



Emerging Trends in Real Estate[®]

Creating an impact

Europe 2019

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Emerging Trends in Real Estate®

Europe 2019

Creating an impact

A publication from PwC and
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value

“Considering the environmental impact of investments is absolutely becoming important. The more institutional the money, the greater the pressure on these kinds of issues. In five years’ time, the big listed property companies will have no non-environmentally labelled real estate at all. Secondary real estate is going to have a much more difficult time.”

Director, Scandinavian advisory firm

Executive summary

“Some investors are still looking at real estate in Europe as capital preservation. They are not looking for outsize returns, but security.”

Director, pan-European investment bank



The search for secure, stable income in 2019 is paramount across Europe's real estate industry as it navigates the prevailing late-cycle market while embracing new ideas that seek to combine long-term sustainability of financial performance with a greater emphasis on its role in society.

“Environment and social values are definitely having an impact. In 50 years' time, it will be inconceivable to not have incorporated these factors, because now they are being measured.”

Director, pan-European investment manager

Though the industry remains positive about business prospects the short-term outlook is more sober in most markets than this time last year, if only because they are “one year further into the cycle and one year closer to the end”. According to *Emerging Trends Europe*, there is clearly a late-cycle edge to familiar concerns around historically high values and the scarcity of suitable assets.

Interest rates have also moved on to the industry watch-list following the European Central Bank's decision to end quantitative easing by the end of 2018. The prospect of modest rate rises is not considered a threat to business in 2019 although real estate leaders acknowledge that might change if there is a geopolitical shock to the monetary system.

Indeed, European and international political instability are among the key concerns for the industry, and in that context, Brexit is uppermost in the minds of many as the due date of March 29, 2019 approaches without any clear idea of the outcome. *Emerging Trends Europe* reveals that global investors are less bothered by Brexit than their European counterparts. But the majority of interviewees and survey respondents nonetheless regard the Eurozone as a safer investment destination than the UK in 2019.

Given that the industry prizes the safety of scale, liquidity and growing economies, it is no surprise that German cities, once again, dominate the top 10 picks for 2019 despite continuing high values. Yet it is Lisbon that claims the Number 1 position for investment and development – widely viewed as a strong, late-cycle play.

Though there has been a lowering of expectations around the availability of equity and debt as the industry tries to assess the cycle, European real estate remains highly liquid overall. More than two thirds of survey respondents believe investment from Asia will increase in 2019 – boosted by an expected influx of new capital from Japan.

However, with the price of core assets at record levels in many European cities, all investors face the challenge of how to deploy capital effectively and achieve the “sustainable cash-flows” they cherish. Many are adopting “develop-to-core” strategies as a means of generating income, while a growing proportion of the industry is looking beyond the cyclical mainstream. Alternative real estate and residential – in all its forms – dominate the sector preferences of survey respondents, marking a remarkable shift in industry sentiment over the past few years.

In 2015, just 28 percent of survey respondents said they would even consider investing in alternatives. This year, almost 60 percent of respondents are already investing in alternatives in some way, and 66 percent wish to increase their holdings. Hotels, student housing and flexible offices are the sectors where current exposure is highest while student housing tops the wish-list going forward.

Emerging Trends Europe reveals an industry coming to terms with the operational risk of alternatives but also questioning traditional investment structures and looking at real estate in a much broader context. Businesses are taking a more “outcomes-focused” approach to investment, breaking down the barriers between profit-driven decisions and environmental, social and governance issues.

Chapter 1

Business environment

“The biggest challenge is finding quality assets. If anything, it’s getting harder as core assets, on the continent in particular, are tightly priced. The temptation to stray from quality assets in quality locations is there, but you have to stay disciplined.”

Director, global investment manager



“We’re late cycle but that does not mean we’re at the precipice,” says a private equity investor. “It’s not late cycle 2007–08. We could be at a plateau of valuations for quite some time.”

“There is still an over-allocation of equity in global markets to real estate. There is still a large amount of that allocation coming to Europe.”

Europe’s real estate leaders remain optimistic about their business prospects in 2019 albeit less confident than they were a year ago as an air of late-cycle caution settles on the industry.

Nearly half the property professionals surveyed by *Emerging Trends Europe* indicate that profits and headcounts will be static, while the proportion of those thinking the business environment will improve in the year ahead has gone down.

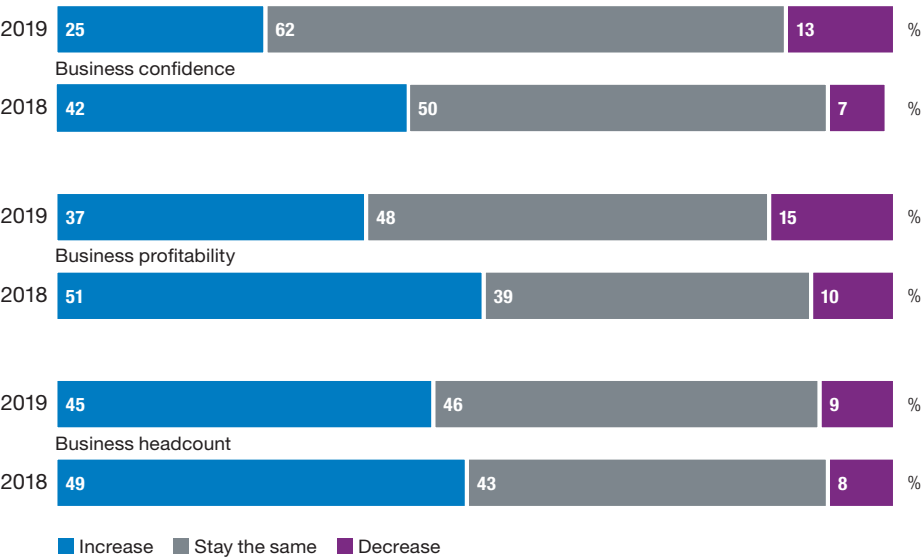
As has been the case over several years, the primary concern for the industry is the availability of suitable assets – cited by over two thirds of survey respondents this time – which serves only to underline the enduring appeal of European real estate on the global stage.

“As far as equity is concerned, there is still an over-allocation in global markets to real estate. There is still a large amount of that allocation coming to Europe,” says the CEO of a pan-European consultancy.

The slightly more sober outlook for 2019 is symptomatic not so much of wavering confidence in the continental European economy but of the unusually protracted property cycle and structural changes discussed elsewhere in this report. Some interviewees go as far to suggest the relative strength of the major European economies – and with it, occupier demand – is prolonging the property cycle.

Ten years on from the onset of the global financial crisis this late-cycle mood is evident among all interviewees although some are more apprehensive than others.

Figure 1-1 **Business prospects in 2019**



Source: *Emerging Trends Europe* survey 2019

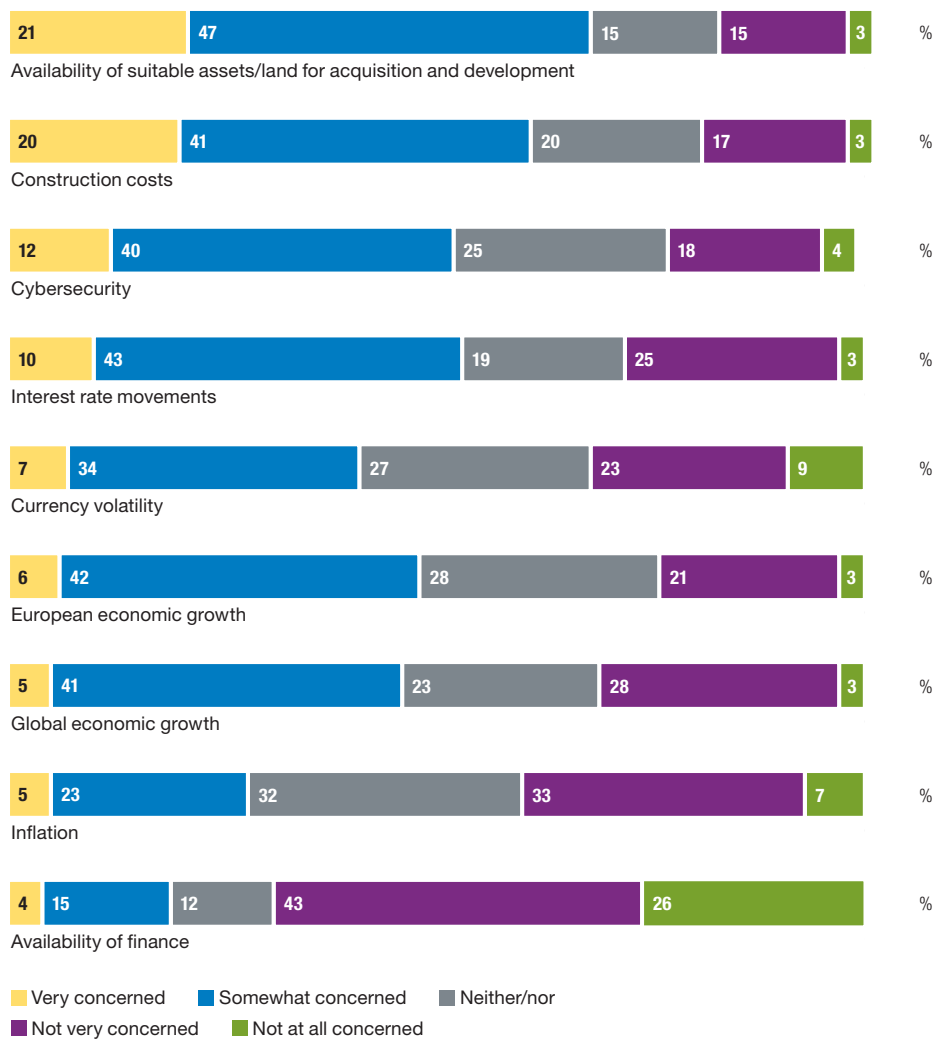
“The pricing for every asset class is now at historic high levels so we are outside the comfort zone. It is not a very healthy environment. We have decided to slow down our investments and are selling more,” says one German institutional investor. “We are at 97.5 percent occupancy, so there is not a lot we can do to drive returns even in a robust economy.”

For most interviewees, however, the issues related to availability and pricing are tempered by the belief that the industry is in good health and financial discipline is in place – at least, for 2019. “The market is tough,” says a global investor, “and that’s largely because valuations are very high right now in most places. The good thing is that the occupier market is fundamentally still quite healthy, and that positive is underpinning that strong valuation; that’s the key.”

Though some express unease at rising loan-to-value ratios in a particularly highly-priced German market, there are no undue fears over leverage across Europe as a whole.

“Real estate has grown as a proportion of the balance sheets of many institutional investors because it has provided the yield and returns that other asset types have not. In that sense, they are more exposed. But the good thing is that if leverage levels remain modest, the debt providers really shouldn’t be bearing that much risk in the next downturn. The equity providers will be holding that risk, and that’s arguably where the risk should be,” says one global investment manager.

Figure 1-2 **Issues impacting business in 2019**



Source: *Emerging Trends Europe* survey 2019

“There is an enormous amount of risk in the system. Geopolitical risk is everywhere; there is no safe haven today.”

Some in the industry draw comfort from a market with “more equity in the system” than at the previous peak and, equally important, the restraint shown over speculative development during the past decade. “The market is balanced in most European countries,” says a Belgian interviewee.

The signs are that restraint will continue, not least because the second biggest concern for 2019 is construction costs – labour and materials. According to one pan-European adviser: “Construction capacity and construction prices are a major risk factor now for developers in several countries. Capacity decreased after the global financial crisis, and now more people want to build and material costs are increasing.”

Here again, the late cycle is informing sentiment. As one German developer explains: “In previous years you could be sure that your cost overruns would have been compensated by higher sales pricing and yield compression. Going forward, that may not be the case anymore. You have to watch construction costs more carefully.”

One pan-European fund manager concludes: “For most of the bigger markets we are one year further into the cycle and one year closer to the end. But I believe we have another good couple of years to go until things correct and it will not be a severe correction like the financial crisis. The market has matured, and you see the shift [by investors] from sectors like office to residential. It will not be too severe unless there is a major geopolitical incident.”

Indeed, the geopolitical backdrop to investment is hard to ignore. According to one global investor: “There is an enormous amount of risk in the system. Geopolitical risk is everywhere; there is no safe haven today.” Others see geopolitical events as putting a “periodic safety valve on the market that pulls everybody’s risk-tolerance back”. That is certainly true of the UK where Brexit remains a matter of growing concern as the due date of March 29, 2019 draws closer without any clearer sense of the outcome. As a consequence, the UK represents the one major exception to the economic equilibrium ascribed to Europe generally.

Despite investment volumes holding up well in 2018, the industry believes the UK economy is destined to underperform the Eurozone following its departure from the European Union (see page 13). “That doesn’t mean it’s bad, just that it underperforms,” says one private equity player. “Whether it’s 50 or 100 basis points of GDP, that underperformance is significant. Therefore, in terms of investment decisions and underwriting in the UK, you’re looking at a relatively weaker-performing economy.”

Political risk rises

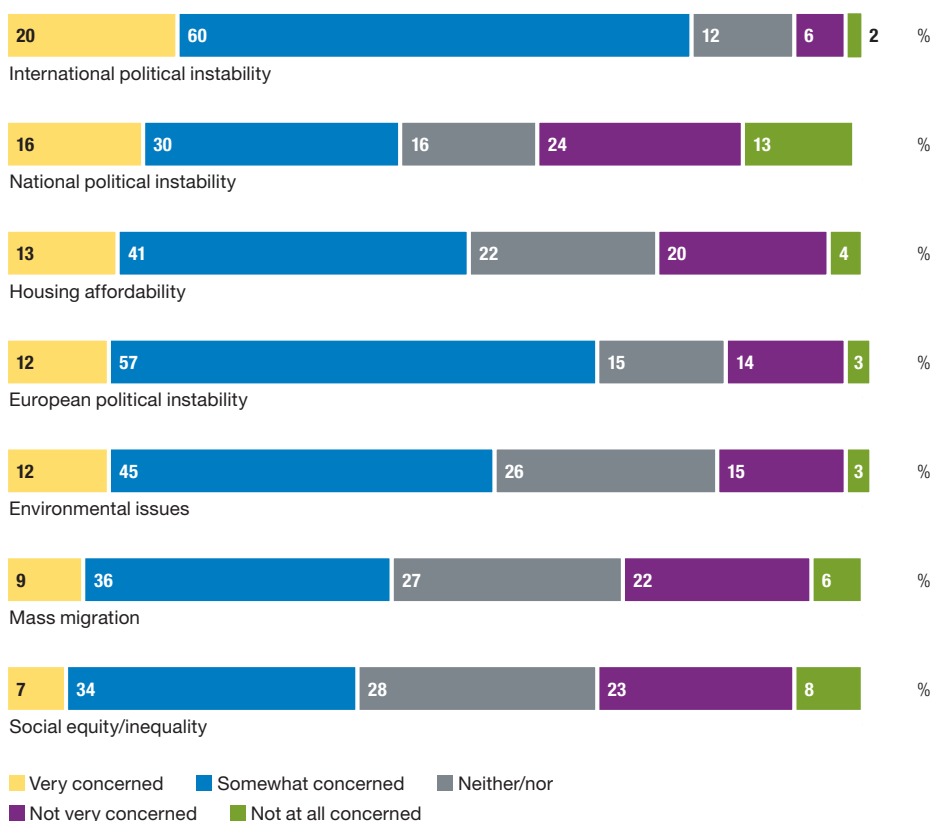
Brexit is doubtless one reason why European political instability is a key social/political issue for the industry in 2019, rating the second-highest level of concern (69 percent) after international stability. At the same time, the survey indicates that national political instability is not considered to be quite so acute as previous years when there were widespread fears over the threat of nationalism. Those fears have been allayed – at least until the next round of general elections – although the interviews reveal lingering political concerns, notably with the governments of Italy and Turkey. “There are general issues with political unrest around Europe and concerns over the viability of Italy in the Eurozone,” says one pan-European investment manager. “Turkey is a small market and not really an investment destination for us, but it has the capacity to be destabilising for Europe generally.”

Others are pressing on, regardless of the political noise. “In Italy we have a Milan-focused portfolio, and we are not seeing it being affected at all by the political situation there,” says one global private equity player. “We are selling assets in Milan at sub-4 percent yields – there is a huge buyer universe out there.”

When it comes to social/political issues in 2019, however, the threat of international instability is by far the biggest concern among survey respondents, just as it was last year. This time, the interviews were conducted in summer 2018 when the imposition of tariffs between the US and China was high on the news agenda. Not surprisingly, the threat of trade wars is now on the industry agenda, too.

As one German interviewee observes: “It seems far away from continental Europe, but it will have an impact in Germany as an exporting country and may be quicker than we think. It will affect general sentiment, and general sentiment is the main condition for a good business environment.”

Figure 1-3 **Social issues in 2019**



Source: *Emerging Trends Europe* survey 2019

“There are significant risks if the trade war escalates. You can see pockets of that effect already in certain trade flows,” says a global investment manager. Another global manager adds: “We’re watching carefully to see what happens in the major ports – whether tariffs have an impact on the traffic coming in and out of ports. The ports facilities also happen to be some of the more tightly priced logistics assets. It’s easy to see how terrorism and or trade wars could impact the facilities.”

Most interviewees believe a global trade war is potentially damaging to business, but its impact is difficult to quantify at the moment and will most likely materialise after 2019. Like Brexit, the uncertainty over the outcome is the biggest frustration for the industry. “You need to have a little visibility, and it’s like being in the middle of a storm,” says one French CEO. “I have no clue where it is headed, no clue.”

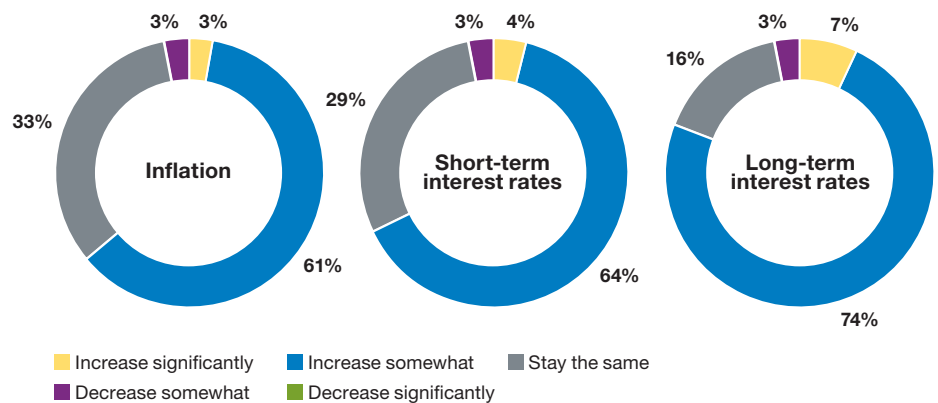
Interest rate caution

There is, at least, more clarity around interest rates following confirmation by the European Central Bank (ECB) that it will end its €2.5 trillion stimulus programme by the end of 2018 with the proviso that it will keep base rates at record lows until the middle of 2019. The decision had been well-trailed, and unsurprisingly Europe's real estate industry overwhelmingly expects the loss of the quantitative easing prop to the economy to feed through to a rise in short- and long-term interest rates at some point in 2019.

Yet for most interviewees, the prospect of mainland Europe following the UK and the US and raising interest rates is not a threat to business in 2019. Many believe that increasing interest rates will be offset by growth in rents, or as one French interviewee puts it: "We consider that an increase of another 200 basis points in interest rates can be absorbed without a big hit on valuations."

In short, there is an expectation of modest, containable rate increases. In that respect, *Emerging Trends Europe* reflects little change from last year's report in its immediate outlook. Longer-term, it is another matter. Some interviewees ponder the idea of Europe charting a Japan-esque 10- or 20-year path of low inflation and low interest rates, but that is a minority view. Some 60 percent of survey respondents believe interest rates and costs of finance will worsen over the next five years.

Figure 1-4 Interest rates and inflation in 2019



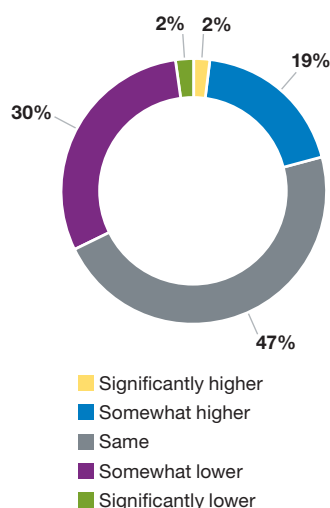
Source: *Emerging Trends Europe* survey 2019

In effect, interest rates have moved on to the industry watch-list. Many interviewees agree that a geopolitical shock to the system would accelerate rate rises and, as one German fund manager acknowledges, "could cause some trouble so that alternative investments become more attractive [than real estate] and we see outflows of money". At the same time, some of the specialist bankers canvassed this year report a brisk trade in prudent property clients refinancing loans at favourable rates while they can.

On an altogether bigger scale, one German banker warns: "I worry about the impact of the ECB ending its bond-buying programme. When that happens, countries like Spain, Portugal, Italy and Greece will have to fund themselves in the capital markets, which is something they haven't really done since 2008. If they can't sell bonds at interest rates of less than 5 or 6 percent, then essentially, they can't fund themselves."

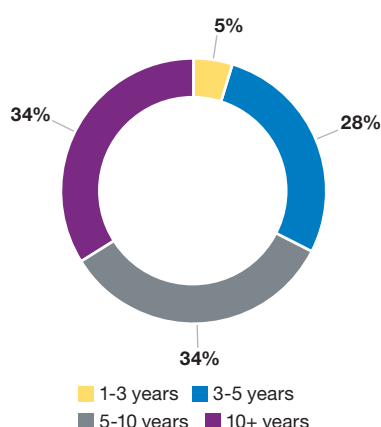
"We consider that an increase of another 200 basis points in interest rates can be absorbed without a big hit on valuations."

Figure 1-5 **Returns targeted in 2019 compared to previous year**



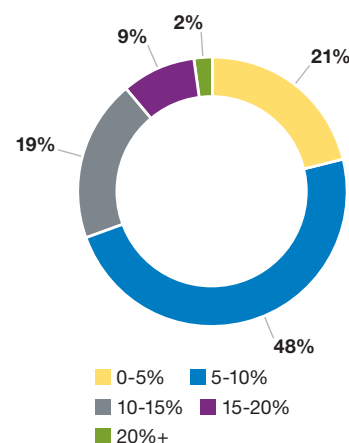
Source: *Emerging Trends Europe* survey 2019

Figure 1-6 **Time horizon for holding investments**



Source: *Emerging Trends Europe* survey 2019

Figure 1-7 **Returns targeted in 2019**



Source: *Emerging Trends Europe* survey 2019

Searching for income

The combination of the late property cycle, the geopolitical uncertainty and the rising interest rate environment has reinforced the need for secure, long-term income. For many, the search for income is the main, guiding narrative for European real estate investment in 2019. “Many investors will trade capital growth, which almost certainly is finished, for rental stability and growth,” says one investment banker. “Any asset getting a predictable level of income is in demand, and real estate is in that role. The demand side is still good; the ability to satisfy that demand is more variable.”

One pan-European investment manager stresses the importance of “sustainable cash-flows” and “ensuring we get the buying decisions right”, adding: “At this stage in the cycle, a lot of risks are on the downside, not the upside. The challenge now is assessing those risks and adding value, and so outweighing some of those potential, wider market risks and the risk of rates increasing, yields moving out.”

Though there are “endless amounts of money”, adds a German interviewee, investors are nonetheless careful about where to invest and at what level:

“Capital is looking more on downturn scenarios than ever before. Investors are looking at assets which are replaceable, where you have a high level of sustainability in terms of prices and rents.”

According to successive *Emerging Trends Europe* surveys, return expectations have been progressively scaled down over recent years, and once again, some 30 percent of respondents say they are targeting lower returns in 2019. In doing so, they still maintain that real estate has an edge over other investment asset classes. But as one private equity investor says: “We are just a little more cautious about where we are in the market cycle. What we don’t want to do is invest in the final piece of the cycle with twice as much money and the same return targets.”

Even so, many interviewees and survey respondents believe there are plenty of value-added opportunities around Europe – with ample debt finance available to boot – although they are evidently not in the sustainable cash-flow camp. And at this stage in the game, according to one pan-European institutional investment manager, a value-added strategy risks “promising the moon and delivering something different”.

But if sustainable income is paramount for the majority, there are numerous ways of achieving it. A growing number of market players are what one global fund manager calls “exit yield agnostic”. They are focused entirely on income – in other words, “the return component investors can control”. This approach implies investors will target good-quality assets – essentially sticking to core or core-plus – with strong income streams, almost irrespective of pricing.

One investment manager with exposure to logistics in Germany is less concerned with the high prices in that sector – and in that country – than with the strength of covenant. The argument here is that the equity and corporate bond yields in listed logistics operators are still less than the yields they produce as tenants. “But it’s the same counterparty. When clients think about allocating to real estate and what they expect to get out of it, it’s much less about the market going up and down and much more about what is the counterparty risk? What is the cash-flow and am I exposed to geopolitical risk?”

Others favour allocating more capital to less cyclical alternative real estate sectors, which has been one of the significant trends of recent years and is clearly gathering pace. “We see demand for alternatives remaining very strong because of yields, compared with the more mature sectors,” says a pan-European institutional investor. According to another institutional investor, higher returns may have been an initial attraction of alternative real estate but more importantly “we have started to really understand the operational risk and we are now more capable of analysing it properly”.

It used to be the custom that as each market peak was passed, the enthusiasm for alternative sectors waned and investors reverted to the traditional sectors: office, retail and industrial. That no longer appears tenable. All the signs are that the need for sustainable income and the push into alternative real estate – or “demographic investing” as some call it – will continue long after 2019. Nearly half the survey respondents expect the availability of suitable assets to worsen over the next five years.

“We see demand for alternatives remaining very strong because of yields, compared with the more mature sectors.”

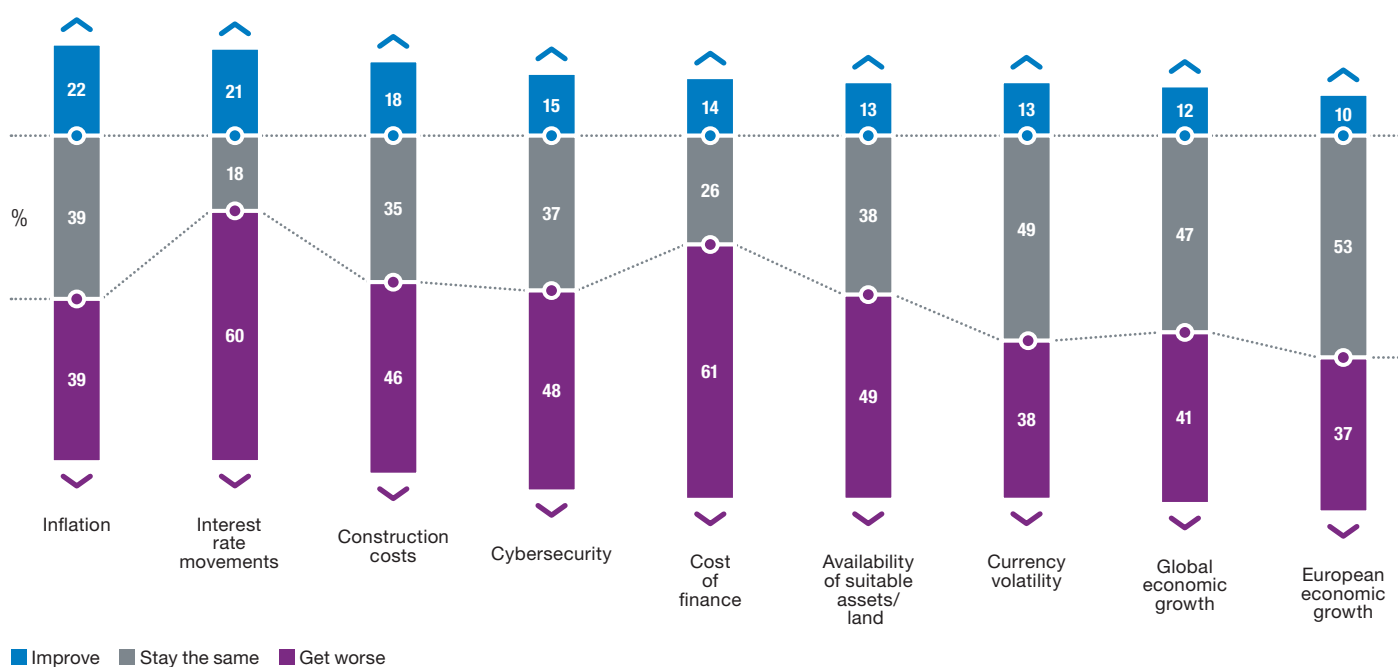
Broadening investment

The interviews go further, indicating that the coming five years will be a pivotal period for the industry, the challenges going much deeper than the conventional supply/demand dynamics of commercial real estate, or even a market downturn.

Though social inequality is not the main concern for 2019 in the survey, some interviewees refer to it as one of the biggest issues facing the industry over the medium term because it will set the political agenda across Europe. Others cite the pressure on the built environment brought on by urbanisation. Many refer to the risk of obsolescence as real estate struggles to keep up with technology and rapidly changing consumer behaviour.

“Real estate provides the places where people work, live and play, receive education and healthcare. It’s the backbone of society, and it’s very difficult to get comfortable if society on the whole is on the verge of very significant changes,” says one global fund manager. “How we invest pension fund capital and get it to continue to grow is affected by all these things.”

Figure 1-8 European business environment in the next 3–5 years



Source: *Emerging Trends Europe* survey 2019

One investment manager's answer involves re-allocating capital "in a material way towards social infrastructure, assets that are required by society and down-weighting in conventional sectors, particularly retail, which is about trying to be in highly desirable assets and avoiding assets that will become obsolete".

If anything, the blurring of boundaries between traditional and alternative real estate – as predicted in previous editions of *Emerging Trends Europe* – is now a fact of life in the industry.

As one property company CEO concludes: "We have to make sure our buildings are flexible enough to cope with whatever is coming in 10 years' time. We have no control over that, but it will drive what we do. We have to look at the megatrends that are driving human behaviour – ageing population, growing population, structural shortage in housing, structural oversupply in retail property, a younger generation that is completely digitally enabled. We will have to be much quicker in evolving our product. The future will be much more about mixed-use communities."

UK faces Brexit reality check

More than 70 percent of Europe's senior property professionals believe the UK's ability to attract international talent will fall following March 29, 2019, whether it is a soft, hard or no-deal Brexit.

As many as three quarters of survey respondents believe that business relocations will increase to continental Europe in 2019 as a result of Brexit while similar numbers predict a decline in UK investment and values.

For the UK, these are bleak numbers given that the survey was conducted in mid-2018 when there was evidence that investment volumes and occupier demand for offices in London were holding up well.

The interviews indicate that non-European investors are less bothered by Brexit than their European counterparts. Even so, an overwhelming 83 percent of respondents expect a divergence in economic growth between the UK and the European Union in 2019.

One private equity player suggests that until Brexit, the UK represented 25 percent of European GDP while attracting a disproportionate 40 percent-plus of capital flows. "We've just said to our clients, that's gone now. The UK has lost a big piece of its competitive advantage."

According to most pan-European investment managers canvassed for this report, their institutional clients are "nervous about their allocations to the UK" going forward, despite capital and rental growth. "They just look at the UK and think it's fraught with risk," says one.

A good number of interviewees equate such risk with opportunity. For the majority, however, the Eurozone is seen as a safer and more fruitful investment destination than the UK in 2019.

Figure 1-9 Business impact of Brexit in 2019

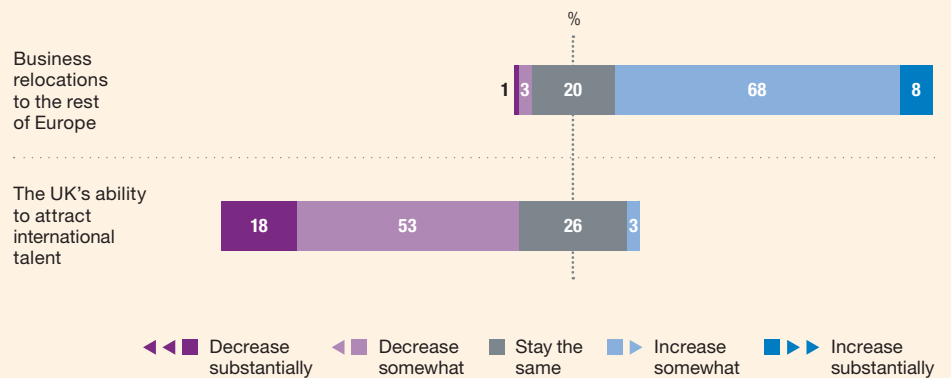
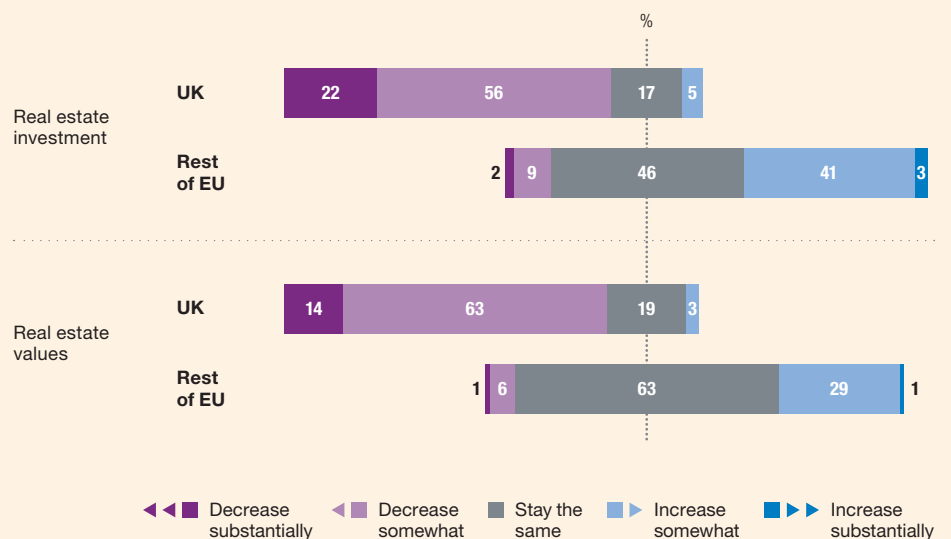


Figure 1-10 Impact of Brexit on real estate in 2019



Top trends

Working around income creation

This late in the cycle and with commercial real estate values already very high, the common goal for many in the European property industry is secure income.

Interviewees are reflecting much more on the “downside risks” than in last year’s *Emerging Trends Europe* although the mood is lightened by a widespread belief that supply and demand at the occupier level remain balanced in most cities.

“The late cycle could go some time still,” says one pan-European private equity partner. “But in terms of any cap rate or yield shift, that is no longer going to be what drives real estate values, and so we’re going to work around income creation.”

Another pan-European player is more cautious: “Capital growth has mostly played out, and the areas that are performing in the UK now are being driven by income growth. We will increasingly see that in continental Europe too. In some segments, decompression in yields will moderate returns over the next 18 months.”

In response, the industry is seeking its “sustainable cash-flows” in a variety of ways. Many of those who are sticking with commercial real estate have adopted a build-to-core strategy. Debt is increasingly regarded as a sound, defensive means of exposure to the sector. There is also a marked shift of capital into residential and alternatives – the late cycle lending an urgency to long-term demographic influences.

It seems highly likely the interest in residential and alternatives will grow, given the pricing and availability of suitable core assets. “There is still an opportunity to buy under-managed real estate,” says one pan-European fund manager. “It is about how quickly interest rates rise and how robustly rents grow at the same time. There will be growth on the rental side, but the best may now be behind us.”

“The late cycle could go some time still. But in terms of any cap rate or yield shift, that is no longer going to be what drives real estate values, and so we’re going to work around income creation.”

Where's the risk?

The consensus from Europe's real estate industry is that it is coming towards the end of a good run: almost all of its major markets have recovered from their 2008–2009 downturn; for their commercial property, supply and demand are pretty much in balance, if not tight; and investors and lenders do not appear to be heading for a feeding frenzy, piling large amount of debt on slim equity underpinnings.

So where is the risk hiding? Investors complain that quality, core assets are hard to come by and point to “over-priced” markets. But the signals from our interviews are that European real estate leaders are treading cautiously and resisting the temptation to continue bidding up prices. Indeed, some have been selling – to an increasing array of non-European investors with different return/risk criteria.

But the search for yield and income is now edging the industry out of its core comfort zone. Some are moving into alternative or niche areas, like student accommodation, which require more operational expertise. “If you're not able to raise the income on your asset and yields blow out you're exposed. If you have assets where you can grow the income, or you're in a sector where income is growing then you're less exposed,” says a global investor.

Others are going down the value-added, build-to-core or development route.

“What we are doing more of, is things that are growth-orientated and taking development risk or lease-up risk in markets where supply is tight and rents are growing so we can make returns by taking on risk,” says a global investor.

Development in certain sectors is definitely on the increase – JLL's forecasts indicate that office completions over 24 European cities will increase significantly in 2019 and 2020 before dropping back in 2021.

But the risk is hard to judge. As a percentage of existing stock, the supply coming in the next few years is not, in most major markets, overwhelming: mostly in the 1-2 percent range. Interviewees say that banks have been reluctant to fund speculative projects, insisting on pre-lets. Alternative lenders may be more open-handed, but they are still a minor part of the debt market.

“The ability to find value and deploy capital is extremely challenging,” says a pan-European investor with a stellar track record of calling the market's twists and turns. “The biggest change that we have to accommodate will be the end of substantial quantitative easing, negative interest rates and high liquidity, which have boosted all asset classes in the last few years.”

“The biggest change that we have to accommodate will be the end of substantial quantitative easing, negative interest rates and high liquidity, which have boosted all asset classes in the last few years.”

“We are spending an increasing amount of our time on residential around the world, and that includes Europe – anywhere we can get access to housing at scale. The fundamentals in these markets are good.”

Affordable housing in demand

“Every major city in Europe has the same issue: lack of affordable housing, lack of social housing and lack of senior care ... the problem is just getting worse and worse,” says a partner with a pan-European private equity firm.

For many in the real estate industry, the corollary of this widespread problem is a reallocation of capital to residential, which has been reflected in *Emerging Trends Europe* for some time. But this year, the interest in housing has reached a higher level.

The same private equity partner believes Europe’s private rented sector (PRS) has undergone “a critical change from niche to institutional” – in other words, similar to the US multi-family sector.

At the same time, more than half of the survey respondents are concerned about housing affordability as a significant social issue in 2019, which is around the same proportion as previous years. Yet as each year goes by without any tangible improvement in housing affordability, so the supply/demand dynamics seem more compelling to the industry.

“We are spending an increasing amount of our time on residential around the world, and that includes Europe – anywhere we can get access to housing at scale,” says one global private equity player. “The fundamentals in these markets are good.”

The fundamentals look even better against the cyclical uncertainty surrounding commercial real estate. As one global investor says: “We are focusing on those sectors where we think income might be more resilient, which is often residential, student housing or senior living.”

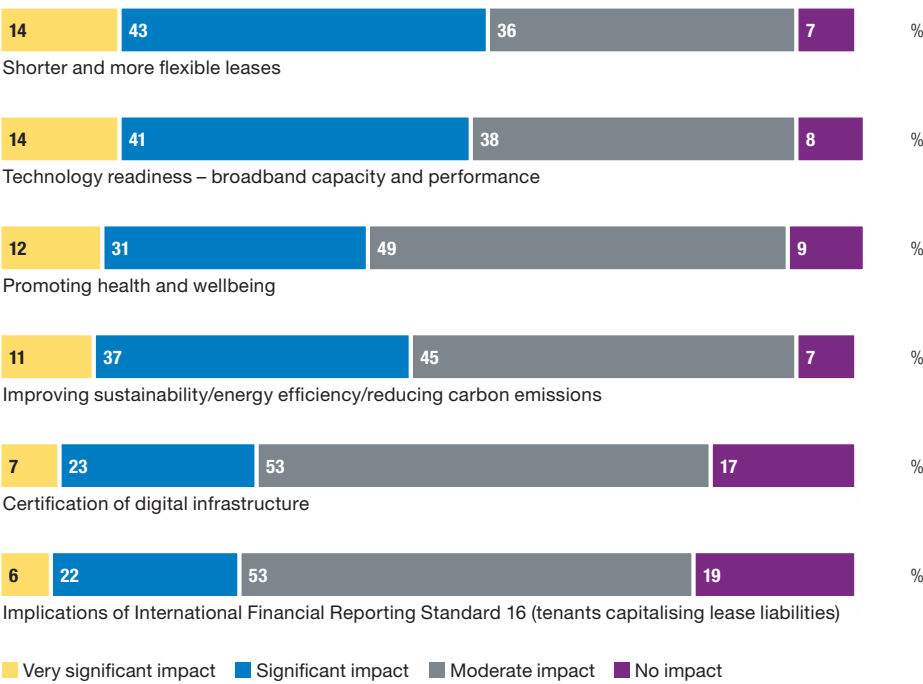
Housing is also integral to the industry discussion around mobility of companies and their employees. In Munich, for instance, one investment manager says: “Residential prices are so high that it becomes hard for companies to relocate there, they can’t find the workers. That is a real issue.”

So far, the very specific response to demand from the millennial generation has come in the form of micro-apartments and co-living – the latter, says a German fund manager, is “one way for people to afford to live in the biggest cities”.

However, the lasting solution to housing affordability will surely come simply from building many more homes of all types. According to *Emerging Trends Europe*, the industry is ready and willing.

“The last few years have seen an increasing institutionalised investment market in the accommodation space,” adds one pan-European private equity player. “It includes multi-family, student, and senior. It is a big market, but it is in its infancy, and it is not capitalised with the right long-term capital. So, it’s a trend that has started but will continue.”

Figure 1-11 Factors influencing real estate strategies over the next 3–5 years



Source: *Emerging Trends Europe* survey 2019

“We have to be ahead of the game as far as possible in thinking about the happiness of tenants. In the end, they pay the rent and we want to find the highest rent and the most loyal tenant in the long term.”

Happy tenants

Not so long ago, the idea of promoting health and wellbeing would have been dismissed as irrelevant to the real estate industry, yet nearly half the survey respondents believe it will have a moderate impact on strategies over the coming five years. More tellingly, perhaps, 43 percent acknowledge it will have a significant impact.

“We have to be ahead of the game as far as possible in thinking about the happiness of tenants,” suggests one pan-European fund manager. “In the end, they pay the rent and we want to find the highest rent and the most loyal tenant in the long term. And then the cap rate is the outcome.”

As it turns out, the survey puts health and wellbeing almost on a par with such long-established influences on the industry as sustainability and energy efficiency. But importantly, the driver here is not regulatory force but occupier demand.

For many interviewees, occupier wellbeing falls into their Environmental and Social Governance policy. It is also an example of property as a service, which *Emerging Trends Europe* has highlighted in recent years.

“Occupier views on health and wellbeing are increasingly important,” says a fund manager. “They are certainly a feature of our investment decision-making process.”

Many of the interviewees talk about the “demand for more flexibility” among occupiers so that they, in turn, can respond to the needs of their workforce. “If people are not happy and satisfied with their business environment,” says a global institutional player, “then it becomes difficult for the companies that are the tenants. Then they can make the decision to leave, and when the notice comes, it’s too late. That’s where intensive asset management is very important.”

Another global player concludes: “You’ve got to stay ahead of the trends and respond to them. Fundamentally what it means is that you need to invest more. The days of buying real estate, holding it for 20 years and doing nothing, are long gone.”

Chapter 2

Real estate capital markets

“Investors are lowering their risk-adjusted returns or keeping them the same, and everybody is trying to get longer-dated, annuity-style products out there. Bonds still look unattractive, stock markets are volatile, you’re getting nothing on your cash, and you are getting a decent yield on real estate.”

Director, pan-European investment manager



“There remains a significant amount of capital interested in property in all shapes and sizes,” says one global investment manager. “The biggest challenge is finding quality assets and portfolios in which to invest. If anything, it’s getting harder as core assets, on the continent in particular, are tightly priced.”

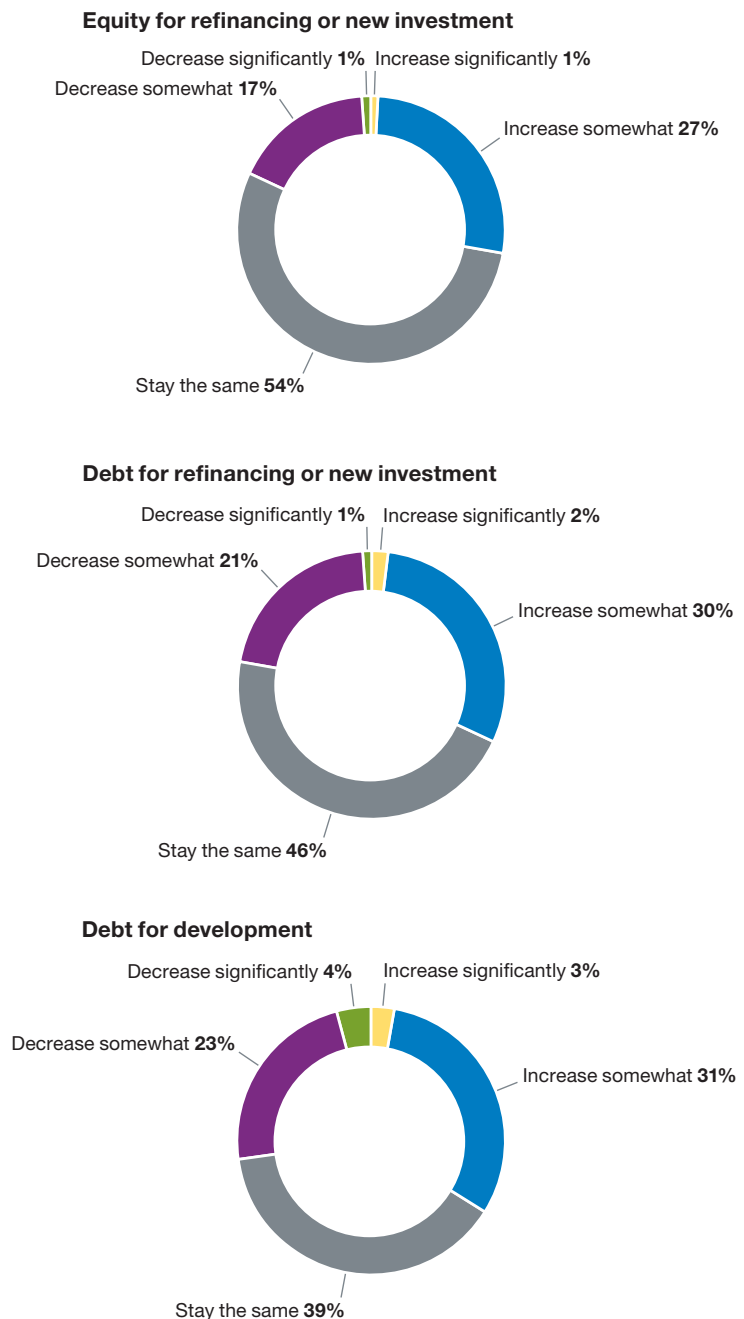
This is a common sentiment among *Emerging Trends Europe*’s survey respondents and interviewees, reflecting the fierce competition for assets arising from the sheer weight of capital bearing down on European real estate.

Against that backdrop, the outlook for capital markets in Europe in 2019 remains positive although there has been a lowering of expectations around the availability of equity and debt as the industry tries to read the cycle.

Some 28 percent of survey respondents believe the amount of equity available for refinancing or new investment will increase, compared with 50 percent last year. The figures are similar for debt.

While that indicates less confidence in the capital markets than last year, it is coming off a very high base. With few exceptions – notably retail in the UK – real estate markets remain highly liquid despite some nervousness that pricing of prime assets is high by historic standards.

Figure 2-1 Availability of equity and debt in 2019



Source: *Emerging Trends Europe* survey 2019

Figure 2-2 Real estate investment in European countries Q4 2017–Q3 2018 (€ bn)



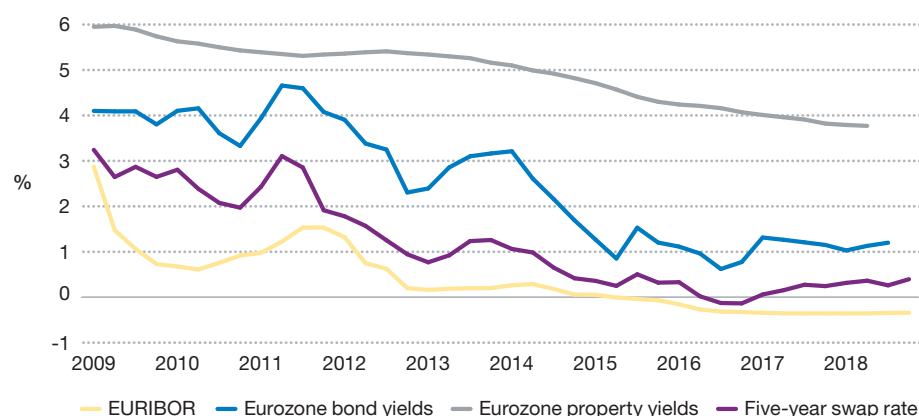
Source: Real Capital Analytics
Note: Figures are provisional as at 22nd October 2018

“There’s just so much money in the world that has to get invested, so as soon as something falls in value, everyone piles in and that raises the price again,” says one investment banker.

“A lot of sovereign wealth funds but also a lot of wealthy individuals see a generational opportunity to buy a trophy asset and take a very long-term view,” one agent adds, picking up on a big theme this year – increasing inflows of equity from wealthy individuals rather than just institutions.

“The interesting thing we’re seeing – and Asia is a part of this – is increasing capital from high-net-worth individuals, not only directly into real estate trophies but into funds and real estate across the board,” says one private equity investor. “We’re seeing an increased flow from high-net-worth or super-wealthy individuals who view the equity and bond markets as no longer offering them return and are therefore looking at real estate as a place to get return. It’s pretty significant.”

Figure 2-3 Eurozone property yields and interest rates, 2009–2018



Source: CBRE, Datastream, European Central Bank

As for the lowering of expectations around capital availability, the difficulty in putting money to work at this point in the cycle is clearly a factor. “With this kind of investing environment, raising capital for new funds is certainly not getting easier, because investors aren’t stupid,” says one global fund manager. “They see what’s going on in the underlying market and how challenging it is to find good investments. So, they’re more cautious about where they want to commit their money.”

At the same time, there is very little fear that debt will precipitate another downturn in the short or medium term.

“Financing is stable and supportive of transactions without posing a risk,” one global private equity investor says. “The pricing of debt, both senior and mezzanine, feels appropriate,” another says. “One thing that happened in the previous crisis is that debt became very mispriced. We think the returns you can generate are appropriate for the amount of risk you have to take. We don’t see a credit bubble, and we are in a functioning market.”

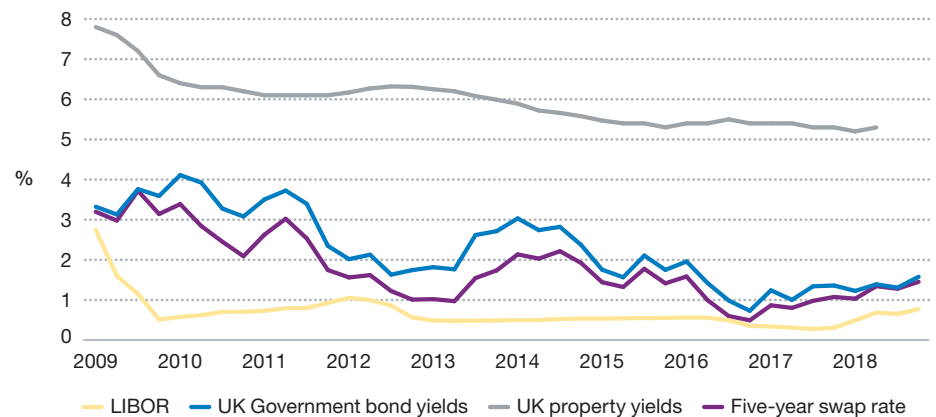
About the same proportion of survey respondents think debt for development will increase as those who think it will increase for refinancing and new investment, 34 percent versus 32 percent, and this figure is down from 46 percent last year.

By contrast, interviewees report more caution about deploying equity and debt in the UK compared with major continental European markets, given the uncertainty around Brexit.

Direct investors from Asia and the UK are still buying core property, and the UK saw the highest investment volumes of anywhere in Europe in the first half of 2018, according to Real Capital Analytics. But for anything below prime property, the situation is less easy to justify, with economic fundamentals weaker but asking prices still high.

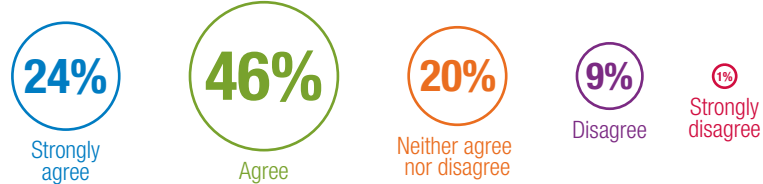
“We’re not doing anything in the UK at the moment,” one investment advisor reports. “There are some capital raises going on, but they will find it hard. It would be difficult for us to take on a value-added fund in the UK. Speaking to managers that deal with core-plus vehicles, they’ve had a hell of a job finding opportunities because the pricing is so hot, still, which amazes me.”

Figure 2-4 UK property yields and interest rates, 2009–2018



Source: CBRE, Datastream

Prime assets are over-priced



“One thing that happened in the previous crisis is that debt became very mispriced. We think the returns you can generate are appropriate for the amount of risk you have to take. We don’t see a credit bubble.”

Debt evolution

The debt world is evolving in terms of the sources that borrowers can tap. Banks still play a significant part in the market, but this is diminishing while alternative lenders continue to grow.

In the UK, for instance, data from Cass Business School show that banks now hold 74 percent of the £164 billion of debt outstanding against commercial real estate, compared with 98 percent in 2007.

This shift is likely to continue. Some 55 percent of survey respondents believe lending from non-traditional debt providers will increase in 2019. Just 27 percent predict lending from banks will rise, compared with 42 percent last year, while 29 percent forecast a fall.

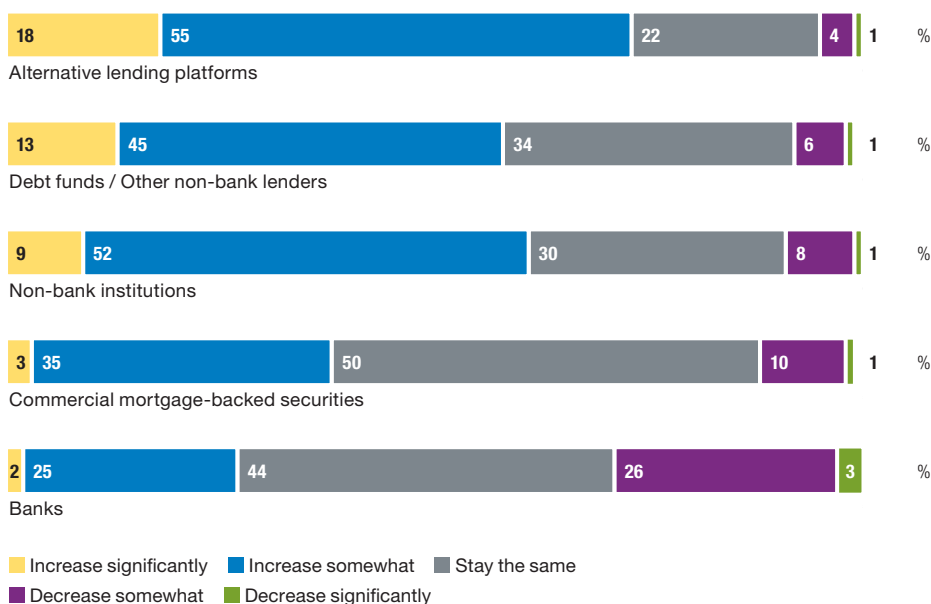
For insurance companies and institutional investors, debt is increasingly viewed as a way of investing defensively at the top of the cycle, whether it is being undertaken directly or through investments with debt fund managers.

“I see us being far more conservative on the equity side and far more focused on income return, and that takes us down the debt route as a debt provider,” one global institutional investor says. “This year, more than 70 percent of our flows will be in commercial real estate debt.”

“We have finished raising capital for a [pan-European] mezzanine debt fund,” a global fund manager says. “We closed that with a little over \$1 billion of commitments, and it could have been more. My preferred investments in this kind of market are debt and develop-to-core. That’s where I see, from the investment side, the best risk-reward balance.”

For banks, that reduction, if it comes to pass, will be partly attributable to not wanting to be burned again, with the memory of 2008 still fresh.

Figure 2-5 **Sources of debt in 2019**



Source: *Emerging Trends Europe* survey 2019

“There is a lot of liquidity targeting the market, which creates risk, and loan-to-values (LTVs) are increasing, and we don’t really want to increase our LTVs too much,” one banker says. “We are holding firm on our LTVs and our pricing. A lot of our competitors are not, so we are losing business, but we don’t want to take on more risk.”

But it is also a secular trend, the result of regulation that is designed to limit systemic risk in the banking sector as prices in real estate markets increase.

“The European Central Bank regulates this market very heavily, every lender has to fulfil strict capital criteria and hold more equity against real estate loans,” another banker says. “As values get higher you have to put aside more equity, so those requirements will always limit the volume of new loans.”

“I see us being far more conservative on the equity side and far more focused on income return, and that takes us down the debt route as a debt provider.”

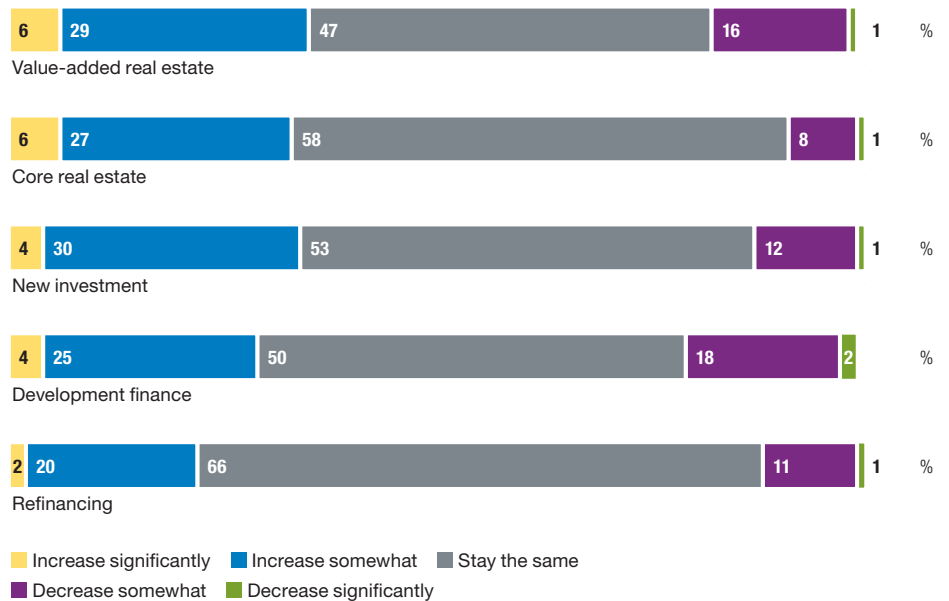
Pricing problems

With the price of core assets at record highs in almost every market bar those with major macro issues like Moscow or Istanbul, investors are presented with the challenge of how to hit return targets. For some in the industry, this means targeting value-added real estate, and indeed marginally more survey respondents (35 percent) expect to be able to secure senior debt here than for core assets (33 percent). However, twice as many people think debt for value-added will decrease compared with core – 16 percent against 8 percent – and so this is a mixed picture. It is worth noting that in interviews, the value-added contingent say they do not want to take on too much extra risk.

A key element here is the move of core investors towards “develop-to-core” or “manage-to-core” strategies. Rather than heading to secondary markets or buying in secondary locations, such investors are increasingly comfortable taking leasing risk in strong locations in core markets, either through refurbishment or even ground-up development. The develop-to-core movement helps explain the relatively high 29 percent of respondents who believe access to development finance will increase in 2019.

“The build-to-core idea applies almost universally, and it is a function of the fact that development financing has been restricted – more so in Europe than in the US,” one global fund manager says. “There just hasn’t been enough development to satisfy demand. It depends on which pot of money, but a good chunk of our value-added money is going into refurbishment of older assets. We’re also doing ground-up development in Europe.”

Figure 2-6 Access to senior debt in 2019



Source: Emerging Trends Europe survey 2019

Investors are taking on more risk to achieve target returns



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

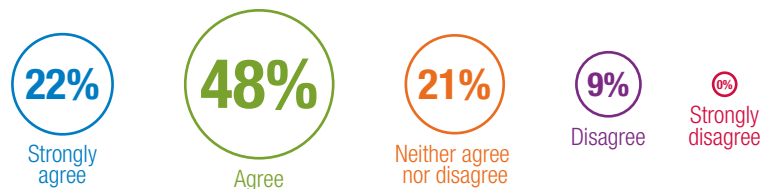
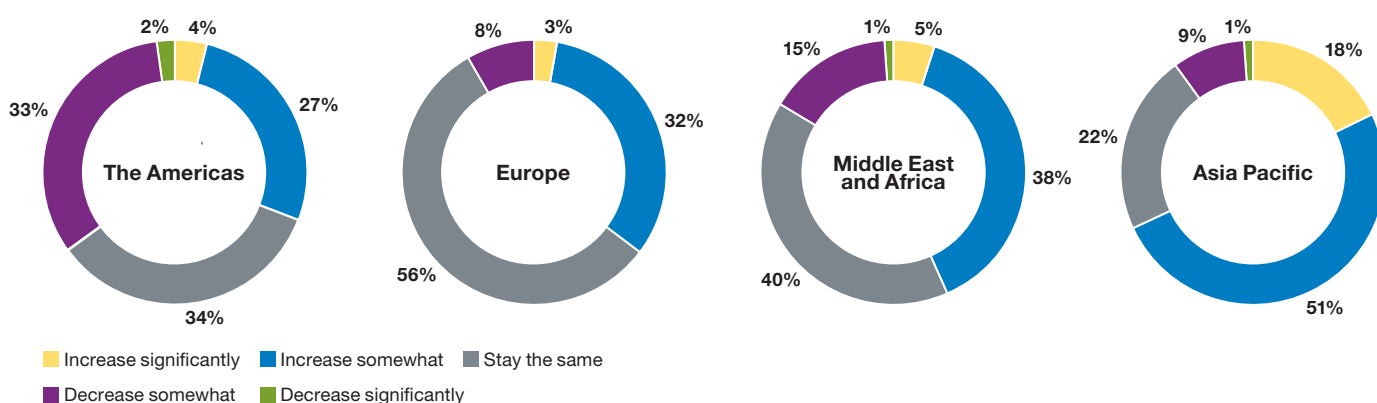


Figure 2-7 Cross-border capital into European real estate in 2019



Source: *Emerging Trends Europe* survey 2019

New sources of equity

When it comes to equity, European real estate is like a busy nightclub – as soon as one group leaves, another seems to be ready to take its place.

Chinese capital has been severely reduced because of capital controls introduced by the government to control capital flight – as highlighted in last year's *Emerging Trends Europe*. But the expectation is that Asian investment into European real estate as a whole will continue to grow – 69 percent of survey respondents think investment from Asia will increase, the highest proportion of any region.

Koreans and Singaporeans are investing now, but there is a lot of excitement among interviewees about an influx of capital from Japanese pension funds, notably Japan's Government Pension Investment Fund (GPIF), which has \$1.2 trillion of assets. GPIF has been permitted to invest in global real estate for the first time and has recently awarded its first real estate fund of funds mandate. Japan Post, which has more than \$500 billion of assets, is also looking to diversify beyond its domestic market.

"The Japanese are coming; that door has just opened, mandates have been awarded," one global fund manager says. "But for most Japanese institutional investors they are not investing directly but via funds and multi-managers. Most market participants won't see it as Japanese capital, but just in deals by investment managers. But it is very significant in volume and will help mitigate the fall in volumes from Chinese investors."

Another says: "They are increasingly showing up on managers' radars. They have a lot of capital to deploy."

However, there may be something of a gap between perception and reality with capital flows. Asian investors might grab the headlines, but they only accounted for €9 billion of the €124 billion invested in Europe up until mid-September 2018, according to Real Capital Analytics although this does not take into account commitments to funds, only direct investment.

Western European players were by far the largest group, investing €63 billion, followed by UK investors, who deployed €21 billion, albeit mostly in their home market.

Liquidity is expected to remain high from this domestic investor cohort, with more than half of survey respondents expecting them to maintain current levels but a third predicting an increase in 2019.

The third largest investor group is North Americans with €20 billion invested over the same period, and again survey respondents expect this to continue, with a third expecting levels to increase. Though US investors have focused on opportunistic and value-added assets in Europe, interviewees say they are now moving down the risk curve.

"Some of the opportunistic US investors are now looking at European core, which is quite unusual because they've always said they wanted a premium in Europe, to offset currency and tax," one US-backed fund manager says. "But I think that's now going away, and because we're late cycle they want to de-risk."

"We've had a significant increase in interest from the US in our core-plus product," one pan-European fund manager adds. "US investors still need something for currency risk because it costs to hedge that risk, but they don't need 500-700 basis points of incremental return over core."

Attractive alternatives

Alternative real estate and residential – in all its forms – dominate the sector preferences of survey respondents, marking a remarkable shift in industry sentiment over the past few years.

In 2015, just 28 percent of survey respondents said they would even consider investing in alternatives. This year, almost 60 percent of respondents are already investing in alternatives in some way, and 66 percent wish to increase their holdings. Hotels, student housing and flexible offices are the sectors where current exposure is highest while student housing also tops the wish-list going forward. More generally, alternatives are supported by strong demographics, and they are seen as part of the industry's structural change towards operational assets and property as a service.

There is also a sense that in this cycle, the shift to alternatives has taken the place of the move into secondary property that occurred during the last cycle – hopefully with more profitable results.

“If you think back 10–12 years and you were in a similar situation of high prices, we bought secondary assets in secondary markets with too much leverage to try and improve returns,” one global pension fund investor says. “We are trying to avoid that this time around. This time we have gone into alternatives where there is more operating risk. Time will tell whether it's the right decision.”

“We have invested a lot in the private rented sector, student accommodation, outlet malls and affordable hospitality. We think some of these sectors will actually be more resilient in a downturn. And once we have access to the operations as well we think it is actually a risk mitigator as you can see changes in performance coming sooner, and you can do something about it rather than it coming as a surprise.”

Table 2-1 **Sector prospects in 2019**

Overall Rank	Investment	Rank	Development	Rank
1 Co-living*	 4.40	1	 4.25	1
2 Logistics facilities	 4.34	3	 4.24	2
3 Retirement/assisted living	 4.34	4	 4.22	3
4 Flexible/serviced offices	 4.29	5	 4.12	4
5 Data centres*	 4.36	2	 4.11	5
6 Student housing	 4.21	6	 4.08	6
7 Private rented residential	 4.19	8	 4.07	7
8 Serviced apartments	 4.21	7	 4.05	8
9 Housebuilding for sale	 4.00	13	 3.96	9
10 Social housing	 4.04	10	 3.95	10
11 Healthcare	 4.14	9	 3.93	11
12 Affordable housing	 4.03	11	 3.92	12
13 Hotels	 4.02	12	 3.85	13
14 Science parks*	 3.93	14	 3.78	14
15 Industrial/warehouse	 3.90	15	 3.76	15
16 Self-storage facilities*	 3.57	18	 3.74	16
17 Central city offices	 3.83	16	 3.61	17
18 Parking	 3.64	17	 3.46	18
19 Business parks	 3.47	19	 3.22	19
20 High street shops	 3.34	20	 3.08	20
21 Suburban offices	 3.23	21	 3.04	21
22 City centre shopping centres	 3.16	22	 2.78	22
23 Retail parks	 3.16	23	 2.78	23
24 Out-of-town shopping centres	 2.75	24	 2.45	24

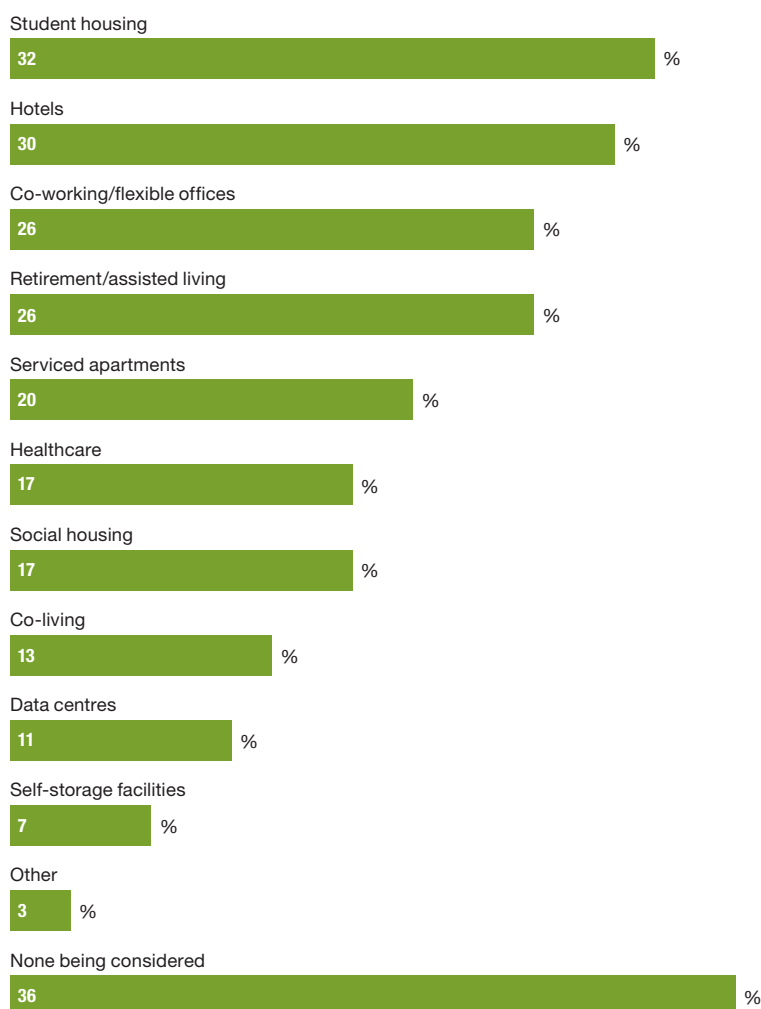
 Generally good = above 3.5  Fair = 2.5–3.5  Generally poor = under 2.5

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

*A significantly lower number of respondents scored this sector

Source: *Emerging Trends Europe* survey 2019

Figure 2-8 Niche sectors being considered in 2019



Source: *Emerging Trends Europe* survey 2019

Note: Respondents could choose more than one category, so percentages do not add up to 100.

In terms of the sectors identified by respondents as having the best prospects for investment and development, seven of the top 10 sectors represent some form of residential product.

“We are finally working on a strategy for residential,” says an insurer. “It’s been something we have been working on for a long time. Multifamily, PRS, whatever you want to call it, it is proving a topic that won’t go away as urbanisation continues. As it becomes more of a societal topic, more institutional investors will become involved.”

Co-living comes top for both investment and development prospects, and it is here that wariness about the difference between perception and market reality would be prudent.

Co-living is clearly interesting, offering the chance to increase density in residential buildings and maximise occupation.

“Demand for the not-so-mature asset classes like student housing and serviced apartments has been pretty good, and because of the rise of the millennial generation you are also seeing demand grow for sectors like co-living,” one CEO says.

“Multifamily, PRS, whatever you want to call it, it is proving a topic that won’t go away as urbanisation continues.”

But it is worth noting that just 6 percent of survey respondents say they are investing in the sector. And while there is no shortage of evidence from the interviews supporting the structural shift towards higher-density, amenity-focused residential assets, there is some scepticism about the benefits of co-living and micro-apartments.

“People are talking about shared serviced apartments, co-living, but that is only really for young, unmarried people. I think reducing the size of dwellings is a social disaster,” one chief executive says. “If you take a holistic view of the world, what pressure and stress does that then put on individuals, families and communities?” another asks. “As an industry, we talk about building sustainable communities. But moving everybody into living in micro-apartments, is that really sustainable?”

Aside from residential, data centres score well, but again just 7 percent of survey respondents are active in the sector today.

By contrast, many in the industry are already active in logistics, and there is little sign that investors feel the wind in the sails of this mainstream sector will blow out any time soon. The move from investing in “big box” logistics facilities to “last-mile” edge-of-town urban logistics also continues apace, spurred by e-commerce. “We like last-mile for all the obvious reasons, plus the high underlying site value,” one fund manager says. Survey respondents and interviewees alike consistently cite logistics as expensive, but few feel this is putting them off the sector entirely, whether that is as an investor, developer or lender.

Reticence over retail

The flip side of the e-commerce-driven boom in logistics is the structural change being brought to bear on traditional retail property. The issues facing retail have been widely acknowledged for some time, but this year the concerns over the sector appear to have risen to a new level.

“Maybe very prime assets will be okay, but even they have risks,” one German financier says of retail. “It comes partly from the US, you rarely find a US investor that wants to invest in retail because of their domestic problems, and they have been among the biggest investors in European retail.”

In terms of sector preferences, out-of-town shopping centres come last among survey respondents, and the three other retail sectors, retail parks, city-centre shopping centres and high street shops, are in the bottom five when it comes to expectations for returns from investment and development.

“The biggest dilemma for everyone in the retail space is, you’ve got to spend to stand still, and that’s not a natural state of mind for a lot of property investors. But if you don’t spend, the outlook is pretty grim.”

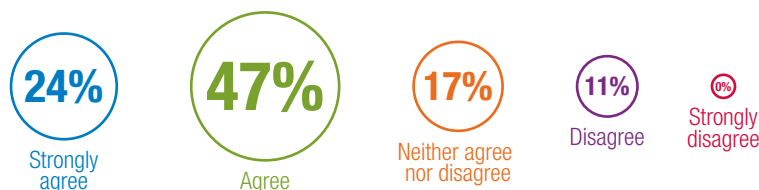
“People are underestimating how much online and e-commerce is impacting retail,” one opportunity fund manager says. “I think it will be really quite bad. What we’re now looking to do is buy existing retail product, B and C quality shopping centres, and make a return by tearing them down and building new leisure, residential and logistics space on them. Tear them down, people don’t want to go to bad schemes any more. We haven’t found the opportunities where it’s cheap enough yet. What we are doing is buying well-placed land.”

The reticence is greater when it comes to the UK, which has more retail space per capita than continental Europe. But it is by no means exclusive to the UK.

“Even in Germany, where you have big, dominant centres with 90 percent fashion, they need to be more 50/50 split between retail and food and beverage and leisure, and you won’t necessarily get the return from investing that capital,” one global fund manager says. “The biggest dilemma for everyone in the retail space is, you’ve got to spend to stand still, and that’s not a natural state of mind for a lot of property investors. But if you don’t spend, the outlook is pretty grim.”

And yet, capital investment in retail is problematic. It is the one sector where interviewees suggest that availability of debt and equity is declining significantly. “The performance of the assets hasn’t changed at all but the perception of them has,” one insurance company investor says. “Institutional investors are asking themselves, is the sector really a core area? And for value-added investors, the price hasn’t dropped enough yet.”

Occupiers are willing to pay for shorter leases and enhanced flexibility



"We're seeing some lender pull-back from retail generally," one opportunity fund manager says of the debt landscape. "That is an area where debt is shrinking and becoming more expensive."

Even so, there is also a feeling from some interviewees that while conditions are bad now, the market will find its level, and buyers will emerge.

"You are starting to see headlines in the US, saying the death of retail might have been exaggerated, which we have been screaming for the last two years," one major European retail landlord says. "It's really frustrating because bad news sells, but perhaps things aren't quite as bad as we might have thought."

"We are not afraid of retail and we are buyers," one opportunity fund manager adds. "What we have seen from our own assets is that for good assets, net operating income is holding up or rising. We see the opportunity to buy good assets that have been badly managed at very compelling prices, because there is such a negative sentiment to the sector, you can buy at very high yields and that's a big opportunity. You can buy in logistics at a 4.5 percent yield or retail at a 6.5 percent yield, you have to lose a lot of income from retail before your retail yield drops that far."

Transforming offices

Unlike retail, one could argue that the office sector is thriving on major change – in this case, the rapid rise of flexible offices and co-working.

In London in 2017, this sub-sector accounted for more than 15 percent of all office take-up, and it is expanding in other major European cities, driven by both the rush for growth of giants like WeWork and IWG, and the myriad smaller operators that are being pulled along in their wake. Survey respondents rank it fourth for development prospects and fifth for investment prospects, up from seventh last year.

As with any new trend, however, the industry divides between the evangelical and those who remain unconvinced.

"Co-working is absolutely changing how we deal with space, and WeWork is transforming our industry," says one convert – a global fund manager. "I do think there's a case for them being the Amazon of our industry, in the way Amazon was to the retail industry. They are now entering the agents' space, taking over those corporate relationships with their enterprise partners. They are fundamentally changing the way people use space, which is obviously appealing to CFOs but also, you get a culture pick-up from it as well."

Another global fund manager proclaims: “I think it’s absolutely here to stay. WeWork is the absolute benchmark. Even if things get tough in the downturn, their model is such that [major backer] Softbank will ensure that they survive. They’re knocking the competition out of the water because of what they’re doing in terms of the buildings they’re taking, the scale they’re creating, the cities they’re going into. It means they can be the one-stop shop for a lot of their enterprise partners.”

On a more cautionary note, the CEO of a pan-European consultancy says: “People are quite clearly focusing on the co-working sector. One will see actually how it performs in the longer term because it is a buy long, sell short market, and that tends to get knocked when the cycle goes against it. But at the moment, it seems to be attracting more and more interest.”

Others point out that the boom in flexible offices does not just entail swapping long leases for short, it is also exacerbating the trend towards occupiers having a smaller overall footprint and focusing on the office as a place where people come to collaborate. “It is forcing occupiers to think about their space requirements, so offices in general are being challenged,” concludes one global player.

There are enough similar sentiments expressed by interviewees this year to suggest that the office sector is undergoing a similar structural change to that experienced by retail. The real change happening here may not be simply an emerging demand for flexible offices, but actually a wholesale shift, driven by changes in how we work, technology and urbanisation – and a more demanding customer. Having to “spend to stand still” is one interviewee’s observation on the retail sector’s woes, but this sentiment could equally apply to the office market in years to come – whether that expenditure takes the form of keeping offices appealing, or transferring profit margins to businesses like WeWork, TOG, Convene, Industrious or Breather.

“People are quite clearly focusing on the co-working sector. One will see actually how it performs in the longer term because it is a buy long, sell short market, and that tends to get knocked when the cycle goes against it. But at the moment, it seems to be attracting more and more interest.”

Chapter 3

Markets to watch

“Urbanisation will continue and accelerate. The cities are where people will live, work, shop and spend their leisure time. That will lead to a more sophisticated offer in each of those sectors and the continued evolution of our cities.”

CEO, UK REIT



“It’s not just about investing in London, Paris, Frankfurt and Amsterdam. There can be a whole second tier of cities that win on a number of different measures.”

With some of Europe’s major markets judged to be peaking, attention is shifting to smaller, dynamic cities: the “rising stars”.

“It’s not just about investing in London, Paris, Frankfurt and Amsterdam. There can be a whole second tier of cities that win on a number of different measures,” says a pan-European investment manager.

Lisbon is this year’s choice for overall prospects, rising 10 places to Number 1.

Interviewees cite the city’s “quality of life” and “positive” leadership. Plus, it is seen as a late-cycle play. Portugal’s economy is growing at a healthy clip, and its capital is now an international destination for companies, investors and tourists.

“It’s on everyone’s platter of cities they like,” says a European fund strategist.

The 10 European cities that are expected to fare best in 2019 are a mix of these smaller newcomers and the larger, tried and tested markets. Given that Europe’s property industry prizes the safety of scale, liquidity, and growing economies, it is no surprise that German cities still dominate *Emerging Trends Europe’s* top 10 picks for 2019.

At Number 2, Berlin has many devoted fans: “Everybody wants to be there, and rents are going through the roof,” says a pan-European investor. Frankfurt and Hamburg follow Berlin in popularity, at Numbers 5 and 7 respectively. Brexit is expected to benefit Frankfurt, although the scale of the shift away from London is questioned. But the presence of the European Central Bank, Frankfurt’s transport links and the “relatively low cost of living compared with London and Paris” are considered attractions.

Figure 3-1 Europe’s 10 most active markets, Q4 2017–Q3 2018 (bn)



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

Table 3-1 Overall prospects, 2019

Overall Rank		Investment	Rank	Development	Rank
1	Lisbon	4.27	1	4.19	1
2	Berlin	4.12	3	4.11	2
3	Dublin	4.19	2	4.01	5
4	Madrid	4.08	6	4.03	4
5	Frankfurt	4.08	5	4.03	3
6	Amsterdam	4.04	7	3.94	8
7	Hamburg	3.99	9	3.99	6
8	Helsinki	4.10	4	3.83	13
9	Vienna	4.01	8	3.90	11
10	Munich	3.91	14	3.96	7
11	Paris	3.95	11	3.91	10
12	Luxembourg	3.92	13	3.93	9
13	Copenhagen	3.95	10	3.83	14
14	Athens	3.92	12	3.83	12
15	Oslo	3.81	16	3.71	17
16	Lyon	3.82	15	3.72	16
17	Prague	3.75	17	3.68	18
18	Zurich	3.65	20	3.80	15
19	Stockholm	3.69	18	3.67	19
20	Milan	3.65	21	3.60	20
21	Warsaw	3.66	19	3.46	21
22	Budapest	3.58	22	3.43	22
23	Brussels	3.47	23	3.33	25
24	Birmingham	3.39	25	3.40	23
25	Manchester	3.41	24	3.34	24
26	Edinburgh	3.37	26	3.32	26
27	Barcelona	3.32	27	3.21	28
28	Rome	3.27	28	3.25	27
29	London	2.98	29	2.90	29
30	Moscow	2.68	30	2.82	30
31	Istanbul	2.51	31	2.54	31

Generally good = above 3.5
 Fair = 2.5-3.5
 Generally poor = under 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; the overall rank is based on the average of the city's investment and development score.

Source: Emerging Trends Europe survey 2019

Table 3-2 Change expected in rents and capital values in 2019

	Rents	Capital values
1 Berlin	⬆️ 4.01	⬆️ 3.83
2 Lisbon	⬆️ 3.98	⬆️ 3.84
3 Amsterdam	⬆️ 3.92	⬆️ 3.70
4 Madrid	⬆️ 3.88	⬆️ 3.68
5 Athens	⬆️ 3.84	⬆️ 4.00
6 Frankfurt	⬆️ 3.83	⬆️ 3.73
7 Dublin	⬆️ 3.79	⬆️ 3.72
8 Helsinki	⬆️ 3.76	⬆️ 3.65
9 Paris	⬆️ 3.76	⬆️ 3.67
10 Hamburg	⬆️ 3.74	⬆️ 3.66
11 Munich	⬆️ 3.72	⬆️ 3.56
12 Luxembourg	⬆️ 3.71	⬆️ 3.54
13 Copenhagen	⬆️ 3.58	⬆️ 3.56
14 Oslo	⬆️ 3.56	— 3.44
15 Milan	⬆️ 3.54	— 3.42
16 Stockholm	⬆️ 3.53	— 3.36
17 Budapest	— 3.46	— 3.51
18 Lyon	— 3.46	— 3.48
19 Barcelona	— 3.44	— 3.09
20 Vienna	— 3.40	— 3.53
21 Brussels	— 3.39	— 3.37
22 Prague	— 3.36	— 3.34
23 Birmingham	— 3.31	— 3.18
24 Warsaw	— 3.18	— 3.31
25 Rome	— 3.15	— 3.22
26 Edinburgh	— 3.15	— 3.02
27 Zurich	— 3.09	— 3.35
28 Moscow	— 3.07	— 3.04
29 Manchester	— 3.06	— 2.97
30 London	— 2.54	✅ 2.48
31 Istanbul	✅ 2.30	✅ 2.08

Increase
 Stay the same
 Decrease

Note: Respondents scored the expected change for 2019 compared to 2018 on a scale of 1=decrease substantially to 5=increase substantially and the scores for each city are averages; cities are ranked on the basis of the average of expectations for rents and capital values

Source: Emerging Trends Europe survey 2019

Munich, however, has dropped 6 places to Number 10. Nonetheless, the Bavarian capital is viewed as “solid” and still much favoured by interviewees. “It has always had tight cap rates particularly for offices, but the demand side and rental growth side today support that relative to other markets. It is attractive if you can find the right assets,” says one.

And this, it seems, is a problem that many of those canvassed by *Emerging Trends Europe* are finding in Germany. “Berlin, Hamburg, Frankfurt and Munich are all great cities, but at the moment they are absolutely overpriced. It is almost impossible for us to find interesting opportunities,” says a pan-European fund manager.

This year’s scores indicate that around two-thirds of Europe’s major cities are thought to offer “generally good” investment and development prospects in 2019, with the remainder falling somewhere in the broadly “fair” range. But interviewees also say that many of its 31 major real estate markets are at an “advanced stage”, “close to the peak” or “overpriced”.

“It is a good healthy market, but everyone is scratching their head asking, ‘how late in the cycle is it?’,” says a global investor. And, while most respondents believe “there isn’t necessarily a correction around the corner”, they are treading more carefully.

“We are trying to be more cautious about how we set ourselves up for the next part of the cycle, reflecting on that with respect to which markets we invest in, which property types we invest in and the quality of the underlying real estate we are trying to create,” says a fund manager.

This greater wariness and the search for better returns underpin the interest in some of Europe’s smaller markets, like Lisbon and another new entrant in the top 10, Helsinki. Finland’s capital has also jumped 10 places and now claims the Number 8 spot. The Finnish economy is growing robustly, and international investors have started to join in the market; interviewees see Helsinki as another late-cycle play.

Indeed, Helsinki’s rise is in sharp contrast to its Nordic neighbours Stockholm and Copenhagen, both of which tumbled 11 places and out of the top 10: Copenhagen to Number 13 and Stockholm to Number 19. Oslo, meanwhile, remains roughly mid-table at Number 16.

Stockholm’s real estate market has been powering ahead, but residential peaked and headed south in 2018, fueling worries that its problems might trigger a wider downturn. There are similar concerns about housing in Copenhagen, where prices have surged and the authorities have restricted mortgages to dampen the boom. In Oslo, too, residential has slipped back.

However, these residential slowdowns have not spread to the commercial sectors, and *Emerging Trends Europe*’s interviewees generally take an optimistic view of the Nordic markets. Logistics is “small but booming”. In the office markets, says a local observer, vacancies are “historically the lowest we’ve ever had in Stockholm and Gothenburg, and also in Copenhagen and Oslo. So, there are opportunities on the development side in the major cities”.

And even in residential: “There are huge shortages of affordable housing to rent in all the large cities – Stockholm, Gothenburg and Copenhagen – despite the crash in the high-end Stockholm market.”

Vienna is another new entrant to the top 10. It is growing, it scores highly on quality of life, and the Vienna Central Station project is creating a 109-hectare urban district with a new railway station at its core. “It’s really about where people want to live and their jobs,” says a global CIO.

“Berlin, Hamburg, Frankfurt and Munich are all great cities, but at the moment they are absolutely overpriced.”

Figure 3-2 Overall real estate prospects



“We’re spending more time looking at Amsterdam and Madrid just because we think those markets aren’t as far along and are also very attractive.”

Three other cities – Dublin, Madrid and Amsterdam – retain their placing in the top ten this year. Two are cited as potentially benefiting from Brexit: “Amsterdam and Dublin as back-office locations”. These capitals are also seen as offering better value than such European gateways as Paris and Berlin. “We’re spending more time looking at Amsterdam and Madrid just because we think those markets aren’t as far along and are also very attractive,” says one global player.

Dublin is several years into its recovery but is still thought to have potential despite some questions over supply picking up. “It’s not just cap-rate driven. If you look really hard you can see the evidence coming through in occupational demand as well,” says a pan-European investor.

Meanwhile, Amsterdam has already attracted the European Medicines Agency; there has also been an influx of financial trading companies. NatWest Markets, Bloomberg, foreign exchange giant Cboe, and exchange traded funds specialist Jane Street Financial are all setting up EU bases there. “Amsterdam needs more office space and will face an increasing pressure on housing prices as too little new stock is allowed to be built,” predicts a Dutch investor.

And, though it has slipped a couple of places down the table to Number 12, Luxembourg is another continental capital that is capturing Brexit-based interest. Investors like the yields, which are still above other western European capitals’ and cite the Grand Duchy’s stability and business-friendly policies as attractions.

Zurich has moved up the rankings six places this year, a rise that may be partly due to the high number of Swiss participants in this year’s *Emerging Trends Europe* survey. Local players dominate the market, and they highlight technology as “the main driver”; the city’s science university ETH is one of the top 10 in the world.

In contrast, Brussels, the de facto capital of the European Union, does not inspire as much enthusiasm among *Emerging Trends Europe*’s respondents, who rank it Number 23. Although prizing the market’s steadiness, they are frustrated by the city’s transport issues.

Macron boost for Paris

Two of Europe’s major gateways, Paris and London, are given very divergent rankings. Paris’ prospects have risen, placing it just outside the top ten at Number 11. *Emerging Trends Europe*’s interviewees feel there is a “Macron boost” from the more business-friendly government elected in 2017; they are keen on the French capital, despite high prices.

London, on the other hand, now stands at Number 29 for overall prospects: third from bottom, just above Moscow and Istanbul. The UK’s regional centres – Birmingham, Manchester and Edinburgh, are also lowly ranked. Clearly, the continuing uncertainty about the form Brexit might take and how it will impact the UK economy is a concern.

But London's low position is a paradox. Ever since the Brexit referendum vote in 2016, the *Emerging Trends Europe* survey has rated the city – Europe's financial centre and its biggest, most liquid real estate market – very low on investment and development prospects relative to most of its continental European cousins.

However, this rating has not been borne out in actions. Capital continues to flow into the city from outside Europe, especially from Asia. "The UK is interesting. What you see there is a market driven by Asian investors looking for big assets and taking the chance to buy in at low yields, but yields that are still higher than in continental Europe," notes an investment manager.

Investors are also quite keen on parts of southern Europe. Madrid, which has edged up to Number 4 this year, is on many international shopping lists because of a strong likelihood of rental growth.

"The UK is interesting. What you see there is a market driven by Asian investors looking for big assets and taking the chance to buy in at low yields, but yields that are still higher than in continental Europe."

In contrast, Barcelona's prospects have been heavily downgraded this year. It has plunged from 11th place last year to near bottom at 27th. The political turmoil surrounding the Catalan region's relationship with Spain appears to be spooking some, but others are not put off. "Barcelona is surprisingly stable despite the political situation," says a global investor.

Elsewhere in southern Europe, Italy's two main centres – Milan and Rome – are further down the league. Politics may be a factor: "the only problem with Italian investments right now is the national government". Milan has slipped slightly to Number 20, but nonetheless is still highly sought by many investors; they are impressed by its local leadership, strategic vision and transport infrastructure.

Rome, on the other hand, is much less favoured and remains towards the bottom, at Number 28. "Rome suffers from local political turmoil and is very difficult to understand."

Athenian revival

In contrast, Athens, which has languished towards the bottom of the table for the previous three years, has shot up 15 places, rising to Number 14. It is very much viewed as a recovery play given that Greece's economy is reviving after the country exited from the EU's bail-out programme in 2018.

Relatively fewer of *Emerging Trends Europe* respondents are active in Central and Eastern European markets. Of these, Prague remains the favourite at Number 17, followed by Warsaw, Budapest and Moscow.

Interviewees appear sanguine about whether the political turbulence in both Poland and Hungary will affect the real estate market. Warsaw is now judged to be a major rather than emerging market, and one which may even attract some back-office Brexit outsourcing. Meanwhile in Budapest, office vacancies are low, and competition for assets is starting to compress yields.

Further east, Moscow is low down in the prospects league, seen as a recovery play only by locals and the more opportunistic pan-European investors. Geopolitical power plays and instability remain a worry. Yet though it is still hampered by sanctions and low oil prices, Russia's economy is heading for a third year of moderate growth. Unemployment is at a record low. "We see rental rates recovery, quickly shrinking vacancy and growing interest in new development," says a local.

However, political and economic travails are definitely affecting the European property industry's view of Istanbul, which remains firmly lodged at the foot of the table. Despite the city's various plus points, Turkey's macro-political risk and currency devaluation is putting most outside investors off. Locals are also predicting a difficult few years. "The biggest opportunity in this period for Turkey might be distressed assets," notes one.

Locating the winners

Given the real estate mantra that “location, location, location” is what matters most, it is no surprise that Europe’s industry leaders put transport connectivity at the top of their list when selecting the cities that they wish to invest in.

This factor is awarded the highest importance by 57 percent of those canvassed. “We look at transport infrastructure big time. We are paying more attention to roads, rail and airports, and mixed use,” says a pan-European investor.

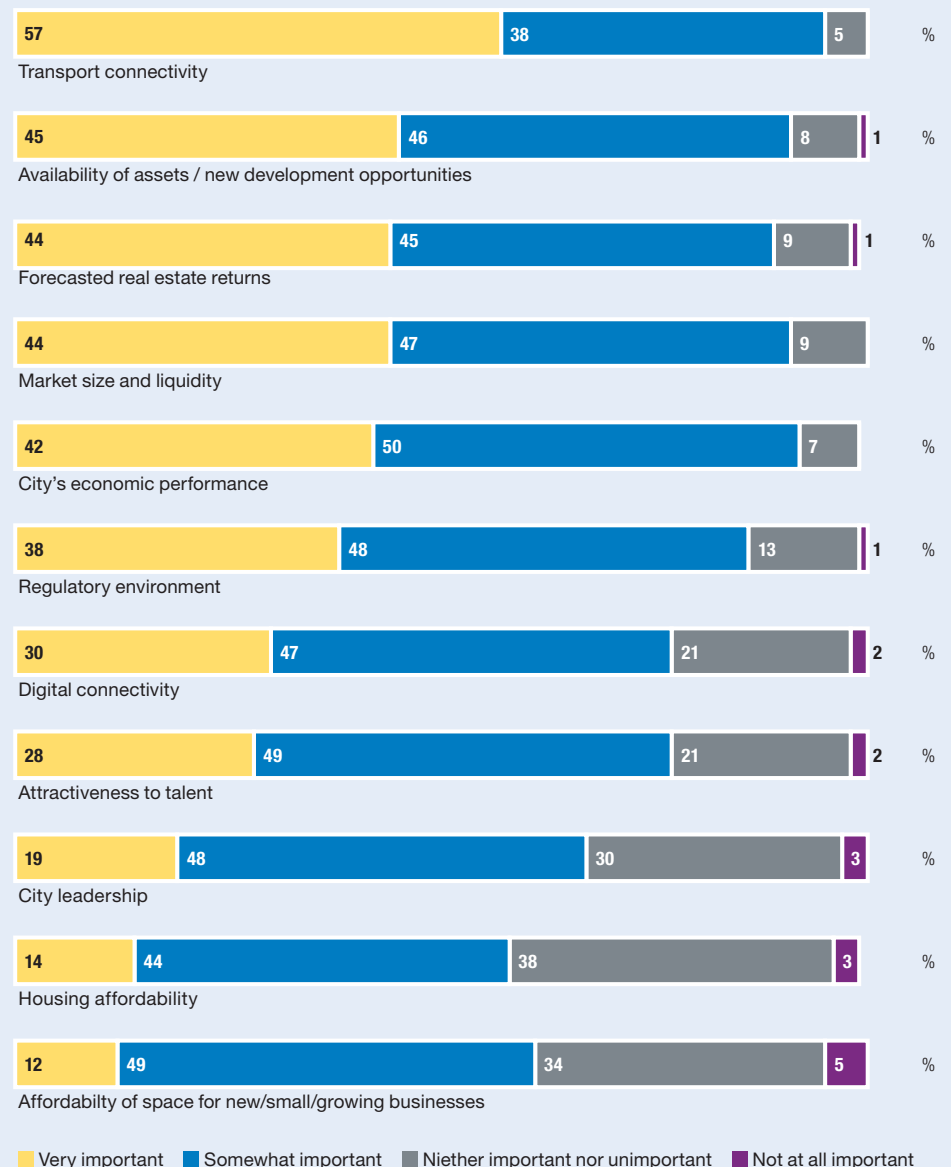
Following transport, the priorities include opportunities to invest or develop, expected returns, market size and liquidity, and a city’s economic performance. Cities’ digital connectivity and ability to attract talent come lower down the scale.

However, both these factors come up in interviews. One fund manager cites “cities that are viewed as attracting tech people with a certain quality of life” and singles out Lisbon; another points to Barcelona’s “digitisation and quality of life”.

Similarly, although city leadership is not as big a priority for survey respondents, *Emerging Trends Europe*’s interviewees give a more nuanced view. “The importance of cities has grown, and what a city can do regardless of what might be going on in a country. Milan is a good example,” says another European investor. Luxembourg also gets praise: “everything is well-oiled”, as does Birmingham’s “strong leadership”. Conversely, Brussels’ “complex political system” and Rome’s “local political turmoil” are judged to be a disadvantage.

Survey respondents also attach less importance to the affordability of both housing and space for incubating businesses. But here again, interviewees across Europe highlight a pressing need for social/affordable housing: “Whoever solves this will be a hero.”

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



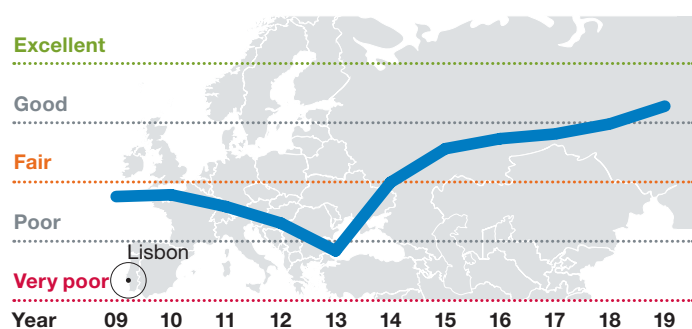
Source: *Emerging Trends Europe* survey 2019

The cities

Emerging Trends Europe ranks the real estate markets in major European cities according to their overall investment and development prospects, as shown in Table 3-1. In this section the number in parentheses shows the city's 2019 overall ranking, while the graph tracks its investment prospects over 10 years. For each city, Real Capital Analytics' transaction volumes and, where available, MSCI's all-property returns are also included.

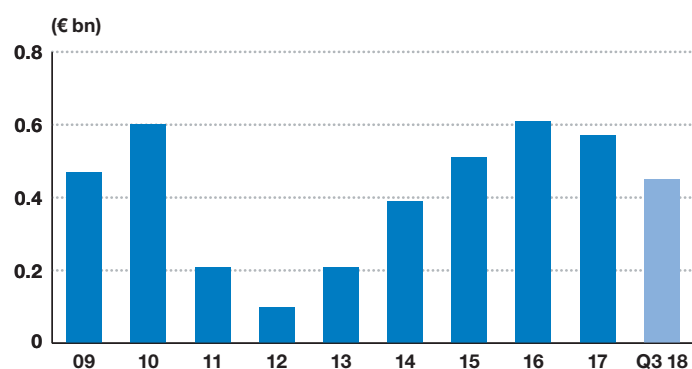
Lisbon (1)

Investment prospects, 2009–2019



Source: *Emerging Trends Europe* survey 2019

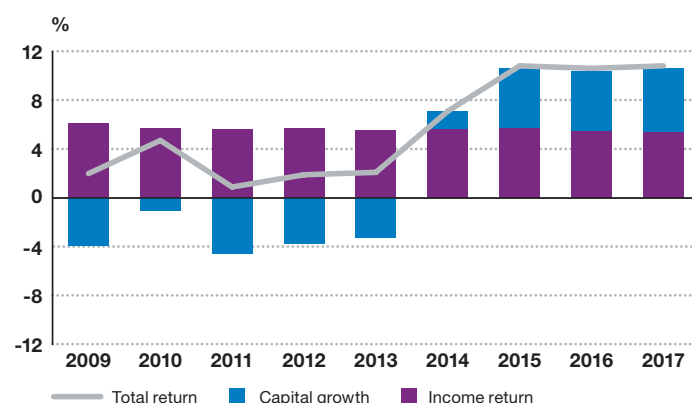
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

“Everyone is talking about Lisbon now”, says a private equity investor, as the Portuguese capital takes the top spot on the *Emerging Trends Europe* leader board.

This may surprise, as Lisbon is a small market – but it is offering outsize returns. The CEO of one Iberian firm expects to get almost 10 percent rental growth this year from its Lisbon office portfolio.

The growth is fueled by high demand from international corporates looking to expand. “Portugal has become a popular location to locate service centres and business process outsourcing. It is a combination of still relatively cheap labour and real estate, and a great quality of life,” says one agent. Tenants have to compete for space and supply is low – large, prime buildings are almost non-existent.

The city’s ongoing residential boom is an issue because it has exacerbated the shortage of office sites. “There will be an undersupply for the next two to three years, certainly,” believes one local player. Consequently, there is opportunity to do speculative office development or refurbishment.

Lisbon is also benefiting from Barcelona’s fall from grace, with some investors admitting to switching capital from Catalonia to Portugal.

“In the previous peak, the market was mainly Portuguese property funds and German funds who were all essentially looking for the same type of product,” says one local interviewee. “Today there is such a diversity of capital: of origin, of risk profile, of asset classes targeted. There are a lot of NPLs being sold, so you’ve got hedge funds and more opportunistic players as well as core.”

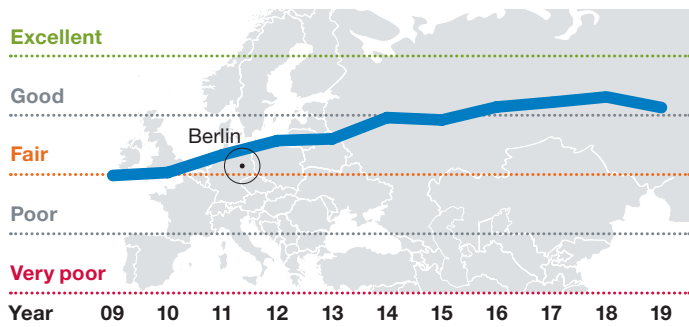
Retailers are generally doing well: Portugal has low internet penetration, thriving tourism and a population that likes to shop, partly because the retail destinations are attractive. Logistics lags the other sectors, though there are opportunities due to the outdated stock.

“Now the crowd is there, it is getting more competitive,” says one private equity partner, “but it’s still very interesting.”

“There is such a diversity of capital: of origin, of risk profile, of asset classes targeted.”

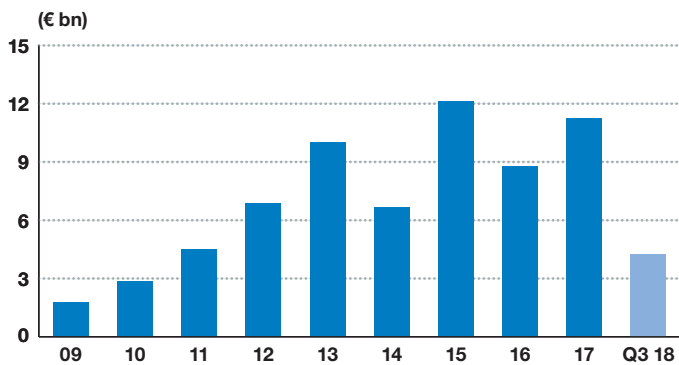
Berlin (2)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

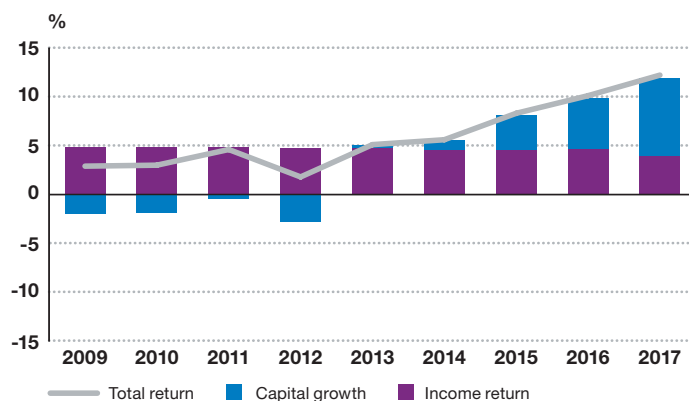
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

The industry's love affair with Berlin is set to continue into 2019 – the 30th anniversary of the city's reunification – although a first few cautious notes are beginning to creep in amid the accolades for a market that one interviewee characterises as “white hot”.

“Berlin is still everyone's global darling given the pent-up demand, the dynamic of the government, the city being a tech growth capital and the low cost of rents and operations. The problem, though, is that it probably can't support significant growth without new development,” muses an international financier. “It's a market with a lot of pent-up opportunity, therefore everybody loves it, but they have to make sure that the growth is balanced and measured so it doesn't tip over.”

The scope for development is borne out by an office vacancy rate at an unheard-of low of 2.7 percent. “In all asset classes vacancy in the core of the city has almost disappeared,” says a local broker.

Meanwhile rents and prices are rising swiftly across all asset classes. “You can't get space. Everybody wants to be there, and rents are going through the roof. The millennials want to go there. In a way it is nice that such a city in Germany is finally getting the global appreciation it deserves,” says a German investor, before adding the caveat: “But there is an immense hype about Berlin. Watch this space for a hard landing when people find that they have overpaid for assets or the space they are renting.”

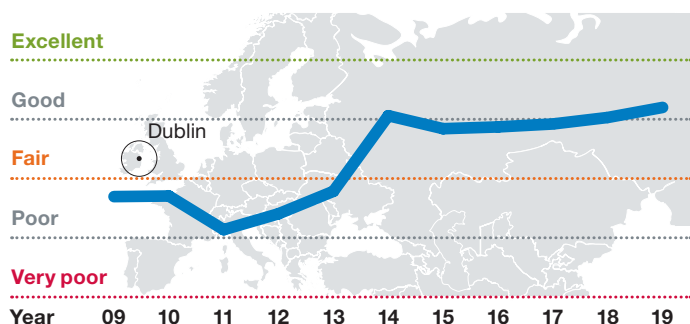
Berlin is certainly a seller's market at present, and those investors who have doubts about the future are looking towards the exit: “We've historically been a big investor there, but we've been selling assets. There's a big development pipeline building up, and it feels like there is some of the speculative fervour building there that you saw in the last cycle,” warns a pan-European asset manager.

Even so, there are supporters who maintain that Berlin is still cheap compared with Europe's other big cities. And as one interviewee predicts: “Once it gets the new airport it will get another phase of growth.”

“Berlin is still everyone's global darling given the pent-up demand. The problem, though, is that it probably can't support significant growth without new development.”

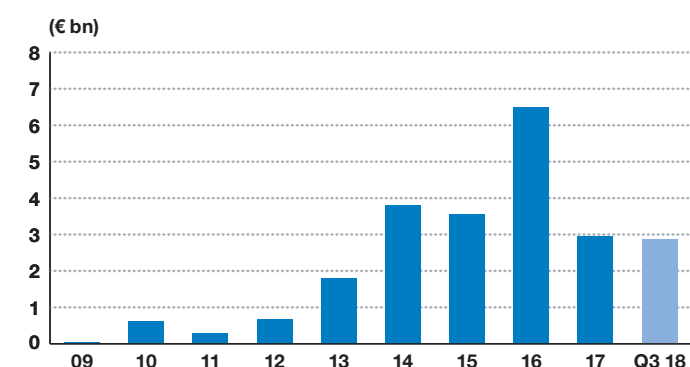
Dublin (3)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

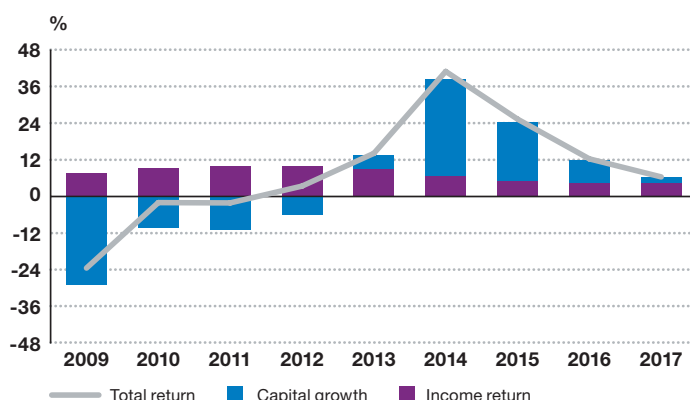
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

The world's leading tech companies are "expanding at pace" in Dublin, which explains why this relatively small city is riding high in the rankings.

Facebook, Google and their like swallowed up 43 percent of space in the first half of 2018, pushing the rolling, 12-month take-up of offices to 278,700 square metres.

"We are on a run that we haven't seen in quite some time – take-up is extremely high," says one local player while another says: "It appears there are too many obstacles in the UK... all this expansion has to be somewhat to do with Brexit."

One spin-off has been the internationalisation of the workforce, which is behind the take-off of build-to-rent housing. As much as €5 billion is targeting this, mainly in Dublin, says CBRE.

Yet Dublin's success is not just down to international demand, adds a third local player, as "domestic occupiers, partly public sector, partly professional services have been very active acquiring space in the last 12 months".

As a result, office yields have compressed to 4 percent for prime assets, driven by investors from Asia, Europe and the US. Rents have reached €700 per square metre per annum although interviewees feel they may have stabilised because there is sufficient development to meet demand. Also, Ireland has upward and downward rent reviews, so wise investors buying today at those rents would underwrite at a lower level.

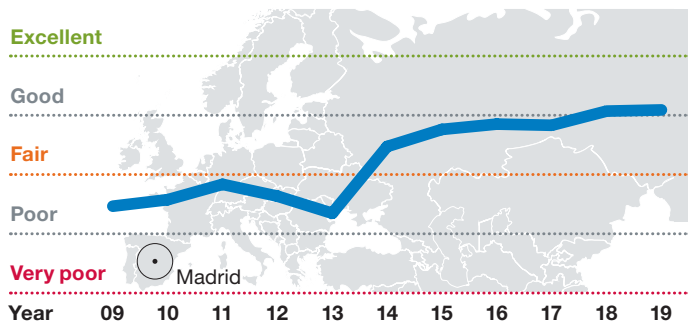
Though local government has been criticised for lack of infrastructure investment, the demand is opening up the city for mixed-use expansion. To the west, a National Children's Hospital and Digital Hub for start-ups is planned next to Diageo's St James's Gate site. The LUAS line extension north west to Grangegorman will support a new campus for Dublin Institute of Technology, one of the city's four higher education institutions, and "a screaming opportunity for developers to provide more student accommodation", says one development manager.

Meanwhile, sites around the airport and Dublin Port are tipped for strong growth in logistics. Brexit is a factor here too with Ireland's exporters and retailers preparing to reconfigure supply chains.

"We are on a run that we haven't seen in quite some time – take-up is extremely high."

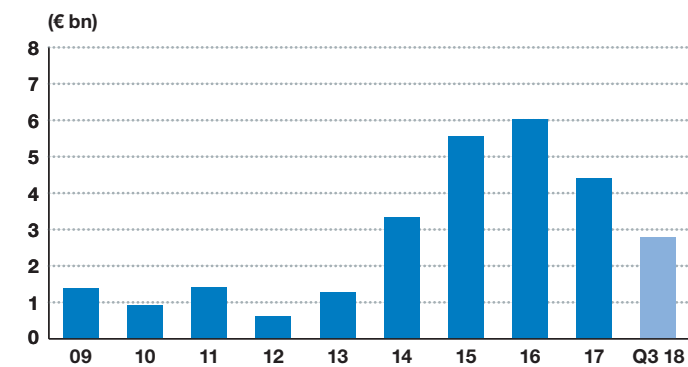
Madrid (4)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

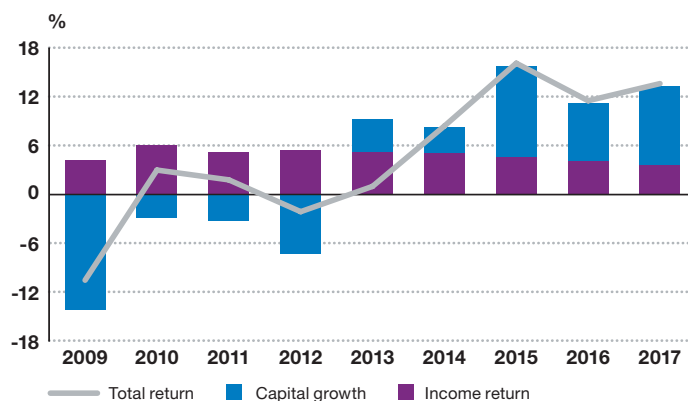
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

“Madrid is experiencing an interesting second phase of the cycle,” says the CEO of a listed company. Yield compression is over, bar “the occasional transaction at a super-low yield given the wall of capital chasing opportunities. However, we are starting to see a rental acceleration cycle”.

Economic growth has slowed slightly but is still strong and forecast to be 2.7 percent this year, while the country’s capital is expected to generate 300,000 new jobs over the next five years. “The real estate market is enjoying a significant tailwind, all tenants are enlarging their activities and hiring more people,” the CEO adds.

The chief of a global fund manager is also a fan: “The office rental levels are still low because Spain was hammered so badly, and this is a market where you won’t get any cap-rate growth. So, you are going after rental growth, and for that we would put Madrid at the top of the list.” Investors talk of refurbishing obsolete buildings in good locations to create Class A offices and improving rents from €16 to €28–€30 per square metre per month.

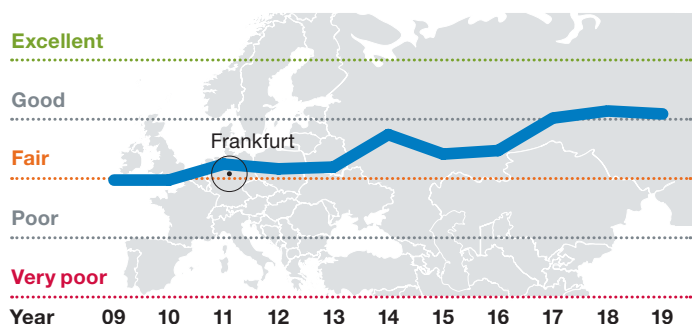
Capital has been coming from Asia, Europe and North America and recently flowing back to Spain from South America because of instability there. It targets value-added as well as core in all sectors from student housing and multi-family to retail, hotels and logistics. Logistics take-up last year was a record 920,000 square metres, 42 percent for e-commerce, according to CBRE.

Spain’s residential market is cruising, and house prices are rising most rapidly in the capital with some districts back to pre-crisis levels. As in Europe’s other big cities, demographic changes support stronger demand for rental accommodation, with research firm Green Street projecting national aggregate demand for rental housing of 265,000 new tenant households formed between 2018 and 2022. There is a wave of international investment targeting student housing, largely from Anglo-Saxon investors and operators. “Some Spanish people are very bullish in their price expectations,” says one. “We are investing in Spain, but getting it done is not easy.”

“This is a market where you are going after rental growth, and for that we would put Madrid at the top of the list.”

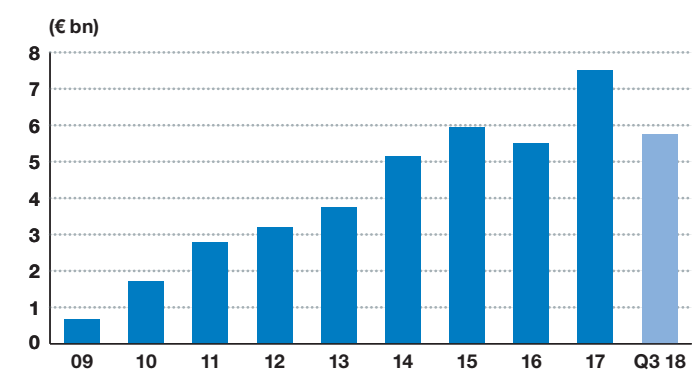
Frankfurt (5)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

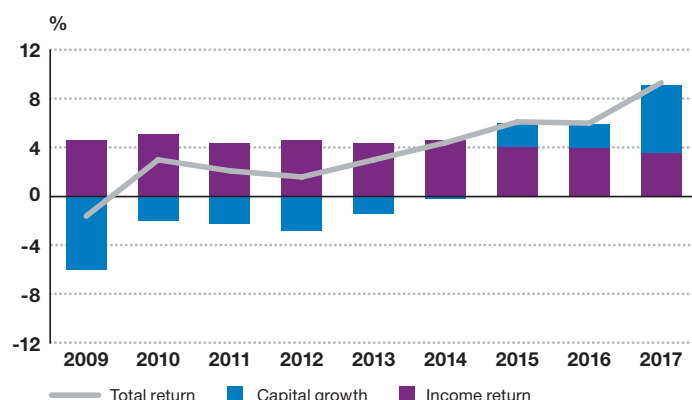
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

The investor buzz around Frankfurt remains focused on how much benefit Germany's dominant financial centre stands to gain from Brexit. The city has continued to receive good news on that score: in September 2018 UBS and Deutsche Bank both confirmed that they had selected Frankfurt as their post-Brexit investment banking hub.

But *Emerging Trends Europe* interviewees have so far mostly been disappointed by the actual number of desks occupied in the city as a result of Britain's vote to leave the European Union. "The upswing in Frankfurt offices at the moment is not as positive as expected, but we are still hoping for it," says a German investor.

Another interviewee cautions: "Frankfurt will definitely benefit from Brexit, but not as much as some people think because people will go to Paris, Dublin and Amsterdam too."

Some observers believe that a Brexit influx will nonetheless counteract long-term structural changes in the market: "The negative forces within the German banking industry are to some extent compensated by an inflow of occupiers from London," argues a regional investor.

However, the appetite that has underpinned investment volumes – €5.7 billion in the first nine months of 2018, according to Real Capital Analytics – is driven by more fundamental considerations. "Frankfurt is in a good place at the moment given its strategic importance in Europe with the presence of the European Central Bank, the airport, and the relatively low cost of living compared with London and Paris," says a fund manager. "We wish we had bought a bit more in the last few years."

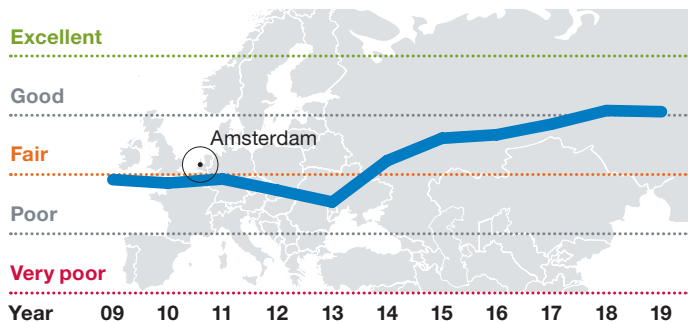
As vacancy rates fall and prices rise in the central business district, fringe locations are coming onto investors' radar: "Frankfurt will find a compression in cap rates. The local suburbs like Eschborn and Niederrad will get more attractive as office and residential areas."

Shrinking supply is also fuelling rental growth, claims a local: "Frankfurt used to be more challenging because after 2000 vacancy was higher than in the rest of Germany, but now we are close again to achieving the phenomenal rents we saw in 1999. Now that vacancy has decreased, these rents are a reflection of the very strong German economy."

"We are close again to achieving the phenomenal rents we saw in 1999. These rents are a reflection of the very strong German economy."

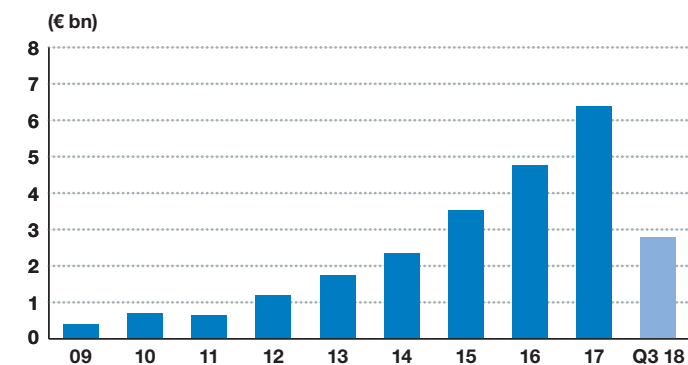
Amsterdam (6)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

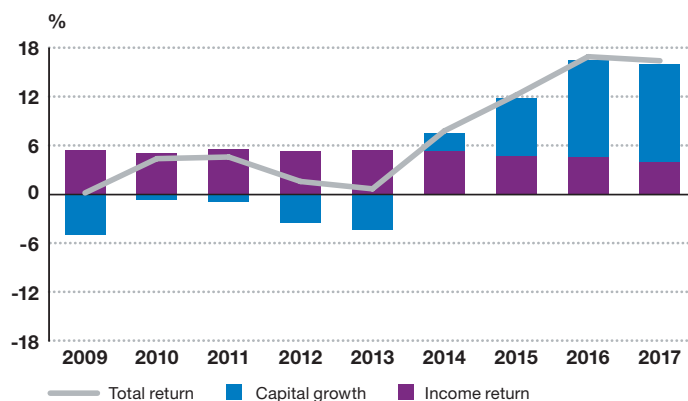
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

“Amsterdam is one of those economies which Brexit has already accelerated beyond our expectations when we first invested there,” says the CIO of a pan-European private equity real estate firm. It is a commonly held view of the Dutch capital.

The city is a clear beneficiary of Brexit. The European Medicines Agency is relocating from London, and 80 percent of its 900 staff have reportedly listed the city as their preferred location. The Cboe Europe and Turquoise trading platforms lead a growing number of financial trading companies applying to establish operations here.

Amsterdam is also seen as a potential European regulatory hub for real estate investment managers given the uncertainty over the UK’s position after its March 29, 2019 departure from the European Union. “Our UK licence may have no value to us,” says a director of one US firm. “We are looking at getting licensed in the EU and are likely to choose the Netherlands. That will mean hiring for regulatory and compliance activities in Holland instead of the UK.”

Even without Brexit, the Amsterdam office market is dynamic. The Dutch economy is one of the strongest in Europe, benefiting from its geographic location and the international significance of its airport and port. It is popular with international corporates active in Europe, which like its business-friendly tax regime.

Furthermore, the real estate market is liquid, transparent, has moderate transaction costs and rents tend to be inflation-indexed. Amsterdam vacancies have dropped to 6.7 percent, and its office market is in an upswing with demand from finance, consulting, technology, media and co-working occupiers.

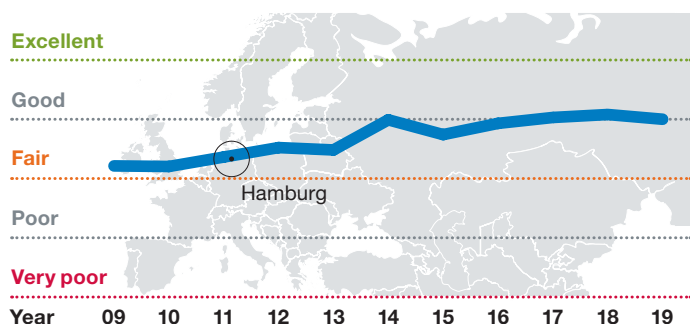
Companies looking for larger spaces are particularly short of options. “We like the office recovery story in Amsterdam,” says one global banker.

Respondents also rate Amsterdam highly for residential investment – which has overtaken offices for the first time this year in terms of transaction volume in the Netherlands – because of the severe housing shortages, which are driving demand for rental accommodation.

“Amsterdam is one of those economies which Brexit has already accelerated beyond our expectations.”

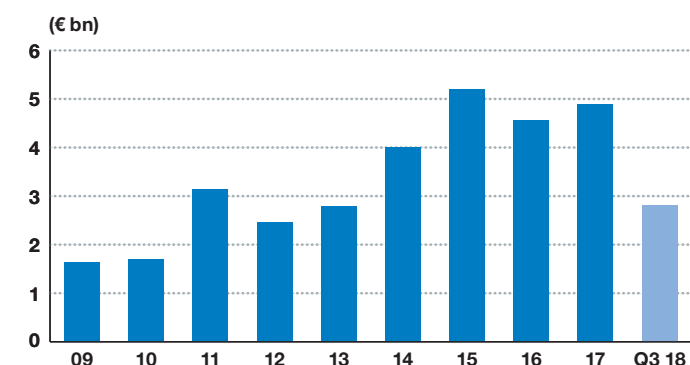
Hamburg (7)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

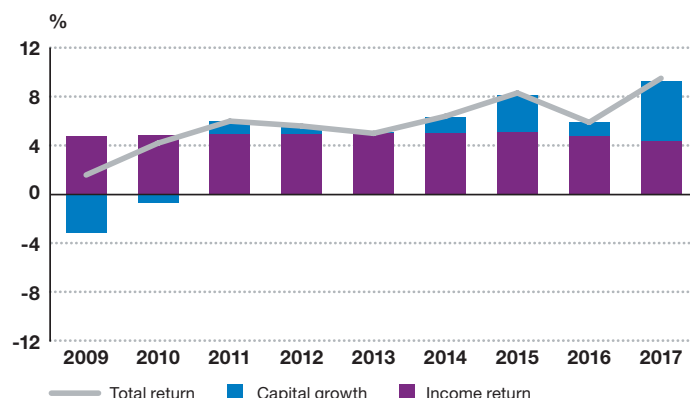
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

In an environment when many investors are looking to be more risk-off, it is unsurprising that Hamburg remains on many interviewees' wish-lists and in the upper reaches of the rankings.

"Hamburg and Munich have always been expensive with low yields but growing rents. They are good, they are core, they are expensive," says a German investor. "Hamburg is just stable. It is doing very well, but normally you don't see big peaks in that city," adds a local broker.

Like other big German cities, the office market has benefited from a declining vacancy rate: "In recent years there has not been a huge amount of office development, and in cities like Berlin, Munich and Hamburg the vacancy rate has gone from 10-12 percent to below 5 percent," says an interviewee.

The scarcity of supply has raised expectations of rising rents, which for some investors offset the expense of buying at 3 percent yields in the central business district. The first half of 2018 was dominated by core and core-plus deals in the office sector and saw investment volumes of €2.2 billion. Three large office acquisitions, the Springer Quartier, Olympus Campus and Sumatrakontor building, all three of which were bought by German investors, accounted for almost 40 percent of the total.

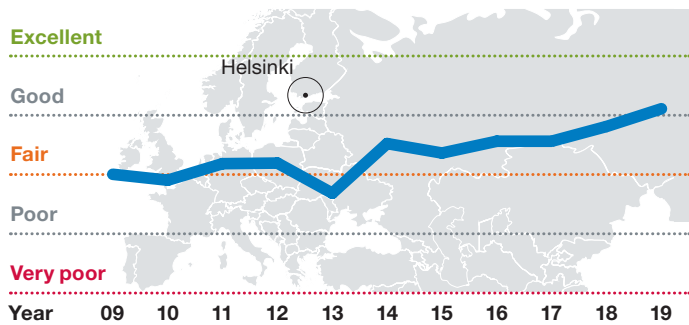
Hamburg is also acknowledged as an attractive place to live, with both Mercer and the Economist Intelligence Unit placing it among their 20 most liveable global cities. "We have a great focus on human capital and where people want to live. On that basis, many of the German cities win: Munich, Hamburg, Berlin, and to a lesser extent, Frankfurt," says an international investor.

Investors' most frequent complaint is over pricing and the scarcity of available assets, however. "Hamburg is a growing city so residential is a hot segment here, but it is really overpriced and tough to make interesting profits," concludes one fund manager.

"Hamburg is just stable. It is doing very well, but normally you don't see big peaks in that city."

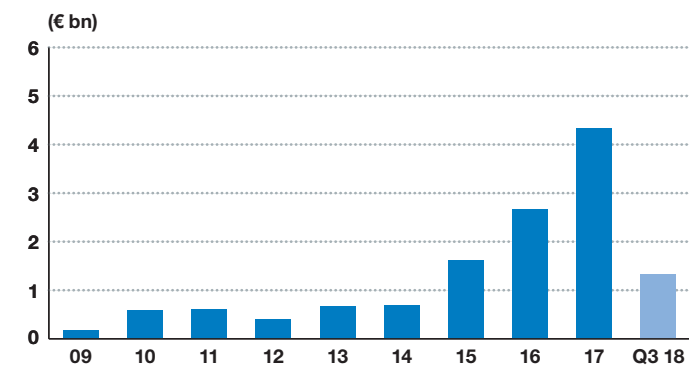
Helsinki (8)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017

MSCI does not produce an index for Helsinki.

Helsinki's promise has come good: Finland's economic recovery has taken hold, with 2.9 percent growth forecast for the capital in 2018.

The recovery, plus the fact that Finland lags its Nordic neighbours in the property cycle, has seen international investors pile in and the city leap 10 places in the rankings, overtaking Copenhagen, Stockholm and Oslo.

Finland had the highest proportion of foreign buyers in the Nordic region in the first half of 2018, at 66 percent of capital invested in the country, according to local broker Pangea Property Partners. "There is a strong story for some of the Nordic markets, tactically for Helsinki because of it being late in the cycle," says a pan-European fund manager.

There is strong interest in offices and logistics. The office market in the Helsinki Metropolitan area is actually larger than Barcelona's or Lyon's, while the area around Helsinki-Vantaa airport is popular with logistics occupiers.

Though office vacancy is gradually reducing, this masks a scarcity of modern supply, which is leading to rapid increases in prices for offices in the central business district. As a consequence, some investors are looking at other submarkets, and domestic players are buying in other cities.

However, new areas are being developed, linked to transport improvements. The Ring Rail Line now connects Helsinki central station and commuter lines to the airport, boosting the Aviapolis development there. The extension of the city's metro to Espoo is benefiting western submarkets which had suffered from Nokia's well-publicised problems a few years ago.

In another difference from its Nordic neighbours, says one adviser, "the residential market has been quite closed historically for foreigners, but this is changing".

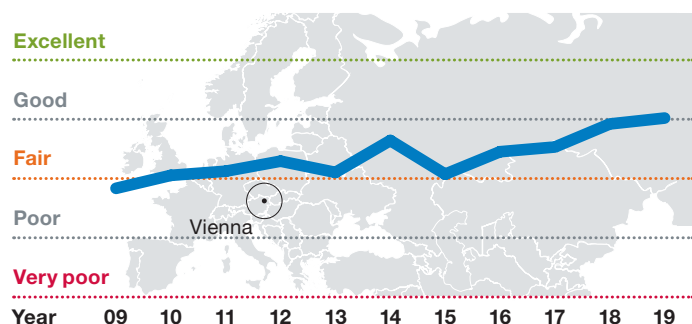
With its population forecast to grow by 200,000 to 1.7 million by 2030, Helsinki is leading development of large-scale, mixed-use neighbourhoods on the outskirts: at Western Harbour, on the eastern side at Kalasatama and further north at Pasila.

"We have just bought a lot of rented residential in Finland, which we will renovate," adds one global private equity player. "Once that's done, there is a ton of money looking at that sector."

"There is a strong story for some of the Nordic markets, tactically for Helsinki because of it being late in the cycle."

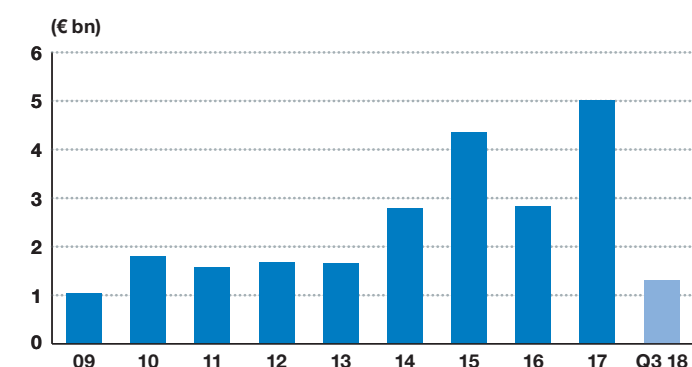
Vienna (9)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

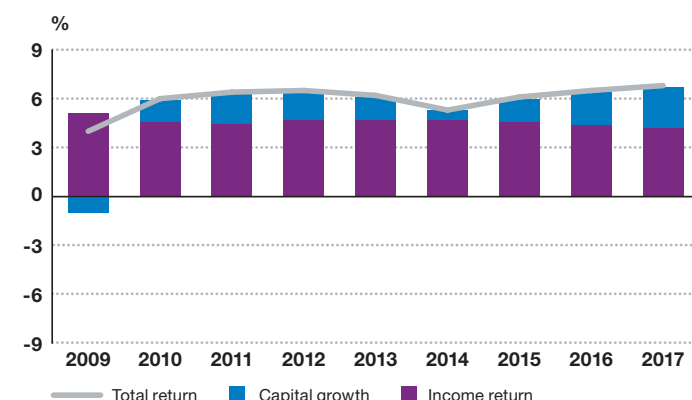
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

“The European economy is stable, but there are increasingly marked differences between the quality of life and social fabric of different cities,” says an interviewee. “It is interesting to see that Vienna, which has not been thought of as in the top tier of European cities, is really topping the league in terms of quality of life.”

In 2018, Vienna not only took first place in the Mercer quality of living ranking for the ninth year running, but also led the Economist Intelligence Unit's global liveability index. It may be no coincidence that the Austrian capital also enters the *Emerging Trends Europe* top 10 this year.

Several interviewees single out the city's residential market as an opportunity for investors. “Most western European insurance companies want to buy residential in Vienna,” claims a local. “The population is growing and by 2025 it will be approximately 2 million. All these people need a place to live, so the local construction companies are highly focused on building residential in Vienna. The yields of 3.9 to 4 percent are attractive, especially for conservative investors.”

Another interviewee adds: “Vienna is a growing city and there are interesting districts that are still under-developed. The development of the area around the new main train station is giving the city a new push overall. That will spread out.”

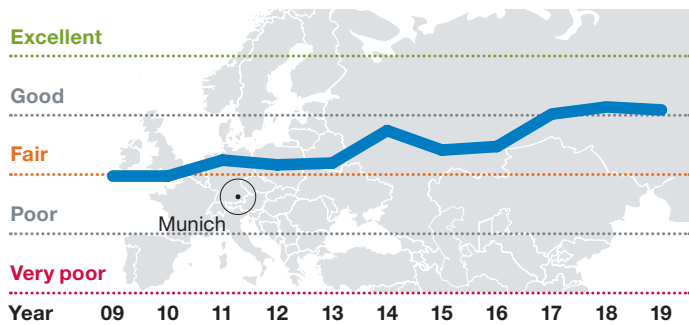
It is not a favoured destination for office investors seeking rental growth and high returns. “The market in Vienna is a little boring, but also a low supply so it is okay. Among the markets where we invest it is one of the least dynamic,” says a CEE investor.

Yet some investors like Vienna precisely because it offers the security that has made German markets so sought-after, but at a lower price: “It is a very stable office market and has been for decades with rents that are not too high, a very low vacancy rate and low new development of 200,000 to 250,000 square metres a year. If you want, you can invest your money at 4 percent, and it is still less expensive than Munich.”

“Vienna is a growing city and there are interesting districts that are still under-developed. The development of the area around the new main train station is giving the city a new push overall.”

Munich (10)

Investment prospects, 2009–2019

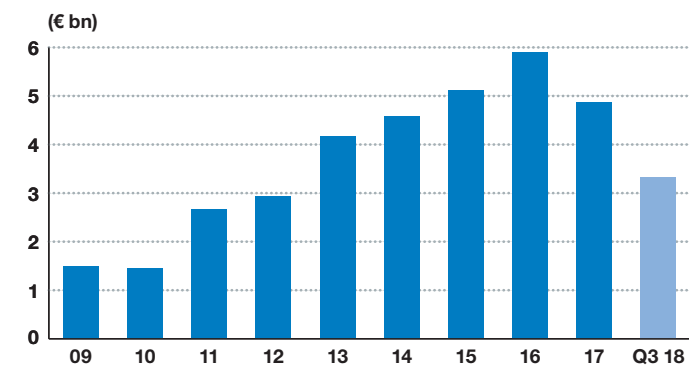


Source: Emerging Trends Europe survey 2019

German real estate markets are pricey right now and Munich is the most expensive of them all, but those exorbitant figures are achievable only because of insatiable demand, which helps to explain why the Bavarian city has fallen six places in the ranking, but also why it remains in the top 10.

“Too expensive” and “overpriced” are frequent complaints from interviewees. A fund manager outlines the pricing dilemma facing investors: “Munich and Berlin will be a continued focus for us, but in those markets where the supply-demand dynamic is very favourable it becomes very difficult to enter the market because that is priced in. The opportunities are relatively limited because of the depth of demand, and the pricing expectations take account of forecast growth.”

Transaction volumes, 2009–Q3 2018



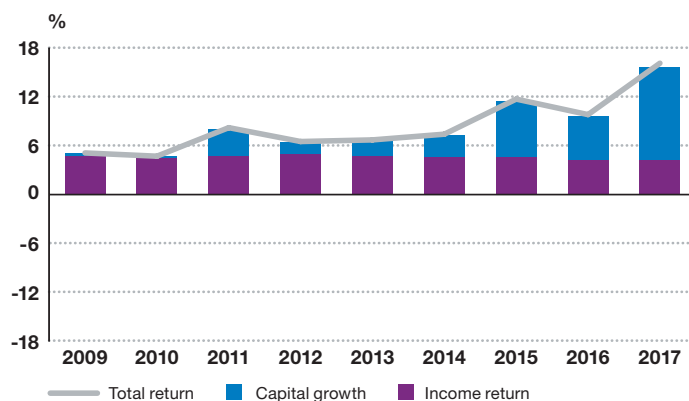
Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

Yields for core offices have come in to 2.9 percent, and even assets in fringe locations achieve 3.5 percent. The potential for rental growth remains a powerful draw, however: “Munich is a very attractive destination for corporate headquarters. You have tenants like Apple and Microsoft that are not rent-sensitive,” says a regional investor. “Even if they are already paying a high rent there are still prospects for growth because their rental costs are not a high share of their total costs. They are more interested in keeping their staff happy.”

Another interviewee adds: “If you look at Munich, the rental growth rate has been very strong. Even with the prospect of increasing interest rates eating away at the yield differential, many people are confident that will be offset by rental growth, so it is in balance.”

All-property return, 2009–2017



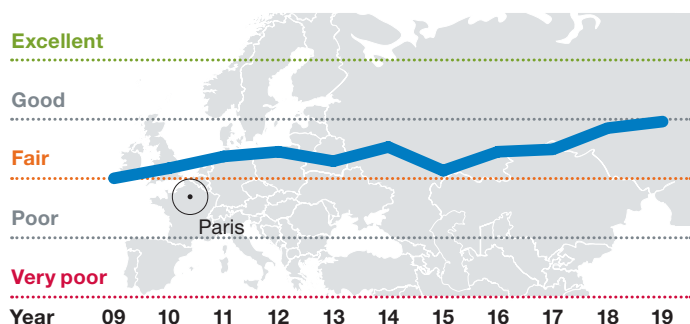
Source: MSCI

A pan-European investment manager argues that there are compelling reasons to buy assets even outside the city's established office district: “Munich ticks a lot of boxes, and that's why you're getting sub-3 percent yields. Tenants have a reason to be there, the quality of the stock is good, the infrastructure is improving. It's got fundamental, long-term sustainable economic growth, and it has not yet priced all of that in.”

“The rental growth rate has been very strong. Even with the prospect of increasing interest rates eating away at the yield differential, many people are confident that will be offset by rental growth.”

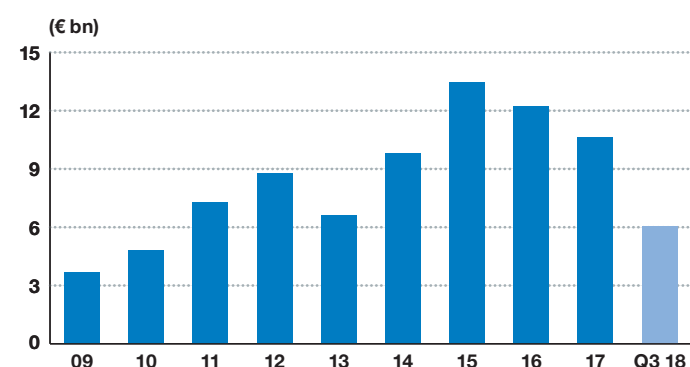
Paris (11)

Investment prospects, 2009–2019



Source: *Emerging Trends Europe* survey 2019

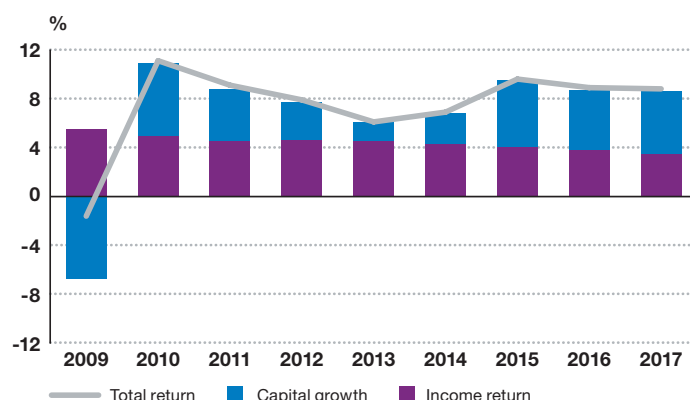
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

The greater Paris/Île-de-France region has been one of Europe's fastest-growing investment markets in the first nine months of 2018.

Real Capital Analytics reports €6.1 billion of transactions over that period, and with most of that volume in offices, the city's office market is currently one of the most dynamic in Europe. Accordingly, the French capital rises three places in the rankings.

"Paris is back on top of the list, post Macron", says a pan-European investment manager. There are some significant investors – European, Middle Eastern and North American – who see Paris as the stable, pro-business option over Europe's other major gateway, London. International investors' share of the French cake has risen this year (to 42 percent), and domestic capital has reduced.

The vacancy rate in the CBD is tight, just 1.5 percent, says BNP Paribas Real Estate. Lack of good-quality space continues to push tenants into non-CBD locations where rents are rising fast, providing more opportunity for developers and investors.

Many submarkets will benefit from the €26 billion Grand Paris project which will add 200 kilometres of new rail capacity and deliver or upgrade 68 metro and RER stations.

As well as supporting expansion in the north-west of the city around and beyond La Défense, the transport improvements will boost specialist business hubs such as TV and cinema in Saint-Denis in the north and health in Villejuif in the south.

The Grand Paris project should also generate opportunities in retail at stations and new urban neighbourhoods – a suburban alternative to central Paris where prime yields are as low as 2.45 percent on the back of huge demand from international retailers.

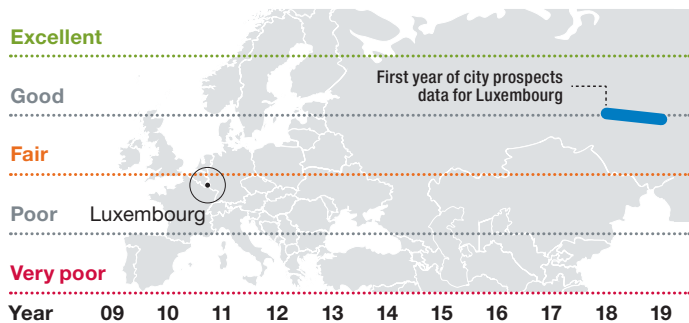
"Grand Paris is a huge development opportunity," says a French CEO, "the only one in Europe at this scale for the next 10 years."

What also comes through *Emerging Trends Europe* this year is the multi-family opportunity in Paris, with plentiful capital working out how to jump in. "We want to start business in France, which we see as very stable and a great opportunity; this will be the target for us in 2019," says one global residential specialist.

"Grand Paris is a huge development opportunity, the only one in Europe at this scale for the next 10 years."

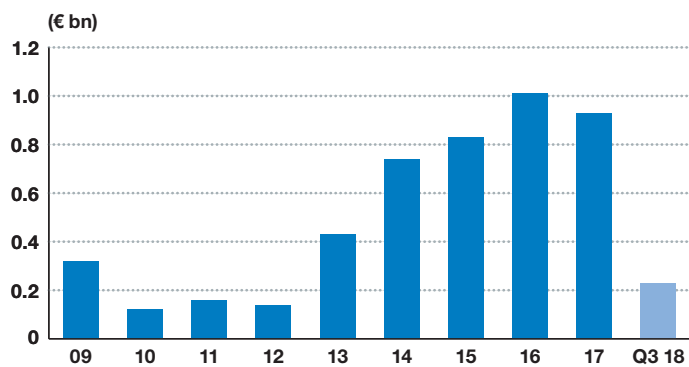
Luxembourg (12)

Investment prospects, 2009–2019



Source: *Emerging Trends Europe* survey 2019

Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017

MSCI does not produce an index for Luxembourg.

“Luxembourg is a little gem,” says a regional investor. “All the levels of politics are incredibly well-aligned to support the economy. Everything is well-oiled, and it has had incredible success in attracting fund management and private equity businesses.”

While its ranking has slipped three places since its *Emerging Trends Europe* debut last year, feedback from interviewees on the prospects for real estate investment in the tiny, but thriving, Grand Duchy is once again overwhelmingly positive.

“It justifies its higher rents, but actually, the yields are favourable to places like Munich,” enthuses an asset manager. “It ticks a lot of boxes that you want to have: tenants have a reason to be there, the quality of the stock is good, the infrastructure is improving. It’s got fundamental, long-term sustainable economic growth, and it has not yet priced all of that in.”

Cap rates have come in to 4.2 percent for prime offices but a broker predicts they have further to go: “Luxembourg yields are still higher than the other European big cities, but there is a catch-up and the yields will continue compressing. With the arrival of many new buyers, it should strengthen this trend. The main challenge is the scarcity of investment opportunities.”

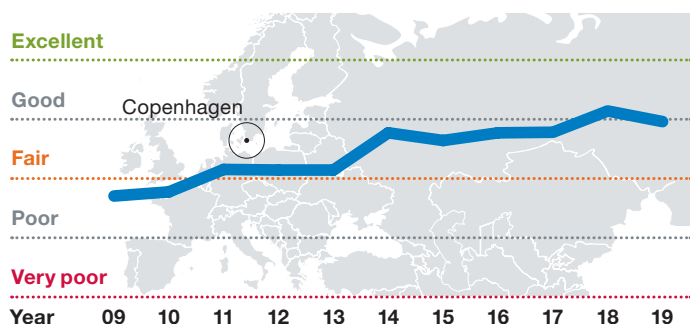
There is consensus that Brexit is already benefiting the market and will continue to do so. “Brexit should create 3,000 jobs in Luxembourg,” claims one local. An interviewee from a large financial institution says it intends to “build a substantial presence in Luxembourg to be prepared for the regulatory environment we might experience ... I suspect that is true of other businesses.”

Luxembourg’s status as one of the EU’s three official capitals will remain the cornerstone of its appeal, predicts the asset manager: “There is a European leadership story, which is exceptionally strong and sustainable. Some people think it’s a false market because it’s all driven by the EU, but equally, 27 different countries have a vested interest in Luxembourg continuing to work. Even if there were to be an EU break-up, it’s just so unlikely that the market is going to see a big exodus.”

“It ticks a lot of boxes that you want to have: tenants have a reason to be there, the quality of the stock is good, the infrastructure is improving.”

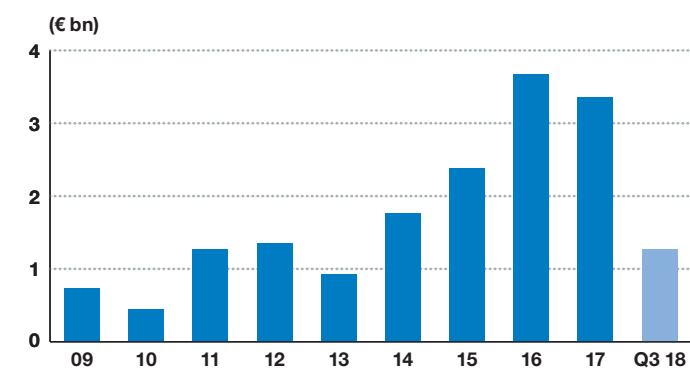
Copenhagen (13)

Investment prospects, 2009–2019



Source: *Emerging Trends Europe* survey 2019

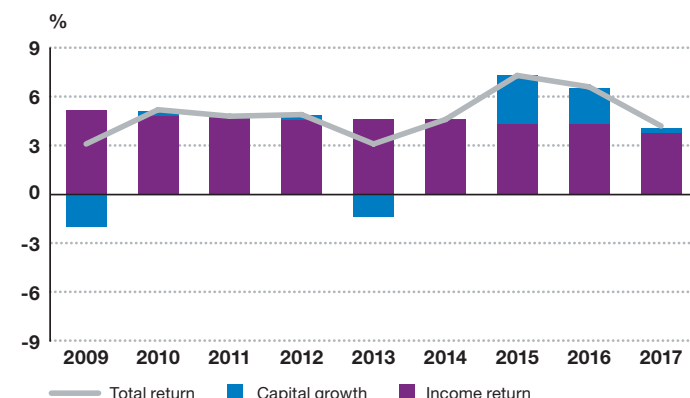
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

Copenhagen's tumble down the leader board from joint second place is slightly puzzling: perhaps investors simply feel they have a wider choice of markets compared with a year ago.

What clearly comes through in this year's *Emerging Trends Europe* is that the city is no longer viewed as Scandinavia's main recovery play – a role now enjoyed by Helsinki – and yet values in the Danish capital are still behind Stockholm and Oslo.

“Like Finland, Denmark is also a bit late in the cycle and depending what kind of investor you are, these two countries look slightly more interesting than Sweden and Norway,” observes a pan-Nordics advisor, tipping office development as an opportunity in Copenhagen now. Vacancy has tightened to 5.7 percent, which is the lowest in a decade, according to Savills.

The city continues to earn plaudits as a great place to live, work and visit: “Copenhagen is positioning itself incredibly well vis-a-vis social trends like mixed use and mobility,” says the real estate CEO of a large insurance company.

Amagertorv and Kobmagergade are acknowledged as two of Europe's busiest shopping streets – partly due to tourism. Competition for high street retail is correspondingly fierce, causing yields to drop to 3–4.25 percent, although demand for shopping centre assets is thinner.

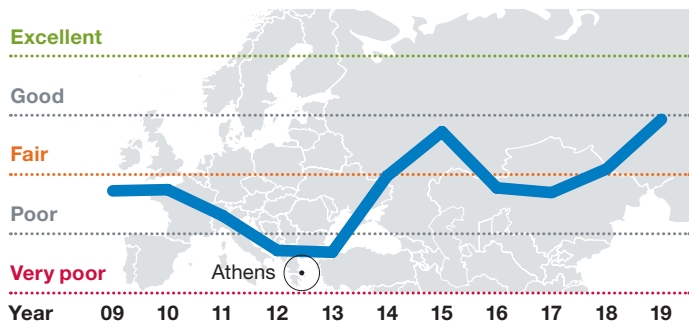
Like the other Nordic capitals, the population is growing, underpinning the residential market, which continues to attract high levels of capital from pan-Nordic and international investors, both for core product and to develop. “We have done a lot of residential in Copenhagen and in Scandinavia generally where we can get access to housing at scale,” says a global investment manager. “The fundamentals in those markets are good.”

The decreasing yields for retail, offices and residential are making alternatives – such as student accommodation and senior housing – and logistics more popular with investors, and funds have recently been raised to target these sectors. Agents say that occupier demand for warehouse and logistics has reached unprecedented levels in the Copenhagen area.

“Copenhagen is positioning itself incredibly well vis-a-vis social trends like mixed use and mobility.”

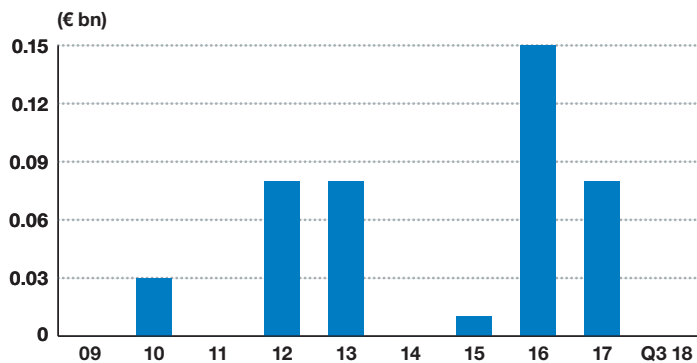
Athens (14)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017

MSCI does not produce an index for Athens.

The rankings suggest a remarkable return of investor confidence in the Athens property market this year as the city climbs 15 places to Number 14. Investment prospects are at their highest level since 2015 when the city was ranked Number 5.

Certainly, the economic news coming out of Greece is better than it has been for several years. In August 2018 the country emerged from its third international bailout plan, potentially paving the way for a return to the capital markets.

Nothing less than a rapid return to growth will be sufficient to restore an economy ravaged by years of enforced belt-tightening, however. “Today Greece is an emerging market with a hard currency,” says a local. “It has been through a very rough time, and it has a lot of catching up to do. The hard currency is an advantage in one sense because it gives some stability and confidence to investors, but on the other hand it doesn’t allow a rebalancing of the economy. Austerity will continue, and the government is committed to some very tight fiscal requirements for a number of years that will be difficult to achieve.”

In this still challenging economy, the office market is thought to offer the most potential. As one Greek interviewee argues: “The opportunity will be in development because the market is starving. There has been no development for eight or nine years so even if you only get a slight uptick in demand, there is no stock. Over the last few months we have seen a surge in rental values for class A offices which shows there is demand there.”

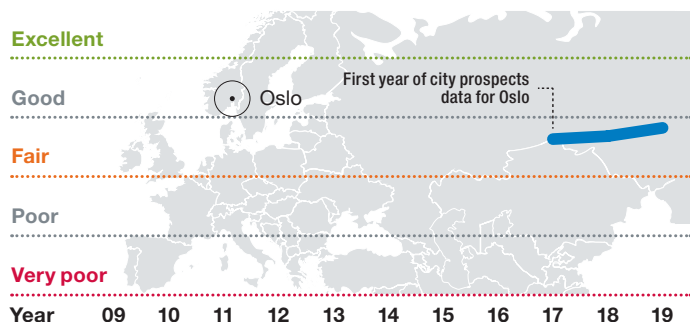
Meanwhile, the best shopping centres have ridden out the crisis years comparatively well by taking up the slack as secondary and high street retailing has withered. “We are still doing shopping centre development and expansion in some markets like Athens,” says an international investor.

But others are not yet convinced: “Right now, I wouldn’t be going to Athens or Istanbul because of the macro-political risk and uncertainty, as well as the [lack of] depth of those markets and governance.”

“The opportunity will be in development because the market is starving. Even if you only get a slight uptick in demand, there is no stock.”

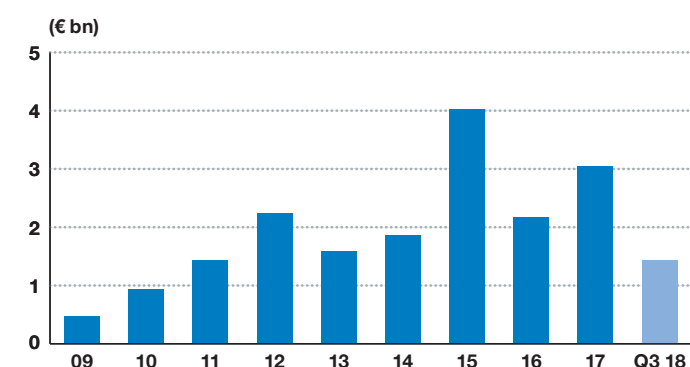
Oslo (15)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

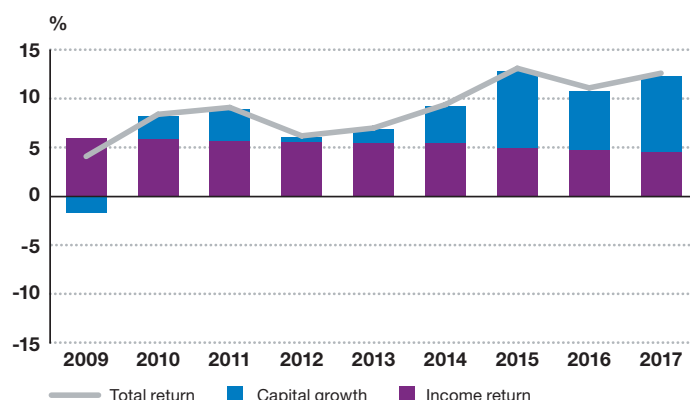
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

The real estate market in Norway's capital shares some similarities with that of its Swedish neighbour. Office yields and residential values seem to have peaked in both cities.

As in Stockholm, after years of growth, Oslo house prices fell, though not as far or as fast. They were down 2.1 percent nationally and 6.2 percent in the Norwegian capital at the beginning of the year, but have since levelled out.

Yield compression has stopped, and prime office yields have even inched up by 10 basis points or so, which interviewees suggest is a reaction to the Norwegian Central Bank signaling an interest rate rise. "Interest rates are about to go up, no one doubts that," says one Scandinavian player.

One difference from the rest of the Nordics is that Norway already has positive rates, and the gap between prime office yields and financing costs is narrowest here. The five-year NOK swap has moved around this year between 2 percent and 1.8 percent. Nevertheless, investment volumes continue at an outstanding level and are expected to top €8 billion in 2018.

"The market is very transparent, and there is no discrimination of capital, which is driving its growth. Foreign investors are almost 20 percent, and they were not here at all five years ago," says another local CEO. On the other hand, the high proportion of domestic investors means the market is less susceptible to global capital mood swings, which keeps it stable.

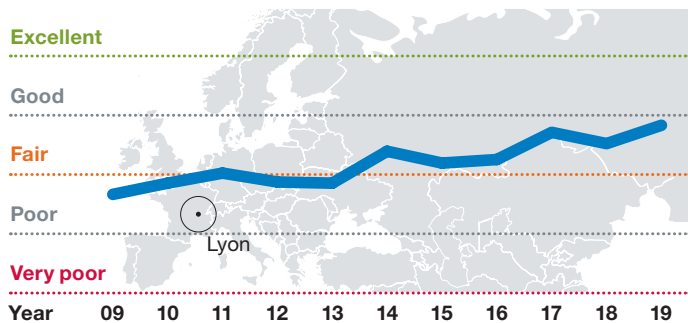
Despite the end of yield compression, office rental growth has been supporting this investment; rents have already surpassed their previous peak by 20 percent. As in Stockholm and Copenhagen, vacancy is "historically the lowest we've ever had, so there are opportunities on the development side", says a pan-Nordic advisor.

As one of Europe's wealthiest and fastest-growing cities, there is also a lot of demand from brands looking to open shops and restaurants, and traffic congestion is worsening. In response, the city is pressing ahead with its plan – controversial in some quarters – to be car-free in a completely pedestrianised core of 1.3 square kilometres, by 2019.

"Vacancy is historically the lowest we have ever had, so there are opportunities on the development side."

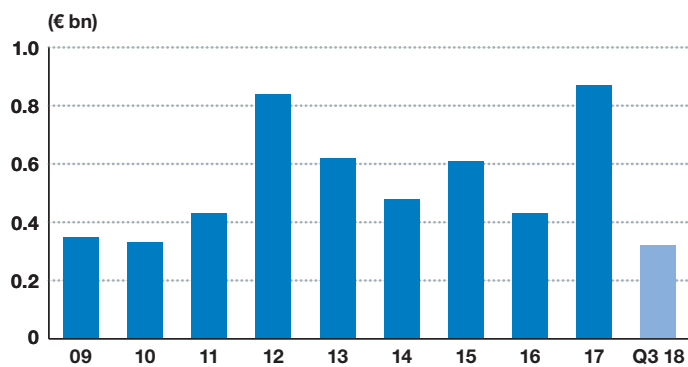
Lyon (16)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

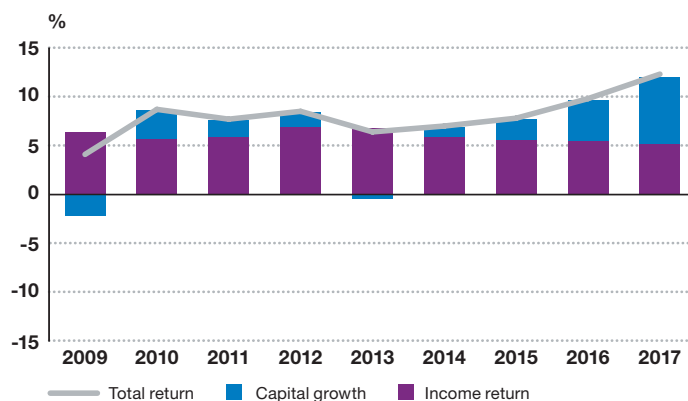
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

A new top office rent of €300 per square metre per annum was set in Lyon in 2018, not in the prime Part-Dieu business district but in the transformation of a complex of historic hospital buildings known as Grand Hôtel-Dieu, at Presqu'île.

“It is a pleasure to go there, because it is so beautiful”, says one French agent of this latest addition to France’s second city, which also includes shops, restaurants, residential and an InterContinental hotel.

Also just opened is The Village, an outlet centre on the outskirts, while Unibail-Rodamco-Westfield’s 31,000 square metre extension to La Part-Dieu – already France’s largest downtown mall – is under way. Retailers use Lyon to try new formats, attracted by high street rents for prime spots of €2,500-€3,000 per square metre which are way lower than Paris’s €13,000-14,000. They also like what one French retail adviser calls “the interesting population – it is wealthy and 65 percent are under 45 years old”.

These improvements are seen as a credit to the city authorities, and the city rises five places in the rankings. They “do a great job of encouraging investors to go there, making the city exciting”, the agent says.

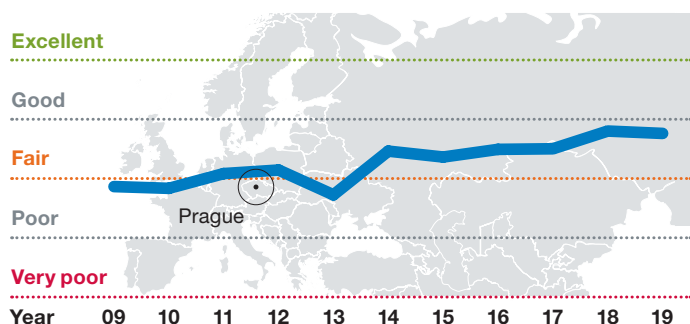
The latest update of the Local Urban Planning and Housing Scheme maintains 6,880 hectares of land zoned for business. This includes sites for logistics: Lyon is one of the strongest distribution locations in France, on the north-south logistics corridor between Paris, Lyon and Marseille. It is the sector attracting the highest proportion of international investors, particularly US capital.

German funds and French investors dominate the office and retail market where prime yields are circa 4 percent. “Lyon has really improved, and it is an amazing place,” concludes one interviewee, “but you don’t have the same depth or liquidity as Paris.”

“Lyon has really improved, and it is an amazing place, but you don’t have the same liquidity as Paris.”

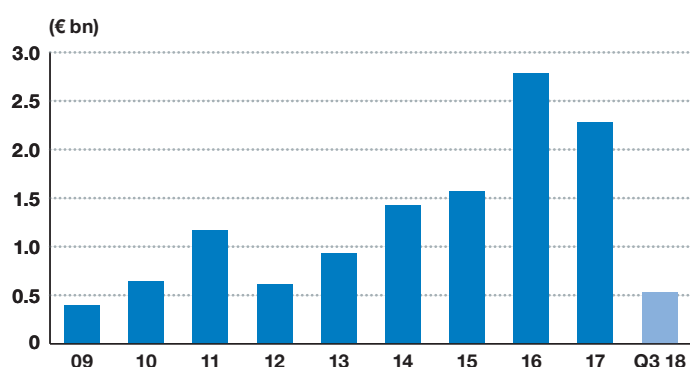
Prague (17)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

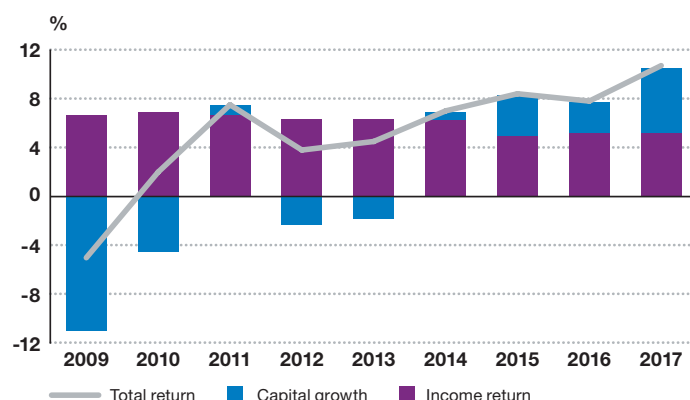
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

In recent years investor perceptions of Prague have undergone a gradual transformation, with the Czech capital's erstwhile emerging market status fading into distant memory. "People are beginning to think about Prague not too dissimilarly from western European markets," suggests an interviewee. "It has become fairly fully-priced, but we would think about doing core acquisitions there."

A central European investor describes the city as a "solid, major market" where "prices are high and yields are low". Prime high street retail yields have come in to 3.5 percent, while office yields have hardened to 5 percent or less.

Investors' impressions of solidity are underpinned by both national and local factors. Czech economic growth, while forecast to slow somewhat in 2019, is expected to remain comparatively robust at around 2.9 percent, and the country's unemployment rate, pegged by Eurostat at 2.4 percent in June 2018, is among the lowest in the EU.

Meanwhile the supply of new office space in Prague is constrained: "There is a bit more pipeline than you would normally expect in a western European country, but it is far more limited than it used to be," says an interviewee. Another adds: "Companies usually stay there for a long time and don't move too much from one building to the next."

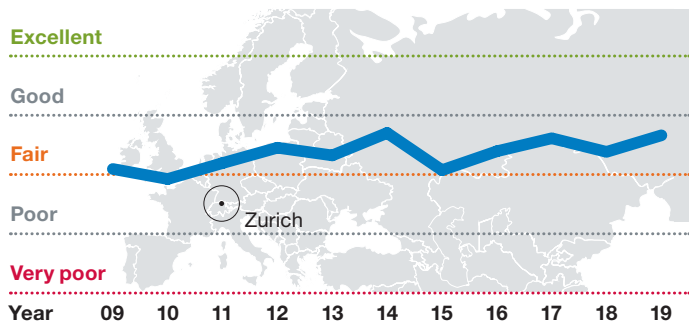
Strengthening demand and limited development is boosting occupancy. "We haven't seen real rent increases in 10 years in Prague, but the pressure is there now," says a local player.

And while the movement in cap rates has reduced Prague's relative attractiveness for some potential investors, to others pricing still appears reasonable compared with core property in other European capitals: "I think Warsaw and Prague are markets where people with a fresh mind and no preconceptions can imagine a 4 percent yield," argues a regional player.

"People are beginning to think about Prague not too dissimilarly from western European markets."

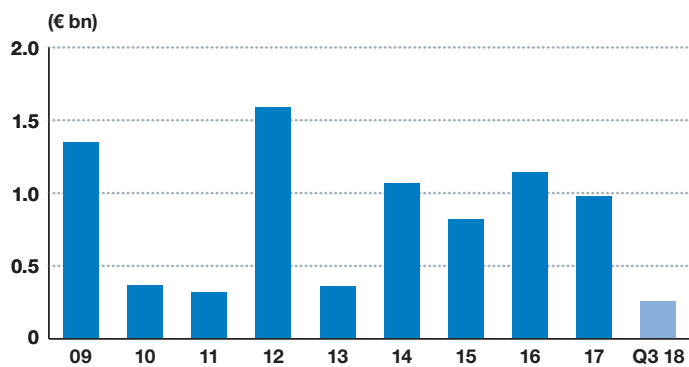
Zurich (18)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

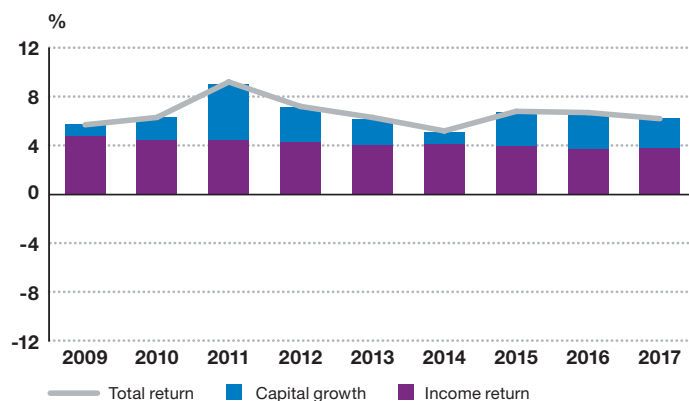
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

Zurich's six-place ascent in the rankings may owe something to the comparatively high proportion of respondents to the *Emerging Trends Europe* 2019 survey who say they are familiar with the market (22 percent) compared with 2018 (10 percent).

If that analysis is correct it serves to bear out a Swiss interviewee's comment that in their country "international investments are likely indirect: real estate is a local business".

For many international investors Zurich, where prime office yields are around 2.7 percent, is simply too expensive. "A yield of 3 percent or even lower isn't a good deal. In Switzerland there is no upside potential compared to other countries, and you can't go higher with the rent," complains one broker.

Nevertheless, in a low-interest-rate environment the spread between Swiss bond yields and real estate returns remains attractive for investors with modest expectations. "Zurich is a very tight, expensive, tough market," says a local player. "We bid for a nice core [office] asset downtown and we were stretching heavily, paying more than we ever did in the past, and nevertheless we came 17th out of 20 bidders."

"That is why we have been going heavily into the construction business for a while now because it is very hard to acquire assets. There is construction activity going on and there is a certain concern about new supply, but in general it is absorbed very quickly."

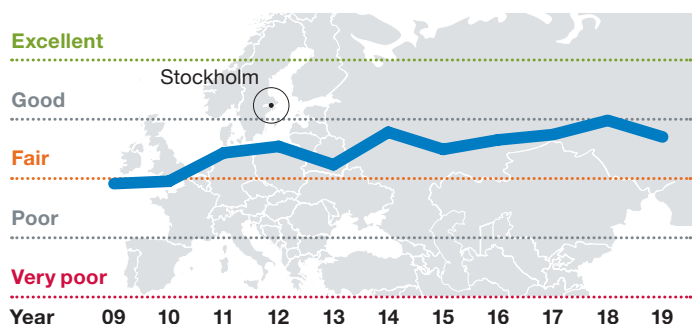
While it is undeniably pricey, confidence in the city's property market is underpinned by the strength of the Swiss economy, which is forecast to grow 2.4 percent in 2018. "There is improved economic momentum and increased demand for space. Firms are hiring, especially in the financial and technology industries. In Zurich technology is the main driver [of demand]," says a Swiss investor.

Another interviewee summarises the chief worry for real estate investors in such a low-yielding environment: "There is a concern that rising interest rates will make alternative asset classes more attractive."

"There is improved economic momentum and increased demand for space. Firms are hiring, especially in the financial and technology industries."

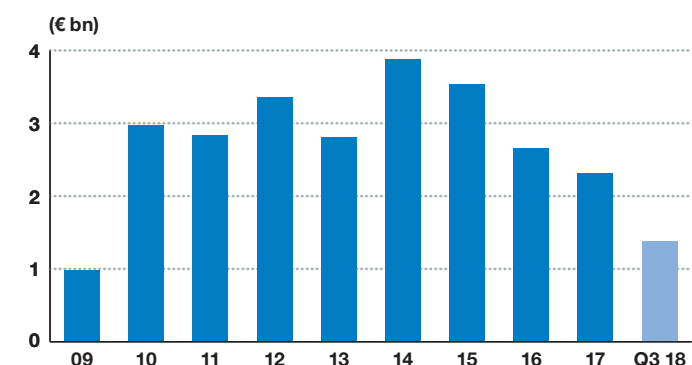
Stockholm (19)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

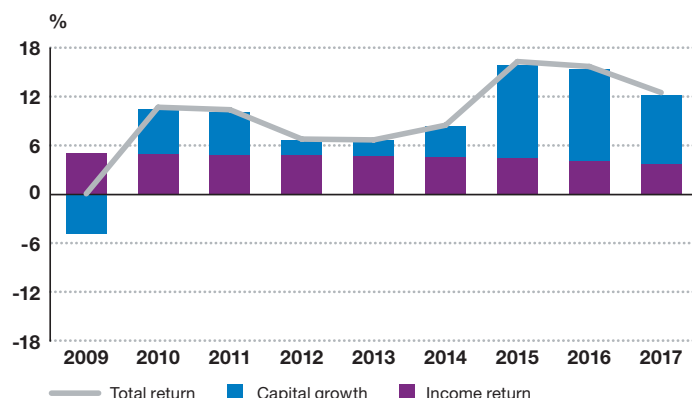
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

Sentiment has turned against Stockholm – down 11 places in the rankings – partly due to the uncertainty created by the 2018 national election, with neither main party gaining a majority and the populist Sweden Democrat party increasing its share of the vote.

“Sweden has had an interesting autumn with a close election that will play a role in future regulatory decisions,” says a local player. “It is important to us that there are no major political changes that will have a negative effect.”

The bad news is the bursting of the bubble in high-end, new-build housing. Prices started to fall a year ago as the government tightened the rules for mortgage borrowers but have now steadied.

“We’re talking about prime apartments, but it has affected the whole market and the way people view newly-built residential real estate,” says a pan-Nordic advisor.

Ironically, there is an acute shortage of affordable and rental housing. “It is difficult for people who are here to study, do research or work who don’t have enough equity to buy something. That really puts a lid on growth,” says a local interviewee.

Sweden’s Riksbank has signaled interest rates will start to rise from their current -0.5 percent level because the rest of the economy continues to grow strongly. “There is a good growth in Sweden, which has a positive impact on the office and warehouse/logistics sector,” says a domestic investor.

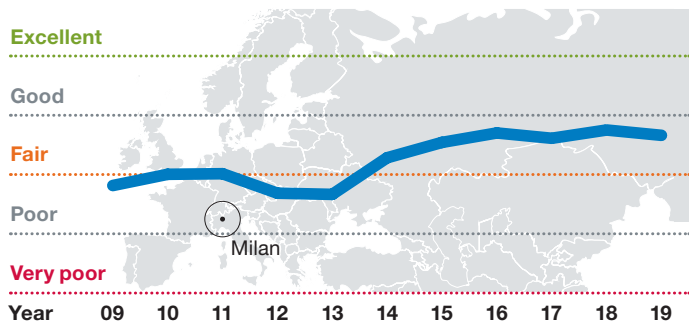
Office rents in Stockholm have risen 44 percent over their previous peak, driven by the CBD’s lowest ever vacancy rate of just 2 percent; yields are down to 3.5 percent. Some cross-border investors think “prices there have run up so much that the risk is on the downside”, but others still have the city on their shopping lists.

“We’ve focused on core markets where we expect to see strong rental growth for offices. That would include Stockholm, which has been one of the strongest-performing markets we’ve seen.”

“There is good growth in Sweden, which has a positive impact on the office and warehouse/logistics sector.”

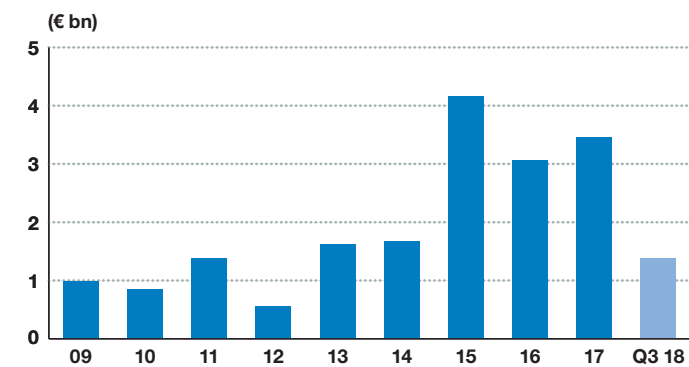
Milan (20)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

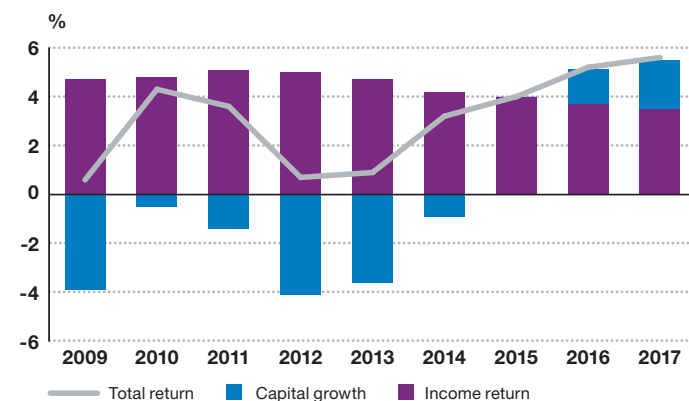
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

More than ever, Milan is the Italian city of choice for investors considering Italy although its fall three places in the rankings is likely to be attributable to the 2018 national election, which resulted in the formation of a populist, Eurosceptic coalition government.

International investors who are not already very familiar with the country are the most cautious. “We will avoid Italy unless some exceptional opportunity is presented to us,” says one large US developer expanding in Europe. “Milan is a growing and vital city, but the only problem with Italian investments right now is the national government,” says another overseas player.

By contrast, Milan’s global profile still attracts international retailers. Newcomers include Uniqlo, Starbucks and the first US NBA store to sell basketball merchandise in Europe, while Apple opened a city centre flagship store.

Locals shrug off the national politics, pointing to the appointment of a euro-supporting finance minister in the government. “We don’t expect a bold, anti-euro movement; the situation is normalising,” says one local operator. For another, Milan’s “overall strength goes well beyond the political factors”.

The local city governance, meanwhile, is universally praised for its transparency, expertise and responsiveness. Milan is forging ahead with numerous projects, including the mixed-use redevelopment of the 2015 EXPO site, the regeneration of former railway land and an office park in the southern city centre.

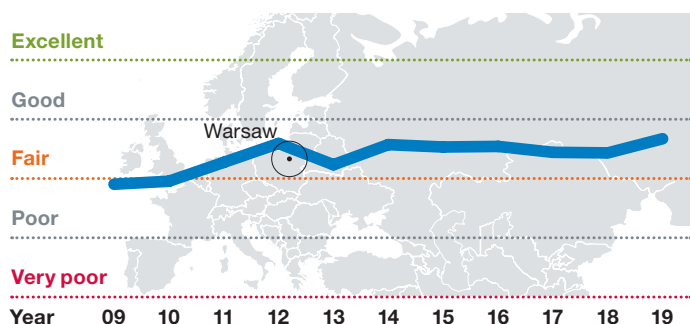
Office demand is strong, says a pan-European investor: “If you have a good product in Milan, there is a queue of tenants because there is a construction backlog of 10 years.” Co-working is springing up in locations like up-and-coming “NoLo” – known as the Milanese SoHo – around the central station.

Rental residential of all forms is going to be a key growth opportunity in the city in the coming years, due to the gap between supply and demand. The decrease in population in the Milan municipality recently reversed, while the city wants modern housing for its 200,000 students. “I see the evolution of the residential market as one of the dominant sectors of the future,” one interviewee predicts.

“If you have a good product in Milan, there is a queue of tenants because there is a construction backlog of 10 years.”

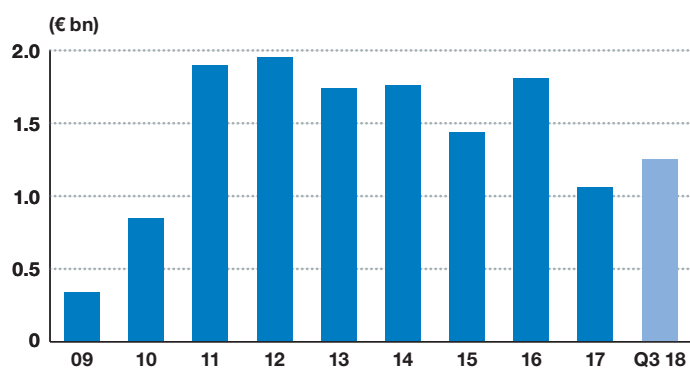
Warsaw (21)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

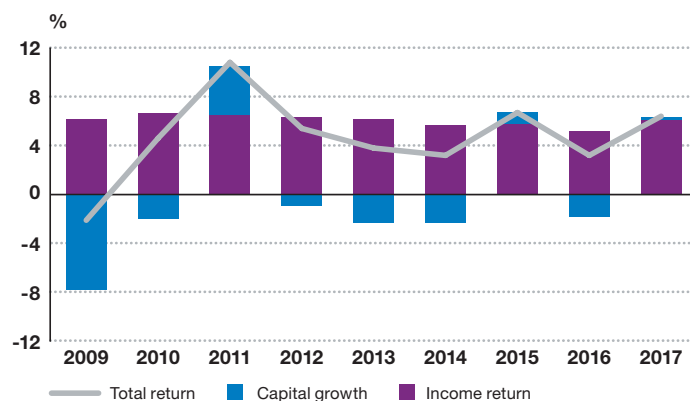
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

Whether *Emerging Trends Europe* interviewees take a positive or negative view on Warsaw this year depends on their estimation of vigorous economic growth – is it sufficient to offset continued high levels of construction in the city's office market?

“There has been a lot of supply in Warsaw, which has put downward pressure on rental growth,” says an interviewee, summing up the bearish outlook.

Warsaw's ranking has improved slightly this year, however, suggesting the more buoyant perspective holds sway. “Everybody says Warsaw has a lot of new development and supply, which is correct, but on the other hand if you look at GDP growth and demand it is a good market,” argues a central European investor.

Another bullish interviewee observes: “Warsaw has population growth, it is an outsourcing hub, and it is a location where Brexit may have positive implications in terms of moving back office functions there. There is also growing consumer demand, and that attracts us to the retail sector there.”

Warsaw also benefits from its position as the capital of the largest central European market. “You don't just have big international companies taking space, but it is a big capital of a big country with its own domestic market and big domestic tenants,” observes an interviewee.

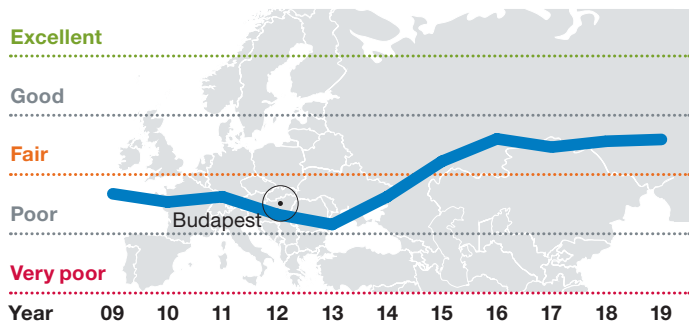
Buyer appetite for standing investments is strong, so there is good liquidity for investors willing to undertake development. “If you manage your development costs well then you can exit quite well even in the absence of rental growth. You can sell quite readily, and you have a decent number of bidders.”

Political volatility remains an issue and divides opinion. “Everyone is looking at how that develops, and that has slowed expectations for the market down,” says an investor who expects to reduce their exposure to the Polish market in 2019. Others are more pragmatic: “We think it is a bit of sabre rattling. It is what populists do. We are watching the situation, but we are not worried,” says a German fund manager.

“Warsaw has a lot of new supply, but if you look at GDP growth and demand, it is a good market.”

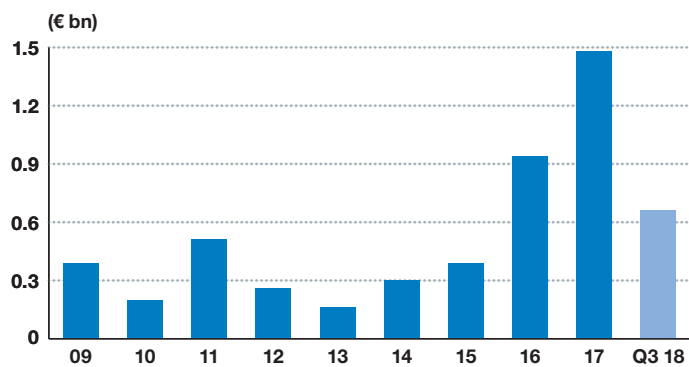
Budapest (22)

Investment prospects, 2009–2019



Source: *Emerging Trends Europe* survey 2019

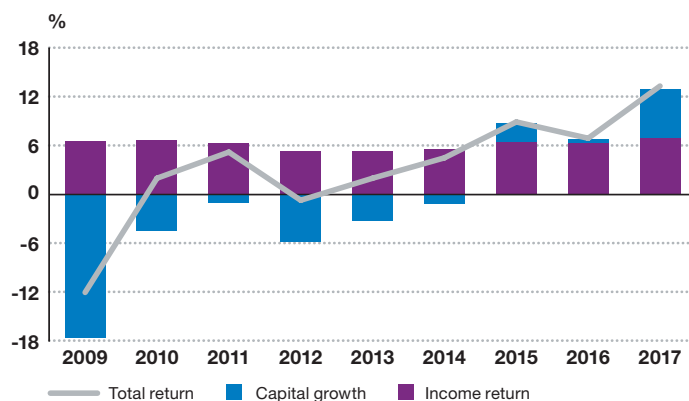
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

Budapest slips three places down the rankings this year despite low office vacancies, the start of yield compression – and a strong vote of confidence from interviewees.

“We bought two office buildings last year, and the yields have come down significantly,” argues one supporter. “Some of the western European investors have come back to Budapest, and there is more competition for assets so prices are increasing. There is not too much development going on either.”

The explanation for this apparent contradiction may lie in the unfamiliarity of many investors with a small market that is still establishing itself as a destination for institutional capital. Only 6 percent of respondents to the *Emerging Trends Europe* survey claim that they are familiar with the city from a real estate perspective.

Concerns over the Hungarian government’s populist direction may also play a part. “In Budapest because of politics and a bit more volatility in the market you would look for a higher return,” says a pan-European investor.

However, many believe the effect of local politics on investment has been overstated: “A couple of years ago Hungary was not an interesting destination for investment. Now we have learned that the economy was not that much impacted by the politics, and yields in the real estate market are going down again.”

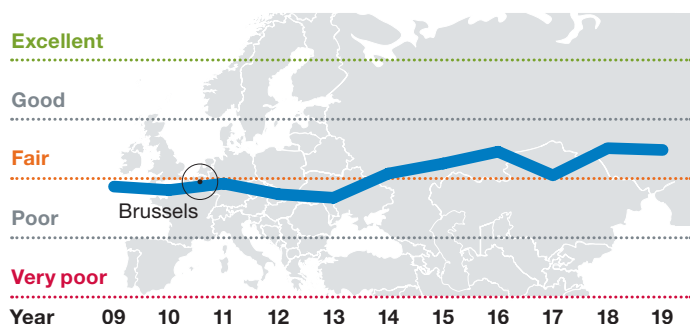
Hungary’s GDP is forecast to grow by 3.2 percent in 2019, and interviewees identify strong demand in the Budapest office market as a significant theme. The first half of 2018 saw substantial lettings to energy company Exxon Mobil and software firm Evo-soft. “It is easy to find tenants in Budapest, but it is not so easy to get development financing, so there is a cap on development activity which makes it a healthy market.”

One global investor concludes: “We believe you will continue to see office jobs leaving western Europe and heading east to cities like Budapest and Bucharest where property and labour costs are lower.”

“Some western European investors have come back to Budapest, and there is more competition for assets.”

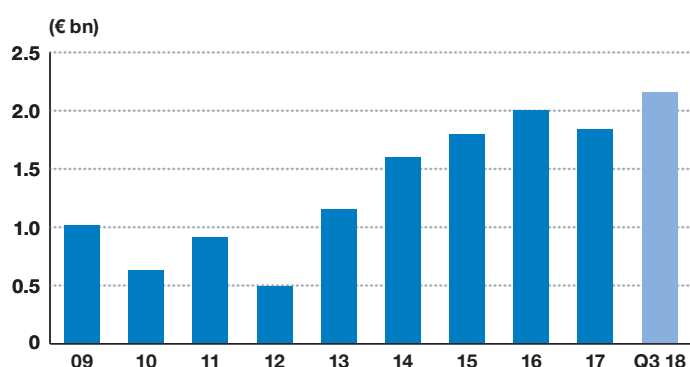
Brussels (23)

Investment prospects, 2009–2019



Source: *Emerging Trends Europe* survey 2019

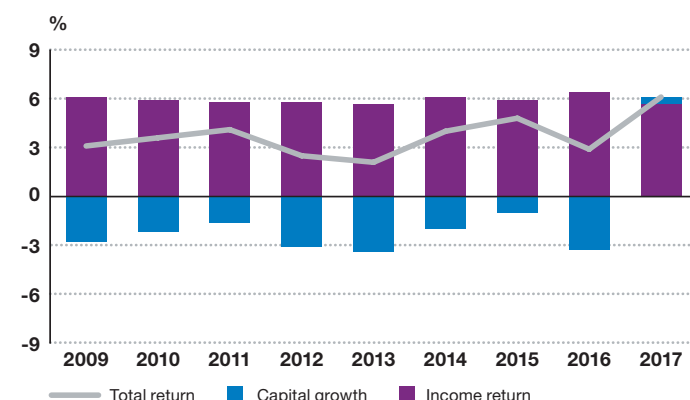
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

“Brussels is incredibly stable,” is a typical interviewee comment on the Belgian capital, and that might be seen as an advantage in a late property cycle. But for another year *Emerging Trends Europe* respondents find it difficult to get excited about the city, and its lowly ranking has barely improved.

GDP growth of around 1.7 percent is predicted for 2018 and 2019, and a Belgian investor senses a “wait and see mood” in the country brought on by “political instability and mobility issues”.

The subject of poor public transport is brought up repeatedly by local interviewees, and some think the ongoing problems are causing the city to lose ground to its rivals.

“Our complex political system is working largely to our detriment in terms of getting the different layers of power aligned on mobility issues, which are key to making sure that Brussels stays in the same league as cities that are doing well like Amsterdam and Vienna. We have incredible assets, but a political system which is far too intricate,” observes a local.

Nevertheless, the continent-wide institutional appetite for real estate has continued to support the market. The first nine months of 2018 saw €2.2 billion invested in Brussels, according to Real Capital Analytics. Korean investors alone accounted for €500 million of transactions during that period. “Asia will be a dominant source of equity capital both for Belgium and Luxembourg,” predicts an interviewee.

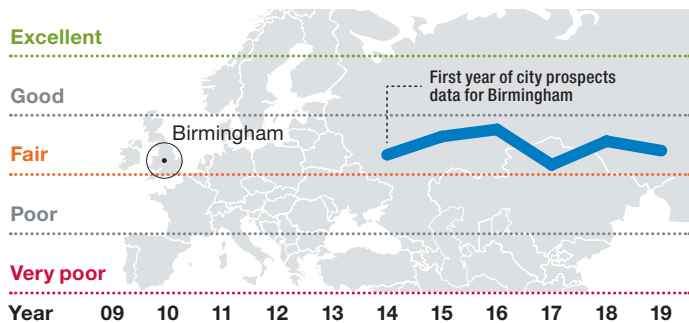
Investor confidence in the city’s office market has been underpinned by continued demand from national and European administrative users and by a low rate of construction that has left the vacancy rate standing at just over 5 percent. With this low vacancy and inflation-linked indexation, the market has seen its first rise in office rents in a decade although there remains growth potential compared with other European cities.

“People have been wise in terms of bringing new supply to the market for the last six years, so it is holding up well,” adds a Belgian interviewee. “A number of assets have declined each year because they are getting older, so we are concentrating on trying to produce high-quality offices.”

“People have been wise in terms of bringing new supply to the market for the last six years, so it is holding up well.”

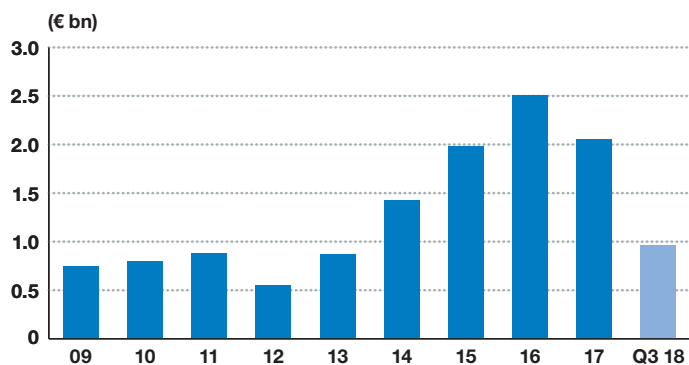
Birmingham (24)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

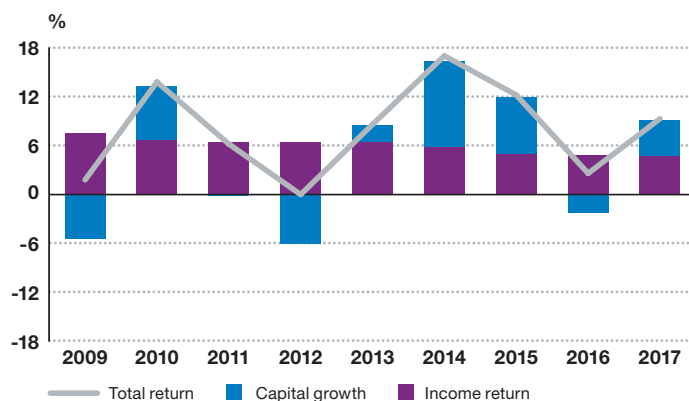
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

The prospect of a disorderly Brexit has affected investor sentiment so severely that none of the UK cities have managed to improve their already lowly rankings this year, and most, Birmingham included, have slipped further down the table.

In that context investors are becoming ever choosier when it comes to British assets. “In the UK, the location of properties is of high importance. Good locations such as central London will remain attractive. Investors should be careful in other cities such as Birmingham or Leeds,” advises a pan-European fund manager.

“In the [Birmingham] office market the fundamentals are not as strong as Manchester, and there are higher levels of vacancy with less strong demand,” warns another interviewee.

Asset prices in Birmingham fail to come close to matching the levels achieved in more favoured European locations like the German cities. Prime office yields have held steady at 4.75 percent, however, and to some still represent good value. “Manchester is further on and more mature than Birmingham, so there is proportionally a little more upside opportunity in Birmingham on a relative basis,” argues a domestic investor.

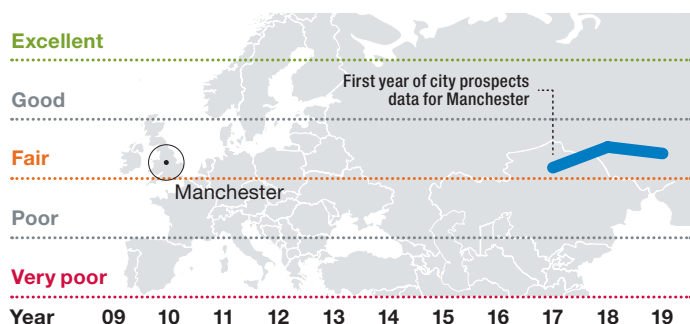
Retail is also a cause for concern in Birmingham, which like other UK cities is suffering unduly from the threat to the asset class posed by e-commerce. “In Birmingham we would be very selective in what we would hold from a retail perspective,” says one interviewee. “You can count on the fingers of one hand the number of assets we would like to hold, so accessing them is quite difficult.”

Yet Britain’s second-biggest city is set to benefit from infrastructure improvements including high speed rail and the first UK 5G mobile data pilot scheme, which elicits some support. “We would be very interested in doing business in Birmingham either in offices or residential,” enthuses a London-based investor. “It has all the right ingredients, strong leadership and goodwill towards the new metro-mayor. We don’t tend to play outside London because we don’t get the liquidity and scale we want. Birmingham is one possible exception.”

“Birmingham has all the right ingredients, strong leadership and goodwill towards the new metro-mayor.”

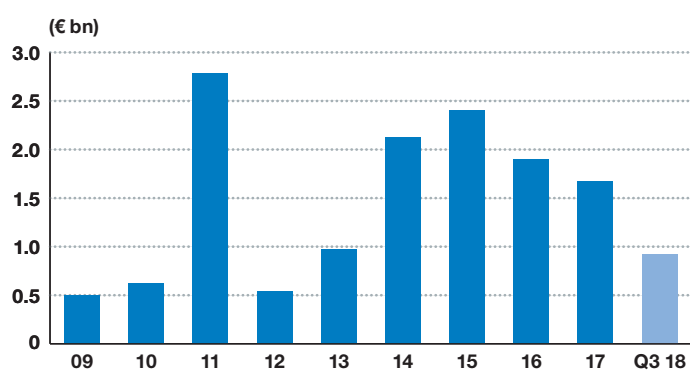
Manchester (25)

Investment prospects, 2009–2019



Source: *Emerging Trends Europe* survey 2019

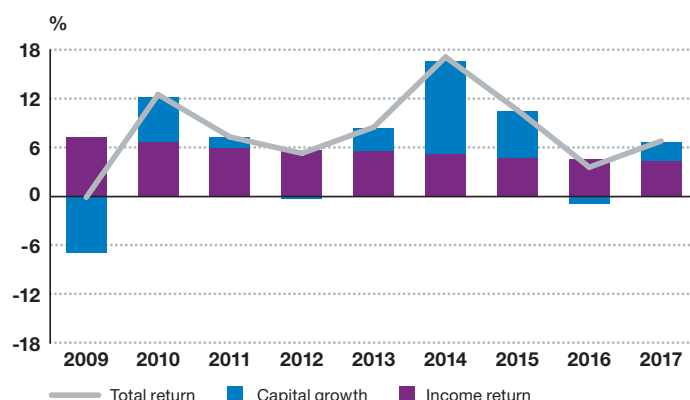
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

The sight of Manchester's crane-strewn skyline hardly suggests a frail investment environment, but the city's popularity with *Emerging Trends Europe* respondents has suffered this year nonetheless as it slides five places to Number 25.

As with other UK cities, Brexit is the likeliest explanation for the malaise: "In regional markets overall there will be more suffering to come from Brexit than we have seen so far and a slowdown in anything commercial," predicts a pan-European investor.

By contrast, Manchester has emerged as the most popular locale outside London for the UK's large-scale private rented residential sector. At the beginning of 2018 construction was underway on 41 residential schemes, set to deliver a total of 11,135 units and almost 50,000 new homes are planned in the city centre by 2040.

That is too many for one interviewee: "There is a measure of caution about build-to-rent residential there. If there is one city I would be concerned about over-supply on a five year plus time frame it is Manchester."

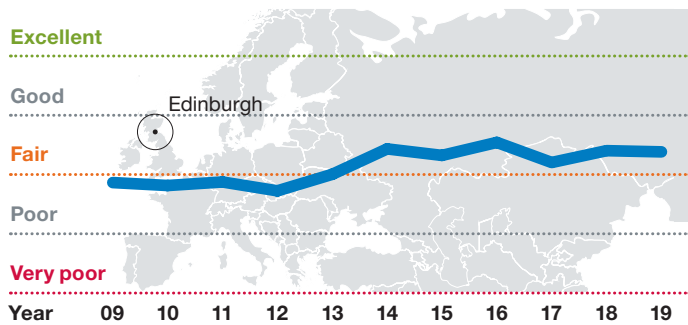
While Manchester's star may have waned from a Europe-wide perspective, there are still some domestic investors prepared to back the city. "It has a good demographic profile with a high level of education, and the city is able to retain its very large pool of graduates from one of the largest student populations in the UK," argues one UK fund manager. "There is infrastructure growth and high levels of support from the local authority relative to many other cities. There are some natural supply constraints, and it is a culturally advanced city. For occupiers seeking a presence outside London it will always be there or thereabouts."

Another interviewee believes that Brexit will have less impact in UK regional markets compared with the capital: "We are down-weighting London and up-weighting other UK cities where there is better value. London is probably more exposed to an adverse Brexit than anywhere else, and pricing is more stretched. We have pretty major programmes of investment in Manchester and Birmingham."

"There is infrastructure growth and high levels of support from the local authority relative to many other cities."

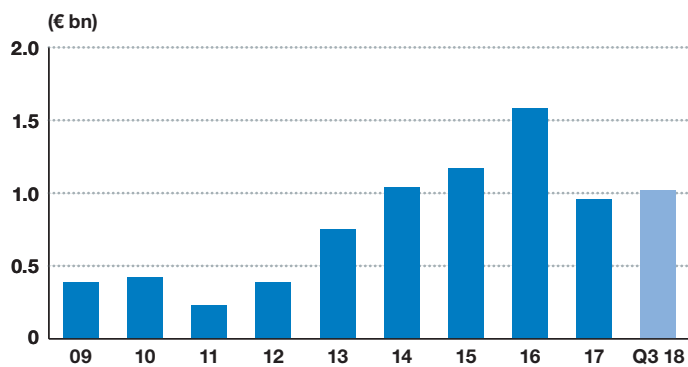
Edinburgh (26)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

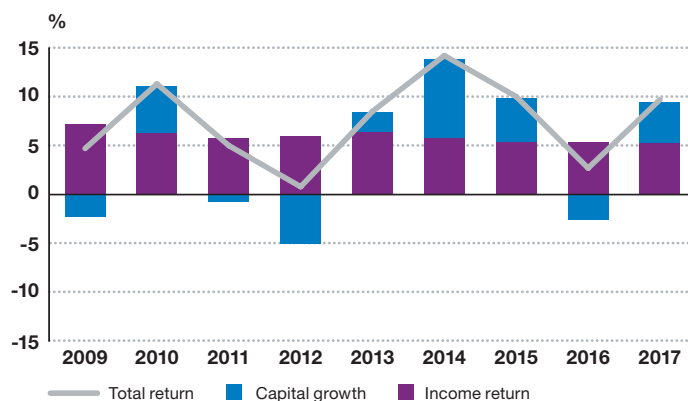
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

Edinburgh's continued low ranking will perhaps come as a surprise to locals after a revival in the volume of investment property traded in the city.

According to Real Capital Analytics, as much as €1 billion of assets changed hands in the first three quarters of 2018 – already surpassing the full-year total for 2017.

London-headquartered investment manager M&G in particular demonstrated its confidence in the Scottish capital by purchasing a half share in the Fort Kinnaird Retail Park for £167 million, as well as snapping up the Haymarket office development site in the city centre for £49 million.

In previous years investors have been deterred from investing in Scotland by the prospect of a second referendum on independence, but that now appears an unlikely contingency. Instead the most likely explanation for the negative view being taken of the city's prospects across the market as a whole is the usual suspect for UK markets this year: Brexit. "The Brexit effect is having an impact on pricing, but some investors see that as an opportunity to pick up investments with a margin in a fundamentally sound market. There has been some transactional evidence for that, but it is not all that deep because a handful of key deals sets the tone," muses an interviewee.

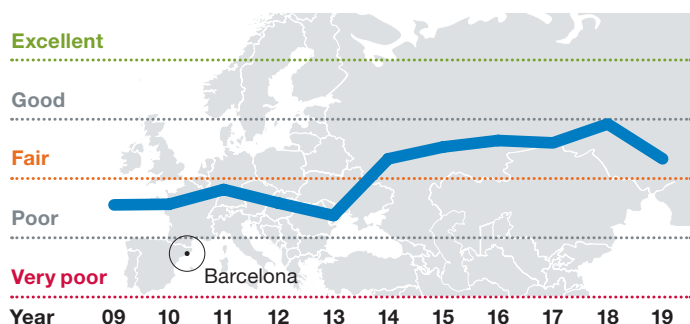
Take-up has eroded the supply of new office space in the city centre although out-of-town vacancy is a concern, argues a UK fund manager: "We believe in the demand dynamic for Edinburgh because it has quite an eclectic mix of tenants. But one of the things that makes it less attractive is that the out-of-town office market has the capacity to act as a release valve when rents start to get high. The lack of supply constraint offsets the demand characteristics that we see."

Another interviewee concludes: "Edinburgh is pretty positive from a fundamentals standpoint. If you can deliver quality office accommodation there is demand evident. That is flowing through to rents as well. We also feel it is a very attractive city for residential and student accommodation."

"The Brexit effect is having an impact on pricing, but some investors see that as an opportunity to pick up investments in a fundamentally sound market."

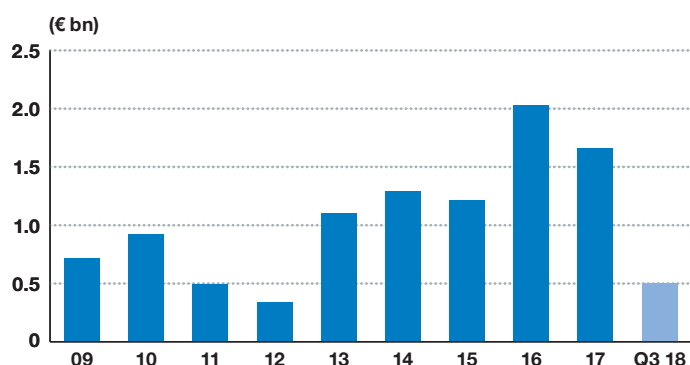
Barcelona (27)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

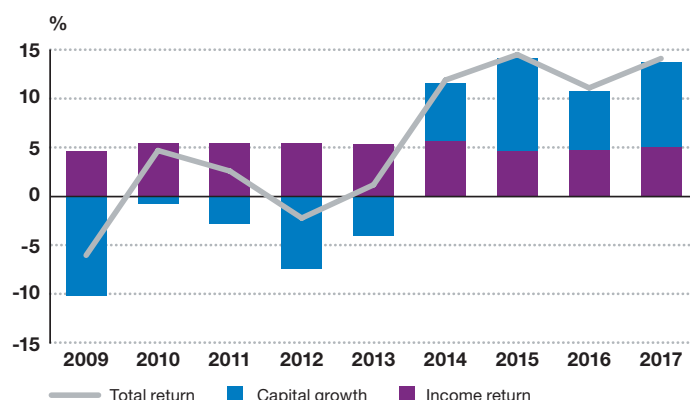
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

Barcelona's low ranking – 16 places lower than last time – follows the political unrest sparked by the Catalan Parliament's October 2017 independence referendum, which was declared illegal by the Spanish government. But the fundamentals of Spain's second-largest city have not changed.

Companies are expanding, and there is good office rental growth. Barcelona's tech hub, the 22@ neighbourhood, continues to attract new tenants.

The city is two years into a 10-year "Plan for the Right to Housing" currently focused on an initial 72 sites, to increase the public stock of affordable rental homes by 50 percent.

The logistics market is one of the strongest in Europe and is performing well, driven mainly by e-commerce. Yields are typically 5.5-6 percent, but the recent sale of Mango's global distribution hub 25 kilometres north at Lliçà d'Amunt, was reportedly at 5 percent.

"Barcelona has been a surprise to us. The office market seems to have no negative effect derived from the nationalist political problems, neither in values or demand for space," observes the CEO of an international REIT.

One explanation for the stability in values is that less is being traded. Agents say that some sales stalled after the October unrest and owners have delayed bringing investments to the market for fear of value falls. According to Real Capital Analytics, investment transactions totalled €500 million in the first nine months of 2018 – well down on recent annual volumes.

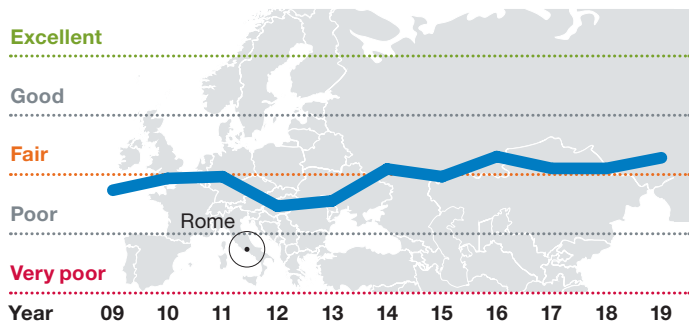
Not surprisingly, political instability remains at the front of investors' minds. "We have very healthy growth in our office investments there," says another REIT chief. "However, I believe there are some clouds on the horizon because people are worried about the secessionist tensions."

For some, this is a chance to buy. "The Catalan uncertainty threw up quite a lot of relatively interestingly priced opportunities, and we took advantage of that," says one pan-European investor. Others point out, however, that a pick-up in investment in Valencia, Malaga, Seville and Bilbao – as well as Lisbon – is partly down to capital switching from Barcelona.

"Barcelona has been a surprise. The office market seems to have no negative effect from the nationalist political problems."

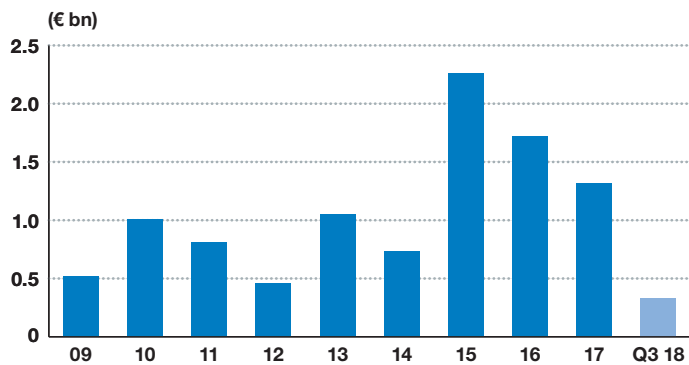
Rome (28)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

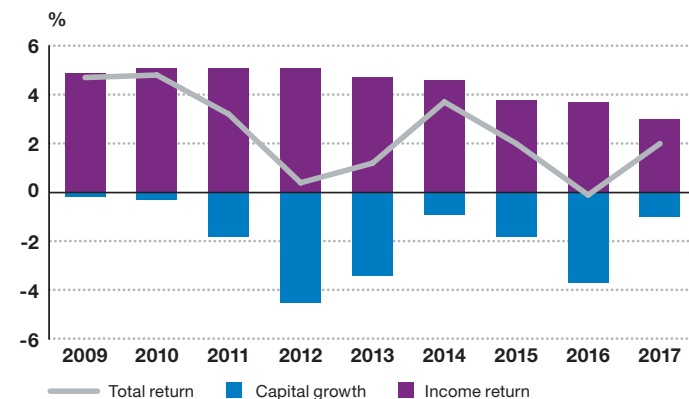
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

Many *Emerging Trends Europe* respondents would like to invest in Rome, citing its potential and need for capital, but the prevailing view is that the city is simply too much work and too unpredictable.

The city is not improving under an anti-business mayor, nor is it helped by Italy's national political volatility, which is why it is languishing once again near the bottom of the rankings.

"Politically, the city is problematic," says an Italian investor. "Unless politics and the general approach of the city changes, this will always limit new capital. I don't see a structural change very soon, unfortunately."

"Milan today is booming, while Rome is suffering," says another Italian interviewee. "Rome is more difficult, less attractive than it was in the past and, to be honest, hard to read. The city is in local political turmoil, and it is difficult to see how it can be attractive today."

On top of that, the office tenant base is less diverse than other big cities, dominated as it is by public administration occupiers. According to one Italian interviewee, it has less than half the take-up of Milan, adding: "It has not been an easy city for developers. Obviously, if you don't have pre-lets, it is very risky."

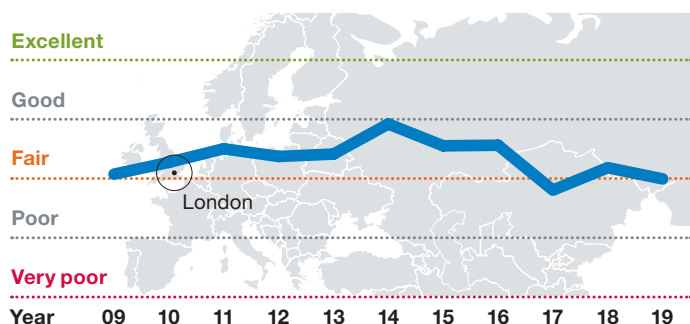
Not everyone is deterred. For those targeting core offices, the yields in Rome offer a 50-75 basis points premium over Milan. Some of the US private equity firms and hedge funds that have been active buyers of Italian non-performing loans have gone on to make direct investments in Rome, as well as Milan. Several cross-border investors have found buildings to convert to residential. And as a thriving tourist destination, Rome remains the largest market in Italy for hotel transactions, with 20 percent of total trades over the past year.

"Taking a broad brush to Italy is an error," adds a pan-European investor. "We have a shopping centre in Rome and it is 100 percent leased, the rents are going great and the cap rate is good."

"Rome has not been an easy city for developers. If you don't have pre-lets, it is very risky."

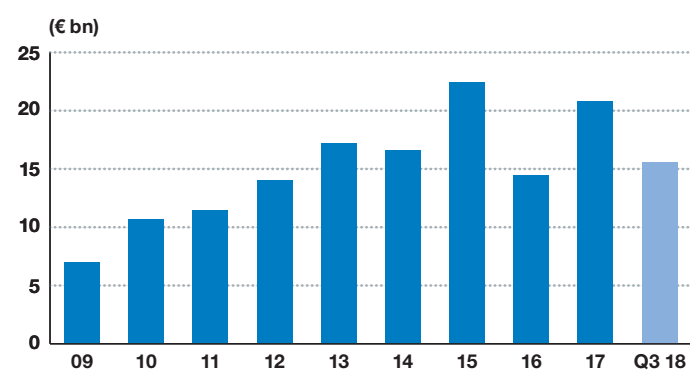
London (29)

Investment prospects, 2009–2019



Source: *Emerging Trends Europe* survey 2019

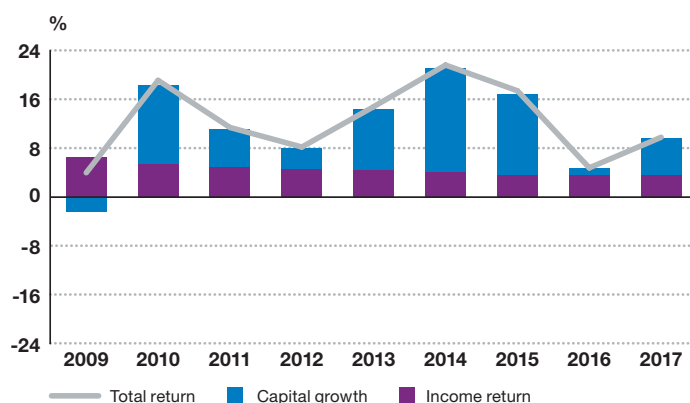
Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017



Source: MSCI

London's low *Emerging Trends Europe* ranking is reflecting reality. "People have got a lot of London, and having a lot of somewhere that isn't going to do that much better than everywhere else is not necessarily a good thing," argues an interviewee. "I just don't think investors are going to throw as much capital at it as quickly anymore."

And yet the liquidity continues to flow in Europe's biggest real estate investment market. Around £15.6 billion was traded in the first three quarters of 2018, and the third quarter began with a mega-deal in the City of London as Goldman Sachs sold its UK headquarters to Korea's National Pension Service for £1.2 billion.

Brexit has hit the value of the pound, but that may further encourage some overseas investors: "When the currency fell off a cliff you saw Asian investors take advantage... Sterling's weakness again opens up that currency play," says a global fund manager.

"A lot of Far Eastern capital is present in London," observes a pan-European investment manager. "We saw huge volumes in the first half of 2018. It's coming from the fact that Chinese and Korean investors want to send capital to Europe, and they start with London. And this has nothing to do with politics in Europe or Brexit, it's just more of a long-term strategy."

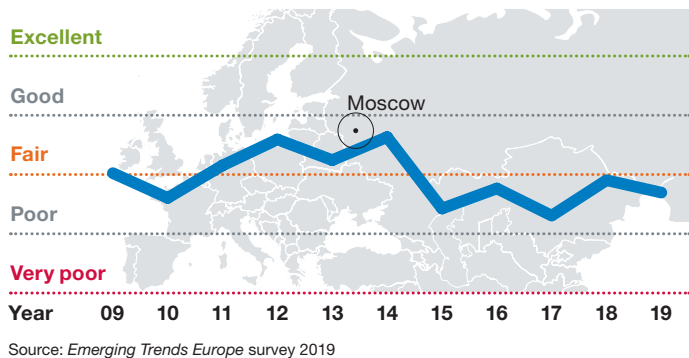
However, European investors are finding London more challenging. UK REITs have been de-leveraging to insure themselves against a Brexit-induced slump and amassing their war chests in anticipation of a correction in values. "We are playing in that market with lots of people from around the world who have a lower cost of capital than we do," says one. "The moment they get their fingers burned and leave, then opportunities open up for us, but I can't see that happening in the near future."

Another interviewee adds: "We're at the end of a 10-year bull run in London. Brexit is undoubtedly interlinked with the cycle, which has not helped."

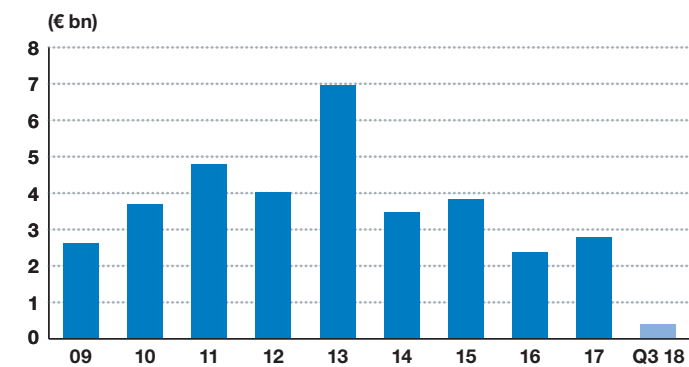
"I just don't think investors are going to throw as much capital at London as quickly anymore."

Moscow (30)

Investment prospects, 2009–2019



Transaction volumes, 2009–Q3 2018



All-property return, 2009–2017

MSCI does not produce an index for Moscow.

The stormy geopolitical climate has dashed hopes of increased investor activity in Moscow's real estate market in 2019.

In August, the US imposed fresh economic sanctions as relations worsened between Russia and the West, a move that has led to a further weakening of the rouble.

"In the short to medium term, currency is clearly the issue that we are focused on. That will impact on retail, as well as warehousing, which is a segment where the rents are generally in roubles, and it can affect some of the growth in the office sector," says an international investor active in the Russian market. "I would think that the currency situation will be negative for the next six months."

National investment volumes declined sharply in the first three quarters of 2018 compared with the same period in 2017, according to Real Capital Analytics. Recovering oil prices could boost Russia's fossil fuels-dominated economy, however, and the fundamentals of Moscow's office market are attractive.

"We wouldn't go to Moscow because we are too conservative, but brokers are very excited about Moscow in terms of the rental dynamics," says an international investor.

Indeed, local interviewees say vacancy in high-quality buildings has declined to 5 percent while demand is improving.

"It is the part of the cycle where you would normally expect international capital to be coming in. There is a case to be made there," muses an interviewee.

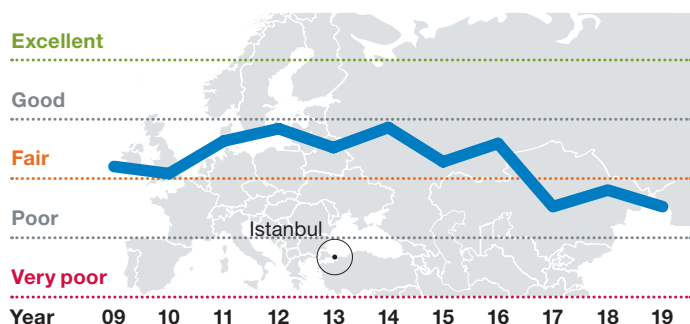
In the short term, however, Western cross-border investors appear likely to be deterred by political and monetary volatility.

"Because of the headlines and the sanctions you have to find equity investors who have a stomach for that and think the risk-return trade-off is acceptable," says one player in the Russian market. "The prospect for three years-plus feels better because of the dramatic restriction of supply. If the energy market is stable and there are somewhat improved international relations between Russia and the EU, that could have a benefit on the growth of tenants here."

"In the short to medium term, currency is clearly the issue that we are focused on."

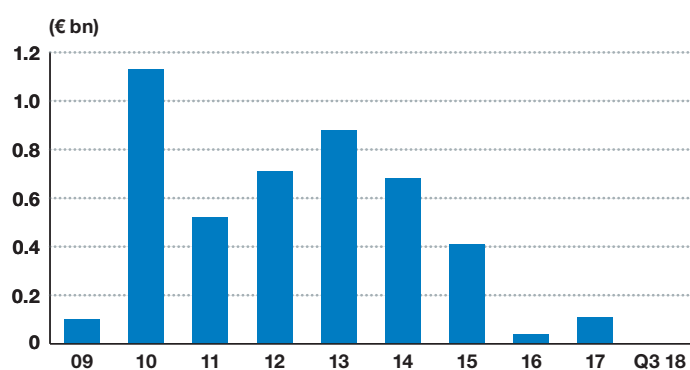
Istanbul (31)

Investment prospects, 2009–2019



Source: Emerging Trends Europe survey 2019

Transaction volumes, 2009–Q3 2018



Source: Real Capital Analytics

Note: Figures are provisional as at 22nd October 2018

All-property return, 2009–2017

MSCI does not produce an index for Istanbul.

Istanbul has been at or near the bottom of the rankings for several years, and it retains that position as Turkey strives to stabilise the economy following the collapse in the value of the lira during the summer of 2018.

The country's future stability is clearly a worry for those interviewed and surveyed by *Emerging Trends Europe*. Investors, particularly international ones, say they do not currently feel comfortable with the political risk.

A local predicts "negative total returns due to higher vacancies, lower rents, and higher cap rates". Another adds: "We have seen investments that were valued at €8,000–€9,000 per square metre fall to €4,000 per square metre. There will be a buying opportunity at some point but this may not yet be the bottom of the market, so we will be cautious for some months to come."

Foreign investors who retain interests in the country are fretful: "The lira has disappeared in terms of value. If the occupiers are paying rent in euros or US dollars they are suffering severely."

Meanwhile interest rates and inflation have rocketed. "The level of inflation will bring potential investments in the real estate market to a halt. If you expect a value increase at least 3 points more than the inflation rate, it is nearly impossible to find a product whose annual rate is 22 percent in the real estate market," laments an interviewee.

For offices, domestic players think Istanbul will be a "difficult market for the next couple of years", given the volume of development and the crisis; retail too is over-supplied and requires caution. "We believe logistics, healthcare, and selective education offer the best opportunities in Turkey."

And as a city of 15 million people, Istanbul is still of interest to some international players. "It will be in for a very challenging time," says one, "but because of its demographics it is a market we could see ourselves being in when things settle down."

"Istanbul will be in for a challenging time, but because of its demographics it is a market we could see ourselves being in when things settle down."

“Right across Europe, people are moving into the larger cities. We’ve got an urbanisation trend and a scenario where not enough housing has been built over the last 25 years.”

Director, pan-European investment manager



Chapter 4

Redefining value

“Impact investing is a very big thing with the sovereign wealth funds. Where capital is a little more considered in terms of where it’s going, I think it does make a difference.”

Director, pan-European advisory firm



In January 2018, BlackRock CEO Larry Fink sent a letter to senior executives at the companies in which the firm is invested.

“Creating positive social returns actually supports the long-term financial return. It’s quite straightforward: you build a beautiful community where people want to live and you’re not going to have voids.”

In it, he warned them: “To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.”

BlackRock, the world's largest asset manager, is pinning “sustainable investment” to its mast, incorporating environmental, social and governance criteria.

“We are going to see evidence over the long term that sustainable investing is going to be at least equivalent to core investments. I believe personally it will be higher,” Fink told the *Financial Times* in October 2018.

“There’s often a perception that if you’re trying to achieve social returns you’ll be compromising financial returns,” says one *Emerging Trends Europe* interviewee. “But if you change the lens and look at it from a long-term perspective, creating positive social returns actually supports the long-term financial return. It’s quite straightforward: you build a beautiful community where people want to live and you’re not going to have voids.”

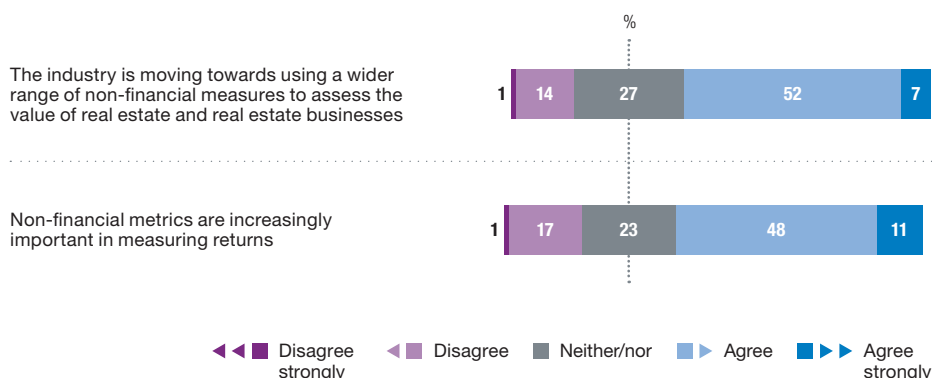
Of course, many large firms already work hard on drawing up and communicating their corporate social responsibility (CSR) policies. What is new is that organisations are paying more attention to social problems and investing time and resources into how their core business activities can have a positive impact, although it is recognised that short-term investment strategies are less likely to yield such impacts.

Cultural and technological advances are changing traditional business models and blurring the boundaries between the need to demonstrate good “social purpose” and enhancing shareholder value. To that end, in recent years we have seen the emergence of macro-level, multinational voluntary standards concerning environmental, social and governance (ESG) factors. For instance, most large investors are now signatories to the Principles for Responsible Investment.

Branding is an important aspect here. Examples of this are everywhere – from Nike’s marketing campaign based around its sponsorship of disabled athletes to WeWork announcing in 2018 that it will no longer hold any staff events that serve meat, nor will it allow staff to claim expenses for any meals that include poultry, pork or red meat.

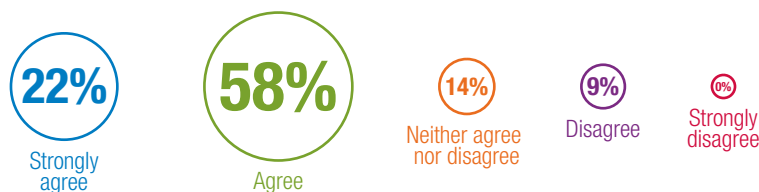
There is arguably no industry sector where these changes will have more of an impact than real estate. Real estate provides the “shell” in which society lives out its daily life, and a positive social impact is therefore almost interchangeable with a good product.

Figure 4-1 Redefining value



Source: Emerging Trends Europe survey 2019

Real estate returns will become more difficult to achieve



Then there is the question of what is driving investors towards considering more than just financial performance, especially now when conventional returns are difficult to achieve? According to one investor with experience in multiple jurisdictions, the answer is simple: consumer pressure. “I think they are responding to consumers and a general change in society around effects we’re having and people having to answer for those effects,” he says. “I think there is a real shift going on. I wish it was happening more quickly, but it is definitely happening.”

Some interviewees believe the situation has reached a tipping point, and that those companies that focus solely on profit will soon lose out to their competitors. “You have to be able to show to your customers, to all the stakeholders, that you have a meaning, a purpose and positive impact on society,” says a Belgian developer. “And if you don’t, I think you will be in trouble soon because, at the end of the day, your customers won’t like you anymore and you won’t have intrinsically motivated employees.”

Although we may be some way off the point at which positive social impacts and good financial performance are completely intertwined, there is evidence that European investors are paying attention to non-financial metrics. Nearly 60 percent of survey respondents believe the industry is moving towards using a wider range of non-financial measures to assess the value of real estate and real estate businesses. Similarly, 59 percent agree that non-financial metrics are increasingly important in measuring returns, while just 18 percent disagree.

As a pan-European investment manager describes the situation: “These non-financial measures are beginning to feature more clearly and crisply in investors’ mindsets, and that is something that as a house we picked up some time ago and that is factored into our investment process at every stage. It is something you are looking to deliver alongside market performance.”

For investors and developers, this approach is aligned with a greater focus on combining commercial uses, such as co-working facilities, retail and last-mile logistics, with non-commercial uses and placemaking elements, such as affordable housing, community centres, public spaces and childcare facilities. In addition, investing in the vibrancy of areas is highly important, which can involve curating programmes of events to ensure they become genuine and valued social hubs.

“Energy sustainability can be implemented by numbers, and they can have a positive impact on the success of a portfolio, but social factors cannot be counted.”

Measuring non-financial performance

However, while you could say that understanding and adapting to the social impact of real estate is simply a matter of understanding and reacting to customer needs, there is nevertheless an issue with coming up with metrics to evaluate such benefits. Measuring financial returns is a matter of mathematics, while investors can get a grip on environmental impact by looking at metrics such as how the carbon emissions from a portfolio have changed or whether water consumption has gone up or down.

Measuring the impact that properties have on issues such as inequality is rather more challenging. So too is attempting to put a value on the non-commercial elements that play such an important part in placemaking, let alone quality public realm, parks and other recreational facilities. “The difficulty here is the measurement of these variables,” says an asset manager. “They are not always scientifically provable, but more and more a matter of art.”

Though not focused on real estate, organisations such as the Global Impact Investing Network and the Impact Management Project are starting to reach a consensus on how impact investing can be measured.

Numerous investors interviewed for *Emerging Trends Europe* say they are attempting to measure ESG factors. But it takes a lot of effort, simply because there are no internationally agreed standards for measuring impacts on society – in contrast to systems such as the International Financial Reporting Standards or sustainability benchmarking schemes such as GRESB.

The fact is that developing ESG metrics and gathering data are difficult, making it hard for investors to justify the decisions they make based on social factors, even if their ultimate client – a pension fund, for instance – wants to achieve environmental and social returns in addition to ensuring sound financial performance. With the best will in the world, sustainability and social concerns are often only secondary factors.

“[Investors] do not focus on these indices – as long as the revenue is right, even if the rent comes from a tobacco company, they do not care,” says one fund manager bluntly. “Energy sustainability can be implemented by numbers, and they can have a positive impact on the success of a portfolio, but social factors cannot be counted.”

The CEO of a major REIT agrees, arguing that the primary responsibility of listed property companies is to their shareholders, but adds that government may yet intervene to force companies to act with a greater sense of social responsibility. “The only way that people will look at non-financial measures is if politics forces the issue,” he says. “The divide between the haves and have nots is getting wider, and politics is getting febrile. That will drive non-financial measures. What will society expect from business?”



Image: Zoran Milosavljevic Photography

Air quality in the workplace: ESG and business priorities are aligned

Alongside cultural change, urbanisation pressures and resource scarcity, technology is playing a major role in ensuring that societal, environmental and financial factors can no longer be examined in isolation. The hugely important issue of air quality is a case in point. According to *The Lancet*, pollution in the workplace is linked to around 800,000 deaths worldwide every year. The health impacts of the workplace are increasingly quantifiable as a result of scientific advances. There is a huge amount of data now sourced from individuals via smart phones, wearables, as well as in infrastructure via smart buildings and Building Information Modelling.

So, when does the quality of the air in a building in a major city or the surrounding environment move from becoming a general issue for society to tackle to becoming a determining factor in the rent paid on and the value of an office? Should owners and operators of real estate assets compete with other owners and operators over the quality of the air in a building? Or should they seek to influence a more community-led approach to tackle the issue at source by, for instance, integrating infrastructure in their developments that facilitates environmentally friendly transport choices?

The point is that a number of factors are combining with the result that real estate as a business is becoming more complex, starting to respond to its truly important role in critical issues facing society, and this is slowly but surely becoming part of the way real estate businesses are operated, how they compete, and how they are valued. Real estate is clearly starting from a low base, but the signs of change are there and clear from *Emerging Trends Europe's* survey and interviews.

Investing for impact

In some parts of the economy, the idea that funds and companies can make a profit while at the same time contributing to society has been manifest for some time. At one end of the spectrum, so-called “impact investing” works by aligning different interests around a single purpose.

For instance, in the prison system impact investment has been used to reduce the level of reoffending by pulling in investment in rehabilitation from the private sector, with investors seeing a set return from the subsequent reduction in the cost of housing prisoners. Whether or not investors have any particular interest in reducing the incidences of reoffending is beside the point.

That is the model, but what does impact investing look like in the real estate industry? At one end of the spectrum, some investors, such as Bridges Fund Management, Civitas Social Housing and Cheyne Capital, have established dedicated impact investing vehicles. Cheyne Capital, for instance, has established a social property impact fund with the sole objective of developing or acquiring homes to help disadvantaged groups in the UK.

The fund works with councils, housing associations and charities to provide housing for, among others, people with acute learning disabilities, elderly citizens and those on low incomes. The objective is to build or acquire assets that provide dependable, long-term income. Given the acknowledged lack of social and affordable homes, let alone affordable specialist accommodation, the idea is that there is steady demand for such housing. The returns may be lower than, say, student accommodation or build-to-rent (BTR), but they are all but guaranteed.

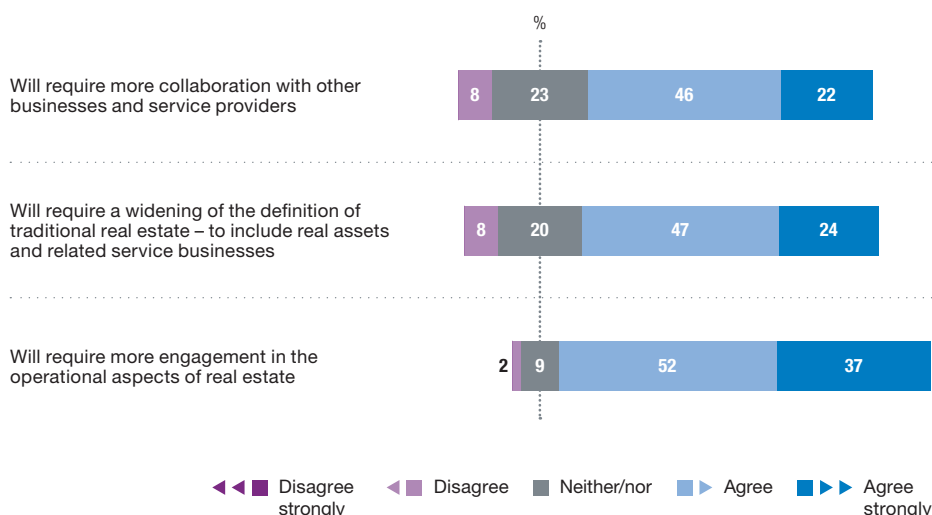
Another example demonstrates how impact investing can be deployed at scale to help both private investors and the public sector tackle major urban challenges. While it does not use the term impact investing, the Mass Transport Railway (MTR) Corporation in Hong Kong effectively uses the same model to fund new infrastructure. In this case, the corporation receives a concession from government to develop publicly-held land around proposed new transport nodes. In return, the MTR agrees to build the new line and keep fares below a negotiated cap.

“You get affordable transport and cost savings because the state doesn’t have to develop the infrastructure and pay for it,” says one consultant. “The beneficiaries are the public and the stakeholders. The funders may not necessarily be interested in having a connected population or affordable transport, but either way they get a return on their investment.”

The potential to use the model, at least in urban areas with strong growth potential, is huge. What is more, it need not be limited to transport infrastructure. The same principles could be readily applied to essential infrastructure such as drainage or energy, or “soft infrastructure” like public parks or bikeshare schemes. So long as an investment creates access to a commodity that is genuinely needed, there is the possibility of generating returns while at the same time creating the infrastructure that enables a city to thrive. “From a long-term perspective, creating positive social returns actually supports the long-term financial return,” says the consultant.

“From a long-term perspective, creating positive social returns actually supports the long-term financial return.”

Figure 4-2 **Achieving target returns**



Source: *Emerging Trends Europe* survey 2019

“I think we’re going to see investments in network communications in the same way we may have looked at hard infrastructure investment in the past,” says one consultant. “Data centres are probably the largest growth area in terms of e-energy consumption. If you want to run an autonomous vehicle programme for your city, among other things you’re going to need a place to store the vast amounts of data that allow that mobility to occur.”

Of course, not all investors or property companies are set up to take a real assets approach, nor may they feel comfortable with such a strategy. “There are some big players that have gone into this space and I think it’s probably the right approach, but I wouldn’t say it’s the majority,” says one advisor. “It’s a different type of risk. There is a lot more intricacy than with traditional asset classes, so it makes people hesitant.”

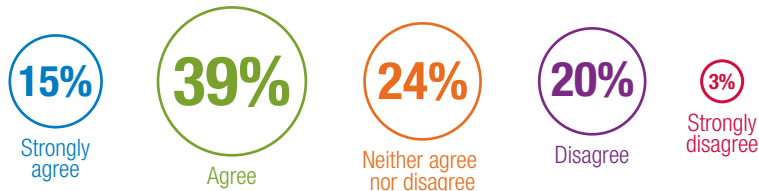
Opportunities in new asset classes

Initiatives such as Hong Kong’s MTR are leading some major investors to rethink their approach to real estate to include various types of infrastructure they would not previously have considered. Evidence shows that this approach is gaining currency across the industry. Some 71 percent of survey respondents believe that achieving target returns will require a widening of the definition of traditional real estate to include real assets and related service businesses.

Investing in infrastructure need not mean traditional assets, such as railways or utilities. Rather, whole new investable asset classes are opening up to service the digital economy, including 5G infrastructure, data centres and charging points for electric and – increasingly – autonomous vehicles. The backers of all these new initiatives would claim they provide a social return to consumers through better connectivity or to the environment in terms of lowering carbon emissions.

“We’re going to see investments in network communications in the same way we may have looked at hard infrastructure investment in the past.”

Scale is increasingly important in successful real estate investment



Creating value requires greater operational risk

Whether or not they view infrastructure as an investable proposition, it is clear that many real estate companies can have the biggest impact by focusing their attention on fewer, bigger projects that by their very nature are long-term plays. They can then create economies of scale when investing in, for instance, placemaking projects or new social infrastructure. Moreover, by developing at scale they have far more control and can therefore better de-risk their investments. Doing so, however, also involves a willingness to be in it for the long term and to accept a different approach to operational risk.

A more hands-on approach to assets is reflected in the *Emerging Trends Europe* survey. An overwhelming 89 percent of respondents agree or strongly agree that achieving target returns will require more engagement in the operational aspects of real estate.

In part, at least, the move towards more pro-active operational management is about where we are in the property cycle. As capital appreciation slows, investors are looking to sweat the assets that they have in order to maximise returns. “At this stage in the cycle, we’re putting even more emphasis on working the assets to improve the cash-flow profile,” says a Dutch fund manager. “It’s about repositioning the assets and putting them back on the market in a strong demand environment. That’s where the opportunities are at this stage.”

However, the trend is not just cyclical; rather, it is being driven by long-term investors, the scarcity of assets and such megatrends as demographics and technology. As a result, they are investing in districts and placemaking. The idea is that by building genuinely mixed-use places, focusing on placemaking and retaining control, they are able to pay attention to the detail of various components and develop a community that is balanced and that will be successful in the long term.

In the UK, the most commonly cited example is King’s Cross in London. The developer, Argent, is now more than half way through its regeneration of land to the north of the railway station. By bringing in world-famous art college Central Saint Martins at an early stage and focusing on placemaking, Argent was able to attract prestigious companies such as Google to what was an untested commercial location. However, examples elsewhere are plentiful and include Hines’ and subsequently COIMA’s Porta Nuova development in Milan, which one consultant describes as having “completely changed the fortunes of the city”. HafenCity in Hamburg is another example.

“It’s about concentrating on operation as well as building the asset,” says one senior advisor, arguing that in order to create a community you need to manage it at a very operational level and include a mix of commercial and social uses. “By operating it, not only do they have the revenue streams, but they can also control the risks more. They’re mitigating the risk because they’re controlling the way the asset is used. I think you will see more and more of that. It creates an identity for the district and that, in turn, flavours everything, from who wants to buy a condominium to the kind of business that wants to occupy the office buildings.”

Even so, there will always be investors whose business model is far more short-term and for whom investing in things like placemaking and community engagement simply will not pay off within the required timeframe. “I think we will see polarisation because not everyone shares the same values,” says one investor. “You will see more aggressive companies that will go back to what we saw in the 1990s – trying squeeze everything out [before selling]. The purely financial strategy doesn’t really combine with going the extra mile; with something that doesn’t show immediate results.”

What is more, not everyone has the appetite, resources or skill-sets to get involved in long-term, operational ownership. But taking a more operational approach does not have to mean development on the scale of a King’s Cross or Porta Nuova. It can mean redirecting assets into alternative asset classes such as student housing, BTR products or retirement living schemes: one of the clearest trends picked up in *Emerging Trends Europe* in the last few years. Essentially these are real estate sectors that are benefiting from structural tailwinds.

“If they can get their head around the operational model, it’s pretty easy to apply to any of those alternative sectors,” says a senior researcher. “Fundamentally, people are [trying to understand] that from an operational side, and I think we will see more and more investors moving into that space. It’s taking a while, but once they get it they are moving into that space.”

“Fundamentally, people are getting their heads around the operational model, and I think we will see more and more investors moving into that space.”

The pace of change in real estate is currently comparatively slow. But the trends identified in *Emerging Trends Europe* may yet be accelerated by new entrants to the market, unencumbered by traditional business models, as well as technological advances, particularly in companies’ abilities to track and interpret multiple impacts using big data.

There is already ample evidence that businesses are taking a more “outcomes-focused” approach to investing in real estate – breaking down the barriers between non-financial ESG reporting and profit-driven decisions. Real estate firms are becoming more focused on the impacts that their investments have on the communities in which they invest. And this is slowly but surely becoming part of the way real estate businesses are operated, how they compete, and how they are valued. Boundaries are blurring between the need to demonstrate good “social purpose” and enhancing shareholder value.

Looking across the numerous data points and interviews undertaken for this year’s report, the signs are clear that the business of real estate is becoming more complex as it starts to respond to its role as the “shell” in which society functions, and as traditional forces, like the tenant/landlord relationship that in the past has tended to keep the customer and the capital apart, are broken down.

About the survey

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

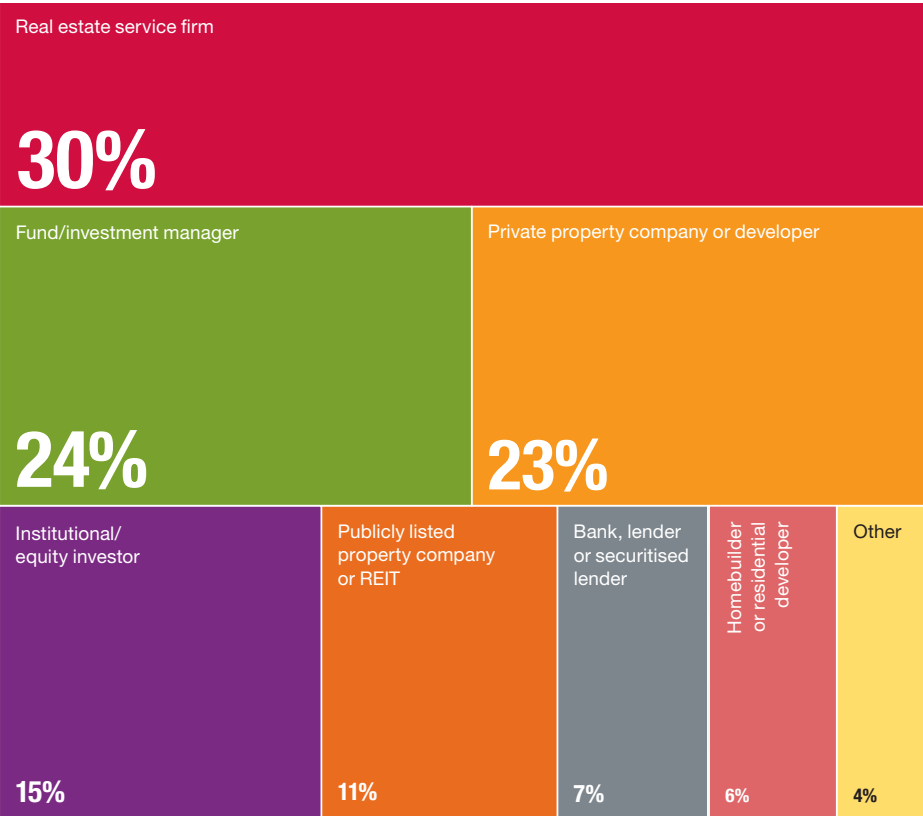
Director, UK private equity firm

Emerging Trends in Real Estate® Europe, a trends and forecast publication now in its 16th 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 2019 reflects the views of 885 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.

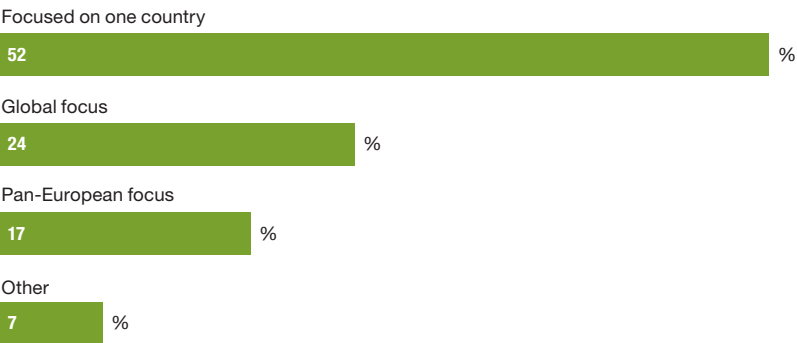
A list of the interview participants in this year's study appears on the following pages. To all who helped, ULI and PwC extend sincere thanks for sharing valuable time and expertise. Without their involvement, this report would not have been possible.

Survey results



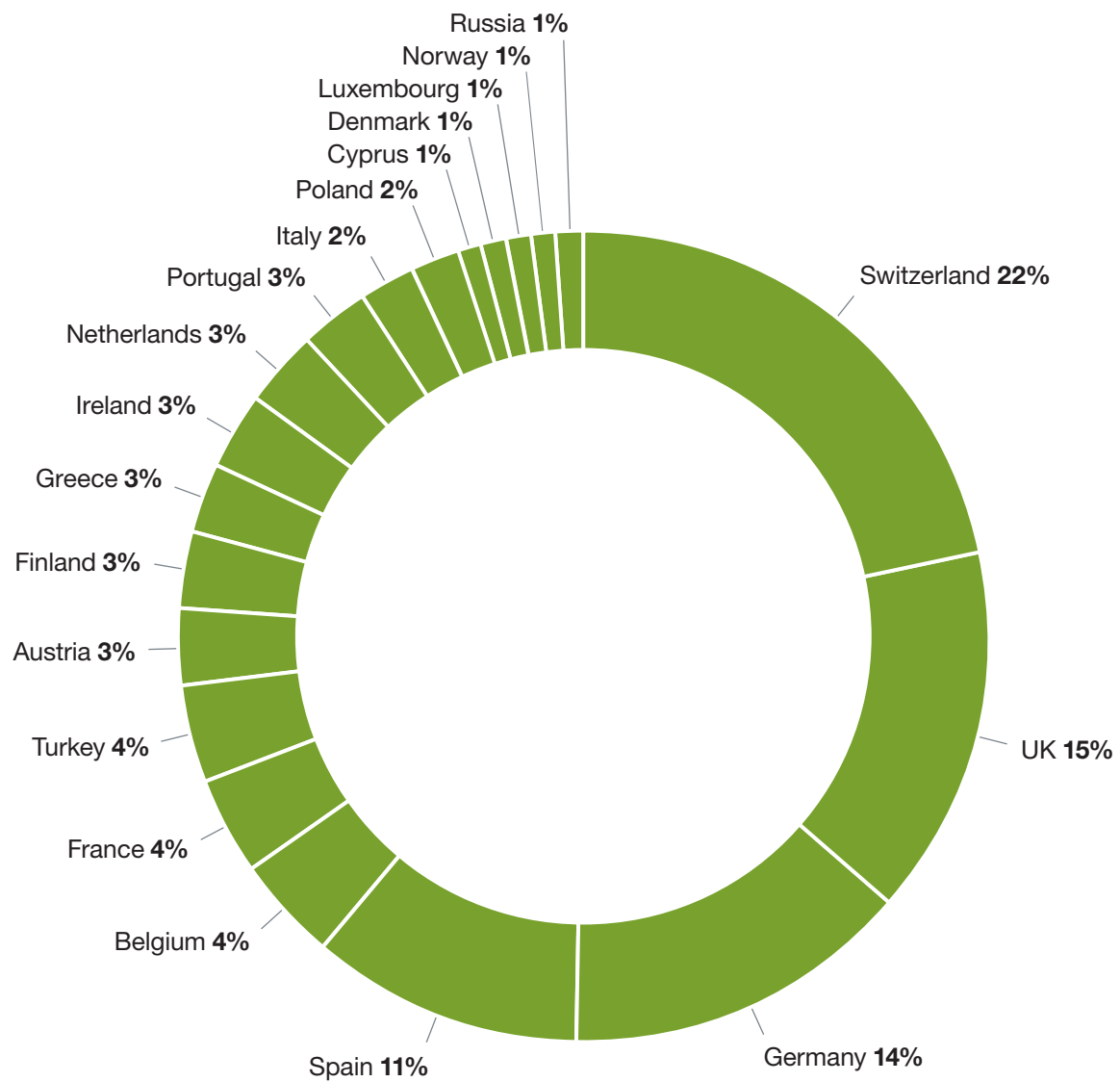
Source: *Emerging Trends Europe* survey 2019
Note: Respondents could choose more than one category, so percentages do not add up to 100.

Survey responses by geographic scope of firm



Source: *Emerging Trends Europe* survey 2019

Survey responses by country



Source: *Emerging Trends Europe* survey 2019

Interviewees

6B47 Real Estate Investors

Peter Ulm

8G Capital Partners

Tassos Kotzanastassis

a.s.r. real estate

Rodney Zimmerman

Aberdeen Standard Investment

Tomi Grönlund

David Paine

AECOM

Christopher Choa

AEDAS

David Martínez Montero

Aegila Capital Management

Ulf Nore

AEW

Raphaël Brault

Thomas Poulis

Afar 4

Antonio Cubo Cubo

AG Real Estate

Serge Fautré

Akelius Residential

Pål Ahlsén

Akis REIT

Ihsan Goksin Durusoy

Allianz Real Estate

Donato Saponara

Francois Trausch

Allied Irish Bank

Pat O'Sullivan

Alma Property Partners

Robert Landtman

alstria

Alexander Dexne

Alteris

Gerhard Dunstheimer

AM

Ronald van Huikeshoven

AMF Fastigheter

Fredrik Ronvall

Annexum

Huib Boissevain

anthonyslumbers.com

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Ofer Arbib

APG

Robert-Jan Foorste

Arcona Capital

Guy Barker

Art-Invest Real Estate

Dr. Rüdiger von Stengel

Arup

Flavio Tejada

Aspelin Ramm

Gunnar Bøyum

Avant Capital Partners

Lorenz Merk

Avara

Harri Retkin

Aventicum Capital Management

Christophe Tanghe

Avignon Capital

David Kirkby

Aviva Investors

Jeffrey King

David Skinner

AXA Investment Managers

Nathalie Charles

Isabelle Scemama

Rainer Suter

Bank of America Merrill Lynch

Kari Pitkin

Barings Real Estate Advisers

Jere Fredriksson

Beni Stabili

Alexei Dal Pastro

Bergson Real Estate Capital

Fabian Godbersen

Berlin Hyp

Gero Bergman

Blackrock

Marcus Sperber

Blackstone

James Seppala

Blue Sky Group

Peter Bretveld

BNP Paribas Real Estate

Vanessa Hale

Barbara Knoflach

Andy Martin

Borio Mangiarotti

Edoardo De Albertis

Bouwfonds

Jaap Gillis

British Land

Simon Carter

Brunswick Real Estate

Hanna Rauhala

Burlington Real Estate

John Bruder

BUWOG

Herwig Teufelsdorfer

CA Immo

Andreas Quint

Cairn Real Estate

Pieter Akkerman

Caisse des Dépôts et Consignation

Arnaud Taverne

Capital Park

Marcin Juszczyk

Jakub Poniatowski

CapMan

Sampsa Apajalahti

Markku Jääskeläinen

Mika Matikainen

Captiva

Stephan Fritsch

Castello

Giampiero Schiavo

Catella Asset Management

Timo Nurminen

CBRE

Marie Hunt

Jos Tromp

CBRE Global Investors

Jeremy Plummer

Paul Oremus

Cheyne Capital

Shamez Alibha

Citycon

Marcel Kokkeel

CityLife

Armando Borghi

Coima

Gabriele Bonfiglioli

Corem

Eva Landén

Corestate Capital

Ralph Winter

Corpus Sireo

Bernhard Berg

Credit SuisseChristoph Schumacher
Zoltan Szelyes
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Omar Koleilat

Cromwell Property GroupKarol Pilniewicz
Wouter Zwetsloot**Cushman & Wakefield**

Eric van Leuven

Deutsche Hypo

Alexander Firsching

Deutsche Pfandbriefbank

Charles Balch

DORDA

Stefan Artner

Eastdil Secured

Michael Cochran

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Tero Estovirta

Fidelity International

Neil Cable

Fifth Wall

Brendan Wallace

GalCap

Manfred Wiltschnigg

Gallerie Commerciali Italia

Edoardo Favro

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Gecina

Meka Brunel

Genesta Property Nordic

Tuomas Ahonen

Glenveagh Properties

Wesley Rothwell

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Jim Garman

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Colm Lauder

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ULI's interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics. Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 76 countries.

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

Peer-to-peer learning is achieved through the knowledge shared by members at thousands of convenings each year that reinforce ULI's position as a global authority on land use and real estate. In 2017 alone, more than 1,900 events were held in about 290 cities around the world.

Drawing on the work of its members, the Institute recognizes and shares best practices in urban design and development for the benefit of communities around the globe.

More information is available at uli.org. Follow ULI on Twitter, Facebook, LinkedIn, and Instagram.

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Emerging Trends in Real Estate® Europe 2019

Emerging Trends in Real Estate®

Europe 2019

What are the best bets for investment and development across Europe in 2019? Based on personal interviews with and surveys from 885 of the most influential leaders in the real estate industry, this forecast will give you the heads-up on where to invest, what to develop, which markets and sectors offer the best prospects, and trends in capital flows that will affect real estate. A joint undertaking of PwC and the Urban Land Institute, this 16th edition of *Emerging Trends Europe* is the forecast you can count on for no-nonsense, expert insight.

Highlights

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

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