

The DTZ logo consists of the letters 'DTZ' in a bold, white, sans-serif font, centered within a solid red square. The background of the slide is a blurred, black and white photograph of a modern city street with tall glass skyscrapers and a road with lane markings.

DTZ

# Investment Market Outlook

## Europe and Baltics

Aivar Tomson, MRICS

March 20, 2015

18<sup>th</sup> international conference

Real Estate and Construction in the Baltics 2015:

Markets, Development, Forecasts

The logo for RIMS Forum International Conferences. It features the lowercase letters 'rims' in a bold, black, serif font. To the right of 'rims' is the word 'FORUM' in a bold, black, sans-serif font, with a red circle above the letter 'O'. Below 'FORUM' are the words 'INTERNATIONAL' and 'CONFERENCES' in a smaller, black, sans-serif font, stacked vertically.

rims FORUM  
INTERNATIONAL  
CONFERENCES

## Key questions

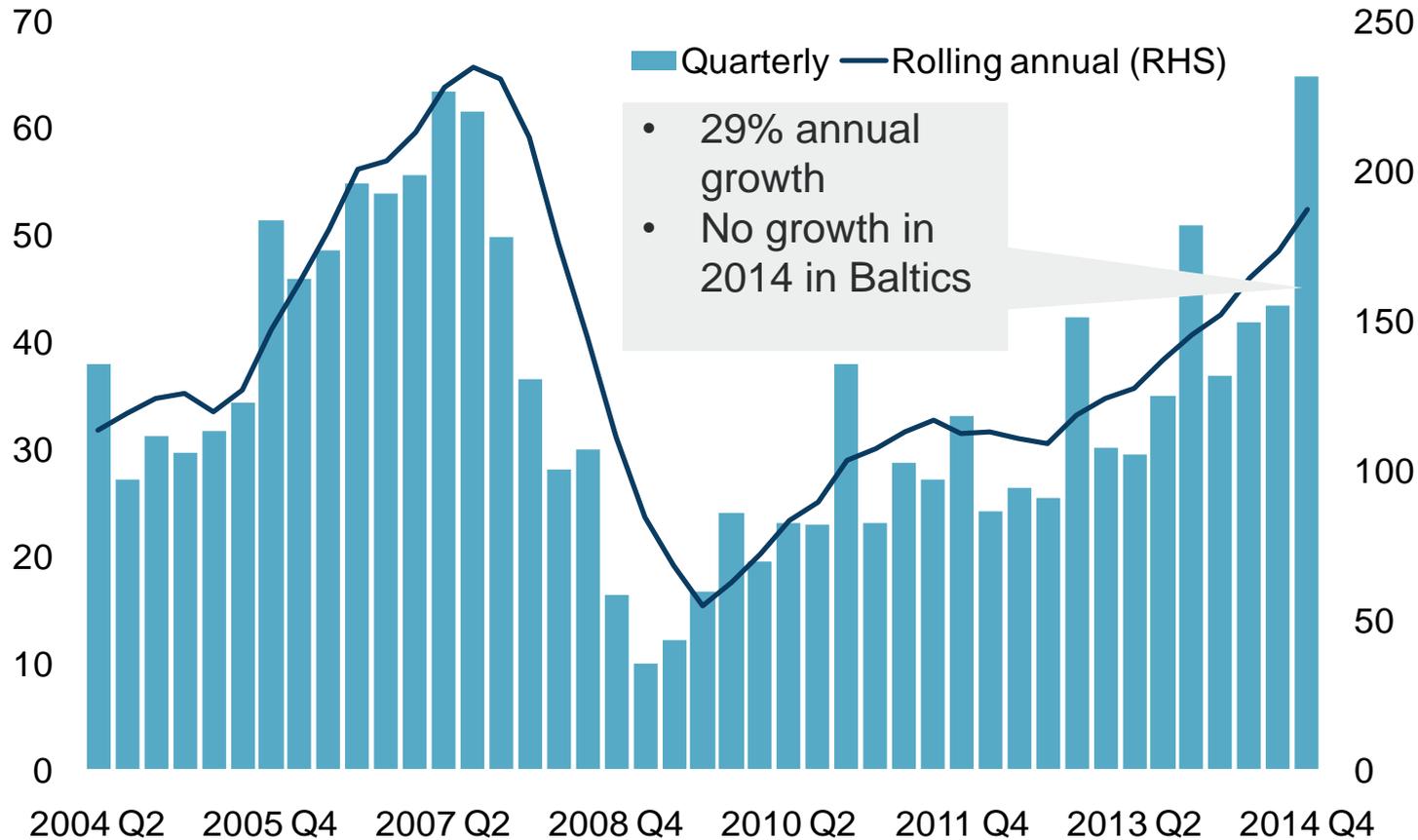
**What were the  
key trends in the  
market in  
2014?**

**Who were active  
in the market?**

**What is the  
outlook for the  
market?**

# Record fourth quarter volume

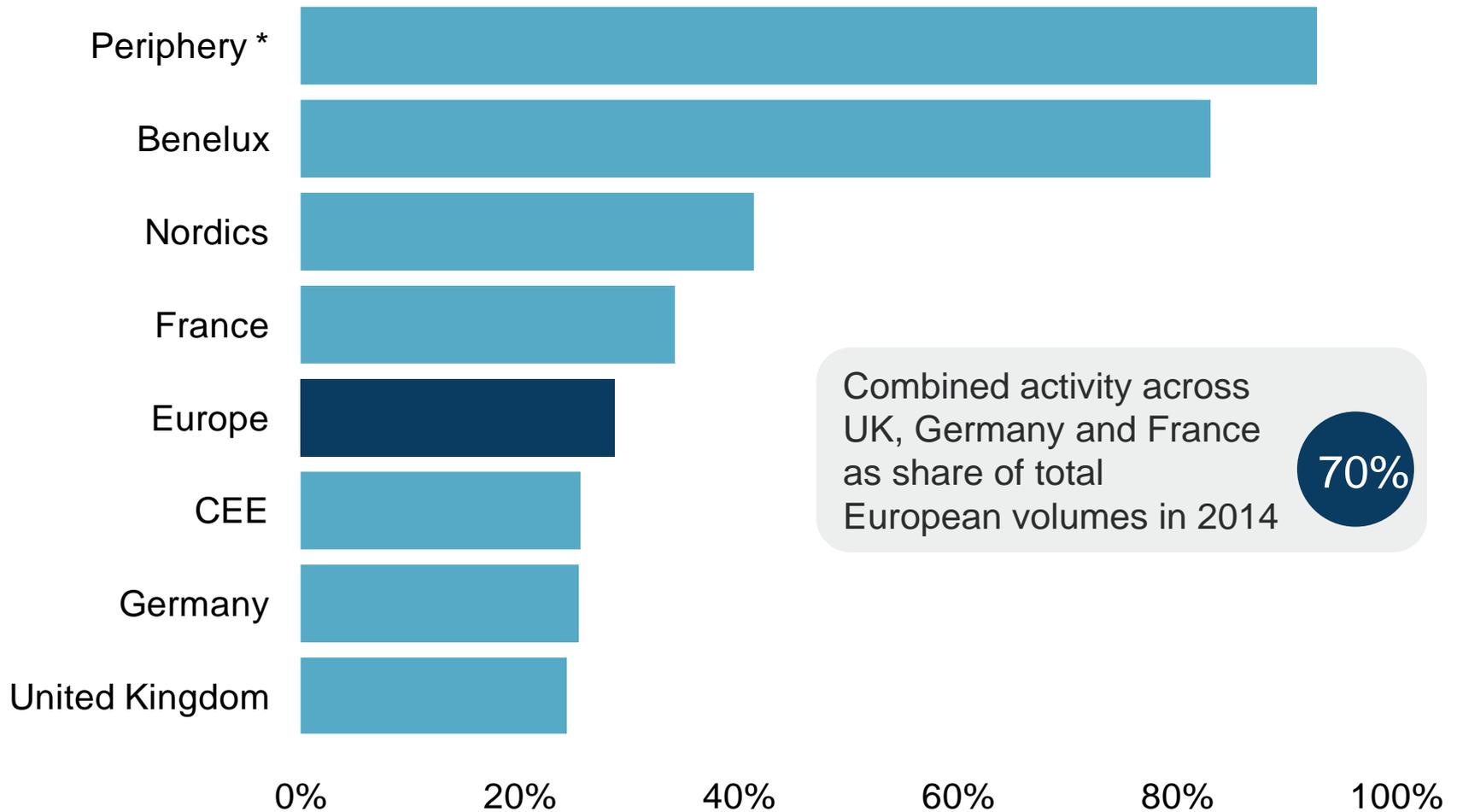
## European investment activity, EUR bn



- Q1 2015 in Baltics has been especially active as typically the volume is ca EUR 100-120 million quarterly, today it is more than EUR 300 million already...

# Peripheral markets bounce back

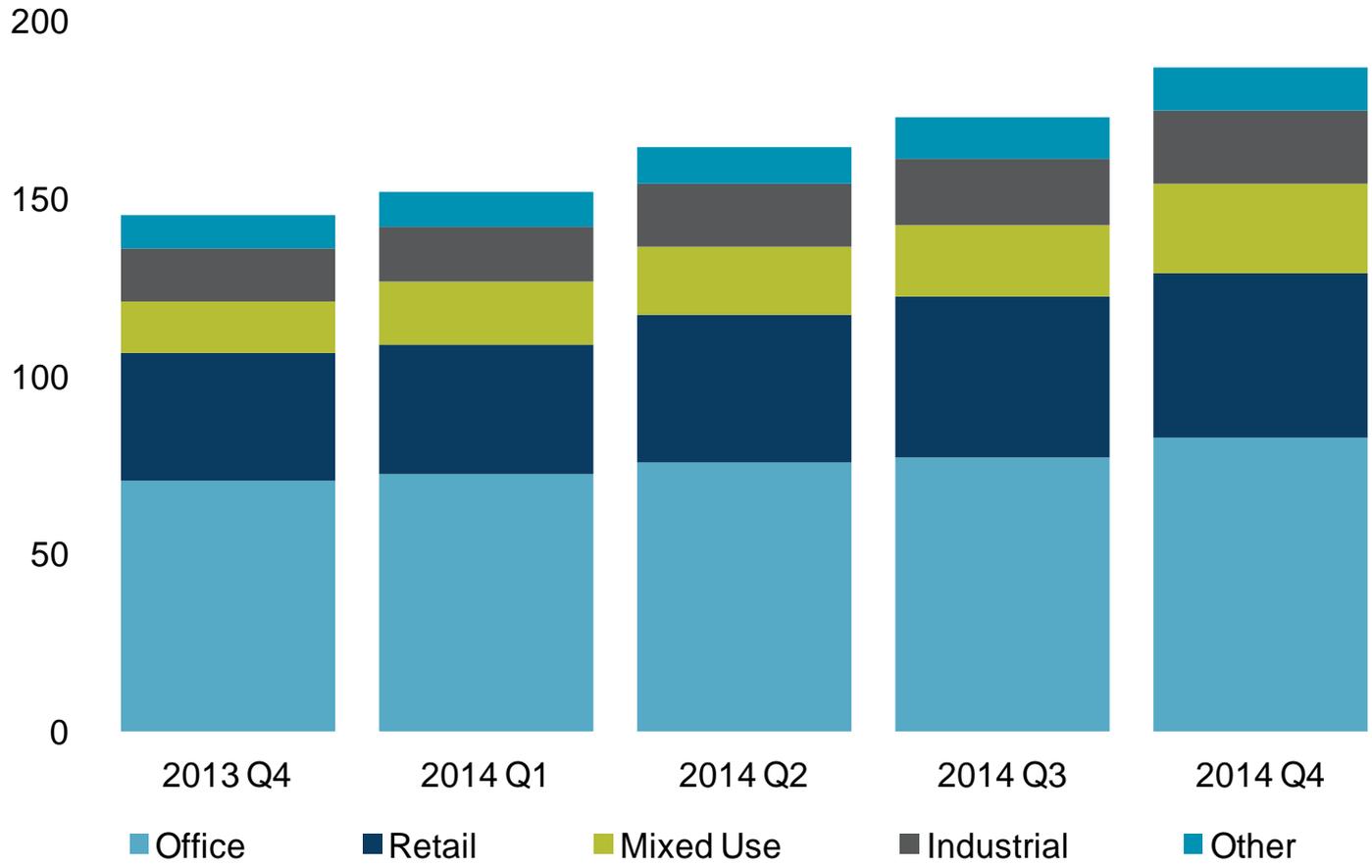
Change in investment activity in key markets 2013 v 2014, %



\*Periphery covers Ireland, Italy and Spain

# Offices drive volumes, industrial sets new record

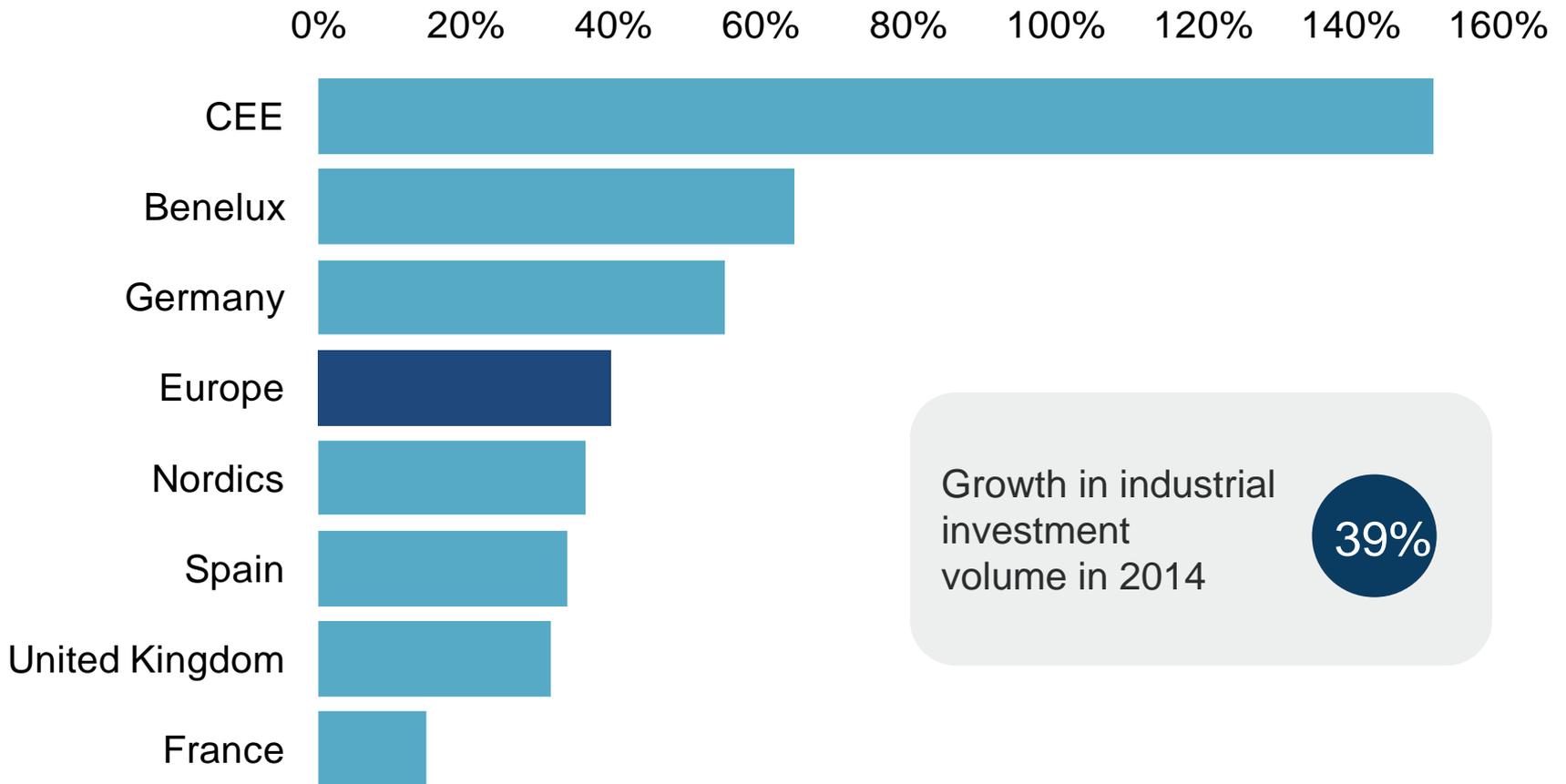
## Investment activity by property type, EUR bn



- Office dominates in Baltics although the retail has always been rather more attractive

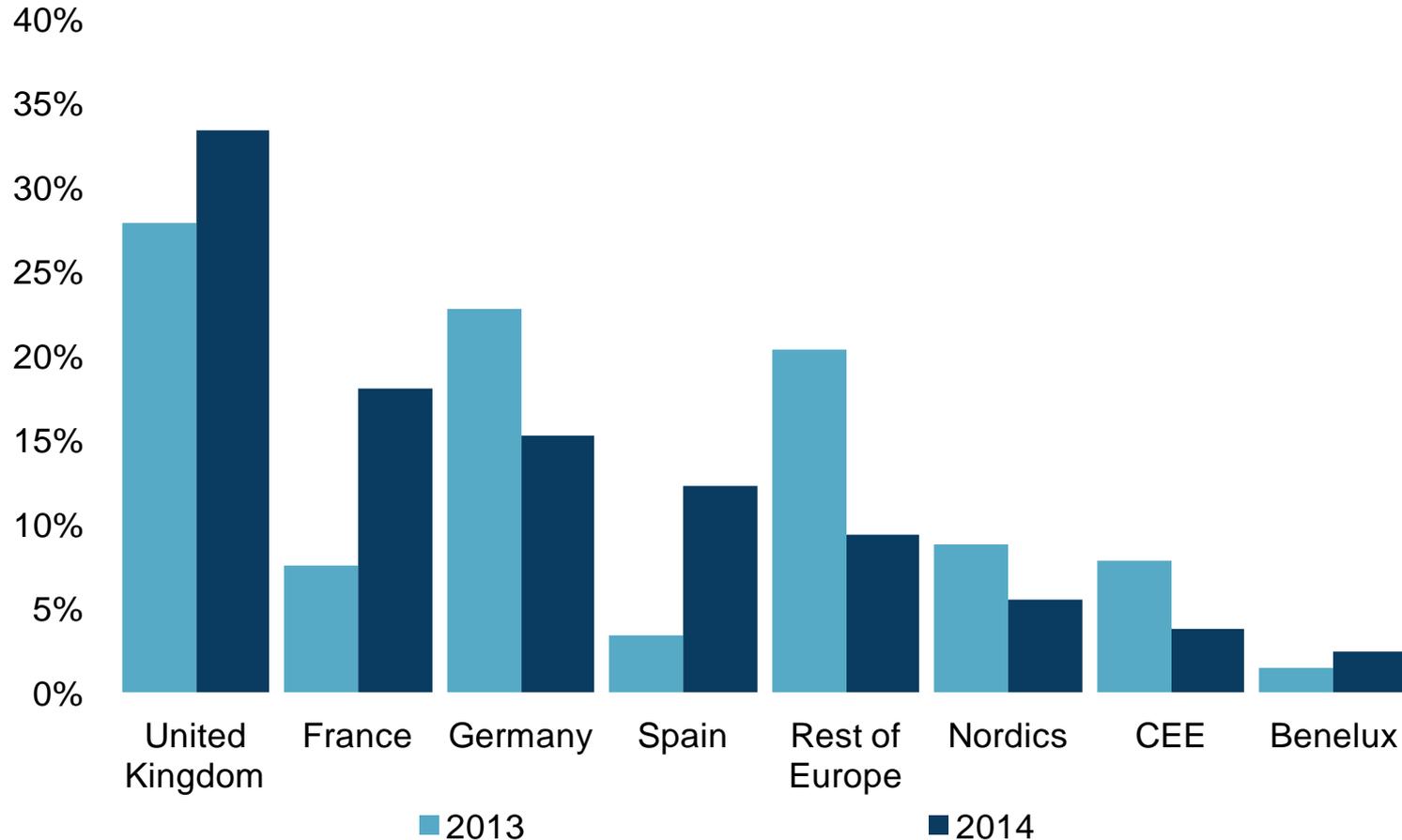
# Strong activity in CEE markets

## Industrial investment by country, 2014, %



# Shopping centre investments

## Shopping centre investment by country, % total



- There have not been any remarkable sales of shopping centres in Baltics in 2013-2014

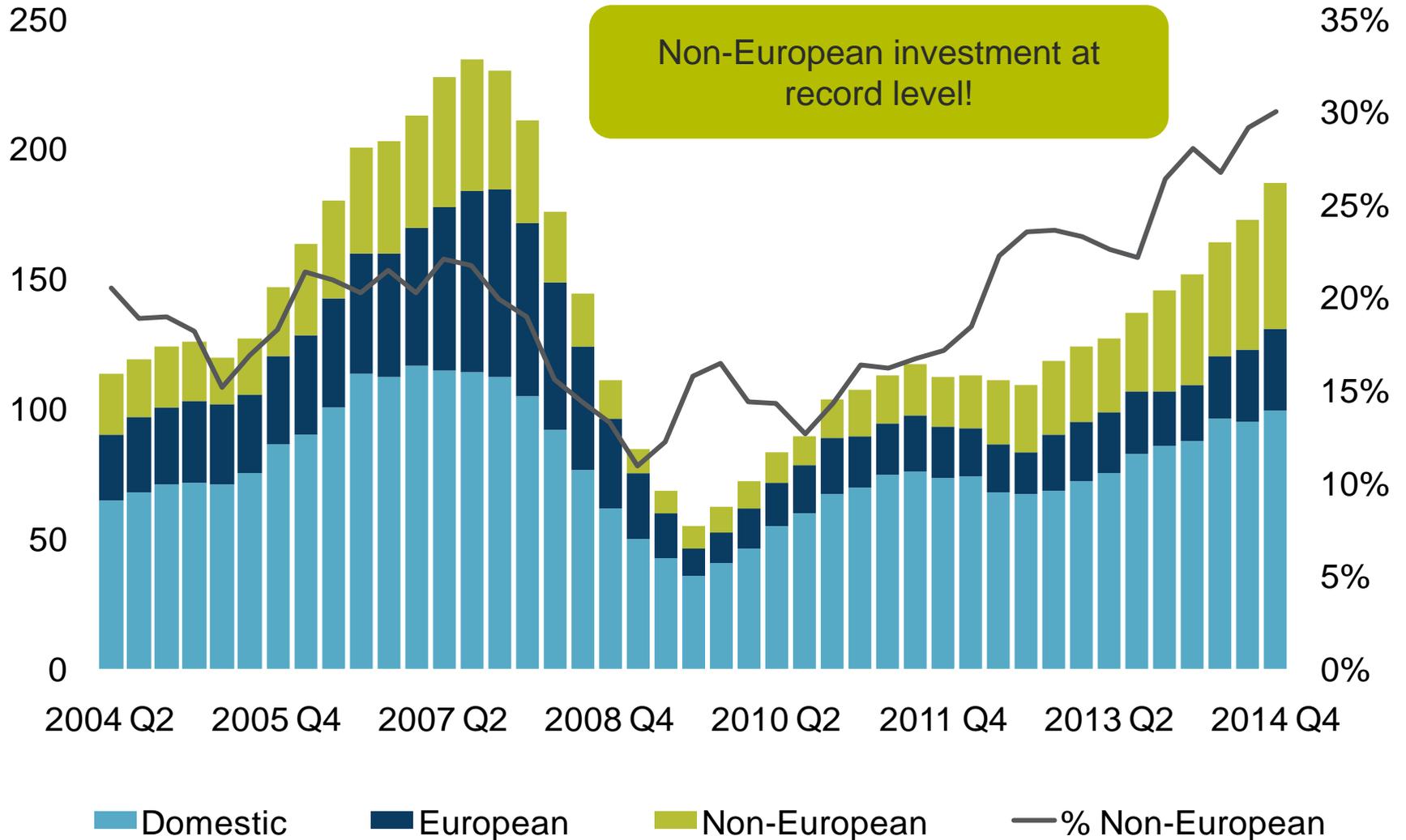
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# Non-European investment at new record

## Investment activity by capital source, EUR bn

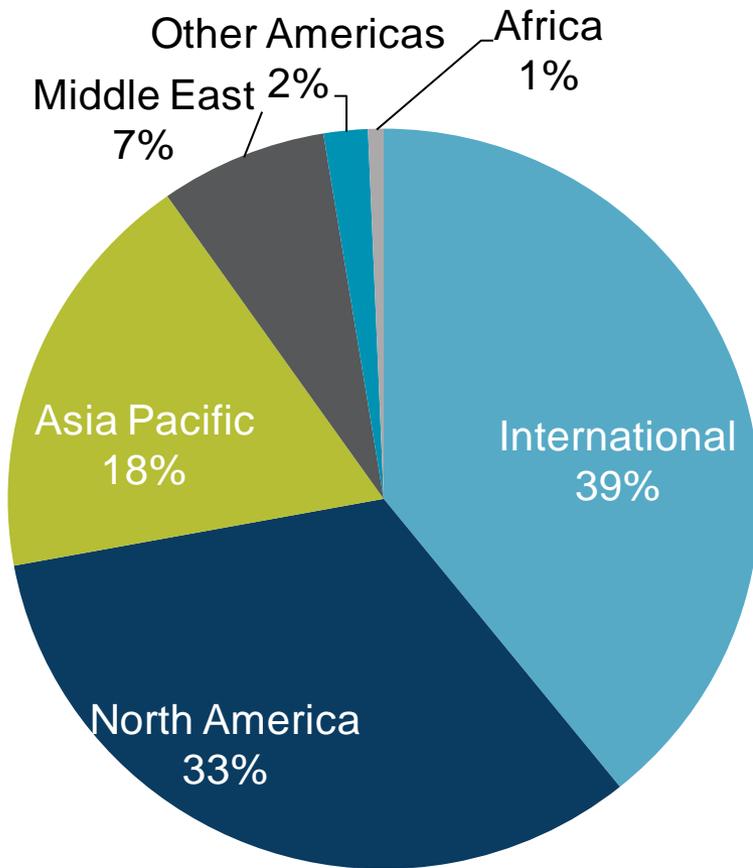


Source: DTZ Research

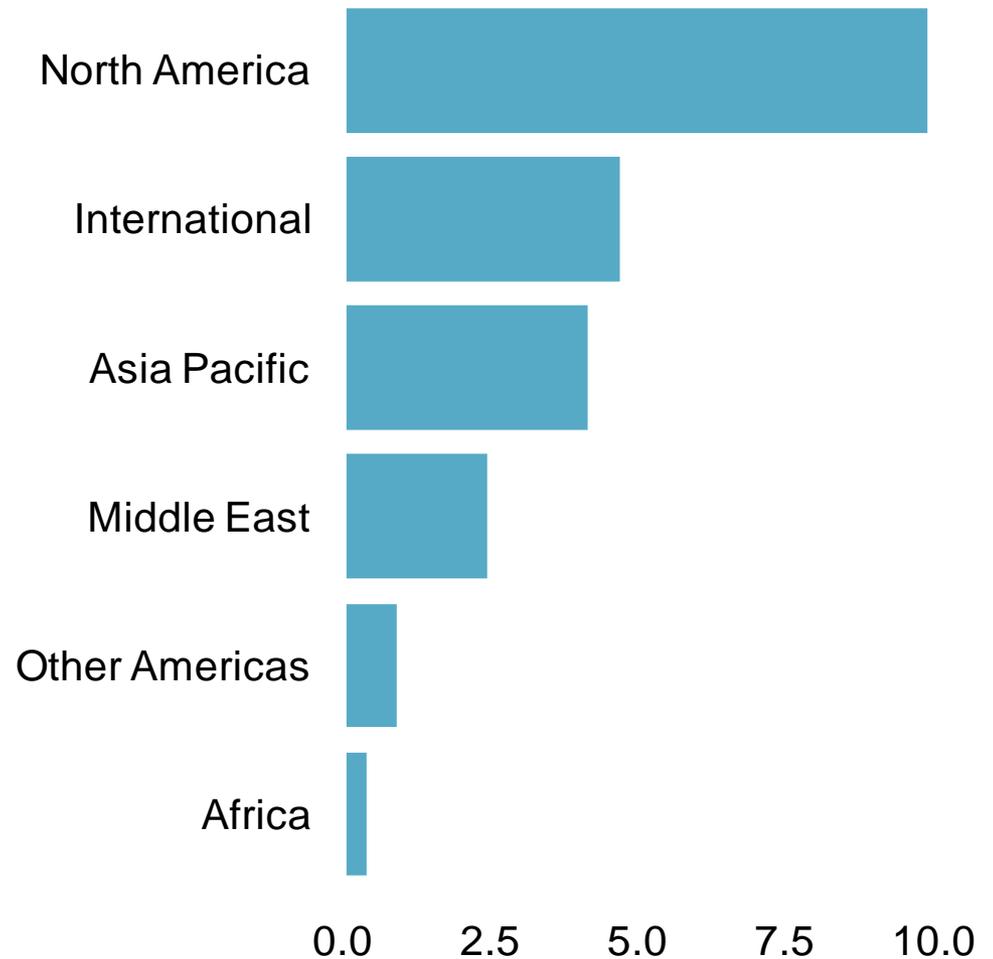
# Return of North American investors

## Non-European investment activity, 2014

**% of Total Non-European**



**Net investment, EUR bn**



Source: DTZ Research

## 2014-2015 compared to pre-crisis period

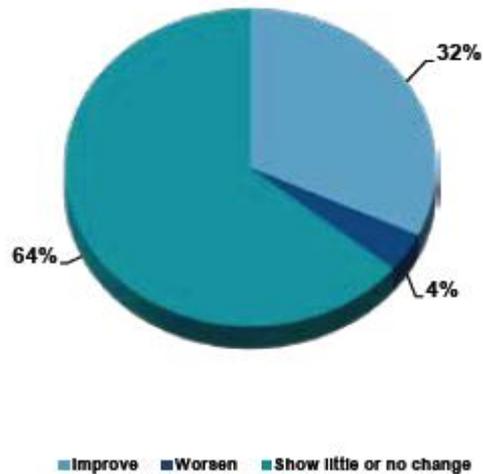
### Who are the main players?

- Historically the market has been dominated by Nordic institutional investors (BPT, Catella, Citycon, East Capital, EVLI, etc.)
- Some investors have left or liquidation is going on (EEREIF, Homburg, BPT Secura and Optima)
- Some investors have been active acquiring new properties (Colonna, Capital Mill, East Capital) or improving their properties (Citycon)
- The number of newcomers (Geneba, Partners Group, Zenith) has been rather limited and affected by events in Ukraine and Russia
  - Nordic and other European investors have been rather careful
  - Not attractive for non-European investors
  - Russian investors have been more active

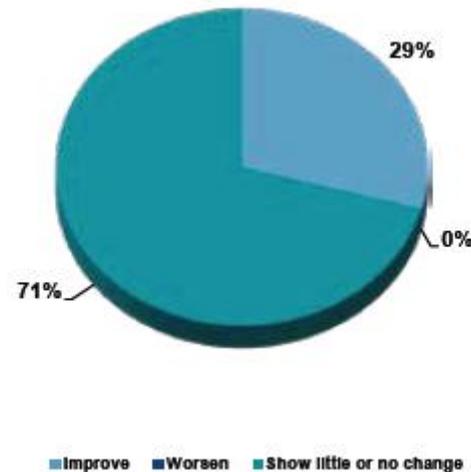
# DTZ Property Investor Confidence Index

## Office and retail demand in Baltics (autumn 2014)

### Office



### Retail

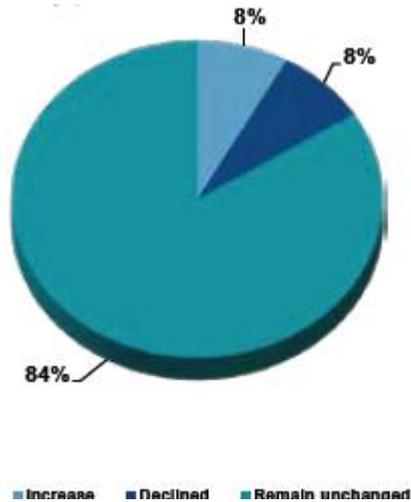


- 32% of the respondents think short term office demand will go up, 4% think demand will worsen and those with a neutral view represent 64%
- 29% of the respondents think demand will improve and the other 71% think retailer demand will remain stable, no one expect demand to go down

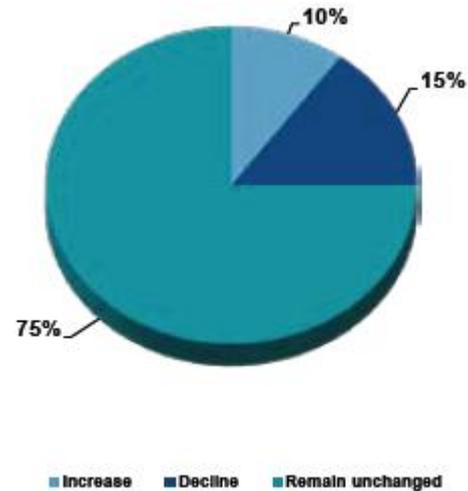
# DTZ Property Investor Confidence Index

## Office and retail yields in Baltics (autumn 2014)

### Office



### Retail



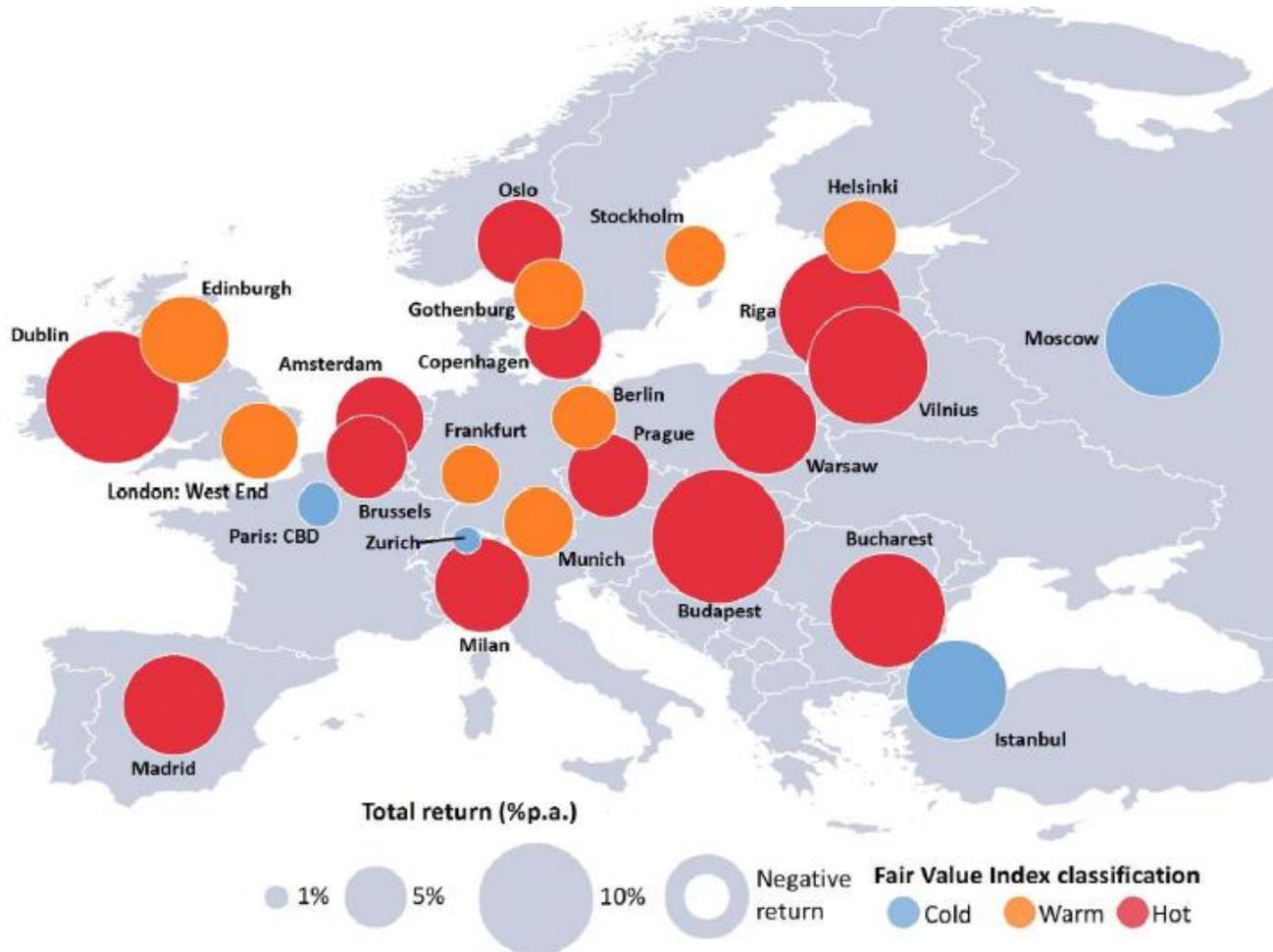
- 84% think office yields will stay unchanged next quarter, the remaining 16% is split equally between those who think yields will come down and those who think yields will move out

- three quarters of the respondents expect retail yields to remain unchanged, 15% think retail yields will decline and 10% think they will move out

Source: DTZ Research

# DTZ Europe Fair Value

European office market five year total return forecasts (% p.a.)

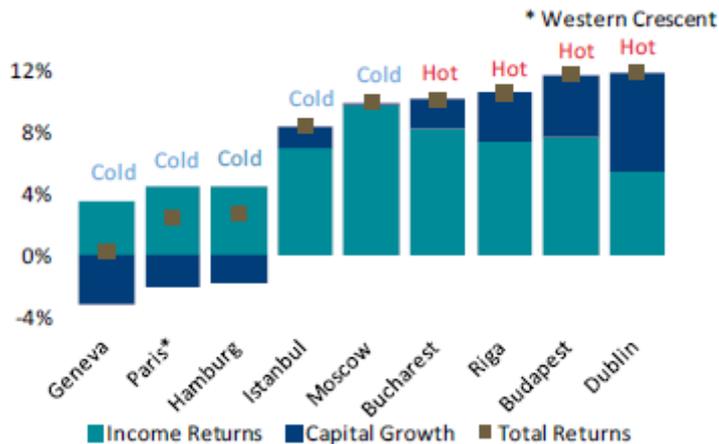


Source: DTZ Research

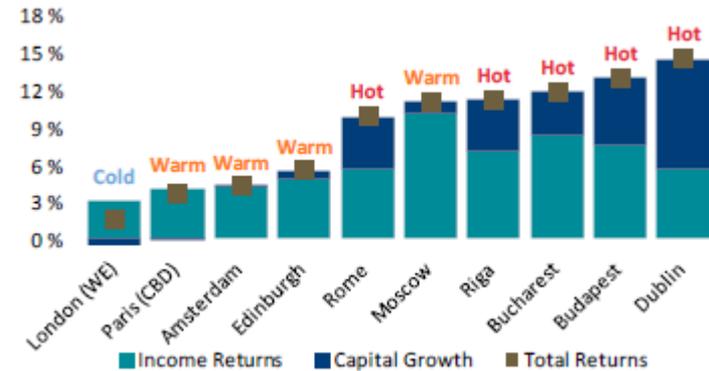
# DTZ Europe Fair Value

## Retail total returns breakdown (5 y) and Fair Value classifications

### Office



### Retail



- Baltics provides continuously high total returns (income returns + capital growth)

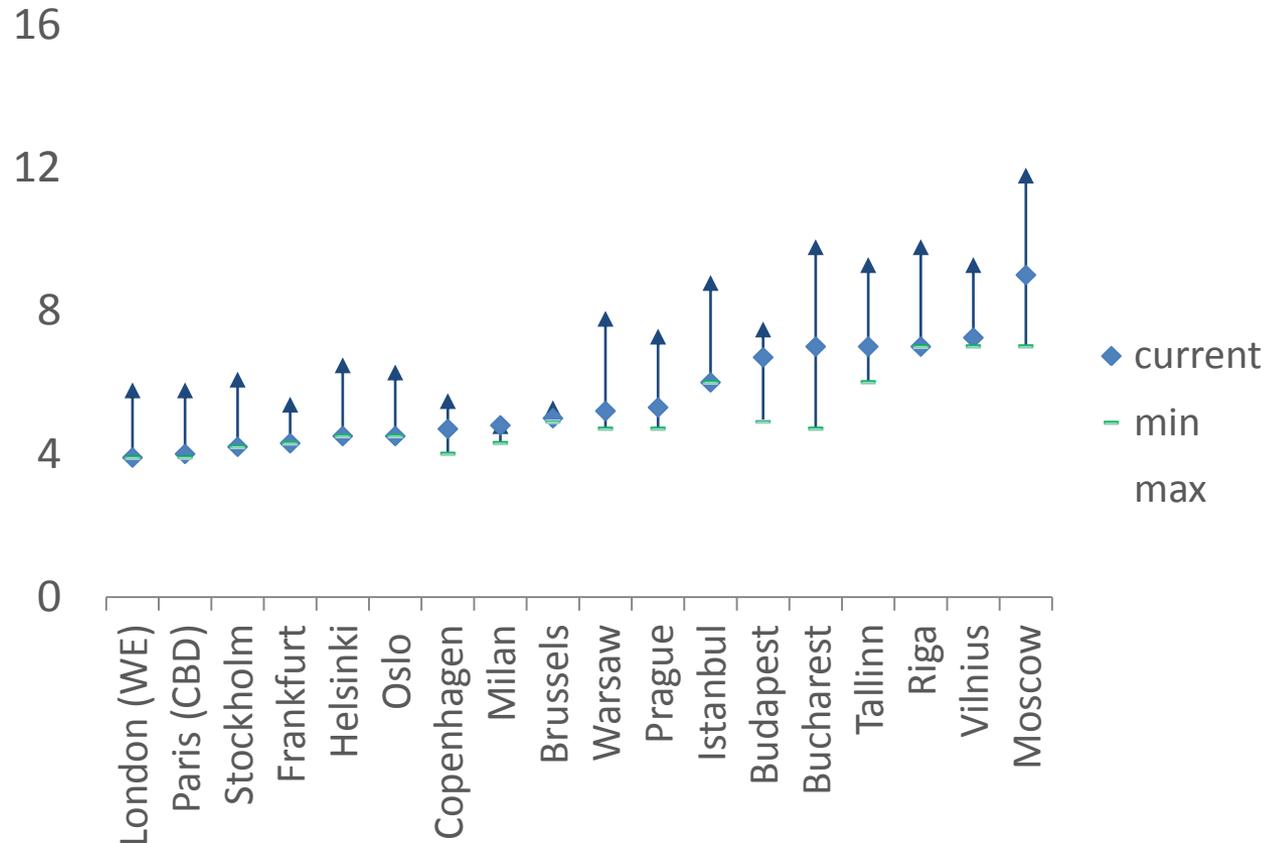
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# Prime yields above pre-crisis levels in 75% of markets

## Prime yield trends, 2005-2014, %



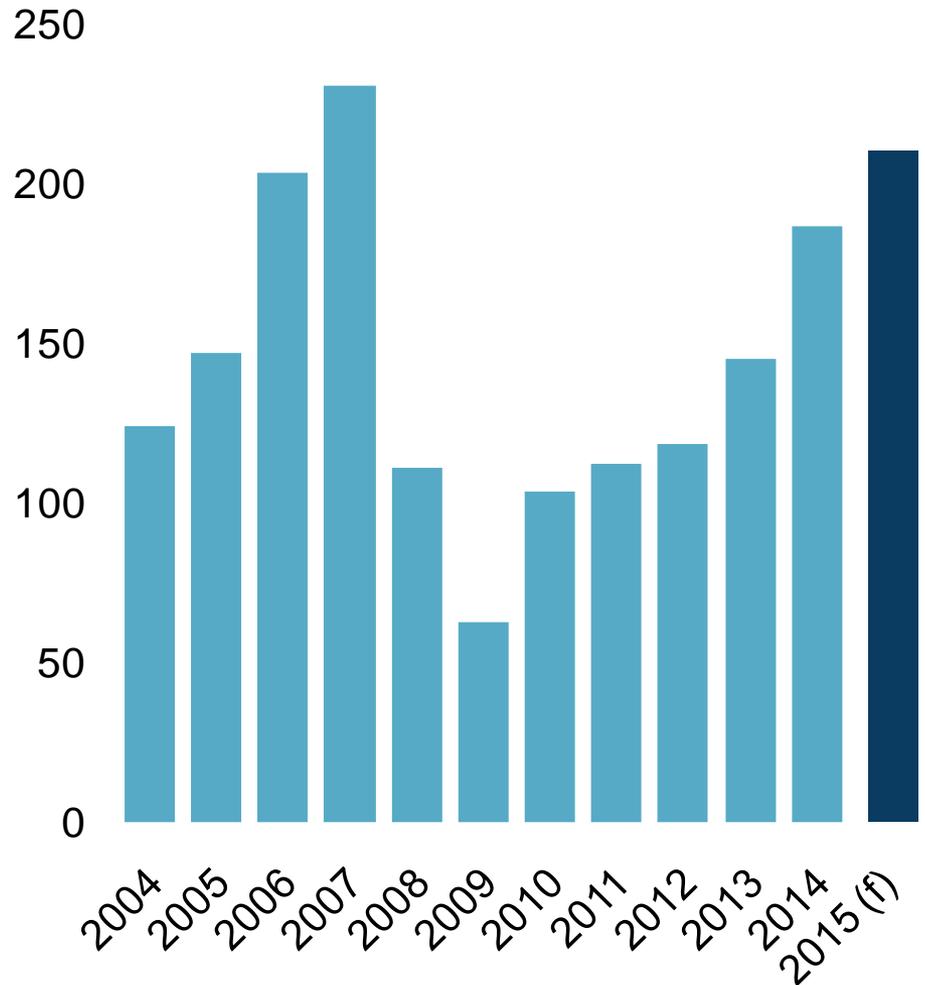
- Baltics belongs to the right side of the graph based on current yield rates, at the same time the yields today are more or less similar to minimum level



# Market outlook

- Majority markets remain attractive in current low interest rate environment
- The main focus on core markets
- The exact influence of ECB QE is not so clear
- Double-digit growth in volumes to EUR 210 bn in 2015

Investment volume in Europe, EUR bn



Source: DTZ Research

# Key messages

**What were the key trends in the market in 2014?**

**Who were active in the market?**

**What is the outlook for the market?**

**Record volume in Europe, core 3 markets still dominant**

**North American investment sets new records in Europe**

**Yields above pre-crisis levels in majority of European markets**

**Moderate volume in Baltics**

**Investments in Baltics are driven by domestic, Russian and EU investors**

**Yields remain the same or a little compression is expected, high volume in 2015 in Baltics**

## Contacts

### **Aivar Tomson**

Head of Baltic Research

[aivar.tomson@dtz.ee](mailto:aivar.tomson@dtz.ee)

### **Magali Marton**

Head of EMEA Research

[magali.marton@dtz.com](mailto:magali.marton@dtz.com)

### **Nigel Almond**

Head of Capital Markets Research

[nigel.almond@dtz.com](mailto:nigel.almond@dtz.com)



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