

## PRESS RELEASE

# EUROPEAN OFFICE PROSPECTS: FURTHER YIELD COMPRESSION EXPECTED IN 2018

BNP Paribas Real Estate Research said that European growth will strengthen over the next years, driven by a considerably improved domestic demand. **This development is to the great benefit of the occupational markets** that have lagged in Europe as well as supporting those that are already healthy.

Demand for office space across Europe has been robust with an average growth of 7% in each of the past three years. **2017 has been no different and BNP Paribas Real Estate anticipates that the year as a whole will record a similar level of growth.** Of course at city level the volatility will differ because of the different stage of the property cycle.

Cost of space mirrors vacancy patterns and economic growth. The largest cities will remain the most expensive in terms of prime rents; London and Paris. Supported by a fall in the vacancy rate and a stable economic environment, the German cities will post some of the fastest rental growth; Berlin (7%, pa), Frankfurt (4.2%, pa) Hamburg (2.2%) and Munich (2.0%).

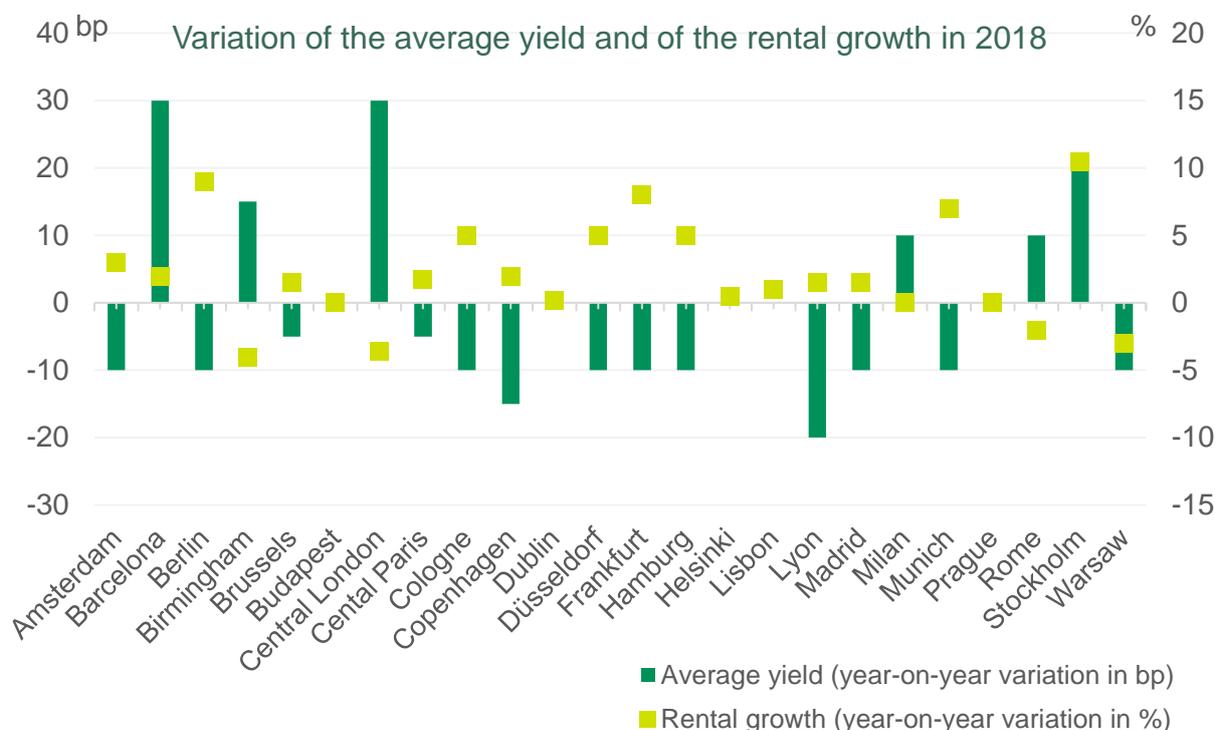
**Thomas Glup, senior economist at BNP Paribas Real Estate said “German cities are likely to see a strong rental growth over the next years, particularly in Berlin with the fastest growth due to the bottleneck of space and the catch up effect, followed by Frankfurt which could benefit from the Brexit.”**

As the CEE nations will see substantial deliveries occurring, their prime rental growth is likely to remain low at best and the effect of the increased supply will be felt most in average rents.

The story of European investment since 2013 has been one of continued yield compression and accelerated capital growth, supported by record transaction volumes. **BNP Paribas Real Estate Research said that as we move into 2018, the cycle in Europe broadly is likely to be at a point of inflexion.** Similar to the occupational market, cities across Europe are all at different stages in the cycle and the rapidity and magnitude of change will differ. UK cities, even without Brexit, are expected to see capital growth fall back and yield expansion over the next year. **Initially, further yield compressions are expected in most of the European markets and a stable income will be enough to ensure that total returns do not turn negative for most cities.**

In 2018, there are some key economic drivers to watch out for in real estate market. First of all the global monetary policy has reached a juncture in 2017 with central banks aiming to normalize policy. However, **central bank policies will still remain supportive of the economy and we do not believe that this is significant enough to make an impact on property yields.** Then, the political disagreement between the Spanish Central government and Catalonia will inject some uncertainty into investor perception of Barcelona. However, **with the actions that the Spanish government has taken so far, the uncertainty will most likely be short lived.**





### About BNP Paribas Real Estate

BNP Paribas Real Estate, one of the leading international real estate providers, offers its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management.

With 3,900 employees, BNP Paribas Real Estate supports owners, leaseholders, investors and communities in their projects thanks to its local expertise through 36 countries (16 direct facilities and 20 through its Alliance network) in Europe, Middle-East and Asia.

BNP Paribas Real Estate generated € 704 m revenues in 2016 with, for property development, 154 000 sqm of completions and more than 1,500 homes launched; € 24.1 bn assets under management in Investment Management; 38m sqm managed in Property Management; 6.2m sqm taken up and € 19bn invested in Transaction; and three main types of Consulting services: Real Estate Advisory for occupiers, Building Consultancy and Outsourced Real Estate Management.

In 2017, BNP Paribas Real Estate merged with Strutt & Parker, one of the UK's largest independent property partnerships.



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