Moody's Analytics

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MOODY'S ANALYTICS: EUROPEAN METRO AREAS MOST IMPACTED BY DOWNTURN HAVE STRONGEST GROWTH POTENTIAL FOR REAL ESTATE INDUSTRY

LONDON, 10 July 2014 — The highest growth rates among European metropolitan areas are likely to be recorded by those who have experienced deep downturns since the global financial crisis, according to a new report released by Moody's Analytics.

The report, entitled "European Regional Forecasts: Comparative Advantage, Opportunities and Risks", analyses the long-term potential for growth in Europe's sub-regions, particularly in relation to real estate markets.

"Over the coming years, some of the best growth prospects for commercial real estate will be in the large metro areas that have gone through deep downturns, such as Milan, Rome, Madrid and Manchester. Smaller cities like Dublin and Copenhagen that also suffered deep recessions during the financial crisis will offer good growth opportunities too", says Steve Cochrane, Managing Director at Moody's Analytics, and author of the report.

According to the report, the three-year outlook is positive for most Tier 1 metro areas (with a population of more than 2.5 million). Peripheral cities such as Madrid and Lisbon are finally beginning to see some labour market recovery. "Thanks to a combination of wage cuts with other structural changes, labour markets in Spain and Portugal are now quite competitive and should enjoy strong job growth in coming years as the economy improves," says Mr Cochrane. In London and German metro areas, however, growth will slow in 2015 and 2016 as they edge back from the recovery years toward longer-term potential rates of growth.

Moody's Analytics notes that Tier 1 metro areas with the most complex industrial structures have seen some of the greatest volatility over the past 10 years due to their exposure to office-using industries as well the cyclical construction industries. Though large metro areas without extraordinary exposure to office-using industries (e.g., Rome and Katowice) have not been immune to the financial crisis, they have had more stable labour markets.

The second tier of metro areas (with a population between 1.25 million and 2.5 million) have generally experienced less volatility and stronger growth since 2000. The study also found that the long-term growth rate of employment since 2001 in the Tier 2 aggregate is stronger, with employment today between 10% and 12% above that in 2001, versus 8% in the Tier 1 aggregate.

“Some of the medium-sized metro areas, such as Zurich, Stockholm or Toulouse are very competitive and have strong growth prospects over the coming years. As the European economy improves, job growth will accelerate in many of these Tier 2 metro areas, particularly those with multiple industries”, says Petr Zemcik, Director of European Economics at Moody’s Analytics, and co-author of the report.

Overall, Moody’s Analytic expects a faster acceleration of office-using industries in coming years as the economic recovery spreads more broadly across Europe. “Job growth in London may slow from its pace of the past three years as the area’s financial services industry becomes increasingly cost conscious but elsewhere the growth of office using employment will remain stable or accelerate, as in a number of French metro areas”, says Mr Zemcik. Some of the hardest hit metro areas of the financial crisis such as Dublin and Madrid could well see rapid acceleration as their relatively low wage rates, combined with a skilled workforce, create opportunities for a labour market rebound.

For more information, please visit Moody’s Analytics Economy.com.

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