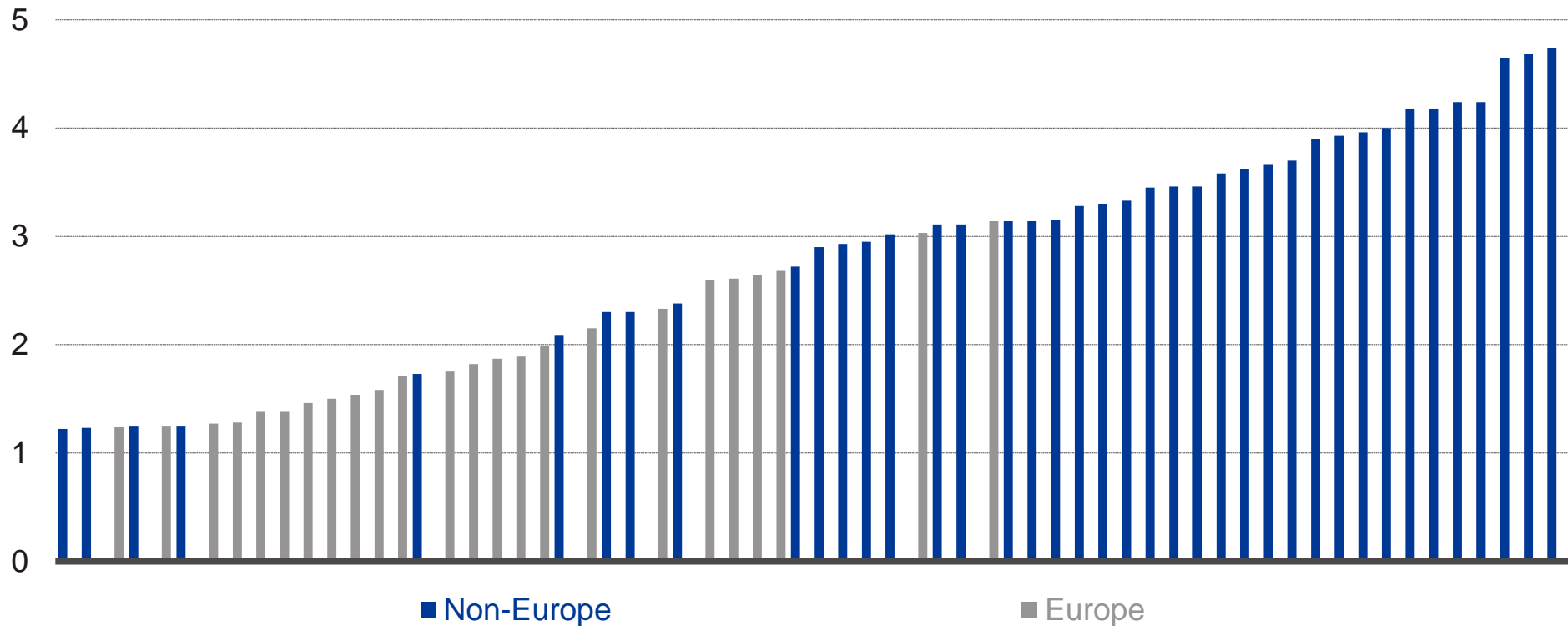# Commercial real estate in Europe: transparency lagging behind

Prof. Dr. Tobias Just

May 10, 2012

Europe is comparatively transparent

Transparent by first sight
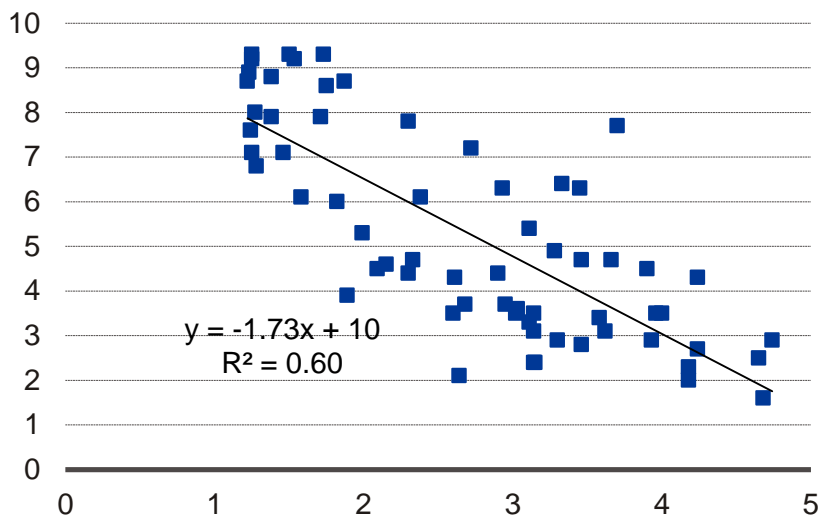
JLL transparency index

■ Non-Europe ■ Europe

Source: JLL

What are we measuring?

Transparency and corruption

x-axis: JLL transparency index
y-axis: Corruption, Transparency International*
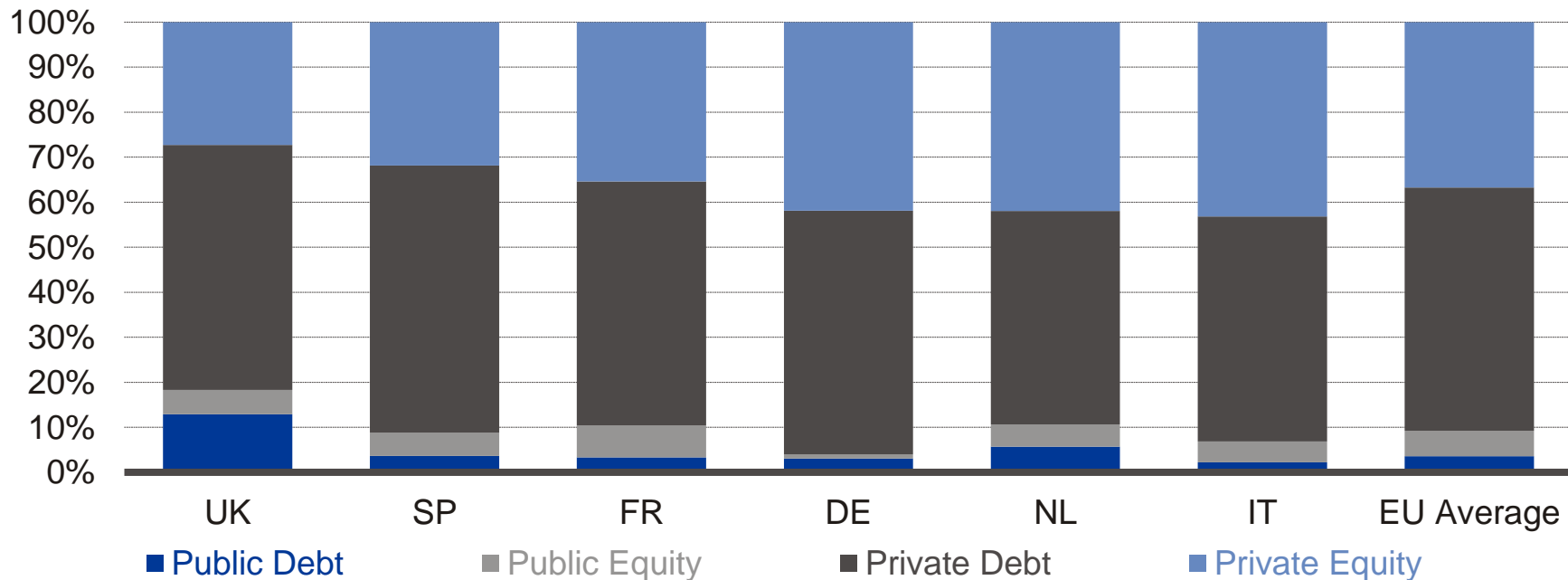

$y = -1.73x + 10$
$R^2 = 0.60$

* While the JLL-index shows low values for very transparent markets, the TI-Index shows very high values for non-corrupt systems

Source: JLL; Transparency International

- Transparency of real estate markets and corruption index are strongly correlated - similar to further WEF indicators – then, what is the additional value?

- More important: Is a high transparency value good enough for market practitioners, academics and public authorities?

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Traditional financing prevails in Europe

Does it matter, how to finance real estate?
how to finance commercial real estate, in % (2010)

Legend: ■ Public Debt ■ Public Equity ■ Private Debt ■ Private Equity

Categories: UK, SP, FR, DE, NL, IT, EU Average

Source: RREEF Research

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City structure matters

Polyzentric city landscape

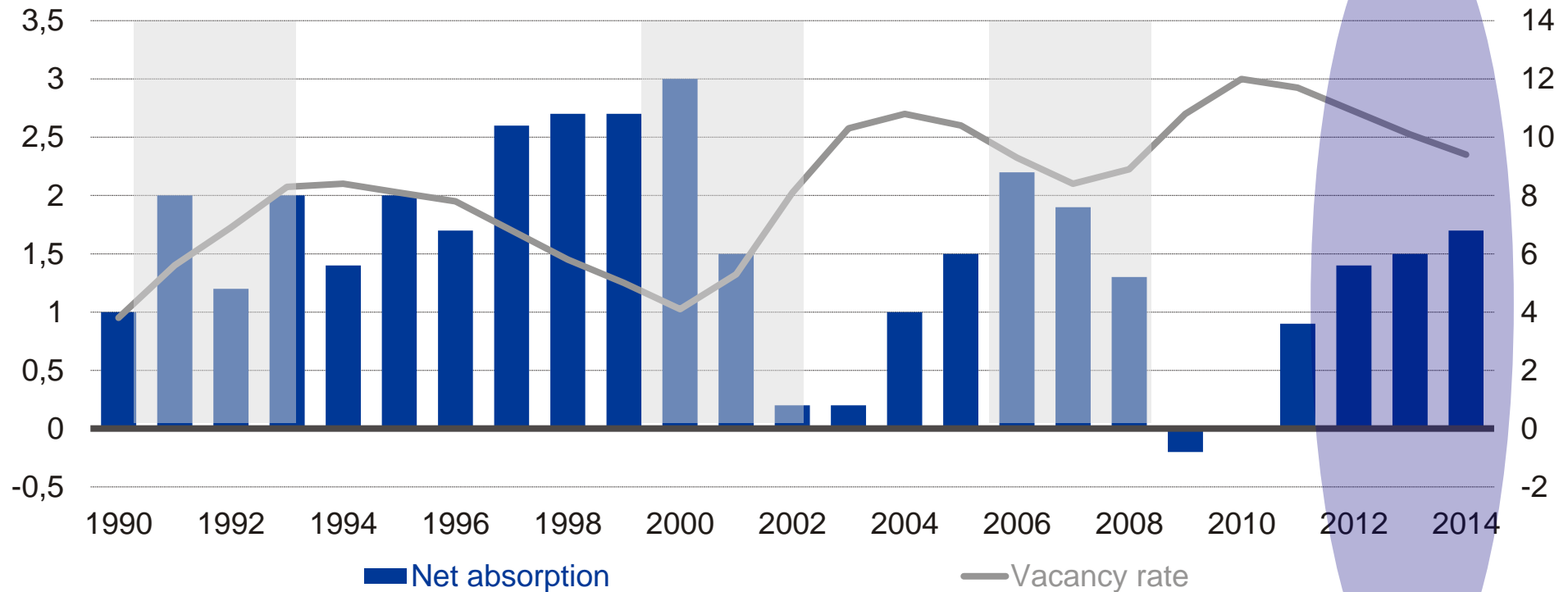Population share of the biggest x cities to total national population, in %
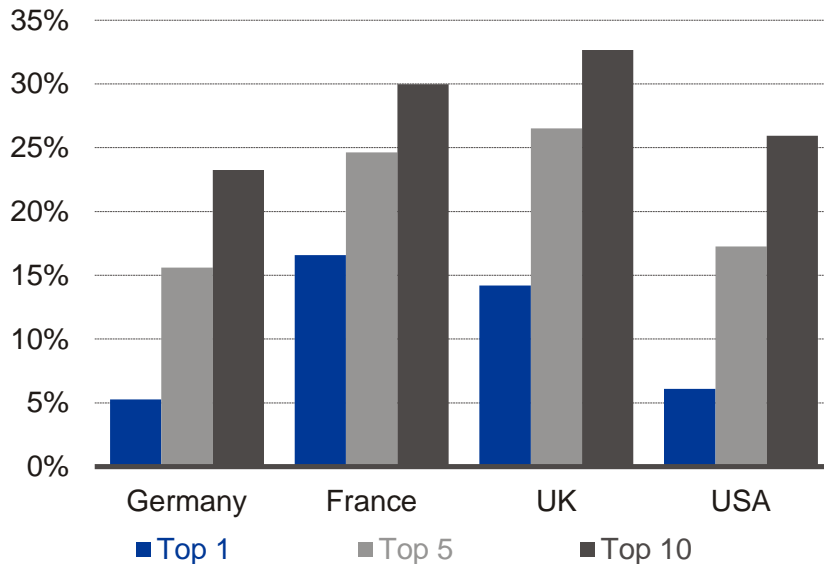
Sources: Eurostat, IREBS

- Germany's capital is economically significantly less important than Paris for France or London for UK

- This smoothes the German real estate market development, as up- and downswings are not clustered in just one city

- Most market reports for commercial real estate in Europe cover not more than five cities, i.e. roughly 25-35% of the commercial real estate market

Net absorption picked up despite crisis – but is the outlook that rosy?

Net absorption and office vacancy rates 1990-2014
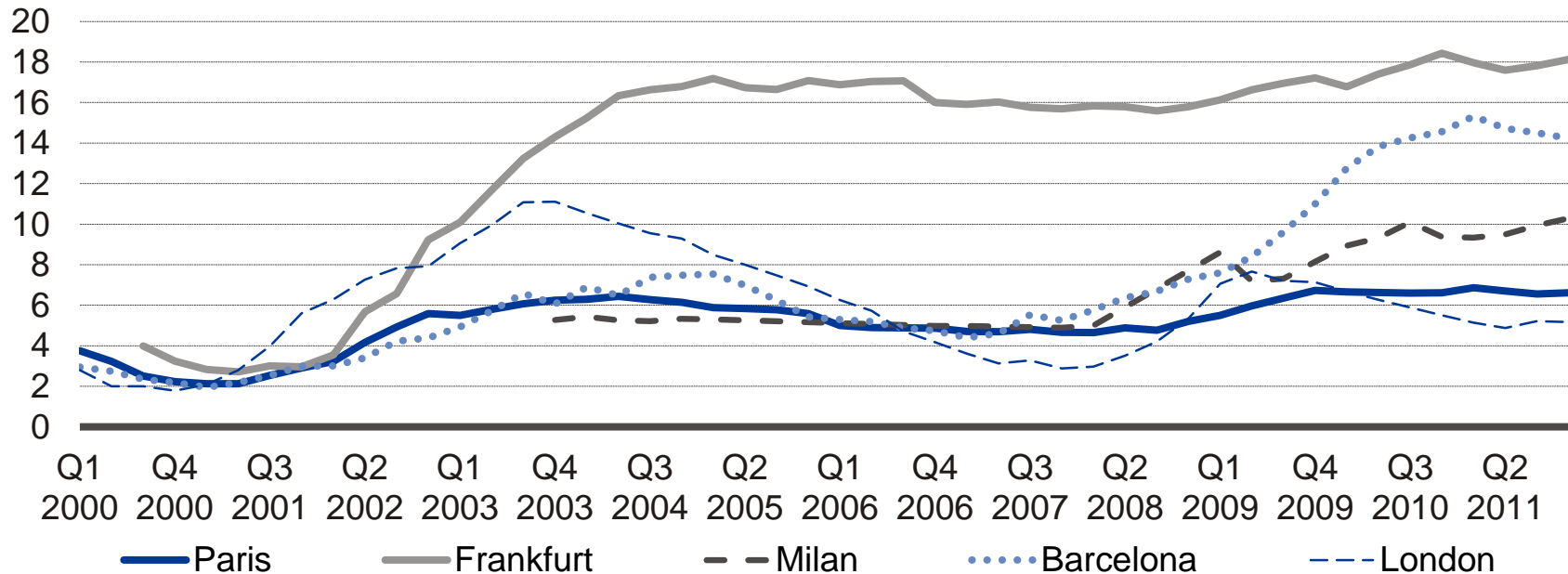
in %, weighted averages for major European markets

Sources: RREEF Research. PMA

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Vacancy Rate in major European Cities

Vancancy Rate in %

Source: CBRE

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Strong focus on prime rents

Prime Rents in major European Cities
Rent in EUR / sqm / year

Legend: Paris, Frankfurt, Milan, Barcelona, London

Source: CBRE

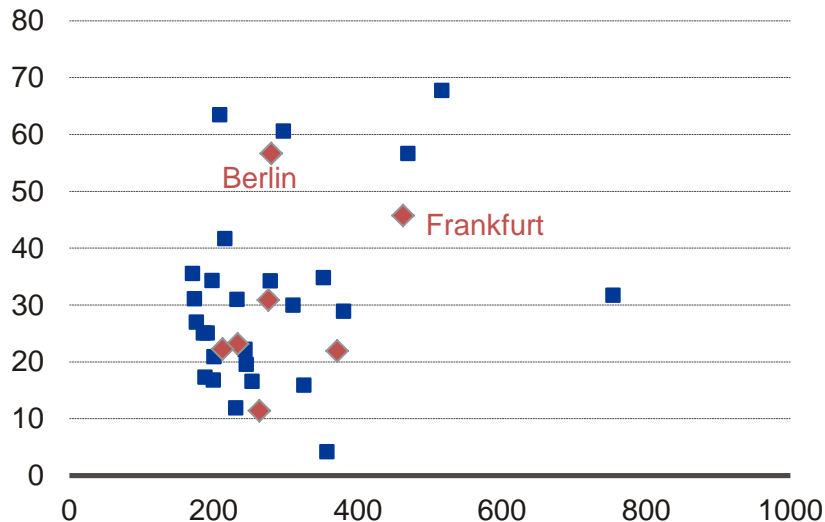Prof. Dr. Tobias Just: International Real Estate Business School

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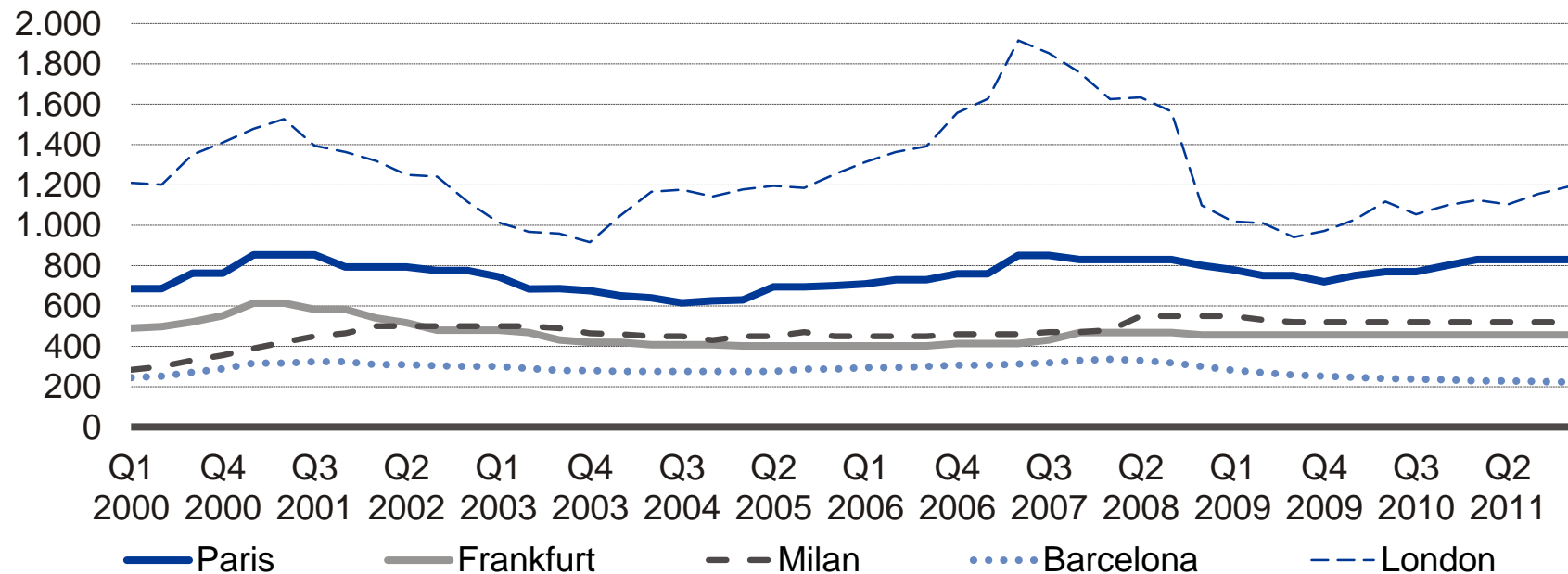
Office markets differ across Europe: Why?

Frankfurt and Berlin are outliers

x-axis: average office rent, in EUR/m²
y-axis: relative rental spread in %[1]

1) relative rental spread=(max_rent - min_rent)/average rent * 100
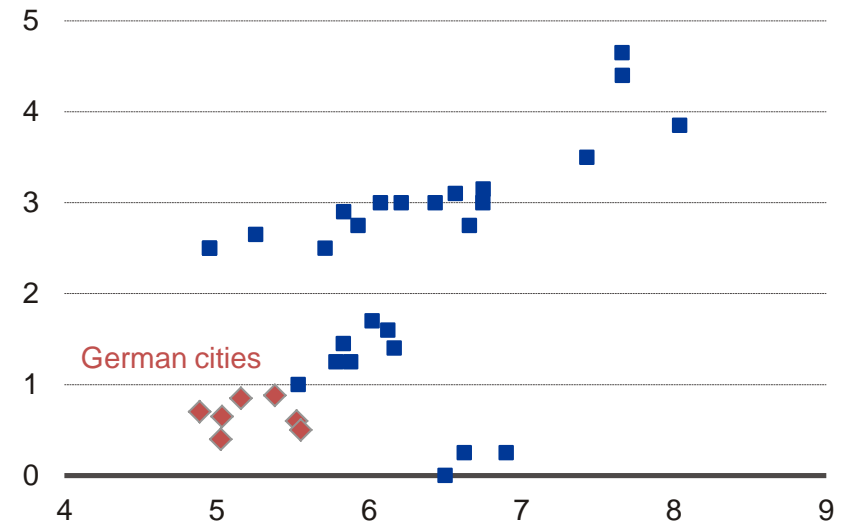Data for European cities 2000-2011

Sources: CBRE, IREBS

Office yields low and stable

x-axis: average office yield, in %
y-axis: difference of max-min yield (in %-points)

Data for European cities 2000-2011

Sources: CBRE, IREBS

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Yields show diverging trends in Europe

Prime Yields in major European Cities

Prime Yield in %

Source: CBRE

Legend: Paris, Frankfurt, Milan, Barcelona, London

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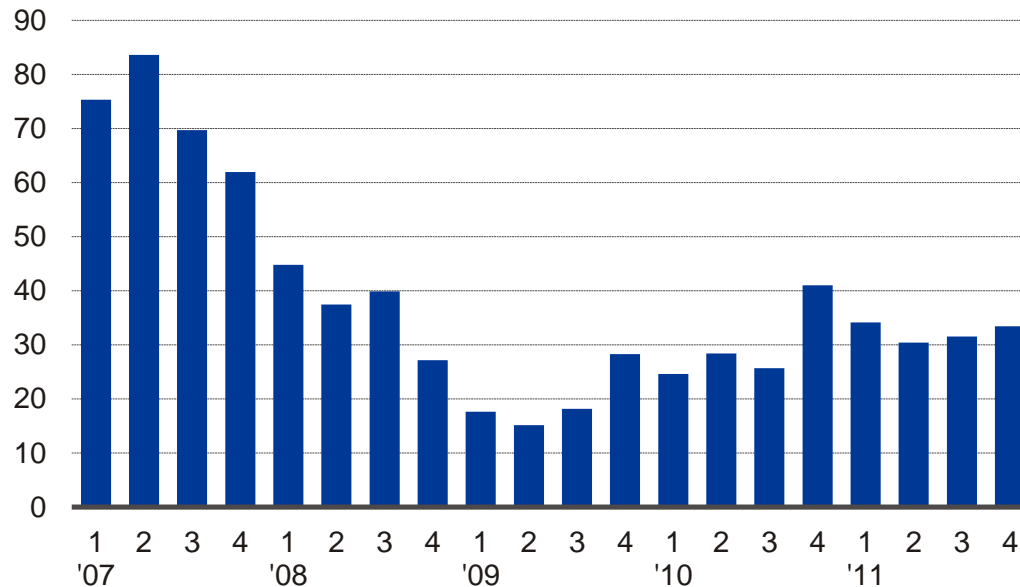
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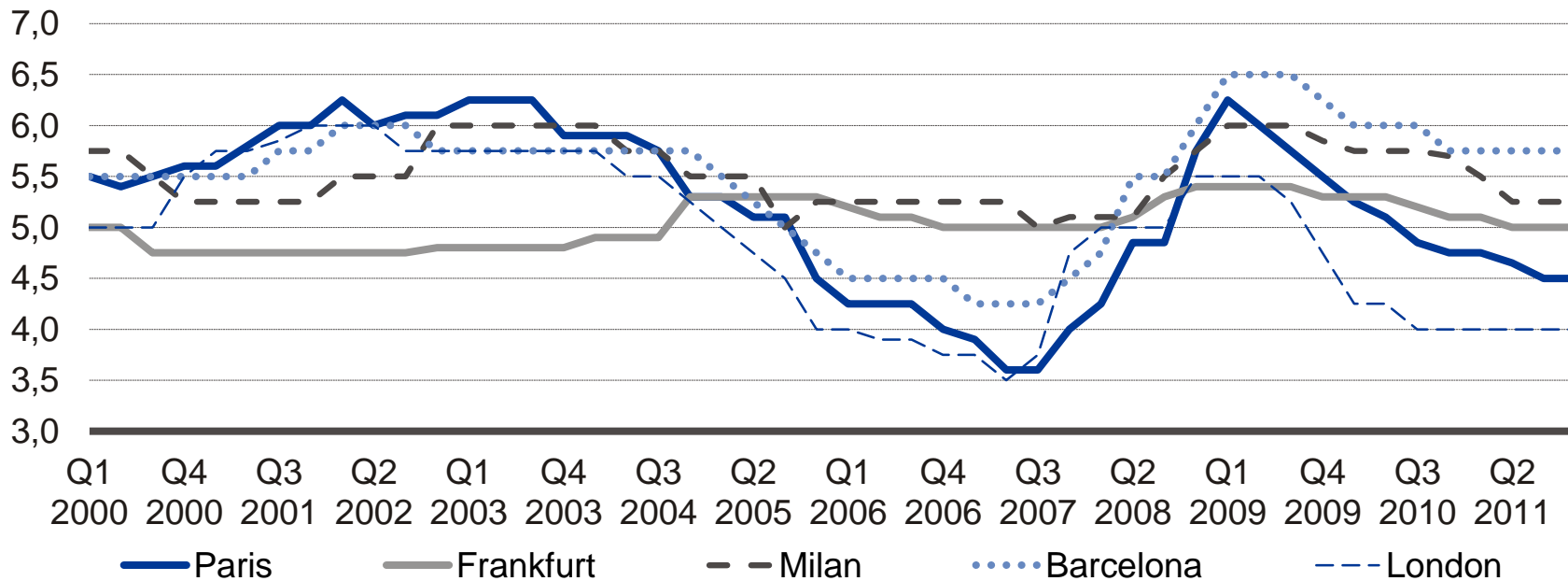
New normal is low normal

Commercial real estate transaction volume,
bn EUR, Europe


Source: RCA

- Investment markets have bottomed out in 2009

- After a strong rally in 2010, the investment markets are now stable (2010 / 2009: 51% yoy; 2011 / 2010: 8% yoy)

- In 2009 and 2010 retail was gaining importance, now investors have started to also look at office again. However, caution is still dominant

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Searching liquidity of office markets: Hm, but what exactly is core, by the way?

Core was king
Share of real estate investments in Germany, %
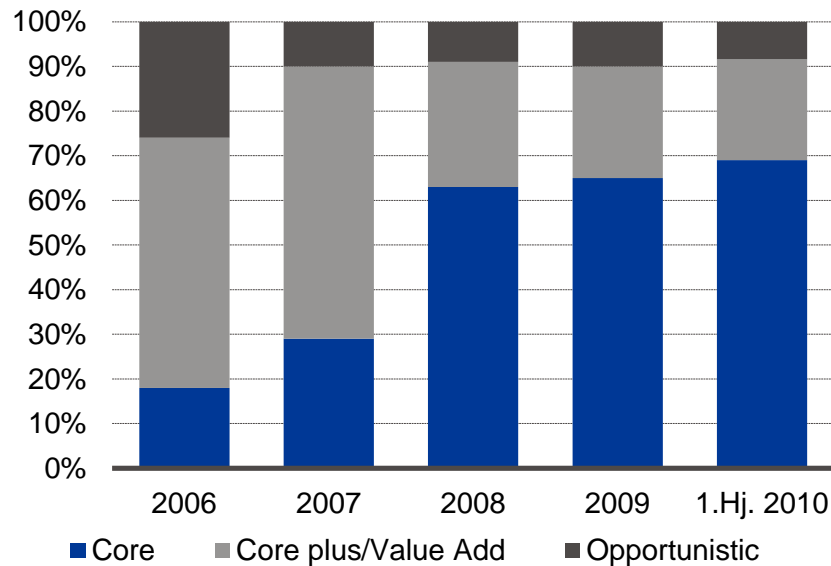
Source: Jones Lang LaSalle, 2010

Yield_comp=Yield compression since 2009
Yield_anstieg=Increasing yields in course of the crisis
Stock=Síze of the office market

Dependent Variable: YIELD_COMP
Method: Least Squares
Date: 09/27/10   Time: 14:55
Sample: 1 21
Included observations: 20
YIELD_COMP=C(1)+C(2)*YIELD_ANSTIEG+C(3)*STOCK

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.048715	0.135568	0.359338	0.7238
C(2)	-0.149571	0.064663	-2.313071	0.0335
C(3)	-0.018729	0.006140	-3.050110	0.0072
R-squared	0.512364	Mean dependent var		-0.407500
Adjusted R-squared	0.454995	S.D. dependent var		0.392789

For 21 European cities

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Growing refinancing risks

Global CMBS maturities

in bn USD

Total issuance 2003-2009:
EU: USD 170 – 270 bn
US: USD 710 – 1.000 bn

Legend: ■ EU ■ US ■ Others
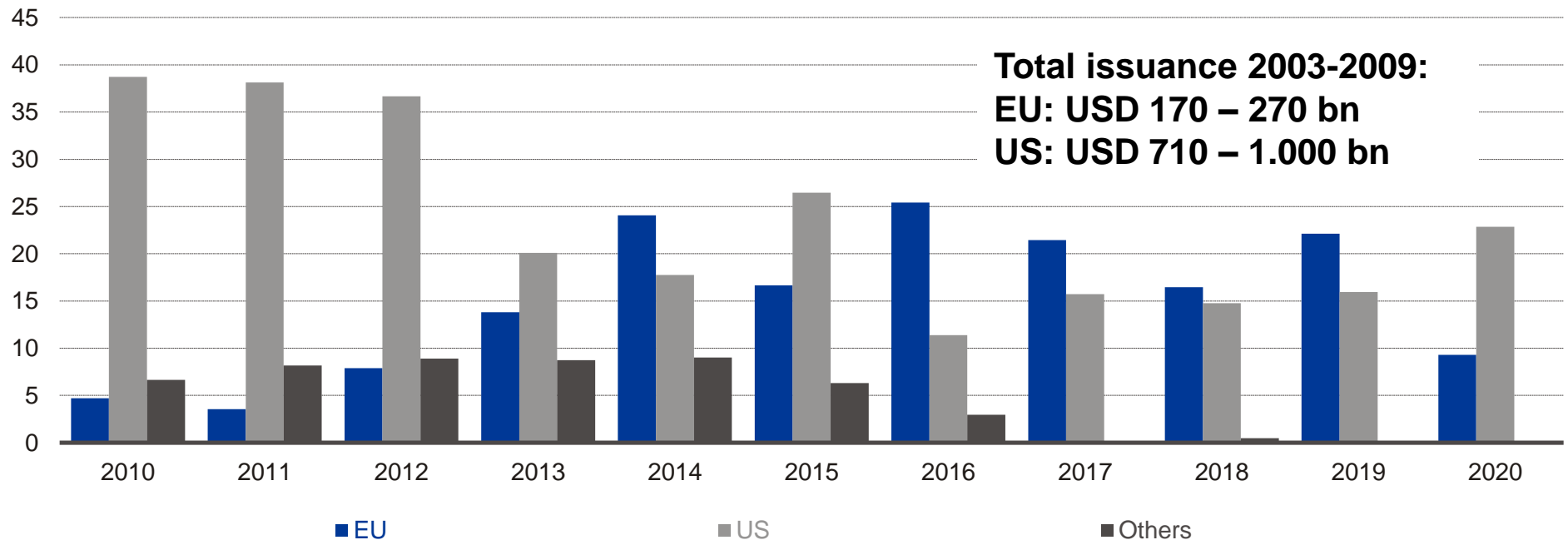
Sources: Dealogic, DB Research

Note: Data providers report different aggregate numbers

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When hard numbers get soft

Contradicting data

European (country of issuer) CMBS maturity volumes in USD mn
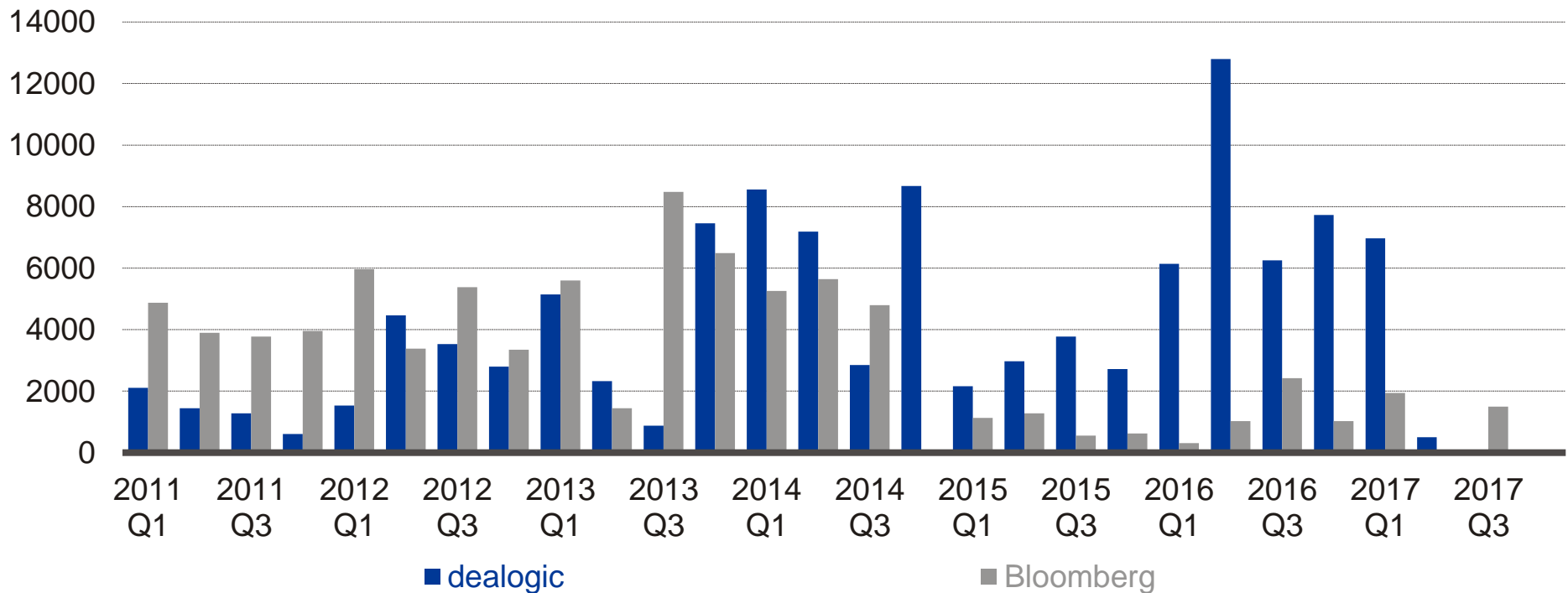
Sources: Bloomberg, dealogic, DB Research

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Concluding remarks

- **There is a broad set of data for commercial real estate; however, a lot of this data is private and expensive; this automatically leads to information asymmetries**

- **For many time series we are still at the starting point of international standards – including how to measure prices, yields, space etc.**

- **Data is highly concentrated on few core markets and thus most likely biased**

- **Real estate finance, especially public debt markets are still comparatively opaque**

- **This makes the political discussion sometimes more difficult, as much of the information is difficult to assess**

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