

EUROPEAN CAPITAL FLOWS

Executive Summary

- › Total European real estate volumes grew by over 30% to €129 billion in H1 2015 compared to H1 2014.
- › Offices were the most traded sector at €45 billion, but retail saw the largest increase (+57% to €38 billion) in terms of commercial property.
- › Asian insurers continue to pour money into the London property market, with the acquisition of The Walbrook Building in the City of London by Taiwan's Cathay Life as key example.
- › Some Asian sovereign/institutional investors are leveraging platforms/local partners to move up the risk curve, as demonstrated by China Investment Corporation's (CIC) acquisition with AEW of a French-Belgian retail portfolio; and Fosun's office buy in Warsaw with Valad.
- › Following the depreciation of the Euro, US investors have increased their investment into European property. Brookfield's acquisition of the Postdamer Platz complex in Berlin is the latest of a raffle of big-ticket deals involving North American capital across Europe, with North Star as a key player (Trianon, Trias and SEB portfolios).
- › US capital has been particularly prominent in the Nordics, with equity funds such as Starwood, Colony Capital and WP Carey active of late. The key deal in Scandinavia in Q2 was the acquisition from Helsinki-listed shopping centre owner/manager Citycon of its Norwegian peer Sektor Gruppen.
- › Blackstone's Logicor remains a driving force of European logistics investment, with recent acquisitions in UK, France, Germany and the Netherlands worth a combined total of nearly €550 million.
- › While Spain and Ireland remain a major focus for international investors, with the Netherlands also high on investors' agendas, Italy stole the show with volumes up +162% to nearly €5.5billion in H1 2015 vs. H1 2014, as the country benefits from new capital sources.
- › European institutions continue to look for opportunities outside the 'core' space in Tier 1 cities and in less crowded markets, taking advantage of the competitive debt finance and new capital sources available. Some are starting to look again at the Americas and APAC for the first time since the global financial crisis.

Total European Volumes Up 31%

In the first six months of the year (data correct as of 8 July) total European real estate investment (Russia and Turkey included) increased by 31% to €129 billion compared to the same period in 2014. Volumes grew in all the larger markets (except a modest decline in Sweden), with substantial increases observed in Italy (+162%), Spain (+84%) and the UK (+43%) despite strong 2014 performance.

Offices were the most traded at €45 billion, but retail was the fastest growing commercial sector (+57% y-o-y to €38bn), reflecting the consolidation within the shopping centres listed industry (e.g. Klepierre-Corio, Citycon-Sektor Gruppen). The sector has also benefitted from renewed interest in segments such as out-of-town retail in Germany and UK.

These results, coupled with the new capital sources targeting Europe, ultra-low interest rates and the continuing monetary stimulus all point to yet another strong year for European property. Transactions suggest cross-border capital continues to move up the risk curve in the search for yields, but with international investors in particular keeping an eye on the Greek situation following the referendum and local political developments.

Asian Insurers Buy In London

The deregulation of outbound investment in China and Taiwan, coupled with ultra-low yields in key Asian gateway cities, has seen their insurance companies increase their investment into the European property market. London remains the preferred destination, followed by the German cities, Madrid and Italy. Key property deals involving Asian insurers in London included:

- › In May, Taiwan-based insurer Cathay Life acquired The Walbrook Building in the City of London for £575 million (€802 million), 4% NIY – what is currently considered the prime yield for City offices.
- › China Life Insurance and QIA (Qatar) are under offer to buy a stake in 99 Bishopsgate, Brookfield's HQ in the City of London, for circa 5.5% NIY.
- › In May, Taiwan's Fubon Life and Patrizia Immobilien acquired Madam Tussauds wax museum in London's Marylebone for £332 million (€463 million), 4.5% yield.

At the same time there are signs of cash rich Asian developers and first tier pension funds investigating regional UK markets but scale still remains an issue with residential and student housing as preferred sectors.

Asian Capital Widens Its Horizons

While the threat of a Greek exit has made some Asian investors more cautious, at least temporarily, we continue to see sovereign wealth funds and Asian conglomerates broadening their investment locations and sectors across continental Europe by either partnering with local asset managers or setting up platforms. Key deals include:

- › A partnership formed by CIC and AEW acquired 10 shopping centres, eight in France and two in Belgium (including Wijnegem shopping centre near Antwerp, the country's largest) from CBRE Global Investors for €1.2 billion.
- › Following the recent acquisition of Unicredit's old HQ in Milan for €345 million, China's Fosun is reportedly in talks to buy two office buildings in Warsaw with Valad for circa €200 million. Fosun has also recently partnered with asset manager Resolution Property to invest across Europe.
- › Gingko Tree and Pramerica completed the acquisition of the Siemens campus in Munich for €420 million.

Part of this Asian capital is also looking at hotels in major European tourist locations such as Prague, Amsterdam, Barcelona and Rome.

Weak Euro Underpins US Investment

The weakening of the Euro continues to attract interest from the US, with North Star Realty Finance one of the most active buyers of late:

- › Acquisition of the Trianon Tower in Frankfurt for €540 million.
- › Acquisition of Project Trias for circa €450 million.
- › Acquisition of SEB portfolio for €1.1 billion.
- › 15% stake into Aerium.

In the same vein, Brookfield is reportedly in exclusive talks to buy 18 buildings on Potsdamer Platz in Berlin for more than €1.4 billion from SEB.



Nordics In The Spotlight

In particular, US equity funds made a splash in the Nordics, with Starwood, Colony Capital, WP Carey and Round Hill leading the charge:

- › In May, WP Carey acquired €95 million of retail in Oslo in a 90:10 JV with Winta Eiendom.
- › In June, Colony Capital acquired Statoil HQ in Norway, let on a 15-year lease, for circa €320 million, 5.8% yield.
- › Last year, Starwood bought a €1.2 billion property portfolio in Norway and Sweden.

Other notable Q2 deals in Scandinavia included:

- › Helsinki-listed Citycon acquired Sektor Gruppen, Norway's second-largest shopping centre owner and manager for €1.5 billion.
- › Thai Central Group bought the Illum department store in Copenhagen for circa €368 million.
- › A consortium of four Danish pension funds acquired a pan-Scandinavian portfolio of prime logistics properties for €650 million.



Logicor Leads European Logistics Investment

US Logicor has continued its European expansion by acquiring:

- › In June, 19 logistics sites throughout France and Germany from Goodman for €300 million. The French properties are predominantly located in Lille, Paris and Lyon.
- › In April, a portfolio of 16 distribution warehouses in the UK totalling nearly 309,000 sqm for a total estimated investment volume of over €200 million.
- › Two logistics sites in the Netherlands (65,400 sqm) in May for circa €43 million.
- › In another logistics deal, Rockspring acquired a portfolio of four logistics properties in France totalling 98,000 sqm for €48 million – its third French logistics deal.

Italy Back On the Map

At nearly €5.5 billion (+162% y-o-y), transactions in Italy outpaced those in other key 'recovering' economies (Ireland, Spain and the Netherlands) in H1 2015. While volumes were boosted by a one-off transaction (Qatari in Milan's Porta Nuova), the country is now attracting new entrants and a more diverse mix of capital, both institutional and opportunistic. Key deals in Q2 included:

- › Cerberus expanded its Italian portfolio by acquiring five public sector-let offices located in different regions for circa €227 million.
- › Cerberus also recently acquired 38 repossessed assets from UniCredit for a price believed to be in the region of €205 million.
- › Tristan Capital Partners entered Italy buying four retail assets situated in Rome, Sicily and Piedmont regions from Altea for €140 million.
- › In June, Hines and KKR acquired five assets let to Telecom Italia in various Italian cities for circa €49 million from Prelios.
- › A German fund acquired a 16,300 sqm office tower in Milan's suburbs for a price estimated at over €30 million.
- › Amsterdam-listed Eurocommercial Properties acquired 100% of "I Gigli" shopping centre in Florence's suburbs for €82 million.

European Institutions Look at Tier 2 Cities

European institutional investors continue to focus primarily on non-core properties in Tier 1 cities and Tier 2 cities in Western Europe with good fundamentals. In terms of sector, retail is increasingly 'en vogue' with European funds expanding into the sector. CEE markets continue to attract mainly German institutions, with Union active recently, together with US equity funds.

Notable Q2 deals from European institutions included:

- › Deka acquired the multi-let office Park Vallila office in Helsinki for €44 million in June.
- › AXA REIM also bought Elisenhof, a 46,200 sqm mixed-use property in the city centre of Munich for an undisclosed price.
- › In April, AXA REIM acquired 381 bank branches totalling 90,000 sqm let to Santander on 24-26 year leases for €308 million.
- › Union acquired an interest in the Focus Park shopping centre in Poland.
- › Union is also buying the Centrum Riviera shopping centre in the Polish coastal city of Gdynia.

Some European funds are also starting to look again at Americas and APAC for first time since the financial crisis, which could result in an increase in outbound investment to these regions in the next 12-18 months.

502 offices in
67 countries on
6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

€1.75

billion in
annual revenue

160

million square metres
under management

16,300

professionals
and staff

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