A RECORD € 281BN INVESTED IN COMMERCIAL REAL ESTATE AND 9.6 MILLION SQM OF OFFICES TAKEN UP IN THE MAIN EUROPEAN MARKETS IN 2019

Investment in commercial real estate: exceptional last quarter in 2019 saw the year set a new record for investment in Europe.

With investment of € 100bn, Q4 accounted for over a third of the total € 281bn invested in 2019, up 3 % on the previous record-breaking year in 2018. This was all the more remarkable insofar as the biggest market historically, the UK, was held back (-18 %) for the second year running over doubts about its future collaboration with countries in the European Union. The Netherlands (fourth European market) also saw a decline (-28 %). Yet the performances of the other two main markets, namely Germany (+19 %) and France (+19 %), as well as other big markets like Sweden (+44 %), Italy (+41 %) and Ireland (+84 %), outweighed the declines and pushed investment in 2019 above the 2018 figure.

Germany accounted for € 12bn of this increase. This was a record for the country, which topped its 2007 figure for the first time. Berlin and Munich each saw investment of over € 10bn in 2019.

It was also a record-breaking year for France, with investment of over € 40bn for the first time, driven by all asset categories and regions.

Offices were still the biggest asset category at the European level, accounting for 47 % of investment (+6 %). Around 20 transactions represented over € 20bn. In particular, three very large French and German portfolios changed hands, as well as many buildings in these two countries, but also in the UK and Ireland. Retail premises meanwhile suffered from a loss of investor confidence, continuing a slide that began in 2016 and looks set to last. There were several portfolios among the biggest deals of the year, led by two German portfolios that represented over € 1bn. After a growth spurt in 2017, the logistics sector appears to have reached cruising speed, attracting investment of around € 38bn each year since. Over 2019, there were 17 transactions for over € 200m, of which 14 portfolios, mainly in France, Sweden, Germany and the United Kingdom.
Foreign investment in Europe rebounded in 2019

Foreign investment in Europe gathered pace in 2019 (+10 %) compared to 2018. Foreign inflows accounted for half of investment over the year, i.e. € 141bn. European investment (+13 %) set a new record (€ 61.7bn), representing 44 % of the total. The countries that benefited the most from this increase were Germany (€ 14bn), the Netherlands (€ 6bn) and Italy (€ 4bn). “Korean investors played a major role on the European market in 2019. For example in France they invested an unprecedented € 4.3bn. Despite the heavy involvement of the Koreans, Asian investment as a whole was down substantially compared to 2018 at the European level, mainly due to the United Kingdom. Indeed, Asian investment was huge in 2017 and 2018, mainly targeting prestigious assets in London. They were less active in 2019 (-50 % vs 2018), leading to a shortfall of over € 6bn. But they also invested less in Germany (-30 %)” observes Larry Young, head of BNP Paribas Real Estate's International Investment Group. After falling dramatically in 2016, investment from the US in Europe has been picking up gradually. It gathered momentum in 2019 (+38 %) when it was the second highest since 2015, which was € 43.5bn. Americans ran against the general trend, more than doubling their investment in the United Kingdom and almost doubling it in Germany. Middle Eastern investment was meanwhile up slightly compared to 2018 (+14 %). It has been in a range of € 6.5bn to € 8bn since 2016. In 2019, Middle Eastern players increased their investment in Germany and Italy, and remained stable in the UK.
Demand for offices remains high in the 15 main European markets

There was a slight contraction in office transactions in the 15 main European markets in 2019. With take-up of 9.6 million sqm last year, volumes were down 4% compared to 2018. However, these levels were still high and well above the long-term average. Moreover, the overall figure hides very varied situations, with some markets showing a definite slowdown while others continue to flourish. As such, Berlin beat all its previous records again, with take-up in the German capital up 22% vs. 2018, and for the first time breaking through the threshold of a million sqm take-up, despite a shortage of supply. The same goes for Milan, with growth of 25% to its highest level ever. Lastly, Madrid (+16%) and Brussels (+42%), saw their highest take-up since 2007, while there was also an increase in Luxembourg (+5%). Although there were declines for Central Paris (-6% due to a lack of supply), Warsaw, Lisbon (both down -8%) and Dublin (-17%), take-up is still elevated, in line with long-term averages or higher. Against an uncertain political backdrop, Central London has held up, despite a steep fall in volumes (-19%) following an outstanding year in 2018.

Lou Cellier, deputy head of Advisory & Alliances for BNP Paribas Real Estate, notes that: “Transaction volumes for offices in Europe have been growing continuously over the past few years. Consequently, many markets have very low vacancy rates, particularly in the most established business districts, driving up prime rents in all Europe’s major cities”. The vacancy rate has therefore contracted further in Europe, down to an average of 5.2% in the 15 main markets, with much lower levels in Berlin (1.5%) and Munich (2.4%). The biggest falls in the vacancy rate were in Madrid (-140 bps), Warsaw (-120 bps), Amsterdam and Lisbon (-100 bps). Meanwhile, prime rents have remained stable or increased in all European markets. Lisbon saw the biggest increase in rents (+19%, €300/sqm/year). The other significant increases were in Berlin (+11%), Amsterdam (+8%), Hamburg and Warsaw (+7%).

Office take-up and the evolution of vacant office space for the 15 main European markets
Good fundamentals for 2020

Although economic growth in Europe fell short of expectations in 2019, due to doubts about trade tensions between the US and China and the outcome of Brexit, the latest economic surveys suggest positive sentiment as 2020 gets underway “The signing of a first trade agreement between the US and China as well as the beginning of negotiations between the European Union and the United Kingdom, combined with positive market sentiment suggest that economic growth should stabilise or even improve in 2020”, observes Richard Malle, Global Head of Research for BNP Paribas Real Estate.

Inflation in the Eurozone is still low and monetary policies are likely to remain unchanged. No hike in key interest rates is expected out to 2022 according to recent ECB declarations. “An inflow of capital is expected in Europe over the next three years, with huge government bond maturities as well as the continued expansive monetary policies of certain central banks. Against this backdrop of lastingly low interest rates, real estate may be an alternative for investors seeking a yield with relatively moderate risk”, concludes Richard Malle.