Real estate research blast

European real estate market predictions 2015

Political uncertainties
General elections in Greece, the UK, Portugal and Spain may create uncertainties in business and consumer confidence but may also open windows of opportunities for cash rich real estate investors. Political uncertainties outside Europe may also lead to additional capital being invested in the EU.

Quantitative easing to rate hike
To counter deflationary tendencies in the eurozone, the European Central Bank (ECB) is likely to provide more liquidity to the market which may also support real estate lending in particular countries. Interest rate hikes in the stronger UK economy could take place towards the end of 2015, increasing asset prices.

Lower oil prices a welcome relief
Lower oil prices could have a positive effect on consumer spending and companies' investment activities which should support real estate in the medium term. In the short term, investors from energy-rich locations may be less active investing in real estate. This could offer opportunities for domestic institutional investors who have been priced out of the market recently.

Investment momentum
In 2014, investment volumes in European real estate topped EUR 200 billion. The boost to liquidity to be provided by quantitative easing (QE) and the aftermath of the ECB bank stress tests pave the way for more sales as banks take action. This could support even stronger investment activity.

Improving returns in the eurozone while stabilizing in the UK
Strong investor, but also improving occupier, demand in core supply-constrained locations are likely to support improving total returns (circa. 6%) in eurozone real estate markets in 2015. After a staggering 2014, total returns in the UK are forecast to normalize at around 8% in 2015.

Availability of good quality office buildings limited in many markets
The availability of high-quality office space has diminished across a number of European cities following years of subdued development activity. With occupier demand generally geared towards better quality, central office buildings, there is an opportunity to renovate well located assets and return them to the market in time to benefit from the positive implications of a growing supply-demand imbalance.

Strong growth in TMT sector employment creates niche city centre office opportunities
The TMT (technology, media and telecommunications) sector has grown strongly despite the financial crisis and is expected to continue to do so in the short to medium term. Although the TMT sector is relatively small compared to public administration and finance and business services, these tend to cluster in "new" less corporate areas of existing city centre markets. Examples include London (Shoreditch and Clerkenwell), Madrid (Chamberi) and Milan (Bicocca). Coming from a low base, we expect prime rental growth in non-core countries to exceed that of core country markets.

Limited prime retail high street stock creates value-add opportunities in main European cities
The supply of modern retail units on prime/dominant high street pitches in some of the main European retail markets is now very limited due to low development activity in recent years and sustained demand from expanding international retailers. Selective value-add opportunities now exist in some more secondary retail pitches that are adjacent to strong prime pitch locations/extensions of existing prime pitch to create large modern units for space hungry retailers. Examples include London (Oxford Street/Regent Street), Milan (Quadrilatero), Madrid (Gran Vía, north of Preciados), Frankfurt (Zeil/ Goethestrasse), Munich (Neuhauser Strasse), and Cologne (Ehrenstrasse).

European online retail sales growth continues to fuel logistics and distribution leasing activity
With online retail sales in Europe on a strong upward trajectory, both pure-play and multi-channel retailers continue to reconfigure their supply chain to improve efficiency and support expected future growth. Logistics assets at opposite ends of the scale are expected to benefit: both "Mega" sheds in core logistic locations and smaller cross-docked industrial units in densely populated areas, which can facilitate the transport of goods to end consumers.

The Euro falls to nine-year low vs. the dollar and supports hospitality sector
This has potential upsides for the hospitality and retail sectors. In addition to a likely increase in the number of foreign visitors, this may encourage people in the eurozone to remain within the economic area for their holidays to avoid poor exchange rates on foreign currency. Both could have positive implications for retail sales in tourist areas, and increased occupancy of hotels and leisure facilities

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