Market in Minutes
Multifamily investment in Europe rises

September 2018

Multifamily share of total investment at 17%

■ Multifamily investment was close to €20.5bn by the end of Q2 2018, in the nine European countries that we monitor. This is 61% of last year's total and about 17% of the total real estate investment volume in the first half of the year in these markets. Last year the share of multifamily over the total reached 13%. In the first half of 2018 the shares ranged between 8% in France and over 25% in Denmark (46%), Ireland (34%), The Netherlands (33%), Sweden (31%) and Germany (26%).

Renting is becoming more affordable

■ The rising interest in the multifamily sector should not come as a surprise, as it is supported by a number of favourable factors: demand for rental is rising, particularly in cities where house prices advance faster than earnings and home ownership affordability is challenged. In the European Union house prices increased by 4.7% yoy in the first quarter of 2018, while rents increased by 1.2% yoy (Eurostat/ European Central Bank). Price to income ratio has been rising over the past three years, in some countries steeper than others, such as Sweden (21%), Ireland (21%), Austria (15%) and the UK (12%). With the share of rent at an average of 24% of the disposable income in the EU, renting is becoming a more affordable alternative, in a number of markets.

Demand and supply imbalance

■ On the supply side, a shortage of rental apartments is noted in most growing European cities, particularly for mid to low level income households. National level statistics demonstrate that in Sweden, Netherlands, Denmark and Austria, where the share of tenants (as opposed to owner-occupiers) is high compared to EU standards (over 30% in some cases), the supply of dwellings for private rental is below average (less than 100 per 1,000 inhabitants). This asymmetry between demand and supply, is exacerbated in the context of shrinking household sizes (2.3 people on average in the EU) and rapid urbanisation trends.

Investors attracted by solid fundamentals

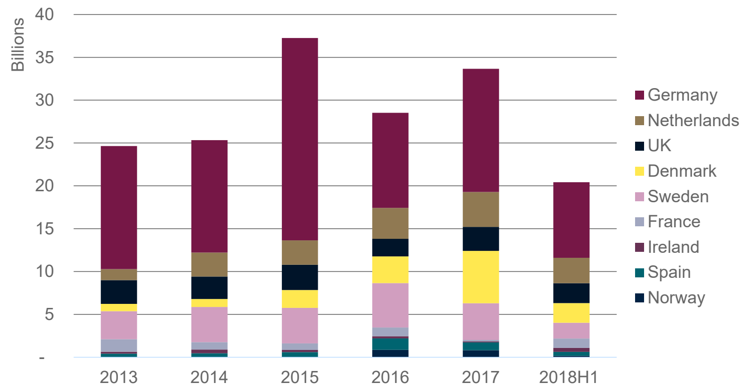
■ As the era of ultra-low interest rates may be coming to an end, capital appreciation prospects have become more limited across the real estate sector. The solid fundamentals of the multifamily sector attract investor interest, at a time when quality income streams have become the main driver for investment decisions.

■ The largest market in H1 2018 was once again Germany with €8.83bn investment volume for rental apartments, followed by The Netherlands (€2.95bn). Denmark saw about €2.3bn investment in apartments, while UK and France also experienced a significant turnover of over €1bn.

■ In Germany, foreign investors increased their share from a 20% five-year average to 27%, and we expect interest to remain high.

GRAPH 1

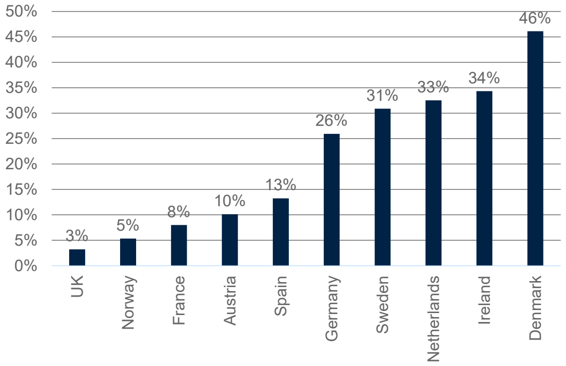
Multifamily investment in Europe H1 at 61% of last year's total



Graph source: Savills, RCA

GRAPH 2

Share of multifamily on total real estate investment in H1 2018



Graph source: Savills

In the Netherlands, shortages in the housing market but also the preference for the flexibility of renting have underpinned the growth of the rental sector. International investor interest is strong, although the locals still dominate, accounting for 75% of the turnover.

Ireland is experiencing an imbalance between demand and supply of housing too and investment in multifamily achieved the highest half-year turnover on record (over 350m) in H1 2018.

In Spain the Socimis (Spanish REITs) that are specialised in the residential sector are expected to drive the investment market, initially through developments until more end product is created.

Yields compressing

■ Yields in the sector have been steadily compressing over the past five years, from over 4.5% to 3.1% in H1 2018 across the seven key markets that we monitor. The lowest prime yields in Q2 2018 were commanded in Berlin, at just under 2.1% on average, whilst the highest can still be found in Dublin at 4.0%. In Stockholm and other German cities (eg Hamburg, Munich and Frankfurt) achievable yields are below 3%. In London prime yields range between 3-3.25%, but sub 3.0% can be achieved in very good locations.

Outlook

■ We believe that the European multifamily investment sector has not reached yet its full potential. Housing shortages in several markets will require further investment in apartments, which will bring new product on the market.

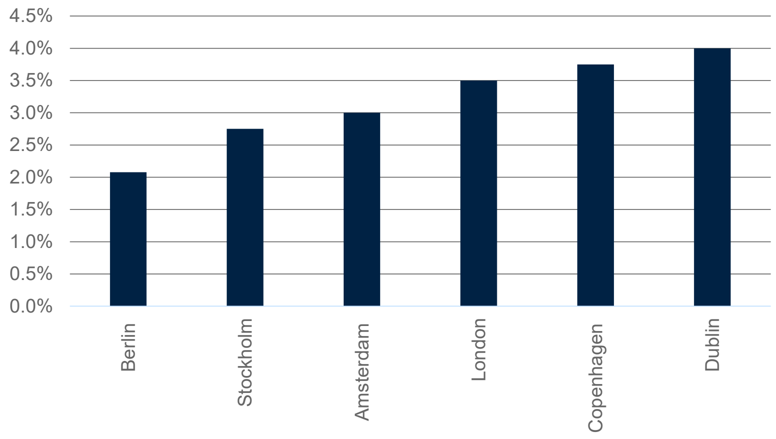
■ Despite the fact that rent controls are being introduced in some markets, in order to protect the low income households that are mostly in need for rental accommodation, investors continue to see the value of long-term, inflation hedged income streams from residential properties.

■ We believe that the pace of prime yield compression will slow, as monetary policy becomes less accommodative and it is already at historic low levels. Nevertheless the spread with returns from bonds and deposits will remain positive in most cases.

■ An important factor for the profitability remains the level of operational costs, which may vary across countries and quality of assets.

GRAPH 3

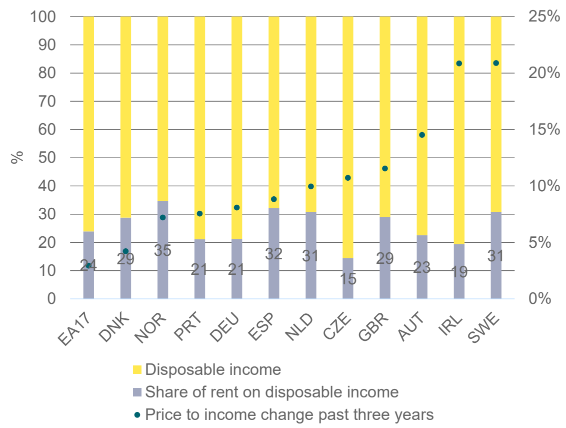
Prime multifamily yields (Net) yields have compressed over the past few years



Graph source: Savills

GRAPH 4

House price vs rental affordability
Renting is becoming more affordable



Graph source: OECD

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