JLL | Achieve Ambitions

European Residential

Investment Market Update

EMEA Residential Research | Spring 2018

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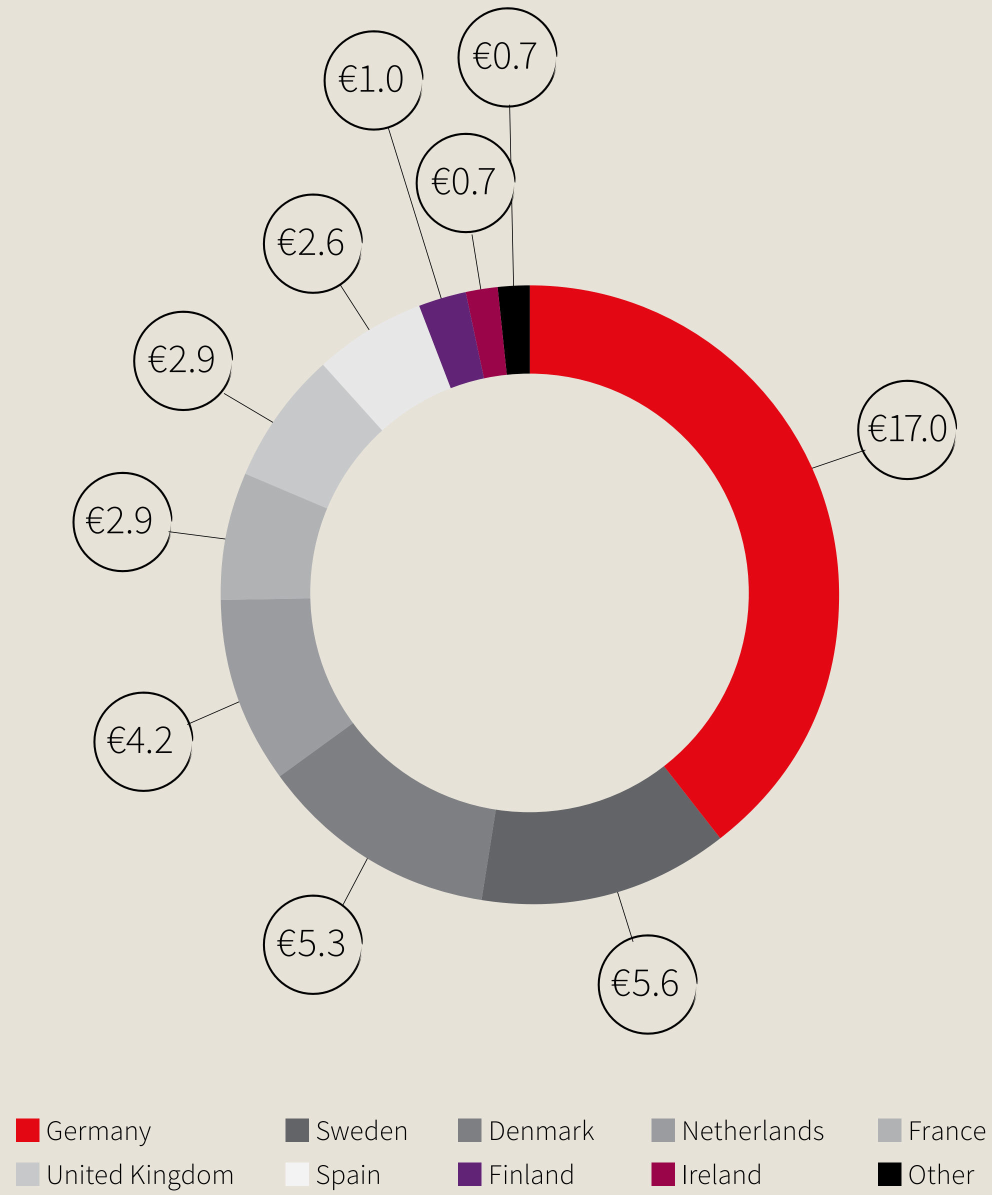
Residential investment overview

Market size by country*



*Figures account for the small proportion of transactions that occur beyond the scope of standard monitoring.

City investment volumes

2017

1. Berlin **€3700m**
2. Copenhagen **€1750m**
3. Stockholm **€1400m**
4. Greater Paris **€1280m**
5. Paris **€1180m**
6. London **€1100m**
7. Madrid **€1100m**
8. Hamburg **€1000m**
9. Dublin **€700m**
10. Amsterdam **€610m**
11. Barcelona **€600m**
12. Helsingborg **€560m**
13. Dusseldorf **€560m**
14. Dresden **€500m**
15. Greater Manchester **€490m**
16. The Hague **€490m**
17. Malmo **€470m**
18. Gothenburg **€320m**
19. Utrecht **€290m**
20. Munich **€290m**
21. Edinburgh **€280m**
22. Marseille **€270m**
23. Rotterdam **€170m**

European market overview

- Investment in European residential totalled €43 billion in 2017, including stabilised assets, development deals as well as corporate transactions.
- 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, improved diversification and possibility of building a residential platform. This appetite is expected to grow unabated for the foreseeable future.
- Peripheral markets such as Denmark, Spain and Ireland saw significant growth in investment volumes as investors targeted opportunities in emerging markets.

Growing liquidity

Institutional investment in European residential continued its trajectory of growth, with total investment rising by 13% to €43 billion in 2017. A number of markets saw double-digit growth in investment volumes over the past year with Spain, Denmark, Ireland and the Netherlands observing the strongest growth. Volumes in these markets increased by between 40% and 200% year on year and are forecast to continue growing over the next year.

Foreign capital

Overseas capital, in these markets in particular, represented a significant share of total activity. While foreign investors have traditionally been aggressive in targeting standing stock assets with value-add opportunities, their appetite to move further up the risk curve has led to significant growth in the number of forward deals completed. This is particularly true for investors who have been able to acquire at scale and have had a number of years' experience operating in foreign markets.

Forward deals

The total volume of forward deals across the continent remains above long-term levels with growth driven by strong demand from both domestic and international investors. This is often the easiest route to market due the shortage of standing stock opportunities, particularly in markets that do not have a wealth of stabilised assets such as the United Kingdom and Ireland. The overweight of capital against available opportunities is driving greater attention towards joint-venture deals where investors can get access to suitable land and development opportunities.

Yield compression

Europe's core cities have seen strong compression over the past year, with Amsterdam seeing average yields move in by 45bp to 3.2%, over 2017.

Yield compression has been strongest in primary and secondary markets across Europe although certain markets, namely Sweden and Germany, have seen much more moderate changes in pricing. Both of these markets already have significantly lower net yields of between 1.5%-2% and 2.5%-3% respectively.

We anticipate that these markets are likely to observe slight or no yield compression over the next 12 months, with the greatest compression likely to occur in secondary geographies or emerging markets.

Outlook

As investors' demand shifts towards residential, overall demand far outstrips potential opportunities in the market. Standing stock opportunities are not as ubiquitous as they once were and moving forward will not be the only way in which investors enter a new, foreign market. The scarcity of income producing assets acts as a common theme and drives our predictions for the year ahead.

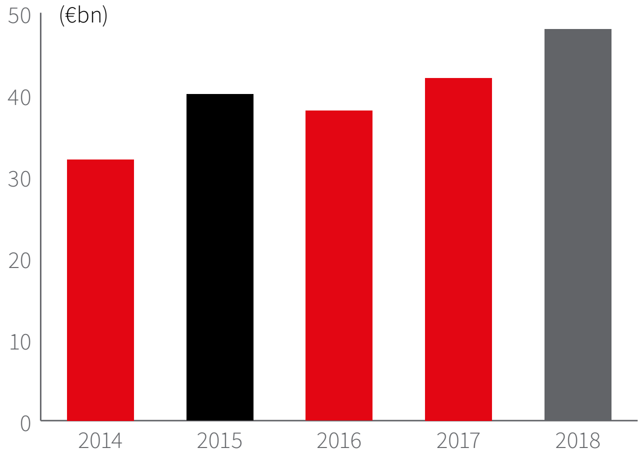
Investment outlook

Liquidity growth but at a slower rate

JLL anticipates that European residential investment volumes will continue to grow over the coming year to a total of between €47bn and €49bn.

However, more pertinently, the rate at which volumes grow is unlikely to keep up with historic levels as the lack of readily available investment opportunities will hinder growth. Forward deals are likely to increase but not by a sufficient level to keep historic rates of circa 15% p.a. growth achievable.

European residential investment



2015 volumes were characterised by extraordinary levels of M&A

Heightened geographical diversification

Cross-border residential investment volumes in Europe now represent a third of total volumes, up from 25% just a year ago. Investors that have traditionally had exposure to more than one residential market in Europe have usually acquired assets in Europe's more mature markets or markets with similar legislative structures to their own. This dynamic has begun to change as investors have become more adept at operating in markets with nuanced differences in rental market legislation. Peripheral markets with strong fundamentals are the greatest benefactors of these flows of capital and are likely to see the greatest growth in short-term investment volumes.

There are now a number of truly pan-European residential investors with significant scale in multiple markets. That number is anticipated to increase as demand for geographically diversified portfolios increases, in particular from investors with a strong residential track record in their native market that are able to leverage their existing experience.

Joint ventures will drive cross border and forward activity

The overweight of capital against available opportunities is driving greater attention towards joint-venture deals where investors can get access to suitable land and development opportunities. While this type of deal structure has been most common in nascent stage markets with high inflows of foreign capital such as Spain, we have observed a number of investors partnering up with local developers across the continent.

The chronic shortage of institutional grade residential investment stock across Europe's largest markets has historically acted as a significant hindrance to investors seeking to deploy capital in the sector. However, there has been a marked shift in investors' appetite for risk, be that development or letting, which has seen them edge further up the risk curve.

Forward funding, forward commitment and land deals are the easiest route to market for investors in residential. However, foreign investors or non-residential specialists are extremely cautious of entering this segment of the market without a suitable partner.

As the number of the joint-venture partnerships have increased, we anticipate that this trend will continue to grow strongly into 2018. Lendlease and CPPIB's recently announced UK joint venture is indicative of this wider trend that is clearly not limited to any single market or investor type.

M&A in residential will follow commercial historical highs

Commercial real estate M&A activity is at an all-time high in Europe following a number of high profile acquisitions in 2017. Although traditional commercial sectors represent a greater portion of current activity, early signs in 2018 indicate that this trend is likely to spread to residential. The desire from investors to drive scale and the scarcity of suitable product are two fundamental reasons why JLL anticipates growth in residential M&A activity over 2018.

Vonovia's €5.2bn acquisition of Buwog in March 2018 highlights the weight of capital targeting opportunities in foreign investment markets, but heightened M&A activity is not restricted to these geographies. Germany's largest residential owner has also sought out opportunities in Scandinavia and France in the past 12 months, with particular interest in Sweden.

Denmark

Foreign investment fuels significant growth in investment activity

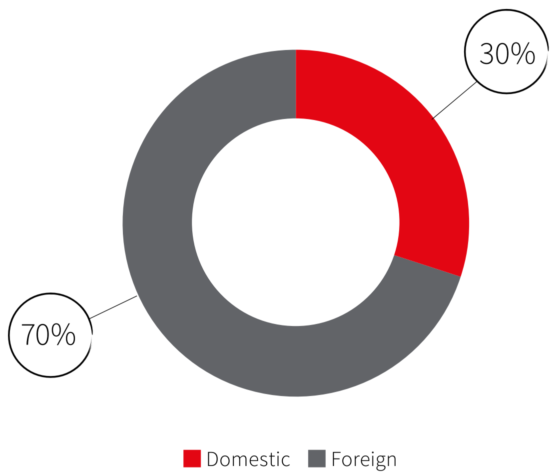
- *Residential investment volumes for 2017 reached a total of €5.3bn, an increase of just over 50% from the previous year*
- *Levels of foreign investment increased significantly from 48% in 2016 to 70% in 2017*
- *Greater Copenhagen solidified its position as Denmark's largest investment market, accounting for nearly 70% of total investment volumes*

The record high transaction volume of €5.3bn in Denmark last year was largely attributable to heightened levels of foreign investment. Overseas investors became more aggressive in targeting Danish opportunities as a result of the pronounced supply-demand imbalance in larger cities, favourable financing terms and a macroeconomic backdrop characterised by attractive KPIs.

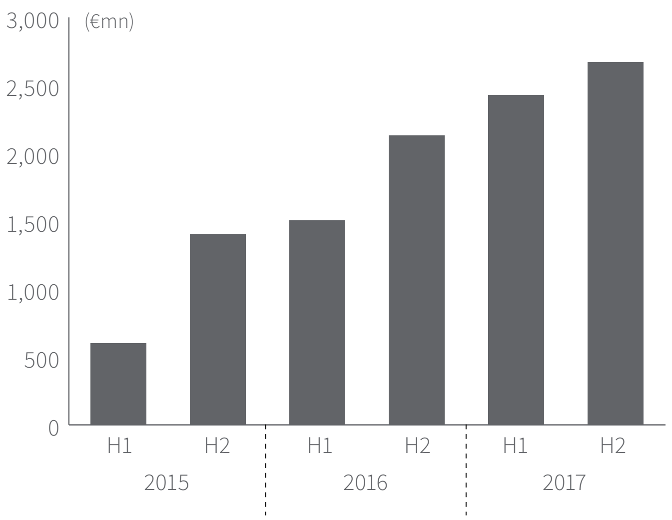
To remain competitive in the market, domestic institutional investors have moved out on the risk curve by entering in early stage development projects and by also targeting both provincial and regulated assets. 50% of the forward deals in Denmark last year were acquired by Danish investors, with pension funds being particularly active in the smaller ticket segment of the forward market.

In spite of sizable demand from investors, prime yields remained stable at 3.75% in Copenhagen as affordability concerns limited future prospects of rental growth. Yields in secondary locations and in the regulated housing segment of the market saw inward movements last year and are expected to continue tightening, albeit at a slower rate.

Source of capital – 2017

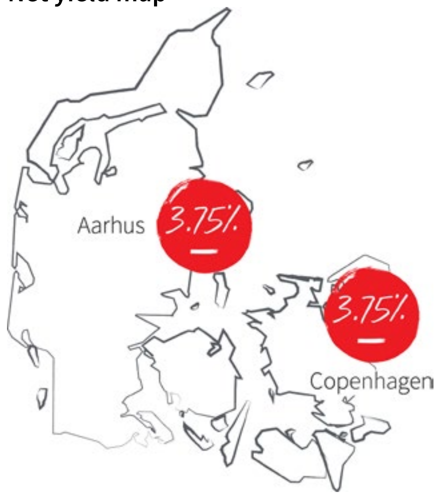


Bi-annual investment volumes



Spotlight on Denmark

Net yield map



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

Urbanisation and immigration continue to drive the strong demand for residential assets within Denmark's larger cities. However, current levels of housing delivery are unable to satisfy demand, in spite of the construction sector operating at near maximal capacity. This has prompted price growth which is well supported by rising incomes. We expect these fundamental drivers to be strong enough to merit even higher transaction volumes of between €5.5bn and €6bn in 2018.

Among domestic institutional investors, allocations towards residential investments remain far above invested capital and the appetite of foreign investors shows no signs of abating. It is possible that we will continue further yield compression for rental housing in areas with weak ownership markets and for regulated housing in locations where prime yields are set to remain stable.

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

As things stand, foreign investor activity can be attributed to just a few market players. We expect this dynamic to change and anticipate that more foreign investors will enter the market in the near future, which will increase competition for core assets. As international investors typically prefer low-complexity assets, we expect heightened competition in the development market with more aggressive underwriting of rental levels and yields. Foreign entrants are keen to build large-scale portfolios and are often able to value opportunities at a premium by leveraging scale. This means that foreign investors are often more competitive in their bidding, which has and is likely to continue contributing to a high share of total volumes originating from foreign investors.

What problems currently face the market?

Transaction activity is largely driven by forward deals and while this supplies a steady flow of assets, it is also a weakness in the market. The immediate supply of attractive development sites in Copenhagen is drying up and most new projects are set to be located on the city outskirts where land is abundant. This could result in a large supply of housing within the same price-segment that is susceptible to over-supply. We believe that a continued supply of such assets may exert a downward pressure on secondary rents and decrease investor appetite for such assets.

Christian Fladeland
Residential Investment,
Sadolin & Albaek

France

Large portfolios fuel volume growth in France

- *The transaction volume for residential properties and portfolios reached €2.9 billion, which was 14% above the previous year's level*
- *Paris and the wider Ile-de-France region continues to geographically dominate the market despite sizeable activity in Marseille and Nantes*
- *Domestic investors comprised over 90% of total investment activity during 2017*

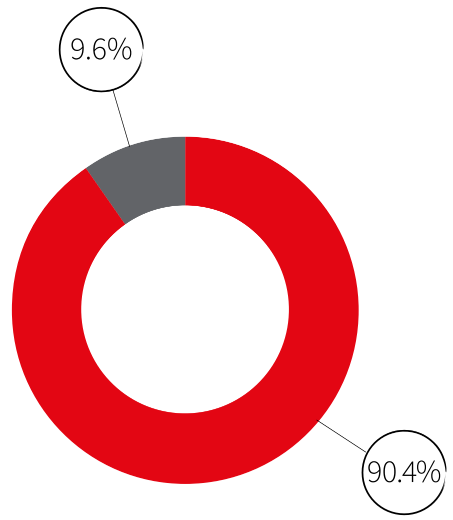
Total investment volumes reached €2.9 billion in 2017, an increase of 14% from 2016. This level ensures that total activity remains above the threshold of €2 billion for the 3rd consecutive year.

As in 2016, Paris and the wider île-de-France region were the greatest recipients of capital. Over 90% of total investment activity occurred in these geographies during the past two years. While most activity occurred in Paris in 2016, Ile-de-France dominated in 2017 with over €1 billion transacted.

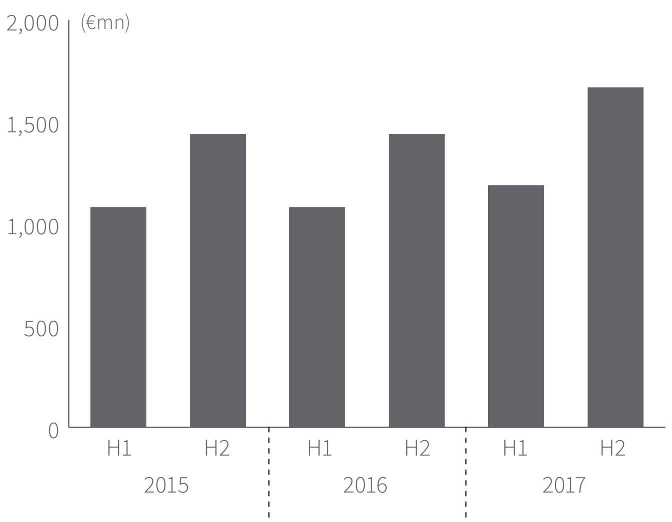
There were a number of large ticket deals in 2017, which compares with just a single deal of over €100m in 2016. These include two large portfolio acquisitions by PRIMONIAL REIM. While the smaller ticket Saphir portfolio allowed it to increase its exposure to Greater Paris, the Heritage portfolio signalled the investors first transaction in Marseille.

While foreign investors have become more active over the past year, there has been greater activity took place in the region during 2017. Domestic institutional investors have begun to diversify their real estate portfolios, with residential becoming increasingly more attractive for them. Yields in the commercial sector have been compressed over the last few years, but residential yields have remain broadly stable.

Source of capital – 2017

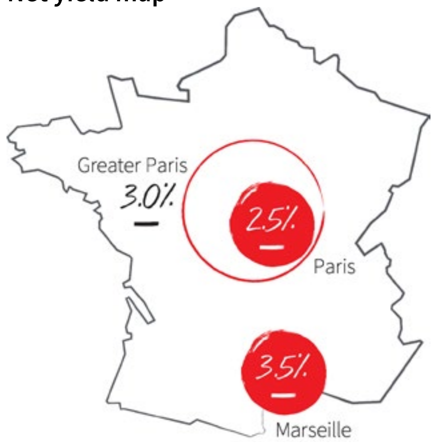


Bi-annual investment volumes



Spotlight on France

Net yield map



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

Volumes in France are expected to grow significantly over the coming year with a few large ticket deals coming to market, principally the nationwide Vesta portfolio.

Improving economic indicators and favourable financing terms will also ensure that investment volumes remain high over the short term. The Grand Paris project will also ensure that development opportunities in Paris, principally near new stations, remains high.

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

JLL anticipates increased activity from overseas investors who are already operational in the market but also an influx of new foreign investors. With a number of large portfolios coming to the market, we expect institutional investors from overseas to bid aggressively for these opportunities. Furthermore, with a number of residential specialists becoming more active in foreign markets with similar legislative environments to France, we anticipate that France will also become a logical location for expansion.

What problems currently face the market?

A lack of available stock and suitable development land, particularly in the Greater Paris Region, has acted as a significant hindrance to growth in investment volumes in France. Allocated capital to the sector in France is significantly higher than current allocations for most active investors. This overweight of capital may lead to a number of new partnerships between domestic investors with residential expertise and foreign investors who are yet to acquire assets in the market.

Christophe Volle
Residential Investment, France

Germany

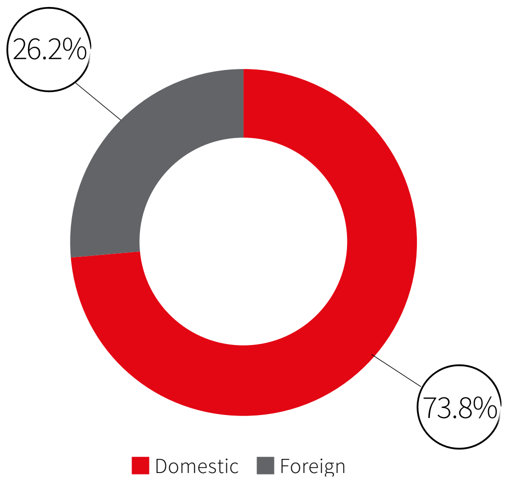
Europe's largest investment market above long term average

- *The transaction volume for residential properties and portfolios reached €17 billion, which was almost 25% above the previous year's level, virtually equal to the 5-year average and 40% above the 10-year average*
- *Special funds and listed housing companies go head-to-head on asset building in residential real estate*
- *Berlin continues to geographically dominate the market despite significant growth in other cities including Hamburg and the wider Ruhr region*

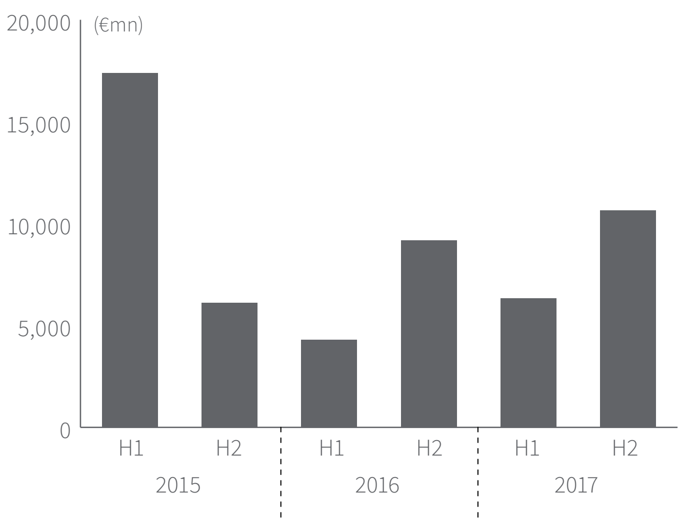
The growth of residential investment volumes has stemmed from a number of factors. While forward deals have grown significantly over the past few years, the further adjustment of portfolio strategies has led to the streamlining and specialisation of portfolios, causing a sell of non-optimal assets that totalled almost $2bn in 2017. This has been driven by specialised asset and fund managers who aim to optimise yield performance in these portfolios. These include German spezialfonds, large listed companies and residential REITs that have acquired a total of €7bn of assets in the last year.

Total residential investment in Berlin reached €3.7bn in 2017. This represents a 73% increase in aggregate investment in the German Capital and accounts for over 20% of volumes in Germany. Hamburg (63%) and Düsseldorf (126%) also saw substantial growth in investment over the past year with forward deals making up over half of volumes in both markets.

Source of capital – 2017

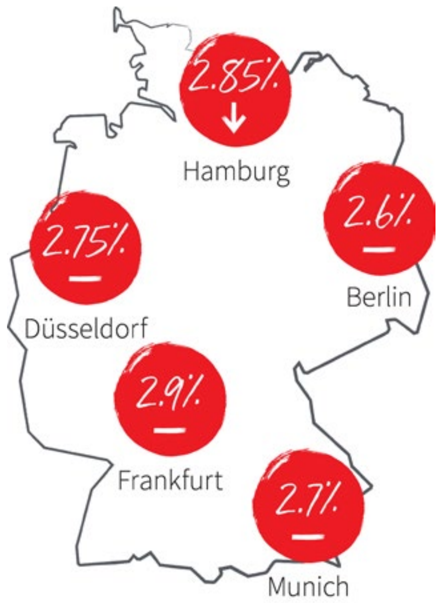


Bi-annual investment volumes



Spotlight on Germany

Net yield map



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

German residential is still high on the list of priorities for both domestic and international institutional investors. The growth in city populations, continuing inward migration and robust economic structure provide ample reasons for investors to remain positive about Germany in the next year. While new-build volumes are rising they still lag behind the growth in demand in the major cities. The expansion of foreign investors into Germany, optimization of previously acquired portfolios and ongoing boom in forward deals in conjunction with price increases for existing portfolios could lead to an above average performance of around €14 to €15 billion in 2018.

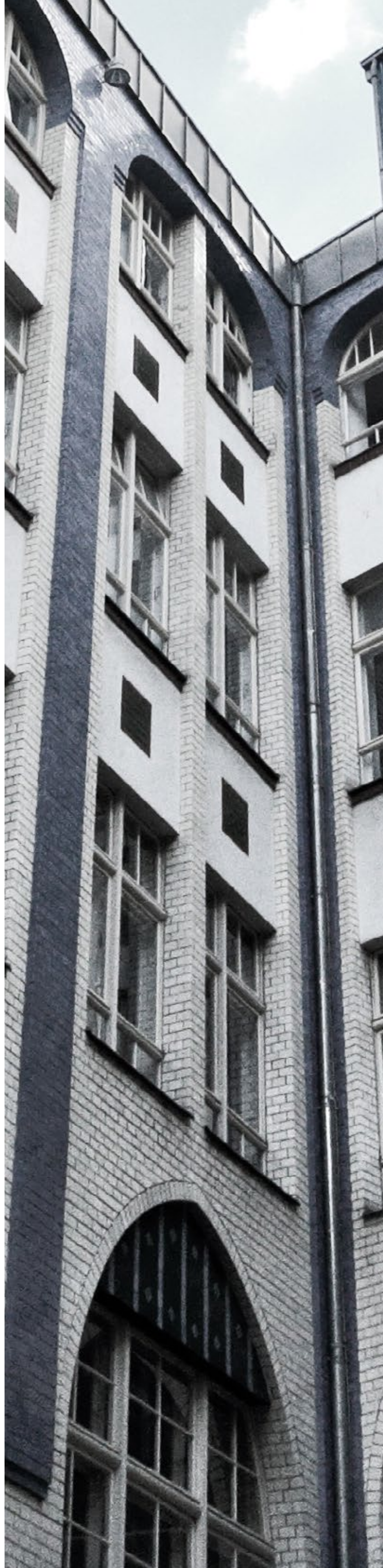
Do you anticipate non-domestic volumes of capital to increase?

Foreign capital has continued to represent a greater share of investment volumes in Germany, rising from below 20% in 2016 to more than a quarter in 2017. Overseas capital is on the lookout for lucrative and low risk investment with value enhancement potential. This is not expected to change in 2018. Investors from Israel, France and Switzerland currently make up a large portion of foreign volumes. This is likely to remain the case in the short-term although there are signs that investors from further afield may also begin to increase their exposure to German residential during the next year.

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. Volumes of forward deals and portfolio specialisation, while high, cannot fill this gap. If there are no large-scale mergers of residential property portfolio owners in 2018, it is likely that volumes may drop slightly as a result of this factor.

Konstantin Kortmann
Head of Residential Investment, Germany



Ireland

Forward deals fuel investment growth in Ireland

- *The transaction volume for residential assets reached €710 million, which represented an almost 200% increase in total volumes*
- *Forward deals in Dublin continue to comprise the lion share of total market activity, with over 80% of total activity originating from forward commitment or funding deals*
- *Foreign investors are the most active in the Irish residential market with almost 90% of total investment volumes originating from overseas investors*

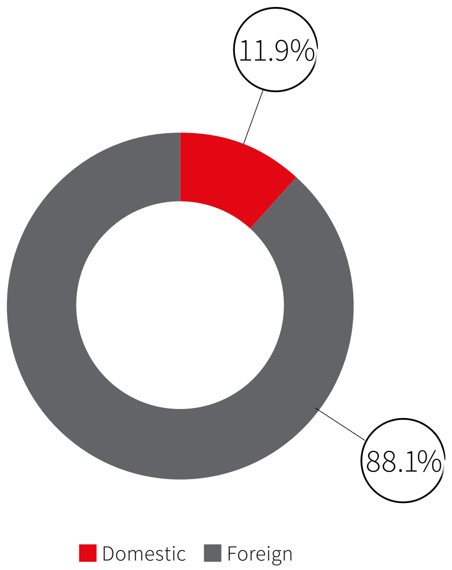
A significant increase in total investment volumes was fuelled principally by 2 large forward deals in the second half of 2017.

The largest deal of 2017 was the Cherrywood acquisition by APG and Hines. The total development cost for this project is approximately €450 million and will include over 1,200 apartments.

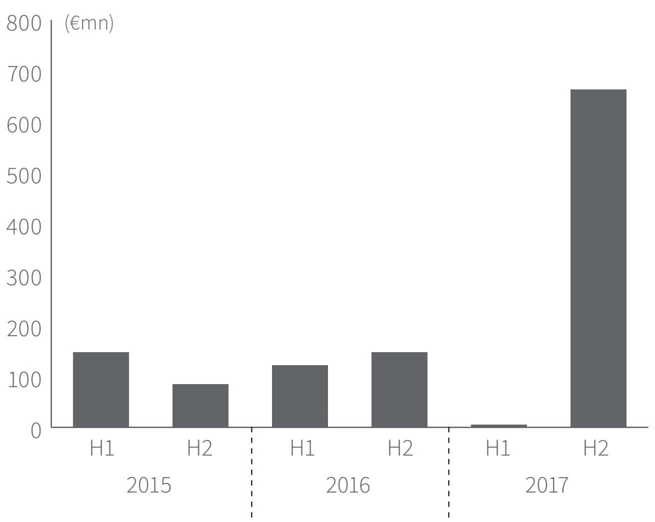
Patrizia's acquisition of two build to rent developments in Greater Dublin's Dún Laoghaire-Rathdown borough was the second largest deal in the Irish Capital in 2017. The 2 building portfolio deal will comprise 319 units in total and is scheduled for completion between June and November 2018.

Foreign investors dominated the 2017 investment market, principally through the aforementioned forward deals. Kennedy Wilson's acquisition of 124 units in Dublin's North Docks for €45 million was the sole standing stock acquisition by a foreign investor in 2017 and was also the largest acquisition of an income producing asset during the year.

Source of capital – 2017

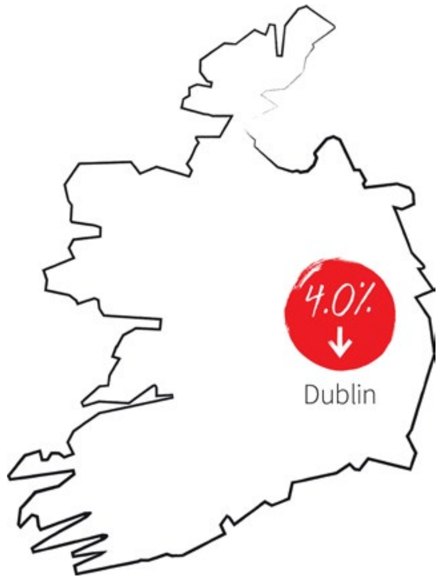


Bi-annual investment volumes



Spotlight on Ireland

Net yield map



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

Despite the lack of available stock, the Irish residential market is experiencing substantial demand from domestic and overseas institutional investors. Whilst PRS is a nascent investment asset class in Ireland, it has been a very active sector over the last two years. We predict that it will become a major contributor to total real estate investment volumes in the coming 3 to 5 years. FDI and strong economic growth, coupled with a significant shortage of stock, will ensure strong growth in rents and yield compression in the short term.

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

Domestic buyers have been slow to react to opportunities to date and the majority of transactions have been acquired by overseas investors. Domestic funds are now fully engaged in most bidding processes but overseas demand continues to outbid local buyers as a result of their greater knowledge of the asset class. There is currently strong demand from mainland Europe, UK and the US. It is currently estimated that there is upwards of €5 billion of capital looking for investment opportunities, a sum that we expect to increase in the coming years.

What problems currently face the market?

The real challenge for the market is the lack of available stock for investors to acquire. We are now seeing most opportunities arising from a forward fund or forward purchase model due to the lack of purpose built stock that is traded in the market. Forward deals are currently proving very popular with buyers as market predictions indicate capital growth of 10% and 6 to 8% rental growth in the coming 12 months.

Conor O'Gallgher
Head of Residential Investment, Ireland

Netherlands

Record year for Netherlands investment

- *The transaction volume for residential properties and portfolios reached €4.2 billion, which represented a 40% increase on the 2016 level*
- *Large portfolio transactions fuelled final quarter volumes of €1.2 billion, with Amvest acquiring over 1,700 units from Patrizia*
- *National portfolio sales dominated the market with over €1.3 billion of these deals transacting in 2017. Increased development activity also significantly drove the rise in total volumes*

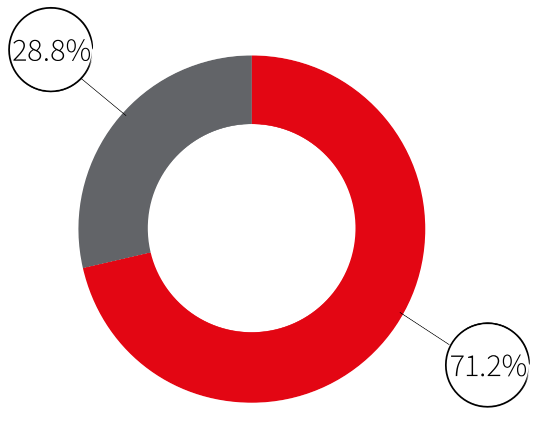
Residential investment volumes reached a record high for the Netherlands in 2017 as a result of two factors.

National portfolios, four of which sold for over €100mn, transacted at a much higher rate than previous years. Buyers of these portfolios included Amvest, CBRE Global Investors and CAPREIT.

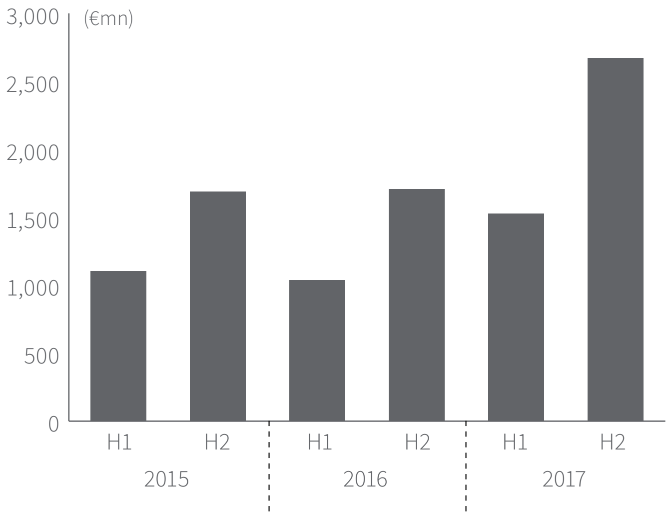
Assets and portfolios in Amsterdam (€610mn) and The Hague (€490mn) also attracted high levels of investment. Forward deals and value-add opportunities grew in popularity in the Dutch Capital, with over 50% of volumes targeting projects of this type. The Hague saw substantial growth of 230% in total volumes, with heightened levels of forward deals reaching €230mn, further consolidating the rise of the wider Randstad region.

Development volumes also grew significantly (+60%) over the past year. Domestic investors, who are traditionally more active in this segment of the market, were joined by a number of foreign investors seeking returns higher up the risk-curve.

Source of capital – 2017



Bi-annual investment volumes



Spotlight on Netherlands

Net yield map

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

Investor demand remains buoyant, with a number of large scale portfolio transactions expected to trade in the first half of 2018. Numerous investors that acquired portfolios 3 to 5 years ago have started to dispose of parts of these portfolios and as a result, investment volumes in the first half of 2018 are expected to remain on par with 2017 levels.

Due to the continued demand from investors, prime net initial yields are expected to compress further in the course of 2018. While Amsterdam has seen the greatest compression in yields to date, this is expected to cascade outside of the Dutch Capital.

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

Prior to 2014 the residential investment market in the Netherlands was dominated by domestic capital, primarily pension funds and several large private investors. Since 2015, foreign capital has represented a more significant portion of total volumes and has, on average, represented 35% of total volumes over the past 3 years.

In 2018, foreign volumes are likely to remain high. There are signs that investors from further afield may begin to enter the residential market in Netherlands during the coming year. There are also some foreign investors, who entered the Netherlands in 2015 and have a higher risk profile, that have begun to cautiously exit the market.

What problems currently face the market?

The market is limited by the lack of available product, especially new build assets. Current levels of delivery are unable satisfy levels of demand and this is primarily the result of a conflict between local and national legislators.

Furthermore, as most large-scale portfolios have changed hands over the last few years it will become more difficult for investors to acquire large portfolios and to drive greater scale in the market, both for existing and new build portfolios.

Jorn Thoomes
Head of Residential Investment, Netherlands

Spain

Foreign investment and forward deals fuel investment growth

- *Residential investment volumes reached €2.6 billion in 2017, representing a 165% increase in total volumes*
- *Improved activity outside of Madrid and Barcelona indicates the continued resurgence of Spain's residential investment market*
- *Investor demand for development land continues to grow across Spain, with a number of foreign investors entering the forward market in 2017*

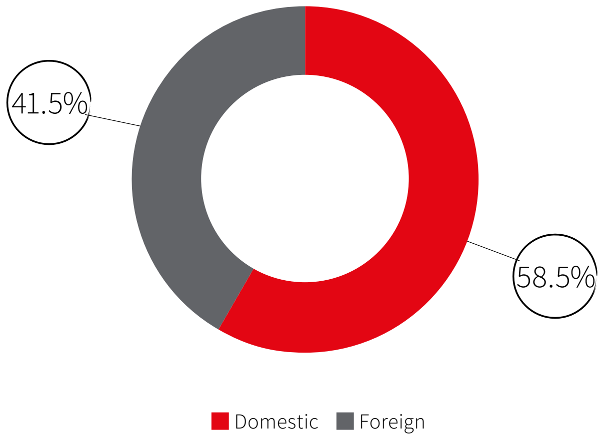
Residential investment volumes grew significantly on 2016's total of €960 million. Investment levels grew by 165%, with forward and land deals making up a significant portion of total volumes.

Although Madrid (€1.1bn) and Barcelona (€600mn) continued to dominate the institutional investment market, multiple transactions were also recorded in cities such as Malaga, Bilbao, San Sebastian, Valencia, and Seville. Madrid and Barcelona's share of total activity has decreased over the past year as a number of portfolios transacted outside Spain's two largest markets.

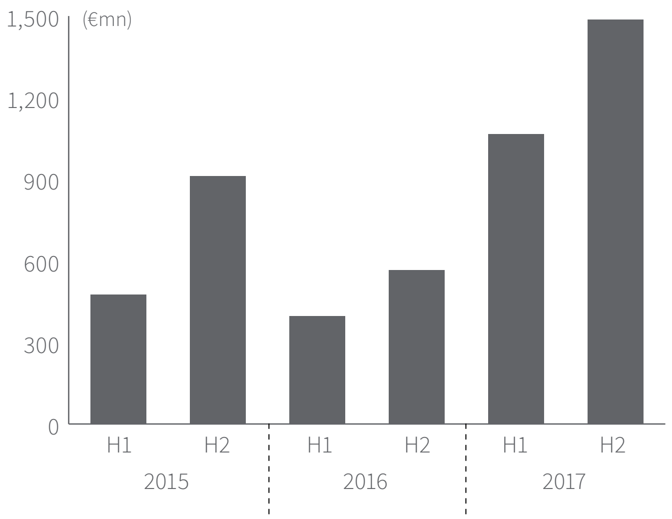
There are now over 20 residential REITs active in Spain with combined volumes of over 20,000 units under lease. The largest include Testa Residencial, Blackstone and Sareb.

Investor demand for residential development land continued to grow across prime locations in Spain, placing further pressure on pricing in these locations. A lack of zoned development land, particularly in Madrid, has frustrated developers as they try to scale up to take advantage of the improved market conditions. Domestic developers have undergone a significant phase of consolidation and expansion; with Metrovacesa and Via Celere expected to join Neinor and Aedes Homes on the Spanish stock market during 2018.

Source of capital – 2017



Bi-annual investment volumes



Spotlight on Spain

Net yield map

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

The Spanish residential market is expected to demonstrate a strong performance during 2018, with volumes anticipated to reach up to €3bn. Improving economic fundamentals are no longer confined to Madrid and Barcelona, as decreasing unemployment and increased tourism is expected to drive demand across the country.

The typology of investors is anticipated to become more diverse over 2018 as the market approaches a later stage in the cycle. With investor preference for core product now becoming more evident, a more complete spectrum of investors are likely to be active in the market this year. This is likely to drive investment, with income producing assets and portfolios expected to comprise a greater share of total activity.

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

Foreign volumes are expected to increase in Spain during 2018. While there were a number of JV deals in 2017, increased M&A activity is expected in 2018 as foreign investors seek to acquire income producing assets as scale. While the origin of foreign investors is expected to remain broadly from North America, Europe and Latin America, we anticipate that the number of investors from these geographies will increase in the coming year.

What problems currently face the market?

The largest single problem affecting the transactional market is the lack of quality product for institutional investors. While there are expected to be a number of large disposals from investors who previous acquired distressed stock earlier in the cycle, a large portion of this stock is located in secondary and tertiary cities. Furthermore, suitable land for development in primary markets remains scarce. This will act as a significant hindrance to investment activity in these markets and will in turn push investors towards secondary locations. Valencia, Seville and Bilbao are anticipated to be the greatest beneficiaries of this activity.

Nick Wride
Head of Residential Investment, Spain

Sweden

Volumes remain high despite a lack of M&A activity

- *The transaction volume for residential properties and portfolios reached €5.7 billion despite a lack of M&A activity that characterised the market in 2016*
- *Land and development volumes remained high and well above long term average levels*
- *Stockholm continued to geographically dominate the market despite strong performances by other cities including Helsingborg, Malmo and Gothenburg*

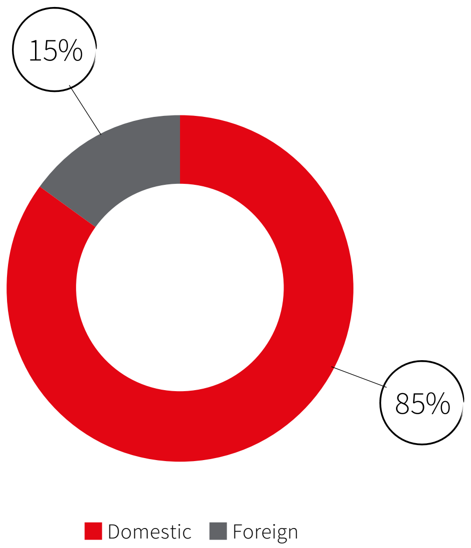
Residential investment volumes were down on 2016's record total of €7.8 billion. Although volumes in the market dropped by 27%, aggregate investment exceeded levels in both 2014 (€3.6 billion) and 2015 (€4.2 billion).

Land and development (€1.8bn) deals fell slightly in absolute terms this past year but comprised a greater percentage of total volumes, rising from 28 % to 32% in 2017. Land acquisitions totalled €540 in 2017; with almost 75% of deal volumes originating in Stockholm and Malmo. Aside from a single exception, all land deals were completed by domestic investors.

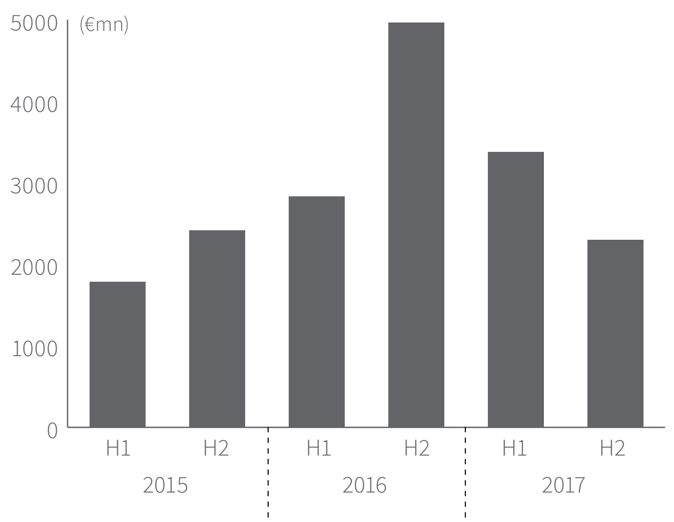
Municipalities continued to sell their standing assets in order to raise capital for development, with over €1.2 billion in disposals during 2017. However, the private real estate investor Akelius was the single biggest individual seller last year. It sold its entire stock in Helsingborg (2,300 units) for €390mn and a portfolio of 1,400 units in Nynäshamn and Södertälje, in line with its new strategy focusing acquiring assets in both Stockholm and Malmö.

Traded volumes in the Swedish Capital were slightly lower than the previous year, with a 14.4% drop in volumes in 2017. Volumes grew by 250% in Helsingborg as a result of increased municipality disposals and the Akelius sale in Q2 2017. Helsingborg surpassed both Malmo and Gothenburg in regionalised activity during 2017.

Source of capital – 2017



Bi-annual investment volumes



Spotlight on Sweden

Net yield map

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

Demand for residential assets in Sweden is still high among both national and international investors. Increased urbanisation, high immigration and a strong, resilient economy are all factors that currently are attracting investors to the market. Investment levels have been broadly stable over the past 4 years, with the exception of 2016 that saw record levels of activity. Investment volumes are expected to drop off slightly in the next year, with development deals expected to see the greatest relative contraction.

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

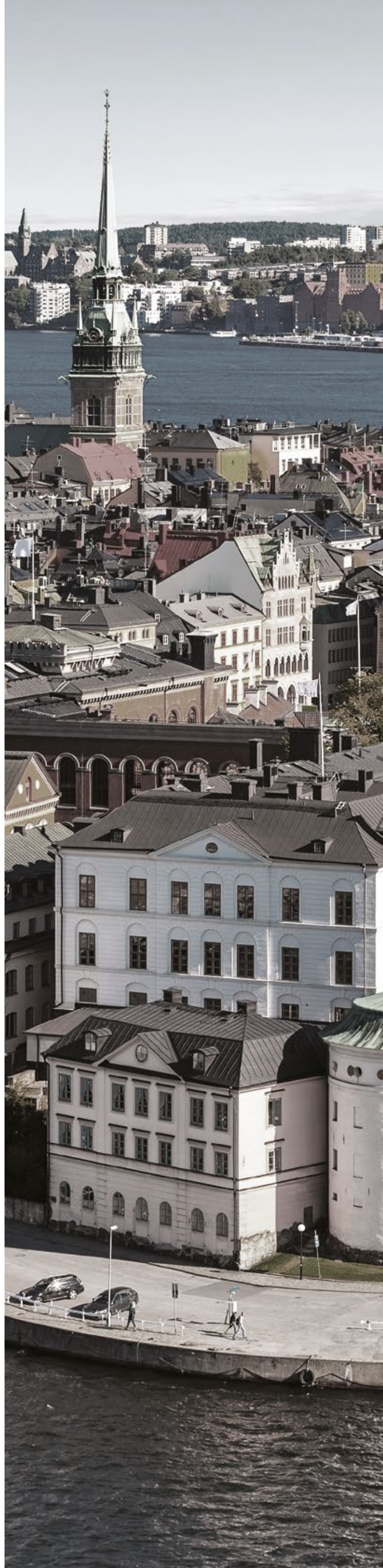
Historically most of the foreign capital invested in Sweden has originated from Nordic investors. There has however been a noticeable increase in the interest shown by foreign capital outside of the Nordics over the last couple of years as investors looked for increased residential exposure across multiple markets. Foreign investors have and are expected to target a variety of different investment types; ranging from core assets to residential development. These trends and current levels of non-domestic volumes are anticipated to stay at the same level over the next 12 to 18 months.

What problems currently face the market?

In general there is a lack of available product. There have been a number of larger portfolio deals in the last year but most investors, domestic and foreign, want to increase their allocation to residential.

On the development side, the market has shown signs of slight hesitation with prices for building rights dropping since summer of 2017. The driving factor for this development is the stagnation of price growth in apartments due to increased lending restrictions in the private sector and relatively high levels of delivery.

Dan Epsten
Residential Investment, Sweden



United Kingdom

Foreign activity fuels investment growth in the UK

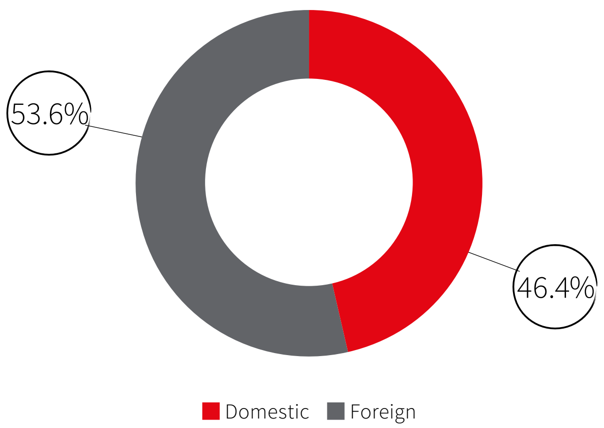
- *Institutional residential investment volumes reached €2.7 billion in 2017, which was over 15% above the previous year's level and only just below 2015's record transaction levels*
- *Aggregate investment in London grew by 20% as volumes reached €1.1 billion during 2017. Secondary geographies such as Greater Manchester and Birmingham continued to attract significant volumes of capital.*
- *Forward deals continue to comprise the majority of total investment volumes due the nascent stage of the institutional, purpose-built residential market in the UK*

Institutional investment continued its trajectory of growth, growing by over 15% in the last year. While the residential investment market in London saw improved liquidity during 2017, several larger deals in secondary and tertiary towns and cities added to the total quantum of large-scale rental assets under construction.

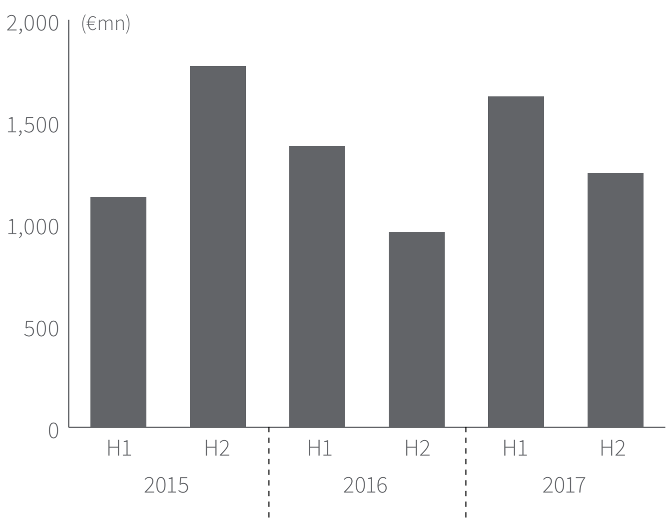
The overweight of capital against available opportunities is driving greater attention towards joint-venture deals where investors can get access to suitable land and development opportunities. This trend is expected to continue growing in the short term and there have been a number of similar partnerships announced in the first quarter of 2018, namely the recent UK JV announced between CPPIB and Lendlease.

International investors dominated the market with their share of investment reaching 54% in 2017. North American and European investors acquired just under €1.1 billion of assets and were particularly active in London, Manchester, Birmingham and Sheffield.

Source of capital – 2017

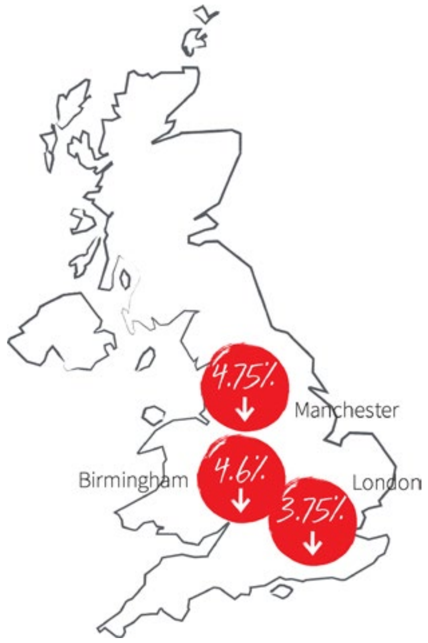


Bi-annual investment volumes



Spotlight on United Kingdom

Net yield map



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

The growth in city populations, strong supply/demand fundamentals and relative economic stability provide many reasons for investors to remain positive about London and the wider UK in the next year. The impact of Brexit does not seem to have dampened investors' appetite and there is an increasing desire to gain exposure to the sector.

While new-build volumes are rising, they still lag behind the growth in demand across most of the major centres. Due to the lack of stabilised, investment grade stock, there is an increasing focus on forward commitment deals as a way of gaining increased exposure to the market.

In 2018 we expect to see greater collaboration with housebuilders in the investment markets, especially in areas where the new build sales market has become over-heated and sales rates continue to fall.

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

Foreign capital continues to show increasing interest in UK residential investment, accounting for over 50% of investment volumes in 2017. This is driven by their established understanding and track record in the sector and is expected to continue in 2018. Investors from Europe, the Middle East and North America currently make up the majority of foreign volumes and this is likely to remain the case in the short-term but with an increasing interest both directly and indirectly from Asian investors.

What problems currently face the market?

The market is limited by the lack of availability for both forward funding and stabilised investment product. Most purpose built developments are still in the construction phase so we are yet to see any portfolio sales in this space. This is the largest barrier to entry into the market and we would expect to see a greater weight of new, foreign investment in UK residential if there were more opportunities of scale in the market.

Simon Scott
Head of Residential Investment,
United Kingdom

Final word

Levels of institutional investment in Europe have increased significantly over the past year as a result of both heightened activity from foreign investors and greater volumes of forward transactions. This has had a significant effect on yields, with most major markets seeing inward movements of up to 50bp. Although we do not anticipate further compression of yields – in primary locations at least – the increased appetite for residential is unlikely to wane. While most current activity originates from European or North American investors there are clear signs that investors from further afield are becoming increasingly interested in the sector.

The preference for standing stock

A lack of appropriate income producing stock will curb investment growth, but opportunities in this segment of the market will continue to comprise the vast majority of activity. We look to Europe's more mature investment markets for opportunities and believe that Sweden, Germany and Denmark will provide significant opportunities for investors to acquire standing stock assets. These geographies – and more pertinently the major cities in those markets – have significant levels of aging rental product that require substantial Capex to drive rental growth. An entry point that many foreign investors have become accustomed to in these markets.

As investors seek to drive scale and diversify their residential exposure across national borders, the number of platform deals and M&A activity is expected to increase substantially. There are already early signs of this in 2018 but we expect this to grow later in the year as larger opportunities come to market.

Emerging markets, new purpose-built stock and joint ventures

Significant supply and demand imbalances in many of the region's emerging markets also provide a compelling case for many investors. Delivery in the UK, Ireland and Spain, among other markets, lags well behind what is required to satisfy demand. Much of the rental stock in these locations is fragmented and owned largely by private individuals, making large scale acquisitions of assets extremely difficult. However, this has not deterred institutional investors from targeting these locations but tying in local expertise has been seen as a prerequisite. While we have seen a number of high profile JV partnerships announced in the UK and Spain over the past 12 months, JLL expect this to increase sizably as investors become more comfortable with foreign markets and seek to deploy greater capital.

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