

EUROPEAN COMMERCIAL PROPERTY FOCUS

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What will a break-up mean for euro-zone commercial property?

- **The economic and financial market dislocations that will arise from a break-up of the euro-zone will have severe, negative consequences for euro-zone commercial property markets. Indeed, we think that over the next two years, a rise in yields and renewed falls in rental values could see commercial property capital values experience falls that are comparable to those seen during the credit crunch.**
- Last week, we cut our euro-zone macro-economic forecasts to reflect our belief that Greece is likely to leave the euro zone in 2012, with Portugal and potentially Ireland following in 2013. Of course, confidence in point forecasts in such an environment is inevitably very low. But if we are right, the result will be widespread economic disruption across the region. Over the next two years, expect euro-zone GDP to contract by approximately 5%, with every member state experiencing a drop in output.
- **Renewed falls in output and employment will almost certainly result in fresh falls in rental values over the next two years.** Indeed, over the past few months, as the euro-zone debt crisis has taken its toll on business confidence and thus active occupier demand, the recovery in euro-zone office and retail rental value growth already appears to have lost momentum.
- **At the all-property level we think that the falls in rents could range from 4% to 5% in the stronger economies such as Germany, Austria and the Netherlands, to as much as 20% in Portugal and Greece.** As in 2008/09, we have assumed that retail rental values will remain relatively resilient. But larger falls, more in line with the experience of the early 1990s, or indeed those seen in the UK, represent a downside risk to our views.
- **We also think that a euro-zone break-up and recession will reverse the downward trend in yields seen over the past 18 months or so.** For a start, we have pushed up our end-2012 and end-2013 forecasts for Bund yields from 2.25% to 3%. All else equal, a rise in risk-free rates will put upwards pressure on property yields. The weaker outlook for rental values and income security will also be a source of upward pressure on investors' *required* initial yields. **We have pencilled in upward yield shifts ranging from 50bps to 125ps over the next two years.**
- **The upshot is that we think that capital values in euro-zone property markets could drop by between 10% and 30% over the next two years. Yet, even if we are wrong and the euro-zone comes through the crisis intact, that will not avert a fresh recession. It therefore seems likely that the 2010 and 2011 recovery in commercial capital values will be at least partially reversed in the near future.**

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What will a break-up mean for euro-zone commercial property?

Last week, we cut our euro-zone economic growth forecasts to reflect our view that a limited break-up of the euro-zone is now more likely than not in 2012 and 2013. Our view that Greece will leave the single currency in 2012 and will be followed by Portugal and possibly Ireland in 2013, has led us to lower our previous forecast for the *level* of euro-zone GDP at the end of 2013 by 2%.

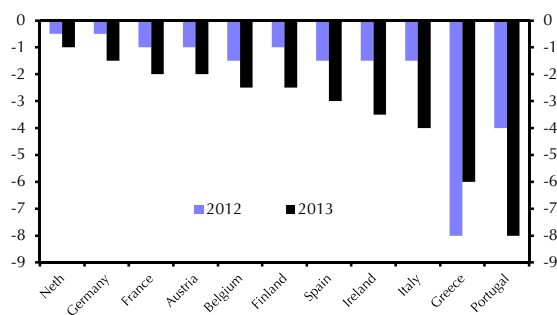
Of course, the euro-zone could yet survive. Equally, a more disorderly break-up is possible. Both outcomes present sizeable risks to our forecasts. Moreover, even if we have the scope and the timing of any break-up right, the economic and property market implications are hugely uncertain. Bearing those caveats in mind, this *Focus* explores the implications of our weaker economic forecasts for euro-zone commercial property markets.

While the downside risks have obviously risen, for now, we are not proposing wholesale changes to our non-euro-zone forecasts. We will, however, review them regularly over the next few weeks.

Euro-zone on the brink of a new, deep recession

Our new forecasts for GDP growth in 2012 and 2013 are summarised in Chart 1 below.

CHART 1: EURO-ZONE GDP FORECASTS FOR 2012 AND 2013 (%Y/Y)



Source – Capital Economics

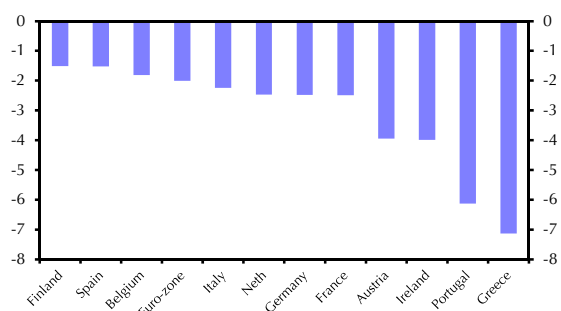
Three factors are worth highlighting. First, no economy in the region is likely to escape the break-up unscathed. Taking 2012 and 2013 together, we expect GDP to drop by at least 1.5% in all member states. In our previous forecasts,

Germany, Austria and the Netherlands were all expected to avoid a renewed recession.

Second, it seems reasonable to suppose that those countries which leave the single currency will suffer the most in the short term. Thus, Greece is forecast to experience the largest drop in GDP next year while Portugal fares worst in 2013.

Third, while the peripheral economies are expected to see the sharpest drops in output over the next couple of years, in terms of the scale of forecast revisions, economies such as Germany, France, Austria and the Netherlands have seen some of the largest changes. (See Chart 2.)

CHART 2: CUMULATIVE REVISIONS TO GDP FORECASTS FOR 2012 AND 2013 (%)



Source – Capital Economics

All else equal, therefore, the scope for downward revisions to occupier market forecasts in these four economies is arguably larger than in economies such as Finland, Belgium or even Spain.

In what follows, we will start by looking at the implication for occupier markets, before going on to review the implications for commercial property yields. Before we do so, however, it is worth setting out the response of rental values at the all-property level to the drop in output seen during the 2008/09 recession.

Table 1 presents the peak-to-trough falls in GDP seen in 2008/09, as well as the cumulative falls in all-property rents. It also shows how far we expect GDP to fall in each country over the course of 2012 and 2013.

With the exception of Portugal and Greece, the drop in output that we are forecasting over the next two years is a little smaller than that seen in the 2008/09 recession. This is particularly true in Germany, the Netherlands, Finland and Ireland.

That might suggest that, as a rule, rental values may hold up rather better this time round. So, too, would the fact that today's low development pipelines have reduced the risk of excess supply.

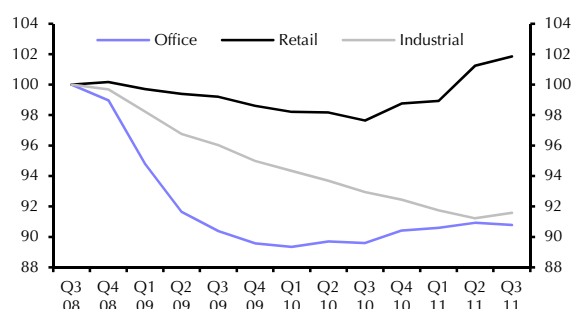
On the other hand, GDP is still typically at least 1% lower than its 2008 peak, implying more spare capacity and a higher level of vacancies than in early 2008. The weaker starting point suggests that, in this recession, rental values may be more sensitive to a given drop in occupier demand.

The outlook for retail rental values

One factor that might determine how well all-property rental values hold up is the performance of the retail sector. After all, taking the euro-zone as a whole, rental values in the retail sector experienced far more moderate falls than in the office or industrial sectors. They have also recovered more rapidly. (See Chart 3.)

Indeed, while retail rental values dropped by 8% to 12% in Portugal and Spain and by around 40% or more in Greece and Ireland, elsewhere they typically fell by 3% or less. In the case of Germany and Belgium, where consumer spending fell by just

CHART 3: EURO-ZONE RENTAL VALUES BY SECTOR, INDEX, 2008 Q3 = 100



Source – Various Agents, Capital Economics

1% in total, or Austria, where consumption fell for only a single quarter, that resilience of retail rental values makes sense.

Yet the same cannot be said of some other major markets. For example, in Italy, the past relationship between household spending and retail rental value growth in Milan suggests that the 2008/09 recession should have triggered falls in retail rental values of perhaps 20% to 25%. (See Chart4.)

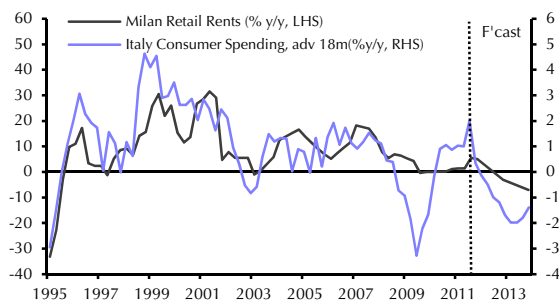
Yet according to the available data, rental values held firm in both Milan and Rome. Nor was the resilience of retail rental values unique to Italy. A similar story could be told about retail markets in France, the Netherlands and Finland where, despite a 3% to 5% drop in consumer spending, rents fell only marginally.

TABLE 1: PEAK-TO-TROUGH FALLS IN GDP AND ALL-PROPERTY RENTAL VALUES IN THE 2008/09 RECESSION COMPARED TO FORECAST CUMULATIVE FALLS IN GDP IN 2012 AND 2013

	Peak-to-Trough fall in:		Forecast fall in GDP (2012/13)	Latest data vs pre-recession peak	
	GDP	Rental values		GDP	Rental values
	%	%	%	%	%
Austria	-5.9	-3.7	-3.0	0.1	1.9
Belgium	-4.3	-7.6	-4.0	0.8	-2.7
Finland	-9.8	-7.8	-3.5	-2.8	2.1
France	-3.9	-10.5	-3.0	-0.5	-4.5
Germany	-6.8	-6.0	-2.0	0.6	1.8
Greece	-10.0	-28.1	-13.5	-9.9	-28.4
Ireland	-12.7	-48.1	-4.9	-9.7	-47.8
Italy	-6.9	-5.2	-5.4	-4.8	-1.0
Netherlands	-4.9	-2.7	-1.5	-1.2	2.3
Portugal	-3.9	-13.1	-11.7	-3.2	-10.8
Spain	-4.9	-19.6	-4.5	-3.7	-19.4

Sources – Thomson Datastream, Various Agents, Capital Economics

CHART 4: ITALY HOUSEHOLD SPENDING AND RETAIL RENTAL VALUES IN MILAN (%Y/Y)



Source – Various Agents, Thomson Datastream, Capital Economics

So what does the future hold? In the case of Italy, we expect a slightly shallower, but rather more drawn out decline in consumer spending. The net result, however, will be a drop in spending of around 3%, similar to the decline seen in 2008/09.

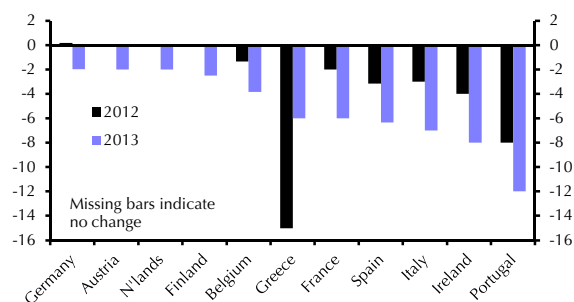
Yet we are not convinced that retail rents will prove so resilient this time round. At around 6% of current stock, Italy has the largest retail development pipeline of any market bar Finland. And consumer confidence in Italy has already dropped back to its 2009 lows, while the unemployment rate is at least a percentage point higher than at the start of the last recession. We have therefore pencilled in a 10% drop in rental values over the next two years. A similar logic can be applied to France, where we think that rents might drop by around 8%. (See Chart 5.)

In the Netherlands and Finland, we have pencilled in peak-to-trough falls in consumer spending of roughly 1% over the next two years. These are similar to our forecasts for Germany, Belgium and Austria. In these markets, therefore, we have followed the 2008/09 precedent and assumed that a fall of around 1% in consumer spending will trigger a fall in retail rents of perhaps 2% to 3%.

How will the remaining markets fare? For Spain and Ireland we think that consumer spending could fall by another 4% to 5% over the next year or two. But in Portugal and Greece those falls could approach, or plausibly exceed 10%.

In Spain and Portugal, we think that this could result in rental values falling by another 10% and 20% respectively, over the next couple of years, roughly doubling the falls already recorded. In Ireland and Greece, even after falling by 35% to 45%, rental values do not look cheap compared to other euro-zone markets. We think that further falls of perhaps 12% and 20% respectively, could be seen in the two markets.

CHART 5: RETAIL RENTAL VALUE GROWTH FORECASTS FOR 2012 AND 2013 (%Y/Y)



Source – Capital Economics

The outlook for office rental values

In the previous recession, office rental values generally proved less resilient to the downturn than retail. And we expect a similar pattern to be seen over the next year or so. Remember that outside the peripheral economies, euro-zone retail rents fell by 3% or less, while office rents in the same economies fell by at least 3% and by up to 15%.

However, it was typically the case that, for each 1% drop in employment, office rental values declined by between 1% and 3%. But in Germany, Belgium and France, office rental values were far more sensitive to the drop in demand. In each economy, employment fell by 1.5% or less, yet rents fell by 7%, 9% and 14% respectively.

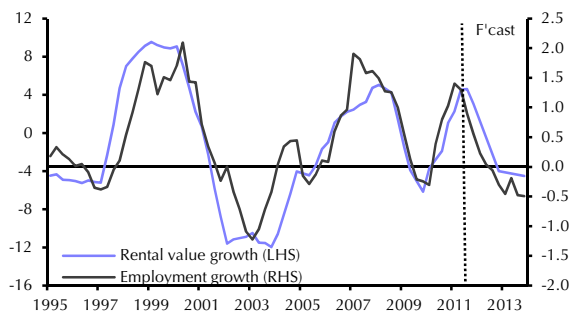
So what lessons can we draw from all this for 2012 and 2013? In France, it seems likely that the extent of office rental value decline was exaggerated by the fact that the slump in occupier demand hit at a time when development pipelines were high.

Indeed, agency data show that office completions in Paris only peaked in 2009 and in Lyon, in 2010.

Excess new supply was also likely to have increased the pressure on rental values in Belgium. In addition, in Brussels, the vacancy rate was already at a fairly high 9.5% when the recession hit. Germany also entered the downturn with a relatively high level of office vacancies, while completions in 2009 were far in excess of previous years' totals. The success of the Kurzarbeit labour market subsidies may also mean that the employment data do not reflect the true drop in office occupier demand during the recession.

Yet the response of German office rental values to the drop in employment does not look out of line with the experience of the previous 10 or 15 years. (See Chart 6.) So if, as we expect, the drop in employment over the next two years is similar to that seen in the 2008/09 recession, office rental values could again plausibly drop by around 8%.

CHART 6: EMPLOYMENT AND OFFICE RENTAL VALUE GROWTH IN GERMANY (%Y/Y)



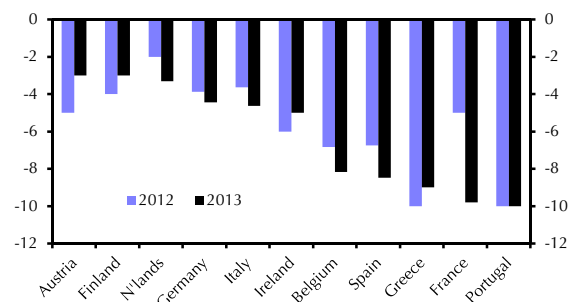
Source – Various Agents, Thomson Datastream, Capital Economics

In France, although we think that the drop in employment will be similar to 2008/09, the higher starting point for vacancy rates and the fact that rents have fully reversed their previous falls, to us suggests that a drop in office rental values of 12% to 14% or so is again likely over the next couple of years. And in Belgium, while the supply pipeline is lower, we think 2012 and 2013 will see a larger drop in rents than 2008/09, perhaps 15%. For a start, as the new Government implements overdue

measures to trim Belgium's huge debt burden, employment could prove less resilient than in the past. In addition, office rents are now higher than in early 2008.

We also think that Portugal and Greece will see a larger drop in employment than in 2008. In these economies we think that office rental values could well drop by another 20%. Office markets in Ireland and Spain will also surely not be immune to a further labour market shakeout. Despite the huge declines in rental values to date, a further 10% to 15% drop seems plausible. (See Chart 7.)

CHART 7: OFFICE RENTAL VALUE GROWTH FORECASTS FOR 2012 AND 2013 (%Y/Y)



Source – Capital Economics

In the remaining markets, although we generally think that the falls in employment are unlikely to surpass those seen in the 2008/09 recession, vacancy rates are now higher than in 2008. In Austria, the Netherlands, Italy and Finland, we have pencilled in rental value falls of between 5% and 8%. These are broadly in line with the experience of the previous downturn.

The outlook for industrial rental values

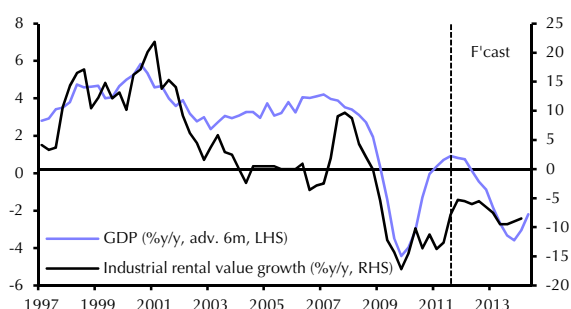
A key component of the 2008/09 recession was a major downturn in industry. Trade volumes plummeted, prompting huge declines in industrial output. At the height of the downturn, industrial production was declining at rates of at least 15% per year in all euro-zone economies. Accordingly, industrial property markets were hit pretty hard. In many cases, total falls in industrial rental values were at least as large as falls in office rents.

Yet, over the past 2-3 years, there have been vast differences across euro-zone markets of the extent to which industrial rents have fallen. In Austria, the Netherlands and France, falls have amounted to no more than 6.5%, while, in Germany, the fall was just 1%. But in Portugal, Greece and Spain, rents have fallen by between 25% and 30%, and in Ireland, they have nearly halved.

Nevertheless, comparing total falls in industrial rents with total falls in GDP, the picture looks more consistent across markets. In most places, every 1% drop in GDP prompted a drop of between 1% and 2.5% in industrial rents. The only major exceptions to this were Spain and Portugal, where falls in rents were much steeper relative to the scale of the recession.

In Portugal, we think that rapid growth in industrial rental values in the 2 years leading up to recession helps to explain their comparatively large fall. Meanwhile in Spain, the high level of industrial rents when the recession struck may explain why they have failed to stabilise as the economy has staged a modest recovery. (See Chart 8.)

CHART 8: GDP AND INDUSTRIAL RENTAL VALUE GROWTH IN SPAIN (%Y/Y)



Source – Various Agents, Thomson Datastream, Capital Economics

Yet if we are right that Spanish GDP will contract by about 4% or 5% over the next couple of years, it seems reasonable to suggest that the annual pace of falls in Spanish industrial rents will quicken.

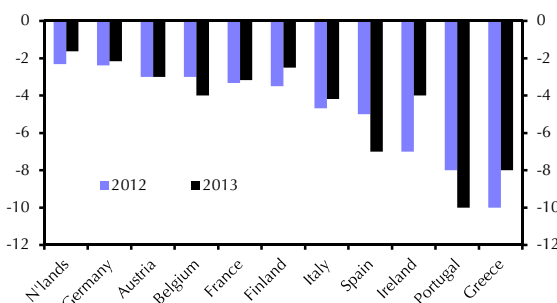
The lack of a recovery in industrial rents is not confined to Spain and is in contrast to most office and retail markets.

The fact that rents are still well below their pre-recession highs in most euro-zone markets could mean that they are less exposed to the looming recession than they were in 2008. Moreover, aside from in the countries which we expect to leave the euro-zone, we think that the coming recession will, if anything, be a little shallower than the last.

But the positive implications from both of these factors will be at least partially offset by the fact that a break-up of the euro-zone is likely to hit industry disproportionately hard. And we also need to recognise that most euro-zone economies are operating with more spare capacity than in 2008.

Given all of this, while we expect industrial rents to come under significant pressure over the next couple of years, in most cases, falls are unlikely to exceed those since 2008/09. Germany and France are exceptions, where industrial rents will struggle to weather a renewed recession as well as the last. Even so, falls in German industrial rents are unlikely to exceed 2% a year in 2012 and 2013. The outlook for the Netherlands is similar. Falls in most other markets are likely to amount to between 2% and 4% per year. But the outlook for industrial rents in Spain, Ireland, Portugal and Greece is weaker. (See Chart 9.)

CHART 9: INDUSTRIAL RENTAL VALUE GROWTH FORECASTS FOR 2012 AND 2013 (%Y/Y)



Source – Capital Economics

The outlook for yields and capital values

In our view, all this means that our previous property yield forecasts, which assumed that end-2013 yields would be between 10bps and 50bps

higher than in Q3 2011, look too optimistic. For one thing, we have raised our forecast for German Bund yields at the end of 2012 and 2013, from 2.25% to 3%. All else equal, a rise in risk-free rates will tend to raise property yields. And investor's required yields will also surely rise in the face of the weaker outlook for rents and income security.

That said, in the third quarter of 2011, all-property-bond yield spreads reached their highest levels since at least 2001. With a few exceptions, they are typically 150bps to 200bps higher than they have been on average over the past decade. That suggests that euro-zone commercial property markets are already braced for a pretty bleak occupier market outlook.

We have therefore split the euro-zone economies into three groups. The first comprises Germany, the Netherlands, and Austria. Here, at around 3% or less, the cumulative falls in GDP over the next two years are likely to be relatively modest. And their status as core markets is likely to provide some support for investment demand. In these markets, we have pencilled in a rise of around 50bps or so in yields by end-2013 – our previous forecasts were for yields to be essentially flat.

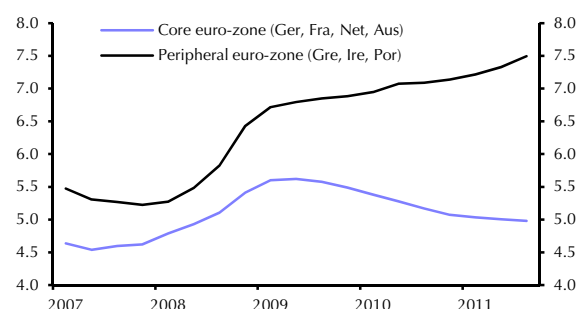
Next come France, Belgium and Finland. Although Finland has sound fundamentals, we have included it here as it performed surprisingly poorly in the credit crunch. Our GDP forecasts for these economies are similar to those in the first group, but the risks are arguably higher. Moreover, property yields in these markets have been bid down to levels that look comparatively low. In France, Finland and Belgium, therefore, we have pencilled in a 70bps to 80bps rise in property yields over the next two years.

Finally, we have Greece, Portugal, Ireland, Spain and Italy. These are the markets with the weakest economic prospects and which are deemed most at risk of exiting the euro. The combination of very weak occupier demand and prospect of a euro-zone exit, followed by a sharp depreciation of the new national currency is surely likely to act as a

major deterrent to property investment in these economies over the next few years.

Judging the potential impact of all this on yields is hard. As we have noted, property/bond yield spreads are already higher than in any period for which we have data. And the yield gap between core and peripheral property markets has risen five-fold since early 2008, to stand at 250bps in Q3 2011. (See Chart 10.)

CHART 10: ALL-PROPERTY YIELDS IN THE EURO-ZONE'S CORE AND PERIPHERAL ECONOMIES (%)



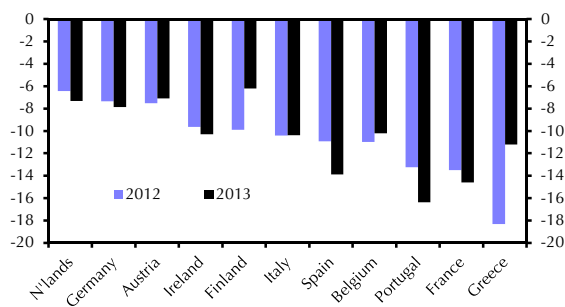
Source – Various Agents, Capital Economics

Nevertheless, it does not seem implausible that this spread could rise by a further 50bps to 75bps, implying that yields in Greece, Portugal and perhaps Ireland could rise by a further 100bps to 125bps from here. Meanwhile, in the short term, Spain and Italy are likely to benefit from the perception that they are too big to fail, so we have assumed a more moderate 70bps to 80bps rise in property yields in these markets.

Our detailed forecasts are set out in the Tables that form the Appendix to this Focus. However, the implications of higher yields and lower rental values will clearly be a much weaker outlook for capital values. Chart 11 shows our revised forecasts for euro-zone commercial property capital value growth over the next two years.

Most markets will see capital values fall by at least 10%, many by as much as 30%. But the experience of 2008/09 is that such falls are perfectly plausible in the face of widespread economic and financial market disruptions.

**CHART 11: ALL-PROPERTY CAPITAL VALUE GROWTH FORECASTS
FOR 2012 AND 2013 (%Y/Y)**



Source – Capital Economics

The medium term

So far, this *Focus* has concentrated on the implications for 2012 and 2013. But property investors typically have rather longer time horizons. It is perfectly plausible that the impact of the euro-zone break up could result in further falls in euro-zone GDP in 2014, especially if the exiting economies were also to include Italy or Spain.

For now, however, our working assumption is that by 2014, the worst of the economic downturn will be over. Yet with many of the economies which remain within the euro-zone still likely to be labouring under large public sector debt burdens and a fundamental lack of competitiveness, we find it hard to envisage a rapid recovery.

We have, therefore, assumed that falls in GDP peter out through the course of 2014 and that growth then turns modestly positive in the final stages of that year or in 2015. Some indicative forecasts for rental value growth for these years, based on those broad assumptions, are given in the Appendix to this *Focus*.

For those countries that remain within the euro, we have also assumed that property yields stabilise or begin to fall modestly in 2014 and 2015 as investors begin to look forward to an end to the crisis and a period of stronger occupier demand.

For Greece, Portugal and potentially Ireland, in the immediate aftermath of their exit, we suspect that

the pressure on property yields would be upwards. After all, assuming that rents were switched from euros to the new local currency, sovereign bond yields rather than Bunds would be the natural proxy for risk-free rates in those markets. And sovereign bond yields are surely likely to be higher, probably materially higher, than Bunds.

At the same time, however, we think that investor appetite for property in these economies could return relatively quickly, once the uncertainty over their future in the single currency zone had been resolved and buoyed by the hope that a sharp depreciation would bolster their recovery prospects. The most neutral assumption, therefore, is that yields remain unchanged for a year or so after each country's exit as these forces broadly offset each other. We have then pencilled in some small falls in yields.

More generally, however, whether a country finds itself within or outside the euro-zone, economic recovery will also eventually bring a normalisation of monetary policy. The knowledge that interest rates and bond yields will have to rise at some point is likely to act as a brake on the pace of yield compression in all markets in 2014 and 2015.

Conclusions

Forecasting the result of a euro-zone break-up throws up huge uncertainties. Given the numerous possible scenarios, and scope to be wrong about the timing, our forecasts, or perhaps more accurately assumptions, can only illustrate the potential consequences of one possible outcome.

Nevertheless, the idea that a break-up could trigger falls in euro-zone capital values that are comparable to those seen in 2008/09 is surely plausible. And even if we are wrong and the euro-zone does come through this crisis intact, we doubt that a fresh recession will be averted. It therefore seems likely that the 2010 and 2011 recovery in commercial capital values will be at least partially reversed over the next year or two.

Appendix Table 1: All-Property

	2010	2011	2012	2013	2014	2015	Average 2012-15
Austria							
Rental growth	1.5	3.0	-2.9	-2.6	1.3	3.0	-0.3
Yields	5.0	5.0	5.2	5.5	5.5	5.4	5.4
Capital value growth	5.9	4.1	-7.5	-7.1	1.3	4.6	-2.2
Total return	11.0	9.1	-2.3	-1.6	6.8	10.0	3.2
Belgium							
Rental growth	2.3	0.1	-5.2	-7.0	-2.2	2.0	-3.1
Yields	6.1	6.0	6.4	6.6	6.6	6.5	6.5
Capital value growth	5.5	1.3	-11.0	-10.2	-1.2	4.0	-4.6
Total return	11.7	7.3	-4.6	-3.6	5.4	10.4	1.9
Finland							
Rental growth	4.7	11.9	-2.8	-2.8	-0.1	2.6	-0.8
Yields	5.8	5.6	6.1	6.3	6.2	6.1	6.2
Capital value growth	15.0	14.6	-9.9	-6.2	0.8	4.4	-2.7
Total return	20.8	20.2	-3.8	0.1	7.1	10.6	3.5
France							
Rental growth	3.9	1.1	-4.1	-8.0	-0.9	2.4	-2.7
Yields	5.1	4.9	5.4	5.8	5.8	5.7	5.7
Capital value growth	17.5	6.2	-13.5	-14.6	-0.9	4.9	-6.0
Total return	22.6	11.1	-8.1	-8.8	4.9	10.6	-0.3
Germany							
Rental growth	1.7	4.2	-2.7	-3.7	0.0	2.4	-1.0
Yields	5.0	4.9	5.2	5.4	5.4	5.3	5.3
Capital value growth	5.2	6.1	-7.3	-7.9	0.0	4.8	-2.6
Total return	10.2	11.0	-2.2	-2.5	5.4	10.1	2.7
Greece							
Rental growth	-9.4	-13.5	-12.0	-7.7	-0.8	3.6	-4.2
Yields	7.5	7.7	8.3	8.6	8.4	8.0	8.3
Capital value growth	-18.3	-15.9	-18.3	-11.2	1.7	8.6	-4.8
Total return	-10.9	-8.2	-10.0	-2.6	10.1	16.6	3.5
Ireland							
Rental growth	-20.0	-5.5	-5.1	-6.4	-1.0	2.7	-2.4
Yields	6.8	7.3	7.7	8.0	8.0	7.6	7.8
Capital value growth	-17.5	-11.7	-9.6	-10.3	-0.8	8.4	-3.1
Total return	-10.7	-4.4	-1.9	-2.3	7.2	16.0	4.7
Italy							
Rental growth	1.6	0.9	-3.5	-5.5	-0.4	2.2	-1.8
Yields	5.7	5.7	6.1	6.5	6.5	6.4	6.4
Capital value growth	4.3	1.5	-10.4	-10.4	-0.3	2.2	-4.7
Total return	10.0	7.2	-4.3	-3.9	6.2	8.7	1.7
Netherlands							
Rental growth	1.2	2.4	-1.2	-2.8	0.6	2.6	-0.2
Yields	5.4	5.4	5.7	5.9	6.0	5.8	5.8
Capital value growth	11.6	3.0	-6.4	-7.3	0.2	4.9	-2.2
Total return	17.0	8.3	-0.8	-1.4	6.2	10.7	3.7
Portugal							
Rental growth	-0.6	-3.0	-8.5	-11.3	-0.5	1.7	-4.7
Yields	6.9	7.4	7.8	8.3	8.3	8.1	8.1
Capital value growth	1.7	-9.6	-13.2	-16.4	-0.5	4.0	-6.5
Total return	8.6	-2.2	-5.4	-8.1	7.8	12.2	1.6
Spain							
Rental growth	-6.8	-1.4	-5.3	-7.5	-1.5	2.2	-3.0
Yields	5.7	5.7	6.0	6.5	6.4	6.3	6.3
Capital value growth	1.1	-0.9	-10.9	-13.9	-1.5	4.7	-5.4
Total return	6.8	4.7	-4.9	-7.4	4.9	11.0	0.9

Source – Capital Economics

Appendix Table 2: Retail Property

	2010	2011	2012	2013	2014	2015	Average 2012-15
Austria							
Rental growth	2.0	1.0	0.0	-2.0	1.0	3.0	0.5
Yields	4.5	4.5	4.8	5.0	5.0	5.0	4.9
Capital value growth	7.1	1.6	-6.3	-6.9	1.0	3.0	-2.3
Total return	11.6	6.0	-1.6	-1.9	6.0	8.0	2.6
Belgium							
Rental growth	4.6	2.1	-1.3	-3.8	-0.3	2.0	-0.9
Yields	4.7	4.6	5.1	5.3	5.2	5.1	5.2
Capital value growth	12.2	2.5	-10.1	-7.2	0.6	4.0	-3.2
Total return	16.9	7.1	-5.0	-1.9	5.8	9.1	2.0
Finland							
Rental growth	8.3	2.9	0.0	-2.5	-0.5	2.0	-0.3
Yields	5.4	5.3	5.8	6.0	6.0	5.9	5.9
Capital value growth	20.1	5.4	-7.8	-6.6	-0.5	3.7	-2.8
Total return	25.5	10.7	-2.1	-0.6	5.5	9.6	3.1
France							
Rental growth	0.9	0.3	-2.0	-6.0	-0.9	2.0	-1.7
Yields	4.7	4.4	4.9	5.3	5.3	5.2	5.2
Capital value growth	13.3	7.5	-11.1	-13.9	-0.8	4.0	-5.5
Total return	18.0	11.9	-6.2	-8.6	4.5	9.2	-0.3
Germany							
Rental growth	2.8	7.0	0.2	-2.0	0.0	2.5	0.2
Yields	4.7	4.7	5.0	5.2	5.2	5.1	5.1
Capital value growth	4.7	7.9	-5.9	-5.5	-1.0	5.5	-1.7
Total return	9.4	12.6	-0.8	-0.3	4.3	10.6	3.4
Greece							
Rental growth	-15.3	-9.0	-15.0	-6.0	0.0	3.0	-4.5
Yields	7.1	7.3	8.0	8.3	8.1	8.0	8.1
Capital value growth	-29.9	-10.9	-23.0	-9.4	2.5	4.3	-6.4
Total return	-22.8	-3.6	-15.0	-1.1	10.6	12.3	1.7
Ireland							
Rental growth	-27.6	-2.5	-4.0	-8.0	-2.0	2.0	-3.0
Yields	6.1	6.6	7.0	7.3	7.3	6.9	7.1
Capital value growth	-23.7	-10.0	-9.5	-11.2	-2.0	7.2	-3.9
Total return	-17.6	-3.4	-2.5	-3.9	5.3	14.1	3.2
Italy							
Rental growth	1.4	1.6	-3.0	-7.0	-1.0	2.3	-2.2
Yields	5.3	5.2	5.7	5.9	5.9	5.9	5.9
Capital value growth	1.7	1.8	-10.7	-10.9	-1.0	2.3	-5.1
Total return	7.0	7.0	-5.0	-5.0	4.9	8.2	0.8
Netherlands							
Rental growth	1.9	3.1	0.0	-2.0	-1.0	2.5	-0.1
Yields	4.7	4.7	5.1	5.2	5.3	5.2	5.2
Capital value growth	11.7	3.8	-8.7	-3.9	-1.4	4.5	-2.4
Total return	16.4	8.4	-3.5	1.4	3.8	9.6	2.8
Portugal							
Rental growth	0.0	-2.0	-8.0	-12.0	0.0	1.0	-4.8
Yields	6.7	7.1	7.6	8.0	8.0	7.8	7.8
Capital value growth	2.5	-7.0	-13.5	-17.0	0.0	3.6	-6.7
Total return	9.3	0.1	-5.9	-9.0	8.0	11.4	1.1
Spain							
Rental growth	-4.2	2.2	-3.2	-6.3	0.7	3.0	-1.5
Yields	5.1	5.1	5.5	5.9	5.9	5.8	5.7
Capital value growth	5.6	4.0	-10.9	-12.5	0.6	4.8	-4.5
Total return	10.7	9.0	-5.4	-6.6	6.5	10.5	1.2

Source – Capital Economics

Appendix Table 3: Office Property

	2010	2011	2012	2013	2014	2015	Average 2012-15
Austria							
Rental growth	1.1	4.5	-5.0	-3.0	1.5	3.0	-0.9
Yields	5.4	5.3	5.5	5.8	5.8	5.6	5.7
Capital value growth	4.9	6.0	-8.5	-7.2	1.5	5.8	-2.1
Total return	10.2	11.3	-3.0	-1.5	7.2	11.4	3.5
Belgium							
Rental growth	3.4	-0.8	-6.8	-8.2	-3.0	2.0	-4.0
Yields	6.5	6.4	6.8	7.0	6.9	6.8	6.9
Capital value growth	3.6	0.9	-11.5	-11.6	-2.0	3.9	-5.3
Total return	10.1	7.3	-4.8	-4.6	4.9	10.7	1.6
Finland							
Rental growth	4.0	18.0	-4.0	-3.0	0.0	3.0	-1.0
Yields	5.7	5.5	6.0	6.2	6.1	6.0	6.0
Capital value growth	13.8	21.2	-11.3	-6.2	1.7	4.7	-2.8
Total return	19.5	26.7	-5.3	0.0	7.7	10.7	3.3
France							
Rental growth	6.2	1.0	-5.0	-9.8	-1.1	2.9	-3.3
Yields	5.0	4.7	5.3	5.7	5.7	5.5	5.6
Capital value growth	19.5	6.4	-14.9	-15.9	-1.2	5.3	-6.7
Total return	24.5	11.2	-9.7	-10.2	4.5	10.9	-1.1
Germany							
Rental growth	1.1	3.1	-3.9	-4.4	0.0	2.4	-1.5
Yields	5.1	4.9	5.2	5.4	5.4	5.3	5.3
Capital value growth	5.5	5.5	-8.0	-8.9	0.3	4.5	-3.0
Total return	10.6	10.4	-2.8	-3.5	5.7	9.8	2.3
Greece							
Rental growth	-3.7	-17.5	-10.0	-9.0	-2.0	4.0	-4.3
Yields	7.4	7.6	8.1	8.5	8.3	7.8	8.2
Capital value growth	-10.8	-19.4	-15.6	-13.3	0.4	11.4	-4.3
Total return	-3.4	-11.8	-7.5	-4.8	8.7	19.1	3.9
Ireland							
Rental growth	-12.4	-8.0	-6.0	-5.0	0.0	4.0	-1.8
Yields	7.3	7.7	8.0	8.5	8.5	8.0	8.2
Capital value growth	-10.4	-12.4	-9.5	-10.1	0.0	9.9	-2.4
Total return	-3.1	-4.7	-1.5	-1.6	8.5	17.9	5.8
Italy							
Rental growth	2.6	1.1	-3.6	-4.6	0.0	2.0	-1.6
Yields	5.6	5.6	6.0	6.4	6.4	6.4	6.3
Capital value growth	7.2	2.2	-10.4	-10.7	0.0	2.0	-4.8
Total return	12.8	7.8	-4.4	-4.3	6.4	8.4	1.5
Netherlands							
Rental growth	0.5	1.8	-2.0	-3.3	1.7	3.1	-0.1
Yields	5.7	5.7	5.8	6.3	6.3	6.1	6.1
Capital value growth	12.3	2.2	-4.9	-10.0	1.2	5.2	-2.1
Total return	18.0	7.9	0.9	-3.7	7.5	11.3	4.0
Portugal							
Rental growth	-0.9	-5.0	-10.0	-10.0	-2.0	3.0	-4.8
Yields	6.9	7.7	7.9	8.5	8.5	8.3	8.3
Capital value growth	1.5	-14.1	-12.8	-16.4	-2.0	5.5	-6.4
Total return	8.4	-6.5	-4.9	-7.9	6.5	13.8	1.9
Spain							
Rental growth	-8.1	-3.0	-6.7	-8.5	-3.0	1.5	-4.2
Yields	5.8	5.7	6.0	6.5	6.5	6.4	6.4
Capital value growth	-1.5	-2.9	-11.1	-15.4	-3.0	4.6	-6.2
Total return	4.3	2.8	-5.1	-8.9	3.5	11.0	0.1

Source – Capital Economics

Appendix Table 4: Industrial Property

	2010	2011	2012	2013	2014	2015	Average 2012-15
Austria							
Rental growth	-2.0	-1.0	-3.0	-3.0	1.0	1.5	-0.9
Yields	7.7	7.6	7.7	8.0	7.8	7.6	7.8
Capital value growth	0.0	-0.2	-4.3	-6.6	3.6	4.2	-0.8
Total return	7.6	7.4	3.4	1.4	11.4	11.8	7.0
Belgium							
Rental growth	-6.0	1.8	-3.0	-4.0	-1.0	2.3	-1.4
Yields	7.4	7.4	7.8	8.0	7.8	7.7	7.8
Capital value growth	-2.1	1.7	-8.3	-6.1	0.9	4.3	-2.3
Total return	5.2	9.0	-0.5	1.9	8.7	12.0	5.5
Finland							
Rental growth	-0.8	2.0	-3.5	-2.5	0.0	2.0	-1.0
Yields	7.2	7.2	7.6	7.8	7.8	7.6	7.7
Capital value growth	6.4	2.7	-8.0	-5.6	0.0	4.7	-2.2
Total return	13.7	9.9	-0.4	2.2	7.8	12.3	5.5
France							
Rental growth	-0.2	1.0	-3.3	-3.2	1.0	2.0	-0.9
Yields	7.0	6.9	7.4	7.7	7.8	7.6	7.6
Capital value growth	16.6	1.5	-9.3	-7.7	0.8	4.5	-2.9
Total return	23.5	8.4	-2.0	0.1	8.5	12.0	4.7
Germany							
Rental growth	0.1	0.1	-2.4	-2.2	1.4	1.5	-0.4
Yields	7.0	6.8	7.0	7.2	7.2	7.1	7.1
Capital value growth	3.7	4.3	-5.8	-4.8	1.5	3.8	-1.3
Total return	10.7	11.0	1.2	2.4	8.7	10.8	5.8
Greece							
Rental growth	-13.2	-11.0	-10.0	-8.0	2.0	4.0	-3.0
Yields	9.2	10.1	10.5	10.5	10.2	9.5	10.2
Capital value growth	-24.5	-18.9	-13.4	-8.0	5.0	11.7	-1.2
Total return	-15.3	-8.8	-2.9	2.5	15.2	21.2	9.0
Ireland							
Rental growth	-17.1	-10.0	-7.0	-4.0	0.0	0.0	-2.8
Yields	8.7	9.7	10.1	10.4	10.2	9.5	10.0
Capital value growth	-18.3	-18.7	-11.1	-6.3	1.5	7.4	-2.2
Total return	-9.6	-9.0	-1.0	4.0	11.7	16.9	7.9
Italy							
Rental growth	-1.5	-2.6	-4.7	-4.2	0.0	2.5	-1.6
Yields	7.8	7.8	8.2	8.5	8.4	8.4	8.4
Capital value growth	0.1	-2.1	-9.7	-7.5	0.8	2.9	-3.4
Total return	7.9	5.6	-1.5	1.0	9.2	11.3	5.0
Netherlands							
Rental growth	1.2	3.6	-2.3	-1.6	2.3	3.0	0.3
Yields	7.4	7.4	7.7	7.9	7.9	7.8	7.8
Capital value growth	3.4	4.8	-6.1	-4.7	2.3	5.0	-0.9
Total return	10.8	12.1	1.5	3.2	10.2	12.7	6.9
Portugal							
Rental growth	-3.9	-4.0	-8.0	-10.0	0.0	2.5	-3.9
Yields	8.1	9.0	9.5	9.8	9.8	9.8	9.7
Capital value growth	-3.9	-13.8	-12.8	-12.8	0.0	3.0	-5.6
Total return	4.2	-4.8	-3.3	-3.0	9.8	12.8	4.1
Spain							
Rental growth	-11.3	-5.3	-5.0	-7.0	-1.0	2.6	-2.6
Yields	7.8	8.2	8.6	8.8	8.8	8.6	8.7
Capital value growth	-8.3	-9.9	-9.1	-8.9	-0.6	4.5	-3.6
Total return	-0.5	-1.6	-0.5	-0.2	8.1	13.1	5.1

Source – Capital Economics