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Investors turn to recovering markets, regional cities and secondary property as the competition for prime European real estate assets increases

Investors see buying opportunities in Ireland and Spain according to new Emerging Trends in Real Estate® Europe 2014 Report published by Urban Land Institute (ULI) and PwC

LONDON (16 January 2014) - The competition for prime assets in Europe's major real estate markets is leading investors to turn to recovering markets such as Ireland and Spain, regional cities and secondary property in search of returns, according to Emerging Trends in Real Estate® Europe 2014, a forecast published jointly by the Urban Land Institute (ULI) and PwC.

Emerging Trends in Real Estate® Europe 2014 finds that 71% of respondents think that a shortage of suitable assets for acquisition will have a moderate or significant impact on their business during 2014. As a result of this increasing competition, 59% per cent of respondents believe that prime property in Europe's core markets has now become over-priced.

The report highlights that investors are becoming increasingly comfortable with taking more risk in search of returns. One of the biggest beneficiaries of this is Dublin, which has risen dramatically in the city investment rankings, moving up from 20th in last year's report to second in 2014. Dublin's real estate market has been transformed from a "no-go" location among investors only two years ago, to being one of the hottest markets in Europe, with both domestic and international investors attracted by pricing levels and Ireland's improving economic outlook. The report finds that 51% of respondents now see good buying opportunities in Ireland.

The weight of international capital is leading investors to also turn to other recovering markets, such as Spain. The report highlights that 67% of respondents believe that there are now good buying opportunities in Spain, with the acquisition of the Parque Principado mall in Oviedo by Intu and the Canadian Pension Plan Investment Board for €162 million highlighted as an indicator of mainstream interest in the market. However, sceptics argue that debt is very hard to attain and that it is a risky market to invest in before there are signs of any growth.

The competition for core assets has also led to an increase in investors looking beyond prime assets in major European markets such as London, Munich and Paris, and instead buying solid income producing assets in secondary cities. For example, office investors in Munich can achieve yields of approximately 4%, but those willing to invest in smaller German markets such as Stuttgart can achieve up to 6.5%. Investors are also looking to acquire secondary properties in major markets, which have good existing income streams or which, with careful asset management, could be transformed into core assets.

An interesting consequence of the “Battle for Assets” is that investors are increasingly considering development as a way of adding high quality assets to their portfolios. The report demonstrates that 71% of respondents believe that development is an attractive way to acquire prime property.

“The resurgence of investment in Ireland and how far the Spanish real estate market recovers, will be two of the key stories in 2014” commented Joe Montgomery, chief executive of ULI Europe. “Investor appetite in Dublin has been growing over the past 12 months with significant volumes of international capital chasing the best assets. Investor interest is now moving to Spain, where there are signs that opportunistic investors, who entered the market when Sareb opened for business last year, are now being followed by mainstream institutions. However, with limited signs of tenant demand and rental growth, questions remain as to how far the market recovery can go.”

Simon Hardwick, real estate partner at PwC Legal, said “We believe the real estate investment market in 2014 will be dominated by a battle for assets. International capital will continue to flow into Europe, seeking to acquire prime assets in core locations. Intense competition for the limited supply of suitable property will inevitably continue to have an impact on prices – particularly in global gateway cities, including London. This will result in investors having to look at other opportunities and to accept more risk. This is reflected in the renewed interest in development, as well as the fast improving outlook for “non-prime” locations and properties. However, we are sceptical about whether the positive sentiment will lead to a headlong rush into the most risky markets. Investors’ interest remains focused primarily on sustainable returns from quality assets in good locations.”

The report highlights that there will be significant capital available in Europe’s real estate markets during 2014 with 71% of respondents believing there will be an increase in equity for refinancing or new investment this year. Although some of the equity will be domestic, significant investment is expected to continue to flow from sovereign wealth funds, especially those based in Asia. Nearly 80% of respondents believe that capital from Asia Pacific will increase during 2014, with 67% of respondents believing that capital from The Americas will increase this year.

The outlook for real estate debt availability is also improving, with 51% of respondents expecting the availability of debt for refinancing or new investment will increase this year, with only 15% of respondents expecting it to become more scarce. However, respondents were not expecting dramatic improvements to pre-recession levels and there remain significant geographical differences in perspective. The UK was the most upbeat on the prospects for debt with nearly 90% expecting greater availability, while southern European and Benelux countries were more cautious on the outlook.

Top Investment Markets for 2014

The top five European real estate investment markets in 2014 are predicted to be:

1. **Munich** – The city continues to benefit from Germany’s position as the economic powerhouse of Europe and from a young, expanding population. The city remains popular with core investors who are attracted by low unemployment and a lack of high quality office buildings. Munich also has a busy retail market and a strong serviced-based economy. Munich is rated first for existing investment prospects and second for development prospects but the outlook for new investments has fallen to seventh. The report believes this is likely to be down to many investors seeing the city’s office market as too expensive.

2. **Dublin** – Dublin is the biggest winner in this year’s report rising 18 places to second for existing investments and 14 places to first for new investments. Investors believe that 2014 will mark Dublin’s comeback, driven by improving economic conditions, with unemployment at its lowest level since 2009, and forecasted GDP growth of 2 % this year. However, opportunities for investment will be limited due to the size of the market. Office prices have increased significantly over the past 12–18 months in prime locations such as the docklands, and local investors are predicting a further rise of 10% in 2014. Survey respondents highlighted there was significantly more equity available and that bank debt was becoming available again for the right assets and investors. The residential market is also recovering, with prices for well-located properties rising over 20 % last year, however, retail is still under pressure, with rents continuing to fall, albeit at a slower pace.

3. **Hamburg** – Hamburg's diversified economic base helps sustain a steady level of office demand and there is considerable competition for core offices among investors, with yields now around 4.7%. Residential also has long-term momentum due to the city's relatively high population growth, boosted by inward migration, and rents have risen an average of 5.7% annually since 2007, but have now started to plateau. The growing population, combined with an above average level of disposable income and 10.6 million hotel reservations each year made by both tourist and business travellers, provides Hamburg with strong retail fundamentals. Limited new retail development has meant that supply of prime space is now tight. HafenCity, Hamburg's gigantic redevelopment of its former port, is midway through creating an entirely new quarter that will double the population of the city centre. Due to be finished in 2025, it will also make Hamburg one of the most sustainable cities in Europe.

4. **Berlin** – Berlin's young population and its growing influence as a European media and technology hub, continue to make it an investment hotspot. Prospects for the residential sector are strong and rents in the city have been rising steadily, especially in recently modernised buildings. House prices in certain areas of the city have also doubled over the past year. Berlin's office market is enjoying a mini-boom and is on most core investors' target lists. The city's economy and tenant base has become more diverse and the demand for office space is set to grow as companies seek to expand. The retail sector is also experiencing good demand, with rents growing sharply in prime locations.

5. **London** - London's reputation as a safe haven for international capital means that it remains a firm favourite with investors seeking core and core-plus assets. Large amounts of sovereign capital from Asia and the Middle East are continuing to flow into the city and very few deals or assets are now seen as un-fundable. However, this popularity has led to price inflation and there is concern that there is now a bubble developing. Many respondents believed that London was fairly fully priced and as a result investors would look to other UK regions in search of returns or buy secondary assets which they can turn into core investments. Central London's buoyant prime residential market is also attracting significant interest. The sector has not traditionally attracted institutional capital, but this is changing and both UK and international investors are tentatively starting to develop and refurbish property, both for sale and rental.

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Notes for the editor

Top 10 European Cities for Existing Property Investments

	2014 Ranking	2013 Ranking	Change
1	Munich	1	↔0
2	Dublin	20	↑18
3	Hamburg	5	↑2
4	Berlin	2	↓2
5	London	3	↓2
6	Zurich	7	↑1
7	Istanbul	4	↓3
8	Copenhagen	12	↑4
9	Stockholm	8	↓1
10	Frankfurt	11	↑1

Emerging Trends in Real Estate® Europe
Emerging Trends in Real Estate® Europe is a joint report published annually since 2003 by the Urban Land Institute (ULI) and PwC. The report provides an outlook on European real estate investment and development trends, real estate finance and capital markets, as well as trends by property sector and geographical area. It is based on the opinions of more than 500 internationally renowned real estate professionals, including investors, developers, lenders, agents and consultants.

About the Urban Land Institute
The Urban Land Institute (www.uli.org) is a global non-profit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. Established in 1936, the Institute has nearly 30,000 members representing all aspects of land use and development disciplines.

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