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Spotlight
European Multifamily

November 2017

European multifamily markets

Examining the "investability" of Europe's key multifamily markets

■ The residential sector as we used to know it is changing. There are several subcategories under the broad term 'residential real estate' including housing/ apartments, senior housing, student housing, micro-living and other emerging specialised sub-categories that may also be a fusion between residential and hospitality assets (student-hotels, co-living).

■ Fast urbanisation, changing demographics and socioeconomic polarisation are having an impact on people's housing needs and their ability to fulfil them. The public sector cannot always keep up with the rising demand for housing in the largest cities in Europe and the private sector has started filling the gaps.

■ Investors, who may have traditionally been focusing on commercial real estate, have shifted their attention to the residential sector seeking diversification of risk and strategic investments. The attractiveness of long-term, index linked income, the benefits of multi-tenant properties, lower volatility and good fundamentals have been supporting investor demand.

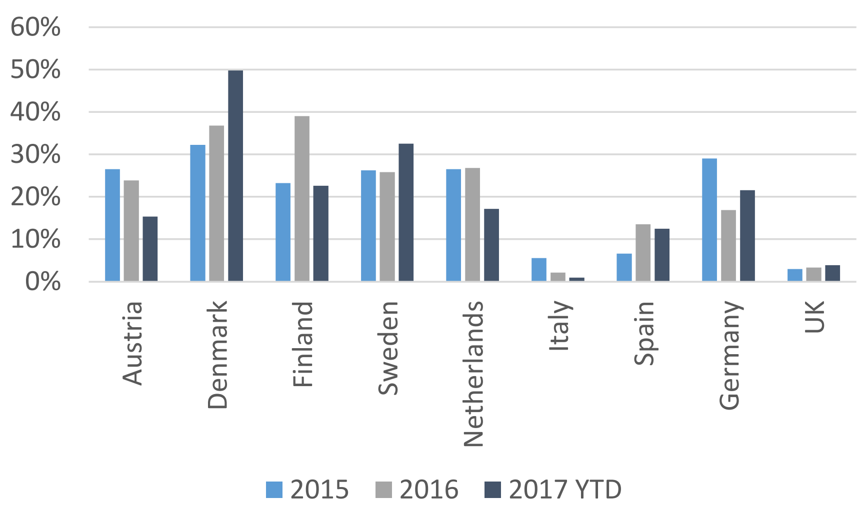
■ Investment in the multifamily sector peaked in 2015 exceeding €40bn across our survey area (16 countries), from €13.3bn in 2010. Over the period between 2010 and 2015 Germany attracted almost half of the capital invested in the European market. Since 2015, capital flows in the sector have broadly followed the general upward tend in real estate investment in Europe. Multifamily today accounts for about 14% of the total turnover, a share that can be as high as half of the activity in Denmark, a third of the activity in Sweden, 23% in Finland, 22% in Germany and 17% in the Netherlands.

■ In this report we focus on 'family housing' and more specifically on what in the US is defined as 'multifamily' and in the UK as 'private rented sector' (PRS). We discuss the positive market fundamentals that have been driving investor interest in the sector and we look into the current capital market conditions. Finally we provide our mid-term outlook and an assessment of the 'investabilty' and dynamics of each country. ■

143%

Total increase in multifamily investment volumes across Europe between 2010 and 2016

FIGURE 1: In some countries the share of investment into the multifamily sector can be almost a half of the total investment into real estate



Source: Savills Research

Renting is becoming more appealing than buying

High house prices and urbanisation are driving the demand for renting

■ Demographics and economics are key drivers of demand for housing. The urban population of Europe is forecast to rise by 70m people over the next 30 years, which will put immense pressure on the physical infrastructure of cities. Countries with rising populations, particularly in the 25-55 age bracket will demonstrate a higher need for housing. This housing need will most likely be for apartments as growth is noted predominately in higher urbanised areas, with low availability of land in densely populated areas where many desire to live in mixed use environments.

■ Ireland, Sweden, Denmark, Norway and France are amongst the top five countries with the strongest urbanisation trends followed by the UK.

■ With the average household size dropping due to rising number of single households, smaller families and more elderly people, there will be a need for smaller floorspace and access to transport and amenities will be vital.

■ Affordability varies from country to country. High standards of living and labour market conditions influence sentiment and sense of financial security when making important decisions like that of buying or renting a house.

■ Based on our scoring, the countries with the best economic prospects over the next decade will be Ireland, Norway, Denmark and Sweden.

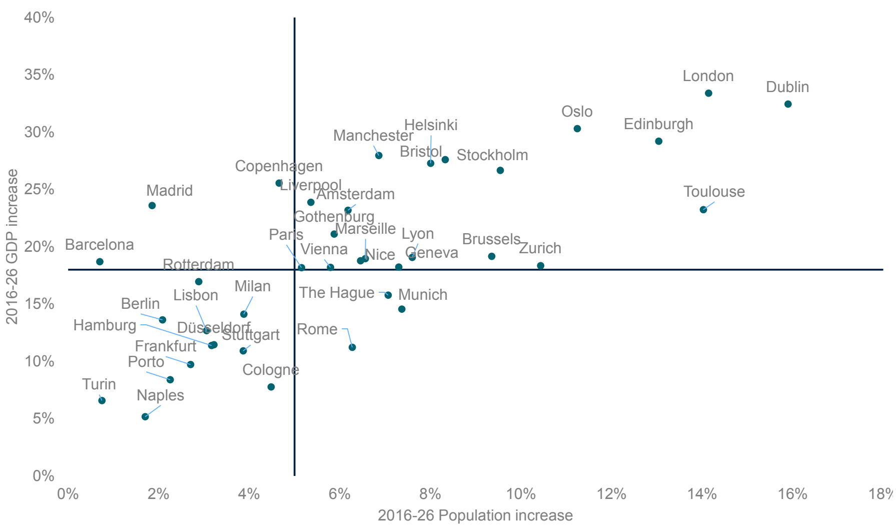
■ In countries where household incomes are not strong or where house prices are above long term average trends getting on the housing ladder is becoming unaffordable, and it is likely that renting will become more appealing. This is particularly true where rents are still low compared to incomes.

■ House prices have been rising in most countries since 2012. The steepest increases have been noted in Ireland (12.2% pa), Sweden (8.1% pa), Denmark (7.5%) and Norway (7.1% pa).

■ At the same time we have observed that the share of rent over the disposable imcome of households is the lowest in Germany (24.8%), Portugal (25.3%), Poland (26.3%) and Austria (27.3%), while on average in Europe it accounts for above a quarter of incomes. These are countries where renting is quite affordable.

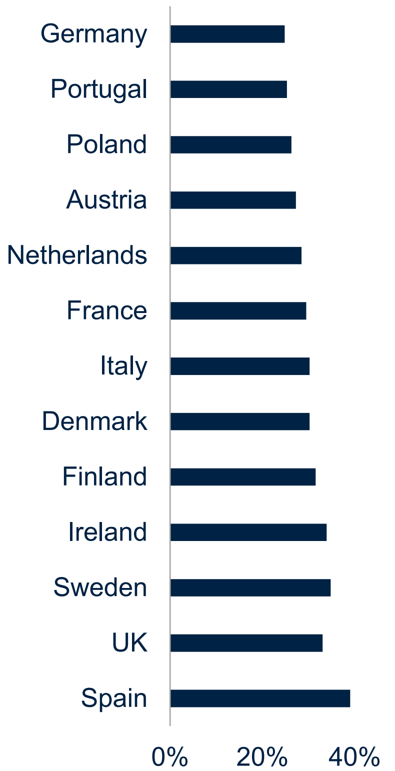
■ Looking closely at a city level, many of the urban centres that will demonstrate above average economic and population growth over the next decade, and therefore highest need for housing, are located in the UK, France, Ireland, the Netherlands and the Nordics. ■

FIGURE 2: Growing cities in terms of economy and population will show the highest need for housing



Source: Savills Research, Oxford Economics

FIGURE 3: Share of rental costs over disposable income



Source:Eurostat

70m

People will move to the European urban centres over the next 30 years

4.1%

Has been the average annual house price growth in Europe over the past five years

Surplus investor demand pushes yields down

Nevertheless the spread over long term interest rates remains attractive

■ In the US, housing market equilibrium is considered to be reached when about 30% of the population is renting vs owning their homes. In Europe, although on average 70% of the people own their home with or without mortgage, this rate varies from over 80% in central/eastern/southern Europe to below 65% in western and northern Europe on average.

■ Some markets are already quite inviting to the development of the private rented sector (PRS) as they already have higher levels of tenancy against ownership. The countries with the largest share of the population renting (at market prices) are Germany (39.6%), Denmark (36.6%), The Netherlands (32.6%) and Sweden (30.4%).

■ At the same time, these markets seem to be undersupplied in terms of PRS stock (apartments and houses), such as the Netherlands, Sweden, Denmark, France, UK and Ireland. These markets could be attractive for investors looking for new development opportunities.

■ The multifamily market has delivered attractive returns over the past five years, particularly in terms of yield compression. Between 2012 and 2017 prime yields have moved in by more than 100 basis points in Dublin (200), Helsinki (168), Berlin (158), Copenhagen (125) and Stockholm (135) under the pressure of surplus demand for institutional quality product.

■ Prime net yields can be as low as 2.75% in Stockhom and Berlin, between 3.0% and 3.75% in London, Paris, Vienna, Oslo, Copenhagen, Amsterdam and between 4.0% and 4.25% in Madrid and Dublin.

■ Nevertheless, the yield spread over the national long term interest rates remains attractive, with the highest found in Dublin (355 bps), Copenhagen (322 bps) and Helsinki (319 bps).

■ The fast compression of multifamily yields noted over the past five years has caused a convergence of cap rates with the traditional commercial real estate sectors.

■ Rental growth has also been positive in the markets we monitor, with a compound growth rate ranging between 4% and 8% in most capital cities over the past six years.

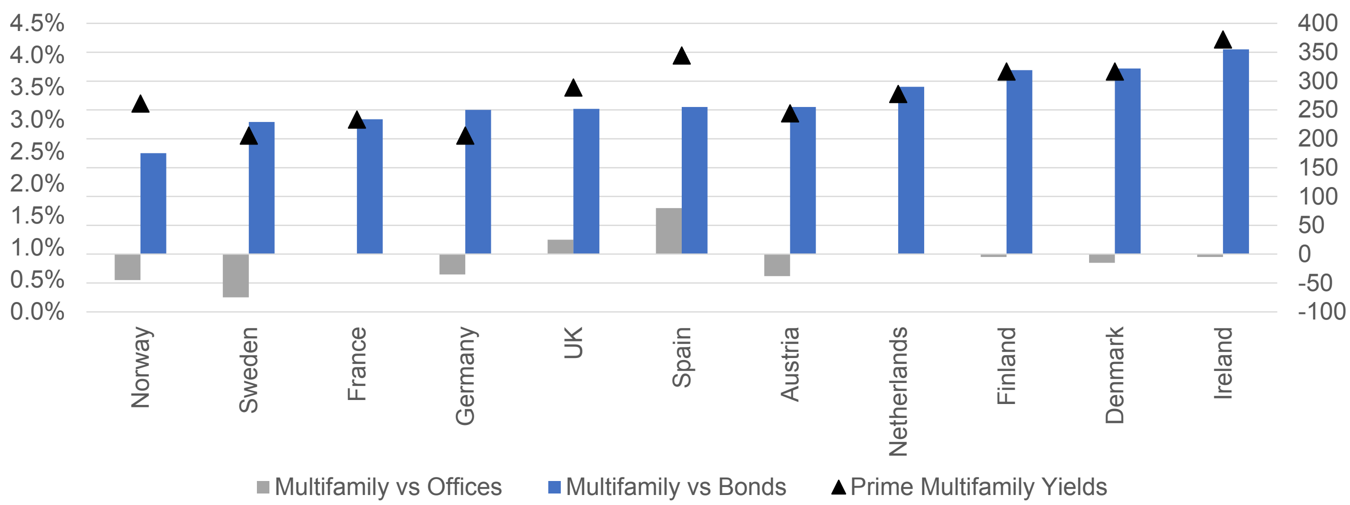
■ The most active markets since 2009 in terms of investment into housing were Germany and Sweden, which account for almost two thirds of total investment transactions. UK and Netherlands follow accounting for about 9% each. Sweden, Netherlands, Denmark and Germany have quite established institutional residential markets, offering more liquid market conditions for trading. The UK and particularly London / South East is constantly attracting more investor demand due to the pressing need for more housing stock for rental.

2009 - 2017 multifamily investment destinations (share by country)

Germany	46%
Sweden	17%
UK	9%
Netherlands	9%
Denmark	5%
Finland	4%
France	3%
Spain	2%
Other	3%

Source: Savills Research

FIGURE 4: Prime net multifamily yield spreads over bond yields remain attractive



Source: Focus Economics, Savills Research

Multifamily perspectives

Which are going to be the most interesting markets for multifamily investment?

■ We believe that investor demand for the multifamily sector will be sustained and may even rise over the coming years. The conditions for investors are favourable, since population growth and urbanisation will continue and economic trends will remain positive.

■ Residential construction is also rising but it is still short of the projected requirements in the most dynamic capital cities such as London, Amsterdam, Stockholm, Copenhagen, Dublin and most of the large German cities.

■ Nevertheless opportunities for counter-cyclical buyers will be limited. Investment in residential in general will appeal to income-oriented investors, who will look for strategic, long-term commitment in the sector.

■ Given the demand and supply imbalance in several cities, it is expected that apartment rents will continue to show positive growth over the coming years. Besides, in most markets, rents are index-linked offering a hedge against inflation.

■ If we also take into account the historically low levels of bond yields, investment into the multifamily sector remains an attractive asset class, particularly for risk-averse investors. Since the low interest rate environment is not expected to change significantly for another one or two years we expect higher allocations in the sector from long-term institutional investors such as insurance companies, pension funds and sovereign wealth funds.

■ The country matrix that we present below is the result of scoring each country's key market fundamentals: Economics and Demographics (Demand), Capital Markets and Supply (Market Conditions). It attempts to measure the future demand drivers, the supply conditions and the 'investability' (liquidity, pricing attractiveness) of each market and eventually to assess them based on their overall attractiveness to investors.

■ The established markets (Germany, Netherlands, Sweden, Denmark, Finland) offer the most favourable market conditions for investment in terms of liquidity, demand/supply conditions and rental growth prospects in a stable economic environment with overall positive for the sector demographic trends. The population rises in the big conurbations of these countries already exceed predictions, driven by internal emigration and external immigration and housing pipeline struggles to meet demand.

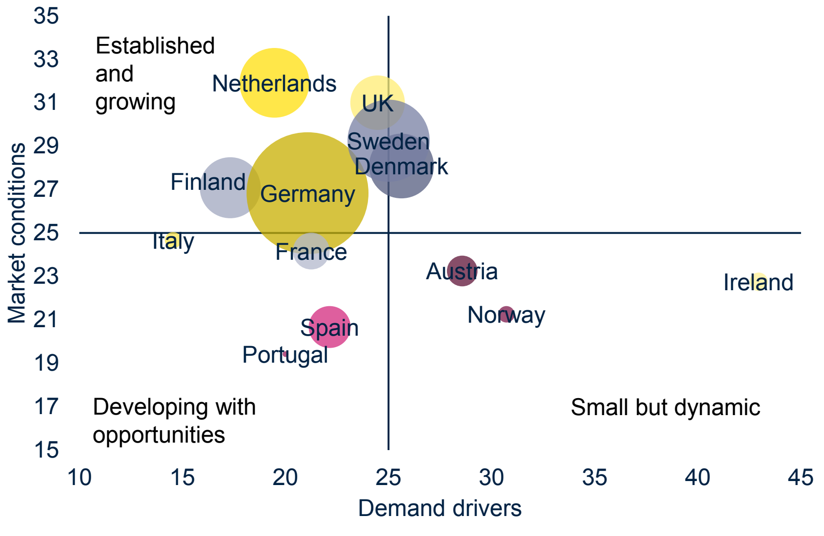
■ At the same time these are markets with the most institutionalised residential sectors. We estimate that the share of the multifamily stock owned by institutional landlords (excluding public sector) ranges from about 15% in Germany and up to around 40% in the Netherlands and the Nordics. In the UK this share is 5% and in France even lower.

■ France is a market with a less establised multifamily investment sector, noteably due to historical strong government control, however there are a number of cities and Ile de France in particular, which will experience strong population increases and are undersupplied in terms of housing for rental.

■ Ireland and Norway are small yet dynamic markets and are set to outperform in economic terms. Meanwhile, strong urbanisation sizes will create the need for higher supply of multifamily space.

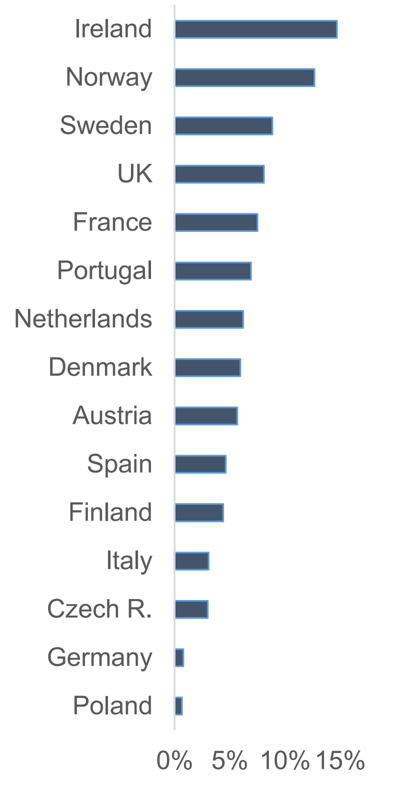
■ Although Spain still experiences the legacy of the last residential boom with part of the residential stock still remaining vacant, supply does not meet demand in some sought after areas of Madrid and Barcelona.

FIGURE 5: Prime net multifamily yield spreads over bond yields remain attractive



Source: Savills Research, *size of bubble is 2016 multifamily investment volume

FIGURE 6: Urban population growth 2015-2025



Source:UN

Multifamily transactions

Major investment deals in 2017

Property	Country	Location	Units	Price (Euro)	Buyer
De Kameleon	Netherlands	Amsterdam	222 and retail	57.5 m	Angelo Gordon
Ring portfolio	Netherlands	Amsterdam	879 single and multifamily homes	171 m	CapReit
Portfolio	Finland	Nationwide	300	60 m	Tapiola Fund
Portfolio	Finland	Nationwide	301	43 m	Barings Fund
Portfolio	Sweden	Helsingborg	1,138	193.5 m	Wilhem
Portfolio	Sweden	Arboga, Köping, Tranås	1,681	147.5 m	D. Carnegie
Project Marigold	Denmark	Nationwide	1,248	392.9 m	Heimstaden
Hostrups Have	Denmark	Frederiksberg	725	227 m	Heimstaden
Portfolio	Germany	Berlin	4,170	655 m	Deutsche Wohnen AG
Portfolio	Germany	Berlin, Leipzig	1,800	202 m	Fonciere des Regions
Honey Park	Ireland	Dublin	319	413 m	
New Bancroft Hall	Ireland	Tallaght	131	230 m	Dublin Artisan Development Fund
Silver Estates Portfolio	UK	London	81	27.7 m	London & District Housing
Chesterfield House	UK	London	239	97.6 m	Realstar

Source: Savills Reserch

15.9bn Euro

Invested in the first half of 2017 in the multifamily sector of Europe

Regulatory framework

Country specific rent regulations may affect investment decisions

Cross border investors buying multifamily for income (operate and rent) are dealing with the challenges of the diversity of the European markets. Although there are common trends across the whole region, when investing/developing into housing parameters such as planning, local housing policies and regulations also differ and may affect investment decisions.

Below we describe the regulatory framework in some key markets:

France

Rent Regulation
Initial rents can be freely set. However following the law ALUR, in Paris (enforced in 2015) and in Lille (enforced in 2017), rents on new leases are limited to 20% above a fixed median rent per square meter calculated annually by a state owned whathdog. Rents can be increased during the tenancy only once a year, based on a Rent Reference Index.

Security of Tenure
Typical leases for unfurnished premises are 3-year tenancies. Landlords can only terminate the lease early for specified reasons.

The Netherlands

Rent Regulation
Rents are set via a points system, depending on the quality of the property. The total score determines the maximum rent, annually reviewed.
For properties with over 142 points, initial rents and rent reviews are decontrolled. Below 142 points and depending on a persons income rental subsidy can be provided.

Security of Tenure
Leases are standard indefinite.
Since 2017 it is possible to have fixed lease terms resulting in higher flexibility for land lords in when concluding a lease agreements.

United Kingdom

Rent Regulation
Rents can be freely set at the start of a new lease or at a renewal.
Rents can be increased during the tenancy in case of a clause in the lease (fixed term) or by mutual agreement (periodic).

Security of Tenure
Leases are typically between 6 months and 3 years and mutually agreed between landlord and tenant. Institutional managed blocks tend to attract longer and more secured leases.
Landlords can only terminate the lease early for specified reasons.

Germany

Rent Regulation
Rents can be freely set at first rental aggreements in newly-built apartments. Re-lettings of existing apartments are limited to 10% above the market rent in stressed housing markets.
Rents can be increased during the tenancy at most once every 15 months and by a maximum of 20% over 3 years, generally based on the market rent (or rarely by a cost-of-living index or a fixed amount).

Security of Tenure
Leases are standard indefinite and fixed-term contracts are only permissible in certain circumstances.
Landlords can only terminate the lease early for specified reasons. The notice period depends on the tenancy duration and goes up to 9 months for landlords.

Ireland

Rent Regulation
Rents are regulated by the open market rent. Rents can be increased during a tenancy but, in general, this can only happen once every second year. December 2016 legislation allows specific locations to be designated as Rent Pressure Zones (RPZs) for a three year period. While rents can be increased once per annum in these locations, the maximum increase allowable is 4% per annum. There are currently 21 RPZs, including all of Dublin, Cork and Galway cities.

Security of Tenure
After an initial 6 months leases are standard 6 year tenancies. Landlords can only terminate the lease early for specified reasons. The notice period depends on the tenancy duration and goes up to 224 days for landlords.

Sweden

Rent Regulation
For newly built rental buildings the developer can set the initial rent on market terms for 15 years - effectively bypassing the rent control. For the existing stock rents are regulated and the rent is increased yearly after negotiations with the Swedish Union of Tenants.

Security of Tenure
Leases are standard indefinite with a mutual 3-month notice period. Tenants have significant legal protection and Landlords can only terminate the leases for specified reasons or after lease term violations by the tenant.

Denmark

Rent Regulation
For residential leases first occupied prior to 1992 the rent is cost-related. An exemption to the general rule is for extensively renovated leases, where the rent is fixed by comparing rent levels in leases which are considered similar in a number of parameters.
Residential leases in properties first occupied after 1992 are exempt from the legislation concerning rent determination, and are therefore let at market rent as agreed between the tenant and the landlord.

Security of Tenure
Leases are standard indefinite with a mutual 3-month notice period. Tenants have significant legal protection and Landlords can only terminate the leases for specified reasons or after lease term violations by the tenant.

Source: Savills

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