

INFORME COMPARATIVO DE INVERSIÓN INMOBILIARIA EN CIUDADES EUROPEAS



- Taller de trabajo es una metodología de trabajo en la que se integran la teoría y la práctica.
- Se caracteriza por la investigación, el aprendizaje por descubrimiento y el trabajo en equipo que, en su aspecto externo, se distingue por el acopio (en forma sistematizada) de material especializado acorde con el tema tratado teniendo como fin la elaboración de un producto tangible.
- Un taller es también una sesión de entrenamiento. Se enfatiza en la solución de problemas, capacitación, y requiere la participación de los asistentes.

17 de enero de 2020

Inversor inmobiliario

- Las perspectivas generales de Madrid también son altamente calificadas, más que las de Barcelona.
- Este año, la capital española es la número 5 con Barcelona número 7. "Hay un cambio hacia Madrid porque la ciudad ha cambiado mucho", dice un inversor paneuropeo.
- El capital de España está atrayendo fuertes inversiones corporativas internacionales. El desarrollo de uso mixto y el residencial en alquiler se consideran sectores menos explotados que ofrecen buenas listas de oportunidades, pero hay un factor inhibidor.
- "La política afecta nuestra visión de Barcelona, donde el crecimiento del alquiler es muy fuerte, incluso más fuerte que el de Madrid. Pero si la inestabilidad política regresa, afectará negativamente al mercado", dice un importante jugador ibérico. En particular, las decisiones de las autoridades locales para regular el residencial
- Los desarrollos en gran medida han pospuesto algunos de la ciudad. Pero para otros, "a veces las amenazas políticas presentan oportunidades"

El mercado inmobiliario en Europa prolongará en 2020 su octavo año consecutivo de buenas perspectivas de negocio y rentabilidad. Esta es una de las principales conclusiones del informe Tendencias del Mercado Inmobiliario en Europa 2020, elaborado PwC y el Urban Land Institute a partir de 900 entrevistas con los principales agentes del sector (compañías inmobiliarias, fondos, inversores



institucionales y entidades financieras). La atracción más destacada de Madrid es que es la más grande de un puñado de ciudades que aún experimentan "el efecto de recuperación" desde los niveles hasta el último pico; España ofrece la oportunidad de varios años de crecimiento de alquileres por venir". El país tiene un crecimiento saludable del PIB, pronosticado en 1.8 por ciento en 2019, y la inversión corporativa está creando rápidamente nuevos empleos. El único riesgo potencial que ven los entrevistados es una guerra comercial proteccionista entre los EE. UU. Y China que lleva a España a menores exportaciones y un menor crecimiento. La recuperación apuntala todo tipo de bienes inmuebles: "Madrid es un ejemplo de una ciudad en la que nos gustaría invertir en todos los sectores", dice otro inversor paneuropeo.

Esto incluye "vivir": desde alojamiento para estudiantes hasta hogares de ancianos. Ha habido un notable repunte en la actividad de los hogares de ancianos, con varios especialistas paneuropeos que ingresaron a España este año. La nueva Ley de Alquiler del Congreso, aprobada en abril de 2019 justo antes de las elecciones generales, dio claridad sobre un límite de alquiler residencial y un producto de alquiler especialmente diseñado. Aumenta el alquiler de los apartamentos de los propietarios y siete años para los institucionales. España va a la zaga del resto de los países de la OCDE en el desarrollo de su sector logístico; por lo tanto, crear un espacio moderno a lo largo de los principales corredores logísticos de Madrid o sitios de descenterrar para la entrega urbana de última milla es una oportunidad clara que es alucinante para algunos ", dice un CEO local, y agrega que las densidades relativamente bajas, sin depender del departamento. Las tiendas y el mayor consumo "son una ganancia para los centros comerciales" y solo alquila la mitad del anillo M-30, los ocupantes han mostrado interés en los submercados descentralizados, siempre que los edificios sean de buena calidad y estén a una distancia razonable del transporte público. Las empresas inmobiliarias locales tienen demanda para asociarse con capital internacional.

Mientras tanto, el nuevo ayuntamiento de Madrid aprobó por unanimidad Nuevo Norte en julio. Muchos esperan que este largo terreno en desarrollo alrededor de la estación de Chamartín ayude a impulsar la capital de España a las filas de las principales ciudades del mundo.

RÁNKING POR CIUDADES

El estudio, además, incluye un ránking de las ciudades preferidas para el inversor. En este listado destacan Madrid y Barcelona, que figuran entre las diez ciudades europeas más atractivas para el inversor, con el quinto y noveno puesto, respectivamente.

En el caso de Madrid el inversor destaca el dinamismo de su economía, su atractivo para el establecimiento de compañías internacionales y las interesantes perspectivas que supone la aprobación del proyecto Nuevo Norte. Barcelona, por

su parte, se contempla como un mercado inmobiliario capaz de sortear la inestabilidad política.

TENDENCIAS DEL MERCADO INMOBILIARIO EN EUROPA 2020

Los inversores renuevan su confianza en el mercado inmobiliario europeo y en sus expectativas de rentabilidad para el 2020, a pesar de la débil coyuntura internacional y de las incertidumbres políticas y económicas.

905 Encuestados de 22 países europeos

63% De los inversores mantiene igual su nivel de confianza en el negocio

París Capital europea más atractiva para la inversión

A pesar de la incertidumbre política y económica internacional -con la atención puesta en las tensiones comerciales entre EE.UU. y China y en el Brexit-, PwC prevé un mercado inmobiliario activo en 2020. Así lo señalan el 63% de los inversores, que aseguran que la confianza en el negocio sigue igual que el año pasado y casi un 50% mantiene sus expectativas, tanto de rentabilidad como de creación empleo. La decisión del Banco Central Europeo de retomar su política monetaria expansiva y la abundancia de liquidez que hay en el mercado son los factores que van a seguir animando el inmobiliario europeo en 2020.

LOS SECTORES MÁS ATRACTIVOS EN 2020

Los inversores esperan en 2020 unas rentabilidades similares a las de 2019. El 44% estima que se sitúen entre el 5% y el 10%; el 21% entre el 10% y el 15% y el 12%, por encima del 15%.

Para poder alcanzar estos retornos, en un contexto en el que los activos más atractivos continúan sobrevalorados, los encuestados están apostando, cada vez más, por sectores alternativos, tanto para la inversión como para el desarrollo, como son el logístico, las residencias de la tercera edad, las viviendas compartidas, el alquiler residencial a particulares o las residencias de estudiantes, entre otros.

¿QUÉ GRANDES TENDENCIAS MARCARÁN EL SECTOR DURANTE LOS PRÓXIMOS AÑOS?

+ Peso de los aspectos medioambientales

+ Riesgos regulatorios

+ Costes de construcción



Ante la concienciación de la opinión pública sobre los efectos del cambio climático, los inversores que apuestan, cada vez más, por un inmobiliario sostenible. El 48% de los participantes en el informe asegura que el riesgo de cambio climático ha aumentado en el sector y el 73% asegura que seguirá haciéndolo en los próximos cinco años.

El informe incluye su tradicional ranking con las perspectivas de inversión en treinta y una grandes capitales europeas. Esta edición, París#1 centra el foco de atención de los inversores, gracias a su proyecto Gran París. Alemania sigue siendo el país con mayor presencia entre las diez primeras, con Berlín#2, Frankfurt#3 y Hamburgo#8. Le sigue España con Madrid#5 -gracias al dinamismo de su economía, su atractivo para el establecimiento de compañías internacionales y la aprobación del proyecto Nuevo Norte-, y Barcelona#9, cuyo mercado inmobiliario es capaz de sortear la inestabilidad política.

LA CONECTIVIDAD ATRAE A LA INVERSIÓN

Las grandes capitales europeas que apuestan por la conectividad de sus infraestructuras de transporte son las más atractivas para los actores inmobiliarios que ven cómo el uso mixto, la movilidad inteligente -patinetes, bicicletas, vehículo compartido, coche eléctrico...- y la tecnología son características esenciales para el éxito de sus inversiones.

En 2020, la gran liquidez del mercado va a favorecer la inversión en inmobiliario en España, ya que continuamos siendo reconocidos por nuestra recuperación económica y potencial de crecimiento en rentas frente a otros países. Además, somos un territorio muy atractivo para la inversión en sectores alternativos, donde nuestra oferta es más limitada u obsoleta en segmentos relacionados con camas (residencial para alquiler, residencias de ancianos, residencias de estudiantes, etc.) y logística. Estos son atractivos por sus mayores rentabilidades, que están correlacionadas con las tendencias sociodemográficas (envejecimiento, hábitos de consumo, etc.) que del ciclo económico.

JORNADA DE PRESENTACIÓN

Presentación del informe "Tendencias del Mercado Inmobiliario Europeo" de PwC y ULI, a cargo del socio líder de Real Estate de PwC, Rafael Bou, y posteriormente tuvo lugar una mesa redonda en la que intervinieron Concha Osácar de Azora Capital, Antonio Brunet de Castellana Properties e Ismael Clemente de Merlin Properties, moderados por Iziar Mendizabal de PwC.

El consejero delegado de Merlin Properties, Ismael Clemente, ha propuesto la compra de Sareb como medida para paliar la subida de precios del alquiler de la vivienda. El primer ejecutivo de la Socimi participada por Banco Santander cree



que tan sólo anuncio de la medida supondría una contención en los precios de las rentas, según señaló en la presentación del informe Tendencias del Mercado Inmobiliario en Europa 2020, elaborado PwC y el Urban Land Institute. Actualmente, Sareb está participada en un 45,9% por el Frob, seguido de Santander, con un 22,3%, y CaixaBank, con un 12,2%.

El primer ejecutivo de Merlin también abogó por la cesión de suelos públicos y la inversión privada como fórmula de mejora de acceso a la vivienda.

Azora, segunda mayor propietaria y gestora de pisos en renta en España, también está dispuesta a participar en el plan de promoción de vivienda en alquiler que el Gobierno pretende impulsar mediante la cesión de suelo público a promotores privados por un periodo de unos cincuenta años.

"Estamos interesados y dispuestos a participar", aseguró la socia fundadora de Azora, Concha Osácar, quien no obstante pide que el plan cuente con "normas claras y equilibradas, y seguridad".

El Ministerio de Transportes, Movilidad y Agenda Urbana mantiene la intención de desarrollar el plan que anunció a la conclusión de la anterior Legislatura para impulsar la construcción de pisos en renta mediante la cesión de suelos públicos.

En virtud de esta iniciativa, el Departamento que dirige José Luis Ábalos cedería suelos públicos a promotores privados para que inviertan en construcción de pisos destinados al alquiler, una inversión que recuperan arrendando los pisos durante un periodo de varios años.

Las viviendas se pondrían en el mercado con unas características y precios determinados, y pasarían al Estado una vez concluyan los años de cesión de suelo.

Concha Osácar considera que se trata una medida clave, al estimar que aumentar la oferta de viviendas en renta, y contar para ello con la inversión privada, es la solución a la actual tensión y subida de precios que registran los alquileres.

Azora cuenta además con un vehículo adecuado para participar en este plan, según recordó su fundadora tras participar en la presentación de un estudio inmobiliario de PwC.

Se trata del conformado a finales de 2018 entre su firma Lazora con inversores internacionales para invertir unos 800 millones de euros en la promoción de unas 10.000 viviendas en renta en España. Estos socios son CBRE Global Investment Partners, Madison International y National Nederlanden.

El vehículo cuenta ya con una cartera de unas 8.420 viviendas del total de 15.000 de Azora, a las que pretenden sumar nuevas unidades, bien a través del



plan del Gobierno o mediante la compra de proyectos 'llave en mano' a promotoras.



Durante su intervención en el acto de PwC, Osácar aseguró que la vivienda en alquiler en España es "una necesidad", pero también "una oportunidad de inversión". "Y el foco del análisis y la solución están equivocados", apuntó en referencia a la medida de limitar los precios incluida en el pacto del Gobierno de coalición.





Emerging Trends in Real Estate®

Climate of change

Europe 2020



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the Urban Land Institute

Front cover image:

La Défense, Paris, France



Image: Milan, Italy

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“

We are doing more of what we think of as low risk – more on the core-plus and value-add side rather than opportunistic. But markets are active, liquid and functioning quite well.

Director, global investment bank

Executive summary

“You have still got equity markets signalling a reasonable level of investment returns. But bond markets are signalling a collapse into recession. The two just don’t reconcile. So, I think Europe represents significant challenges.”

Director, global investor

Europe’s property leaders remain resolute in their belief in real estate as an attractive investment asset class despite strong political and economic headwinds.

The threat of a global recession, escalating trade tensions between the US and China, and continuing uncertainty over Brexit have all clouded sentiment among *Emerging Trends in Real Estate*® Europe’s survey respondents and interviewees.

There are consequently question marks against the European economic outlook for 2020 although the industry draws comfort from central banks’ decision to maintain or cut interest rates – a significant change in direction from last year’s report and already a big boost to investment.

The shift in monetary policy has led to cap-rate compression in some office and logistics markets during 2019 and raised the possibility of further value increases to come in 2020. But secure, stable income remains the guiding light for the majority of the industry, especially this late in the cycle.

With interest rates set to stay lower for longer and bond yields in many European countries in negative territory, real estate income retains its broad appeal to investors. Equity and debt are expected to remain plentiful for most real estate sectors. The notable exception is retail, still struggling in the face of online competition.

Yet there is little evidence of complacency given the inherent risks in a late-cycle market where values are above historic levels. Market participants are therefore being more careful than ever about how and where they deploy capital, which for many means focusing on cities that offer liquidity and connectivity.



Image Apple Store, Piazza Liberty, Milan, Italy (Nigel Young / Foster + Partners)

At the same time, rising labour and material costs have added to the risk associated with development – the primary industry concern for 2020 is the cost of construction.

Political risk is a constant concern for interviewees, but environmental, social and governance (ESG) issues have perhaps shown the biggest move up the industry agenda over the past 12 months. While ESG has been an important reference for years, this survey and interviews suggest a meaningful change of tone. Most obviously, this change has come from the pressure exerted by institutional investors through their ESG investment criteria. But it has also come via developments at the product end of the business – as we see opportunities emerge in response to changing customer demand for real estate that provides a better overall impact.

Against all of those criteria, Paris is ranked Number 1 for its overall real estate prospects in 2020. The Grand Paris project, Europe's largest transport scheme, is widely lauded as a game-changer for the French capital, setting it apart from the competition.

Berlin, Frankfurt, Munich and Hamburg all figure in the top 10. The fundamentals of these markets are judged "quite healthy", overriding concerns over Germany's economy. Similarly good supply/demand dynamics are working in the favour of other top 10 cities, such as Amsterdam and Madrid.

At Number 4, London's prospects are highly rated, too. The interviews indicate a large volume of capital waiting for a Brexit resolution before moving in, although there are lower expectations for the UK's smaller, regional cities.

In terms of sectors, logistics once again tops the rankings for investment and development prospects. Though some industry players are put off by high values here, the majority favour this sector where supply cannot keep up with the changing patterns of consumer demand. There is still seen to be lots of room for growth in e-commerce in continental Europe.

The same bullish sentiment holds true of residential despite a new regulatory threat to rental housing – rent controls – in several cities across Europe. Acute supply shortages are still proving a compelling reason to deploy capital into residential, which in its various forms dominates the investment rankings for 2020.

With a number of real estate sectors undergoing significant structural change it is hardly surprising that many interviewees regard investing in "anything related to a bed" as a sound, defensive strategy at this point in the cycle, supported as they are by long-term urbanisation and demographic trends.

As *Emerging Trends Europe* has highlighted over the past few years, these sectors are at the forefront of the industry's transformation into becoming a service industry. There is a recognition that, for all the inherent self-protectionism that the traditional view of real estate supports, the industry sector that funds, builds and operates the space in which we live, work and play, is starting to embrace complexity and respond to its true role as part of society's infrastructure.

In traditional real estate speak, this means that increasingly the industry believes operational risk is one worth taking to achieve target returns. The latest survey and interviews suggest a blurring of sector boundaries as part of a bigger investment picture in which mixed-use assets, improved transport connectivity, greater use of technology and smart mobility solutions are all seen as integral to the economic growth of Europe's cities and the investment potential of real estate.

“

Uncontrollable events like Brexit or escalating trade tensions can make meeting target returns difficult, but in these scenarios all investors are in the same boat. We expect to be net buyers: in the continuing low-bond-yield world real estate allocations are increasing.

Real estate head, global investment manager

Chapter 1

Business environment

“The market is something of a paradox. The world is not a happy place at the moment, but it might not be such a bad place for investors and real estate.”

Director, global investment manager



Political and economic uncertainty clouds the outlook for Europe in 2020, and yet investors remain drawn to the income-generating attributes of real estate.

For many of Europe’s real estate leaders, the sector’s continuing attraction over other investment asset classes is the determining force for good. However, there is an undeniable mood of caution across the industry given the darkening macroeconomic picture.

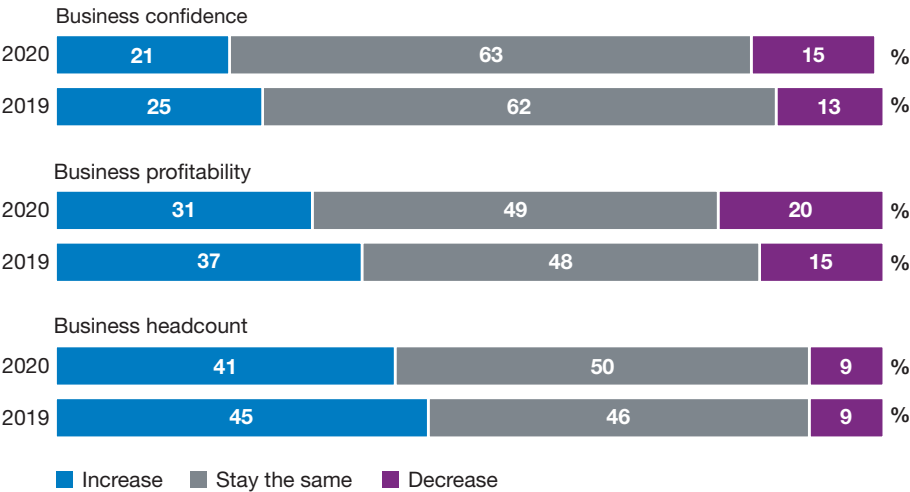
The survey and interviews for *Emerging Trends in Real Estate Europe* have been conducted amid an escalating trade war between the US and China, continuing uncertainty over Brexit and the major European economies struggling for growth. Expectations of a global economic slowdown are widespread.

Central banks have responded by reversing the rising interest rate policy of a year ago – for many interviewees the most significant intervention since last year’s report. This lower-for-even-longer monetary phase has been, as one private equity player says, “a shot in the arm” for real estate capital markets, with the notable exception of retail. A global fund manager adds: “Last year, investors hesitated; this year they come with more conviction.”

On the other hand, counters another global player: “Values are high, but the underlying European economy is still doing very poorly. As a result, you have to have high capital values to access pretty poor cash flows. The interesting thing is what’s going to trigger a realignment of the market?”

“Values are high, but the underlying European economy is still doing very poorly. As a result, you have to have high capital values to access pretty poor cash flows.”

Figure 1-1 Business prospects in 2020



Source: *Emerging Trends Europe* survey 2020

Chapter 1: Business environment

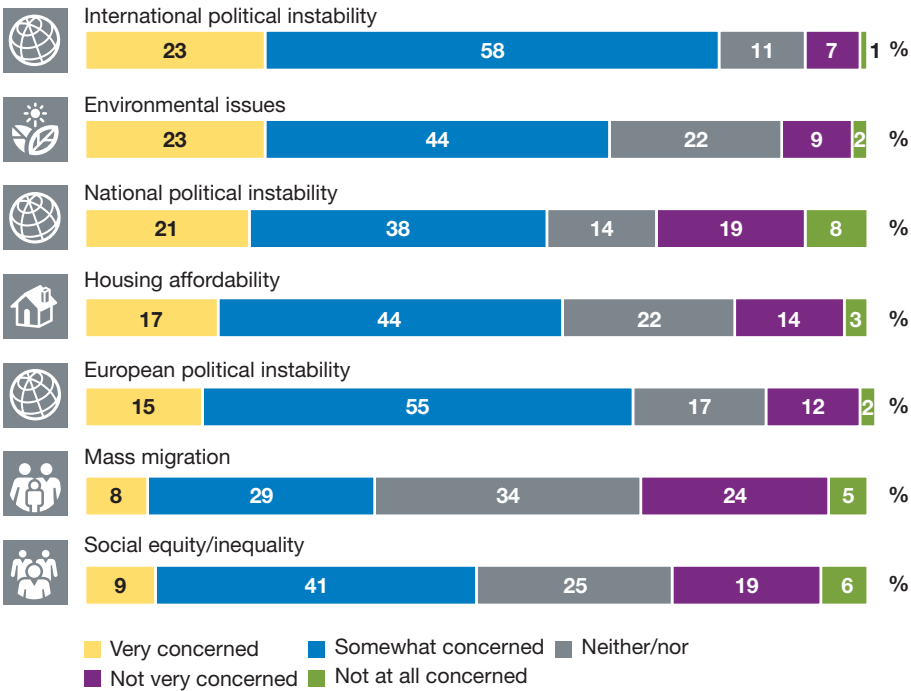
The possibility of a recession or downturn is never far from the thoughts of interviewees and respondents to *Emerging Trends Europe’s* survey, underlining the sober, late-cycle mood across the industry. Their cautious outlook for business confidence and headcounts is little changed from last year, but they are expecting a marked slide in profits in 2020.

With the European Central Bank returning to quantitative easing from November 2019, capital is expected to continue targeting European real estate in 2020 but without removing the industry’s doubts over the underlying economy.

“There are plenty of huge question marks on the macroeconomic side,” says one pan-European adviser. “But in terms of real estate, we have never seen so much liquidity in the market in Europe. It’s very strange and slightly dangerous because it seems there is little correlation between economic fundamentals and the level of uncertainty on one hand, and the volume of activity.”

Nor has the monetary policy shift alleviated the industry’s prevailing preoccupations for several years – the increasingly challenging search for income amid fierce competition for core assets and correspondingly high pricing. All of this is playing out uneasily over a prolonged late property cycle.

Figure 1-2 Social issues in 2020



Source: *Emerging Trends Europe* survey 2020

“

We don't believe we're at the end of this investment cycle, but we do think it makes sense for most investors to look for more defensive positions.

Political risk rises

Politics also looms large across the market. “From our conversations with investors we know that political uncertainty in the form of growing populism is weighing on their minds, even if it hasn't affected long-term values,” says a global investment manager. “We don't believe we're at the end of this investment cycle, but we do think it makes sense for most investors to look for more defensive positions.”

When it comes to social/political issues in 2020, international and European political instability are rated key concerns by 81 percent and 70 percent of survey respondents respectively. Nearly 60 percent are concerned about national politics – a sharp rise on last year.

It is impossible to dissociate politics from another critically important subject – the environment – which has, as one investment manager puts it, “moved to a different level of risk” since last year's report. Over two thirds of survey respondents are concerned about the impact of environmental issues on their business in 2020. “We have talked about climate change for some time, but the risk has become more severe,” says a German CEO. “It affects how you build, how sustainably you build. What is your energy cost?”

The political backdrop to investment has been on the minds of Europe's property leaders for years. The difference now is that political issues are acting as a drag on economic and real estate performance as well as business confidence.

“One of the things that has me most worried is politics,” says a pan-European fund manager. “Populism leads to a lot of unpredictable and ultimately potentially self-harming actions. But many of them are short-term beneficial, as we've seen in the United States. You don't need to have a long-term perspective if you're a populist.”

This is true of public policy on housing shortages across Europe. Industry concerns over housing affordability are rising, but the interviews also reveal widespread frustration with state and local authorities imposing rent controls as a way of dealing with the problem. In the eyes of many interviewees this is counter-productive, adding political risk to the sector while discouraging new investment.

As one global investor warns: “Regulation is always a risk even though it has been shown to suppress the supply of housing and make the shortages worse, not better. It's popular with politicians because it's this freebie handout that they can give to their current constituents, who are renting apartments. But it will impact the growth of their cities.”

As expected, Brexit and trade wars remain major issues, widely seen to have far-reaching consequences for European real estate. “Scrappy politics is creating uncertain, deteriorating economics,” says a pan-European player, perfectly summing up the industry view of the UK and the lack of resolution over Brexit. “It would be quite gutsy to invest in London over the coming year,” says a German institution.

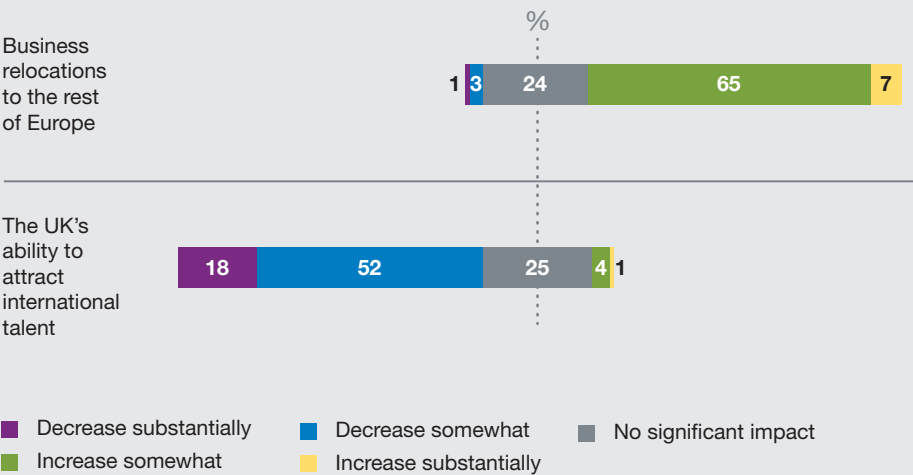
Facing up to Brexit

Some 70 percent of Europe's senior property professionals believe that the UK's ability to attract international talent will fall following Brexit, while the same proportion expect business relocations to continental Europe will increase in 2020.

Though marginally better than last year's, these numbers nonetheless reflect the depth of concern over the UK economy that the industry shares with the wider business community.

The survey was conducted in mid-2019 when the industry was bracing itself not just for the UK's departure from the European Union but the prospect that a hard Brexit might turn into a no-deal Brexit. Though the possible departure has been put back until January 2020, the majority of respondents from both the UK and the rest of Europe nonetheless believe Brexit will have a negative impact on the UK property industry.

Figure 1-3 Business impact of Brexit in 2020



Source: Emerging Trends Europe survey 2020

The interviews suggest that Boris Johnson taking over from Theresa May as UK Prime Minister in the summer has done nothing to alleviate the largely “risk off” attitude to UK real estate. “Earlier this year there was an attitude of, ‘let’s just get on with it’, because we’ve been facing that uncertainty now for a couple of years,” says a London-based financier. “But it just seems as if there’s increased concern with more political upheaval and a change in administration. People are pausing a bit longer in terms of committing to doing transactions.”

For some continental cities, there have been no such doubts. After the 2016 Brexit referendum, Amsterdam, Dublin, Frankfurt, Luxembourg and Paris all seemed set to win business in one form or another from London and the UK. The latest interviews indicate the same cities are already Brexit beneficiaries to some extent – with more business likely to come their way in 2020.

However, not everyone is convinced that the European Union as a whole will emerge unscathed from Brexit. “Even though the political uncertainty is certainly focused on London and the UK at the moment, to think that continental Europe is without its challenges is just simply being naïve,” says one global investor. “Europe has economic challenges, political challenges. It certainly has long-term issues to do with the euro, long-term issues to do with competitiveness, and values are high.”

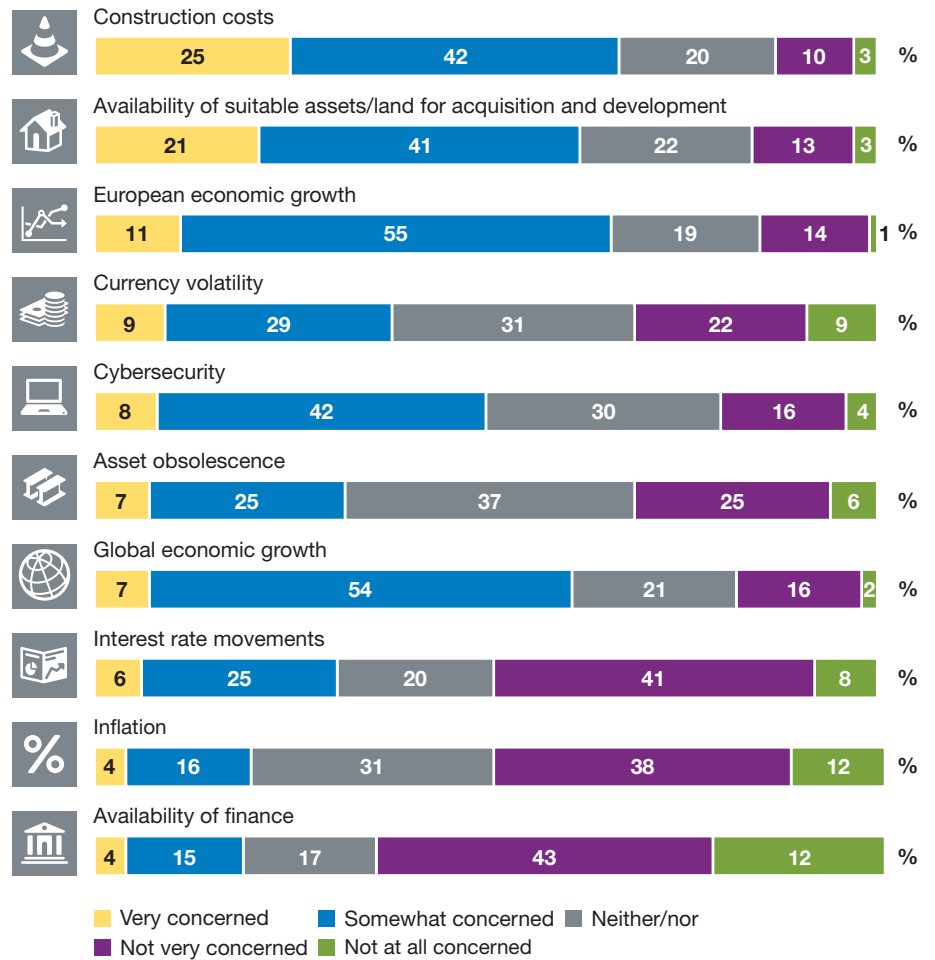
Indeed, Brexit is a “lose-lose situation”, according to one German-based banker: “No other European financial centre would actually take over London’s position in general. With London outside the largest single market in the world, not only is the UK losing its title as the world’s leading financial centre, but also the European Union won’t have the world’s leading financial centre anymore.”

In fact, the industry is concerned for Germany, too. Already on the brink of recession, Europe's biggest economy is heavily dependent on exports and as such is considered most vulnerable to the potential fall-out from the trade war between US and China extending to Europe. "You don't feel the impact yet, but if you speak to bankers, investors, even in this real estate industry, that's the biggest concern," says a German CEO.

One global investment manager believes that as "the narrative in Europe of German strength, fiscal prudence and exporting prowess is being rapidly undermined by events", then the more domestically focused, consumer-based economies of France, Spain and the Nordics stand to gain – "like mini versions of the US".

According to another global player, however, the wider impact of trade tensions is "something that we're just beginning to accept as part of the landscape. And I don't think the markets are pricing it into most of the assets that we're dealing with, which is probably also a commentary on just how much capital remains out there to invest in real estate".

Figure 1-4 Issues impacting business in 2020



Source: Emerging Trends Europe survey 2020

Either way, fears over European and global economic growth are up sharply on last year, signalling a testing period for all occupier markets, not just in 2020 but over the next five years. One Nordic interviewee says: “Typically, the occupier market lags behind the overall economy, but we are already starting to hear that occupier decisions are taking a little longer than they were last year or earlier this year. There is more uncertainty about where economies are going.”

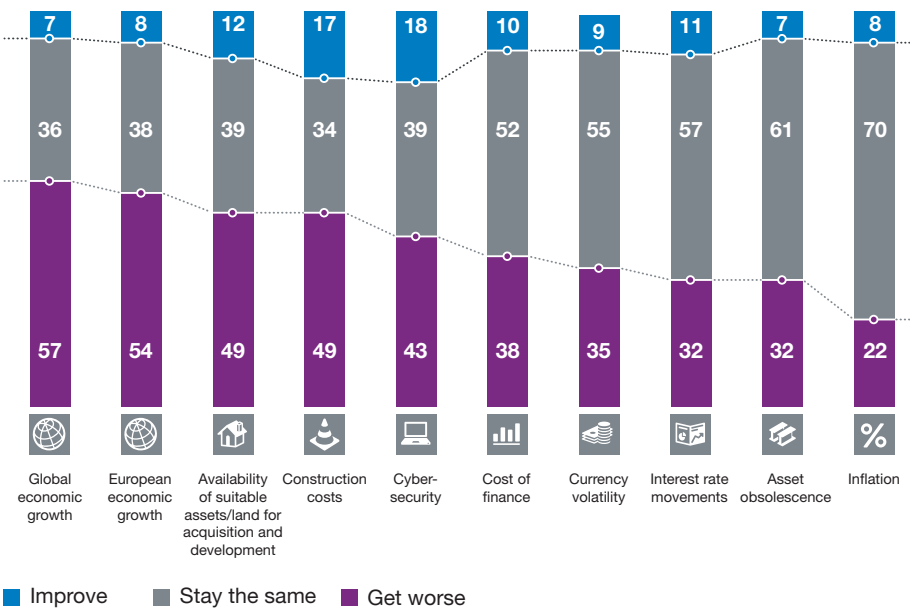
Though the monetary policy shift has boosted investment, the downbeat economic forecasts have helped keep a lid on the volume of commercial property transactions – just 1 percent up across Europe in the year to 30 September 2019, according to Real Capital Analytics.

But this is also because of the scarcity of suitable assets – a perennial issue for survey respondents. “For a large part, lower investment volumes are due to the fact that the product that is available is often not what the investors want. I wouldn’t say only prime but good-quality product is increasingly challenging to find,” says a pan-European investment manager.

However, the primary concern for 2020 is the cost of construction. It is another long-standing issue, especially for developers directly bearing the rising costs of labour and materials. This year’s survey suggests that the cost problem is coming into view for the wider property industry, as many more investors adopt develop-to-core strategies as a means of delivering returns.

“Occupier decisions are taking a little longer than they were last year. There is more uncertainty about where economies are going.”

Figure 1-5 European business environment in next 3–5 years



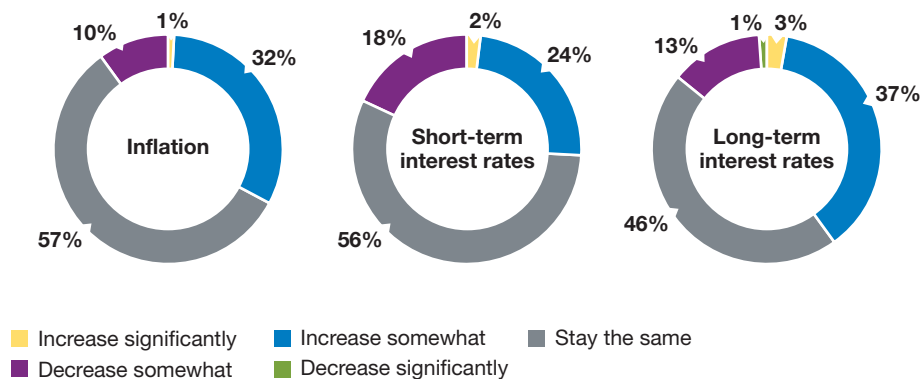
Source: Emerging Trends Europe survey 2020

Interest rate boost

For all the political and economic uncertainty clouding European real estate, for some in the industry this has been offset by central banks' move to maintain or cut base rates – a big boost for investment, albeit not yet for the underlying economy. “It is hard to express strongly enough what an extraordinary turnaround that has been. The cycle feels like it is going to go longer. Nothing seems to be overheating,” says a global investment manager.

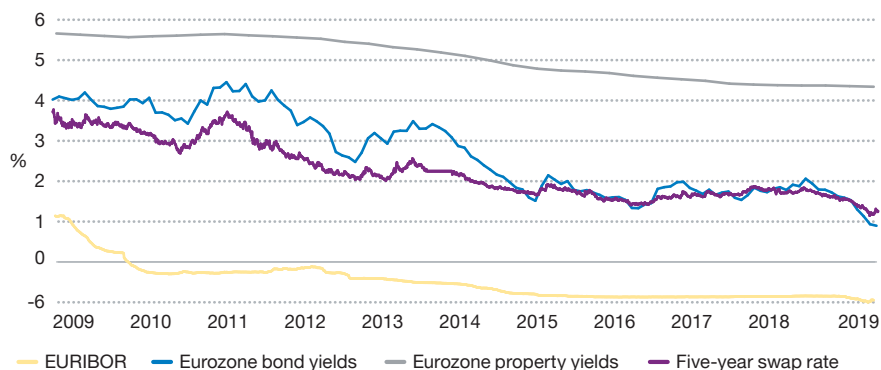
Nearly three quarters of respondents expect short-term interest rates to stay the same or reduce in 2020, while the majority believe inflation will hold steady. In the eyes of most interviewees this monetary environment has reinforced real estate's attraction relative to bonds and equities. As one private equity player says, “There's not a significant enough slowdown in growth to really undermine the fundamental value proposition that real estate provides, given a negative interest rate environment.”

Figure 1-6 Interest rates and inflation in 2020



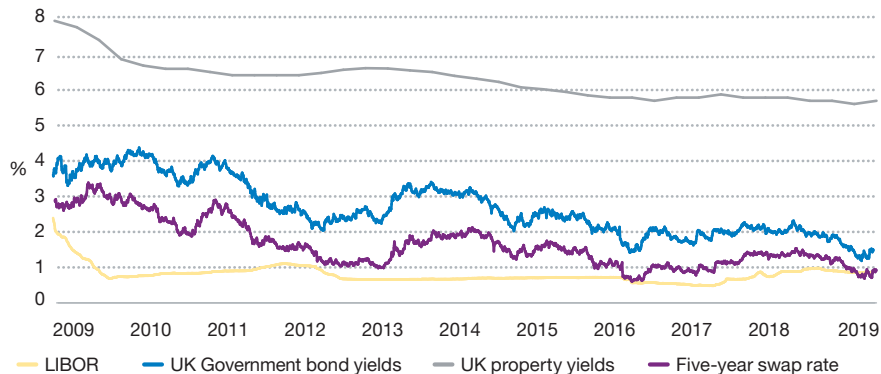
Source: Emerging Trends Europe survey 2020

Figure 1-7 Eurozone property yields and interest rates, 2010–2019



Source: CBRE, Datastream from Refinitiv, European Central Bank

Figure 1-8 UK property yields and interest rates, 2010–2019

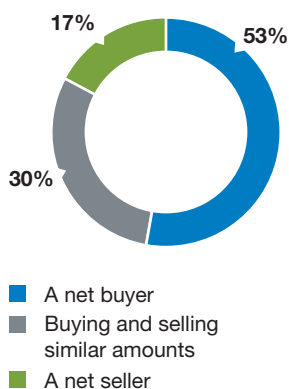


Source: CBRE, Datastream from Refinitiv, European Central Bank



Image: Harbour, Hamburg, Germany

Figure 1-9
**Appetite for European
real estate in 2020**



Source: Emerging Trends Europe survey 2020

European real estate has been “brought back into focus for a lot of investors versus other asset classes”, and many – but importantly, not everyone – in the industry expect capital to keep being deployed. Just over half of respondents say they expect to be net buyers of real estate in Europe in 2020, and nearly a third are buying and selling in equal measure. But nearly a fifth expect to be net sellers, reflecting perhaps the economic uncertainty in this late-cycle market and the risk of a geopolitical shock to the system.

“The insurance companies, the open-end funds and high-net-worth individuals will continue to seek yield in the real estate sector,” says one of the more bullish pan-European fund managers. “That low interest rate – that force – will drive continued high allocations to real estate. There’s a lot of business to be done, still, just allocating money into core real estate.”

As one global investment manager observes, this “incredible wealth of capital going into the market pushed down cap rates in logistics and in some cases, offices, by another 25 basis points” during 2019.

Even in highly priced but economically challenged Germany, there is the possibility of more to come. “Since interest rates are unlikely to rise and may even go down, we see even further yield compression,” says one German interviewee.

“It just feels as if we’re in a lower return environment for a longer period of time. If there’s no underlying growth in the markets, rates will stay low.”

Even so, few are relying solely on cap-rate compression. Sustainable income has been the key objective for institutional investors for several years, and 2020 will be no different. “And that will mean the overall return is significantly lower than what we have seen over the last three, four years because the income return component will come back to something between three and five percent, depending on the sector,” says one pan-European investment manager.

Return expectations have been scaled down over successive *Emerging Trends Europe* surveys, and once again a third of respondents are targeting lower returns compared with a year ago. Two thirds are pencilling in up to 10 percent risk-adjusted returns in 2020.

“It just feels as if we’re in a lower return environment for a longer period of time. If there’s no underlying growth in the markets, rates will stay low. We don’t see that really moving out in the next three to five years,” says a global investment banker.

On a cautionary note, one fund manager adds: “This is an environment some institutional players still have to accept because they have their pay-out requirements based on historical higher returns.”

If anything, the interviews indicate there is no pre-eminent means of achieving attractive risk-adjusted returns at this point in the cycle. “Europe still offers a huge amount of complexity, a huge amount of diversity,” a global fund manager suggests. “That means skilful investors can extract higher returns. I just think you have got to be honest to your investment committee and your investors about the risks you are taking so they then have the opportunity to offset those elsewhere.”

Last year, core-plus and value-added strategies seemed to prevail as investment managers and fund managers sought to squeeze higher returns on behalf of their clients. This year, the monetary policy shift has helped spark, as one global manager puts it, “a recovery in investor enthusiasm for core real estate”.

“I’m not totally uncomfortable buying very core assets at very high prices, because they will still be there in five, 10, 15, 20 years. They will still have a value depending on cycle, depending on the quality of our management. But they will be okay,” says one pan-European manager.

Another pan-European player is even more trenchant in support of core: “We’ve been unremittingly disciplined on asset quality because most of the threats to real estate today, when it comes down to it, are on product that for one reason or another is going to become obsolete. People say core is too expensive, and that may be true. But when the market turns, I’d rather be holding the better assets, for so many reasons, than the secondary assets.”

There are counter arguments. Investing in “everything but core”, one global player says: “These are good times for people who actually work their real estate, who know how to do real estate, who are not just expecting cap-rate compression and easy money to be made.”

Figure 1-10
Returns targeted in 2020 compared to previous year

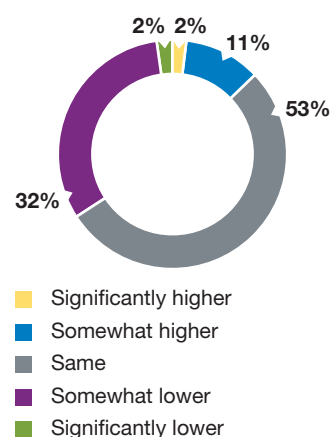


Figure 1-11
Returns targeted in 2020

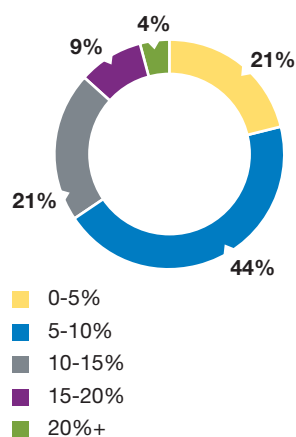
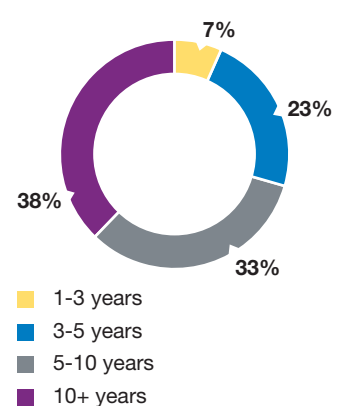


Figure 1-12
Time horizon for holding investments



Source: *Emerging Trends Europe* survey 2020

Chapter 1: Business environment

And when it comes to development, the definition of risk is open to interpretation. The develop-to-core strategy has been a feature of the European market for the past few years. Many interviewees still see it as a prudent way of securing quality offices and logistics without paying over the odds. “At this point in the cycle, and given the secular trends, it’s the right thing to be doing,” says a pan-European manager.

But one global investor active in Europe is less sanguine: “In order to get a good margin, in a lot of cases at the moment you have to do development. There is no question it’s riskier. That is what happens in every cycle: you can no longer buy income at measurable levels, and you are forced into a position where you have to go up the risk curve. I don’t like it, but that’s the reality.”

For others, alternative real estate investment has been one of the notable defensive strategies. The survey and interviews indicate that the less cyclical income from the likes of purpose-built student accommodation, healthcare and senior living will remain highly coveted in 2020.

Though trending upwards, alternative real estate is still a minority play from a short-term capital perspective. “Despite all of the zeitgeist around alternative assets,” says one pan-European investor, “the most liquid product in the real estate sector in Europe today remains a newly built, fully let office building in a gateway market in a fantastic location. That is where liquidity resides. I can always sell that building.”



Mobility matters

Many in the industry believe returns – as well as market liquidity – can improve if they take account of the bigger urbanisation and demographic trends and attempt to invest through the cycle.

To that end, the boundaries between traditional and alternative real estate are being blurred, as highlighted by *Emerging Trends Europe* in recent years. The significance of alternative real estate is not simply the capital it attracts but the way it has helped advance the idea of real estate as a service, and turn practitioners into, as one says, “operators as opposed to asset allocators”. At the same time a blurring of the boundaries between real estate and real assets – especially transport infrastructure – is encouraging investors to examine more closely how their buildings will be used and how cities may develop.

Speaking for many interviewees, one pan-European manager says: “We are trying to bring the infrastructure thought process and investment activity closer to what we are doing in real estate.”

Thus, it is little surprise that Paris tops the 2020 city rankings; the Grand Paris project, Europe’s largest transport scheme, is repeatedly praised by interviewees. Says one: “It will change the way the city works for good. It is a tangible example of how transportation can directly influence investment as an incubator for new markets.”

One global player and long-time Paris investor adds: “Every single decision we make when we look at an emerging location in Paris is about how the new train or metro system will impact that location. Is it going to benefit residential? Or are we going to create a new office location?”

For many of the industry leaders canvassed for *Emerging Trends Europe*, the opportunities extend beyond large-scale public infrastructure. The consensus is that they need to factor in the harder-to-define solutions and cultural changes that are already “transforming urban mobility”. They also acknowledge that, further out, investment needs to reflect the adoption of electric and autonomous vehicles. “Smart mobility will change our behaviour when it comes to moving around quite substantially in the future,” says a German asset manager.

There is also a reasonable expectation that smart mobility, just like big-ticket infrastructure, can be a catalyst for urban regeneration. “Low-cost mobility solutions can make areas that are currently underserved by public transport once again accessible, especially to younger people, and thus bring additional stock of spaces, often more affordable, back to the market,” says one interviewee. “This has the effect that increased interest will attract investment and provoke a gradual rejuvenation of areas that may be considered unattractive by end users today.”

Right now, as one pan-European manager says: “Mobility is one of the key considerations for the locations in which we invest.”

Top trends

Environmental tipping point

Climate change is seen as having the biggest impact on real estate over the next 30 years, but it is clear that some industry leaders are already rising to the challenge, not least because they bear some responsibility.

“We have reached a tipping point around environmental issues generally, and 40 percent of global emissions are from real estate,” says a pan-European investment manager. “We have ambitious targets around going net carbon neutral that will impact how buildings are built, used and managed.”

Almost half of survey respondents say the risk of climate change has increased in their portfolio, and 73 percent expect that risk to become greater over the next five years.

The interviews suggest the growing public outcry over the effects of climate change is influencing sentiment in the industry. That public pressure is translating into a general tightening of environmental, social and corporate governance (ESG) requirements among institutional investors.

This tougher ESG regime is in turn being imposed on the real estate specialists in those organisations, their external investment managers and on publicly quoted companies. “People are waking up to the world’s environmental issues. Shareholders enquiring about the environmental impact of our buildings has gone up five-fold,” says a UK REIT director.

Some investors are also responding to national emissions reduction targets imposed under the Paris Agreement. For them, making their assets “Paris-proof” overrides short-term political and economic concerns. As one Dutch investor says: “The biggest risk for us is more the long-term risk – is your property good enough to deal with the Paris treaty? But I don’t think every institutional investor shares our concerns over sustainability, at least not yet.”

Indeed, 26 percent of respondents do not see any material impact from climate change on their portfolio today, although around a fifth believe it is already leading to greater capital expenditure, higher operational costs and faster obsolescence.

“Global climate change is reducing the amount of land that’s viable for habitation and occupation,” concludes one pan-European investor. “Some of our most valuable agglomerations of real estate value are in global cities, places that are hugely exposed to those risks and being transformed on the basis of those risks. And the real estate market is only just beginning to evaluate that.”

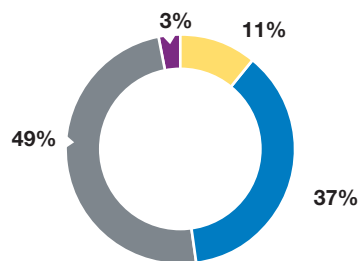


Shareholders enquiring about the environmental impact of our buildings has gone up five-fold.



image: Bosco Verticale, Milan, Italy

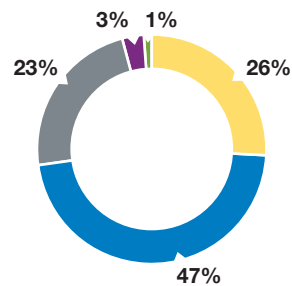
Figure 1-13 **Current climate change risk on portfolio**



■ Increased significantly ■ Decreased somewhat
■ Increased somewhat ■ Decreased significantly
■ Stayed the same

Source: Emerging Trends Europe survey 2020

Figure 1-14 **Climate change risk on portfolio in the next 5 years**



■ Increase significantly ■ Decrease somewhat
■ Increase somewhat ■ Decrease significantly
■ Stay the same

Figure 1-15 **Climate change impact on portfolio**

No material impact	26%
More capital expenditure	22%
Higher operational expenses	20%
Faster obsolescence	18%
Higher insurance premiums/non-insurability	6%
Declining values	5%
Lower liquidity	2%
Increased number of sales	0%

Source: Emerging Trends Europe survey 2020

Regulatory risk for residential

A lack of affordable housing has been highlighted by *Emerging Trends Europe* as a serious problem in many European cities for years, and there is no let-up in sight.

Some 61 percent of survey respondents are concerned about housing affordability in 2020 – sharply up on last year – and half believe the problem will worsen over the next five years.

With the supply/demand imbalance acknowledged as long-term, it is no coincidence that the industry has responded by deploying increasing amounts of capital into various forms of rental housing.

However, several governments across Europe – mainly at a city rather than national level – are also responding now to the affordability issue with proposals to set rent controls.

“That is why we think that residential could be potentially exposed to a certain yield shift ... to move out and reflect more the political and regulatory risks investors are facing,” says an investment banker.

A French CEO puts it more bluntly: “When not enough people have enough wealth, the easy way to get votes is to stop rent increases, so politicians do it and mess up the market. Political decisions don’t go with good management a lot of times.”

So far, Berlin has made the biggest headlines with a plan to introduce a rent freeze for five years, which has already hit sentiment. “The story of that city is really strong, and we have assets there. But it’s just un-investable at the moment, so we’re going to manage what we’ve got and watch for a resolution,” says one longstanding residential investor in Berlin.

Similar measures are expected in other German cities and beyond. Residential regulation is one of the common talking points for interviewees active in markets as diverse as France, the Netherlands, the Nordics, Spain and the UK.

Though much more wary of the regulatory pitfalls than before, experienced residential investors still inherently believe the long-term supply/demand dynamics make housing relatively secure and “defensive on the downside”.

“Rent control is an issue, but it will impact mostly in the first years of investment,” says a pan-European player. “If you want to have a real policy in residential you know that quite an important part of your value is not in yield but in capital gains, which means you have to be patient.”



Image: Dortheavej Residence affordable housing project, Copenhagen, Denmark (Bjarke Ingels Group)

Construction costs developers dear

Invariably flagged as a big issue in *Emerging Trends Europe*, construction capacity has been thrown into sharp focus this year by those who would pursue a late-cycle, develop-to-core strategy were it not for rising costs.

More than two thirds of survey respondents – a higher proportion than last year – cite increasing construction costs as having the biggest impact on their business in 2020. Interviewees across Europe point to labour and material costs combining for 5-7 percent inflation per annum in this sector.

This is a dilemma for investors, who can see that the post-financial crisis over-supply has disappeared, much stock needs modernising and sourcing suitable standing core assets is as expensive as ever. With constraints on the development pipeline, however, there is reassuringly little sign of a new over-supply emerging.



We are quite cautious at this point in the cycle, especially with construction costs rising significantly in many markets. The bar is higher for development at this point.

Two thirds of respondents nonetheless believe that (re)development is the most attractive way to acquire prime assets. But as one Dutch investor says: “Development has become more expensive due to the fact that construction costs have increased dramatically, and buying land is also an issue. Develop-to-hold is still a feasible business model. But let’s say, percentage-wise, it’s lower today than it used to be.”

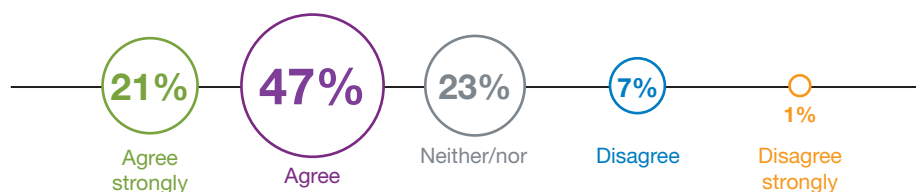
A private equity player points to a few development hotspots around Europe, such as Berlin, before adding: “All we generally see are very low vacancy rates but no development response. And part of that is because there’s not a huge amount of construction capacity.”

Nor is there much debt, which means developers must rely on equity. “For risk transactions, whether it’s development, refurbishment, speculative, lending into vacant or a building that you know is going to go vacant, the debt market remains cautious and relatively selective. There the sponsor is extremely important, and the providers are not that many,” says another private equity investor.

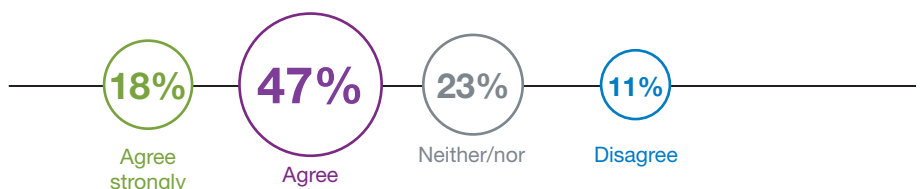
For those intent on development, the capacity issue – a legacy of the financial crisis, too – is squeezing margins. “If yields cannot continue to come down, then obviously, you have to be prepared to have a lower return on your investment,” says a German CEO. A pan-European investment manager is “insisting” on pushing the cost risk back on to the contractors, but even so “the vendors are having to understand that this is impacting on site valuations”.

An investment manager with a long European development track record concludes: “We are quite cautious at this point in the cycle, especially with construction costs rising significantly in many markets. We are more likely to reduce risk and unlikely to pursue speculative development. We like income. The bar is higher for development at this point.”

(Re)development is the most attractive way to acquire prime assets



Prime assets are overpriced



Technology boost for business

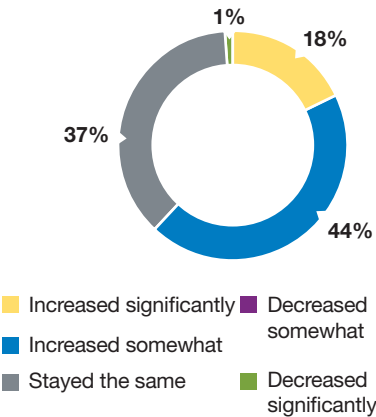
“To be a winner in the next five years you will need to be faster and smarter, and being digital is the key to being fast and smart,” says the director of a pan-European lender. The industry is largely following this advice.

Nearly two thirds of survey respondents have increased the use of technology in their operational businesses over the past year. Nearly 90 percent indicate it will carry on trending upwards over the next five years.

These results bear out what *Emerging Trends Europe* has signalled in previous years when many interviewees hailed technology as a critically important long-term influence on real estate. It is natural that such sentiment would sooner or later turn into day-to-day use.

The survey reveals two main ways of harnessing technology – a third of respondents are buying products from third-party suppliers, while a quarter are investing or partnering with start-up proptech firms. “Originally the idea we had was to invest in start-ups and get a return on our money. Now we see this as learning money to keep track of what’s happening in different segments of the market. All this is part of our core business now,” says one enthusiast from the Baltics.

Figure 1-16 Proptech investment / usage in the past year

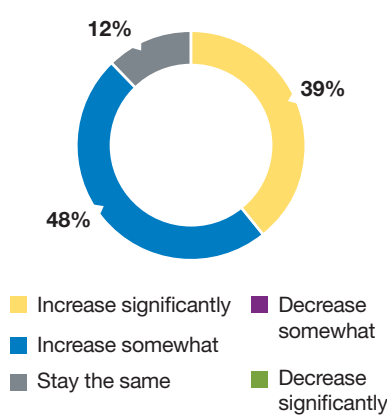


Source: Emerging Trends Europe survey 2020

Many industry leaders view technology as an enabling force for efficiency gains, not just for their business but in the work they undertake for clients and occupiers, whether it is building information modelling used by architects and developers or data management tools used by investors and asset managers.

Expressing a common view, one global manager says: “We are investing internally in democratising access to our own data and creating operational efficiencies for the business as well as better decision-making. Most of our focus, however, is on our real estate portfolio and how we can use technology within it to drive user experience, sustainability and, ultimately, investment performance.”

Figure 1-17 Proptech investment / usage in the next 3–5 years



Two thirds of respondents may be users, but they are not actually investing in technology despite the perceived improvements it can bring to real estate. Like one Polish investment manager, they are “wary of spending a lot of money on something which will be old in three, four years”. Some believe their scale of operation is too small to warrant investment. Others are put off by the confusing array of proptech start-ups out there.

Perhaps this reflects some anxiety over jobs. As one German lender says: “People talk about jobs lost from Brexit, but a bigger impact will be the role tech plays and the number of support staff roles in financial services that become redundant. That space might be taken up by the tech companies themselves.”

In any event, there is a consensus that real estate is nearer the start than the end of its “digital transformation”. But it is gathering momentum.

Figure 1-18 **Methods of proptech investment**

Buying proptech products from third-party suppliers	32%
Investing in/partnering with proptech businesses/start-ups directly	24%
Investing in proptech businesses/start-ups via the company's venture capital provider	5%
Investing in proptech businesses/start-ups via a third-party venture capital provider	3%
Not investing	36%

Source: *Emerging Trends Europe* survey 2020

“
To be a winner in the next five years you will need to be faster and smarter, and being digital is the key to being fast and smart.



Image: EDGE Suedkreuz Berlin project, Germany (EDGE Technologies)

Chapter 2

Real estate capital markets

“We’re investing with a recognition that this does all end. And even if we can’t say when or how, we should be experienced enough to understand the consequences and what happens in the unwind when that process begins.”

Chairman, private equity firm



Image: Student accommodation in Castelldefels, Spain
(AXA Investment Managers – Real Assets)

With interest rates set to stay lower for longer and bond yields in many European countries in negative territory, equity and debt for real estate are expected to remain plentiful for most of 2020.

That said, market participants are being more careful than ever about how and where they deploy that capital. They are acutely aware that this real estate cycle is now more than a decade old and prices in many countries and sectors are at record highs.

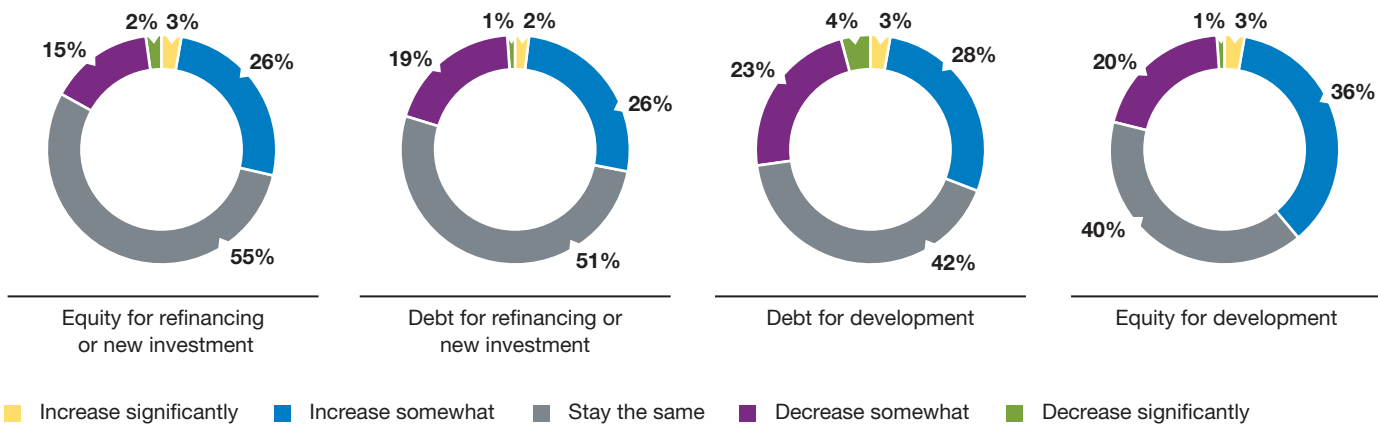
More than half of survey respondents believe that equity and debt for refinancing or new investment will be the same in 2020 as in 2019.

Between a quarter and a third think equity and debt will increase in the next 12 months, which is about the same proportion as predicted for last year's increase.

"There is never going to not be a demand for real estate," one very bullish global investor says. "There is \$31 trillion of negative yield debt out there, and you need to find yield." Consequently, on an overall basis, the weight of capital might actually cause values to rise in prime markets.

"When German cap rates compressed to three percent, everyone felt it would be hard for them to go much lower, but in the last six months they have," one investment manager says. "Can it keep going? Look at Japan."

Figure 2-1 Availability of equity and debt in 2020



Source: Emerging Trends Europe survey 2020

Yet there is little evidence of complacency among investors about the risks inherent in a market where values are above historic norms. “The fact is we are probably getting slightly lower returns from the same level of risk,” a private equity investor says. “On balance, I am not going to go for more risk at this stage to juice returns.”

Not all markets are equal when it comes to availability of capital. Following a decline in UK investment volumes in 2019, there is a clear belief among three quarters of respondents that the downward trend will continue in 2020 as a result of Brexit.

“People are risk-off on the UK at the moment for everything except residential, and a lot is going to have to change for investors to feel more comfortable again,” one global investor says. From the point of view of lenders: “Those assets that people feel strongly enough to support are being bid aggressively, but as soon as you move a few yards from the centre of the fairway, the brakes go on.”

Figure 2-3 Impact of Brexit on real estate in 2020

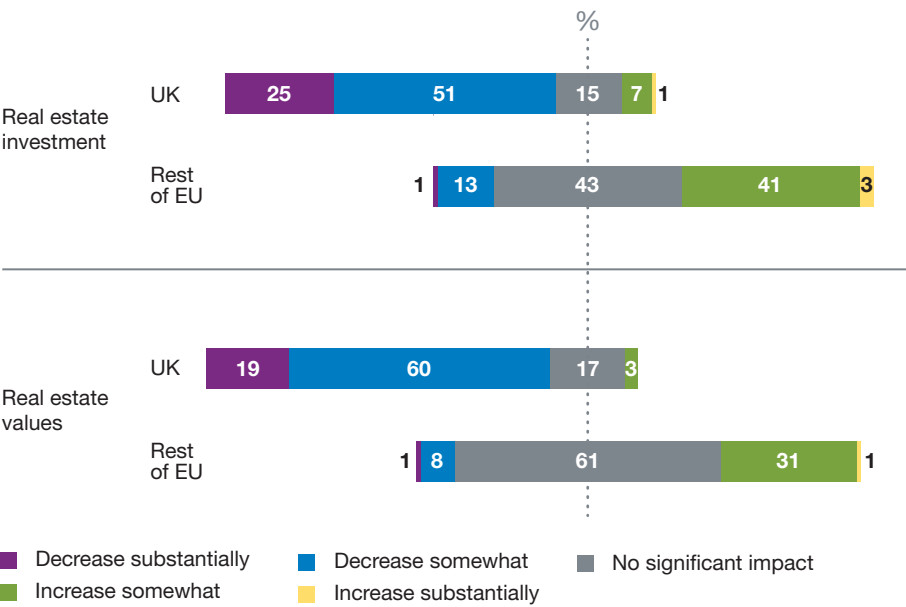
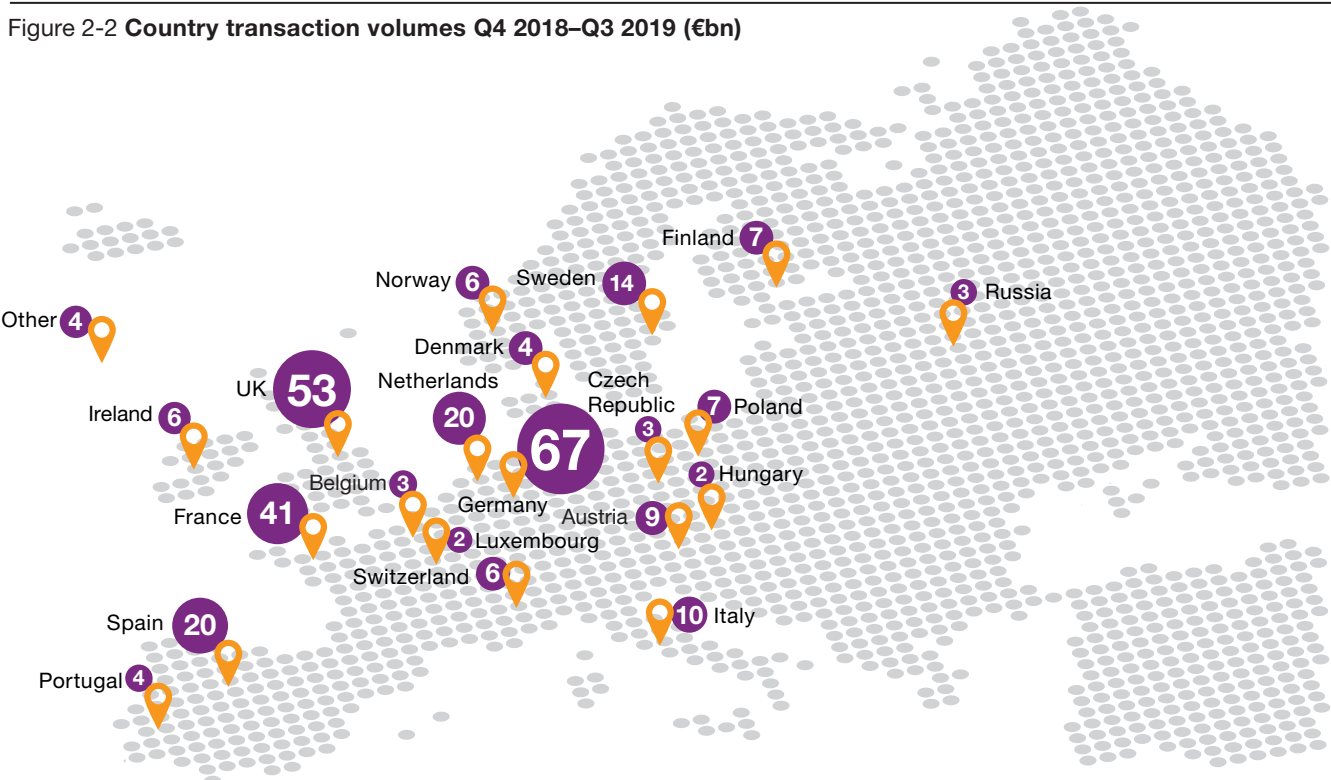


Figure 2-2 Country transaction volumes Q4 2018–Q3 2019 (€bn)



Source: Real Capital Analytics

Note: Countries with transactions over €1 billion.

However, the UK is still among the largest markets in Europe. There is an underlying feeling that even in the event of a hard or no-deal Brexit, there is so much capital in the world that values would be supported in the UK by opportunity funds and other investors quickly stepping in, looking for bargains.

“For a lot of investors, the UK has been off limits for a while, but some of the private equity guys who have not invested here before are starting to hire teams,” one adviser says. “If you don’t have a legacy UK book, now is not a bad time to start looking.”

“We are very active in the UK today, and not everyone is,” one more optimistic debt fund manager says. “We are underwriting things that would still be okay and survive if the UK dropped out of the G20.”

With pricing high for existing core assets, investors are increasingly willing to look to development to find higher returns. The fact that survey respondents feel there is more likely to be an increase in equity compared to debt for development highlights two trends, one cyclical, one secular: the willingness of institutional investors to adopt a build-to-core strategy and the pullback of traditional lenders from development finance, which regulation is making less profitable for them.

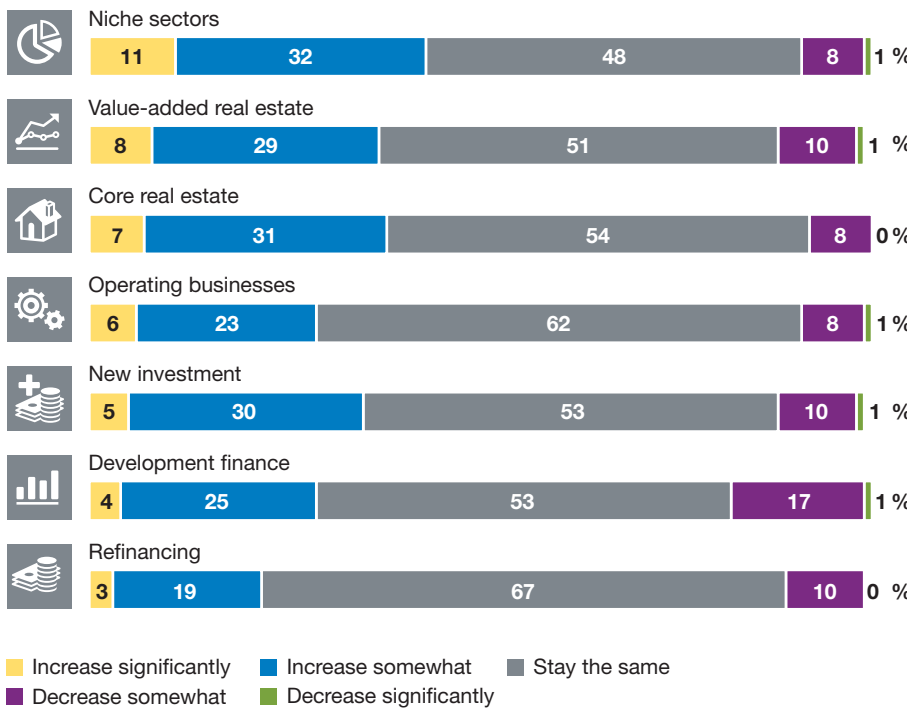
“We are going up the risk curve; we are supporting development, but we don’t call it development, we call it build-to-core,” one pension fund investor says. “I don’t want to say we are riding up the risk curve, but we are looking for resilient assets and operators that can pick good locations.”

“In 2018, 60 percent of our investments were forward funding,” another institutional fund manager says. “There is a smaller competitive set of players for those deals. We do get a premium, but even that has eroded to around 25–40 basis points at best.”

The steady march of alternative real estate sectors has been charted in detail by *Emerging Trends Europe* for the past five years, and again interviewees are keen to highlight the fact that, with values high almost across the board, sectors with demographic support, such as rented residential in all its forms, are increasingly appealing.

This thesis is spreading beyond the equity sphere and into debt, where lenders had been more reticent to lend outside of mainstream real estate. More than 40 percent of respondents think niche sectors would see the biggest increase in availability of senior debt this year.

Figure 2-4 Access to senior debt in 2020



“We are going up the risk curve; we are supporting development, but we don’t call it development, we call it build-to-core.”

Source: *Emerging Trends Europe* survey 2020

“We’ve had a development finance mandate for a while, which is continuing to grow for anything with a bed,” one fund manager says.

Investors are almost as confident that senior debt will increase in availability for core real estate. Lenders are continuing to back assets with values which on the whole are likely to be supported by the benign interest rate environment that has caused yields to compress or remain flat in core markets.

The exception is retail. Survey respondents are not asked specifically about the sector, but interviewees report that lenders are far less willing to lend on shopping centres and retail parks, particularly in the UK, where the sector is facing precipitous falls in both income and capital values.

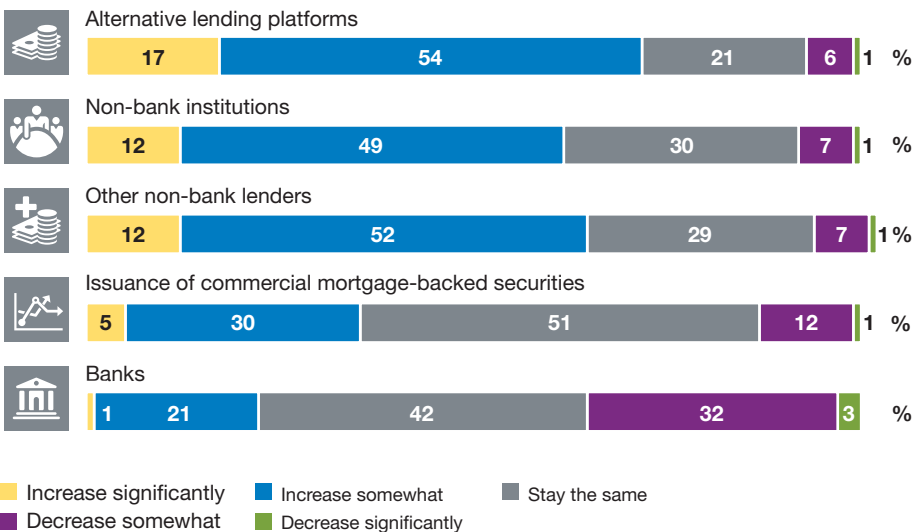
“We are very cautious on retail, and we would only lend to clients who are already active in the sector and only on high street units,” says one bank, speaking on a pan-European basis. “We are not lending on shopping centres or retail in the regions.”

“A lot of lending institutions have red-lined retail, and that makes it harder to wade in,” one UK adviser says.

In terms of where debt will come from, survey respondents expect the long-term shift away from banks towards debt funds and institutional lenders like pension funds and insurers to continue. More than 70 percent believe alternative lending platforms will increase their lending in the next 12 months, more than three times the 22 percent who expect banks to lend more.

“We are very cautious on retail, and we would only lend to clients who are already active in the sector and only on high street units.

Figure 2-5 Sources of debt in 2020

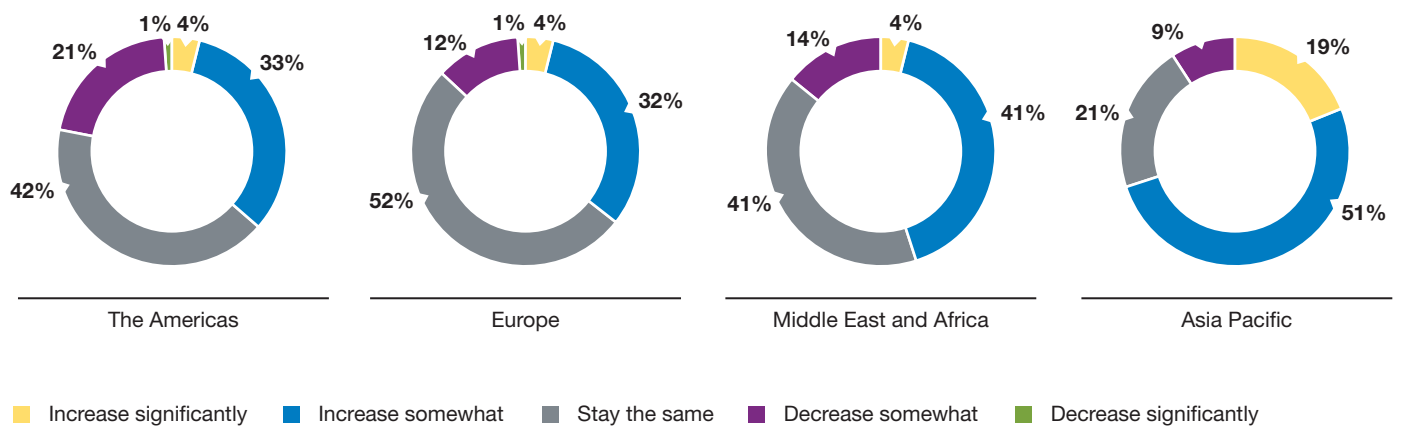


Source: Emerging Trends Europe survey 2020



Image: The planned Key West mixed-use development, Brussels, Belgium (Henning Larsen)

Figure 2-6 Cross-border capital into European real estate in 2020



Source: *Emerging Trends Europe* survey 2020

Like investors, banks are reacting to the increased competition with caution. “We are more focused on the risk side now, and for that reason we will not conduct the same amount of transactions as in 2018,” one lender says.

When it comes to cross-border capital into Europe, 2020 looks very similar to 2019: the biggest increase is expected from the Asia Pacific region, with 70 percent of respondents predicting a rise. Ever-growing savings in Asian countries, combined with a long-term outlook, are likely to keep the capital flowing from the east.

Japanese institutional investors are making their first forays into European real estate, with the country's Government Pension Investment Fund (GPIF) handing out a multi-billion-dollar mandate last year. But capital from GPIF and its peers will be in the form of indirect investment in funds rather than direct assets. "Japan Post Bank and Japan Post Insurance have also given out big indirect mandates," one fund manager says. "Those are several hundred million commitments, and the original GPIF commitment is in the billions. So, the money's there, and it's clearly beginning to flow."

Investment from China is expected to remain moribund due to government capital controls, but South Korean capital is plentiful, particularly in continental Europe. "Korean money has gone to Europe because of the currency play with the euro versus the pound," one fund manager says.

However, some feel this could be something of a bubble. "There is a very strong capital flow from Korea at the moment," another manager says. "That can be a bit concerning in some situations. On some deals the top four or five bidders are all Korean asset managers. The exchange rate has led to them becoming aggressive bidders, and that situation can't go on forever."

European institutional capital should stay strong, with roughly the same proportion of survey respondents forecasting an increase in domestic capital as last year. There is a slight uptick in expectations of an increase in North American capital coming to Europe in 2020, with the cycle on the other side of the Atlantic even further advanced. The large value-add and opportunistic fund managers from the US are the vehicles of choice for investing in Europe. "There is still a lot of broken real estate in Europe and money willing to invest if you can take that and turn it back into core product," one value-add investor says.

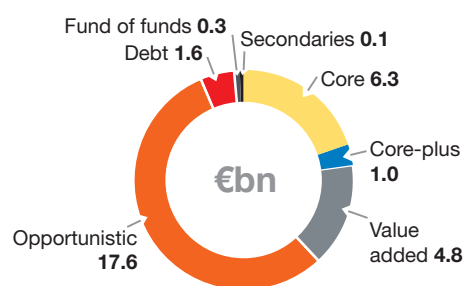
Housing opportunities

As for the sectors into which capital is flowing, residential once again dominates the upper echelons of *Emerging Trends Europe's* investment rankings, taking six of the top 10 slots. Retirement or assisted living, affordable housing, rented residential and student accommodation are operationally more complex than traditional real estate. Co-living and, to a lesser extent, serviced apartments are nascent when it comes to significant interest from investors. But all these sectors are seen as being underpinned by strong demographic demand.

"We are diversifying into alternative sectors – you could call it the beds and sheds strategy," one global investor says, underlining a growing trend across Europe. "Even though you have seen significant yield shift in those sectors, we still think these are young markets, particularly the beds sector. We are a core, long-term investor, so we look at it on a relative basis. The overall population trend is what gives us our long-term view. Beds are a good long-term strategy."

Affordable housing rises up the ranks this year, from 11th place to ninth for investment prospects and from 12th to fourth for development prospects. Housing affordability is clearly a pressing issue for European real estate professionals: 61 percent are concerned about its impact on business in 2020 and 50 percent expect the problem to worsen over the next five years. It has been a sector which traditional commercial real estate investors have avoided until recently, but the prolonged low interest rates make the relatively low returns here more palatable. And the overwhelming need for affordable housing makes it an opportunity.

Figure 2-7 Capital raised by Europe-focused private equity funds Q4 2018–Q3 2019



Source: Preqin

“If there is a megatrend in urbanisation, and people still flock to big cities, then there is demand for housing, and for affordable housing. So, we are happy to keep investing in that strategy,” one global pension fund says.

A UK fund manager has “shifted attention to affordable housing”, tapping “huge interest” from investors in a specialist fund. “We have decided that when we’re looking at an expansion of our European footprint, we’ll follow the same kind of strategy.”

One note of caution about investing in rented residential: it comes with high political risk. Many interviewees cite the decision by the city government of Berlin to impose rent controls as an example of how political pressures can affect the financial returns from the sector.

Barcelona and London are among other cities pushing for stronger regulations.

“The resi side is facing quite a lot of political influence, and quite a lot of that is irrational,” one adviser says. “But people make a mistake: they think if something is irrational, that means it won’t happen. But in politics things that happen are often irrational. Residential investment is an area that should be left to the super-pros right now.”

Student housing continues its rise up *Emerging Trends Europe’s* investment prospects rankings, and in the UK in particular the yields commanded by prime assets imply that it is moving from alternative to mainstream.

There is also evidence of growth in continental markets like Germany, Spain, France and the Netherlands. There are fewer international students to rent rooms to at high prices than in the UK, and European students are more likely to live at home than their UK counterparts. But the international appeal of cities like Berlin, Amsterdam, Madrid and Barcelona is starting to attract more students and thus real estate investors.

“We are seeing interesting growth opportunities in student housing across the continent,” one value-add fund manager says. “That market is still in its infancy, so the opportunity is to build rather than acquire assets.”

“If there is a megatrend in urbanisation, and people still flock to big cities, then there is demand for affordable housing. So, we are happy to keep investing in that strategy.”

Table 2-1 **Sector prospects in 2020**

Overall rank		Investment	Rank	Development	Rank
1	Logistics facilities	○ 4.35	2	○ 4.29	1
2	Retirement/assisted living	○ 4.37	1	○ 4.26	2
3	Co-living	○ 4.31	3	○ 4.23	3
4	Private rented residential	○ 4.17	7	○ 4.14	5
5	Student housing	○ 4.25	4	○ 4.06	9
6	Affordable housing	○ 4.13	9	○ 4.17	4
7	Healthcare	○ 4.21	5	○ 4.09	7
8	Data centres*	○ 4.14	8	○ 4.14	6
9	Serviced apartments	○ 4.11	11	○ 4.06	8
10	Flexible/services offices and co-working	○ 4.12	10	○ 4.01	10
11	Industrial/warehouse	○ 4.03	12	○ 3.98	11
12	Self-storage facilities*	○ 4.19	6	○ 3.81	15
13	Hotels	○ 4.03	13	○ 3.87	12
14	Housebuilding for sale	○ 3.92	15	○ 3.87	13
15	Science parks*	○ 4.00	14	○ 3.76	16
16	Social housing	○ 3.84	17	○ 3.87	14
17	Central city offices	○ 3.92	16	○ 3.69	17
18	Leisure	○ 3.71	18	○ 3.41	18
19	Parking	○ 3.56	19	○ 3.39	19
20	Business parks	○ 3.39	20	○ 3.19	21
21	Suburban offices	○ 3.34	21	○ 3.22	20
22	High street shops	○ 3.02	22	○ 2.75	22
23	Retail parks	○ 2.90	23	○ 2.44	24
24	City centre shopping centres	○ 2.87	24	○ 2.44	23
25	Out-of-town shopping centres	○ 2.47	25	○ 2.18	25

○ Generally good = above 3.5 ○ Fair = 2.5–3.5 ○ Generally poor = under 2.5

Source: *Emerging Trends Europe* survey 2020

Note: Respondents scored sectors’ prospects on a scale of 1=very poor to 5=excellent, and the scores for each sector are averages; the overall rank is based on the average of the sector’s investment and development score.

*A significantly lower number of respondents scored this sector

Leading logistics

The other side of the beds and sheds investment strategy is industrial/ logistics, which continues to ride high in the rankings for both investment and development, driven by the continuing increase in online retail sales. There is still seen to be lots of room for growth in European e-commerce, where online sales penetration is lower than in the UK, but catching up.

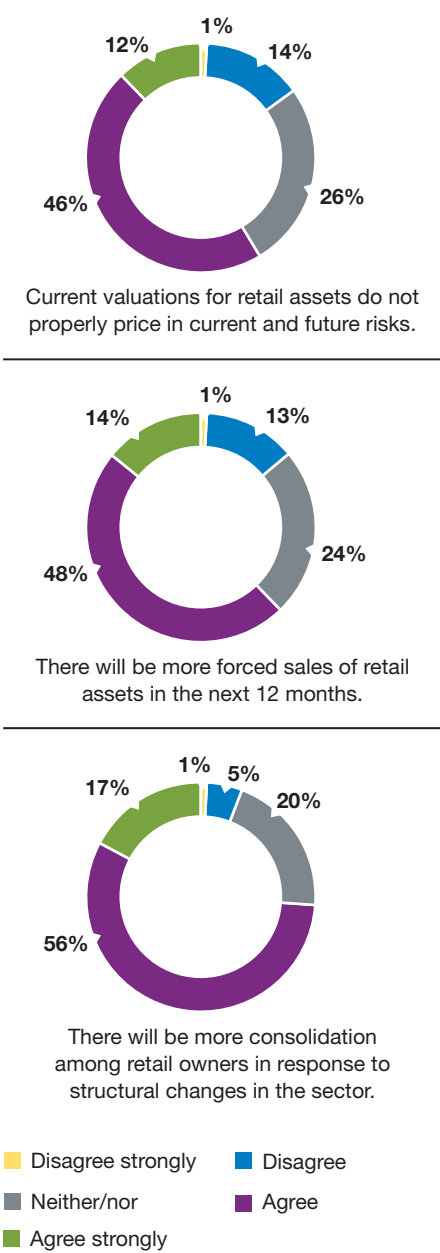
“We may not be in the first innings, but the fundamentals underpinning the sector over the long term are compelling,” one big supporter says. “For logistics, fundamental demand drivers have changed materially. It is no longer correlated with GDP; it is driven by changing consumption patterns. Despite that, if you look at the spread of logistics to office yields, it is still quite material, particularly on a capex-adjusted basis.”

For last-mile logistics in particular, supply cannot keep up with demand, because in urban locations the sector is competing with other high-value uses, such as residential.

Some investors think that pricing for existing industrial assets is too hot. But few are avoiding the sector altogether. Instead, they are looking to build: industrial and logistics offer the best prospects for development, according to respondents.

“Yields on UK logistics are pretty keen. I don’t think I’d be a buyer at 4 percent, that seems pretty keen,” one private equity investor says. “Germany is starting to get that way; you are seeing some deals at 4–5 percent, and even with the 10-year swap so low that feels keen, so that pushes you towards development. As long as the economy remains strong, then we would buy projects for development.”

Figure 2-8 Prospects for retail



Source: Emerging Trends Europe survey 2020

Struggling retail

But just as residential and industrial/ logistics retain their consistently high *Emerging Trends Europe* rankings, so retail remains rooted to the bottom of the league in terms of both investment and development prospects.

It is clear that UK retail is seen as particularly difficult to invest in currently, not least because of a raft of tenant insolvencies and rent reductions secured through the company voluntary arrangement (CVA), a legal process that allows retailers to relinquish lease liabilities. CVAs make it very hard to predict how resilient the income on assets will be, and hence their value. “In the UK right now, it is hard to plan the value of a shopping centre when you don’t know what the rent will be,” one private equity investor says.

In continental Europe the picture is more mixed. Unlike in the UK, retailers typically report sales data to landlords, and this information is used to set the rent. Continental European rents are regarded therefore as more resilient. Landlords can act either to tweak rents or bring in new tenants if retailers start to struggle, rather than being left with an empty space or retailers asking for dramatic rent cuts, as in the UK.

“There is a cold wind blowing through the retail sector at the moment,” one investor says. “That will have an impact on the continent, but I don’t believe to the extent we are seeing in the UK.”

Indeed, 62 percent of respondents anticipate forced sales of retail assets in the coming year, but on closer examination the survey reveals a wide division between UK and continental respondents: 90 percent and 56 percent respectively. Across Europe, nearly three quarters of respondents believe there will be further consolidation among retail owners in response to structural changes in the sector.

“You can buy retail at prices I’ve never seen before in my entire career,” one opportunity fund manager says. “Will retail reprice? If you look at the share prices, yes, but we have been buying well wide of even those levels. We have been buying assets that are trading okay even through the repricing, so we think they will grow over time.”

One investor even compares it to the buying opportunity in the wake of the global financial crisis.

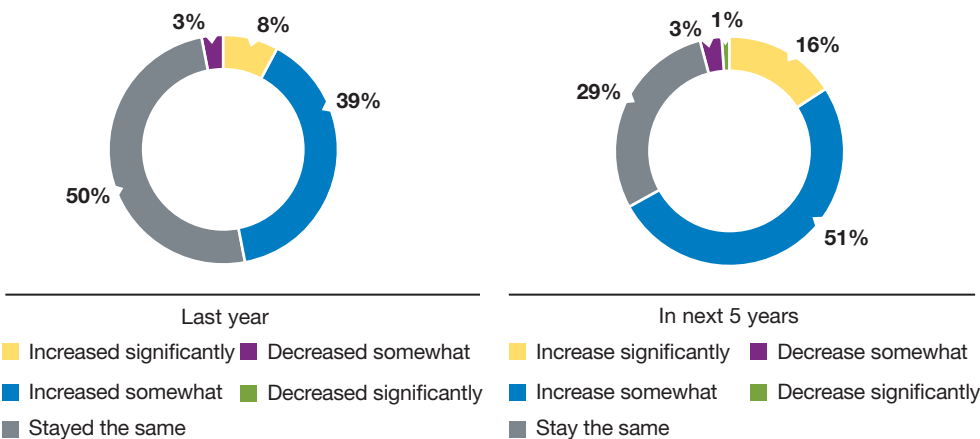
“We will look back on retail as if we were in 2009/10 when nobody wanted to put any money to work in real estate because they were nervous. And that ended up being one of the best investment opportunities just to put more capital in.”

This feeds into a wider trend: the repurposing of property away from uses now seen as increasingly obsolete and therefore less profitable, towards real estate that fits the way people use the built environment today.

Almost half the survey respondents say that they increased the amount of property they repurposed from one use to another in the last 12 months, and two thirds expect such repurposing to rise over the next five years. As one Greek interviewee says: “Repurposing of assets has become not only viable but a highly sought-after option for many investors.”

“Repurposing of assets has become not only viable but a highly sought-after option for many investors.”

Figure 2-9 Change in the number of assets repurposed



Source: Emerging Trends Europe survey 2020

In fact, the survey reveals that offices are more commonly subject to a change of use than retail. Either way, the end game is very often some form of residential or mixed-use strategy, and the interviews suggest it is prevalent in cities across Europe.

“The biggest opportunity lies in the conversion of office buildings into serviced apartments or other type of residential properties with characteristics and offerings assimilated to hotels,” one investor says. It is a strategy supported by cyclical and secular trends: residential prices make converting offices financially viable, while the long-term growth of cities drives up demand for housing.

“In Brussels there are a number of refurbishments and re-positionings that have happened and are happening, and with our investors we are capturing one or two,” says a pan-European fund manager. “There have been some very interesting mixed-use schemes that connect to public transport in that marketplace. That’s going to be the growth area, and that’s where we’re positioning our clients.”

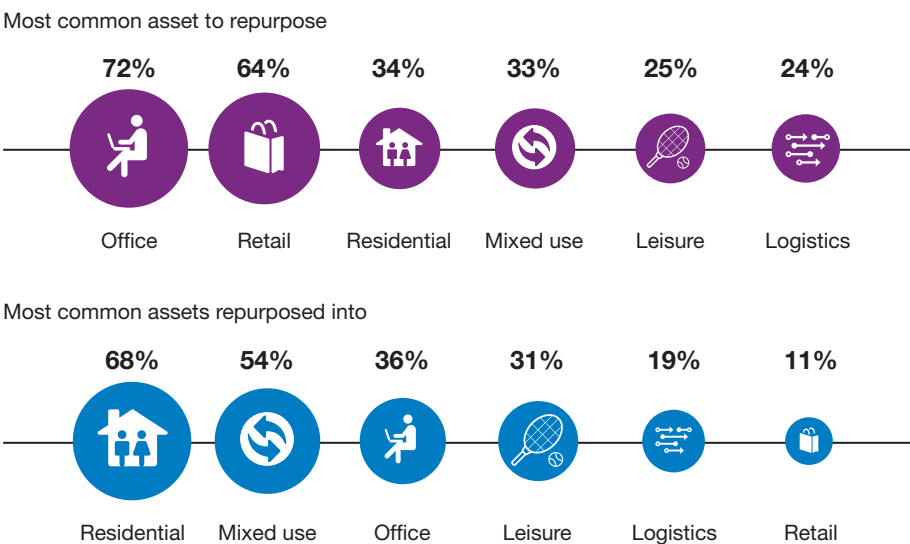
In retail, for shopping centres the move is towards a greater mix of uses, to reflect the reduction in goods being bought in store and the desire for people to live, work and play in close proximity. That is especially true of town centre schemes.

“Generally we are repurposing shopping centres into mixed residential and employment space, making co-working part of mixed-use schemes to drive activity back into town centres,” one pension fund says.

Even in retail parks, there is a growing feeling that big box retail can be converted to last-mile logistics facilities to meet growing e-commerce demand.

But those that own retail or are looking to buy it will need to be willing to put in money to adapt assets to the needs of the modern world. “It will come down to location, trading area and do you have the ability to create a mixed-use environment,” one value-add manager says. “Not every town needs a 250,000-square-foot shopping centre in the town centre.”

Figure 2-10 **Most common asset to repurpose/repurposed into**



Source: *Emerging Trends Europe* survey 2020

Mixed use is the second most popular property type when investors are considering what to do with defunct assets. Of those who are not currently investing in mixed use, two thirds say they are unlikely to go down that route. But when asked why, the most common reason cited is a lack of available assets. In repurposing assets from a single usage into mixed use, current owners might be tapping into latent demand, as well as creating assets that fit more easily into the way urban citizens want to use the built environment.

The repurposing of obsolete real estate to be fit for the modern world will take many years and many billions of euros, and it is inherently a process without end. It would seem that the investors, developers and lenders active in Europe are increasingly ready for the challenge and the opportunity it presents.

“For us, mixed use is the future of real estate: one day we will not talk about an office area, we’ll talk about an area where people can work, play, enjoy, live,” concludes one global investor. “It’s why we like to invest in large mixed-use or regeneration projects or areas that are developing in cities. In a mixed-use scheme we would look at retail. But we wouldn’t go and buy a suburban shopping centre on its own.”

Figure 2-11 **Currently investing in mixed-use assets**

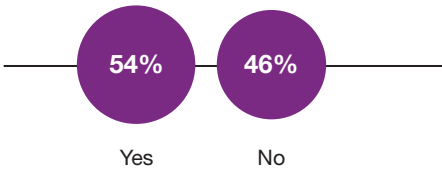


Figure 2-12 **Intending to invest in mixed-use assets**

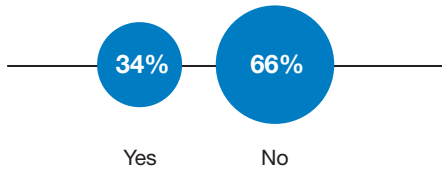


Figure 2-13 **Managing mixed-use assets**

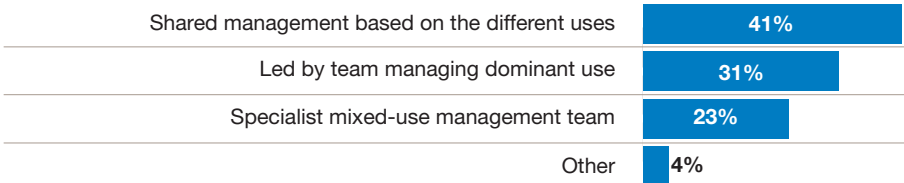
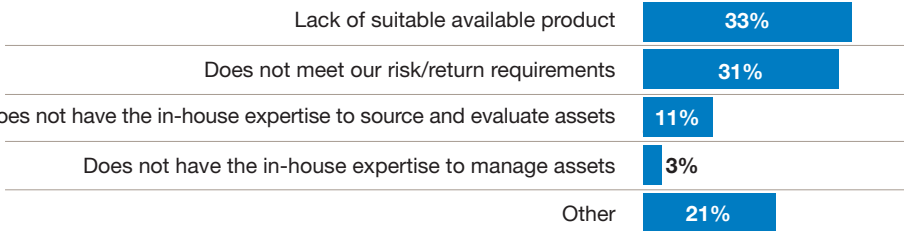


Figure 2-14 **Reasons for not investing in mixed-use assets**



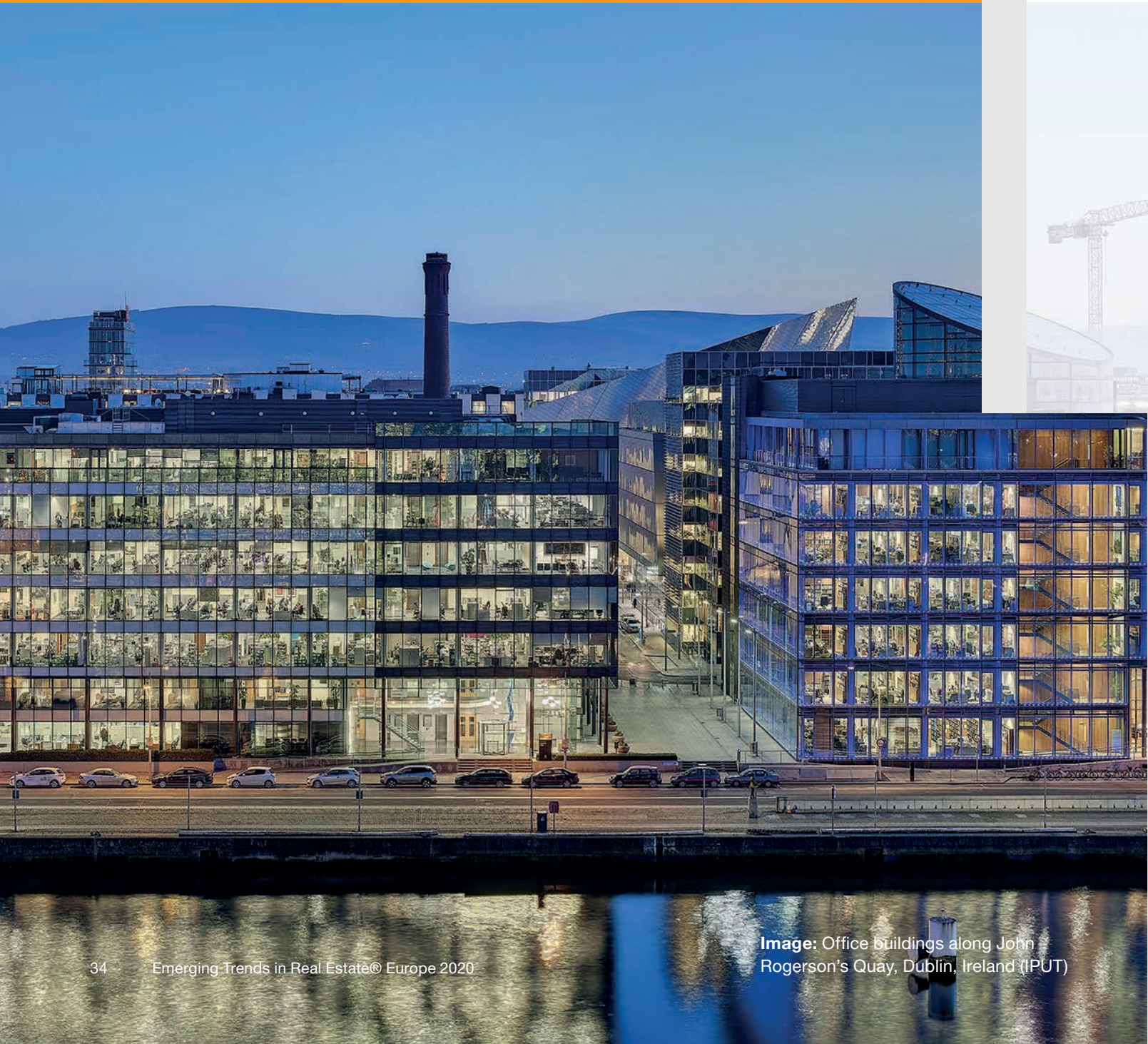
Source: *Emerging Trends Europe* survey 2020

Chapter 3

Markets to watch

“We are late in the cycle, and it seems to be never-ending. We have been ever more cautious on location and quality of assets, particularly on location.”

Director, global investor



This year, opportunity and caution are driving Europe's real estate industry. Whether their business is global, pan-European or national, those canvassed by *Emerging Trends Europe* are focusing on cities that offer liquidity and connectivity while keeping a wary eye out for political instability.

Paris is the clear favourite for 2020, ranked Number 1 for overall prospects. "Paris has three great, extra things going for it: the 2024 Olympic Games, Brexit – it is just two hours from London by high speed train – and the Grand Paris project," says a pan-European investor. France's capital also provides scale, liquidity and international cachet. "It is a truly global city with nicely diversified occupier market and currency-friendly," says another investor.

But it is Grand Paris that makes the French capital stand out. This ambitious €26 billion project aims at transforming it into a 21st-century metropolis and includes a fundamental redrawing of the public transport network.

"Public transport is opening up new areas of the city. These are big opportunities, and we are investigating those," says an international investor.

And despite the "gilet jaunes" protest movement, France's En Marche government, elected in 2017, wins points: "They have made economic reforms, and it is easier to make decisions there, as that will have a positive impact," says a global broker. "Of the big three countries, France looks the most stable and the most attractive."

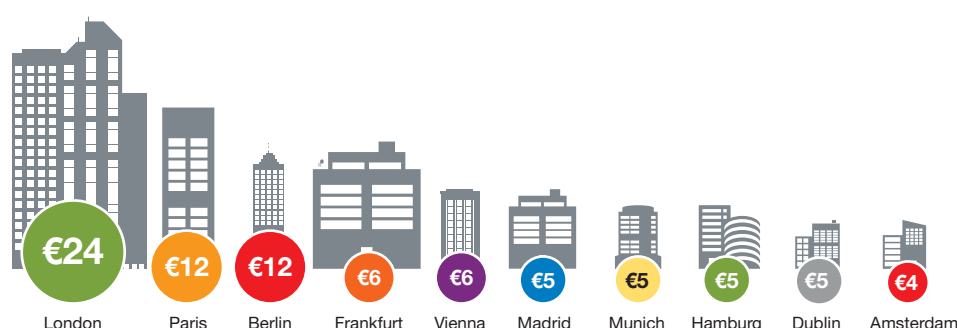
Infrastructure and politics also loom large in Berlin. The previous darling of *Emerging Trends Europe*, it is still very high up on most investors' wish lists but comes second in this year's survey. Success is bringing collateral concerns; for some, Berlin "is no longer an opportunity as prices are too high across all sectors".

Infrastructure issues are also cited, notably that existing air connections are "disastrous"; Berlin's new Brandenburg international airport, originally planned to open in 2011, is now pencilled in for October 2020.

But many more are worried about the social consequences of, and political responses to, Berlin's rapid transformation. The introduction of a cap on rocketing residential rents has set alarm bells ringing across the European real estate industry.

“Public transport is opening up new areas of Paris. These are big opportunities.




Figure 3-1 Europe's 10 most active markets, Q4 2018–Q3 2019 (bn)



Source: Real Capital Analytics

Table 3-1 Overall real estate prospects

Overall rank	Overall prospects	
1	Paris	^ 2.16
2	Berlin	^ 2.13
3	Frankfurt	^ 2.07
4	London	^ 2.03
5	Madrid	^ 1.89
6	Amsterdam	^ 1.85
7	Munich	^ 1.82
8	Hamburg	— 1.68
9	Barcelona	— 1.54
10	Lisbon	— 1.52
11	Milan	— 1.36
12	Dublin	— 1.35
13	Brussels	— 1.32
14	Warsaw	— 1.14
15	Vienna	— 1.09
16	Luxembourg	— 1.06
17	Zurich	— .95
18	Stockholm	— .92
19	Copenhagen	— .87
20	Prague	— .85
21	Helsinki	— .79
22	Rome	— .78
23	Manchester	— .72
24	Birmingham	— .64
25	Edinburgh	— .60
26	Lyon	✓ .59
27	Budapest	✓ .56
28	Athens	✓ .55
29	Oslo	✓ .37
30	Istanbul	✓ .35
31	Moscow	✓ .17

 More than 1 standard deviation above mean
 +/- 1 standard deviation of mean
 More than 1 standard deviation below mean

Source: Emerging Trends Europe survey 2020

Note: The method of scoring overall real estate prospects has been modified this year. See page 40.

Table 3-2 Local outlook: Change expected in rents and capital values in 2020

Overall rank	Rents	Capital values
1	Athens	^ 4.14
2	Lisbon	^ 3.87
3	Berlin	^ 3.84
4	Amsterdam	^ 3.78
5	Munich	^ 3.84
6	Hamburg	^ 3.80
7	Frankfurt	^ 3.73
8	Lyon	^ 3.66
9	Luxembourg	^ 3.69
10	Copenhagen	^ 3.69
11	Dublin	^ 3.69
12	Paris	^ 3.65
13	Helsinki	^ 3.65
14	Oslo	^ 3.75
15	Madrid	^ 3.63
16	Vienna	^ 3.50
17	Warsaw	— 3.47
18	Prague	^ 3.54
19	Budapest	^ 3.52
20	Milan	^ 3.51
21	Stockholm	^ 3.59
22	Barcelona	— 3.43
23	Zurich	— 3.19
24	Brussels	— 3.32
25	Edinburgh	— 3.28
26	Rome	— 3.18
27	Birmingham	— 3.24
28	Moscow	— 3.05
29	Manchester	— 3.11
30	London	— 2.65
31	Istanbul	— 2.60

 Increase — Stay the same  Decrease

Source: Emerging Trends Europe survey 2020

Note: Respondents who are familiar with the city scored the expected change for 2020 compared to 2019 on a scale of 1=decrease substantially to 5=increase substantially and the scores for each city are averages; cities are ranked on the basis of the average of expectations for rents and capital values.

"A sometimes dysfunctional local government with a leftist, greenish bent that is very hostile to investment. The political class in Berlin has created a supply shortage," says a pan-European investor.

Germany's other cities – Frankfurt, Munich and Hamburg – remain among the top 10 picks at Numbers 3, 7 and 8 respectively. The country's economy might be "a little bit wobbly", but the fundamentals of these markets are judged "quite healthy". Germany's financial engine, Frankfurt, is "a giant machine with an increasing population and significant GDP growth"; its occupier base is broadening beyond banking.

Munich also benefits from a strong and diversified economy. "It is a healthy market with virtually no vacancy and huge demand, not only from German and local Munich occupiers but also from international firms," says a German investor. Hamburg, too, is popular and consequently extremely competitive and pricey.

London's prospects are also highly rated. "In spite of Brexit", *Emerging Trends Europe's* respondents rank it Number 4 this year. "London has staying power. London has culture, it has arts and education, it has a rule of law. Even if London's mispriced, London will always be the gateway to Europe," says a global investment banker.



London has staying power. Even if it's mispriced, London will always be the gateway to Europe.

It is clear there is a large amount of investment firepower which is poised, waiting for the Brexit dust to settle before moving in. "We are playing shadow scouting in London because we want to invest there. London, side by side with Paris, is the largest, most transparent and efficient market in real estate," says an investor whose "dream is repricing of 10–12 percent in the best areas of London".

The same enthusiasm is not evident for the UK's smaller regional cities. Although their CBD office markets are doing well, Manchester, Birmingham and Edinburgh are all clumped, at Numbers 23, 24 and 25, in the lower half of the overall prospects league. "We are active in Manchester and Birmingham, and we are about to acquire an asset in Edinburgh, but they are all under the cloud of Brexit," says a pan-European investor/developer with two decades of experience in the UK.

Amsterdam appeals

Back on the other side of the Channel, Amsterdam is another continental city that, at Number 6, scores highly this year. "Amsterdam and everything around it are hot. I like it but you are paying top dollar already, and so for me it is on the watch list," says a European investment manager.

The city has worked through the office oversupply left from the last cycle, and rental growth is coming through. However, the cost of housing is becoming an issue, especially if Brexit-related moves bring more high-income residents to the city, says a local.

Iberian attractions

Madrid's overall prospects are also highly rated, more so than Barcelona's. This year, the Spanish capital is Number 5 with Barcelona Number 7. "There is a shift towards Madrid because the city has changed a lot," says a pan-European investor.

Spain's capital is attracting strong corporate investment from international companies, and much of its office stock is "an obsolete product". Mixed-use development and residential for rent are tipped as less-exploited sectors offering good opportunities.

Barcelona still figures high on shopping lists, but there is an inhibiting factor. "Politics affects our view of Barcelona where rental growth is very strong, even stronger than Madrid. But if political instability returns it will affect the market adversely," says a major Iberian player. In particular, the local authority's decisions to regulate residential developments heavily has put some off the city. But for others, "sometimes political threats present opportunities".

One other southern European city is also ranked in the top 10: Lisbon (Number 10). Though a relatively small market, Lisbon has many admirers – indeed, some find it "now too hot". Competition for core offices is strong, and yields have fallen; players there have started to move up the risk curve. Plus, there is growing interest in hotels and student housing.

Figure 3-2 Overall real estate prospects



Source: Emerging Trends Europe survey 2020

“

Milan is living another golden age, especially with the vision of a city that could grant a high quality of life, with environmental quality, services and green areas.

Just below Lisbon at Number 11 is Milan. “Milan is playing in the European league,” asserts a local adviser. While some cite Italy’s political instability and low GDP growth as cause for concern, the country’s northern powerhouse is largely exempted from these worries.

“In Milan, the economy is strong, and because not everybody wants to be in Italy you can find some interesting returns.” The city’s leadership wins plaudits for its urban regeneration projects; looking ahead, the M4 metro will start operating in 2022, followed by the Winter Olympics in 2026. “Milan is living another golden age, especially with the vision of a city that could grant a high quality of life, with environmental quality, services and green areas.”

By contrast, Rome is much more lowly rated by *Emerging Trends Europe*’s respondents. Unlike Milan, lack of transparency makes its real estate market mostly a local affair, and the city authorities are not as pro-active.

Just above the league average in terms of overall prospects are Dublin and Brussels: Numbers 12 and 13 respectively. Dublin’s popularity with *Emerging Trends Europe*’s constituency remains strong. Its office market has benefited from “Brexit demand”: “scores and scores of small transactions” from businesses in the UK. Plus, there are new international investors who “are looking to Dublin as their London equivalent”.

But the city’s boom has eroded housing affordability. “There’s a social issue around gentrification of certain parts which is displacing potential workers, and Dublin doesn’t have a transport infrastructure to support the kind of mobility that you would have in the bigger cities.”

Brussels, long considered a dull and unrewarding market, is now motoring ahead and starting to see rental growth. “Nothing new has been built for 10 years, and a lot of older buildings have ended up as residential and hotels,” notes an investment manager. However, “the coordination of public transport in Brussels needs to improve”.

Nearby, the small but business-friendly Luxembourg, Number 16, is on the rise as more foreign investors are coming into the Brexit-benefiting Grand Duchy. “It’s got interest both from value-add and core-plus. I think people see that is still sustainable, with possibly some further upside both on the yield and on the rental basis,” says an investment manager.

Along with Luxembourg in the middle of this year’s prospects league are Vienna, Zurich, the Central European markets of Warsaw and Prague, and the Nordics. Their positioning, between Numbers 14 and 20 in the overall ranking, reflects the fact that relatively few of *Emerging Trends Europe*’s respondents are currently active in these cities. However, those who are have an upbeat assessment. “Warsaw and Prague are on their way to being cities like Frankfurt, Brussels or Vienna,” says a regional specialist. “The economic growth is good, as is the relative pricing,” adds a global investment manager.

Vienna is judged an attractive city with a fast-growing population, but one that offers limited scope in its office market; investors have switched to its residential market, which is booming. Zurich is a very tight market, dominated by local players: “For international investors it is a very closed shop.”

Scandinavian sustainability

Of the Nordics, Stockholm and Copenhagen, Numbers 18 and 19, are currently favoured over Helsinki, Number 21. The former both pop up on international investors’ wish lists this year: “In Stockholm the economic fundamentals are great,” says a German investor. “A lot of innovation and good spaces,” notes a local. Copenhagen wins points for its environmental policies and moves to promote bicycling over cars. “But again, it is a small city, it’s a small transaction volume,” says an investor/developer. And Helsinki is also starting to attract outside interest.

Oslo, however, is ranked further below its Nordic neighbours: Number 26. It is one of six cities whose overall real estate prospects respondents are least enthusiastic about for 2020. But in the case of the first four – Budapest, Lyon, Athens and Oslo – it is partly their smaller scale and relative lack of liquidity that makes them less attractive in a pan-European context (see page 40). When judged purely by local players active in the markets, all four of these cities are thought to offer good investment and development prospects in 2020. The local outlook for rents and capital values is also positive.

This is particularly noticeable in the case of Athens, which is now viewed as a recovery play. With GDP forecast to grow by 2.2 percent in 2020 and a more business-friendly administration in charge, some opportunistic international capital is trickling in.

The same cannot be said of Istanbul and Moscow, which are languishing at the bottom of the overall prospects league. And in both cases politics is the defining factor. The collapse of Turkey’s currency, its political travails and stuttering economy make it a no-go zone for most international investors. “Even the risk-takers won’t venture in because they think it is a falling knife.” In Istanbul, local players are gloomy, citing oversupply in the office and residential sectors. “The best opportunities are in tourism,” says one.

Sanctions and a weak ruble are continuing to hit Moscow. “The biggest issue for Russia is politics,” says a developer. With international investors out of the picture, liquidity is also an issue and domestic capital is ruling the market. But those who remain active in Moscow are more upbeat. “The biggest opportunities are in offices and retail segments in Moscow due to a lack of new institutional-quality supply and the depressed rental rates, which are starting to recover,” says a local.

Scoring cities

This year, *Emerging Trends Europe* has changed the way it calculates the overall real estate prospects for the 31 cities featured. The scoring system used to rank the overall prospects – a combination of the outlook for investment and development – has been modified to include an element that reflects the scale/liquidity of the city’s market, as represented by the number of survey respondents who could potentially be active in it.

This change is introduced to capture the wider pan-European and global view of cities’ real estate markets. In the 17 years since *Emerging Trends Europe* started surveying Europe’s cities, they have evolved from largely domestic markets, dominated by local players, to markets attracting interest from all corners of the globe. Today, 51 percent of the real estate firms canvassed by our survey have a pan-European or global focus.

Figure 3-3 shows the factors that Europe’s real estate industry considers when selecting a city for investment or development. Market size and liquidity is a key selection criterion for 42 percent. However, it is not the only one: transport infrastructure, returns, availability of assets, city leadership also count.

This year, the overall real estate prospects are based on a modified scale of 0 (avoiding) to 5 (excellent), from a wider range of survey respondents: both those who are familiar with the city and others who potentially could be investing or developing there but are not.

In previous years, survey respondents were asked to score the cities they were familiar with on a scale of 1 (very poor) to 5 (excellent), and the overall prospects of a city was the mean of the investment and development ratings that this smaller group of respondents provided.

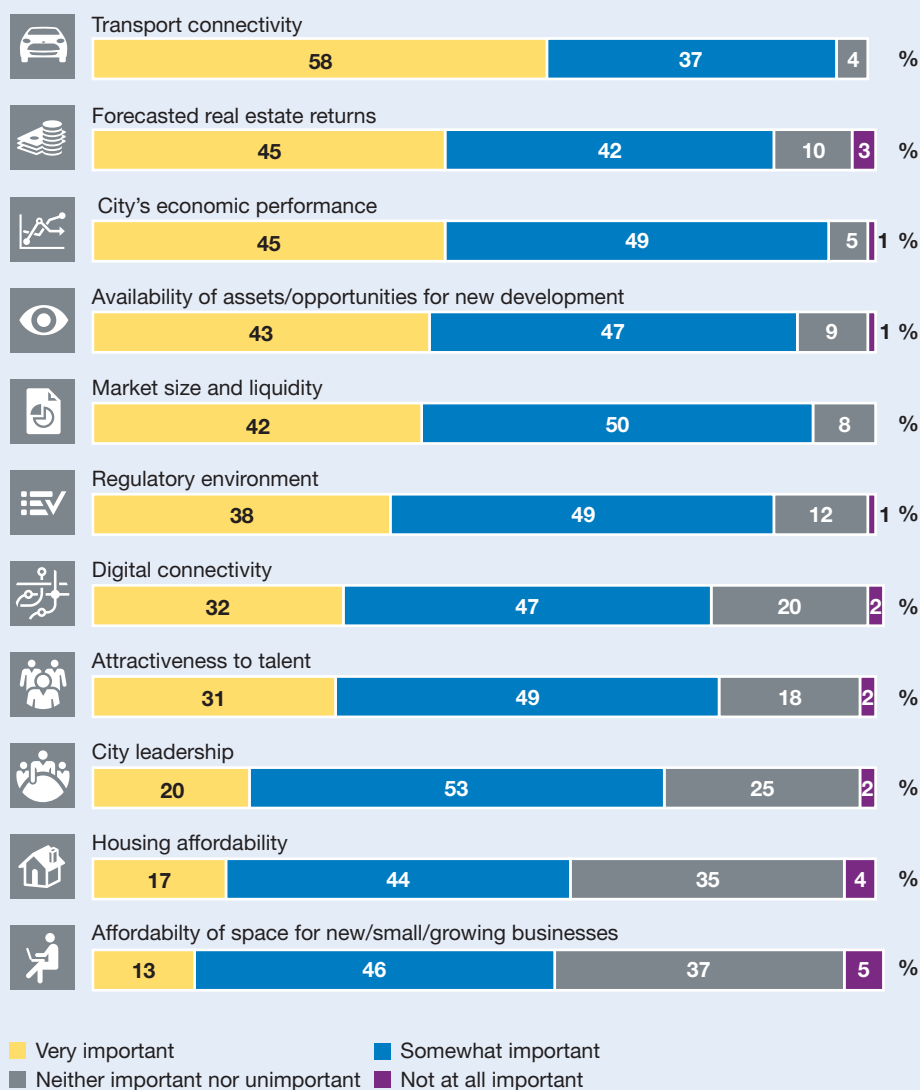
Table 3-1 shows this year’s scores and ranks the cities according to how much they deviate from the average/mean score. Because the way the scores are calculated has changed, this year’s numbers and rankings for a city’s overall real estate prospects cannot be compared to previous years’.

It is also important to note that if a city places low down in the rankings, the position will reflect two things: the number of those respondents who actually score it, plus those who could have, and their opinion of its prospects. For example, compare Athens with London, two markets of different size and liquidity. For Athens a limited number of mostly local players are very positive about its investment and development prospects. But the majority of pan-European and global players have not scored it.

On the other hand, many respondents – local, pan-European and global – scored London as having more or less average prospects, favouring its liquidity and size despite the average short-term outlook for the market.

Thus, although those who are familiar with London are less enthusiastic about it than their counterparts are in Athens, the fact that it is a big market that attracts many players puts London much further up the rankings.

Figure 3-3 Importance when selecting a city for investment or development



Source: Emerging Trends Europe survey 2020

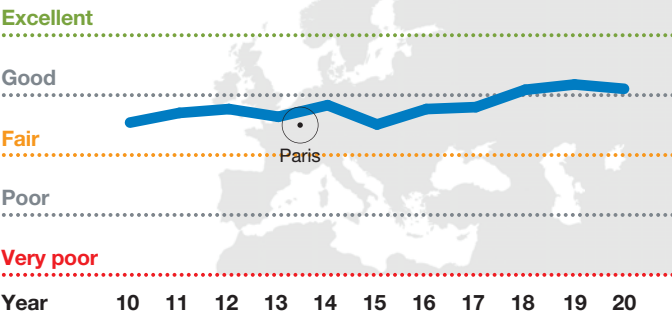
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In the 17 years since *Emerging Trends Europe* started surveying Europe's cities, they have evolved from largely domestic markets, dominated by local players, to markets attracting interest from all corners of the globe.

Cities

Paris (1)

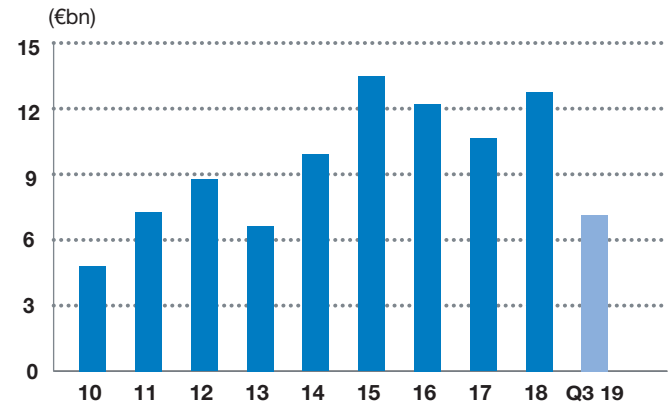
Investment prospects: local outlook, 2010–2020



Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

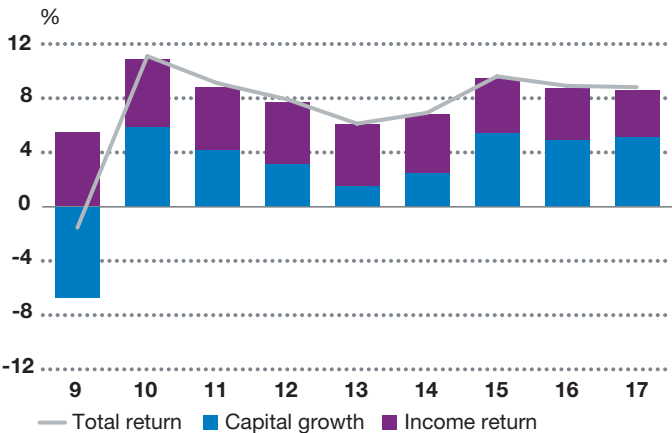
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

Paris is firmly at the top of investors' list of most desirable markets, attracting capital of all kinds from every quarter of the globe.

With yields for prime central offices at or below 3 percent, the core market is seen as extremely expensive by some respondents. "We have leases going over €900 per square metre per annum for offices in Paris. It is, to me, slightly dangerous," says a French investment manager.

Yet with many interviewees also highlighting the descent of government bond yields further into negative territory, the French capital's large, buoyant and liquid market continues to attract insurance, pension fund and retail investor money prepared to invest at record low cap rates. "We are still active in Paris despite the pricing there. The city is an economic powerhouse, and rents still have some upside potential," says a German fund manager.

This means it is also a great time to sell, and the market is busy. An influx of money has come from South Korea: €4.4 billion of capital across seven large transactions in 2019, targeting very large lot sizes in central locations, especially La Défense, where both vacancy and yields are a little higher. In most cases, this cohort was able to buy at yields of 4.5 percent or slightly above.

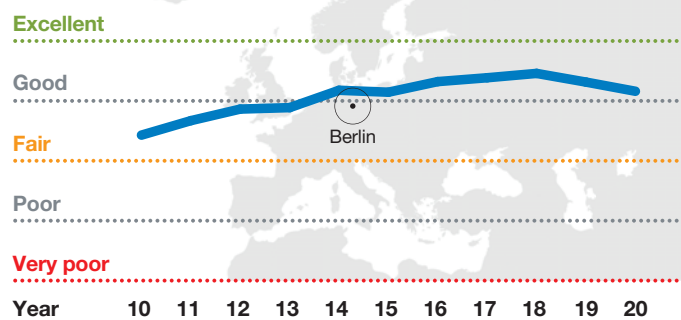
Yields have compressed to between 3 percent and 3.5 percent in central districts outside the prime core, such as Neuilly-sur-Seine and Boulogne-Billancourt, and the most sought-after investments here and further out are value-add, refurbishing or developing to core. "While core is too expensive for us, you can find a great deal of opportunities from core-plus to opportunistic," says a pan-European investment manager.

The Grand Paris infrastructure project is responsible for many opportunities. It is adding 200 kilometres of rail and 68 new stations to the public transport network, opening up areas of the city: from Saint-Denis, which is also benefiting from the 2024 Olympics, out to the Périphérique ring road.

"More people are looking at student housing and build-to-rent, sectors which are being pioneered in Paris," says a pan-European broker. Another new sector is last-mile logistics. The city's first multi-storey logistics warehouse has opened at Porte de Gennevilliers and is being used by two retailers to transport goods using electric vehicles to central Paris and western suburbs.

Berlin (2)

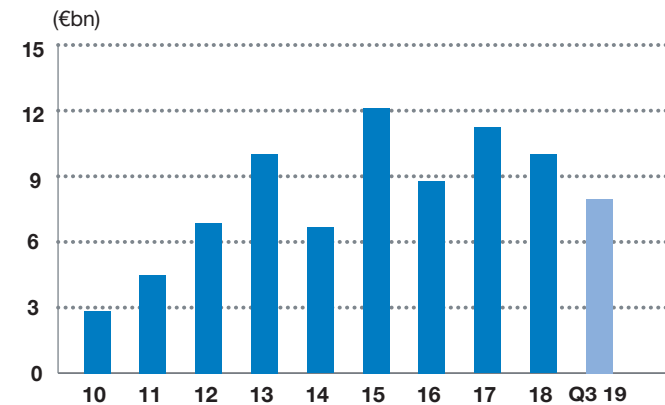
Investment prospects: local outlook, 2010–2020



Source: *Emerging Trends Europe* survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

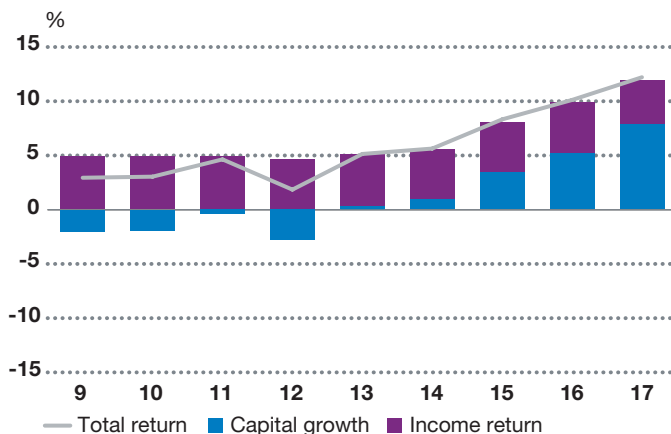
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

Has Berlin, the nonpareil of the European real estate market for several years, lost any of its allure? “Berlin has been doing well, but will it be double-digit growth for the next few years?”

Most *Emerging Trends Europe* interviewees remain fans. “Berlin is still the star and the shining light and the city everybody wants to be in. I tell people, ‘if you look at the last transaction that was done in Berlin, and you try to price the next transaction at that level, you’ll lose.’ You need to think ahead two years to where the market will be. It still has a lot of room to run,” argues a financier.

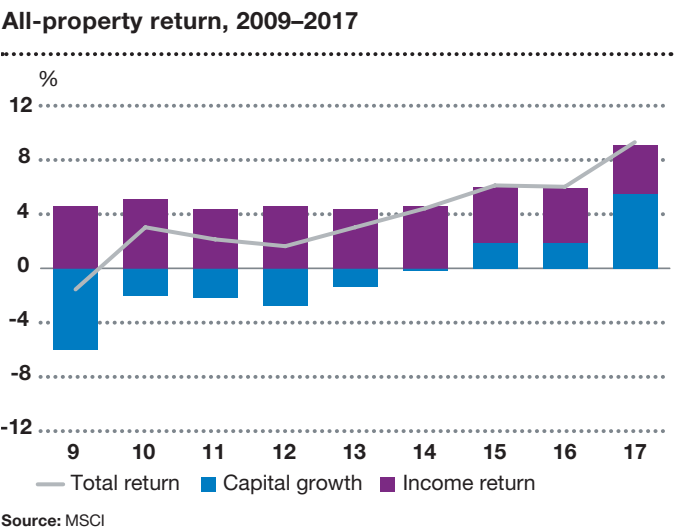
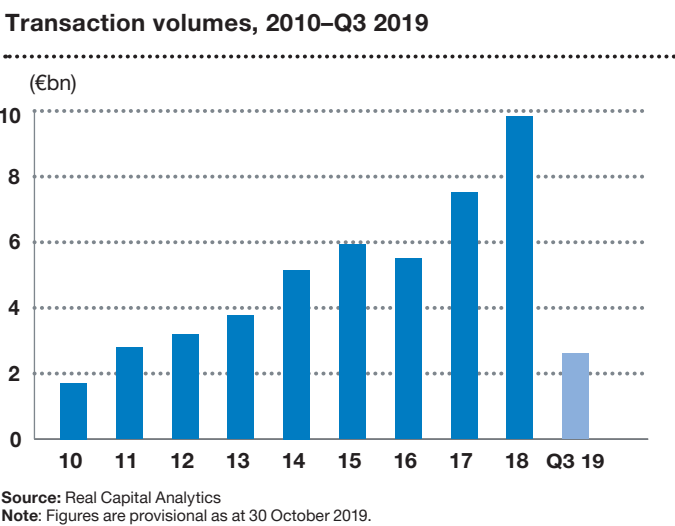
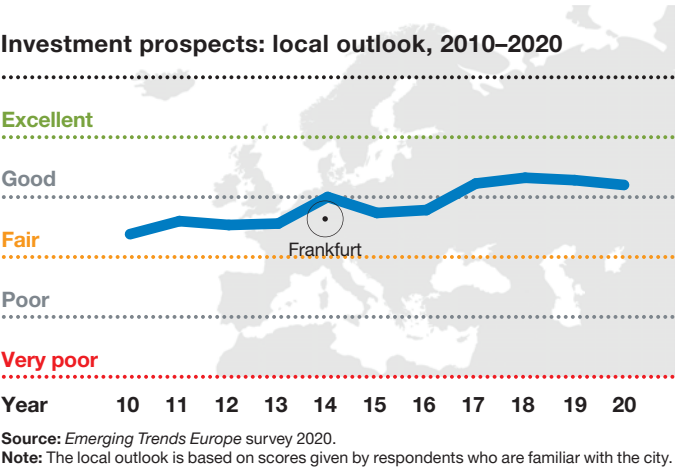
The consensus is that the German capital is still a good bet in both the short and long run. In the immediate future “rocketing” rental growth is expected to continue in an office market where vacancy stood at a miniscule 1.4 percent in the middle of 2019, and where as much as 900,000 square metres of take-up is expected over the course of the year.

Residential rents have also soared, and the municipal government’s introduction of a draft law to cap the amount tenants pay for five years represents a rare cloud on the horizon. “Listed residential companies with exposure to Berlin have seen their share prices fall,” says a German investor, who warns that the measure will be counterproductive “because investors will shy away from the market and will not build, or invest into, new residential buildings”.

A number of interviewees believe that ultimately Berlin will emerge as the hitherto multipolar country’s pre-eminent city. “It is still in the process of making a quantum leap to a different role within Germany. It is no longer only the political centre of the country, but it is becoming more of an economic player,” says one. “Berlin is developing into the peer of London and Paris,” adds another.

Prices have risen rapidly to match or exceed those in other German cities, so investors may have to become savvier. “It’s the cyclically most advanced market in Europe, probably not far off where the US is, and so it warrants much more careful examination. That doesn’t mean you can’t make some money along the way. It just means you have got to be more selective and not just spray your capital around there,” advises an international investor.

Frankfurt (3)



At a time when the German economy is slowing and the country’s banking sector continues to struggle, the vigour of Frankfurt’s property market is a mystery to some. “Frankfurt is doing quite well, but I can’t explain it. It may be benefiting from Brexit and that the effect of the restructuring of the big German banks hasn’t reached the office market as much as expected,” muses an interviewee.

Deutsche Bank, one of the city’s biggest occupiers, announced a drastic cost-reduction drive and 18,000 job cuts in mid-2019, but the impact on Germany’s financial centre may be less than feared, says a German investor: “While there will be some job losses in Frankfurt, it is the overseas investment banking divisions that are more likely to be hammered, according to what we hear.”

Meanwhile, the occupier market has remained robust despite the macroeconomic headwinds. “Frankfurt is a sound market with strong demand, and office leasing figures have been very good this year and last year. The vacancy rate has dropped substantially.”

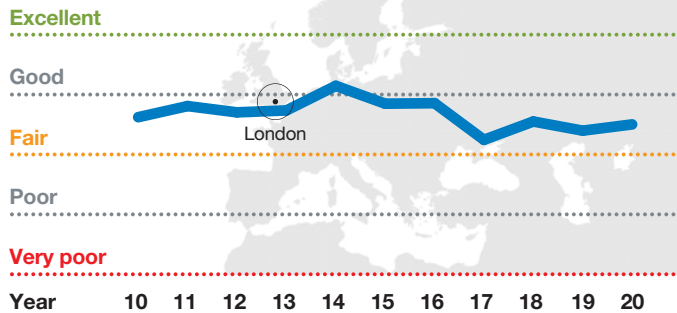
That may be because the occupier base has become more diverse. “You have a lot of proptech and fintech companies located in Frankfurt, and it has the biggest airport in Germany. With the European Central Bank there and all the EU regulations, it attracts the audit and law firms. Twenty years ago, it was mostly banking, and now industry there is much more mixed.”

Compared with other German cities, it is relatively straightforward to develop high-rise buildings in Frankfurt, which has contributed to the market’s reputation for volatility. “I worry about rents and overbuilding in cities like Frankfurt,” says a pan-European debt fund manager. “You can create a story about Brexit, but it is easy to build in Germany so some markets could get overbuilt pretty quickly. If you have a downturn there could be a lot of space that’s not needed.”

Permissive zoning also allows the development of new space to meet demand, however, and with Frankfurt’s office vacancy falling and rents rising, most interviewees think that this is a good point at which to invest. “The market is intrinsically more volatile than other German markets and that can play in either direction, but at the moment it is playing in favour of the landlord. If you play the cycle right you can make a lot of money, but you always have to be careful,” concludes a local.

London (4)

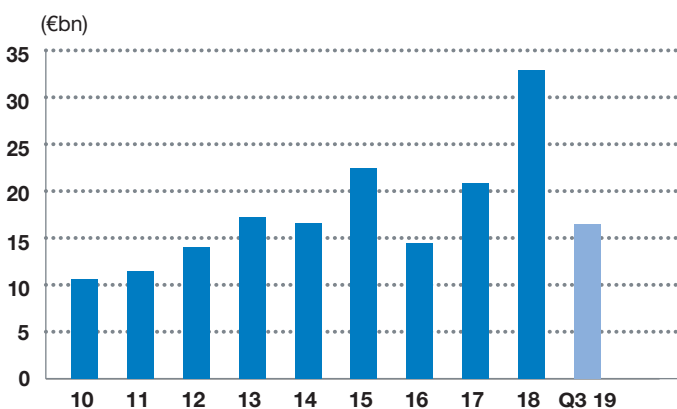
Investment prospects: local outlook, 2010–2020



Source: *Emerging Trends Europe* survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

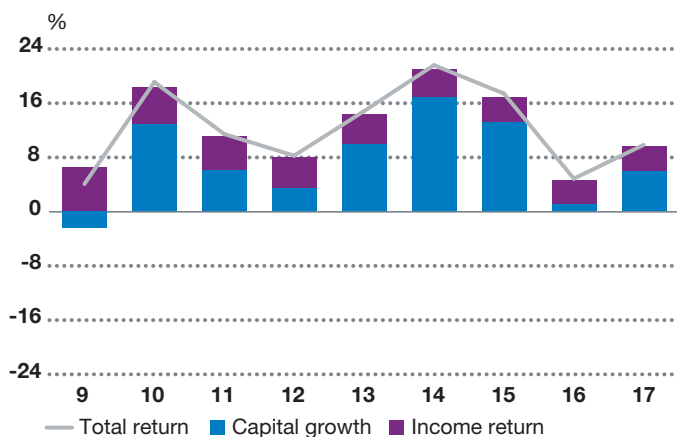
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

Will London in 2020 be off-limits, a buying opportunity, or a case of wait-and-see? Those canvassed by *Emerging Trends Europe* in mid-2019 agree that Brexit uncertainty is impacting the UK capital, but not on how the dynamics of the market will play out, or on the best strategic approach to take.

Some are steering clear. “London is a no-go area for us at the moment,” says a German core buyer. Another institutional investor says: “Over 10 years London still makes it into our top 10, but if you take a shorter-term view when you are more dependent on the market to help you out, then London is not even in the top 20. It would be quite gutsy to invest in London over the coming year.”

Gauging and pricing the risks associated with Brexit remains troublesome: “At the moment, the problem is a risk officer can’t write down on page one of the dossier what will happen,” says a pan-European investor.

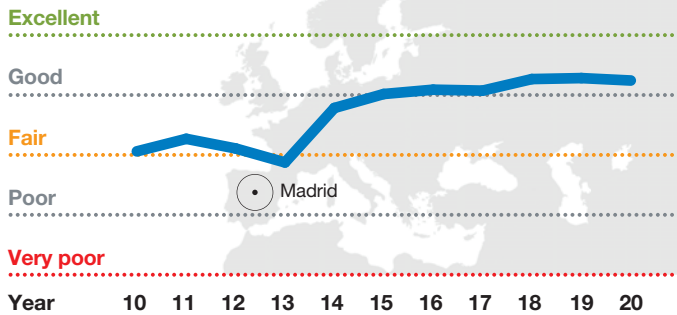
For some that means keeping their powder dry for at least a little while longer. “While we have not been willing to buy at the prices being asked, there have been a lot of foreign buyers who have bid at higher levels – Korean, Middle Eastern – every year there has been a different sort of capital. We are seeing less interest from those foreign buyers, so we hope to strike a good deal. I do think in the next 12 months we will invest in London again,” says an international investor.

There are those, though, for whom the iron is already hot enough. “If you look at the yield and rent levels in London versus most major European cities, it looks much better value. It is potentially a good buy opportunity when the Brexit mist eventually clears. There will be a buying frenzy then, so we are attempting to do a few things in advance of that,” says one. A UK-based fund manager is even more bullish: “London offices represent pretty good value, and we are looking to take more risk there at the moment. We feel that is where the smart money should be.”

Meanwhile some investors feel more confident playing the long game in the city’s undersupplied affordable housing sector. “Regardless of Brexit, there is still a housing shortage in the UK. And if there is a megatrend in urbanisation, and people still flock to London, then there is demand for housing, and for affordable housing, so we are happy to keep investing in that strategy.”

Madrid (5)

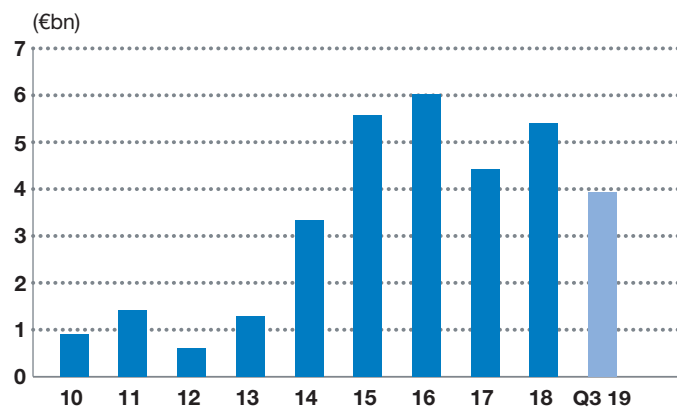
Investment prospects: local outlook, 2010–2020



Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

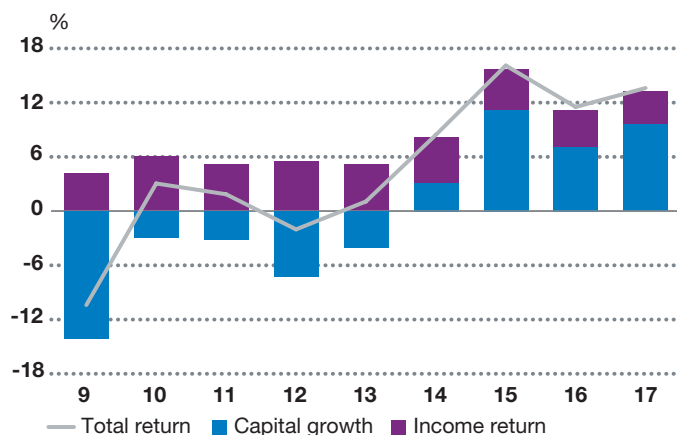
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

“Everyone is down here; everyone wants to play the growth story,” says a global investor about Spain and its capital.

Madrid’s standout attraction is that it is the largest of a handful of cities still experiencing “the catch-up effect” from the financial crisis. A REIT CEO adds: “Real estate is not back to the levels of the last peak; Spain offers the opportunity of several years of rental growth to come.”

The country has healthy GDP growth, forecast at 1.8 percent in 2019, and corporate investment is rapidly creating new jobs. The only potential risk interviewees see is a protectionist trade war between the US and China driving Spain into lower exports and lower growth.

The recovery underpins all types of real estate: “Madrid is an example of a city where we would like to invest across sectors,” says another pan-European investor. This includes “living”: from student housing to nursing homes. There has been a notable pick-up in nursing home activity, with several pan-European specialists entering Spain this year.

Congress’s new Rental Act, approved in April 2019 just before the general election, gave clarity on a residential rent cap and confidence to developers and investors planning to create purpose-built rental product. Rental increases on apartments are now limited to the inflation rate for five years for individual landlords and seven years for institutional ones.

Spain lags behind the rest of the OECD countries in development of its logistics sector; therefore, creating modern space along Madrid’s main logistics corridors or unearthing sites for urban last-mile delivery is a clear opportunity.

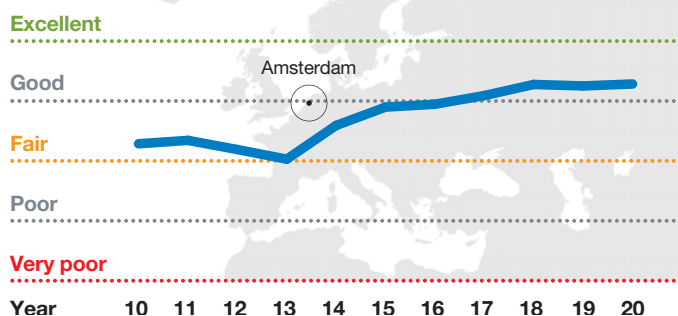
There is even rental inflation in prime retail. “I know that is mind-boggling for some,” says a local CEO, adding that relatively low densities, no reliance on department store anchors and higher consumption “are a win for shopping centres”.

CBD office vacancy fell below 5 percent in 2019. With tight supply and rents only half as much outside the M-30 ring, occupiers have been showing interest in decentralised submarkets – as long as the buildings are good quality and within reasonable distance of public transport. Local property companies are in demand to partner with international capital to refurbish and re-let offices in these locations.

Meanwhile the newly-elected Madrid city council unanimously approved Nuevo Norte in July. Many hope that this long-mooted proposal to extend the central office area north by developing land around Chamartín station will help propel Spain’s capital into the ranks of top global cities.

Amsterdam (6)

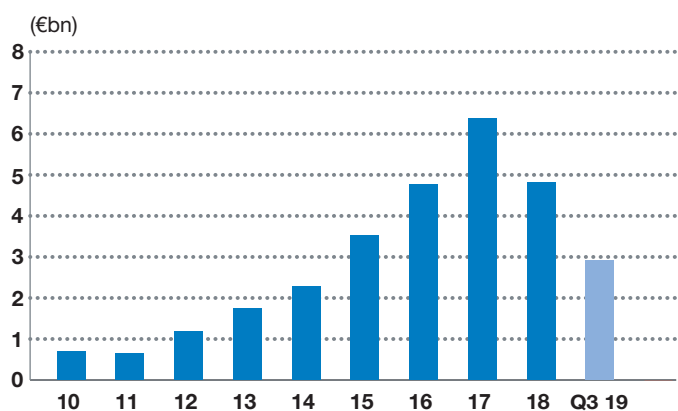
Investment prospects: local outlook, 2010–2020



Source: *Emerging Trends Europe* survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

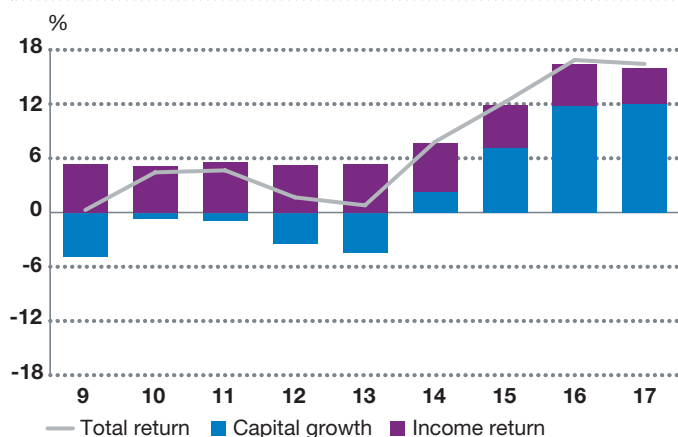
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

Amsterdam is attracting interest from a wide array of investors targeting all its main sectors: office, logistics, hotels and tourism, and residential.

A balanced mix of tourists and business visitors generates very strong demand for hotels, while the city's geographic location in Europe and the freight generated at its international airport and passing through nearby Rotterdam port underpins huge interest in logistics properties.

The Dutch capital appeals to businesses from start-ups to international corporations and is one of Europe's thriving tech hubs. Companies looking for space, especially firms with large requirements, increasingly have to leave the centre – where vacancy is at a record low of 2.2 percent – and the popular South-Axis district. Developing urban submarkets with good transport links like Sloterdijk are benefiting. South Korean investors have bought here, and older buildings are being renovated alongside new developments.

Debt is cheap and plentiful for both standing assets and development. "We have increased our business in Amsterdam in the past 12 months. The market is doing well, with higher returns, and there are increasing transactions and development," says a lender.

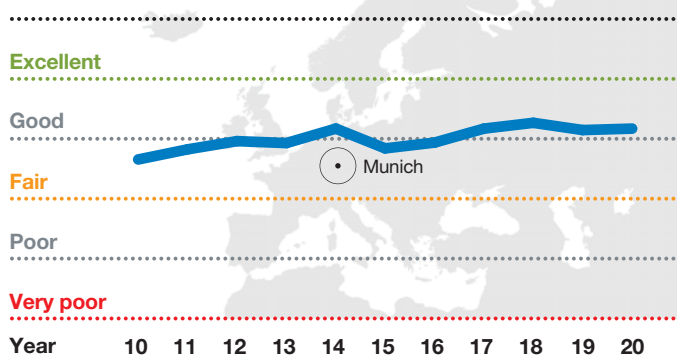
But this year, some who invest in Dutch commercial property say they are bypassing the capital: "Amsterdam has become too competitive and crowded."

In the residential market, an escalating housing shortage is pushing up rents and prices. The city has responded by introducing controls on affordable housing. "That is making it more difficult to build substantial amounts of new housing and only increasing the price pressure," says an experienced Dutch residential fund manager.

Residential developers also face stronger sustainability demands, which also pushes up costs plus what a large Dutch investor says is a 25 percent rise in construction costs. "It really is an issue," says the fund manager. "It all combines to create a decline in productivity."

Munich (7)

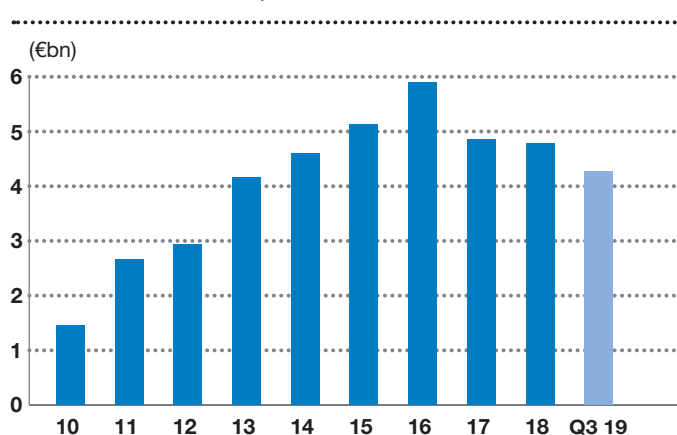
Investment prospects: local outlook, 2010–2020



Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

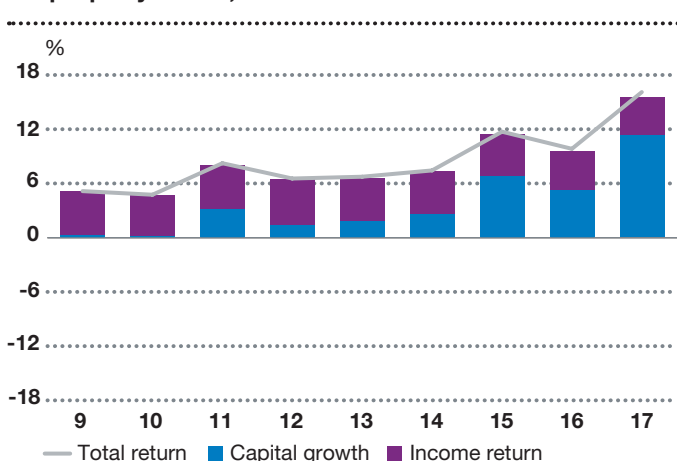
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

For some capital allocators, particularly those keen to eschew risk, Munich's lasting qualities exert an even greater pull than the rapid growth evident in some rival German cities. "It is a very attractive, stable place, less volatile than Frankfurt and also healthier in terms of its long-term track record of stability compared to Berlin, which has never seen a boom like the one it is currently experiencing," says an interviewee.

The Bavarian capital scores consistently highly on measures of quality of life and is ranked third among global cities in the Mercer survey's estimation. That makes it an easy sell to occupiers keen to recruit and retain staff, argues a regional investor: "Munich is an extremely nice place to live and work. If you want to attract new people to your company in Germany the best option is Berlin and the second best is Munich in terms of lifestyle. Tenants like Google put their offices there because they can attract young talent."

Office vacancy is less than 3 percent and continued occupier demand is exerting sustained upward pressure on rents. "We bought a building in Munich two years ago with rents in place of €144 per square metre per annum, and we recently signed a deal at €216, a 50 percent uplift in two years," boasts an interviewee.

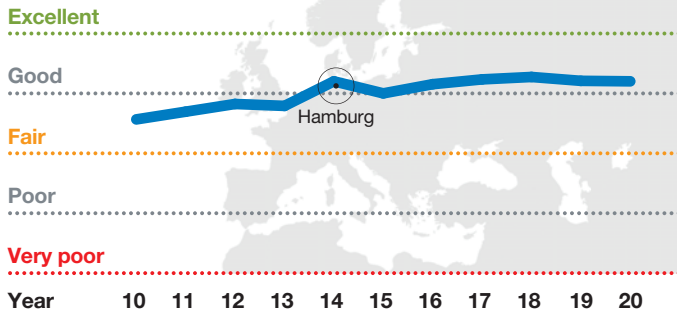
Another offers a caveat, however: "The problem is, there's not a lot of opportunities there. Not a lot of transaction activity." The assertion is borne out by commercial property transaction volumes for the first half of 2019 that fell by 46 percent year on year to €1.9 billion. The city is therefore a seller's market: "We are looking at Munich a lot, but the pricing makes it very tough to get into that market," says a German investor. "Munich is impossible," adds another interviewee.

The dynamics at play may create opportunities in neighbouring markets, argues a local: "Munich is already too expensive, and thus smaller nearby cities such as Augsburg will profit." The city's transport infrastructure is under increasing strain, with potentially negative consequences for the long term, suggests another: "In Munich we have a mobility crisis. There is chaos in the morning and chaos in the evening. Cities that are unable to create more mobility could lose a substantial part of their attractiveness."

Meanwhile, the city is expected to attract another 150,000 residents by 2035, and with housing development failing to keep pace with demand, rents and prices have risen sharply. Some interviewees fear that Munich and other German cities facing similar pressures could respond by introducing tighter regulation. "The concern is that cities like Frankfurt, Munich, Dusseldorf will look at Berlin and consider their own rent freeze."

Hamburg (8)

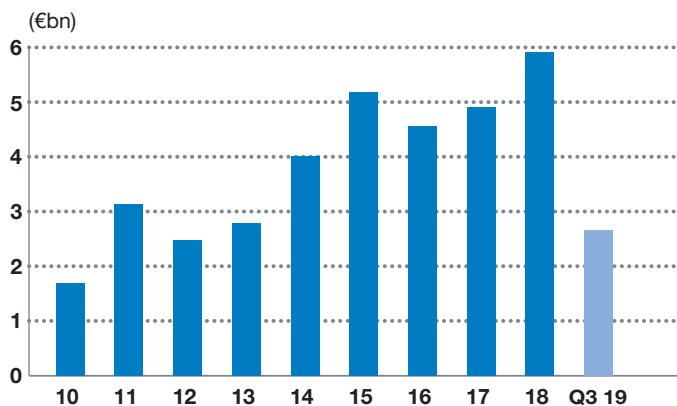
Investment prospects: local outlook, 2010–2020



Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

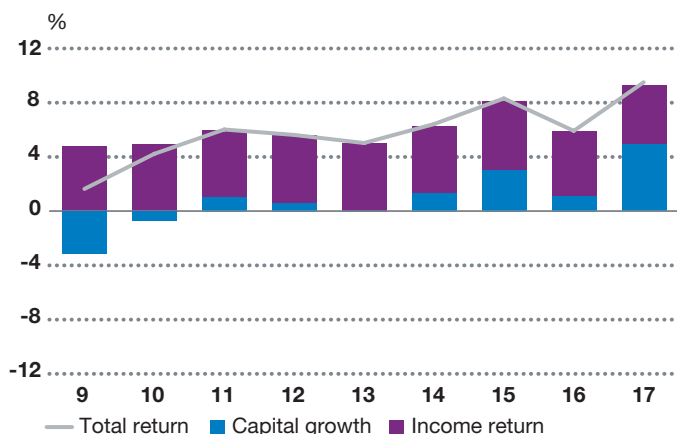
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

A German investor extols the merits of the Hanseatic city: “Anybody who is headquartered in Hamburg will sing its praises. It is a healthy, wealthy city. You have the harbour, the strong, diversified economy and aircraft manufacturer Airbus, and it has a regional airport with better air connections than Berlin, where they are disastrous.”

From an investor perspective there is the usual snag, however: “It is extremely sought-after and expensive.” Few assets come to the market – in the first half of 2019 around €1.6 billion of commercial real estate was traded, around half the figure for the same period in 2018 – and when they do, they are extremely expensive. Prime office yields stand at 3 percent, and in a continued low interest rate environment they are expected to compress further.

Of all the German markets it is the most difficult to access, says a fund manager: “We try to invest in Hamburg, but we find it hard to compete against the locals who do a lot of business among themselves. Hamburg is the Zurich of Germany.” “The prices in Germany are crazy and it doesn’t make any sense for us to be in competition with 30 other bidders,” is a typical complaint.

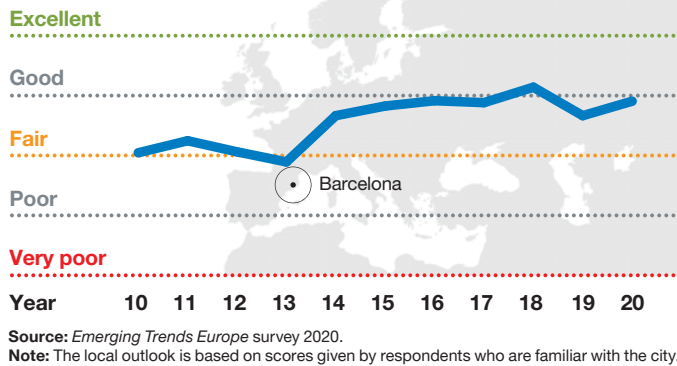
Office vacancy is extremely low, standing at 3.1 percent overall and less than 2 percent in the city core at the 2019 half-year mark. “That has led to a very strong dynamic of rental uplifts in ‘A’ and ‘B’ locations.

“Occupiers are looking for good buildings in well-located ‘B’ locations, and they are prepared to pay high prices. That rental uplift is something that we try to benefit from because there is a very limited development pipeline in these areas. If you can buy an asset in a good fringe location you will have a lot of pleasant surprises.”

The local authorities have been actively pursuing an integrated strategy to boost and renovate the city; the latest project to take off is URW’s Westfield Hamburg-Überseequartier, a new mixed-used urban district, Europe’s largest city centre development.

Barcelona (9)

Investment prospects: local outlook, 2010–2020

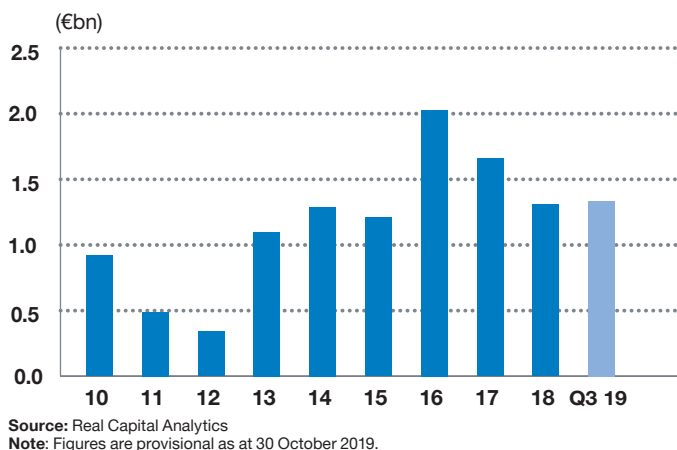


Barcelona's real estate market has shrugged off the political upheaval that followed Catalonia's independence referendum, which was declared illegal by the Spanish government two years ago.

"If the political instability comes back, it is going to have an effect on the market as it had on 1 October 2017 and the following months," says the CEO of one Spanish REIT. "Now rental growth is very strong, even stronger than in Madrid."

A partner of a Spanish real estate private equity firm agrees and says headquarter relocations turned out to be "a legal event rather than an actual movement away of businesses and workers", while the city's investments are again "as liquid or even more liquid than Madrid's".

Transaction volumes, 2010–Q3 2019

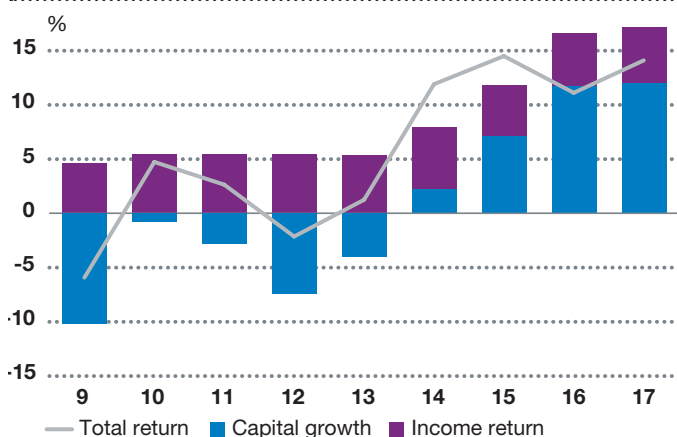


Office leasing was the strongest-ever in the first half of 2019; at 250,000 square metres it was almost a typical year's figures. The lack of available space in the CBD and city centre has boosted periphery submarkets such as Sant Cugat del Vallès as well as the 22@ district close to the city centre, driving up average rents by 11 percent.

"The same rental tension applies across stock which is one-third the size of Madrid," points out the CEO. Occupational demand has squeezed vacancy levels in the centre to 2 percent and below 5 percent in 22@.

With its cosmopolitan, community feel, Barcelona is a big centre for co-working. The city is on the buy list for many respondents who are hunting for offices they can refurbish and re-let. "It is always easier to get deals done in Munich or London than Barcelona because of the scale, but you have to adjust to that," says one private equity player.

All-property return, 2009–2017



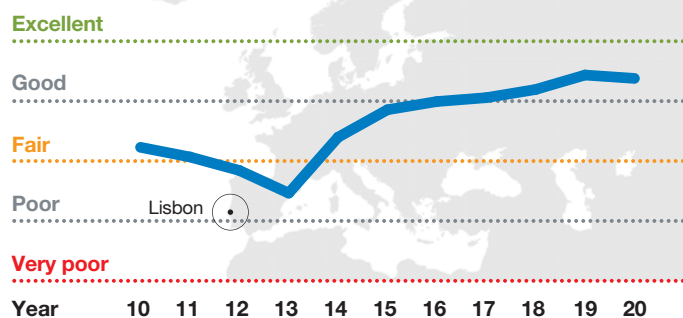
While the city authority's hands-on approach to residential development, with minimum social housing quotas, is disliked by some, Barcelona Town Hall is recognised for being proactive and efficient. The city is focusing its urban expansion agenda on three areas: the next phase at 22@; the 'Hill and Harbour' by the marina south of 22@; and the area north of the main centre around La Sagrera station.

A group of Catalan public bodies are working together to acquire five large plots of land around the region's capital to develop logistics and boost the tight supply.

Meanwhile, as in Madrid, hotels are a strong draw for investors; both daily rates and growth in revenue per available room have risen in 2019. ASG and Hard Rock International are to invest €200 million developing a 504-bed Hard Rock hotel on the city's downtown Fòrum beach.

Lisbon (10)

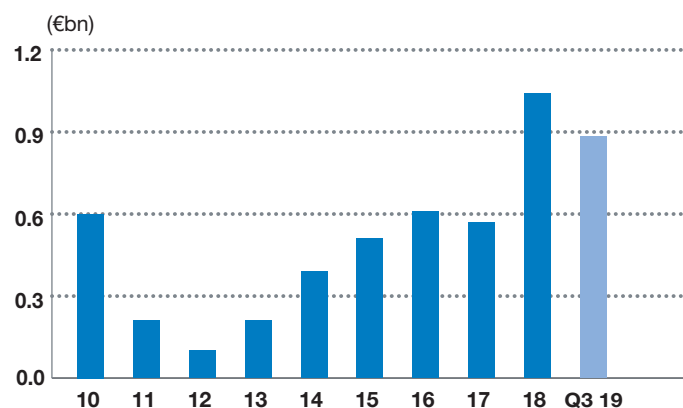
Investment prospects: local outlook, 2010–2020



Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

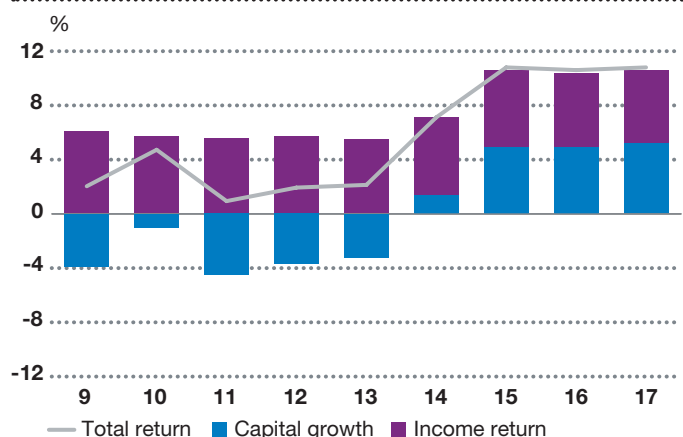
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

Another year on in the real estate cycle, and the main change in the thriving Lisbon market is that assets have become more expensive.

“Equity continues to be available from a wide variety of sources, both domestic and cross-border, and it is targeting the spectrum of investing strategies,” observes a local broker.

As well as offices, “there are plenty of asset classes to invest in, including hotels and residential”, says an investment manager which is expanding into Iberia. “We do like investments such as hotels in southern Iberia, Porto and Lisbon that benefit from tourism.”

Even retail attracts interest in this outward-facing corner of Europe. “In Portugal, retail is still going strong,” the broker says. “This year alone we have registered 400 new leases of units, a lot of it food and beverage which is also related to tourism, but fashion and other uses too. Rental growth is still there for very prime locations and prime shopping centres, but secondary is clearly more difficult.”

Portugal is also riding relatively high in Europe in terms of its economy, with GDP forecast at 1.6 percent for 2020 while unemployment continues to fall from its 18 percent 2012 peak to under 7 percent, which is also boosting spending.

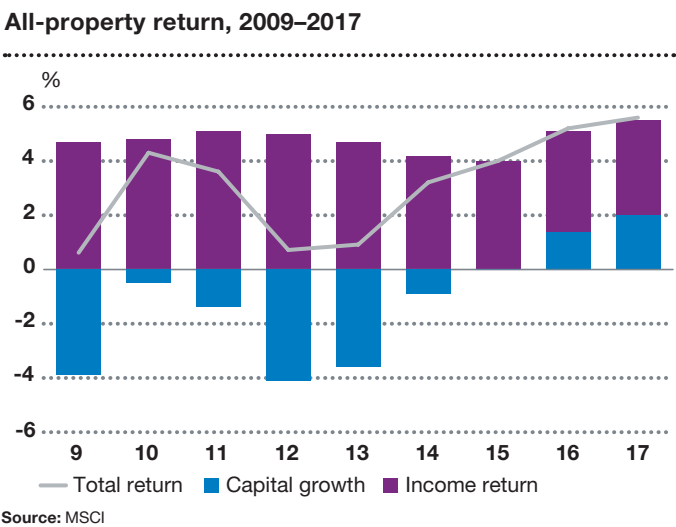
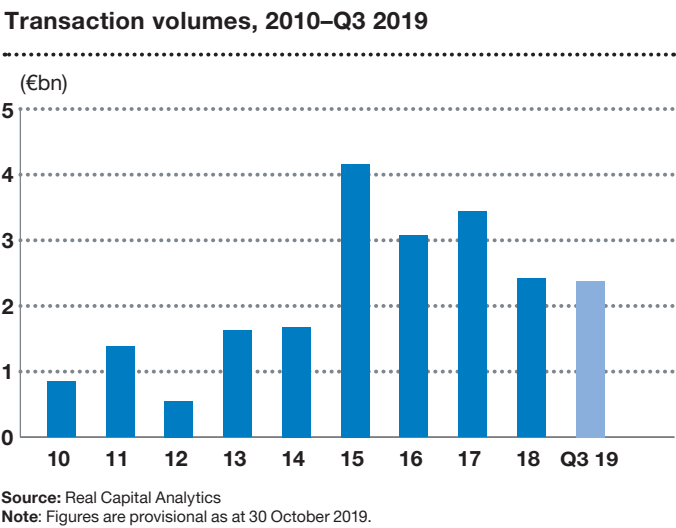
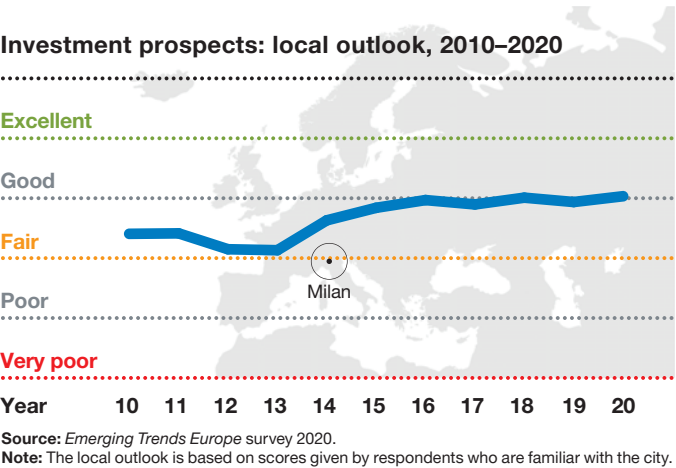
For investors in core offices, the challenge is finding stock. Insurance companies and German funds are especially competitive and have pushed yields down from 4.5 percent to 4 percent. Some wonder if the city’s progress towards nearly full employment will make hiring more difficult at some point for the many companies that have set up service and call centres and want to expand, or for future FDI.

But even with 10 percent rental growth for class A space in the last 12 months, from €240 per square metre per annum to €264 and with €288 in sight, occupier costs are still cheap compared with other cities, and the workforce is young, international and well-educated. These attractions underpin the conviction of the Spanish REITs and core-plus/value-add funds that are buying repurposing and build-to-core opportunities.

There are no large sites available in the city after the sale of the fair ground site at Entrecampos to a Chinese-backed insurer. And the Expo Parque das Nações district is almost fully built, “so we are starting to see development on the fringe of Expo, spilling over”, says a local agent.

Government approval of ‘SIGIs’, Portugal’s REITs, and confirmation of funding to expand the city’s airport and construct a second are further pluses.

Milan (11)



Italy’s long-running political instability is raised by many rueful Italian interviewees. But respondents also stress that Milan rises above the national travails.

The “locomotive” of Italy is led by strong local government and continues to attract talent and capital from both domestic and international investors. “Milan has a different market to other cities in Italy; it plays in the European league,” says one local CEO.

“The Milan Municipal Administration officials are open to dialogue and are well prepared,” adds another. “It is the only Italian city with a structured, long-term growth plan,” chimes a pan-European investment manager.

The city authority is praised for its approach to urban regeneration with an emphasis on investing in public transport, bold architectural design and the value of place-making – mixing offices, services, and public spaces.

In 2023, metro Line 4 is due to start operating and is tipped to benefit fringe city spots such as the fast-growing Tortona district in the fashionable south-west where investors have been snapping up offices in anticipation of value increases.

In the north arc of the city centre, the Porta Nuova development’s success is driving investment in surrounding areas including the Scali Milano former rail yards. On the north-eastern fringe, the Bicocca business and university quarter is attracting international capital for residential and student housing development as well as one of the first transactions in the city by South Korean investors.

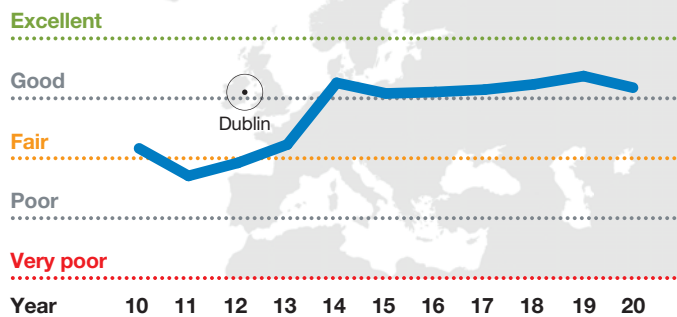
“There are good opportunities if you are able to get an office building refurbished to grade A specification. You will lease it in no time at very good rents,” reports one of many pan-European investors with projects in the city. Demand from a diverse tenant base for modern space underpins top rents of €600 per square metre per annum, which is higher than many European cities outside Italy.

The city is looking forward to hosting the winter Olympic Games in 2026. “Thanks to this, there will be need of many more apartments which could be sold at the end of the international events. This will be a great opportunity for Milan,” says a local hotel and residential developer.

And as the wealthiest regional economy, close to Europe’s key distribution routes, Greater Milan is the most active logistics submarket, offering prime yields of 5.3 percent – higher than many western European locations.

Dublin (12)

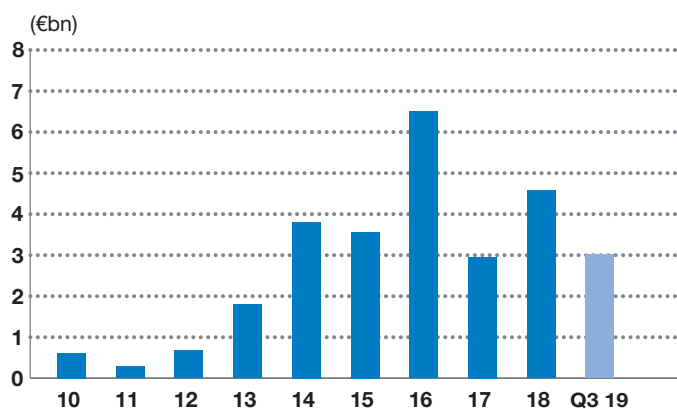
Investment prospects: local outlook, 2010–2020



Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

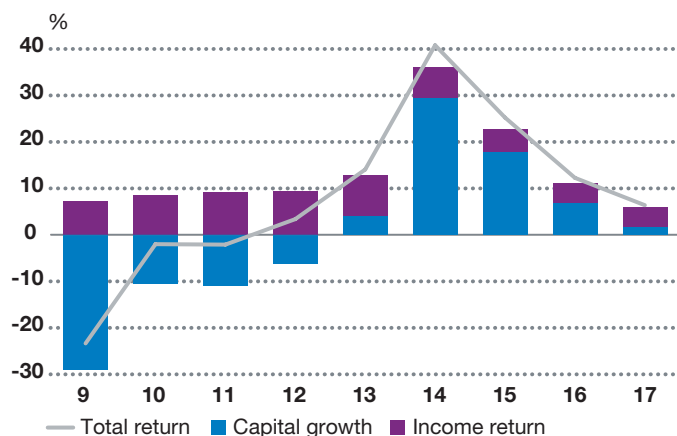
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

“Dublin is positioned very strongly, for political stability, a pro-business environment and being able to attract young people from all over Europe; the quality of immigration into Ireland is off the charts,” says one local developer-investor.

Record take-up in the capital’s office sector, led by the tech giants, is set to continue with an all-time high of live requirements. Consequently, says another local player, “investors are coming to Dublin who normally would not because their natural home would have been London.” “There are German, French and Asian funds coming here,” says a third; “Ireland is seen as core for the first time ever,” chimes a fourth.

Real Capital Analytics says Dublin is now ranked as one of the top 25 most liquid cities for real estate – in the world. Its small and more volatile market compensates investors with a stable 4 percent prime office yield, which is higher than many others in the top 25.

Some who find the CBD competition too hot tip suburban office markets as the place to invest in 2020. “Rents lag the CBD and traditionally maintain circa 50 percent relativity; if you can buy space in the suburbs there is at least 10-20 percent potential before it is fully valued,” a local operator believes.

However, this year interviewees repeatedly raise two concerns about Ireland and its capital city: Brexit and housing.

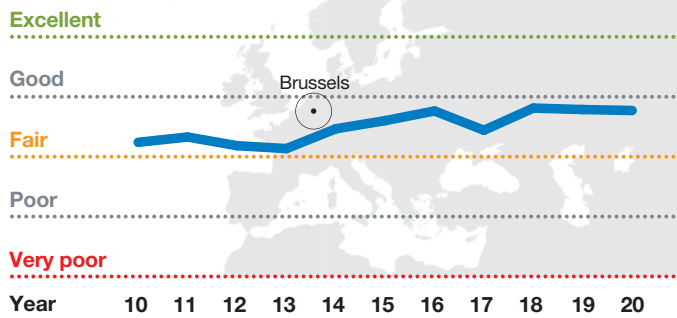
They acknowledge that Brexit has been a strong driver of demand, both from office occupiers looking to “put a toehold in the EU so that it covers their bets” to Brexit-boosted industrial/logistics take-up of 170,000 square metres in H1 2019, 60 percent up on the same period in 2018. But they appear more fearful than before of the damaging effects of a hard Brexit, which could, because of Ireland’s strong links with the UK, have a severe impact on the country’s economy.

There is enormous cross-border investor interest in multifamily housing (43 percent of all investment in H1 2019) due to scarcity exacerbated by the capital’s dramatic business expansion. “The lack of residential property is probably going to become the biggest constraint on the growth of Dublin. The resolutions of the problems are just way too slow,” warns the European head of a global firm.

“We have rental levels up to the point that we are having the same type of debate now that you are getting in Germany, Holland and elsewhere,” adds a local player.

Brussels (13)

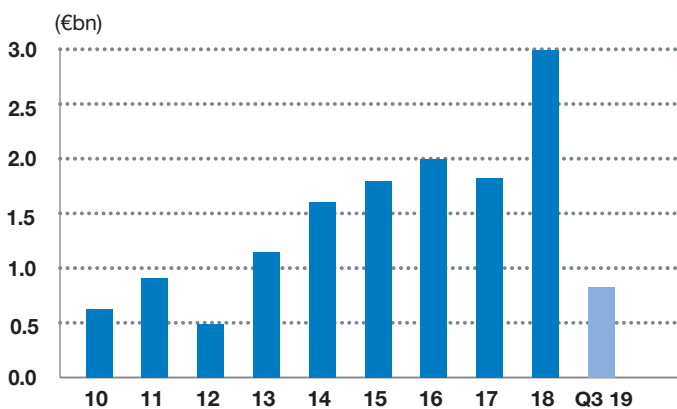
Investment prospects: local outlook, 2010–2020



Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

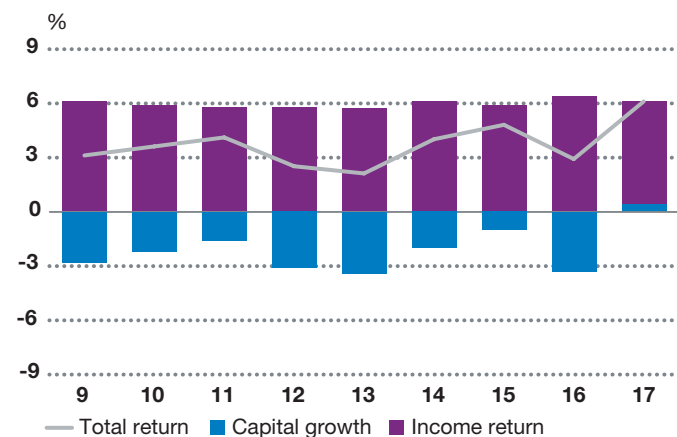
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

"I've always believed in Brussels, yet it was hard to sell this internally. Today, it is easier to defend our European capital when it comes to making real estate investments," says the local head of a global investor, typifying the positive feedback that the city has received from many this year.

"There is hunger to be active in Brussels; the residential market is in good health and roaring ahead. Hotels are as good as they have ever been," concurs another investor.

The growing strength of an office market which saw all-time high take-up for a first half-year of 347,000 square metres in 2019, has piqued investor interest: "Most people don't make any money in Brussels because the market has been dead for a long time, but actually it is now showing good characteristics for well-located CBD offices where you are going to benefit from the growth that is coming through. Nothing has been built, and redundant buildings have been converted to hotels and residential," says a pan-European investor.

"In the office market, rents have increased almost too much," quips a Brussels-headquartered interviewee. "We were looking for offices for ourselves recently, and where we would have rented two years ago at €195 to €215 per square metre per annum, today it is €270 and landlords will hardly negotiate."

Another compares Brussels to the city that has been the darling of the European property market in recent years: "Brussels has the capacity to become Berlin. The rents are relatively stable, and the growth is enormous. Brussels is, by error, always put back."

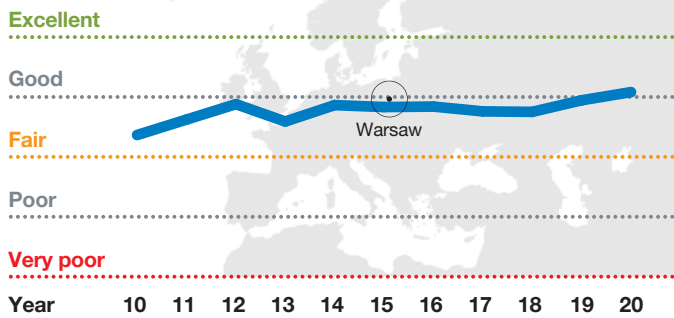
This local player argues that the advantages of Brussels, which include good train links to Amsterdam and Paris and a large population, are starting to become clear to investors and adds: "The University of Leuven is one of the most innovative ones of the EU. There will be many start-ups and patents that will have an impact."

The city's notoriously poor commute is still an issue for some, however: "The coordination of the public transport in Brussels needs to improve. It can take longer to get to work by public transport than it does by car, even when you know there will be a traffic jam."

Municipal authorities are encouraging a shift away from the private car, which may create opportunities, tips another: "What to watch in Brussels is connections to public transport. That's going to be the growth area, and that's where we're positioning our clients."

Warsaw (14)

Investment prospects: local outlook, 2010–2020



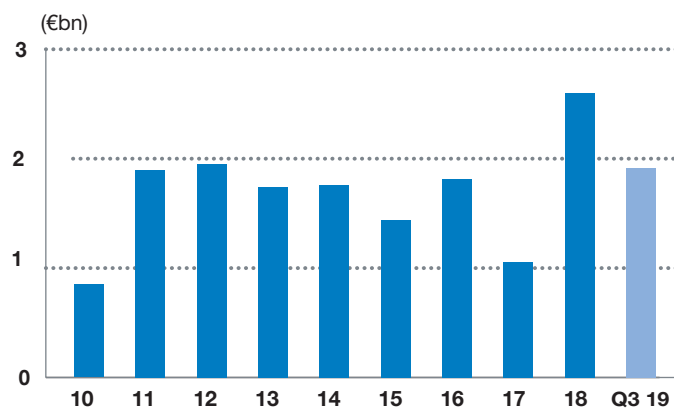
Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

“We would definitely venture into Warsaw in a more significant way,” says a pan-European investor. “The returns are higher, and you get first-class office buildings and good logistics facilities in a market that’s growing strongly. It’s that simple.”

The growth story in the Polish capital is compelling, even for some who previously doubted its sustainability: “Our business in Poland has been going extremely well. The take-up in the office sector has been tremendous, notwithstanding the political gyrations. There was some concern in Warsaw that there might be an office oversupply because there was quite a large pipeline being developed, but so far we have seen heavy supply being met by heavy demand,” says an interviewee.

Transaction volumes, 2010–Q3 2019



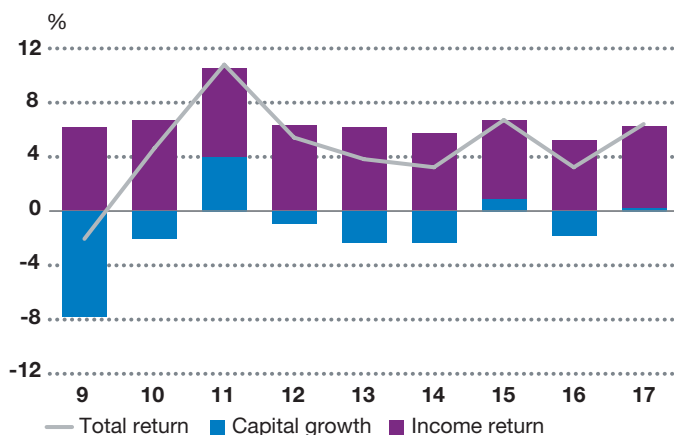
Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

A local highlights the country’s “very good and stable economic background; profitability is still at a satisfactory level, which attracts new capital investors. Therefore, there should still be a lot of money on the market”.

Much investment has been focused on the office sector, but a German fund manager suggests that other asset classes will take more of the limelight in future: “Poland, given its relatively young population, its retail consumption, and the catch-up that is still visible, has some way to go particularly in hospitality, retail and residential – not so much for offices because occupiers are starting to move their back-office functions even further east.”

All-property return, 2009–2017



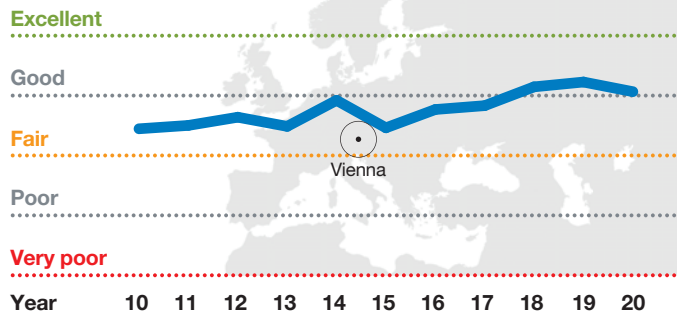
Source: MSCI

Some single out student housing as offering great potential: “You have to look at the short supply in student accommodation relative to the demand – in particular the international student demand in the Polish market, which is phenomenal, with the UK unfortunately losing their share of that market because of their own inward-looking views,” says one.

Fewer interviewees raise the risk of political instability this year, but governance is still an issue in some respects: “Tax and financial unpredictability are a big problem in Poland. Regulations change overnight. This contributes to a negative opinion about this country,” observes a local.

Vienna (15)

Investment prospects: local outlook, 2010–2020



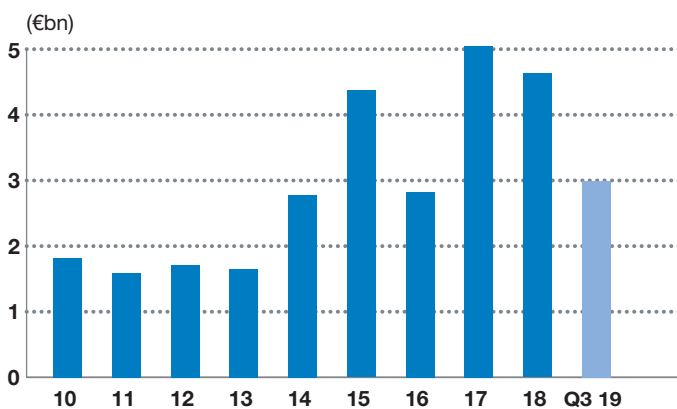
Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

An investment manager sums up the conundrum of the Austrian capital: “Some people say Vienna is boring. The vacancy rate is always low, and the rent level is stable. Values are stable and don’t increase quickly. However, it is a very attractive city, and people like to live there. It is a well-developed western European market, and the population is growing very fast.”

With limited development opportunities leading to stasis in the city’s central business district, Vienna offers less growth potential than neighbouring CEE office markets, argues a regional investor: “Tenants move from place to place, there is no significant increase in rent levels, and cap rates are low because it is looked on as a safe haven. I can’t name a single reason why Vienna should outperform over the next years.”

Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

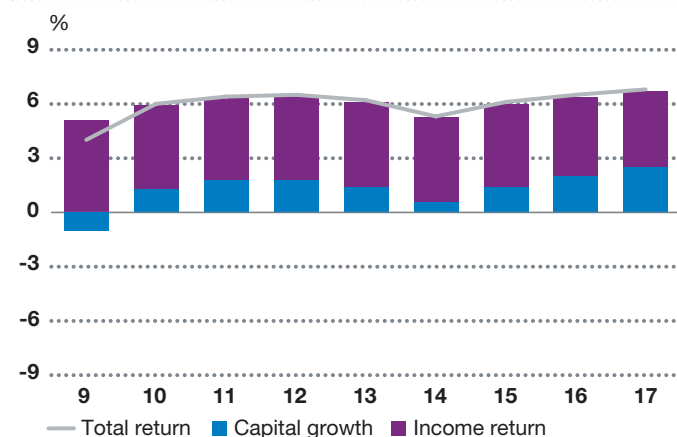
Note: Figures are provisional as at 30 October 2019.

On the other hand, people do want to live in Vienna. In 2019 the city celebrated a ten-year reign at the top of Mercer’s quality of living ranking, and a second as the top-rated settlement in the Economist Intelligence Unit’s global liveability survey.

It has seen a residential development boom, with 12,000 units expected to be completed in 2019 and a further 18,400 in 2020. “Originally, we were just focused on office buildings in Vienna, but there was so much investor interest in residential that we started buying,” says an interviewee.

Most of the forward-funding opportunities in the sector are already spoken for, however: “Investing for our new fund will be tough because there are not so many developments on the market. To find assets in good locations is a challenge.”

All-property return, 2009–2017



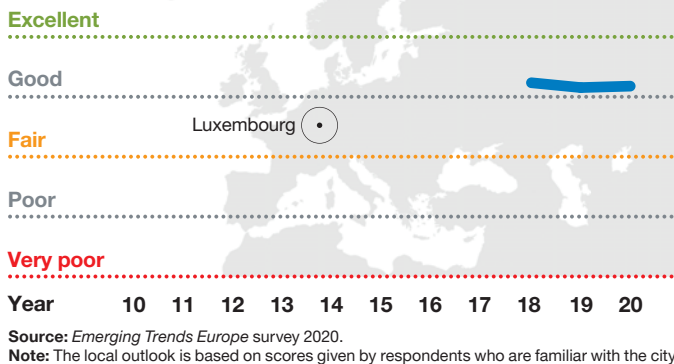
Source: MSCI

Meanwhile yield compression may have reached its limit: “Unfortunately return expectations have gone down. In Vienna at the moment you are paying 3.5 to 3.75 percent yields for residential assets. Three years ago, we got the same quality for 4 to 4.2 percent. I don’t think it can get more expensive because for institutional investors 3.5 percent is their limit.”

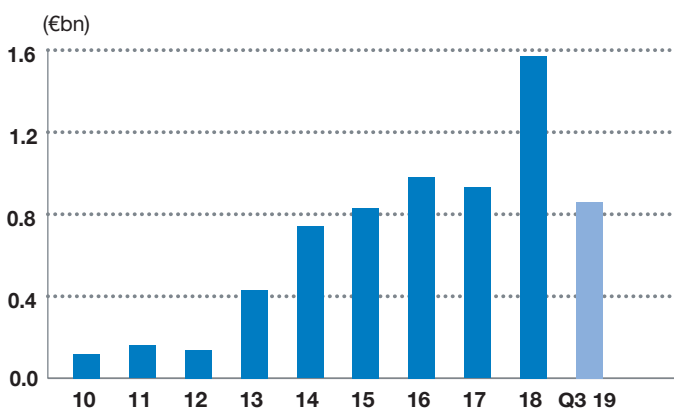
Investors may switch to alternative sectors like student accommodation in which yields are still comparatively attractive. A global investor cites Vienna as one of the European cities with “strong universities and high quality of life, but low provision of purpose-built student housing stock”.

Luxembourg (16)

Investment prospects: local outlook, 2010–2020



Transaction volumes, 2010–Q3 2019



All-property return, 2009–2017

MSCI does not produce an index for Luxembourg.

The likely benefits of Brexit have previously loomed large in respondents' view of the Grand Duchy's office market, but now they have their eye on home-grown drivers of prosperity.

"In Luxembourg so long as the politicians stay the smartest politicians on earth things will go fine," comments a regional investor. "They are very pro-business but also prudent. It is a great environment for business as well as socially, a perfect mix. They keep on attracting businesses that prove to be very fruitful. Many people are coming in who would like to live there if they can afford it."

GDP growth of 2.8 percent is forecast for 2020, ahead of the eurozone average of 1.4 percent. Meanwhile, the government is forecasting a 25 to 33 percent rise in the Grand Duchy's population by 2030. Much of that increase will be driven by immigration; workers relocating from other parts of Europe already represent 48 percent of the population.

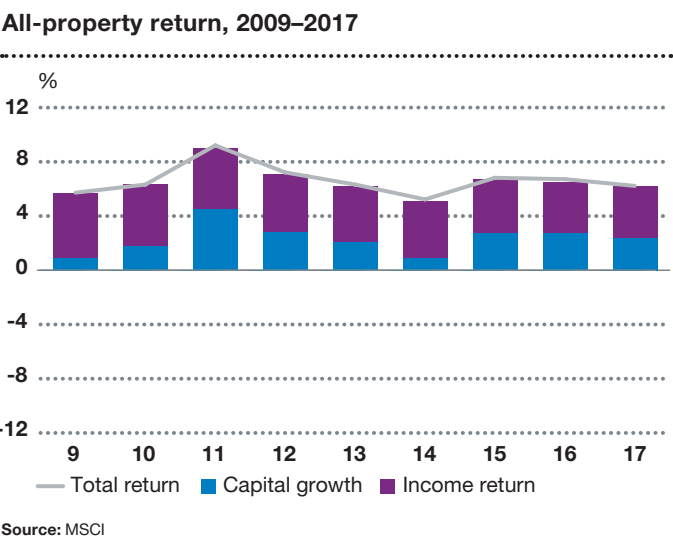
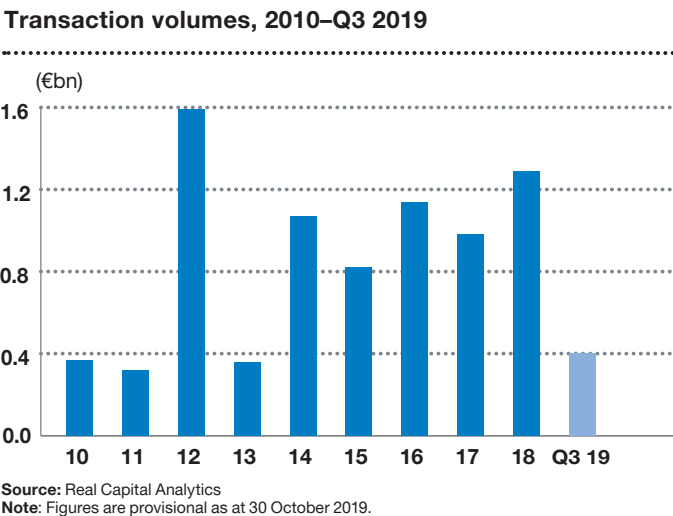
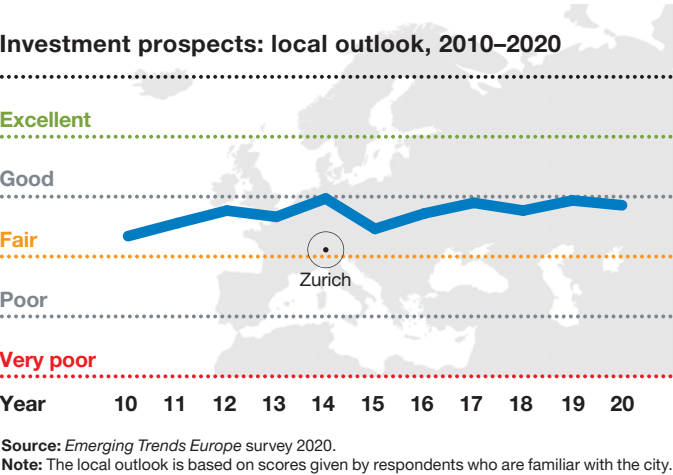
Consequently, there will be opportunities in the housing sector, argues a local: "There is a very high demand for residential, and the supply does not meet the demand."

Rapid expansion will put pressure on transport infrastructure, but the Luxembourg government is responding. From 1 March 2020, all public transport in the Grand Duchy will be free. "Issues related to access to the city due to the growing numbers of commuters from neighbouring countries is critical. The completion of the tramway in Luxembourg city in 2020 should be a game changer for real estate."

While prime office yields have come in, some investors still see scope for at least a little more growth: "Yields for assets that would be 3.6 percent in Brussels would be 3.8 to 4 percent in Luxembourg. There is still value there, but at some point you will need to be careful," says a pan-European developer.

Another adds: "In the last six to eight months Luxembourg has got interest both from value-add and from core-plus capital. I think people see that is still sustainable, with possibly some further upside both on the yield and on the rental basis."

Zurich (17)



As ever the challenge for investors in Zurich is to unearth value in the face of enduringly high prices. “It is a very stable market and very difficult to acquire assets. We acquired one value-add property which needs a lot of work, but that is what you have to do, or you can get hardly anything in Zurich,” complains an interviewee.

Swiss institutional investors’ portfolios are already heavily weighted towards domestic real estate, and they are reluctant to moderate their return expectations, says an investment manager. “They would rather go up the risk curve and team up with us to do development rather than allow lower returns. The larger core funds can allow themselves a bit more exposure to risk.”

The local knowledge required to source assets deters non-domestic capital, suggests a broker: “There are very few international investors in Switzerland, despite high interest. Investor feedback is that they do not know enough about local specifics.”

Even in alternative sectors there is little let-up in the competitive pressure: “The sectors that are called niche are not niches anymore. The investors know them and are actively looking for them. Not only the specialists invest in those, now everyone is searching.”

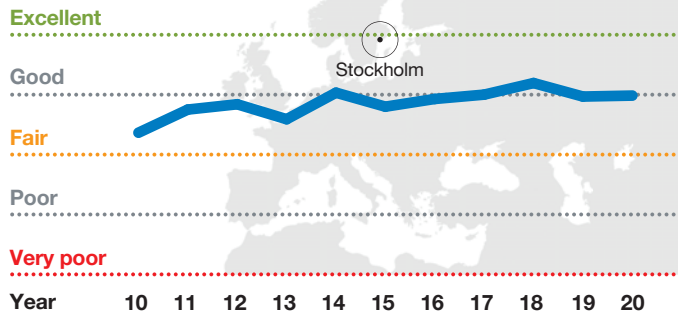
Zurich ranks second in Mercer’s list of the most liveable global cities: “Here in Zurich I hardly use my car. I just cycle all the time. You have all these public bikes and it is very convenient,” says a local. “I believe residential in Zurich’s inner suburbs will do tremendously well. There is hardly any new supply.”

The strength of the Swiss franc on currency markets is hurting the country’s retail sector, however: “People are used to going to shop in Germany, France and Italy. It is just 45 minutes from Zurich to Konstanz in Germany, and if you go there you see all the shoppers are Swiss.”

Some interviewees believe corporate tax reforms that were approved by referendum in May 2019 will boost the Swiss economy: “Regulation reducing tax rates for SMEs will make the country more attractive to businesses and will have an indirect positive impact on the real estate market.”

Stockholm (18)

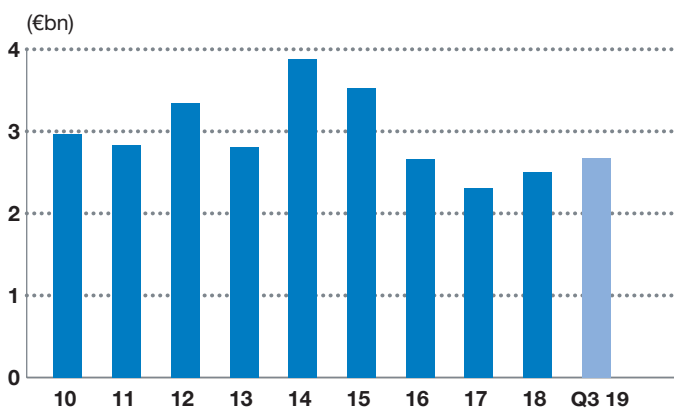
Investment prospects: local outlook, 2010–2020



Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

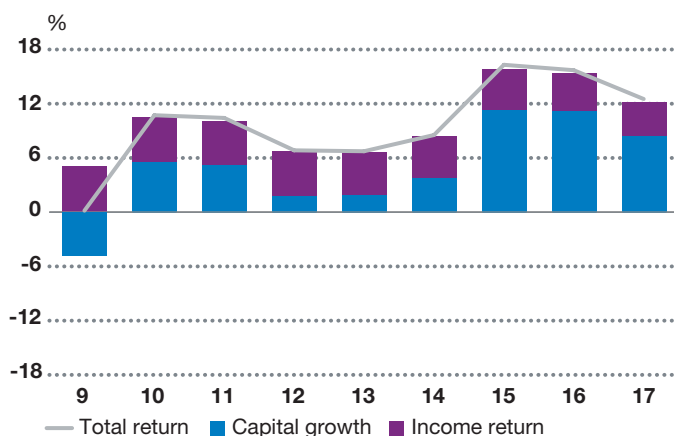
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

Stockholm is frequently cited as one of the most dynamic cities in Europe, prized for its stable and liquid real estate market, which is powering on despite a slowdown in the Swedish economy.

The investment market is busy, with SEK 90 billion trading in the first half of 2019, higher than in most recent years. This is partly due to an increase in logistics transactions, which jumped to 22 percent of the total volume. The trigger has been Nordic firms releasing stock via several big portfolios; these were pounced on by international buyers keen to get footholds in the region in this sector.

One portfolio in particular, “by far the best available in Sweden”, was keenly fought for, selling for a record low yield of 4.3 percent, which almost puts Sweden’s prime logistics on a par with Germany’s. “We had rarely seen anything under 5 percent in the Nordics before,” says a regional adviser.

As with logistics, the challenge for the many fans of the capital’s office market is finding assets. “We haven’t yet seen an investment at below 3 percent in the Stockholm city office market,” the adviser reports. “But that’s due to lack of product. If we were able today to get one of the best buildings on the market it would probably go below 3 percent and probably close to 2 percent. We’ve had multiple buyers make approaches for those buildings, but they are just not for sale.”

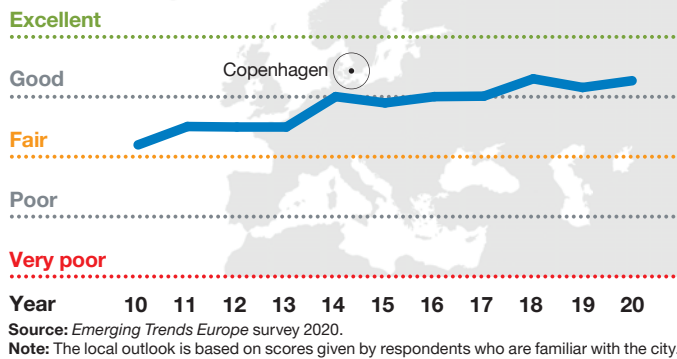
Forward-funding opportunities offer an alternative, especially in urban submarkets where speculative space is letting ahead of completion. One of these, Arenastaden in Solna, is also notable for an initiative called the Last Mile Logistics project, designed to make deliveries more efficient and cut traffic. Landlords and occupiers are working with the city’s Urban Services Initiative using an app that co-ordinates vehicles taking goods and waste in and out of the area.

Stockholm’s strong population and job growth also underpins demand for other sectors, particularly residential for rent. Locals say that while overbuilding of high-priced apartments continues to be an issue, there will be increasing demand for build-to-rent that is decently priced, and there is a big shortage.

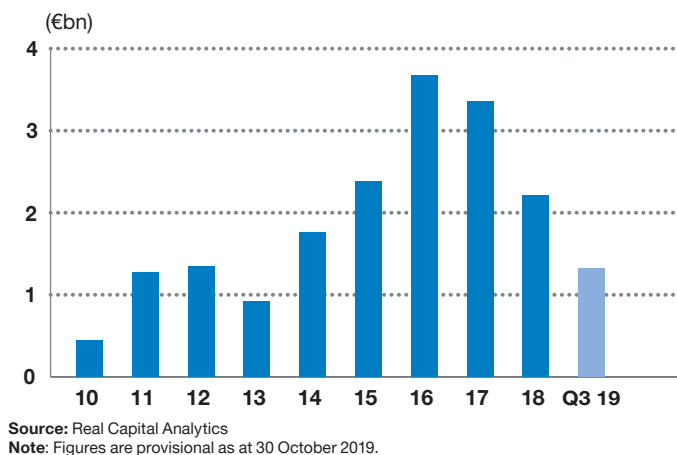
“International buyers have worked to understand the different regulated markets,” says one Nordics player, adding that they are also bringing expertise in student housing.

Copenhagen (19)

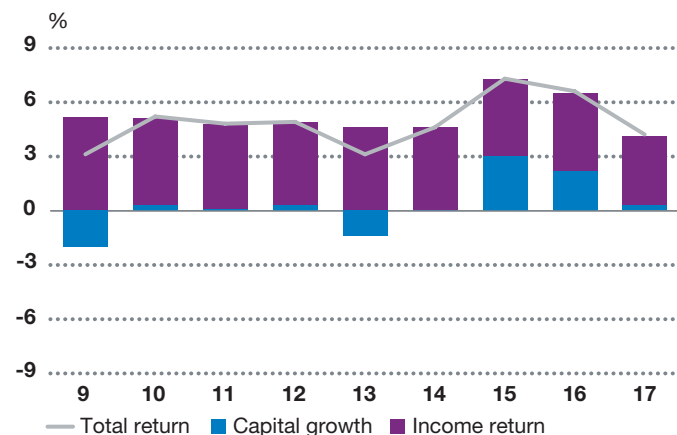
Investment prospects: local outlook, 2010–2020



Transaction volumes, 2010–Q3 2019



All-property return, 2009–2017



In what may be a sign of the times in Europe, Denmark's new centre-left coalition government has appointed the country's first-ever minister for building and housing.

"This means that the Danish government is now showing more interest in the Danish real estate market and is likely to enact a number of reforms," one Nordics respondent says.

Another is more blunt: "Private equity firms have been buying regulated apartment buildings in Denmark with the idea of refurbishing and pushing the rents, and it has been very much criticised in public. There is some political discussion of limiting landlords' ability to do that.

"I think that is one of the biggest changes in the political environment in the Nordics for quite some time. They see what's happening elsewhere in other countries, such as Berlin in Germany."

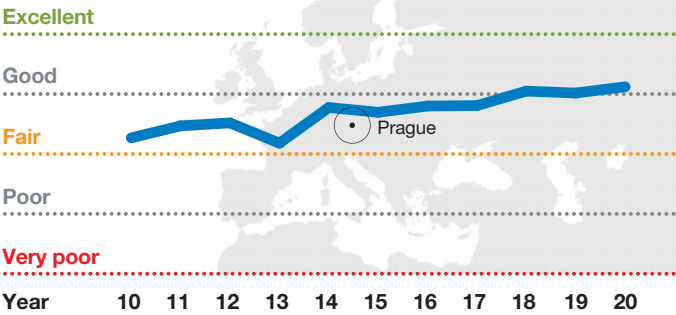
Statistics suggest that the effects of this uncertainty may already be starting to play out. Copenhagen has been a key market for intra-Nordic and international capital investing in rental residential in the last few years, coming second only to Berlin last year. However, in the first half of 2019 total transaction volumes in Denmark declined by 40 percent, and investment by foreign buyers almost halved compared with 2018.

Most of the decline was caused by fewer residential deals, which fell by 30 percent. In 2018 the government introduced tighter lending standards to reduce the risk of a housing bubble. Nonetheless, locals urge caution around the residential market. Developers are building a lot of new housing in Copenhagen, and locals say that there is a mismatch in the size of apartments. Many are large, but tenants want smaller units because they cannot afford larger ones.

Many respondents feel the best opportunities in Denmark's capital will be office and logistics. Offices are seen as promising because they are priced lower than in Stockholm and Oslo but with a similar shortage of supply of modern stock. "There is a need for more logistics due to economic activity and expanding e-commerce," says one adviser. Industrial/distribution vacancy is at its lowest for years, and international investors are particularly interested.

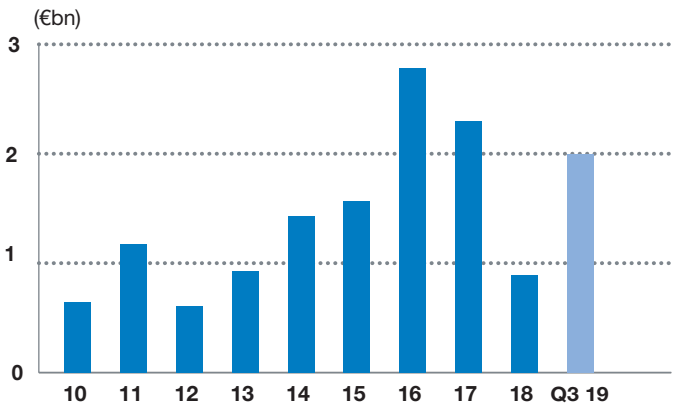
Prague (20)

Investment prospects: local outlook, 2010–2020



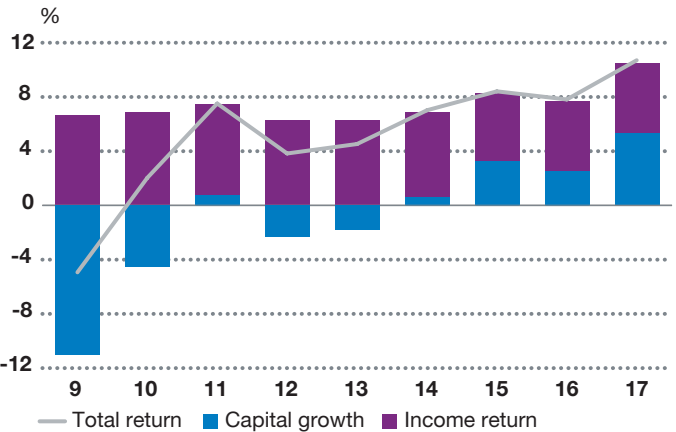
Source: Emerging Trends Europe survey 2020.
 Note: The local outlook is based on scores given by respondents who are familiar with the city.

Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics
 Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

“Prague is a beautiful city and a developed market. Rents are high but not that fast-growing, and yields are at western European levels,” says a regional investor. The Czech capital is generally viewed as less volatile than Warsaw or Budapest, but for investors seeking a bit more yield or to benefit from rapid growth, it is unexciting when compared with its CEE neighbours. “The volume of transactions for the last 12 months was pretty low. People are holding onto the assets they have, and there is little development.”

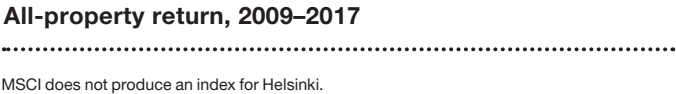
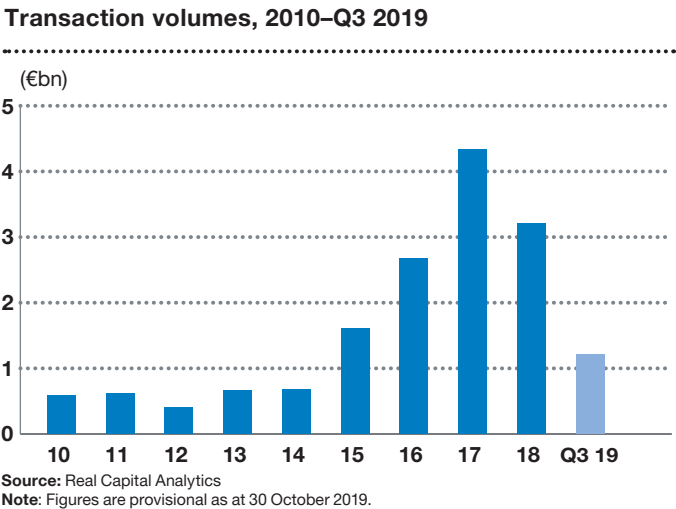
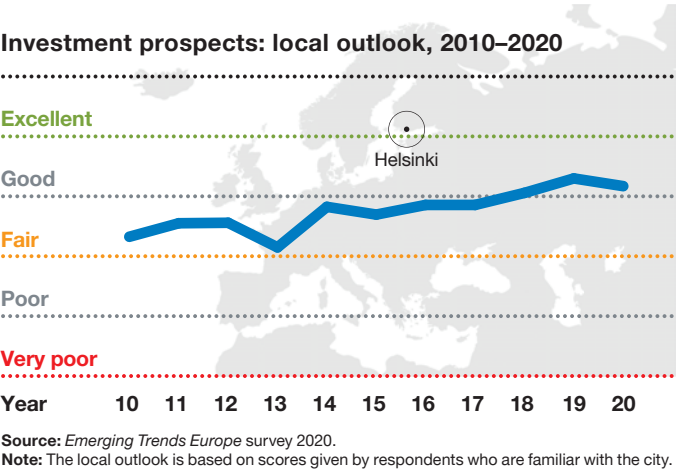
Take-up in the office market was also relatively subdued in the first half of 2019: “There are not too many new tenants coming to the city. It is always the same tenants moving around, so the demand is not that high for brand new offices. Like Warsaw, it is becoming more of a market for rented residential, and there are companies developing apartments for lease.”

Says another: “Prague has its own character, and lots of people love to live and work there. It is a tourist destination and a really attractive city.”

Yields for prime offices in the city centre are already as low as 4.2 percent, and the price tag on many assets is too dear for investors with high return expectations. However, Prague still holds attractions for capital prepared to take a long-term view, argues the investor: “We are not shy to buy new assets because we foresee cap rates falling further. Warsaw, Prague and to some extent Budapest will be more like Vienna and Frankfurt.”

The same investor predicts that there is also scope for rental growth: “Rent levels are generally €250 per square metre per annum or below. Compare that to the levels in western European cities, and there is still the chance of a significant upside. We are convinced that future will come, and we want to be part of it.”

Helsinki (21)



Helsinki continues to offer advantages over many other European capitals as it is less advanced in the real estate cycle. Rents are still recovering, and investments are not as expensive.

South Korean buyers, hunting for well-let buildings at yields of circa 4 percent and above, have been circling the city and are tipped as competitive bidders for one of the largest-ever single office sales in the Nordics, which is expected to trade in 2019.

“The dominant source of capital in Finland has overwhelmingly been international rather than domestic,” says one local adviser. “The depth of Korean capital is just tremendous, and the US private equity houses are also very active. We see Europeans buying, and we are seeing Singaporean investors in bidding processes. Even Australian investors are exploring our market.”

International investors focus on the city centre and locations in the Helsinki Metropolitan Area that have mixed-use and good transport infrastructure such as Tripla and Pasila to the north and the 100-hectare Jatkasaari district, one of Helsinki’s largest urban developments under construction, as a western extension to Helsinki city centre.

“What is interesting is that we have seen a marked increase in investing in Finnish residential,” adds another local player. “That sector is expanding with the first examples appearing of diversified kinds of apartment living like serviced apartments, extended stay or commercial student living. This is new here, and it is being introduced by international players.”

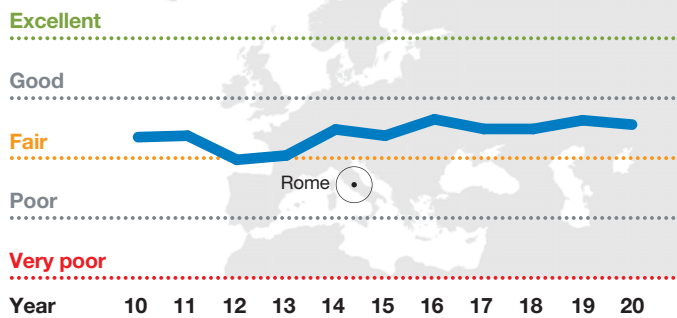
Investors in rental residential are watching Finland’s new left-wing government closely because the topic of affordability is high on its political agenda. “I think that is a risk to our business in the residential sector,” one interviewee warns.

Logistics, he says, is “a bit different” from the more centrally located Nordic markets of Sweden and Denmark, and Finland’s investible stock is small. “But if anything is up for sale, interest is healthy.”

Retail could be challenged in the next few years as about 200,000 square metres of new space is coming on stream, intensifying competition for tenants and shoppers. Rents have fallen, and shopping centre vacancy is slightly up.

Rome (22)

Investment prospects: local outlook, 2010–2020



Source: *Emerging Trends Europe* survey 2020.

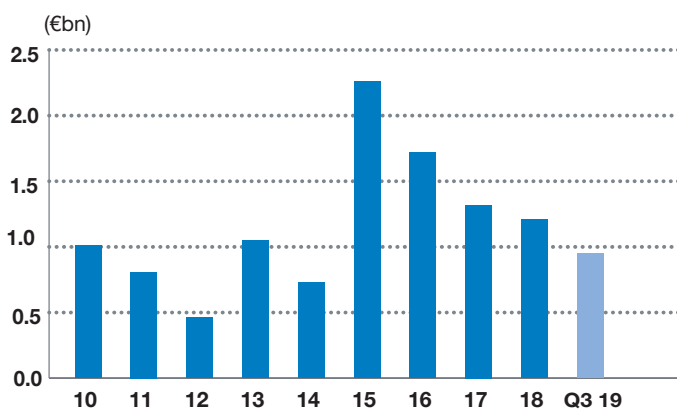
Note: The local outlook is based on scores given by respondents who are familiar with the city.

In terms of residential, logistics and office – the most popular sectors targeted by *Emerging Trends Europe*'s respondents – Rome's real estate market continues to play second fiddle to its northern rival.

"Today there is a 30 percent gap in values compared to Milan, apart from hotels," says a large Italian institutional investor. Prime CBD office rents in Rome are €430 per square metre per annum, and prime yields are 3.75 percent compared to €600 and 3 percent in Milan."

Rome's underperformance is blamed on two continuing frustrations: the lack of transparency and its city leadership. "Rome is blocked, and the reason is strongly related with the lack of strategic vision," says a global investment manager.

Transaction volumes, 2010–Q3 2019



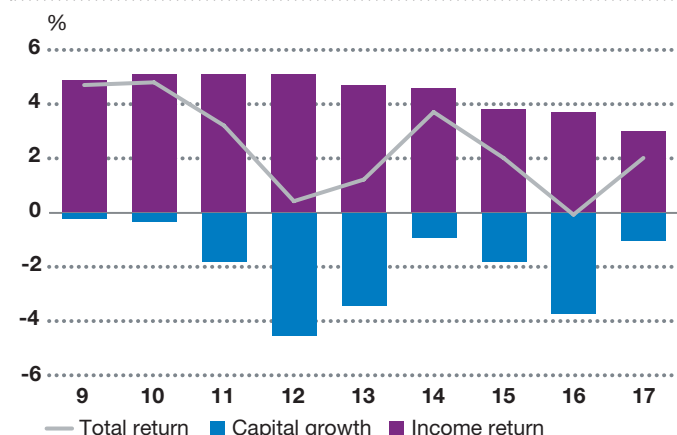
Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

However, local players who know how to work with these constraints and more adventurous international capital, particularly from the US, are active. The market in 2019 has been a little more dynamic, and there is competitive bidding for opportunities. Players are looking for the same product as investors in other European cities: buildings to refurbish to grade A specification. "That market is not so crowded compared to German cities. We think that wave is now coming to Rome," says one. Italy's capital is strong on hotels and – selectively – retail. Institutional investors with sound knowledge of Italian shopping continue to buy into big malls, examples being the insurance/pension fund money behind trades in GranRoma and Parco Leonardo.

Last year's predictions that Italian hotel investment would take off due to growing tourism combined with pent-up demand from big brands proved correct. Italian credit information firm CRIF says 42 percent of transactions in H1 2019 were in the hospitality segment, more than half from foreign investors focused on Rome. "Rome is a city where we see good growth prospects: there is a big lack in the offer of luxury hotel brands," says the CEO of an Italian investor. However, he adds: "The problem is that more or less 85 percent of hotels are owned by families, with price expectations that are too high."

All-property return, 2009–2017

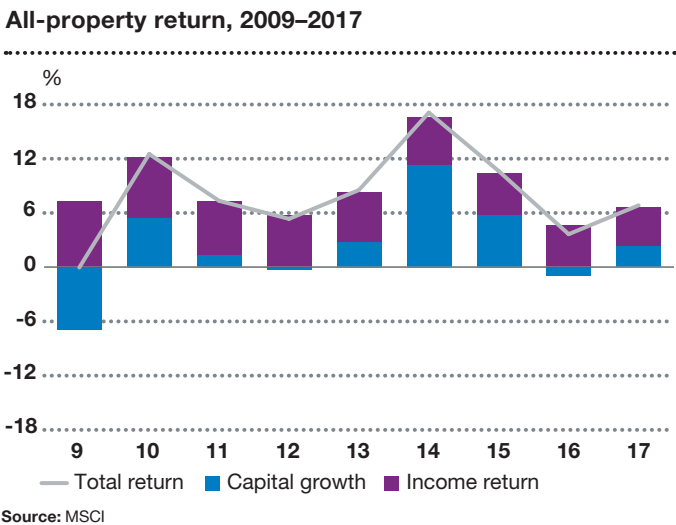
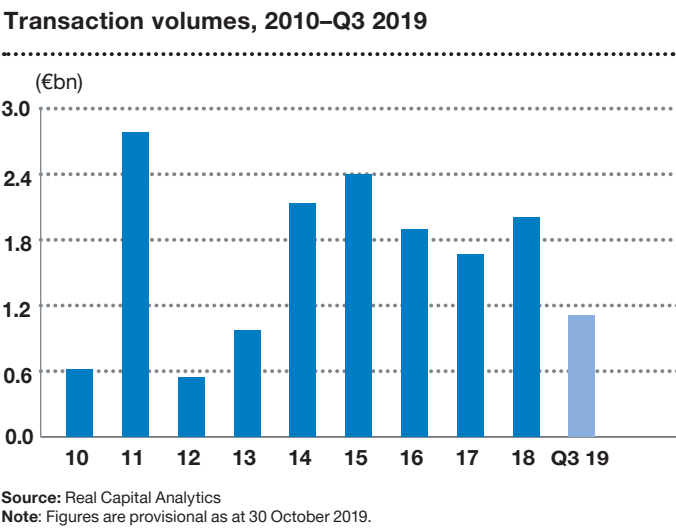
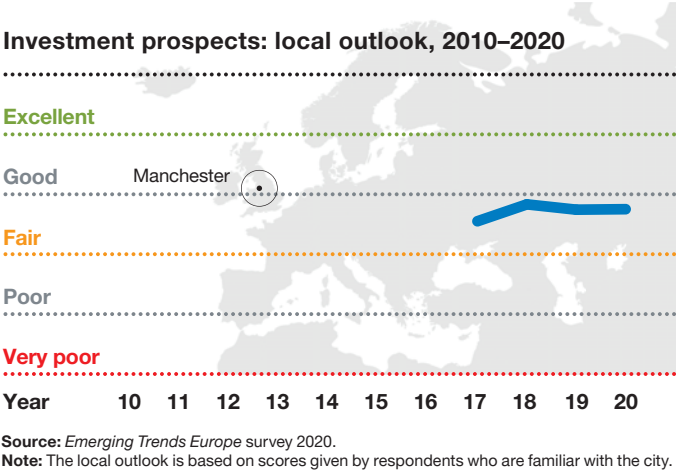


Source: MSCI

Italy's real estate market "is still bank centric", and banks are choosy about what they will fund. For investors with relationships with foreign banks, debt is relatively cheaper, but Italian banks are still weighed down by €170 billion of bad loans and require higher spreads, even for core investments, or very high levels of pre-letting or pre-sales for development.

"Our investments are mainly financed through equity, and more and more we are seeking joint ventures with institutional investors," says another Italian CEO.

Manchester (23)



“I can’t see anything other than Brexit that would put people off the UK regional markets. Economically there isn’t much difference between UK and European GDP. It is the political uncertainty that investors can’t ignore.”

Without that hindrance to cast a shadow over Manchester’s prospects, they might be seen in a much more favourable light because the city’s now well-entrenched reputation as the UK’s up-and-coming conurbation still endears it to some investors. “It is a thriving city in many ways and benefits from having a large airport with two runways. It has a pretty progressive council and now has a metropolitan mayor, and there has been a strong vision around town planning. We would be happy to invest there,” says a pan-European manager.

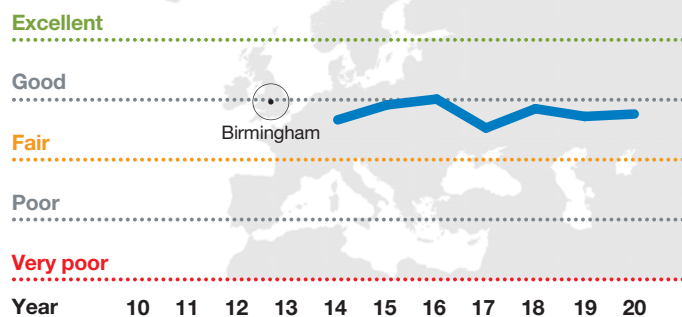
Interviewees identify the office market as particularly fertile ground for investment. Vacancy is low, and rents show potential to grow beyond their mid-2019 headline level of £393 per square metre per annum in 2020 thanks to continued demand from a solid tenant base. “In Manchester you have local law firms and other mid-sized companies, but also bigger businesses which serve the local market, which is what we like to see. We still do a lot of offices in Manchester, but we wouldn’t do retail there,” says another European investor.

In some circumstances, market dynamics in the sector are healthy enough to overcome concerns about the wider political climate, says an overseas investor. “We’ve done a lot less over the last two or three years in the UK as a consequence of Brexit. And what we’ve done has been done very, very carefully and well supported by some really, really strong fundamentals, and the regional office market has those.”

So far, Manchester’s residential market has been spared the price falls and stasis seen in London; JLL identifies the city’s centre as the most attractive UK residential market with a 4.5 percent average price growth forecast over the next five years. With four universities in Greater Manchester, the city has one of Europe’s largest student populations. Purpose-built rental blocks to accommodate the booming number of students and young professionals now account for a significant proportion of the city centre’s development pipeline.

Birmingham (24)

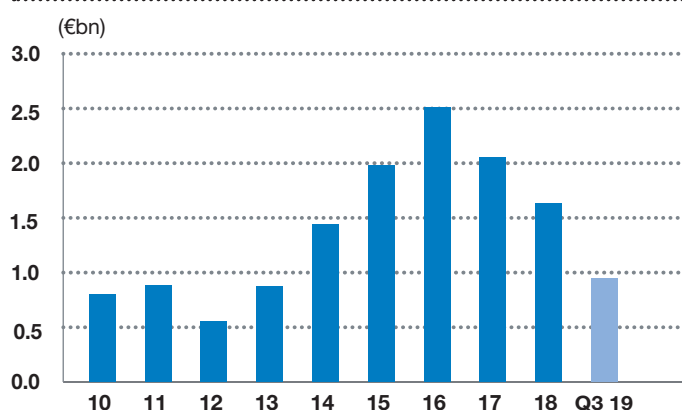
Investment prospects: local outlook, 2010–2020



Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

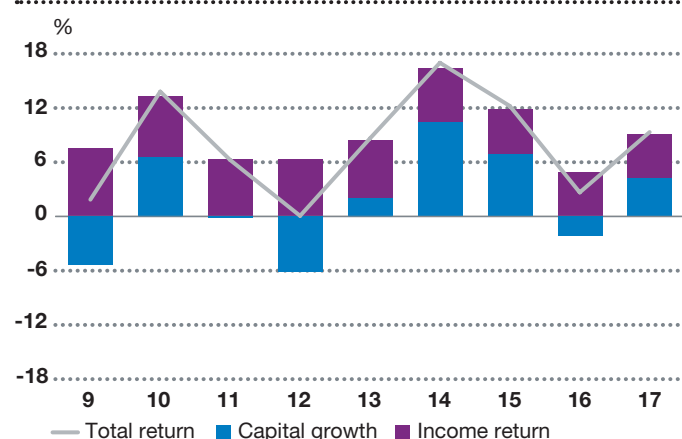
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

Emerging Trends Europe's respondents' views on Birmingham are a microcosm of the prevailing sentiment in Brexit Britain's commercial property market: optimism about the resilience of the office sector, gloomy reflections on retail decline, faith in the potential of rented residential and confidence in logistics tinged with caution over the uncertain future faced by the nation's exporters.

"Birmingham has had relocations out of London like HSBC, which has moved a lot of staff there, and that has produced quite a lot of demand for offices," says an institutional investor. "Not much has been built, so there is very little supply. The CBD in Birmingham has been relatively contained because it is quite a small area. If you are not in the CBD then forget it, but if you are, then it is quite a nice market to be in. It is well-defined so you aren't likely to get many wrong bets."

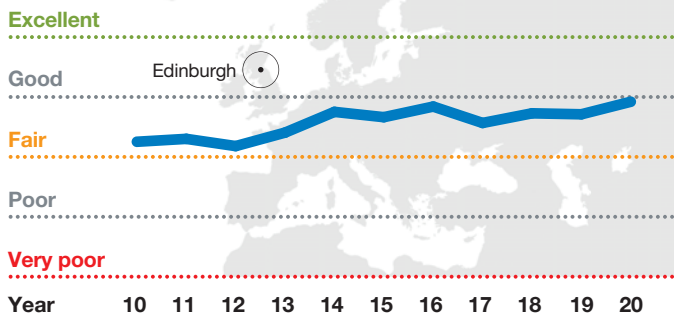
The influx of young office workers has generated demand for purpose-built private rented apartments. Several such developments are underway in the city centre, creating opportunities to finance. "We're providing debt in places where the market is less liquid. We lent to a PRS development project in Birmingham where we were providing senior secured credit at the returns our credit fund needs," says a financier.

Investor appetite for logistics assets has never been sharper, and Birmingham's well-established warehousing sector remains highly attractive. However, a disorderly EU exit together with declining order books could hit the automotive industry, one of the city-region's most important sources of occupational demand. "In Birmingham and the wider West Midlands there could be a negative impact because of the weak state of the car industry," warns an interviewee.

Meanwhile Birmingham's retailers are suffering the effects of the headwinds facing the sector at large. In September 2019, department store chain Debenhams announced it would close its Birmingham branch, and the premises of rival House of Fraser in the city centre are already earmarked for redevelopment, primarily for offices. Notwithstanding value write-downs, the market for the region's shopping centres is thin. "A mall 25 miles outside of Birmingham anchored by a House of Fraser and a Next, that is super-tough. There are some things in retail you would be prepared to do, and some that you wouldn't at almost any price," says a private equity fund manager.

Edinburgh (25)

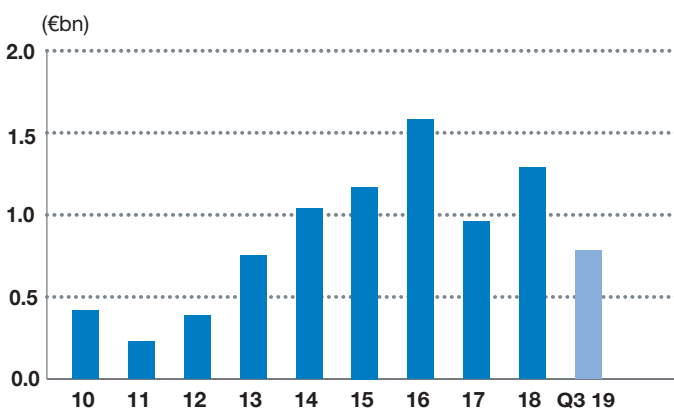
Investment prospects: local outlook, 2010–2020



Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

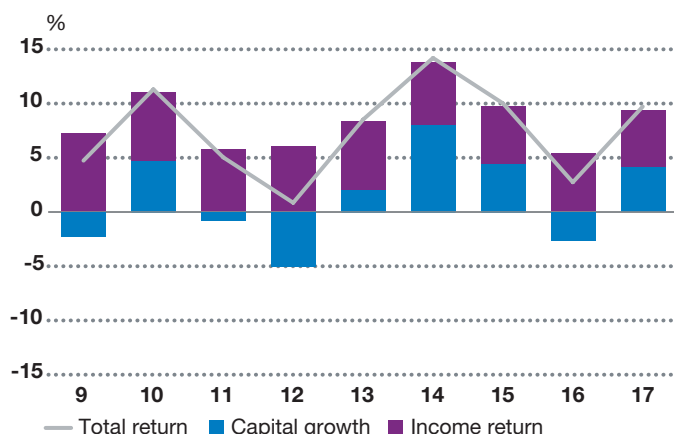
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

As with other UK regional markets, Edinburgh's prospects are obscured by political uncertainty. "We are active in Manchester and Birmingham and we are about to acquire an asset in Edinburgh, but they are all under the cloud of Brexit," says an international investor.

And yet the Scottish capital was lively in the first half of 2019, with almost £310 million of office property traded. Much of that total was accounted for by two transactions of over £100m, in which the buyers were a German pension fund and a South Korean investor, demonstrating that at least some overseas capital is still in the market for substantial assets.

Edinburgh's broad-based economy remains a draw. "We will continue to invest significant money in hotels and offices there. It is partly tourism; it is a big tourist centre, but it is also because the local economy has managed to diversify its occupier base away from financial services in recent years," says a UK investor. "While it is still the second largest financial services hub in the UK, it has quite a large range of other sectors, so it is more robust from an occupational perspective."

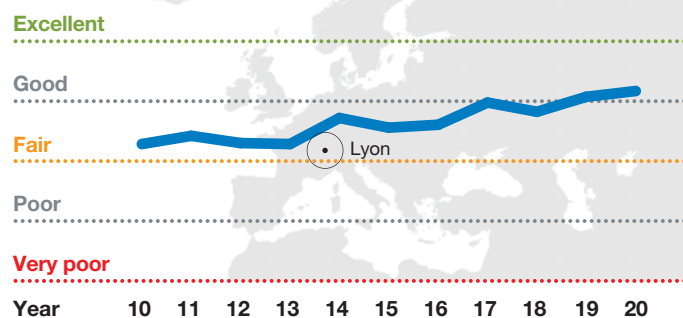
Prime office yields stand at 4.5 to 4.75 percent. "Prices never got too silly either," continues the investor, "partly because of the whole worry about Scottish independence. That worried quite a lot of UK investors and they probably remain a bit worried, so there is not quite as much competition for assets, and on a relative value basis it looks quite good."

UK regional office markets where there has been little development still offer opportunities to provide modern offices to meet latent demand, observes a pan-European fund manager. "Edinburgh is one of those markets where supply is very tight. There are a couple of big schemes coming forward, but there is a dearth of grade A space and the demand side drivers are there."

Other sectors present a mixed picture, however. "Leisure associated with the tourist trade is buoyant, but mainstream retail is weak at the moment," says the fund manager. The 79,000 square metre retail and leisure element of the Edinburgh St James mixed-use scheme in the city centre is due to complete in 2020, and its letting performance will be closely watched.

Lyon (26)

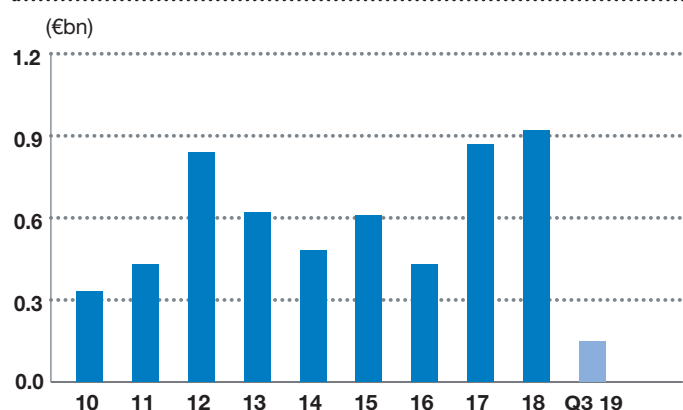
Investment prospects: local outlook, 2010–2020



Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

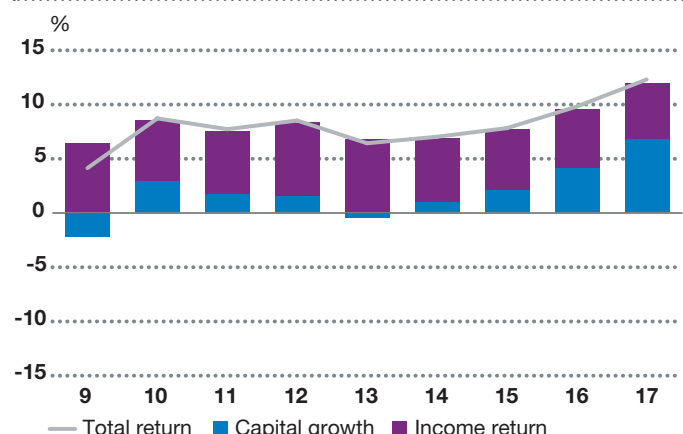
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

Lyon continues to earn its right to be France's undisputed second city. "Well-rounded, with talent, clusters and scale," according to one pan-European investor.

Its main pull is the many European businesses, from start-ups to around 150 listed companies, which have headquarters here; the broad base of its industries includes pharmaceutical, bio-tech, healthcare, engineering, textiles, technology and R&D. It is France's second-largest digital hub after Paris and has world-class universities with 300,000 students in the region.

Lyon's transparent property market and stable rental values also make it a "safe haven" for the investors who like it. "It is a really transparent, well-organised market compared to Bordeaux or Toulouse," explains one French investment manager. "In Lyon you know if you want to buy a HQ you go to Part-Dieu; if you want a new building you go to Confluence; for bio-tech you go to Lyonbiopôle; for R&D you go to Gerland; or for electronics or technology or accounting you go to Vaise."

The city prides itself on being "smart" about growth. An example is the urban "logistics hotel" in south Gerland in the Edouard-Herriot port on a 48,000-square-metre site served by river, rail, road and pipeline. It was launched recently in response to new consumer trends and e-commerce, facilitating goods distribution and last-mile delivery in the city.

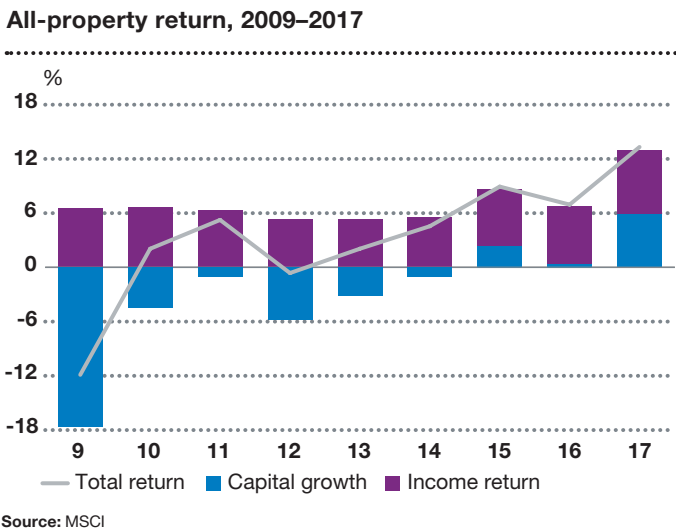
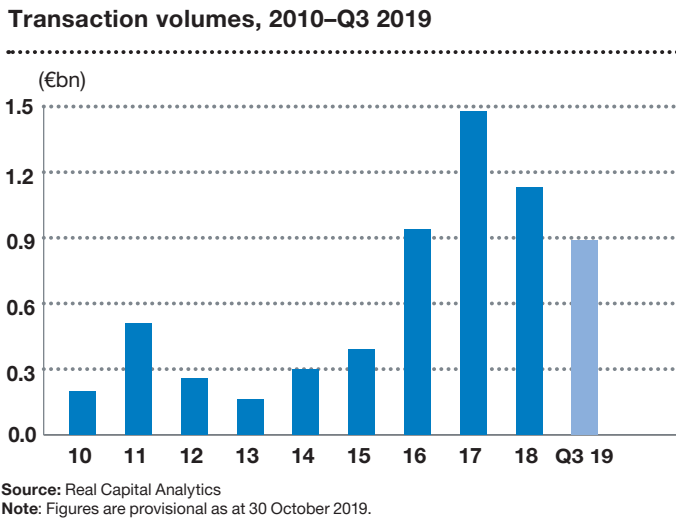
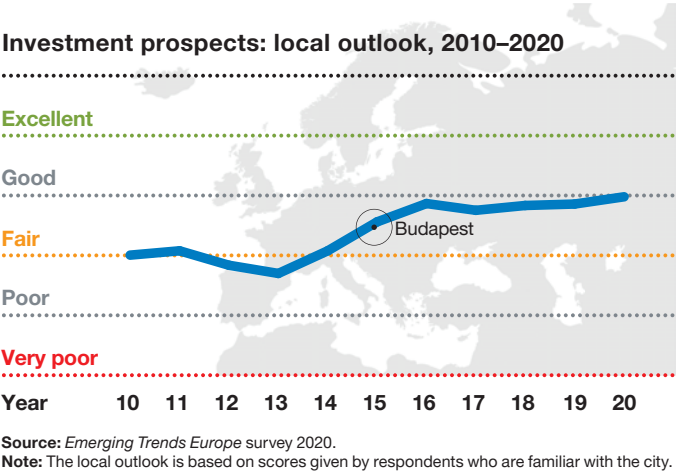
Another is the redevelopment in Part-Dieu to turn the historic office district into a mixed-use urban centre: "When you arrive by train at Part-Dieu you immediately see how fast everything is changing – it really feels dynamic," says the French investment manager.

Retail, restaurants and bars thrive in the main shopping streets in Presqu'île and the recently opened Grand Hôtel-Dieu, and have been included in newer growth districts like Confluence as well as at the extension to Part-Dieu shopping centre, which opens in 2020.

Although an interviewee who targets gateway cities says: "We don't invest in Lyon; it's a question of scale and focus"; others say the city's seven million square metres offer enough scope. "However, prices are going a bit crazy," says one. "If you have a new or refurbished building in the CBD you break 4 percent easily."

This is eroding the spread in Lyon's yields over Paris. The difference is the cost per square metre, with rents in Lyon steady around €300 per square metre per annum, against €500 or €600 for similar stock in the capital.

Budapest (27)



Once again, the decisive factor in *Emerging Trends Europe* interviewees’ verdict on Budapest is whether they are put off by Hungary’s political environment or hooked by the country’s robust economic growth and the strong property fundamentals evident in its capital city.

In the former group is a pan-European player who perceives “significant risk” that “the government, led by Viktor Orbán, affects the direction of the country in Europe and significantly impacts local business”. Nonetheless, they are still pursuing some projects in Budapest where they see “very strong potential” because of high demand for office space. Meanwhile an investor in student accommodation fears that “political issues” would have too great an impact on end users. “That is why we are not doing anything in Hungary.”

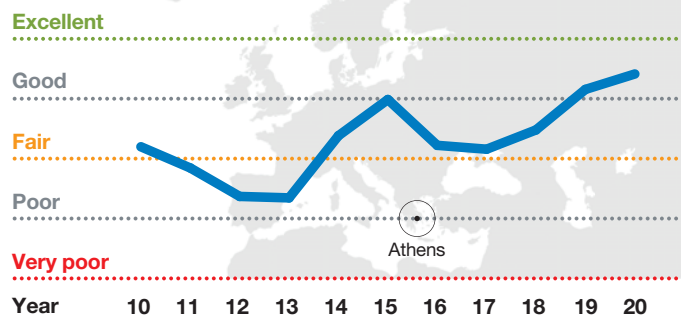
One CEE investor remains on the fence: “We are not as enthusiastic about Budapest as Prague and Warsaw, but only in comparison. Budapest is fine. Cap rates are still higher, and the political situation is a little less predictable than Poland and the Czech Republic. It is not bad, but not super.”

For another, projected GDP growth of 4.6 percent in 2019 and a slower, but still healthy forecast of 3.3 percent for 2020 trumps civic considerations: “People might have their own point of view on the politics, but from an economic point of view Hungary is doing extremely well; it has a great growth rate, low unemployment, good pricing dynamics. Wages are coming up and that creates inflation from a real estate point of view, and this market should do well.”

Office vacancy in Budapest stood at an all-time low of 6.3 percent at the end of the second quarter of 2019, prompting a supply-demand dynamic that looks likely to lead to cap rate compression. In that context, entry prices that are lower than those found in most other CEE locations remain tempting for some investors in the region. “You can buy pretty good office buildings at attractive yields of between 6 and 7 percent. There are not so many opportunities available, but if you have a stable local network, you always get the chance to find nice product.”

Athens (28)

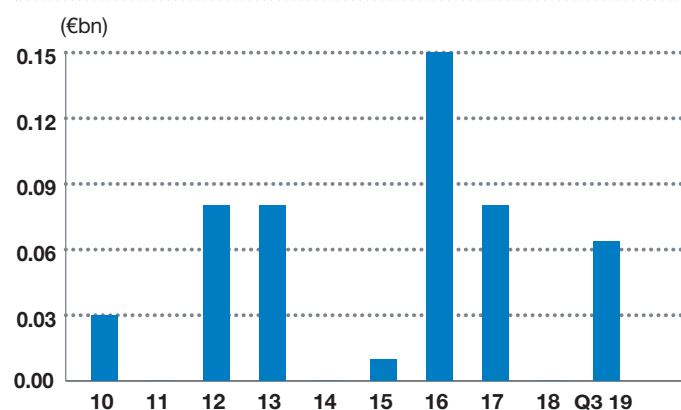
Investment prospects: local outlook, 2010–2020



Source: *Emerging Trends Europe* survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017

MSCI does not produce an index for Athens.

Greece and its capital city are not out of the woods yet, but a slow recovery is underway and interviewees in *Emerging Trends Europe* are more upbeat about the city's prospects.

"In Greece there is equity interested in prime, core investing in Athens, and there is opportunistic international capital which is mainly available for office, retail and hotels/tourism and for buying distressed debt and NPL portfolios," says a regional player.

Local real estate players are heartened by the noises coming from the new centre-right government which is perceived as more investor – and business – friendly. Although promises to cut taxes and introduce investment incentives are yet to be negotiated with Greece's creditors, the new administration passed measures to stimulate real estate investment, such as reducing annual property taxes.

It has also vowed to push on at once with the redevelopment of Hellinikon, the vast former airport site south of central Athens, mooted for 10 years. "Unlocking this site is going to be a watershed moment and will spark interest from other investors," argues one interviewee.

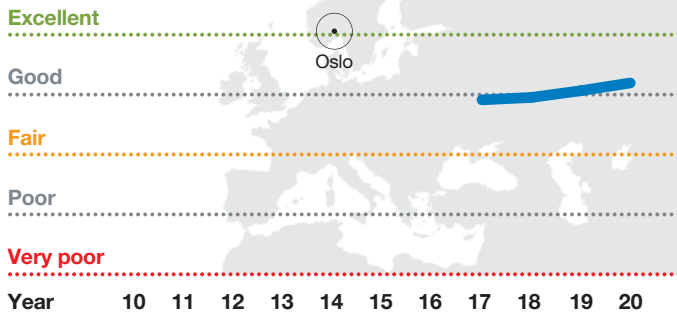
Investors see offices as offering good prospects due to the limited availability of grade A space and the deterioration in quality of existing stock over previous years. Yields have compressed to 7 percent, still at least 125 basis points above values before the crisis. "Further yield compression is expected in the CBD and northern suburbs, and yields in second/third-tier office properties will be affected to a smaller extent. So selective placement in second-tier offices might also be interesting," says a local investor.

Views on tourism are more mixed. Conversions to hotels or to flats for holiday rentals were popular in the earliest stages of recovery, but several interviewees say visitor numbers are dropping, partly due to competing regional destinations like Turkey making a comeback. "Greece's market appears to be saturated, and most sellers' asking prices are at high levels, assuming similar growth to the last two years," warns one.

International banks are not yet lending, and debt is more expensive than in other European cities. But availability of debt is expected to improve next year because after years of moving at a glacial pace, Greece's four systemic banks are in a frenzy to sell off their NPLs by an end of 2020 deadline. As one local player puts it: "It is another milestone."

Oslo (29)

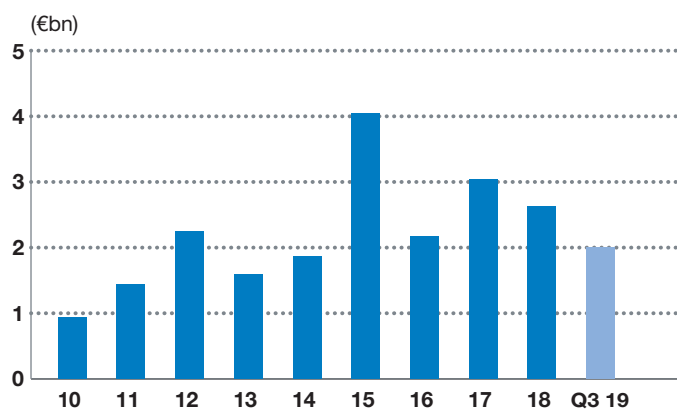
Investment prospects: local outlook, 2010–2020



Source: Emerging Trends Europe survey 2020.

Note: The local outlook is based on scores given by respondents who are familiar with the city.

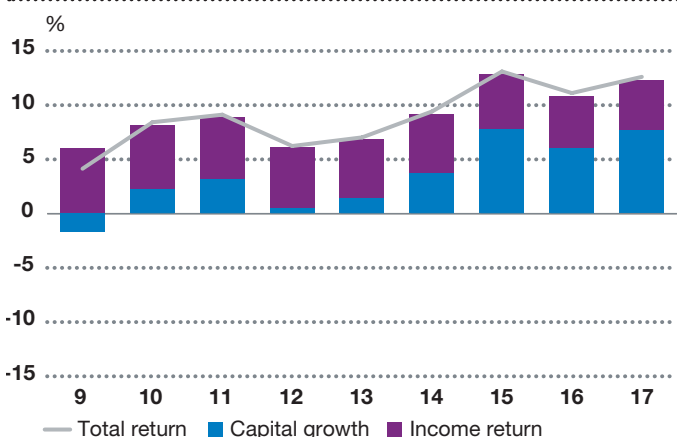
Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics

Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017



Source: MSCI

Norway's economy is the leader in the Nordic region, and its capital's property fundamentals are attractive. For a relatively small market with limited expansion opportunities, it has proved to be very liquid over the last 10 years.

Real estate prices in Oslo are high, but yields stabilised in 2018, at 3.75 percent for prime office. Meanwhile rents are still rising.

The central office market extends roughly across the area between Vika and the developing Bjørvika waterfront. "The rental price in Vika is more than 6,000 NOK per square metre per annum, which is a record high," says a leading developer in the city.

Bjørvika, one of the largest waterfront projects underway in Europe, is located next to Norway's largest public transportation hub and the Oslo Fjord and has already established itself as a new mixed-use CBD and cultural district.

More tenants are making requests for co-working space, sometimes alongside traditional leases, and WeWork entered the Oslo market this year. Office parks around the periphery are doing quite well, and there are opportunities to expand there, according a Nordic adviser.

Both international and domestic investors are eyeing the former Norwegian national television company's site for Project Marienlyst: "a great location which is going to be developed over the next years as mixed use".

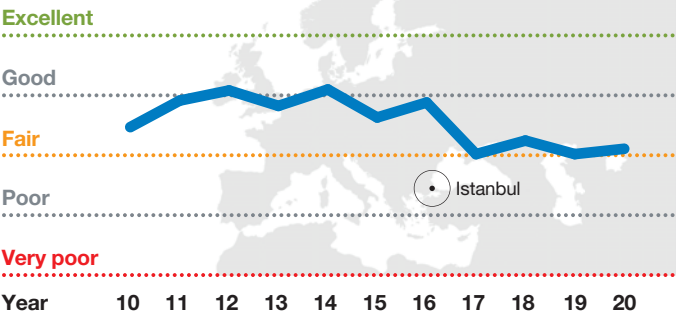
Some interviewees feel that the interest from cross-border investors in recent years is moderating slightly, although they are still active: "The increase in foreign investments has slowed down a little as foreign players have started selling some properties," observes the local developer.

Some foreign players could be affected by the limits the government has introduced on deductions of interest costs. However, exemptions are available if they can demonstrate that they are not capitalised with lower equity in Norway than in their other jurisdictions.

Interviewees flag housing as a big opportunity because of high demand and restricted supply; developers complain about the regulatory process. "We are willing to pay more for land that has completed regulation," says a company director. Another interviewee concludes: "We believe in the concept of building smaller apartments with a high service level – co-living premium solutions could be a winning concept in Oslo. But this is difficult with the housing regulations here."

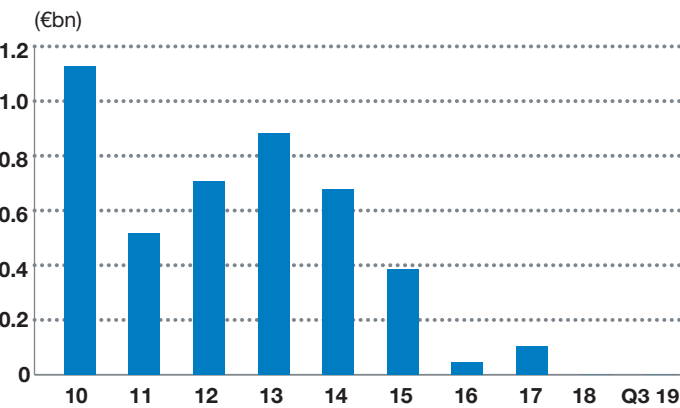
Istanbul (30)

Investment prospects: local outlook, 2010–2020



Source: Emerging Trends Europe survey 2020.
Note: The local outlook is based on scores given by respondents who are familiar with the city.

Transaction volumes, 2010–Q3 2019



Source: Real Capital Analytics
Note: Figures are provisional as at 30 October 2019.

All-property return, 2009–2017

MSCI does not produce an index for Istanbul.

“We are no longer doing new business here at all,” says the long-time head of an international firm’s Istanbul office. “Availability of cross-border debt and institutional equity continues to reduce.”

It is not hard to see why: the country’s unpredictable politics and economic instability is having detrimental effects on Istanbul’s real estate market.

Partly due to the breakdown in Turkey’s relations with the United States, the lira’s fall has pushed up inflation to 19 percent and unemployment to 14 percent; GDP growth contracted to an estimated 0.2 percent in 2019. “I think the economy is on a downhill trajectory,” says one experienced adviser. “The market now is considered so risky that not even very large private equity players will consider investing because they think it is a falling knife. They do not know where the distress will settle.”

In an effort to help suffering occupiers paying rent in euros or dollars after the lira’s collapse, the government issued a decree (in September 2018) requiring all property lease contracts in foreign currencies to be converted to lira.

Interviewees say this is hurting landlords, which now carry a large currency risk, and impacts loan repayments and cashflow, making valuations extremely difficult. One banker says: “It was a turning point, because long-term lending on a shopping centre or an office building, whether from overseas or local banks, has always traditionally been in foreign currency, in euros or dollars.”

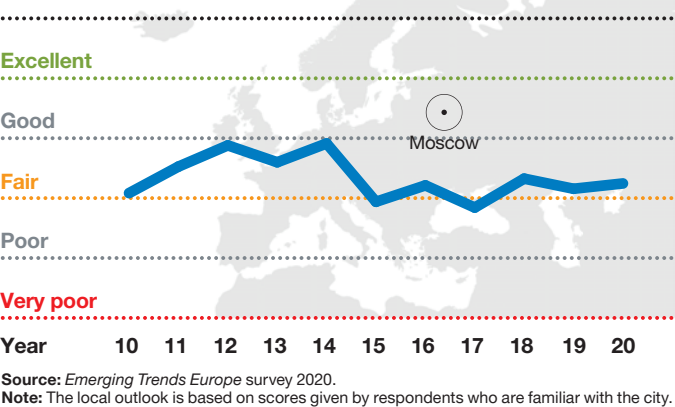
The office and residential-for-sale sectors are suffering from oversupply. In Istanbul, office vacancy is over 30 percent, after releases of two very large newly-completed buildings. Residential, the strongest part of the market in the last few years, is also over-built, and developers are focusing on getting rid of existing stock.

There is talk of distressed office assets coming to market and a rising volume of non-performing loans. “In my opinion, Turkey is brewing the next huge NPL crisis in Europe,” says a regional manager.

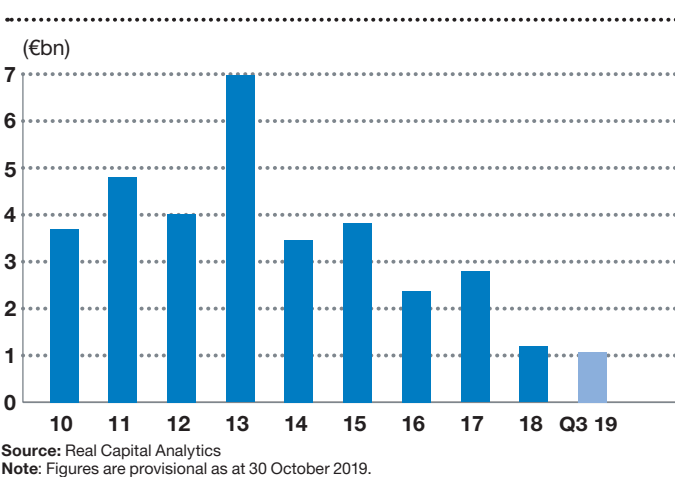
The one bright spot is tourism. “Occupancy and rates are up, both in Istanbul and in coastal resorts, after several very difficult years,” says one interviewee. “Tourists have come back, attracted by cheap prices because of the lira, and Turkey’s reputation for hospitality and good service.”

Moscow (31)

Investment prospects: local outlook, 2010–2020



Transaction volumes, 2010–Q3 2019



All-property return, 2009–2017

MSCI does not produce an index for Moscow.

“The biggest issue for Russia is one of politics,” opines an international investor/developer. Relations with the West remain frozen, and there appears to be little chance that economic sanctions will be relaxed in the near future. “Economic growth and investment climate are linked to sanctions,” adds another. “Internal resources are limited, and the economy needs external capital.”

The geopolitical standoff has dried up liquidity in the real estate sector, says an international investor active in the market: “Previously, when we exited buildings, we would have one or two bids each from US, European and Asian groups and a Russian bid. Now for the most part it is just Russian bids, and there aren’t that many big institutions.

“Equity capital will continue to be limited, perhaps even more so. The Russian Direct Investment Fund, a Russian sovereign vehicle, is making some acquisitions through its partnerships with Middle Eastern sovereign wealth funds that are investing for political purposes. External capital in Russia will have a strong political component to it.”

The volatility of the Russian currency is a further deterrent to overseas investment: “Russia offers interesting deals, but closing remains problematic due to rouble risk, which is expensive to avoid,” says a pan-European fund manager.

The devaluation of the ruble has impacted the logistics market in particular, says a local. “While warehousing has been the flavour of the month in many places, it has moved from a dollar rent basis to a ruble rent basis in Russia, which means that in dollar terms the rents are down by 50 percent.” In other sectors rents are paid in hard currency, but there is continued uncertainty over whether the practice will persist: “Will Russia continue to stay in dollars or euros for offices and the best retail? I don’t know. I hope so.”

If so, then for investors already established in Moscow, the city at least offers the prospect of steady, and perhaps increasing, cash flow. “The problems of equity financing or even getting debt for construction, which is very constrained, mean that supply has been minimal. It won’t take a whole lot of economic growth for vacancy rates to fall pretty quickly,” muses one. “We should see some rental growth in the next two to three years in sectors where the vacancy rate falls below 5 percent, but that won’t change the liquidity picture so cap rates will likely continue to be elevated.”



Image: Moskva City, Moscow, Russia

Chapter 4

Getting smart about mobility

“We are excited about changes in mobility. We have a high concentration of assets that are well connected to public transport and well located. That will become ever-more important as the way people travel changes.”

Director, pan-European REIT



Driven by rapid advancements in technology both digital and mechanical, transportation is going through some of its biggest changes in a century.

For so long cars have been a dominant influence on our relationship with the built environment. But now the cars we drive are turning electric; one day we may not have to drive them at all and the concept of personal car ownership could largely disappear. Instead, the flying vehicles of science fiction could one day transport goods first, then people, as trials for vertical take-off and landing crafts take place around the world. Ambitious initiatives like the sealed tube transportation system Hyperloop might reduce the need for air travel and make it possible to live in one European capital city and commute to work in another.

On a more low-tech level, bikes and scooters, both conventional and electric, are changing the way we move around cities and making areas away from mass public transport hubs more accessible to city dwellers. At the same time, smartphones have made cities easier to navigate and thus more walkable; they can also enable us to find a taxi at the touch of a button, or to share cars and scooters.

Just as changing consumer behaviour is defining the concept of space as a service – how we occupy, manage and invest in real estate – the industry must now contend with the implications of mobility becoming part of that service.

Well-connected buildings and places have always been the most valuable, but until now the real estate industry's influence has been passive, with control resting mainly with the public providers of infrastructure and transport. Yet as the range of transport solutions grows and as real estate becomes a more outcome-driven and operational business, owners will have to think smartly about their buildings' overall impact on the community: workers, residents, tourists and passers-by.

At a higher level, this shift will have a significant effect on the way we use our cities. It has the potential to change which buildings and districts are seen as most valuable by real estate investors and developers. It is also likely to reinforce the attraction of mixed-use development, while challenging established principles around density, fixed or single-use buildings and the traditional "hub and spoke" model for urban planning. At the very least, developers and investors can get inventive with all the space currently given over to parking, which might not be required any more in a few years' time.

This is an emerging trend for the real estate industry, and one that will require a change of mindset to factor in the growing complexity of transport solutions into investment decision-making. But as the steward of the built environment, the industry is in a strong position now to influence how quickly certain technologies are adopted by making them easier for consumers to access. This will be particularly important as investors continue to place more emphasis on their environmental, social and governance (ESG) activities.



The up-front cost of implementing new infrastructure means that smart mobility will be introduced first in dense and mixed-use areas where there are lots of potential users and customers.

Growing awareness of mobility trends

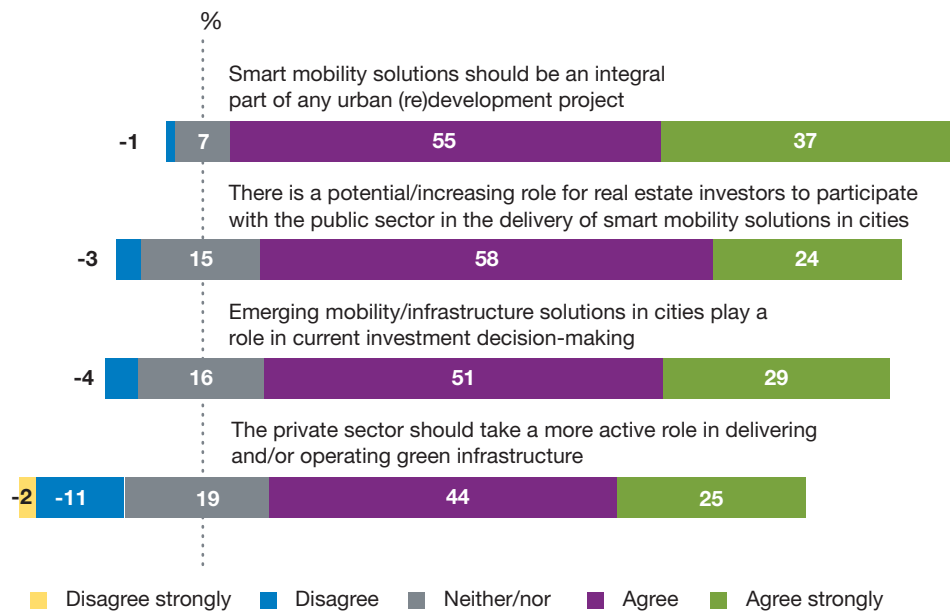
The real estate industry largely acknowledges the need to understand mobility trends – 80 percent of respondents to the *Emerging Trends Europe* survey say changes in mobility are playing a part in their investment decision-making. Transport connectivity is seen as the most important factor driving city selection.

Investment vehicles are already emerging that look to take advantage of these trends. Whitehelm Capital and APG launched a €250 million Smart City Infrastructure Fund in 2018, which is investing in open-access infrastructure projects that support “smart city” solutions such as smart lighting, parking, waste collection and pollution control. One investment manager is looking to raise a fund to take advantage of the rise in ride-sharing, autonomous vehicles and “micro-mobility” forms of transport, such as bikes and scooters: “Institutional investors are starting to wake up to these trends, but it is slow.”

Another global investor says: “We are thinking about these changes, but it would not change where we invest or what we buy so much, unless it was a direct investment in parking garages.”

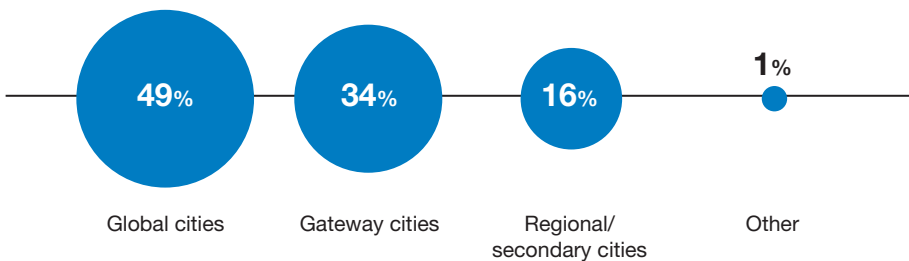
This hesitant response to the effect of the advances in transport is also borne out by the survey revealing that any innovation would have the most impact in what are already considered as traditionally successful locations. More than 80 percent of respondents believe that smart mobility solutions would provide the most attractive investment opportunities in global and gateway cities. Just 15 percent believe these trends would benefit investment most in secondary or regional cities.

Figure 4-1 Real estate and new mobility solutions



Source: Emerging Trends Europe survey 2020

Figure 4-2 Most attractive opportunity for smart mobility solutions



Source: Emerging Trends Europe survey 2020

Cities benefit from better connections

Given that the most valuable real estate today tends to be in the dense urban core of major cities, it follows that prime real estate will only increase further in value. The cities and districts already attracting the lion's share of global investment will continue to do so as these buildings and areas become even better connected.

"The up-front capital cost of implementing new technology and infrastructure means that smart mobility will be introduced first in dense and mixed-use areas where there are lots of potential users and customers," one investor explains. "That means these solutions are going to the downtown areas of the big cities first, so you can earn back that initial investment fastest, and it means cities will get even denser."

Figure 4-3 Mobility/infrastructure's importance in new investment



Source: Emerging Trends Europe survey 2020

When making new investments, nearly half of respondents say they look at mobility/infrastructure factors at the asset level. A third of them assess mobility and infrastructure when deciding in which cities to invest. Clearly, as real estate continues as a global, cross-border industry, cities have the opportunity to differentiate themselves by improving their transport and mobility policies. Many interviewees speak about the increased appeal of Paris given the improvements to transport infrastructure as a result of the Grand Paris project.

And among smaller cities, Copenhagen is lauded for transport and urban planning policies working in a cohesive way, increasing its appeal for companies and residents, and thus for investors too. These factors have helped attract foreign investment and have been mentioned frequently by interviewees over the past few years.

"Copenhagen is a blueprint city for other capitals in Europe," one investor says. "Almost a third of employees there go to work by bike."





Image: Getty Images

“

We anticipate Hyperloop stations being large mixed-use schemes. Imagine having an airport, with all the connectivity benefits that brings, and bringing it into the middle of a city.

Industry leaders canvassed for *Emerging Trends Europe* believe changes in the way we move around cities will accelerate the trend towards more mixed-use buildings and districts. “We’re still big believers in mixed use,” one global investor says. “Not everyone will want to live in city centres, there will still be people who want space and to live in the suburbs, but we feel the trend for people wanting to live, work and play in the same place will continue.”

It is a long way off, but in a world where people are less reliant on private cars or public transport because ride hailing, autonomous vehicles and micro-mobility have decentralised transport, density can emerge in different places. There will be the potential for the kind of mixed-use districts that currently exist solely in dense urban centres with large transport hubs to be distributed around cities more evenly, opening up new areas for development.

“In general, we expect cities to become more polycentric as mobility options become more diverse than today,” the investor adds.

The “hub and spoke” model of city development could potentially be challenged. “We see our biggest impact being in suburban areas, where we can connect places that are currently difficult to get between by public transport,” says an executive from an autonomous vehicle technology company.

Further into the future there is Hyperloop, which was originally promoted by entrepreneur Elon Musk but is now moving forward through separate organisations collaborating with local universities and businesses in the US, Europe and Asia. Hyperloop has the potential to transform the real estate profile of cities connected by the system – and to make the property around the stations incredibly valuable. “We would anticipate Hyperloop stations being very large mixed-use schemes that would attract people and businesses towards them,” one architect says. “Imagine having an airport, with all the connectivity benefits that brings, and bringing it into the middle of a city.”

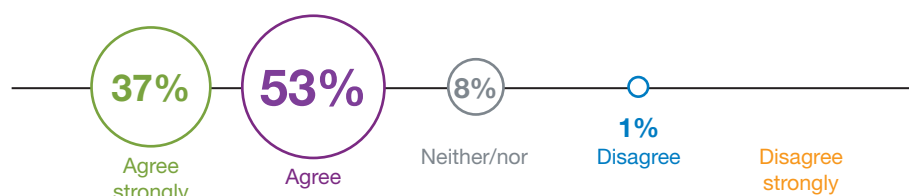
As competition intensifies to attract occupiers and generate footfall, buildings are also more likely to be of mixed use, with retail, office and residential properties incorporating logistics delivery facilities. But to appeal to occupiers “buildings themselves must be integrated with the transport system to allow ease of use by occupiers”, one developer says.

The smartphone has become the key element of mobility, a development that will only increase. Google Maps can already plan your journey using public transport, and soon it will tell you where the nearest shared bike or scooter is as well. Municipal transportation bodies across the world are also set to include ride-hailing and micro-mobility solutions on their apps and websites if they offer travellers the quickest or cheapest option.

The same thought process will need to be applied to real estate as buildings become operating assets and their managers become, in effect, operational businesses. This can be as simple as a screen showing the next train leaving the nearest station, through to landlords providing bikes or scooters, or building apps that connect to the wider mobility network to plan your journey to and from the workplace. In Norway, for instance, investors have teamed up with car hire company Hertz to give office occupiers access to the company’s car-sharing service.

“We are experimenting with car-sharing and cars that you can book,” an investor there says. “Employees are carefully looking at the time they spend on their commute, and if you can add sport and wellbeing to that through cycling it is attractive to them.”

Achieving target returns will require more engagement in the operational aspects of real estate



Real estate companies are ideally placed to integrate multiple transportation and mobility solutions in a single digital platform that they provide to the users of their buildings, to make their assets as accessible and therefore as valuable as possible.

The broader implications for the real estate industry here are perhaps best illustrated by the office sector. An outcome-based approach to investment and management would recognise that the ultimate user of an office building is the employee, but that employee’s overall working-day experience is determined by numerous factors. Time spent in the office is an important but diminishing aspect of work whereas the duration of commute, connectivity to the office when working remotely and experience on transitioning to the office are all starting to matter more to employees.

In the competition for talent, some of these experiences are best controlled by the corporate employer and some by the operator of the workplace. The blurring of these boundaries is already evident in the new generation of asset-light office operators, such as Knotel and Convene. And as the interviews for *Emerging Trends Europe* indicate, there is an expectation of more overlap and collaboration between employer and office owner going forward.



Employees are carefully looking at the time they spend on their commute, and if you can add sport and wellbeing to that through cycling it is attractive to them.

Logistics on the frontline of change

Some of the more radical changes in mobility are likely to occur first in the transportation of goods rather than people, which means investors in logistics must be ready for the implications. “It is far easier to predict the changes in business-to-business sectors, like logistics, than in sectors that involve public consumer choices,” one global investor says. “The way people adapt to change is very hard to predict, but the way businesses will react is easier, as ultimately profitability and efficiency are key.”

For that reason, the expectation is that autonomous vehicles will become widely used in logistics before they are used to transport people. The routes from warehouse to warehouse are predictable and therefore easier to automate, compared with the myriad journeys taken by individual travellers. There is a clear profit and efficiency motive for logistics firms to dispense with drivers, albeit this will of course have a wider social impact.

“We think this would concentrate value even more in prime logistics markets,” one investor says. “There would be little need for those secondary locations that are something of a layover. The big centralised logistics hubs get bigger, and there is greater need for last-mile solutions.”

Logistics also has a crucial part to play in reducing congestion and pollution in cities. UK government research shows that while the growth in car journeys is slowing, van journeys are increasing, and this is causing the overall volume of traffic to rise after a period of relative stability. Cities and real estate owners are already working together to relieve pressure on roads by creating centralised distribution strategies. In London, the West End Partnership brings together public and private sector stakeholders to reduce freight and deliveries coming into central London.

Forward-thinking developers also have the ability to combat this trend. The owner of one office park in Stockholm is controlling all goods vehicles going in and out of the area. “If you want to deliver there, you have to go through an app that co-ordinates all the distributions into that area,” an investor says. “Over a couple of months, they have got rid of 80 percent of all the traffic.”

Having specific delivery facilities integrated into residential and commercial buildings means that delivery vans do not block roads, with engines idling and producing carbon emissions. And under pressure from consumers, big e-commerce companies are likely to try and turn their delivery fleets electric as quickly as possible. Logistics facilities will need to have access to enough power to charge up large fleets of vehicles.

Other more futuristic technologies are also likely to influence logistics. British online grocery chain Ocado is working with a start-up called Magway on a version of the Hyperloop transport system, which would deliver goods through a network of underground tunnels. The publicly funded Old Oak and Park Royal Development Corporation, which is overseeing the development of thousands of homes in north west London, is also a partner and could provide a site for testing the technology.

SoftBank, the Japanese technology investor, recently backed a funding round for US robotic delivery company Nuro.

But the real estate industry must think vertically as well as laterally. US company Skyports is partnering with developers in Los Angeles, Singapore and London to allow drone deliveries to the roofs of commercial and residential buildings. Uber is working on “aerial ridesharing at scale” and claims its vertical take-off vehicles could be operational within five years.

All of this presents a challenge and an opportunity to building owners. If goods and people arrive at the top of buildings rather than the ground floor, that fundamentally changes the way buildings are configured. “If your building is one of the first that is accessible by air taxis, that could be a huge draw for occupiers,” one investor says.



Fewer cars in cities

One of the main relationships that new transport solutions change is our dependence on cars, which has long shaped our cities and buildings. Major cities are surrounded by suburbs where the car is the principal mode of transport. But the expectation among interviewees for *Emerging Trends Europe* is that this will change.

As urbanisation continues, cities cannot cope with the number of cars on their roads and the amount of pollution they create. According to IHS Markit, global private car sales will peak in the next decade and start to decline in developed economies like Europe. The trend will be exacerbated by the increasing use of ride-hailing technology, micro-mobility solutions and further out, autonomous vehicles.

“More and more cities are banning cars from city centres or trying to reduce cars entering city centres,” one global investor points out. The objectives are clear: reducing congestion and improving air quality, benefiting individuals and cities alike by promoting healthier modes of transport, such as cycling.

Cities like Vienna and Brussels have banned cars from some of their historic central areas, and in the new districts being developed by the Copenhagen city government there is parity between bike and car lanes. In London, Amsterdam and Madrid, city authorities have either instituted or are about to institute central zones where only ultra-low-emission vehicles can enter free, with drivers of other types of vehicle paying a charge. The uptake among city populations of cycling makes it easier for cities to introduce these policies.

“As city centres become increasingly car-free, and those cars that are [present] give out no emissions, an increasing amount of these areas can be given over to public spaces,” one architect says. “They become more pleasant places to live and work, so they become more desirable. That makes them more valuable.” A global investor agrees: “As cities move to prohibit car use, we are focusing our investment around public transport nodes, as we see those being the areas where value will increase.”

The result is a double benefit for cities as space usually reserved for cars can be transformed into other more pleasant uses, and due to the existing density, the cities themselves will be more likely to get new mobility solutions first.

This phenomenon is not ubiquitous across European capitals and is likely to be much more pronounced in large cities. “In medium-sized or smaller cities the reliance on the car is likely to continue, as it is much harder to put in place alternative infrastructure in areas where the population is not as dense,” one mobility expert suggests. However, car sharing and other mobility solutions could help open up areas in these cities.



ESG standards are not capturing the importance of a building's location and connectivity. A building can be highly rated as sustainable, yet be in a place where workers have to go by car.

Sustainability goals

In any event, municipal authorities and real estate investors are aligned in their goal of making cities more healthy, sustainable and desirable. For investors, this commitment ties in with the long-term trend to make their portfolios more sustainable, whether that is trying to understand their environmental or social impact. “We have a goal to make our portfolio carbon neutral, and mobility plays a big part in that,” one investor says. “We are no longer buying assets that can only be reached by car. There is no point having green buildings if people have to drive to get there.”

Investors are also mindful that regulation is likely to drive change here, with stricter controls on carbon emissions for owners, and in places such as the Netherlands, regulatory issues with nitrogen emissions. As there is a lot going on at the moment and rules are changing again, it is no coincidence that environmental concerns have shot up in importance in this year's *Emerging Trends Europe* survey just as the industry is starting to engage fully with mobility initiatives.

“The real estate industry should be linking mobility more closely with sustainability in terms of investment decision-making,” another investor adds. “At present, ESG standards are not generally capturing the importance of a building's location and connectivity. For example, a building can be highly rated as sustainable, yet be in a place where workers have to go by car.”



Image: Parklets in Hammersmith, London, UK (Hammersmith & Fulham Council/Justin Thomas)

Parking by numbers

According to parking garage owner and operator Q Park, there are **440 million** parking spaces in Europe, against a population of **513 million** people. Half of that is either on-street or open-air surface car parks, another third relates to private homes or workplaces, with the rest in specialist parking garages. With the average parking space measuring about **17 square metres**, that is about **7,358 square kilometres** given over to parking. That is an area three times the size of Greater Paris, just for cars to park.

What to do with all that parking?

If it is accepted that, sooner or later, all cities will become less reliant on the private car, the big question already exercising the minds of many in the European real estate community is: what do we do with all that parking? In the main, they see a huge opportunity to reposition these assets.

“Some landlords are being very forward thinking and looking to future-proof schemes,” one transport expert says. “For every scheme being built, people are now asking, do we need a car park?”

“Where we are building car parking, we are trying to make it flexible, so it can be easily converted to other uses,” a global investor adds. There are obvious uses: electric autonomous vehicles will need to be charged and stored somewhere; obsolete parking facilities in remote locations are ideal.

Many developers are already converting existing parking spaces into facilities for bikes, as cycling becomes increasingly popular in cities. But one transport expert warns that to do this right must involve more than simply putting up a few cycle racks. “You have to be able to ride your bike into the building without getting off. People will expect good quality showers and changing rooms, a towel service, and a bike kitchen where you can get repairs done during the working day.”

Another investor goes further: “In the future, developers will need to create buildings where autonomous vehicles can seamlessly enter a building to drop off their passenger, with digital technology allowing the building to know which cars should be allowed in.”

Such initiatives can be seen as defensive. But they can be a source of new revenue. Deliveroo has converted parking spaces into “dark kitchens”: facilities from which restaurants can fulfil online orders away from their premises.

One investor-developer is looking to put a series of last-mile delivery hubs in the car parks in its buildings: the space would be rented out to delivery companies, goods would be delivered there at night and then redistributed during the day by bikes and electric vehicles to reduce congestion and pollution.

Beneficial uses

Austrian developer Signa has taken advantage of the pedestrianisation of the area around one of its Karstadt department stores in central Berlin. It has built walkways directly from the underground metro station into the store to make it easier for shoppers to get there. And because they can no longer drive away with their goods, it has included an underground distribution hub, so shoppers can have their purchases delivered the same day.

Not everything has to be motivated by revenue; quality of life and social impact are also increasingly important as it is felt these elements indirectly add value. For instance, San Francisco has been successful at allowing residents to turn unused parking areas into tiny parks called parklets.

When it comes to new developments, all of these elements could be incorporated from the start – effectively putting space to more profitable or beneficial use. But with the rise of online services, developers will need to think about how delivery vehicles and bikes access their properties in much the same way that previously they worked around the parking needs of residents, workers and shoppers.

Australian developer Mirvac has dedicated routes in and out of its shopping centres for food-delivery app riders.

Many interviewees point out that city governments have a huge part to play in turning inefficient parking space into modern, future-facing real estate. Many still have minimum parking space standards for residential, office and retail developments, which mean even if a developer wants to convert parking spaces or develop a new building with fewer spaces, their hands are tied. Brazil’s infamously gridlocked Sao Paulo has changed from imposing minimum parking requirements to maximum requirements in a bid to reduce congestion and improve air quality – with positive results. Zurich has introduced similar measures.

Not everyone accepts the assumption that the need for car parking will reduce. As recently as October 2019, Dutch pensions group APG bought a 39 percent stake in European car park operator Interparking, which owns and manages 949 sites in 416 cities across nine countries. Parking operators interviewed for this report believe any reduction in on-street parking would increase demand for their dedicated parking garages. Overall parking demand, they say, would be flat. What is almost certain to change, however, is the location of their garages. City centre garages can be converted to more valuable uses, and new facilities are therefore likely to be bought or built outside the centres.

Micro mobility enhances value

Inextricably linked to the expected reduction in car use is the rise in micro-mobility forms of transport, in particular bikes and scooters. “People always focus on the high-tech solutions, but the low-tech solutions are more likely to have a big influence,” one mobility expert says.

Amsterdam has long given the bike equal status with the car, and this is only likely to be reinforced by the growing popularity of new bike subscription companies like Swapfiets, which allow users to hire bikes for a monthly fee, including maintenance. Fast biking lanes are being built for those coming from outside the city on e-bikes. Other cities across Europe, such as London and Copenhagen, are looking to increase cycle infrastructure.

Across the globe, venture capitalists are investing heavily in electric scooter and bike-share companies. This is leading to a fierce debate about their usage: which is more dangerous, scooters sharing the road with cars or the pavement with pedestrians?

From a real estate point of view, micro mobility has multiple ways in which it can add to the value of schemes. “Scooters and bikes are a great amenity which building owners can provide for tenants,” one venture capitalist says. “It increases the accessibility of your scheme, which increases the value.”

As with other progressive transport solutions, the impact of micro mobility is likely to be felt first in city centres, where density is greatest. But it could also boost the value of peripheral locations. Real Capital Analytics’ “walkability index” has shown the closer buildings are to amenities, the greater the value. E-scooters can make distant locations which are not close to public transport more accessible by reducing the time taken to get there, and thus increase their value. “If I’m a business person I can hop on a scooter and go two miles in the time it takes me to walk five hundred yards, without crumpling my suit,” one investor says.

It is still more theory than reality, but as long ago as 2014, Savills found that proximity to docking stations for London’s shared bike scheme increased residential values. “We fight to have [city bike sharing scheme] bike racks placed as close to our buildings as possible,” one developer says. “In one municipality, this is done by sponsoring the racks.”

If shared scooters and bikes do take off in a big way, it opens up the potential for areas further away from established public transport hubs to become viable for development. And the solution to shared bikes and scooters littering the streets? “We would expect a large amount of on-street parking to be converted to parking and facilities for bikes and scooters,” one architect says.



Image: Getty Images

The virtuous circle

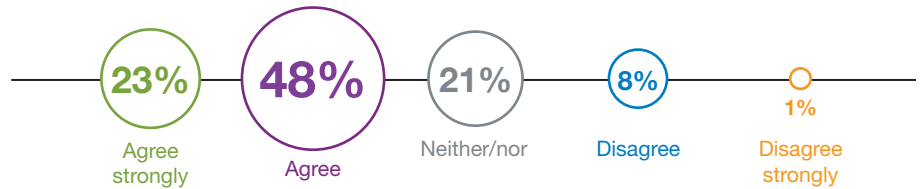
Just as mobility trends can impact the way real estate operates, so real estate can influence changes in mobility.

Some real estate players are investing directly in mobility solutions. Venture capital firm Fifth Wall is an investor in bike and scooter rental company Lime. Fifth Wall's investors include Gecina, Segro, Hines and CBRE. Indeed, New York's bike-share scheme was originally set up, owned and operated by a subsidiary of developer Related Companies.

But more common are partnerships between real estate firms, mobility companies, public sector bodies or infrastructure providers, jointly promoting mobility and transportation solutions. At its best, this can produce a virtuous circle where real estate speeds up the adoption of technologies that are beneficial for the environment and society but also improve the value of a company's assets.

A good example is electric vehicles. "One of the big barriers to adoption is the lack of charging stations," one global investor says. "People are worried about charging their car, so they don't buy one. The more places there are to charge your vehicle, the more people will buy these vehicles. We are putting these stations in shopping centres and offices to trial it out. We don't want to have to do it quickly and get it wrong when electric cars are ubiquitous."

Achieving target returns will require a widening of the definition of traditional real estate to include real assets and related service businesses



Similar positive feedback loops can be found in other areas. As *Emerging Trends Europe* has highlighted in previous years, rented residential developers are offering tenants credits with ride-hailing companies if they are willing to give up their parking spaces. Others are offering access to car-share schemes. In Dublin, developers have done this with car-share company GoCars, while also allowing residents to make use of the city's bike-sharing scheme. The more such facilities are offered, the more likely people are to use them, reducing the number of private vehicles on the road and in turn reducing the need for parking spots in developments.

The same is true when it comes to promoting healthy transport options. The more cities provide bike lanes, the safer people feel riding bikes. Building owners and developers providing a safe place to store bikes plus shower facilities would encourage more people to cycle. Providing places to rack bikes and scooters – so they don't litter the streets – and incentivising consumers to use them would persuade authorities that their use should be supported, not limited.

The emergence of so many different transport providers has opened up an important opportunity for real estate players. They have the scope now to embrace mobility solutions that help identify and enhance value for new locations while changing the way we move around the world, and thus the way that world is built.

About the survey

“What we are seeing is that a lot of technology applies to urban infrastructure and the built environment, whether it’s mobility, connectivity, security, energy efficiency or smart grids – all of which cuts into real estate in a large way.”

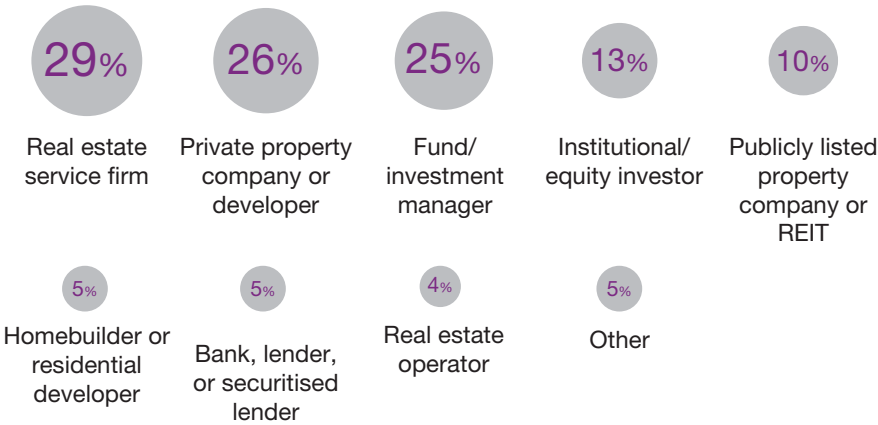
Director, UK private equity firm



Emerging Trends in Real Estate® Europe, a trends and forecast publication now in its 17th edition, is a highly regarded and widely read report in the real estate industry. Undertaken jointly by PwC and Urban Land Institute, the report provides an outlook on real estate investment and development trends, real estate finance and capital markets, cities, property sectors and other real estate issues throughout Europe.

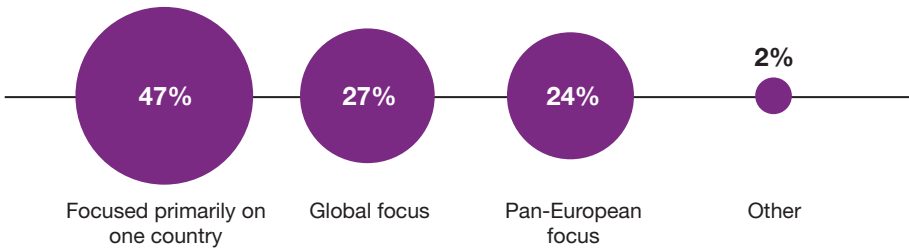
Emerging Trends in Europe 2020 reflects the views of 905 individuals who completed surveys or were interviewed as a part of the research for this report. The views expressed, including all comments appearing in quotes, are from these surveys and interviews and do not express the opinions of either PwC or ULI. The interviewees and survey participants represent a wide range of industry experts, including investors, fund managers, developers, property companies, lenders, brokers, advisers and consultants. A list of the interviewees in this year's study appears on the following pages. To all who helped, ULI and PwC extend sincere thanks for sharing valuable time and expertise. Without their involvement, this report would not have been possible.

Survey results



Source: *Emerging Trends Europe* survey 2020

Survey responses by geographic scope of firm



Source: *Emerging Trends Europe* survey 2020

Survey responses by geographic scope of firm (%)



Source: *Emerging Trends Europe* survey 2020

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The Urban Land Institute is a global, member-driven organisation comprising more than 45,000 real estate and urban development professionals dedicated to advancing the Institute's mission of providing leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

ULI's interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics. Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 81 countries.

The extraordinary impact that ULI makes on land use decision-making is based on its members sharing expertise on a variety of factors affecting the built environment, including urbanisation, demographic and population changes, new economic drivers, technology advancements, and environmental concerns.

ULI has been active in Europe since the early 1990s, and today has almost 3,800 members across Europe with 14 national councils. The Institute has a particularly strong presence in the major European real estate markets of the UK, Germany, Belgium, France, and the Netherlands, but is also active in developing markets such as Poland and Spain.

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Europe 2020

What are the best bets for investment and development across Europe in 2020? Based on personal interviews with and surveys from 905 of the most influential leaders in the real estate industry, this forecast will give you the heads-up on where to invest, what to develop, which markets and sectors offer the best prospects, and trends in capital flows that will affect real estate. A joint undertaking of PwC and the Urban Land Institute, this 17th edition of *Emerging Trends Europe* is the forecast you can count on for no-nonsense, expert insight.

Highlights

- Tells you what to expect and where the best opportunities are.
- Elaborates on trends in the capital markets, including sources and flows of equity and debt capital.
- Reports on how the economy and concerns about credit issues are affecting real estate.
- Discusses which European cities and property sectors offer the most and least potential.
- Describes the impact of social and political trends on real estate.

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CURSO/GUÍA PRÁCTICA DEL INVERSOR INMOBILIARIO

**Desde el inversor inmobiliario particular
al gran fondo**



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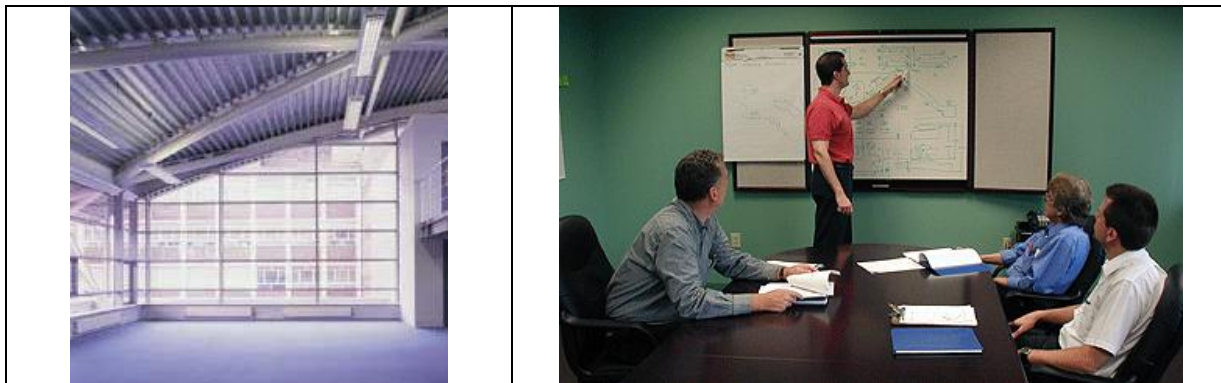
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¿QUÉ APRENDERÁ?



- **Inversor inmobiliario patrimonialista. Inmobiliaria patrimonialista.**
- **Medidas anticíclicas de prevención del riesgo inmobiliario.**
- **Proceso de reestructuración de su patrimonio con el objeto de incrementar los niveles de rentabilidad**
- **La estructura financiera de una inmobiliaria patrimonialista. Activos inmobiliarios para su alquiler.**
- **La gestión técnica del patrimonio en una inmobiliaria patrimonialista.**
- **Estrategia inversora inmobiliaria. Equilibrio financiero (riesgo rentabilidad) en el análisis de rentabilidad por alquiler o plusvalías.**
- **Estrategias inmobiliarias directas o indirectas (vehículos inversores interpuestos).**
- **Estrategias de inversión y perfil de fondos patrimonialistas inmobiliarios.**
- **El private equity inmobiliario.**

Introducción. Las ventajas de la inversión inmobiliaria directa frente a otras clases de inversión.



1. Diferencias entre la inversión inmobiliaria y la inversión en activos financieros como deuda pública.

a. *Transparencia de la bolsa vs valoraciones inmobiliarias.*

Los mercados de capitales cotizados en bolsa y la deuda pública son activos financieros de enorme transparencia, pues están en mercados desarrollados y muy eficientes, de manera que el inversor tiene en todo momento conocimiento del valor de su inversión, en caso de que deseara enajenarla.

No es el caso del mercado inmobiliario de inversión, donde la mayoría de las veces las transacciones de compraventa o el montante de las rentas que paga un arrendatario en un inmueble dado no son públicas. Por ello es necesaria la existencia de valoraciones de los inmuebles. Así, el propietario del activo, o un potencial comprador, pueden saber el valor de mercado de ese activo específico.

Esto no tendría sentido en el mercado de capitales, pues simplemente mirando las cotizaciones sabemos el valor de nuestra inversión al instante.

En transacciones inmobiliarias no existe un mercado público centralizado, como sí ocurre en el mercado de capitales. La dispersión y opacidad a lo largo de la geografía es considerable y, si se quiere invertir en bienes inmuebles en un área nueva, es necesario asesorarse con detalle en ese mercado concreto, dedicando tiempo y esfuerzo a ello, dado el montante habitual de este tipo de inversiones.

b. *Liquidez de la bolsa vs iliquidez de los activos inmobiliarios.*

En general, los productos financieros son más líquidos que los activos inmobiliarios. Podemos dar órdenes de compra de acciones cotizadas en el

Ibex35 que se materializan de inmediato. Y lo mismo para la deuda pública, dada la enorme solvencia del emisor.

Los activos inmobiliarios son, en principio, menos líquidos y resulta muy normal tardar meses o más en vender un activo (en situaciones normales de ciclo económico, no en una crisis como la actual) desde que se dan las instrucciones de venta.

Pero también es cierto que un edificio de oficinas en zona prime, con arrendatario triple A y contrato de obligado cumplimiento a largo plazo, que otorga en estos momentos una rentabilidad superior a la media del mercado, seguramente se enajenaría muy rápido.

c. Costes de transacción más costosos en las ventas inmobiliarias.

Entendemos por costes de transacción los que se devengan en el momento de una transacción de compraventa. En el caso del mercado de capitales, fiscalidad aparte, los costes son muy bajos, pues, por ejemplo, el corretaje para volúmenes bajos de contratación pueden situarse en el orden del 0,1%.

Sin embargo, en las compraventas inmobiliarias, y dependiendo también de la complejidad del inmueble y de la transacción, necesitaremos incurrir en costes de abogados, notarios, registro de la propiedad, constituciones hipotecarias, honorarios de intermediación, etc., que nos podrían situar perfectamente en el entorno del 5-7% del importe de la transacción.

d. Costes de gestión de activos (asset management)

Los activos inmobiliarios son activos físicos y, sólo por su tenencia, deben asumirse una serie de gastos: mantenimiento y conservación, impuesto de bienes inmuebles, administrador de fincas y gestión de arrendatarios (ya sea mediante asesoría externa o estructura propia). La mera tenencia de acciones o bonos no implica esto, aunque comúnmente todas las cifras de rentabilidad inmobiliaria ya vienen deducidas por estos costes. Además, en muchos casos, en los bienes inmuebles de inversión se repercuten estos gastos al arrendatario, por lo que mientras esté ocupado el inmueble, éstos no son costes reales.

e. Rentabilidad bolsa vs rentabilidad inmobiliaria.

El activo con mayor rentabilidad total (efectos rentas + efecto capital) se compara con los bonos del Estado y los 35 valores más importantes de la bolsa española.



f. Volatilidad

Volatilidad en sus rentabilidades comparada con la deuda del Tesoro Público y la bolsa.

2. ¿Por qué invertir en inmobiliario?

Las principales razones para invertir en el inmobiliario terciario e industrial (comercial property) son las siguientes:

a. Diversificación del riesgo.

En un amplio portafolio de activos de inversión, el inmobiliario está poco correlacionado con el valor de la bolsa y la deuda pública, por lo que es una clara opción de diversificación de la volatilidad de las rentabilidades esperadas de esta cartera.

Es menos líquido y más opaco, pero enormemente consistente, sobre todo para patrimonialistas a largo plazo, no tanto para inversores especulativos cortoplacistas.

b. Rentas recurrentes.

Los inmuebles terciarios arrendados otorgan rentas recurrentes de menor volatilidad que la producida por los dividendos de las acciones cotizadas. Un inmueble puede quedar vacante, pero si se solicita una renta de mercado, debiera ocuparse de nuevo en tiempo razonable.

c. Apreciación.

En una economía en crecimiento, el propio activo aumenta su valor, otorgando plusvalías latentes a su propietario. Esta apreciación debe sumarse a la rentabilidad otorgada por las rentas de alquiler.

d. Inflación.

La inflación se repercute a las rentas por contrato de arrendamiento, por lo que éstas siempre varían proporcionalmente con el IPC.

Lo mismo ocurre con el valor del inmueble, que se aprecia al capitalizar rentas incrementadas por IPC.



e. Financiación.

Mientras las rentas varían con el IPC, esto no ocurre con el apalancamiento o financiación externa utilizada para la adquisición del activo, que depende de los tipos de interés de mercado. El crédito hipotecario ha permitido fuertes volúmenes de inversión en bienes inmuebles porque las entidades financieras han visto muy favorablemente que la garantía de estos préstamos fueran los propios activos que se adquirirían.

f. Gestión del activo (asset management).

Dado un activo terciario de inversión, también podemos aumentar su valor con la gestión apropiada.

La mejora puede venir: por el cambio a un arrendatario más solvente, por un plazo superior de período contractual, por incremento de las rentas o, incluso, por la disminución de los gastos de mantenimiento.

Se trataría de activos con recorrido, gracias a la gestión del patrimonialista.

Podemos comprobar que es un hecho incuestionable que la inversión en activos inmobiliarios es una opción relevante para los principales fondos de inversión y que sus expectativas para el 2010 son de mantener el porcentaje sobre el total de su portafolio de inversiones. La razón de esto es que se trata de activos poco correlacionados con el mercado de productos financieros y ofrecen robustez a largo plazo.

3. Adquisición directa o indirecta de inmuebles.

a. Vehículos de inversión inmobiliaria.

Tradicionalmente, los inversores que buscaban tener una posición en inversión inmobiliaria tenían dos opciones: comprar directamente activos o comprar acciones de empresas inmobiliarias cotizadas. Sin embargo, se han desarrollado otros vehículos de inversión.

b. Tenencia directa de bienes inmobiliarios

La mera tenencia de varios edificios en arrendamiento otorga, obviamente, una rentabilidad.

Sin embargo, una de las características del activo inmobiliario como bien de inversión es que no tiene por qué seguir un determinado índice, pues se caracteriza por un montante de inversión grande, una heterogeneidad en parte



debida a la importancia de la ubicación del activo y altos costes de gestión y transacción, además de menor liquidez, como ya se ha visto anteriormente.

Los costes de transacción provocan tenencias por más tiempo del que sería razonable en el mercado de capitales y la heterogeneidad produce un alto riesgo para un activo específico, en lo referente a la sostenibilidad de los rendimientos de éste. Claramente esto es de aplicación en inversiones pequeñas. Sin embargo, más adelante analizaremos cómo esta opción se demuestra más rentable a largo plazo que la compra de acciones en general y, además, menos volátil en sus rendimientos.

c. Adquisición de acciones de empresas inmobiliarias cotizadas

Es el caso particular de la adquisición de acciones de empresas cotizadas en bolsa pertenecientes al sector inmobiliario. De igual modo que otros sectores tienen sus especificidades en el mercado de capitales (energía, tecnológicas, etc.), también el sector inmobiliario cotizado merece un análisis específico y por ello existen, en distintos mercados, índices específicos para este segmento de actividad.

En España, al contrario de lo que ocurre en otros mercados, es mayoritario el perfil promotor que el patrimonialista y en muchas ocasiones ambos perfiles coexisten en la misma empresa, siendo negocios muy diferentes.

Sí existen, sin embargo, estudios en otros mercados cotizados de mayor volumen donde pueden compararse los rendimientos y la volatilidad de valores cotizados del sector inmobiliario con la adquisición directa de ese tipo de bienes.

La EPRA (European Public Real Estate Association) es una entidad que agrupa a las principales empresas patrimonialistas con intereses en Europa, incluyendo fondos de inversión y entidades financieras con fuerte posición en el mercado inmobiliario (en España, Inmobiliaria Colonial es miembro de EPRA). Esta asociación de empresas cotizadas promueve la transparencia entre los inversores, mejorando el entorno operativo y animando a la fortaleza y cohesión del sector promoviendo las best practices en él.

d. Vehículos de inversión colectiva

A pesar de la fuerte expansión del sector inmobiliario, las instituciones de inversión colectiva en este sector no han tenido una gran relevancia en España y hay, además, una gran confusión terminológica.

Según la CNMV, los fondos se dividen en fondos de carácter financiero y fondos de carácter no financiero, dependiendo de que inviertan directamente en inmuebles o en acciones de sociedades inmobiliarias cotizadas:

Fondos inmobiliarios

Dentro de la modalidad de fondos de carácter no financiero se encuentran los fondos inmobiliarios (FII), que son instituciones de inversión colectiva, no financiera, cuyo objeto es la captación de fondos para destinarlos a la compra de inmuebles (viviendas, oficinas, locales comerciales, aparcamientos, etc.) con el objetivo de explotarlos en alquiler. En España, su reglamento no llegó hasta 1992. En él se estableció su marco jurídico, que se ha ido perfeccionando en función de la demanda y las necesidades del mercado.

El Banco de España exige una tasación una vez al año; las tasaciones se realizan por el método de capitalización de rentas de alquiler teniendo en cuenta que el activo tiene arrendatarios y las condiciones del contrato afectarán a la valoración.

Este tipo de fondo es para clientes de un perfil conservador y a largo plazo suelen obtener una rentabilidad superior a la renta fija. Es una manera de participar en un proyecto inmobiliario colectivo y diversificado, aunque su liquidez es menor que la de otros fondos.

Fondos mobiliarios del sector inmobiliario.

Amparados en la legislación de los fondos mobiliarios (de carácter financiero) han aparecido fondos especializados en el sector inmobiliario. Estos fondos, incluidos en el grupo de fondos sectoriales, no pueden invertir en inmuebles directamente, sino que invierten en empresas cotizadas del sector. Su rentabilidad está más relacionada con el ciclo bursátil y su riesgo es mucho mayor, ya que están expuestos a los ciclos de la construcción, y su rentabilidad es superior en la parte positiva del ciclo.

Real estate investment trusts (REIT) y SOCIMIs

Un tipo de inversión colectiva inmobiliaria son los REIT. Nacidos en Estados Unidos en 1960, son sociedades anónimas de inversión inmobiliaria que generalmente cotizan en bolsa y con la ventaja fiscal de impuesto de sociedades casi nulo, siempre que se distribuyan en forma de dividendo la mayor parte de los beneficios de la sociedad. Reino Unido y Alemania aprobaron una legislación específica en el 2007 y recientemente en España, en el 2009, se aprobó la Ley de Sociedades de Inversión en el Mercado Inmobiliario (SOCIMI). Las SOCIMI son entidades que cotizan en un mercado secundario cuya actividad principal es la adquisición, promoción y rehabilitación de bienes inmuebles urbanos para su arrendamiento, así como la tenencia de participaciones de otras SOCIMI.

Productos derivados (property derivative) del sector inmobiliario basados en índices.

En los últimos años se ha producido la emergencia del mercado de productos derivados del sector inmobiliario basado en índices publicados como los aquí ya mencionados IPD (Reino Unido, Europa) y NCREIF (Estados Unidos). Quizá el



mercado más activo ha sido, tradicionalmente, el británico, con un volumen anual de 4,8 billones de euros.

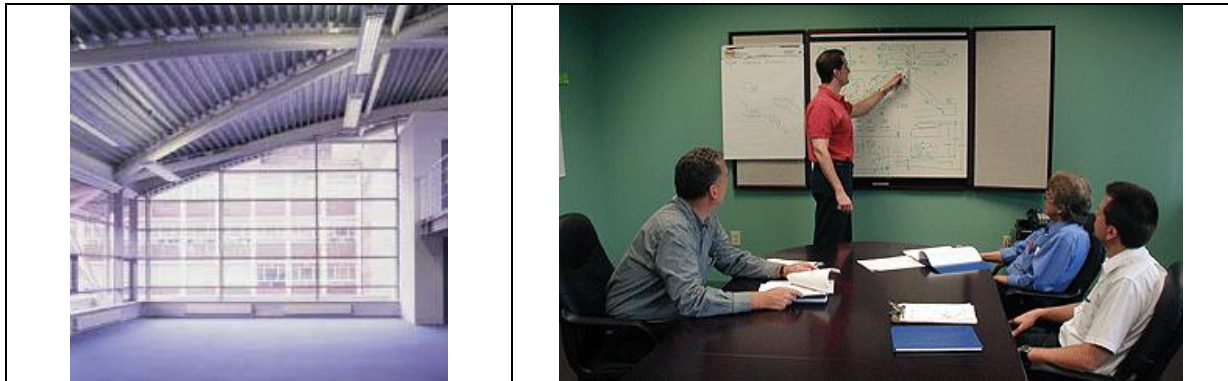
Un derivado de un activo inmobiliario (property derivative) es un derivado financiero cuyo valor se deriva del valor de un activo inmobiliario real subyacente. En la práctica, debido a la ya analizada dificultad de establecer un precio de las transacciones con activos inmobiliarios concretos, los contratos de este tipo de derivados están basados en un índice como los arriba citados. En definitiva, se persigue obtener una representación más ajustada de la rentabilidad de las propiedades subyacentes.

Un ejemplo de ello son las property index notes (PIN). El vendedor del PIN paga el índice IPD anual al vencimiento (incluye plusvalías de capital y rentabilidad de las rentas de alquiler) y durante el período de tenencia del PIN paga, además, lógicamente, de manera cuatrimestral la rentabilidad de las rentas provenientes del alquiler. Es como un bono. Esto quiere decir que la contraparte que lo adquiere está recibiendo un rendimiento de su inversión equivalente a la rentabilidad del mercado inmobiliario terciario de Reino Unido, como si hubiese comprado un portafolio de propiedades, pero con menos costes de transacción, mayor transparencia y liquidez.

PARTE PRIMERA

El inversor inmobiliario particular.

Capítulo 1. El inversor inmobiliario que compra un piso para alquilarlo. Fase de selección de pisos para alquilar.



1. ¿En qué se fija un inversor inmobiliario?