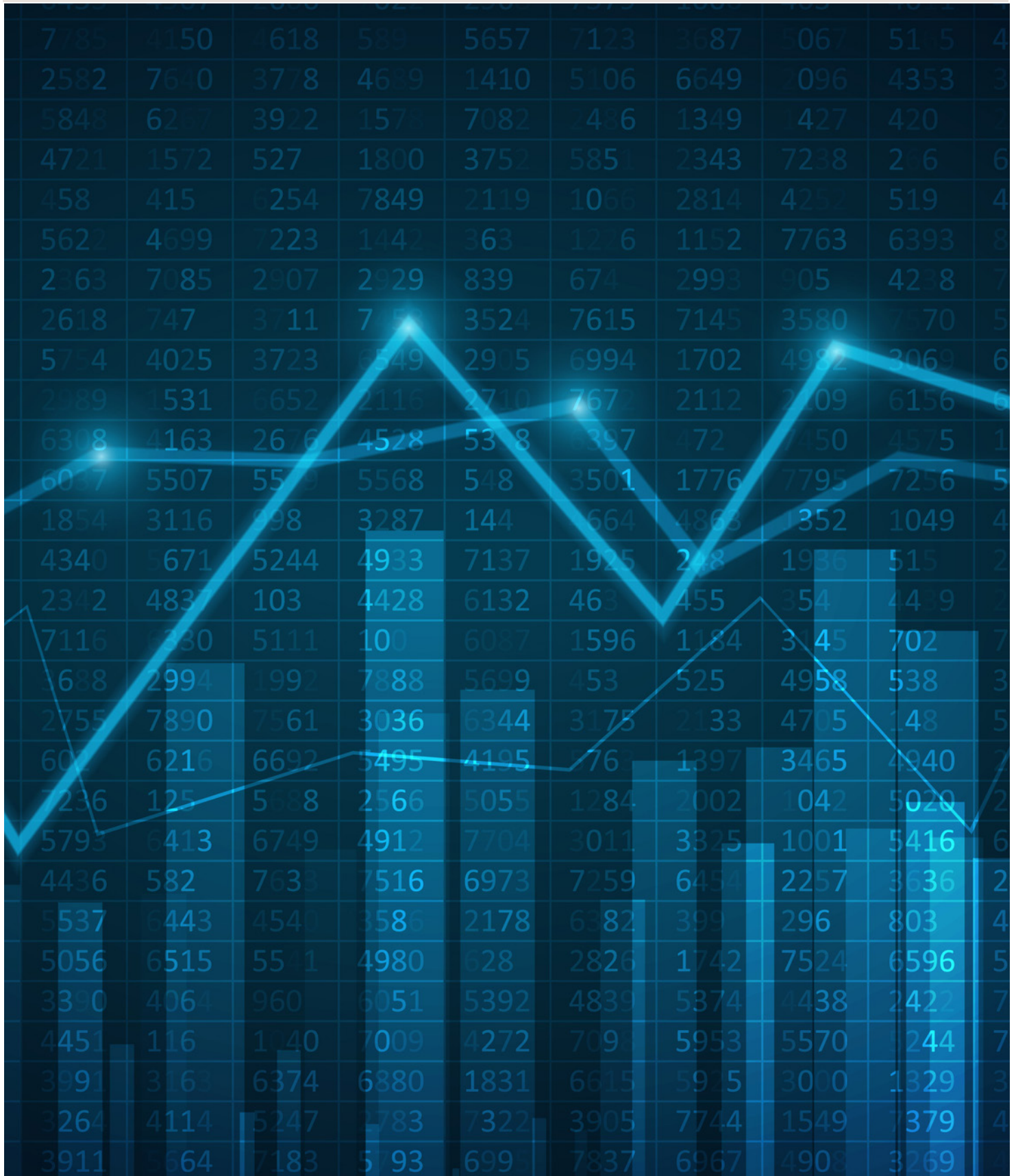


# European Cross Border Investment



🔗 The lack of suitable opportunities in their domestic countries is pushing European investors towards cross border investments in neighbouring countries. 🌐

# Growing intracontinental investment activity

The amount of cross border capital invested in Europe totalled €150bn in 2019, in line with the volume achieved the previous year (€154bn) and the 5-year average (€151bn). This represents 48% of the total volume invested in Europe. Approximately €82bn came from Europe, €43bn from the Americas, €21bn from AsiaPac and €4.5bn from MEA.

Both the amounts of continental and overseas money invested in Europe remained relatively unchanged compared to 2018, representing 25% and 23% of the total cross border volume respectively. However, the past five years reveals a trend toward increasing “short-haul” capital inflows over “long-haul”. Last year, continental cross border

investment was 11% higher than the average volume recorded over the past five years.

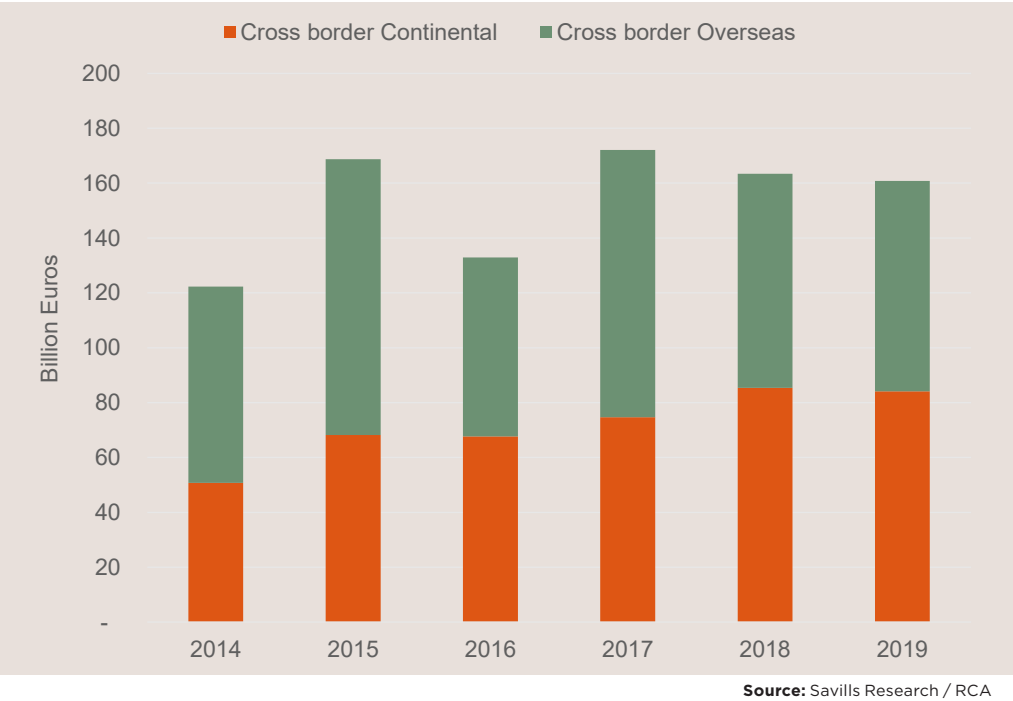
We can expect surprisingly high cross border inflows in 2020, mainly fuelled by expanding intracontinental activity whilst still strong interest from North American investors will continue. The expanding weight of capital to deploy, the lack of assets domestically, the search for yield and the late stage in the cycle triggering diversification strategies, are all pushing European investors to tap into neighbouring opportunities.

The three core countries, Germany, UK and France reinforced their position as the main beneficiaries of the total

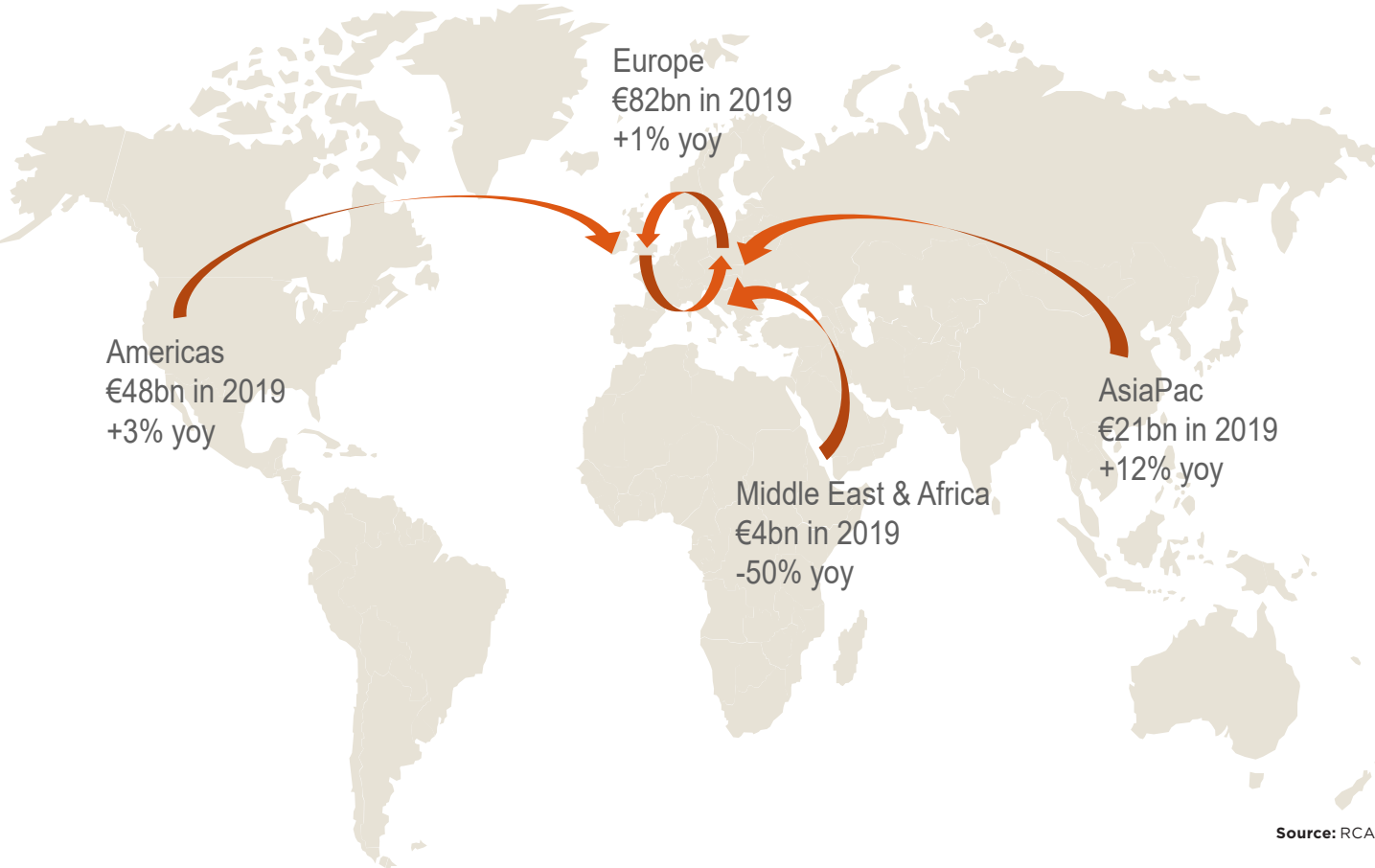
cross border activity in the region, accounting for 61.7% of the total cross border volume in 2019 against 59.8% the previous year. This is mainly due to the growing US activity in Germany and the UK and a surge of interest from South Korean investors in the Parisian office market.

We anticipate that these three core countries will remain the main destinations of overseas money for the next nine months. Whilst Sweden, Netherlands, Spain and Ireland should increasingly be the target of European cross border investors.

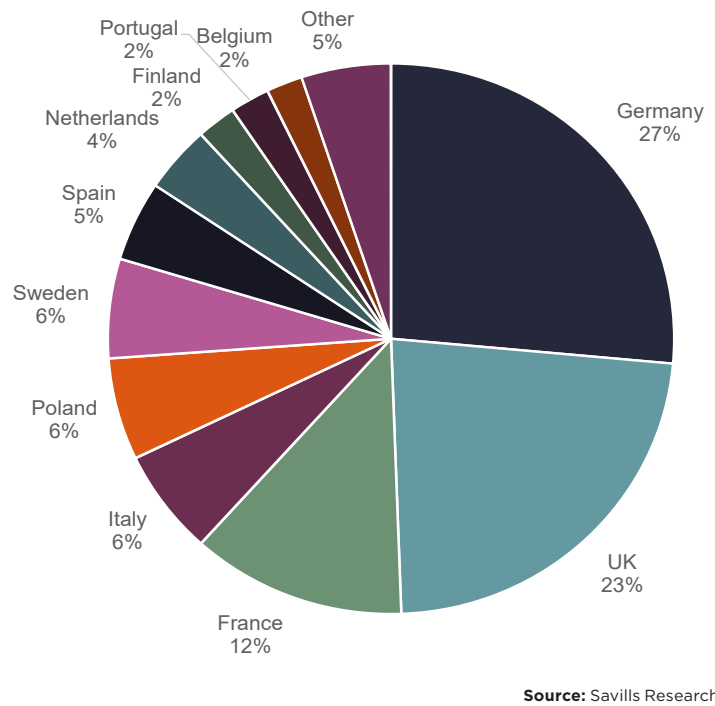
Graph 1: Cross border investment in Europe



Cross border capital flows into Europe in 2019



Graph 2: Destinations of 2019 cross border investment



## Major European inflows

**German** funds invested €19.3bn in Europe (excluding Germany), a 4% increase compared to 2018 and another record high. They notably doubled their investment in Sweden to the detriment of Austria. Indeed, last year Sweden has become their main pool for both office and multifamily opportunities. Whilst France, Netherlands and the UK also remain important destinations in German funds’ agenda, they increasingly look into Italy, Ireland, Finland and Spain. As their domestic country will continue to be the most expensive real estate market in Europe, we believe German cross border investment in Europe could reach another high in 2020.

**UK** investment into mainland Europe increased by 8.7% to €15.9bn in 2019. Half of this amount was allocated to offices and 22% to logistics assets mainly located in Germany, followed by the Netherlands, Ireland, whilst France, which was the first destination of UK investments in 2018 lost momentum. We expect UK investors to continue increasing their allocation into Europe in order to leverage Brexit uncertainties. However, we believe they will spread their investment activities outside the core countries to seek yields,

notably looking into Spain and the Nordics.

Since the second half of last year, **French** investors refocused in their home country. Their investment in Europe decreased by 5% to €9.7bn in 2019. We anticipate they will reduce their office allocation outside of France, notably in Germany, which has been traditionally their main source of supply and has become highly-priced. However, they will continue fishing for multifamily, senior and student housing opportunities outside of France, notably in Italy and hotels in touristic neighbouring cities.

**Swiss** cross border investment into mainland Europe totalled €8.2bn last year, a 6% decrease compared to 2018, which recorded a record high. Swiss investors are predominantly seeking prime offices in core German and French cities. Such assets have become rare and heavily “hunted”. However, Swiss investors are generally well-positioned in the bidding process. We expect Swiss investors to remain active in the core German and French battlefield in 2020.

**Swedish** investors spent €6.3bn in European cross border real estate last year, a 25.4% jump

compared to the previous year. This is mainly due to a surge of activity in the Dutch multifamily market and an increased activity in the German multifamily market. This is the first time Swedish investors invested more outside their Nordics neighbouring countries than inside. Multifamily opportunities in the Nordics region have become really scarce. We anticipate this trend will continue in 2020. Swedish investor’s interest could even spread to Spanish multifamily market for which they already witnessed some growing attention.

**Austrian** cross border investment hit a record last year. Some €5.3bn was invested in continental Europe, a 34% increase compared to the previous year and slightly above the level achieved in 2007. This is notably thanks to the acquisition Simon property group and Hudson’s Bay Company of Germany’s Kaufhof department-store chain for more than half a billion euros. But this is not the only reason. Austrian investors have been very active in both the retail and office sectors in Germany which is the traditional neighbouring pool of Austrian investors. Additionally, they made a noted entrance in the Polish office market.

## Major Overseas inflows

**US** investors remain by far the major origin of cross border capital coming into the European property market, accounting for 30% on average of the total cross border investment. Last year, US funds invested €46bn in Europe, a 5% increase compared to the previous year. Traditionally positioned on the value-add and opportunistic segments, they seem to have moved down the risk

curve which explains the surge in activity in the German and UK office markets. We anticipate their investment allocation into Europe will keep growing, notably to the detriment of the Asian continent as a result of the devastating wildfires and coronavirus in Australia and China.

Over the past 12 months, **South Korean** investment

grabbed the headline news. Their investment activity grew by 138% yoy to €12.3bn, with France being the biggest beneficiary of this increase. We expect continued activity from Korean investors in mainland Europe, with a particular appetite being derived from new Europe focused REITs and through co-investment and preferred equity structures with local partners. We also could see

some Koreans looking back to the UK in search of slightly more attractive returns relative to Europe.

Last year, **Canadian** investment in Europe increased by 7.4% to €5.3bn. They showed a growing appetite for the residential sector which has become their preferred asset type before offices. This explains why they have been very active in the Netherlands, which became their second asset pool after the UK. As Brookfield has recently announced the closing of its latest flagship global infrastructure fund “Brookfield Infrastructure Fund IV”, we could expect some growing Canadian interest for renewable energy and datacentres.

Some €4.7bn were invested by **Singaporean** funds on the European soil. This is 34% lower than the previous year, which hit a record level. Whilst they remain very active in the UK, their traditional target, they dropped their investment activity in Germany. Large institutional

investors continue to seek out suitable portfolio opportunities, as well as quality single assets. We expect increased transaction outbound activity across the UK, both in London and the regions in 2020. We could also see growing activity in the datacentre industry, a strong and mature property sector in Singapore, following last years’ JV between Equinix and GIC sovereign wealth fund.

Despite the outbound capital controls we expect that 2020 will see increased investment from **China**, in line with the Chinese government’s One Belt One Road initiative (OBOR). The nature of the OBOR policy means that certain markets will be of more appeal to Chinese investors than others, with logistics assets in Hungary Poland, Czechia, Slovakia and Italy likely to be the most sought-after product.

**Hong Kong** investment in Europe totalled €2.2bn in 2019, 215 down on the previous year. However, in 2020 we expect to see increased activity from Hong Kong

based investors, driven in part by a desire from some investors to move capital to perceived safe haven destinations offshore, but also by the pent up demand that stems from the suppressed investments volumes that have been experienced over the last two years. We expect London to be the initial target of this, as it is a market with which they are so familiar with. Experienced investors may also begin to explore opportunities in key market in mainland Europe.

Heightened volatility in pockets of the **Middle East** will continue to motivate investors in the region to look overseas for safe haven investment opportunities, whether directly or via managers. The primary target in Europe of this capital will remain the UK, although the search for more attractive returns may shift investor interest also towards office stock in secondary markets of the Netherlands, Germany and Belgium.

Table 1 : Top 10 origins of capital in Europe

Origin	Preferred asset classes and geographical destinations	2018	2019
US	CBD and Non CBD offices in core countries Logistics across Europe	44,107 €m	46,319 €m
Germany	Offices in major western European cities Multifamily in Sweden, Netherlands, Austria, and Ireland	18,583 €m	19,346 €m
UK	Offices across Western Europe (Germany Netherlands and Ireland mainly) Logistics in the major logistics hubs	17,505 €m	19,025 €m
South Korea	Large CBD office premises in France, Germany and the UK Logistics portfolio in the major European logistics hubs	5,174 €m	12,552 €m
France	Prime offices in Germany, Netherlands and the UK Multifamily, senior and student housing in Italy, Netherland and Spain	10,307 €m	9,777 €m
Switzerland	Prime offices in core German and French cities	8,700 €m	8,170 €m
Sweden	Multifamily in the Netherlands, Germany and Nordic countries Offices in the Nordics and Germany	5,089 €m	6,380 €m
Austria	Retail in Germany, Poland and Czech Republic Offices in CEE capital cities	3,992 €m	5,347 €m
Canada	Multifamily and offices in the Netherlands, the UK and Germany	4,966 €m	5,334 €m
Singapore	CBD offices predominantly in the UK Multifamily in both the Netherlands and the UK / Hotels in major tourist cities	7,135 €m	4,710 €m

Source: Savills Research



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