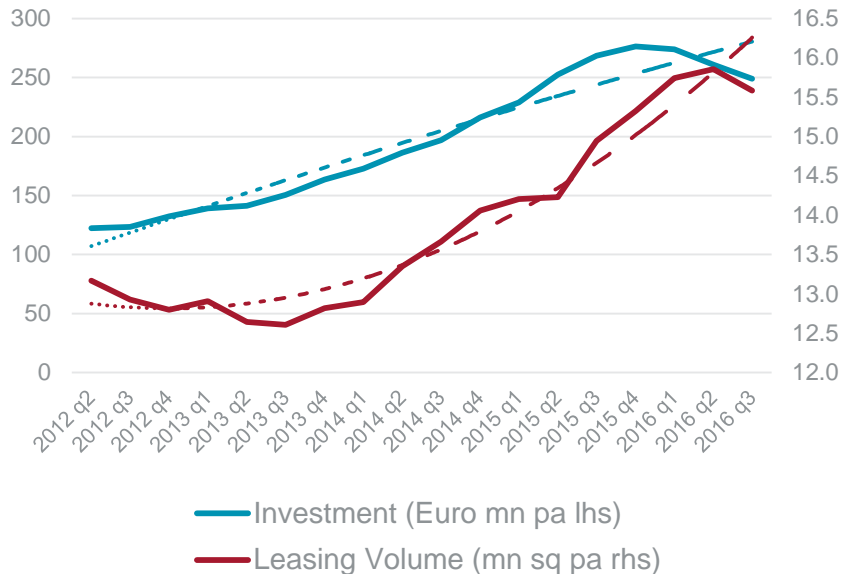


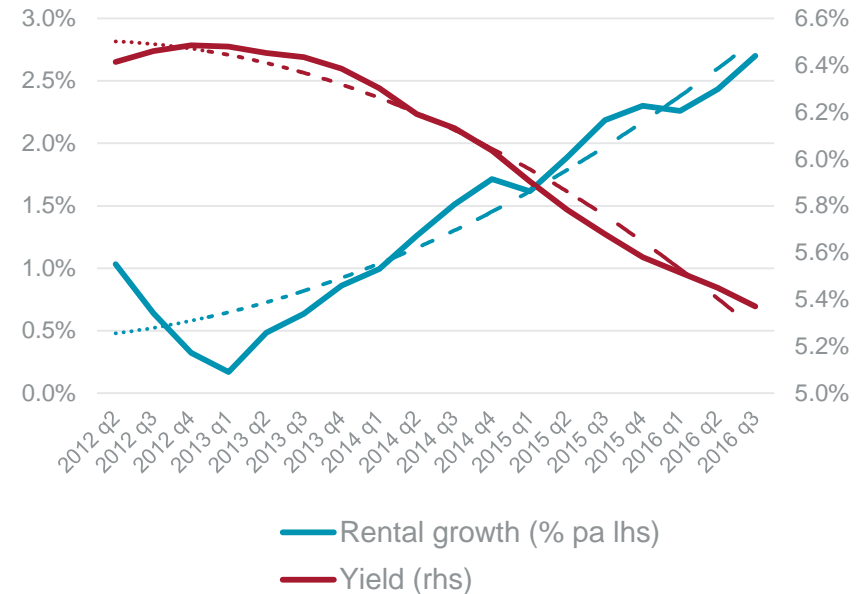
# What's Happening in the Market?

## A more balanced recovery?

INVESTMENT AND LEASING ACTIVITY: All Sector



PRIME VALUE MOVEMENTS: West, All Sector



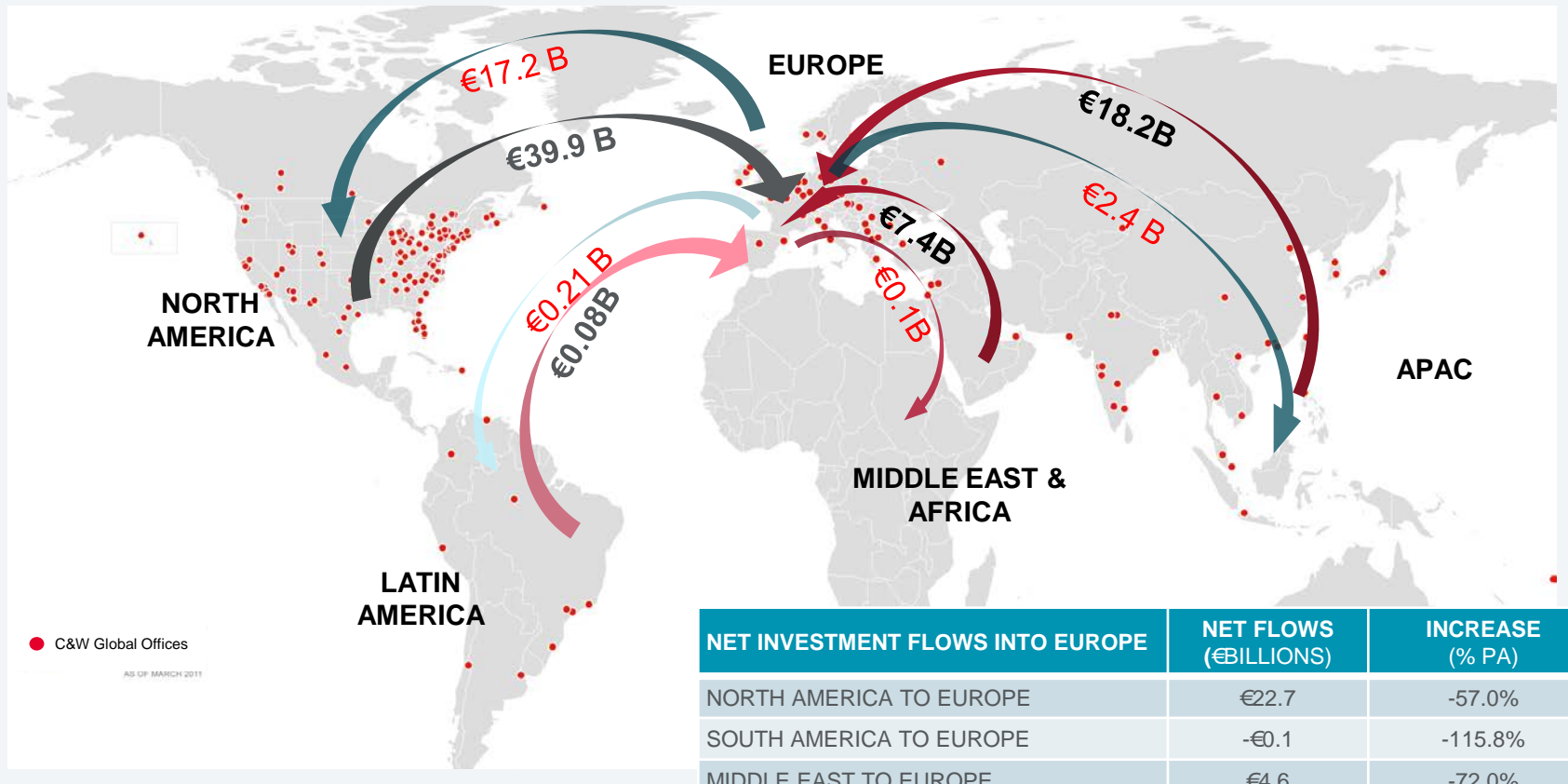
- Q3 investment fell 17% on Q3 2015 while the annual volume of €249bn was 7% lower on the year. However non-UK markets are 15% up on Q3 2015.
- Annual office leasing volumes in major cities rose 4% and while quarterly volumes were 1% lower than Q2, they were 13% above the 10 year average.

- Q3 rental growth of 0.7% Q-on-Q and 2.7% on the year – driven by shops and offices – delivers the fastest annual growth since 2008.
- Western yields average 5.40%, their lowest since 2007, 7bp down Q-on-Q and 30bp Y-on-Y. CEE yields are also now falling, down 55bp Y-on-Y.

# Global Appeal

Inward investment strong but slowing

CROSS BORDER ACTIVITY: Year to September 2016



NET INVESTMENT FLOWS INTO EUROPE	NET FLOWS (€BILLIONS)	INCREASE (% PA)
NORTH AMERICA TO EUROPE	€22.7	-57.0%
SOUTH AMERICA TO EUROPE	-€0.1	-115.8%
MIDDLE EAST TO EUROPE	€4.6	-72.0%
AFRICA TO EUROPE	€2.7	+153.2%
APAC TO EUROPE	€15.9	-0.6%
TOTAL GLOBAL NET FLOWS TO EUROPE	€45.7	-41.1%
EUROPE TO EUROPE	€62.6	-5.2%

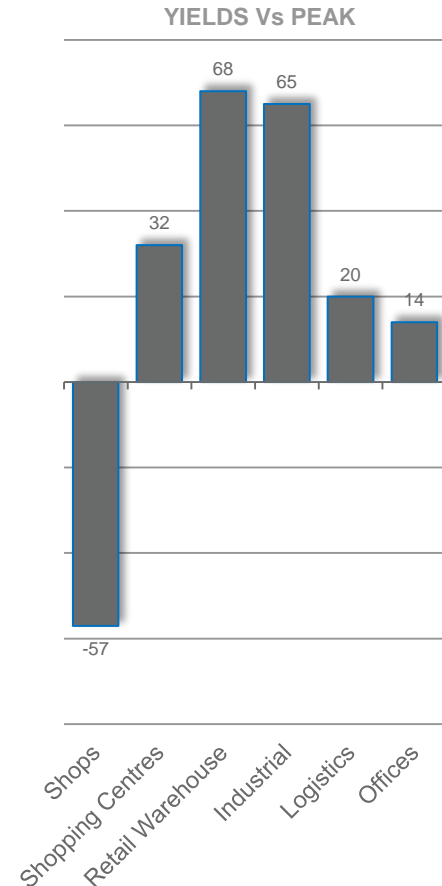
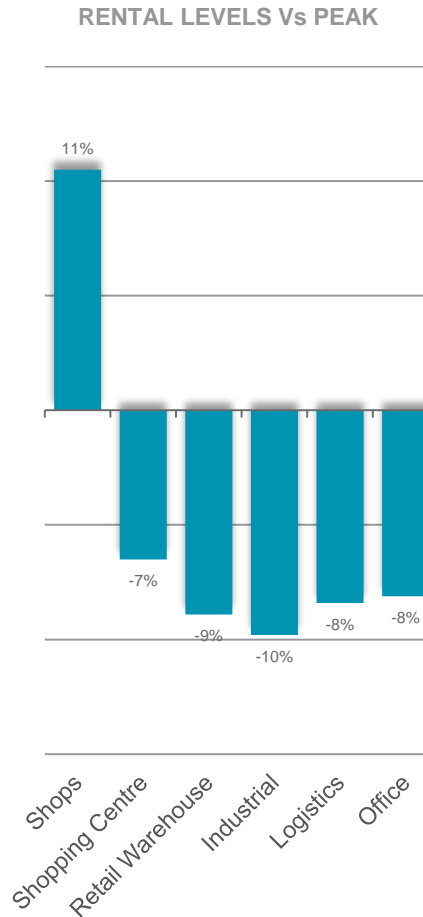
\*Deals \$5M+; totals may not add due to rounding. Includes JV activity.

Source: C&W Capital Markets, RCA

# Shops Lead the Recovery

## Varied performance by sector

- The recovery to date is far from uniform by sector or geography.
- Rents overall **are edging up** but only slowly - occupiers won't readily accept higher costs in a deflationary world in any sector- and development hasn't in general picked up - together arguing for a longer but slow up-cycle.
- **High street retail** is the only segment to see rents back at record highs – shopping centres and retail warehouses are still lagging behind but as a result, offer potential in those schemes that mimic the success of the best high streets in acting as a real mixed-purpose destination.
- **Yields meanwhile have further to fall** for prime, thanks to still low long term interest rates and further QE in the eurozone.
- Some segments, notably **retail warehousing**, clearly offer more potential than others when historic patterns are considered.



# Areas of Opportunity?

## Themes in the market

- **Risk can be taken**...focussed on where the occupier wants to be.
- Mild inflation will help lift rental **growth for the best space**
- **Supply pressures** in all sectors but retail, logistics and residential more defensive than office or hotels
- **City focus** with Inadequate quality supply in tier 1 and some tier 2 cities
- Cost and supply constraints will make **better secondary** markets more attractive. Tertiary markets will remain under threat
- Core demand remaining high: **yields will compress** further.
- Occupiers and investors looking **further afield**:
  - CEE markets
  - Southern Europe
  - Core in the Nordics
  - Tier 2 cities for office and retail in the UK and Germany

