

European Residential – The unique opportunity

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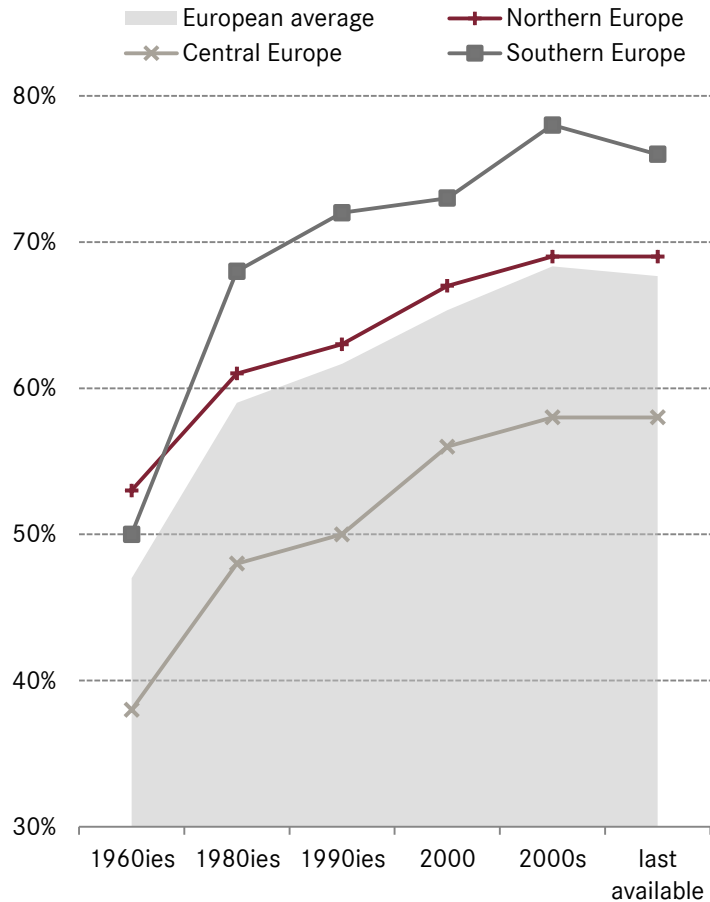
PATRIZIA INSIGHT

EUROPEAN RESIDENTIAL MARKETS 2016/2017

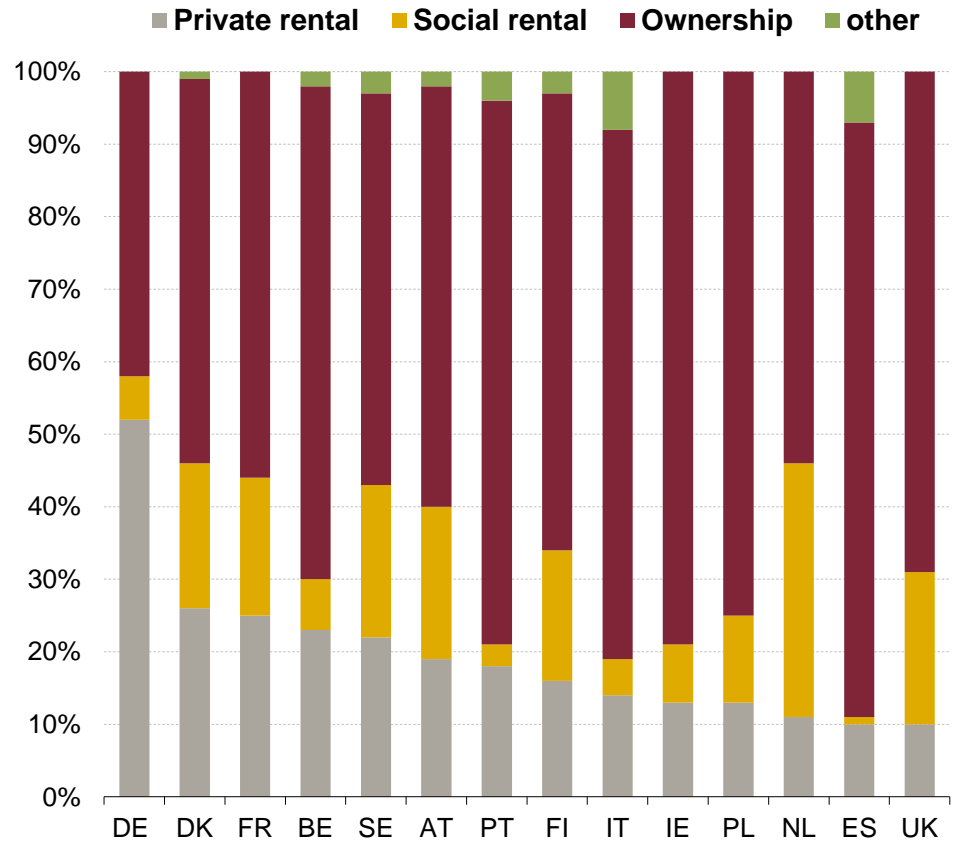


The opportunity

Ownership rate



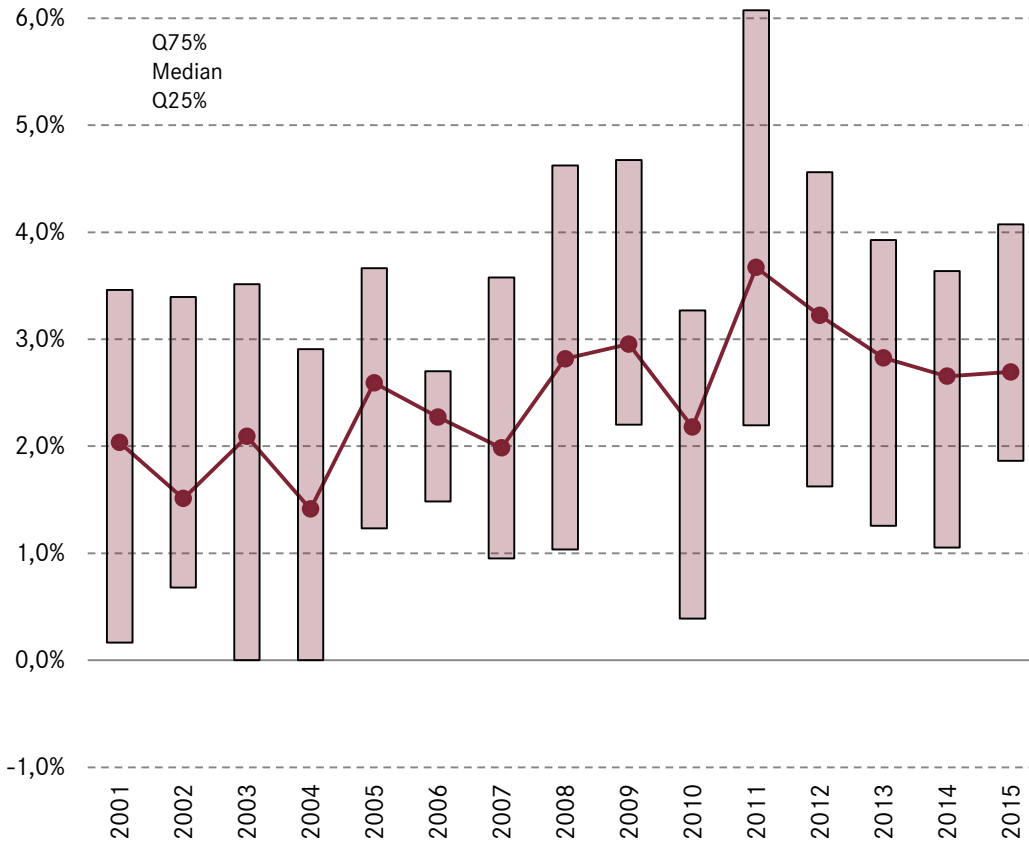
Tenure structure



Source: PATRIZIA, Reuters, ECB, national statistic offices

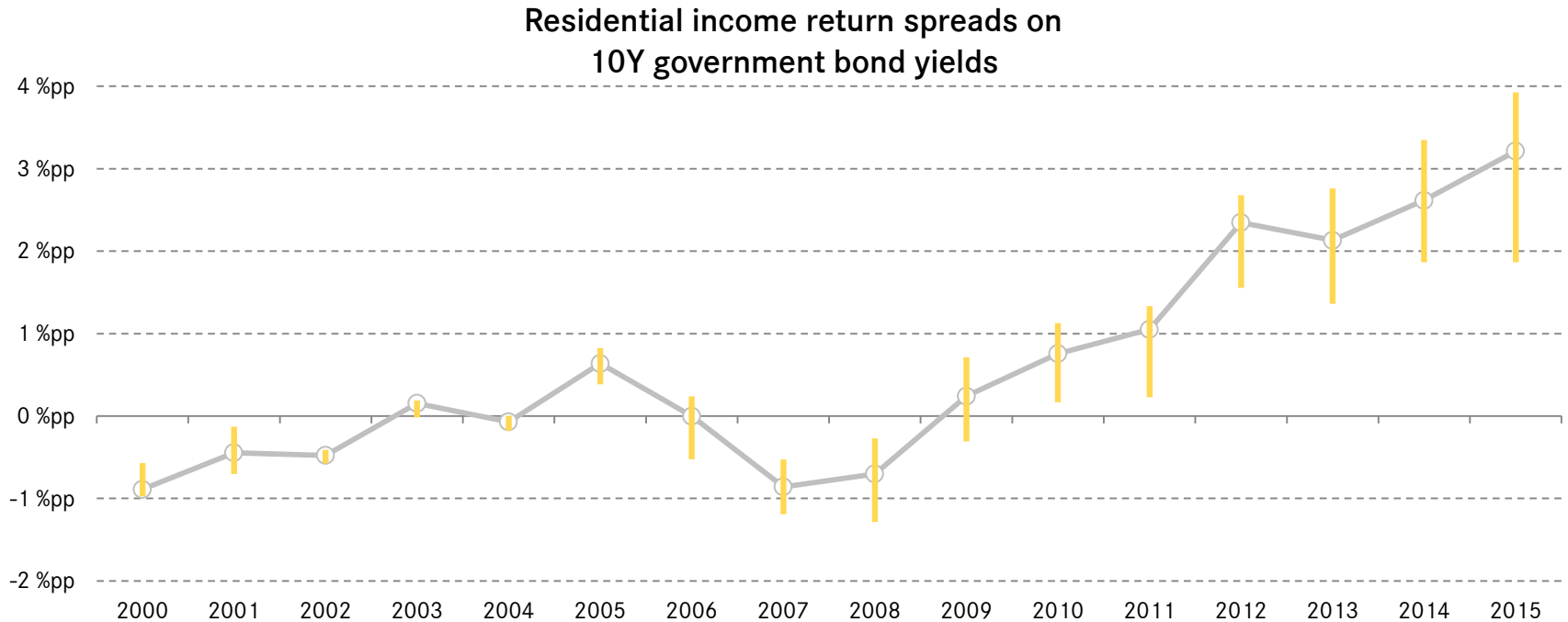
The protection

Rental growth yoy



- ◆ The strong urbanisation across Europe is impacting rental growth, but different national regulatory frameworks limit a purely market-driven transmission.
- ◆ Given the imbalance between supply and demand rents have risen steadily over the past years despite all regulatory arrangements.
- ◆ Rental growth since the millennium has been 2.5 % p.a. much higher as the inflation rate (1.9 %).
- ◆ European multi-family housing investments have proven to be crisis-resistant, with rental growth accelerating between 2007 and 2009.

The relative attractiveness

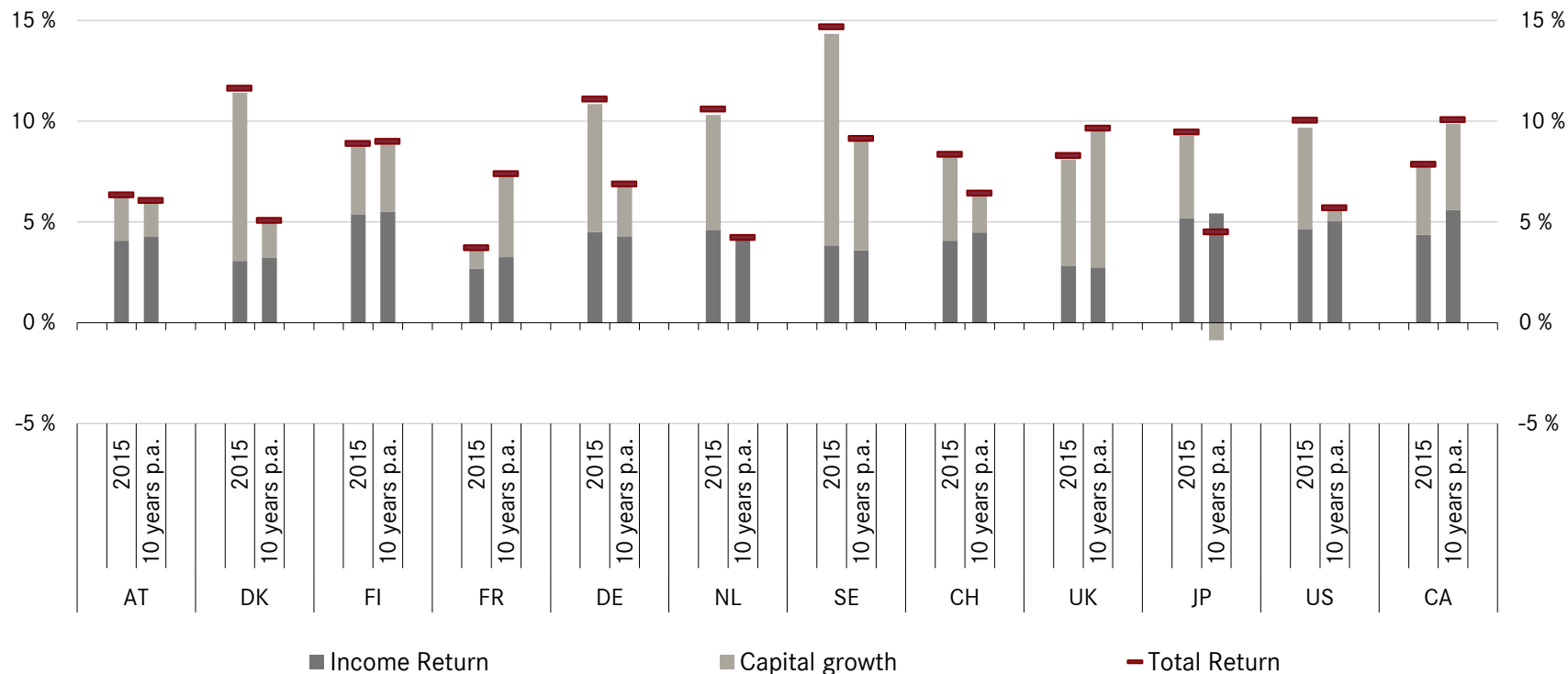


- ◆ Due to the low interest rate environment the traditionally low yields of residential assets in case of a "buy-and-hold strategy" are relatively attractive today.
- ◆ High granularity of the tenant base and the fact that housing is a basic need are the reason why tenant fluctuations are less correlated with the economic cycle making residential a good portfolio diversifier.

The global residential perspective

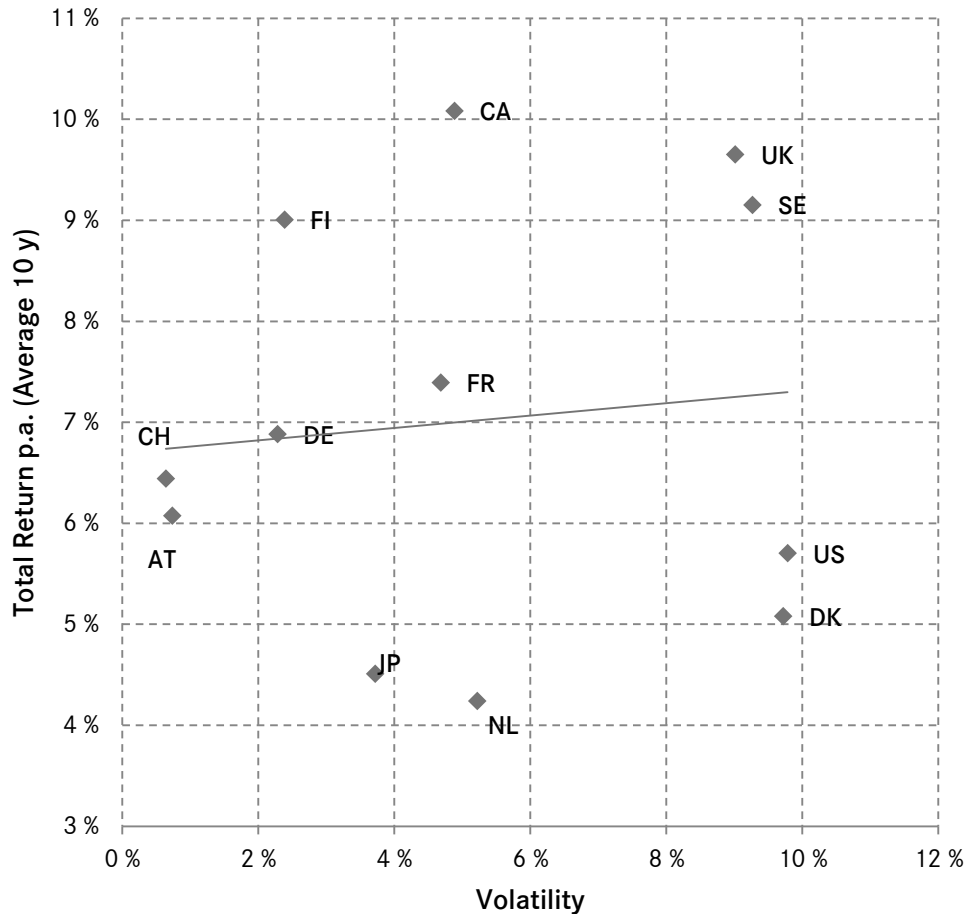
Global residential markets offer diversification potential

Total return performance of global residential markets



- ◆ Despite globalisation in real estate investing the trend is mainly taking place in the commercial sector. Residential investments are still largely a national issue.
- ◆ Transparency in the multi-family sector is still far behind the levels seen in the commercial sector. Of the 25 countries worldwide for which MSCI/IPD provides performance indices residential market performance data is only available for 12 countries.

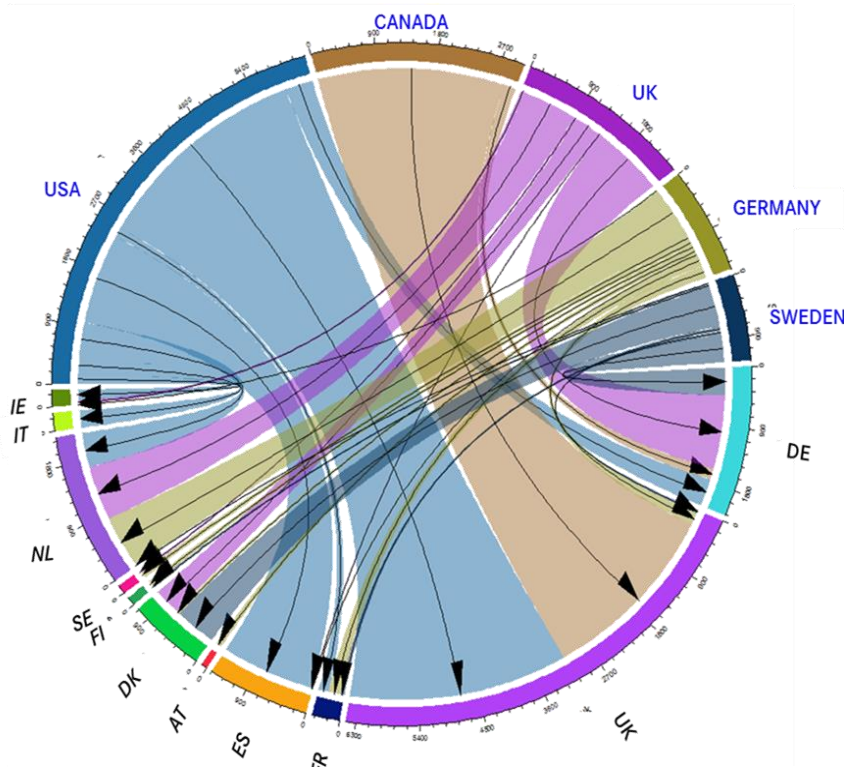
Institutions strongly influence the risk return relationship of markets



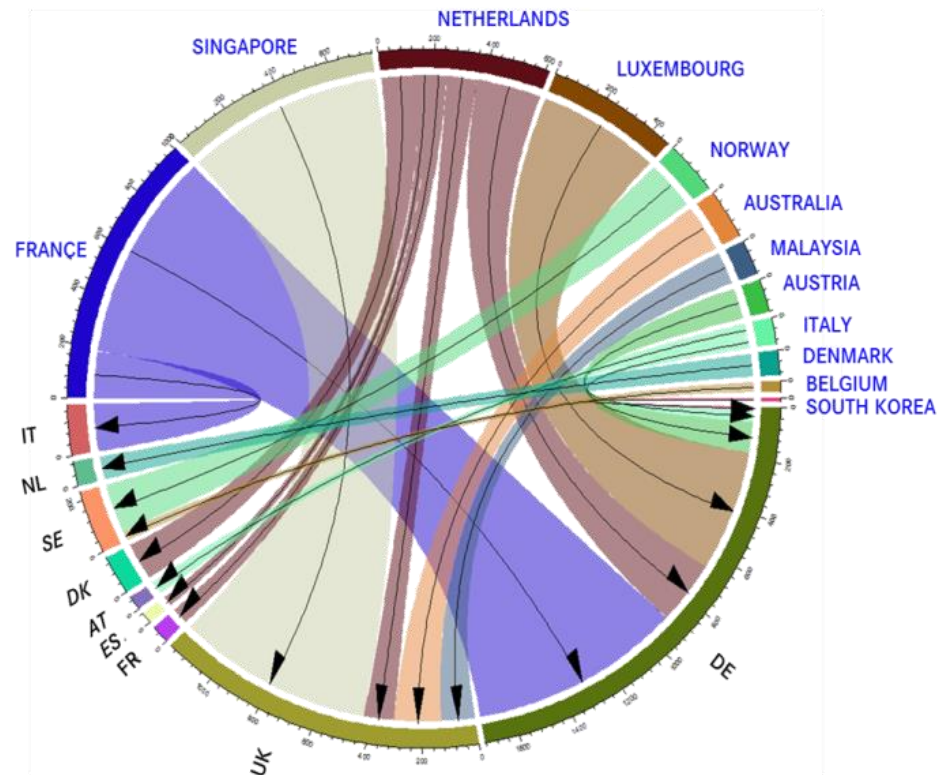
- ◆ Higher volatility in residential investing generally does not seem to go hand-in-hand with substantially higher returns.
- ◆ There is a high-volatility group of markets that includes the UK, Sweden, the US and Denmark, and a low-volatility group consisting of Canada, Finland, France, Germany, Japan, the Netherlands, Austria and Switzerland.
- ◆ The first group encompasses the high-volatility, higher return markets of the UK and Sweden as well as the high-volatility, lower return markets of the US and Denmark.
- ◆ Three subgroups can be identified within the second country group: the low-volatility, higher return markets of Canada and Finland, the mid-return markets of Germany, France, Austria and Switzerland, and finally the low-volatility, lower return markets of Japan and the Netherlands.

Cross border residential investments: the UK is different!

Top 5 investor groups (€ 14,626 bn., 79.7 %)



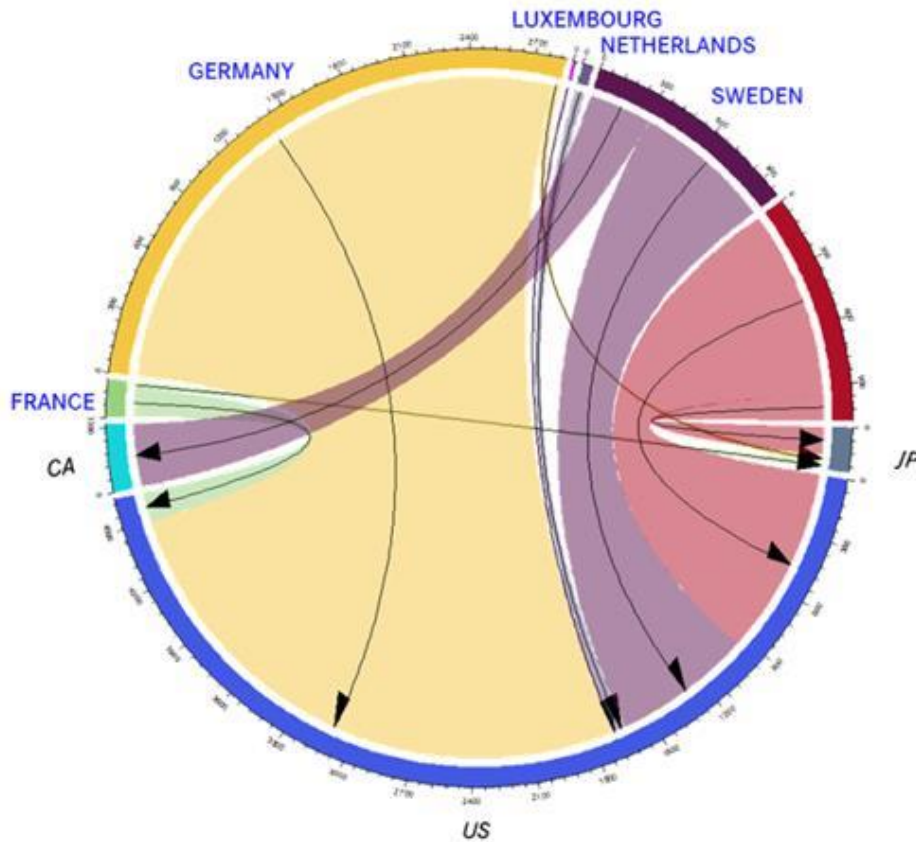
Rest (€ 3,717 bn., 20.3 %)



- ◆ The US and Canada are the two largest investor groups, followed by UK, German and Swedish investors.
- ◆ Looking at cross-border residential investment flows patterns can be observed: Most of the capital targeting the UK is coming from the US, Canada and Singapore. The remaining cross-border capital flows are of a much more diversified nature in terms of European target markets with Germany being the biggest recipient.

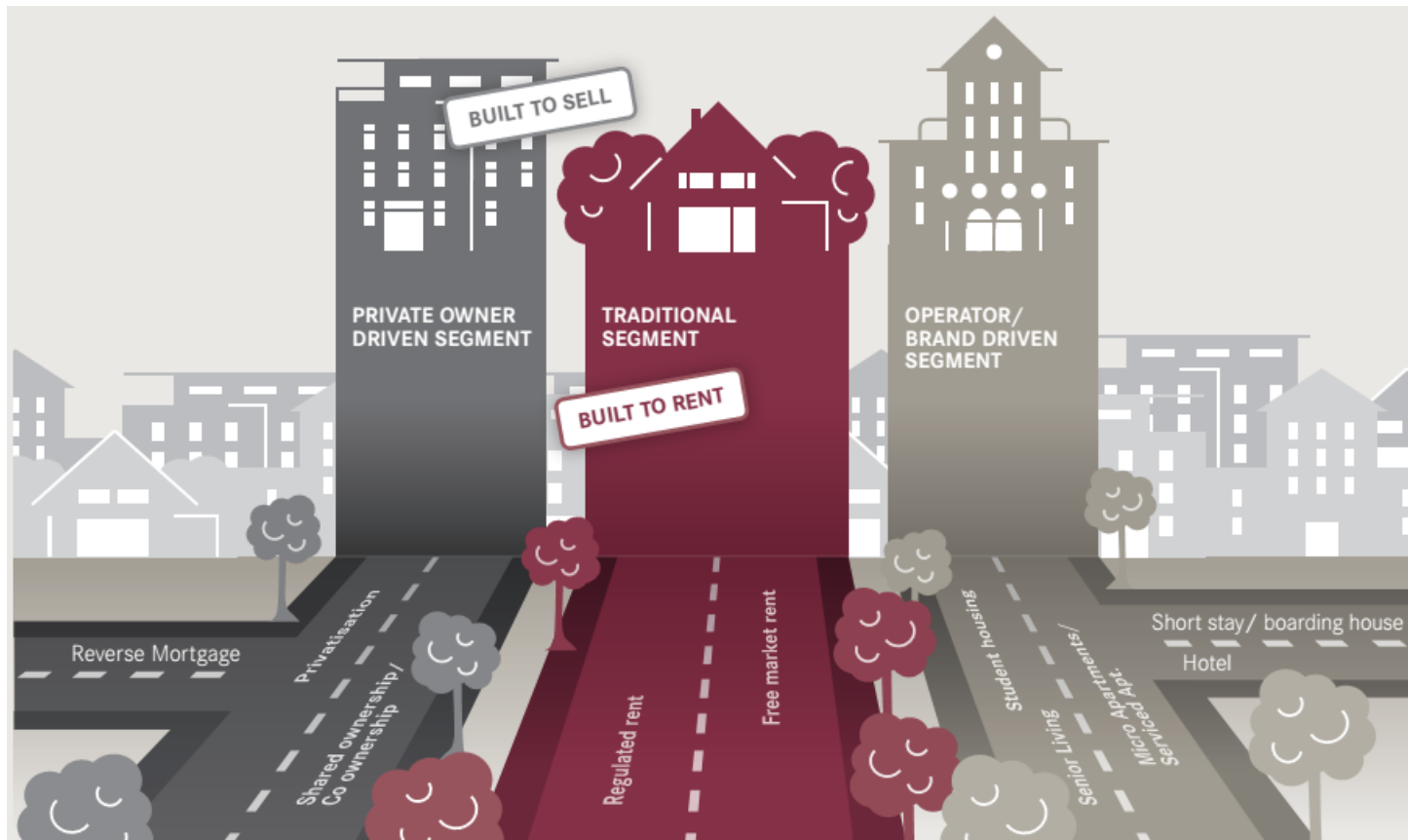
The US is currently the dominating residential market, if European invest outside Europe

Investment flows of € 5,167.3 bn.



- ◆ European money is only slowly going global, when it comes to residential investments.
- ◆ US is the only sizeable market outside Europe and targeted primarily by German, UK and Swedish institutional investors capturing around 90 % of all institutional residential investments from Europeans outside Europe.
- ◆ The other two countries that saw measurable European institutional residential investment outside Europe were Canada and Japan.

Investment opportunities in residential real estate

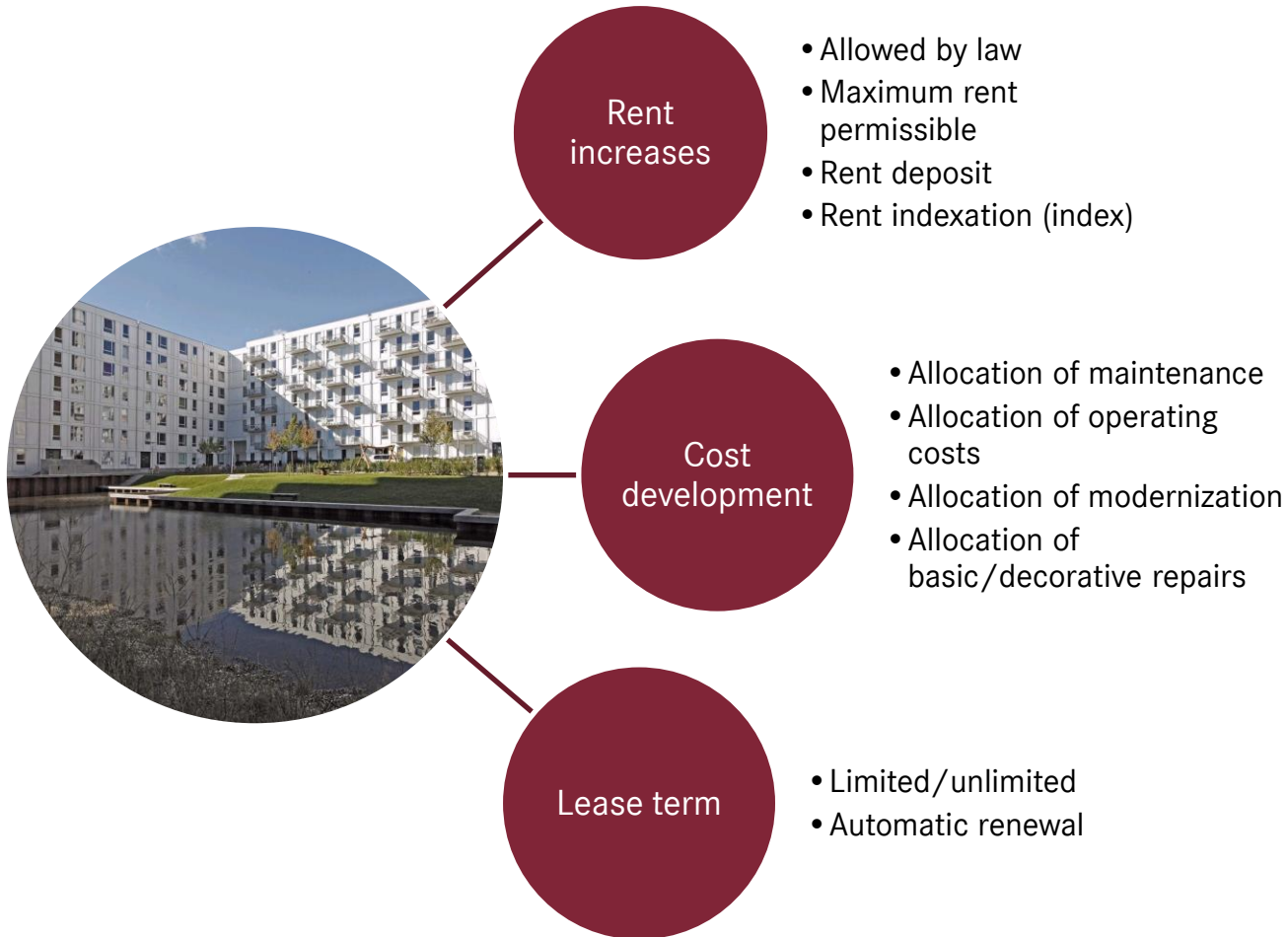


- ◆ The residential sector for institutional investors is today by far larger and more diverse than often perceived and as it has ever been in the past.
- ◆ Three broad sub-categories can be identified in terms of residential investments: the traditional residential segment, the operator or brand-driven segment and the private-owner-driven segment.

Source: PATRIZIA

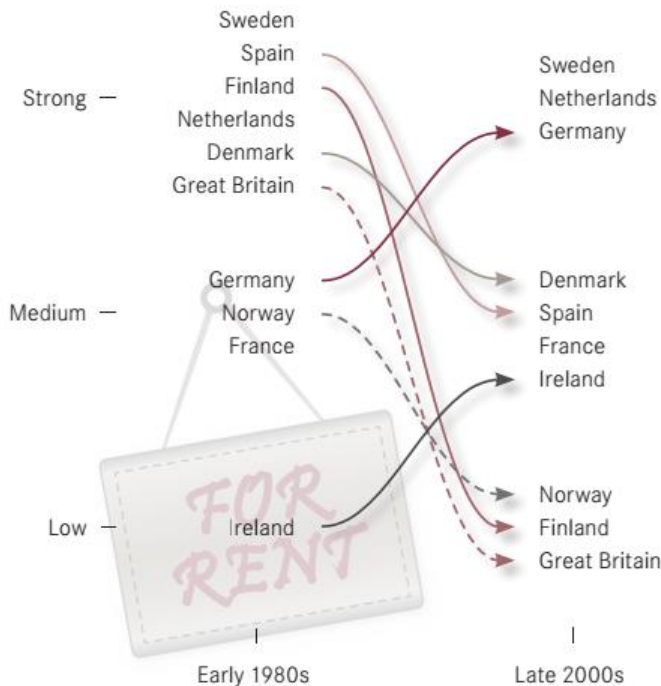
Aspects to watch

Be aware of the effects of regulation on performance!

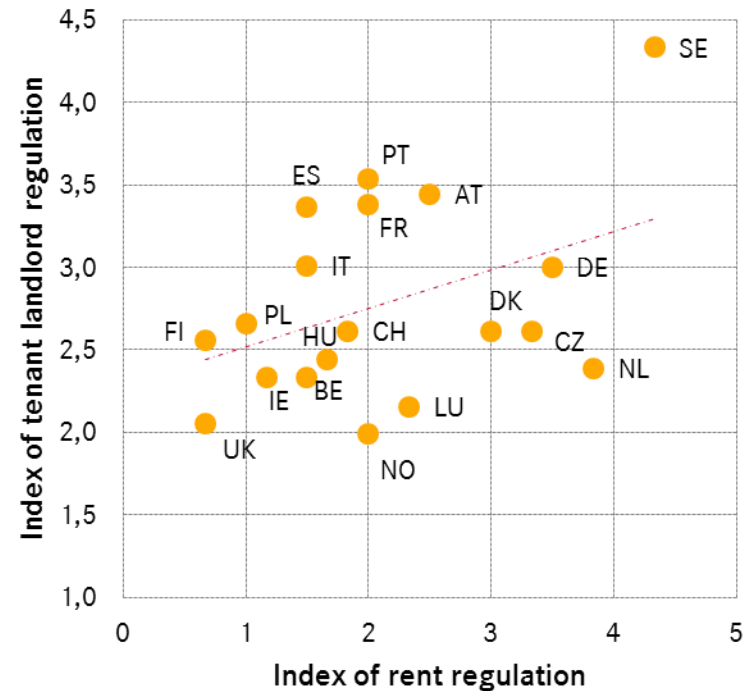


Market regulations show a diverse and changing picture

Regulation in the European private rented sector



Dimensions of regulation in 2007



- ◆ In general in the past 30 years a decline in the rental market regulation is to observe in Europe, as the developments in Finland, Norway and Denmark exemplify.
- ◆ The individual national housing markets still show a very diverse regulatory picture, which requires detailed knowledge of local markets.

Source: PATRIZIA, OECD, University of Cambridge (2012).

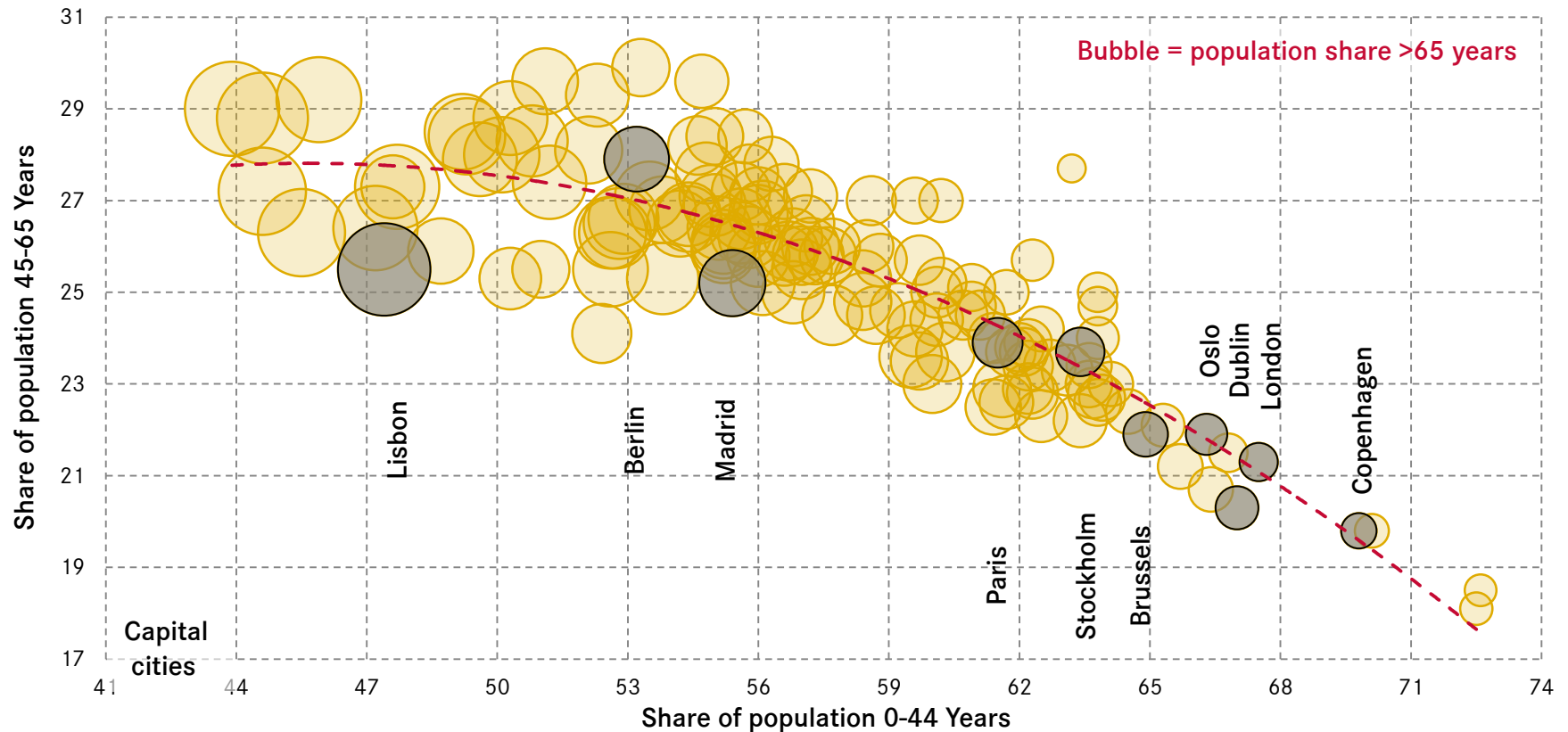
City level developments vary, requiring a local approach



◆ A closer look at city level reveals a rather heterogeneous rental growth pattern across Europe with two groups of cities emerging: cities with moderate and steady growth and cities with a strong and volatile growth momentum.

Understanding demographics is crucial for investments

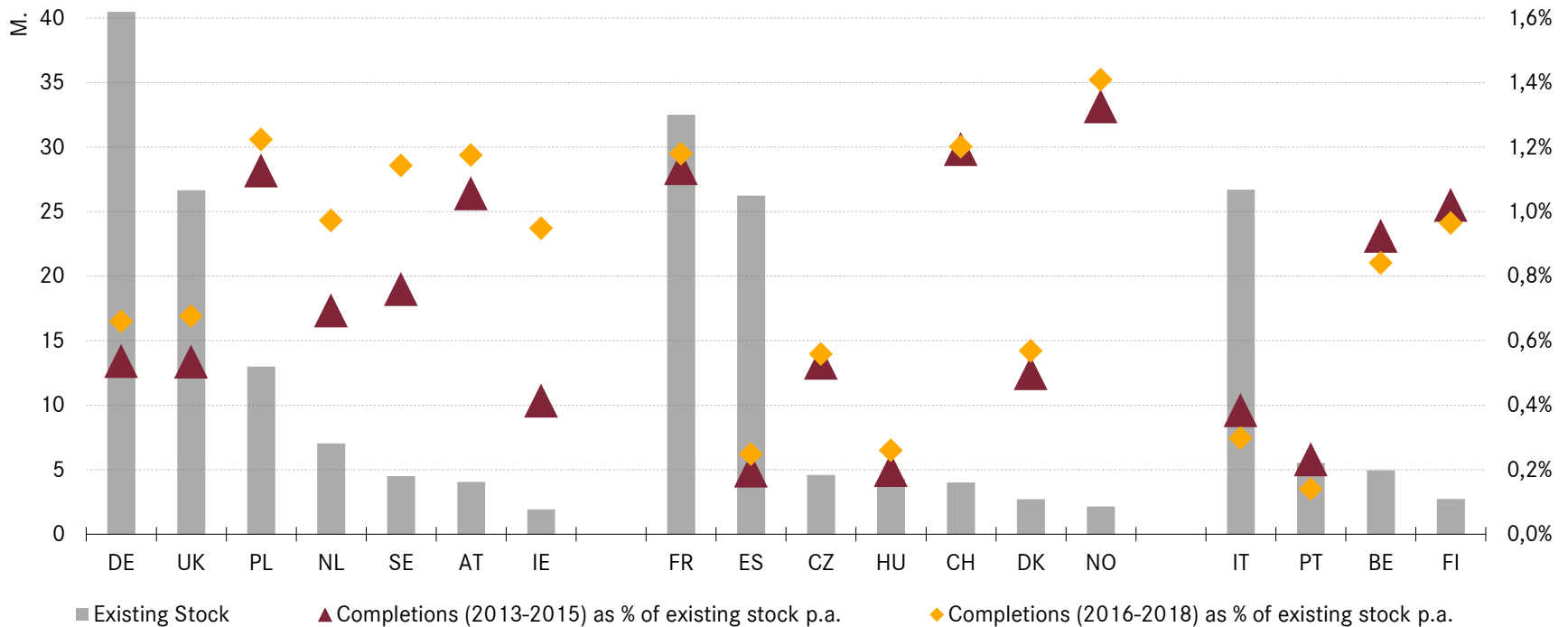
Capture healthy cities and understand the demographic drivers



- ◆ While the overall population is aging, due to their specific age structure, some cities have to be seen as ‘young cities’ offering an exceptional demographic base for longer term investments in all sectors, while in ‘older cities’ the focus has to be more on niche sectors benefiting from the aging population.

Construction activity gains momentum

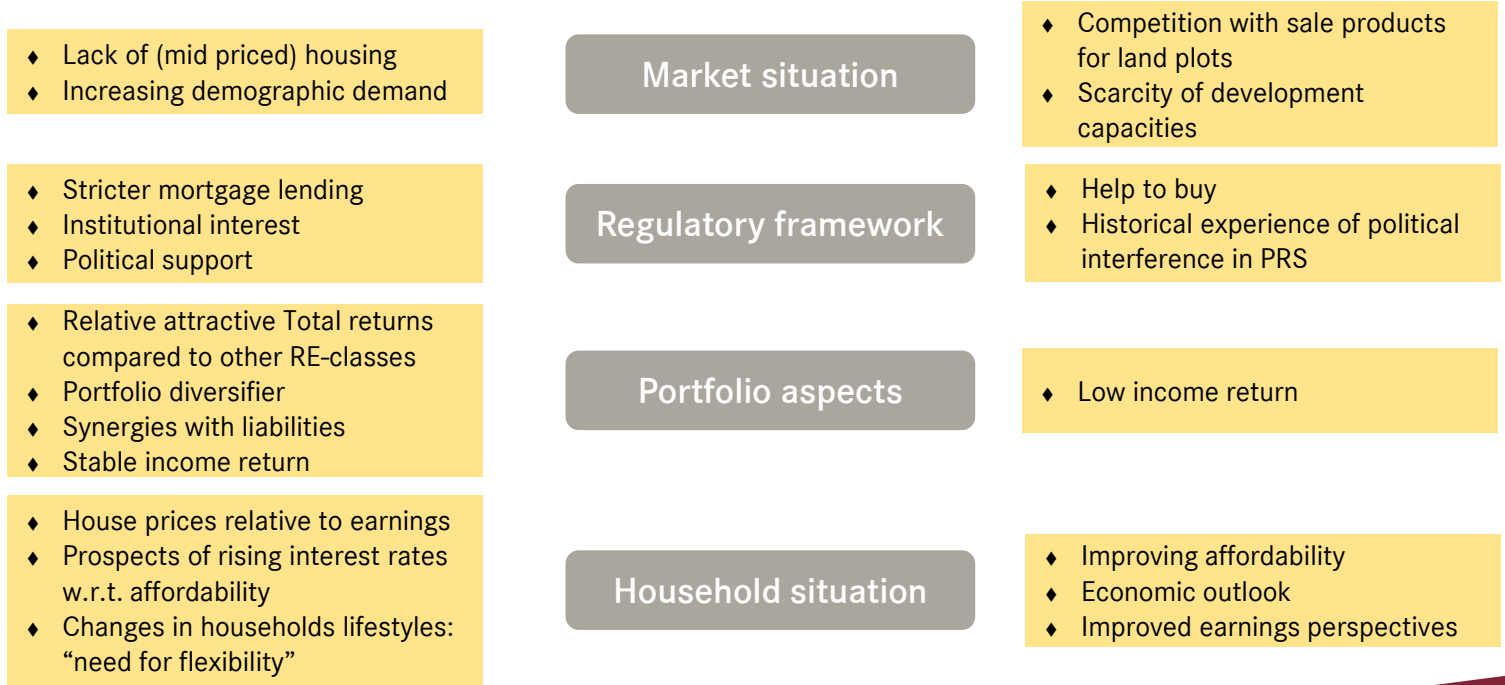
Housing stock and completions in Europe



- ◆ In the major European urban areas investors in the develop-to-rent or develop-to-sell market can generally find good opportunities.
- ◆ UK and Germany still offer one of the best development environments despite slowly increasing construction activity.

And finally:
A look at the UK

The UK PRS: an investment opportunity



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