IN Q2 2012, GERMANY REMAINED THE MOST RESILIENT PROPERTY MARKET IN WESTERN EUROPE

Total investment volume in Q2 2012 amounted to €42.8bn on a rolling year basis, within the nine primary markets of Western Europe, according to new research from BNP Paribas Real Estate, the leading property adviser. Between H1 2011 and H1 2012, 11% average growth was also recorded.

Central Paris and Central London continued to enjoy increases in investment volume of respectively 38% and 32%, between H1 2011 and H1 2012, mainly due to large trophy asset deals, while Munich’s turnover almost doubled. The investment volume of the three other German cities (Berlin, Frankfurt, Hamburg) dropped, mainly reflecting inadequate supply. Madrid and Milan remained at a standstill; with very few deals investment volumes plummeted by 70% and 85%, respectively, in the first six months of 2012.

Commercial real estate yields remained stable and at a low level, sustained by investors’ undiminished demand for prime assets. Even though very much in demand, retail properties suffered from a scarce supply, meaning that the retail share of the total commercial real estate investment volume continued to decline in favour of offices.

Andrew Cruickshank, international investment director at BNP Paribas Real Estate, commented: “Despite a good investment market performance over H1 2012, a slowdown is expected over the full year. Even though investors’ interest in Western European real estate assets remains strong, the weaker occupier market, the decline in economic growth and the lack of resolution of the sovereign debt crisis is encouraging them to take a cautious approach.”

In Q2 2012, the German economy continued to outperform, further widening the gap with other European countries, as all nine major cities were in negative territory with the exception of Munich. The slowdown in office demand was also more pronounced in the second quarter of 2012.

Thanks to significant net absorption, the German office market proved to be the most resilient, while Central Paris and Central London slightly contracted, with below average take-up levels compared to the past ten years. In Milan and Madrid, office demand also remained weak in Q2 2012.
With regards to average vacancy rates, the nine major markets were all roughly stable compared to the previous quarter and the last year. The positive trend in the German cities compensated the sharp increase in the vacancy rate in Madrid, which was fuelled by a significant release of second-hand office space. In Central London, Central Paris and Milan, availability was merely stable on the previous quarter.

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