

European Valuation Monitor, Q2 2019

Retail falls, Industrial performs well

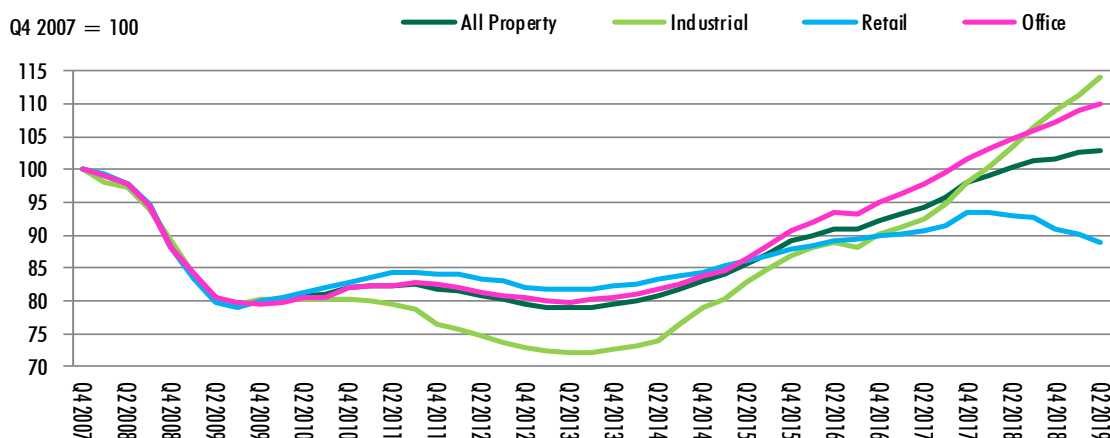
▲ Q2 All Property
0.4%

▲ Q2 Office
1.0%

▼ Q2 Retail
-1.6%

▲ Q2 Industrial
2.5%

Figure 1: Pan-Europe sector capital values



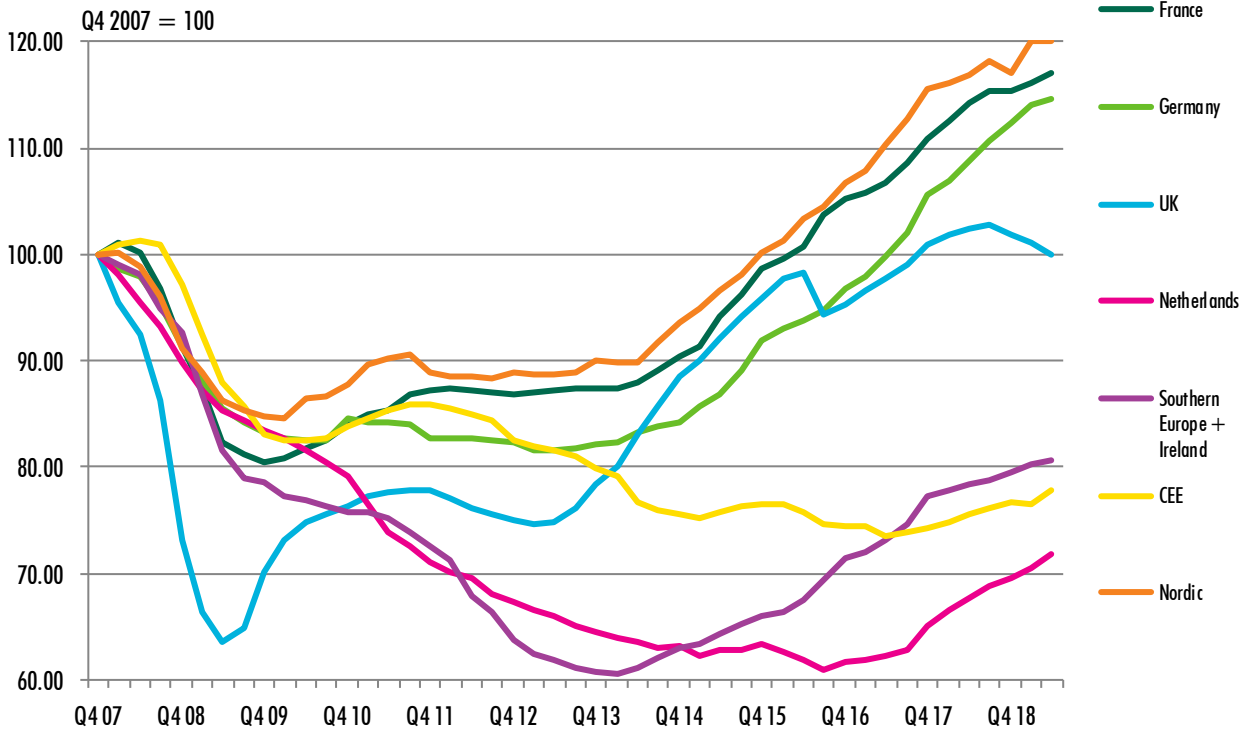
Source: CBRE Valuation, Q2 2019

OVERVIEW

- **On the Quarter**, positive capital value performance continued in Europe, albeit at a slightly slower pace than seen in Q1 2019. The “All property” index moved up (+0.4%) on the quarter vs (+0.9%) the previous quarter, driven by the industrial and office sectors. Although, retail recorded a negative capital value (-1.6%) vs Q1 2019 (-0.9%).
- The Industrial sector was once again the leading performer, with value growth of 2.5% in Q2 2019 vs 2.3% in Q1 2019. Offices saw the next largest increase: rising by 1.0% vs 1.7% in comparison to last quarter.
- **On a trailing 12 month basis (TTM)**, the “All property” values increased 2.7% over the 12 months to end of Q2 2019 (3.9% ex-UK), which compares to 6.4% in the period to end of Q2 2018 (6.9% ex-UK). Behind the headline figure it is notable that the Shopping Centre sub-sector saw the weakest value performance (-6.2%). That tendency was mainly driven by the UK (-18.5%) and Benelux (-10.9%). Industrial was the strongest performer over the 12 months (10.4%), with office values increasing 5.1%.
- At the “All property” level, most countries and regions saw positive capital value performance albeit at a slower pace than 2018: France increased 2.4% (7.1% 2018), Germany 5.3% (9.1% 2018), Nordics 2.7% (6.0% 2018) and Southern Europe & Ireland 2.9% (7.0% 2018). The UK was notable as one region where capital value change in 2018 surpassed 2019 – decreasing by -2.4% compared to a 4.8% in 2018.
- Despite a slightly slower pace in Q2 2019, capital value growth of the industrial sector still remained high at 10.4%: largely due to France, Germany and CEE.
- **Grouping equivalent yields into quartiles**, we see that there was yield compression across all quartiles. The European market is continuing to see yield compression across most asset types.

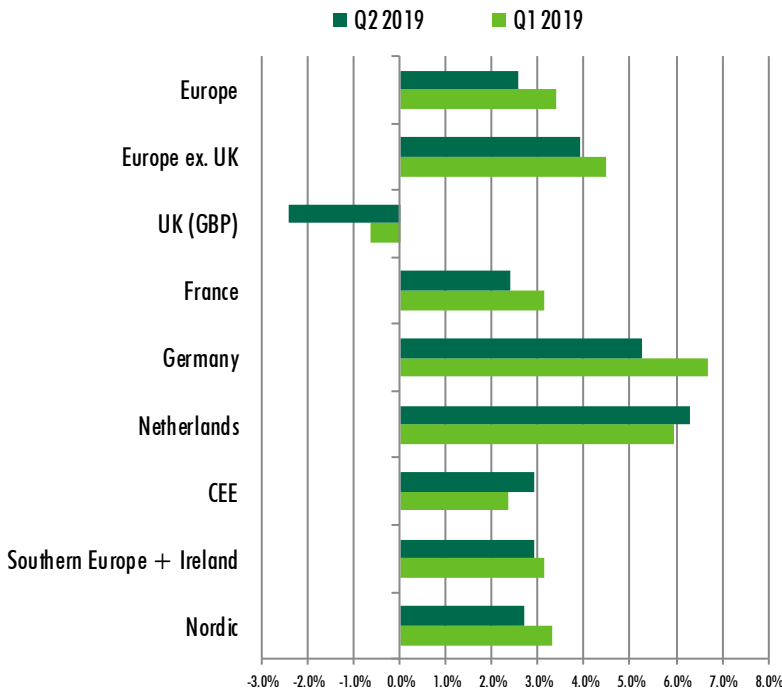
REGIONAL PERFORMANCE

Figure 2: Regional European capital values



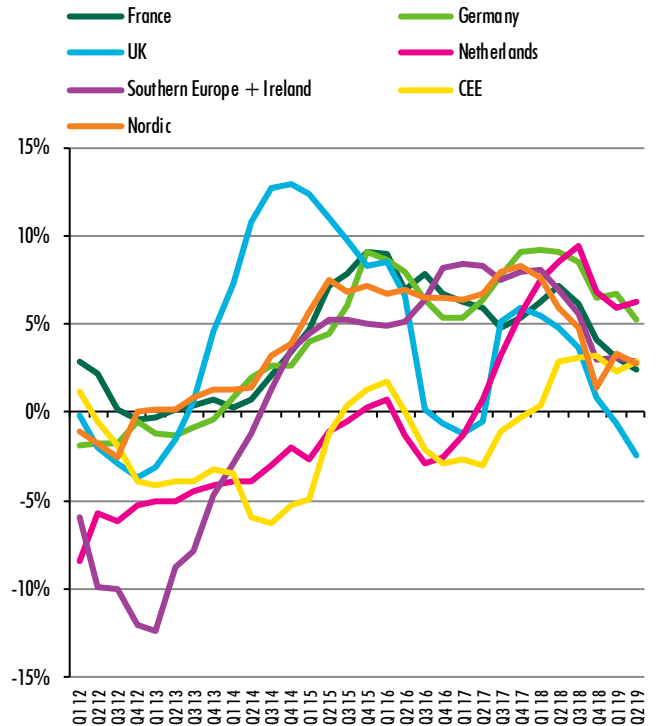
Source: CBRE Valuation, Q2 2019.

Figure 3: Annual Capital Value Change Q1 19 and Q2 19



Source: CBRE Valuation, Q2 2019.

Figure 4: Annual (TTM) Capital Value Change



Source: CBRE Valuation, Q2 2019.

COMPONENTS OF CAPITAL VALUE CHANGE

ALL PROPERTY

Excluding the UK, capital growth at the All Property level grew at a lower pace in Q2 2019 0.8% vs 1.3% the previous quarter. The ERV movement (0.1% vs 0.6% in Q1 2019) accounted for the majority of this decrease and was mainly driven by France and the Southern Europe + Ireland.

In terms of capital return, the Nordics noticeably dropped with a figure standing at 0.1%. Although, the CEE countries performed well and finally appeared with a positive capital growth in Q2 2019.

INDUSTRIAL

Ex-UK industrial values grew steadily at 2.8% vs 2.7% in Q1 2019. France and the Southern Europe + Ireland and the Benelux were the leading performers in Q2 2019 with regards to the capital return. This stability came through a balance between both the ERV (0.4%) and the yields' movements (2.4%). In terms of rental growth, The CEE and The Nordics countries were the leading performers in Q2 2019.

RETAIL

Retail values (ex-UK) decreased over the quarter (-0.7% in Q2 2019) vs -0.4% the previous quarter. There is an evidence that the ERVs drove down the value in Q2, while the Yield movement, although negative, slightly moved up at -0.4% (-0.6% Q1). With regards to the ERVs impact, most of the countries experienced a noticeable negative downturn except for the Nordics countries.

OFFICE

Offices (ex-UK) saw values continue to grow at 1.0% in Q2 at a slower pace. The yield movements considerably improved in the CEE countries. Simultaneously, the Nordics recorded a negative spike in Q2 2019 compared to Q1 2019. In terms of ERVs most of the countries experienced a steadiness in their variations except the Southern Europe + Ireland which experienced a noticeable decrease in Q2 2019.

Figure 5: All Property Capital Value Components (Europe ex-UK)

Source : CBRE Q2 2019

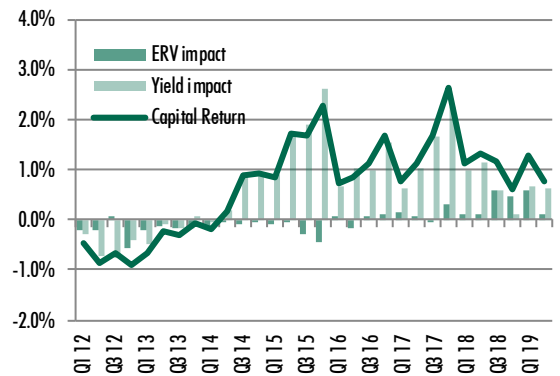


Figure 6: Industrial Capital Value Components (Europe ex-UK)

Source : CBRE Q2 2019

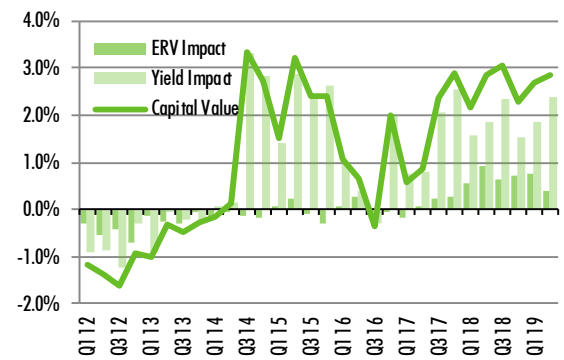


Figure 7: Retail Capital Value Components (Europe ex-UK)

Source : CBRE Q2 2019

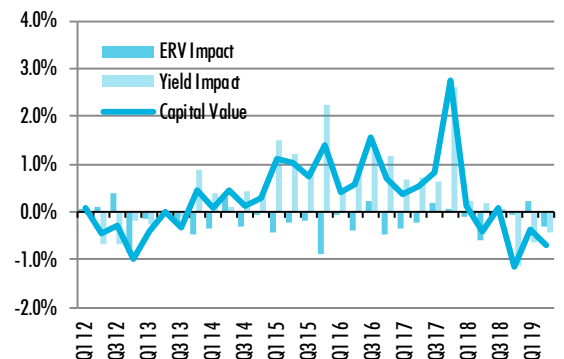
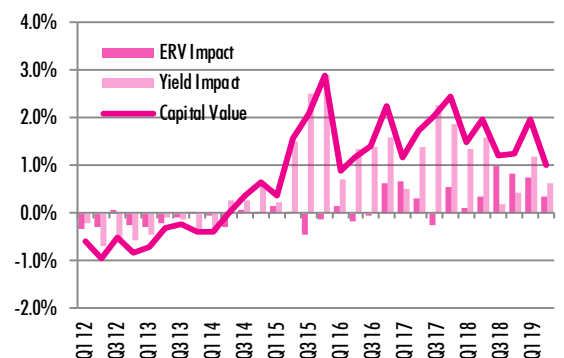


Figure 8: Office Capital Value Components (Europe ex-UK)

Source : CBRE Q2 2019



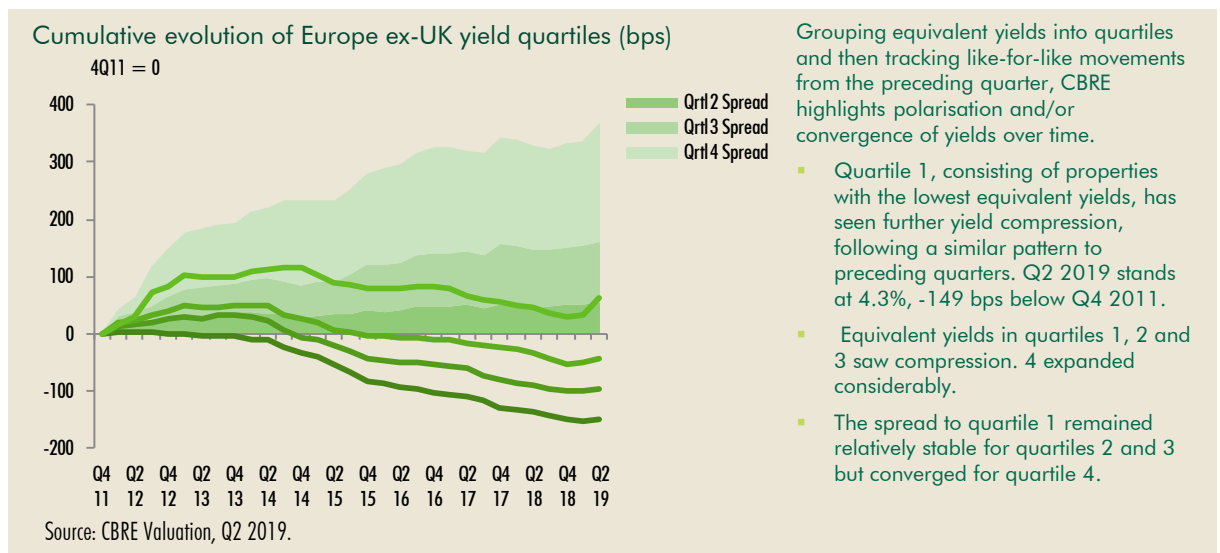
KEY INDICATORS

CBRE European Valuation Monitor Q2 2019							Index, Q4 2007 = 100	
Region	% 3 months	% Year-to-date	% 12 months	Q3 18	Q4 18	Q1 19	Q2 19	
France	0.9	1.4	2.4	115.3	115.5	116.0	117.1	
Germany	0.4	1.9	5.3	110.7	112.4	114.1	114.6	
UK	-1.2	-1.8	-2.4	102.7	101.8	101.2	100.0	
Netherlands	2.0	3.4	6.3	68.8	69.6	70.5	71.9	
Southern Europe + Ireland	0.4	1.4	2.9	78.8	79.5	80.3	80.6	
Nordics	0.1	2.5	2.7	118.2	117.2	120.0	120.1	
CEE	1.7	1.6	2.9	76.1	76.6	76.5	77.8	

Source: CBRE Valuation, Q2 2019.

CBRE European Valuation Monitor Q2 2019							Index, Q4 2007 = 100	
Sector	% 3 months	% Year-to-date	% 12 months	Q3 18	Q4 18	Q1 19	Q2 19	
Office	1.0	2.7	5.1	105.9	107.1	109.0	110.1	
Retail	-1.6	-2.4	-4.5	92.8	91.0	90.2	88.8	
Industrial	2.5	4.8	10.4	106.3	108.9	111.3	114.1	
All Property	0.4	1.3	2.7	101.3	101.6	102.6	103.0	
All Property ex-UK	0.8	2.1	3.9	99.0	99.6	100.9	101.6	

Source: CBRE Valuation, Q2 2019.



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EXPLANATORY NOTE

The figures reported in this document are based on regular valuations of standing-investment portfolios carried out by CBRE's international and national valuation teams in Europe. The reported country and sector index categories are produced by weighting the raw results according to the estimated size of the investment market in each country/region, and the sector distribution typical of institutional portfolios. The UK is represented in the results by the CBRE UK Monthly Index. A fuller technical appendix is available on request.

The measures reported here are intended as a general indication of capital value movements in the European property market, and are provided for information only. They are not intended as the basis for investment or financial decisions, and any forecasts or other analysis derived from these figures are the sole responsibility of the client organisation and should not be sourced or attributed to CBRE.

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