JLL | Achieve Ambitions

European Residential

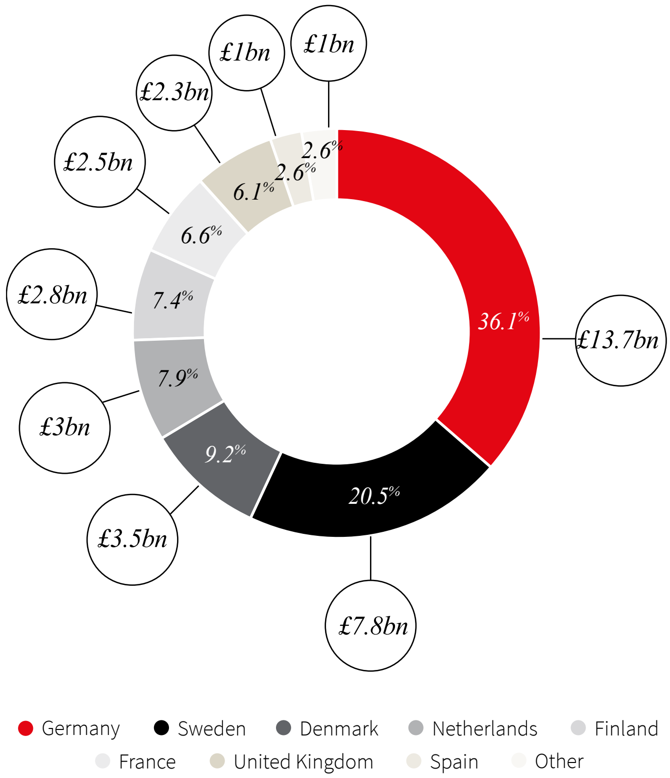
A €38 billion market

EMEA Residential Research | Spring 2017

European Residential *Investment*

- Investment in European residential totalled over €38 billion in 2016, including stabilised assets, development deals as well as corporate transactions.
- This figure is a modest decline on 2015 volumes, but represents a surge in direct investment activity as 2015 was dominated by two large corporate acquisitions that distorted annual totals.
- This year, the market has continued to experience a growth in demand from a wider range of global investors attracted to the stable income profile and possibility of driving scale. This appetite is expected to grow unabated for the foreseeable future.
- 2016 was record breaking for Scandinavia's two largest residential investment markets, Sweden and Denmark. In Sweden, this growth was spurred by new Government subsidies directly set up to encourage residential development, while Denmark is characterised by significant inflows of foreign capital that have provided local developers with attractive exit opportunities. This growth has continued in 2017.
- There was an uptick in large cross-border transactions over 2016 as the number of multi-national deals rose. In Sweden, the number of foreign investors doubled, despite volumes only increasing by €18 million.
- 2016 signified the first institutional investment in the Polish residential market, with two German open-ended funds - Catella and Bouwfunds - completing two forward funding deals in Warsaw.

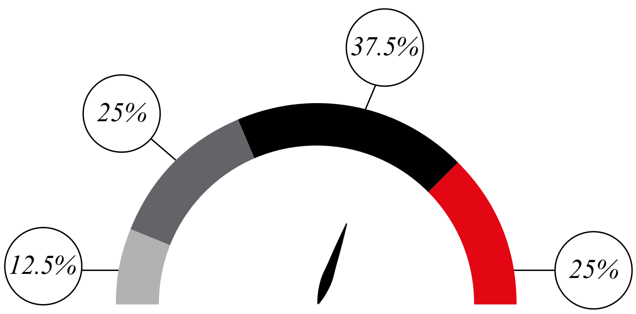
European residential investment
A €38 billion market



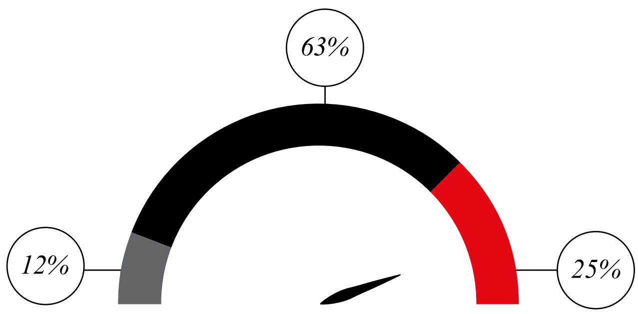
Future Expectations

We asked JLL's market experts for their view on European residential investment market trends.

How do you expect residential investment volumes to evolve in the short term?



How do you expect foreign residential investment volumes to evolve in the short term?



Decrease Significantly · Decrease Slightly · Stay the Same · Increase Slightly · Increase Significantly

Over 60%
of respondents believe volumes will increase either slightly or significantly.

Nearly 90%
of respondents believe volumes of foreign capital will increase in the short term.

The spotlight on German Residential

How do you expect the German residential investment market to perform in the next 12 months?

Germany is still generally high on the list of priorities for international investors. The growth in city populations, the continuing inward migration, robust economic structure and rising affluence are resulting in a rise in demand for apartments. New-build volumes are rising, but still lag behind the growth in demand in the major cities. Low interest rates also support residential investment compared with government bonds as an alternative, stable asset class.

Do you anticipate non-domestic volumes of capital to increase?

Foreign capital, particularly from Asia, is on the lookout for lucrative and low risk investments with value enhancement potential. Even the political discussions relating to residential property prices and the rental price cap have not dampened recent demand for residential property as an investment product.

What problems currently face the market?

The market is limited by the lack of available product. Most large-scale portfolios have changed hands over the last few years. The trade in project developments and portfolio rationalisations cannot fill this gap. If there are no large-scale mergers of residential property portfolio owners, as has been rumoured, the transaction volume is likely to be in the order of €15-17 billion per annum in the next few years.

Konstantin Kortmann
Head of Residential Investment, Germany

Germany

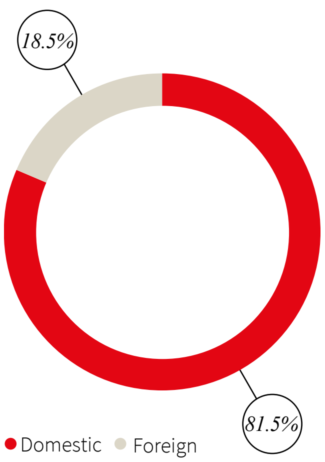
2016 was characterised by an above-average transaction volume, although there was no repeat of the record performance of 2015, which was fueled by high M&A activity.

The volume of €13.7 billion and 137,000 apartments was actually only 54% of 2015's volume and included just two deals with volumes in excess of €500 million. In 2015 there had been six such deals which accounted for more than half of all transaction volume, but this figure was just 20% in 2016.

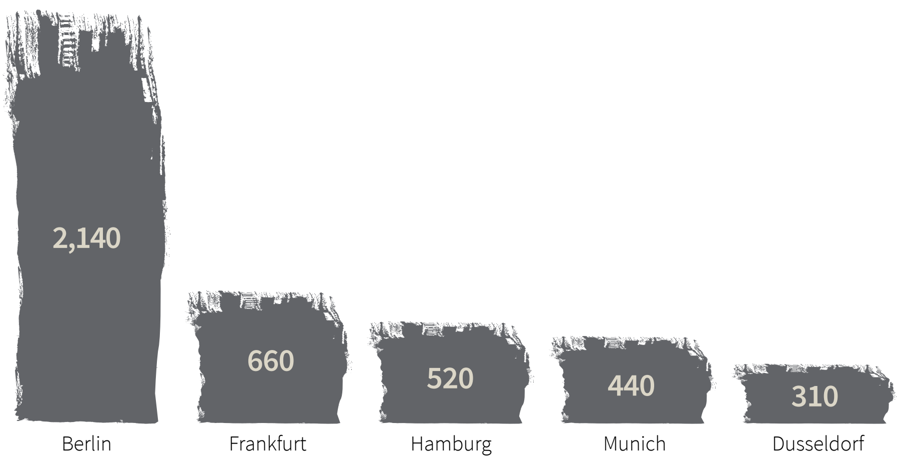
The few large-scale transactions, most recently involving the takeover of a controlling interest in Conwert SE by Vonovia SE, have had an effect on the overall structure of residential investment deals. The average portfolio size fell to around 360 units, which was the third lowest number over the last 10 years. However, the average price per residential unit rose to €100,000 per apartment. The principal reason for this is the sales of higher value portfolios and many upmarket project developments, in combination with the accelerated price rises in big cities. The volume of forward deals exceeded the €3 billion mark for the first time in 2016 and more than one quarter of all transactions were attributable to project developments.

Germany remained popular with international investors as foreign capital, particularly from Asia, is on the lookout for bond-like return on investment as global business uncertainty increases. Growing volumes of overseas capital is expected to continue in the coming year despite heightened competition for product.

Source of capital



City investment (€mn)



Largest transactions by unit number

Location	Vendor	Purchaser	Units	Purchase Price (€ mn)	Date
Nationwide	Streubesitz	Vonovia	20,500	1,677	Q4 2016
Nationwide	BGP Holdings	Morgan Stanley	16,000	1,177	Q4 2016
Gera	Insolvency Administrator	Benson Elliot	5,000	Confidential	Q3 2016
Nationwide	Bouwfonds	Patrizia	3,500	Confidential	Q4 2016
Nationwide	Corestate Capital AG	Confidential	2,700	103	Q1 2016

France

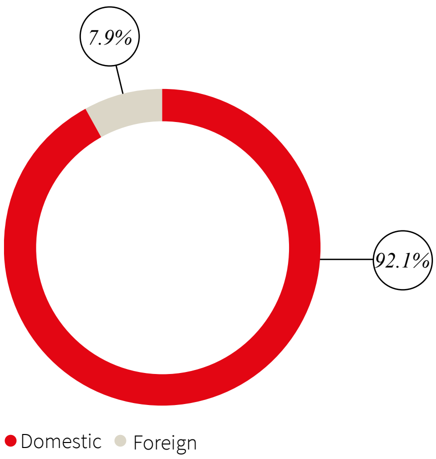
Yearly residential investment volumes remained stable in 2016 at around €2.5 billion, following strong investment in the second half of the year of around €1.4 billion.

The 2016 market was once again dominated by investment in the French capital and it's surrounding region, with almost 95% of activity coming from Paris and the surrounding Ile-de-France region.

The French residential market remains attractive for institutional capital, with regulatory stability and comparatively higher yields than domestic office and retail markets.

Despite a lack of tradable stock across the country, long term investors and social landlords are currently the most active in the market, with PRIMONIAL and Action Logement being two noteworthy examples. Institutional investors remain active in selling weaker performing assets, which are usually located in regional areas and require significant capital investment for renovation. Given the high level of demand, opportunistic funds and social investors remain active in acquiring residential stock.

Source of capital



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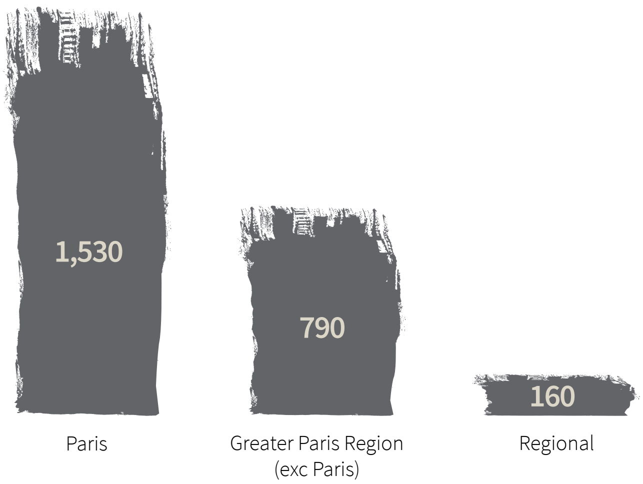


Largest transactions by unit number

Location	Vendor	Purchaser	Units	Purchase Price (€ mn)	Date
Greater Paris	SEMABA	IDF Habitat	2800	163	Q4 2016
Greater Paris	Confidential	Primonial	280	83	Q1 2016
Metz	Aegide	Erafp	120	27	Q3 2016
Greater Paris	CNP	Primonial	90	18	Q4 2016
Greater Paris	AG2r	OGIF	80	20	Q4 2016

Netherlands

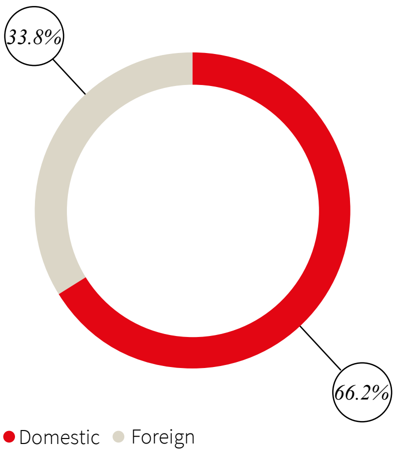
The 2016 market was characterised by multi-location portfolio deals as opportunities in Amsterdam proved scarce. Annual transaction volumes were stable at €3 billion per annum following strong investment in Q4 of over €1.2 billion.

The Dutch capital observed a significant 55% decrease in volumes for traditional residential investment due to a lack of tradable product. As a result, investors targeted opportunities in Utrecht, Rotterdam and The Hague. Total volumes in Utrecht were just over €340 million, close to the typical level for Amsterdam. Meanwhile, 2016 volumes for Rotterdam doubled in comparison to 2015 levels.

Investments in these locations represented a mix of multi-family residences, both newly built as well as office-to-residential conversion projects.

The latter investment category is more softly priced than the typical residential investment product and given the scarcity of residential space in the Randstad, this type of product is interesting to investors too. Syntrus Achmea's Plaza West forward-funding deal in Haarlem represented the second largest deal in Randstad and will deliver 542 apartments upon completion. UK-based Roundhill Capital also acquired a $110 million portfolio which consists of 980 units.

Source of capital



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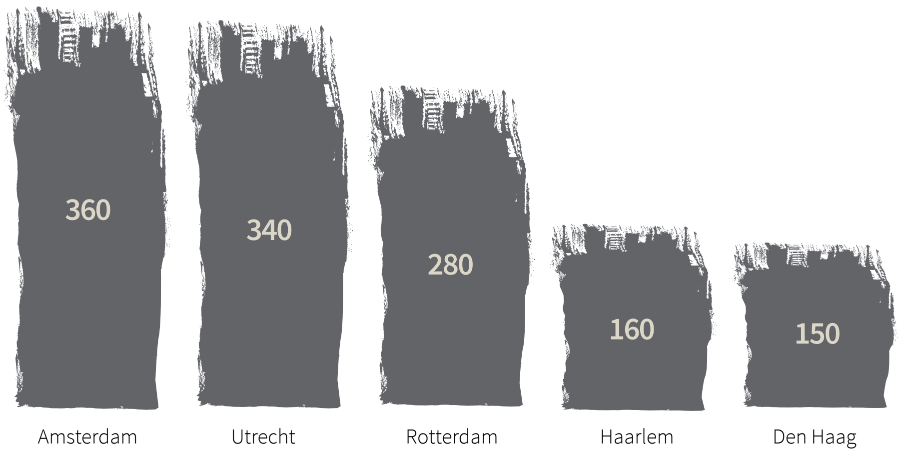


Largest transactions by unit number

Location	Vendor	Purchaser	Units	Purchase Price (€ mn)	Date
Nationwide	Holland Immo Group	Patrizia	1275	152.5	Q1 2016
Nationwide	Grouwels Vastgoed	Round Hill Capital	980	110	Q2 2016
Rotterdam	Stebru & Boag	Greystar	612	91.8	Q4 2016
Haarlem	Plaza West Haarlem	Syntrus Achmea Real Estate & Finance	542	145	Q4 2016
Utrecht	Esprit Projectontwikkeling	Mitros en Portaal	510	40	Q4 2016

Sweden

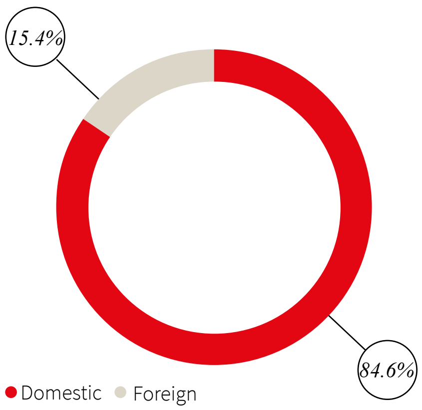
Total transaction volumes in Sweden reached a record turnover of €7.8 billion, by far the highest turnover this market has ever seen. The full 2016 figure represented an almost 100% increase on 2015 volumes.

2016 finished with a flurry of activity, with Q4 volumes representing just over half of the year's total figure. Blackstone's €918 million acquisition of a majority of shares in the listed company D. Carnegie represented a large proportion of this end of year activity and signified the company's second major deal in the country. Combined with heightened activity from other foreign investors, the level of domestic investment in Sweden fell 13% last year as a proportion of aggregate volumes, albeit rising in absolute terms.

Stockholm saw impressive investment volume growth of almost 60% over the past year, while the number of deals was also up by 25%. Örebro, Malmö and Borås also saw unprecedented levels of investment.

The volume of development deals rose markedly and exceeded €2 billion for the year, a 230% increase on 2015 volumes (€600 million). With significant housing supply deficits across most of the country and a new government subsidy to encourage new build development, it is anticipated that development volumes will continue to grow over the medium term.

Source of capital



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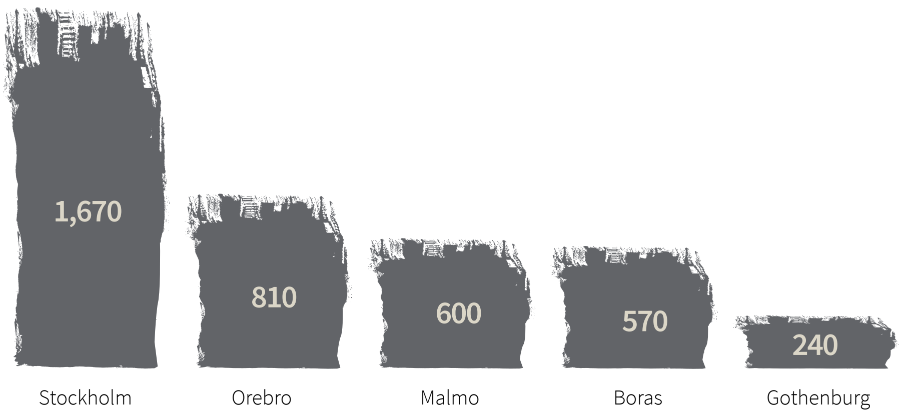


Largest transactions by unit number

Location	Vendor	Purchaser	Units	Purchase Price (€ mn)	Date
Nationwide	Akelius Fastigheter AB	Willhem AB	4032	540	Q2 2016
Karlskrona & Malmo	Confidential	Victoria Park AB	1917	190	Q3 2016
Malmo	MKB Fastighets AB	Fastighets AB Balder/Victoria Park AB/Heimstaden/ MKB Fastighets AB	1661	121	Q4 2016
Vaxjo	Växjöbostäder AB	Heimstaden	921	78	Q3 2016
Umea	Areim/Lerstenen Fastighets AB/ Blackstone Group	Rikshem AB (AP4/ AMF)	800	77	Q4 2016

United Kingdom

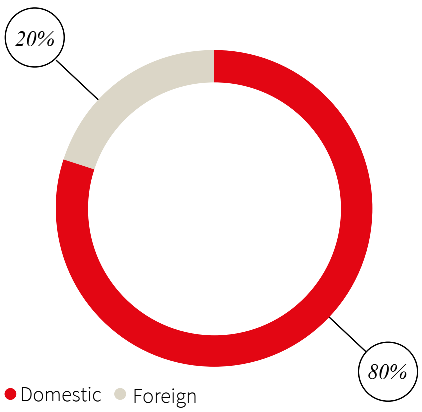
United Kingdom 2016 investment volumes totalled €2.3 billion, a slight fall on 2015's figure. The year started promisingly, with over €1 billion euros traded in the first quarter alone, including five deals with volumes in excess of €100 million.

The build up to the EU referendum vote saw a marked reduction in investment in Q2, although volumes bounced back in Q3. Despite increased uncertainty following last year's EU Referendum vote, the UK residential market responded positively with a 4% increase in total volumes in the first three quarters of the year when compared with the same period in 2015. A Q4 drop in transactions curbed expectations of another record year for volumes in this nascent UK property sector.

Regional investment in Build to Rent continued to gain momentum during 2016. Joint venture developers Moda Living and Apache Capital Partners unveiled plans for a €190 million development opportunity in Birmingham, which will deliver 450 apartments. Greater Manchester, Birmingham and Bristol have all received increased levels of investment while in contrast, London saw a near 50% drop in total volumes year on year.

The UK still remains behind European peers in terms of volumes but the British Property Federation now estimates that there are 83,000 institutional-grade residential units either with planning permission, under construction, or now complete. Furthermore, with more vocal and explicit Government support it is anticipated that the market will continue its strong growth trajectory in 2017.

Source of capital



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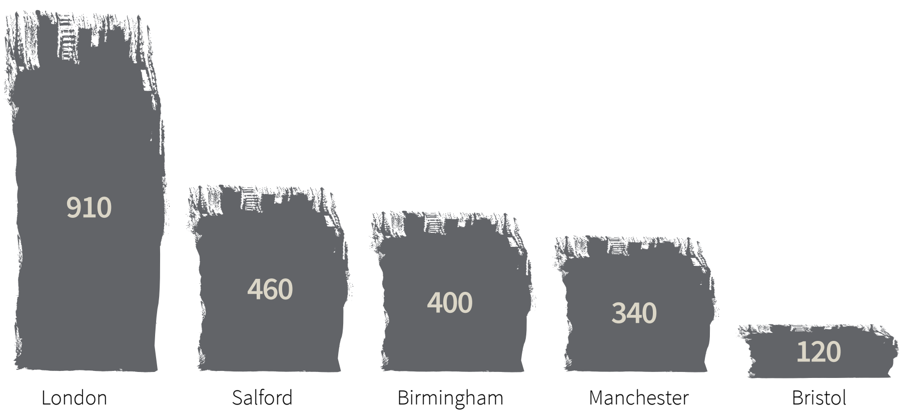

Largest transactions by unit number

Location	Vendor	Purchaser	Units	Purchase Price (€ mn)	Date
Birmingham	Confidential	LaSalle Investment Management	603	130	Q2 2016
Manchester	Capital & Centric / Henry Boot Developments	Confidential	550	Confidential	Q4 2016
Salford	Renaker Build	LaSalle Investment Management	497	129	Q3 2016
Biirmingham	Cordwell Property Group / Richardson Brothers	MODA Living, Apache	450	171	Q3 2016
Sheffield	Lonestar	Europa Capital, Addington Capital	444	43	Q3 2016

Final word

Residential is not a new asset class in Europe. However, the stable income profile and large lot sizes have made it of greater interest to European investors in recent years. Domestic investors with a residential track record are leveraging this experience in new markets, while capital flows from outside the region are also expected to grow. Domestic investment will continue to dominate activity overall, but the growing weight of capital is encouraging asset management opportunities alongside investment in new stock, particularly in gateway cities.

Cross-border investment in residential is not without its challenges. Each country has regulatory differences that can complicate the execution of a multi-market strategy. However, there is a low correlation in relative performance across countries that means there are additional benefits from this targeted sector focus with built-in risk mitigation. JLL expects continued growth in appetite across the main European markets, supporting asset prices and competition across the sector into 2018.

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