

Publication of latest PATRIZIA research on Europe's commercial property markets

PATRIZIA: Liquidity should be most watched real estate indicator in 2018

- ♦ Central bank tapering will influence liquidity and therefore pricing
- ♦ Trends in retail prime rents show that even top locations are not immune to disruptors
- ♦ Continued pressure on prices and rents due to challenge of allocating capital for envisaged yield

Augsburg, 21 March 2018. PATRIZIA Immobilien AG recommends that liquidity should be the indicator for institutional investors to watch most closely in the coming quarters, according to its latest INSIGHT Commercial Property 2018 research report. Central bank tapering across Europe will crucially influence the overall liquidity situation and, ultimately, pricing across the continent, the report states. This will especially hold true outside the core segment and in niche markets that have seen strong money inflows in the past years due to investors looking for yield.

Dr Marcus Cieleback, Group Head of Research at PATRIZIA, comments: “While a lot of investors rightly focus on yields and interest rates, we believe the coming quarters are more likely to be defined by market liquidity. This is at a time when we see more focus on income returns when interest rates continue to stay low and yield compression remains the norm. It is also against a backdrop where the global economy’s performance has improved considerably and its near-term prospects appear the best in a long time. We therefore don’t envisage any drastic repricing for good and high-quality assets given the solid economic fundamentals in place. The main challenge now in Europe is local access to suitable products and the experience to assess future income streams, despite the fact that investment strategies in real estate have broadened. Overcome these challenges and you should prosper.”

Other key findings include:

- Given the current state of the European office cycle, even though the solid demand picture and the relatively low completion rates form a background enabling another two or three favourable years, it is essential to understand the fundamentals behind the changing dynamics of rental growth on a city basis when developing a European investment strategy.
- Digitalisation and e-commerce as today’s retail disruptors. The development of prime rents indicate that even top locations in the city centre are not immune to current upheavals and investors will therefore adapt the retail strategies to the new environment.
- The retail investment market has experienced declining investment volumes for the second year in a row. The tremendous appetite for investments in European real estate is being confronted with shrinking supply. In this environment, investors should be aware that the search for investable product does not justify to compromise on location and quality of asset.
- The timing and pattern of normalisation of monetary policy remains the ‘known unknown’ while ongoing expansionary monetary policy will continue to support the regional growth outlook for Europe. This means that if investors understand sector and location, supporting investment activity outside the top markets, it will not only be the situation in the largest urban centres which is improving.
- Allocating capital with the envisaged yields will be the most pressing challenge for many institutional players. The consequence is that pressure on prices and rents is expected to continue. As a result, total returns in the coming five years will be predominantly driven by the income return component, bringing them significantly down from levels seen over past years.

PATRIZIA Immobilien AG:

PATRIZIA Immobilien AG has been active as an investment manager in the real estate market across Europe for more than 30 years. PATRIZIA's activities include the acquisition, management, repositioning and sale of residential and commercial real estate through its own licensed investment platforms. As a global provider of real estate investments in Europe, PATRIZIA operates as a respected business partner of large institutional investors and retail investors in all major European countries. On completing the takeovers of recently acquired real estate investment management companies PATRIZIA will manage almost EUR 40 billion of real estate assets, primarily as a portfolio manager for insurance companies, pension fund institutions, sovereign funds, savings and cooperative banks and as co-investor. For further information, please visit: www.patrizia.ag.

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