

# Situs RERC<sup>®</sup>

## REAL ESTATE REPORT

September 2017

# Riding the WAVE

How Long Will It Last?

Survey: UK Multifamily Market  
Underpriced  
PAGE 9

Brexit May Have a Positive Impact  
On Continental Europe CRE  
PAGE 10

European CRE Rates by Property Type  
PAGE 12



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Dear Readers,

European investors have been **riding the wave** of economic recovery for eight years, but eventually we expect that wave to make landfall. The commercial real estate (CRE) market is cyclical in nature, and the CRE boom that we have seen since the end of the Great Financial Crisis is bound to come to an end eventually – but likely with a soft landing, not another crash.

The current wave has lasted longer than most expected. The length of the recovery has been spurred by the actions of the European Central Bank (ECB), which has kept interest rates at or near 0% and continued its policy of asset purchasing known as quantitative easing (QE). A combination of low interest rates, GDP growth, favourable spreads between bonds and CRE, and several other factors have made the European market a compelling place to invest. These factors, along with significant cash flow from outside Europe – primarily China – have kept Europe awash in capital for investment.

When will the cycle end? The ECB's rate-setting Governing Council announced in September it will keep the QE program at least until the end of the year because it believes inflation is still too low, below its target of 2%. This means that this long recovery may keep going for a little longer yet.

The biggest potential catalyst – other than an abrupt change in ECB policies – is the continued uncertainty of Brexit. Nonetheless, for now, the CRE market is progressing relatively smoothly. The UK market appears to be stable, other than some companies moving or threatening to move some of their operations and headcount from London to Dublin, Paris or Frankfurt. Similarly, Germany and the Netherlands are doing very well at the moment. Ireland, with an economy entwined with the UK's, faces some potential problems although it might gain from companies leaving the UK.

The current issue of the *Situs RERC Real Estate Report – European Edition* provides insight into the current state of the European economy and CRE, including analyses of the major asset classes and European regions. Situs RERC surveyed experts throughout Europe and culled data from hundreds of CRE valuations to provide data on investment rates and investor sentiment in order to give our readers insight about how long investors can keep **riding the wave**.

As always, we express our deep appreciation for our survey respondents, 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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## IN THIS VOLUME

### 1 FOREWORD

### 3 RIDING THE WAVE: HOW LONG WILL IT LAST?

### 4 INVESTOR SENTIMENT

Availability and Discipline of Capital .....	4
Buy-Sell-Hold Analysis .....	5
Investment Conditions .....	6
Lending Conditions .....	7
Return vs. Risk .....	8
Value vs. Price .....	9

### 10 BREXIT: STILL RIDING THE WAVE

### 12 SITUS RERC EUROPEAN CRE RATES

### 18 REGIONAL UPDATES

The UK .....	18
Germany .....	19
Ireland .....	21
Spain .....	22
The Netherlands .....	23

### 26 INVESTMENT TERMS AND METHODOLOGY

### 28 APPENDIX

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## RIDING THE WAVE: HOW LONG WILL IT LAST?

The current real estate cycle will inevitably come to an end, but despite its length – well into its eighth year – and uncertainties following the Brexit vote, the economic news remains encouraging throughout Europe. The wave is continuing as investors in all the markets surveyed by Situs RERC reported that plenty of cash is still available for investment. They attribute this at least in part to the ECB's decision to keep interest rates low and continue QE – a decision it reiterated in September.

The ECB is faced with a conundrum. Despite years of near-0% rates and QE stimulus, the Eurozone is not showing signs of a significant economic pick-up. In particular, inflation remains stubbornly low (1.3% compared to the 2% target). This puts the ECB in a tight spot to continue the stimulus despite the risks building up with an ever-increasing ECB balance sheet. From afar the situation looks far more positive, with unemployment falling to long-term lows and the overall economic outlook being healthier than some years back. The nature of the EU means that various markets face different challenges, so the positives of low interest rates and QE are far more necessary for some than others. Low interest rates and QE appear to be the new normal, for now.

There is no historical parallel for QE and low interest rates lasting so long, which makes it harder to figure out how long investors will be able to ride the wave. The ECB has been injecting money into the system through QE, essentially extending unlimited amounts of cash to banks. Interest rates have been so low for such a long time that the markets have become anesthetized to how easy it is to borrow money. The QE programme is expected to continue at least through 2019, but Mario Draghi, ECB's president, has announced that he will extend the programme beyond then, if necessary. In the wake of the recession, the economy needed QE to recover, but investors have become addicted to the easy access to money. Now QE is being pumped into an already robust system and it manipulates the markets.

On the other hand, extremely low interest rates have been a boon for CRE. The unprecedented bull run in European CRE has been due largely to central bank liquidity. The low rates have a direct link to taking on more debt, which in turn raises property prices. Despite all this money pumping into the economy, inflation remains stubbornly low, likely because of investor uncertainty. In uncertain times, demand for real estate increases.

*“The unarticulated handling of Brexit brings about prolonged uncertainty in the UK market. Continental Europe will benefit from capital seeking stability.”*

**- Situs RERC European  
Investment Survey Respondent**

Brexit still looms over Europe, with potential consequences for the overall economy and CRE. According to Situs RERC European investment survey respondents, the country most negatively affected by Brexit over the next year could very well be the UK, even before it takes effect. In particular, Brexit is likely to have the most negative impact on debt availability and equity flows in the UK, but the effect will not be severe on valuation levels. On the other hand, experts reported that Brexit is likely to have a positive impact on CRE in the other EU countries; transaction volume and risk appetite are predicted to benefit the most.

Even if there had never been a Brexit vote, the EU has been showing signs of being a less unified market. Germany, for example, has a strong economy that is experiencing a large influx of capital. CRE there continues to be an attractive investment, and the added migration of some companies – particularly banks – from London to Frankfurt will help Germany at the UK's expense.

*“It is important to consider that Europe is not a homogenous region, but instead includes areas with different economies, solidity, maturity foundations and geographical divisions. Of course, economic and political reforms will be a priority for the EU, but the risk is linked to the failure of an attempt to create a homogeneous market that responds evenly in the medium period.”*

**- Situs RERC European  
Investment Survey Respondent**

For Ireland, though, Brexit is a mixed bag. On the positive side, some London banks and other companies may relocate to Dublin, but on the negative side, many Irish industries rely on the UK as a trade partner because its economy is so entwined with the UK.

Spain's economy has been growing rapidly, but its unemployment rate remains stubbornly high at 17.2%, even though that is a marked improvement from past years. Spain's economy has been helped by investors pouring their money into residential and CRE in Madrid and Barcelona, along with smaller cities such as Malaga and Valencia.

In contrast to Spain, the Netherlands' unemployment rate has dropped below 5%. A stable political system in the Netherlands has helped create certainty in the region, which will likely lead to continued economic growth. The Dutch economy is expected to top 3% growth for the first time since the financial crisis, and that growth is projected to continue through 2019.

But despite the differences among the various EU economies, CRE remains attractive almost everywhere, and that should be expected to continue for however long that investors can ride the wave.

## 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 surveys some of Europe's leading CRE professionals twice per year. Their responses offer insight into investor sentiment, and are a useful tool as we evaluate investment trends for the CRE market.<sup>1</sup>

### Overview

Investor sentiment about the European CRE market is fragmented. While only 33% of Situs RERC investment survey respondents thought that Europe overall had a healthy investment environment, results ranged widely by region (see Exhibit 1). The following sections examine investor sentiment for specific aspects of the CRE market.

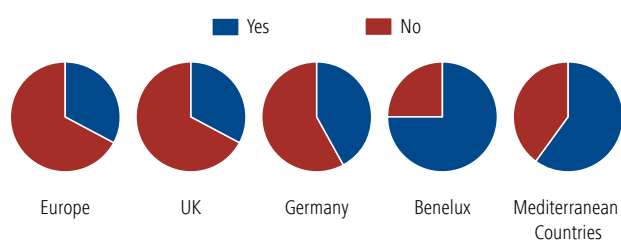
### Availability and Discipline (Underwriting Standards) of Capital

For Europe overall, the amount of available debt capital has risen over the past year, while the availability of equity capital has remained steady during the same period (see Exhibit 2). Respondents noted that equity capital is still more readily available to investors than debt capital. The discipline (underwriting standards) of both debt and equity capital has loosened over the past year; however, the underwriting standards of debt capital has remained stricter than underwriting standards of equity capital. Over the past three years, the availability of debt and equity capital rating has been higher than the rating for discipline of debt and equity capital – except for third quarter 2016, right after the UK voted to leave the EU.

Among the regions<sup>2</sup>:

- Equity capital availability was higher than debt capital availability for all regions except Benelux, where they were roughly equal (see Exhibit 3).

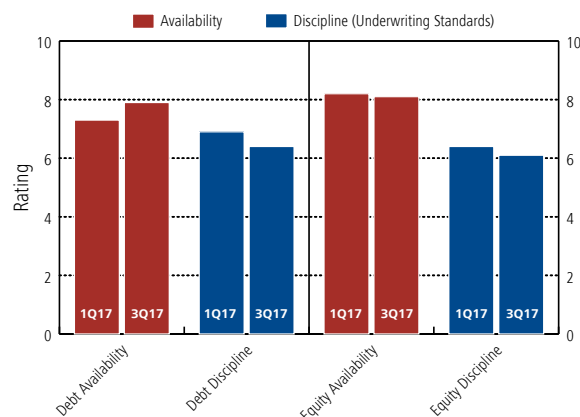
#### Exhibit 1. Is The Environment Healthy for CRE?



Source: Situs RERC European Investment Survey, 3Q 2017.



#### Exhibit 2. Availability vs. Discipline (Underwriting Standards) of Capital (Europe Overall)



Ratings are based on a scale of 1 to 10, with 10 being excellent and 5 being average. Source: Situs RERC European Investment Survey, 3Q 2017.

#### Exhibit 3. Availability vs. Discipline (Underwriting Standards) of Capital (by Region)

	Debt		Equity	
	Availability	UW Standards	Availability	UW Standards
UK	7.8	6.8	8.6	7.0
Germany	8.2	6.6	8.7	7.2
Benelux	8.0	6.0	8.0	7.5
Mediterranean Countries	7.0	6.5	7.5	7.0

Ratings are based on a scale of 1 to 10, with 10 being excellent and 5 being average. Source: Situs RERC European Investment Survey, 3Q 2017.

<sup>1</sup>See Investment Terms & Methodology on page 26 of this report for a description for our investment survey process and results.

<sup>2</sup>See Investment Terms & Methodology on page 26 of this report for regional definitions.

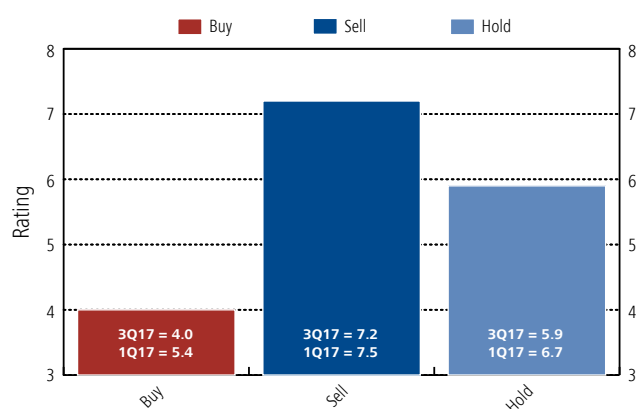


- Germany had the greatest availability of debt capital among all the regions, despite relatively strict underwriting standards.
- The underwriting standards for equity capital were stricter than for debt capital in every region, but the margin was significantly wider in Benelux.

## Buy-Sell-Hold Recommendations

For Europe overall, the appeal of CRE investment was down slightly in third quarter 2017 compared to first quarter 2017 (see Exhibit 4). The recommendation to sell remained by far the best investment option during third quarter 2017, significantly more appealing than a year ago. Since third quarter 2016, holding onto and buying CRE have become less appealing investment options. The recommendation to hold onto CRE peaked in third quarter 2016 when investors were uncertain about what would happen after the UK voted to leave the EU.

**Exhibit 4. Buy-Sell-Hold Ratings (Europe Overall)**

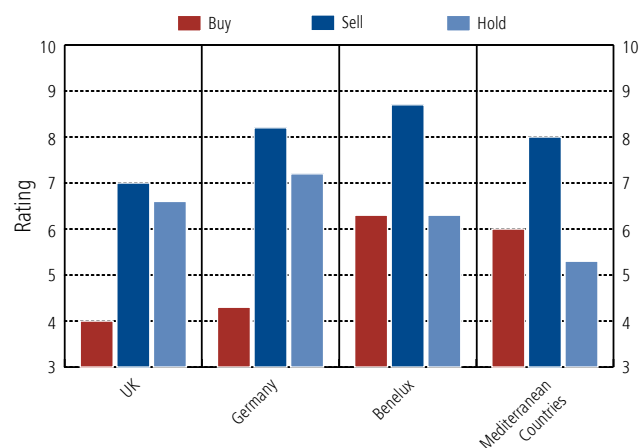


Ratings are based on a scale of 1 to 10, with 10 being excellent and 5 being average. Source: Situs RERC European Investment Survey, 3Q 2017.

Among the regions:

- Selling CRE was the most attractive investment recommendation in every region, and by far in Benelux, where it scored a higher rating than in any other region (see Exhibit 5).
- Buying CRE was the second-most attractive investment recommendation only in the Mediterranean countries, but it was easily the least attractive recommendation in Germany and the UK.
- The hold recommendation was considered to be the least attractive option in the Mediterranean countries when compared to the other regions.

**Exhibit 5. Buy-Sell-Hold Ratings (by Region)**



Ratings are based on a scale of 1 to 10, with 10 being excellent and 5 being average. Source: Situs RERC European Investment Survey, 3Q 2017.



## Investment Conditions

Situs RERC's survey respondents were asked to consider investment conditions for the major property sectors during third quarter 2017. For Europe overall, respondents said that investment conditions for each property sector was above average and the most favourable in the industrial/logistics sector (see Exhibit 6). Notably, investment conditions for the multifamily sector were the least favourable over the past three years, but investment conditions for the retail sector improved for the first time since third quarter 2015.

Among the regions:

- The industrial/logistics sector rating was tied for first among the other property sectors in Benelux, was second in the Mediterranean and the UK, and third in Germany in third quarter 2017.
- In the office sector, the rating soared in Germany between the first and third quarter and dropped significantly in the UK during the same time period.
- In the retail sector, the same pattern emerged, as its ratings leaped in Germany but plummeted in the UK from the first quarter to third quarter 2017.
- Multifamily was easily the highest rated sector in the UK and a close second in Germany.
- Hotel/student housing/nursing home was the highest rated sector in Germany and the Mediterranean countries.
- The land/development sector generally lagged near the bottom in most regions, except for the Mediterranean countries and Germany.



**Exhibit 6. Investment Conditions Ratings**

	Europe		UK		Germany		Benelux		Mediterranean Countries	
	3Q 2017	Pt. Change 1Q 2017	3Q 2017	Pt. Change 1Q 2017	3Q 2017	Pt. Change 1Q 2017	3Q 2017	Pt. Change 1Q 2017	3Q 2017	Pt. Change 1Q 2017
Office	5.9	▲ 0.1	4.5	▼ 1.5	6.8	▲ 1.0	5.5	-	5.0	-
Industrial/Logistics	6.4	▲ 0.4	7.7	▲ 0.6	7.0	▲ 1.1	7.0	-	7.0	-
Retail	5.6	▲ 0.6	3.3	▼ 1.4	6.1	▲ 1.3	4.5	-	4.7	-
Multifamily	5.6	▼ 1.1	7.8	▲ 0.8	7.2	▲ 0.9	6.5	-	6.7	-
Hotel/Student Housing/ Nursing Home	5.8	▼ 0.9	6.3	▲ 0.5	7.3	▲ 1.1	7.0	-	7.7	-
Land/Development	5.7	▲ 0.1	4.4	▲ 0.4	6.7	▲ 1.2	4.5	-	6.3	-

Investment conditions rated on a scale of 1 to 10, with 10 being excellent and 5 being average.  
Source: Situs RERC European Investment Survey, 3Q 2017.



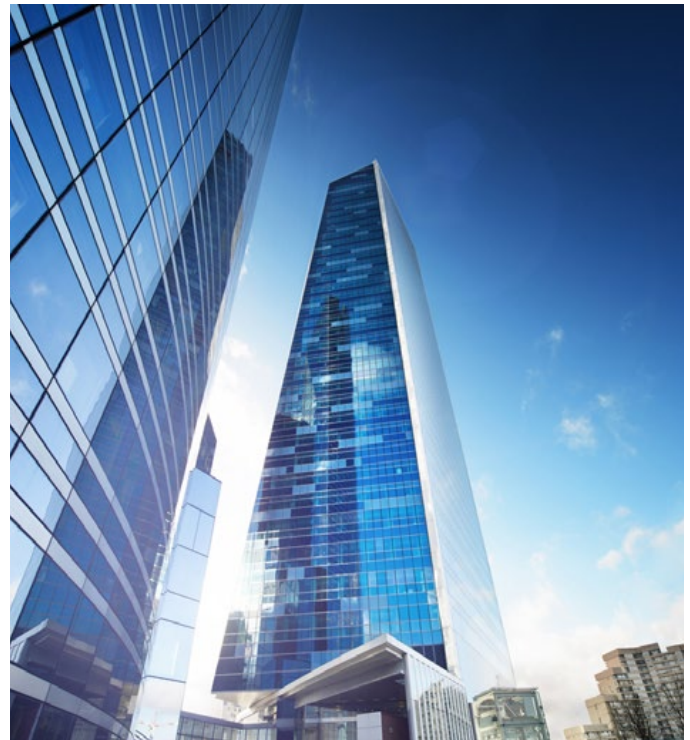
## Lending Conditions

See Exhibit 7 for loan-to-value (LTV) ratios and underwriting conditions for Europe overall and for each of the regions.

The increase in LTV ratios for Europe overall suggests that investors are feeling more certain about the lending environment across Europe.

Among the regions:

- The majority of respondents in every European region believed that underwriting assumptions were better today compared to pre-crisis levels, except in Benelux, where 50% believed underwriting assumptions were better today.
- Benelux was the only region to have a significant percentage of respondents who felt underwriting assumptions today were worse than pre-crisis levels.
- Respondents in the Mediterranean countries were the most likely among the European region's respondents to say that underwriting assumptions were very disciplined.



**Exhibit 7. LTV Ratios**

		Europe	UK	Germany	Benelux	Mediterranean Countries
LTV ratios pre credit crisis (%)	Range	<b>60 to 100</b>	70 to 90	65 to 110	80 to 85	75 to 80
1Q17 LTV ratios (%)	Range	<b>20 to 75</b>	40 to 75	30 to 75	-	-
3Q17 LTV ratios (%)	Range	<b>50 to 80</b>	40 to 80	60 to 80	65 to 75	50 to 70
Underwriting Assumptions Today vs. Pre-Credit Crisis	Worse	<b>0%</b>	0%	9%	25%	0%
	Same	<b>11%</b>	9%	9%	0%	0%
	Better	<b>67%</b>	64%	55%	50%	67%
	Very Disciplined	<b>22%</b>	27%	27%	25%	33%

Source: Situs RERC European Investment Survey, 3Q 2017.



## Return vs. Risk

Situs RERC's investment survey respondents reported that in Europe overall, respondents continue to see less return and greater risk when investing in CRE (see Exhibits 8-12). The return vs. risk rating has declined during each reporting period since first quarter 2016.

*“The illiquidity or timing lag associated with land/development projects feels inappropriately risky at this point in the cycle, since there is no easy exit if asset prices start falling while the build phase is still incomplete.”*

- Situs RERC European Investment Survey Respondent

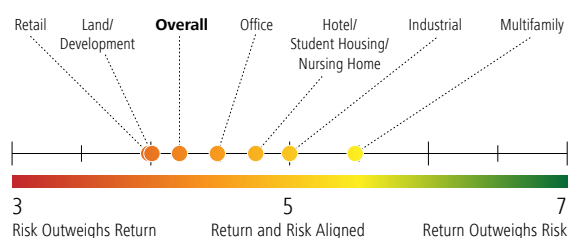
Among the regions:

- The return vs. risk rating for CRE overall dropped significantly in both Germany and the UK between the first and third quarters of 2017.
- For the office sector, respondents indicated that returns supported risk in Germany and the Mediterranean countries; however, respondents perceived greater risk compared to return for the UK and Benelux.
- All European regions had greater return compared to risk for the industrial/logistics sector, with the highest rating in the UK.
- All European regions had greater risk compared to return for the retail sector, but the highest rating was in Germany.
- The only region where respondents felt risk outweighed return for the multifamily sector was Germany.
- Respondents across all regions considered the hotel/student housing/nursing home sector to offer greater return compared to risk; the highest rating was for the Mediterranean countries.
- The Mediterranean countries stood out as the only market where return was greater than risk for the land/development sector.

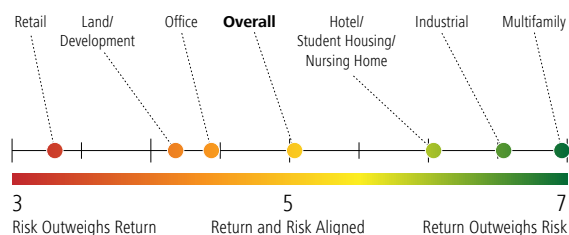
*“There are attractive yields in the industrial/logistics sector, but investment requires value-add expertise.”*

- Situs RERC European Investment Survey Respondent

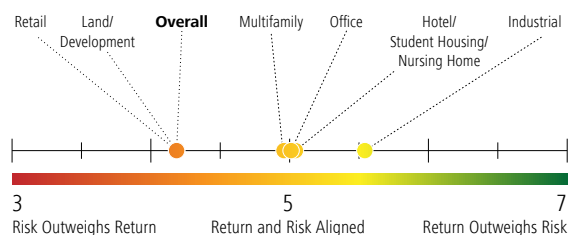
**Exhibit 8. Return vs. Risk Ratings — Europe**



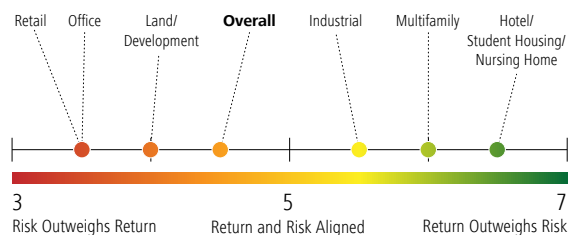
**Exhibit 9. Return vs. Risk Ratings — UK**



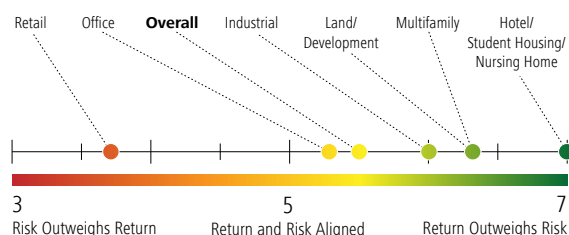
**Exhibit 10. Return vs. Risk Ratings — Germany**



**Exhibit 11. Return vs. Risk Ratings — Benelux**



**Exhibit 12. Return vs. Risk Ratings — Mediterranean Countries**



Ratings are based on a scale of 1 to 10, with 10 suggesting that return greatly outweighs risk.

Source: Situs RERC European Investment Survey, 3Q 2017.



## Value vs. Price

In Europe overall, Situs RERC's value vs. price rating for overall CRE fell to the lowest rating over the past three years. Situs RERC's investment survey respondents reported less value compared to price across all of the property sectors during third quarter 2017 compared to first quarter 2017, as shown in Exhibits 13-17.

Among the regions:

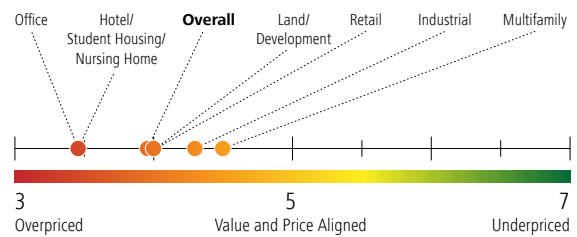
- For CRE overall, the value vs. price rating plummeted in Germany but rose slightly in the UK.
- Office sector value did not support price in any of the surveyed European regions, particularly in Germany and Benelux.
- Germany was the only region where value did not support price for the industrial/logistics sector.
- The retail sector received low value vs. price ratings from all European regions except the Mediterranean countries, where the rating tied with the land/development sector rating as the third-best asset class from a value vs. price perspective.
- For the multifamily sector, Germany and Benelux indicated that value did not support price, while the UK and the Mediterranean countries were underpriced.
- Only in Germany was the hotel/student housing/nursing home sector overpriced.
- The land/development sector in the Mediterranean countries was rated highest from a value vs. price perspective. This is in contrast to the UK and Germany where the land/development sector is overpriced.

“Due to e-commerce, secondary, non-food-led malls and shopping centres will struggle. Europe is not as Amazon-proof as people think.”

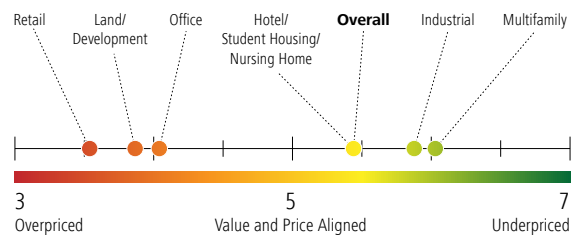
- Situs RERC European Investment Survey Respondent



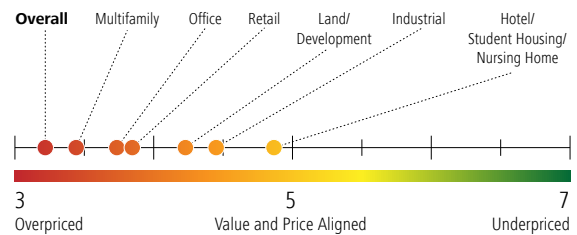
### Exhibit 13. Value vs. Price Ratings — Europe



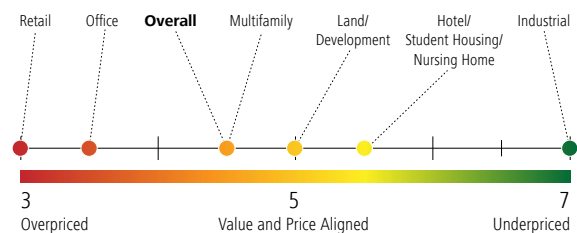
### Exhibit 14. Value vs. Price Ratings — UK



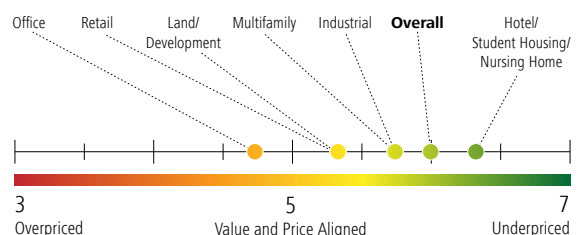
### Exhibit 15. Value vs. Price Ratings — Germany



### Exhibit 16. Value vs. Price Ratings — Benelux



### Exhibit 17. Value vs. Price Ratings — Mediterranean Countries



Ratings are based on a scale of 1 to 10, with 10 suggesting that value greatly outweighs price.

Source: Situs RERC European Investment Survey, 3Q 2017.

## Brexit: Still Riding the Wave

With the UK's vote to leave the EU (Brexit) more than a year behind us, Situs RERC asked its expert team of European investors to provide insight into the investment environment – current and looking forward another six to 12 months.

### Impact of Brexit on CRE in the UK and EU in 12 months

In Europe overall, our experts predict that ongoing uncertainty about the Brexit negotiations will have a negative impact on CRE in the UK over the next 12 months (see Exhibit A). In particular, Brexit is likely to have the most negative impact on debt availability and equity flows in the UK, while experts noted that valuation levels are not expected to be significantly impacted. On the other hand, experts reported that Brexit is likely to have a positive impact on CRE in the EU, excluding the UK, over the next 12 months, with transaction volume and risk appetite benefiting the most from Brexit.

### Risk Appetite

Respondents in all of the major countries/regions indicated that the events since the Brexit vote have lessened their appetite for risk in the UK because of increased uncertainty (see Exhibit B). Investors in Benelux indicated that the UK's handling of Brexit decreased their appetite for risk in the UK by approximately double that of the other European countries/regions.

**Exhibit A. Expected Impact of the Brexit Vote<sup>1</sup>**

	UK	EU
CRE Impact	-0.6	0.6
Debt Availability	-1.4	0.3
Equity Flows	-1.3	0.6
Prices	-1.0	1.0
Transaction Volume	-0.7	1.5
Valuation Levels	-0.4	1.1
Risk Appetite	-1.1	1.3

<sup>1</sup> Impact over the next 12 months.

Ratings based on a scale of -5= extremely negative; 0= neutral; 5= extremely positive.

Source: Situs RERC European Investment Survey, 3Q 2017.

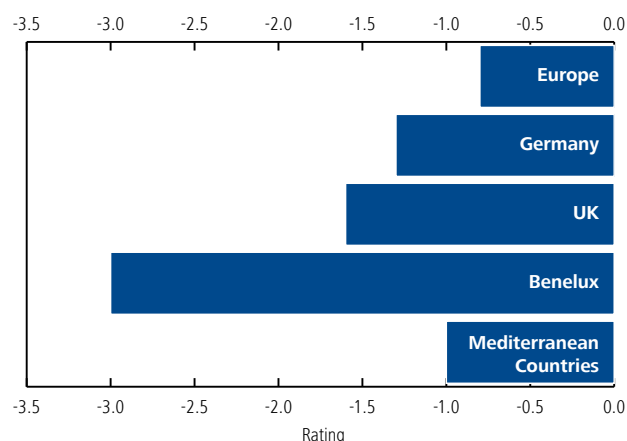
### Fund Allocations

Situs RERC wanted to understand where experts are investing funds more than one year after the Brexit vote and how those allocations will change over the next year. See Exhibit C for the results for Europe overall and by region. UK investors were the most optimistic about the UK market; this was the only European region that did not expect to reduce allocations to the UK over the next six months.

### Yield Requirements

As shown in Exhibit D, expected changes in yield requirements over the next six months varied widely by region. However, any expected increases or decreases in yield requirements are likely to be relatively small.

**Exhibit B. Appetite For Risk Within the UK**



Ratings are based on a scale of -5 to 5, with -5 signifying greatly decreased appetite for risk and 5 signifying greatly increased appetite for risk.

Source: Situs RERC European Investment Survey, 3Q 2017.

“In the UK, Brexit has made investors more jittery, but this appears to manifest itself in periods of inactivity as opposed to valuation swings.”

- Situs RERC European Investment Survey Respondent in the UK



**Exhibit C. Where Are You Investing Funds?**

	Europe		UK		Germany		Benelux		Mediterranean Countries	
	Now	In 6 Months	Now	In 6 Months	Now	In 6 Months	Now	In 6 Months	Now	In 6 Months
UK	<b>42%</b>	<b>25%</b>	75%	75%	33%	25%	0%	0%	40%	20%
EU	<b>83%</b>	<b>75%</b>	50%	58%	67%	75%	50%	50%	80%	80%
US	<b>8%</b>	<b>8%</b>	8%	8%	17%	17%	0%	0%	20%	20%
Asia	<b>8%</b>	<b>17%</b>	25%	25%	0%	0%	0%	0%	20%	20%

Note: 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, 3Q 2017.

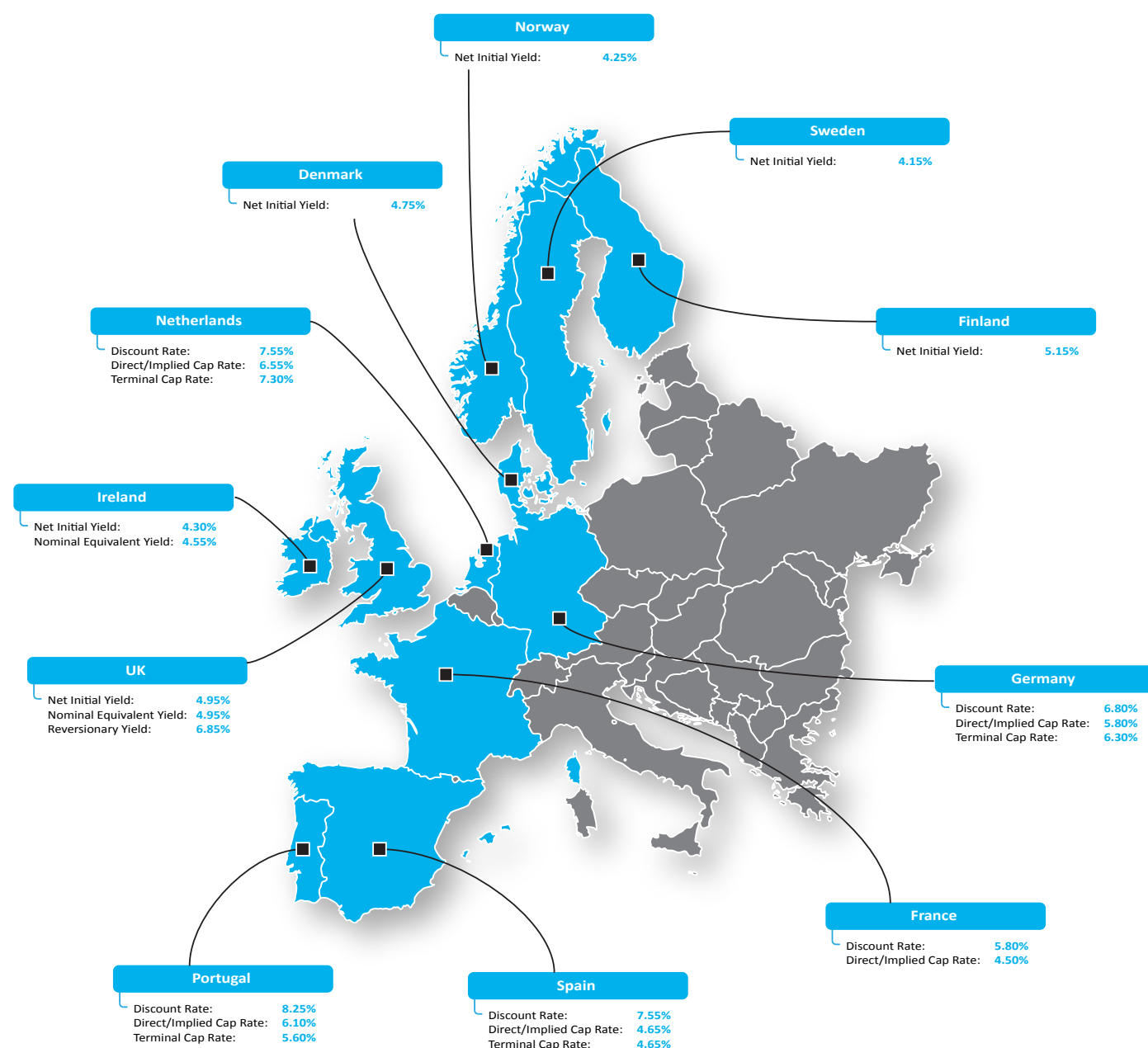
**Exhibit D. Yield Requirement 6 Months From Now**

	Europe	UK	Germany	Benelux	Mediterranean Countries
<b>No Change</b>	<b>36%</b>	<b>40%</b>	<b>80%</b>	<b>50%</b>	<b>25%</b>
Increase					
0-25 bps	0%	10%	0%	0%	25%
25-50 bps	18%	10%	10%	0%	0%
50-75 bps	0%	20%	0%	0%	0%
75-100 bps	0%	0%	0%	0%	25%
<b>Total Increase</b>	<b>18%</b>	<b>40%</b>	<b>10%</b>	<b>0%</b>	<b>50%</b>
Decrease					
0-25 bps	18%	20%	10%	50%	25%
25-50 bps	9%	0%	0%	0%	0%
50-75 bps	0%	0%	0%	0%	0%
75-100 bps	9%	0%	0%	0%	0%
Not Specified	9%	0%	0%	0%	0%
<b>Total Decrease</b>	<b>45%</b>	<b>20%</b>	<b>10%</b>	<b>50%</b>	<b>25%</b>

Source: Situs RERC European Investment Survey, 3Q 2017.

## EUROPEAN CRE RATES — OFFICE PROPERTIES

The estimates presented for each country are the result of an aggregation of 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. A full listing of the 3Q 2017 rates can be found in the Appendix of this report.



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 reflect a broad spectrum of properties. For yield definitions, please see the Investment Terms and Methodology Section on pages 26-27.

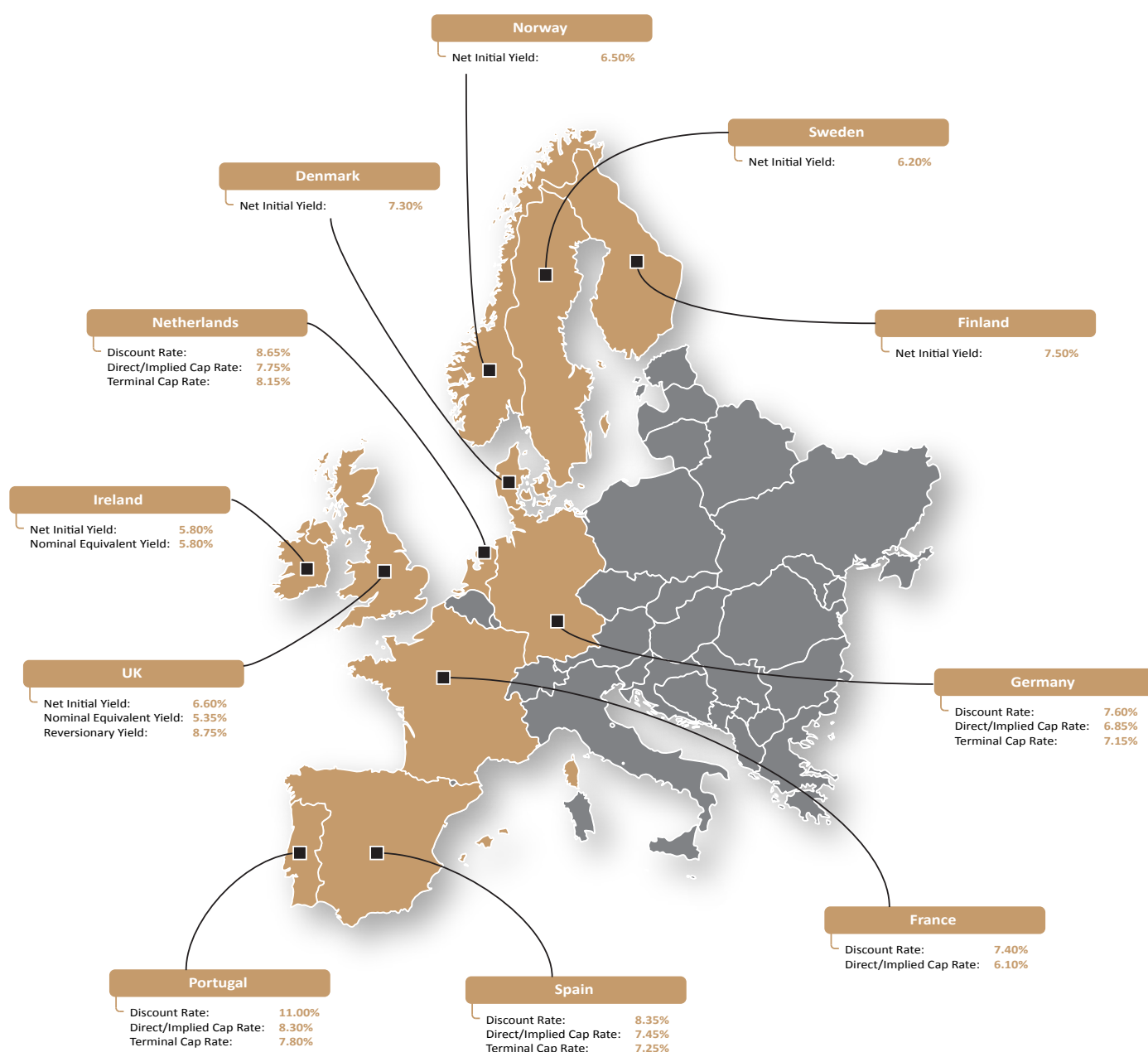
Note: For continental Europe, Situs RERC presents cap rates, discount rates and multipliers because they are the predominant metrics used in discounted cash flow (DCF) or rent multiplier yield analysis, which is the preferred valuation methodology in these regions. Not all rates were available by asset class and country.

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. Rates for Ireland are for the prime market only.

Source: Situs RERC, 3Q 2017.



## EUROPEAN CRE RATES — INDUSTRIAL/LOGISTICS PROPERTIES



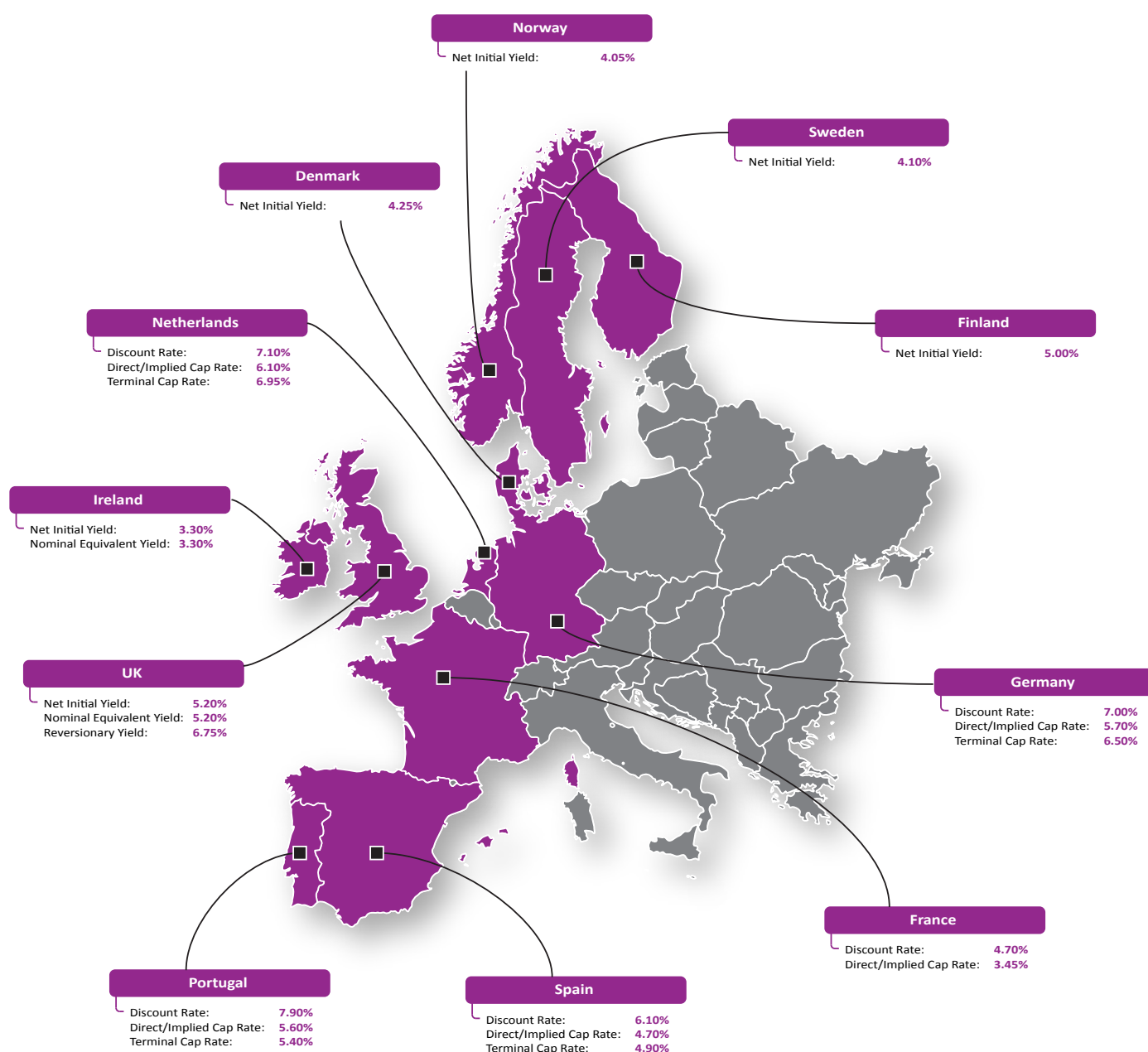
Situs RERC rates are based upon valuations of investment properties that range from new or newer quality construction in prime to good locations to distressed real estate in marginal locations. As such, Situs RERC reflect a broad spectrum of properties. For yield definitions, please see the Investment Terms and Methodology Section on pages 26-27.

Note: 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 by asset class and country.

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. Rates for Ireland are for the prime market only.

Source: Situs RERC, 3Q 2017.

## EUROPEAN CRE RATES — RETAIL PROPERTIES



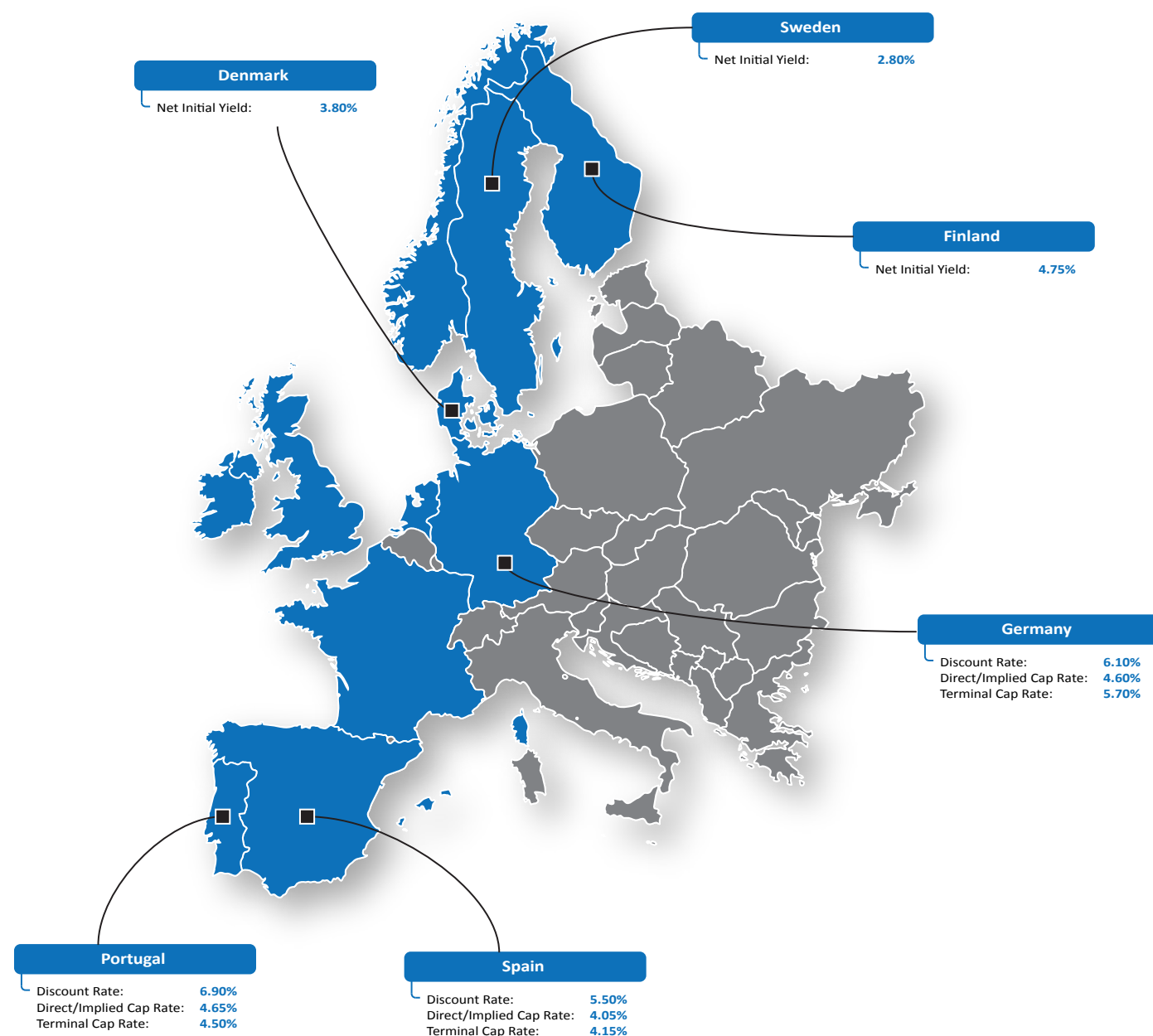
Situs RERC rates are based upon valuations of investment properties that range from new or newer quality construction in prime to good locations to distressed real estate in marginal locations. As such, Situs RERC reflect a broad spectrum of properties. For yield definitions, please see the Investment Terms and Methodology Section on pages 26-27.

Note: 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 by asset class and country.

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. Rates for Ireland are for the prime market only.

Source: Situs RERC, 3Q 2017.

## EUROPEAN CRE RATES — MULTIFAMILY PROPERTIES



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 reflect a broad spectrum of properties. For yield definitions, please see the Investment Terms and Methodology Section on pages 26-27.

Note: 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 by asset class and country.

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.

Source: Situs RERC, 3Q 2017.





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## FINANCING AND INVESTMENT IN THE UK

### Political and Economic Climate

The 800-pound gorilla overshadowing the economic and political landscape in the UK is Brexit. The unexpected result of the vote was more than a year ago, and negotiations between the UK and the EU have been going on since June 2017. So far, participants have reported little progress, with both the UK and the EU unwilling to compromise. Brexit will undoubtedly affect employment and the migration of workers between the UK and the EU, and the impact on CRE could be substantial – although it is not clear yet to what extent. Initially, businesses made grandiose statements about relocating, and although limited at this stage, there have been instances of businesses relocating or at least growing their presence in Dublin, Paris and Frankfurt.

Investors and lenders are also worrying about the growing political strength of Labour Party Leader Jeremy Corbyn, who has steered his party far to the left and nearly won the recent snap election in the UK. Conservative Party Leader Theresa May had called that election in hopes of strengthening her hand, and instead her surprisingly poor showing emboldened Corbyn and his followers. Investors are concerned about Corbyn's flip-flopping on such fundamental issues as access to the single market and his severe-left wing views and ambitions.

Investors in the UK – and many other countries – have another source of legitimate concern: How long can economic growth continue? The growth cycle in the UK is heading into its eighth year and it is reasonable to assume that some economic downturn will happen in the near future.

### CRE Investment

All this uncertainty has stalled some development deals – but certainly not all of them. The British pound has fallen in relation to the euro and the US dollar. This has no doubt helped make UK CRE attractive to foreign investors; there was a very active lending market in August. Chinese investors have been aggressively purchasing properties, especially “trophy” assets in London. In an attempt to shore up government reserves, the Chinese government has been trying to limit the outflow of capital and recently categorized overseas real estate investments as a “restricted” activity. This might reduce the amount of Chinese investments in the UK – although investors are finding ingenious ways of circumventing these restrictions.

The bottom line is that allocations to real estate are rising, trending towards a 10%+ institutional portfolio allocation, and although the total global wall of money targeting direct real estate in 2017 fell, it is still the second highest on record. The industry is awash with cash and investors still consider the UK as one of the most attractive destinations, regardless of the political situation. Prices are strong because many investors, such as those in China, are less focused on absolute returns and more focused on finding places to stash their cash.

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Markets such as Manchester and Leeds continue to be considered good investments, partly because they are much less expensive than London. Nonetheless, overall pricing is expected to flatten soon, and net receivable rents probably will not improve over the next 12 to 18 months. Construction costs are expected to go up and lenders' profits will fall, so we can expect most lenders to shy away from construction projects.

### Asset Classes

With so much uncertainty, investors are being more judicious where and how they invest their capital, but the alternative sectors, specifically multifamily, student housing and the Private Rented Sector (PRS), are rising on investors' agendas, and now account for almost 30% of all commercial activity in the UK. Good opportunities are available in the industrial/logistics sector thanks to the rise of e-commerce, but the retail sector, especially shopping centres, have been hit hard.

Depending on investors' outlook on the elongation of the cycle, many recognize that at this point of the cycle that the UK does not offer quick profits, but most of these investors are looking at the long term. In the end, as a result of the Brexit vote, compromises will have to be made to continue a mutually beneficial relationship among all countries involved.

#### Top Deals in the UK

**Total 2017 YTD Transaction Volume: €28B**

Property	Buyer	Amount
Grosvenor House Hotel	Ashkenazy Acquisition Corp	€527M
Cannon Street, 78	DEKA Immobilien	€426M
Nine Elms Square	R+F/ CC Land	€413M
Canada Square, 20	Cheung Kei Group	€360M

Source: Savills *Briefing European Investment*, August 2017, Situs RERC.



## FINANCING AND INVESTMENT IN GERMANY

### Political and Economic Climate

By the time this report is released, the German general election results will be finalized. Angela Merkel is expected to finish first, but regardless of the outcome, the German political climate provides a sense of stability amid escalating global uncertainty. Investors appreciate the reliability of German policies and consider Germany to be a safe haven to invest money.

The German economy is based heavily on exports. Changes in import and export taxes would have a detrimental effect on the German economy. Eyes are on the US to see if the Trump administration will enact protectionist policies, which could greatly impact the number of German exports to the US. The UK's exit from the EU will have a less noticeable impact on the German economy than any potential US policy because so little of Germany's exports are sent to the UK. In fact, Brexit may have a net positive impact on the German economy because many major financial institutions plan to move offices from the UK to Germany. This will generate thousands of high-paying jobs in Germany.

### CRE Investment

With a strong economy, low unemployment, low interest rates and no inflation, Germany has overtaken the UK as the preferred European CRE investment location. A lot of capital is flowing into Germany, especially from Asia and the US. Domestic capital has also helped Germany experience robust growth in CRE investment, which is expected to approach 60 billion euros within Germany by year-end. Investors, particularly pension funds and insurance companies, are looking for safe places to park their cash. Assuming more product is out there, investments in CRE could reach up to 100 billion euros. Unlike before the credit crisis, current LTVs are often below 50%, in order to place existing cash appropriately. Some German open-ended funds have started to restrict cash inflow by opening their accounts only occasionally. This is because they are not allowed to hold cash of more than 20%; the rest needs to be spent in real



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#### Top Deals in Germany

**Total 2017 YTD Transaction Volume: €26B**

Property	Buyer	Amount
Portfolio (90 properties)	Bayrische Versorgungskammer	€687M
Portfolio (15 properties)	Axa Investment Managers	€465M
T8	Mirae Asset Global Investments	€300M
Portfolio (3 properties)	PATRIZIA Immobilien KAG	€280M

Source: Savills Briefing European Investment, August 2017.

estate, which at the current price level is either too expensive or too risky. The pipeline has dried up for NPLs in Germany. In fact, some of the banks have no NPLs left on their balance sheets. If there are NPLs left, banks tend to hold onto them as long as the upward trend is remaining. However, banks should consider offloading at least parts of those since any NPLs are sellable at this point.

Limited supply has put pressure on cap rates, but rent growth has historically not kept pace with these cap rate declines. This year, we are beginning to see an increase in re-letting (i.e., take-up), and rental rates have also begun to pick up. Since investors have plenty of cash, the construction and development pipeline remains steady. Deals in the CRE market are relatively healthy and for the most part make sense. Prices are reasonable, or at least justifiable, unlike the pre-credit-crisis period.

## Asset Classes

If Brexit results in the movement of jobs (particularly financial industry jobs), modern office space will be in high demand. In the meantime, though, office spaces are being converted into much-needed residential and student housing properties.

The retail market is still doing well. There is high demand for the so-called Fachmarktzentren (small malls with only four or five tenants) with good parking that feature supermarkets or drugstores as anchors.

Yields in the industrial sector are around 5%, similar to office sector yields from two years ago. Most of the industrial sector has strong operators and strong corporate tenants, making this sector a relatively safe investment option. As the lack of supply drives rents up, parental guarantees are still advantageous when considering the risk/return ratio.

A very tight supply in the residential and multifamily market has caused rents to increase by up to 10% year-over-year, depending on the location. We are seeing frothy multifamily markets in Berlin, Hamburg, Munich and possibly Frankfurt as interest rates are expected to remain stable (and abnormally low), at least until 2021. By implementing the so-called 'Mietpreisbremse', a federal rent control law, the government tried to put a cap on accelerating rents, particularly in university cities, but this has certainly failed due to too many exceptions. Social housing may be an option, but the tight supply will continue in the near term because the government approval process is lengthy.

More people are staying in Germany during holidays, instead of taking traditional jaunts to Mediterranean countries (particularly Egypt and Turkey) because of political instability. This is a boon to the hotel sector, particularly in Northern Germany, where prices for holiday homes went up by 30% within past three years.





## FINANCING AND INVESTMENT IN IRELAND

### Political and Economic Climate

Ireland continues to enjoy strong economic performance with prospects for 2017 and 2018 receiving a boost from the recent upgrade of the Central Bank of Ireland's (CBI) outlook for economic growth. The CBI's economic forecasts growth of 4.5% this year and 3.6% in 2018 – revised upwards from 3.5% and 3.2%, respectively. Employment forecasts were also revised upwards, with 2.1 million people expected to be employed in 2018 (for the first time in 10 years). Not surprisingly, Brexit continues to be cited as a significant risk to continued economic growth.

On one hand, Brexit offers some huge opportunities. Ireland's political leadership – which remains pro-business – will help the country withstand the negative effects of Brexit. Companies looking to leave London – especially European banks – are scouting out properties in Dublin.

On the other hand, Ireland's economy is more closely intertwined with the UK than any other country. The borders – especially between Northern Ireland (part of the UK) and the Republic of Ireland – are as easy to cross as anywhere in the world, and that might change after Brexit. The flow of goods, services and people will undoubtedly be affected, probably negatively. Many Irish industries – especially agriculture – depend on the UK as a large trade partner.

### CRE Investment

After some record years in terms of investment turnover, 2017 looks set to show a marked decline in CRE investment activity. This was largely expected as the supply side of the market dried up significantly. With relatively few prime investment opportunities available in the core Dublin market relative to recent years, some investors started focusing attention on other cities such as Cork and Galway. Demand for forward-funding opportunities also increased as investors continually sought out new structures to acquire the best assets.

As is the case with many European countries, a lot of cash is available; the trick is finding deals for investors who want to spend less than €10 million. Because of strong investor appetite for larger transactions, assets tended to be pooled into larger portfolios over the past number of years. This appears to be relaxing somewhat and average transaction size continues to fall. New lenders continue to show interest in the Irish market and liquidity is improving for more granular assets. Lender margins have tightened across most real estate sectors over the past 12 months.

### Asset Classes

The office sector continues to outperform expectations with take-up figures suggesting another strong year is in store for 2017 when the final figures are recorded. Despite the risk posed to the Irish economy from Brexit, many companies are looking to relocate from London post-Brexit, which will be a positive for the sector. International organizations that have committed to taking Dublin office space in

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recent weeks include Barclays Bank, Lloyds of London, Citigroup and TD Securities.

The opposite is the case for retail as the sector faces strong challenges from Brexit and foreign exchange rates. Although domestic demand and domestic consumer spending have improved of late, the drop in value of sterling against the euro presents challenges for Irish retailers. At least it will make goods across the border in Northern Ireland that much cheaper. The gaining momentum of e-commerce also becomes an increasing factor when foreign exchange fluctuations are at play.

Other sectors that have seen investment on the back of strong fundamentals are the hotel sector and the residential sectors of Build to Rent (BTR) and Purpose Built Student Accommodation (PBSA). The hotel sector was one of the first to respond following the downturn, and the government helped by reducing the VAT (value added tax) rate for the sector. The immediate response was an increase in occupancy; however, analysis is now showing improving Average Room Rates (ARRs) further improving hotel performance. The short-term outlook for the hotel sector is positive, as many key markets still do not have enough hotel rooms.

The investment in the residential sectors of BTR and PBSA is largely justified on a fundamental lack of supply given the dearth of new schemes developed in this sector over the past number of years. This, coupled with strong residential rental growth rates, make a compelling case for investment. Generally speaking, it has been easier to obtain development financing for these assets than for the traditional build-to-sell residential model.

#### Top Deals in Ireland

**Total 2017 YTD Transaction Volume: €700M**

Property	Buyer	Amount
Clayton Hotel	Dalata	€40M
Park Office Portfolio	Cantor Fitzgerald Syndicated Fund	€39M
One Grand Parade	Doric	€23M

Source: Savills *Briefing European Investment*, August 2017.



## FINANCING AND INVESTMENT IN SPAIN

### Political and Economic Climate

Is Spain's economic recovery a mirage – or is it reasonable to expect more growth and relative prosperity after years of political tumult and economic recession?

The signs look good. The economy is growing faster than in most of Europe – 3.1% year-on-year. In July 2017, fewer than 4 million people were unemployed in Spain for the first time since 2008, although the jobless rate was still 17.2%.

Strong employment creation has lifted private consumer spending of households and companies. Rising consumer confidence and looser lending conditions in the financial sector for families and companies have also contributed positively to investment and fixed capital formation. It is worth noting the increase in construction investments in the Q2 2017 as evidence of the real estate recovery.

### CRE Investment

Investors are pouring their money into residential and commercial real estate in Madrid and Barcelona, and the high prices there are helping investors who are looking for bargains with better prices and yields in smaller cities such as Malaga and Valencia.

Before the economic crisis, there was a home construction spree. Many of the houses and lots were not sold – and many never will be. Despite the previous housing glut and legitimate fears that demand will not match supply, rents and sale prices are rising for new construction. Banks have been more restrictive in their lending, but more for commercial lending, not land development. Debt investments for CRE have been doing well, but it is still slower for residential investments because of stricter lending.

### Asset Classes

The tourism sector is also a main factor for this positive development. The record 75.6 million foreign tourists in 2016 will be likely surpassed in 2017, with an estimated 80 million arrivals for the year. This has helped attract the attention of a growing number of institutional investors into the hotel sector. The hotel sector is one of biggest markets now with high demand for lots of small- and medium-sized hotels. However, it has also raised concerns about the future sustainability of the Spanish tourism mode because some holiday areas are saturated with properties, and some of those are of lower quality.

While first-tier shopping centres are still doing reasonably well, those known as 'bronze' shopping centers in less-desirable locations will keep struggling to find good tenants. They cannot compete with their larger brethren or with the growing e-commerce economy. With the exception of some properties on main roads, retail is considered the worst sector for investment.

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The industrial/logistics sector continues to rise. The yields are compressing; however, the volumes of investment will continue to be high, especially in areas such as Corridor of Henares in Madrid. The economic growth in Spain and the demand of new logistics areas for e-commerce giants like Amazon will continue to drive the industrial/logistics sector.

Rental income is increasing for office sector investment, and it is hard to get good CBD office space. Positive investment sentiment together with a lack of new developments in CBD and prime areas are pressing yields down to pre-crisis levels in Madrid and Barcelona, according to Cushman and Wakefield. Student housing is coming to markets for people seeking alternative investments.

#### Top Deals in Spain

**Total 2017 YTD Transaction Volume: €5B**

Property	Buyer	Amount
Xanadu Shopping Center	Intu Properties	€530M
Buffalo residential portfolio	Blackstone	€300M
Mixed-use portfolio	Riu	€272M
Acero logistics portfolio	GIC	€243M
Nueva Condomina shopping center	Klépierre	€233M

Source: Savills *Briefing European Investment*, August 2017.

## FINANCING AND INVESTMENT IN THE NETHERLANDS

### Political and Economic Climate

The Dutch political system is stable as the elections in March yielded a pro-European Union majority. Despite ongoing talks on a coalition, the current prime minister will remain in office. That has helped set the stage for continued economic growth in the Netherlands.

The CPB Netherlands Bureau for Economic Policy Analysis forecasts the Dutch economy to grow by 3.3% in 2017, revised aggressively upwards. This is the first time the Dutch economy will surpass the 3% milestone since the financial crisis, and this healthy pace is expected to keep up into 2019, barring some unforeseen circumstances. The new projections come amid stronger-than-expected exports and a rise in consumption and investment. Likewise, the labour market is booming, with the current unemployment rate at 4.9%, projected to decline to 4.3% in 2018. Key areas of the market have tight supply. Moreover, inflation is low and the policy stance set by the ECB is forecast to remain 'lower for longer.'

### CRE Investment

By all accounts, CRE investments in the Netherlands are safe for now, although frothy pricing and bad memories have some worried about the inevitable break in the cycle. Holland is the logistics hub for Europe, with over 60% of all cargo in the EU passing through it. Thus, the Dutch economy will likely continue to do well as long as Europe continues to recover from the financial crisis. About 60% of investment is from foreign sources. The lending market is strong with banks open for business again. Alternative lenders, a historically underdeveloped part of the market, are showing healthy activity. Construction financing is getting easier, even though a lot of construction companies have seen some very difficult years.

### Asset Classes

Despite all the good news, there is still an oversupply of low-quality office space in less-desirable locations. In Amsterdam and other cities, however, this is often getting converted into much-needed student housing and hotels. The hotel business, in fact, is doing very well, thanks to a boom in tourism. Hotels are also being helped by municipalities' crackdown on Airbnb. Smaller cities close to Amsterdam are increasingly attracting visitors, as Amsterdam is very expensive and capacity is tight. Despite the oversupply of office space in some areas, building of high-quality office space has picked up and it is actually hard to find in some urban core areas like Amsterdam's Zuidas. With the rise of e-commerce, as in other countries, the large logistics and industrial property sectors are doing well, but the retail sector is struggling. Smaller logistics and light industrial properties in less-desirable locations are struggling as well.

Residential real estate is doing very well with housing prices up 15% in some areas. There was very little new building after 2008, creating an undersupplied market. This, coupled with low borrowing costs due to low interest rates, has resulted in high demand for the residential



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sector. In general, the Dutch pay less for their homes as a percentage of disposable income compared to residents in other European urban centres, despite the intense urbanisation rate in the Netherlands. Therefore, the residential market should have room to grow further. Another great investment opportunity is care homes, which is less government-dominated than, for example, hospitals. The population is aging – and so are the buildings currently used to take care of the elderly.

#### Top Deals in the Netherlands

**Total 2017 YTD Transaction Volume: €6B**

Property	Buyer	Amount
Atrium	Amundi Real Estate	€519M
Rokin 21-55	Zurich Insurance Group	€200M
Portfolio (20 offices)	Merin	€164M
DCAM Portfolio	Blackstone	€151M

Source: Savills *Briefing European Investment*, August 2017.

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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.

**Capital 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).

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

**Discount Rate:**<sup>2</sup> 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 Conditions Rating:** A general survey-based rating issued on a scale of 1 to 10, with 10 being excellent, that survey respondents assign to the general conditions for investing in CRE. Rating considerations include economic factors, capital market factors, CRE fundamentals and other miscellaneous factors.

**Investment 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).

**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:**<sup>3</sup> 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:**<sup>4</sup> Nominal equivalent yields are the UK property market's mechanism for communicating the current level of return on commercial property investments. 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.

**Reversionary Yield:**<sup>5</sup> 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:**<sup>6</sup> 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.

<sup>1</sup>Situs RERC definition, November 2014.

<sup>2</sup>Ibid.

<sup>3</sup>*British Land Glossary*, November 2014.

<sup>4</sup>Financial Times, EPRA's Best Practices Recommendations, November 2014.

<sup>5</sup>EPRA's Best Practices Recommendations, November 2014.

<sup>6</sup>Situs RERC definition, November 2014.

**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 maximizing operating margins. Situs is headquartered in Houston, and has offices throughout the US, Europe and Asia.

Globally, Situs has over €110 billion in primary servicing and asset management, and is one of the largest third-party servicers in Europe. Since the beginning of 2012, it has been named the primary and/or special servicer on the majority of the securitizations issued, including Deco 2014 Gondola, Pangaea Funding 1 plc, GRF2-2013, Debussy DTC plc, Taurus 2013 GMFI plc, Florentia Limited, Deco 2013-CSPK Ltd, and Deco 2012-MHILL Ltd transactions. As special servicer, Situs is responsible for over €700 million of troubled assets in Europe.

**RERC, LLC:** Situs RERC 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 48 major metropolitan markets in the US is provided each quarter in the RERC Real Estate Report. Situs RERC is a wholly-owned subsidiary of Situs Group LLC, one of the Situs companies.

#### 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, Isle of Man, Republic of Ireland

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

**Nordic Region:** Finland, Denmark, Sweden, Norway





## APPENDIX

Situs RERC Investment Rates for Continental Europe<sup>1</sup>

	Office						Industrial/Logistics					
	Discount Rate		Direct/Implied Cap Rate		Terminal Cap Rate		Discount Rate		Direct/Implied Cap Rate		Terminal Cap Rate	
Range	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Portugal												
Spring 2017 Point Est. <sup>2</sup>	8.25%		6.10%		5.60%		11.00%		8.30%		7.80%	
Fall 2017 Range Est. <sup>2</sup>	7.25%	9.40%	5.00%	7.40%	4.75%	6.65%	9.80%	12.30%	7.30%	9.30%	7.05%	8.55%
Fall 2017 Point Est. <sup>2</sup>	8.25%		6.10%		5.60%		11.00%		8.30%		7.80%	
Bps Change <sup>3</sup>	-15		-15		-15		0		0		0	
Spain												
Spring 2017 Point Est. <sup>2</sup>	7.55%		4.65%		4.65%		8.45%		7.55%		7.35%	
Fall 2017 Range Est. <sup>2</sup>	6.50%	8.65%	4.00%	5.50%	3.75%	5.75%	7.50%	8.50%	6.75%	8.50%	6.50%	8.25%
Fall 2017 Point Est. <sup>2</sup>	7.55%		4.65%		4.65%		8.35%		7.45%		7.25%	
Bps Change <sup>3</sup>	0		0		0		-10		-10		-10	
Germany												
Spring 2017 Point Est. <sup>2</sup>	6.90%		5.90%		6.40%		7.70%		6.95%		7.25%	
Fall 2017 Range Est. <sup>2</sup>	5.30%	8.65%	3.75%	8.60%	5.35%	9.40%	7.35%	8.65%	4.70%	9.65%	7.00%	10.00%
Fall 2017 Point Est. <sup>2</sup>	6.80%		5.80%		6.30%		7.60%		6.85%		7.15%	
Bps Change <sup>3</sup>	-10		-10		-10		-10		-10		-10	
The Netherlands												
Spring 2017 Point Est. <sup>2</sup>	7.65%		6.65%		7.40%		8.80%		7.90%		8.30%	
Fall 2017 Range Est. <sup>2</sup>	6.20%	8.80%	4.25%	9.60%	6.20%	10.00%	8.00%	9.70%	5.20%	9.40%	7.50%	10.50%
Fall 2017 Point Est. <sup>2</sup>	7.55%		6.55%		7.30%		8.65%		7.75%		8.15%	
Bps Change <sup>3</sup>	-10		-10		-10		-15		-15		-15	
France												
Spring 2017 Point Est. <sup>2</sup>	5.80%		4.50%		-		7.45%		6.15%		-	
Fall 2017 Range Est. <sup>2</sup>	4.50%	6.80%	3.25%	5.50%	-	-	7.50%	8.50%	5.50%	7.00%	-	-
Fall 2017 Point Est. <sup>2</sup>	5.80%		4.50%		-		7.40%		6.10%		-	
Bps Change <sup>3</sup>	0		0		-		-5		-5		-	

<sup>1</sup> 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 reflect a broad spectrum of properties. For yield definitions, please see the Investment Terms and Methodology Section on pages 26-27.

<sup>2</sup> 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.

<sup>3</sup> Change (+/-) in basis points (Bps) of the current rate from the previous reporting period.

Note: 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 by asset class and country.

Source: Situs RERC, 3Q 2017.

## APPENDIX, CONTINUED

Situs RERC Investment Rates for Continental Europe<sup>1</sup>

	Retail						Multifamily					
	Discount Rate		Direct/Implied Cap Rate		Terminal Cap Rate		Discount Rate		Direct/Implied Cap Rate		Terminal Cap Rate	
Range	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Portugal												
Spring 2017 Point Est. <sup>2</sup>	7.90%		5.60%		5.40%		6.90%		4.65%		4.50%	
Fall 2017 Range Est. <sup>2</sup>	6.90%	9.10%	4.65%	7.00%	4.65%	6.50%	5.55%	8.60%	3.70%	5.60%	3.55%	5.60%
Fall 2017 Point Est. <sup>2</sup>	7.90%		5.60%		5.40%		6.90%		4.65%		4.50%	
Bps Change <sup>3</sup>	0		0		0		0		0		0	
Spain												
Spring 2017 Point Est. <sup>2</sup>	6.20%		4.80%		5.00%		5.50%		4.05%		4.15%	
Fall 2017 Range Est. <sup>2</sup>	5.05%	7.40%	3.80%	6.00%	3.80%	6.20%	4.70%	6.40%	3.30%	5.00%	3.30%	5.20%
Fall 2017 Point Est. <sup>2</sup>	6.10%		4.70%		4.90%		5.50%		4.05%		4.15%	
Bps Change <sup>3</sup>	-10		-10		-10		0		0		0	
Germany												
Spring 2017 Point Est. <sup>2</sup>	7.00%		5.70%		6.50%		6.20%		4.70%		5.80%	
Fall 2017 Range Est. <sup>2</sup>	5.70%	8.00%	3.60%	8.20%	5.30%	9.00%	5.50%	7.00%	3.50%	8.00%	5.00%	8.70%
Fall 2017 Point Est. <sup>2</sup>	7.00%		5.70%		6.50%		6.10%		4.60%		5.70%	
Bps Change <sup>3</sup>	0		0		0		-10		-10		-10	
The Netherlands												
Spring 2017 Point Est. <sup>2</sup>	7.20%		6.20%		7.05%		-		-		-	
Fall 2017 Range Est. <sup>2</sup>	5.80%	8.00%	4.80%	7.20%	6.50%	8.00%	-	-	-	-	-	-
Fall 2017 Point Est. <sup>2</sup>	7.10%		6.10%		6.95%		-		-		-	
Bps Change <sup>3</sup>	-10		-10		-10		-		-		-	
France												
Spring 2017 Point Est. <sup>2</sup>	4.80%		3.55%		-		-		-		-	
Fall 2017 Range Est. <sup>2</sup>	4.50%	5.75%	3.50%	6.25%	-	-	-	-	-	-	-	-
Fall 2017 Point Est. <sup>2</sup>	4.70%		3.45%		-		-		-		-	
Bps Change <sup>3</sup>	-10		-10		-		-		-		-	

<sup>1</sup> 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 reflect a broad spectrum of properties. For yield definitions, please see the Investment Terms and Methodology Section on pages 26-27.

<sup>2</sup> 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.

<sup>3</sup> Change (+/-) in basis points (Bps) of the current rate from the previous reporting period.

Note: 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 by asset class and country.

Source: Situs RERC, 3Q 2017.

## APPENDIX, CONTINUED

Situs RERC Investment Rates for the UK and Ireland<sup>1, 5</sup>

	Office						Industrial/Logistics					
	Net Initial Yield		Nominal Equivalent Yield		Reversionary Yield		Net Initial Yield		Nominal Equivalent Yield		Reversionary Yield	
Range	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
United Kingdom												
Spring 2017 Point Est. <sup>2</sup>	4.95%		4.95%		6.85%		6.60%		5.35%		8.75%	
Fall 2017 Range Est. <sup>2</sup>	3.50%	6.25%	3.65%	6.80%	3.80%	8.25%	4.65%	8.35%	4.25%	7.35%	4.75%	9.35%
Fall 2017 Point Est. <sup>2</sup>	4.95%		4.95%		6.85%		6.60%		5.35%		8.75%	
Bps Change <sup>3</sup>	0		0		0		0		0		0	
Dublin, Ireland <sup>4</sup>												
Spring 2017 Point Est. <sup>2</sup>	4.30%		4.55%		-		5.80%		5.80%		-	
Fall 2017 Range Est. <sup>2</sup>	4.05%	4.55%	4.30%	4.80%	-	-	5.55%	6.10%	5.55%	6.10%	-	-
Fall 2017 Point Est. <sup>2</sup>	4.30%		4.55%		-		5.80%		5.80%		-	
Bps Change <sup>3</sup>	0		0		-		0		0		-	
	Retail						Multifamily					
	Net Initial Yield		Nominal Equivalent Yield		Reversionary Yield		Net Initial Yield		Nominal Equivalent Yield		Reversionary Yield	
Range	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
United Kingdom												
Spring 2017 Point Est. <sup>2</sup>	5.10%		5.10%		6.65%		-		-		-	
Fall 2017 Range Est. <sup>2</sup>	4.25%	6.20%	4.25%	6.20%	5.00%	8.00%	-	-	-	-	-	-
Fall 2017 Point Est. <sup>2</sup>	5.20%		5.20%		6.75%		-		-		-	
Bps Change <sup>3</sup>	10		10		10		-		-		-	
Dublin, Ireland <sup>4</sup>												
Spring 2017 Point Est. <sup>2</sup>	3.30%		3.30%		-		-		-		-	
Fall 2017 Range Est. <sup>2</sup>	3.00%	4.30%	3.00%	4.30%	-	-	-	-	-	-	-	-
Fall 2017 Point Est. <sup>2</sup>	3.30%		3.30%		-		-		-		-	
Bps Change <sup>3</sup>	0		0		-		-		-		-	

<sup>1</sup> 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 reflect a broad spectrum of properties. For yield definitions, please see the Investment Terms and Methodology Section on pages 26-27.

<sup>2</sup> 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.

<sup>3</sup> Change (+/-) in basis points (Bps) of the current rate from the previous reporting period.

<sup>4</sup> Prime Market only.

<sup>5</sup> The point estimate presented represents the average class A property type. The lower bound of the ranges reflect estimates for prime class A properties.

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. Not all rates were available by asset class and country.

Source: Situs RERC, 3Q 2017.



## APPENDIX, CONTINUED

Situs RERC Nordic Region Net initial Yield¹								
	Office		Industrial/Logistics		Retail		Multifamily	
Range	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Denmark								
Spring 2017 Point Est.²	4.85%		7.40%		4.40%		3.90%	
Fall 2017 Range Est.²	4.00%	6.10%	6.90%	8.60%	3.40%	5.50%	3.40%	4.90%
Fall 2017 Point Est.²	4.75%		7.30%		4.25%		3.80%	
Bps Change³	-10		-10		-15		-10	
Finland								
Spring 2017 Point Est.²	5.10%		7.50%		5.00%		4.65%	
Fall 2017 Range Est.²	4.15%	7.00%	6.40%	9.80%	4.30%	6.80%	4.00%	5.50%
Fall 2017 Point Est.²	5.15%		7.50%		5.00%		4.75%	
Bps Change³	5		0		0		10	
Norway								
Spring 2017 Point Est.²	4.35%		6.60%		4.15%		-	
Fall 2017 Range Est.²	3.90%	5.25%	5.75%	7.30%	4.00%	4.60%	-	-
Fall 2017 Point Est.²	4.25%		6.50%		4.05%		-	
Bps Change³	-10		-10		-10		-	
Sweden								
Spring 2017 Point Est.²	4.25%		6.20%		4.20%		2.80%	
Fall 2017 Range Est.²	3.50%	5.00%	5.65%	8.25%	3.65%	5.70%	1.75%	3.60%
Fall 2017 Point Est.²	4.15%		6.20%		4.10%		2.80%	
Bps Change³	-10		0		-10		0	

<sup>1</sup> 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 reflect a broad spectrum of properties. For yield definitions, please see the Investment Terms and Methodology Section on pages 26-27.

<sup>2</sup> 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.

<sup>3</sup> Change (+/-) in basis points (Bps) of the current rate from the previous reporting period.

Note: Not all rates were available by asset class and country.

Source: Situs RERC, 3Q 2017.

# Situs RERC®

REAL ESTATE REPORT

September **2017**