Capital Markets

EMEA
European Living Snapshot

April 2022

Accelerating success.

Overview

The leading global sector

Following a record year for the investment market in 2021, the role of the living sector in driving activity is clear to see. Globally, residential investment volumes expanded by 89% over the year, making it the largest sector for volumes. By year-end 2021, it accounted for 34% of global volumes, ahead of offices at 25% market share and industrial and logistics (I&L) which captured 23% of the market.

In the Americas, residential is by far the dominant sector accounting for over 50% of volumes in 2021 - this represents a doubling of activity from 2020. Across EMEA, investment into the sector expanded by more than any other sector (at 89%), and it surpassed the 30% market share threshold as predicted in our "Residential on the rise" report of mid-2021.

That said, while residential assets have been topping the charts in North America and Europe, their attractiveness is not universal. In the APAC region, residential has the lowest market share across the major sector groupings at only around 4% of the market. Residential volumes dropped by 37% in 2021, placing the sector behind not only offices and I&L, but also retail and hotels.

In this respect , the range, scale and strategies for investment into the residential sector vary considerably across the globe.

Figure 1. Annual volumes by sector, global (y/y change) - standing assets only: Q4 2021

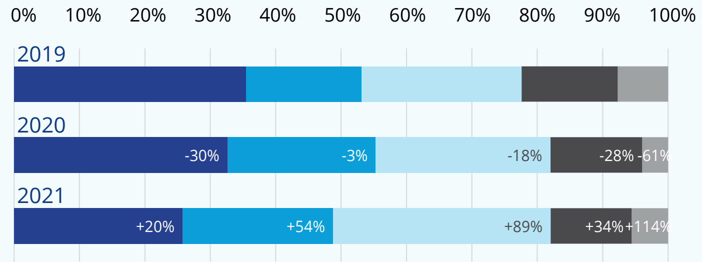
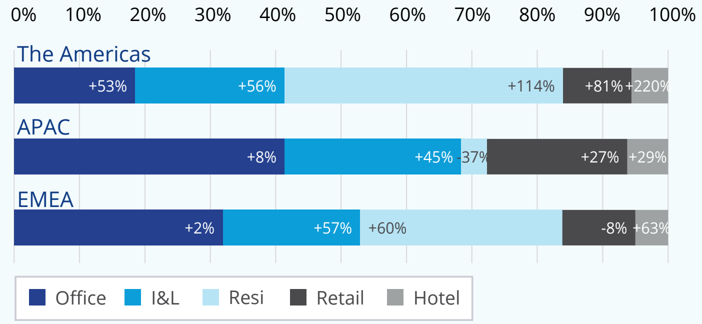


Figure 2. Annual volumes by sector, by region (y/y change) - standing assets only: Q4 2021



Sources: Colliers, Real Capital Analytics

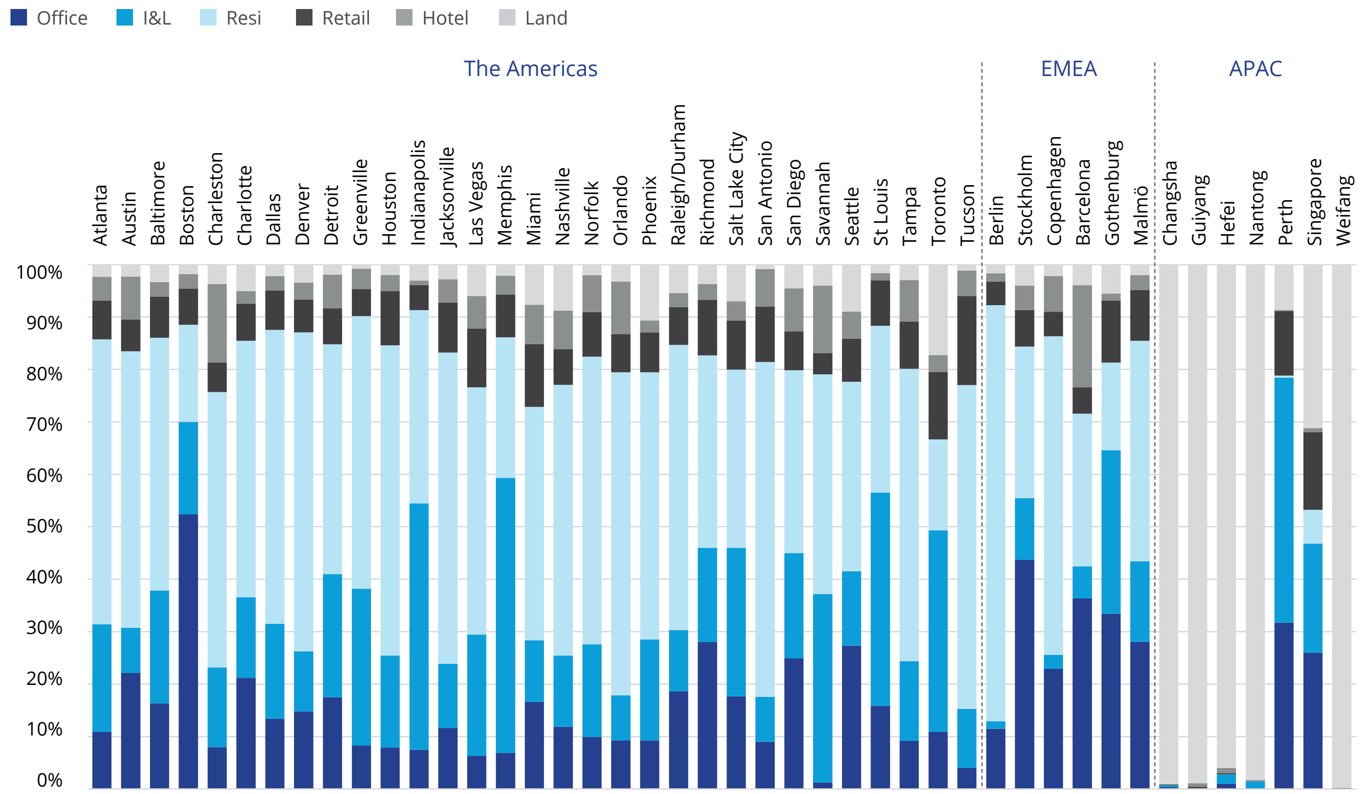
Global context

Activity expanding across tier-2 and tier-3 markets

If we look at trends in the Americas, essentially North America, residential investment in 2021 was driven largely by activity in tier-2 and tier-3 cities. While some of the cities in the North America region saw investment volumes expand year-on-year, and relative to the five-year average, lesser-known locations surpassed previous activity levels by some margin. In amongst the bigger names of Las Vegas, San Diego, Atlanta, Miami and Dallas are cities such as Phoenix, Charleston, Tucson and San Antonio. They have been some of the fastest-moving growth markets, with residential investment the driving force of this activity.

In Europe, the strongest growth markets have also been those benefiting from a significant share of residential investment. These include the Nordic cities of Stockholm, Malmo, Gothenburg and Copenhagen. Berlin tops the bill, courtesy of Vonovia's takeover of Deutsche Wohnnen in 2021 for €13 billion – an enormous residential portfolio. Barcelona is a fast-moving market, with investment levels flourishing courtesy of an expanding residential sector, as are the likes of Madrid, Helsinki, Manchester and Dublin.

Figure 3. Annual volumes by sector, by city, 2021



Sources: Colliers, Real Capital Analytics

Expansive investment capacity

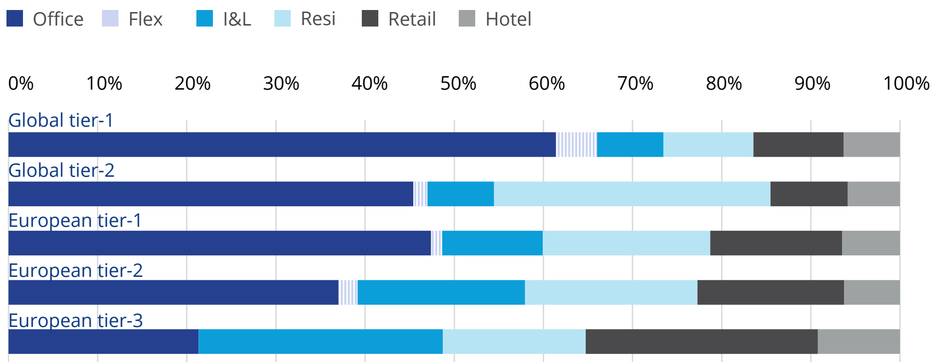
As the most ubiquitous real estate sector, there is clearly natural capacity within residential to absorb more investment. This is demonstrated by the higher levels of residential investment liquidity in the smaller tier-2 and -3 cities in Europe, and we would anticipate more of Europe's tier-2 and tier-3 cities surpass the amount of activity seen in 2021. Similar to the US market, this has been a growing trend in the more mature markets of Germany, the Netherlands and the Nordics.

Where the availability of assets is lower, Build-to-Rent (BtR) is clearly a growth model to gain access to a sector that is evolving and quickly 'professionalising' in terms of asset and operational management. The limited quality of private rented sector blocks or portfolios for sale is clearly driving forward-purchase and forward-funding activity. This is evident in transactional activity across lower-tier cities outside the more established German, Dutch and Nordic markets, but also across the UK, Iberian, Italian and Central and Eastern European (CEE) markets.

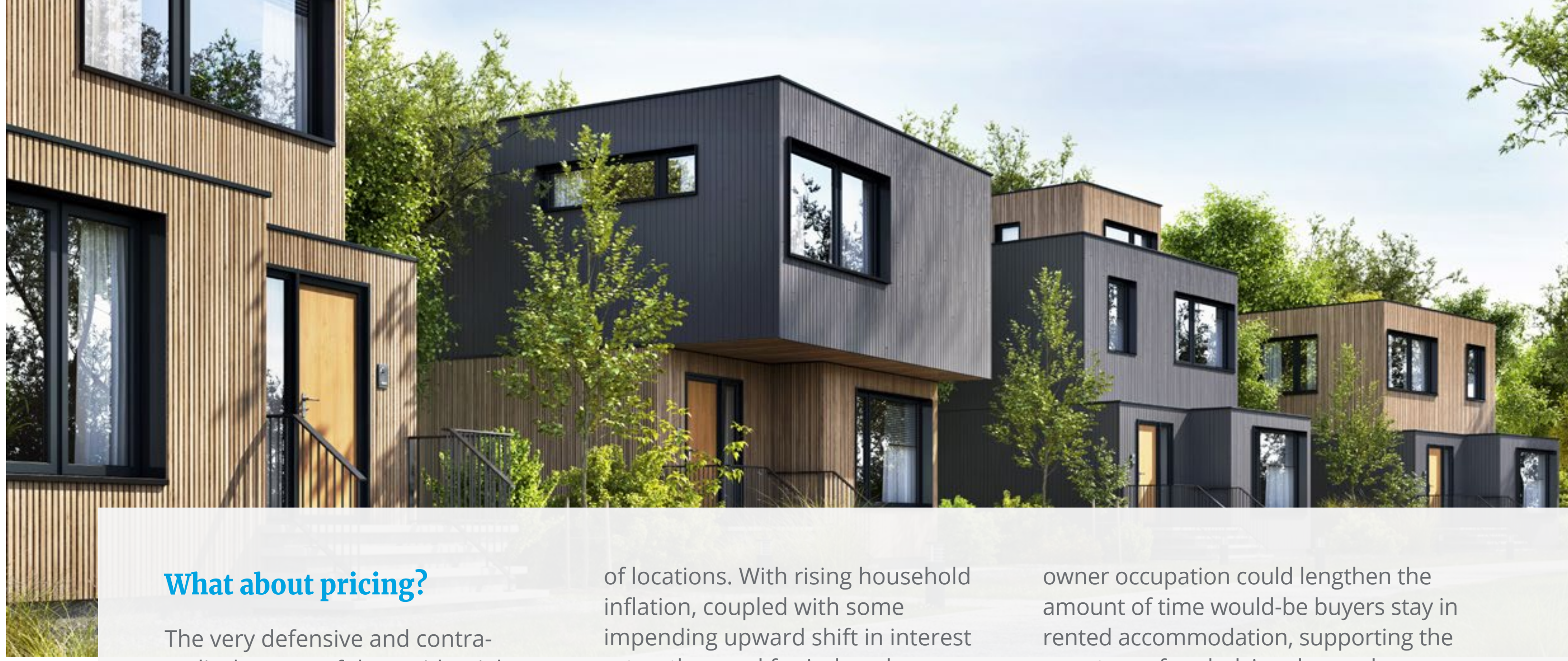
As pointed out by the various country snapshots that follow, more niche elements are also expanding in terms of the growth of purpose-built student accommodation (PBSA), particularly in Italy, Spain and CEE. Investment into social, and affordable private rental is also building momentum, with an increasing number of impact investment funds being brought to market.

Significant capacity for investment remains in the market, but competition levels are rising and price/value ratios are coming under pressure.

Figure 4. Annual volumes by sector, by region (y/y change) - standing assets only: Q4 2021



Sources: Colliers, Real Capital Analytics



What about pricing?

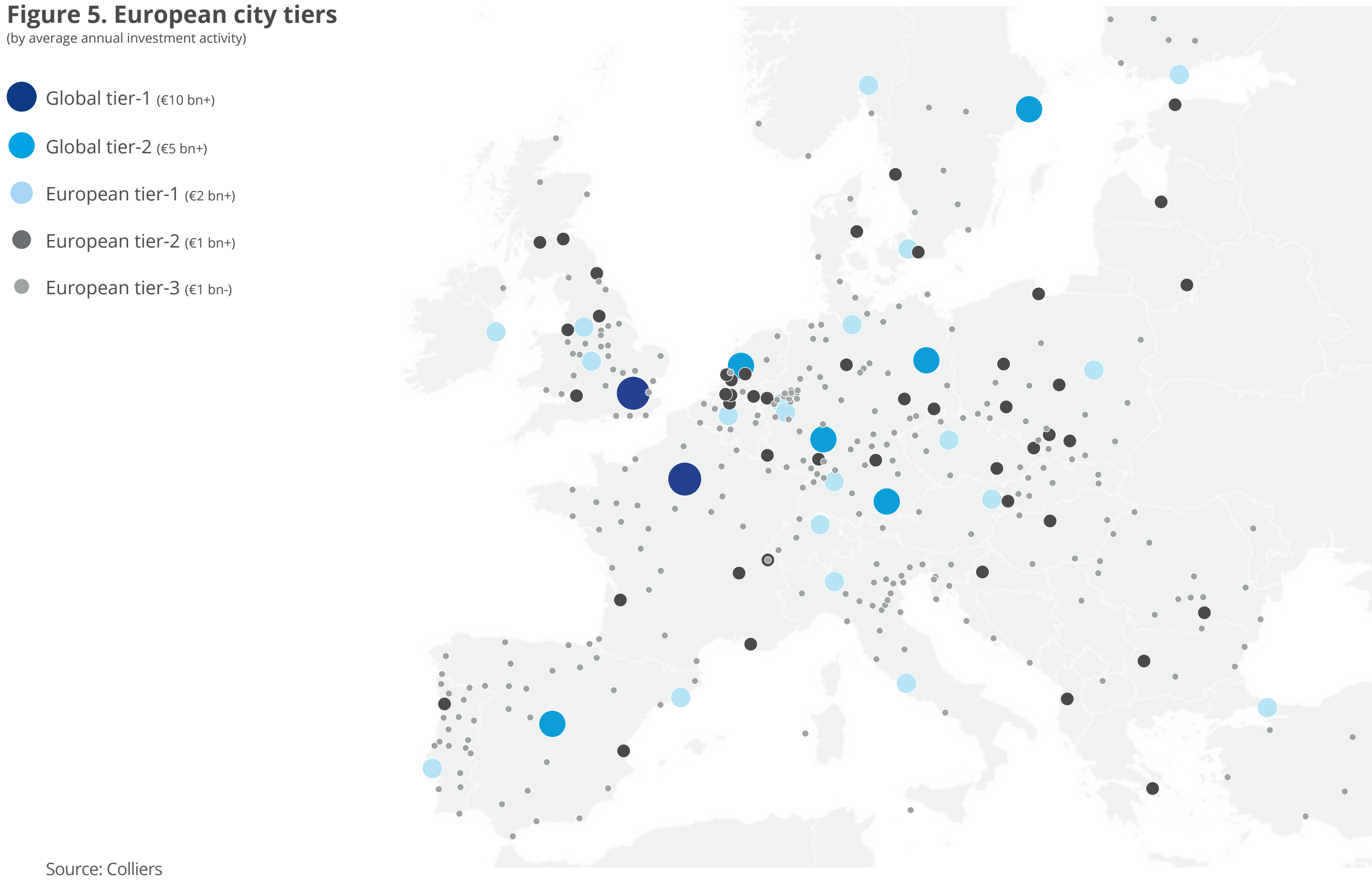
The very defensive and contra-cyclical nature of the residential sector, coupled with strategic levels of under-supply to meet urban household formation and growth, have underpinned its relative attractiveness to date.

Yet strong yield compression over the past five years has resulted in prime residential assets now trading at yields lower than other prime real estate asset classes across a range of locations. With rising household inflation, coupled with some impending upward shift in interest rates, the need for indexed, secure-income streams is rising.

The advantage of the living sector is it provides so many routes to market. For example, in the more mature markets, forward purchasing of BtR assets can generate a higher yield than for standing assets. The nascent development of the PBSA sector in CEE, Iberia and Italy presents similar opportunities. Equally, the rising cost of owner occupation could lengthen the amount of time would-be buyers stay in rented accommodation, supporting the quantum of underlying demand.

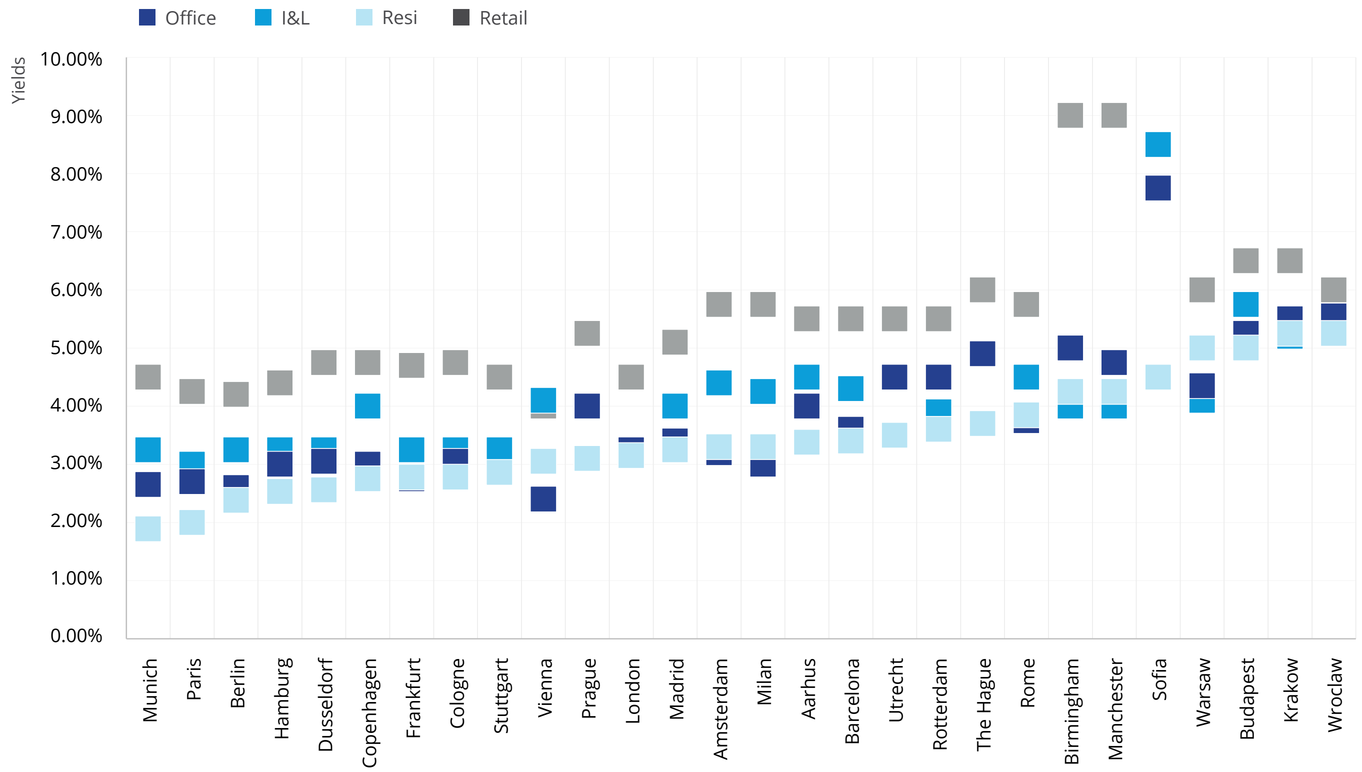
While capital value growth has been diminished by the maturation of the sector, the same can be said of all real estate asset types. The fundamental imbalance between demand and supply supports residential rental indexation maintaining consistent returns, and this will continue to attract capital deployment in the sector.

Figure 5. European city tiers
(by average annual investment activity)



Source: Colliers

Figure 5. Yields by sector: Q4 2021



Source: Colliers

Czechia

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Market context

Czechia has always been strongly oriented to owner occupation. This trend has softened a little in recent years, particularly in Prague, although the preference for private ownership is still very strong. The younger generation and foreign workers are the key drivers of demand for the private rental sector. Increasing in house prices, which have skyrocketed over the past six years, have also been partly responsible for rising interest in the rental market as the sale prices of flats, new builds and second-hand assets have risen sharply.

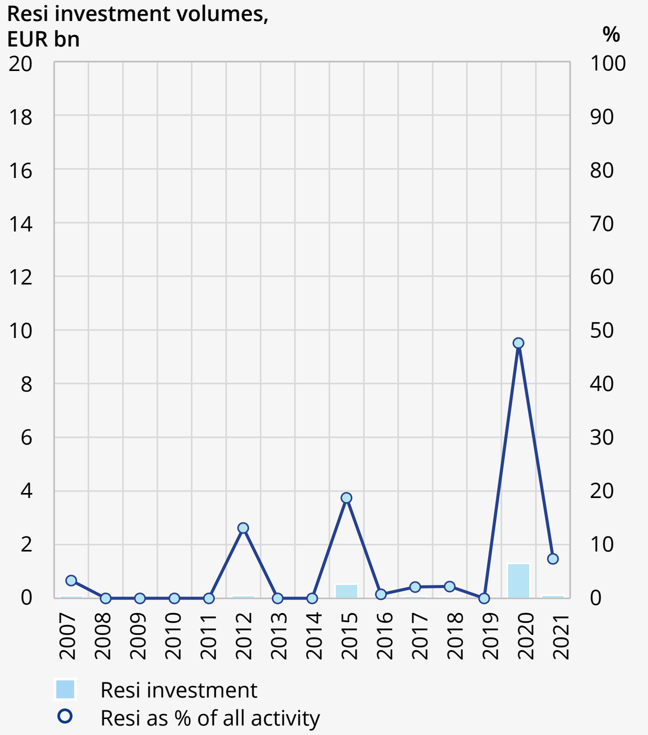
Rental prices in Prague peaked in 2019 and declined slightly during the pandemic as a result of a lack of tourism. Apartments geared towards the short-stay/Airbnb market converted back to traditional leases, rebalancing the local supply and demand dynamics short-term. As of 2022, residential rents are rising back to pre-pandemic levels, but this has not impacted demand. Given the current mortgage rules and bank products available, many would-be buyers are disqualified before applying, further driving demand for rental accommodation.

On the supply-side, private rental accommodation has historically been serviced by individual owners and just a handful of professional landlords managing portfolios. Therefore, institutional investors targeting the private rental sector have an opportunity to catch and be amongst the first to set the rules and market standards.

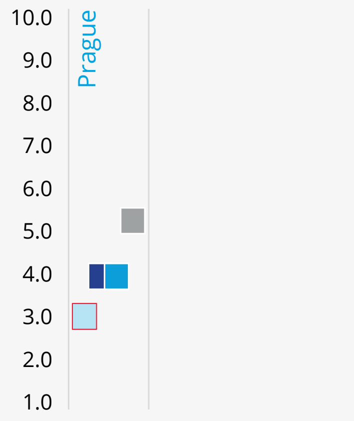
Opportunities & challenges

The residential market in Czechia can be described as challenging for practically everybody who is active in the market and looking for an opportunity. Investors interested in entering the Czech market face a competitive market with a shortage of available projects for investment. The shortage is mainly due to the lengthy planning permit process, but also thanks to a number of active investors securing units in bulk in projects through forward purchases or forward funding. The complicated development process has led to bottlenecks in supply, with Prague currently undersupplied by tens of thousands of residential units. This is driving prices so high, that the yield from renting such apartments is not competitive versus other asset types and locations.

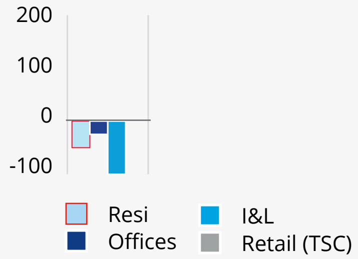
Resi investment volumes, EUR bn



Prime yields, end-2021, %



Basis point shift, 2021



Sources: Colliers, Real Capital Analytics

Denmark

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Market context

The multifamily residential sector in Denmark is a highly developed and liquid market. Investment in the sector has accounted for more than 60% of total transaction volumes during the last couple of years, with 2021 activity close to €10 bn.

The market attracts substantial interest from many international institutional investors looking for core products, especially those located in Greater Copenhagen. In particular, investors from Germany, France, the UK, Netherlands and Singapore who prefer stabilised products in the big cities are active in the market. Fully occupied, stabilised products currently trade at net initial yields ranging from slightly below 3% to around 3.75%, depending on location. With rents indexed annually to 100% of CPI, these investments provide very secure cash flow. The availability of investment finance at LTVs of typically 60-70% enables gearing at low margins, often below 100 basis points (bps).

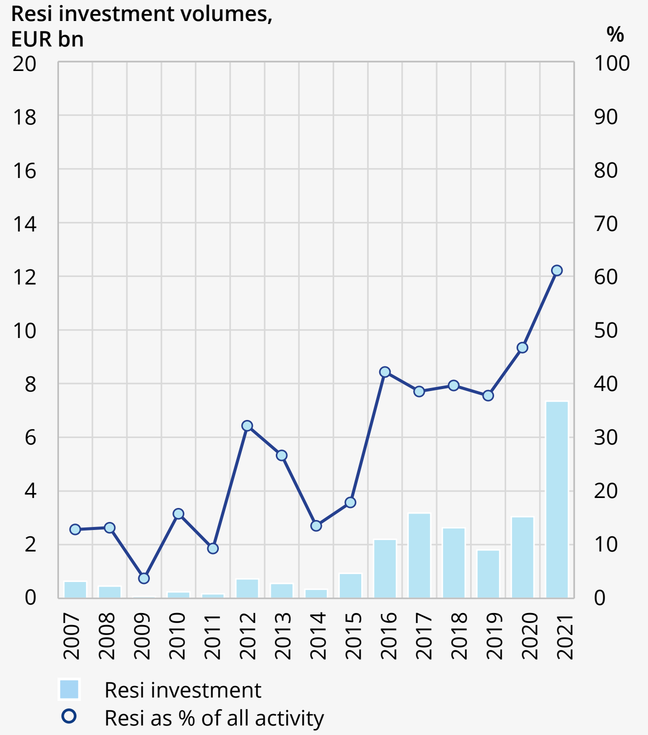
There is also substantial interest from value-add investors seeking higher returns, particularly US capital. Such investors are seeking opportunities to acquire provincial development projects in order to build and stabilise diversified portfolios.

Opportunities & challenges

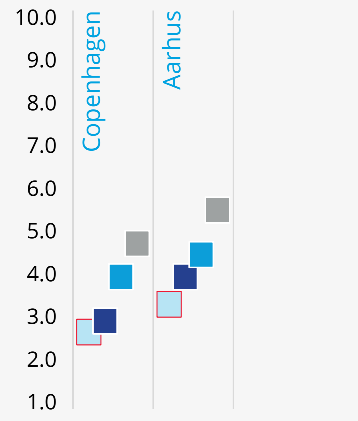
Core investments provide secure cash flows at low risk, with full inflation hedging and positive leverage. Further, by buying projects off-plan, investors will be rewarded with an additional 25-50 bps on net initial yield. Special sectors such as micro living and senior housing are somewhat immature, providing opportunities to develop platforms with a strong operating angle.

The main challenge is often to secure the right product at the right price in a rather competitive environment. Furthermore, in certain suburban and provincial areas, development activity is very high, and some projects may create a short-term saturation of product, exerting a slightly negative impact on rents.

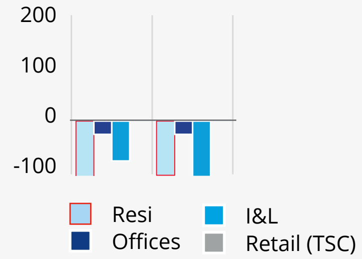
Resi investment volumes, EUR bn



Prime yields, end-2021, %



Basis point shift, 2021



Sources: Colliers, Real Capital Analytics

France

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Market context

The residential segment has consolidated its strong foothold among institutional investors with €7.4 bn of transactions recorded in France in 2021, up 7% year-on-year and more than doubling 2019 volumes (€3.6 bn).

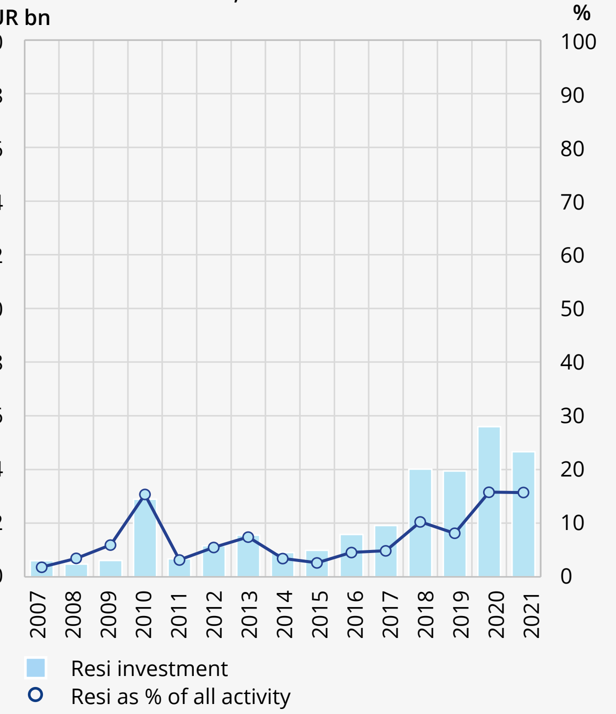
The residential investment market remains largely dominated by free-rented or semi-regulated asset disposals (€6.3 bn invested in 2021), and more specifically by former social housing operators gaining ground, as illustrated by CDC Habitat's or in'li's acquisitions. These major housing operators have come to shake up the residential investment market by taking strong positions with the purchase of new housing portfolios under development. In addition to these major moves are more traditional market players wishing to increase exposure to the residential segment with no choice but to position themselves in new single-family operations or existing assets. The number of potential buyers of residential properties is rising, with a clear trend towards the internationalisation of players (Fosun, M&G Real Estate, PGIM, Hines, BlackRock being the main ones). The other pillar of the residential investment market is that of serviced residences (students or seniors), with more than €1 bn in transactions recorded for the second year in a row.

Opportunities & challenges

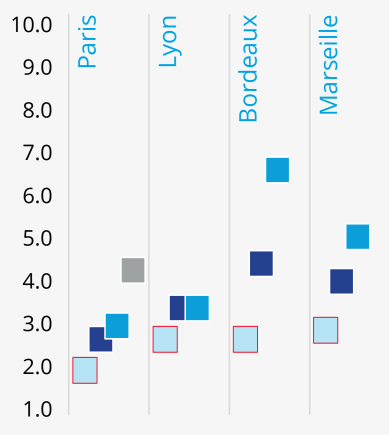
The ability of the French market to renew its supply of residential units is one of the most important challenges for investors active in this asset class. Among the 350,000 new units delivered each year in France, barely 60,000 are for the non- or semi-regulated letting sector. The rented housing stock held by investors (private or corporate) accounts for 23% of the total residential stock.

Investor appetite for the French residential market is strong, even though opportunities are increasingly limited by a very low asset turnover rate; this under-supplied market context is driving metric values up (over €10,000 per square meter in Paris).

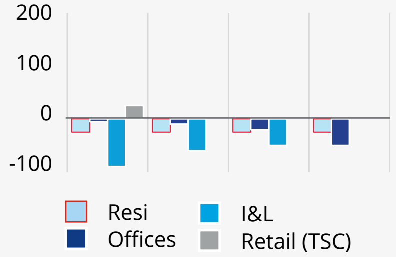
Resi investment volumes, EUR bn



Prime yields, end-2021, %



Basis point shift, 2021



Sources: Colliers, Real Capital Analytics

Germany

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Market context

Germany's long history of a functional rental market – both private and social – puts the country far ahead of other European locations, given the 50:50 ratio of tenants to owner-occupiers. This makes it Europe's largest and most established residential investment market and this is reflected in the low yield pricing of residential assets in key German cities relative to other asset classes, as well as in relation to other residential assets in other non-German cities.

The maturity of the market was reinforced by Vonovia's takeover of Deutsche Wohnen at the end of 2021, creating a housing behemoth with a portfolio of some 568,000 apartments in Berlin. This enabled Berlin to be the fastest-growing market in Europe, and globally, relative to 2020 activity and the five-year average. The strength of investment in the residential sector is also spreading to other German tier-2 and -3 cities.

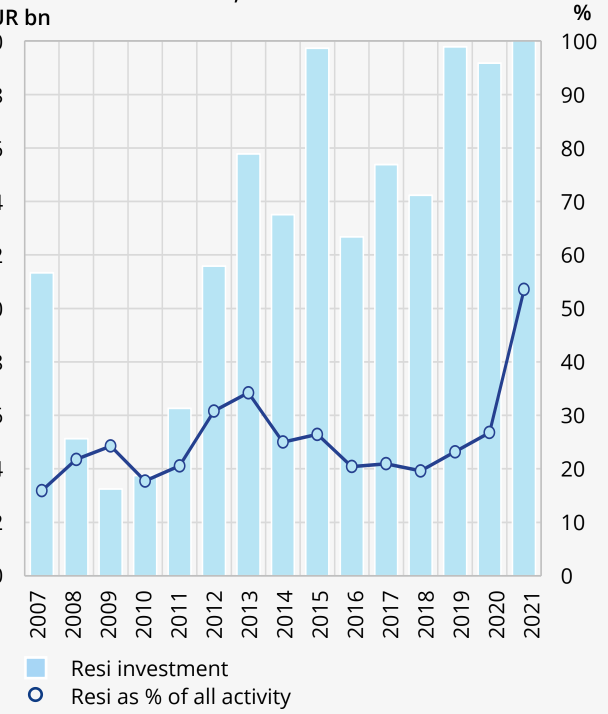
Opportunities & challenges

The biggest opportunities emanate from the demographic changes of an aging society and greater international immigration. The former requires more investment in senior housing. While this part of the market is quite mature, demand is on the rise due to the ongoing aging of the German population.

Greater international inward migration justifies the rise of simpler and more flexible housing models such as micro living, co-living and also student housing. Student accommodation has a long history of public provision by student unions (Studentenwerke), but this is opening up as a market for private investors and operators. Similarly, micro/co-living is another nascent niche sub-sector that is gaining momentum alongside non-public student housing.

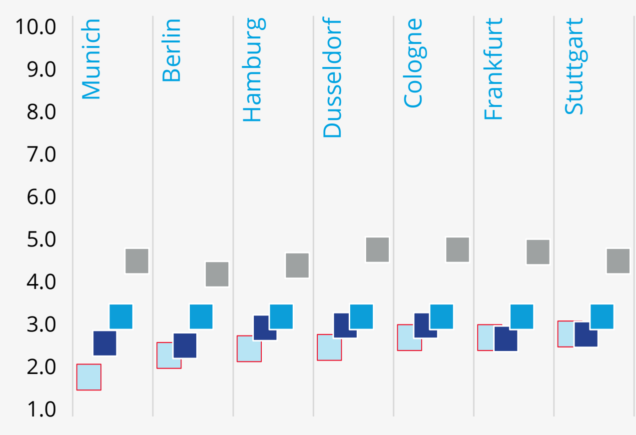
The biggest challenge for the sector is managing the combination of new energy efficiency requirements related to ESG regulations and rising construction costs. The ECB is not implementing an interest rate hike for the time being, which would have dampened purchase price growth. Additionally, the ongoing war in Ukraine is displacing a large population which is likely to drive housing demand in both the lower and middle price segments of the rental market.

Resi investment volumes, EUR bn

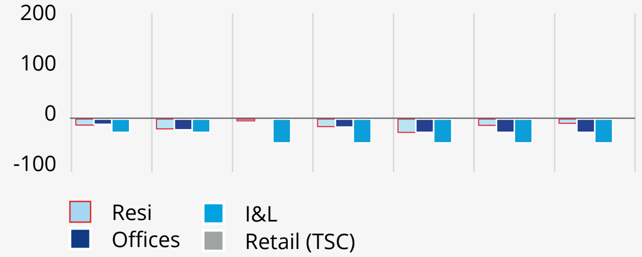


* 2021 Volumes reached 50bn when including the Vonovia Deutsche Wohnen deal

Prime yields, end-2021, %



Basis point shift, 2021



Sources: Colliers, Real Capital Analytics

Ireland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Market context

Ireland is experiencing a well-documented housing crisis with the supply of homes for sale or rent at record lows. This led to double-digit rental and house price inflation in 2021, with new development slow to respond. The delivery of new stock was impacted substantially during the various lockdowns, so new dwelling completions reached only 20,433 units during 2021. This is well below the estimated 35,000-50,000 units required annually to meet growing demand.

That said, the number of BtR units in the pipeline is estimated to be 100,000[*], with just under half of these expected to be delivered between now and 2025. The rise in BtR construction has been supported by the forward funding or forward sale of units to domestic and overseas investors alike. This has enabled BtR schemes to be more financially viable, and even though the prime PRS yield has compressed to 3.75% this remains attractive relative to yields achievable in other European cities.

Opportunities & challenges

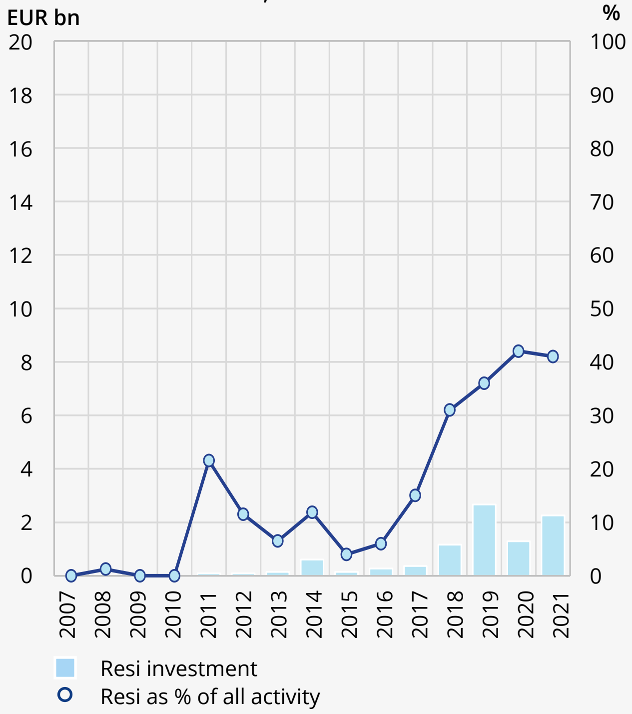
With residential construction activity now ramping up in line with intense demand for housing of all types, the living sector is now the top performing investment asset class - total investment reached €2.3 bn during 2021 (41% of total turnover). Most transactions involved PRS units, but social housing has also seen increased levels of investment. Student accommodation and senior living are both relatively nascent in the Irish market, accounting for a small proportion of investment to date.

Most new deliveries are set to be in the Dublin region, although there has been a recent increase in planned BtR schemes outside the capital. Ireland's population is growing, household sizes are diminishing and multinational tech and life science companies continue to increase their presence, driving even stronger demand for rental accommodation.

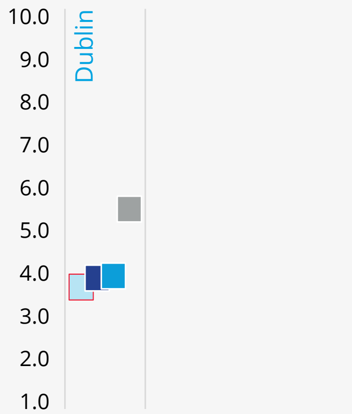
In terms of challenges, the increasing involvement of institutional investors in the financing and ownership of residential property has been met with some criticism. Political pressure saw stamp duty for the purchase of 10 or more residential units increase to 10% in 2021. This does not extend to new BtR blocks, however, which reflects a recognition that private funds and developers are key to delivering ambitious housing targets set out by the government. Rising construction costs are also a concern and may impact the viability of planned schemes.

[*] Source: Daft.ie

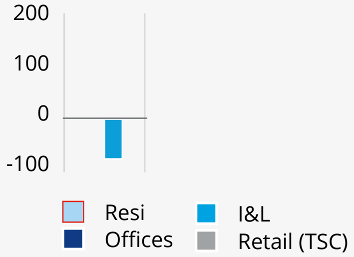
Resi investment volumes, EUR bn



Prime yields, end-2021, %

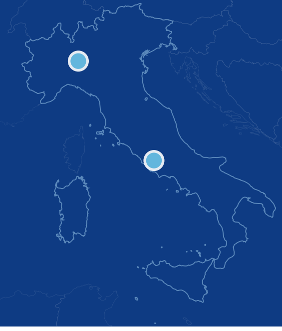


Basis point shift, 2021



Sources: Colliers, Real Capital Analytics

Italy

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Market context

The Italian living market is traditionally oriented to the owner-occupied tenure, with 75% of Italians owning their home. Of the 25% in rental accommodation, only half is on the private market. In brief, it is an immature market characterised by many local players focused on build to sell (BtS) and private landlords who rent units to students/ young professionals or local families. There are very few operators focused on professional management.

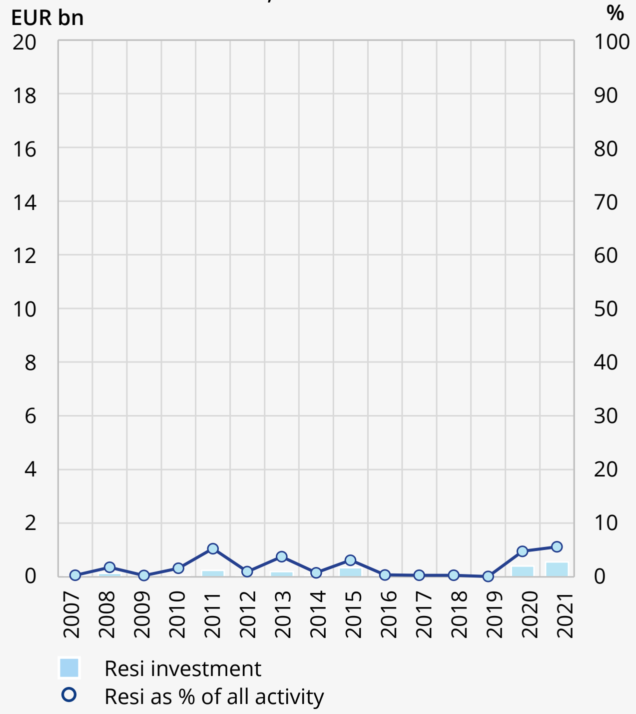
The lack of quality institutional product is pushing investors towards development to sell and rent models. Milan, Rome and some secondary cities such as Florence and Bologna are benefitting from this development drive. Italian cities are very attractive in terms of their history, architecture and university strength attracting students from other regions/countries, who are increasingly retained by employers upon graduation. Bologna is the seat of the oldest European university. Rome has the country's highest concentration of universities, making it a magnet for younger residents who are the main target group for rental housing, and supporting a rising population. Milan has a student population of 65,000. The Milanese labour market is also performing well, with unemployment at 5.9% compared to a national average of 9.6%, attracting young professionals from all over the country.

Opportunities & challenges

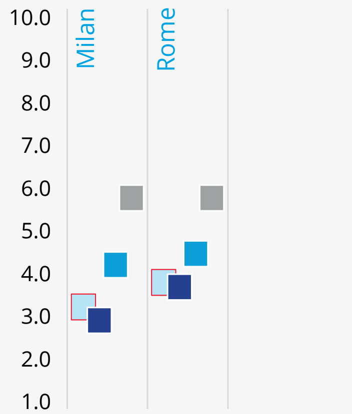
This context is supporting opportunities for the PBSA and BtR sectors. Prices and rents are constantly increasing, driven by new buildings that respond to new trends and demands (terraces and gardens, delivery spaces, gyms, environments designed for coworking and so on). Housing demand remains more oriented to buy, but an increasing range of services and facilities are now in demand in rental properties.

Investors are entering a market that was "unexplored" before and left to local operators/developers. For those entering the BtR sector, the positive aspect is that end-users are willing to talk with institutional players rather than private landlords. On the other hand, legislation is more protective for tenants compared to landlords, and this could be an issue in terms of asset management. Crucially, investors have to learn to operate in the fragmented Italian real estate market and with the poor quality of existing stock. Although development is a clear opportunity, construction costs are rising sharply.

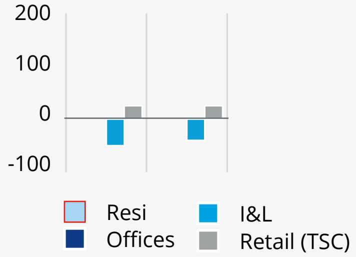
Resi investment volumes, EUR bn



Prime yields, end-2021, %



Basis point shift, 2021



Sources: Colliers, Real Capital Analytics

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Market context

In 2021, almost €4 bn was invested in the residential market. This may appear to represent a 52% decrease in activity relative to 2020 – when investment volumes amounted to €8.3 bn, but up to €2 bn in transactions were executed in Q4 2020 instead of 2021, as investors pushed to avoid the higher transfer tax rates that took effect as of January 1, 2021. Overall, the 2018-2021 period represents years of very strong growth and consolidation in the sector in the Netherlands.

Pricing in the housing market in the Netherlands is also overheating. At the end of December 2021, only 30,953 homes were for sale nationwide, a decrease of 34% compared to a year earlier. This pressure is reflected in the increase in vacant possession value - in the fourth quarter of 2021 prices rose 21.2% compared to a year earlier.

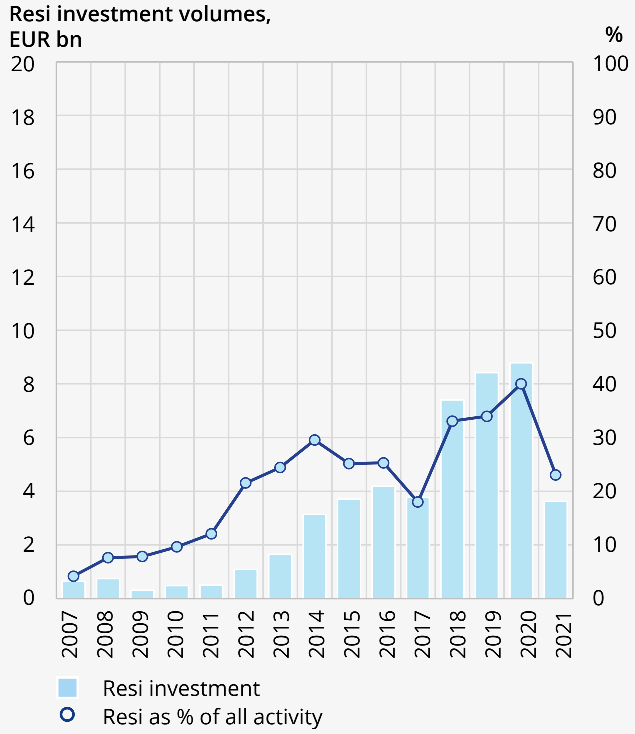
The situation in the owner-occupied market is putting further pressure on the private rental sector. In the major cities, the demand for rental housing has increased, causing supply to fall. Nevertheless, rents are rising less rapidly than owner-occupied prices. The rental market cannot benefit from low interest rates and generous lending standards, resulting in limited rent increases.

Opportunities & challenges

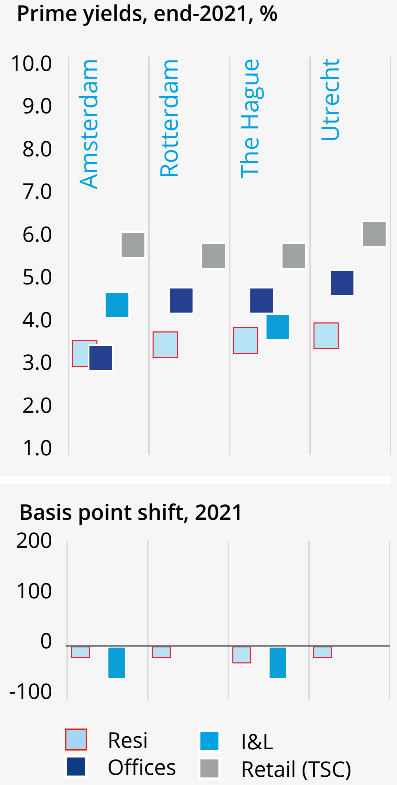
Persistently low interest rates, generous lending standards and limited new construction are expected to support a further rise in owner-occupied prices. Unemployment is very low, which contributes to a positive outlook. That said, high inflation could throw a spanner in the works, but rate hikes as a means to curb inflation remain benign.

Demand from investors will remain high in 2022, although limited supply means that investment volumes will not reach the record highs of the 2018-2020 period. Both domestic and overseas institutional investors are interested in Dutch residential real estate. The latter are mainly interested in the supply of new-build products on the market. More niche types of residential real estate, such as student housing and dwellings targeted at seniors, are in high demand.

Resi investment volumes, EUR bn



Prime yields, end-2021, %



Sources: Colliers, Real Capital Analytics

Poland

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Market context

Poland is at a nascent stage of development when it comes to the residential investment market, but we are observing exponential growth in new development and activity. The 7,500 BtR units now in circulation will be complemented by a further 23,000 BtR units under construction/in the permitting phase. This remains a drop in the ocean relative to Poland's traditional rental market, which is mainly fragmented (owned by private individuals), but estimated to comprise 1.2 million units. This reflects the significant upside in BtR activity.

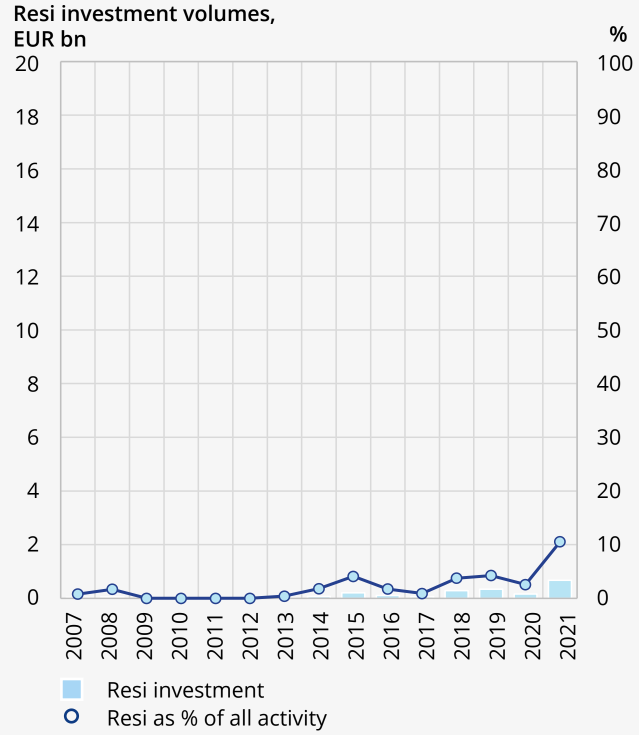
From an investment perspective, €0.6 bn was deployed in PRS asset acquisitions in 2021, primarily in forward purchase and joint ventures. Whilst this remains a limited share of the €6.3 bn invested across all sectors in 2021, it represents significant growth in activity when compared to previous years. These volumes also exclude a lot of M&A transactions among residential developers, including Echo Investment's acquisition of Archicom, Tag Immobilien acquiring Vantage Development in 2019 and recently ROBYG in the end of 2021, and Cornerstone/Crestyl acquiring Budimex Nieruchomości. This consolidation points to a growing maturation of the market.

Opportunities & challenges

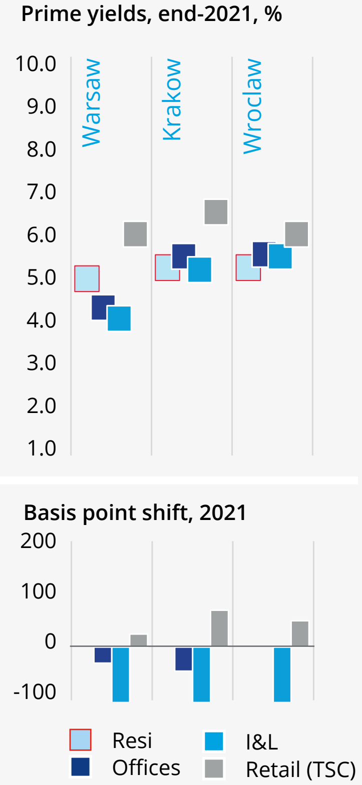
With rising interest rates and inflation alongside higher construction costs – both materials and labour – owning a flat is becoming less affordable than renting. This is driving rental demand, illustrated by a considerable fall of 20% in mortgage applications between December 2021-January 2022. Corporate expansion in Poland remains strong, and with a positive net migration rate demand for rental accommodation is also rising in tandem. Moreover, the development of BtR schemes in locations typically restricted to commercial use zoning is enabling new city living options in many attractive locations where residential units for sale are not available.

Another positive for the market is that yields for PRS/BtR units in Poland are trading higher than those available in more mature European destinations. However, the lack of ready-to-buy standing assets is a challenge for investors, with activity restricted to forward purchase/funding type transactions, joint ventures or M&A activity. However, we expect that as BtR platforms grow, this will generate a secondary trading market in years to come.

Resi investment volumes, EUR bn



Prime yields, end-2021, %



Sources: Colliers, Real Capital Analytics

Spain

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Market context

The living sector in Spain is booming and already represents c. 30% of total real estate investment (€3.5 bn in 2021). BtR represents c. 45% of the living investment sector (€1.6 bn), senior housing represents c. 21% (€0.7 bn), PRS represents c. 16% (€0.6 bn), and PBSA represents c. 12% (€0.4 bn). Co/micro-living represents c. 6% (€0.2 bn) of the market. Each element is at a different stage of maturity.

The Spanish BTR/PRS market is concentrated in the mature markets of Madrid and Barcelona (c. 80% of investment activity), but investor appetite is growing for opportunities in other large cities with dynamic labour markets and good macroeconomic prospects (Valencia, Málaga, Sevilla, Palma de Mallorca).

The PBSA sector is also a swiftly maturing market. Investor profiles are shifting from value-add to core and focusing not only on Madrid and Barcelona, but also secondary cities with strong university campuses. The co/micro-living segments are in much earlier stages of development, with only a few projects ongoing, primarily in Madrid and Barcelona.

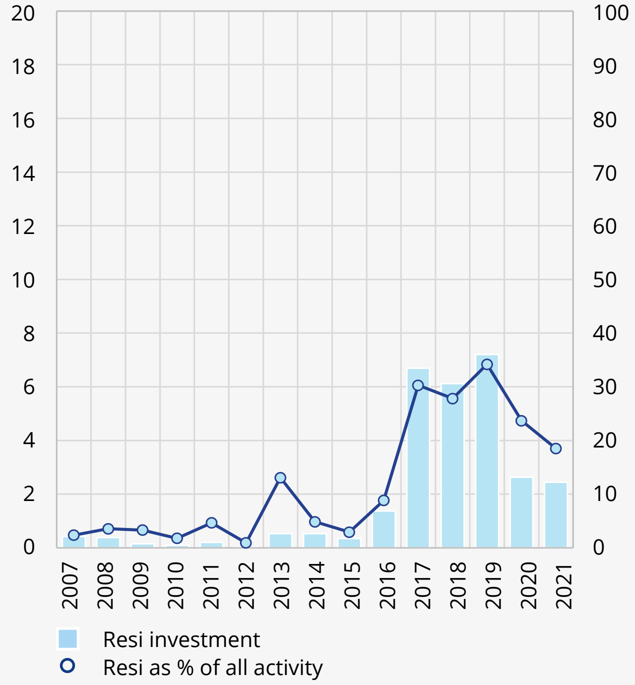
Opportunities & challenges

Regarding the residential rental segments (BtR/PRS and co/micro-living), the sector remains under-professionalised (the rental stock owned by institutional investors is below 5%), while the demand for rental units is expected to continue to converge with the European average (25% private renters in Spain compared to 31% in Europe). This will support investor strategies looking to develop a professionalised and geographically diversified rental platform, ensuring attractive returns.

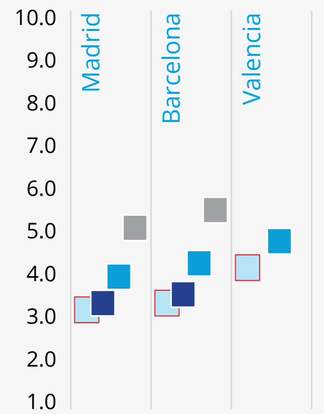
On the flip side, investors face scarcity of land (and opportunities) in tier-1 locations such as Madrid and Barcelona, and certain political risks in some locations where potential limitations on rental prices could limit the amount of residential product brought to market. The recovery lag created by COVID-19 in student accommodation (travel restrictions) and senior (declining occupancy rates) segments also needs to be considered, as do European-wide challenges with high construction costs.

Lastly, although there is strong appetite from investors regarding the senior living segment, the lack of specialised operators in Spain poses a challenge to action. The great mismatch of supply (372,000 beds) and potential demand to meet the WHO's recommendation (461,000 beds), on top of the ageing population, creates a fundamental opportunity for institutional investors to create portfolios at scale.

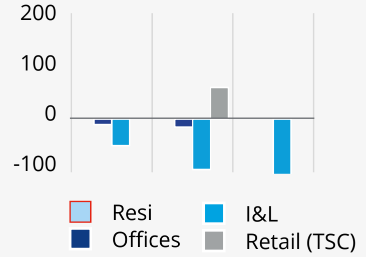
Resi investment volumes, EUR bn



Prime yields, end-2021, %



Basis point shift, 2021



Sources: Colliers, Real Capital Analytics

United Kingdom

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Market context

2021 witnessed a continuation of growth in the UK BtR sector, with regional market expansion outstripping activity in London. In total, just over 14,500 BtR units were completed during the year, representing a 24% increase on 2020 activity. This supported greater investment into the sector, with a record €5.6 bn (at €1.20/£1.00) pouring into UK BtR in 2021, a 33% increase on 2020 and a huge 160% increase on five years earlier. A sign of maturity for the market was the fact that single-family housing (SFH) accounted for an increasing share of activity.

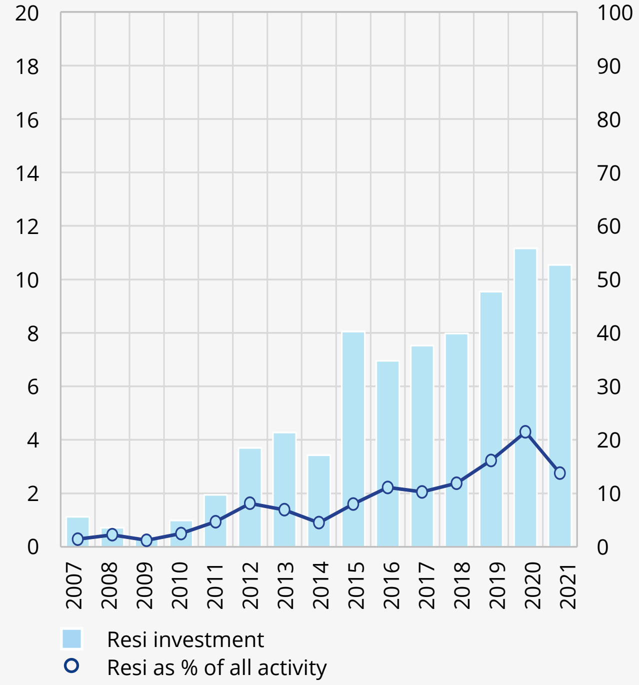
Opportunities & challenges

This boom in development and investment has given rise to understandable questions regarding potential over-supply, or investment saturation in some markets. On the point of over-supply, this question is being tested in the UK's most mature BtR market, Manchester. Despite operational BtR schemes now accounting for just over 25% of the city's entire local PRS, rental inflation rates have been among the highest in the country, with new schemes letting-up at the fastest rate since the emergence of the BtR sector.

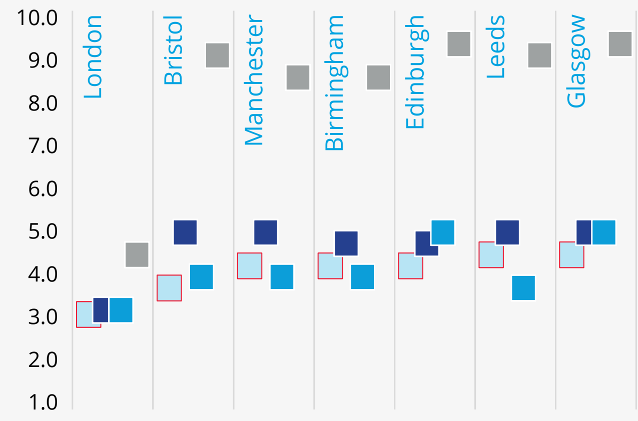
To cover off the second point, BtR still only accounts for 9% of total investment volumes into direct real estate in the UK. In the US, this figure was over 35% in 2021 and has grown further in 2022. Whilst current institutional investment volumes in UK BtR are huge (and growing), the sheer volume of capital looking to find a home in UK BtR negates any risk of investment saturation. It is also worth taking into account that built and fully operational BtR homes still only account for around 1% of the UK's entire PRS.

While the high level of current investment looking to enter the sector is manifesting itself as extremely competitive bidding short-term, the sheer scale of opportunity in the UK's investible market will offer comfort to investors willing to expand into different geographies and products.

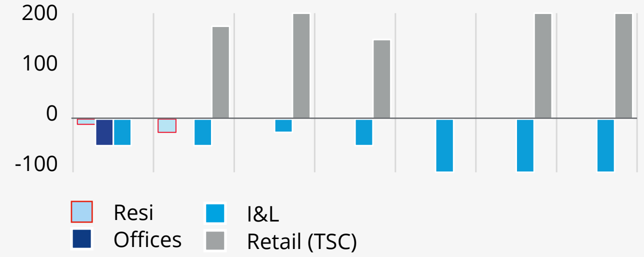
Resi investment volumes, EUR bn



Prime yields, end-2021, %



Basis point shift, 2021



Sources: Colliers, Real Capital Analytics

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