



Emerging Trends in Real Estate[®]

A balancing act

Europe 2015



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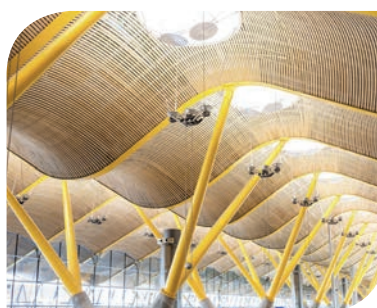




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**Emerging Trends
in Real Estate®**

A balancing act
Europe 2015

A publication from PwC and
the Urban Land Institute

Executive
summary

Executive summary



Europe's real estate industry expects to be busier and more profitable in 2015. This optimism is clear, despite weak fundamentals and economic conditions as well as an undercurrent of concern about the geopolitical situation in parts of the world.

The confidence comes from the availability of capital. Real estate is awash with equity. Most of *Emerging Trends Europe's* survey respondents and interviewees anticipate an increase in both prime and secondary values as a result of greater liquidity and the need to deploy capital in this asset class.

In many of Europe's main markets, growth in values has far exceeded any rise in occupier activity. Across the Eurozone, in particular, rental growth remains elusive. This disconnect between capital flows and fragile occupier demand is expected to be, once again, a feature of the markets in 2015.

Nearly two thirds of those surveyed by *Emerging Trends Europe* believe that core property is overpriced in almost all markets. In this respect, the major influences are the equity-rich sovereign wealth funds and pension funds and insurers from Asia, which have helped drive up the price of core assets in "gateway" cities such as London, Paris, Milan and Berlin. These players are expected to play an even bigger role in European markets in 2015. Private equity firms from North America will also remain a force.

What's true of equity is almost equally true of debt. Non-bank lenders, such as debt funds and insurance companies, are expected to raise their game significantly, providing much-needed diversification from the bank-dominated landscape of the last boom.

Though credit has eased considerably for real estate in Europe, it is not the same everywhere. The most liquid markets of Northern Europe expect the flow to swell further. In Southern Europe, where domestic lenders are still constrained, respondents think 2015 will bring an improvement while in the Nordics and Central and Eastern Europe they are less exuberant in their expectations. Finding finance for development remains a challenge. And yet there is just a seed of doubt among some that the debt market has rebounded too far, too fast.

Spending the money effectively is also a challenge, but there is no doubt that it wants to go into real estate. The overwhelming majority – 70 percent – of those surveyed by *Emerging Trends Europe* expect more equity and debt to flow into their markets in 2015. Any concerns over pricing are being assuaged by the fact that in a low interest rate environment, the income return of real estate remains attractive compared with other asset classes.

The high price tags and scarcity of acquisition opportunities for core assets is forcing some to consider taking on more risk, simply to participate in real estate investment. But capital nonetheless remains choosy, both about the kind of assets it wants and where it will go.

According to *Emerging Trends Europe*, the five leading cities for investment prospects in 2015 are a mix of German stalwarts and recovery plays: Berlin is Number 1, followed by Dublin, Madrid, Hamburg and, in a remarkable revival, Athens. Dublin's ranking and Athens' rise reflect the opportunistic streak that runs through Europe. Madrid's ranking, too, reflects a capital surge into Spain that started in 2013 and shows no sign of easing up. If anything, there are signs of it spreading across Southern Europe.

Of the mainstream sectors, logistics is most popular, largely due to the impact of e-commerce. City centre offices are not far behind, but suburban offices and business parks languish near the bottom of the league; only a third of respondents rate their investment prospects as good.

Housing is an increasingly important part of the mix. Two thirds of respondents are involved in residential in some shape or form and this year *Emerging Trends Europe* has taken a closer look at the sector.

It is evident that shortages and affordability issues in many European cities are influencing a longer term move into housing by some investors and advisers that had once stuck resolutely to commercial real estate.

The green agenda is also embedded as a long-term strategy for many respondents, but regulations and rapidly approaching energy efficiency targets have brought it into sharp focus. Regardless of the red tape, *Emerging Trends Europe* 2015 finds many convinced that sustainability is synonymous with good business.

Chapter 1

Business environment



“Overall, the key drivers of demand – occupancy, development etc – are improving. Moreover, the low level of development in some markets has actually been a saving grace. We’re slowly coming out of the crisis but it’s different to what we’re seeing in the US and Asia.”

“Some investors are not pricing in the economic situation.”

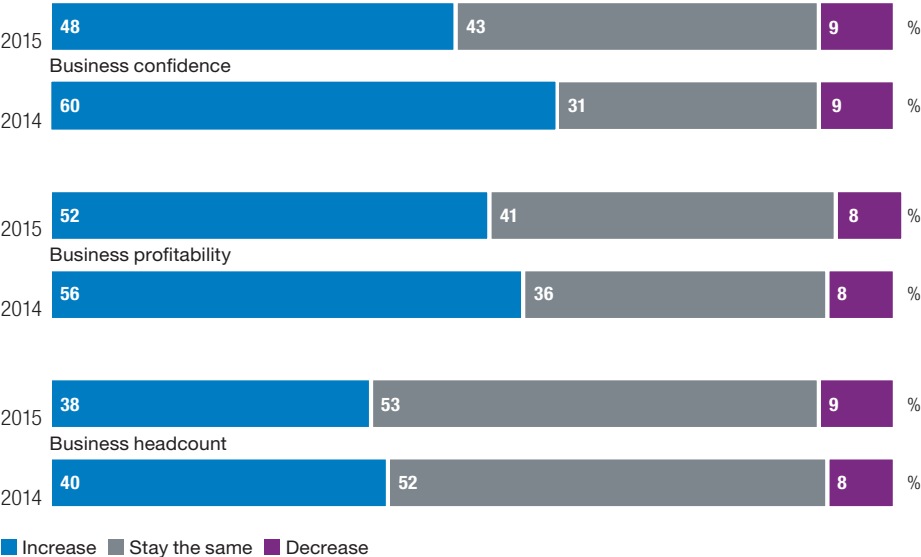
Emerging Trends Europe’s survey suggests that European real estate professionals are still very positive about business prospects in 2015, though somewhat less confident than they were a year ago.

Profit expectations are also slightly down. This qualified view of 2015 is also reflected in over half of respondents indicating headcounts will be static, while 70 percent say the same about their corporate property requirements.

And though the optimism is definitely there, it isn’t evenly spread across Europe. While some European economies have emerged from recession, others are still struggling to achieve meaningful levels of growth. Nearly a third of those canvassed for *Emerging Trends Europe* think that the European economy will improve in 2015 but the majority – 59 percent – believe that it will tread water.

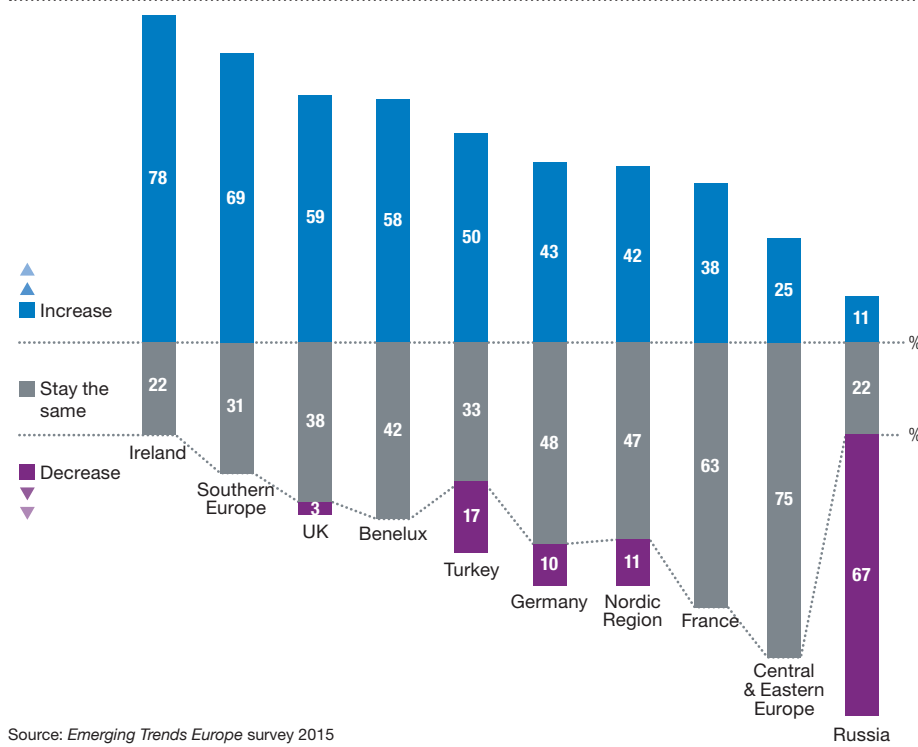
Says a pan-European investor: “People will cool on their acquisitions targets, ourselves included. We’re concerned about demand because some investors are not pricing in the economic situation.”

Figure 1 Business prospects in 2015



Note: Percentages may not total 100 due to rounding.
Source: *Emerging Trends Europe* survey 2015

Figure 2 Business profitability in 2015



Source: Emerging Trends Europe survey 2015

By and large, though, respondents in the recovering economies – the UK, Ireland, Spain, Portugal, Greece, and the Netherlands – are the most upbeat about business and improving their profitability next year. “If you compare the three markets of Benelux, the Netherlands is the one that will be the next hot thing, and there is a lot of investment capital looking for opportunities there,” says one global property fund manager.

In Germany and the Nordic region, respondents are more evenly split between those who think they will do better in 2015 and those who expect it to be similar to 2014, with a minority of around 10 percent expecting profits to fall.

A big switch in sentiment has occurred in France, where only 40 percent of respondents now think they will be growing their profits in 2015, whereas last year, half had been expecting an improving trend. Though Paris remains a go-to destination for many investors, France’s stuttering economy and government have clearly darkened the mood.

Figure 3 Real estate investment in Europe, Q1-Q3 2014 billion



Source: Real Capital Analytics

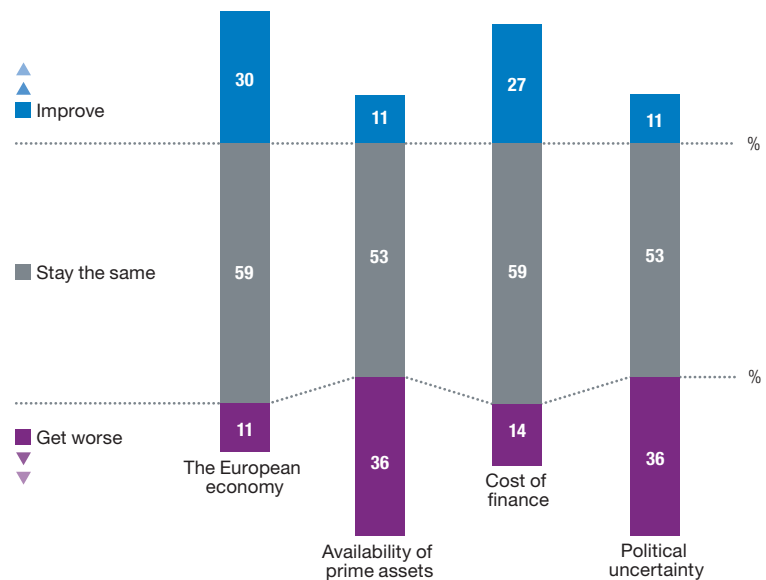
Says a pan-European investor: “France is distressed but we can’t find anything to do there. The prices don’t reflect the distress. Also, taxation is changing there all the time.”

“The European market has basically been quite different from one country to another and also by sector. I view it very positively, but at the same time with caution.”

But the darkest mood is in Russia, where fully two-thirds say things will get worse for them in 2015. “It depends on the geopolitical environment – if it stays as it is it will be bad.” Investment in Moscow over the first three quarters of 2014 was already down, €2.7 billion against €4 billion over the same period the previous year.

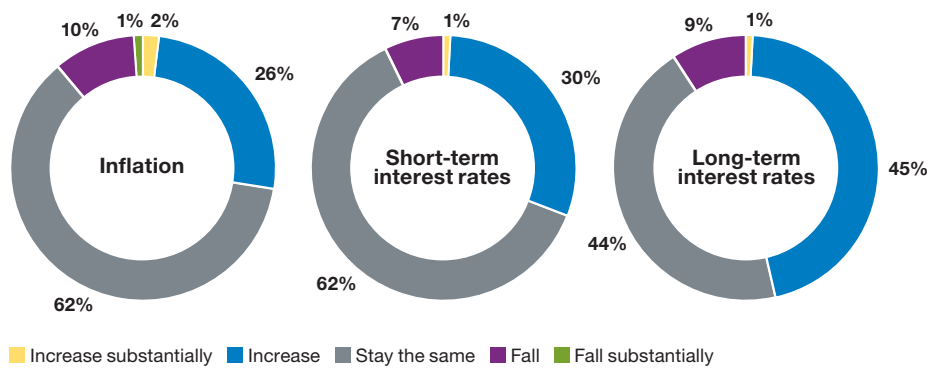
As one pan-European investor says: “The European market has basically been quite different from one country to another and also by sector. So we have been adjusting, almost on a quarterly basis, our strategy based on our research on each of these markets and the opportunities that arose from the variation in each market ... I view it very positively, but at the same time with caution.”

Figure 4 European business environment in 2015



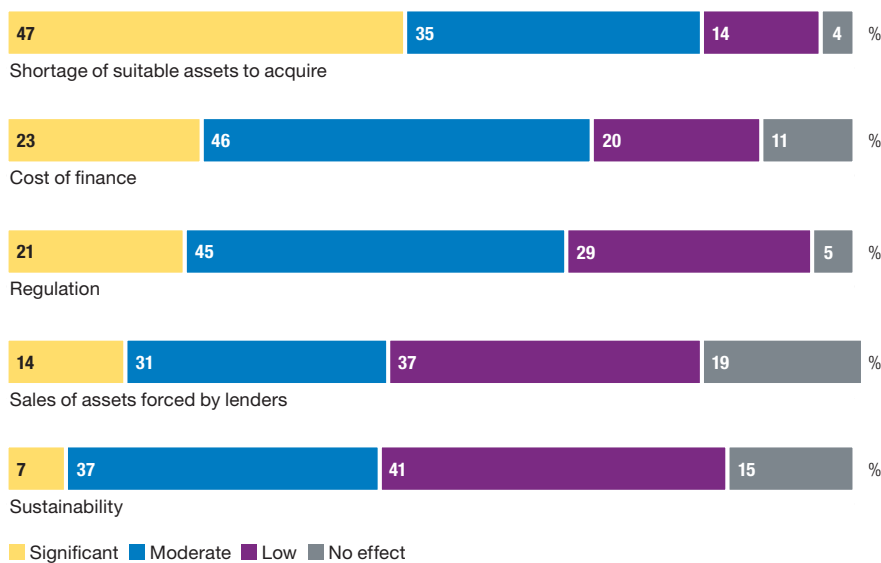
Source: Emerging Trends Europe survey 2015

Figure 5 Interest rates and inflation in 2015



Source: *Emerging Trends Europe* survey 2015

Figure 6 Issues impacting business in 2015



Source: *Emerging Trends Europe* survey 2015

Capital surge

“It’s easier to get capital than it is to find good deals.” Spending the money may be a challenge, but there is no doubt that it wants to go into real estate. The overwhelming majority – 70 percent – of those surveyed by *Emerging Trends Europe* expect more equity and debt to flow into their markets in 2015. But capital remains picky, both about the kind of assets it wants and where it will go.

In some countries, debt remains tight. “Italian banks have cleaned up their balance sheets but they are not yet prepared to recommence lending to the real estate sector,” says a local. And in two countries – notably Russia and Turkey – a significant proportion of survey respondents expect less debt to be available in 2015. For sanctions-strapped Russia, it is 70 percent.

However, in much of Europe the debt markets are much improved. Though there is still a large mountain of non-performing real estate loans to work through, banks are lending again. And new financiers – insurance companies and debt funds – are helping, though still a very small part of the puzzle. Even commercial mortgage-backed securities (CMBS) are staging a comeback, with German housing, Italian offices and Dutch assets providing the backing. “Debt is not a problem for a grown-up business,” says an interviewee.

Prime assets are over-priced



“It’s very crowded. The number of global investors looking at Europe has an impact on prices.”

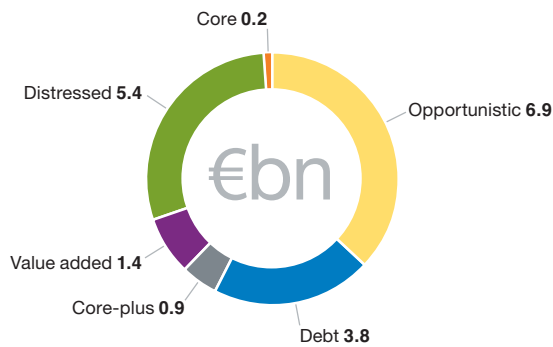
Competition has driven down margins and few are expecting the cost of finance to change much in 2015. “I think we’ll see very low interest rates globally. We could see some QE in the Eurozone next year – that’s the opposite of expectations in the UK and the US. There are divergent dynamics regarding interest rates. It’s a big deal,” says one interviewee.

So, despite the economic uncertainties, European real estate remains fertile ground for investors. Many, especially those flush with equity, are crossing borders, continents and oceans to buy in Europe. Some are undoubtedly attracted by the legacy of the financial crisis and the potential bargains it has created. But others are on a quest for the best real estate.

That large quantities of capital are moving globally is now a given, and this cross-border cash can move markets. In core Europe, real estate has become a victim of its own success and its current attractiveness compared with other asset classes. “It’s pretty challenging. Europe has been found now by so many global investors. It’s very crowded. The number of global investors looking at Europe has an impact on prices.”

Shortage of acquisition opportunities remains a significant issue for Europe’s real estate industry, ahead of regulation or the cost of finance. Only 11 percent expect this to ease in 2015. “Business is going tremendously; the problem is the supply of assets.” “The only problem is that we have more money available than product to invest in across Europe.”

Figure 7 Capital raised by private equity funds for European real estate in 2014*



Source: Preqin * year to 20 October 2014

Rewarding risk

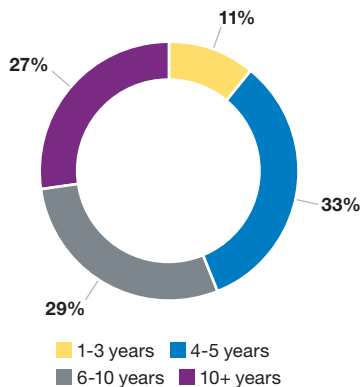
Scarcity and the high prices of these better-quality properties are forcing some to consider taking on more risk, simply to participate in real estate investment. Others are being priced out of the hot markets and chasing yield.

They are moving into less competitive environments, where their local knowledge and asset management skills give them an edge: the fringes of central business districts (CBDs), regional cities, secondary assets that they can convert to core, development and, in some cases, taking on new asset classes.

Indeed, fully two-thirds of those canvassed by *Emerging Trends Europe* say there's a need to consider secondary markets or assets. Their willingness to take on more risk is reflected in this year's ranking of city investment prospects: Birmingham in the UK has moved up to 6th place, from 17th last year.

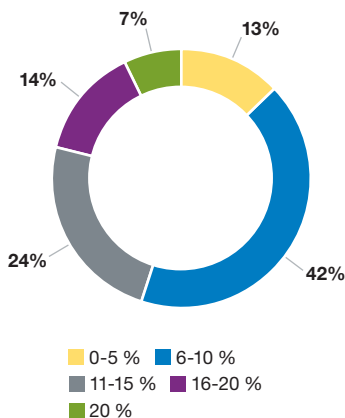
That said, the five cities that *Emerging Trends Europe* respondents rate tops for investment prospects in 2015 are a mix of German "gateway" stalwarts and recovery plays: Berlin is Number 1, followed by Dublin, Madrid, Hamburg and, in an astonishing zoom up the league, Athens.

Figure 8 Time horizon for holding investments



Source: *Emerging Trends Europe* survey 2015

Figure 9 Returns targeted in 2015



Source: *Emerging Trends Europe* survey 2015

Opportunity knocks

Dublin's ranking and Athens' rise highlight the opportunistic streak that runs through Europe. In the first three quarters of 2014, private equity funds raised €12 billion for distressed and opportunistic investments alone.

Last year, *Emerging Trends Europe* highlighted the surge in capital that was targeting Spain; that has materialised and continues apace, although not everyone is convinced it is sustainable. "There is a big disconnect between rental growth and where capital values have gone. It is getting a bit toppy and could end in tears."

And the spotlight has now widened to include the other distressed markets of Southern Europe, notably Italy. According to locals, it is on "standby where the more speculative investors have shopped already and the other ones should arrive soon". An interviewee sums up the attractions: "It offers a stronger case for investment than Spain because it was less over-built than Spain and, as an economy, is less dependent on real estate and banking. Italy is much more diversified."

Greece and Portugal are also fancied, though it is early stages, and these markets are considered too small by some. Central and Eastern Europe gets a generally positive review, with about two-thirds of *Emerging Trends Europe's* respondents thinking selected markets offer good opportunities.

Residential on the rise

Increasingly, residential real estate in Europe is moving out of the public or semi-public sector and specialist investor/developer ambit, into the mainstream. The phenomenon is explored in detail in Chapter 4 - Creating places to live.

Emerging Trends Europe's constituency is primarily focused on commercial real estate. However, two thirds are also active in various forms of residential property, and in some countries, institutional and private equity capital is moving into the sector.

The growing interest in the private rented sector is particularly marked in the UK, where it is a small part of the market. There, institutional appetite for residential investment has been stimulated by widespread affordability problems alongside housing shortages in London and many other cities.

In Germany, the private rented sector is long-established and lively. In the first nine months of 2014, it saw €9.7bn of deals, 14 percent up on 2013. And the lion's share – 82 percent – was not in Germany's "Big 7" cities, but in smaller ones. "The German housing market continues to attract enormous interest from institutional investors. Due to the continued competition and an increasing price sensibility, B cities are especially moving into investors' focus."

Student housing, meanwhile, is one of the more popular residential sub-sectors, as it was in last year's report. Capital – both equity and debt – continues to flow here and the attraction is due to a combination of rising student numbers and relatively safe income, especially in the UK, which is the most mature student housing market outside the US. As one pan-European fund manager says: "We have invested a lot in student housing and much of it is in our long lease fund because of the characteristics of the cash-flow rather than the nature of the use of the building. It's a growing part of our portfolio and I don't see any reason why it will stop."

“We are outperforming the market and I would describe a material amount of that is to do with sustainability and how you invest in the long-term future of assets.”

Going green

Green issues are here to stay. Once again, *Emerging Trends Europe* has asked its constituency about their experience of and involvement in sustainability. Their views are reported in more depth on pages 53–56.

A majority of Emerging Trends Europe respondents, 70 percent, say they are incorporating sustainability into their business strategies. Most of the effort is focused on new buildings and reducing energy consumption. Here, interviewees indicate that going green is increasingly a *sine qua non*: “it’s mandatory and unavoidable”.

Consumers and stakeholders are also playing their part in pushing the industry. “We’ve been very keen on it because it’s in the hearts and minds of our pensioners,” says a Dutch pension fund, adding: “but it shouldn’t have a negative impact on the return.”

That’s the issue: does going green give good returns? Nearly 40 percent of *Emerging Trends Europe* respondents do not think that green buildings achieve higher rents. “It’s more for your investors’ profile than to get a premium rent,” says a sceptic.

But the remainder are positive: 18 percent say they do, and 47 percent say they expect to. Or, they believe green buildings will let up well and retain more value. “Properties which are not sustainable are not easy to let as tenants care about operating costs.”

“We are outperforming the market and I would describe a material amount of that is to do with sustainability and how you invest in the long-term future of assets,” says a fund manager.

Best bets

Europe’s economy is a multi-speed one, and within each country – and even city – the real estate markets can be moving in wildly divergent ways. So more than ever, succeeding is about having a tight focus. It is about drilling down to the local market, the assets, the strategy and the skill sets. That said, here are some pointers.

Big bets

For those with big money, there are still some big bets to be placed in Europe. Opportunists with a tolerance for risk can go for portfolios of non-performing real estate loans in Italy and elsewhere, hefty chunks of housing in The Netherlands or collections of government buildings in Spain.

Conservative money with longer time horizons and lower return hurdles can hand-pick trophy assets in top cities, scoop up prime regional shopping centres, team up with like-minded European players who have properties to share, take over entire companies, or even develop whole new urban quarters.

Small bets

For those with smaller purses, there is still plenty to do – but it means the aforementioned tight focus and the right skills. With big money dominating many of Europe’s core markets, it’s a case of using local knowledge to find the right locations and right assets: high-quality investments in regional cities, buildings that can be brushed up and made shiny again, in-town offices and shops, logistics, conversions to residential. And for those with a taste for a bit more risk, development. The lack of new building since the financial crisis means there is an emerging shortage of good-quality space in selected cities.

There is a need to move up the risk curve into secondary markets or assets



Move beyond the mainstream

Technology is changing our lifestyles: how we shop, where we work and where we play. Real estate's traditional formula for offices, retail and industrial is being challenged as never before. The flip side of this is the opportunity it presents for those who move beyond mainstream thinking. This means taking risks on newer, "alternative" sectors. It also means changing formats for offices and shops.

And, with demographic trends channelling both older and younger residents into urban living, there's a new focus on liveable city spaces: neighbourhoods that offer a lively mix of housing, shopping and workplaces.

Living spaces

People need places to live: young people, old people, students, sick people. In many European cities, there's a shortage of suitable housing. Lifestyles are also changing and bringing new or revamped formats for real estate: student housing, retirement villages, nursing homes. Residential, in all its variations, is on the rise, so consider getting involved. If you don't have the expertise, look for a partner who does.

Ignore sustainability at your cost

Sustainability is no longer an emerging trend: it has become a fact of real estate life. Going green may not bring an immediate boost to the bottom line, but it increasingly provides an edge with occupiers, investors, planners, employees, consumers and shareholders. Ignore sustainability at your peril – your buildings will lose out and lose value.

Facing the threat from Europe's "known unknowns"

"We have taken a lot of risk over the last three years; it's time to take less risk. We just need to remember that the more we go up the risk curve, the more we go through the cycle and therefore every day you are one day closer to the next market downturn – you just don't know when it is going to be."

Most of those canvassed by *Emerging Trends Europe* believe the outlook is bright for their business in 2015, but as we go to press, there are some lengthening shadows: worsening economic conditions in much of continental Europe and talk of possible deflation; uncertainty created by the UK's forthcoming general election; geopolitical events that threaten the region, including Russia's conflict with Ukraine and those in the Middle East; and, from left field, the emergence of the Ebola virus in Africa.

These are, to use US politician Donald Rumsfeld's phrase, the "known unknowns" facing Europe's real estate industry. They are not "event risks" in the strict business sense; these events are already taking place, fixed in the calendar or very much foreseeable. What is unknown, however, is quite how they will unfold during 2015 and how markets will react.

Some interviewees are already dealing with the fallout from conflict. "Because we are present in nearly every country, whenever anything goes wrong we are hit," says a senior executive at a global advisory group. "Our Russian business, our Ukrainian business is pretty much on its knees. Our Turkish business is impacted. It is all because of geopolitics and has nothing to do with the economy or the real estate sector itself."

For many, though, it is not the reality on the ground right now so much as the threat that such conflicts could escalate and hit business confidence. "There will be a market shock again but we do not know what it will be or when it will happen," says one. "The world is still recovering from 2007. Confidence is re-emerging but it is fragile. It does not take much to set it off

and there are a lot of geopolitical risks and uncertainty in the market at the moment."

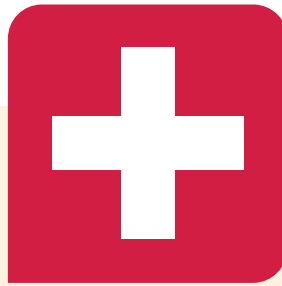
There is still a huge weight of global capital bearing down on European real estate markets. But the geopolitical and economic uncertainty puts the disconnect between capital flows and somewhat shaky occupier demand in the Eurozone into sharp relief. "We believe there will be a 35 percent chance of a Euro crisis of the same magnitude as a number of years ago," says one global investment manager.

Europe's economic recovery is still fragile. And even in the UK, where it is further advanced, the messages are mixed. Numerous interviewees suggest that geopolitical events, particularly in the Middle East, have reinforced the UK's status as a safe haven for capital.

Yet as one local puts it: "The biggest threat to us is political instability, global trauma. If you look across the planet, it's very scary. London is relatively safe but if there is global disruption, yields in the City of London won't be 4 percent. They'll be 6 percent. And 4 percent to 6 percent is a 33 percent fall in capital value."



Demographics

Economic
uncertainty

Health



Geo political

“We believe there will be a 35 percent chance of a Euro crisis of the same magnitude as a number of years ago.”

Others fear that political pledges made for the UK's general election in May “could be very divisive and may undermine the UK's safe haven status”. The proposed introduction of a “mansion tax” on higher-value housing by both the Labour and Liberal Democrat parties is seen as a threat by many UK-based interviewees.

But this is also an election being fought on “big principles”, not least immigration and UK sovereignty. The UK Independence Party's pledge to withdraw the UK from the European Union and the Conservative party's promise of a referendum on the UK's membership of the EU, could have wide ramifications for Europe if the UK votes for an exit.

To a greater or lesser extent, the real estate industry will be factoring in the various possible outcomes from elections. The UK general election is almost upon us, the French presidential election will follow in 2017, and many interviewees are seemingly unfazed by the merry-go-round of European politics. “We're in positive tailwinds,” says a global private equity player. “The biggest threats are a potential pricing bubble and global and political issues ... but those are always there.”

But it is also true that the “known unknowns” are collectively a greater threat to business than in past years. Some interviewees have also expressed their concerns over a genuine event risk, such as an unforeseen act of terrorism and the impact it could have on confidence. There is an undercurrent of caution and uncertainty that was not evident last year.

A retail-oriented interviewee suggests that “at this moment people are nervous” about 2015, adding, “Consumer behaviour is conservative. The internet is highly disruptive. The flow of tourism is at potential risk because of Ebola.”

Meanwhile, a German investment manager believes the property market is in denial over the risks facing it: “We have had three very good years. However people currently seem to ignore what is happening: Middle East/Syria, Ukraine, Ebola. Be assured, the next cycle will come.”

And from a UK interviewee: “We have taken a lot of risk over the last three years; it's time to take less risk. We just need to remember that the more we go up the risk curve, the more we go through the cycle and therefore every day you are one day closer to the next market downturn – you just don't know when it is going to be.”

Chapter 2

Real estate capital markets



On the whole, Europe’s real estate industry is confident that 2015 will be a good year – but that confidence has an edge of doubt to it.

Equity and debt are reasonably plentiful; deal volumes and prices are up in most markets. And though rental growth remains

elusive in much of Europe, *Emerging Trends Europe’s* constituents are anticipating a busier and more profitable 2015.

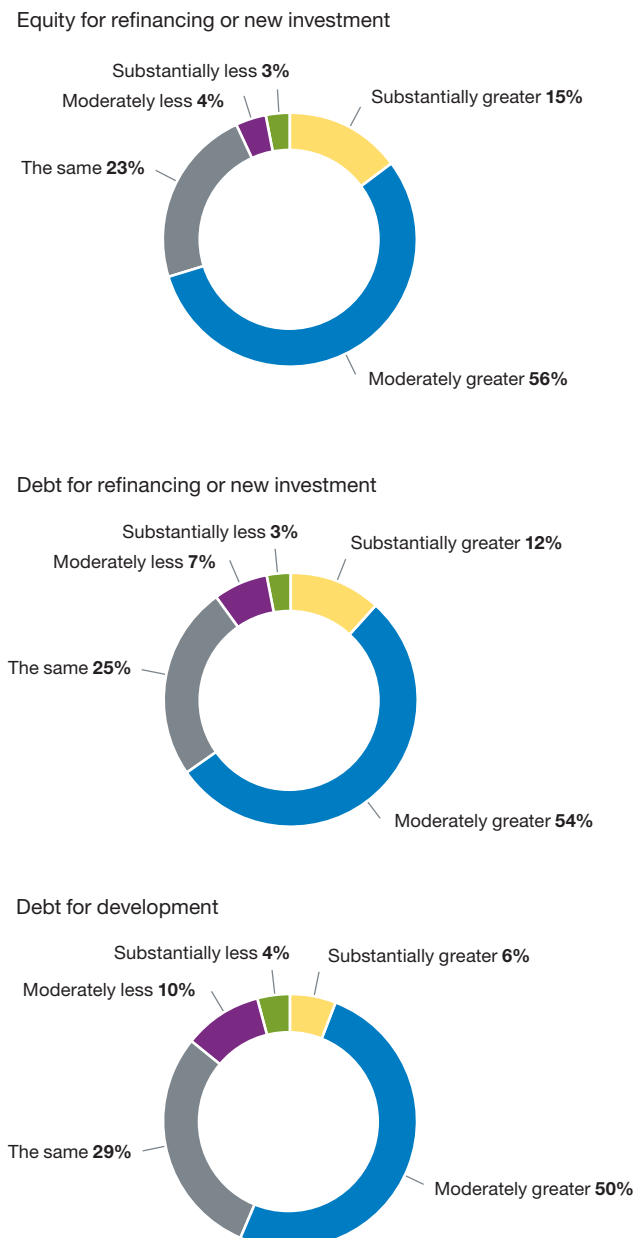
So why the doubt? Put simply, a significant minority worry that European real estate has rebounded too far, too fast. “We know how the story ends, we just don’t know when.”

“What’s really driving all this activity is the availability of capital rather than the underlying fundamentals,” says a banker. “It just comes down to people needing to deploy capital.”

In most of Europe’s main markets, growth in values has far outstripped any rise in occupier activity. “Property prices are defined by the amount of capital that one can find, not value.” For some, the disconnect between values and rents is all too reminiscent of the pre-crash period.

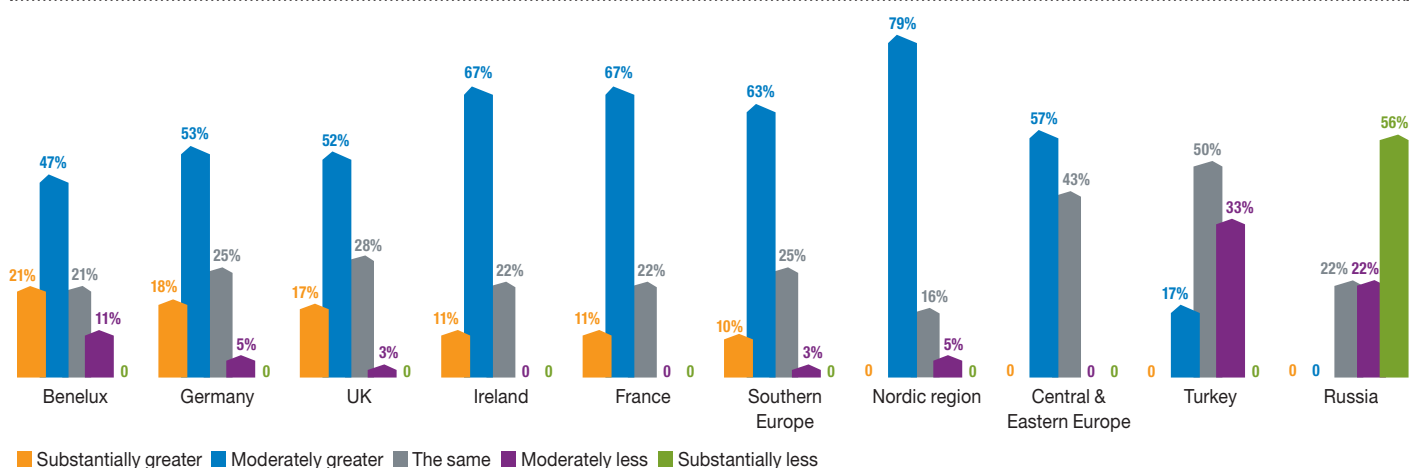
“What’s really driving all this activity is the availability of capital rather than the underlying fundamentals. It just comes down to people needing to deploy capital.”

Figure 1 **Availability of equity and debt in 2015**



Source: *Emerging Trends Europe* survey 2015

Figure 2 Availability of debt across Europe in 2015



Source: *Emerging Trends Europe* survey 2015

“We’re selling because people are forecasting good rental rates and low cap rates. That sounds like the top to us,” says a pan-European opportunity fund manager.

“It is as if the credit crunch was never there, and that for me is a signal to go,” says one REIT chief executive, who is “selling to third party money managers who are raising equity from pooled clubs and getting debt from banks.”

There are also concerns that deflation will stymie economic growth in the Eurozone, sending some countries back into recession and rendering acquisitions made on the presumption of rental growth unprofitable. “You don’t want to buy into recession.”

However, deflation is a minority concern for now; only around 10 percent of those surveyed voice this fear. Opinions range from: “The key debate is whether Europe will end up in Japanese-style deflation, and personally I think it might,” to “it’s a topic of discussion for our global investment partners, but they are not that worried about it”.

Most of Europe’s real estate industry expects greater liquidity – driven by both the long-term move into European property of global investment funds and an immediate term search for yield – to improve both prime and secondary values. Right now, real estate remains the “least overpriced asset class” when compared with stocks and bonds. However, the last crisis is still too fresh in the memory for many to feel truly comfortable with a bull market.

Capital stacks up

“The wall of money is even bigger than before the crisis.” Last year’s *Emerging Trends Europe* found cautious optimism over an increased availability of equity and debt, and the need to be the best of the best to win either. This year, it is a given that capital of all kinds will be flowing much more freely in most markets.

“It has never been easier, we are back to the good times where equity raising is pretty simple,” says a global broker. An institutional fund manager adds: “There have been successful raises by participants with poor track records.”

Real estate is a world awash with equity. Of those canvassed by *Emerging Trends Europe*, 56 percent expect there to be moderately more in the market in 2015, with 15 percent expecting it to be significantly greater.

Sovereign wealth, superannuation funds and institutional investors of all stripes are “shifting from fixed-income to real estate”.

“Real estate just looks so attractive to a pension fund. It is one of the highest yielding asset classes on the planet,” says a fund manager.

Fundraising is also easier for public companies. Real estate IPOs in Europe have reached their highest level since 2007; last year in Ireland and Spain, these included “cashbox” flotations of companies with no assets, raising funds to go out and buy opportunistically.

In 2015: “The next round of capital raising on the public equity markets is going to be for more established real estate companies. It would be very difficult to go now with the same cash box proposition.”

Debt

What's true of equity is almost equally true of debt, that vital "mother's milk" of real-estate. "2015 is going to be a boom year for debt." says a European REIT CEO.

Of those *Emerging Trends Europe* surveyed, about half expect there will be moderately more available for refinancing or new investment in 2015, with 12 percent expecting significantly more.

Non-bank lenders like debt funds and insurance companies are expected to raise their game significantly, providing much-needed diversification from the bank-dominated landscape of the last boom.

Finding finance for development will not be quite as easy. "Debt providers would rather go to new markets than put money into development." However, just half of those surveyed feel there will be more on tap in 2015.

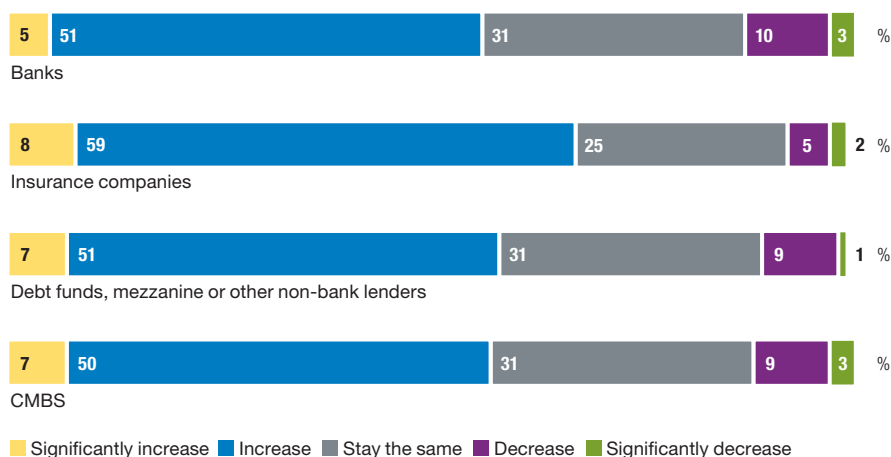
And though credit has eased considerably for real estate in Europe, it is not the same everywhere. The most liquid markets of Northern Europe expect the flow to swell further, as do those in Southern Europe. But in the Nordics and Central and Eastern Europe, respondents are a bit less exuberant in their expectations.

In Turkey, monetary tightening, the fallout from conflict in neighbouring Syria and slowdown in the economy have dimmed the mood, while the economic sanctions imposed on Russia are clearly hitting home – 56 percent of respondents say there will be substantially less debt available in 2015.

But again, there is a seed of doubt: has the debt market rebounded too far, too fast? "In Germany, the Landesbanken are acting on a level similar to pre-crisis."

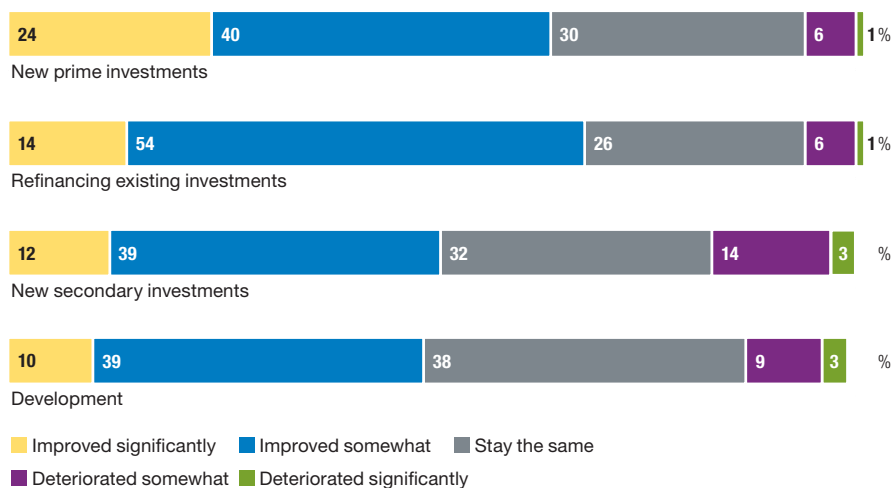
"The behaviour of the banks is quite worrying," says one pension fund manager. "They are back into relatively loose lending, based on volume targets. I am surprised that has happened quite so quickly. I don't detect more discipline in terms of their behaviour compared to 2006."

Figure 3 Sources of debt in 2015



Source: *Emerging Trends Europe* survey 2015

Figure 4 Ability to secure finance in 2015 compared to previous year



Source: *Emerging Trends Europe* survey 2015

Global investors in the driving seat.

Equity-rich sovereign wealth funds (SWF) and pension funds from Asia and North America will play a bigger role in European markets in 2015, continuing the trend of the past several years.

“Asian investors will enter the EU market permanently within two to three years, adding to the new wall of money.” Four-fifths of *Emerging Trends Europe’s* respondents expect increased inward investment from that region.

This is, of course, part of the long-term trend for global institutional investors to increase their allocations to “hard assets”, particularly real estate. A survey by placement agent Hodes Weill of 231 such investors, managing \$8 trillion of assets, shows that they intend to increase their real estate allocation from an average 8.5 percent currently to 9.39 percent globally in 2015, the equivalent of an \$80 billion injection into the sector.

These players are blamed for driving up the price of core assets in Europe’s “gateway” cities such as London, Paris, Milan and Berlin. “It is more competitive because of this lower cost of capital coming in. The Asian and Middle Eastern investors have the capacity to get very attractive financing and they are crowding out some other investors.”

And in spite of price rises, this won’t change. “They will continue to buy for the longer term, 10-plus years, and there will continue to be deals at the top end on large interests.”

“Asian funds are still new to Europe, so they will go to the more liquid markets, such as the UK, first.”

However, the established sovereign wealth or pension funds are also among the savviest and most sophisticated investors. Their mandate to preserve wealth for citizens or policyholders will see them move beyond toppy core markets and into value-add assets, development schemes or second-tier cities.

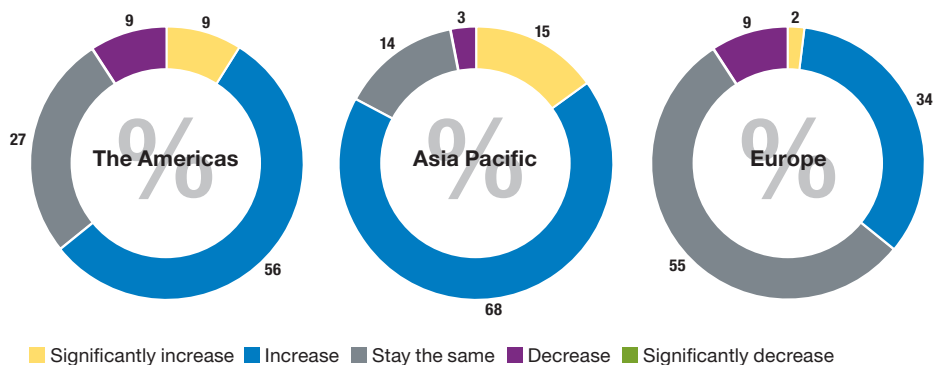
“Sovereign wealth funds are no longer interested in trophy assets at top of the market prices and are being more considered,” says one fund manager that regularly invests on behalf of this type of investor. “Equity-rich investors can stomach the risk of less liquid markets,” says an adviser.

“More sophisticated SWFs are going up the risk curve and some are even going into Spain,” notes an opportunity fund manager active there. Another manager investing for global funds says: “Asian sovereign wealth funds are looking now at retail in southern Europe and others are considering student housing in the UK in light of the pressure on core prices.”

83%

believe capital flows from Asia-Pacific into European real estate will increase in 2015.

Figure 5 Cross-border capital into European real estate in 2015



Source: *Emerging Trends Europe* survey 2015

Pricing pressure

“The availability of capital, whether it is equity or debt, is not an issue. The problem is more that there is too much equity and debt and too few investment opportunities.”

The corollary of so much capital focusing on limited stock is higher prices. Core property is overpriced in almost all markets, say 61 percent of those surveyed.

“If you have the capital, you should have spent it yesterday,” says one UK opportunity fund manager.

Unsurprisingly, around the same proportion – three-fifths of *Emerging Trends Europe* respondents – that think core property is overpriced say that finding the required rate of return will involve taking on more risk.

Stress fractures

The other group of investors with a significant influence on the European market is North American opportunity funds.

“US investors look at Europe and see that there is still real distress, dislocation, and it is a less efficient and transparent market,” says a global opportunity fund manager. “It provides better opportunities for investing than the US, where markets have recovered more quickly and there is a lot of capital and it’s a lot harder to find value.”

But those active in Europe have mixed views as to whether it still offers good returns. “Unless there’s another major shock, I think the distressed story is over,” says another fund manager. “I don’t think there’s a lack of liquidity any more.”

And unlike last year, there is no hard and fast consensus about where to go to find the next pot of gold. Ireland and Spain are still fancied, and the scope has widened out to the rest of southern Europe.

The Italian job

Italy is the most obvious next target. It is a large economy, with a big real estate market, and there is significant financial distress among lenders and investors. The big US opportunity funds are swooping in, buying large portfolios of non-performing real estate loans from Italian banks, which are under pressure to deleverage.

Many of *Emerging Trends Europe*'s interviewees cite Italy, and 62 percent of respondents think there are good deals to be done. “We are at a point where even though everyone thought Italy was a basket case a short while ago, people will do deals just because the money is there.”

But locals are more pessimistic: “It’s impossible to source equity capital, and we do not expect this will change over the next 12 months,” says one. And there is “very little debt available”.

Some foreign investors are also cautious. “It takes more courage to invest in Italy because it’s in a triple-dip recession and fundamentals are not as strong.”

“Italy is very popular, as long as you have eyes that can see in the dark – it is very opaque there.”

While Matteo Renzi’s government has brought a measure of political stability, there are questions over its spending plans and ability to drive through political and business reforms. “There is uncertainty about the rules and in particular about the property tax,” says a domestic investor.

International players will stick to the northern half of the country and prime assets, avoiding the secondary and southern markets, where much of the distress is to be found. “Italy is bifurcated between north and south”.

Southern exposures

Meanwhile, Spain and even Ireland are still considered good stamping grounds, by 71 percent and 47 percent of *Emerging Trends Europe* respondents respectively. “Spain was a no-go area but now it is a let’s-all-go area,” says one.

A tsunami of capital has washed over Spain, much of it global. US opportunity and hedge funds, global investment banks, European fund managers, Chinese real estate magnates, and even Warren Buffett, the sage of Omaha, have all piled in.

So whether Spain is still good business is hotly debated among opportunistic investors. Views range from “The train has already left the station” to “Spain is still very much an opportunistic play. There is very little core activity because debt is quite difficult and the domestic banks are still not lending.”

But now that the economy is recovering, core and core-plus investors – like Buffett, US retail REIT Simon Property and TH Real Estate – are moving in. Domestic survivors of the Spanish crash are also recovering their mojo, and Spanish REITs have taken off: last year, four new ones floated, raising a total €2.5bn.

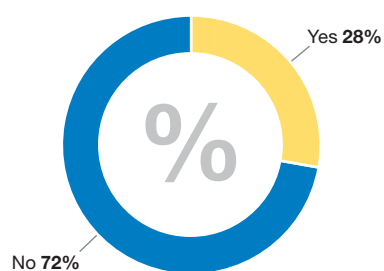
Elsewhere in Southern Europe, Portugal and Greece also have their fans: “Portugal is on the up, Spain is bottoming out, Italy is still a conundrum and sooner rather than later, Greece will be in focus again.”

Out of favour

Only a quarter of those surveyed by *Emerging Trends Europe* think France offers good investment opportunities – a smaller proportion than fancy Greece. “France is distressed but we can’t find anything to do there. The prices don’t reflect the distress. Also, taxation is changing there all the time.”

But the place almost everyone – domestic capital aside – wants to avoid is Russia. No surprise, given the economic sanctions that have been imposed after its annexation of Crimea. “It is becoming more of a local currency market and prices in local currency will hold up reasonably well,” says a broker. “There are plenty of investors who are not interested in exiting at current prices.”

Figure 6 **Considering alternative real estate sectors**



Source: *Emerging Trends Europe* survey 2015

Sectoral schizophrenia

There is a clear dislocation regarding sectoral choice. This year, the six rated best bets are all “alternative” sectors, five of them being variants of residential.

And for development, alternatives receive an even bigger thumbs-up, with social housing and self-storage in the top six.

But in spite of tagging residential and alternatives as having better prospects, Europe’s real estate industry is not yet looking to broaden its remit beyond the traditional three sectors of office, retail and logistics.

Emerging Trends Europe respondents answer a resounding “no” when asked if they are considering investing in alternative sectors in 2015: 72 percent will shun them. As many as two thirds of respondents are active in residential investment of some sort, although 85 percent of those not already involved in the sector are staying away from it.

The top reason respondents cite for avoiding residential is lack of expertise. *Emerging Trends Europe*’s survey did not ask directly about alternatives, but the response from interviewees would suggest that the same is true. Operational risk is also seen as a barrier to entering sectors such as healthcare.

Of the mainstream sectors, logistics is top of the tree, e-commerce being the prime reason for its popularity. City centre offices are not far behind, but suburban ones and business parks are towards the bottom of the league; only a third of respondents rate their investment prospects as good. These judgements are two sides of the same coin – urbanisation and the move of people and companies back towards the centre of cities is boosting one type of office, simultaneously reducing the prospects for the other.

High street retail scores highly as an investment prospect overall, but a closer look shows that respondents really mean high street retail in large cities or affluent towns selling luxury fashion or goods that cannot be bought online. High street retail in smaller towns or areas without a strong identity is seen as increasingly redundant due to technological and demographic factors.

Indeed, this idea transfers to shopping centres also. Investors are interested in large centres that dominate a particular catchment, especially regionally dominant centres, or smaller “convenience-led” centres that house useful everyday tenants like small grocery stores.

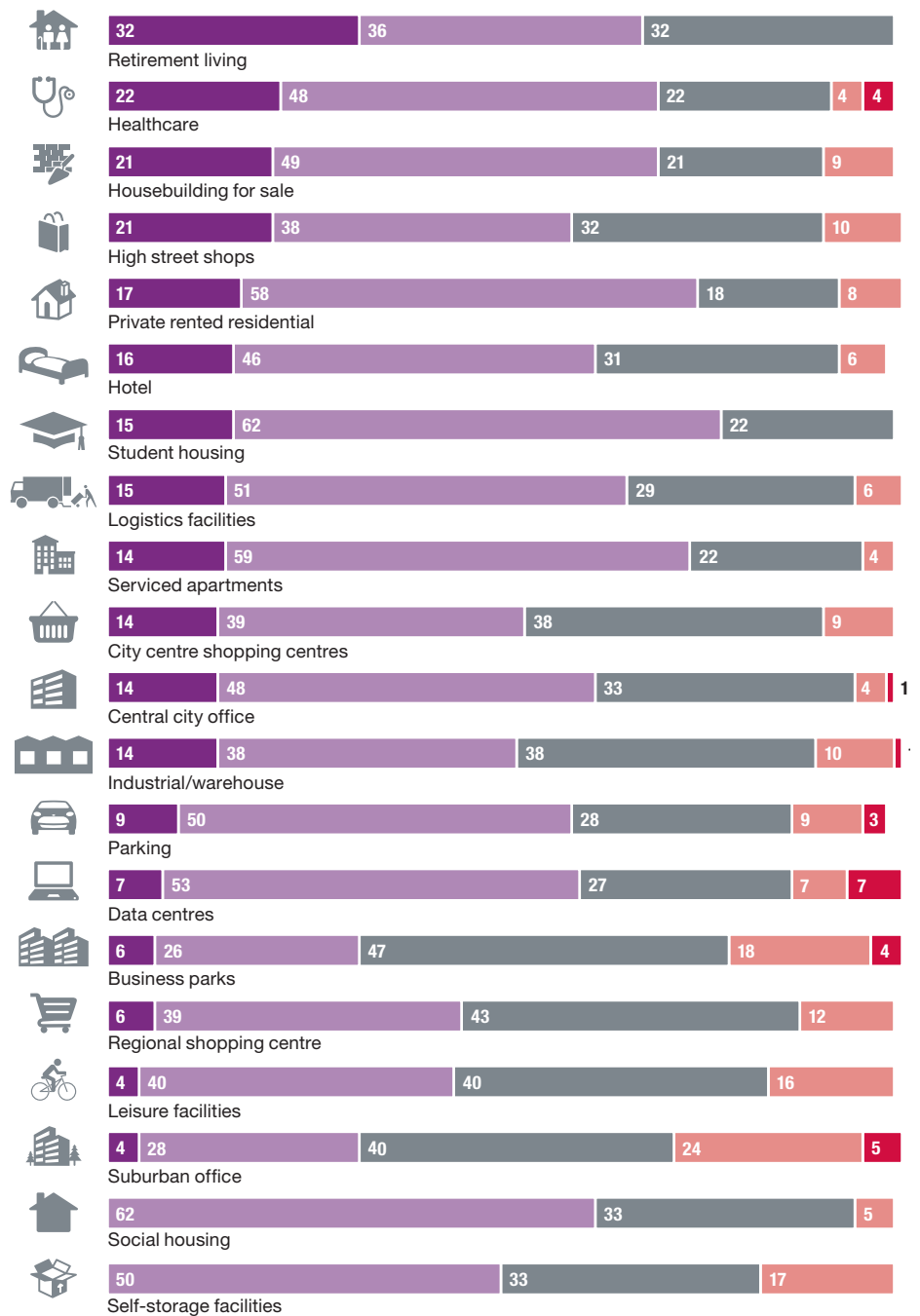
“Overall, sales and rents are increasing slowly, not increasing rapidly, and huge pressure is being put on some centres,” says one fund manager. “But we think convenience centres are an area that will do well, the kind where you pop in to Tesco to get your dinner. And as long as there are teenagers in the world you will have demand for those huge regional shopping centres.”

The sectoral rankings show that Europe’s real estate industry is clearly tuned into demographic and social trends that are shaping our world and changing the way we live. Its top picks are just those property types that benefit from population growth, urbanisation, an ageing society and technological innovation.

But if its lack of intention to invest in these alternative sectors is anything to go by, the industry is not yet ready to venture out of its traditional comfort zone and grasp the opportunity.

“Overall, retail sales and rents are increasing slowly and huge pressure is being put on some centres. But we think convenience centres will do well and as long as there are teenagers in the world you will have demand for huge regional shopping centres.”

Figure 7 Sector investment prospects 2015



Very good Good Fair Poor Very poor

Source: Emerging Trends Europe survey 2015

Chapter 3

Markets to watch



“The recovery in the capital markets started in the UK and Germany a while back but we've now seen a much broader spread recovery almost irrespective of the economic environment. Italy, France and Spain have all picked up and that looks like it will continue.”

Europe's real estate market has got its mojo back, despite concerns over weak fundamentals in many cities.

Capital is driving Europe's markets ahead of rental recovery, as global flows and heightened investor demand for real estate create a “perfect storm”.

There has been a marked shift since last year, both in terms of how far up the risk curve investors are prepared to go and what banks will lend on. Taking on risk in search of higher returns is a smart move, according to many investors. Banks, for their part, are upping loan to value (LTVs) – to as much as 85 percent in some cases – and are starting gingerly to lend on development projects and less core properties.

This year, Berlin knocks Munich off the top spot. International and domestic investors are swarming to the German capital, lured by what they consider relatively inexpensive assets and development opportunities.

Over in Dublin, there is a strong expectation of rental growth based on low supply, coupled with economic and employment growth. In addition, Ireland's state-owned “bad bank” NAMA plans to offload more assets, which are likely to appeal to a wide range of buyers. Ireland's residential sector is also attracting investors, due to the undersupply of rental accommodation. However, Dublin is a small market, so investment opportunities will be limited.

London, the most global real estate market in Europe, remains a firm favourite, due to its sheer depth and liquidity. It has slid down five places from last year to Number 10, mainly over concerns that core assets are becoming overpriced. Nonetheless, it remains the first port of call for many international players.

Southern Europe recovered strongly over the past 12 months, so it not surprising that Madrid has jumped 16 places to take the bronze at Number 3. Global capital has poured into Spain, led by private equity funds. Prices have risen considerably in Madrid, suggesting that investors seeking higher returns are likely to look to secondary markets in Spain next year for better yields.

And remarkably, Athens rebounds to claim the Number 5 spot, moving up 23 places. With Greece finally pulling out of recession after six years of misery, international money is eyeing the market, and locals are very upbeat about an upturn. However, it is early days and some of the bigger real estate fish think it too small a pond for them.

Lisbon is also up 17 places to Number 9, in a further sign that Southern Europe is firmly back in the frame. And this year, Italy is very much back on the agenda. Milan is the main focus, shooting up nine places to Number 12. Rome, however, is less fancied and falls three places to Number 27 – apparently more susceptible to concerns over Italy’s fragile economy.

Regional markets are also having a renaissance. This is most evident in the UK, where Birmingham now claims Number 6, up 14 places. With London so competitive that respondents talk of bubbles and overpricing, attention is shifting to Birmingham and other regional centres – a move that *Emerging Trends Europe’s* interviewees indicate is being echoed elsewhere in Europe.

There are still good buying opportunities in Spain



Other cities, however, have not fared so well this year. One of the biggest losers is Zurich, despite Switzerland’s reputation as a safe haven with a buoyant economy. It is a very small market and there are fears that its office sector is overpriced. Consequently, Zurich drops to Number 25.

Less of a surprise is Moscow’s fall from grace, which has seen it plummet 15 places this year to languish at the bottom of the table. Since Russia’s annexation of Crimea in March, the EU and US have ratcheted up sanctions several times, tightening restrictions on major Russian state banks and corporations. Unsurprisingly, the uncertain political and economic climate has decimated the country’s real estate market.

Consequently, commercial real estate transactions in Moscow plummeted to just €2.7 billion in the first three quarters of 2014, compared with €4 billion the previous year.

As one pan-European adviser sums up: “The recovery in the capital markets started in the UK and Germany a while back but we’ve now seen a much broader spread recovery in the capital markets across pretty well all countries, almost irrespective of the economic environment. Italy, France and Spain have all picked up and that looks like it will continue. There is more capital available today than probably there has ever been and it is more diverse in its origin.”

“There is more capital available today than probably there has ever been and it is more diverse in its origin.”

Figure 1 Europe’s 10 most active real estate markets, Q1-Q3 2014 (billions)



Source: Real Capital Analytics

Figure 2 City investment prospects



	Investment	Development
1 Berlin	3.91	3.73
2 Dublin	3.83	3.65
3 Madrid	3.75	3.09
4 Hamburg	3.73	3.56
5 Athens	3.71	3.07
6 Birmingham	3.63	3.45
7 Copenhagen	3.63	3.43
8 Amsterdam	3.60	3.00
9 Lisbon	3.55	3.04
10 London	3.54	3.58
11 Munich	3.53	3.65
12 Milan	3.53	2.89
13 Barcelona	3.52	3.00
14 Warsaw	3.52	3.04
15 Stockholm	3.48	3.58
16 Frankfurt	3.40	3.08
17 Helsinki	3.35	2.75
18 Prague	3.35	3.10
19 Edinburgh	3.31	3.19
20 Istanbul	3.27	3.33
21 Brussels	3.24	3.21
22 Budapest	3.21	2.75
23 Lyon	3.18	2.79
24 Paris	3.12	2.94
25 Zurich	3.06	3.13
26 Vienna	3.06	3.06
27 Rome	2.95	2.75
28 Moscow	2.41	2.65

○ Good = above 3.5
 ○ Fair = 2.5-3.5
 ○ Poor = 1 to 2.5

Note: Respondents scored cities' prospects on a scale of 1=very poor to 5=excellent and the scores for each city are averages.

Source: *Emerging Trends Europe* survey 2015

	Amount invested	Rents	Capital values
1 Amsterdam	3.76	3.50	3.79
2 Athens	4.07	3.00	3.21
3 Barcelona	3.73	3.55	3.69
4 Berlin	3.61	3.71	3.72
5 Birmingham	3.67	3.77	3.77
6 Brussels	3.50	3.16	3.37
7 Budapest	3.72	3.33	3.72
8 Copenhagen	3.80	3.23	3.53
9 Dublin	3.59	3.92	4.00
10 Edinburgh	3.25	3.50	3.50
11 Frankfurt	3.25	3.27	3.41
12 Hamburg	3.53	3.51	3.61
13 Helsinki	3.37	2.82	3.24
14 Istanbul	3.10	3.20	3.33
15 Lisbon	3.86	3.43	3.64
16 London	3.52	3.74	3.67
17 Lyon	3.38	2.90	3.43
18 Madrid	3.84	3.63	3.77
19 Milan	3.61	3.21	3.37
20 Moscow	1.80	2.70	2.42
21 Munich	3.46	3.46	3.61
22 Paris	3.17	2.94	3.19
23 Prague	3.50	3.10	3.57
24 Rome	3.18	2.88	3.12
25 Stockholm	3.65	3.59	3.53
26 Vienna	3.12	3.06	3.38
27 Warsaw	3.44	2.85	3.38
28 Zurich	3.13	2.87	3.08

^ Increase
 — Stay the same
v Decrease

Note: Respondents scored cities' prospects for 2015 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 expectations regarding the amount of real estate investment that city will receive in 2015.

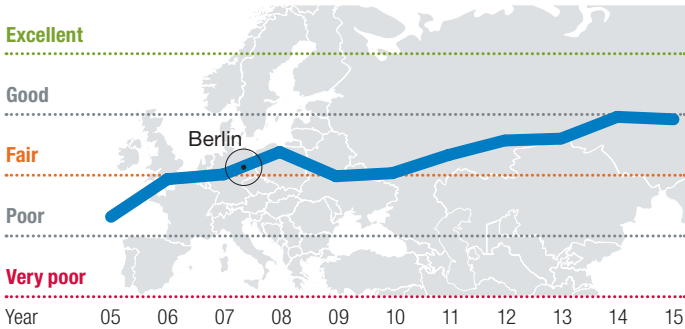
Source: *Emerging Trends Europe* survey 2015

The cities

Every year, Emerging Trends Europe analyses the real estate markets in major European cities and ranks them according to their investment prospects, as shown earlier in Figure 1. This section shows how their investment prospects have changed over time, as indicated by the respondents to the survey. The number in parentheses next to the city is its ranking for investment in 2015, while the graph shows the prospects since 2005.

Berlin (1)

Investment prospects 2015



Source: Emerging Trends Europe survey 2015

2014



Source: Moody's Analytics

Germany's capital has knocked Munich off the top spot for investment prospects this year.

"Berlin has excellent fundamentals and an extremely low level of pricing," says a pan-European investor.

Though domestic buyers have historically dominated Berlin's real estate market, that has now changed dramatically as international investors pour capital into the city; €2.9 billion of deals were transacted in the first three quarters of 2014, according to Real Capital Analytics. Some have dubbed Berlin a "jungle" due to the increased competition.

Berlin is climbing the investment charts because it is widely regarded as being more liquid than Munich and cheaper than its fellow 'Big 7' cities. So far, its real estate market is weathering the downturn in Germany's business confidence well. "The next downturn won't hit Berlin because of pent-up demand."

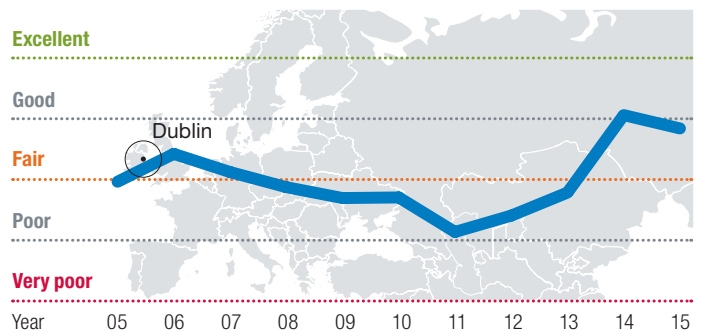
The office market is underpinned by a service-based economy; the city is a technology, media and telecommunications (TMT) hotspot. "What I like about Berlin is that any new product launch must include Berlin – tech, fashion, cars," says an interviewee.

The residential sector is also popular, in light of the city's young population and its growing reputation as a European media hub. One pan-European investor is targeting residential in Berlin and other cities in eastern Germany: "The market has been static but the demographic trends are going in favour of those cities. People want to live there again, in a way they haven't for the past 20 years."

Another investor adds: "The pricing of rental residential has gone up significantly, but compared to any city in the EU, Berlin is cheap."

Dublin (2)

Investment prospects 2015



Source: Emerging Trends Europe survey 2015

2014



Source: Moody's Analytics

Dublin is static at Number 2, following a strong year which saw a wide range of investors jostling for opportunities in Ireland's most liquid market. "However, Dublin is a small market, which is a handicap. It is difficult to invest a lot there," says one interviewee.

Nonetheless, Dublin has a good storyline: strong rental growth based on low supply, coupled with employment growth. Ireland's economy has rebounded since the crisis, and GDP growth is forecast to accelerate to 3.6 percent in 2015, making it the fastest-growing in Europe.

"Dublin's story is a good one but the depth of the market is so thin. If something is put on the market it is probably going to be over-priced, so you have to find a way to source assets at what we believe is true value," complains one investor.

A huge amount of capital has poured into Dublin already, €2.2 billion in the first three quarters of 2014, according to Real Capital Analytics. And though office rents and values are recovering strongly, they still have some way to go before they regain their pre-crisis peak.

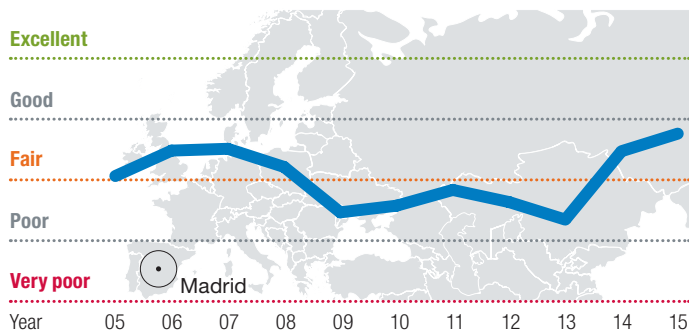
“There has been a huge upswing of activity in Ireland and we believe that this will continue for a while and then ease off. There is still quite a bit of supply to come onto the market,” says an interviewee.

Ireland’s state-run “bad bank” NAMA will be unloading more assets, which are likely to appeal to a wide range of buyers. The Irish government wants to take advantage of investors’ appetite and accelerate sales, disposing of another €6–€7 billion by 2016 and winding down NAMA completely by 2020.

Spain: Madrid (3)

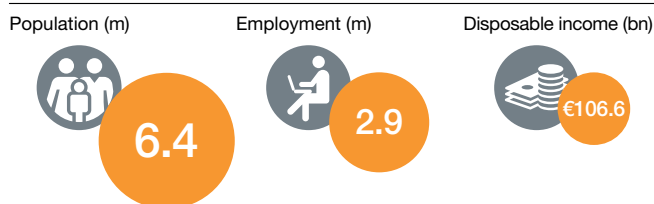
Spain is red hot with capital targeting real estate, everyone agrees. “Everybody is looking at Spain, but the train has already left the station.” “We are seeing a lot of opportunities.” “We’re waiting for occupational markets to recover. Madrid and Barcelona will go first.”

Investment prospects 2015



Source: Emerging Trends Europe survey 2015

2014



Source: Moody's Analytics

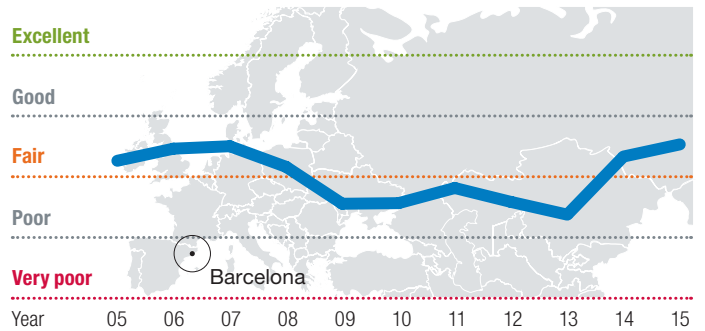
Madrid has shot up to Number 3 this year for investment prospects.

A broad range of investors, from George Soros and Chinese property group Dalian Wanda to fund managers TIAA Henderson are targeting the city. “Madrid is coming out of the crisis. Prices are coming back and the market offers a lot of opportunities,” says one interviewee.

However, others are less bullish: “It seems like the fun is over before it has begun. I’m not convinced by the fundamentals.” “There are so many investors looking that it is hard to find enough investment opportunities.”

Barcelona (13)

Investment prospects 2015



Source: Emerging Trends Europe survey 2015

2014



Source: Moody's Analytics

Barcelona also feels the heat from the intensifying interest in Spain, driving the city up nine places to Number 13.

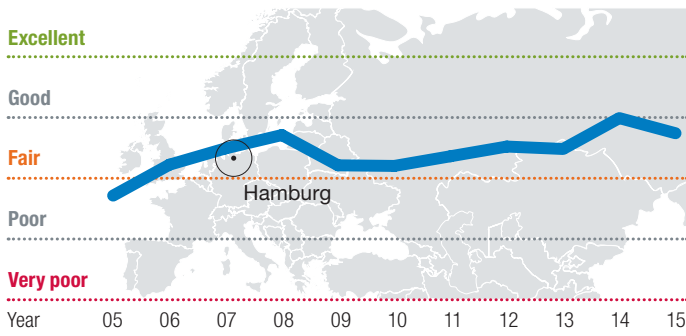
“Barcelona is a phenomenal city for tourism. It’s a relatively compact retail destination,” says one interviewee. “However, it is hard to find stock and it is undervalued on the rental side.”

Not everyone is convinced that Spain is ripe for the picking. “We have seen capital flows into Madrid and Barcelona but we have not yet seen the recovery in rental values.”

Prime rents in Madrid and Barcelona are still some 30 percent below their pre-crisis peak. However, investors are optimistic that growth might be on the cards for Madrid in 2015, at least for core and value-added offices.

Hamburg (4)

Investment prospects 2015



Source: Emerging Trends Europe survey 2015

2014



Source: Moody's Analytics

Hamburg slips one place this year to Number 4. However, this is more a reflection of investors thinking outside Germany's "Big 7" box and going to smaller, less established markets, rather than any real decline in the city's fundamentals.

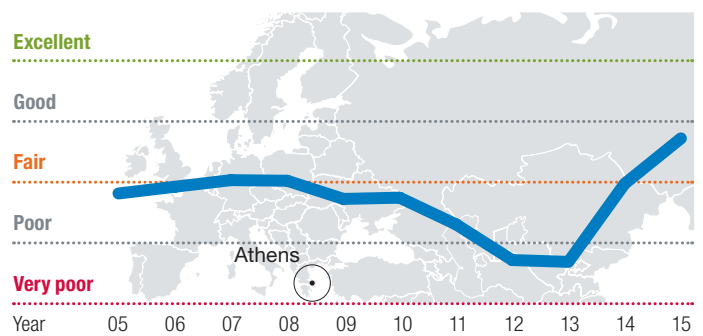
For the first time, international investors are driving the market in Hamburg; they accounted for half of the €2.4 billion of deals in the first three quarters of 2014 – a year-on-year rise of 38 percent. "We are mainly investing in big city centres like Munich, Hamburg and Berlin, which have the best prospects in Germany," says one.

Hamburg's diversified economic base helps underpin strong demand for office space. The city has earned the moniker "Germany's Gateway to the World" thanks to its port, the third largest in Europe. HafenCity - Europe's biggest inner-city development project – at 157 hectares – is well underway and will completely revitalise the former port area when it is completed in 2025, doubling the city centre population.

The residential sector is also thriving, thanks to a growing population. More than two thirds of the new residential units have been constructed in multi-family apartment buildings. The districts of Altona and Bergedorf have benefited most from new construction.

Athens (5)

Investment prospects 2015



Source: Emerging Trends Europe survey 2015

2014



Source: Moody's Analytics

The biggest mover on the list this year is Athens, which has zoomed 23 places to Number 5.

While investors have not been shy about dipping their toes into other distressed markets, notably Spain, Ireland and Italy, they had shown no interest in Greece – until now. "Greece is becoming interesting again, as the economy is slightly recovering."

Europe's hardest-hit economy remains fragile. But as Greece starts to pull out of recession, a few trailblazing investors are moving in: "an opportunity for high-yield initiatives".

Invel, set up by Chris Papachristophorou, formerly head of global opportunistic real estate investing at Deutsche Asset & Wealth Management, acquired a two-thirds stake in Pangaea, the property-holding subsidiary of National Bank of Greece, for €653 million, partnered by US hedge fund York Capital Management. Pangaea owns 269 properties across the country, mostly leased to the bank and the Greek state.

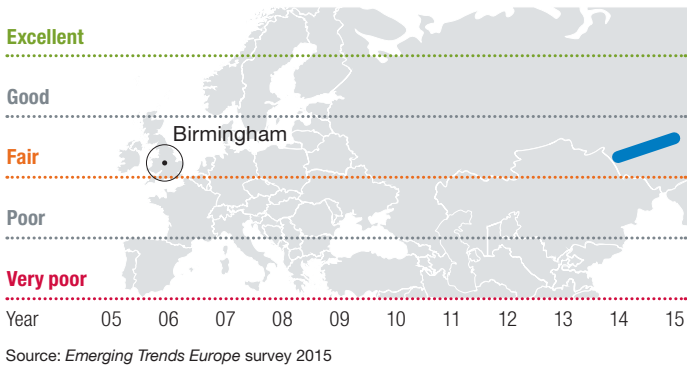
The government agency responsible for privatising state-owned assets, the Hellenic Republic Asset Development Fund, has also shifted some chunky holdings. Last year, it sold a 90 percent stake in the Astir Palace resort, which includes the Westin Athens hotel, for €400 million to a fund run by AGC Equity Partners.

There has also been movement on Athens' former airport, Hellenikon; the government fund sold the 1,500 acre site, which includes two miles of coastline, to a group of investors led by local property company Lambda Development for €915 million; Chinese investor Fosun and Abu Dhabi-based Al Maabar are partnering Lambda.

Their ambitious €7 billion project for the site will have to jump numerous legislative and other hurdles before cash changes hands; Lamda hopes to start construction in 2016.

Birmingham (6)

Investment prospects 2015



2014



Source: Moody's Analytics

The UK's second largest city weighs in at Number 6 this year. Regional UK cities, including Birmingham, are pulling in investors who are finding London too hot to handle.

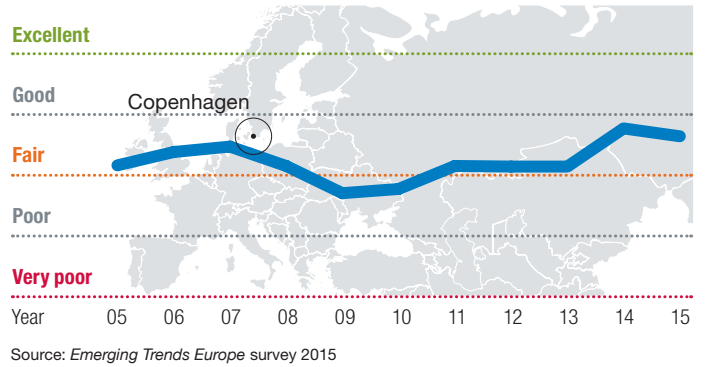
"We will start to see an improvement in values in the core regional cities – Manchester, Birmingham and Bristol – because the money is moving there," says one interviewee.

The intense competition, big price tags and low yields in London are forcing investors, both domestic and international, to widen their horizons. "Well-run major cities with good local government; leadership is a key factor impacting business prospects. This includes cities such as Birmingham, Manchester and Leeds," says a major REIT.

And it is not just equity which is targeting Birmingham and its brethren. "From a debt standpoint, I'd stay away from major markets and look at regional cities in the UK," says a lender.

Copenhagen (7)

Investment prospects 2015



2014



Source: Moody's Analytics

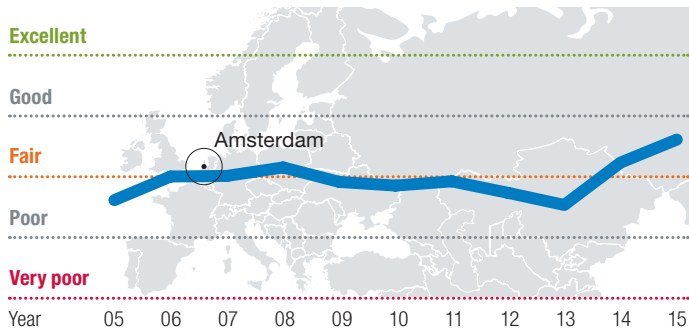
Copenhagen is up one place to Number 7. The Danish economy is fragile, but recovering; GDP growth of 1.7 percent is forecast for 2015.

Meanwhile, Copenhagen's office market remains a tale of two cities. While indications are that vacancy levels in the CBD are starting to edge down, they remain high for suburban offices. However, rents are relatively stable and a trend towards converting offices to residential in the city centre is helping to reduce the stock of vacant properties.

Investors have been focusing on retail and residential; Copenhagen's population is swelling and consumer spending is now starting to rise after a prolonged period of stagnation.

Amsterdam (8)

Investment prospects 2015



Source: Emerging Trends Europe survey 2015

2014



Source: Moody's Analytics

Amsterdam is one of the big movers this year, up 17 places to Number 8. It marks a rebound for the Dutch capital, which had fallen out of favour with investors post-crisis, due to its high vacancy rate – still almost 16 percent – in the office sector.

“The Dutch market is not as distressed as many people think,” says one investor. “There are good opportunities in the office sector and the residential sector is also worth looking at.”

The consensus is that the office market is starting to turn. Take-up is picking up, helped by some large lettings by the TMT sector. Investors, both core and opportunistic, are already active and prime assets are becoming scarce.

“For years we steered clear of the Netherlands because there was a material oversupply in core markets, but by being selective we feel more confident we can work those assets and achieve attractive returns,” says an interviewee.

Amsterdam’s residential sector is also on the up, driven by demographic changes that are boosting the city’s population. Residential rents in Amsterdam have been rising and yields sharpening.

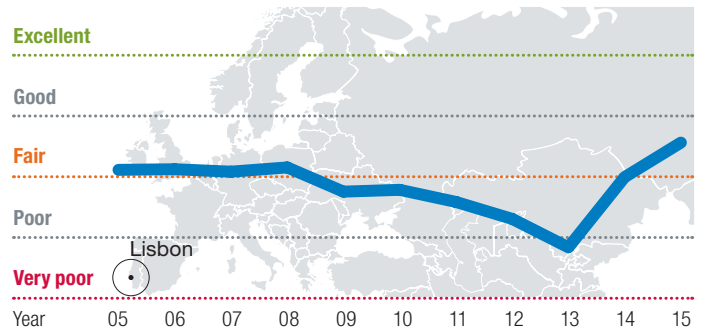
Moreover, the government has introduced a number of legislative and regulatory changes which will move the Netherlands away from its focus on owner-occupation, social housing and regulated rents.

“We are looking at Dutch residential,” says one pan-European investor. “That opportunity is driven by all the social, co-operatively owned housing associations being forced by the Dutch government to spin off their portfolios.”

The sell-off started in earnest in 2014 and is expected to continue this year and help open up the private unregulated rental market – currently only 10 percent of Amsterdam’s stock.

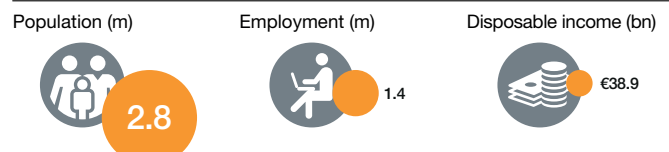
Lisbon (9)

Investment prospects 2015



Source: Emerging Trends Europe survey 2015

2014



Source: Moody's Analytics

Lisbon is up a whopping 17 places to Number 9 for investment prospects.

This zoom in ranking reflects increased interest in Southern Europe, as investors widen their remit beyond Spain. Portugal has exited cleanly from its €78 billion EU-IMF bailout and its economy is improving, with the Bank of Portugal forecasting GDP growth of 1.5 percent in 2015.

In Lisbon’s downtown, office rents have stabilised and prime yields hardened. Increasing competition for the limited number of prime assets has turned the investment market on its head. “The food chain in the market has changed, with buyers at the bottom and sellers at the top.”

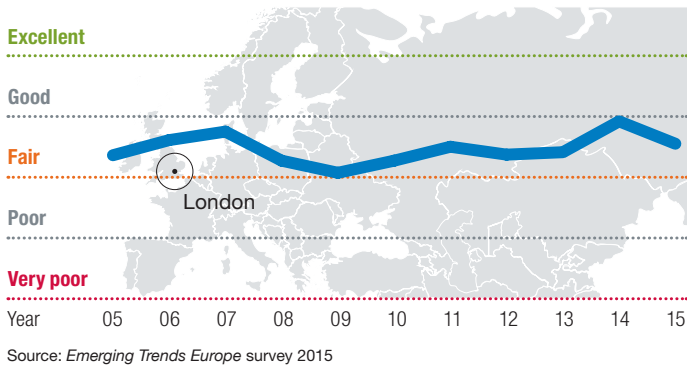
International investors are driving the market, but those looking for big-ticket deals will struggle to find them, says one interviewee.

Prime Portuguese retail appears to be a bright spot. “Retail sales are up, which could push rents up,” says one interviewee. “Shopping centres in the city centre of Lisbon and further out offer good investment prospects if they have a broad mix of tenants and are in a good catchment area.”

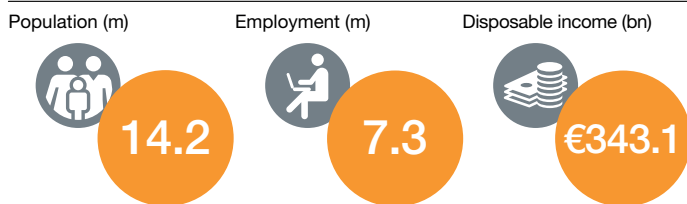
In addition, the Portuguese government’s decision to introduce “golden visas” – or a resident’s permit – in 2012 to buyers who acquire a property valued at €500,000 or above, is attracting in foreign capital. “Chinese investors and developers are looking to be active in Portugal and will even buy land to develop,” says one interviewee.

London (10)

Investment prospects 2015



2014



Source: Moody's Analytics

This year, London is polarising opinion. It is either “Number 1, no doubt about it” or “very expensive” and “has run out of steam”.

While it remains Europe’s most liquid real estate market – and the first port of call for international investors – its new ranking, down five places to Number 10, reflects concerns that the market has overheated.

“In terms of economic growth and activity, London is hard to beat,” says one interviewee. “However, we don’t always like the pricing.”

In particular, the office sector and West End retail are under fire for being too expensive. Prime office yields in the City of London stood at 4.25 percent by late 2014, compared with 4.75 percent a year earlier. “It’s a good time to sell in London. It’s peaking now so we have low expectations.”

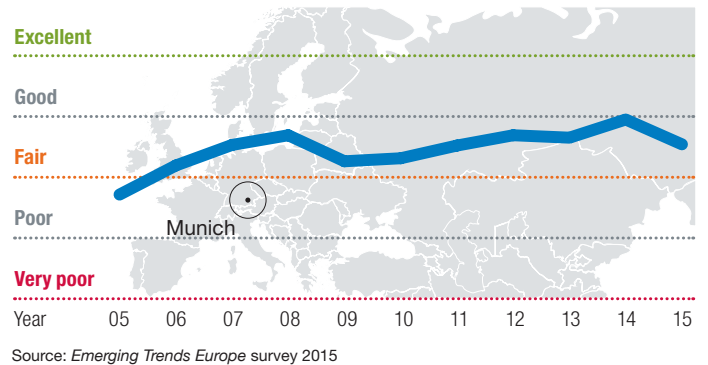
Some are opting in favour of the CBD fringe, where there are still growth prospects. There has also been a sharp rise in demolitions and construction starts as developers race to deliver buildings while supply remains tight.

Others are turning their back on the capital for regional cities that offer less competition and higher returns: “London is spilling out into the regions with a particular focus on the South East and Birmingham.”

A similar regional drift of capital is possible for residential following concerns over pricing in central London’s housing market. But demographic trends are persuasive for many investors. “We believe in London,” says one REIT. “We believe that it is attracting people from the rest of the country and the rest of the world and therefore there is a need for housing – and housing that is appropriate to the young professionals coming in to work in London.”

Munich (11)

Investment prospects 2015



2014



Source: Moody's Analytics

Munich drops 10 places to Number 11. This year, the Bavarian capital lost its top billing to Berlin, which is widely viewed as more liquid and considerably cheaper. “Irrationally high price levels, gradual decline expected,” says a local.

With the German market generally being so competitive, other cities that are reckoned to offer easier and better pickings have leapfrogged over Munich.

The city has long been popular, thanks to its strong office and retail markets, coupled with a robust economy. However, the investment landscape is shifting in Germany. While its “Big 7” cities remain attractive, some investors are moving into smaller regional cities that offer higher returns and more diverse opportunities; other, more footloose money, is looking elsewhere in Europe.

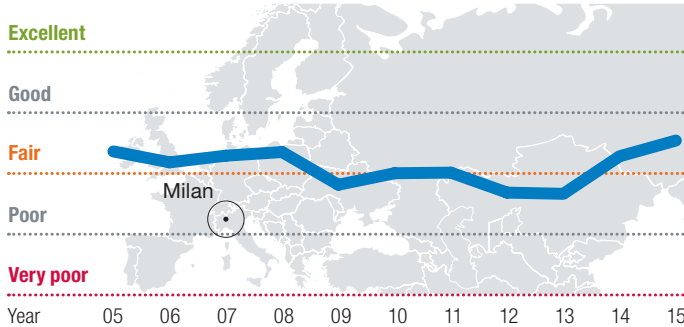
Nonetheless, Munich remains on many people's hit-list. Their thinking: “The European cities that offer the best prospects are those which combine profitability, liquidity and fewer risks. That is to say London, Paris and Munich.”

Italy:

Italy is the next big thing. Spain has become hot and crowded, Greece is too far away and still not warm enough, so going by *Emerging Trends Europe* interviewees, a large part of Europe's real estate industry is targeting Italy. "The real estate temperature is warm and getting warmer," says a local.

Milan (12)

Investment prospects 2015



Source: *Emerging Trends Europe* survey 2015

2014



Source: *Moody's Analytics*

Despite Italy's weak economy and uncertain political climate, investors are showing a new appreciation for Milan.

"It's a rich part of Europe and it will come back at some point. We're interested in offices and out of town retail," says an interviewee. The city is up nine places to Number 12 for investment.

For now, Milan's office investment market is running ahead of the occupational one, so though rents are flat, yields have hardened. "It is a stable market with little volatility and not too expensive yet," says an interviewee who is "very keen" on the city.

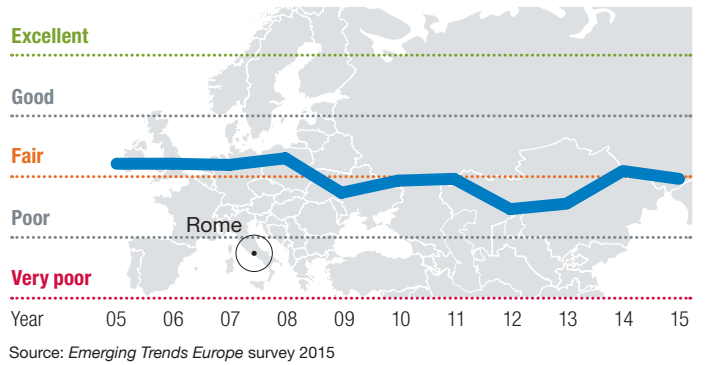
"Milan is a priority," says another, pan-European investor. Others who share this enthusiasm include serial buyer Qatar Investment Authority. Having earlier taken a 40 percent stake in the massive Porta Nuova development, the sovereign wealth fund has bought Credit Suisse's Italian headquarters from Tishman Speyer for a reported €108 million.

Logistics properties in the city are also becoming popular. "In the next 12 months, logistics in Dublin is the top choice, followed by logistics in Milan," says one interviewee.

For others, residential investment is on the cards. Office to residential conversions are becoming more prevalent in Italy, with fund managers acquiring properties in both Milan and Rome. In Milan, residential prices per square metre are higher than for offices.

Rome (27)

Investment prospects 2015



Source: *Emerging Trends Europe* survey 2015

2014



Source: *Moody's Analytics*

Rome falls three places in the investment rankings to Number 27, with sentiment clouded by Italy's economic woes. Office vacancy has risen as companies release space, and rents are feeling the downward pressure.

Much like the better-performing Milan, Rome's office sector is largely an opportunistic play and though there are signs of interest from core investors, opportunities are limited. The European Banking Authority's recent asset quality review and stress test spotlighted the capital shortfalls in Italy's banks, putting pressure on them to clean up their balance sheets.

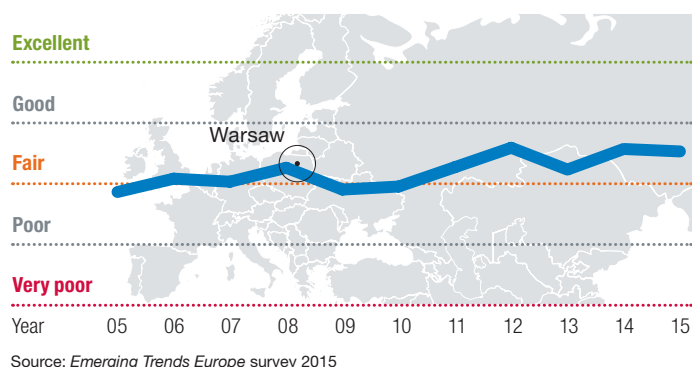
"This could be a catalyst for more activity where there are a lot of non-performing loans that will have to be recycled," says an interviewee.

"The problem with Italy is a lot of investors are interested but they don't trust the government enough yet to deploy capital. But I think they will. I can see things improving," says a pan-European fund manager.

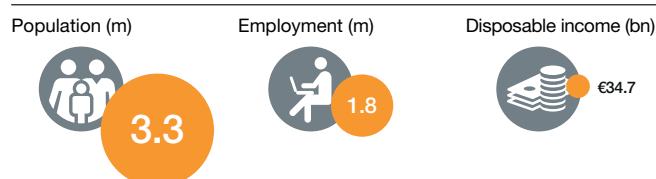
High street retail is generally performing better than a year ago, although the forecast recovery in retail sales has yet to materialise. However, the luxury segment of the market remains active and has even seen some rental growth in premier locations over the past year.

Warsaw (14)

Investment prospects 2015



2014



Source: *Moody's Analytics*

Poland's capital drops three places this year to Number 14, but "Warsaw is still in a strong position".

The country's robust economy and political stability continues to attract both existing and new players. Warsaw is the dominant market in the CEE region, and saw €2.5 billion transacted in the first three quarters of 2014. "It offers good opportunities because of strong population growth."

International players are pre-eminent, accounting for around 90 percent of Warsaw's real estate deals. "The real estate market in Poland is very good," says one interviewee. "There is a lot of money going into real estate but I think we'll see pressure on yields in 2015."

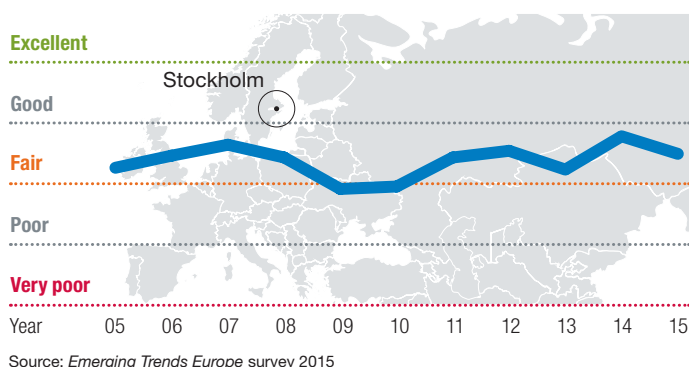
Though the occupational demand for offices is healthy, there are concerns about "a huge amount of speculative new supply coming up". "There is some oversupply and rents are under pressure."

The residential sector in Warsaw still has "huge potential", according to one interviewee, who cites the need for more affordable middle class housing in the city.

And while Warsaw remains popular, there is a shift into regional Polish cities as investors look for higher returns. "They are very small markets, but the tenant base is very strong," says an interviewee. "It's a very positive trend that investors are looking at secondary cities and less obvious locations," says another.

Stockholm (15)

Investment prospects 2015



2014



Source: *Moody's Analytics*

Stockholm has slipped down six places to Number 15 but despite this fall the Swedish capital, like all major Nordic cities, remains on the radar for international investors.

Sweden is the most transparent market in the Nordic region, and is expected to benefit from GDP growth rising to 3.3 percent in 2015, well above the Eurozone average.

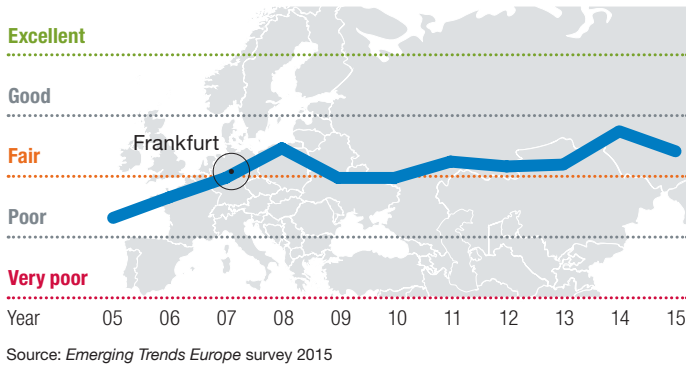
Domestic demand has been the key driver behind the Swedish economy. There was a huge amount of construction activity in 2014, particularly in the residential sector, which is expected to lead to a housing investment surge of 18 percent in 2014 – the biggest increase in 30 years. "Stockholm is excellent for residential," says one developer. "Many large and interesting projects are in the pipeline."

Stockholm's office market remains stable, with low vacancy rates and rising rents in the CBD. There is also a trend for companies to relocate from city centre buildings to more efficient ones in the suburbs; SEB, one of northern Europe's biggest banks, plans to move several of its offices to Solna, a district just north of Stockholm's city centre, in 2017.

However there is still a shortage of investment opportunities, which has led to a number of deals where investors swap properties with each other. One interviewee adds: "We will probably see more yield compression in the outer areas of Stockholm. This will, of course, lead to higher rent levels and lower vacancies."

Frankfurt (16)

Investment prospects 2015



2014



Frankfurt has fallen out of the Top 10 this year and is down six places to Number 16.

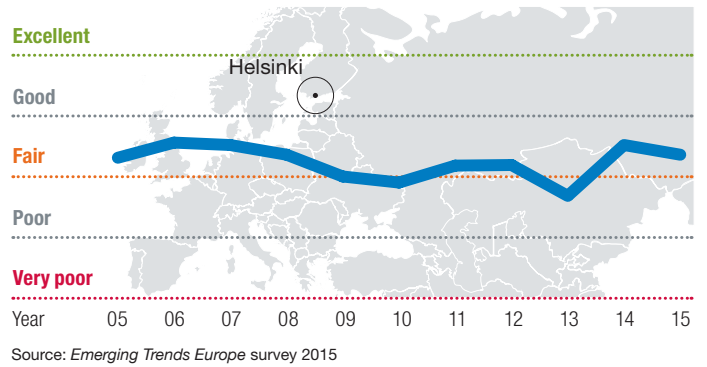
Nonetheless it is still fancied by many, who put it on their wish-list alongside Paris, London and Berlin. "There's a great dynamic in Frankfurt, it's very international and offers good investment opportunities," says an interviewee.

Frankfurt's residential sector is also enticing investors, thanks to an increase in housing development that has been planned to keep pace with the city's growing population.

Investors looking to tap into the cycle should look for the "edge" between prime and a little further out, says one interviewee. "That fringe area will be back."

Helsinki (17)

Investment prospects 2015



2014



Helsinki slips two places to Number 17, although Finland's recovering economy is attracting international investors.

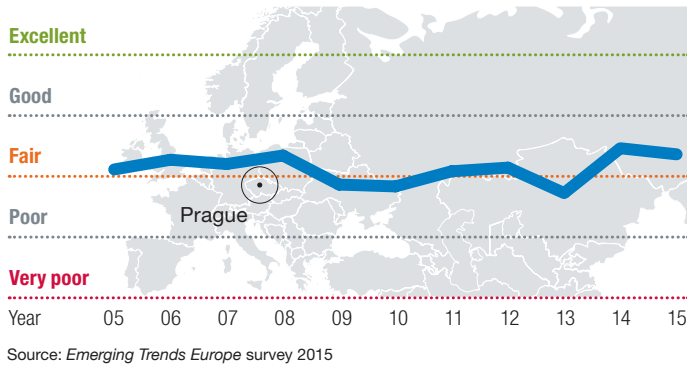
A total of €1.25 billion worth of real estate deals were done in the first half of 2014, up from €800 million in the same period a year earlier. International investors accounted for half of the deal volume, according to Colliers, with German and Swedish real estate funds particularly active in the market.

More than 60 percent of deals in 2014 were transacted in the Helsinki metropolitan area. Prime assets still dominate the market, given that it is hard to get financing for secondary assets. There is also a sizeable gap between buyer and seller expectations for secondary properties.

The retail sector continues to lag the office sector and consumer confidence is at a similar level to a year ago. Average disposal income has not grown much in the past year, due to very small increases in wages, if at all.

Prague (18)

Investment prospects 2015



2014



Source: *Moody's Analytics*

Prague falls two places to Number 18 despite the Czech government forecasting national GDP growth of 2.7 percent in 2015 on top of 2.5 percent growth in 2014.

The Czech Republic is attracting investment across all real estate sectors. Some €680 million of deals were transacted in the first half of 2014 – the highest level in three years and representing, according to Colliers, 18 percent of investment volumes in Eastern Europe.

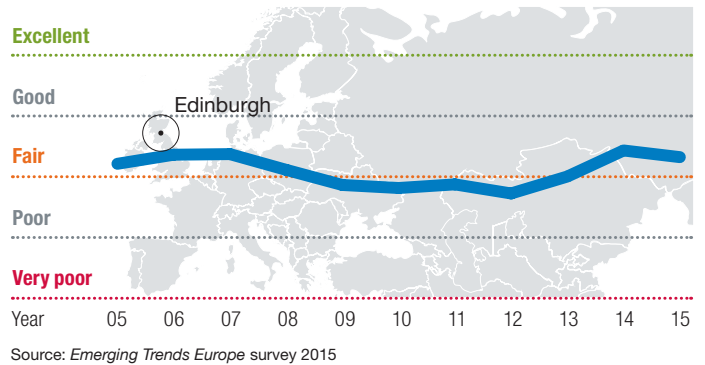
“In terms of CEE, some funds are looking there because of the perception that there is less competition and it is an easier and more stable market than Italy,” says one interviewee.

Offices remain the most popular asset class, accounting for 56 percent of deals in the first half of 2014. Significant deals included the purchase of City Tower by PPF for around €130 million and the acquisition of Palác Křižík on behalf of Generali’s ČP Invest fund for €75 million.

Investors and occupiers alike are homing in on well-located offices in Prague’s main office districts 1, 4 and 5. Institutional investors have also shown themselves to be willing to take on refurbishment risk, such as with Praha City Centre. Prime yields have begun to tighten across all sectors, despite a lack of benchmark deals.

Edinburgh (19)

Investment prospects 2015



2014



Source: *Moody's Analytics*

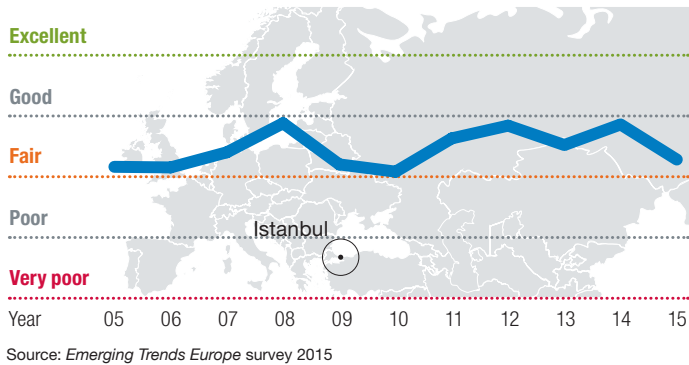
Edinburgh is down two places to Number 19 for investment prospects, as many investors sit on the fence following Scotland’s recent referendum vote to stay in the UK.

“There does seem to be some stability in Scotland, post referendum,” says one interviewee. “However, there is still an underlying question of what next? It is still a brave person to invest in Scotland right now. There is too much uncertainty there.”

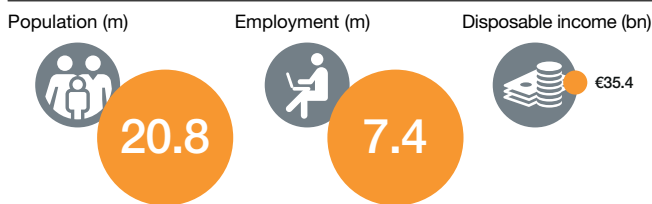
Others are more bullish. “Edinburgh will be interesting. The city has been relatively moribund in the run-up to the independence referendum, but I suspect that if more power is devolved to Edinburgh then investors may start looking at it as a city to start growing again,” says one interviewee.

Istanbul (20)

Investment prospects 2015



2014



Turkey's economy is facing a "correction" this year, which is expected to hit both the office and residential sectors. As a result, Istanbul has tumbled 13 places to Number 20.

The fall is unsurprising, given political developments in neighbouring Syria and Iraq, which continue to have an impact on the Turkish economy. However, the removal of uncertainty over the identity of the Prime Minister and cabinet following the presidential elections in Turkey in August has eased political risks.

Istanbul remains a small market and is hindered by the lack of institutional-grade stock; in the first three quarters of 2014 €463 million changed hands.

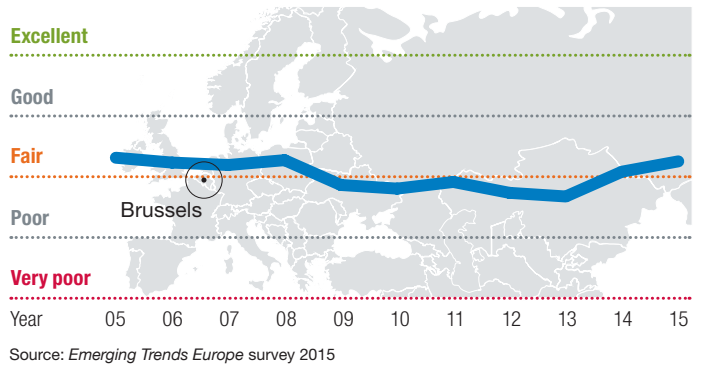
Nonetheless, Turkey's business capital is generally quite popular with investors. "Istanbul has a lot of growth potential," says one interviewee. "Projects are coming alive in prime locations."

One sector that is gaining traction and could appeal to institutional investors is student housing. Growth in this sector is driven by demand for higher education as a result of Turkey's young and growing population and increasing household incomes.

Dubai-based private equity firm the Abraaj Group has already bought a number of student housing properties in Turkey in the past 18 months. The investments include properties in Ortakoy and Buyucekmece – both strong catchment areas for students in Istanbul. "It's still a small market but student housing is becoming popular," says one interviewee. "There are more students now in Istanbul than in London."

Brussels (21)

Investment prospects 2015



2014



Brussels is up two places to Number 21, reflecting the city's position as a major political hub and the fact that prime office yields are holding firm at 6.25 percent.

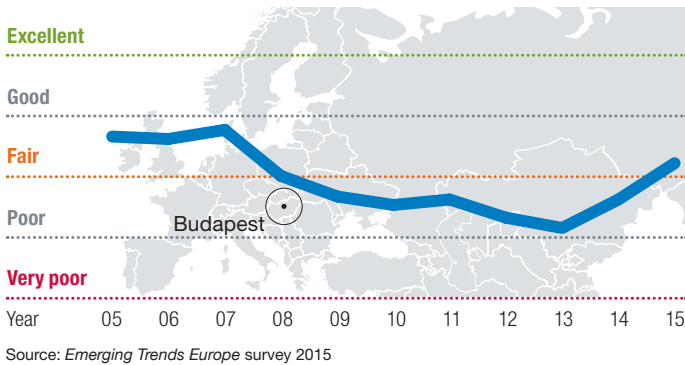
However, *Emerging Trends Europe* interviewees are concerned about the lack of Grade A space in the city's CBD, which is a problem for both tenants and investors. The supply issue is compounded by the lack of construction in the past few years. Offices in more peripheral areas are also hard to let and feeling the strain.

Office deals were down 53 percent during the third quarter of 2014, with no major transactions. There were a number of mid-sized deals, however, including GLL Real Estate Partner's acquisition of the 23,368 square metre Platinum office building in CBD Louise for €90 million. Yields for decentralised and periphery offices softened in the second half of 2014, to 8.25 percent and 8.5 percent respectively, according to Cushman and Wakefield.

As with many Eurozone countries, economic activity is weak in Belgium, which is putting pressure on the retail market. High-street rents are still under downward pressure, making the market increasingly tenant-friendly. Expectations are that GDP growth will rise to a modest 1.5 percent in 2015.

Budapest (22)

Investment prospects 2015



2014



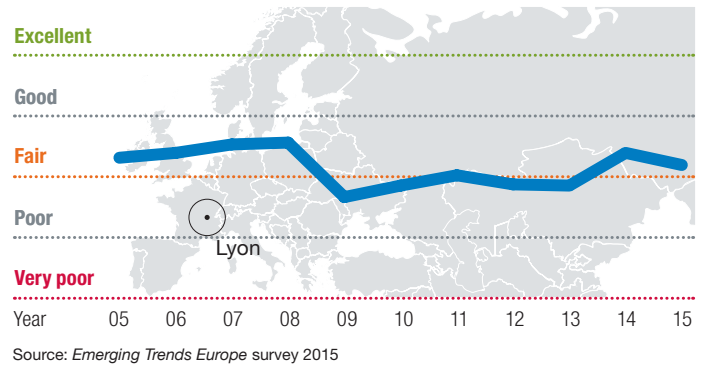
Budapest has jumped five places this year to Number 22, as investors widen their net in Central and Eastern Europe. Strong GDP growth is also fuelling investor interest, with 2.5 percent forecast for 2015. Even so, the country remains one of the most indebted in Europe.

“Hungary is distressed,” says one interviewee. “In the past five years, not much has happened on the investment front. It is now attracting opportunistic buyers who are looking for higher yields and value-add products.” Prime office yields are currently around 7.5 percent, and 7.25 percent for retail assets.

“I’d encourage investors to enter Budapest because of its pricing levels,” adds another interviewee. “It’s a really attractive yield level and we expect rapid compression to reflect the upside in value.”

Lyon (23)

Investment prospects 2015



2014



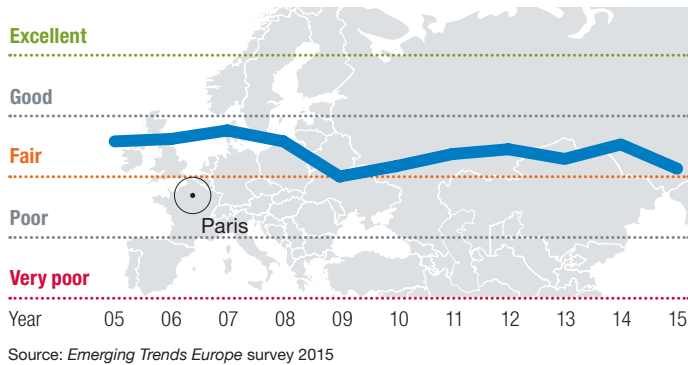
As France’s second business capital, Lyon is the main recipient of real estate capital invested outside Paris. However, a gloomy national economic outlook has helped send the city down five places this year to Number 23.

In the first three quarters of 2014, Lyon accounted for more than 50 percent of the €750 million invested outside Paris, according to Cushman and Wakefield. Prime office yields in the city continue to hover around 5.75 percent.

Given that Lyon is at the crossroads of highways linking it to Paris and other major cities, its logistics market is popular. The diversity of the city’s economy – it is best known for its pharmaceutical and biotech industries – also underpins both the office and logistics sectors.

Paris (24)

Investment prospects 2015



2014



Paris falls 10 places this year to Number 24, reflecting investors' mixed views on France's premier market.

"Exit core – prices are already too high," says one. "La Défense is like catching a falling knife," says another.

But for every bear, there's a bull. "Core Paris has been remarkably resilient and I think there will be opportunities in Paris for value-add strategies."

France's deepening economic and political turmoil is clearly spooking some investors. President François Hollande is deeply unpopular and his government has failed to revive the stagnant economy; France's GDP is forecast to grow by 0.7 percent in 2015. Political flip-flops on taxation have also unsettled the business community.

"I would stay away from France," says one investor. "Paris is interesting, but overshadowed by French politics."

"In terms of lending in Paris, there are fundamental concerns about the socialist government, and groups moving their capital out of there," says an interviewee.

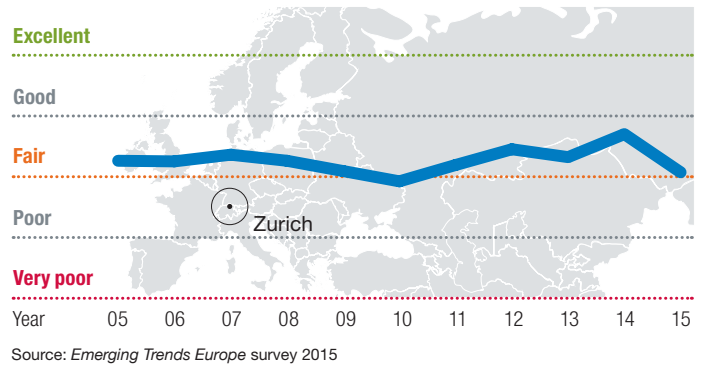
Paris' fans take a different view. They "don't think France will be going down the tubes" and that the country will tackle its economic problems: "It will take time and they will do it in a French way."

"Paris is back on the map for us," says one pan-European fund manager. "In investment you need to be a little contrarian. Nobody is looking at Paris and maybe that's why we should be."

Another interviewee adds: "Central Paris is incredibly strong in terms of investment. Pricing is strong and similar to London. I think a lot of capital will just move more towards the edges. I see a much greater risk investing in Germany's secondary cities, for instance, than going into the edges of Paris."

Zurich (25)

Investment prospects 2015



2014



Zurich is one of the big downward movers, dropping 19 places to Number 25 despite Switzerland's reputation as a safe haven that is broadly immune to the cyclical swings of the Eurozone.

There are growing concerns that the real estate market has got ahead of itself in Zurich and other key cities. "I'd advise clients to avoid offices in Geneva because they're overpriced. I also wouldn't recommend Zurich from a pricing perspective," says one interviewee.

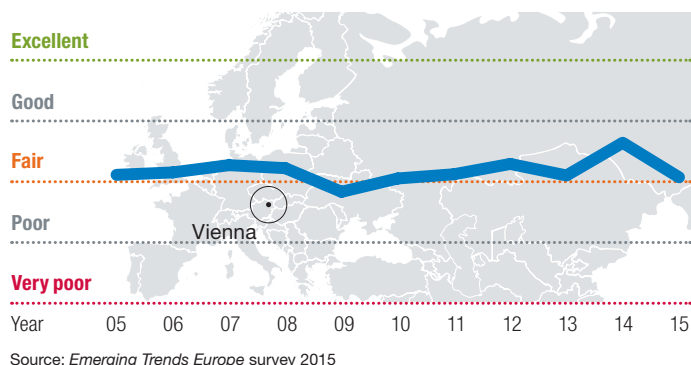
Office vacancy rates have risen as occupiers consolidate their existing space to cut costs; prime rents are down 1.3 percent on a year ago at CHF750 per square metre per year and demand is shifting to small office units.

In addition, Zurich's office market may be feeling the impact of a controversial anti-immigration initiative that won the backing of the Swiss electorate by a slim majority in February 2014. The proposal to introduce immigration quotas effectively reneges on a free movement accord with the European Union.

The greater Zurich area has become a banking and biotechnology hub, with many global firms based there. Both these sectors depend heavily on foreign workers, and difficulties in getting work permits could impact on office take-up.

Vienna (26)

Investment prospects 2015



2014



Against a gloomy economic backdrop and weak tenant demand, Vienna has dropped 14 places this year to Number 26.

Many office tenants are unwilling to relocate until the business environment becomes more upbeat, so demand is currently being driven by space consolidation as well as rent reviews. The development pipeline, meanwhile, is not expected to gain momentum over the next 18 months.

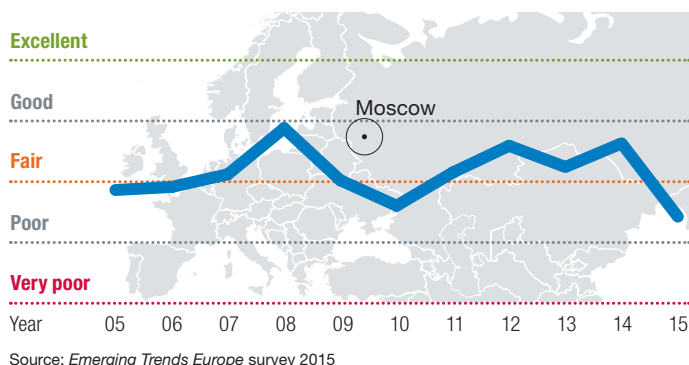
Most recent lettings have been small, with the exception of KAV taking around 5,000 square metres in Vienna's Florido Tower.

However, it was the Vienna office market's low volatility and prospects for capital appreciation that tempted Germany's Union Investment to pay €185 million in November 2014 for the 51,584 square metre Space2move office property in the city's Norden area.

Prime rents in the centre of Vienna have remained stable at around €300 per square metre a year but could rise in 2015 if, as some interviewees believe, competition intensifies. "Vienna offers some very good prospects for the upcoming future, due to high demand and the relatively low property development," says one.

Moscow (28)

Investment prospects 2015



Moscow plummets 15 places this year to languish at the bottom of the table. Russia's annexation of Crimea in March and the continuing conflict with Ukraine has sent the capital's real estate market into a tailspin.

The sentiment expressed by *Emerging Trends Europe* interviewees is overwhelmingly negative. "Weak prospects today and getting worse," sums up the general view.

"If the geopolitical environment stays as it is, it will be bad," says one interviewee while another warns: "There is going to be a shakeout given that a lot of the assets that have rouble incomes have dollar debt."

The IMF is forecasting GDP growth of just 0.5 percent in 2015, a gloomy outlook that is compounded by volatility in the rouble exchange rate.

Moscow continues to dominate the market, accounting for 85 percent of real estate investment in the first half of 2014. The hotel and office segments led investment in the first half of 2014, accounting for 37 percent and 24 percent of deals, respectively, although the sale of an 84 percent stake in Hotel Company – which manages several hotels in Moscow – inflated the figure for hotels. Overall, commercial real estate volumes in Russia plummeted to just €2.76 billion in the first three quarters of 2014, compared with €5.67 billion in 2012, according to Cushman and Wakefield.

Even Russia's once-buoyant retail sector is feeling the pain. Consumer spending has declined for the first time since 2009 as the result of the weak rouble and high inflation of 9 percent.

While Moscow remains the number one investment market in Russia, many domestic players are now foraging outside their troubled home market. "A lot of our clients are increasingly looking at investment in Europe. The easy targets are London and Germany's top four or five cities," says one interviewee.

Chapter 4

Creating places to live



Residential investment has become an increasingly important part of *Emerging Trends Europe's* narrative over the past few years. Investors are looking beyond commercial real estate, developers are embracing mixed-use schemes and housing has moved up the political agenda.

68%

are involved in residential – mainly building for sale.

“There is a feeling that it is a very safe and diversified investment and I see a lot of capital trying to enter the sector,” says a global investment banker.

This year, *Emerging Trends Europe* asked Europe’s real estate industry some specific questions about the sector. The answers reveal a mixed view.

It is widely acknowledged that there is a serious supply-demand imbalance across many European cities. But there is less unanimity about whether this makes for a good investment opportunity.

Two thirds of survey respondents report housing shortages in their markets, and many interviewees describe a shortage of affordable housing as part of a wider urbanisation trend. “The lack of housing will be a constraint on growth” for Europe’s major cities, they warn.

Two thirds of respondents are also involved in residential – mainly building for sale. And of those not already in the sector, 15 percent are considering some form of investment. Supply shortages are clearly informing their decisions. For these converts to the residential cause, the degree of support ranges from the pragmatic to the evangelical.

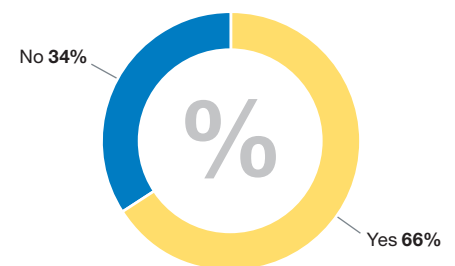
“Private capital follows a path of least resistance, and the residential market has been a one-way bet because it is under-supplied,” says the CEO of a UK REIT.

The real estate industry has been “too narrowly focused on commercial property when so much of the built environment is residential”, says a fund manager who invests in all aspects of residential, including social housing. “There is a big question about affordability and fairness in society, which shapes our view in how we invest.”

A pan-European asset manager says: “We definitely look at the supply/demand dynamics in Germany, but the reason residential is a successful asset class there is partly cultural. The Germans like to rent rather than buy real estate, and so it is an established market. There is enough stability of cash flow.”

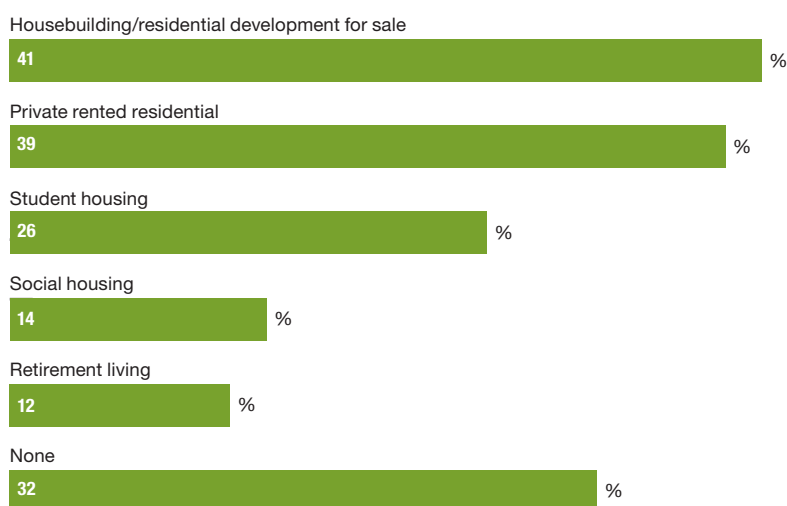
Such stable income helps make private rented residential attractive to investors across Europe, albeit still lagging behind housebuilding as the most popular area of residential activity.

Figure 1 **Housing is in short supply**



Source: *Emerging Trends Europe* survey 2015

Figure 2 Sectors of residential business activity



Source: *Emerging Trends Europe* survey 2015

But building a pan-European portfolio of residential is difficult. Laws, regulations and risk vary by country. “There are only a very few asset managers who are able to execute a pan-European strategy with all the people on the ground,” says one interviewee. Another adds: “Only Germany offers large-scale, established and well-organised residential investment and with quite interesting yield and low vacancies.”

For respondents, by far the biggest reason for avoiding residential is lack of expertise. “It is very dangerous to assume that because you have some expertise in commercial property that you can go and do residential. It is not just the management costs and processes that are different. Construction costs, the behaviour of tenants and investments over the long term and the economic influences over residential are all very different.”

Opinions on rental returns also vary widely. One German interviewee’s “rock solid cash flow” sums up why many want to enter the sector and yet 23 percent of respondents cite low returns as a reason to steer clear. The difficulties in attaining large-scale investment – and therefore economies of scale in management – tend to depress returns.

“Unless it is a very big scheme, most developers are building to get out at the end – they don’t want to hold the stock,” says a global adviser. “The reality is that capital growth plays a big part in attracting entrants to the sector. For most developers that are doing mixed-use schemes, residential is just such an attractive component in terms of value compared with commercial use.”

Indeed, a third of respondents point to the growth in mixed-use developments as a reason to consider residential, second only to the sector’s diversification benefits. “If you develop in London then

“The reality is that capital growth plays a big part in attracting entrants to the sector. For most developers that are doing mixed-use schemes, residential is just such an attractive component in terms of value compared with commercial use.”

you have to develop mixed-use schemes,” says one interviewee. “We’ve turned the necessity into a virtue.”

Where the sceptics see only barriers to entry, the converts see a market of opportunity in 2015 and beyond. Or to be precise, four principal markets: Germany, the UK, the Netherlands and Spain.

If anything, the most enthusiastic supporters of residential investment come from outside Europe, including sovereign wealth funds from Asia and the Middle East. Qatari Diar was a notable early mover in 2011 when with Delancey it paid £557m for the 1,400-unit, former Olympic Village in east London. That was a rare UK opportunity to buy big, and the investment has reportedly since doubled in value.

“At any one time we’re always got one large fund of some kind or another in discussion about trying to do something together,” says one interviewee. “The type of assets they would like to buy is not out there – they need scale.”

Fragmentation remains problematic, but despite that and all the other perceived issues, survey respondents are remarkably confident about the sector’s investment and development prospects for 2015. Retirement living, housebuilding, private rented and student housing all out-rank mainstream commercial asset classes.

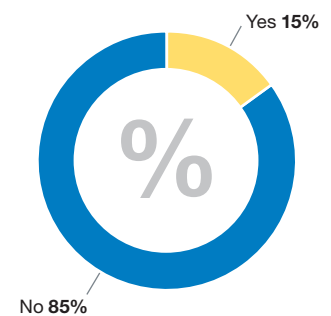
The long-term income provided by student housing finds favour with many institutional investors across Europe and particularly in the UK. “Demand for accommodation is strong, international student applications are increasing year on year and from a broader base of countries,” says one investor. “The market share that the UK achieves is growing faster than any other country and is driven by support from the government.”

In fact, two-thirds of survey respondents believe public sector involvement in housing generally will increase. France is the notable exception, where nearly all interviewees complain that government policy is acting as a disincentive to invest in housing.

Among the expectations for 2015 are: mortgage guarantees underwritten by government, greater use of local authority land and resources in housing development and an increasing role played by social housing providers in the private rented sector.

Some fear that greater government involvement in housing will mean more regulation, as seen with the recent moves for rent controls in France. But as one interviewee says: “If you really want to produce massive amounts of housing, the government must get involved.”

Figure 3 **Not currently active in residential but considering it**



Source: *Emerging Trends Europe* survey 2015

Germany

Germany is Europe's biggest residential investment market, and after a spate of stock market flotations by its leading landlords in 2013, has settled into a period of relative calm.

"It is one of the few markets where you have the concept of these large landlords that can offer substantial and sustainable cash flows that are not in any way over-valued," says one interviewee. "The downside risk is very low."

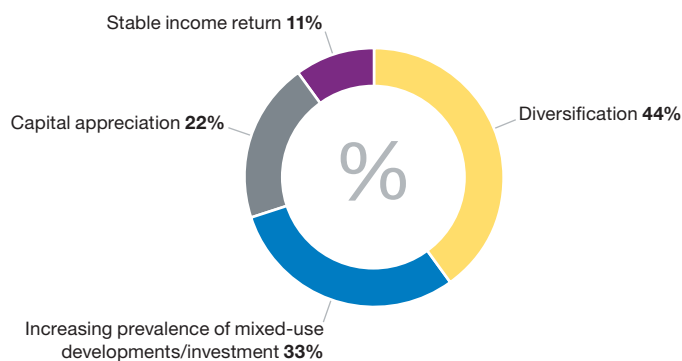
Despite the weak economy, tenant demand remains high across Germany's "Big 7" cities, allied to a low level of rent as a proportion of disposable income.

"It's a very sustainable investment," says one interviewee. "The risk is that investors look for yield, and if they feel there are acceptable safety levels and more growth in other markets they may be prepared to pull out of Germany."

The more opportunistic capital has already left. "In terms of residential, Germany is not a market for us now. We have actually sold out of that market because of the way values have risen," says a global fund manager.

Several interviewees point to growing home ownership in Germany, but that is a long-term trend. It is more likely that 2015 will be enlivened by mergers and acquisitions among residential landlords, following Deutsche Annington's recent takeover of Gagfah.

Figure 4 Reasons for considering residential



Source: *Emerging Trends Europe* survey 2015

"I think we will see consolidation among the listed companies – some don't have the necessary scale. There are going to be one or two winners," says a global investment banker.

"They are performing extremely well and will continue to be strong performers. They have established themselves in terms of leverage, the management has been professionalised significantly and they are attracting a lot of interest from both institutional investors and ultra high net worth individuals because of the sophistication of the sector and how safe that investment seems to be. I think that will continue."

UK

With a general election in May 2015, the UK's main political parties are promising to address the country's acute housing shortage. However, their track record to date has left the industry sceptical.

The coalition government's flagship Building to Rent fund has been "extremely slow" to take off. Fears over Labour's proposed "Mansion Tax" for properties worth over £2m have depressed sales in London although the impact has been softened by the government's recent stamp duty reforms.

Much of the rhetoric revolves around the need for a well-managed, private rented sector (PRS). And despite the political uncertainty there is, as one interviewee suggests, "institutional momentum behind residential investment".

In the past year, UK institutions M&G Real Estate, Legal & General Property, Hermes Real Estate and Aviva have publicly stepped up their commitment to social housing or the PRS. More are expected to follow.

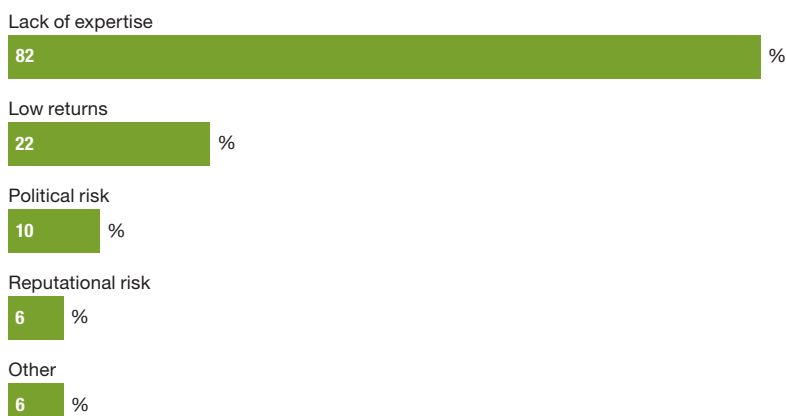
Many overseas investors are treading the same path, most recently Greystar, a leading US housing group, which has expanded rapidly in UK student accommodation and publicly declared similar ambitions for the PRS.

"To us it feels very obvious that the rental market will be a long term asset class in the UK," says one overseas interviewee. "This is not a one or two-year trade. This is a move in the market we believe will change the way people live and choose to live."

A build-to-rent model is increasingly favoured as the means of achieving scale. Major regional cities stand to benefit, as some interviewees believe that PRS development is already "priced out of London" because of high land values.

Even so, one fund manager says: "Over the last 10 years the PRS has almost doubled in size and I expect it to do so again simply because of the barriers of affordability and the limited number of people who can buy."

Figure 5 **Reasons for avoiding residential**



Source: *Emerging Trends Europe* survey 2015

Residential is now an attractive asset class for investment



The Netherlands

Overseas investors have made a high-profile return to the Dutch residential market, following reforms to the private and public housing sectors.

“We’re seeing a stabilisation of the Dutch residential market. Investors think it is poised for a rebound.”

The government has eased rent controls in the private rental sector and at the same time forced cash-strapped housing associations to sell assets, in what is a marked contrast to their more expansionist, cash-rich UK counterparts. The reforms, coupled with a housing shortage and population growth in the major cities, have reignited interest in the Dutch market.

“The Dutch rent-controlled market is restructuring so we’re seeing a lot more foreign investors buying Dutch residential. We’re looking to finance some of those acquisitions and we will,” says one pan-European debt provider.

The UK private equity firm Round Hill Capital and German investor Patrizia were early movers in 2014, paying €180 million and €578 million respectively for portfolios of 1,534 units and 5,500 units.

Until these deals, the market had been relatively subdued. But housing associations are expected to sell more rental stock in 2015, with overseas investors facing renewed competition from domestic institutions. “It’s a nice stable investment and a good diversifier,” says one Dutch fund manager.

Another interviewee says of this market: “If you want to have a big stake in European residential, it’s one of the easiest buys you can make, really, whereas it is going to take you five years to piece that kind of scale together in the UK.”

“The one place we are buying residential is Spain, where it is deeply discounted, even if there is still 23 percent unemployment.”

Spain

Residential is as much a draw as commercial real estate for the foreign players who descend on Spain, and the pace of sales is expected to pick up in 2015.

Assets are still being offloaded by Sareb, Spain’s bad bank, financial institutions and municipal authorities, and there is no shortage of takers. Huge portfolios of non-performing residential loans have gone to opportunity and hedge funds; Goldman Sachs and Blackstone have both bought large chunks of rental housing from the local government in Madrid, and the newly-floated Spanish REITs are also active.

“The one place we are buying residential is Spain, where it is deeply discounted, even if there is still 23 percent unemployment,” says one global investor.

Spain has a massive oversupply of housing, and many still think it “an opportunistic play”. But locals report shortages of housing in certain areas, and even the need – if not yet the finance – for some development.

Overseas players, too, are starting to consider investment here on a longer term basis. One of the US’s canniest investors, Warren Buffett, has set up a property company - Berkshire Residential Assets 1 – to buy and develop in Spain.

“You have a 90 percent home ownership rate, but with an improving economic situation it is hard for younger households to find a place to live,” says one pan-European fund manager.

“There is now an opportunity to establish a rental sector and at the same time some blocks are coming on the market that we haven’t seen in the past seven years. You can really invest in this product.”

One global investment banker who is cautious about commercial real estate in Spain, is relatively bullish about the prospects for residential.

“It is possible to improve the assets, get people in to rent and the values rise as a result. Then you might privatise and sell the units back to the occupants or keep them as long-term rental.”



Sustainability, technology and obsolescence



Emerging Trends Europe 2015 finds the industry preparing for changes decades into the future as sustainability and technology impact businesses like never before.

At last September's UN Climate Summit, APG's chief finance and risk officer Angeliem Kemna – speaking on behalf of 350 institutional investors – reminded the world that real estate was “responsible” for almost half of global greenhouse gas emissions. These comments by the Dutch pension fund giant – which has doubled its investment in sustainable property – came weeks before a highly publicised warning from the Intergovernmental Panel on Climate Change of “severe, widespread and irreversible impacts” of climate change.

“Hurricane Sandy and last year's flooding in the UK changed everything,” says one interviewee, and it is clear the green agenda is here to stay. To that end, there is much innovation across Europe. The city of Rotterdam, for instance, is experimenting with floating, solar-powered buildings that can cope with rising sea levels. A newly completed residential scheme in Milan, “Bosco Verticale”, weaves 900 trees through its 97- and 120-metre-high towers.

Developers are becoming increasingly interested in giving space to inventive landscaping, and Bosco will be watched with interest in 2015 as one of the first live experiments in incorporating trees into schemes to help cities better respond to pollution.

“There used to be a lot of nonsense talked that environmentalism was a threat to the capitalist way of life,” says one interviewee. “Now people are having sensible conversations about it.”

Today, the terms “sustainability” and “resilience” are being used interchangeably.

Good business

Emerging Trends Europe 2015 finds many convinced that sustainability is synonymous with good business. As one global institutional investor points out, “no sustainable strategy – that's a red flag for us”. Another investor says: “Climate, energy and building regulations bring about obsolescence and depreciation faster than anticipated. Investment in operation, maintenance and refurbishment needs to be in tune with these changes.”

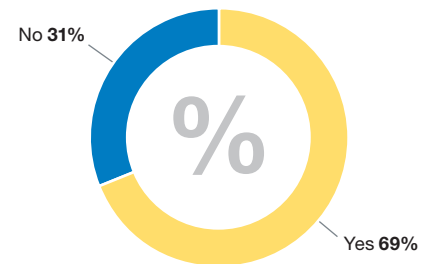
Seventy percent of *Emerging Trends Europe's* respondents have adopted sustainability as a business strategy, and 74 percent are preparing portfolios to make them more sustainable.

A sustainability strategy typically means one or a combination of the following actions: writing mission statements and annual sustainability reports; integrating green asset management methodologies, collecting energy, water and waste data across portfolios; or monitoring operational use in one building.

But there are vast differences in implementation, from adhering to BREEAM, Europe's dominant certification benchmark, to designing green travel plans for tenants and planting gardens to enhance biodiversity.

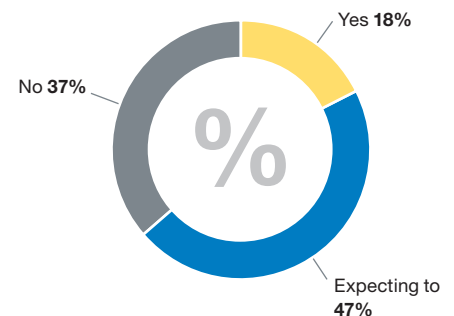
In fact, less than 2 percent of Europe's building stock is BREEAM-certified. Properties in France, Germany, Netherlands, Belgium, Norway and the UK account for much of that take-up. Poland, Russia, Czech Republic are “trying to do better but are coming from zero”.

Figure 1 **Business strategy includes sustainability**



Source: *Emerging Trends Europe* survey 2015

Figure 2 **Achieve higher rents on sustainable assets**



Source: *Emerging Trends Europe* survey 2015

Figure 3 Reasons for investing, developing, lending, or occupying sustainable assets



Source: Emerging Trends Europe survey 2015

As for any financial benefit from going green, survey results are unconvincing: 47 percent expect to collect higher rents but only 18 percent say they actually do so.

Emerging Trends Europe interviewees reflect such disparities. Some are still sore from the economic crisis in southern Europe and feel green strategies are a luxury they cannot afford. Russia-based interviewees are not interested because “as energy is very cheap in Russia, there’s less incentive to invest into green technology”. And while most of Europe’s listed companies have joined the green revolution, opportunistic funds are one of the least receptive investors.

“Is the industry doing enough? Certainly not,” says one interviewee. “There’s a big gap between what people say in public and action.”

Performance matters

Many interviewees believe the biggest drag on progress is a lack of transparency and standardisation, which undermines investors’ ability to value green real estate accurately.

But the pressure is on, with only five years until new buildings must use low amounts of energy powered by renewable sources under the EU’s “nearly-zero” energy standard.

A big focus is standardisation of Energy Performance Certificates (EPCs), which show a building’s energy use in theory, and Display Energy Certificates (DECs), which show a building’s energy use in practice. But the rules for each system differ across EU member states, making it hard to compare properties.

Real in-use energy performance is nonetheless seen as the key to better green buildings, and crucial to cutting the industry’s carbon emissions. And a new scheme, developed in the UK, could make waves in Europe this year.

18%

achieve higher rents on their sustainable assets

VoIDECs (Voluntary Display Energy Certificates), a not-for-profit scheme developed by the National Energy Foundation and funded and piloted by Legal & General, has created a benchmarking tool that can be used by any commercial office across Europe. It allows landlords and tenants to see what energy they use. Next year the scheme will be trialled in shopping centres.

Another important initiative is the European Energy Performance of Properties Analysis – a pan-European project led by Knight Frank in partnership with the Valencian Institute of Building and the Institute for Sustainability. The project is working on the creation of a pan-European, unified Energy Performance Certificate index.

Meanwhile, the Energy Efficiency Finance Institutions Group – set up by the European Commission and which counts Hermes Real Estate, Allianz Real Estate and Deutsche Bank Group as members – is campaigning to get policymakers and market participants to improve standards and enforcement of EPCs and Energy Codes.

“We really need to understand how green individual assets really are,” says one industry analyst. “We’re beginning to interrogate portfolios in this deeper way.”

Financial innovation

Lenders are still unsure how to handle green property. Some German and Dutch banks have financed innovative initiatives, including Deutsche Bank’s successful placement of an energy bond, which securitises residential energy efficiency improvement loans in California. Some interviewees are working to get banks to require those they finance to maintain properties to a certain green standard.

The small but developing green bond market for real estate will gain popularity in 2015, as appetite for green investments grows and more issuers get involved.

Money raised this way can fund new green buildings and retrofits, tenant improvement projects and energy efficiency works. France’s Unibail-Rodamco was the first European real estate company to place a green Euro bond, in 2014. The €750 million issue will finance “best-in-class” BREEAM-certified green buildings and was 3.4 times oversubscribed in a matter of hours.

“We see big interest for green bonds,” says one interviewee. “It used to be a choice between investing in the right financial instruments, or in ethical ones. Now there’s a way to get low risk investments that support green initiatives,” says another.

In the mainstream, however, eco-consciousness is patchy. Many interviewees report little evidence that green real estate attracts better loan terms. “We don’t know if it results in a lower cost of capital. That needs to be better understood,” says one interviewee. Another adds: “Financial models vary. Germany is much better at that – KfW’s programme for energy efficiency construction is one of the big success stories out there. But in the UK, for instance, it’s just not part of the culture.”

Healthy payback

“Healthy buildings are a hot topic.” Evidence is emerging that the physical characteristics of buildings and indoor environments influence worker productivity and wellbeing – resulting in financial benefits for occupiers and landlords. Expect businesses to increasingly focus on capturing this upside.

“We’ve proved a 4 percent leap in productivity in our buildings,” says one. “We’re now looking at how we can capture that data from our buildings.”

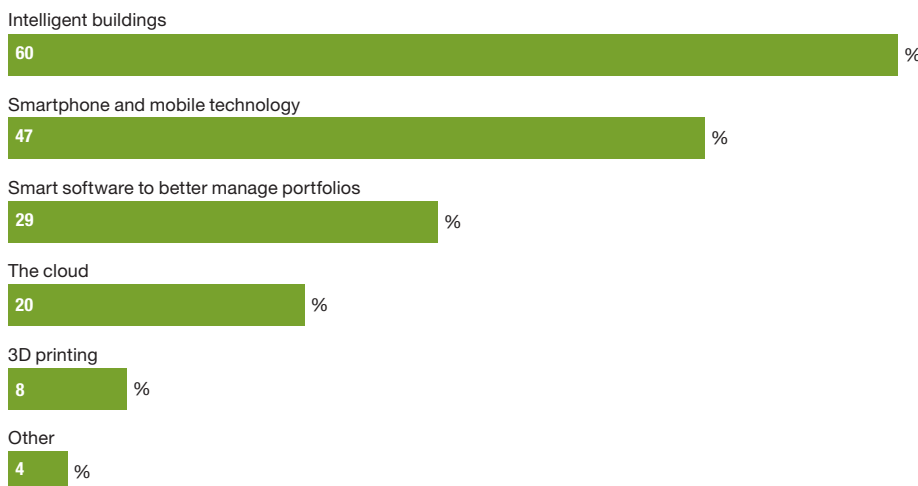
“Tenants want to know about the air quality of their buildings, and the paint and materials you’ve used. Today that’s a big growth area.”

Supply chains are under increasing scrutiny. The “Cradle-to-Cradle” (C2C) system – which designs products and systems with extensive green aims – has reaped rewards for one scheme in the Netherlands. It is the first time C2C has been applied to real estate, and it is now spreading to other projects.

The industry is also turning its attention to implementing green policies consistently – from contractors to facilities managers and cleaners.

Retrofitting is a “missed business opportunity”, say interviewees. Paybacks from improving buildings are now better understood – 30 percent improvement in efficiency yields an internal rate of return of 28 percent over a 10-year period, according to the UNEP Finance Initiative.

Figure 4 Technology with most impact on real estate, 2015



Source: *Emerging Trends Europe* survey 2015

“Energy efficiency retrofits show attractive returns on investment, even for short-term investors. They generate direct cost savings and positive impacts on the overall value of buildings,” says one interviewee. The Energy Efficiency Finance Institutions Group has called on policymakers to make public finance available to help upgrade building stock across the region. “It’s thought €850 billion will be needed to help the EU meet its 2020 energy efficiency targets.”

“I don’t have a board meeting without a tech guy being present.”

Profiting from technology

Technology is viewed as a threat but interviewees are using it to gain advantage. “Nowadays almost every sector, in any phase of the value-chain, deals with technology to maximise efficiency and profitability.”

Solar glass technology now helps high-rise buildings respond to light – promoting energy saving and thermal insulation. Anaerobic digesters are being used in shopping centres to turn waste to compost. And on-site energy centres and charging stations for electrical cars are popping up across Europe.

Meanwhile, cross-laminated timber frame technology is now so sophisticated that developers are building high-rise buildings out of wood in Norway, Austria and the UK. Timber construction both cuts the carbon emissions of buildings and halves build times. Expect to see more of these “plyscrapers” projects next year, especially for housing.

And in a further advance, the world's first 3D printed house has been created in Amsterdam. The technology promises to eliminate waste, transport costs, streamline construction and enable obsolete buildings to be shredded or moved to another location. While respondents don't see it as having significant impact in 2015, long term it could boost housing supply in crowded cities.

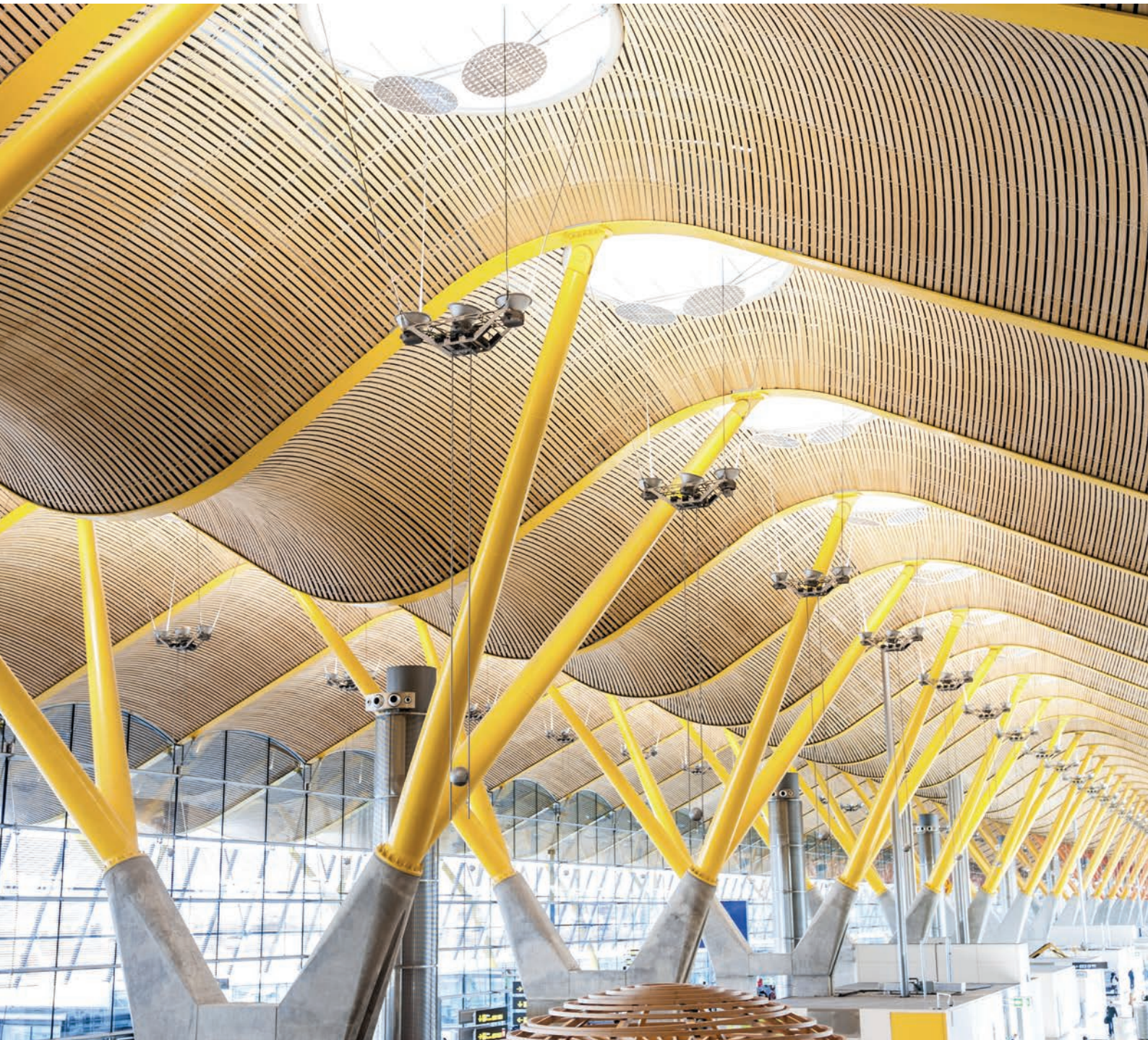
“Technology makes it possible for real estate investors to gain consumer intelligence directly through consumer trace systems,” says one interviewee. Whether it is shopping centre owners publishing their own style blogs promoting tenants' wares, Facebook campaigns, or robot fulfillment systems that pick goods from shelves in the warehouses let by major global retailers, the industry is exploring how technology can be “friend rather than foe”.

These challenges are being taken seriously, as specialist tech teams are employed to help businesses stay current. As one chief executive of a major global firm says: “We have a completely different focus on technology and technology investment now. We've doubled the budget in last 24 months, and it was high before that.”

“I don't have a board meeting without a tech guy being present.”



Appendix



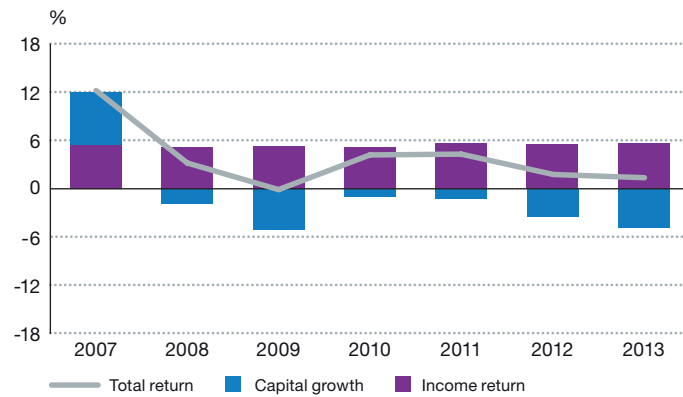
Amsterdam

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.60	8th
Development	Fair	3.00	8th

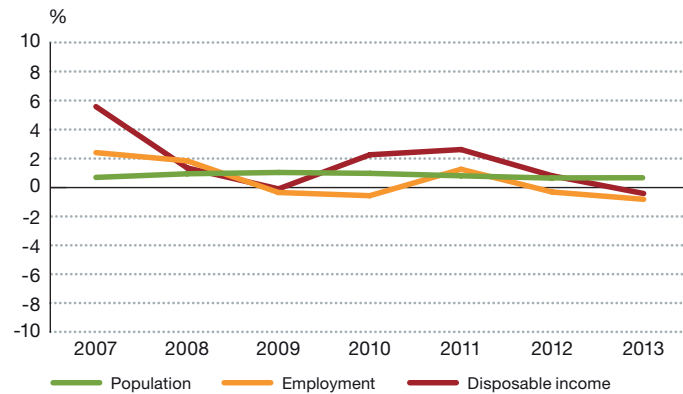
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

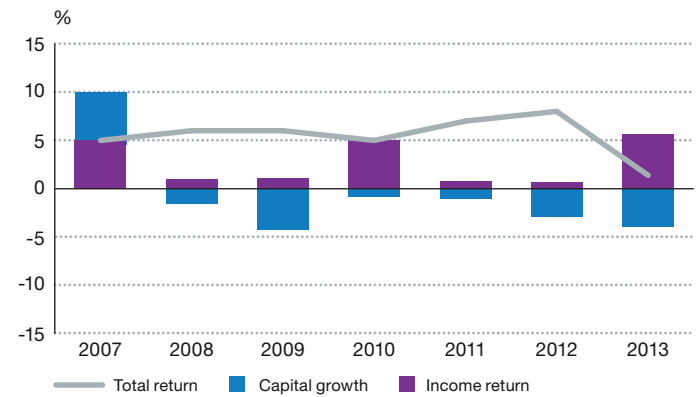
Athens

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.71	5th
Development	Fair	3.07	7th

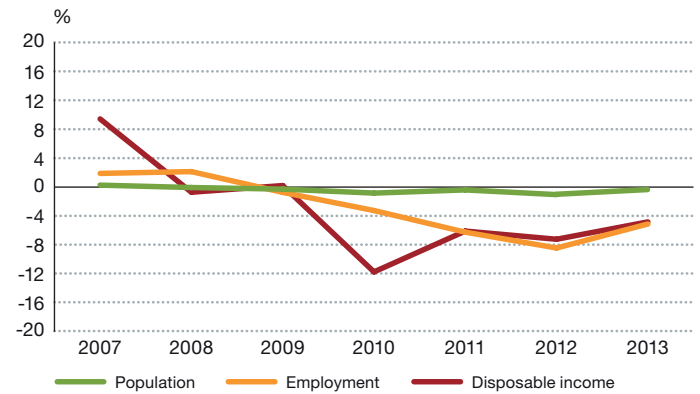
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

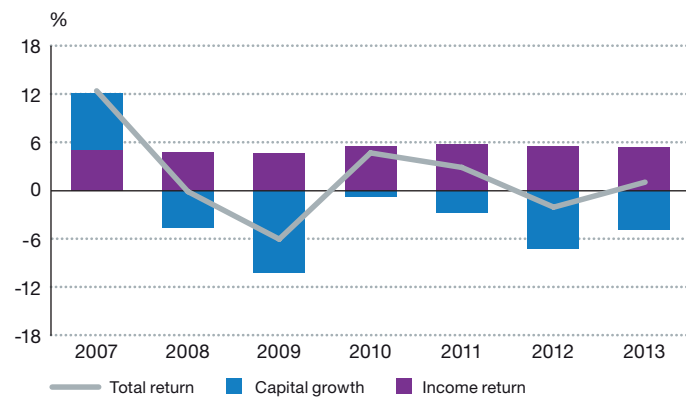
Barcelona

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.52	13th
Development	Fair	3.00	26th

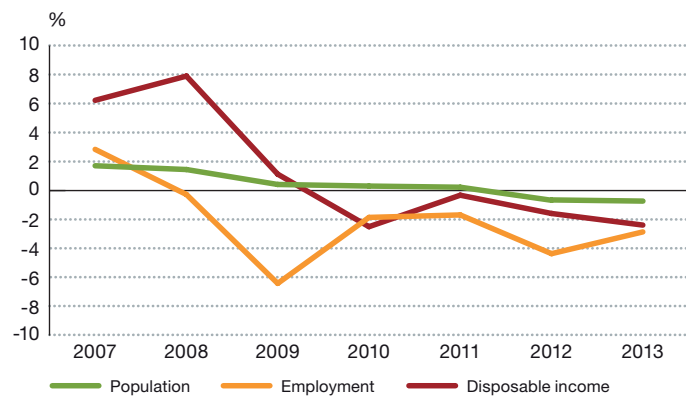
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Population, employment and disposable income: annual change



Source: *Moody's Analytics*

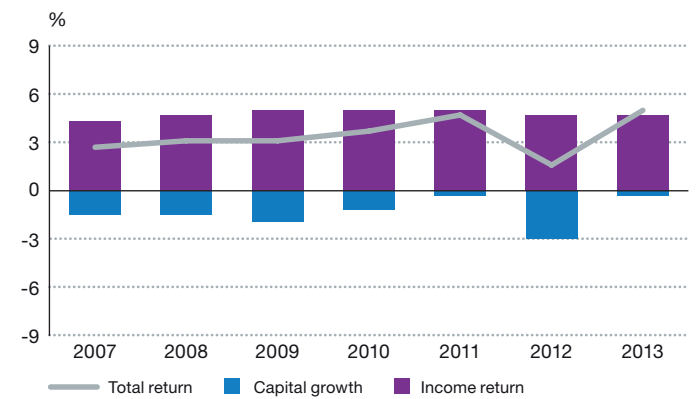
Berlin

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.91	1st
Development	Good	3.73	20th

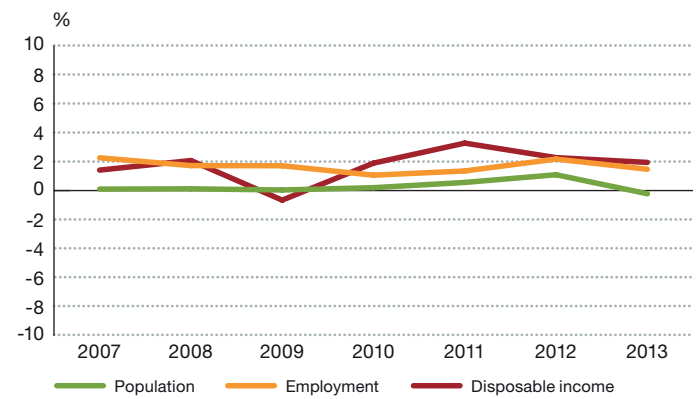
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

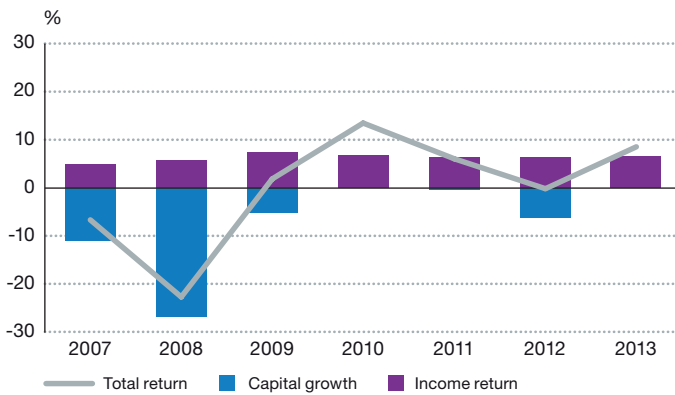
Birmingham

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.63	6th
Development	Fair	3.45	10th

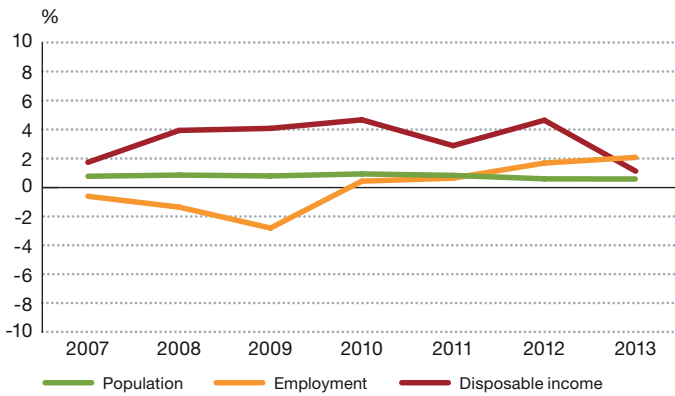
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All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

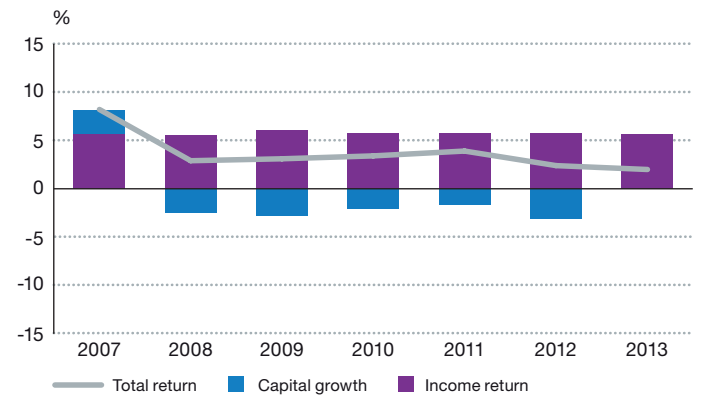
Brussels

Investment prospects

	Prospects	Rating	Ranking
Investment	Fair	3.24	21st
Development	Fair	3.21	2nd

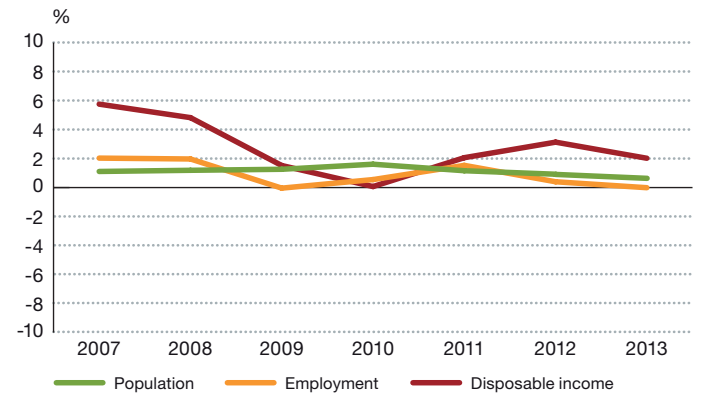
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All-property return



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Population, employment and disposable income: annual change



Source: *Moody's Analytics*

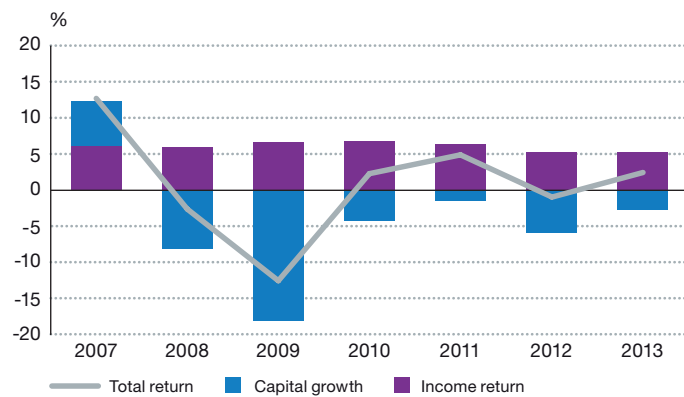
Budapest

Investment prospects

	Prospects	Rating	Ranking
Investment	Fair	3.21	22nd
Development	Fair	2.75	22nd

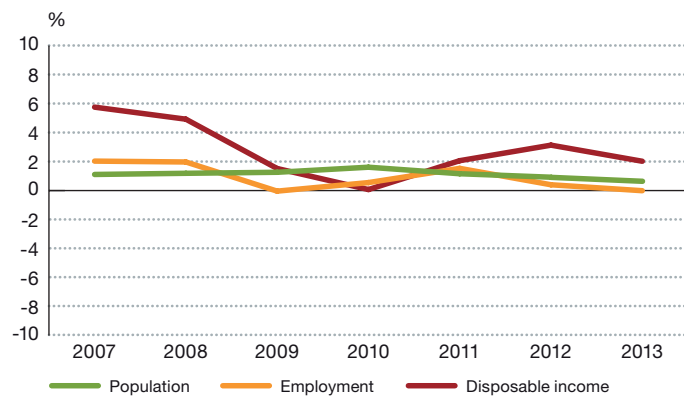
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Population, employment and disposable income: annual change



Source: *Moody's Analytics*

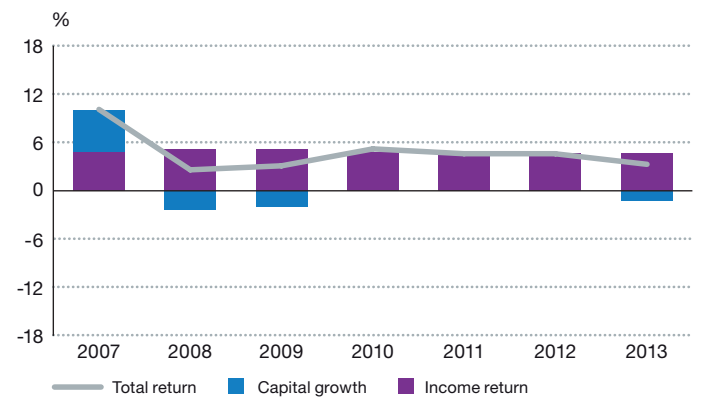
Copenhagen

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.63	7th
Development	Fair	3.43	25th

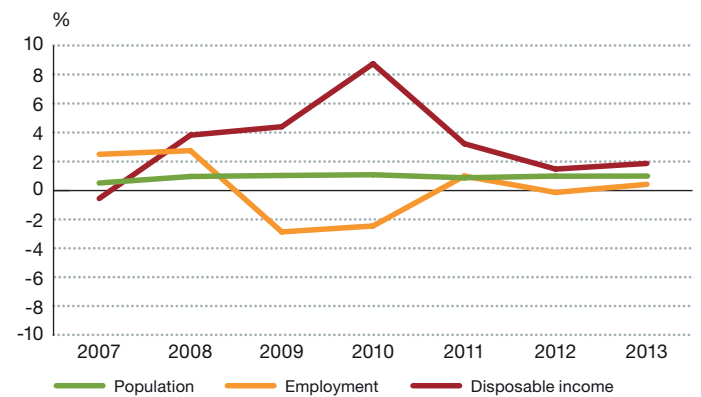
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

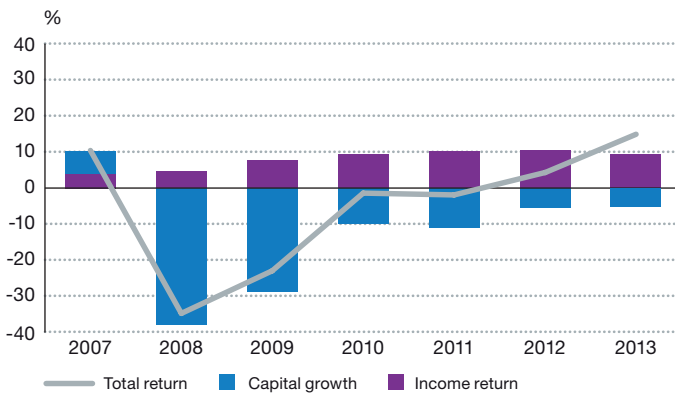
Dublin

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.83	2nd
Development	Good	3.65	16th

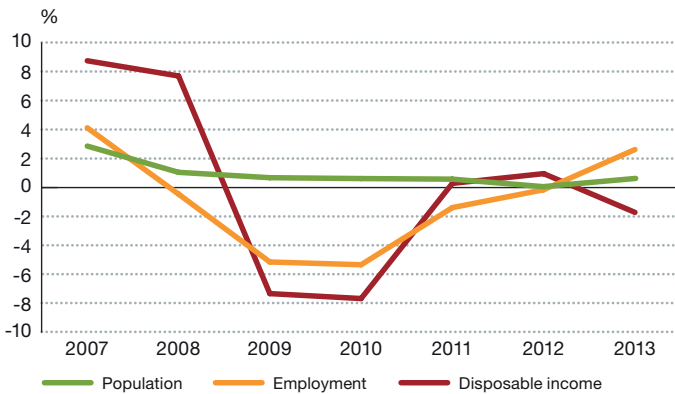
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

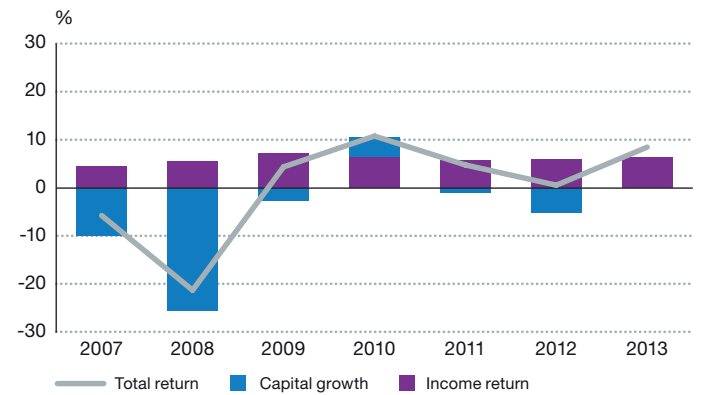
Edinburgh

Investment prospects

	Prospects	Rating	Ranking
Investment	Fair	3.31	19th
Development	Fair	3.19	23rd

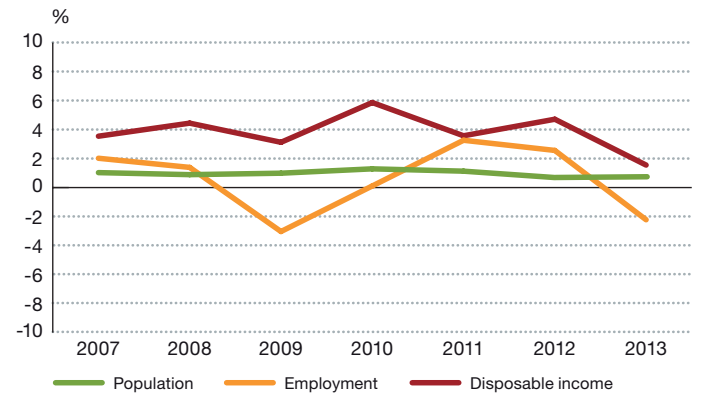
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

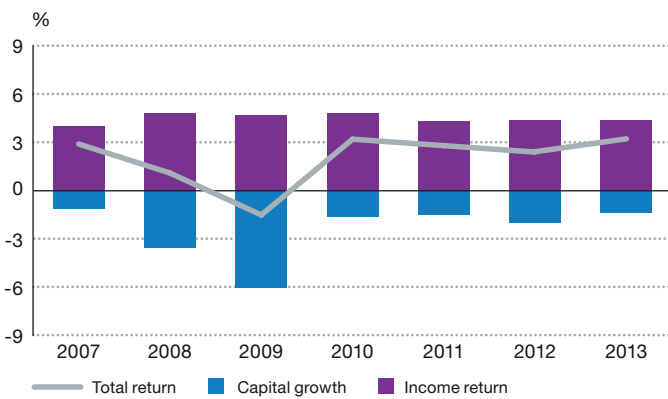
Frankfurt

Investment prospects

	Prospects	Rating	Ranking
Investment	Fair	3.40	16th
Development	Fair	3.08	4th

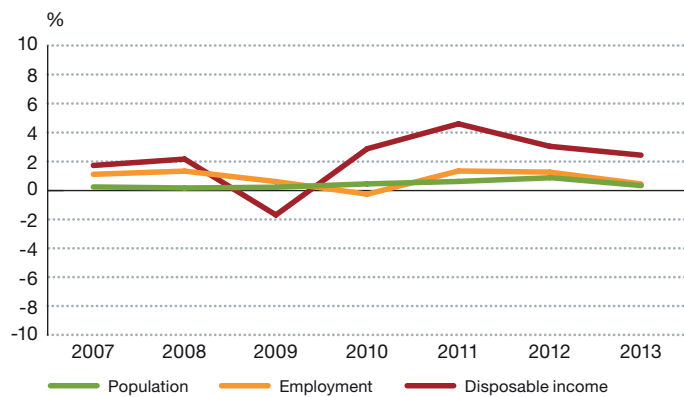
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

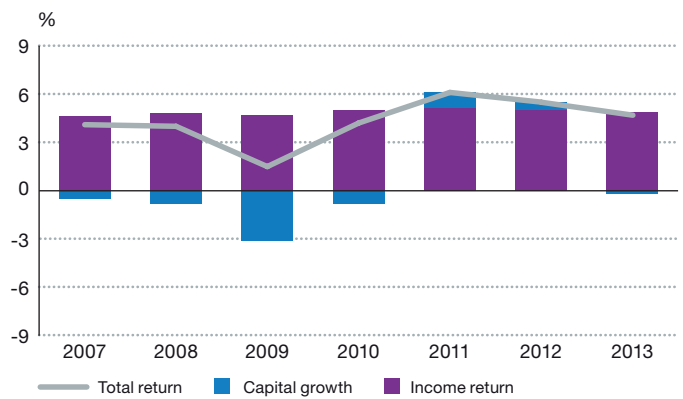
Hamburg

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.73	4th
Development	Good	3.56	1st

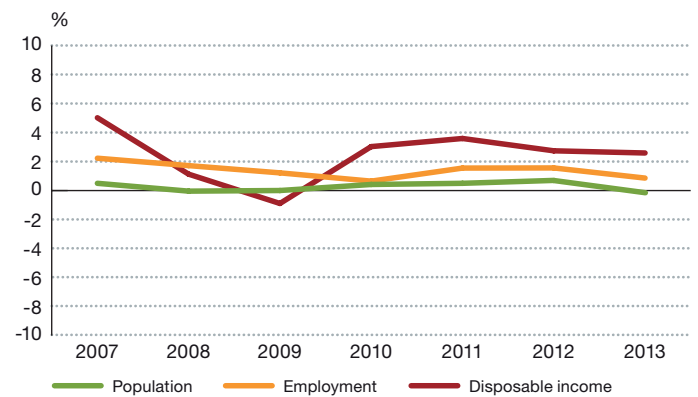
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

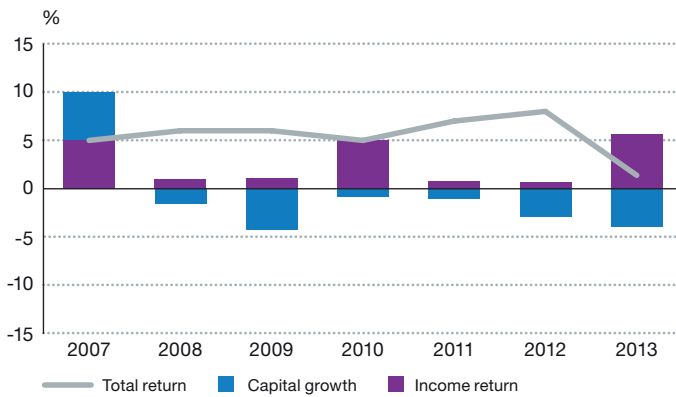
Helsinki

Investment prospects

	Prospects	Rating	Ranking
Investment	Fair	3.35	17th
Development	Fair	2.75	24th

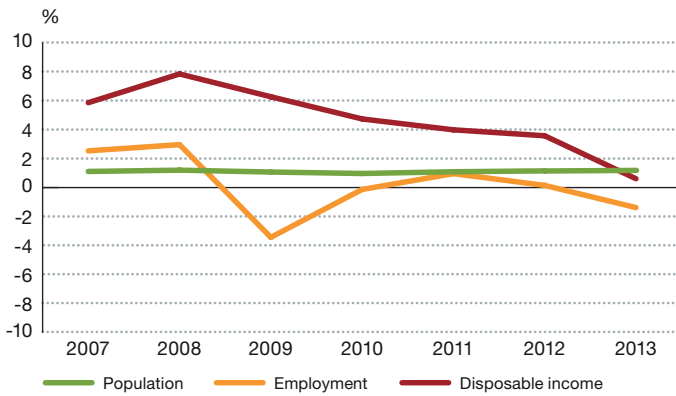
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

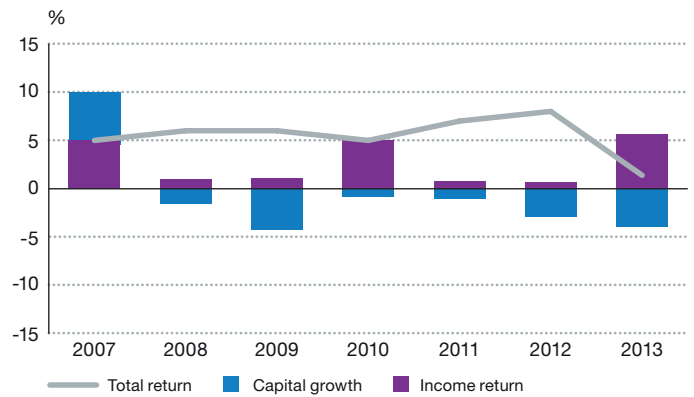
Istanbul

Investment prospects

	Prospects	Rating	Ranking
Investment	Fair	3.27	20th
Development	Fair	3.33	28th

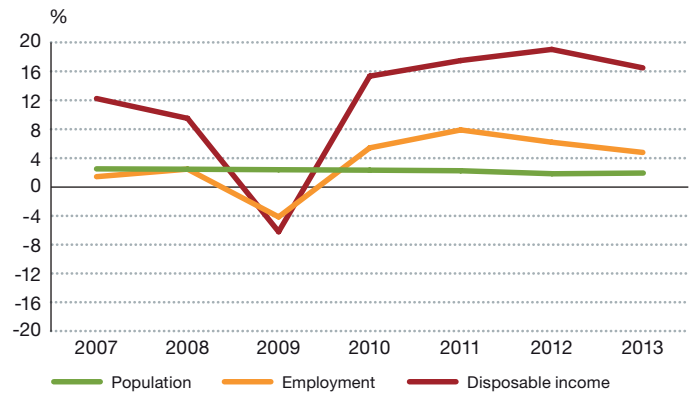
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

Note: Income for Istanbul is total wages and salaries, a disposable income series is being created.

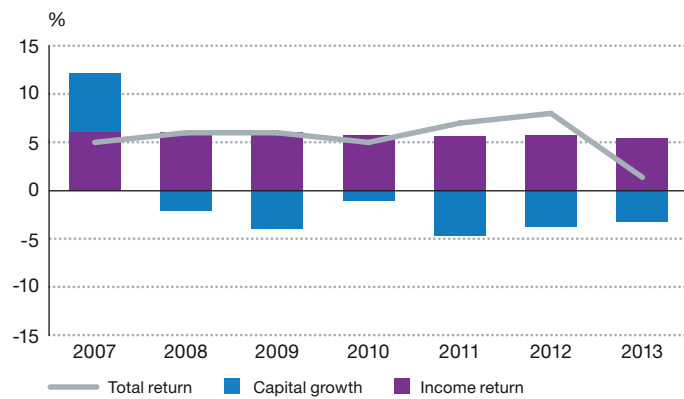
Lisbon

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.55	9th
Development	Fair	3.04	3rd

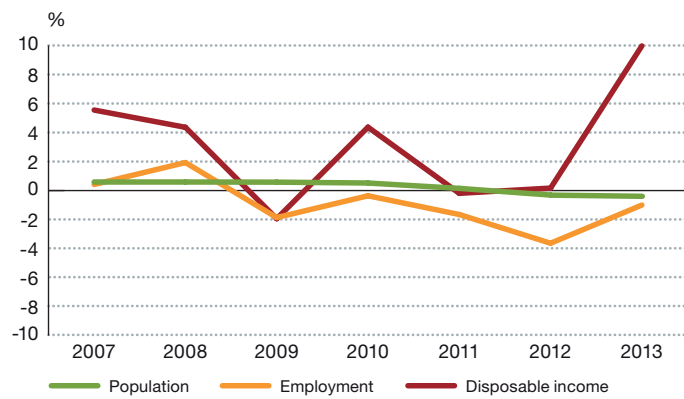
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

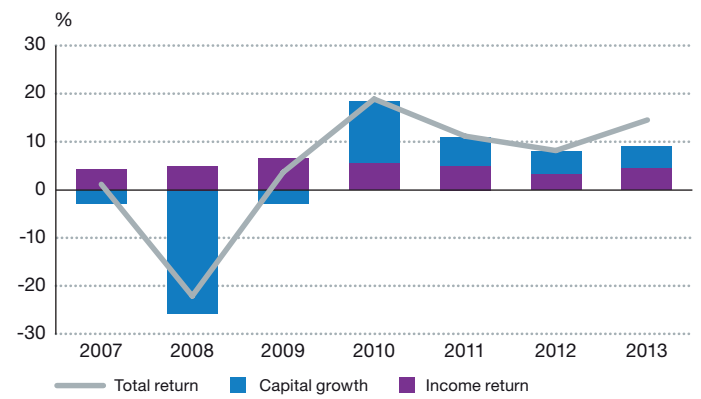
London

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.54	10th
Development	Good	3.58	11th

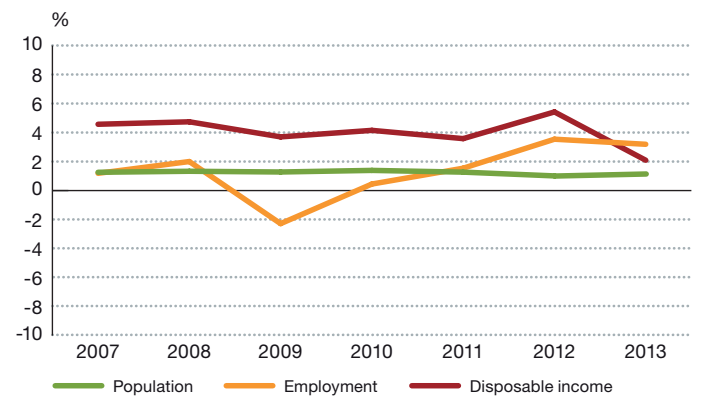
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

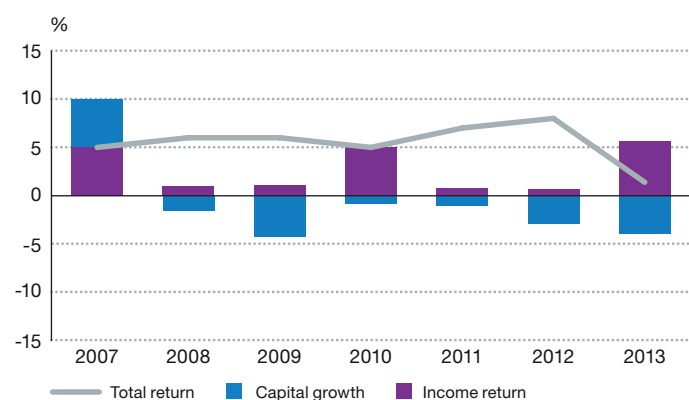
Lyon

Investment prospects

	Prospects	Rating	Ranking
Investment	Fair	3.18	23rd
Development	Fair	2.79	13th

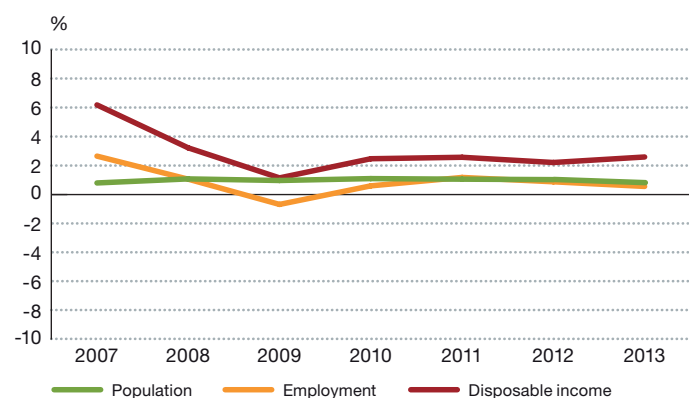
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

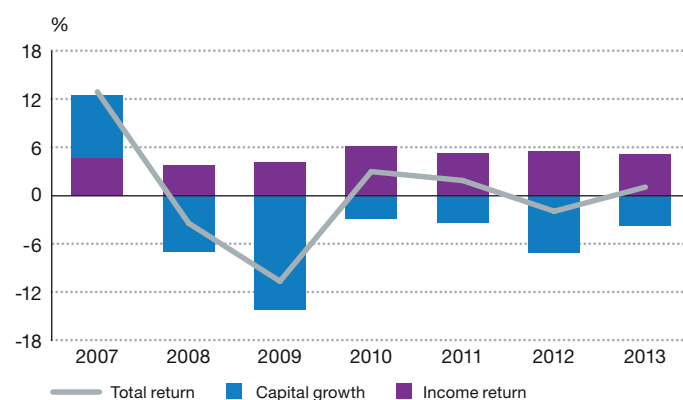
Madrid

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.75	3rd
Development	Fair	3.09	21st

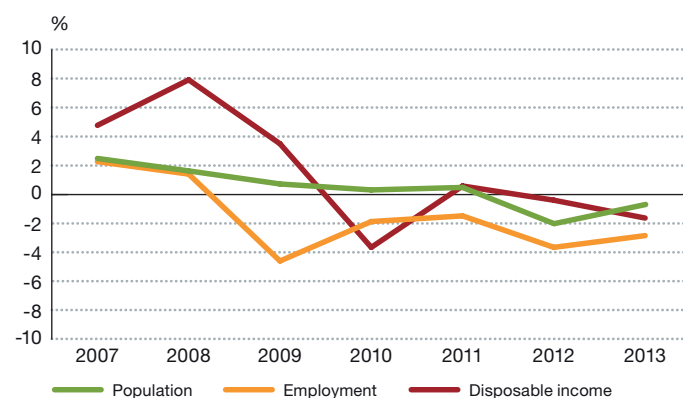
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

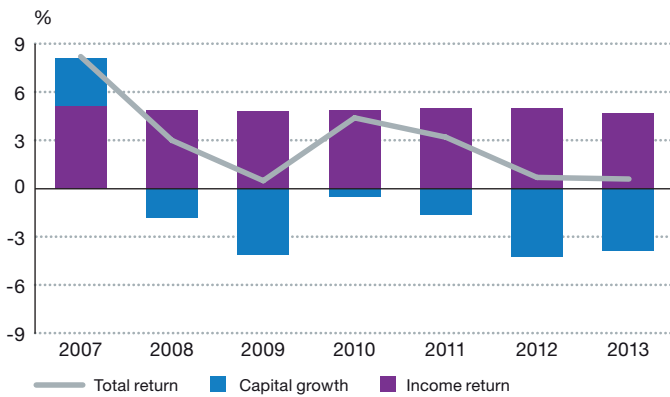
Milan

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.53	12th
Development	Fair	2.89	6th

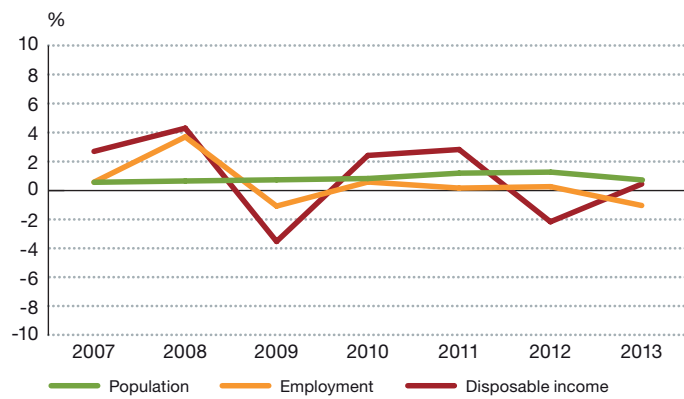
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

Moscow

Investment prospects

	Prospects	Rating	Ranking
Investment	Poor	2.41	28th
Development	Fair	2.65	12th

Source: *Emerging Trends in Real Estate Europe 2015 survey*

Note: Investment Property Databank does not produce an index for Moscow and Moody's Analytics is currently collecting data on Moscow's population, employment and disposable income and adjusting it to be comparable with its existing data set. This is expected to be complete by end-2014.

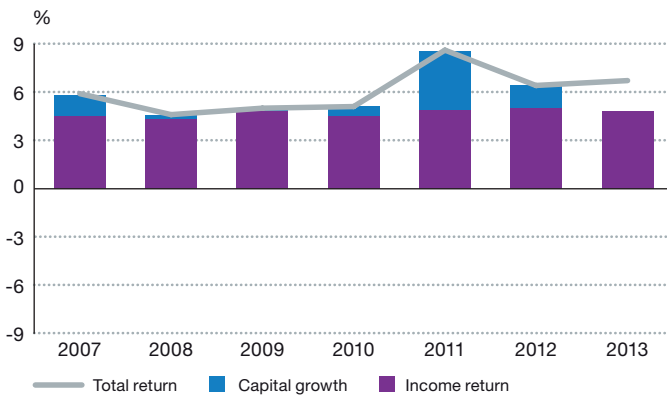
Munich

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.53	11th
Development	Good	3.65	15th

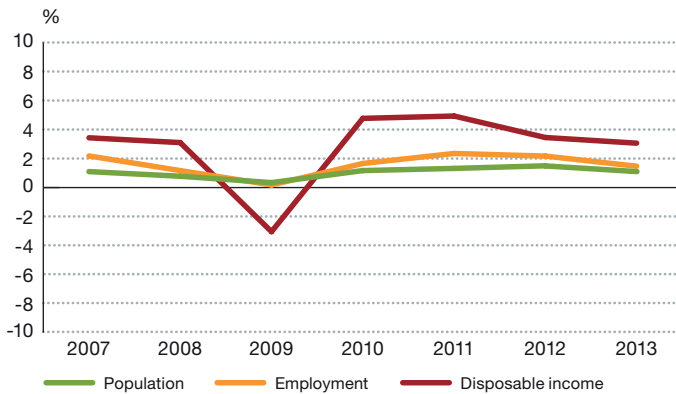
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

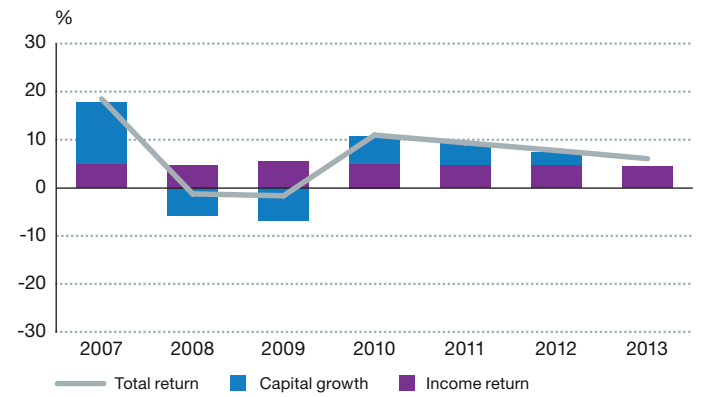
Paris

Investment prospects

	Prospects	Rating	Ranking
Investment	Fair	3.12	24th
Development	Fair	2.94	27th

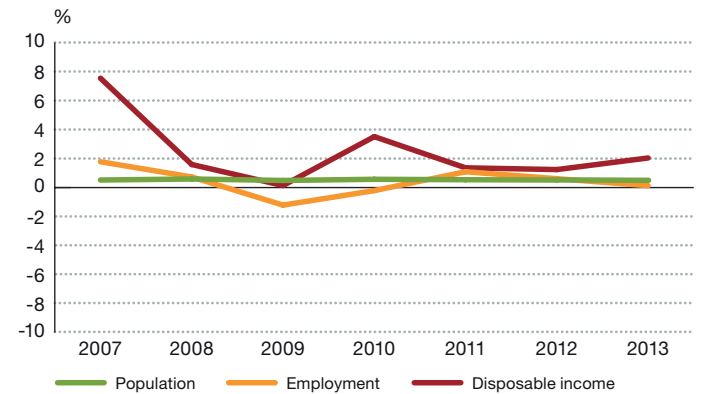
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

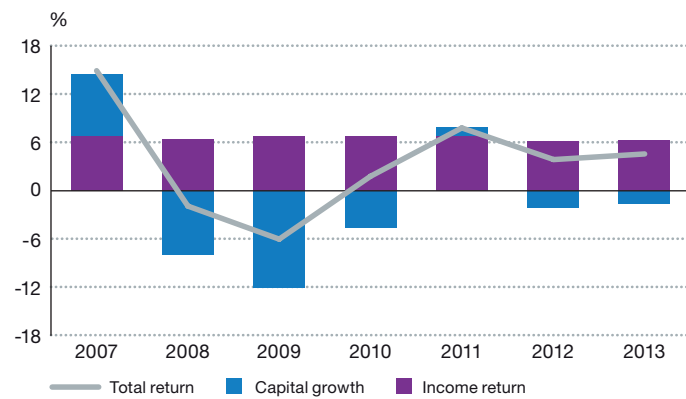
Prague

Investment prospects

	Prospects	Rating	Ranking
Investment	Fair	3.35	18th
Development	Fair	3.10	14th

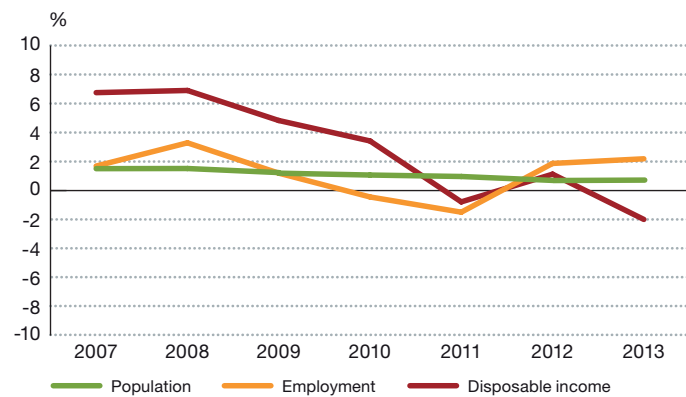
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

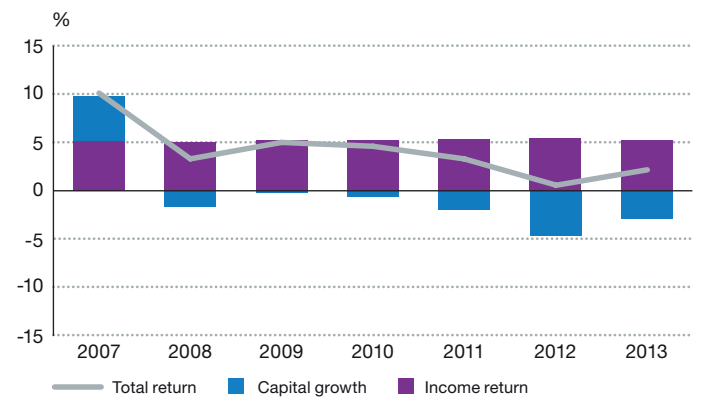
Rome

Investment prospects

	Prospects	Rating	Ranking
Investment	Fair	2.95	27th
Development	Fair	2.75	18th

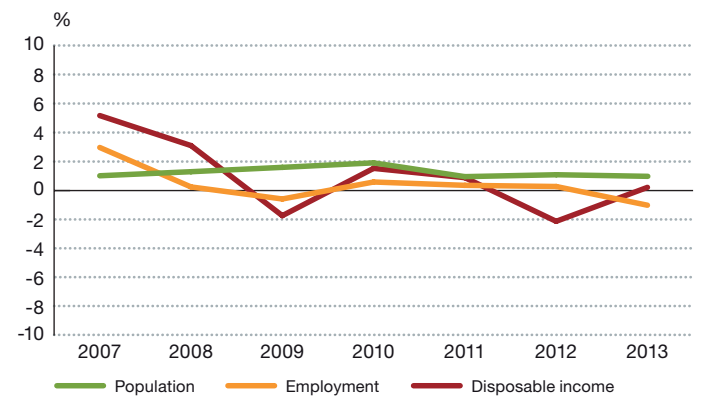
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

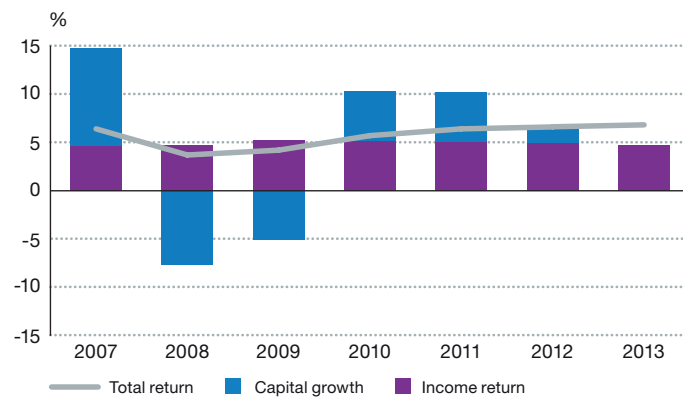
Stockholm

Investment prospects

	Prospects	Rating	Ranking
Investment	Fair	3.48	15th
Development	Good	3.58	19th

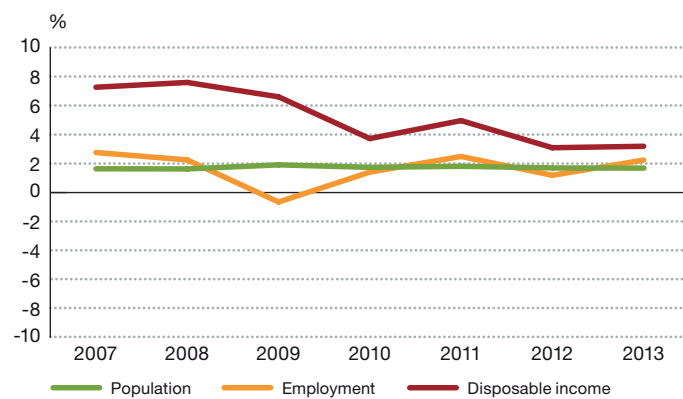
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

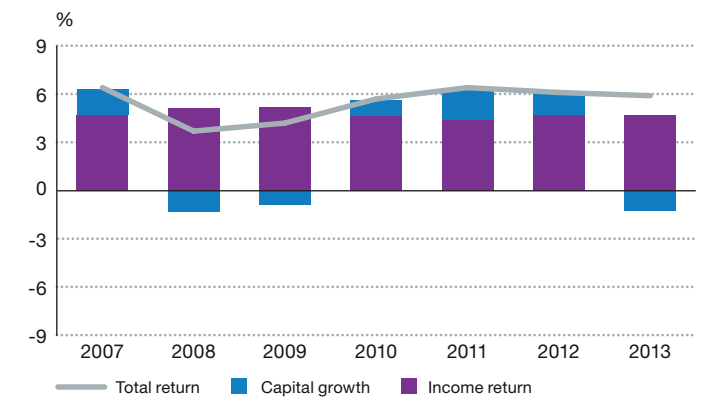
Vienna

Investment prospects

	Prospects	Rating	Ranking
Investment	Fair	3.06	26th
Development	Fair	3.06	17th

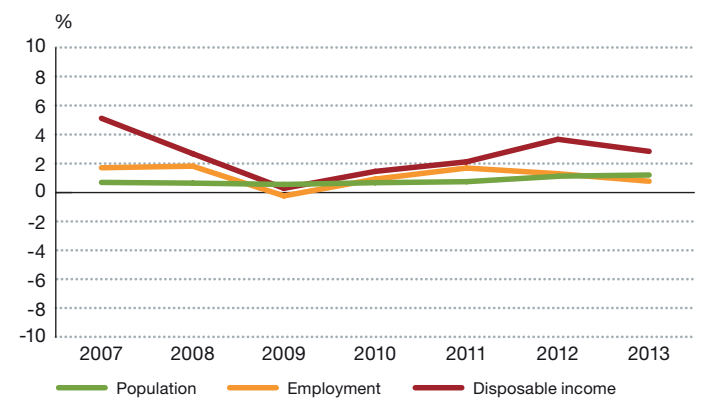
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

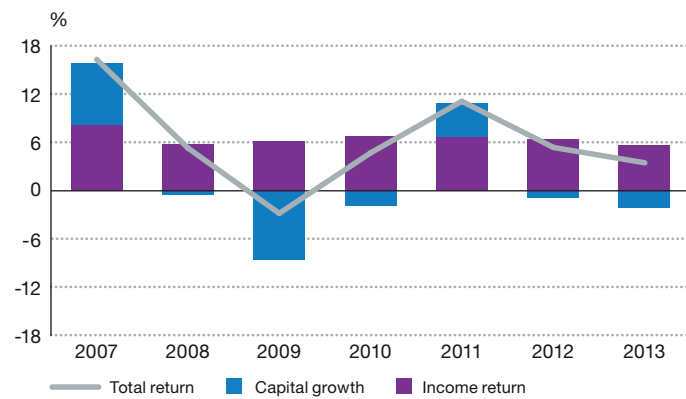
Warsaw

Investment prospects

	Prospects	Rating	Ranking
Investment	Good	3.52	14th
Development	Fair	3.04	9th

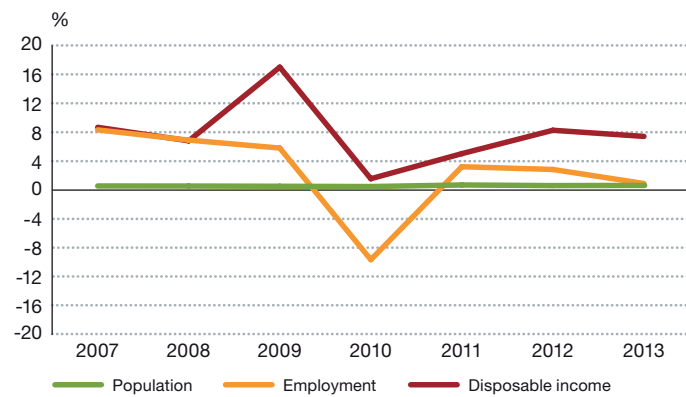
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*

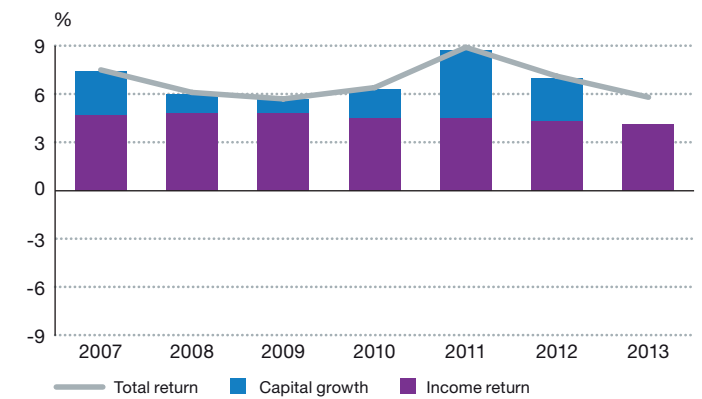
Zurich

Investment prospects

	Prospects	Rating	Ranking
Investment	Fair	3.06	25th
Development	Fair	3.13	5th

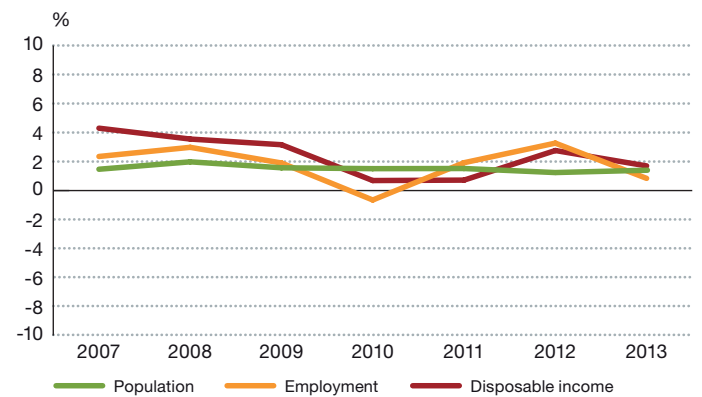
Source: *Emerging Trends in Real Estate Europe 2015 survey*

All-property return



Source: *Investment Property Databank*

Population, employment and disposable income: annual change



Source: *Moody's Analytics*



About the survey

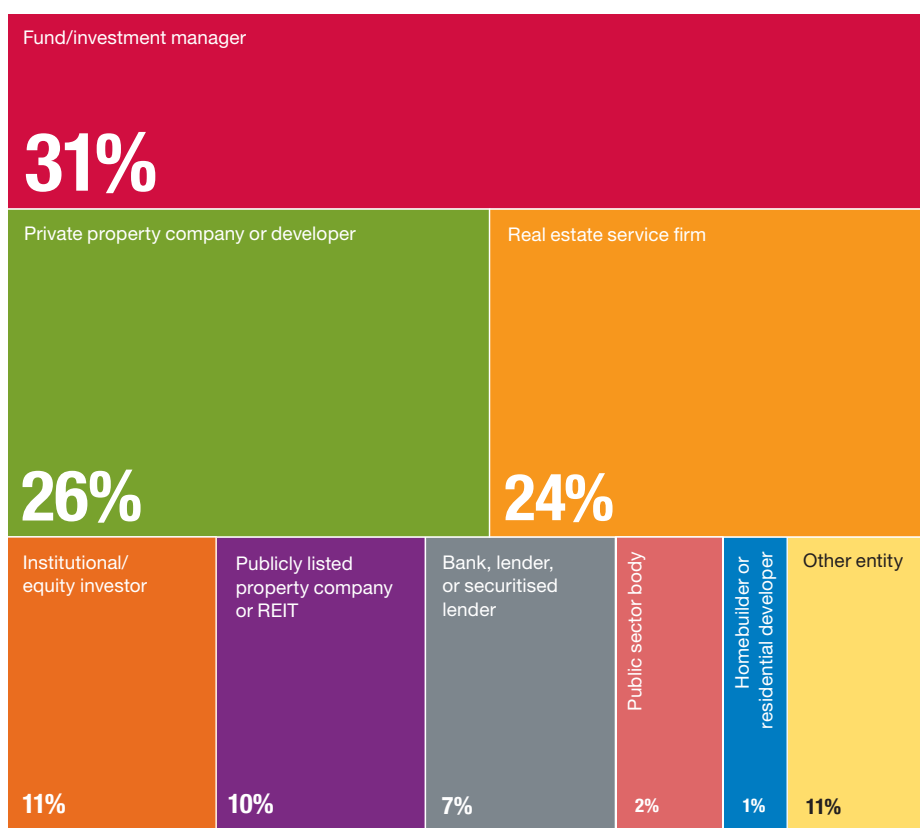


Emerging Trends in Real Estate® Europe, a trends and forecast publication now in its 12th edition, is a highly regarded and widely read report in the real estate industry. Undertaken jointly by PwC and Urban Land Institute, the report provides an outlook on real estate investment and development trends, real estate finance and capital markets, cities, property sectors and other real estate issues throughout Europe.

Emerging Trends in Real Estate Europe® 2015 reflects the views of nearly 500 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 interview participants 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.

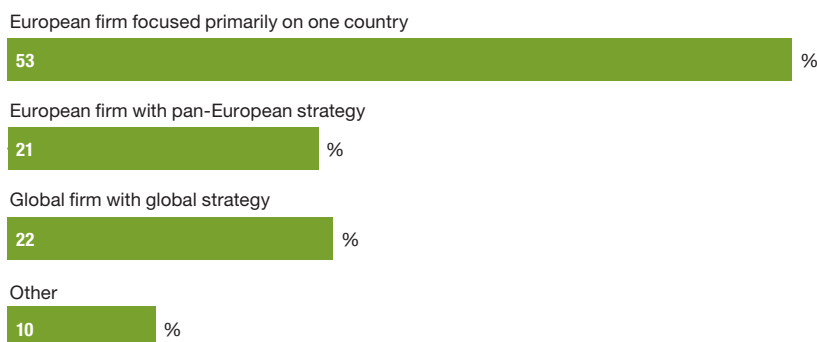
Survey results



Corporate occupier 0%
Housing association 0%

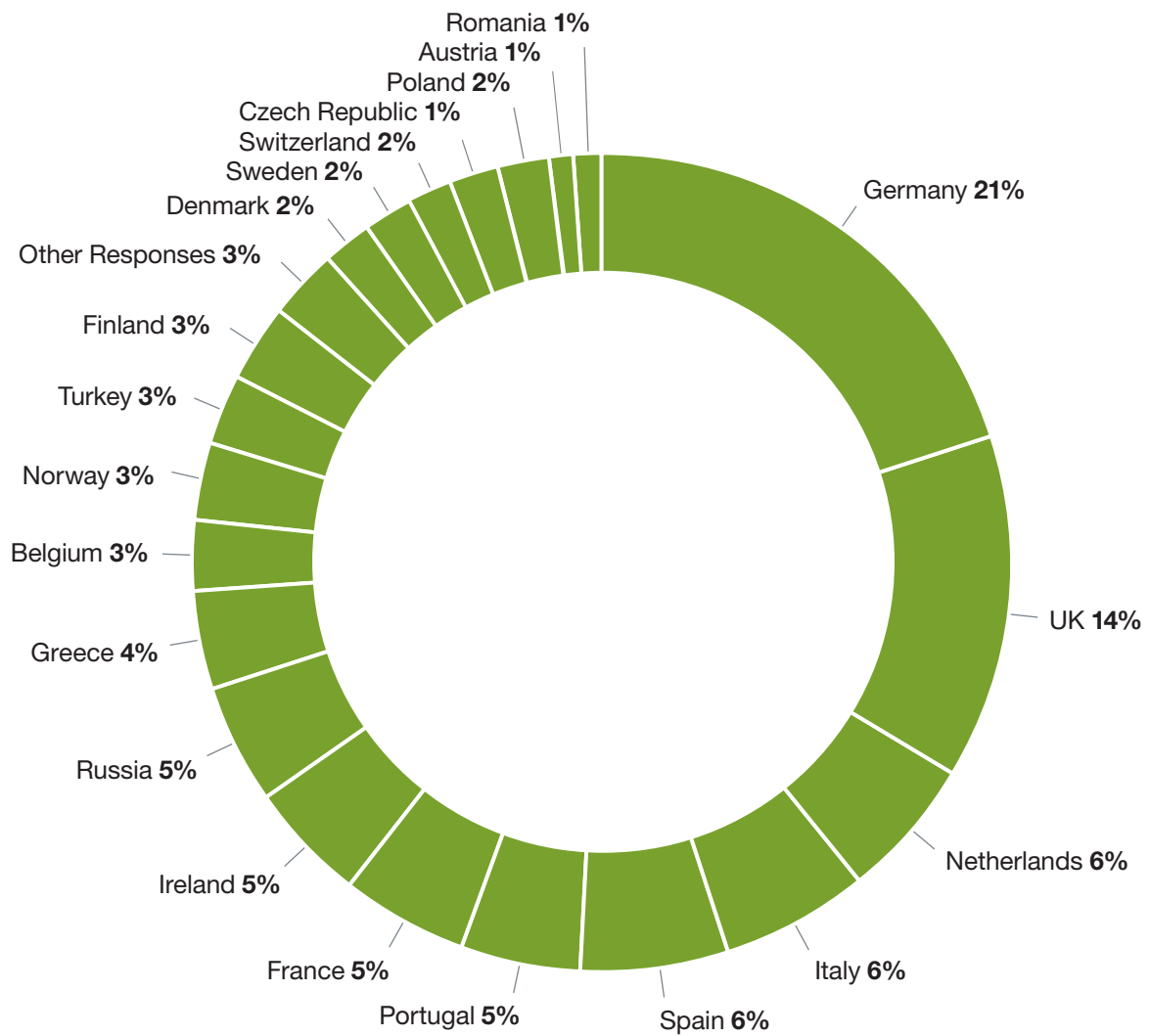
Note: Respondents could choose more than one category, so percentages do not add up to 100.
Source: *Emerging Trends Europe* survey 2015

Survey responses by geographic scope of firm



Note: Respondents could choose more than one category, so percentages do not add up to 100.
Source: *Emerging Trends Europe* survey 2015

Survey responses by territory



Source: *Emerging Trends Europe* survey 2015

Interviewees

Aberdeen Asset Management

Gertjan Kapiteyn

ABN AMRO

Robert van Deelen

Acron

Kai Bender

ADG Group

Mikhail Percherskij

AEDES SPA

Giuseppe Roveda

Aerium

Franck Ruimy

Aevitas Property Partners

Glenn Aaronson

AEW Europe

Max Bernes

AFA Real Estate

Thomas Ingemarsson

AFIAA

Martin Brendel

Norbert Grimm

AG Real Estate

Serge Fautré

Aguirre Newman

Jaime Pascual-Sanchiz de la Serna

Ahold Europe

Anneke de Vries

John Verhoeven

Aktua

Enrique Dancausa

Alcon

Artyom Panin

Alfin

Olivier Bastin

Allianz Real Estate

Christoph Wildgruber

Mauro Montagner

Olivier Piani

Philippe Jonckheere

Allianz Suisse Immobilien

Alexander Gebauer

Alterra Vastgoed

Cyril van den Hoogen

René Hogenboom

American Appraisal

Carlos Rodriguez

Amvest

Wim Wensing

Annexum Invest

Huib Boissevain

APF International

Wiggert Karreman

APG Asset Management

Patrick Kanters

Apollo Global Management

Roger Orf

Argent

Lydia Dutton

ASR Real Estate Investment Management

Dick Gort

Australian Super

Kelly Christodoulou

Aviva Investors

François Grandvoinnet

AXA Real Estate

Anne Kavanagh

Guy Van Wymersch

Matthias Leube

Olivier Thorat

Banca IMI

Pietro Mazzi

Bank of America Merrill Lynch

Kari Pitkin

Bank Austria Real Invest Immobilien-Kapitalanlage

Harald Kopertz

Bank of Ireland

Paul McDonnell

BASF

Thomas Glatte

BBI Development

Michal Skotnicki

BBVA

Ignacio San Martín

Juan Ortueta

Beni Stabili

Anna Pasquali

Benson Elliot Capital Management

Marc Mogull

BerlinHyp

Gero Bergmann

Bischoff & Compagnons

Richard Teichmann

BlackRock

Tom Lee

Blackstone

Anthony Myers

BNP Paribas Real Estate

Christophe Pineau

Ivano Ilardo

Stéphanie Malenfer

Bouwfonds Investment Management

Jaap Gillis

Bouwinvest

Dick van Hal

Leender Massier

BREEAM

Dr. Gavin Dunn

Brioschi Sviluppo Immobiliare

Matteo Cabassi

British Land

Jean-Marc Vandevivere

Lucinda Bell

Simon Carter

British Property Federation

Elizabeth Peace

Capital & Counties

Soumen Das

Capital Value

Kees van Harten

CapMan

Kalle Myllymäki

Per Tängerstad

Cassa Depositi e Prestiti

Giovanni Maria Paviera

Castello

Giampiero Schiavo

Catalyst Capital

Chris Christofi

Fabrice de Clermont-Tonnerre

Kean Hird

Sofiane Nebbali

Catella Property Group

Borja Márquez de Amilibia

Thomas Beyerle

CBRE

Francisco Horta e Costa

Georg Fichtinger

Marco Hekman

Mike Strong

CBRE Global Investors

David Love

Ian Gleeson

Patrick Meutermaans

Will Rowson

CDP Investmenti

Paola Delmonte

CityLife

Armando Borghi

Clearbell Capital

Rob Mills

Climate Change Capital

James Cameron

Cofinimmo

Xavier Denis

Conygar Plc

Robert Ware

Cordea SavillsCristiano Ronchi
Håkan Blixt**Corestate Capital**

Thomas Landschreiber

CorioGerard Groener
Marco De Vincenzi**Cornerstone Real Estate Advisers**

Charles Weeks

Crédit Foncier Immobilier

Christian de Kerangal

Credit SuisseRainer Scherwey
Rainer Suter
Wenceslao Bunge**Cushman & Wakefield**Eric van Leuven
Gábor Erdélyi
Juliette Morgan
Sergey Riabokobylko
Soren Rodian Olsen
Toğrul Gonden**DEAS**

Christian Meldgaard

Dela Vastgoed

Pieter Loeffen

Delta Development Group

Coert Zachariasse

Derwent London

John Burns

Deutsche Annington Immobilien

Mark Ennis

Deutsche Asset & Wealth ManagementDaniel Gálvez
Gianluca Muzzi**Deutsche Bank**

Cédric Dujardin

Development Group 19

Daniel Reneau

DG Hyp

Dr. Georg Reutter

DIC Asset

Ulrich Höller

Digital Realty

Aisling Coen

Dorrington

Trevor Moross

DTZHans Vrensen
Jean Pierre Lequeux
John Forrester
Régis Luttmann**Dutch Spring**

Rudy Stroink

Eastdil Secured

Michael Cochran

ECE Projektmanagement

Alexander Otto

EHL Immobilien

Jörg F. Bitzer

Ernst & Young

Erik Sonden

Espirito Santo Property

Aniceto Viegas

Essence Development

Elhan Kerimli

Ethias Assurances sa

Alain Delatte

Fabrica Immobiliare

Marco Doglio

Fastighets AB L E Lundberg

Peter Whass

FGH Bank

Roel van de Bilt

Fidelity International

Neil Cable

Foncière des RegionsEdouard de Chalain
Philippe Le Trung**Foncière LFPI**

Stefano Keller

Första AP-fonden

Tomas Beck

Forum Karlín

Ondřej Špalek

Forum Partners

Russell Platt

Fundbox

Rui Alpalhão

Gabetti Property Solutions

Roberto Busso

Gallerie Commerciali Italia

Edoardo Favro

Garrigues

Manel Managall

GE Capital Real Estate

Daniel Mayans

Gecina

Bernard Michel

Générale Continentale Investissements

Paul Raingold

Generali Real EstateChristian Delaire
Alberto Agazzi**Global Real Estate Sustainability****Benchmark**
Nils Kok**Grainger**

Tracey Hartley

Greenoak Real Estate

Jim Blakemore

Greystar Europe

Brett Lashley

Grivalia Properties

Natalia Strafti

Grosvenor

Nick Scarles

Groupama Immobilier

Eric Donnet

Grupo Lar

Luis J. Pereda

Hammerson

David Atkins

Hannover Leasing

Andreas Ahlmann

HD Ejendomme

Peter Uldall Borch

Heijmans

Ton Hillen

HelabaMichael Krögerer
Jürgen Fenk**Hercesa Management**

Juan Jose Cercadillo Calvo

Hermes Real Estate

Tatiana Bosteels

Hibernia REIT

Frank O'Neill

Hines

Brian Moran

HSBCJohn Herbert
Steve Willingham**Icecapital**

Wisa Majamaa

Ilmarinen

Tomi Aimonen

Immobel

Christian Karkan

ING Commercial Banking

Michael Shields

Inmobiliaria Espacio

José Anotnio Fernández Gallar

Inowai

Guillaume Perrodin

Martin Stoz

Vincent Bechet

Internos Global Investors

Jos Short

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- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
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Emerging Trends in Real Estate®

Europe 2015

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