European *Living*

What's the investor appetite?

Introduction

The investment landscape in Europe is changing, with demographic, social and economic drivers having significant impact on investors' allocations.

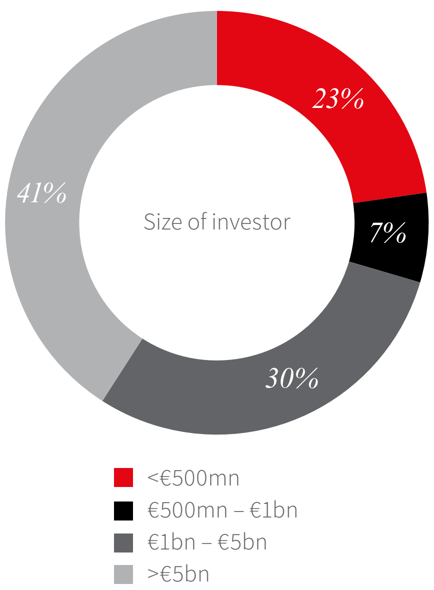
These changes are reshaping the investment potential for the Living sectors – which includes the traditional residential sector, student housing, coliving, multifamily and healthcare. Living has emerged as one of the most exciting opportunities for investors in European real estate. However, the scale and form of investor appetite has been unknown, until now.

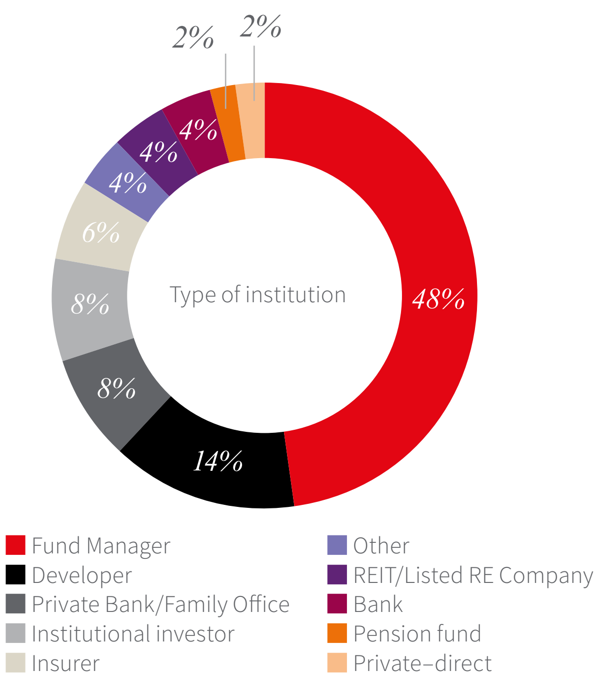
This report provides a summary of our survey that captures global investment appetite into EMEA Living assets, with responses from 50 investors representing over €3.2 trillion in assets under management (AUM). It encompasses a varied group too, both in terms of scale and type of investor. However, they share a common interest in European Living opportunities, with 78% already invested in the sector.

Allocations into this sector are set to grow by 30% in 2019, up from €69bn in 2018, driving yield pressure and the need to identify more nuanced tactical decisions. This shows up in the spread of geographies, sub-sectors and willingness to take on development risk for many respondents.

But despite this increasing appetite, the European Living sector is not well understood or tracked. This survey, the first of its kind, marks a big step forward to improve market transparency and demonstrate the significant interest in assets in this sector.

JLL is committed to helping investors identify solutions to their Living investment ambitions in Europe, and this survey is a key platform to anticipate the market evolution.





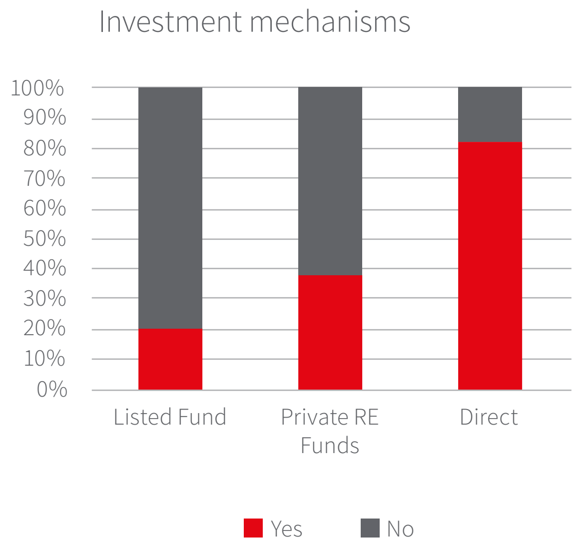
Investor actions & expectations

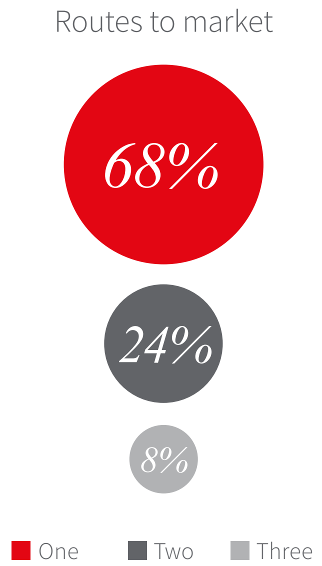
Routes to market

Survey respondents are most likely to invest directly into Living, with 82% choosing this route to market and 38% using private real estate (RE) funds.

68% of investors only use one mechanism to invest, with only 8% using all three in different ways.

This reflects a combination of factors. Historically, the weight of capital invested in the sector was from investor / landlords that sought to churn or expand their portfolios. At the same time, the opportunities through the listed sector for pure Living assets is narrow, compared with commercial real estate. Finally, to drive value in Living assets it is preferable to have direct control over the operating platform



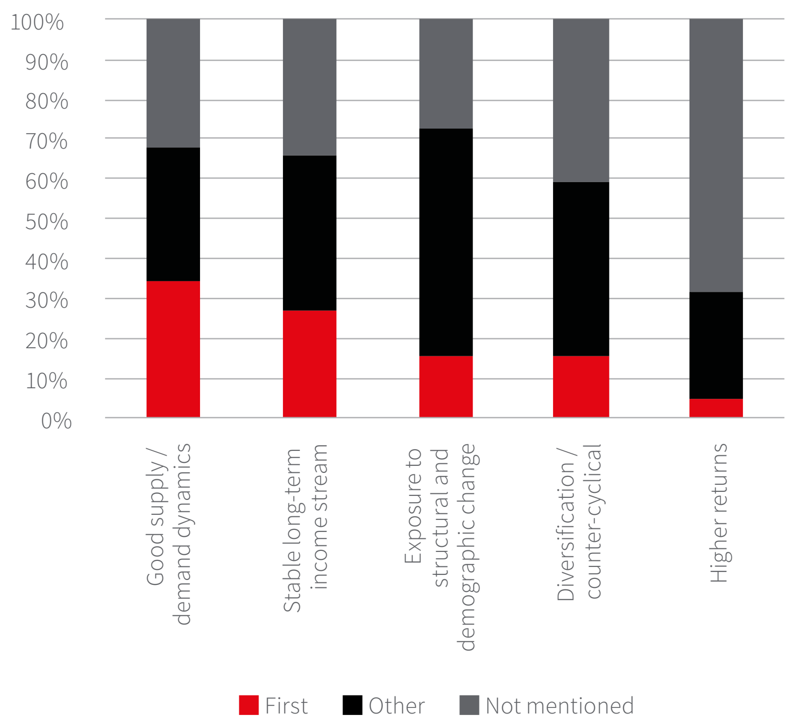


Reasons for investing in Living

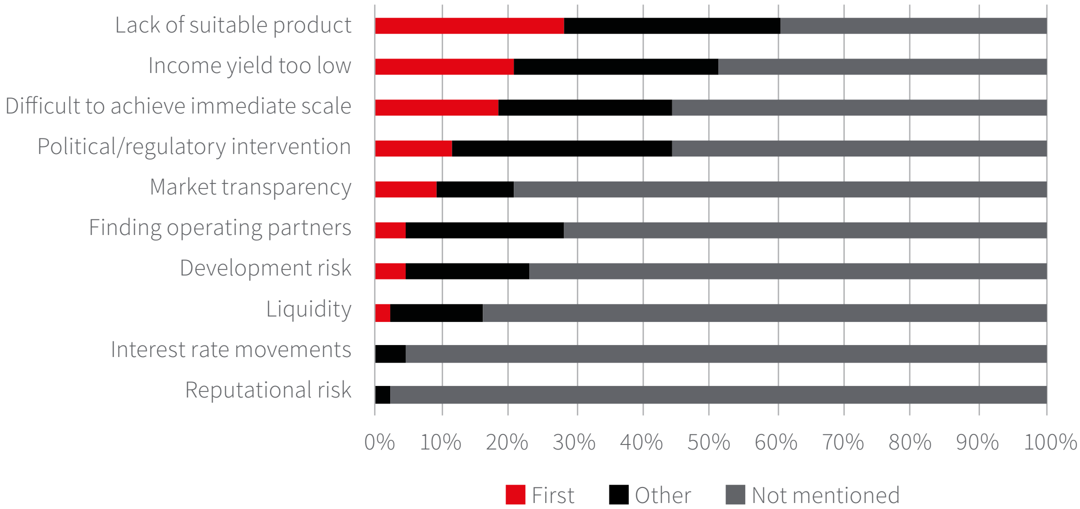
68% of respondents sought to take advantage of the weak supply response to Living demand dynamics. This was reinforced by the 73% who are specifically drawn to the sector by changing demographics such as:

- increasing student numbers
- declining household sizes
- ageing population; and
- urbanisation

Although 66% identify Living's stable income stream as a key investment driver, barely one third are attracted by higher returns, with less than 5% targeting outperformance as a primary driver. The rationale and expectation for investing is clear.



Barriers to investing in Living

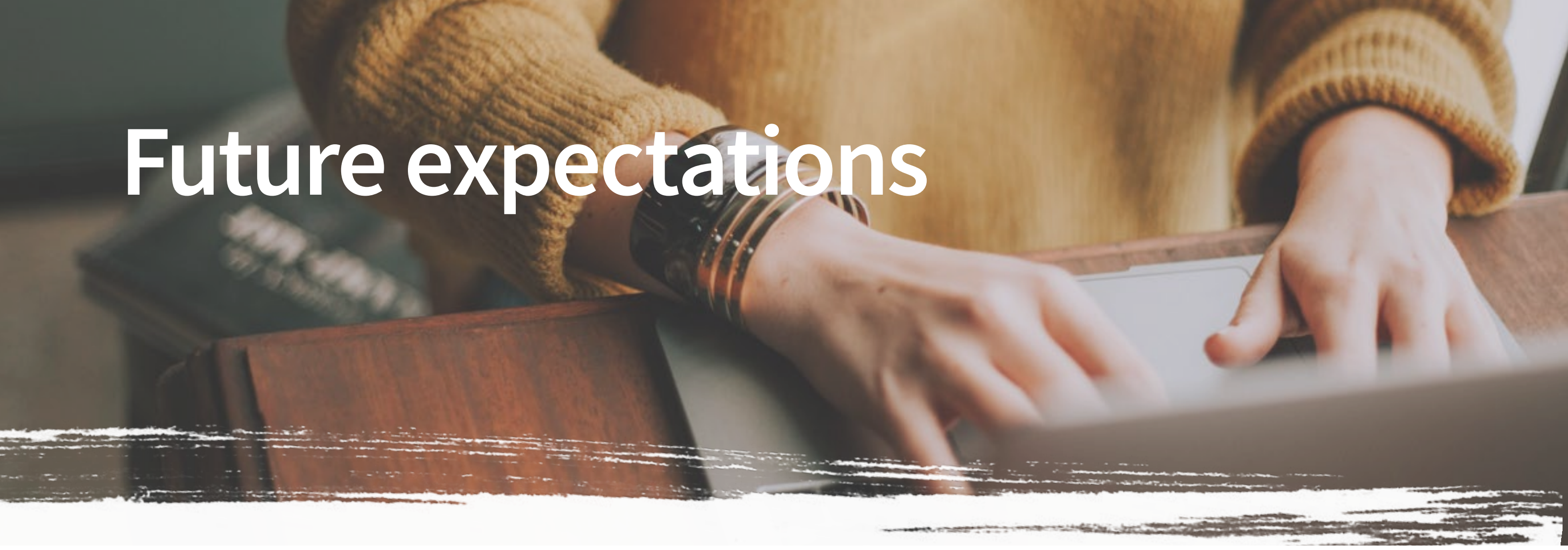


At €69 bn, 2018 investment volumes for Living are still significantly below offices volumes. However, residential is likely to overtake retail as the second largest sector in 2019. Barriers to growing the market vary, both in terms of the choice of sectors to target and deploying capital once committed.

Two of the top three barriers relate to the investment-grade product. While this differs country-by-country, investors generally chose to avoid development risk. This is aligned with the rationale for Living investment, but contrasts with the overwhelming need for new development, alongside asset management strategies, to suit modern demand priorities.

Interest rate movements and reputational risk are hardly considered barriers to investment. Liquidity is only perceived as a barrier by 16% of respondents, which reflects the growth in aggregate volumes across Europe over the last few years.

Despite varied barriers to Living sub-sectors, there is no dominant impediment. The strongest barrier, a lack of suitable product, can easily be interpreted as an opportunity for some willing to take greater development risk.

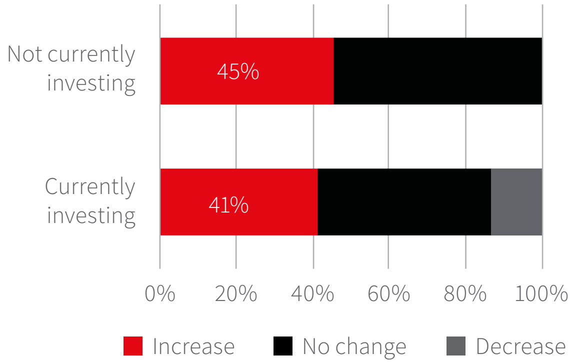


Future expectations

Future allocations

79%

of investors want to expand into new Living European markets



+30%

growth in Living assets under management

A majority of investors want to increase target allocations to Living. 41% of existing investors want to increase exposure and of the respondents that are not already invested in Living, 45% are seeking new opportunities. New capital would be allocated at an average of 9% of total AUM; using the average AUM of survey respondents, this equates to €40bn of new capital into the sector.

Nearly 8 in 10 investors want to expand into new European markets to access Living assets.

The most popular new markets were the Netherlands and France, followed by Spain and Ireland. All countries have relatively high levels of interest from investors.

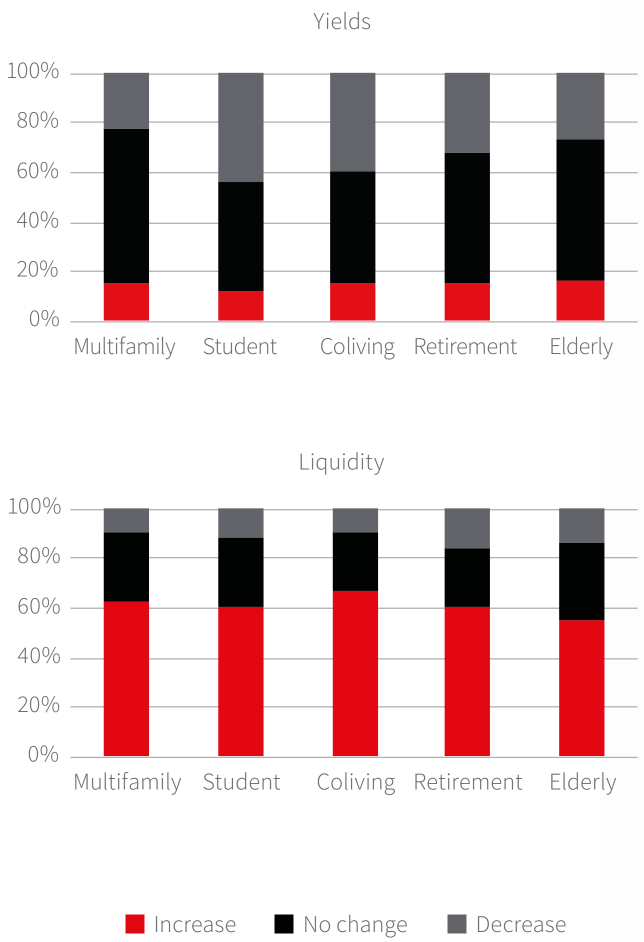
When combined with current allocations, the UK was the most appealing market, with over three quarters either investing or identifying this as a target market.

Market	% identifying as a new target market	% active or wanting to be active in market
UK	11%	68%
Germany	23%	57%
Netherlands	34%	57%
Sweden	32%	48%
France	27%	45%
Spain	25%	41%
Ireland	14%	25%
Denmark	18%	23%
Finland	16%	20%
CEE	18%	34%
Other	20%	39%

2019 market expectations

Market expectations for the coming year across Living sub-sectors are relatively constant. There is a net balance towards tightening yields across all sectors, with the highest expectation coming in the student sector, which currently offers relatively attractive yields compared with other Living sectors.

Given its early-market stage, coliving is seen as the most likely sector to increase in investment volumes, with nearly three quarters agreeing it will. A majority (between 56% and 67%) thought liquidity will increase in other sub-sectors as well, showing strong investor confidence in European Living.



Technology and sustainability

Digital disruption is transforming Living assets in a myriad of ways. Operating platforms have been investing heavily in new methods for monitoring building performance and in more nuanced ways of communicating with residents. Importantly, it is also about connecting residents with each other.

Proptech is also changing building construction. Off-site manufacturing contributes to much quicker delivery, and that means faster lease-up periods that directly improve revenue forecasts. Institutional investors have the opportunity to drive new supply chains, and simultaneously contribute to meeting climate change commitments through the creation of manufactured homes using precision engineering.

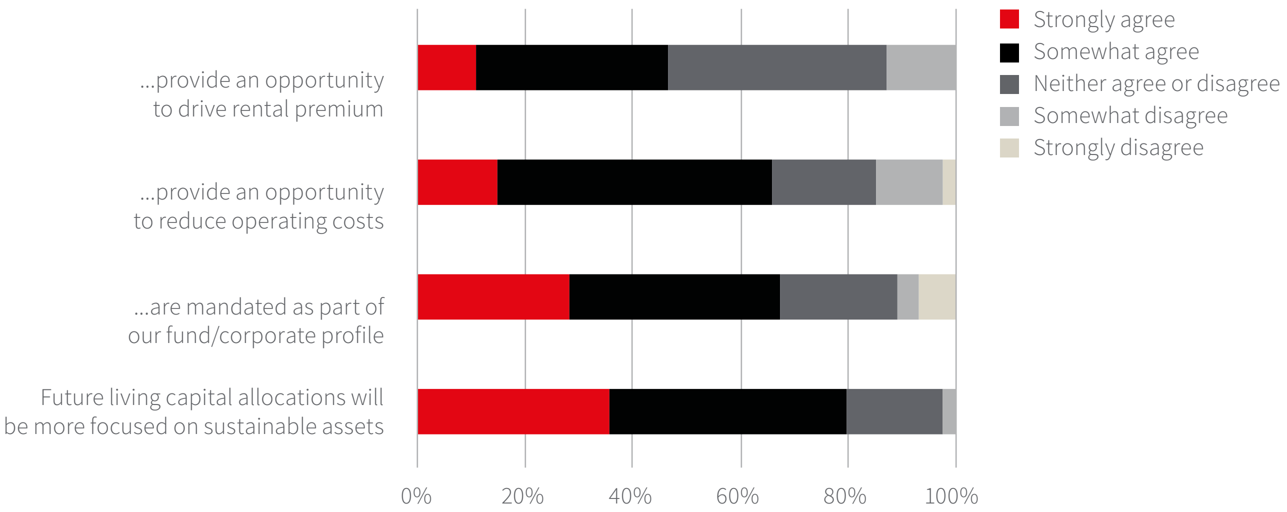
Sustainable Living assets

Respondent attitudes to sustainable Living assets are generally positive. Over two thirds of respondents have sustainable Living assets mandated within fund or investment structures.

Investors are biased towards sustainable assets to reduce operating costs rather than driving rental premiums. There is however an age bias; the marketability of sustainable assets are thought to be more appealing for coliving, multifamily and student, compared with retirement living and elderly care.

80% agree that capital allocations are driven by sustainable assets. Top line or bottom line, this is a strong predictor for the direction of travel for new product delivery in the Living sectors.

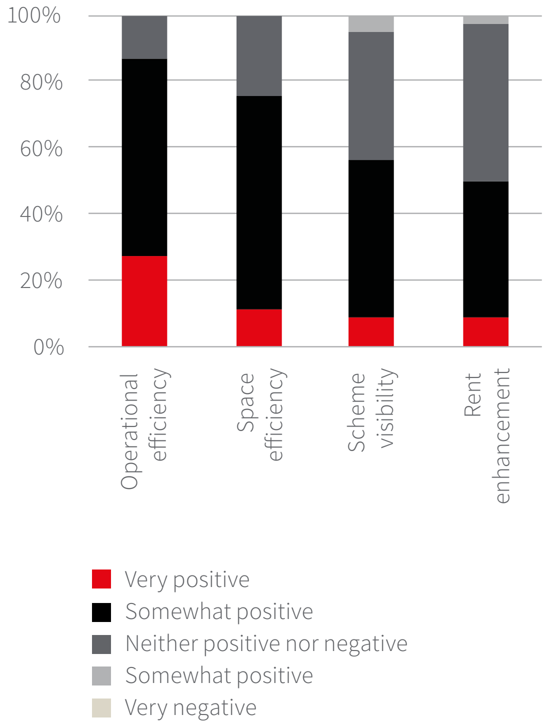
Sustainable Living assets...



Technology and Modern Methods of Construction (MMC)

Investors have a broadly positive view of the role technology can play within the sector, particularly around operating and space efficiencies. Still, 57% and 50% respectively agree that it could help with scheme viability and rent enhancement respectively.

Respondents are also positive about the outlook for MMC, with 87% believing it will increase as a proportion of overall delivery. This is much higher than the proportion who believe in MMC purely for its impacts on cost reduction, suggesting that cost mitigation is only one of the factors driving the industry's pivot to off-site manufacturing.



68%

agree MMC is an opportunity to reduce operating costs

62%

agree MMC can deliver more quickly to secure an income stream

87%

agree MMC will increase as a % of overall delivery

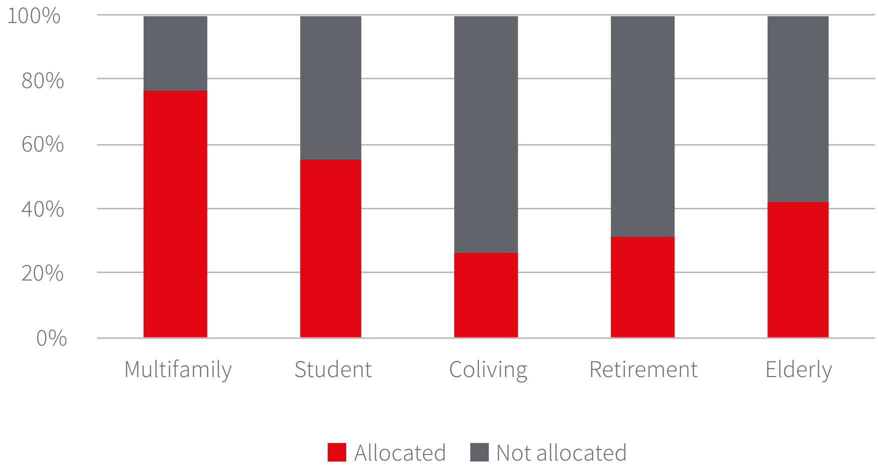
Current allocations

Our survey respondents allocated an average of 19% of assets under management (AUM)* to real estate investments, and of this gave 21% to European Living investments. 22% of respondents have no current exposure to European Living assets.

The UK is the most popular destination for Living investments, followed by Germany and the Netherlands.
The latter two have mature multifamily markets, while the UK's large student and healthcare sectors are the main targets in this market. Growing UK multifamily opportunities are attracting investors to diversify across the Living spectrum.

Multifamily is the most popular sector, based on current allocations. Over three quarters of the respondents have some exposure and a quarter allocate more than 90% of their Living capital to the sub-sector.

% of respondents with some allocation to sub-sector

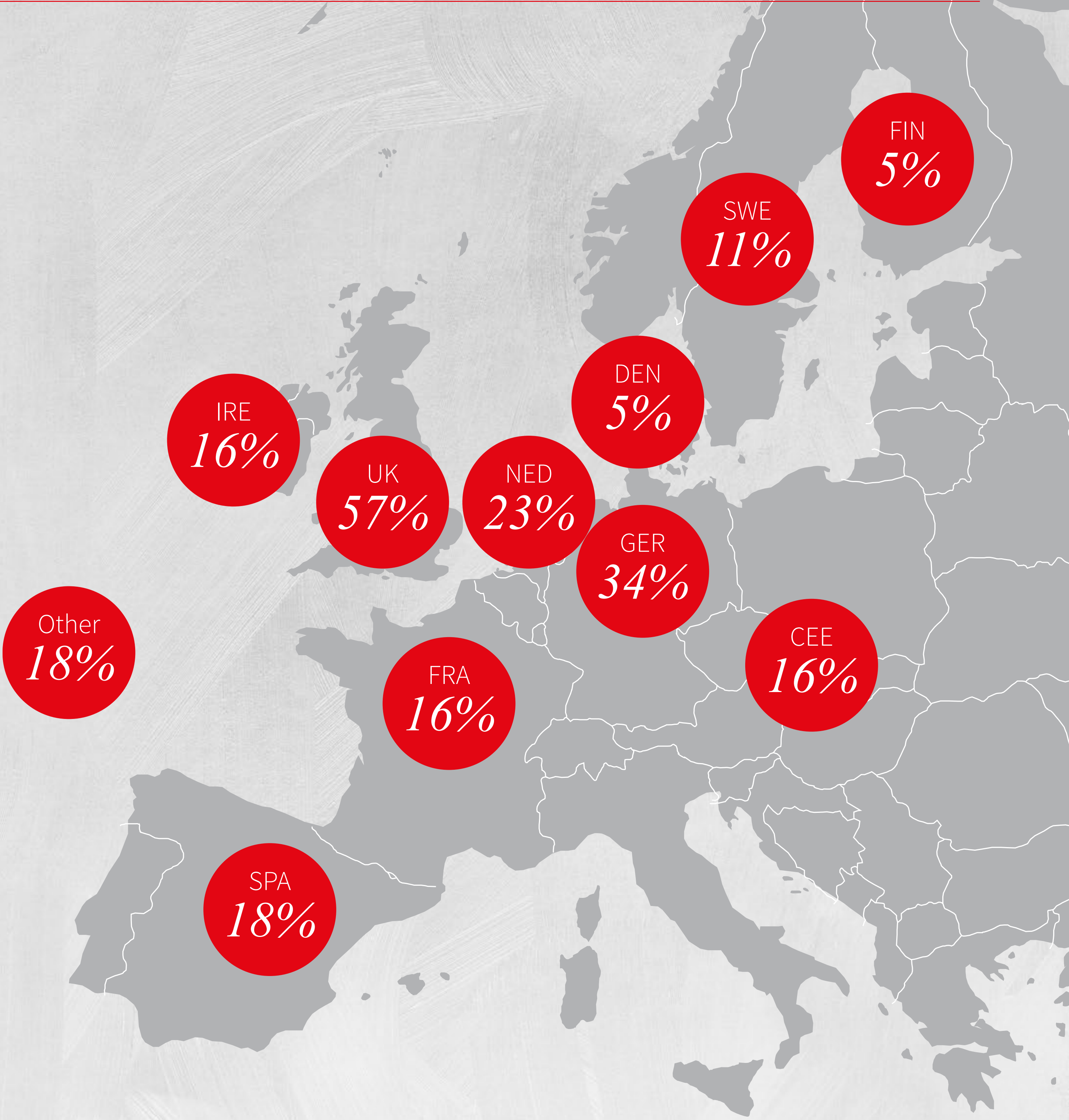


55% have student exposure and more than 50% are involved with either healthcare (retirement or elderly) Living product.

The emerging coliving sector attracts a smaller allocation of up to 10% of total Living capital.

* this proportion is significantly above norms and reflects the Living investor bias in the survey

% allocation of respondents, by country



*as a proportion of respondents currently investing or planning to invest

19%

allocation to real estate [as a % of global AUM]

21%

allocation to European Living [as a % of real estate allocation]

22%

of respondents have no exposure to European Living

Final word

Living is set to experience strong continued capital inflows. Set against the backdrop of macroeconomic and political headwinds of commercial property, the story for the European markets is strong.

However, that doesn't necessarily mean it's easy. There is a mis-match of capital ambitions against available stock across all sub-sectors and as a result there will be pressures to take on development risk, which a majority of investors are reluctant to do. Partnerships become more important in this respect, yet there are very few multinational developers of Living assets to choose from. This implies a need for strategies that take care to identify specific markets, before scaling up.

Although regulation is only viewed by 44% as a barrier, there is natural variation by sector. The opportunity to grow the student sector will be conditional on institutional relationships at a local level. However, as observed in the UK, the scale up can be rapid once these relationships with ambitious institutions have been secured. The elderly/healthcare sectors in contrast are held back to an even greater degree by cultural norms and the evolving role of state care and apportionment of care costs. Notwithstanding, the tailwinds to find modern solutions to the 'time bomb' of ageing Europeans, who expect to retain a high standard of living, will be for Governments to action.

The overwhelming potential for growth of the Living sector in Europe is clear to see from the survey. A number of complex challenges will hold back investment volumes in the near-term. However, the investors who are able to see through this to create opportunities, are likely to be well rewarded.

Contacts

Andrew Frost
Head of EMEA Living
andrew.frost@eu.jll.com
+44 (0)20 7087 5566

Adam Challis
Head of Living Research
adam.challis@eu.jll.com
+44 (0)20 7399 5324

Matthew Richards
Head of EMEA Capital Markets
matthew.richards@eu.jll.com
+44 (0)20 7399 5458

Simon Scott
Lead Director
Living Capital Markets
simon.scott@eu.jll.com
+44 (0)20 7852 4001

JLL

Aberdeen Standard Investments

jll.co.uk/living