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Please contact Situs RERC with questions about the research in this report at publications@rerc.com

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Dear Readers,

The effect of Brexit on both the UK and Spain, the resurgence of corporatism in France, the decline of political stability in Germany and Spain, and the rise of populism in Italy are all catalysts for uncertainty in the markets. Also, the accelerated rise of interest rates in the US will have consequences for commercial real estate (CRE) rates in the UK and Europe and the attractiveness of real estate in these markets. In addition, a trade war between the EU and the US is possible even though both parties appeared to back off in July. According to European investors surveyed by Situs RERC in 2Q 2018, political unrest and future interest rate hikes are by far the biggest potential pitfalls for CRE (see Exhibit 1).

Amidst all this uncertainty, it is crucial for investors to focus on real assets. Whilst political and economic uncertainty continue to make investors nervous, CRE presents itself as the best risk-adjusted alternative. As a real asset, CRE offers consistent cash flow, downside protection, tangibility, and low correlation with other asset classes.

Ultimately for investors, it’s about risk and return compared to alternative investments such as stocks and bonds. The steady source of income and low volatility make CRE a safe harbour during times of turbulence in the investment environment.

The wildly fluctuating political environment will continue to be a major contributor to stock market volatility. Despite a signal from the European Central Bank (ECB) that rates will remain unchanged for the next year, the winding down of the ECB’s asset purchasing programme (APP) may produce some volatility in the bond markets. Additionally, interest rates remain at historic lows, reducing demand for bonds. Focusing on real assets will help investors weather the next downturn. According to European investors surveyed by Situs RERC in 2Q 2018, political unrest and future interest rate hikes are by far the biggest potential pitfalls for CRE.

Beginning dates for the official recovery period vary among the European regions in which Situs operates. Whilst the Global Financial Crisis (GFC) ended in Germany and the UK in mid- to late-2009, Ireland, Spain, and the Netherlands began their most-recent recovery periods in 2013. CRE has enjoyed an upward momentum in prices and values during this past business cycle. Nonetheless, the economic cycle is becoming long in the tooth, meaning we might be due for a correction.

However, we are unlikely to be headed for another GFC, particularly in the CRE market. Despite rising asset prices, strong economic data and strong CRE fundamentals – including rent levels – are consistent with market realities. In general, the markets seem to be behaving reasonably and rationally and CRE pricing seems sustainable, indicating that the next downturn – whenever it occurs – should prove to be a manageable correction, not a major crash. In the meantime, investors need to focus on real assets.

As always, we express our deep appreciation for our survey respondents and clients, without whom this research would not be possible. By sharing your insights, you help to provide clarity for the CRE industry as a whole. Thank you for your willingness to share your responses.

Sincerely,

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What are your biggest concerns related to European real estate investment during the next 4 quarters?

<table>
<thead>
<tr>
<th>Concern</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Turmoil (including Brexit)</td>
<td>35%</td>
</tr>
<tr>
<td>Rising Interest Rates</td>
<td>31%</td>
</tr>
<tr>
<td>Economic Slowdown (including effect of tariffs/trade war)</td>
<td>19%</td>
</tr>
<tr>
<td>CRE Pricing Concerns</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: Situs RERC European Investment Survey, 2Q 2018.
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Data Analytics & Research
• Custom Research

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Political turmoil, potential rising interest rates and economic uncertainty – including the impact of US tariffs and a potential trade war – are the most important challenges for European CRE. In these uncertain times, CRE provides investors with relative safety, making it the best alternative among the asset classes. CRE is a tangible asset, preserving its value during a downturn and, alternatively, hedging against inflation during times of prosperity. While stocks, bonds and currencies continue to experience volatility due to political and economic uncertainty, CRE offers investors relatively steady cash flow in the form of rents.

Solid property fundamentals, scarce supply and free-flowing capital, much of it from foreign investment, have driven up prices. However, compared to the lead-up to the GFC, underwriting assumptions are more disciplined. The overall European CRE market has behaved rationally in recent quarters, with prices moving roughly in tandem with underlying property values. However, Situs RERC believes that in most European regions the market is nearly fully priced and further price increases may not be supported by values. With real estate costs expected to increase, especially in the primary markets, and investors moving farther down the risk spectrum in the search for yield, careful underwriting becomes more critical. But given the predictable income of CRE, investors who focus on real assets will be better positioned to weather the next downturn.

POLITICAL AND ECONOMIC UNCERTAINTY: BREXIT, THE UK AND EU

When UK citizens voted in June 2016 to withdraw from the European Union, many feared that the so-called ‘Brexit’ vote would lead to economic and political chaos. After the vote, the UK economy, although weaker than many had hoped before the vote, did not crash. Nevertheless, there has been political upheaval in the UK, and it appears to be increasing. Prime Minister Theresa May proposed in early July 2018 a ‘soft Brexit’. The UK would leave the EU, ending the free movement of people from the EU to the UK. The UK would, however, essentially remain within the EU Customs Union. She believes it is the best deal the UK can get under Brexit, but two members of her Cabinet – David Davis, followed by Boris Johnson – resigned within 24 hours, saying May needed to fight harder for a clean break with the EU. If enough Conservative Party members follow the lead of Davis and Johnson, May would either be forced to resign or at least call new elections.

Since the Brexit vote of 2016, the UK and the EU have been engulfed in uncertainty. Two years since the vote and less than one year from when the UK is scheduled to leave the EU, that uncertainty remains. Four scenarios are possible:

1. No deal, which would translate into the hardest Brexit of all, a clean break. Governments and businesses on both sides of the English Channel have been planning for such an eventuality, but without an agreement, chaos could still ensue regarding various financial arrangements, citizenship rights, trade, customs, and other issues. This is especially dangerous if it looks like negotiations are on the right track and then collapse at the last minute.
2. A negotiated ‘hard’ Brexit, which the leaders of the Brexit movement have been pushing for all along and could have almost the same impact as no deal.
3. A negotiated ‘soft’ Brexit, which in the best-case scenario, arrangements could be made about all the issues being discussed in a timely manner, giving all sides time to prepare. But even if the PM keeps her Cabinet in line, it’s unclear whether the EU would agree to her plan without pushing for further concessions. This could put even more pressure on her ability to keep her Cabinet – and her ruling party – unified enough to stay in power.
4. The least likely possibility is of May being forced to call new elections and being bounced from office, which theoretically could lead to a reversal of her invocation of Article 50 and thus the end of Brexit. Under this unlikely scenario, the UK would remain in the EU. A Labour government led by far-left-winger Jeremy Corbyn entails risks to the business community of its own.

All of these options are fraught with peril, and none are ideal. But one could argue that the uncertainty in the interim is just as damaging as the actual outcome. The uncertainty stemming from the Brexit negotiations creates volatility in the stock and bond markets, which makes the strong risk-adjusted returns of the CRE market even more attractive to investors. The political and economic fallout from Brexit will likely have different impacts on different markets and property types. In particular, if many firms move their headquarters out of the UK as a result of Brexit, the office sector in other European regions may benefit. Any movement of jobs from the UK into other regions would also directly impact the residential and retail sectors as well.

IMPACT OF TARIFFS

Amidst these uncertainties, US President Trump enacted tariffs on goods from China, the EU and other countries. On 1 June 2018, US President Trump enacted tariffs on goods from China, the EU and other countries. A 25% tariff was imposed on EU steel and 10% on EU aluminium. The EU retaliated by imposing numerous tariffs on US imports. But just when it looked like tensions would escalate further, President Trump and European Commission President Jean-Claude Juncker announced on 25 July they would hold off on new tariffs, including President Trump’s plan to start taxing European auto imports. The vague agreement offered hope for resolving the disputes over steel and aluminium.

For CRE, the immediate effects of the tariffs will be felt in the industrial sector, which may limit rent growth in the otherwise hot property type. A significant decrease in the balance of trade between the EU and US would hinder economic growth and ripple through the CRE market. Declining corporate profits and wage growth would likely lead to stagnating tenant demand and rent growth in the office, retail and residential sectors. However, the tariffs may help the EU economy in the longer term. With EU-imposed tariffs on US motorcycles, Harley-Davidson decided to move some of its operations to Europe, which will benefit the European manufacturing industry. Similarly, Business Insider reports that with China threatening more retaliatory tariffs against the US, Chinese businesses may be more inclined to do business with European companies, driving increases in corporate profitability and GDP, which would buoy the European CRE market.
MONETARY POLICY AND CAPITAL MARKETS

In its June 2018 meeting, the European Central Bank (ECB) decided to keep interest rates unchanged and reiterated its intent to maintain a relatively accommodative monetary policy stance for at least another year. The ECB intends to begin reducing the amount of net purchases under the asset purchase programme (APP) in September 2018, and fully phase out the programme by the end of the calendar year. However, the ECB intends to continue reinvesting the principal payments of maturing securities for as long as necessary.

In August 2018, the Bank of England (BOE) raised its benchmark interest rate, from 0.5% to 0.75%. The August 2018 increase – and another increase in November 2017 – have been the only time rates have been raised since the end of the GFC. Despite these hikes, interest rates have remained historically low for a very long time, essentially extending unlimited amounts of cash to banks. Interest rates have been so low for so long that the markets have become anesthetized to how easy it is to borrow money. The continued low interest rate environment is expected to further fuel the wave of available capital that has already flooded the market. See Exhibits 2 and 3 for a comparison of interest rates by region.

Equity markets have come under pressure because of the deteriorating trade relations, concerns over the pace and direction of monetary policies in the US and other developed economies, and the uncertainty about continued economic growth in European countries. With the political and economic uncertainty in Europe and around the globe, the potential for stock volatility is high. The historically low interest rates have weakened demand in the bond markets but have buoyed the European CRE market.

Spreads between CRE yields and corporate and government bonds remain healthy, making the asset class one of the more attractive investment options. In addition, the low interest rates encourage investors to take on more debt, increasing demand for CRE and pushing property prices higher. Considering the level of risk, the spreads indicate that real estate provides a solid risk-adjusted return compared to alternative fixed income investments and should be able to withstand most future interest rate hikes. However, potential political disruption and its impact on rates should not be underestimated.
MARKET SUMMARIES

UK

MARKET HIGHLIGHTS

- The UK has relied on robust global growth to sustain its economy. Investors will stay vigilant and monitor the signs of weaknesses in its economy.
- Despite the uncertainties from Brexit, the UK offers some bright spots, specifically London, which continues to be considered an attractive investment destination.
- Investors believe the UK CRE market is overpriced, but it is still inexpensive compared to other asset classes such as bonds.
- Industrial and logistics properties in urban areas are expected to perform well. Reduced consumer spending and continued failures of company voluntary arrangements (CVAs) have reduced investor appetite for the retail sector.

POLITICAL AND ECONOMIC CLIMATE

As the Brexit deadline is approaching fast, the UK economy has been on investors’ minds. According to a Reuters report, Britain’s economy was weaker than previously thought in 2017, growing only 1.7%. While this was higher than what most economists forecast immediately after Britain voted to leave the EU in 2016, it nevertheless was the slowest rate since 2012 and ahead of only Italy in the G7.

Economists had forecast that the rise in petrol prices would lead to higher transportation costs for consumers and boost the level of inflation further. However, inflation remained steady at 2.4% in June. In its announcement, the BOE said any future rate increases will be gradual and limited, without setting a timetable.

CRE INVESTMENT

Despite the uncertainties from Brexit, the UK offers some bright spots. According to CBRE, the UK CRE market has seen a surge in transaction volumes, particularly from foreign investors. According to Savills Research, the 2017 investment volume was approximately £65.4 billion, a 26% increase YoY. Foreign investors accounted for about half of the investment volume and a fifth of all investment was from the Far East. CBRE predicts total investment volume to remain at around £60 billion for 2018.

London continues to be considered an attractive investment. London held a larger allocation than New York City in the 2017 Norwegian Sovereign Wealth Fund’s unlisted real estate portfolio, which focuses on 10 global cities the fund expects to grow in terms of population, jobs and trade. This should provide some support for investors looking for long-term investment in the UK.

PROPERTY TYPES

Savills cited that investors poured nearly £11 billion into the industrial sector during 2017, up 80% YoY. JLL reported that the overall industrial sector total return was 23% in 2017, outperforming the office (10.3%) and retail sectors (7.5%). Likewise, CBRE picked industrial and logistics property in urban areas and the so-called “bed sectors,” i.e. residential, student housing, hotels and healthcare, to perform well as these sectors are mostly non-cyclical, have supply-demand imbalances and may benefit disproportionately from a weaker pound. However, reduced consumer spending and continued failures of CVAs have reduced investor appetite for the retail sector.

London offices were strong, accounting for two-thirds of the UK office transaction volume. The Central London office market was robust, with annual leasing volume of slightly over 11.7 million square feet, 15% higher YoY, according to Cushman & Wakefield. Flexible work spaces gained popularity in 2017, accounting for more than 21% of the total leasing volume. The demand for UK office space came primarily from foreign investors looking for quality long-term investment opportunities, while domestic investors are continuing to sell as the market reaches maturity.

Britain is already seeing signs of weaknesses in its economy, which may get worse as the country separates itself from the EU. The growth in construction and manufacturing sectors has slowed in 2018 and the trade deficit in goods and services has widened. With all this uncertainty facing investors in the UK, it is likely that demand for relatively stable assets, such as CRE, will continue to be strong in the near term. Pricing for CRE remains favourable relative to other asset classes, such as bonds. However, as core assets become increasingly expensive, investors are likely to branch out into alternative asset classes in the quest for higher yields.

GERMANY

MARKET HIGHLIGHTS

- Germany’s political environment looks precarious, with Chancellor Angela Merkel’s current term likely being her toughest one so far. On the other hand, the country’s economy is doing well with historically low unemployment.
- CRE total returns have increased over the past year; despite political turmoil, the robust economy is leading to strong CRE performance. German CRE investment volume remains strong.
- The office and logistics sectors are performing well, backed by foreign bank relocations to Germany and the thriving e-commerce industry.

POLITICAL AND ECONOMIC CLIMATE

Germany’s political system seemed more precarious than ever midway through 2018. Angela Merkel was re-elected last year to a fourth term, but it took her nearly six months to cobble together a majority coalition in the Bundestag. Her Christian Democratic Union (CDU) and the Christian Social Union (CSU) combine to hold 355 seats, only nine more than the needed majority.

Merkel faced one of the greatest challenges of her 12-year tenure after she allowed over a million asylum seekers to enter the country in the two years leading up to the election. This decision helped give rise to an anti-migrant party, the right-wing Alternative for Germany, or AfD. After Merkel’s CDU and CSU, which rule together in a coalition, AfD now represents...
the third largest party in the Bundestag, giving it a prominent platform to voice concerns about the Chancellor.

In early July 2018, Germany’s Interior Minister, Horst Seehofer, who is leader of the CSU, pushed for stricter immigration policies and nearly brought down the government. Merkel and Seehofer eventually reached an agreement for a significantly more stringent immigration policy than Merkel has been advocating and implementing for the last several years.

Despite the political upheaval, the German economy is doing well. Unemployment is historically low, at 3.4% as of June 2018. Reuters reports that household spending has become the main source of Germany’s expansion as record-high employment, increased job security, wage growth and low borrowing costs have helped increase consumer confidence.

CRE INVESTMENT

JLL reports that Germany held the top position among the European countries for real estate investment in 2017, recording its second highest year of investment, and this trend is expected to continue in 2018. Investment volume reached €60.2 billion in 2017, up 9% YoY and its sixth consecutive year of growth. Germany’s robust economy and strong global growth will continue to help the country’s CRE throughout the year.

PROPERTY TYPES

Germany’s office and logistics sectors are performing well, with strong office take-up, rising rents, reduced vacancies and tempered new construction. Cushman & Wakefield reported the office take-up volume in Germany’s top five cities in 2017 was 3.7 million square metres. Munich and Berlin were particularly strong, contributing more than 50% to the aggregate take-up. The Frankfurt office market showed strength as well, with take-up at about 710,000 square metres in 2017, up 30% from the previous year. The banking sector was the most active tenant segment in Frankfurt, accounting for more than 20% of the total take-up. The relocation of foreign banks to the Frankfurt Banking District after the Brexit vote has not been as strong as expected, but is expected to pick up in 2018.

Likewise, due to thriving e-commerce, German industrial and logistics assets are getting a lot of attention. The supply of industrial assets is limited, especially in Germany’s Big 7 – Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich and Stuttgart – and the scarcity of space should lead to higher rents and lower yields.

Most property sectors in Germany are doing well, and the trend is expected to continue throughout 2018 on the back of a robust economy, strong job growth and low inflation. Among other engagements in Germany, the engagement of Singapore’s sovereign wealth fund in the Berlin market shows the attractiveness of the market, especially for Asian investors.

IRELAND

MARKET HIGHLIGHTS

- The Irish economy continues to grow at a strong pace. The Central Bank of Ireland (CBI) forecasting growth of 4.8% in 2018 and 4.2% in 2019.
- The availability of bank financing of CRE investment and development continued to improve in 2017, due to an increase in lending appetite by non-Irish banks and alternative lenders.
- CRE returns have been declining, but still remain higher than bonds. Prices have been declining since 2013.
- Technology companies are the largest drivers of the Dublin office market.

POLITICAL AND ECONOMIC CLIMATE

The Irish economy continues to grow at a strong pace. The CBI stated that Ireland’s economy grew 7% in 2017 and expects it to grow 4.8% in 2018 and 4.2% in 2019. The improved prospects for the US and eurozone should help drive the Irish economy as well. The unemployment rate is expected to decline from 6.7% in 2017 to 5.6% in 2018 and 4.8% in 2019. Brexit, however, continues to pose a significant risk for Ireland’s economic growth.

While the Dublin office market has undoubtedly benefited from Brexit, the impact on other sectors of the economy may be more negative. One common concern is that any further weakening of the pound sterling against the euro or the introduction of trade barriers between Ireland and the UK could dampen exports to the UK. As of April 2018, year-to-date Irish exports to the UK were down 8% from the previous year.

CRE INVESTMENT

After record transaction levels from 2014 to 2016, Irish CRE market trading declined YoY in 2017 to €2.28 billion, down 48.9%. However, most of the decline can be attributed to two very significant sales in 2016 – Blanchardstown Town Centre and Liffey Valley Shopping Centre – which accounted for €1.58 billion.

The availability of bank financing of CRE investment and development has continued to improve. This has been due to an increase in lending appetite by non-Irish banks and alternative lenders, especially in the development space. These lenders generally have a greater risk tolerance than the main Irish banks.

PROPERTY TYPES

Office investment transactions amounted to €856 million in 2017. According to a CBRE report, leasing activity in 2017 in Dublin was higher
than the pre-crisis peak of 2007, with take-up of 3.6 million square feet. Technology companies drove the Dublin office market, accounting for 44% of annual take-up in 2017 with banking and finance second at 14%, according to JLL. About 2.6 million square feet of new office space is expected to become available in 2018, and 900,000 square feet had been leased by the end of 1Q 2018. The overall office vacancy rate in Dublin at the end of 1Q 2018 stood at 5.9%. Prime Dublin office rents are €65 per square foot with some commentators believing that rents have peaked in this cycle.

In the retail sector, investment transaction levels were low YoY in 2017 with only approximately €630 million of activity. There was strong demand from international and domestic occupiers for prime space in Dublin city centre and the large shopping centres around the M50. The high street vacancy rate in Dublin is 3.9% with the two largest centres, Dundrum and Blanchardstown, boasting 100% occupancy. Prime rents on Grafton Street are at €585 per square foot, an 11% annual increase.

The industrial sector is performing well, with investment volume of €144 million, up 36% YoY. CBRE reports the industrial and logistics sector take-up in 2017 was 2.68 million square feet, about the same volume as 2016. Rents are expected to increase 11% in 2018 to €10.25 per square foot. Residential house prices increased nationally by 13% in 2017. A significant undersupply with continued price inflation make it an attractive sector for investors. Build-to-rent sector rents are at record levels, with a 12% growth in 2017.

The Dublin hotel sector continued to perform well in 2017 with an occupancy rate of 83%, an average daily rate of €137 and RevPar of €114. Despite a pipeline of 1,400 new rooms in 2018 and 1,800 in 2019, hotel performance in Dublin is expected to remain strong albeit with slightly lower RevPar growth. The strong trading performance is driven by both domestic and international demand. Tourists from other countries will more than compensate for any declines in UK visitors.

SPAIN

MARKET HIGHLIGHTS

• S&P Global ratings raised Spain’s credit rating one level, from BBB+ to A-, citing expectations that the country’s growth will outpace the eurozone and that the government’s budget deficit will shrink.
• Foreign capital is driving the Spanish CRE market, accounting for 63% of the total capital invested. The availability of both debt and equity capital is strong.
• Solid economic performance has led to increased CRE returns since 2013, in spite of the political turmoil facing the country.
• Tourism supported the hotel market in Spain in 2017, whilst the lack of quality assets was a drag on the office sector.

POLITICAL AND ECONOMIC CLIMATE

Pedro Sanchez, Secretary-General of the Spanish Socialist Workers’ Party (PSOE), took office as Spain’s Prime Minister 2 June 2018, two days after his party filed a no-confidence motion against the scandal-plagued Mariano Rajoy, head of the People’s Party. Sanchez leads a fragile coalition composed of several political parties, and his hold on power is tenuous.

One of his first acts after being elected was to bring back limited self-rule for Catalonia, which Rajoy had ended after Catalonia held an independence referendum in 2017 and unilaterally declared its independence from Spain.

The Banco de España economic growth forecast for 2018 was hiked from 2.4% to 2.7%, thanks to easing political concerns at the time about Catalonia’s drive for independence and expectations of stronger exports. The economy is projected to grow 2.4% in 2019 and 2.1% in 2020. Likewise, the unemployment rate is expected to fall from 17.2% in 2017 to 11.4% in 2020. Moreover, S&P Global Ratings raised Spain’s credit rating one level from BBB+ to A-, citing expectations that the country’s growth will outpace the eurozone and that the government’s budget deficit will shrink.

The expansion in Spain’s service sector, which accounts for approximately half of its total economic activity, further supports the strength in the Spanish economy. According to Reuters, Markit’s Purchasing Manager’s Index (PMI) of service companies rose to 57.3 in February from 56.9 in January. In February, the sector expanded at its fastest rate in seven months due to healthy job creation and new-order growth.

CRE INVESTMENT

According to Savills, transaction volume in 2017 was €9.2 billion, 14% below the 2007 peak and 9% higher YoY. Volume in the fourth quarter was down 33% in 2017 YoY because of the delays in several deals that are expected to be closed in 2018 and also because of the renewed crisis in Catalonia.

Foreign capital drove the CRE market, accounting for 63% of the total capital invested in 2017. Europe provided 50% of the cross-border investment, followed by the US (40%), the Middle East (4%) and Asia (4%). The availability of debt and equity capital is strong in Spain, reflecting the health of the CRE market. Banks are still funding real estate projects as the market still has upside. According to the Wall Street Journal, Bankia SA, Spain’s fourth largest bank by market capitalisation, began financing real estate projects as soon as the ban that prohibited the bank from making such loans was lifted in January 2018. Bankia expects to capture 8% market share of the country’s €5.5 billion annual real-estate financing sector within about three years.

PROPERTY TYPES

Tourism continued to support the hotel and resort markets in Spain in 2017. JLL reports that the country attracted 82 million tourists in 2017, making it the second-most visited country in the world, after France. Hotel transaction volume in 2017 reached €3.6 billion, 65% higher compared to 2016. BNP Paribas reports that 40% of the total investment made during the fourth quarter was in the hotel sector.

With close to €3.5 million of investments (about 40% of the CRE market), 2017 was a record year for the retail market, 11% higher than the €3.13 million registered in 2016. Savills reported that 85% of the total volume was invested in the traditional property category, i.e., shopping centres, retail warehouses and supermarkets. The same report also pointed out the interest of foreign investors in high street retail. There are plans to open as many as 12 shopping centres in Spain covering about 400,000
square metres. While the retail sector surged, investment volume in the industrial/logistics sector declined, but the drop was primarily driven by the lack of quality product.

The lack of quality assets dragged the office sector as well. About €2.2 billion was invested in the office sector, down 23% YoY. Madrid and Barcelona accounted for 96% of the total volume and 90% of the total number of transactions. JLL reported that the office take-up grew 21% in 2017 compared to 2016, fuelled by employment growth in Spain.

Spanish real estate has been a hot buy in the decade since the end of the financial crisis. However, the recent move by Spain’s new Prime Minister to restore some self-rule in Catalonia will weigh on investors’ decisions to invest in the northeast region and Barcelona. All the ensuing uncertainty could lead to a short-lived government and weigh on Spanish real estate.

THE NETHERLANDS

MARKET HIGHLIGHTS

- The International Monetary Fund (IMF) expects YoY economic growth in the Netherlands to increase slightly, supported by robust exports, expansionary fiscal policy, solid domestic demand, and a favourable global economy.
- The record investment volume in 2017 has led to a significant decrease in available prime assets.
- CRE pricing in the Netherlands’ prime markets has reached historic highs, but it remains reasonably priced compared to other major European markets.
- Increasing rents from a tight supply is buoying the Dutch office sector. Industrial and retail sectors are also performing well.

POLITICAL AND ECONOMIC CLIMATE

The IMF expects growth to be 3.2% in 2018, supported by robust exports, expansionary fiscal policy, solid domestic demand and a favourable global economy. Likewise, unemployment is low and both producer and consumer confidence stand at their highest levels since the financial crisis. The low unemployment rate, however, has not led to higher wage growth in the Netherlands. The IMF suggests that the slack in wage growth is due to an increasing number of temporary workers and an increasing trend of workers becoming self-employed, which helps the employees avoid high pension and safety net contributions.

Like the economic condition, the Dutch political climate is stable as well. While a nationalist party won two seats in Amsterdam’s municipal elections in March, the country is not expected to follow the UK’s footsteps in leaving the EU. The Netherlands is home to Rotterdam, the largest port in Europe. It is heavily dependent on trade, and ‘Nexit’ would most likely prove to be disastrous for the economy. The shift of Unilever’s headquarters from London to Rotterdam in the wake of Brexit gives a sense of the Dutch stability.

CRE INVESTMENT

CBRE reports that the Netherlands was one of the best performing European investment markets in 2017 with a record investment volume of €19.5 billion. Savills reports that all major CRE sectors showed growth of at least 20% in 2017. A stable economy along with strong demands from investors should continue to provide support in 2018. However, investors will be forced to diversify and find more creative ways to deploy capital as robust demand has led to a significant decrease of assets, especially in prime locations in larger cities.

PROPERTY TYPES

According to Savills, the office market thrived in 2017, up 21% YoY. Of the total office investment, about 42% of the capital was invested in Amsterdam. The tight supply of core office assets led to a 10% increase in rents in large cities in 2017. The lack of quality office assets along with the high rents will push investors to move into secondary markets.

Savills also cited a significant growth in investment volumes in the industrial and retail sectors. The industrial sector volume was nearly €2.7 billion, up 42% YoY, driven mainly by the flourishing logistics market. Likewise, investment volume in the retail sector reached €4.4 billion in 2017, more than twice the volume YoY, making it the second most popular sector in the Netherlands in 2017. The large investment volume was driven by large portfolio sales. 1Q 2018 retail volume declined 50% QoQ, according to Cushman & Wakefield, but with prime rents remaining stable over the quarter, the outlook for the sector is positive.

The Dutch CRE market is considered very stable. However, the increased demand in major cities will push investors to diversify their portfolios geographically and across different sectors. The current market is ideal for investors who are willing to take slightly more risk for higher returns.
GET A CLOSE-UP ON VALUE

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- Residential Mortgage-Backed Securities (RMBS)
- Asset-Backed Securities (ABS)
- Residential Whole Loans
- Unsecured Consumer Whole Loans
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Inquiries@mviewfs.com
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303.633.4700

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INVESTOR SENTIMENT

Many factors are evaluated when analysing investment potential. The economic environment, the financial or capital markets, property fundamentals, investor sentiment, projected return performance and other criteria all help determine the potential returns associated with CRE. Situs RERC surveyed some of Europe’s leading CRE professionals. Their responses offer insight into investor sentiment and are a useful tool as we evaluate investment trends for the CRE market.

AVAILABILITY AND DISCIPLINE (UNDERWRITING STANDARDS) OF CAPITAL

For Europe overall, the majority of the Situs RERC respondents believed that the availability of equity and debt capital were strong (Exhibit 4). About 68% of the respondents believed the availability of equity capital was strong and the remaining 32% believed the availability was positive. On the debt side, about 54% of the respondents believed the capital availability was strong, while 29% believed it was positive and the remaining 18% believed it was adequate.

Among the regions:
- The majority of Situs RERC respondents believed the availability of equity capital was strong across all the regions except in the UK/Ireland (Exhibit 5).
- The availability of debt capital was considered strong by the majority of the respondents in the UK/Ireland and Germany.
- The majority of respondents believed that underwriting assumptions are better today than pre-credit crisis (Exhibit 6).

EXHIBIT 4. AVAILABILITY OF DEBT & EQUITY CAPITAL (EUROPE OVERALL)

EXHIBIT 5. AVAILABILITY OF DEBT & EQUITY CAPITAL (BY REGION)

<table>
<thead>
<tr>
<th>Availability — Equity</th>
<th>UK/IRELAND</th>
<th>GERMANY</th>
<th>BENELUX</th>
<th>MEDITERRANEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>50%</td>
<td>67%</td>
<td>80%</td>
<td>75%</td>
</tr>
<tr>
<td>Positive</td>
<td>50%</td>
<td>33%</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Adequate</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Poor</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Availability — Debt</th>
<th>UK/IRELAND</th>
<th>GERMANY</th>
<th>BENELUX</th>
<th>MEDITERRANEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>75%</td>
<td>53%</td>
<td>40%</td>
<td>50%</td>
</tr>
<tr>
<td>Positive</td>
<td>75%</td>
<td>27%</td>
<td>40%</td>
<td>50%</td>
</tr>
<tr>
<td>Adequate</td>
<td>25%</td>
<td>20%</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>Poor</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source Situs RERC European Investment Survey, 2Q 2018.
INVESTMENT RECOMMENDATIONS

The appeal of CRE investment for overall Europe was relatively weak in 2Q 2018 (Exhibit 7). Respondents were most likely to recommend selling and were least likely to recommend buying.

Among the regions:
- Selling CRE was the most attractive investment recommendation in every region except in the Mediterranean countries, where selling and holding CRE were rated equally. The sell rating was the highest in Benelux compared to other regions (see Exhibit 8).
- Holding CRE was second-most attractive investment recommendation across the regions, except in the Mediterranean countries. The hold rating was the lowest for the UK/Ireland compared to other regions.
- Buying CRE was the least attractive investment recommendation across all the regions, with the UK/Ireland generating the lowest rating among the regions.

EXHIBIT 7. INVESTMENT RECOMMENDATIONS — EUROPE OVERALL

Ratings are based on a scale of 1 to 5, with 5 being excellent.

Source: Situs RERC European Investment Survey, 2Q 2018.

EXHIBIT 6. UNDERWRITING ASSUMPTIONS TODAY VS. PRE-CREDIT CRISIS

Source: Situs RERC European Investment Survey, 2Q 2018.

EXHIBIT 8. INVESTMENT RECOMMENDATIONS — BY REGION

Ratings are based on a scale of 1 to 5, with 5 being excellent.

Source: Situs RERC European Investment Survey, 2Q 2018.
### EXHIBIT 9. INVESTMENT RECOMMENDATION BY PROPERTY TYPE

<table>
<thead>
<tr>
<th>Property Type</th>
<th>EUROPE</th>
<th>UK/IRELAND</th>
<th>GERMANY</th>
<th>BENELUX</th>
<th>MEDITERRANEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>HOLD</td>
<td>HOLD</td>
<td>HOLD</td>
<td>HOLD</td>
<td>HOLD</td>
</tr>
<tr>
<td>Industrial</td>
<td>SELL</td>
<td>HOLD</td>
<td>SELL</td>
<td>HOLD</td>
<td>SELL</td>
</tr>
<tr>
<td>Retail</td>
<td>HOLD</td>
<td>HOLD</td>
<td>HOLD</td>
<td>HOLD</td>
<td>HOLD</td>
</tr>
<tr>
<td>Multifamily</td>
<td>SELL</td>
<td>SELL</td>
<td>HOLD</td>
<td>HOLD</td>
<td>HOLD</td>
</tr>
<tr>
<td>Hotel/Student Housing/ Nursing Home</td>
<td>SELL</td>
<td>SELL</td>
<td>SELL</td>
<td>SELL</td>
<td>SELL</td>
</tr>
<tr>
<td>Land/Development</td>
<td>SELL</td>
<td>BUY</td>
<td>SELL</td>
<td>SELL</td>
<td>BUY</td>
</tr>
</tbody>
</table>

**Source**: Situs RERC European Investment Survey, 2Q 2018.
LENDING CONDITIONS

See Exhibit 10 for loan-to-value (LTV) ratios for Europe overall and for each of the regions.

Most Situs RERC respondents indicated that the LTV ratios lay between 80% and 85% before the credit crisis. The distribution of LTV ratios have changed, with most of the respondents indicating the ratios are between 60%-65% and 70%-75%.

Among the regions:

• The UK/Ireland region respondents believed the LTV ratios were between 80%-85% and 85%-90% pre-crisis. In 2Q 2018, half of the respondents believed that the LTV ratios were between 60% and 65%, while the other half believed the ratios were between 70% and 75%.

• Some Benelux and Mediterranean respondents indicated that the LTV ratios were less than 50% in 2Q 2018. None of the regions indicated the LTV ratio to be less than 50% pre-crisis.

• Nearly half of the German respondents believed the LTV ratios to be between 80% and 85% pre-crisis. In 2Q 2018, the responses were more dispersed in the region, with the majority of the respondents indicating LTV ratios were between 60%-65% and 70%-75%.

EXHIBIT 10. LOAN-TO-VALUE RATIOS

<table>
<thead>
<tr>
<th></th>
<th>EUROPE</th>
<th>UK/IRELAND</th>
<th>GERMANY</th>
<th>BENELUX</th>
<th>MEDITERRANEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LOAN-TO-VALUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RATIOS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PRE-CREDIT CRISIS</strong></td>
<td>&lt;50%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>50-55%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>55-60%</td>
<td>11%</td>
<td>0%</td>
<td>7%</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>60-65%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>65-70%</td>
<td>4%</td>
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<tr>
<td></td>
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<td></td>
<td>75-80%</td>
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<tr>
<td></td>
<td>80-85%</td>
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<td>50%</td>
<td>47%</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>85-90%</td>
<td>18%</td>
<td>50%</td>
<td>7%</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>&gt;90%</td>
<td>11%</td>
<td>0%</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>LOAN-TO-VALUE RATIOS TODAY</strong></td>
<td>&lt;50%</td>
<td>7%</td>
<td>0%</td>
<td>0%</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>50-55%</td>
<td>4%</td>
<td>0%</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>55-60%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>60-65%</td>
<td>32%</td>
<td>50%</td>
<td>33%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>65-70%</td>
<td>11%</td>
<td>0%</td>
<td>7%</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>70-75%</td>
<td>11%</td>
<td>50%</td>
<td>33%</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>75-80%</td>
<td>11%</td>
<td>0%</td>
<td>13%</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>80-85%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>85-90%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>&gt;90%</td>
<td>4%</td>
<td>0%</td>
<td>7%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*Source* Situs RERC European Investment Survey, 2Q 2018.
RETURN VS. RISK

Situs RERC asked survey participants to provide ratings of the extent to which risk in the CRE market is supported by return for different property types and markets. Survey participants indicated their sentiment regarding return relative to risk on a five-point scale, with lower ratings indicating that risk exceeds return and higher ratings indicating that return exceeds risk. See Exhibits 11-15 for complete return vs. risk results.

Major findings include:

- Risk outweighed return for overall CRE across all regions except in the Mediterranean region, where return outweighed risk significantly. For Europe as a whole, survey respondents felt that return slightly outweighed risk.

- While survey respondents rated return vs. risk slightly higher for the retail sector than the office sector in the UK/Ireland, the recent announcements of several store closures would likely result in lower ratings for retail (i.e., greater risk relative to return) if the survey were to be undertaken today.

- The multifamily sector appears to be faring the best in Germany from a risk-adjusted return perspective. Exceptional demand and limited supply has resulted in a major run-up in rents, particularly in the large metro areas.

Source: Situs RERC European Investment Survey, 2Q 2018.
VALUE VS. PRICE

Situs RERC asked survey participants to provide ratings of the extent to which CRE values are supporting prices for different property types and markets. Survey participants indicated their sentiment regarding value relative to price on a five-point scale, with lower ratings indicating that a particular property type or market is overpriced and higher ratings indicating it is underpriced. See Exhibits 16-20 for complete value vs. price results.

Major findings include:

• Overall CRE was considered slightly overpriced in all regions except the Mediterranean. Value exceeded price for overall CRE and most of the property types in the Mediterranean region.

• While survey respondents rated value vs. price higher for the retail sector than the office sector in the UK/Ireland, the recent announcements of several store closures would likely result in lower ratings for retail (i.e., more overpriced relative to value) if the survey were to be undertaken today.

• The hotel/student housing/nursing home sector was considered to be the best property type from a value vs. price perspective in Germany due primarily to changing demographics.

Source Situs RERC European Investment Survey, 2Q 2018.
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**Impact of Brexit on CRE in the UK and EU**

Situs RERC respondents believed that Brexit uncertainties will have a negative impact on CRE in the UK over the next 12 months. In particular, survey respondents believe that Brexit will have a negative impact on equity flows, prices, transaction volume, valuation level and risk appetite in the UK (Exhibits 21 and 22). Survey respondents were more optimistic about the impact of Brexit on the rest of the EU.

Situs RERC European respondents in most of the regions indicated that the Brexit vote has lessened their risk appetite in the UK market. Benelux was the only region that indicated an increase in their appetite for risk in the UK.

**Fund Allocations**

Situs RERC wanted to understand where experts are investing funds now and how those allocations will change over the next six months. See Exhibit 23 for the results for Europe overall and by region. German respondents were the least optimistic about investing in the UK over the next six months, while the UK/Ireland and Benelux respondents were fairly optimistic about the UK markets over the same period.

**Yield Requirements**

As shown in Exhibit 24, expected changes in yield requirements over the next six months varied by region. However, most of the expected increases or decreases in yield requirements were expected to be relatively small.

- The overwhelming majority of survey respondents felt that yield requirements would remain the same or increase over the next six months for Europe overall.
- Of the respondents who believed that yield requirements would increase, almost 90% felt they would increase by 50 basis points or less.
- Only 9% of respondents indicated that yield requirements would decrease over the next six months and by only 50 basis points or less.

---

**EXHIBIT 21. IMPACT OF BREXIT ON CRE**

![Diagram of Impact of Brexit on CRE](image)

Responses reflect investor sentiment about the impact of Brexit on UK and EU CRE over the next 12 months.

*Source* Situs RERC European Investment Survey, 2Q 2018.

**EXHIBIT 22. EXPECTED IMPACT OF THE BREXIT VOTE**

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>EU (EXCLUDING UK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Availability</td>
<td>NEUTRAL/NEGATIVE</td>
<td>NEUTRAL</td>
</tr>
<tr>
<td>Equity Flows</td>
<td>NEGATIVE</td>
<td>POSITIVE</td>
</tr>
<tr>
<td>Prices</td>
<td>NEGATIVE</td>
<td>NEUTRAL</td>
</tr>
<tr>
<td>Transaction Volume</td>
<td>NEGATIVE</td>
<td>POSITIVE</td>
</tr>
<tr>
<td>Valuation Levels</td>
<td>NEGATIVE</td>
<td>POSITIVE/NEUTRAL</td>
</tr>
<tr>
<td>Risk Appetite</td>
<td>NEGATIVE</td>
<td>NEUTRAL</td>
</tr>
</tbody>
</table>

Responses reflect investor sentiment about the impact of Brexit on UK and EU CRE over the next 12 months.

*Source* Situs RERC European Investment Survey, 2Q 2018.
EXHIBIT 23. WHERE ARE YOU INVESTING FUNDS?

Survey respondents are able to choose multiple destinations for funds. Therefore, each region’s allocations may not equal 100%.

Source: Situs RERC European Investment Survey, 2Q 2018.

EXHIBIT 24. YIELD REQUIREMENTS 6 MONTHS FROM NOW

Source: Situs RERC European Investment Survey, 2Q 2018.
EUROPEAN CRE RATES — OFFICE PROPERTIES

UNITED KINGDOM
Net Initial Yield
Range Est: 3.50% – 6.25%
Point Est: 4.95%
Nominal Equivalent Yield
Range Est: 3.65% – 6.80%
Point Est: 4.95%
Reversionary Yield
Range Est: 3.80% – 8.25%
Point Est: 6.85%

GERMANY
Discount Rate
Range Est: 5.00% – 8.50%
Point Est: 6.70%
Direct/Implied Cap Rate
Range Est: 3.50% – 8.30%
Point Est: 5.70%
Terminal Rate
Range Est: 5.00% – 9.00%
Point Est: 6.20%

THE NETHERLANDS
Discount Rate
Range Est: 6.00% – 8.50%
Point Est: 7.35%
Direct/Implied Cap Rate
Range Est: 4.25% – 9.00%
Point Est: 6.35%
Terminal Rate
Range Est: 6.00% – 9.00%
Point Est: 7.10%

IRELAND
Net Initial Yield
Range Est: 4.00% – 4.55%
Point Est: 4.20%
Nominal Equivalent Yield
Range Est: 4.30% – 4.80%
Point Est: 4.45%

SPAIN
Discount Rate
Range Est: 6.50% – 8.65%
Point Est: 7.55%
Direct/Implied Cap Rate
Range Est: 4.00% – 5.50%
Point Est: 4.65%
Terminal Rate
Range Est: 3.75% – 5.75%
Point Est: 4.65%

The estimates presented for each country are the result of an aggregated analysis of valuation data pertaining to a specific European region, qualitative resources (e.g., journals, publications) and Situs RERC internal expertise. Situs RERC uses valuation data to establish a set of preliminary estimates that are then further refined using information gathered through external public sources (e.g., journals, publications) and Situs RERC European experts within the various regions. Range and point estimates reflect the central tendencies of aggregated third-party valuation data throughout Europe and the opinions of Situs experts in Europe. Unusually high and low responses have been removed from the source data.

Situs RERC rates are based upon valuations of investment properties that range from new or newer quality construction in prime to good locations to distressed real estate in marginal locations. As such, Situs RERC rates reflect a broad spectrum of properties.

Rates are presented at the national level; there may be significant regional variation. For yield definitions, please see the Investment Terms and Methodology section on page 25.

Note For the UK and Ireland, Situs RERC presents net initial yield, nominal equivalent yield and reversionary yield because they are the predominant metrics used in the traditional valuation methodology that is typically used in these regions. For continental Europe, Situs RERC presents cap rates, discount rates and multipliers because they are the predominant metrics used in discounted cash flow (DCF) or rent multiplier yield analysis, which is the preferred valuation methodology in these regions.

Not all rates were available for each asset class and country.

Source Situs RERC, Q2 2018.
EUROPEAN CRE RATES — INDUSTRIAL/LOGISTICS PROPERTIES

**UNITED KINGDOM**
Net Initial Yield
Range Est: 4.25% – 8.00%
Point Est: 6.25%
Nominal Equivalent Yield
Range Est: 4.25% – 7.00%
Point Est: 5.00%
Reversionary Yield
Range Est: 4.76% – 9.35%
Point Est: 8.40%

**GERMANY**
Discount Rate
Range Est: 7.20% – 8.65%
Point Est: 7.45%
Direct/Implied Cap Rate
Range Est: 4.50% – 9.50%
Point Est: 6.70%
Terminal Rate
Range Est: 8.80% – 9.50%
Point Est: 7.00%

**THE NETHERLANDS**
Discount Rate
Range Est: 7.80% – 9.50%
Point Est: 8.45%
Direct/Implied Cap Rate
Range Est: 5.00% – 9.00%
Point Est: 7.55%
Terminal Rate
Range Est: 7.30% – 10.00%
Point Est: 7.95%

**IRELAND**
Net Initial Yield
Range Est: 5.50% – 6.00%
Point Est: 5.70%
Nominal Equivalent Yield
Range Est: 5.50% – 6.00%
Point Est: 5.70%

**SPAIN**
Discount Rate
Range Est: 7.50% – 8.50%
Point Est: 8.25%
Direct/Implied Cap Rate
Range Est: 6.75% – 8.50%
Point Est: 7.35%
Terminal Rate
Range Est: 6.50% – 8.25%
Point Est: 7.15%

The estimates presented for each country are the result of an aggregated analysis of valuation data pertaining to a specific European region, qualitative resources (e.g., journals, publications) and Situs RERC internal expertise. Situs RERC uses valuation data to establish a set of preliminary estimates that are then further refined using information gathered through external public sources (e.g., journals, publications) and Situs RERC European experts within the various regions. Range and point estimates reflect the central tendencies of aggregated third-party valuation data throughout Europe and the opinions of Situs experts in Europe. Unusually high and low responses have been removed from the source data.

Situs RERC rates are based upon valuations of investment properties that range from new or newer quality construction in prime to good locations to distressed real estate in marginal locations. As such, Situs RERC rates reflect a broad spectrum of properties.

Rates are presented at the national level; there may be significant regional variation. For yield definitions, please see the Investment Terms and Methodology section on page 25.

**Note** For the UK and Ireland, Situs RERC presents net initial yield, nominal equivalent yield and reversionary yield because they are the predominant metrics used in the traditional valuation methodology that is typically used in these regions. For continental Europe, Situs RERC presents cap rates, discount rates and multipliers because they are the predominant metrics used in discounted cash flow (DCF) or rent multiplier yield analysis, which is the preferred valuation methodology in these regions.

Not all rates were available for each asset class and country.

**Source** Situs RERC, 2Q 2018.
**EUROPEAN CRE RATES — RETAIL PROPERTIES**

### UNITED KINGDOM

<table>
<thead>
<tr>
<th>Category</th>
<th>Range Est.</th>
<th>Point Est.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Initial Yield</td>
<td>4.25% – 6.20%</td>
<td>5.20%</td>
</tr>
<tr>
<td>Nominal Equivalent Yield</td>
<td>4.25% – 6.20%</td>
<td>5.20%</td>
</tr>
<tr>
<td>Reversionary Yield</td>
<td>5.00% – 8.00%</td>
<td>6.75%</td>
</tr>
</tbody>
</table>

### GERMANY

<table>
<thead>
<tr>
<th>Category</th>
<th>Range Est.</th>
<th>Point Est.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>5.50% – 8.00%</td>
<td>6.90%</td>
</tr>
<tr>
<td>Direct/Implied Cap Rate</td>
<td>3.50% – 8.00%</td>
<td>5.60%</td>
</tr>
<tr>
<td>Terminal Rate</td>
<td>5.00% – 8.50%</td>
<td>6.40%</td>
</tr>
</tbody>
</table>

### THE NETHERLANDS

<table>
<thead>
<tr>
<th>Category</th>
<th>Range Est.</th>
<th>Point Est.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>5.50% – 8.00%</td>
<td>6.90%</td>
</tr>
<tr>
<td>Direct/Implied Cap Rate</td>
<td>4.60% – 7.00%</td>
<td>5.90%</td>
</tr>
<tr>
<td>Terminal Rate</td>
<td>6.20% – 8.00%</td>
<td>6.75%</td>
</tr>
</tbody>
</table>

### IRELAND

<table>
<thead>
<tr>
<th>Category</th>
<th>Range Est.</th>
<th>Point Est.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Initial Yield</td>
<td>3.00% – 4.30%</td>
<td>3.30%</td>
</tr>
<tr>
<td>Nominal Equivalent Yield</td>
<td>3.00% – 4.30%</td>
<td>3.30%</td>
</tr>
</tbody>
</table>

### SPAIN

<table>
<thead>
<tr>
<th>Category</th>
<th>Range Est.</th>
<th>Point Est.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>5.05% – 7.40%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Direct/Implied Cap Rate</td>
<td>3.80% – 6.00%</td>
<td>4.60%</td>
</tr>
<tr>
<td>Terminal Rate</td>
<td>3.80% – 6.20%</td>
<td>4.80%</td>
</tr>
</tbody>
</table>

The estimates presented for each country are the result of an aggregated analysis of valuation data pertaining to a specific European region, qualitative resources (e.g., journals, publications) and Situs RERC internal expertise. Situs RERC uses valuation data to establish a set of preliminary estimates that are then further refined using information gathered through external public sources (e.g., journals, publications) and Situs RERC European experts within the various regions. Range and point estimates reflect the central tendencies of aggregated third-party valuation data throughout Europe and the opinions of Situs experts in Europe. Unusually high and low responses have been removed from the source data.

Situs RERC rates are based upon valuations of investment properties that range from new or newer quality construction in prime to good locations to distressed real estate in marginal locations. As such, Situs RERC rates reflect a broad spectrum of properties.

Rates are presented at the national level; there may be significant regional variation. For yield definitions, please see the Investment Terms and Methodology section on page 25.

**Note** For the UK and Ireland, Situs RERC presents net initial yield, nominal equivalent yield and reversionary yield because they are the predominant metrics used in the traditional valuation methodology that is typically used in these regions. For continental Europe, Situs RERC presents cap rates, discount rates and multipliers because they are the predominant metrics used in discounted cash flow (DCF) or rent multiplier yield analysis, which is the preferred valuation methodology in these regions.

Not all rates were available for each asset class and country.

**Source** Situs RERC, 2Q 2018.
EUROPEAN CRE RATES — MULTIFAMILY PROPERTIES

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INVESTMENT TERMS AND METHODOLOGY

The Situs RERC Real Estate Report — European Edition inaugural issue was published in December 2014 by Situs and Situs RERC to clients and contacts. Using Situs’ global valuation and loan advisory capabilities and Situs RERC’s research and analytics capabilities, the Real Estate Report — European Edition is intended to offer investors, lenders and agencies research-based insight to investor sentiment and to the investment environment for commercial real estate (CRE). Below are the definitions of terms used throughout the report.

Direct/Implied Capitalisation Rate: ¹ The first-year net operating income (NOI) divided by the price or value of the property.

Discount Rate:² The discount rate for unleveraged investments is the rate of interest that discounts the pre-income tax cash flows back to a present value that is exactly equal to the amount of the equity investment.

Investment Surveys: Situs RERC conducts confidential surveys of investment trends with Situs and Situs RERC clients and contacts throughout Europe. We then collect results from the survey, analyse and interpret the information gathered, and report investor sentiment based on the results from the investment surveys. Because of sample size, results were not statistically significant, but the data are useful for trends analysis.

Net Initial Yield:³ Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchaser’s costs.

Nominal Equivalent Yield:⁴ The UK property market’s mechanism for communicating the current level of return on commercial property investments. It is the theoretical internal rate of return of the cash flows from a particular property or portfolio, assuming the property becomes fully occupied and that all rents revert to the current market level (estimated rental value, or ERV) at the next rent review date or lease expiry. No future rental growth is allowed for. The nominal equivalent yield is sometimes described as the weighted average yield between the initial and the reversionary yield, per EPRA’s Best Practices Recommendations.

Return vs. Risk Rating: A rating that is assigned by survey respondents who are evaluating the relationship between the return and risk of CRE. Survey respondents determine how the return on CRE compares with the amount of risk involved, and then rate the return vs. risk on a scale of 1 to 10, with 10 being high (1 = risk greatly outweighs return, 5 = return is equal to the amount of risk, and 10 = return greatly outweighs risk).

Reversionary Yield:⁵ The estimated rental value (ERV) of the property or portfolio less property operating expenses, expressed as a percentage of the market value of the property increased with (estimated) purchaser’s transaction costs.

Situs RERC Range and Point Estimates: Situs RERC developed these estimates based on the central tendencies of aggregated third-party valuation report data throughout Europe and the opinions of Situs experts in Europe. Unusually high and low responses have been removed from the source data.

Terminal Capitalisation Rate:⁶ The terminal capitalisation rate is the rate used to estimate resale or reversion value at the end of the holding period. Typically, it is the NOI in the year following the last year of the holding period that is capitalised.

Valuation-Based Investment Criteria: The investment criteria (discount rates, direct/ implied capitalisation rates, terminal capitalisation rates, net initial yield rates, nominal equivalent yield rates, and reversionary yield rates) defined in this section and included throughout this report have been gathered from many of the third-party CRE valuations of European properties conducted during the past year, which Situs has obtained and reviewed for underwriting purposes. The valuations were on investment properties that range from new or newer quality construction in prime to good locations to distressed real estate in marginal locations, and as such, the rates included here reflect that broad appeal. Situs RERC reviewed the investment criteria in accordance with 12-month trailing analytics, and as more data is collected and compiled over the following quarters, will more thoroughly monitor trends and interpret the information for future issues of this report.

Value vs. Price Rating: A rating that is assigned by survey respondents who are evaluating the relationship between the value and the price of CRE. Survey respondents determine whether the value on CRE outweighs the price, or if CRE is overpriced compared to its value. The value versus price rating ranges from 1 to 10, with 10 being high (1 = prices greatly outweigh value, 5 = value equals price, and 10 = value greatly outweighs price).

Regions as Defined in the Survey

Alpine Countries: Austria, Switzerland, Liechtenstein, Slovenia, Germany, France, Italy

Baltic States: Estonia, Latvia, Lithuania

Benelux: Belgium, Netherlands, Luxembourg

British Isles: United Kingdom(England, Scotland, Wales, Northern Ireland), Isle of Man, Republic of Ireland

Mediterranean Countries: Portugal, Spain, France, Monaco, Greece, Turkey, Cyprus

Nordic Region: Finland, Denmark, Sweden, Norway

¹Situs RERC definition, November 2014.
²Ibid.
³British Land Glossary, November 2014.
⁵EPRA’s Best Practices Recommendations, November 2014.
⁶Situs RERC definition, November 2014.
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RERC, LLC: RERC, LLC, a wholly owned subsidiary of Situs Group, LLC, was founded in 1931 in Chicago, Illinois, and is recognised throughout the CRE industry in the US as one of the most respected firms dedicated to valuation management, appraisal and litigation services, and research, analytics and publications. Situs RERC has provided valuation management and independent consulting services for some of the world’s largest retirement funds, life insurance companies and real estate investment managers. Situs RERC’s valuation trends analysis (including capitalisation rates and other investment criteria) for 10 major property types for the institutional and regional CRE markets and 47 major metropolitan markets in the US is provided each quarter in the Situs RERC Real Estate Report.

Situs: Situs, the premier global provider of strategic business solutions for the real estate and financial services industries, has offered customised services to leading financial institutions, investors, owners and developers since 1985. Situs offers a broad portfolio of strategic solutions including Advisory Services, Loan Servicing, Risk Management, Consulting & Staffing, Valuation Advisory and Business Process Outsourcing, among others. Situs’ business provides customised solutions that mitigate deal execution risk for clients while maximising operating margins. Situs is headquartered in Houston, and has offices throughout the US, Europe and Asia.