



Emerging Trends in Real Estate[®]

New market realities

Europe 2017

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Emerging Trends in Real Estate®

Europe 2017

New market realities

A publication from PwC and
the Urban Land Institute

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About the
survey

“Our biggest competitor
or threat is a company
that we do not know
yet, which could be two
friends working together
in a garage.”

Director, European property developer

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realities



Executive
summary

Executive summary



The spectre of Brexit undoubtedly weighs heavily on the minds of many in the European real estate industry, as a source of gloom and, for some, opportunity.

“The biggest challenge for the European real estate industry, is to plan and build things that people really want to be in, not us, but the generation after us.”

Director, pan-European lender

While there is a general post-Brexit slump in sentiment towards the UK, investors continue to see value in real estate across many parts of the rest of Europe. However, return expectations are being scaled down, and the importance of active asset management as a means to access income is being talked up.

In this risk-off climate, in which many real estate investors are clearly willing to sacrifice some yield for lower risk, Germany is widely regarded as the new haven for capital. According to *Emerging Trends Europe*, the five leading cities for overall investment and development prospects in 2017 are Berlin at Number 1, followed by Hamburg, Frankfurt, Dublin and Munich.

What is abundantly clear after taking the pulse of the industry, is that below the surface, there are complex and significant influences at play beyond today's geopolitical issues. Looking ahead to 2030 there are changes that are altering society and our industry's view of the future role of the built environment and the property cycle – as it affects supply, occupation, ownership and investment.

The European industry is experiencing a seismic shift in its centre of gravity – from real estate as a financial asset, to a product and more significantly, to real estate as a service.

Emerging Trends Europe 2017 raises more questions than answers. Is the industry prepared to innovate? Will it be today's real estate leaders, or new and different players, that will meet these challenges? Are we entering a period of fundamental and structural change in the real estate industry as a whole or simply a period of redefining what good real estate is?

Our report reveals an industry that is starting to look beyond traditional boundaries, perhaps realising it does not have all the answers. But if it is to thrive in a fast-changing and uncertain world, it will need to make bold decisions.

Chapter 1

Business environment



“Never in my career have I had so many risks from a political perspective in so many places at the same time.”

“There have always been concerns about the EU’s sustainability but Brexit makes those concerns more real.”

While investors’ appetite for property is as strong as ever, uncertainty clouds the outlook for Europe in 2017.

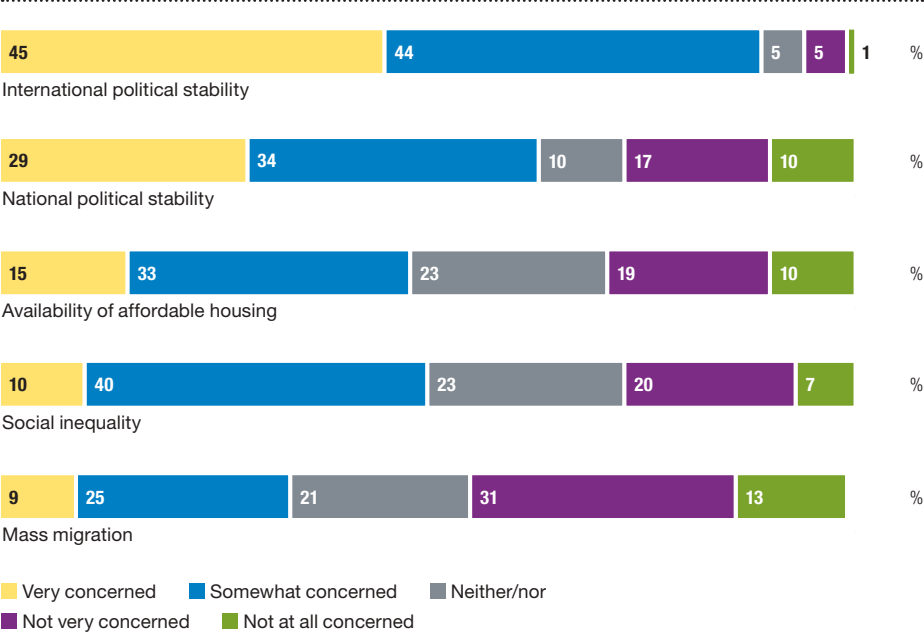
What is starkly evident is concern about political instability and its potential to derail the Eurozone’s still fragile economic recovery. Some 89 percent of respondents to *Emerging Trends Europe’s* survey rank international political instability at the top of their list of concerns, and 63 percent say they are anxious about national stability.

“There is a wave of populism in the UK, the US, Italy, Poland and probably Germany, and that is creating uncertainty, not opportunity,” says a German fund manager who invests globally. And respondents think political instability will continue to be a factor into the medium-term, with just 10 percent believing things will improve in the next three to five years.

Though not the whole story, Brexit has undeniably reverberated across the real estate industry. An overwhelming majority – around 90 percent – believe the UK referendum vote to leave the European Union (EU) will hit UK investment and property values in 2017 (see p 10). “The UK has created discussions again about what Europe brings to the table,” says one European fund manager; “There have always been concerns about the EU’s sustainability, but Brexit makes those concerns more real,” says another.

“The difference this time from previous shocks is that business doesn’t know what its trading environment is,” says the CEO of a UK REIT.

Figure 1-1 Social issues in 2017



Source: *Emerging Trends Europe* survey 2017

But far fewer, only 21 percent, think Brexit will have negative impacts on transaction volumes and values in the rest of Europe, and there are cases made for benefits flowing to different cities and countries. Amsterdam, Dublin, Berlin, Frankfurt, Luxembourg, Paris and Madrid are variously tipped to pick up business from companies that might leave the UK, or opt to site future expansion in the EU instead.

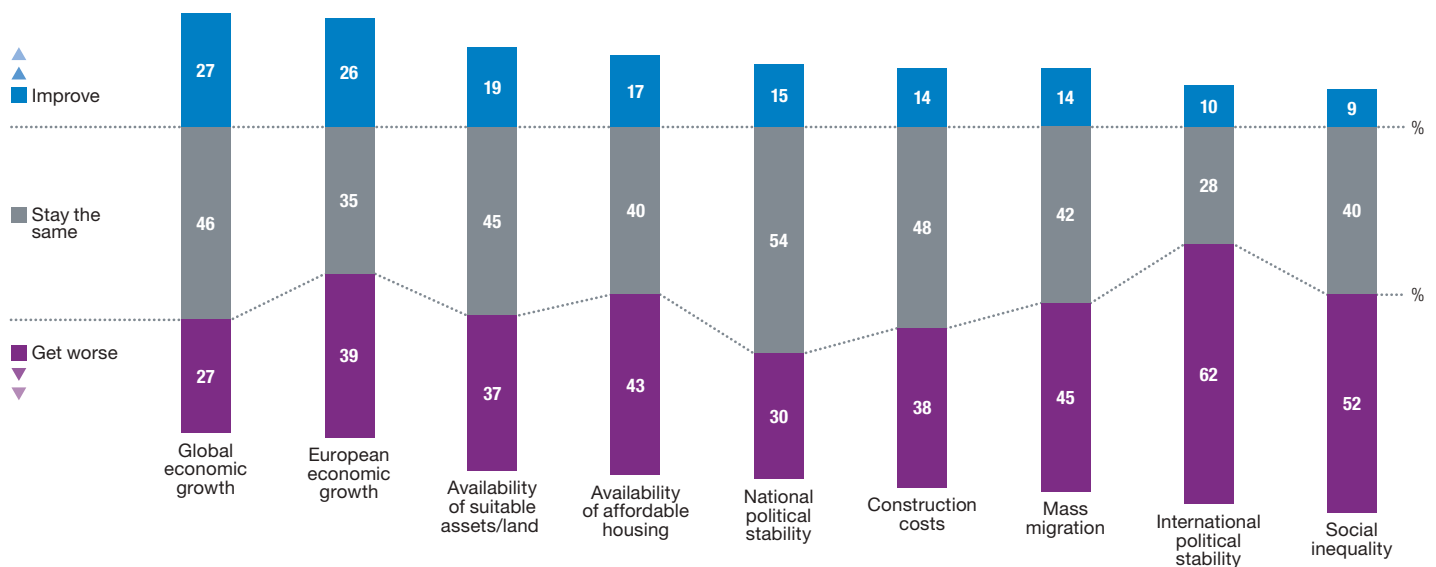
“Holding and delivering properties as we are in Frankfurt and Paris and Berlin, it is an interesting time to be in those markets. Those operating there will want to make sure they are not caught short,” says a US developer.

Geopolitical challenges

Industry leaders will be closely watching the series of elections across Europe in the next 12 months: the Italian referendum due before the end of 2016, plus a re-run of Austria’s election where the far right presidential candidate narrowly lost, followed by 2017 national or presidential elections in the Netherlands, France and Germany. What is more, nearly two thirds of survey respondents expect political instability to worsen over the next three to five years.

Migration and social inequality are also key concerns. Mass migration into Europe is expected to get worse by 45 percent of respondents; social inequality by 52 percent. “If we move towards more isolation, it will be more expensive to cross borders, and it will affect the flow of business and capital,” says an international broker.

Figure 1-2 European business environment in the next 3-5 years



Source: Emerging Trends Europe survey 2017

“Real assets are attracting a lot of capital because people want yield.”

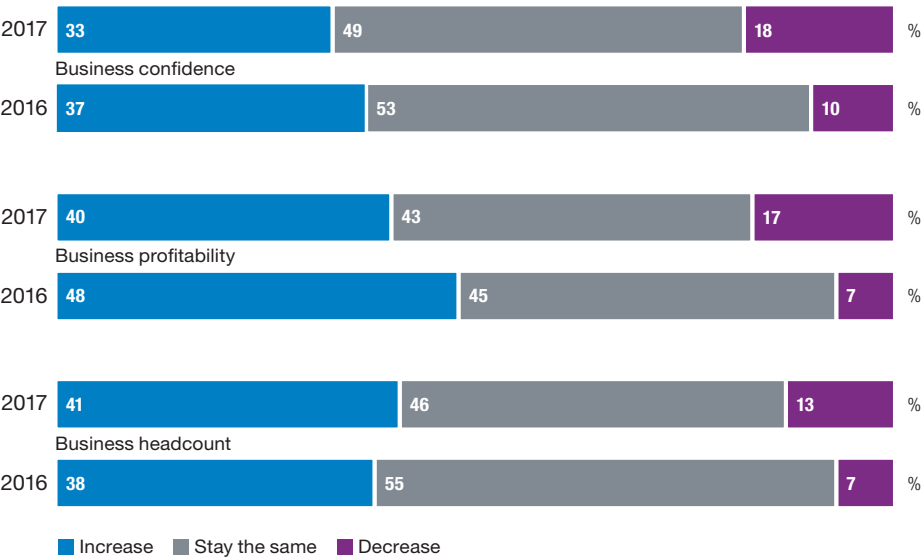
Terrorism, too, is a concern highlighted by interviewees. “The threat of terrorism may have a profound impact on how we manage public spaces and private buildings,” says a global developer and investor. Another predicts: “The new normal will be more security around our assets due to increased threats.”

This backdrop is undoubtedly challenging, but, intriguingly, respondents are only slightly less confident than they were last year about their own businesses. Just under half expect no change to confidence, profitability or headcount in 2017, and the numbers expecting their operations to shrink are small, albeit up on last time.

This optimism appears to fly in the face of so much uncertainty and change. But it is clear, from interviews, that while Europe’s real estate industry is pausing for thought and treading very carefully, it does not feel the need for crisis measures.

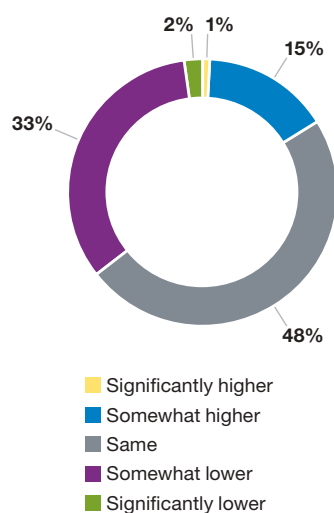
In the current, low interest rate, low inflation environment, investors continue to value European real estate for yield. “With interest rates at zero, people do not want to be in cash, they want to be invested, and real assets are attracting a lot of capital because people want yield,” says a fund manager.

Figure 1-3 Business prospects in 2017



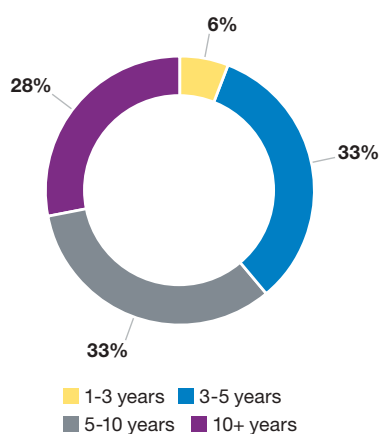
Source: Emerging Trends Europe survey 2017

Figure 1-4 **Returns targeted in 2017 compared to previous year**



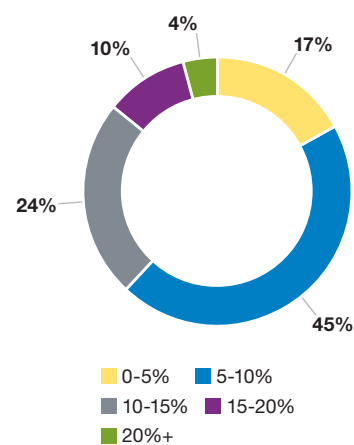
Source: Emerging Trends Europe survey 2017

Figure 1-5 **Time horizon for holding investments**



Source: Emerging Trends Europe survey 2017

Figure 1-6 **Returns targeted in 2017**



Source: Emerging Trends Europe survey 2017

However, with 82 percent also pessimistic about low growth persisting in many countries, it is also evident that there is more caution; global investors are playing it safe by focusing on gateway cities and “being disciplined in our underwriting as well as teaming up with the right capital for the right product”.

And return expectations are being scaled down: 35 percent of respondents say they are targeting lower returns in 2017. “We would rather discuss with investors to lower return expectations where appropriate, but not generally to increase the risk at this point in the cycle,” says a fund manager.

Overwhelmingly, survey respondents have their money on interest rates staying low for even longer. “I can’t see interest rates rising dramatically from where they are now for probably a decade,” says one interviewee.

And, the longer rates stay low in countries around the world, the tighter the supply of the asset class may become. As one global investor comments: “You could hedge against (the political risk) by not investing, but that is not what we are paid to do. Instead, we have to try to underwrite it.”

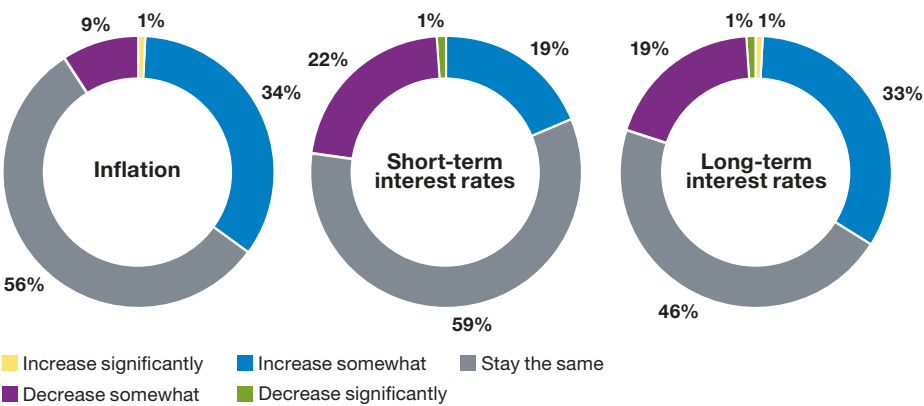
“Residential is on the radar and is undervalued because it gives long-term, stable returns.”

The process of underwriting this risk is feeding through in more cautious approaches to deploying capital, equity and debt. A US investor declares that “in Europe in general we are definitely seeing a more ‘risk-off’ attitude”. Leverage is lower. The definition of prime has narrowed, and while growth remains weak, ever-closer attention is being paid to quality of income.

Long-term income is highly favoured by insurance companies and pension funds with liabilities to match, never more so in the UK. “Strong income assets are going to be worth more than they were pre-Brexit, and ones which were heavily dependent on rental growth are going to be worth less,” states one UK fund manager.

REITs, as income plays, “will be more in demand” and have moved to trading at premiums after Brexit in perceived safe havens such as Germany and Scandinavia. Meanwhile, “residential is on the radar and is undervalued because it gives long-term, stable returns”, say operators in those markets.

Figure 1-7 Interest rates and inflation in 2017



Source: Emerging Trends Europe survey 2017

Winners and losers from Brexit

UK property will switch from being an outperformer to an underperformer following the EU referendum, according to those canvassed by *Emerging Trends Europe*.

The overwhelming majority – 92 percent – say UK investment will fall in 2017 and almost half of these think the downturn will be substantial. UK property values are also expected to decline, by almost 90 percent of respondents, but the real estate industry is not bracing itself for a 2009-style plunge; nearly two thirds think the fall will be moderate.

London faces particularly strong Brexit headwinds, potentially losing EU-focused business and part of its highly skilled workforce to rival cities.

“The frightening thing about Brexit is we have a talent pool of EU nationals in London, probably between 15 and 20 percent of our staff, and they say: ‘You know what? We don’t feel welcome here anymore.’ If they walk before anything is decided, that’s the risk now for London – and it becomes an opportunity for other countries,” says a big international player.

The impact on the occupier market is another major worry. “Business’s immediate reaction is to curtail investment,” says a UK property company CEO. “We’re having to dial back on leasing and rental assumptions,” says another. “London occupiers won’t pay pre-Brexit rents,” suggests a third.

Moreover, the fears about lower economic growth, softening occupational demand and losing financial services to continental Europe are reinforcing the concerns investors have about offices and retail, and boosting the popularity of alternatives like private rented residential.

Some investors are watching the UK closely for buying opportunities, in anticipation of a rebound in 2018 if the Brexit negotiations go well. “There will definitely be opportunities, and we have dry powder for it, though we don’t know precisely what they will be yet,” says a pension fund. “People tend to go down the risk curve rather than up and that gives us opportunity,” says a UK property company CEO who believes that London projects will be mothballed, ending the current development cycle earlier than expected – and bringing forward the timing of the next.

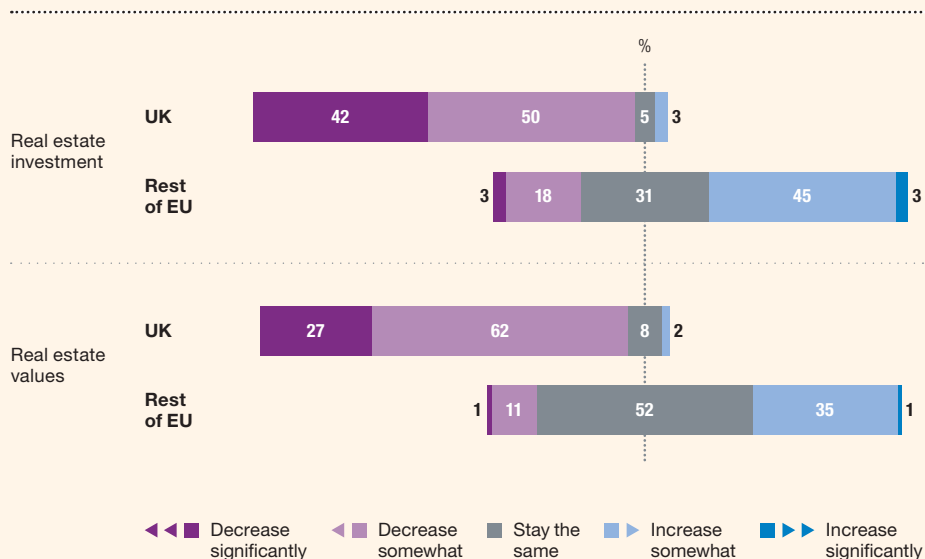
Despite all the uncertainty over London, most interviewees have faith in its medium to long-term future as a key global city and financial centre. As one investor says, “It is very hard to say what the impact of Brexit will be, but I find it difficult to see why London won’t continue to be the number one city in the world.”

In a reversal of the last two or three years, core/core-plus returns in continental Europe are expected to outperform the UK. “I wouldn’t say you’ll see Eurozone GDP grow as fast as the UK was before the referendum,” says a fund manager, “but you’re seeing some 2 percent-type growth figures and given that there’s been very little new supply, that’s enough to cause some quite interesting rental growth. We’re expecting over 10 percent total returns in the Eurozone over the next 18 months.”

After the vote to leave, uncertainty hangs over UK business until there are answers to the question: soft or hard Brexit? Though interviewees welcome the Bank of England’s package of measures to boost the economy, GDP growth forecasts for 2017 have been slashed, the Bank’s by 1.5 percent to 0.8 percent. Avoiding a recession would be a good outcome.

Interviewees see the weaker pound having multiple effects on the UK economy: good for some exporters, but devaluation may import inflation because of the rising cost of imports. “Supermarkets are notoriously exposed to import prices; most retailers are,” warns one UK fund manager. “There will be a push and pull on interest rates,” says another. “They should go up because of inflation, but on the other hand, because the economy is weak zero growth is the likely outcome for 2017.”

Figure 1-8 Impact of Brexit on real estate in 2017



Source: *Emerging Trends Europe* survey 2017

Pressure to invest

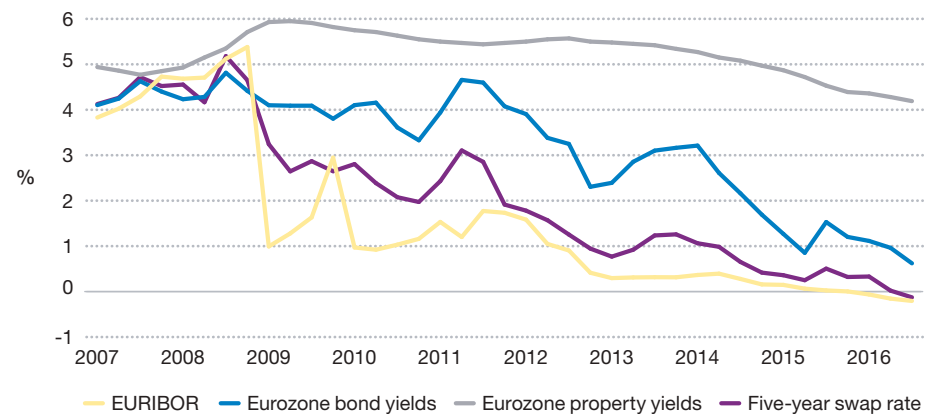
Among core investors there is a strong preference for offices in European gateway cities and for retail in centres that dominate their catchments. “It’s difficult to generate returns in second-tier cities; it’s a real challenge to get rental growth,” says one investor. “Prices are very expensive ... in core European cities some yields are down to 3-3.5 percent, but we don’t want to start investing in B and C locations; that would be to repeat the mistakes of the past,” says another.

In this climate, with government bond yields going negative in France, Switzerland, Denmark and Germany, respondents are divided between those who believe prime real estate is fairly priced (42 percent) and others who fear it is overvalued (58 percent).

“We are all uncomfortable because we are passing some historic lows in cap rates in certain parts of the market,” says one private equity investor, although adding that the same is not true of secondary pricing. These secondary assets are expected to get harder to sell and harder to finance.

Commenting on the pressure to invest, one opportunistic investor says: “Guys are saying, ‘I’m just going to stay in there, collecting my 4, 3, 2 percent yield and if it’s secure for a long time, worry about tomorrow, tomorrow. I’ll discount the implications, occupationally, about my real estate’s residual worth, because I don’t have the luxury of making those judgements today.’”

Figure 1-9 Eurozone property yields and interest rates, 2007–2016



Source: CBRE, Datastream, European Central Bank

Prime assets are overpriced



Equity continues to flow into Europe from all corners of the globe and all types of investors; almost no one expects that to change. Long-term investors are under-allocated to real assets, says one UK fund manager: “As a rule of thumb, those that have allocations to real estate would, if they could, increase their allocation by half as much again.”

Concerns about political instability or low growth are not substantially affecting equity capital for continental Europe, with fund managers seeing commitments honoured and fresh deployment into Euro-denominated funds since the UK referendum result. There is an expectation that some equity originally destined for the UK might switch to continental Europe, especially Germany.

Much global capital is, however, “agnostic” about where it invests, and some investors have paused to take stock on the UK after Brexit. Private equity capital is standing by, but, one CEO comments: “We are loath to make investments into the UK until we see the macro picture ... you want to be buying when you come out of a recession, not when you are going into one.”

Yet for other, long-term investors from overseas, the post-Brexit fall in sterling on top of softening values looks attractive. “The UK just got 15 percent cheaper for us,” comments one sovereign wealth fund.

Outperformance will become more difficult to achieve



Future real estate cycles will be more volatile



It is certainly a hot topic. Can the returns of the last three or four good years, propelled by yield compression, possibly be maintained as Europe moves further through the cycle and in the face of continuing low growth and heightened political risk?

Generally, there is suspicion of those promising high returns, with the exception of the very best opportunity fund managers with strong track records. "Private equity buyers are lowering their return expectations because they can't find the stock," says the head of a pan-European broker. One of his peers echoes: "Anyone who says they are targeting the same returns as before – good luck."

Top trends

Lowering returns

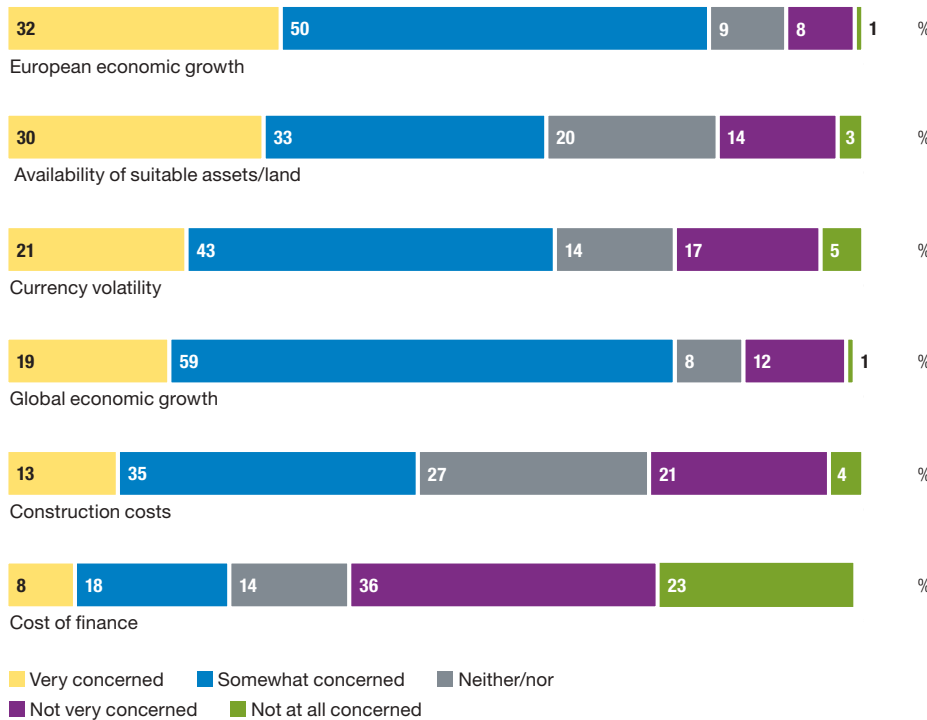
"Lower" could be the mantra for this year's report: lower economic growth; lower rental growth; and lower return targets. Life is getting tougher for Europe's real estate industry.

More than two thirds believe that outperformance will be more difficult to achieve, and 55 percent are expecting more volatile cycles. And, a third of respondents say they are lowering their expected returns. However, looking at the returns being targeted in 2017, most are hopeful of achieving the same as they cited last year; 45 percent are still aiming for between 5 and 10 percent, and another 24 percent are also still looking for between 10 and 15 percent.

As several interviewees point out, Blackstone, the world's largest manager of capital for real estate, has set up a fund to buy in European cities with a lower return requirement than the global opportunity fund series on which the firm built its reputation.

The key point to recognise, argues one pan-European fund manager, is that it is investors, not managers, who are driving change. "In this environment of low or negative interest rates, trying to achieve 20 percent returns means you are either borrowing too much or throwing darts at the board. The clear consensus among global investors is to find safe, reliable return and not place capital at risk."

Figure 1-10 Issues impacting business in 2017



Source: Emerging Trends Europe survey 2017

Accessing real estate

"In the last cycle there was a lot of capital but I'm not sure it was coming in for the best of intentions, and it got caught out when the market moved and the debt markets froze. Whereas today capital, debt or equity, is coming in because it wants the fundamentals of real estate. The bigger issue is: how and where is all this money going to be spent? London, New York, Paris, Frankfurt: they simply can't provide enough buildings that will trade frequently enough."

The words of a global research head will resonate with many in European real estate – 63 percent say availability of assets will impact their business in 2017. At the same time, the majority of respondents – 82 percent – are concerned about European economic growth.

Interviewees believe new strategies for accessing the asset class will continue to evolve. "We have had to become experts in many more parts of the property markets than 10 years ago," says an international broker, adding: "One of the biggest changes is the way that residential is now viewed by institutional investors and their desire to have at least part of their portfolio in this sector."

In addition to established multi-family markets in Germany, Denmark, Sweden and the Netherlands, an institutionally backed build-to-rent, or private rented sector (PRS), is beginning in Ireland. "The PRS in Dublin is a home run," suggests one US investor. And it is coming in the UK. "You have never had such a good opportunity to build a pan-European residential portfolio than now," adds a German fund manager.

Another way to get exposure to real estate is investing in private debt. Senior lending has defensive qualities and continues to offer a premium over gilts and corporate bonds and to attract new fixed-income capital. "I can see more interest in debt investing," says one global research head. "If there is an adjustment in values then your debt isn't wiped out on day one. At this point in the cycle there may be more protection in being a debt investor than an equity investor."

Some interviewees call for a new form of one entry point that disappeared after the financial crisis – public debt in the shape of commercial mortgage-backed securities. Says one: "Real estate is the single largest asset class in the world but only a fraction of it is investable in any way for global capital. In the long term, there is high potential for innovation, especially in the world of securitisation."

Another interviewee concludes that "given the amount of capital coming into real estate, the way buildings are traded and held will have to change. Such is the demand to have access to similar types of buildings that we have to develop more institutional-type structures, like single asset REITs to give multiple owners exposure to those assets' income streams and performance."

"We have had to become experts in many more parts of the property markets than 10 years ago."

Successful real estate investors will need to take on more operational risk



Operational alternatives

"It's about healthcare, leisure, housing, as opposed to retail, offices, industrial," says one institutional convert to alternatives. "It's going to be much more about social infrastructure because that's the requirement that's under-invested."

Hotels, student housing, retirement/assisted living and healthcare are the principal targets – the last three offer the best real estate investment prospects for 2017, according to survey respondents.

These sectors offer a measure of diversification and stability of income returns when mainstream real estate looks expensive and vulnerable to economic uncertainty. But there is also a growing acceptance that the alternatives are broadly in step with long-term demographic trends.

There is now a sustained shift of capital into these sectors, with as many as 44 percent of survey respondents stating their intention to invest in them, reflecting the idea of real estate becoming a service rather than simply bricks and mortar.

But there is acknowledgement, too, that the long-term benefits must be balanced with operational risk in sectors such as student housing. "Investors forget at their peril that they need good asset management procedures in place to get the return," says an investment banker. "It is not an asset class you can just sit on."

Another global investor warns:

"Undoubtedly we will see an expansion towards alternative property investments. Investors have to be careful because there's a propensity to underestimate operational risk but fall in love with the yield."

For a growing number of fund and asset managers canvassed by *Emerging Trends Europe*, however, alternatives represent a risk worth taking. "Investors have just got to get their minds around real estate becoming a more operational asset rather than just as a lease," says one. "They need to back managers who can cope with the operational aspects of real estate."

"Investors have to be careful because there's a propensity to underestimate operational risk but fall in love with the yield."

Regulation rules

In the wake of the financial crisis, there has been a blizzard of financial rule-making, which is slowly but surely changing the flow of capital available to real estate and how it is used.

“Our ability to do business is becoming more difficult and more expensive... I think it will continue for a long time,” says a global investment manager.

In the banking sector, Basel IV and the ongoing review of continental European banks’ internal rating models for lending to so-called “special asset classes” have the potential to double the underlying capital requirements for those lenders, hitting the supply of bank debt for European real estate.

“Going forward, the banking sector will not be able to cope with the lending volumes that it has been doing over the last five years,” says the head of real estate at a German bank.

Similarly, the insurance and pensions sectors are having to adjust their businesses to the requirements of Solvency II. One positive side-effect is providing some welcome assets to buy. “We have seen some big portfolio sales out of the insurers where they are struggling with how to risk and weight value-add assets within the framework of Solvency 2,” observes one private equity firm.

Real estate fund managers are also facing turbulent times: the Alternative Investment Fund Managers Directive (AIFMD) set up a regulatory framework for European Union based managers; non-EU managers must meet additional requirements. “We already use a lot of resources to tackle regulatory issues,” says another fund manager, indicating the cost of regulation “will dictate parts of the market that we choose to invest in or not”.

And with Brexit, UK-based banks and financial services are facing a game-changer: the loss of passporting. This system allows those that are authorised to do business in one member state of the European Union, or the European Economic Area (EEA), to operate across the EU without having to be separately authorised in each country.

“Passporting is clearly going to be an issue. Without it, for many managers, costs are going to go up. They’re going to have to move staff around; they’re going to have to open offices in Europe... they’re going to have to get regulated,” says a pan-European fund manager.

“Going forward, the banking sector will not be able to cope with the lending volumes that it has been doing over the last five years.”

A new marketplace

Are we moving towards a future where much more real estate is bought as a service rather than being an asset to be leased?

Many of *Emerging Trends Europe’s* respondents are fascinated by the speed at which social change and technology are impacting the sector. Chapter 4 takes a closer look at what they think it will mean for real estate.

Whether it is thinking about multiple generations working in the same space as retirement ages rise, to millennials who want the buzz and the freedom of co-working, old models of providing real estate are under review.

The bricks and mortar retail footprint “is shrinking, and we’re only in the first phase”, says one. “If I were an office investor I’d be looking at my portfolio,” says another. “Real estate will be outdated quicker,” adds a third.

Interviewees observe how companies like WeWork “have grabbed a new marketplace”. “They don’t have tenants, they have members...It will become a bigger proportion of the market, maybe 10 percent in five years,” speculates an interviewee.

Whatever the trends are that catch this zeitgeist, it is clear that “physical real estate will have to fit occupiers’ business plans, rather than the other way around”.

Chapter 2

Real estate capital markets



“You don’t know what is going to happen with geopolitical uncertainty, but you just have to make sure you’re getting paid for the risk that you’re taking.”

Political certainties are being eroded rapidly, returns are low, and risk seems latent due to low yields and sluggish economic growth. Safe havens like London no longer hold that status, and non-core locations also seem risky.

But with bond yields at record lows for the foreseeable future, money continues to flow into real estate at slightly lower levels compared with this time last year, but still near record highs. Equity is abundant, debt less so but still plentiful. This will support prices, but makes new acquisitions difficult due to greater competition.

With pricing for core real estate considered too high in many markets, selective development is not being ruled out; 79 percent think it is a good way to acquire prime assets. “It would be nice to complete more acquisitions, but it’s quite expensive, so we’re looking at internal growth by development and redevelopment, making use of the urban portfolio,” says a Nordic investor.

People want certainty but there is none. “There is plenty of capital if you have something people want that meets their standards,” says one global retail developer, “but it is not so obvious what is coming down the road that will meet those standards.”

Figure 2-1 Real estate investment in European countries Q4 2015–Q3 2016 (€ bn)



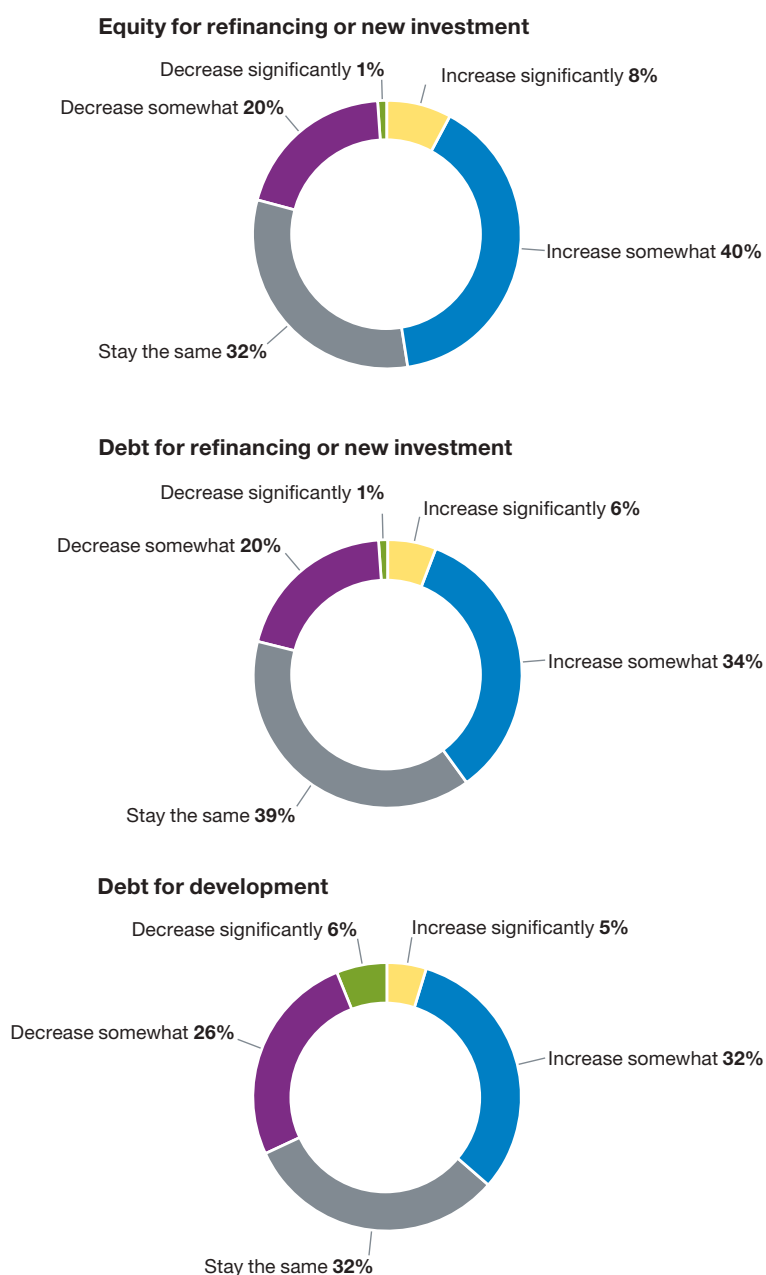
Source: Real Capital Analytics

Note: Figures are provisional as at 21st October 2016

Sector wise, real estate is approaching a tipping point where the alternative becomes the norm. While they are still seen as difficult to access, alternatives are growing in popularity and are seen as offering the best returns.

In a changing real estate world, traditional offices and shopping centres are now classed among the riskiest assets, left behind by urbanisation and changing consumer habits.

Figure 2-2 **Availability of equity and debt in 2017**



Source: *Emerging Trends Europe* survey 2017

Increasing allocations

One area of the capital markets where there is a high level of confidence is the sphere of equity. There is little doubt that European real estate will continue to see large inflows of equity, particularly looking for prime assets.

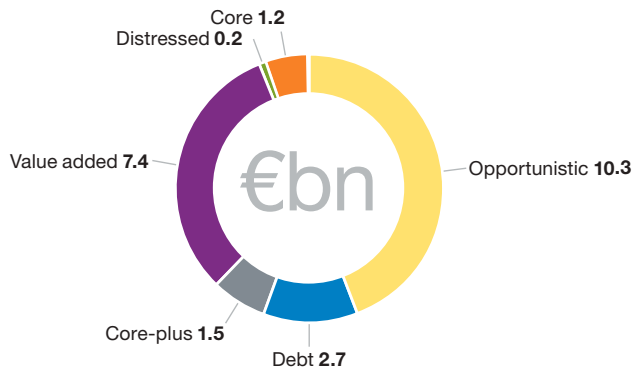
Of those surveyed by *Emerging Trends Europe*, 48 percent expect equity available to the sector to increase – less than the 55 percent who expressed this sentiment last year, but still a healthy cohort.

Interviewees are unanimous as to the reasons. Low global interest rates and bond yields are making real estate yields look attractive, even if in most countries they are at record lows.

“The allocation to real estate was 10 percent at the end of last year, that has moved up from 5 percent,” says one sovereign wealth fund manager. “It is based on returns we’re getting from other asset classes – we’re not getting any returns. The fixed-income portfolio is not having its best days so it made perfect sense to take that money and put it into real estate.”

“Real estate is awash with equity, and this is unlikely to change,” adds one insurance company investor. “If we could, we would increase our own allocation by 50 percent – in other words, take half as much again.”

Figure 2-3 **Capital raised by private equity funds for European real estate, Q4 2015-Q3 2016**



Source: Preqin 2016

Though the overall appeal of real estate is straightforward, the distribution across the various sectors is more complicated.

Competition for prime assets is increasing, but from here on it seems secondary assets will not be pulled along in their wake, due to fears over economic growth.

“Equity is schizophrenic,” says one retail developer. “Investors are narrower in what they are willing to do but pushing hard when they have something they can do.”

“For the more transitional assets, if you had doubts before then you will definitely have doubts now,” adds one opportunity fund manager. “So I would say for core there will continue to be strong interest but less interest for more transitional assets.”

“With longer-term trends there’s always looming over the horizon the issue of whether we are all being lulled into accepting that interest rates will be low forever, and if the rotation out of fixed

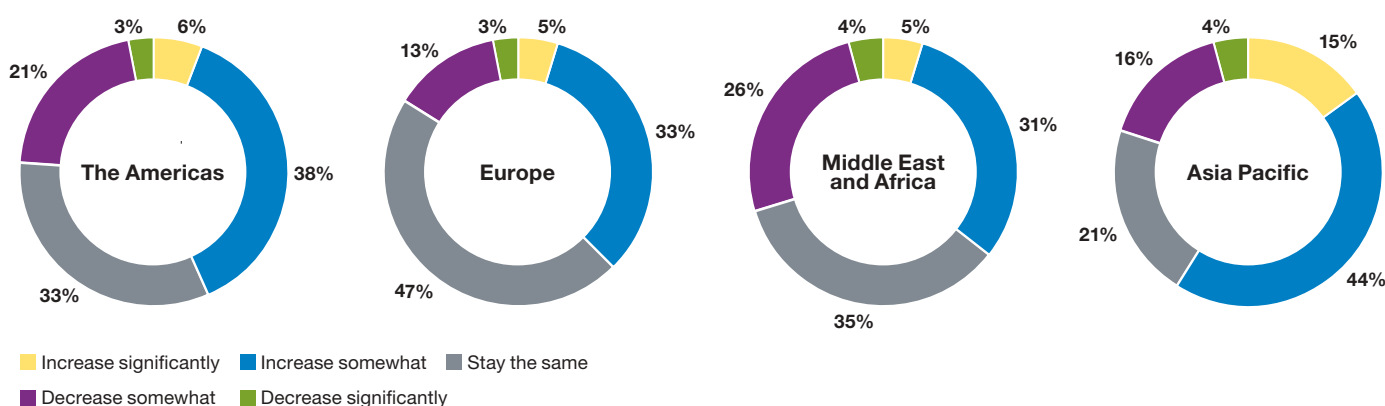
income into infrastructure and real estate will continue,” says one global investor. “But what happens when that trend reverses? I don’t think that happens in the next three years, but when that happens it will be huge for everyone; everyone will be hit.”

Another issue might be raising capital for funds, particularly opportunity funds. In the 12 months to Q3 2016, €10.3 billion, 44 percent of the total private equity raised for European real estate, was for opportunistic strategies, according to Preqin.

“US institutional equity is the dominant source of capital for opportunistic investing in Europe,” says one manager. “There was a lot of capital raised for European opportunity funds in the first half of 2016. Since then we’ve had the heightened uncertainty ushered in by Brexit and the European elections scheduled next year, which raises a lot of questions about Europe’s likely performance from US investors. They are also focused on their own election in November. So we think fund-raising will be very challenging in the coming year.”

“For core there will continue to be strong interest but less interest for more transitional assets.”

Figure 2-4 Cross-border capital into European real estate in 2017



Source: Emerging Trends Europe survey 2017

Crossing borders

There is a perception that uncertainty is set to have a cooling effect, but not a deep chill, on cross-border capital flows into Europe in 2017.

In the case of capital moving within Europe, 16 percent of respondents predict a fall, compared with 5 percent last year.

“European investors investing across Europe is 20 to 30 percent of the market,” says one global fund manager. “Many have only just started diversifying in this way – for example, French investors into Germany, Italians out of Italy – and I don’t think that will stop.”

Beyond European investors, there are differing views on the appetite of Asian and US investors. Flows from Asia-Pacific are expected to remain strong relative to other sources of capital. “In Asia they don’t like uncertainty,” says one European fund manager with long-standing experience in the region. “They may stay on the sidelines in the short term but will come back in the medium term. The requirement to invest outside Asia will remain important.”

For new entrants to Europe from Asia, currency movements could prove attractive. “If you look at the large transactions that were actually getting done or are getting hunted after the referendum, they’ve been with Middle Eastern or Asian high-net worth investors,” says one opportunity fund manager. “Because that small segment of the overseas investor group is convinced that this is a political event not an economic event, and their view is that with the currency off 10- to 15 percent and yields off 25 basis points, it is a 15 to 20 percent-off sale, and they’re all in.”

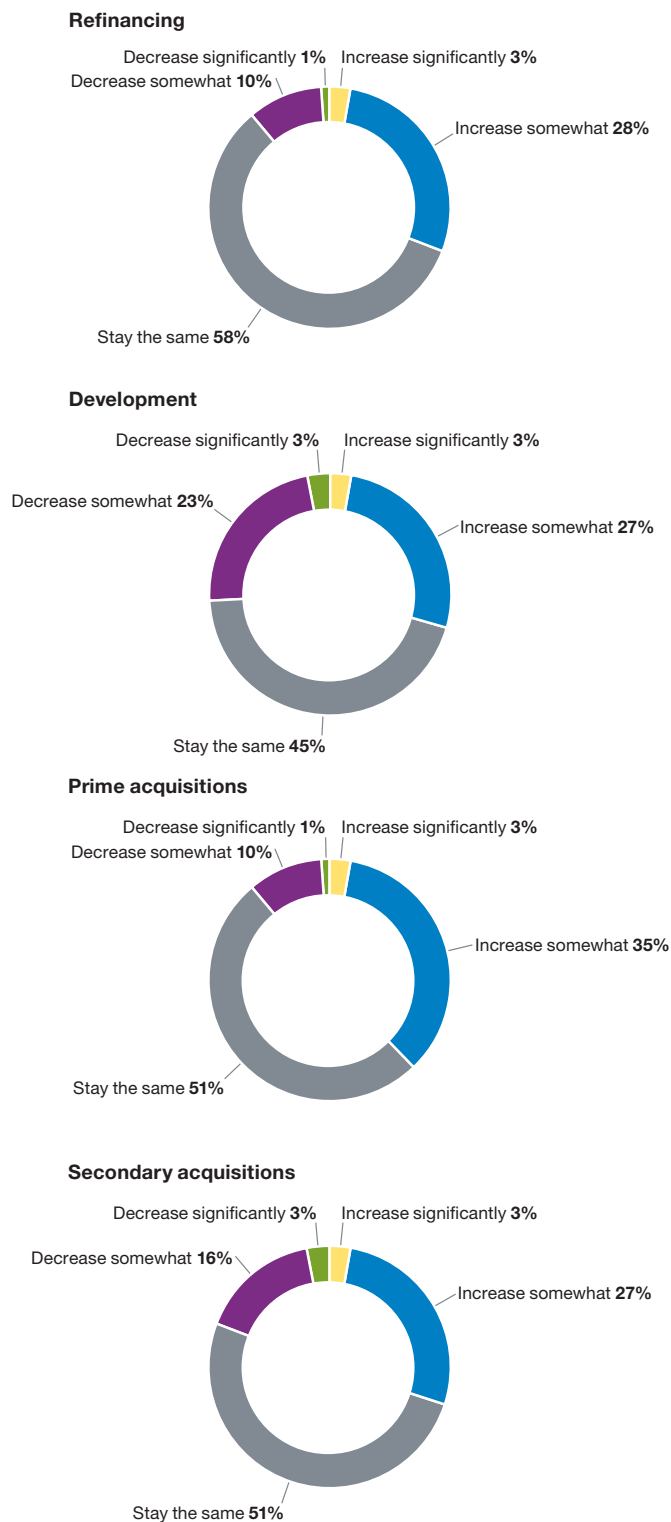
Meanwhile 44 percent of respondents say that capital flows from North America will increase, against 59 percent last year. The perception that short-term volatility might create opportunities is overshadowed by the fact that the recovery in European values is now well advanced, with little economic growth available to boost rents.

“The last two years North American capital has chased the value-add, opportunistic end of the spectrum. But I think that’s less likely going forward,” says one US fund manager. “There’s a few subtle things happening: people are just less confident that those value-add returns are achievable with an interest rate environment of near zero and very low inflation. It’s pretty tough to achieve double-digit returns.”

“Now when you talk to US investors they have a lot of concerns,” adds an opportunistic investor. “In France we had terrorist attacks and Germany has had some as well and also has the refugee crisis; Merkel might be toppled, and no one knows who Theresa May is yet. So there is a bit of a mix as to whether investors can see through these macro concerns to what’s attractive about these markets.”

“The last two years North American capital has chased the value-add, opportunistic end of the spectrum. But that’s less likely going forward.”

Figure 2-5 Access to senior debt in 2017



Cautionary debt

There is less confidence in Europe about debt compared with equity. Those expecting an increase in debt for new investments has fallen from 55 percent last year to 40 percent this year. Lenders are concerned about recent volatility, and this has combined with a longer-term trend towards banks pulling back from real estate.

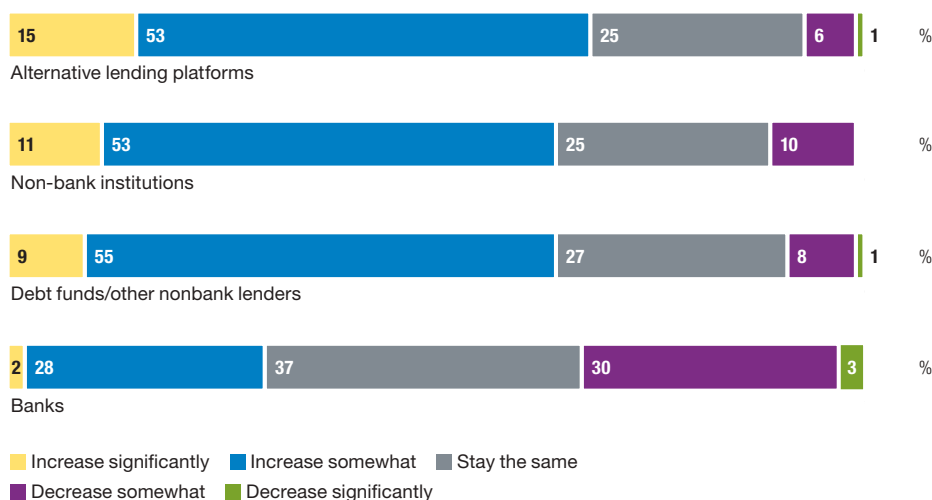
“It feels like banks remain nervous – they’ve been nervous for the last eight years and we started to see that spike last year,” says one REIT chief executive. “And when they get more nervous that affects construction finance and provincial and secondary markets. I don’t think core, stable assets will have a problem finding debt, but other types of assets will struggle.”

Accordingly, only 11 percent of respondents believe that senior debt for prime acquisitions will fall against 19 percent for secondary ones, and 26 percent reckon development finance will be reined in.

“All banks have the same problem, which is raising capital and managing their existing capital situation,” says one German banker, who warns that the banking sector will struggle to cope with lending volumes given that capital requirements continue to rise.

Banks are viewed as pulling back from the sector – 33 percent believe their lending will fall, compared with just 15 percent last year.

Figure 2-6 Sources of debt in 2017



Source: *Emerging Trends Europe* survey 2017

And this is seen as a golden opportunity for non-bank lenders – including pension funds, insurance companies, debt funds or new lending platforms like crowdsourcing – with at least 64 percent anticipating that they will increase their exposure to the sector.

A pan-European debt adviser notes: “Alternative lenders will have an opportunity for a period to do more lending and on better terms.”

If banks do withdraw liquidity from the market, alternative lenders can provide a partial backstop, but it should be noted that they currently constitute a very low share of the total debt being provided to European real estate. However, Europe’s real estate industry is not expecting a debt freeze.

Where to go?

Germany is by far the most popular destination in Europe now. Post-Brexit, it is now only 20 percent lower than the UK in investment volumes, according to Real Capital Analytics. And German cities take top places for investment prospects in *Emerging Trends Europe*’s city rankings for 2017. However, the increase in capital creates an inevitable problem.

“We’re positive about Germany, which is going to be a safe haven in most scenarios, even if the Eurozone breaks up, which is not the central scenario,” says one global fund manager. “So we’re keen on the German cities, but clearly pricing is the other side of the equation and pricing is quite challenging for German assets.”

Elsewhere, Sweden and Stockholm have also assumed safe haven status, albeit prime assets are even harder to source than in Germany, and the country has added currency risk.

Less fashionable are the countries that are seen as viable destinations only in times of economic stability and general confidence. “CEE markets, like Czech Republic, Hungary, Poland, might suffer. They’re seen as a bit riskier in a more risk-off environment, and people will come back to the European core,” says one investor.

The perception in previous editions of *Emerging Trends Europe* that Italy would become “the next Spain” has not really materialised. Values have recovered and volumes have been reasonable, but liquidity has never matched that of its Southern European counterpart because its banking system remains weighed down by non-performing loans. “I’m really worried about Italy. There are serious issues there, and they’ve not even started dealing with the distress,” says one investment banker.

But as before, there is a general focus on cities rather than countries, not least because of the effects of urbanisation, which means even destinations in countries with weak economies can find favour.

“We’re positive about Germany, which is going to be a safe haven in most scenarios, even if the Eurozone breaks up.”

Attractive alternatives

Once again, alternatives dominate the list of sectors deemed to have the best prospects for the year ahead, with only high street shops from the three mainstream sectors making the top 10.

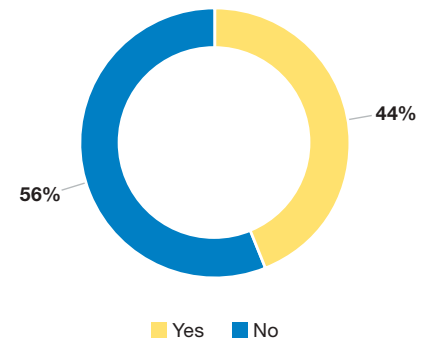
Industry leaders do not simply want to watch from the sidelines as alternatives thrive – 44 percent now say they would like to invest in these sectors, an increase of 16 percentage points over the previous two years. Real estate is approaching a tipping point when the majority of industry participants want to venture beyond the big three.

Importantly, this appears to be a secular rather than cyclical trend. During the last cycle, investors went into alternatives due to the yield premium over offices, retail and logistics. And even now some players, particularly private equity firms, are in alternatives having been priced out of mainstream sectors.

But the search for higher yields is only the fourth most common rationale cited, behind stable income returns, diversification and demographic drivers. The latter is top of the list by some margin, with 69 percent of respondents wanting to take advantage of the fact that alternatives, by and large, reflect how society is changing. “Number one, number two and number three is you follow demographics,” says one fund manager. “Those are the things where growth is fueling demand.”

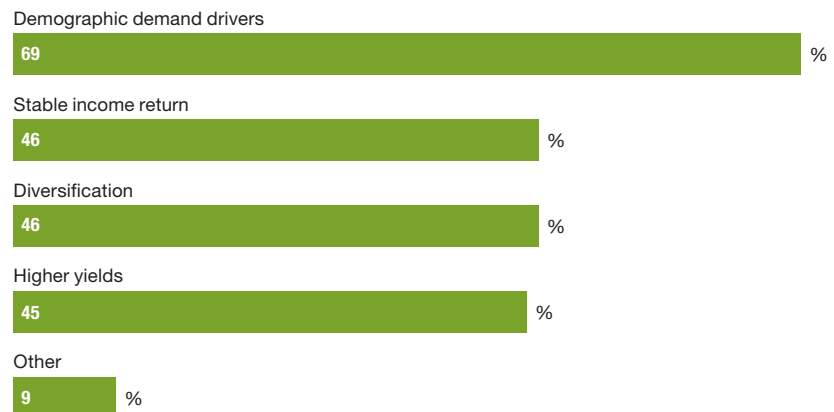
“Demographics ... those are the things where growth is fueling demand.”

Figure 2-7 Considering alternative real estate sectors in 2017



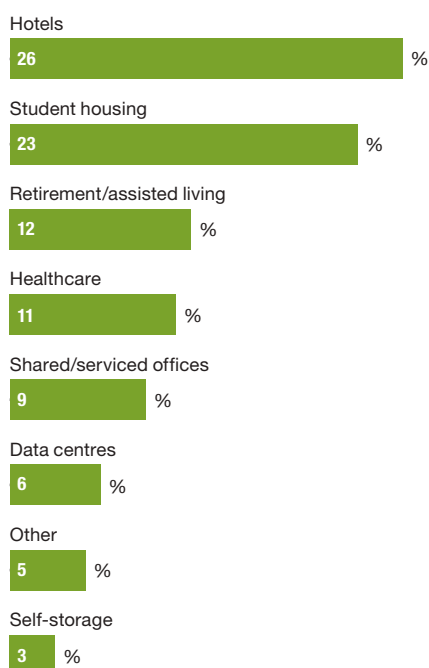
Source: Emerging Trends Europe survey 2017

Figure 2-8 Reasons for considering alternatives



Source: Emerging Trends Europe survey 2017

Figure 2-9 **Currently active in alternative real estate sectors**



Source: *Emerging Trends Europe* survey 2017

Note: Respondents could choose more than one category, so percentages do not add up to 100.

For those already active in alternatives, hotels lead the way, with interviewees expressing a preference for leased assets rather than those with a management contract in which there is more operational risk.

“Student housing has now evolved into an asset class that yields attractive returns for a very solid and low risk profile.”

Not far behind lies student housing, which is destined to be the leader in 2017. Of the respondents considering investing, developing or lending to alternatives in 2017, 61 percent favour student housing and 51 percent hotels. What is more, the interest in student housing is broadening. Where before it was seen as a viable sector mainly in the UK and perhaps Germany, this year interviewees from Portugal and Spain to CEE and the Nordics are all talking up its benefits.

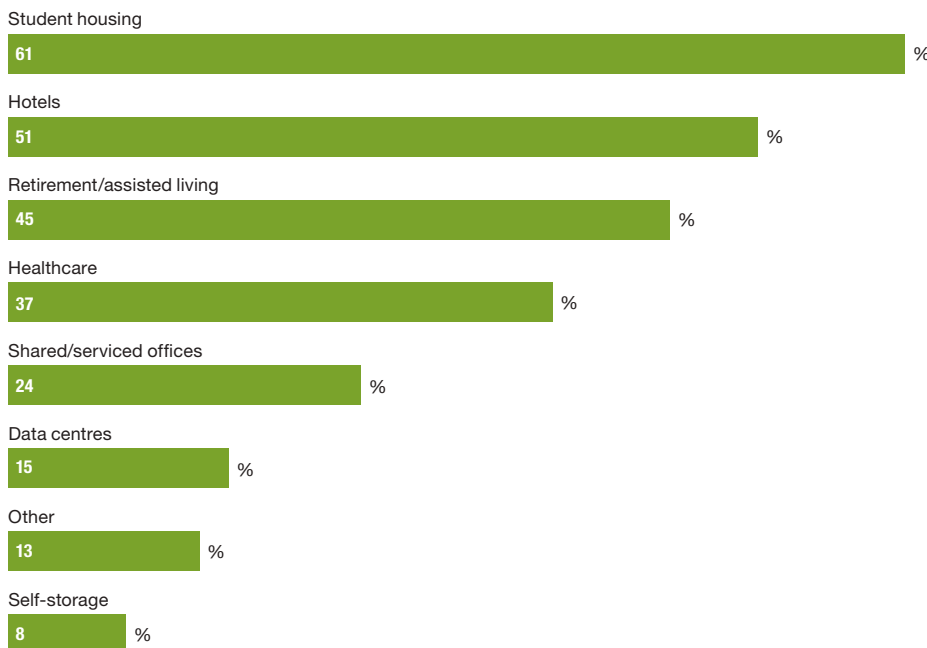
“Student housing, which previously was regarded as an interesting but opportunistic, shorter-term investment play, has now evolved into an asset class that yields attractive returns for a very solid and low risk profile,” says one investor.

Student accommodation is just one of several forms of housing that respondents believe offer the very best investment and development prospects in 2017 – overshadowing mainstream commercial sectors, with the exception of logistics.

Notably, there is new-found interest in social and affordable housing, moving from close to the bottom of the list in past years to near the top for 2017. At times of prolonged low interest rates, such sectors are evidently seen in a new light.

“Social housing holds low risk, even if you have low returns/yields,” says one developer. “It may be interesting to look at in the near future.”

Figure 2-10 Sectors being considered



Source: *Emerging Trends Europe* survey 2017

Note: Respondents could choose more than one category, so percentages do not add up to 100.

“Previously we had done traditional resi more than affordable housing, but it was an opportunity to go into a market we already know rather than going into other cities,” says one global investor that undertook a big deal in the affordable sector this year.

The pressures created by urbanisation and affordability, meanwhile, have pushed the residential private rented sector (PRS) near to the top of the sector prospects list this year. One global fund manager sums up the appeal: “The most recent new sector we’re investing in is PRS in the UK. It’s a compelling opportunity because of the limitless demand.”

Housebuilding for sale is also rated highly, although one danger spot here is high-end London residential, following concerns of weakening demand and prices dropping. “It was already slowing down before the Brexit vote, it is a sector that doesn’t have the benefit of cash flow and you have all these large developments where sales rates are slowing. There will be issues there,” says one private equity investor.

Demographic trends, meanwhile, have helped lift healthcare to the top spot for investment prospects. If “very good” and “good” are taken together, then healthcare slips to Number 6, perhaps reflecting the higher operational risks here compared with residential.

By contrast, one sector that is emphatically at odds with the overall positive outlook for alternatives is self-storage, which respondents believe has the lowest investment prospects of all.

By and large, though, traditional sectors are being perceived as more and more challenged. As was the case last year, business parks, suburban offices and out-of-town shopping centres all rank lowly in terms of investment prospects – the former primarily hit by the effects of urbanisation, the latter struggling in the face of ecommerce.

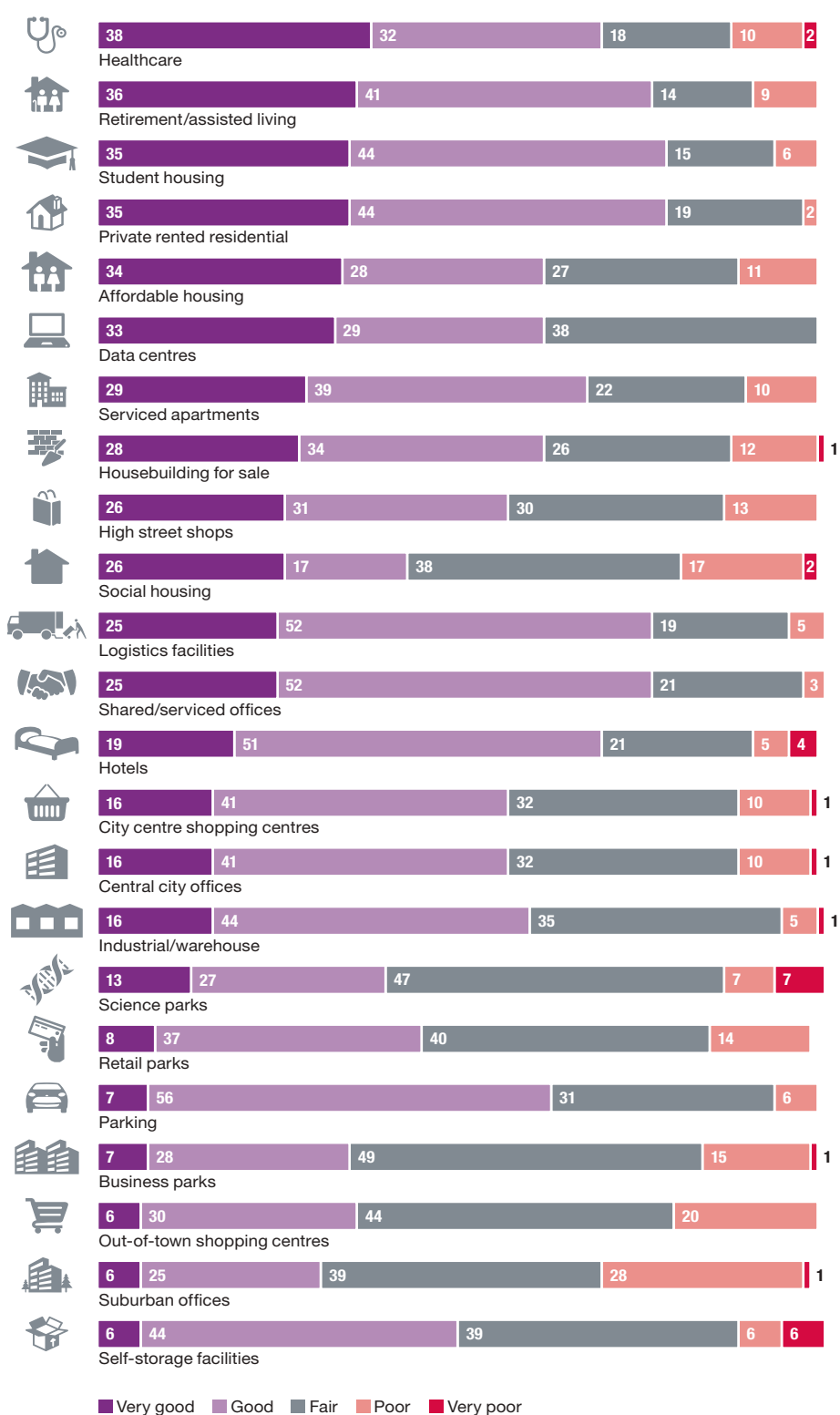
“The private rented sector in the UK is a compelling opportunity because of the limitless demand.”

“We are no believer in European offices,” says one global pension fund manager. “It is a cyclical play. Long term it does not even cover inflation.”

Another investor observes: “The reality is that traditional offices – like the ones we’ve worked in for the last 20 or 30 years – will change. The way younger people use real estate, the way they work in it, it’s changing. Our children are just so much more technologically advanced than us.”

With shopping centres, investors are not shunning them per se but they are highly selective. “Dominant retail we like, every day retail we like, the middle is a really risky place to be, and we tend to shy away from that,” says one cross-border retail investor, expressing a common view.

Figure 2-11 Sector investment prospects, 2017

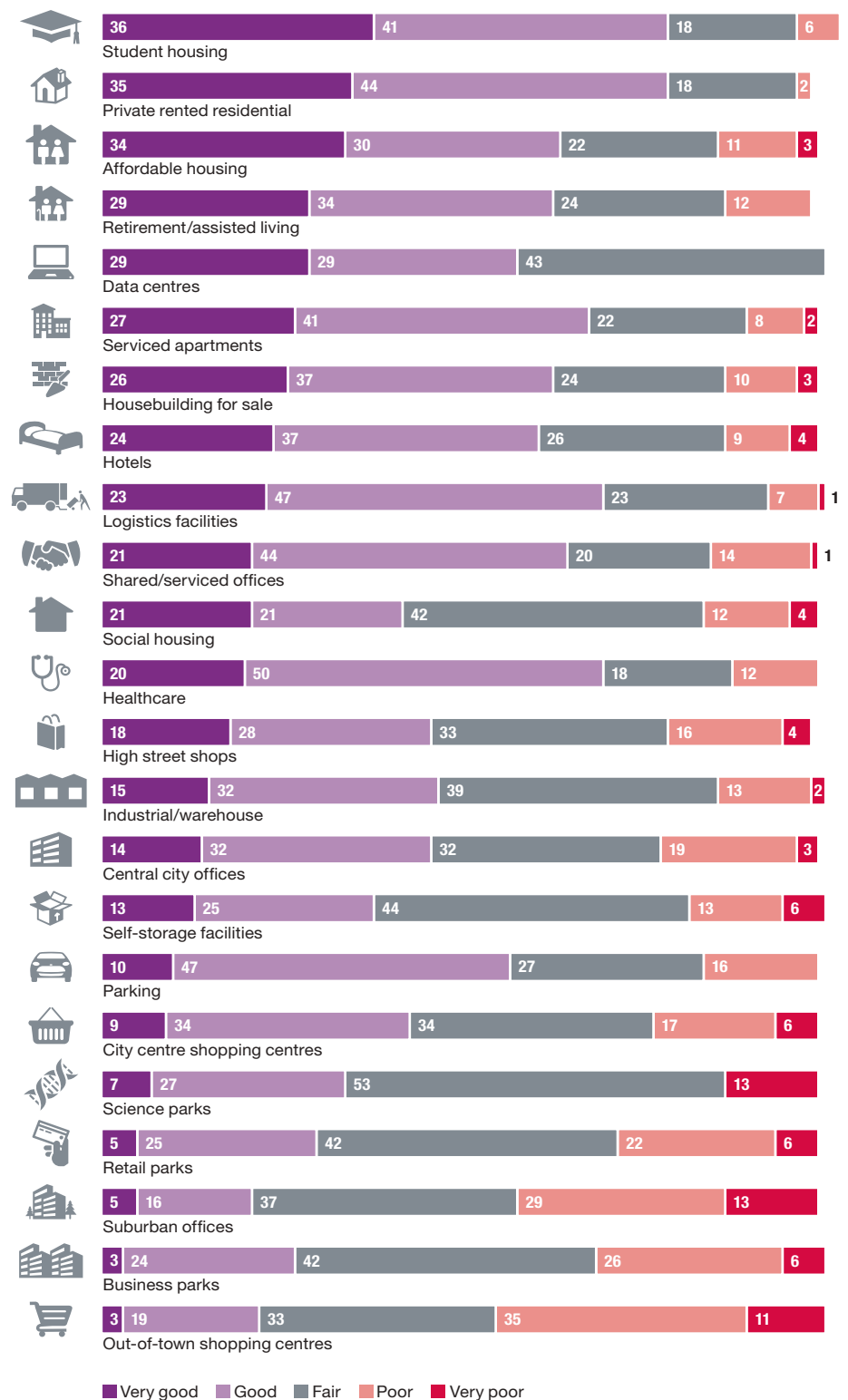


Source: Emerging Trends Europe survey 2017

The key is to make the shopping centre more of an experience, somewhere people want to go, given that online retailing is winning on price and convenience. There is the leisure element of the shopping experience, but increasingly other uses are being injected: medical clinics, municipal services, co-working spaces, and serviced offices are some of those starting to appear in shopping centres. “Our shopping centres have moved from shopping centres to mixed-use urban centres,” says a Nordic investor.

“All sectors have challenges,” concludes one fund manager, “but retail parks and shopping centres require more and more animation to become ‘destinations’, including digital features, food and beverage, and data management for tenants. Capex is a strong concern.”

Figure 2-12 **Sector development prospects, 2017**



Source: *Emerging Trends Europe* survey 2017

Chapter 3

Markets to watch



Despite the many political and economic uncertainties clouding Europe's future, the real estate industry is upbeat about most of its major markets. But Brexit is re-shaping the European real estate map.

“Berlin is a big city where we see most growth over the next 10 years.”

“Germany replaces the UK as Europe's Number 1 safe haven,” says a pan-European investor. Berlin, Hamburg and Frankfurt occupy the top three places in *Emerging Trends Europe's* league table, while Munich retains its appeal at Number 5.

Berlin, the capital, once again takes gold; its position as a trendy and dynamic global gateway to Europe is now firmly established. “Berlin is a big city where we see most growth over the next 10 years,” says an international player. Hamburg retains the silver, while Frankfurt, Germany's business centre, has climbed sharply in popularity to take the bronze. Many of those interviewed by *Emerging Trends Europe* spotlight the latter's potential attractiveness to the financial sector. “Frankfurt is the most obvious beneficiary of the Brexit decision.”

Conversely, Europe's real estate industry has a sharply more negative view of the UK's main markets, and London in particular. The UK capital now languishes fourth from bottom at Number 27, just ahead of Istanbul, Athens and Moscow. And the UK's second-tier cities are also marked down. Birmingham – one of last year's top 10 – has slumped to Number 22, with Manchester and Edinburgh just behind it. However, this downgrade relates specifically to these cities' prospects for 2017.

Emerging Trends Europe's survey was conducted almost immediately after the UK referendum decision to leave the European Union was announced: between July 1 and August 12, 2016. The result was unexpected, and Europe's real estate industry was then – and still is – trying to analyse what impact Brexit will have. So, while some interviewees express concern and uncertainty about what it will mean for London and other UK cities in the longer term, others believe capital will continue to flow in.

Europe's other big gateway for global capital, Paris, has not received an unqualified thumbs-up. Despite its undoubted appeal as a world city, it remains mid-table at Number 17. With the French economy still stuttering and an election looming in 2017, investors are cautious. There is also some scepticism about the city's ability to benefit from Brexit; interviewees cite the high cost of employing people in Paris. “My big worry is that Paris doesn't capitalise on this opportunity to position itself as the unique world city in Europe,” says the CEO of a French property company.

But, as last year's *Emerging Trends Europe* highlighted, market opportunities are now about cities rather than whole countries. “Cities matter; more and more people want to live in them. We are spending more time on next year's cities – focus on transportation, infrastructure, education,” says another global player.

Table 3-1 Overall prospects, 2017

Overall Rank	Investment	Rank	Development	Rank
1 Berlin	4.21	1	4.16	1
2 Hamburg	4.02	2	3.87	2
3 Frankfurt	4.01	3	3.79	4
4 Dublin	3.91	5	3.82	3
5 Munich	3.94	4	3.78	5
6 Copenhagen	3.77	9	3.78	6
7 Lisbon	3.80	8	3.62	8
8 Stockholm	3.73	10	3.66	7
9 Madrid	3.82	7	3.51	10
10 Lyon	3.70	11	3.60	9
11 Amsterdam	3.84	6	3.45	14
12 Oslo	3.62	12	3.50	11
13 Zurich	3.60	13	3.45	13
14 Vienna	3.52	17	3.49	12
15 Milan	3.60	14	3.35	16
16 Barcelona	3.59	15	3.29	17
17 Paris	3.48	19	3.35	15
18 Helsinki	3.55	16	3.13	21
19 Prague	3.49	18	3.15	19
20 Warsaw	3.43	21	3.19	18
21 Budapest	3.45	20	3.14	20
22 Birmingham	3.15	24	2.93	22
23 Manchester	3.17	23	2.88	25
24 Edinburgh	3.19	22	2.82	26
25 Rome	3.09	25	2.92	24
26 Brussels	3.04	26	2.93	23
27 London	2.79	27	2.58	28
28 Istanbul	2.51	29	2.71	27
29 Athens	2.68	28	2.29	29
30 Moscow	2.29	30	2.15	30

Generally good = above 3.5
 Fair = 2.5-3.5
 Generally poor = under 2.5

Note: Respondents scored cities' prospects on a scale of 1=very poor to 5=excellent and the scores for each city are averages.

Source: Emerging Trends Europe survey 2017

Table 3-2 Change expected in rents and capital values in 2017

	Rents	Capital values
1 Berlin	4.01	3.99
2 Munich	3.84	3.80
3 Madrid	3.83	3.74
4 Frankfurt	3.76	3.80
5 Hamburg	3.73	3.80
6 Dublin	3.78	3.67
7 Barcelona	3.69	3.60
8 Amsterdam	3.54	3.73
9 Lisbon	3.57	3.68
10 Copenhagen	3.56	3.57
11 Milan	3.41	3.55
12 Budapest	3.46	3.46
13 Stockholm	3.49	3.40
14 Vienna	3.32	3.40
15 Lyon	3.29	3.42
16 Paris	3.34	3.37
17 Prague	3.27	3.33
18 Oslo	3.17	3.33
19 Zurich	3.14	3.36
20 Helsinki	3.19	3.26
21 Rome	3.14	3.20
22 Brussels	3.12	3.06
23 Warsaw	2.89	3.11
24 Athens	2.77	2.82
25 Birmingham	2.98	2.61
26 Edinburgh	3.02	2.51
27 Manchester	2.90	2.59
28 Istanbul	2.56	2.59
29 Moscow	2.45	2.55
30 London	2.29	2.14

Increase
 Stay the same
 Decrease

Note: Respondents scored the expected change for 2017 compared to 2016 on a scale of 1=decrease substantially to 5=increase substantially and the scores for each city are averages; cities are ranked on the basis of the average of expectations for rents and capital values

Source: Emerging Trends Europe survey 2017



How cities are ranked

The way cities are ranked in *Emerging Trends Europe* has changed. This year, the ranking shown in Table 3-1 is based on the scores awarded for their overall prospects in 2017, taking into account both investment and development. Last year only investment prospects were considered. Because of this change, the rankings that were published in last year's report (*Emerging Trends in Real Estate Europe 2016*) cannot be compared directly with this year's.

However, to allow a like-for-like comparison, last year's data were used to calculate what respondents thought overall prospects were for each city in 2016. Thus, the cities' scores and the movements up and down the rankings that are cited in this year's report are on a consistent basis. Respondents to the survey rank the outlook for investment and development separately, on a scale of 1 (very poor) to 5 (excellent); the two corresponding scores shown in Table 3-1 are the averages for each city. The cities' ranking reflects a city's overall prospects in 2017: the average of its investment and development score.

Small and beautiful

Today, it is not so much Europe's big global gateways but its smaller capitals and second-tier cities that are being ranked highly. Factors such as physical and social infrastructure, quality of life, diversity, forward-thinking municipal authorities and sustainability have entered the equation; 77 percent of respondents say that they are tailoring their real estate strategies to fit in with demographic and social changes.

Thus, it is not surprising that Dublin is still highly regarded. With a young, fast-growing population, friendly Irish tax regime and innovative US corporates like Google, Facebook and Amazon established there, it is ranked Number 4. Brexit is also expected to benefit the Irish capital: "because it is a good option instead of London".

And, it is Lyon – France's second city – that has most improved its ranking, rising to Number 10 from a lowly 25 last year. "If you look at the GDP level for the Lyon region it is among the most dynamic in France after Paris," says a French fund manager. For those considering big regional cities in Europe, Lyon offers a sizeable market, diversified occupier base and an energetic local government that has spearheaded its revitalisation. "As long as the location is prime in a dynamic-enough market, why limit yourself to Alpha cities?" says one investor.

Two smaller capitals that have also gained in popularity are Amsterdam and Zurich. Amsterdam has risen four places to number 11; many expect it to do well out of Brexit, while others point to The Netherlands' improving economy, declining office vacancies and a booming residential market. Zurich's rise to Number 13 is steeper and harder to explain, due perhaps more to other cities' prospects being downgraded rather than any significant improvement in the local market.

This year, the Nordic markets have consolidated their place as a destination for global capital. Boosted by good demographics, growing economies and high quality of life, Copenhagen and Stockholm both feature in the top 10, while Oslo, which is included in *Emerging Trends Europe* for the first time, comes in at Number 12. Helsinki, however, is not as highly rated. Finland's economy is recovering more slowly than its Nordic neighbours', although some see this as an opportunity to buy in Helsinki while yields are still relatively high.

Iberian cities are also very much in the frame. However, there are gradations of enthusiasm. Lisbon, now at Number 7, is viewed more favourably than either Madrid or Barcelona. Though a small market, the availability of assets and risk/return profile in the Portuguese capital are attracting investors, some of whom feel Spain is overpriced.

Creation of 'place' is becoming the most important factor for real estate performance



Figure 3-1 City investment prospects



Spain's economy is motoring well and both Madrid, which is ranked Number 9, and Barcelona are in investors' sights. However, difficulty in accessing assets and the issue of Catalan independence mean Barcelona appears to be less highly regarded at Number 16.

Italy, which was on many investors' watch list last year, is being approached cautiously. The Italian banks' balance sheets are still burdened with non-performing loans, economic growth is anaemic, bureaucracy substantial and a constitutional referendum due in late 2016 has raised concern about the country's political stability. But Milan, Italy's financial and business centre, is considered the stronger of Italy's two major markets and is still mid-table at Number 15.

Moscow aside, Central and Eastern European capitals are all clustered in similar positions to last year. Views on how well these markets will fare in 2017 are quite mixed. Some believe a reduced appetite for risk will hamper investment; while others point to strengthening occupier markets. Pricing is described as "toppy" in Warsaw and Prague, but Budapest is considered "up-and-coming", thanks to a slightly more stable political environment in Hungary.

Political turmoil has hit Istanbul's prospects hard; the Turkish financial/commercial capital has plummeted from a top-10 spot to Number 28. Terrorist attacks, a failed coup in June 2016 and the subsequent developments have put off international investors.

And Europe's real estate industry remains unenthusiastic about Athens and Moscow. Economic austerity in Greece, sanctions and low oil prices in Russia, and geopolitical issues in both make for a cold investment climate. Locals, however, think things are slowly improving.

"As long as the location is prime in a dynamic-enough market, why limit yourself to Alpha cities?"

Figure 3-2 Europe's 10 most active markets, Q4 2015–Q3 2016 (bn)



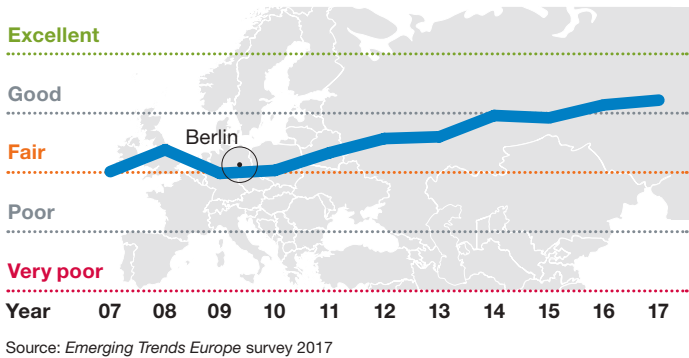
Source: Real Capital Analytics

The cities

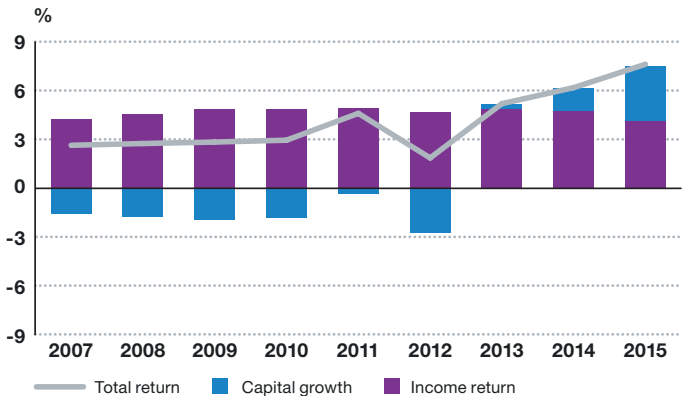
This year, *Emerging Trends Europe* is ranking the real estate markets in major European cities according to their overall investment and development prospects, as shown in Table 3-1. In this section the number in parentheses shows the city’s 2017 overall ranking, while the graphs track the its investment prospects over 10 years. The population, employment and disposable income per capita forecasts for the metropolitan areas in 2017 by Moody’s Analytics are also shown, as is the annual change in these over the past decade. Where available, MSCI’s all-property returns for each city over 2007-2015 are also included.

Berlin (1)

Investment prospects, 2007–2017



All-property return, 2007–2015



Population, employment and disposable income per capita, 2017



Fashionable, youthful, fast-growing and under-supplied, the German capital tops the table again this year and scored highest on all four survey categories: investment, development, and prospects for rental and capital growth. A financier sums it up: “In Europe the major darling right now is Berlin.”

The city is now established alongside London and Paris as a large, highly liquid real estate market with truly global appeal. “Berlin is a big city where we will see most growth over the next 10 years. It is the capital of Europe, and I can see it becoming the engine of Germany again,” argues an international fund manager.

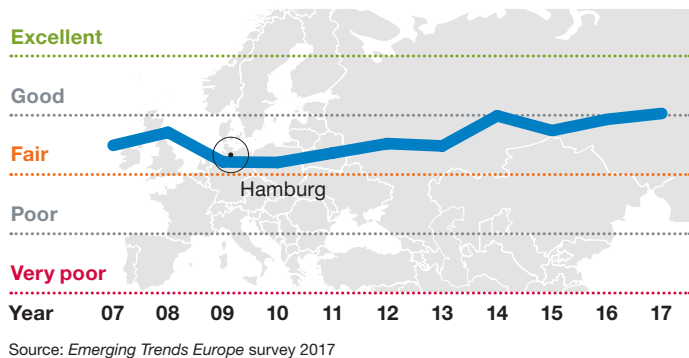
According to Real Capital Analytics, €3.9 billion was invested in the city in the first six months of 2016. “Berlin has those good urban themes: it is becoming a multicultural city whereas other German cities are very German. It is becoming a global city. People want to work there, there are multiple employment sectors active in the city, and tech is a very big thing there,” says an American investor.

Business and population growth go hand in hand, so both offices and housing are hot markets. Prices are steep, but plenty of buyers are prepared to pay well for property in a rising market when growth is low elsewhere: “It’s better to accept higher prices and look at the places where there’s a chance for rental growth and income increases. In markets like Berlin we are seeing increasing rents.”

Of all European cities, Berlin is probably the one where developers can operate with the fewest qualms. “We are developing speculatively where it is a no-brainer that we will find tenants. For a class A office building in Berlin these days you don’t need to have the tenant before,” says a German investor-developer.

Hamburg (2)

Investment prospects, 2007–2017



Asked to sum up Hamburg's appeal, a German investor describes it as "solid", which in times of economic uncertainty across Europe is praise indeed. But it is more than solidity that has Hamburg ranked Number 2 for the second year running.

The city's local government has been masterminding its growth and development, investing in transport and launching huge projects to build new, high-quality urban districts along its waterfront.

"In Hamburg there is the single largest development here in Germany, the Überseequartier mixed-use development. It is a project of €1 billion developed completely by Unibail-Rodamco. It will start next year and take three to four years of construction. It will be the heart of the new HafenCity [harbour city]," says a local.

Sustainability is high on the agenda; Mercer ranked it the 18th most liveable city in the world in 2016. It also has a diverse economy, encompassing not just a strong manufacturing sector, but media, life sciences and information technology.

Rental growth of 4 percent over the past year helps to explain the popularity of Hamburg's office market, together with yields of 3.75 percent for prime assets, which although expensive are still cheaper than those achieved in the city's German rival, Munich.

"It's better to accept higher prices and look at the places where there's a chance of rental growth and income increases," says one German fund manager. However, there is a lack of available assets to buy, with offices in particularly short supply, and would-be investors are turning to development.

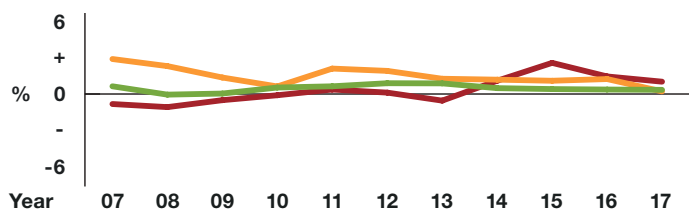
Housing is also garnering increased investor interest: "The investment team in Hamburg are more focused on the residential market," says a German investor. "Hamburg has agreed to develop 10,000 new units per year because the city is growing and there is a massive need for housing. Affordable housing is the main challenge for all our cities in Germany, but Hamburg has addressed that."

Population, employment and disposable income per capita, 2017



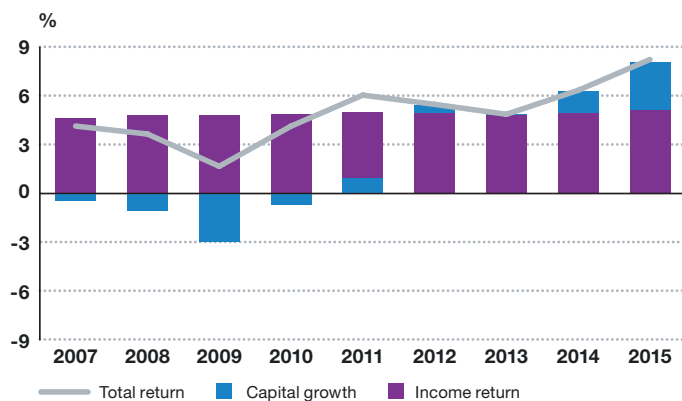
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



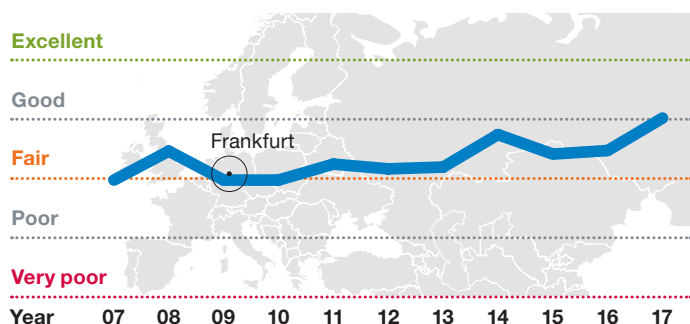
Source: Moody's Analytics

All-property return, 2007–2015



Frankfurt (3)

Investment prospects, 2007–2017



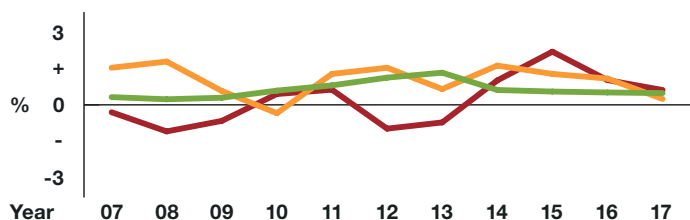
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



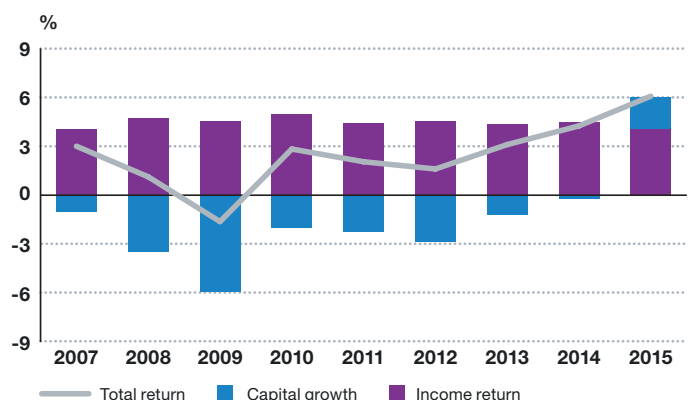
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

"The market in Frankfurt is rather euphoric at the moment," says a European fund manager, and the buoyant mood has seen Germany's financial capital rise 11 places to Number 3.

Investors in the city have good reason to be optimistic. Frankfurt has gained a twofold benefit from the Brexit vote in the UK: not only is it perceived as a stable market in unsettled times, but a number of interviewees believe it could also provide an office destination for bankers relocating from the City of London.

"Longer term, London will lose people as a result of Brexit and other cities will benefit. In financial services, it will be Frankfurt rather than Paris because the cost of employing people is so high in France," predicts one fund manager.

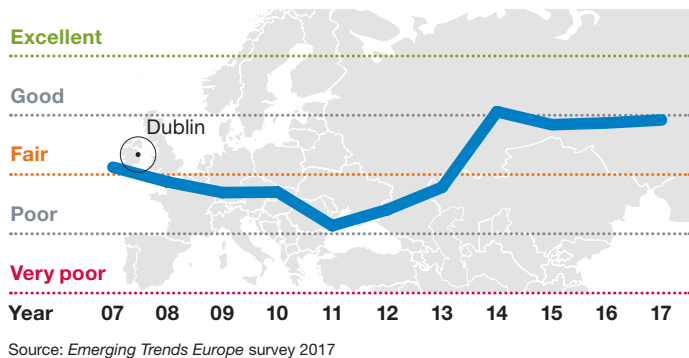
Some interviewees take a more sceptical view. "If Deutsche Bank left London it has enough space in Frankfurt that you probably wouldn't see the effect on the market," says a German investor. "Banks are not going to move to Frankfurt," asserts another.

The city's current and future success is heavily dependent on its financial services and banking businesses, and there are some questions over these. Germany is over-banked; it has a huge number of domestic players – 1,700, a third of the total number of banks in the EU. "The question will be how the rationalisation of large retail banking operations affects Frankfurt? The banks are closing hundreds of branches in Germany," says a local investor. "If that leads to more centralisation that would be good for Frankfurt, or there could be a reduction in headcount."

While yields for prime office investments have compressed to a record low of 4.2 percent, office vacancy at near 12 percent is a continuing deterrent to speculative development. "I would never touch a square metre of development in Frankfurt without having it let," says a German developer. "Tenants can shop around. You have to be really careful what you're developing."

Dublin (4)

Investment prospects, 2007–2017



Dublin has slipped one place to Number 4, reflecting a slight cooling of sentiment although as one local investor declares: “The single biggest issue is how our market in Ireland fares in the context of Brexit.”

On the whole the perception is that, if anything, Dublin will be a beneficiary of Brexit. One private equity investor says: “We don’t think Dublin picks up financial services headquarters, but it will pick up back-office functions and is not a huge market so any gains can have a big effect.”

This is combined with residential and commercial markets that do not offer the bargains of two or three years ago but which should be sustained by continued economic growth – predicted to be 4.9 percent for Ireland in 2016 – and foreign direct investment.

However, there is a Brexit counter-point: “If there is a recession in Britain, that will impact on the Irish domestic economy, especially those sectors that are dependent on the UK such as tourism and agriculture. The UK could be replaced by other markets, but that would hit some areas of real estate.”

One domestic investor observes: “The amount of capital coming into the market has already started to slow, but that is compared to an unprecedented amount of activity in 2013, 2014, and 2015 especially for a market of our size. The faster money is moving on to pastures new, and more patient money is replacing it.”

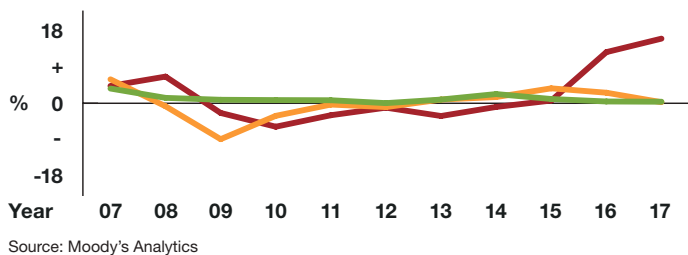
This is aided by a debt market that has gone from being “virtually dysfunctional with no lending whatsoever to probably half way back towards some sort of normality”. Alongside domestic and international banks, debt funds are filling the gap for higher loan-to-value and development lending.

Another positive factor is the imbalance between supply and demand in the housing market. “For the Dublin rental sector, the demand in the market is huge,” says one global investor building in the city. “The demand in the market is not just new people – existing stock is obsolete and people want to upgrade.”

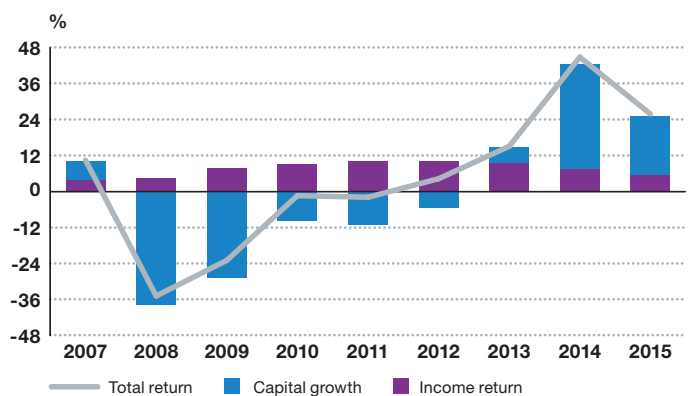
Population, employment and disposable income per capita, 2017



Population, employment and disposable income per capita, annual change 2007–2017

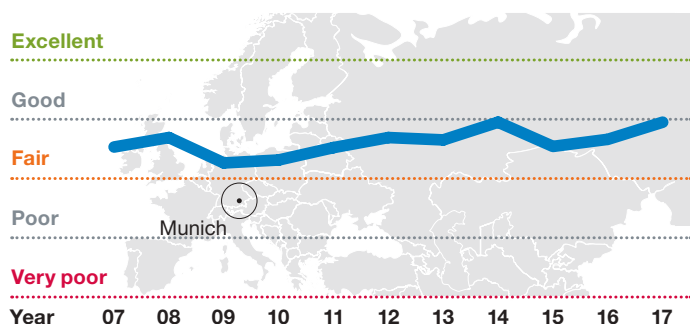


All-property return, 2007–2015



Munich (5)

Investment prospects, 2007–2017



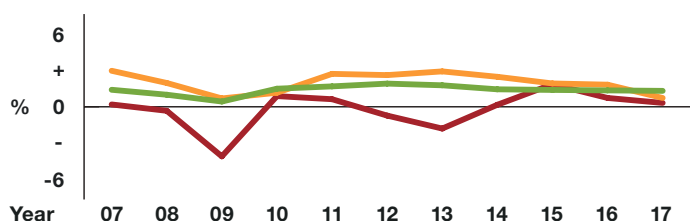
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



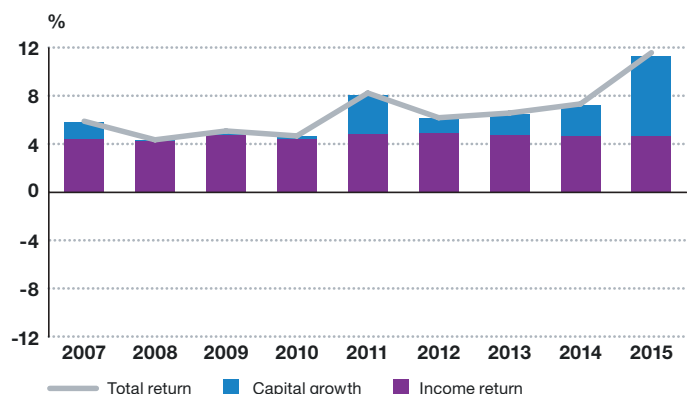
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

"Munich is strong and will always be strong," says an interviewee, reflecting the industry's faith in the Bavarian capital that places it at Number 5 for the second year in a row.

"Munich is one of the German cities that is most diversified education-wise, with a very highly educated workforce, and it is probably the most stable market in Germany. You can't get more core than Munich," says a European property manager.

Solidity gains value in a risk-off environment, and few cities have a better claim to offer that characteristic than Munich. It comes at a cost, however: Munich remains one of the priciest markets in Europe. "We have done quite a few deals in Munich, and they are as expensive as they have always been, but it will stay stable," says a German investor.

Emerging Trends Europe's respondents indicate that buying property in cities like Munich allows investors to take on more risk without worrying over the basic security of their investment. A sovereign wealth investor says: "Prices became high so at that point we moved up the risk curve, investing in higher risk/return assets. But the risk we take is not location risk, we are sticking to the large cities like Paris, Munich or London, we are just not buying stabilised assets."

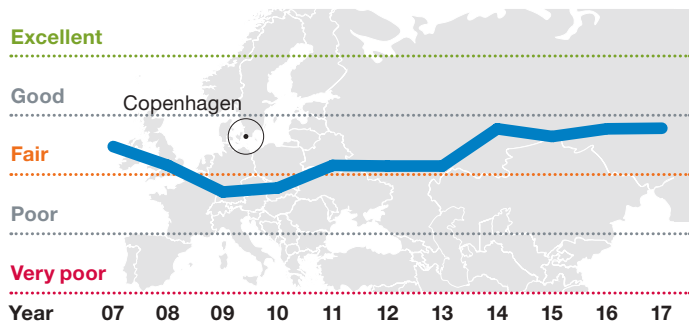
Nonetheless core investors are attracted by the city's bond-like characteristics, particularly at a time when German government securities are offering negative interest rates. "For core assets there still seems to be a lot of capital looking for a home. So buying a German core long lease asset at 4 percent still looks like it is a good deal compared to bonds, and you can still see some upside in that pricing."

Healthy take-up in the first half of 2016 pushed the vacancy rate to a 14-year low of 4.8 percent, a supply-demand dynamic that saw rents increase by 3 percent over the year, according to JLL.

"The vacancy rate is very low in Munich, and we can still see rents increasing there," says a German fund manager. Finding assets to buy, however, is the challenge. "Munich is more or less sold out, and if you can secure a development project there it is a good opportunity, but it is really expensive."

Copenhagen (6)

Investment prospects, 2007–2017



Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



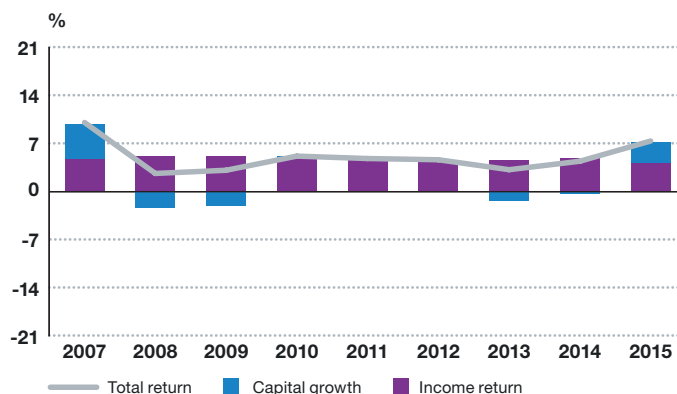
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

A young and educated population underpins Copenhagen's real estate credentials as well as its growing reputation, like Berlin, as a vibrant home to technology start-ups.

It is also seen as lagging Stockholm in terms of economic recovery and therefore provides something of a premium on similar assets – as well as lower living costs. This may explain its impressive *Emerging Trends Europe* ranking at Number 6, ahead of its Nordic neighbour.

"Sweden always comes out of the recession before its neighbours because a lot of the economy is based on production, and that recovers first," says one institutional investor. "Copenhagen is based on services, and people don't buy services during a crisis."

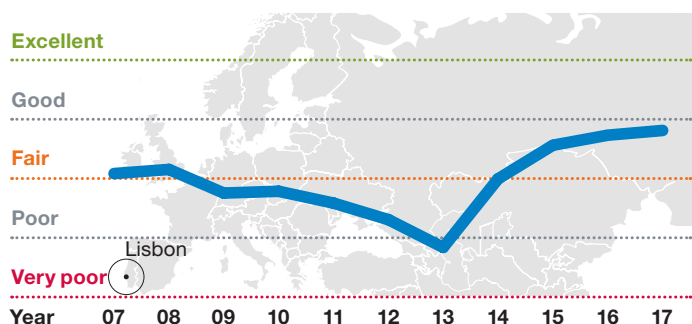
In some respects, it is because Copenhagen "went through a pretty severe crisis like no other Nordic capital" that its recovery now is generating investor interest.

"Before the crisis Copenhagen was a more local market and there was not as much international capital in the market, and that is very much not the experience in Sweden. Because there is less competition in Copenhagen it is very attractive," says one private equity investor. "There is also the urbanisation trend; the four Nordic capitals are among the fastest growing capitals in Europe, and Copenhagen benefits from that."

Against that backdrop, negative mortgage rates in Denmark are helping increase liquidity in the commercial lending market and fueling a resurgent residential sector. Residential development, either for rent or for sale, is consistently cited as one of the best opportunities in Copenhagen. "There are so many people moving here and not enough room," concludes one developer.

Lisbon (7)

Investment prospects, 2007–2017



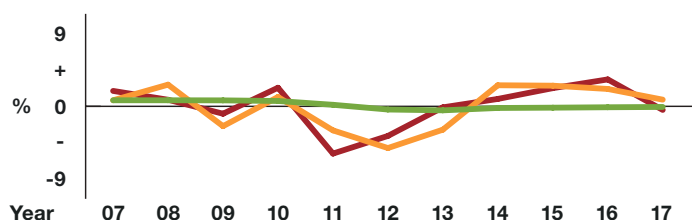
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



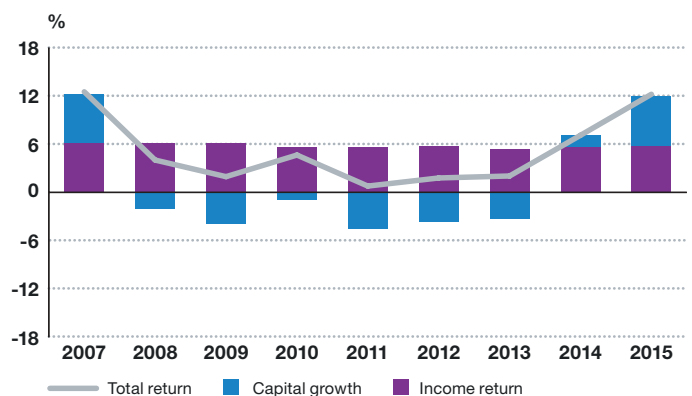
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

Lisbon has rocketed into the *Emerging Trends Europe* top 10 primarily due to its status as a recovering market – and one that is still seen as having plenty more room for growth.

Both opportunity funds and core investors are able to find assets in a city where yields are higher than in other European capitals, and there is potential for good returns if they are prepared to accept some risk.

“We have not yet got to the same yields as the previous peak, even though volumes are higher, and if the economic context remains stable or strong then arguably there is further compression to go. It could get to the old levels of 2007 and 2008,” says one adviser. “We just haven’t seen the transactions and the evidence to support that yet, but there are some going on at the moment.”

There appears a good balance in terms of opportunities, with one investor stating: “The best business opportunities are found in the retail and logistics market due to the expected growth of rental income.”

But others suggest offices as the best bet because of a lack of grade A space, albeit that development is still seen as too risky. Another adviser observes that the market for secondary or tertiary assets remains weak: “People want good quality, prime not secondary assets.”

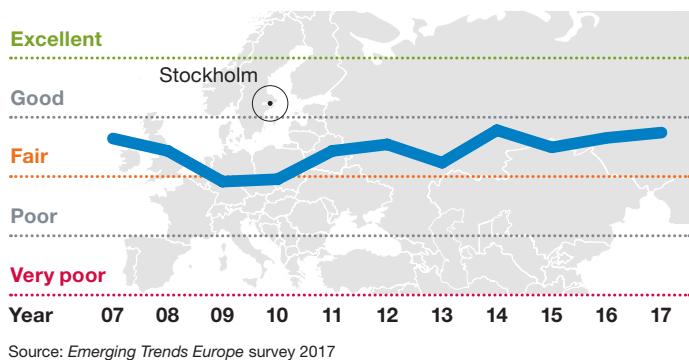
And there are worries that economic growth is fragile and Portugal’s time “in vogue” can end suddenly. “When the tide changes, liquidity leaves Portugal very quickly,” one investor says.

Right now, equity remains more plentiful than debt, and there is a widespread view that the debt market is not yet fully functioning.

As one investor concludes: “If you look at the retail sector the biggest buyers are property companies that have a low cost of capital and funds that are only looking for about 30 percent loan-to-value. Any lack of finance may influence things at the opportunity fund end of the scale.”

Stockholm (8)

Investment prospects, 2007–2017

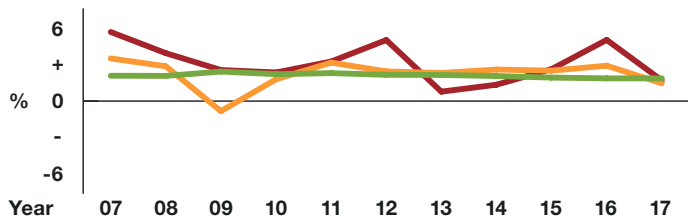


Population, employment and disposable income per capita, 2017

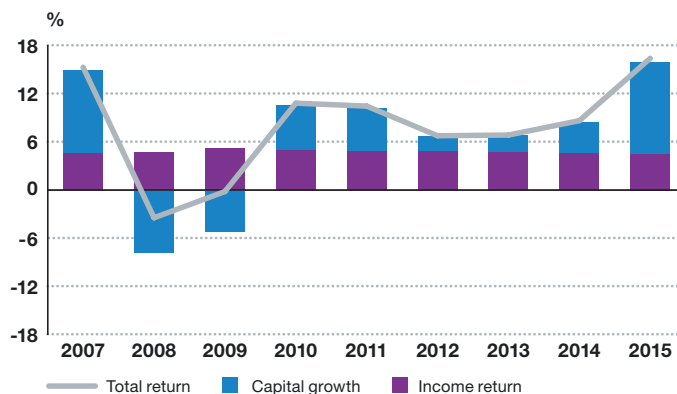


Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



All-property return, 2007–2015



Stockholm maintains its top 10 ranking this year, with Sweden's capital finding favour for strong demographics, healthy economic growth and, post Brexit, as a new haven of political stability.

"I expect Swedish cap rate levels might go down even further especially for the best real estate as the growth there is tremendous especially in Stockholm," says one retail investor.

"For us, Stockholm will outperform," says one global player. "Even if you find low-yielding assets, you will still find that they perform, you just have to pick the right assets. You will get the growth in the long run, and we can do that because we are long-term investors."

The same interviewee adds one caveat that is common to non-domestic investors in Sweden: "It is more difficult because other companies are not willing to sell."

Even so, there is widespread acknowledgement now of Stockholm as an established destination for global capital. An investor says: "Sweden has strong financials, so people look to invest here as a safe haven. We are seeing more and more interest coming, strong interest from Asia also other countries and from other sovereign wealth funds."

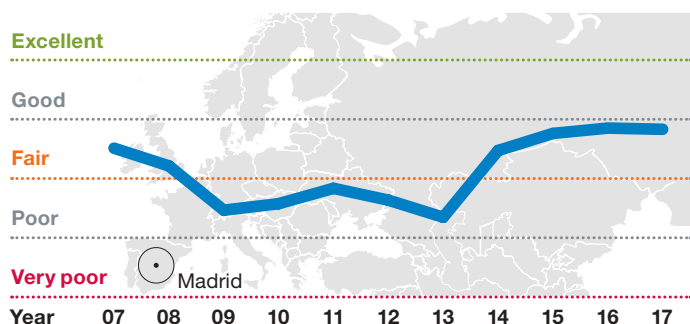
The flow of new money applies as much to debt as equity: "We see more potential in the Nordics and recently opened a Stockholm office to increase lending in Scandinavian cities," says one German banker.

However, there are frequently cited risks attached to investing in Stockholm, notably currency and the relative cost of assets. "We hold real estate in Sweden but have concerns that interest rates could rise suddenly as they are being held artificially low to keep the country's currency competitive," says one global investor.

"If you take Stockholm in comparison to Copenhagen, in Sweden land costs two to three times more, so your downside is a lot bigger, and you have to rely on other factors, such as increasing rents," adds one private equity player.

Madrid (9)

Investment prospects, 2007–2017



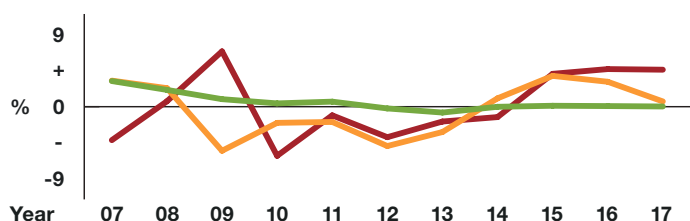
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



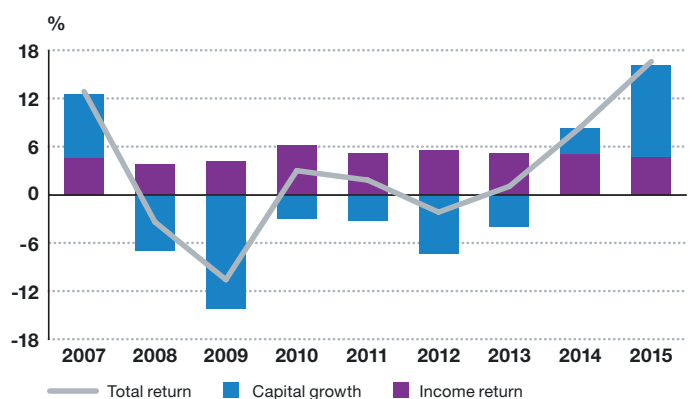
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

Madrid keeps its place in the top 10 European cities for investment and development.

The high ranking is justified by the strong belief that the city will continue to attract global capital while domestic lenders and buyers have increasing levels of capital to deploy.

There are also expectations of good rental growth as the Spanish economy continues to recover, and a slight but nonetheless appealing yield premium compared with other European capitals.

“Madrid is the third European city regarding the real estate markets and targets,” says one global investor, while another value-add fund manager says: “If you search well, there are some exciting opportunities because you still have a bit of the distress from the previous cycle.”

Residential undersupply provides a good opportunity: “We’ve been pretty positive buyers,” says one opportunity fund manager, “playing it by accessing the housing market where there is an imbalance of capital and supply.”

But there is also a perception that real estate here, particularly prime, may have become overpriced, meaning more risk has to be taken on to find adequate returns.

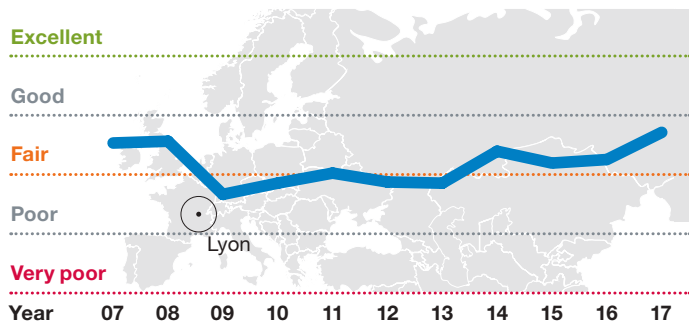
“We want to invest more but there are a lot of expectations from vendors, and it is hard to find product,” says one fund manager. “There are expectations of rental increases, but it is very difficult to find the right product.”

“It is still throwing up opportunities, but it’s extremely competitive, so you have to buy land positions or busted housing deals, things that require a lot more risk,” adds another cross-border investor.

That said, some opportunity and value-add funds are reconsidering Madrid after eschewing this competitive market in the past few years. “We think we may go back into Spain next year, which we felt had got too expensive,” says one, echoing a common sentiment. “We see signs that more realism is coming back into the investment market there.”

Lyon (10)

Investment prospects, 2007–2017



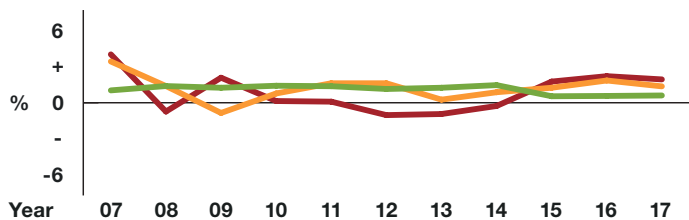
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015

MSCI does not produce an index for Lyon.

Lyon has zoomed up the *Emerging Trends Europe* league this year to Number 10. So how to explain the meteoric rise of a city that lies far down the charts in terms of investment volumes and new development?

One international adviser sums Lyon up neatly as “the next natural destination after Paris” for investors wishing to deploy capital in France.

Digging more deeply, one leading investor in the city in the past two years, says: “Availability of debt is not an issue at all when you invest in Lyon; it is readily available, and as long as you have a good property you will not have to pay a higher margin or take a lower loan-to-value than in Paris.” Combine this with a yield premium of around 100 basis points, and there is an easy pick-up on returns in the city.

Domestic investors are the most prevalent market participants but survey respondents and interviewees indicate that open-ended German funds are starting to look at opportunities in the city.

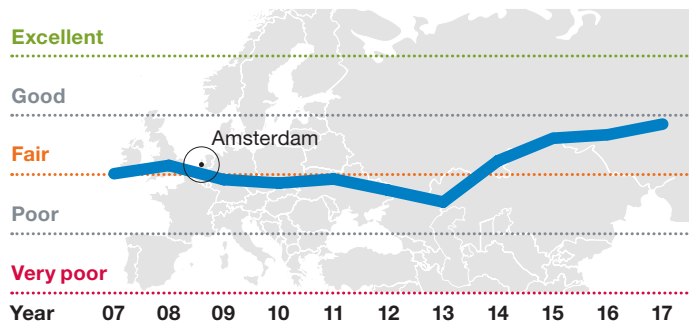
While rents do not reach the heights of Paris, they can achieve around €300 per square metre, almost twice the level of other second tier French cities. “This enables many things, such as starting the construction of sustainable real estate, decent quality office buildings that occupiers want to have, so it is a good opportunity from this value-creation perspective,” says the head of one REIT.

A well-diversified occupier base of large and small French companies, including pharmaceutical giant Sanofi, helps, as does a development picture that reflects a good balance of supply and demand, allied to the local government’s Grand Lyon masterplan.

New development is controlled via this masterplan, revitalising the central business district, Part-Dieu, and creating new mixed-use quarters. “At the moment over-development is not something we’ve identified as a risk – developments are planned and brought to market progressively, so it is not a big risk,” says one investor.

Amsterdam (11)

Investment prospects, 2007–2017



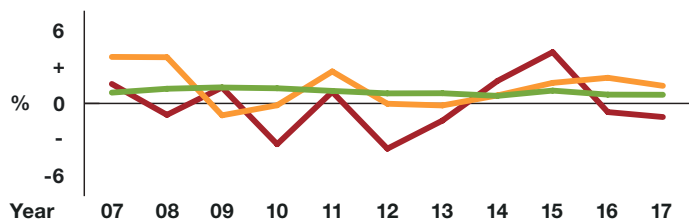
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



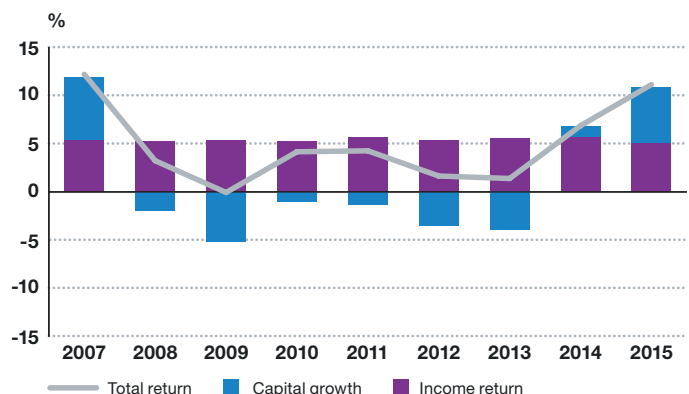
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

Amsterdam continues to pull in investors who want exposure to the larger European conurbations but are reluctant to pay high prices in post-Brexit London, Paris and Berlin.

“The big agglomerates on the continent where there is still growth are attractive, like Amsterdam,” says an international investor.

Several interviewees identify Dutch housing as a favourite sector. “I would say the biggest trend is the price boom in residential, in particular in large cities, principally Amsterdam followed by Utrecht and The Hague and to a lesser extent Rotterdam. Mortgage approvals are up and people are bidding above the asking price. It’s a bit of a frenzy. That goes for private buyers and portfolio buyers, too, in good locations,” says one.

Offices are also singled out for their growth potential. The vacancy rate in Amsterdam has long been an issue, but is now down to less than 11 percent, according to CBRE. With strong demand from technology companies and other occupiers, that could lead to increased rents.

A Dutch investor says: “On the office side CBRE has come out and said for the first time that they think the reduction in office supply has gone too far and there is a good opportunity for new developments coming, especially in central locations. It also means a good opportunity for investors buying offices in good locations.”

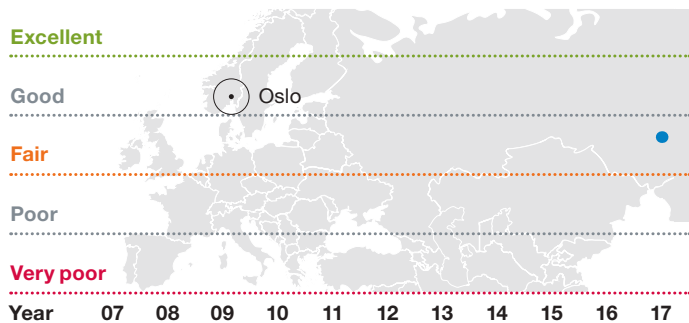
Office yields continue to come in: “Yields there are now dropping below 5 percent and could go to 4 percent,” predicts an interviewee.

Amsterdam could also be one of the cities to benefit from possible post-Brexit corporate relocations from London. The head of one London-based real estate firm says: “I’m personally unhappy with the vote, and if Brexit goes through I’m one of the people who may choose to move part of our business out of London, to Amsterdam.”

Another interviewee is sceptical, however: “We are not hearing anyone for whom it is a real subject, and we don’t think Amsterdam will try to steal financial services companies from London.”

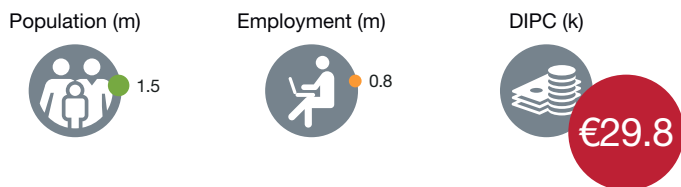
Oslo (12)

Investment prospects, 2007–2017



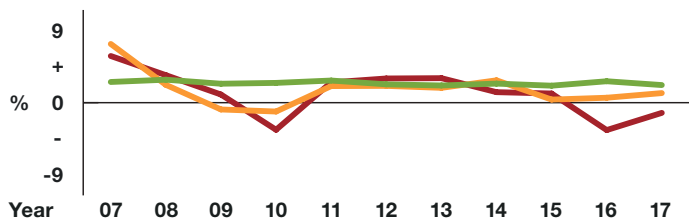
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



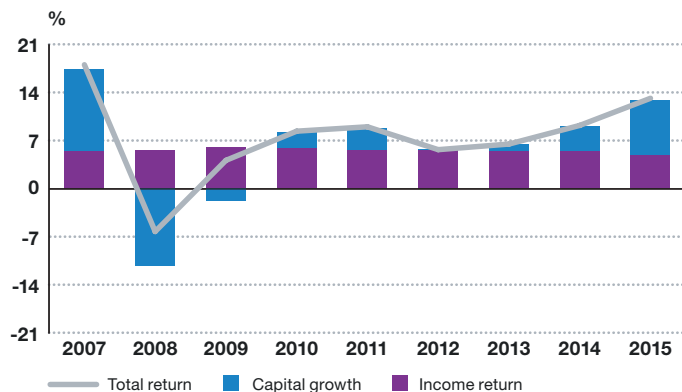
Source: Moody's Analytics

Population, employment and disposable income, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

Oslo's debut appearance in the *Emerging Trends Europe* city rankings at a healthy Number 12 may come as something of a surprise – after all, other cities and countries where the economy has strong links to the struggling oil industry are not faring well in real estate terms.

Several private equity real estate investors have played currency swings to their advantage, investing in Oslo and arbitraging the battering that the Norwegian krone has taken as a result of the global oil price slump. "It's a once-in-a-lifetime trade for people like us", says one.

However, there is a sense from other interviewees that the Norwegian government has put in place structures to diversify the economy and insulate it from a significant recession linked to the prevailing low oil price. Oslo is also making good progress towards becoming a more vibrant and sustainable city through major mixed-use development. And with that in mind, the city looks well placed due to strong population growth, wealthy consumers and a robust domestic market.

"The government will just use the assets from its fund to avoid a major slowdown, and that is a healthy process that could create opportunities," says one Nordic investor.

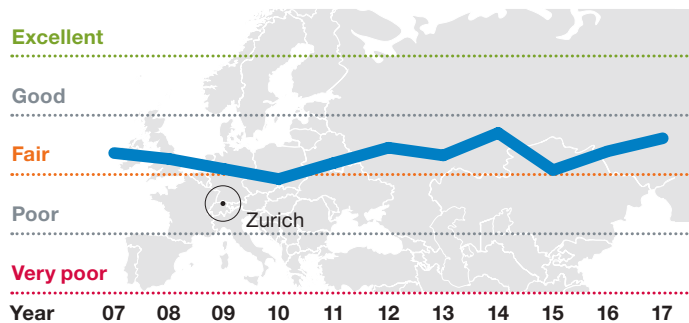
"In Norway you have got strong fundamentals and a strong domestic market but the oil sector is going through a downturn," adds one adviser. "But the low oil price is not really affecting the domestic economy so much."

Oslo's office market is now stabilizing, having been dampened by the country's economic slowdown; vacancies are on a downward path and rents static after a slight decline. Investment volumes are being held back by a lack of available stock; finance, too, is more difficult to obtain, especially for secondary assets. Prime yields, however, have hardened to 4 percent.

One retail investor concludes: "In Norway, among the markets and the tenants, especially international tenants, the expectation is that the market will go down, but there is plenty of money and capital to keep it at a healthy level and consumer spending should stay robust. I think that rental uplifts will be linked to inflation of around 2.5 percent there."

Zurich (13)

Investment prospects, 2007–2017



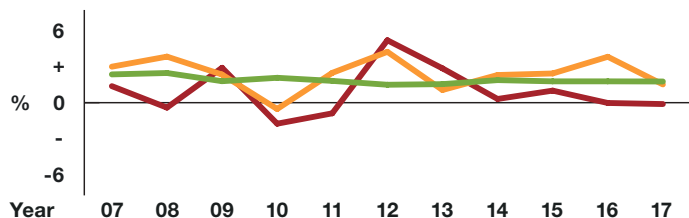
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



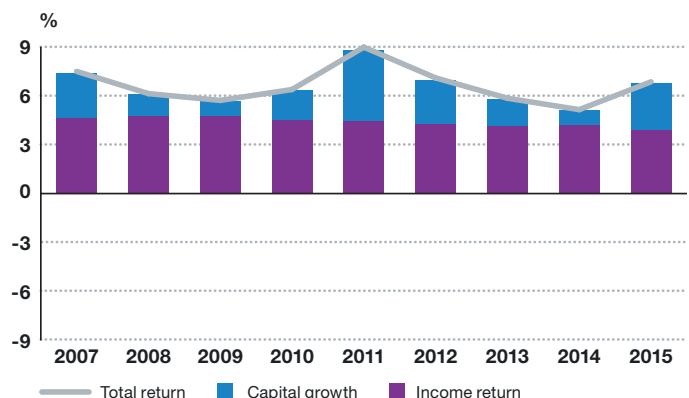
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

Zurich is one of 2017's highest climbers, up 13 places to Number 13, suggesting that its long-standing reputation for stability is highly cherished by investors who see uncertainty elsewhere in Europe. Its quality of life is also internationally prized; Zurich is ranked as the second most liveable city in the world by Mercer.

One local interviewee describes the Swiss city as: "A stable, sound market, but it has its limits. There will never be a boom in business development. It will always grow at one or two percent."

Investor demand has compressed yields in a market where available income-producing properties are in short supply. "With regard to prices we are at a very high level. They are pushed up mainly by Swiss pension funds and insurance companies," says one interviewee.

Another says: "It is easy to sell but very difficult to get in. You have to have a portfolio in very good locations and create value out of the properties you already own."

Development has pushed up office vacancy outside the central business district, in particular around the airport in the north of the city, and this may lead to downward pressure on rents: "It feels like there is an oversupply of offices in Zurich. The problem was there was a lack of supply, and then the rules were relaxed which has led to an oversupply. This will likely lead to a period of correction."

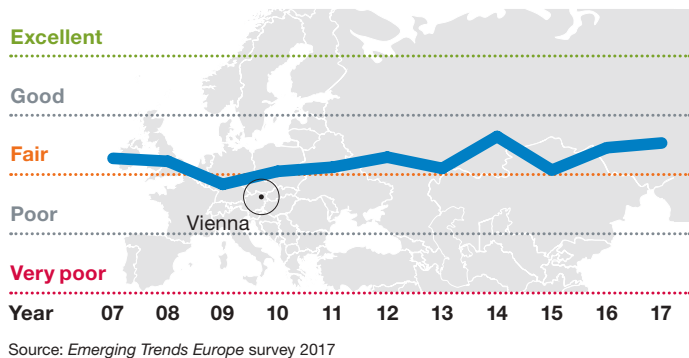
And yet there are some clouds on the horizon. The 2014 referendum in which the Swiss electorate demanded limits on EU migration could jeopardise Switzerland's position as a non-member with access to the single market. Despite ongoing negotiations, the situation remains unresolved.

"Business involving tenants depends on the political decisions in Switzerland, such as the initiative to limit immigration or the bilateral agreements with the EU," says an interviewee.

In addition, the strength of the Swiss franc has damaged the competitiveness of the country's exporters. Nonetheless GDP growth is expected to increase to 1.6 percent next year.

Vienna (14)

Investment prospects, 2007–2017



The vogue among real estate investors for big European cities and stable markets has helped consolidate Vienna's mid-table ranking.

An interviewee says: "In Europe the major darling right now is Berlin, but we've also done a lot in Vienna."

As with other European markets, the geopolitical backdrop has added a note of caution among some investors. In Austria's case, it is the rise of the right-wing populist political movement. "The risk in the market has become socio-political rather than economic," says a major international investor. "You have to work out how that reflects the reality that you're predicting in your underwriting."

Politics aside, Vienna is the top ranking city globally for overall quality of living in Mercer's annual survey – an important benchmark for multinational occupiers. And there is significant support for real estate in the capital. Prime yields have hardened to 4 percent for prime offices and as little as 3.4 percent for high street retail assets.

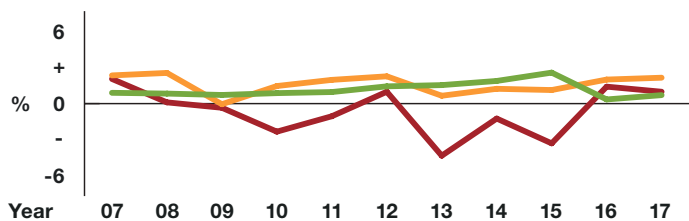
"Are prime assets in Vienna overpriced?" muses a local investor. "Yes and no. Maybe yes from a short-term perspective. In the long run, appreciation of the assets' value might outweigh the current prices. Vienna has a very confined centre. This naturally restricts supply of such assets."

Population, employment and disposable income per capita, 2017



Source: Moody's Analytics

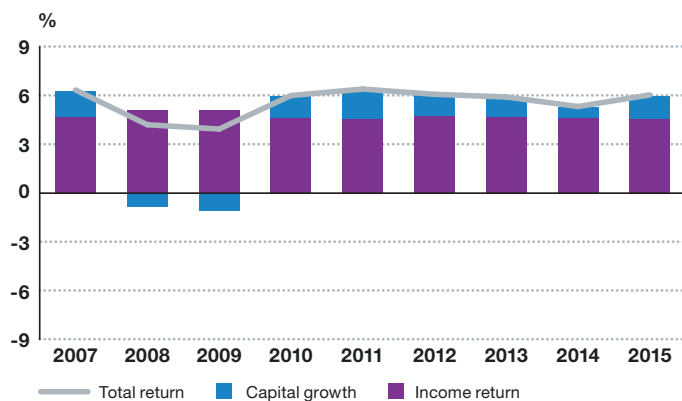
Population, employment and disposable income per capita, annual change 2007–2017



The office market, in particular, is characterised by low supply, with little new space under construction. "Vienna is a tight market," says a local developer. "For prime offices you get €20-22 per square metre but for ordinary offices you get €14-15 per square metre. That makes it difficult to build. You just don't get the rents that you need to build a class A office building in Vienna."

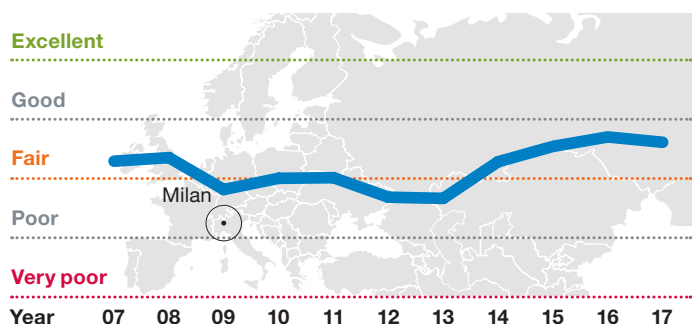
Meanwhile the residential market is garnering increased interest: "The living sector will become more and more important, due to in-migration in Austria and especially Vienna," predicts an interviewee. "We see this as a big chance for new developments in the residential area. Affordable living will become even more important – people are more interested in renting apartments than in actually buying them."

All-property return, 2007–2015



Milan (15)

Investment prospects, 2007–2017



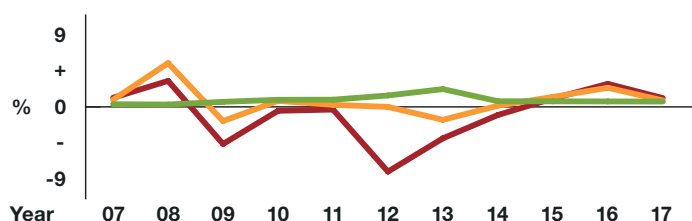
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



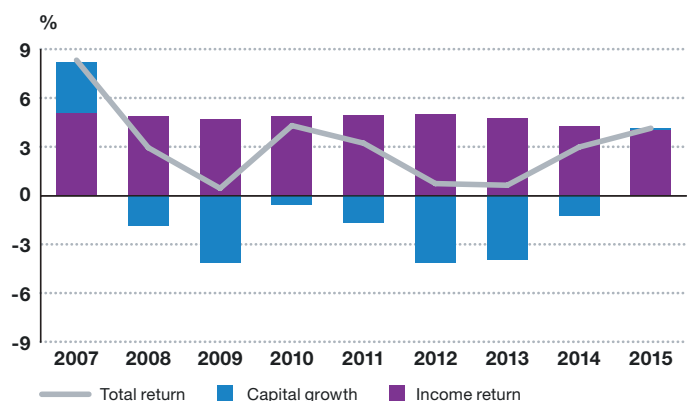
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

The fact that Milan has slipped three places to a middle ranking Number 15 reflects the political and economic headwinds that affect Italy in general.

A constitutional referendum, due in late 2016, could turn out to be a protest vote from a disaffected Italian public. "People might vote against Prime Minister Matteo Renzi, especially against the recent backdrop of political situations in other countries," says one private equity investor.

And the banking sector remains illiquid, heavily burdened by non-performing loans. "Italian banks are still suffering the effects of the recent financial crisis and, thus, are hardly available to provide additional capital for real estate," says one local investor.

But Milan nonetheless benefits from "not being part of Italy", as one global fund manager puts it. It is also in the throes of a major makeover, with new urban districts like Porta Nuova and CityLife springing up on brownfield and redundant industrial sites.

"Milan is the most interesting city in terms of real estate development and income," says one pan-European fund manager. "It has the same good fundamentals as Madrid, Barcelona or Hamburg, but property prices are lower."

"For offices we believe that Dublin, Madrid, Barcelona and Milan are still below their long-term intrinsic value and therefore constitute attractive investment markets," says another pan-European buyer.

As an office market, Milan is perceived as, "further behind, so we can see strong rental growth coming through". This growth, while not fantastic, is being precipitated by improving infrastructure and a moderate uptick in demand.

"The city of Milan is one of the few that offers growth prospects due to the recent Expo that has determined new investments and new developments, combined with the project of new subway lines," says one domestic investor.

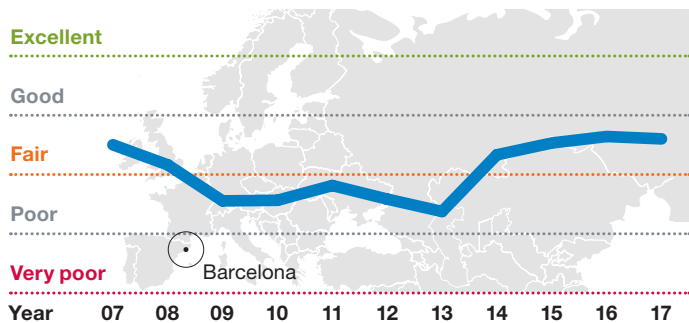
"Several companies located in Milan have started research for new headquarters," adds another.

However, the market is split between opportunity funds and core investors, with the middle ground yet to spring back to life.

"It seems that investment funds and operators' investment strategies are either high-risk transactions where a 25 percent return is required or prime transactions with 4 percent return guarantees. Transactions and opportunities in the 'middle' do not appear to be interesting," says a domestic fund manager.

Barcelona (16)

Investment prospects, 2007–2017



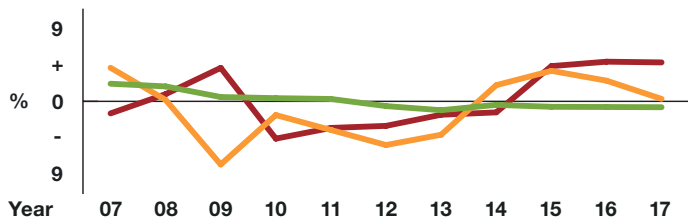
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



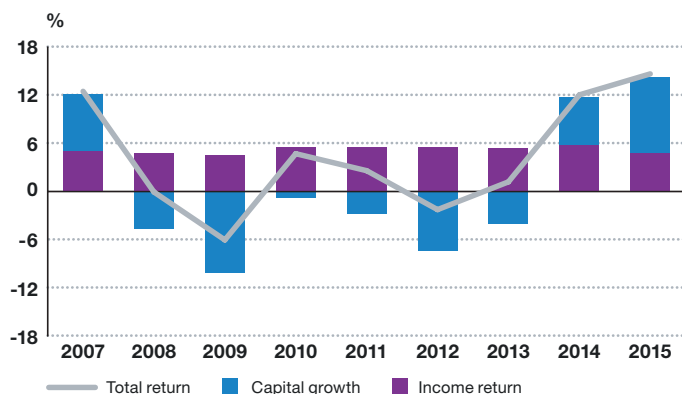
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

Barcelona's appeal is that it is one of the most "liveable" cities in Europe – the "merger of services, life quality and tourism", as one local investor puts it.

Office rents have risen sharply in recent years and are predicted to keep rising, although not as quickly as in Madrid.

High street retail is seen as a very good investment in the city, due to the high levels of tourism; Barcelona is one of the top 30 city destinations in the world, hosting some 6 million visitors a year. Although, in a perennial complaint: "Once an investor gets a hold of a good prime asset, they do not let it go," according to one cross-border investor.

And residential is seen as particularly attractive: "It has got a solid demand for the residential rental market and a high demand for second residences from foreigners," says one developer.

But there is the sense of a heightened political risk with Barcelona from this year's interviewees, especially surrounding the growing calls for independence. The city edges up just one place to Number 16.

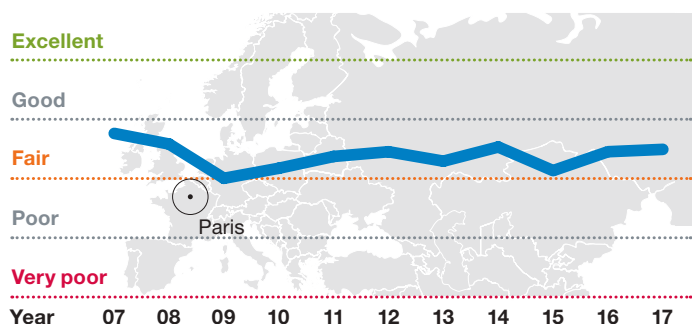
"In normal conditions Barcelona should be a second choice," says one Iberian investor, "but given the political issues around the regional conflict we are looking to Lisbon after Madrid."

"We are looking closely at Barcelona but will wait and see how the independence issue plays out before we decide whether to invest," says another overseas investor.

Even among domestic investors, there is a perception that Madrid will offer the better long-term prospects. "Madrid is more open to foreigners, is more friendly in terms of housing and communications and things like schools," says one. "Spanish is the official language in Madrid, and that's not the case in Barcelona."

Paris (17)

Investment prospects, 2007–2017



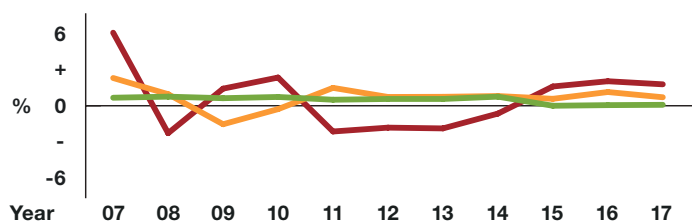
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



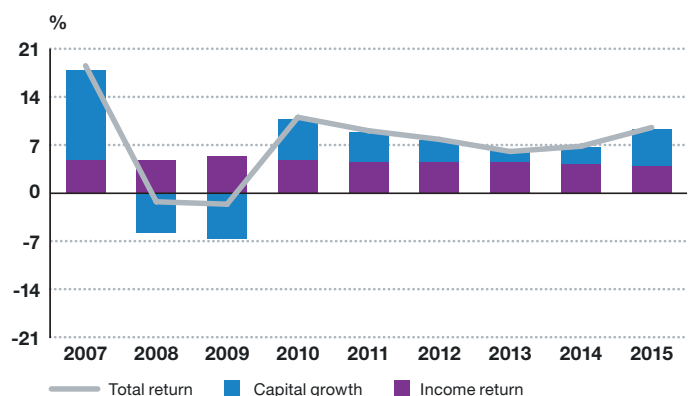
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

Paris continues to divide opinion, which accounts for its ranking at Number 17, despite its potentially advantageous relationship to a Brexit-hit London.

As “one of only two megacities in Europe” along with London, Paris still attracts interest from global investors and domestic pension funds flush with cash, although it is clearly seen as very expensive.

For anyone looking to make anything other than low but steady returns, it is difficult: “If you buy a building in Paris and you bought it empty with a lot of leasing risk, prices are very, very high and close to the same as the price for a leased asset,” says one opportunity fund manager.

Another negative factor is political uncertainty with an election in 2017, a far-right party growing in popularity in the polls, and a feeling that the French economy remains fairly stagnant. “I don’t see people rushing to invest in Paris in terms of building businesses. And the regulatory burden is very high in France. The notion that France can be a hub for European businesses is unsupportable,” says one global retail developer.

It is not that there will be a flood of businesses moving to Paris from London. “Cities such as Paris and Frankfurt will benefit from Brexit. But it won’t be dramatic,” says one fund manager. “Brexit could bring more opportunities in Dublin, Paris – but I am sceptical on this.”

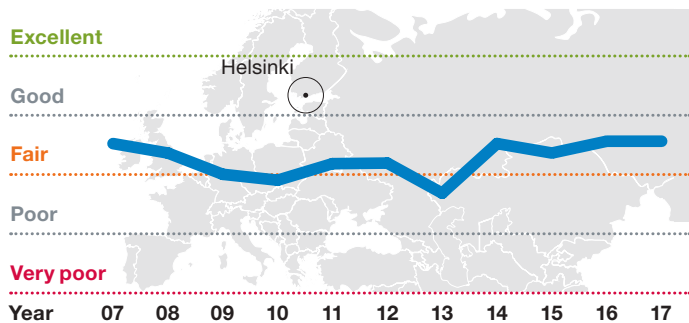
But as one global institutional investor says, “London and Paris will always be big, attractive cities”, albeit that Paris looks better in the light of post-Brexit uncertainty around London.

The terrorist attacks in 2015 and 2016, plus strikes, have hit tourism in Paris; foreign visitors to the capital fell by 15 percent in the first half of 2016. One private equity investor observes “some real distress in the Paris hotel market”, without this showing through yet in reduced pricing.

Nonetheless, Paris remains one of the “seven global gateway cities”, according to one investor. “It offers the most choice and is the biggest office market in continental Europe and has a good occupier base of French industrial companies: it’s not just financial companies, you have other occupiers such as cosmetic groups,” says a sovereign wealth fund manager. “And with rents starting to lift from cyclical lows, its prospects on a relative basis look better than last year.”

Helsinki (18)

Investment prospects, 2007–2017



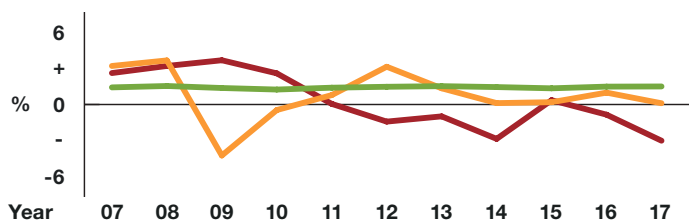
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015

MSCI does not produce an index for Helsinki.

Helsinki is emerging as a recovery play in the Nordic region, but it is a city that divides opinion among investors, not least over real estate's relationship with the wider economy in Finland.

"For Finland it can't be worse than it has been for the last few years," says one investor. "But you won't get much economic growth, so rental growth will be quite modest as well."

As in previous years, some point to the negative influence of neighbour Russia over Finland's economy, but there are nonetheless some notably bullish supporters. "Going forward, I like Helsinki," says a pan-European investor. "The Finnish economy is strongly improving and Helsinki has a limited supply of good quality assets, and so I think that's an opportunity for investors to look at."

One Nordic investor observes: "The best properties in Helsinki will see further compression; the spread between Stockholm and Helsinki has historically been 25 to 50 basis points and is currently higher than that."

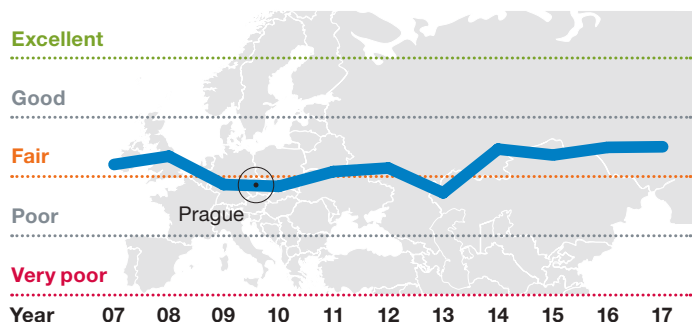
Another regional player suggests that Helsinki offers a "contrarian" opportunity for investors willing to see through "a weak macro outlook" and a market where "it is not super easy" for investors to obtain financing.

"You had Finnish institutional investors and they have been very focused on Finland after the crisis, and generally speaking they are now looking to get more exposure outside. Because of the lack of debt and capital chasing deals you have an opportunity; it is not a negative provided you focus on investments that are not that macro-dependent."

And there are other supporters who believe that Helsinki stands apart from the national economy. "There is a trend towards urban centres full of young and educated people, and these people are moving to cities like Berlin, London, Stockholm and Helsinki," says one global investor. "The country of Finland has very low growth but Helsinki is very good. A lot of this is driven by critical mass of educated labour."

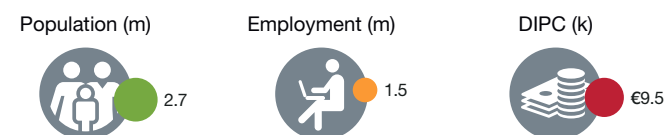
Prague (19)

Investment prospects, 2007–2017



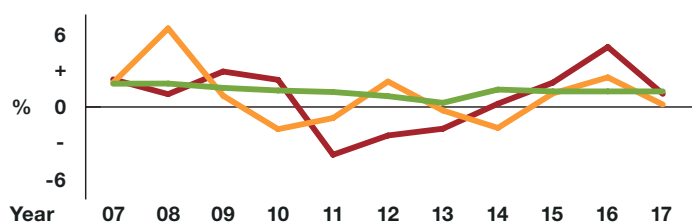
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



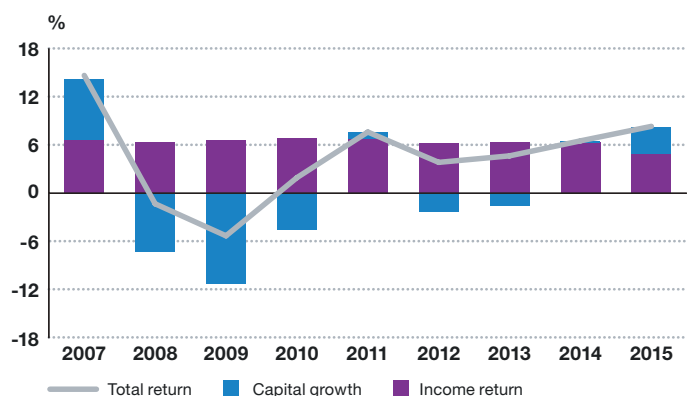
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

"The Czech market in the last year has been in recovery or growth after several dead years," says the local representative of a global investment firm in Prague.

Prague's ranking has edged up to Number 19 this year, at least in part because it is viewed as one of the better-established property markets among the Central and Eastern European cities. In the year to end-June 2016, it saw €1.1 billion invested in its commercial property market.

"The Czech Republic is similar to what we've seen with Poland. It is a very stable market and legal framework, and you have some high-quality buildings with prime tenants. So as long as you're comfortable with the macro situation and find the building opportunities then you can make good returns there," says a pan-European investor.

"In Prague 8 development has made it a trendy and exciting area to go with artists and unique offices made from repositioned warehouse buildings. It is an up and coming area," tips a CEE investor.

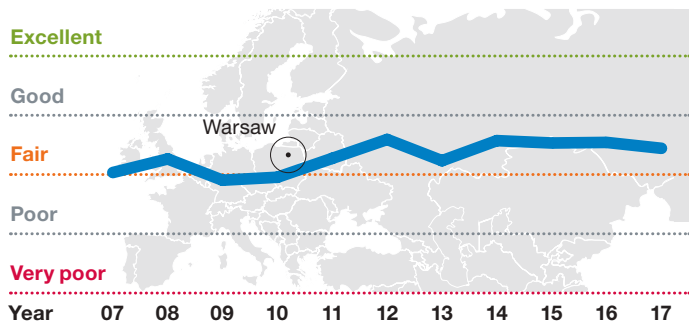
Yields have continued to harden to around 5.5 percent for prime offices and 5.25 percent for prime high street retail. "Prague is sub 6 percent for prime, but completely resilient so far," says an investor.

Strong occupier activity is helping to fuel the office market. A local developer says: "Offices have been, and will continue to be, a big opportunity as there is lots of demand. It was difficult to find tenants two years ago in Prague as no-one was moving, but now lots of occupiers are looking for expansion space or to re-tender."

Increasingly steep pricing worries other observers, however: "I'm a little bit more nervous than some people. The last crisis was eight years ago, and people have short memories. Pricing is on the edge again. Yields have compressed and there is not much space for further compression, so I would expect a bit of a slowdown in the next 12 months or so," says another.

Warsaw (20)

Investment prospects, 2007–2017



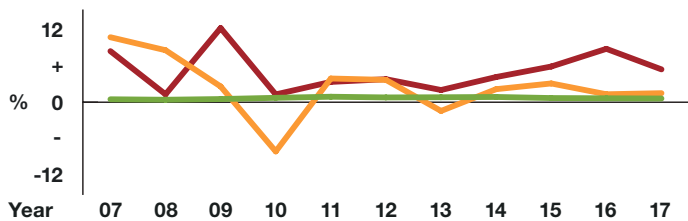
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



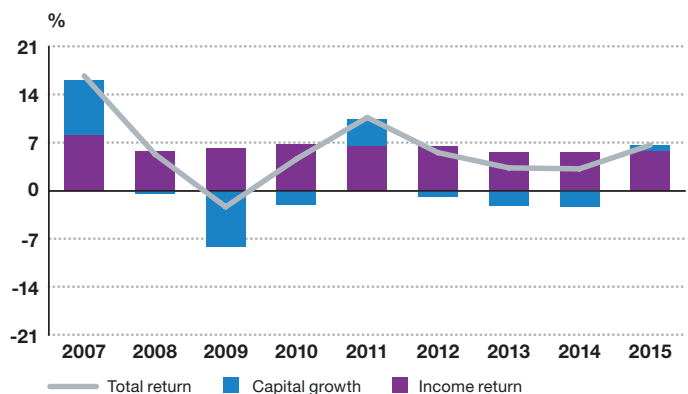
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

There are strongly-contrasting opinions on Warsaw. One interviewee describes the office market there as in “a very, very bad state” while another argues that “demand is still pretty robust”.

On balance, investor sentiment is more negative than last year. Several interviewees are concerned about high levels of office development.

“In Warsaw the money supply is high, and the business case for developers is so tempting that they cannot resist building. I have just had a discussion about whether we should buy something there, and I strongly said ‘no’”, is the verdict of a German investor.

Another interviewee adds: “There is so much under construction. The market is quite slow and you don’t see it yet, but there will be a lot of vacancy in the coming years.”

Office vacancy in the city has risen and competition between landlords is dragging down rents. “In Warsaw the office void rate is 15 to 16 percent, and yet we expect the yields to go under 5 percent, which is unheard-of in a CEE market. The void rate will go up to more than 20 percent, but yields will continue to compress because while you have to make big concessions to attract tenants they are signing long leases,” predicts an investor who would like to expand in Poland.

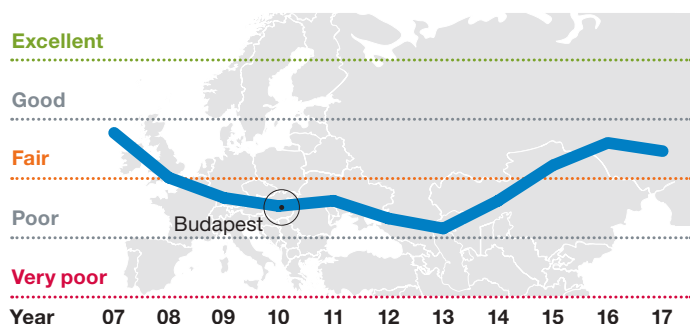
The rise to power of the populist nationalist Law and Justice Party worries some interviewees: “In terms of the political situation, Poland is what Hungary was three years ago, and that went through quite a difficult time,” says one.

“Poland is trading relatively tight to Germany, and Poland is a very different country. There are some rather right-wing guys in office there so you have to question whether you’re getting paid correctly for the risk,” argues a global fund manager.

But another interviewee observes: “You can be quite concerned about the politics in Poland, but that hasn’t knocked the momentum of the market.”

Budapest (21)

Investment prospects, 2007–2017



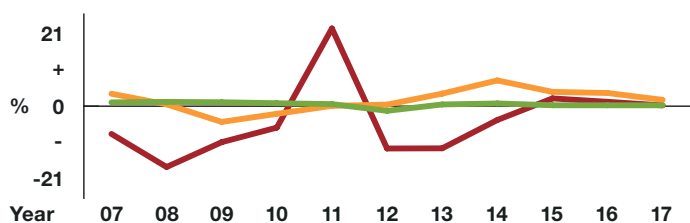
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



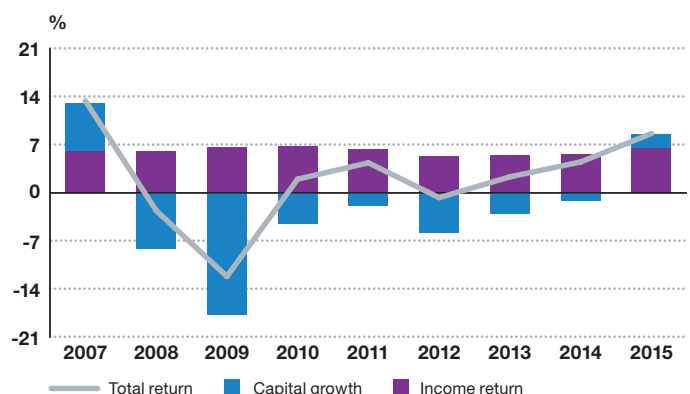
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

"In this more risk-off environment, central and eastern European markets, like the Czech Republic, Hungary and Poland might suffer. They're seen as a bit riskier, and people will come back to the European core," says a pan-European investor.

Budapest's position in the bottom half of the city rankings at Number 21 reflects this view, but nonetheless several interviewees identify the city as a beacon of opportunity in a generally low-yielding European market.

A German investor says: "Budapest is an attractive city, and if you find the right assets with the right tenants you can get very good assets with very long-term leases at around 7 percent. That is a very attractive risk margin. As long as the tenant is international and the tenant covenant is excellent, it feels more like buying tenant risk than country risk."

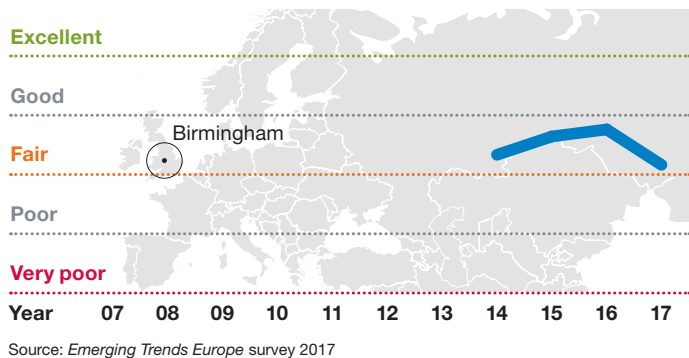
Another interviewee adds: "In Budapest, the supply-demand characteristics are pretty compelling. No one has built anything there in a number of years."

There are other grounds for optimism. Hungary's economy is forecast to grow by 2.5 percent in 2017. Exports are healthy, and consumer confidence is robust. And some investors have been taking note. "Budapest is quite a stable market and the political environment has stabilised as well – whether you like it or not," says an interviewee. "I would assume there would be a yield compression coming up in Budapest. There is a lot of interest in that market from investors."

However, domestic political factors have exacerbated the downside risks to investing here. The nationalist regime of president Viktor Orban has pursued a radical fiscal adjustment strategy over recent years, frequently at the expense of foreign investors. Together with rapid and unpredictable changes in policy, the fiscal reforms have made Hungary look business-unfriendly in the eyes of many global players.

Birmingham (22)

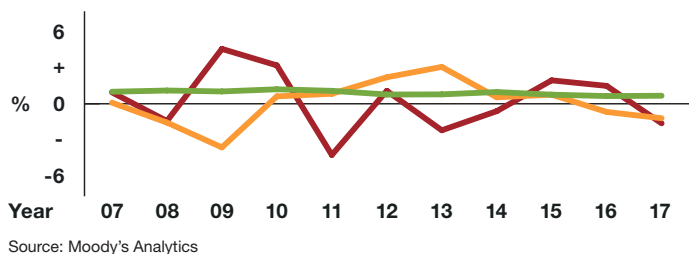
Investment prospects, 2007–2017



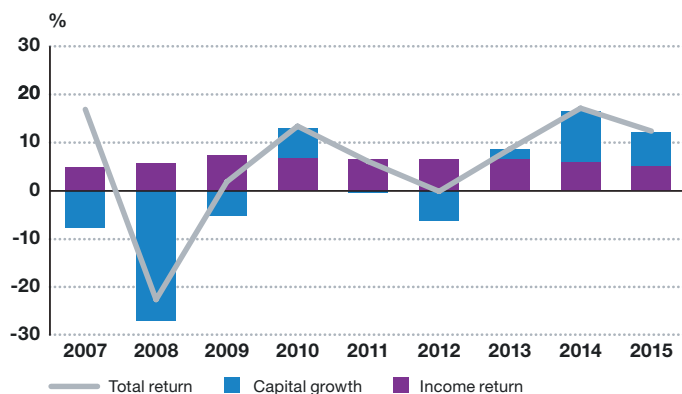
Population, employment and disposable income per capita, 2017



Population, employment and disposable income per capita, annual change 2007–2017



All-property return, 2007–2015



Brexit could entail a double whammy for property investment in UK regional cities. Not only does increased uncertainty appear to be deterring investors from second-tier markets, but if yields in London soften, the appealing cheapness of secondary markets compared with the capital will diminish.

Investors' view of Birmingham's prospects has already soured enough to send the city plummeting 15 places to Number 22.

An interviewee articulates the market's doubts: "Will the resurgence of UK second tier cities – Manchester, Birmingham – slow as a result of what's been happening? There may be a flight to core, rather than secondary, and the jury is still out about whether the rebalancing of UK economy has made these cities self-reliant enough to stand on their own two feet."

And yet office take-up in Birmingham in the first six months of 2016 was very healthy, exceeding 500,000 square feet, 57 percent more than the five-year average for the first half, according to CBRE.

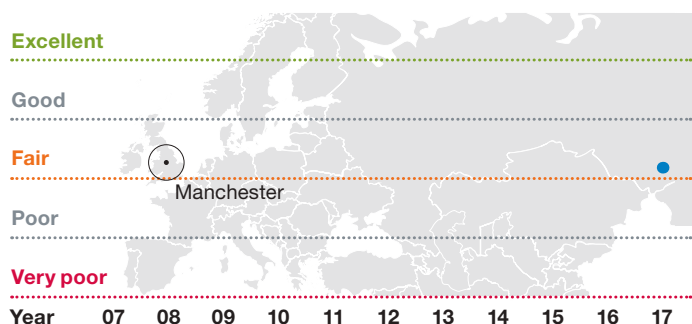
Some interviewees argue that while investor sentiment has turned against Birmingham in the short term, the city retains attractive long-term characteristics: "If you walk around in Manchester or Birmingham you see a lot of young people on the street compared to other cities in Europe, so you feel a certain dynamism there and we like that. They have a lot of universities, which is a very important criterion for us because universities generate the tenants."

A domestic fund manager adds: "London and Manchester are less attractive to us because they have already had strong growth. We see the best opportunities in the cities that are yet to experience growth – Birmingham, Bristol and Sheffield – where we are looking for office-led regeneration investments and developments."

Several investors also believe that there will be opportunities in the nascent purpose-built private rented sector (PRS) housing market. As one global player says: "We target all large UK cities with significant urbanisation: Birmingham, Bristol and perhaps Manchester."

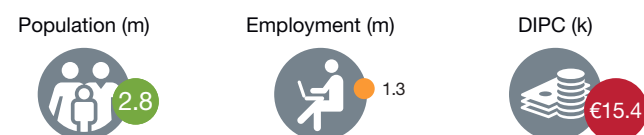
Manchester (23)

Investment prospects, 2007–2017



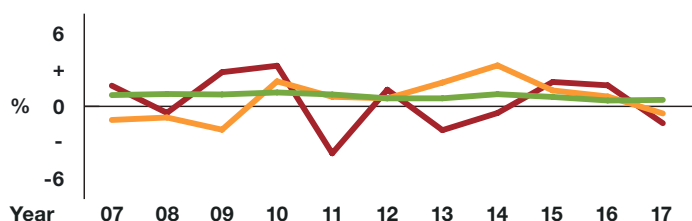
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



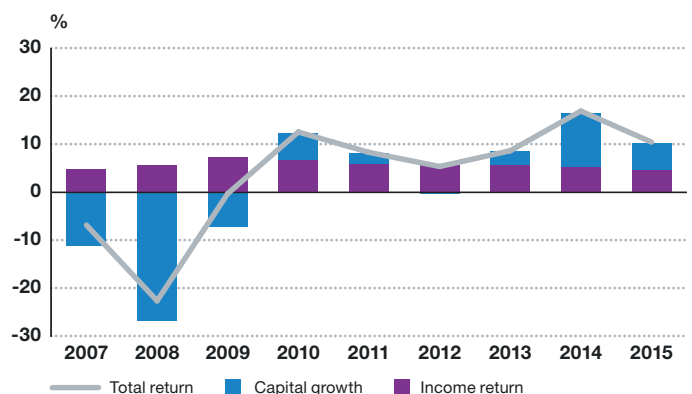
Source: Moody's Analytics

Population, employment and disposable income, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

Manchester has the ill-fortune to make its debut in the *Emerging Trends Europe* rankings at a time when uncertainty over Brexit has subdued interest in the UK. Consequently, it enters the chart at a relatively lowly Number 23.

Nonetheless, the city has been increasingly on the radar of international investors for some time, garnering €2.6 billion of investment in the 12 months to June 2016, according to Real Capital Analytics.

Accordingly, some argue that Manchester now rivals Birmingham for the status of the UK's second city. "We have investments in different secondary cities in Britain, and Manchester is second in a row after London in many respects," says a continental investor.

The city is widely perceived to have benefited from strong civic leadership: "What they have done in Manchester in terms of infrastructure, quality of space and encouraging business is really good," says a UK interviewee.

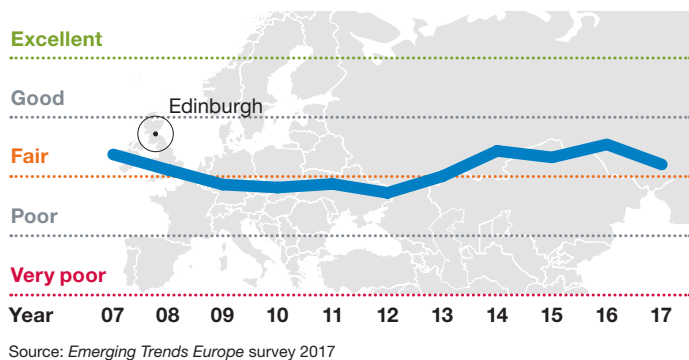
Brexit is expected to impact the market, although there is some debate among interviewees over whether its long-term effect will be positive or negative. "We think Manchester and Birmingham won't be too much affected by the potential negative consequences of the referendum. London may be more affected if the banks cannot keep their passporting rights. Manchester and Birmingham are a bit more independent from this business," says an optimist.

German fund manager Deka showed its faith in the market by concluding a deal to buy the One St Peter's Square office building for £164 million at a yield of 5.25 percent in August 2016. Market activity is expected to slow in the wake of the referendum result, however.

"We are not afraid about our existing UK portfolio," says a foreign investor with assets in Manchester and other UK cities. "But we have stopped any new investments in the UK, and we are now monitoring the market. We may come back at the beginning of next year. London and the big secondary cities will still be important investment destinations for us."

Edinburgh (24)

Investment prospects, 2007–2017



In the Brexit referendum, Scotland went against the rest of the UK and voted to stay in the European Union by 62 percent to 38 percent, and so the UK's decision to exit has invigorated Scots calling for a second plebiscite on independence. This extra level of political ambivalence, on top of the general unease around the UK's trading links with Europe, has undermined confidence in Edinburgh's prospects in 2017.

As a result, the Scottish capital has plunged 14 places to Number 24 in *Emerging Trends Europe's* rankings. One local sums up the mood: "The Scottish real estate investment market is in for a bit of a dull time. There may be another vote for independence. That has put off many UK and overseas institutions. Capital flows in Scotland will remain low."

Another interviewee says: "In the lead up to the first referendum up here investors were reluctant to take positions. I suspect that will start to creep in again if there are prospects of a second round."

The housing market faces an additional problem following the Scottish government's pledge to introduce rent controls. One fund manager complains: "Scotland is un-investable from a private rented sector perspective because of these perceived rental growth caps. We don't know what they are and until we do, we can't invest."

It is not all gloom. Occupier take-up has remained robust throughout 2016. A local observes: "In Edinburgh there have been a number of developments kicking off, and there has been a limited supply of offices. It has been pretty buoyant."

What is more, some interviewees believe the referendum result may ultimately benefit the market. A pan-European investor says: "We are interested in Edinburgh, which is a little bit related to Brexit. It could be one of the winning cities if they remain seeking independence from the UK. It wants to remain in the EU, and you would think they may find a way to do so. It remains a back-office hub for international banks and institutions. There is a well-educated workforce, and it is a very transparent and professional market."

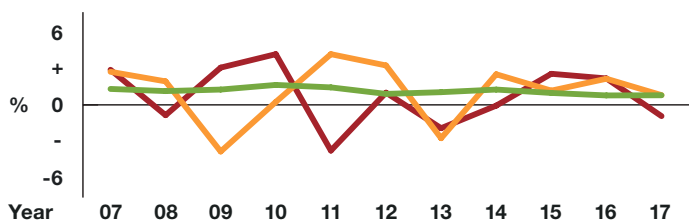
Another foreign player muses: "There could be opportunities coming out of the political shifts – will Edinburgh become a capital city, which would make it more attractive to invest in?"

Population, employment and disposable income per capita, 2017



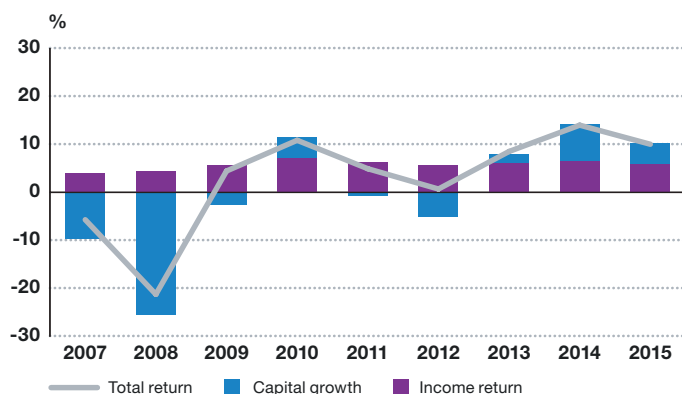
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

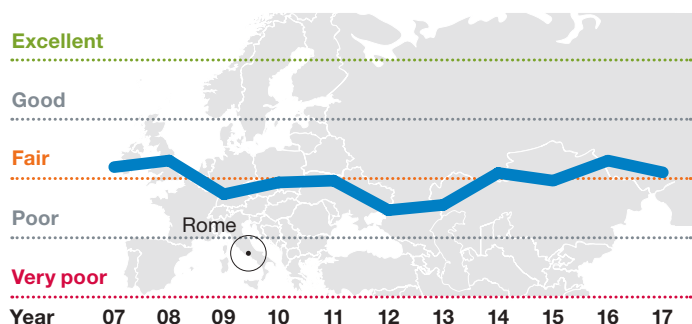
All-property return, 2007–2015



Source: MSCI

Rome (25)

Investment prospects, 2007–2017



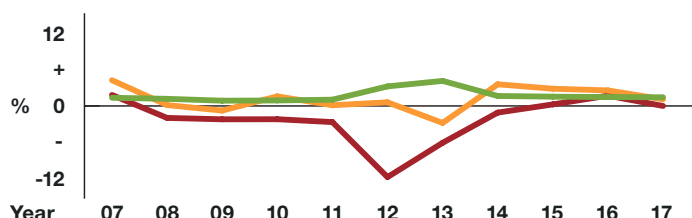
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



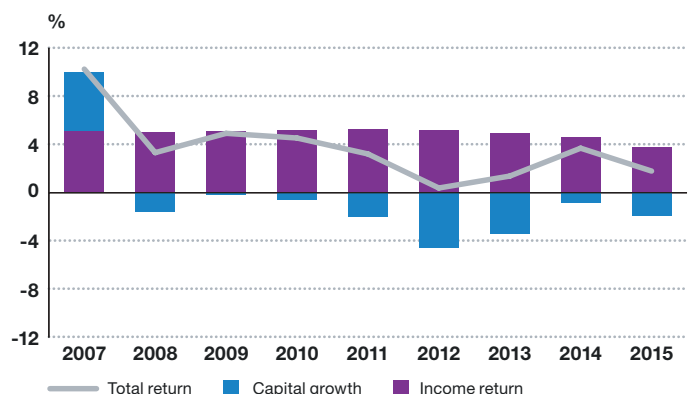
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

Rome is widely perceived as having all of the problems of Italy, but with few of the benefits associated with Milan, which partly explains why the capital is a lowly Number 25.

The city is undoubtedly home to some strong sectors, not least because of its status as one of the world's great tourist destinations. "People want to see Rome, whether the Italian economy is doing great or not," says one global investor. Accordingly, hotels remain a good bet.

And retail remains resilient, as it does across most of the middle and northern part of Italy, according to those canvassed by *Emerging Trends Europe*.

But for offices, there is very little appetite for Rome – from investors or occupiers – especially when it is compared to Italy's main business capital and investment destination, Milan.

"In terms of the two cities Milan and Rome, still Milan has the greater depth in terms of investors and occupiers, and that's where we are investing more," says one domestic player.

"Given the current political and social situation of Rome, Milan shows the best opportunities," says another.

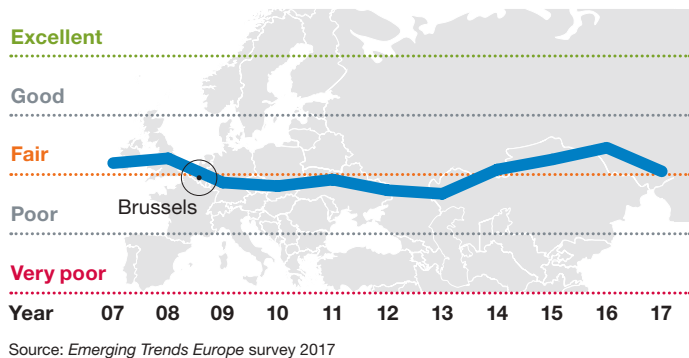
The problems with the Italian market remain the same as during previous iterations. There is little liquidity in the banking market, with local banks weighed down by €330 billion of non-performing loans.

And after a period of relative political stability, a referendum on the Italian constitution scheduled for late 2016 has become a proxy vote on the premiership of Prime Minister Matteo Renzi.

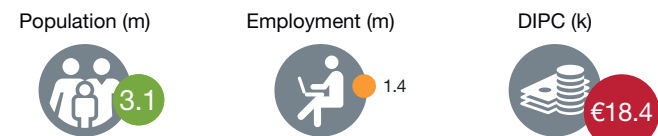
But whereas Milan can point to the fact that it is in one of the wealthiest regions of Europe and has a range of office occupiers, the Roman market is primarily driven by government requirements, with the government looking to slim down its occupancy over time.

Brussels (26)

Investment prospects, 2007–2017

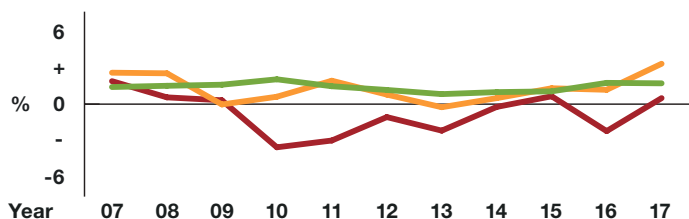


Population, employment and disposable income per capita, 2017



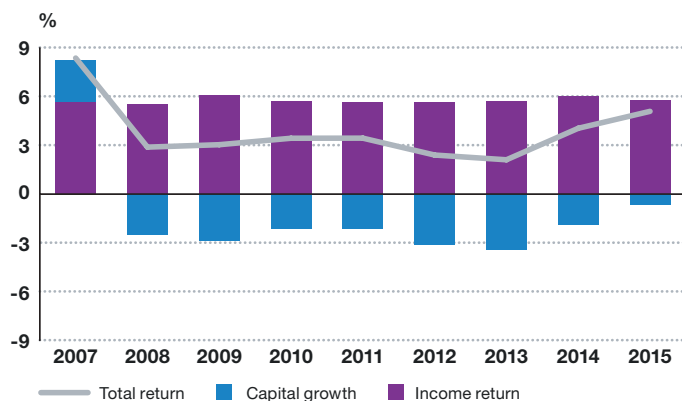
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

Despite continuing high real estate prices, Brussels struggles to inspire enthusiasm this year.

As a Benelux-based investor observes: “Brussels is a very stable market. It is not cyclical. You cannot make a lot of benefits, but you can’t lose a lot either.”

Belgium’s fragile economic growth may help explain Brussels’ dip in the rankings to a lowly Number 26. Growth is forecast to be just 1.2 percent in 2016 and 1.5 percent in 2017. The recent terrorist attacks in the city may also have undermined confidence. Meanwhile, the UK is one of Belgium’s most important trading partners and a Brexit-induced slowdown could hurt exporters.

Nonetheless take-up in the Brussels office market was strong in the second quarter of 2016. According to BNP Paribas Real Estate, 174,364 square metres were spoken for, 62 percent by public sector institutions, including the European Commission and European Parliament.

“Brussels is very sensitive to European success,” says a local interviewee. “European institutions are already bargaining hard to get better deals and put more people into fewer square metres. That trend will mean smaller buildings.”

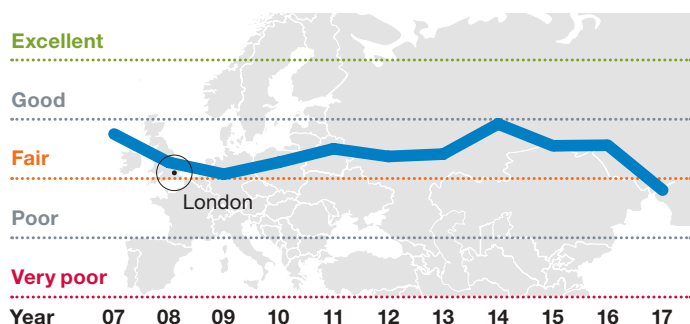
Much of the office demand is focused on the central business district: “Office availability in prime areas is very low. All the companies are trying to put their people within reach of restaurants and shops, communications and transport.”

At the same time, the city’s transport infrastructure has failed to keep pace with population growth. The government has pledged to invest €5.2 billion in the city region in the period to 2025 to ease the problem, and it cannot come soon enough for several interviewees who complain about the impact on business of traffic congestion. “Mobility in Brussels is getting even worse, and public transport is not a real alternative,” says one.

“Brussels is still a flat, boring market,” concludes one local developer. “If you are in the right place you can rent and sell. You can make your money and you will be able to as long as nothing dramatic happens to the European institutions.”

London (27)

Investment prospects, 2007–2017



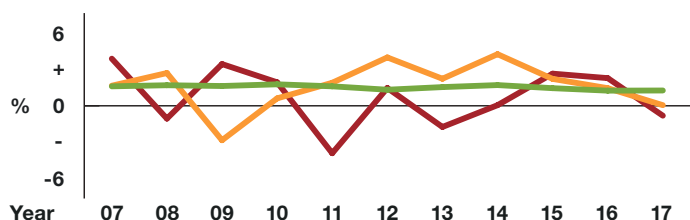
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



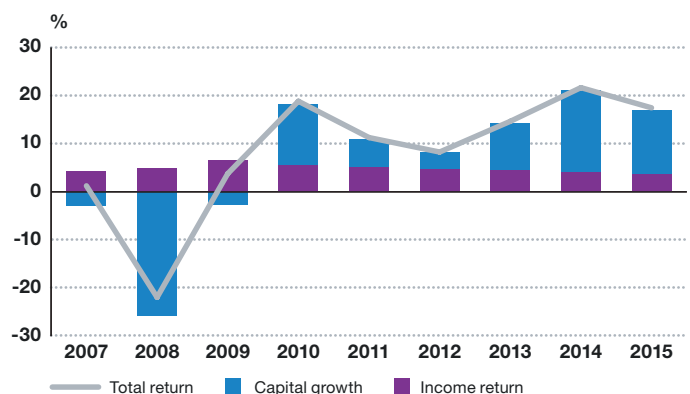
Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015



Source: MSCI

Number 27 is an extraordinarily low ranking for Europe's largest and most liquid real estate market, but London's fall of 16 places speaks volumes about the potency of the Brexit effect.

It is clear, though, that the market's sudden frostiness towards the UK capital owes less to doubts about its long-term position as the pre-eminent European property investment market than it does to short-term expectations about prices and rental growth post-referendum.

Many interviewees expect prices to fall, but few expect them to collapse: "Prime London assets have seen a 50 to 75 basis points yield reduction after Brexit, but that normalised at the end of July," says one investor. "We expect a correction of 10 to 20 percent in the UK depending on the location with London more affected than elsewhere," predicts another.

Some sectors and locations are expected to be affected more than others. "I do think in London the space where we could see a lot of distress is high-end residential. You have all these large developments where sales rates are slowing and a lot of the people who provided finance for these guys are applying pressure to sell."

Retail will hold up better, suggests a local investor: "The West End is pretty insulated and, if anything, the weak currency has led to increased footfall from abroad."

In the short term, Brexit will dampen expectations of rental growth in the office market: "Occupiers certainly won't rush in and pay the sort of rents that they were paying pre-Brexit, as they don't want to risk looking naïve."

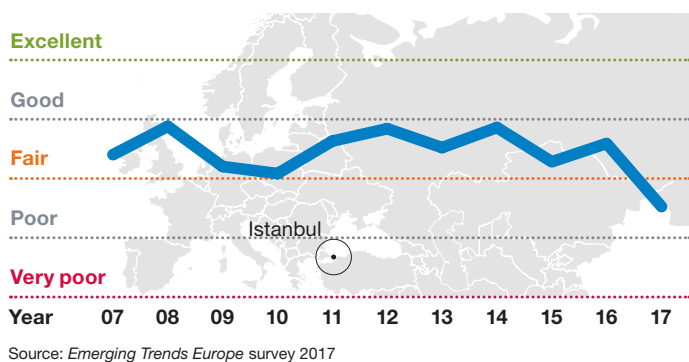
In the long-term, much will depend on whether occupiers decide to move employees out of London to EU cities. "Banks and other firms will probably leave the City of London, and that is why that market is hard to invest in at the moment," is a common opinion.

On the other hand, some investors believe that there will be better opportunities for acquisitions: "In this market if you have the funds you should actually buy more now. It is an anti-cyclical approach, but it is the right time."

The referendum has already put the brakes on development in London, but most interviewees expect the characteristics that have made the city so successful to endure. "I find it very hard to see a reason why London won't continue to be the number one city in the world," says a US investor. "It is a place where people want to live and work, and I think capital will continue to flow there."

Istanbul (28)

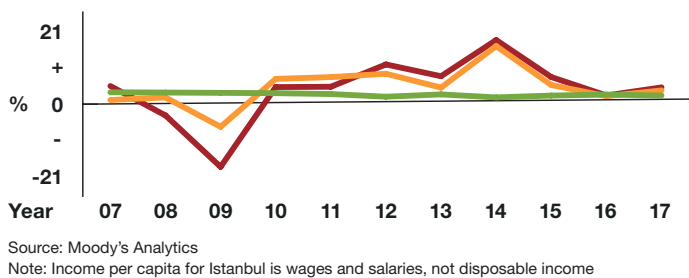
Investment prospects, 2007–2017



Population, employment and disposable income per capita, 2017



Population, employment and disposable income per capita, annual change 2007–2017



All-property return, 2007–2015

MSCI does not produce an index for Istanbul.

Istanbul has plummeted 19 places to Number 28 in the *Emerging Trends Europe* rankings, with investors citing deadly terrorist attacks and a failed political coup as reasons to avoid the city.

“Until recently the market had started to recover from the attacks in March but the attack on Ataturk airport [in June, during which 45 people were killed and 230 injured] and the failed coup will have a negative impact,” says one private equity investor based in the city. “People are braced for further terrorist attacks but a coup is not something that people have thought about.”

This is undoubtedly deterring international investment. “It is fair to say the prospects will be worse from now until the end of the year,” says one investor. “There could be investors from the Middle East who will not be deterred, but in the short term it is less institutional investors, it’s more single investors and high net worth individuals chasing deals but not in a sophisticated or coordinated manner.”

This is stymying what should be a blossoming market, with positive demographic trends and plenty of domestic capital targeting the sector. “Turkey is a country of 78 million people which is growing fast and 50 percent of the population under 30. There is a growing middle-class with good incomes, and young people are transforming into young professionals so anything focused on consumer spending will continue to improve,” says one developer.

“Turkey has always been a country with a huge liquid local market for real estate, and that won’t change. So it has been a big beneficiary compared to markets like Russia, which are dependent on foreign capital, and I don’t foresee any change on that side,” says another investor.

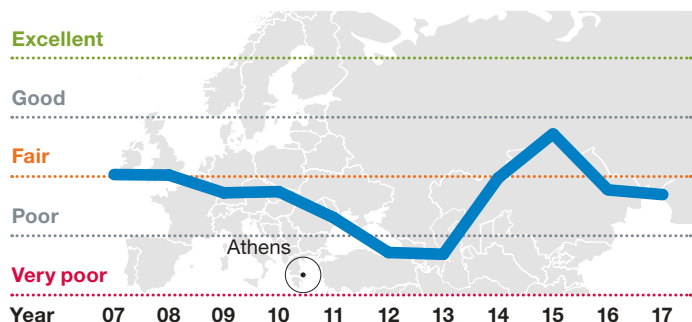
A strong banking sector is another strength, while there is the likelihood of increased government economic stimuli, post-coup.

In terms of markets that look positive, student housing is consistently cited by domestic interviewees, as the growing middle classes send their daughters and sons to university. “No matter what is going on students have to go to school, and there are no large facilities of good modern standards in this country or in Istanbul, so there is a good balance of supply and demand.”

But until stability returns to Turkey, international investors are steering clear of Istanbul.

Athens (29)

Investment prospects, 2007–2017



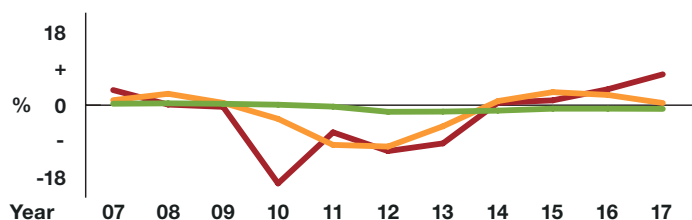
Source: Emerging Trends Europe survey 2017

Population, employment and disposable income per capita, 2017



Source: Moody's Analytics

Population, employment and disposable income per capita, annual change 2007–2017



Source: Moody's Analytics

All-property return, 2007–2015

MSCI does not produce an index for Athens.

Greece has staved off economic catastrophe for another year, but that small consolation has had little effect on investors' gloomy view of its prospects: Athens languishes at second-from-bottom of the city rankings.

The €7.5 billion that Greece received from its creditors in June was hard-won through the imposition of unpopular austerity policies and provided the country with a vital injection of cash. The economy continues to contract, however, and serious concerns persist over the sustainability of the country's debt burden.

"We haven't been investing in the Greek market," says a big international investor. "There is a risk of Greece dropping out of the Euro, and even if you don't think it will happen there is still a high potential. It is a spectrum of how much risk you take on."

Greece is also contending with being on the front line of the migration crisis. "The migration issue has to be resolved somehow. There has been a sharp improvement, but there are still further steps to be taken. It gives a feeling of insecurity and instability when you have so many migrants in a small country," says a local interviewee.

Against such a dismal backdrop, commercial property prices have fallen by more than 52 percent since their 2007 peak, according to Eurobank Property Services. Consumer and business confidence remain low.

Nonetheless some interviewees believe that the future is looking brighter: "Greece has suffered, but in the next six to nine months we expect an appreciation of assets and the recovery of rents," says an investor.

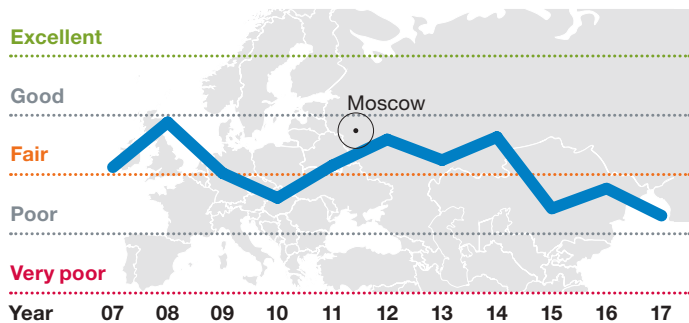
A Greek interviewee says that the austerity measures necessary to secure the latest bailout represent "a huge breakthrough" and that "everybody is seeing that Greece is becoming more modern, more westernised".

Two large transactions currently underway demonstrate that some foreign investors retain an appetite for Athens real estate. A Middle Eastern-backed consortium has acquired the Astir Palace hotel complex near Athens for €400 million, and investors from Qatar and Dubai are planning an €8 billion redevelopment of the city's former Ellinikon airport. The Greek government recently re-negotiated the terms of this latter deal with the developers, clearing the way for the project to be ratified by its parliament.

"A lot of investors are looking to buy non-performing loans and co-invest in many businesses," concludes one interviewee. "There is capital coming from Middle Eastern family offices and private investors as well from US and UK opportunistic and hedge funds."

Moscow (30)

Investment prospects, 2007–2017



Source: *Emerging Trends Europe* survey 2017

Population, employment and disposable income

Moody's Analytics does not currently provide these figures.

All-property return, 2007–2015

MSCI does not produce an index for Moscow.

Moscow languishes at the bottom of the *Emerging Trends Europe* city rankings, despite the fact that local interviewees seem markedly less gloomy about the prospects for the Russian capital compared with last year.

Unfortunately, their international counterparts do not share their increased optimism, and the continuing uncertainty about Russia's geopolitical position, with sanctions ongoing, is chilling sentiment for investment in the country, alongside the depressed oil price.

"The market is in the early stage of recovery," says one global adviser. "Last year the economic situation was worse, the value of the rouble was lower, the price of oil was lower and GDP was worse. Everything is very, very slow for us right now, and while a recovery looks like it's on its way, it is coming through very slowly."

There remains the concern, cited consistently last year as well, that tenants have to switch to paying rents in roubles rather than US dollars, introducing significant currency risk.

And the banking market is fragile to say the least. State-owned Russian banks back some domestic players, but many international banks have exited, even those with historic links to Central and Eastern Europe. "Political issues are impacting the business," says one. "There are no proper planning controls of city development, and as a consequence you can get a shock to the market because of oversupply. Accordingly, we stopped lending there."

The positive view? One global investor sees an increase in investment from sovereign wealth funds and private equity. "We were a seller in 2014, a buyer in 2015, and I would suggest that we will be a net buyer in 2016 and 2017. It's a bit of a contrarian call, and most international capital has moved away. If you look around the world, where else can you buy at a yield of 10 or 12 percent?"

"You are not going to see German or Western European funds, or US pension funds coming here. The Asian or Middle Eastern sovereign wealth funds may be more willing to come here and are more willing to understand that not every country is necessarily a Jeffersonian democracy."

That investor and the sovereign funds are likely to have Moscow to themselves for a while when it comes to international capital.

Chapter 4

New market realities: 2030



Real estate is undergoing significant change and 2016 is the year in which real credibility has become attached to trends impacting the industry that have been treated before as idle speculation.

What is striking about the latest *Emerging Trends Europe* survey is the sheer number of industry leaders citing “long-term” disruptions as genuine business concerns even though prevailing market conditions are clouded by economic and political uncertainty. The message is clear – these industry disruptions need to be taken seriously.

It is timely, therefore, that a new question was put to the 781 survey respondents and interviewees: “What do you consider will be the biggest trend impacting real estate between now and 2030?”

The range of responses is wide, but the dominant view is that the biggest impacts will be connected in some way to technology and social changes.

It is tempting to try and simplify a complex industry disruption, label it and consign it to the corporate strategy. Real estate is no different

This explains the frequent references to “technology” in the *Emerging Trends Europe* responses – a catch-all “disruption” that risks underplaying the more complicated social and cultural changes taking place behind the scenes.

“Innovations in energy, technology, science and food will have a huge macro impact over the next 15 years.”

Head of Real Estate, Europe
at global institutional investor

But looking at technology more as a catalyst for cultural and social change brings to light what many argue is the key underlying trend that will have the most significant impact on the real estate sector in years to come. This is very much a human behavioural shift, the changing way people interact with real estate: it is the emergence of the sharing economy and with it, a focus on access over ownership.

It is easy to see why a move away from ownership would have the potential to disrupt severely an industry built on the very concept of ownership. Yet the growing relevance of the sharing economy is shifting the centre of gravity from financial asset to product, or more broadly “space” as a service. Attention inevitably turns to the quality of that service while creating new markets and new types of consumer. As a result, real estate is attracting new players, with different business models, and different service offerings. These new businesses are a frequent reference point among *Emerging Trends Europe’s* respondents. A recent report by the ULI made the point well: “To survive in the shorter term, the real estate sector must deliver a complete and integrated, and yet profoundly agile, product offering.”¹

According to a PwC report for the European Commission the sharing, or collaborative, economy doubled in size last year and has the potential to generate over €500 billion of transactions per year across Europe by 2025.² This movement, including the shift to access over ownership, has the feel of an unstoppable evolution, backed up by a strong undercurrent of common-sense. It is worth therefore pausing to look at this phenomenon as it relates to the well-established industry megatrends and the built environment.

Figure 4-1 **Emerging trends ... 2030**

Source: *Emerging Trends Europe* survey 2017

Answers to the question: "What do you consider will be the biggest trend impacting real estate between now and 2030?"

1 Technology, Real Estate, and the Innovation Economy - Urban Land Institute, September 2015

2 Assessing the Size and Presence of the Collaborative Economy in Europe - Research for European Commission – Robert Vaughan and Raphael Daverio (PwC)

Real estate and the sharing economy

Originally thought of as a social movement, the collaborative economy is a collision of a number of industry megatrends that is manifesting itself in all areas of real estate.

Urbanisation continues to be a buzz word for the industry. Successful cities facilitate the largest, most diverse number of people to collaborate effectively and share resources, whether that is infrastructure, technology, cultural facilities or ideas. In short, the most successful, growing cities embody the sharing economy. It is no surprise that these cities also have the best public transport networks, including those with the most advanced features, such as bike-share schemes, multi-modal transport options, advanced ticketing systems, taxi sharing, Uber and Lyft. They figure prominently in the *Emerging Trends Europe* city rankings.

Demographic/social/cultural change is a key driver of the sharing economy, and it is not just about millennials or Gen Z. We are living longer and working longer. The traditional, three-stage life (study, work, retire) has evolved into a multi-phased, less structured life, with the result that across all demographic groups, people are reassessing their career and lifestyle choices. They are becoming more demanding as they strive harder to ensure that their working lives are better integrated with their broader lifestyles - with clear implications for employers and real estate businesses.

Cost pressures and affordability concerns are also influencing social change, not least with the rise of "Generation Rent", forsaking home ownership for rented accommodation that revolves around quality of service. The corollary of this trend is the strong investment outlook for the private rented sector in *Emerging Trends Europe*.

Climate change and resource scarcity increase the opportunity cost of "owning" versus "accessing" products and services. So resource scarcity, whether it is coal and oil in the ground, space on the roads, or the availability and use of the scarce asset that is real estate itself, is a key driver for change in our industry.

"The real estate industry will engage in socio-demographic changes much more - healthcare, leisure, housing as opposed to retail, offices, industrial."

Head of Real Estate, European insurer

Figure 4-2 To what extent do you agree or disagree with the following statements?

We are tailoring our real estate strategy in response to demographic and social changes



How buildings are used is now more important than the asset itself



Why it is time to rethink real estate

In the past decade, we have witnessed significant changes in real estate although in many respects the sector has been slow to adapt. As a long-term business, however, these disruptive trends are too important to ignore. As Green Street Advisors, the US and European research firm, says in a recent paper: “Uncertainty in the future is high. However, considering that the value of a property seven years hence comprises roughly two thirds of its current value, thoughtfully derived estimates of long term growth are critical.”³

One of the long-standing assumptions that still prevails is that the real source of value is in bricks, mortar and location rather than the usability, adaptability and service quality of the property. This results in a perception that returns will flow with little need for active interaction between owner/investor and occupier/user. Indeed, given its structure – with multiple layers of investors and outsourced service providers – it could be argued that the industry is designed to shield the ultimate investor from occupiers and their evolving demands.

But as the preceding chapters reveal, this once-stable equilibrium is now in flux. From technology to social and demographic change, the forces reshaping the sector are growing stronger and more interconnected.

Emerging Trends Europe’s respondents suggest that as these aspects of our life evolve and integrate more, so too will our real estate needs, and we will see less distinction between the traditional real estate sectors. This point was emphasised by the common reference among industry leaders interviewed to “mixed-use” developments.

These forces affect how we live, work, learn and play. And given that the built environment is where we live, work, learn and play, it does not take a big leap of imagination to see that they impact real estate more than any other industry sector.

Here we distil the industry’s views on the key influences on real estate, with a 2030 horizon.

“It’s all about amenities and being together and living together. It challenges cities to create a kind of ‘real estate industry 2.0’. It’s an opportunity... and a risk if we get it wrong.”

Director, pan-European lender

3 Heard On The Beach – Disruption. April 26th, 2016, GreenStreet Advisors

How we live

Housing has already seen major change as the proportion of people who rent increases against those who own in many European markets. As a consequence, institutional investors are increasingly drawn to the long-term benefits of the rental sector. But in terms of how we live and what the residential product looks like, *Emerging Trends Europe's* respondents and interviewees still see urbanisation and the needs of the urban consumer as the key influences looking out to 2030.

Urban consumers value convenience and proximity to urban hubs and city centres, and they are demanding a new type of housing that offers affordability and an element of service. Convenience shopping and amenities close by will be an important part of the mix, particularly so for the aging population.

According to those canvassed, the biggest impact on residential – and other real estate sectors – could come from a shift away from car ownership and the rise instead in car-sharing and driverless-cars. In the century since the Model T Ford came into production, cities, infrastructure and housing have all been heavily geared towards increasing levels of car ownership. This trend reversal is already happening, and it is easy to see why – cars spend 23 hours a day on average sitting idle, taking up real estate. Some believe that beyond 2030, the only people owning cars will be hobbyists.

There is broad agreement across the industry that ride-sharing and driverless cars will free up space in cities – due to lower demand and the fact that autonomous cars, if they are ever idle, can be parked in more discreet locations. However, views differ between those who see a reversal of urbanisation (fuelled by reduced congestion, smarter travel and easier commutes facilitated by driverless cars) and those who believe the bigger impact will be felt in making our cities more liveable – in other words, encouraging greater urbanisation rather than more dispersed living.

The jury is out on how exactly this will play out. Indeed, it could play out very differently in different cities or regions given the different densities, land-use pressures and attitudes to car ownership. Either way, an overwhelming number of *Emerging Trends Europe's* respondents see this as a major influence on future real estate.

“The trend of wellness rather than just sustainability will become increasingly important in the way we plan and plot new development, in particular new communities.”

Senior partner, property consultancy, UK

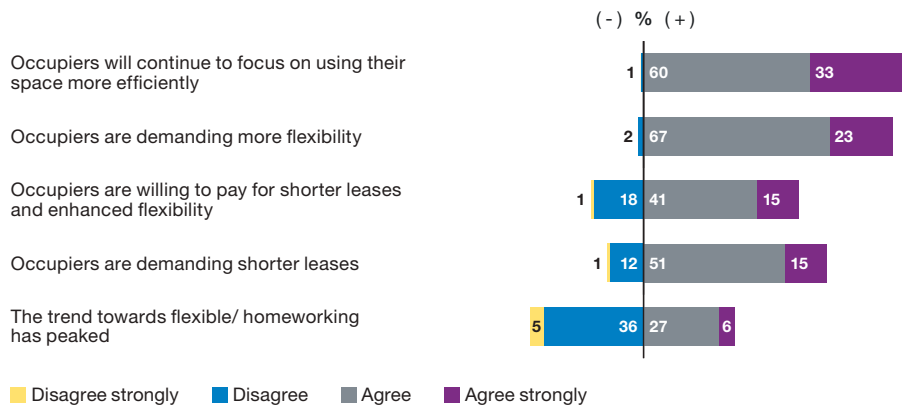
How we work

For all their evident concerns over current economic and political uncertainty, many interviewees and respondents believe the biggest threat to the office market in big cities comes from the technological disrupters that will pave the way for new ways of working. The modernisation and digitalisation of banking, automation of routine transactional tasks, the use of artificial intelligence (AI) and virtual reality (VR) will affect how much space is needed and how it is used.

These developments will make it harder to sustain full occupancy and could exert a significant drag on office take-up. But they will also create opportunities to deploy space more innovatively, more productively and extract premium returns for investors that succeed in developing and operating such a complex “product”.

Those workers that are still needed however, are more likely to be in creative roles and demand a more flexible office environment. And inevitably problems will surface during a period of transition. The director of one international design firm points out: “We are seeing an increased density in the workplace. Large open-plan workplaces with a lot of people in them – [but] there is evidence that this is damaging productivity, and that there isn’t enough choice in how and where to work. This is affecting ability to retain talent. We will need more mobile solutions, ability for workers to work outside the office.”

Figure 4-3 To what extent do you agree or disagree with the following statements? **Changing needs of occupiers**



Source: *Emerging Trends Europe* survey 2017
Note: Excludes Don't Know responses

Emerging Trend Europe's respondents agree we will be spending much less time in the office as we continue to move towards more flexible working. Shorter, more flexible leases, more communal and break out areas, a focus on wellbeing and digital connectivity will be core requirements for the offices of the future.

Offices will be ruthlessly judged on their technological capabilities and how they boost collaboration and human interaction. The quality of the workplace and how it aligns with all the other places we spend our increasingly integrated lifestyles will become a key tool in the war for talent.

“Increasingly we are talking about health and well-being, about air-quality, filtration systems, particularly in cities like London and Paris.

There is concern about nitrogen dioxide - it may not be long before people have wearable pollution monitors and employees can tell you where they want to work.”

CEO, UK fund manager

The trend towards flexible/homeworking has peaked



Figure 4-4 The rise of flexible workspace

GLOBAL MARKET SIZE

c\$20BN

21% compound growth over the last 5 years



NO. OF DEDICATED EXECUTIVE SUITES

9,100



NO. OF DEDICATED CO-WORKSPACES

7,800



Source: The Instant Group, September 2016

From the perspective of the real estate owner/operator, *Emerging Trends Europe's* respondents see a continuation of the trend towards shorter leases, flexible leases and contracts as "partnerships" with tenants. These changes will be driven further by new IFRS 16 accounting standards, which capitalise most future lease obligations as a balance sheet liability for the tenant. This will inevitably shine a spotlight on the value-add that each component of a lease provides, and add weight to the shift towards real estate as a service.

All of the above point to a divergence in value between the new generation of offices and more traditional spaces, suggesting that "younger" portfolios should outperform. As businesses strive to innovate and keep pace with rapidly changing demands, they need to adapt their operational capabilities quickly. Workspace will thus become obsolescent and in need of much quicker upgrade and renewal than ever before.

"Flexible working, co-working, shorter leases, no leases at all... bad news for the landlord but good news for the occupier."

Chairman, pan-European investment manager

How we learn

The golden child of the last few *Emerging Trends Europe* reports, student accommodation has consistently ranked among the highest industry sectors. It is tipped to continue as a high growth sector with 79 percent of respondents citing investment prospects as "good" or "very good" for 2017, compared with 69 percent last year.

The sector clearly benefits from a combination of growth in demand for universities and its position as a new sector moving into the mainstream as an institutional asset class at the sweetspot between commercial and residential real estate.

Although as a sector it is seen as relatively free from technological disruption, there are a number of factors on the 2030 horizon which could introduce new models for higher education sector and challenge longer-term demand for year-long, student accommodation.

The most obvious of these is the emergence of "distributed education" and virtual learning environments as disruptive trends in demand for on-campus education. To give an example, a recently launched UK Open Online Course called "FutureLearn Platform" already has over 4 million people signed up. Perhaps less-well known though is the potential movement away from higher education, indicated by the growth in apprenticeship schemes offered by many professional service firms and targeted at school leavers. Could this be the start of a significant disruption? The Economist recently noted the pressure on the traditional MBA "...from online education, which is quickly shedding its former, shoddy reputation" and the general decline in demand for this form of higher education.

How we play

Traditionally the most customer-focused area of real estate, how we shop and spend our leisure time is complex – covering leisure, hospitality and the rapidly evolving space that is at the intersection of retail, logistics and manufacturing.

Clearly the major threat to bricks and mortar retail continues to be the rise in ecommerce – a point reinforced by the fact that between them, Amazon and Ebay “hosted” £13 billion of sales in the UK in 2015. That is more volume than the 50 largest shopping centres in the UK combined and equivalent to five times as many visitors. Against that backdrop, the industry is coming to terms with build to order, rather than build to stock. The practice of mass-produced, but individually tailored products, distributed manufacturing and 3-D printing are all changing the dynamics of the industry.

While the 1990s saw the move towards the large-scale, car-dependent hypermarkets, we now have the rise of the urban consumers, who prioritise proximity, convenience and live in smaller apartments. Car ownership is in decline and convenience store formats are on the increase. This movement is also fostering the re-emergence of high street retail generally – as convenient, truly mixed-use live/work/play products.

Wherever they are located, *Emerging Trends Europe*’s respondents are unanimous in their view that retail centres will need to continue to evolve into destinations in their own right, whatever demographic they serve.

Driverless cars again could have a significant impact here – unlocking redevelopment opportunities for shopping centre owners, as surrounding space currently required for parking is freed. And logistics will continue to grow as a key part of the retail convenience/proximity jigsaw, particularly in addressing last-mile delivery challenges. There is also the prospect of urban consolidation hubs as a new asset class and key part of sustainable city logistics solutions.

“The internet will definitely reshape real estate in the retail and logistics sectors. 3-D printing technology could mean that you don’t have to store or move products. It could be a game changer.”

CEO, pan-European logistics developer

It is all in the valuation

Technology is influencing the way we occupy, lease, buy, sell and value real estate. Essentially it is a catalyst for many and varied changes, and perhaps the biggest of which will be enabling much better transparency over performance and access to real estate. This translates to a more liquid asset, increasing competition for quality space and eroding the need for the end user to own real estate or secure a long lease. It is accelerating the shift to shorter leases, flexible segmented leases, and according to some *Emerging Trends Europe* respondents, to no leases at all. It is also fuelling the rise of shared/serviced office providers, such as WeWork and TOG.

While technology is driving many of the changes in demand, it is also creating the means to meet them. This includes using data and analytics to gain greater insight into the behaviour of both current and prospective users, combining traditional yield measures with customer data in areas such as tenant satisfaction, environmental performance, health and wellbeing.

Emerging Trends Europe's interviewees and survey respondents cite real estate as a service, the increased operational aspect to performance and developments in transparency/speed of information flow as ultimately changing the way real estate is valued. There is clearly some inbuilt resistance to change, but already more emphasis has been placed on cash-flow as the primary valuation method.

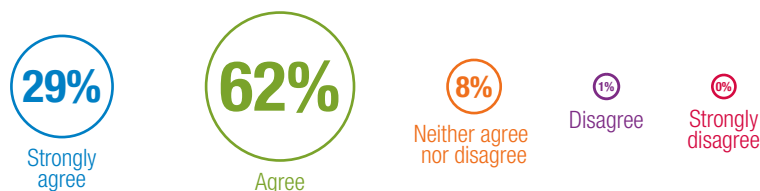
Even from a cursory comparison of the March 2016 values of Regus (\$4.2 billion), a traditional shared office provider, and newcomer WeWork (\$16 billion), which provides office space but calls itself a technology company, it is clear that something interesting is happening.

Table 4-5: Regus and WeWork

Regus		WeWork
30 years	Age	6 years
900	Number of cities	32
3000	Number of centres	126
\$4.2bn	Market valuation	\$16bn

Source: The Instant Group, March 2016

Technology is changing the way we use buildings



In this evolving world, more sophistication is still needed around how the industry values management's skills in evolving its service offering, churning tenants and minimising vacancy. If real estate providers fail to keep pace with developments in data, monitoring and analysis, there is a risk that they will be caught on the back foot as tenants use productivity measures not only to reduce the space they rent, but also press for rent reductions and more favourable terms on renewal.

The game-changer will be combining structured and unstructured data to anticipate future developments in demand, such as gaps in retail availability and how businesses can most productively use their space. In a world of space as a service, a real estate operator's brand will be all the more important and levels of data analysis and sophistication will need to match that of other industries.

“The insights we get as owner, as user, as tenant from big data represent one of the most important long-term trends. The availability of data will add a lot of transparency to any market and will be very important for making investment decisions. It will also affect pricing.”

Head of Real Estate, European pension fund

Reaping the rewards of innovation

So how will business models change? From investors through to operating companies, this will continue to be an industry with different types of players. Looking across the market, forward-looking real estate businesses recognise that disruption is an opportunity and are adjusting their short-term strategies and longer-term value models accordingly.

But an observation from the *Emerging Trends Europe* interviews is of an industry that has a high level of awareness of the challenges it faces and a need for innovation, but a lack of confidence in what changes are needed and when. There is also a growing recognition that an increased level of diversity in the profession will be an important contributor to better innovation.

Innovation often flows out of adversity, and it may turn out that Brexit and all the other political and economic challenges across Europe provide a catalyst for the bravest to make these changes and reap the rewards. That could mean a very different industry emerging between now and 2030.

Emerging Trends Europe does not provide the answers. If anything it raises many more questions. But with the wealth of data and candid views expressed by 781 respondents, and in particular to the 2030 question, we provide in the next section a snapshot of some of the potential impacts cited across a range of existing real estate sectors.

Increased workforce diversity in the real estate industry will have a positive impact on the bottom line of the business



“There is a trend to more service in buildings. People’s expectations are to have the same service level they’d get in a hotel in an office building.”

CEO, global asset manager

Real estate - the 2030 view

In the words of one *Emerging Trends Europe* interviewee: “We are building buildings into a technological future that we have no idea what it will look like.” Some of the industry's “known unknowns” are industry-wide while some are sector specific. Here we try to make sense of the wide-ranging responses to the 2030 question.

Key influences

- The sharing/collaborative economy
- Technology/data management – greater transparency
- Urbanisation

“We are moving from smart homes to smart offices to smart cities and megacities.”

2030 state

- Real estate as a mainstream customer-centric industry
- Value shift towards operational management of real estate
- More integration/overlap of real estate sectors
- New dominant group of “place curators”
- Simplified ownership/management structures
- Transformation in valuation methodologies
- Health, wellbeing, sustainability merge as a key driver of real estate value



Live | Residential

Key trends

- The urban consumer
- Changes to live/work balance
- Reducing car ownership
- Ageing population

2030 state

- Higher density
- More liveable and vibrant urban environments, combining live, work and play
- New growth: healthcare, assisted living

“We’ll start seeing a different attitude to size and space. Micro-living is coming.”

“Shared ownership, equity release and retirement living are all ripe for opportunity.”



Work | Office

“More people work from home. Companies will need less space and it will change the nature of offices fundamentally. It will make a lot of the current office stock obsolete.”

“The WeWork concept will not only be used by companies like WeWork but by large employers that need more flexibility to shift their staff back and forth.”

Key trends

- Connectivity
- More collaborative working practices
- Artificial intelligence, augmented and virtual reality

2030 state

- On demand and use of space leasing
- Offices as high-spec “imaginariums”
- Localised work-hubs/satellite offices
- Fewer single-let buildings as corporate requirements become more fluid
- Domination of shared/serviced offices



Learn | Student housing

Key trends

- Technology - distributed learning
- Demographics - changing career plans/lifestyles
- Growing importance of social and collaboration skills

2030 state

- Reduction in demand for on-campus, year-long student accommodation
- Declining perception in value of university degree
- Increased apprenticeship schemes
- More mature students

“Student accommodation is pretty ‘cooked’ in most places; now you have to get it right.”



Play | Retail and logistics

“With ecommerce, we underestimate the extent to which the retail footprint will shrink. We are just in the first phase of that.”

“There is probably enough retail space in Europe. I doubt whether it is the right retail space.”

Key trends

- Ecommerce
- Technology-driven enhancement of customer experience
- Drones, 3-D Printing

2030 state

- Shopping centres as multi-faceted communities that embrace broader lifestyle needs of communities
- New asset class: urban consolidation hubs

Source: *Emerging Trends Europe* survey 2017

About the survey

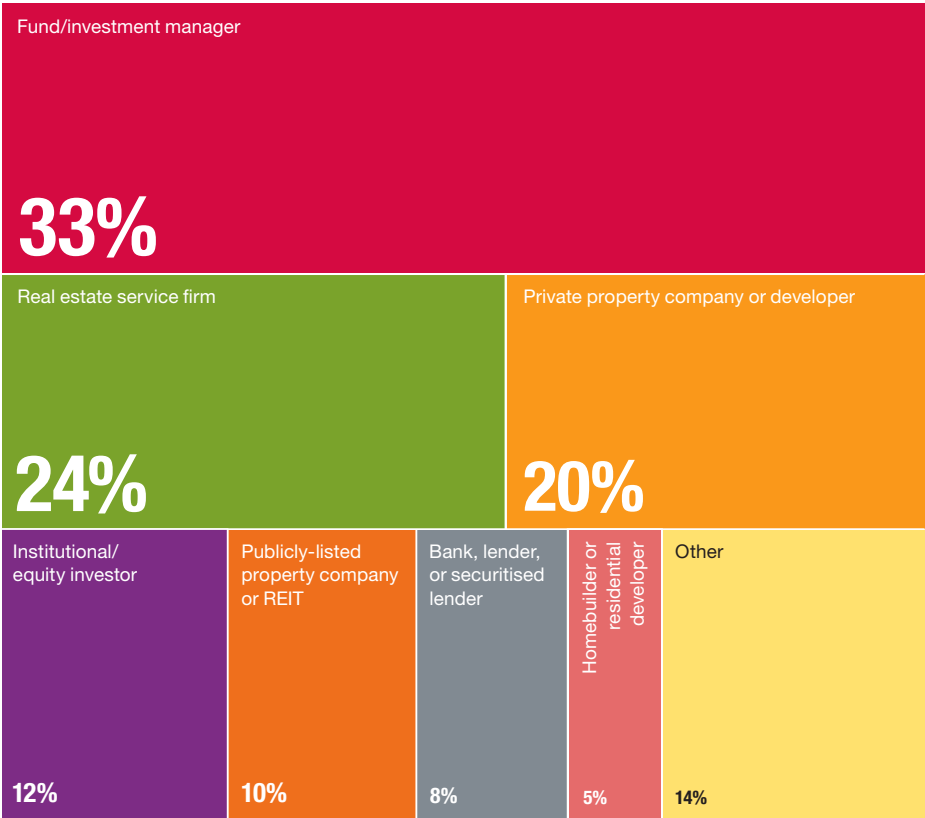


Emerging Trends in Real Estate® Europe, a trends and forecast publication now in its 14th edition, is a highly regarded and widely read report in the real estate industry. Undertaken jointly by PwC and Urban Land Institute, the report provides an outlook on real estate investment and development trends, real estate finance and capital markets, cities, property sectors and other real estate issues throughout Europe.

Emerging Trends in Real Estate® Europe 2017 reflects the views of 781 individuals who completed surveys or were interviewed as a part of the research for this report. The views expressed, including all comments appearing in quotes, are from these surveys and interviews and do not express the opinions of either PwC or ULI. The interviewees and survey participants represent a wide range of industry experts, including investors, fund managers, developers, property companies, lenders, brokers, advisers and consultants.

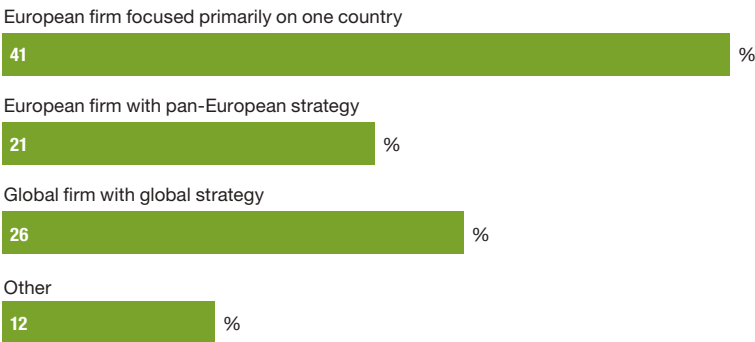
A list of the interview participants in this year's study appears on the following pages. To all who helped, ULI and PwC extend sincere thanks for sharing valuable time and expertise. Without their involvement, this report would not have been possible.

Survey results



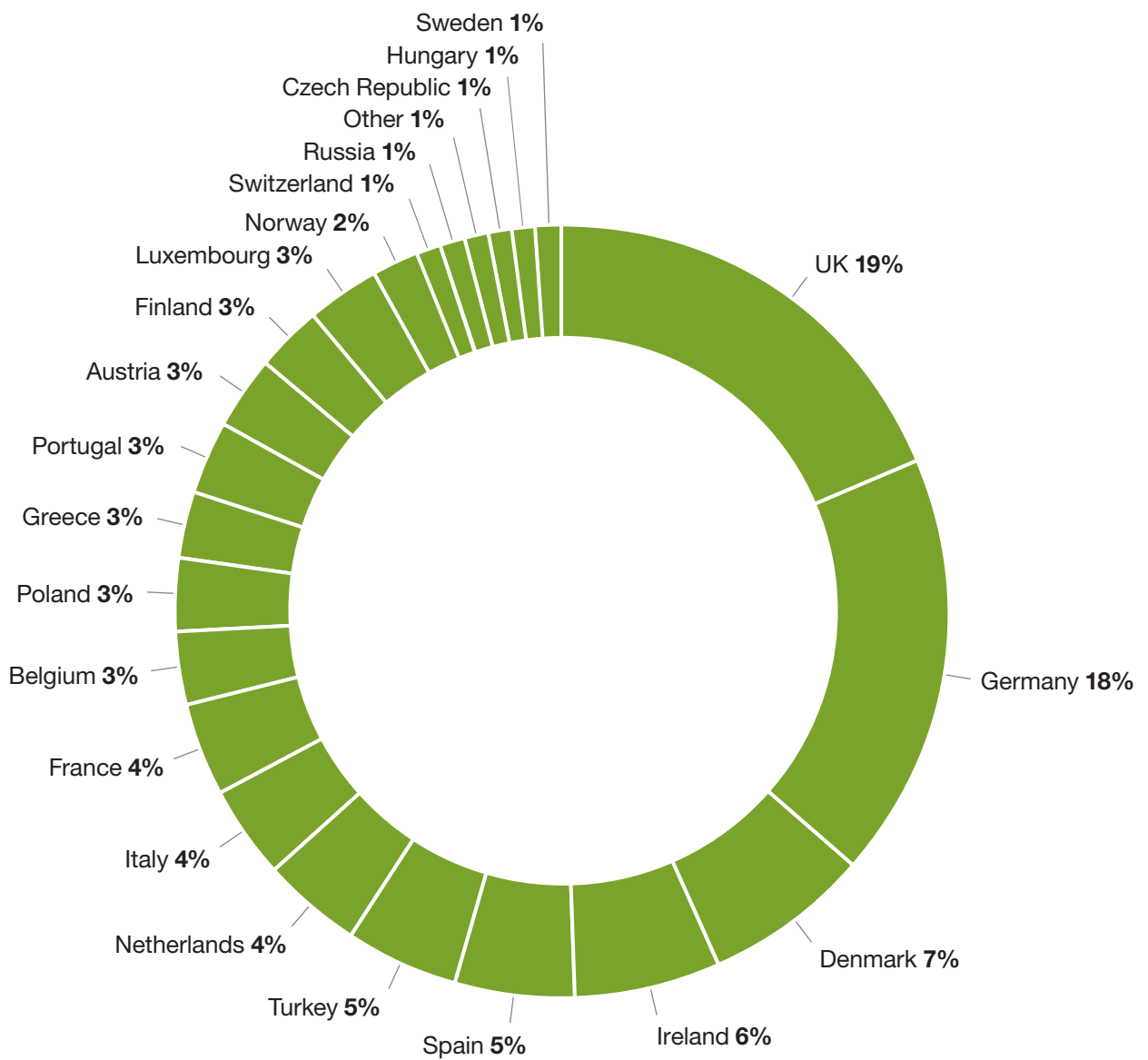
Source: *Emerging Trends Europe* survey 2017
Note: Respondents could choose more than one category, so percentages do not add up to 100.

Survey responses by geographic scope of firm



Source: *Emerging Trends Europe* survey 2017
Note: Respondents could choose more than one category, so percentages do not add up to 100.

Survey responses by country



Source: *Emerging Trends Europe* survey 2017

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ABN

Robert van Deelen

ACR Group

Michel Elizalde

Acron

Kai Bender

Aedifica

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AEW Europe

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Ulrich Kaluscha
Dr. Stephan Kloess

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Thibault Delamain
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- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
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- Sharing knowledge through education, applied research, publishing, and electronic media; and
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Emerging Trends in Real Estate® Europe 2017

Emerging Trends in Real Estate®

Europe 2017

What are the best bets for investment and development across Europe in 2017? Based on personal interviews with and surveys from 781 of the most influential leaders in the real estate industry, this forecast will give you the heads-up on where to invest, what to develop, which markets and sectors offer the best prospects, and trends in capital flows that will affect real estate. A joint undertaking of PwC and the Urban Land Institute, this 14th edition of *Emerging Trends Europe* is the forecast you can count on for no-nonsense, expert insight.

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- Elaborates on trends in the capital markets, including sources and flows of equity and debt capital.
- Reports on how the economy and concerns about credit issues are affecting real estate.
- Discusses which European cities and property sectors offer the most and least potential.
- Describes the impact of social and political trends on real estate.

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