BNP Paribas Real Estate:  
Tier 2 markets gained ground in 2014

- Investment volume increased by 76% in H1 2014  
  compared to H1 2013, totaling €12.8 billion*

- Foreign investment volume in Tier 2 countries almost doubled  
  compared to H1 2013 and reached the highest share ever recorded

In the latest issue of the analysis focused on European Tier 2 markets, the Global Research teams at BNP Paribas Real Estate presents a detailed analysis of the investment market in H1 2014 with a focus on eight countries (Belgium, Italy, Ireland, Luxembourg, Poland, Romania, Spain and The Netherlands) and ten cities (Amsterdam, Barcelona, Brussels, Bucharest, Dublin, Luxembourg, Madrid, Milan, Rome and Warsaw).

In 2014, all European Tier 2 countries’ GDP growth will be positive, even though discrepancies remain amongst countries on the pace of recovery. The labour market is also on the road to recovery, with jobs being created for the first time since 2008 in Spain. Office take-up has stabilised and should see a positive impact in 2015.

“With an investment volume of €12.8 bn, the selected Tier 2 countries recorded in six months the result of the nine first months of 2013. Indeed, they showed great dynamism with an increase of 76% between H1 2013 and H1 2014”, said Céline Cotasson-Fauvet, Head of European Analysis, International Research, BNP Paribas Real Estate. “In the meantime the commercial real estate investment volume in the Tier 1 countries, amounting to €54bn, grew by 22% between H1 2013 and H1 2014.”

BNP Paribas Real Estate selected Tier 2 countries gained ground in 2014

“The fierce competition for prime assets has led investors to look beyond Tier 1 markets. It is clear that they moved up the risk curve and search for quality properties in Tier 2 markets.” said Guillaume Delattre, Executive Regional Head, International Advisory, BNP Paribas Real Estate. “The selected Tier 2 countries raised their share of the total investment volume in Europe to 16% (vs. 11% last year) while the share of France, Germany and the UK (Tier 1 countries) stayed constant at 69%.”

Globally the commercial real estate investment volume in Europe remains high, totaling €79bn so far (+21% compared to H1 2013) after an already buoyant year 2013.

* 8 countries studied in the analysis: Belgium, Italy, Ireland, Luxembourg, Poland, Romania, Spain and The Netherlands.
244% growth of the retail investment volume
Offices and retail premises stayed largely favoured by investors. Tier 2 markets stand out with a 244% growth of the retail investment volume and a doubling of its share between H1 2013 and H1 2014. Moreover, retail investment volume even exceeded that of offices in Q2 2014 on a rolling year basis.

Volume of mega deals doubled between H1 2013 and H1 2014
The fast growth of commercial real estate investment volume in the Tier 2 countries was driven by a significant increase of mega deals (over €100 m) for which the volume has doubled between H1 2013 and H1 2014. They now represent 47% of the total volume compared to 41% a year ago, a similar share to the 49% experienced by Tier 1 markets. Amongst the largest deals, North Galaxy, an office building located in Brussels, was sold for € 475 m. to the danish pension fund, ATP, in JV with an insurance company. The volume of deals between € 40 and € 100 million also doubled compared to H1 2013.

Foreign investment volume reached the highest share ever recorded
During H1 2014, foreign investment volume in Tier 2 countries almost doubled compared to H1 2013 and reached the highest share ever recorded (69% of the total investment volume in H1 2014 vs. 60% in H1 2013). It should be kept in mind that some foreign investors are initiating deals through domestic vehicles. An example of this is where BNP Paribas Real Estate advised Hispania Real Socimi (Spanish REIT) in their acquisition of Diagonal Mar in Barcelona for € 64 m, in which two US hedge funds hold stakes.

Asian buyers entered the Tier 2 markets with 9% market share
Asian investors, who were once only willing to invest in core cities such as London or Paris, are now diversifying into Tier 2 markets, as illustrated by the acquisition of Edificio de España, 67 400 m² in Madrid for € 265 m. At the end of June 2014, they represented 9% the total foreign investment volume balancing the marked absence of Middle Eastern investors.

An attractive spread between office prime yields in Tier 1 and Tier 2 markets
The spread between office prime yields in Tier 1 markets (Paris, London and the big four German cities) and Tier 2 markets remain very attractive for investors; giving a well-compensated risk for less liquid markets than the core ones. The gap between average office prime yields in core markets and in Tier 2 markets stands at 151 bp in Q2 2014, slightly down the historic high of 165 bp at the end of 2013 but far from its record low of 45 bp in 2007.

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**Focus by city**

**EUROZONE**

**Madrid and Barcelona**

Many investors find the current economic situation favourable for taking positions in commercial and residential real estate. As expected, there has been a recovery in 2014 and this has been the trigger and the focus of “core+” and “added value” strategies. With an aggregate volume of more than €1.2bn, investment surged in Madrid, 244% up between H1 2013 and H1 2014, with a comparable share between office, retail and hotel. In Barcelona investment volume kept high levels with €451m in H1 2014. In both cities, second hand vacancy rates continued to reach high levels especially in periphery, whereas prime rents are slightly up.

**Brussels**

In H1 2014, investment volume totalled €876m., up 25% on H1 2013’s volume. A performance which is the consequence of an exceptional major transaction signed on the North Galaxy office building for €475m. Leasing activity in the Brussels office market bounced back in H1 2014 thanks to a buoyant 2nd quarter, boosted by large transactions such as the Flemish community on 50,000 m². Prime rents remained steady thanks to relative scarcity of prime quality space.

**Milan and Rome**

Commercial real estate investment volumes in Milan and Rome decreased in H1 2014 compared to 2013, amounting to respectively €425m and €39m. Italian investment real estate market is traditionally dominated by domestic investors, it has been increasingly targeted by foreign investors. Only in Milan some major deals (over €30m) have been closed, including the Milano Fiori Nord office building (22,000 m²) bought for €69m, advised by BNP Paribas Real Estate. While investment volumes are expected to be boosted in the second part of the year in both cities, office market fundamentals are still fragile due to the recent economic conditions. Vacancy rates and prime rents have stabilised, and take-up even increased in Milan, although it dropped in Rome.

**Amsterdam**

The Netherlands are on the way out of recession and there is a positive outlook. The investment market has been consistently growing since 2009 and accelerated in H1 2014 (+67% vs H1 2013). Foreign investors, mostly from the Eurozone, are showing an increased interest in the market and the two largest investment deals, at over €200m each, were bought by German investors: the ITO&SOM (52,000 m²) and the Edge (40,000 m²) office buildings. Vacancy dropped by 3% but remains high (17.2%), despite the ongoing conversion of obsolete office buildings. Prime rents stood still for a sixth consecutive quarter at €350/m²/year.

**Dublin**

Dublin confirmed its recovery. With a total of €1.6bn in H1 2014, the investment volume already was higher than the volume for the whole of 2013. The competition for prime properties in the Dublin market is still pushing yields down. North American investors have supported the Irish commercial real estate investment market since 2012, and this has continued with some major deals in Dublin, a good example being HSBC and Hines buying the Liffey Valley shopping centre for €253m. Occupier market fundamentals are strong in Dublin; take-up rose during H1 and prime rents gained 28% over the last 6 months. Vacancy rates dropped from 18% to 16% between H1 2013 and H1 2014.

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Luxembourg

Even though coming from a low level, Luxembourg investment volumes recorded a marked increase of 66% between H1 2013 and H1 2014 with a few large transactions sustaining this recovery. The most significant transaction was the sale of the office building K2 Ellipse & Forte for € 119m to Union Investment. The investment activity is also supported by better perspectives regarding the occupier market. Indeed, take-up increased by 8% between H1 2013 and H1 2014 and stays in line with the 5-year average. Moreover, the low level of supply ensures a good resilience of prime rents that have remained constant for the last three years.

OTHER EUROPEAN MARKETS

Warsaw

In H1 2014, the investment volume totalled approximately € 630m, with a +35% increase on H1 2013, dominated by office investment (93%). The investment market in 2014 was marked by the € 295m deal on the Rondo 1 office building sold by Blackrock (66,000 m²). On the office occupier side, take-up slowed down in H1 2014 and went below 200,000 m². Vacancy rates should keep on increasing, due to a very dynamic development pipeline, and a negative impact on prime rents can be expected. Warsaw is now the 9th city in Europe in terms of take-up.

Bucharest

The increase of 170% recorded in 2013 in investment volume has to be put into perspective with a particularly low investment volume in 2012. In H1 2014 the trend was maintained and invested amounts even increased by 48% compared to H1 2013. Investors have been encouraged by a favourable macro-economic backdrop, a resilient occupier market and appealing prime yields compared to other CEE real estate markets. However, the limited availability of senior debt and the lack of liquidity of the market remain the major investment barriers and demand is mainly sustained by foreign opportunistic funds. The last deal over € 30m was signed in 2013, concluded by NEPI, acquiring The Lakeview office building for € 61.4m.

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. BNP Paribas Real Estate has local expertise on a global scale through its presence in 40 countries with more than 180 offices and 3,700 employees (18 wholly owned and 22 by its Alliance network, that represents today more than 3,000 people). BNP Paribas Real Estate is a subsidiary of BNP Paribas.

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