Europe Real Estate sector report

Spring 2021

Sector conditions and outlook

		Current conditions	Outlook
Office	Long leases and strong covenants have shielded office landlords from the very worst impact of the COVID -19 pandemic, though there are signs of some stress creeping into the occupier market. In the short term, nearly all markets across Europe are expected to see yields stay relatively flat despite rent growth pausing or turning negative. A significant bifurcation appears to be occuring between core and secondary investments, asset quality, tenant quality, and gateway and non-gateway markets.	●	→
Industrial	Like other global regions, the industrial sector saw another strong year of occupier demand accompanied by a sharpening of yields which reflects investor enthusiasm. The property type appears to be benefitting from the shifts to consumer behaviour from the pandemic. For example, e-commerce package deliveries reached one billion in France in 2020 compared to 800 million in 2019. Broadly, all industrial property types have experienced positive rental growth and a significant inward yield shift that is expected to continue due to changes in the market demand from e-commerce.	●	↑
Residential	Housing assets have been highly sought after by investors as the growth in private rental schemes takes hold. Large increases in owner-occupier prices, particularly in the larger cities, continue to bolster demand for private rentals. Additionally, a widespread housing shortage is continuing to grow, further strengthening demand. The pandemic has softened rents in some regions, but the sector still remains highly competitive.	●	↑
Hotel	Hotel demand has seen an unprecedented decline with tourism, business and conferences sharply impacted by COVID-19. Continental Europe has been particularly hard hit by government-mandated lockdowns and slower vaccine distribution relative to the UK and the U.S. Room rates have fallen sharply, and previously sold-out destinations are struggling with unthinkably low occupancy levels.	●	↓
Retail	Although the retail sector has been impacted the most by the pandemic, the damage has been less than feared. Bankruptcies have risen but have been largely present in the clothing/fashion segment. There will undoubtedly be continued rental declines across most retail formats in the short term, however, due to the acceleration of structural shifts. Capital values are also expected to come under some pressure before reaching a "new normal".	●	↘

Key:

● Improving ● Neutral ● Deteriorating

↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

		Current conditions	Outlook
Data centres	The pandemic has focused investor attention towards data centres as an asset class that has become a vital cog in the infrastructure of the European economy. Data usage is growing exponentially higher among consumers and businesses, leading to greater demand for the product type. The main occupier groups are the co-location operators and the cloud service providers, with the latter under huge pressure to expand. In order to do so, they are taking space in co-location assets, partnering with developers and building out their own assets.	●	↑
Healthcare	The European market for healthcare real estate continues to grow substantially, reflecting the demographic structure of the continent. However, there are material differences in the structure and use of healthcare across Europe. Northern European countries make greater use of assisted care and senior living facilities compared to the south where it is common to find multi-generation living arrangements across households. As a result, the nature of healthcare real estate varies quite widely and understanding the subtle nuances by country becomes critical for investors in assessing opportunities in this sector.	●	↑
Student housing	A well-established institutional property type in the U.S. and UK, student housing is becoming a significant investment destination on continental Europe. While traditional educational powerhouses, such as Germany and France, continue to be highly sought after, growth in world-class educational establishments across Europe is spurring a spate of housing opportunities. As a result, we expect ongoing institutional interest in student housing, not just in traditionally strong markets, but also in cities establishing themselves as competitive centres of higher education.	●	↑

Key:

● Improving ● Neutral ● Deteriorating

↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

Office

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
→	↘	↘	↓	→	↘

Key: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

*REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium.

Private equity

Despite a deep recession and decline in corporate sentiment, office properties have largely remained shielded from the worst impact of the COVID-19 pandemic. A combination of longer leases, strong covenants and relatively healthy corporate environment has provided office landlords a substantial cushion. That said, the office sector is a tale of two cities with demand for Prime/A-grade office assets, aided by long leases, remaining in high demand. Additionally, dense, urban gateway markets dependent on mass transit and international business have felt the stress from occupier markets more deeply than smaller markets that are more focused on regional economies. This “K” shaped pattern in occupier demand is not unique to office markets per se, but is very visible given the high profile of these assets in global property markets.

In the short term, nearly all markets across Europe are expected to see yields stay relatively flat despite rent growth pausing or turning negative. Fortunately, supply is low, particularly in comparison to the Global Financial Crisis (GFC). Longer term, the outlook is still opaque, however. There are still uncertainties with cost-cutting measures by companies and the true effect remote work will have on the broader sector. As such while remaining structurally optimistic in the long run, we note that there is a significant bifurcation between core and secondary investments, asset quality, tenant quality, and gateway and non-gateway markets.

This bifurcation is also evident in countries too. In France, headline rents in Paris for prime assets are seeing discounts of 20% to 25% while Le Defense has seen incentives touch 40%—levels last seen during the delivery wave of new product in 2011-2013. On the other hand, regional markets such as Lyon, Lille and Marseille have seen very strong take-up in occupancy. In Spain, demand has been weak due to the current office trends. This weakness, paired with new supply in core markets, such as Madrid and Barcelona, will result in pressure on vacancy rates which were previously at lows. Thus, rental growth should remain flat but tenant improvements (TI’s) in prime locations are gathering pace and negatively impacting effective rents. Amsterdam and Rotterdam on the other hand saw very strong occupier demand in 2020. The UK continues to see short-term declines in rents and yields, though there is significant divergence between city centres and prime assets. Some regional areas which are undersupplied, such as Manchester, Edinburgh and Cambridge, also look relatively attractive in comparison to London.

Other sub-sectors have also seen growing interest among investors. In particular, medical office buildings and life sciences have garnered attention given the medical needs of the pandemic and emerging trends in Environmental, Social, and Governance (ESG). Assets with high quality tenants can provide portfolios with strong long-term cash flows. Retail can also be complimentary for medical office assets with well-located pharmacies, drugstores or opticians being crucial.

Public equity

The story in the public equity markets is similar. Despite economic softness caused by lockdowns, there has not been wholesale dislocation. Overall leasing volumes are down 30% year-over-year but demand for Prime/A-grade office space has held up. For example, in London, overall vacancy is now 7.5% despite grade A vacancy of less than 4% in the city and less than 2% for West End locations. Contiguous floorspace in high quality, well-located office buildings are extremely difficult to secure and office REITs have not reported issues with lease renewals or new lettings. Additionally, rents have been mostly in-line with March 2020 values and are very often ahead by a significant margin. However, TI's have increased, thus effective rents have slightly softened by 3% to 4% in prime locations and 10% for secondary/poorer space, although listed company results report renewals/new leasing ahead of estimates. Similarly, investment demand for Prime/A-grade, or office assets with the benefit of long leases, remains in high demand, with investment yields firming for this category and now below 4% across the board, with London looking cheaper than peers, on a relative yield-basis, post-Brexit.

Looking forward into 2021, a cyclical recovery from an economic trough is typically supportive for the office sector given reliance on employment growth and corporate confidence. But values and rents have yet to fall and vacancy has yet to rise. This makes the expectation of a rebound in values and timing problematic at this point. Not surprisingly therefore, the UK/European office REITs fortunes for the next 12 months remain hotly debated, with sell-side forecasts still assuming 10% downside in rents and a marginal softening in investment yields. Yet even in 2020 listed companies continued to meaningfully exceed estimated rental values both at review and on new lettings with a lot of space reportedly under offer 10% to 15% ahead of mid-year estimates.

Since office REITs in general own better-quality assets, we expect most to report flat to marginally positive NAV revisions, thus making stock valuations, at 15% to 30% discounts, appear reasonably attractive. There is risk that M&A activity could emerge to exploit the valuation gap between public and private markets, however.

Industrial

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
↑	→	↑	↑	↑	↗

Key: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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Private equity

Like other global regions, the industrial sector saw another strong year of occupier demand accompanied by a sharpening of yields which reflects investor enthusiasm. The property type appears to be benefitting from the shifts to consumer behaviour from the pandemic. For example, e-commerce package deliveries reached one billion in France in 2020 compared to 800 million in 2019. Broadly, all industrial property types have experienced positive rental growth and a significant inward yield shift that is expected to continue due to changes in the market demand from e-commerce.

As a result of heightened e-commerce demand, all sub-sectors of industrial have experienced positive rental growth and a significant inward shift in yields. Occupier surveys indicate the largest barrier to growth is labour supply constraints. Third party logistics (3PL) parties and online retailers continue to perform well and maintain strong demand. Although investment volume remains high, there is a scarcity of grade A warehouses and portfolio deals as many sellers are reluctant to let high-quality assets go. Increasingly, secondary cities and sub-prime buildings in land-limited areas, are seeing development and redevelopment.

E-commerce is uneven across Europe, however, with the UK seeing the greatest demand. As a result, growth in online shopping, as necessitated by the pandemic, is driving further consolidation in the last-mile segment of the sector. In the Netherlands, investors prefer locations near Randstad or areas which are already located within existing logistics hubs. Spain has also seen growth in the sector which was previously overlooked. Meanwhile, Italy has one of the lowest e-commerce penetration rates in Europe but has seen an increase over the past year. As a result of the rise, the courier/last mile segment is growing rapidly not only around the major cities, but also in northern Italy and the rest of the peninsula. Cold storage is another interesting segment which has recently emerged. Owing to the growth of e-commerce, this segment has seen significant growth and is often more profitable, stable and linked to the warehouse segment rather than logistics. Investment opportunities are limited but growing.

Public equity

Industrial was a strong outperformer in 2020 as the COVID-19 pandemic drove an acceleration in e-commerce trends and industrial assets benefited from the associated warehousing demand to meet growing customer requirements in big box and last mile locations. Favourable growth and rising investor interest drove consensus NAV revisions of approximately 10% year-over-year. The outlook also looks favourable heading into 2021 given high build-to-suit demand combined with relatively low levels of speculative development that is expected to accelerate rental growth, particularly in Continental Europe.

Investors are trying to understand whether there was a pull-forward in e-commerce demand, if re-stocking and higher inventory levels can drive demand even higher and whether cap rates can compress even further given the amount of capital chasing the sector. Industrial REITs traded at approximately 15% premiums to NAV at year-end on average, with more development exposed stocks trading at larger premiums and bigger box portfolios with slower rental growth prospects trading closer to NAV.

Residential

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
↑	↓	↑	↗	→	→

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Private equity

Similar to the industrial sector, housing assets have been highly sought after by investors as the growth in private rental schemes takes hold. Large increases in owner-occupier prices, particularly in the larger cities, continues to bolster demand for private rentals. Additionally, a widespread housing shortage is continuing to grow, further strengthening demand. The pandemic has softened rents in some regions, but the sector still remains highly competitive. Going forward there is likely to be some near-term softness in rents as support initiatives unwind and unemployment remains elevated.

Remote work has led to some discussions on the relocation of workers, and with it, potential changes to housing preferences. Suburban rental schemes for single-family homes, for example, has seen some upsides to price and rents as some renters seek additional space. Younger families that rent are also beginning to come of age and could be contributing to demand for additional space. Despite this, the pandemic has exacerbated some trends for higher-quality assets in city centres that are close to amenities, work and leisure.

Despite the surge in interest, there are still difficulties entering the sector. Currently, build-to-rent strategies are hard to establish due to the limited management firms that exist in many countries. With growing maturity and sophistication of investors, growth in private rental opportunities is likely to escalate. In light of this, build-to-sell strategies, through partnerships with local developers, could be one avenue to meet high demand for assets in primary cities.

In the Netherlands, there is a shortage of nearly 300,000 units, the bulk of which need to be affordable. In Italy, Milan has garnered a significant amount of investor interest in the past year, with U.S. and European investors committing to deals. The upcoming Winter Olympics of 2026 in Milan has also prompted a large urban regeneration which is spurring significant residential and mixed-use projects. Overall, this should contribute positively towards future quality in residential assets. Residential is perhaps the most popular sector in Spain, with the segment accounting for nearly a third of total investments. Portugal remains similar to its neighbour and has a pressing need for additional housing. Many projects are even supported by municipalities with tax credits. Meanwhile, the UK has seen growing interest from institutions and local planning authorities are driving much of the demand, with co-working space, roof gardens and storage lockers highly sought after. Manchester has been ahead of the curve here, though Edinburgh and London are growing. Build-to-rent schemes are fairly thin though they are rapidly gaining traction.

Public equity

The European housing sector was one of the strongest sectors over 2020, with almost no impact seen from the COVID-19 pandemic. The robust social welfare system in most European countries, when combined with often highly regulated rental markets and a shortage of affordable housing, meant that rent collections, occupancy and values were almost unchanged even at the worst of the crisis. Most landlords voluntarily delayed or limited rent increases over the period but, given the strongly positive reversionary potential seen in most markets, this should be seen as delaying growth rather than forfeiting it. In less regulated markets such as the UK and Finland, rental growth slowed and vacancies picked up slightly due to higher friction in re-letting during lockdowns and new competing supply from the short-term letting market. Despite this, rental growth slowed rather than reversed and should correct once the situation normalises.

Given the strong demand and limited supply of affordable housing in most markets both rents and values are expected to continue growing. The greatest uncertainty for the sector comes from regulatory uncertainty and the sectors perceived high correlation with long-term interest rates. Regarding the former, fears of tighter rent restrictions limit the economic argument for the investment in new supply needed to increase affordability sustainably. Meanwhile the latter, inflation-indexed rents suggest the level of real rates and not nominal rates should be the real concern, with any slight tick-up in inflation passed through to tenants. With no dramatic change expected, the sector is trading close to NAV.

Hotel

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
↓	↘	↓	↓	↓	↓

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Private equity

Hotel demand has seen an unprecedented decline with tourism, business and conferences sharply impacted by COVID-19. Continental Europe has been particularly hard hit by government-mandated lockdowns and slower vaccine distribution relative to the UK and U.S. Room rates have fallen sharply, and previously sold-out destinations are struggling with unthinkably low occupancy levels. Global destinations such as Paris, London, Rome and Barcelona have been hit particularly hard. Even though owners and operators are struggling with the collapse in leisure and corporate travel decline, there are few signs of financial stress speaking to ongoing forbearance by lenders, the vast majority of which are private. This dichotomy between occupier weakness and capital market strength speaks to the wall of liquidity in Europe making investment opportunities scarce in the current environment.

As a result of strict lockdowns, there has been some cyclical decline in the sector but there could also be longer lasting structural demand changes. Business travel in particular could be impacted as video conferences gain popularity. Although it is yet uncertain how much this will impact the hotel industry, it is increasingly likely that the meetings/conventions segment of the hotel industry will be impacted.

As a result of the pandemic, the hotel industry is unlikely to rebound until vaccination gathers significant pace. Unfortunately, Europe has been slow to roll out its vaccination program in comparison to the U.S. and UK. Once vaccination picks up, however, we expect the hotel industry to emerge from its slumber. Particularly, once international travel begins to return to prior levels. Due to the uncertainty surrounding a rebound, pricing has been sluggish to adequately reflect the risk. As such, many private owners are holding onto their assets until the transactions market picks up.

Public equity

Hotels are a relatively small listed sector in Europe, with only one index play available (Swedish listed pan-European player Pandox, an asset-heavy non-REIT) while other non-index plays are mostly through asset light operators. The sector has generally underperformed the broader property index since the onset of COVID-19 as most hotels were shut in the initial lockdowns (spring to early summer) but domestic leisure and some domestic business travel returned strongly over the summer period, with occupancy improving to approximately 50% of pre-COVID levels before falling off sharply again as the second waves of lockdowns hit in late autumn. As in the case of privately-held assets, suburban and rural locations have fared better through COVID-19 so far, with travel to larger cities slower to return when travel restrictions have eased.

Since the beginning of COVID-19, hotel NAV estimates have declined approximately 10% compared to NAV estimates for the broader listed sector which are flat. At year end, asset heavy hotel stocks traded at approximately 20% discounts to consensus NAV reflecting caution around timing of re-openings and the slower rollout of vaccinations in continental Europe. Asset light players have outperformed on the vaccine-related rally over recent months and are now trading close to pre-COVID highs.

Retail

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
↘	→	↘	↓	↓	↓

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*REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium.

Private equity

Although the retail sector has been impacted the most by the pandemic, the damage has been less than feared. Bankruptcies have risen but have been largely present in the clothing/fashion segment. There will undoubtedly be continued rental declines across most retail formats in the short term, however, due to the acceleration of structural shifts. Capital values are also expected to come under some pressure before reaching a "new normal".

There have been standouts, however, largely due to the heterogeneity of online shopping across Europe. Spain, for example, has seen a lesser impact due to a low e-commerce penetration rate driving occupancy levels in shopping centres near 94%. Prime yields ticked up modestly by 25bps with no price dislocation seen in grocery-anchored supermarkets. Meanwhile, the UK has seen a larger disruption with an outsized presence of online shopping. Regardless, there will be near-term pains for the sector across all regions until rents and values stablise. Going forward, the path towards stabilisation will be largely impacted by the ongoing vaccination process.

In France, different retail formats reacted very differently to the crisis. While yields remained stable on high street retail and retail-parks, shopping centre yields ticked up slightly. Although shopping centres represented 42% of the investment market in 2020, it is important to note that a single transaction (sale of 53% of Unibail-Rodamco-Westfield's (URW)) represented 58% of invested volume on this asset class. At the other end of the spectrum, retails parks represented only 17% of investments, but were limited by the offer rather than the demand, confirming the attractiveness of do-it-yourself (DIY) stores seen in other European countries. Even though foreign investors paused, local investors stepped up and took down 82% of transaction volume compared with 64% in 2019. A key trend in the retail market is the dichotomy between "essential" and "non-essential" retail while e-commerce penetration continues to gain.

Convenience and grocery retail stick out as the crème-de-la-crème due to the ongoing need for groceries, which often contributes sizeable foot traffic for convenience assets. Hypermarkets and supermarkets have also outperformed in some regions, particularly southern Europe. Additionally, DIY locations have outperformed as home improvement accelerates alongside prolonged lockdowns.

Public equity

Retail was the weakest sector in 2020, significantly underperforming all other property types. Existing adverse structural trends were accelerated by the COVID-19 pandemic, with widespread lockdowns forcing faster adoption of e-commerce and disproportionately punishing the previously stronger areas of retail-like leisure and London's West End. Similar to private real estate, convenience and food sub-sectors were more resilient. With shops shut for extended periods and many governments banning evictions for non-payment, rent collections fell as tenants were either unable or unwilling to pay rents when due, while landlords were also forced to offer concessions to help their tenants survive.

Recently renewed lockdowns indicate the pressure on rents will continue this year. While national vaccination programs give hope that retail footfall should recover by the summer, an expected rise in vacancies from retail bankruptcies and weak demand means rents are expected to fall further before reaching a sustainable level, perhaps with a higher proportion of turnover-based rents required in the future. A surplus of sellers (with some forced by balance-sheet weakness into being price-takers), combined with the reluctance of potential buyers to step in when no bottom is visible, means values are expected to continue falling this year. Unsurprisingly given this depressing outlook, retail REITs trade at large discounts to NAV, at an average of 45% below last published NAV. Retail property owners are increasingly looking at repurposing excess space for alternative uses where this makes economic sense.

Healthcare

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
↑	→	↗	↗	↗	N/A

Key: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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The European market for healthcare real estate continues to grow substantially, reflecting the demographic structure of the continent. However, there are material differences in the structure and use of healthcare across Europe. Northern European countries make greater use of assisted care and senior living facilities compared to the south where it is common to find multi-generation living arrangements across households. As a result, the nature of healthcare real estate varies quite widely and understanding the subtle nuances by country becomes critical for investors in assessing opportunities in this sector.

In the north, particularly in Germany, the Netherlands and Austria, there is a strong demand for medical office buildings as well as long-term care communities. The COVID-19 pandemic has also boosted demand for medical centres among institutional investors. Medical office buildings can be marketed relatively easily because of their similarity to office buildings and the tenancy agreements usually run for 10 years or more. Moreover, medical professionals tend to be sticky tenants which usually revolves around restrictions on admission. And this is also where an investor needs to understand the relative positioning of the synergies with other tenants. While medical centres make a lot of sense and offer long-term cash flows, understanding their unique structure and co-location tenants is critical for investment strategies.

The market for long-term care is also growing among the wealthier European markets with Germany once again becoming an important investment destination given its demographic and income profile. Interestingly, a series of legal regulations since 2018 have encouraged patients to seek outpatient care rather than hospitalisation. Operators have been quick to recognise this and have established long-term care facilities which are generally less regulated than hospitals and require fewer nursing staff, enabling higher fees for operators. The challenge emerging is that long-term care is not borne by national insurance but by insurance funds which once again highlights the granular understanding of local regulations that investors need to understand.

In southern European countries, cultural norms, as well as lower income levels, have led to a lower adoption of long-term care facilities. Instead, countries such as Portugal and Spain, have become a growing market for senior private housing catering primarily to foreign residents with higher disposable incomes. Spain represents a large opportunity pool, however. With one of the highest life expectancies and a growing elderly population, the country is experiencing a lack of supply for current and future residents. Much of the stock also lacks institutional ownership, but the consolidation is underway. In Portugal, higher income residents are also expected to create demand for such retirement communities which can deepen the pool for institutional capital.

Data centres

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
↑	→	↑	↑	↑	N/A

Key: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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The pandemic has focused investor attention towards data centres as an asset class that has become a vital cog in the infrastructure of the European economy. Data usage is growing exponentially higher among consumers and businesses, leading to greater demand for the product type. The main occupier groups are the co-location operators and the cloud service providers, with the latter under huge pressure to expand. In order to do so, they are taking space in co-location assets, partnering with developers and developing their own assets. To meet this surge, co-location groups (traditional owners of data centres) are responding through evolving lease contracts and an institutionalisation of their operating model. Location is key and co-location operators and hyper-scalers are fighting for space. The intense use of data is only going to increase as enterprises begin to re-imagine what their set-up should look like and are looking to set up scalable models utilising co-location space and public cloud space.

The main markets in Europe are Frankfurt, London, Amsterdam and Paris, collectively known as the FLAP markets. Of these, London is the largest with around 40% of the total FLAP supply, followed by Frankfurt (25%), Amsterdam (23%) and Paris (12%).

Paris is the most constrained market, with the lowest vacancy rate. Frankfurt is currently seeing a huge spike in occupier demand currently and the most development activity. However, the majority of the development pipeline, which can be measured through the pipeline of power coming to the market from the national grid, is already reserved by end users for the foreseeable future.

Due to the lack of development opportunities in the FLAP markets, data centre companies are also looking at secondary locations to house less latency-sensitive activities and to move certain activities closer to specific populations. These secondary locations include Madrid, Barcelona, Geneva, Zurich, Milan, Poland and the Nordics.

As more groups gain investment credit ratings, we can expect to see more sale and leaseback transactions as they can achieve more attractive yields and they are not so reliant on holding the real estate to bolster their credit rating. Likewise, as enterprises re-imagine their IT infrastructure, they generally move away from holding their own data centres and this should increase investment activity.

Student housing

Sector rating	New supply	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
↑	→	↑	↗	↗	N/A

Key: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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A well-established institutional property type in the U.S. and UK, student housing is becoming a significant investment destination on continental Europe. While traditional educational powerhouses, such as Germany and France, continue to be highly sought after, growth in world-class educational establishments across Europe is spurring a spate of housing opportunities. For example, in Spain, there is a structural shortage in supply with an estimated 97,000 beds available while approximately 470,000 are required. Spain has a very large number of international students (30%) and represents a large chunk of demand. Most existing product is outdated and not in institutional ownership, making this sector ripe for investment opportunities. Portugal is a similar story with the majority of student housing provided informally. Given a large number of foreign students (50,000), there is potential opportunity for institutional ownership and management of student housing particularly in the traditional "student" cities such as Lisbon, Porto, Coimbra and Braga.

Moving north, student housing is a much more established institutional asset class. Germany, Netherlands, France and the UK have very large student bodies with a significant international composition. These markets continue to attract strong institutional interest as the number of global students increase with many northern European institutions breaking into the top ranks of higher education. Cities like Paris, Milan, London, Cambridge and Oxford have large, well-established higher-education institutions and continue to generate strong global interest. The relative mismatch between demand and supply of modern student accommodation in these markets has led to a strong run up in values relative to conventional housing as well as a greater focus on build to core strategies given the relative attractiveness of development yields because of the high barriers to entry in many of these markets. We expect ongoing institutional interest in student housing not just in traditionally strong markets but also in cities establishing themselves as competitive centres of higher education.

Risk considerations

Investing involves risk including possible loss of principal. Past performance is no guarantee of future results. Potential investors should be aware of the many risks inherent to owning and investing in real estate, including: adverse general and local economic conditions that can depress the value of the real estate, capital market pricing volatility, declining rental and occupancy rates, value fluctuations, lack of liquidity or illiquidity, leverage, development and lease-up risk, tenant credit issues, circumstances that can interfere with cash flows from particular commercial properties such as extended vacancies, increases in property taxes and operating expenses and casualty or condemnation losses to the real estate, and changes in zoning laws and other governmental rules, physical and environmental conditions, local, state or national regulatory requirements, and increasing property expenses, all of which can lead to a decline in the value of the real estate, a decline in the income produced by the real estate, and declines in the value or total loss in value of securities derived from investments in real estate. Direct investments in real estate are highly illiquid and subject to industry or economic cycles resulting in downturns in demand. Accordingly, there can be no assurance that investments in real estate will be able to be sold in a timely manner and/or on favorable terms.

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