

EMEA

Cap Rate Survey

July 2021

CBRE

Key Takeaways

INVESTMENT MARKET



INVESTOR RISK APPETITE

Across Europe, more than 50% of respondents observed increased risk appetite over the past three months. One-third of respondents remarked that investors have not changed their risk appetite during this period. Notably, UK investors are typically willing to take more risk than their continental European counterparts.



PURCHASING AND SELLING ACTIVITY

- Purchasing activity expectations remain high. Just under two-thirds of respondents expect an increase in sales volume of 20% or more compared to 2020. Approximately one-third expect similar levels of investment activity, while less than 10% expect lower levels.
- Selling activity expectations are slightly lower than purchasing expectations. Only half of respondents expect an increase in selling activity during 2021 compared to 2020. Around 40% expect no change while less than 10% of respondents expect lower levels.



CURRENT OBSTACLES IN CLOSING DEALS

A mismatch in pricing expectations was rated as the top barrier to closing deals. This survey confirms the emergence of notable differences in valuation between buyers and sellers. This has been most observed across prime retail, hotel, and value-add office. Fears of a weak rental growth outlook and difficulties in obtaining financing were less of a concern than in prior survey editions.

Key Takeaways

CAP RATES & PRICING



CAP RATES

Prime office cap rates remained relatively stable during the pandemic and we expect this trend to continue. Meanwhile, logistics assets have seen further cap rate compression. Prime shopping centre cap rates are still softening, while prime shops are experiencing more moderate movement.



PRICING ATTITUDE

Respondents clearly observe a willingness of investors to bid-up multifamily and logistic assets. Pricing for Class A office has remained stable with 50% of respondents seeing no discount from pre-Covid levels and 20% observing investor willingness to bid prices up. CBRE's Capital Markets and Valuation professionals also observed less pronounced discounts across value-add offices than was portrayed by the IIS (Investor Intentions Survey, March 2021). Nevertheless, sizeable discounts remain for hotel and prime retail assets.



VARIANCE BETWEEN IIS AND CAP RATE SURVEYS

- Respondents of the CRS (Cap Rate Survey, June 2021) were more optimistic about pricing resilience than those from the IIS. Notably, one-third of respondents said investor expectations of deep hotel discounts in the IIS (>30%) were inconsistent with their observations. High street retail was another sector where investors and brokers are not fully aligned on pricing.
- CRS selling activity predictions were moderately more optimistic than in the IIS.

Summary of EMEA Yields – Office CBD

Country	Description(s)	Grade A – Prime CBD			Secondary CBD (Definitions Vary)		
		End Q4 2019	End Q4 2020	End Q2 2021	End Q4 2019	End Q4 2020	End Q2 2021
United Kingdom	(West End/Reg. City)	3.75	3.75	3.50	4.75	4.75	4.75
France	(Prime/Secondary)	2.85	2.75	2.65	4.15	4.65	4.30
Germany	(Prime /Secondary)	2.60	2.55	2.55	3.60	3.30	3.20
Spain	(Prime/Secondary)	3.25	3.25	3.40	4.75	4.75	4.75
The Netherlands	(Prime/Secondary)	3.00	3.10	3.00	4.00	4.20	4.00
Poland	(Prime/Secondary)	4.25	4.60	4.60	6.50	6.75	6.75
Sweden	(Prime/Secondary)	3.40	3.40	3.40	4.60	4.70	4.70
Austria	(Prime/Secondary)	3.45	3.35	3.25	4.30	4.30	4.20
Switzerland	(Prime/Secondary)	2.40	2.20	2.20	4.25	4.10	4.00
Ireland	(Prime/Secondary)	4.00	4.00	4.00	5.00	5.00	5.25
Portugal	(Prime/Secondary)	4.00	4.00	4.00	5.00	5.25	5.00
Denmark	(Prime/Secondary)	3.50	3.50	3.50	4.40	4.40	4.40
Finland	(Prime/Secondary)	3.25	3.50	3.25	4.25	4.20	4.00
Norway	(Prime/Secondary)	3.65	3.25	3.25	6.00	5.50	5.20
Italy	(Prime/Secondary)	3.30	3.10	3.00	Not available	Not available	Not available
Belgium	(Prime/Secondary)	3.90	3.75	3.50	5.25	5.50	5.75

Note: These yield summaries were provided by CBRE EMEA Valuation Services
Source: CBRE Research, July 2021

Summary of EMEA Yields - Industrial

Country	Description(s)	Industrial - Logistics			Industrial - Estates		
		End Q4 2019	End Q4 2020	End Q2 2021	End Q4 2019	End Q4 2020	End Q2 2021
United Kingdom	(Prime Dis/Estate)	4.50	4.00	4.00	4.50	4.25	4.25
France	(Prime Dis/Park)	4.00	3.75	3.40	5.00	5.00	4.75
Germany	(Prime Dis/Urban Log)	3.60	3.40	3.25	4.00	3.80	3.65
Spain	(Prime Dis/Estate)	5.00	4.75	4.25	6.50	6.50	6.50
The Netherlands	(Prime Dis/Estate)	4.00	3.60	3.40	6.00	5.65	5.20
Poland	(Prime Dis/Estate)	5.75	5.50	4.50	6.15	6.00	6.00
Sweden	(Prime Dis/Estate)	4.50	4.15	3.65	5.40	5.25	5.00
Austria	(Prime Dis/Light Ind.)	4.80	4.40	4.00	5.60	5.50	5.35
Switzerland	(Prime Dis/Estate)	4.10	3.80	3.70	5.70	5.50	5.40
Ireland	(Prime Dis/Sec DUB)	5.10	4.75	4.25	7.25	6.75	6.00
Portugal	(Prime Dis/Estate)	6.25	5.85	5.50	Not available	Not available	Not available
Denmark	(Prime Dis/Estate)	5.00	4.65	4.25	6.30	5.90	5.50
Finland	(Prime Dis/Estate)	4.75	4.25	4.10	6.25	6.00	5.50
Norway	(Prime Dis/Estate)	4.75	4.40	4.25	6.25	6.25	6.25
Italy	(Prime Dis/Urban Log)	5.20	5.00	4.50	7.50	5.50	5.25
Belgium	(Prime Dis/Estate)	4.75	4.25	3.50	5.50	5.25	5.00

Note: These yield summaries were provided by CBRE EMEA Valuation Services
Source: CBRE Research, July 2021

Summary of EMEA Yields - Retail

Country	Description(s)	High Street Shops - Prime			Shopping Centers – Prime		
		End Q4 2019	End Q4 2020	End Q2 2021	End Q4 2019	End Q4 2020	End Q2 2021
United Kingdom	(Prime/Prime)	5.25	6.50	6.50	5.75	7.00	7.75
France	(Prime/Prime)	2.75	3.10	3.05	3.85	4.25	4.40
Germany	(Prime/Prime)	2.70	2.90	2.85	4.00	5.00	5.00
Spain	(Prime/Prime)	3.25	3.50	3.50	4.85	5.50	5.50
The Netherlands	(Prime/Prime)	3.10	3.30	3.30	5.15	6.00	6.00
Poland	(Prime/Prime)	Not available	Not available	Not available	5.00	5.75	5.75
Sweden	(Prime/Prime CBD)	3.40	3.50	3.50	4.25	5.00	5.25
Austria	(Prime/Prime)	3.10	3.45	3.40	4.15	4.60	4.70
Switzerland	(Prime/Prime)	3.00	3.15	3.15	4.50	4.70	4.70
Ireland	(Prime/Prime)	3.50	4.75	4.75	5.50	6.50	6.50
Portugal	(Prime/Prime)	4.00	4.25	4.25	4.75	5.25	5.50
Denmark	(Prime/Prime)	2.90	3.05	3.20	4.75	5.00	5.10
Finland	Prime/Prime)	3.25	3.90	4.20	4.60	5.25	5.25
Norway	(Prime/Prime CBD)	3.75	4.00	4.00	4.50	4.90	4.90
Italy	(Prime/Prime)	3.00	3.10	3.10	5.40	6.15	6.15
Belgium	(Prime/Prime)	3.50	4.25	4.25	4.25	5.00	5.00

Note: These yield summaries were provided by CBRE EMEA Valuation Services
Source: CBRE Research, July 2021

Majority of Respondents Observe Higher Investor Risk Appetite

Q1: HOW HAS INVESTOR RISK APPETITE EVOLVED OVER THE PAST THREE MONTHS?

Figure 1: Investor Risk Appetite (All Respondents)

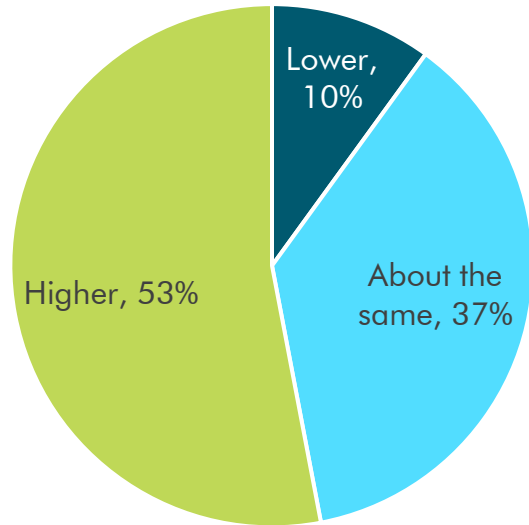
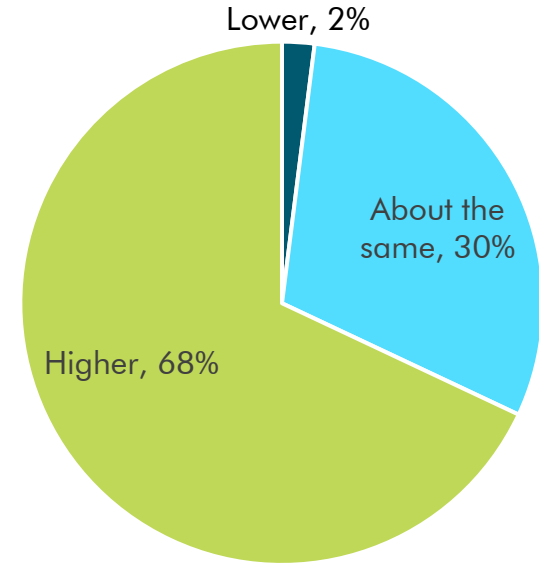


Figure 2: Investor Risk Appetite (UK Respondents)



Note: This survey was conducted from May. 12 to May. 21
Source: CBRE Research, July 2021

Majority of Respondents Observe Higher Investor Risk Appetite

Q1: HOW HAS INVESTOR RISK APPETITE EVOLVED OVER THE PAST THREE MONTHS?

Figure 3: Investor Risk Appetite (Continental Europe)

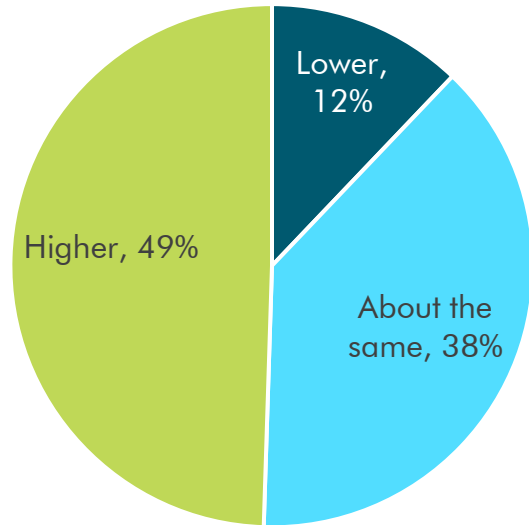
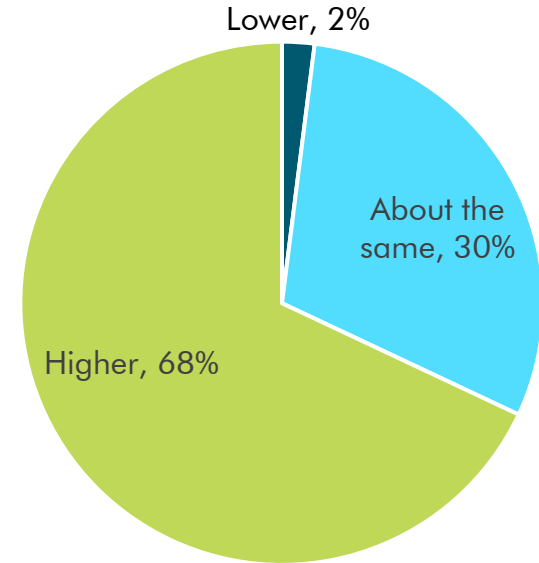


Figure 4: Investor Risk Appetite (UK Respondents)



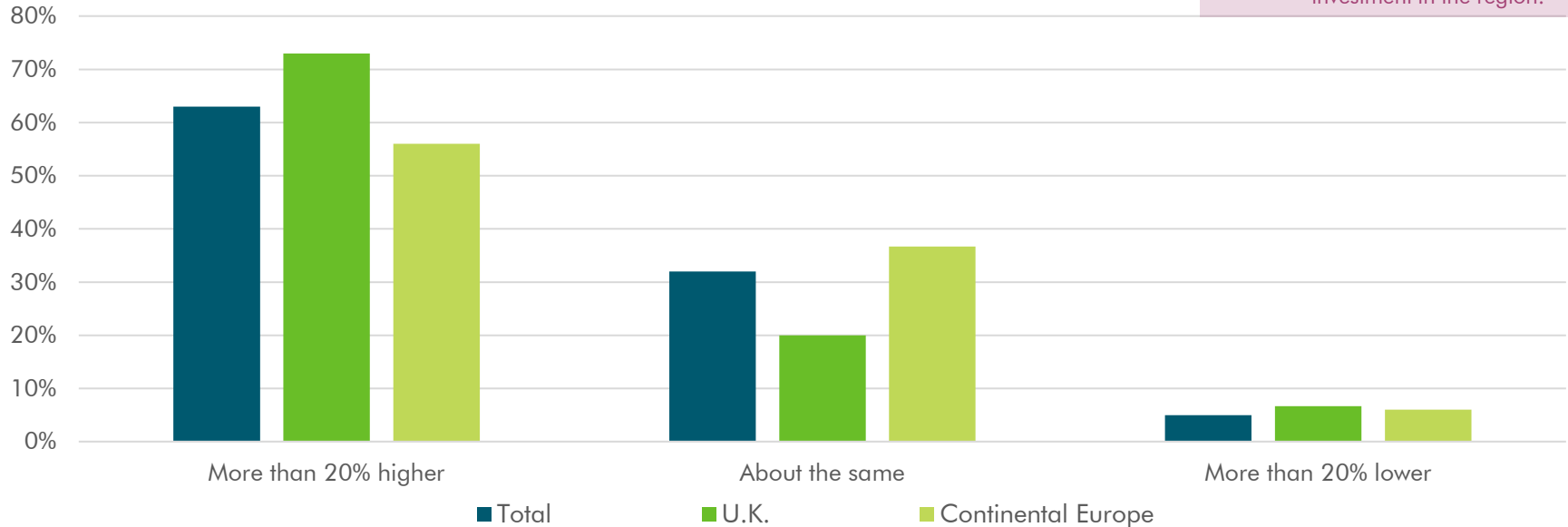
Note: This survey was conducted from May. 12 to May. 21
Source: CBRE Research, July 2021

Purchasing Activity Expected to Increase Moderately

Q2: COMPARED TO 2020, DO YOU EXPECT 2021 PURCHASING ACTIVITY TO BE:

Figure 5: Change in 2021 YoY Purchasing Activity

High levels of purchasing activity expectations are likely the result of pent-up demand and substantial funds raised now targeting investment in the region.



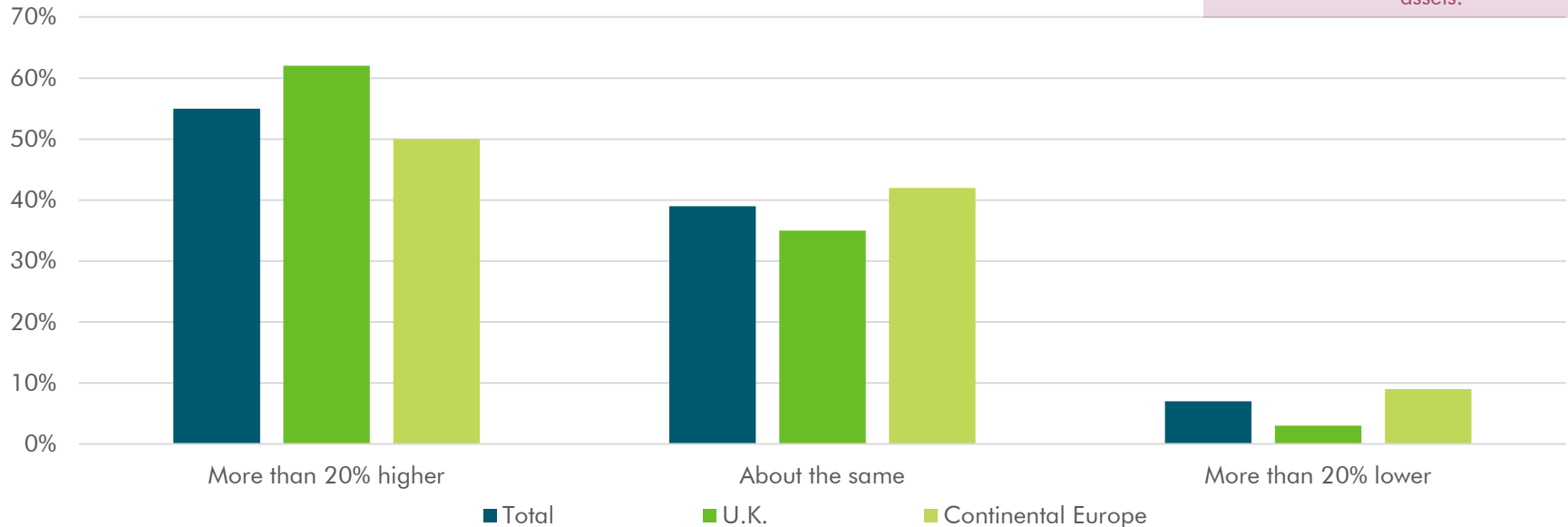
Note: This survey was conducted from May. 12 to May. 21
Source: CBRE Research, July 2021

Selling Activity Expected to Increase Moderately

Q3: COMPARED TO 2020, DO YOU EXPECT 2021 SELLING ACTIVITY TO BE:

Figure 6: Change in 2021 YoY Selling Activity

Slightly lower levels of selling expectations compared to purchasing may indicate that investors have no immediate pressure to sell assets.



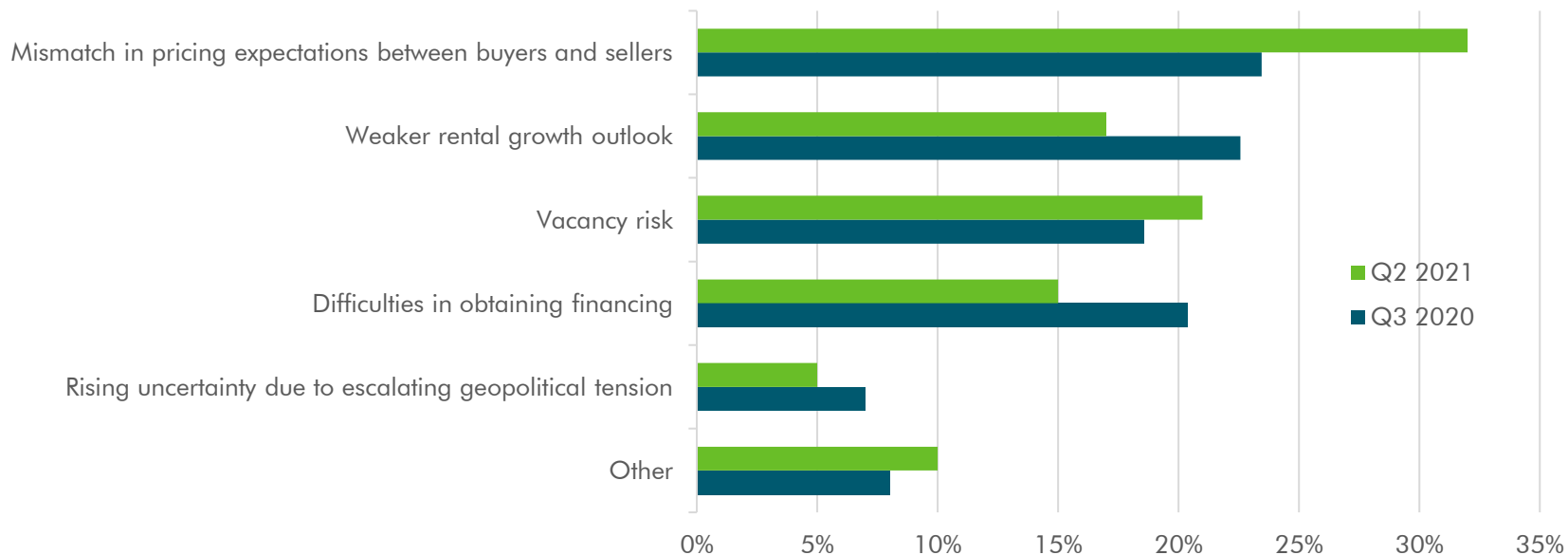
Note: This survey was conducted from May. 12 to May. 21
Source: CBRE Research, July 2021

Mismatch in Pricing Expectations Impacting Transactions

Q4: WHAT ARE YOUR CLIENTS' BIGGEST OBSTACLES INVOLVED IN CLOSING DEALS? (SELECT UP TO THREE)

The rental growth outlook has improved significantly since Q3 2020. Mismatched pricing expectations are now the leading obstacle to closing deals.

Figure 7: Major Concerns/Obstacles Involved in Closing Deals



Note: This survey was conducted from May. 12 to May. 21
Source: CBRE Research, July 2021

Retail and Hotel Pricing More Resilient Than What Investors Expected

Q5: HOW DO INVESTOR PRICING EXPECTATIONS FROM THE IIS SURVEY COMPARE WITH YOUR OWN OBSERVATIONS?

Figure 8: Investor Intentions Survey – Pricing Observations Q1 2020 vs. Q1 2021

	Discount of 30% +	Discount of 10%-30%	Discount of <10%	No Discount	Willing to bid up asking prices
Office (Grade A)	1%	9%	29%	52%	8%
Office (Value-Add)	65%	47%	32%	13%	1%
Logistics	N/A	1%	6%	62%	31%
Retail (High St.)	21%	53%	22%	3%	1%
Hotel	39%	52%	8%	1%	N/A

Figure 9: Cap Rate Survey – View of IIS Pricing Observations (Question 5)



Source: CBRE Research, EMEA Investors Intentions Survey March 2021

Note: This survey was conducted from May. 12 to May. 21
Source: CBRE Research, July 2021

Investors Are Bidding Up Logistics and Multifamily Assets

Q6: BASED ON YOUR OBSERVATIONS, HOW DOES CURRENT PRICING STAND IN RELATION TO PRE-PANDEMIC LEVELS IN YOUR HOME MARKET?

Figure 10: Capital Market & Valuation Respondents : Pricing Observations



Respondents observed a significant willingness to bid up institutional-grade logistics and multifamily assets. Pricing for Class A Office has remained relatively stable since the period immediately prior to the Covid-19 pandemic (Q1 2020).

Note: This survey was conducted from May. 12 to May. 21
Source: CBRE Research, July 2021

Investor Intentions Survey Responses vs. Current Market Conditions

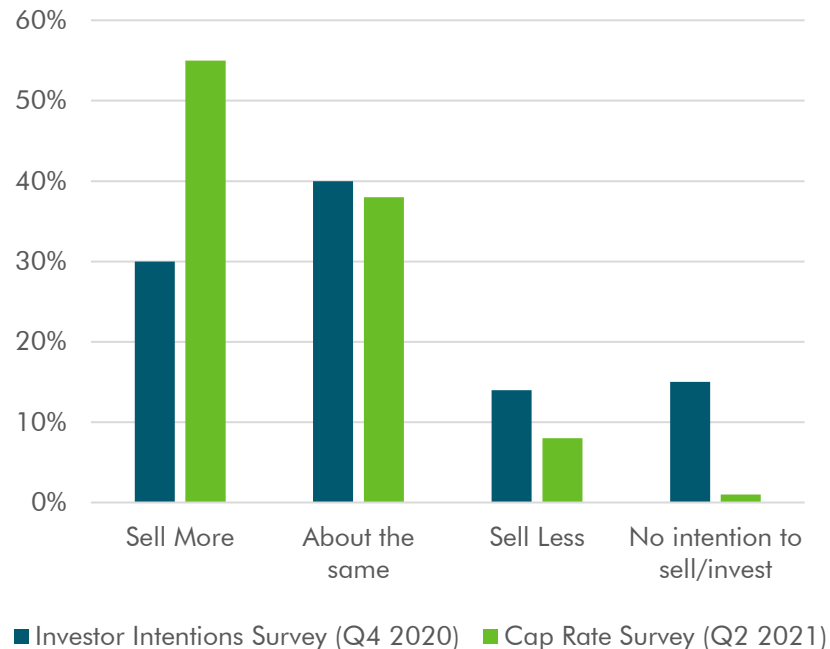
BUYING AND SELLING ACTIVITY

- Regarding purchasing expectations, there is little difference between the CRS (Cap Rate Survey) and IIS (Investor Intentions Survey), with nearly two-thirds of respondents in both surveys expecting a higher level of purchasing activity in 2021.
- As shown in figure 11, over half of CRS respondents expect an increase in selling activity compared to just 30% of IIS respondents. This may be explained by timing as the vaccination program—now well underway across Europe—bolsters confidence in the outlook.

PRICING

- IIS respondents expected more moderate to significant discounts than those in the CRS. This was especially true for prime retail and hotel assets.
- Considering that a mismatch in price expectations was selected as the largest obstacles to closing deals, a larger variance in valuations from buyers and sellers compared to the pre-Covid period comes as no surprise. This development may impact overall turnover in the short term.

Figure 11: Change in 2021 YoY Selling Expectations



Note: This survey was conducted from May. 12 to May. 21
Source: CBRE Research, July 2021

Respondent Profile

230 RESPONSES PREDOMINATELY FROM CBRE EMEA SENIOR AND EXECUTIVE MANAGEMENT

Figure 12: Respondents by Country

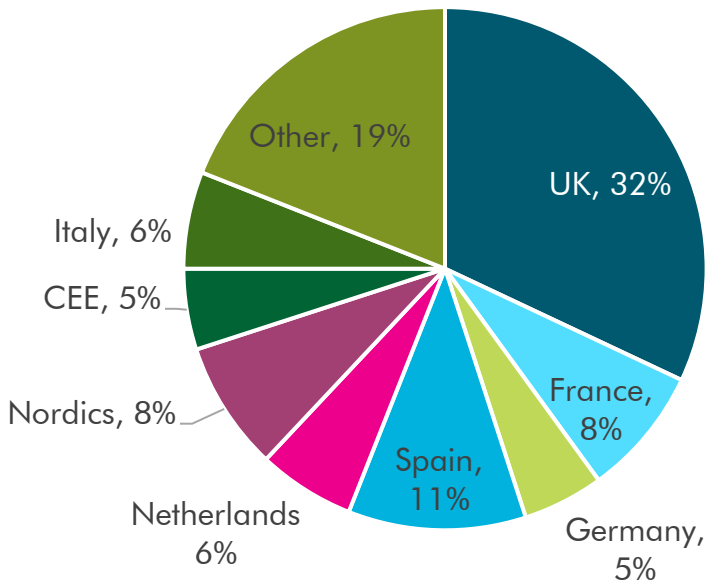
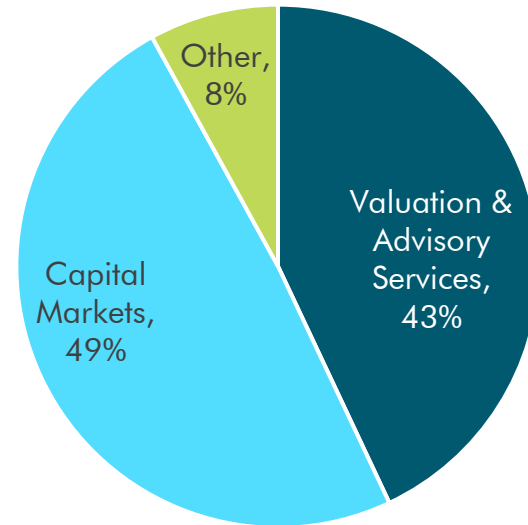


Figure 13: Respondents by Department



Note: This survey was conducted from May. 12 to May. 21
Source: CBRE Research, July 2021

Definitions

- Yield summary tables are best estimates provided by CBRE Valuation Services in liaison with local Research and Capital Market teams. They are based on recent trades in their respective markets, as well as communications with investors and represents the yield at which a given asset is likely to trade in the current market. Yields may occasionally vary from the stated figures, based on asset location, quality, and property-specific opportunities for NOI enhancement.
- The yield calculations assume no leverage is used and measures the ratio of NOI to the acquisition price of the asset (NOI / acquisition price) and assumes no leverage is used.
- The NOI calculation is based on rent less costs in the following countries : The United Kingdom, Germany, Spain, Portugal, Italy, Switzerland, The Netherlands, Poland, Denmark, Norway, Sweden, and Finland.
- The NOI calculation is based exclusively on rent in the following countries : France, Belgium, Austria, Ireland
- Acquisition price also includes costs of acquisition in the following countries : The United Kingdom, France, Ireland, Germany, and The Netherlands.
- The acronym IIS refers to our annual Investors Intentions Survey while the acronym CRS refers to our bi-annual Cap Rate Survey.

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