.53	↑	5.85	0.92	↑	1.75
Denmark	2.06	↓	1.52	1.34	→	1.60	0.76	↑	1.19	0.00	→	0.00	-0.15	→	0.07	3.69	→	3.70	3.25	↓	1.91
Estonia	4.16	↓	2.81	2.63	↓	2.83	2.35	↓	2.05	0.00	→	0.00	3.71	↓	2.75	4.42	↓	3.68	4.79	↓	3.62
Finland	1.62	↓	0.89	1.18	↑	1.31	1.08	↓	1.17	0.00	→	0.00	0.07	↓	0.21	6.70	→	6.70	4.49	↓	1.04
France	1.30	↓	1.39	1.24	→	1.26	1.11	↑	1.29	0.00	→	0.00	0.13	→	0.42	8.28	↓	7.90	1.91	↓	2.12
Germany	0.55	↑	1.01	1.58	↓	1.59	1.45	↑	1.49	0.00	→	0.00	-0.21	↓	-0.04	4.98	→	5.02	1.06	→	1.74
Latvia	2.49	↑	2.89	2.98	↑	3.02	2.91	↓	2.09	0.00	→	0.00	4.30	→	4.30	6.90	↓	5.82	0.46	↑	2.46
Lithuania	3.68	↓	2.49	3.26	↓	2.73	2.43	↓	2.26	0.00	→	0.00	0.27	→	0.70	6.35	↓	5.91	10.14	↓	3.90
Luxembourg	3.19	↓	2.87	2.55	↑	2.57	1.80	↓	1.82	0.00	→	0.00	-0.11	↓	0.06	5.37	↓	5.21	1.60	↑	2.41
Netherlands	1.70	↓	1.25	1.39	→	1.37	2.64	↓	1.30	0.00	→	0.00	-0.06	→	0.16	4.29	↑	4.72	2.36	↓	1.80
Norway	0.96	↑	1.92	1.73	↑	2.06	2.19	↓	2.02	1.50	→	1.90	1.51	↑	2.06	3.59	↓	3.46	0.47	↓	1.38
Poland	4.20	↓	2.54	3.80	↓	2.79	2.16	↑	2.76	1.50	→	1.70	2.41	↓	2.35	5.44	↓	4.91	4.54	↓	2.76
Spain	1.95	↓	1.53	1.18	↑	1.35	0.70	↑	1.31	0.00	→	0.00	0.66	↓	1.06	14.07	↓	12.79	2.04	↑	2.42
Sweden	1.23	→	1.75	0.98	↑	1.96	1.78	↓	1.74	-0.25	↑	0.10	0.04	↑	0.71	6.85	↑	7.01	4.80	↓	1.94
Switzerland	0.83	↑	1.58	0.96	↑	1.25	0.36	↓	0.45	-0.75	→	-0.75	-0.47	→	-0.31	2.31	→	2.35	2.88	↓	2.21
United Kingdom	1.27	↓	1.55	1.18	↑	1.84	1.78	↓	1.55	0.75	→	1.00	0.94	↑	1.40	3.19	↑	3.51	2.36	↓	1.00

\* average value / growth rate during this period

Source: Eurostat, Oxford Economics

Catella is a leading specialist in property investments and fund management, with operations in 15 countries. The group has assets under management of approximately EUR 17 billion. Catella is listed on Nasdaq Stockholm in the Mid Cap segment.

Read more online at [catella.com](https://catella.com).

## Research Contacts:

Prof. Dr. Thomas Beyerle  
thomas.beyerle@catella.de

Andreas Slupik  
andreas.slupik@catella.de

Carsten Lieser  
carsten.lieser@catella.de