EMEA Living

Quarterly Bulletin

Q1 2020

Introduction

In 2019 JLL brought together student housing, coliving, multifamily and healthcare under one team to represent the full lifecycle of Living. These sectors all depend on demographic trends such as urbanisation, an ageing population and changing household formation rates.

This new structure complements the existing JLL coverage across Europe, providing seamless advisory capability and market coverage. Europe's residential markets can vary significantly in the fundamental drivers noted above, alongside the regulations that govern them at national and city level.

The JLL Living Quarterly Bulletin aims to provide an update on the key issues in each sector for all our clients, whether you are interested in just one sector or the whole Living market. The first edition of the EMEA Living Quarterly Bulletin has coincided with the outbreak of COVID-19 and its spread across the globe has taken many by surprise. While longer term impacts are not known at this stage, investment activity is likely to slow in H1 2020 as investors react to uncertainty. In the short to medium term, Living assets and in particular multifamily, tend to have more defensive characteristics. The sector benefits from stable income streams and the ability to actively maintain rents to limit void periods. Demand is typically resilient to economic shocks and is fundamentally supported by the unaffordability of home ownership, urbanisation and increased interest in more flexible-living solutions. However, diminishing consumer confidence and reduced mobility will impact demand during this period of uncertainty.

EMEA Living Investment in 2019:
21%
of all investment totalling
*€65bn**

**Based on direct real estate investment transactions above $5m, excluding land and development, as well as M&A deals*

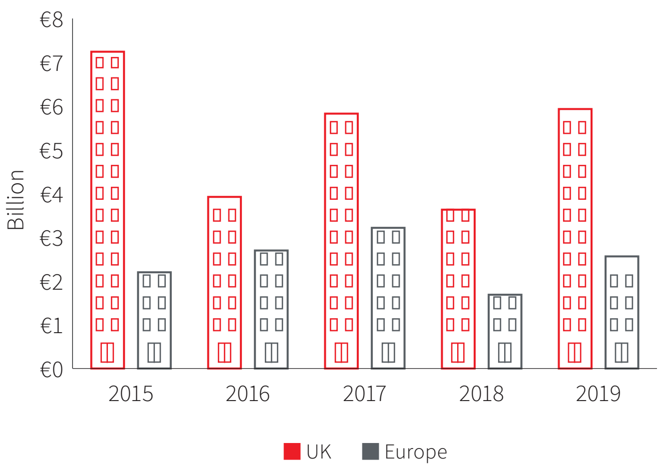
"Finding decent returns in an increasingly complex and volatile world is challenging but far from impossible. As more capital targets real estate, investors are getting more creative with their strategies and exploring new sectors to find growth potential. Living is a sector that is benefiting from this shift in capital allocations, with Living investment accounting for 21% of all European real estate activity in 2019. It is comfortably the second-largest real estate asset class in Europe and will continue to benefit from capital that is attracted to stable risk adjusted income and defensive characteristics. I am also encouraged and intrigued by its role as a scaled solution for the growing legion of Impact investors. The affordable rent segment answers a need that has surged over 2019. In 2020 we expect to directly engage with Government alongside and on behalf of clients to support the expanded supply of affordable rental homes that Europe's cities so badly need."

Matt Richards
CEO Capital Markets, EMEA

Student Housing

2019 was a strong year for student housing investment across Europe, with volumes totalling €8.5 billion. This represents a 60% increase in capital deployed in the region when compared with 2018 and is also the 3rd highest year on record, beaten only by exceptionally high volumes in 2015 (€9.4bn) and 2017 (€9bn) respectively.

Student housing investment*



Source: JLL, RCA
**Includes direct investment, M&A and development activity*

The UK continued to represent the greatest share of activity, with 70% of volumes attributed to deals in Europe's most mature student housing market. This sits in line with both the five and ten year average of 68% and 69% respectively and demonstrates the steady growth of the student market overall.

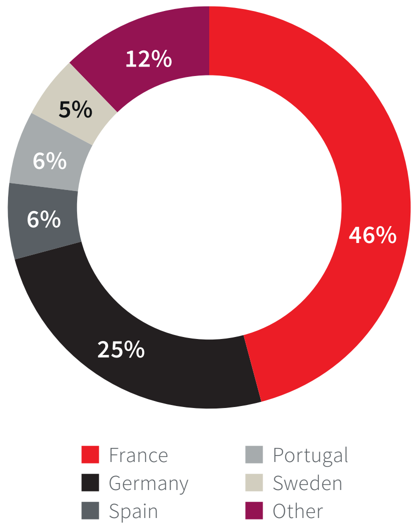
The speed and scale of investment, and the consolidation that has taken place in the student housing market, means it has developed into an established sector. Student housing is now a global asset class, although the European sector is at different levels of maturity at country level.

The headline story of 2019 was Unite Student's acquisition of CPPIB's interest in Liberty Living for €2.6 billion, and to date marked the single largest transaction in the UK PBSA sector. 2020 started well, with Blackstone's purchase of IQ for a price in the region of €5.1 billion. This represents the largest private property transaction in the UK and almost matches the size of the entire UK PBSA investment market in 2019.

2019 also represented a significant shift in the scale of continental student housing platforms that trade on the investment market. Volumes in France reached €1.3bn in 2019, a record total for the market, spurred by two particularly large deals. AXA's IM acquisition of the Kley Student Housing portfolio in France represented the largest student housing deal in the country to date. Brookfield also strengthened its presence in European student housing, with the acquisition of ECLA Paris from Harrison Street and HPC Group. The strategic joint venture developed the property which opened in 2018, with the asset totalling over 1,200 beds.

Sentiment for the year ahead remains robust, with forecast demand from institutional investors particularly strong in the UK. With several large-scale opportunities expected to trade, volumes could exceed €10 billion for the first time in the sector's history.

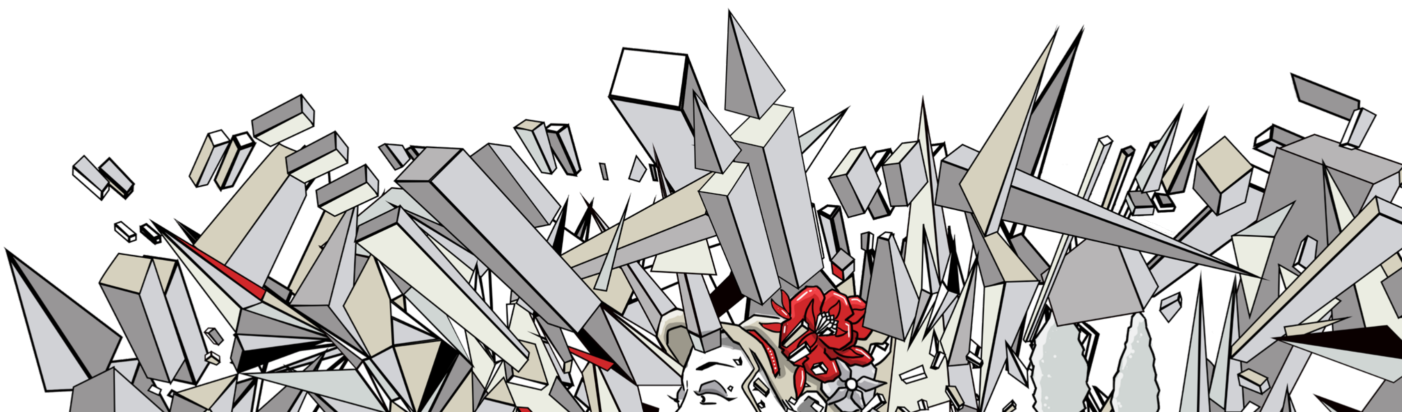
2019 Rest of Europe: % Share by country (exc. UK)



Source: JLL, RCA

Key contact:

Philip Hillman
Chairman, Living Capital Markets



Coliving

Jll Coliving definition

Purpose built or purposefully designed

Profesionally managed

Multi-tenanted

No restricted user group

Efficient private areas and expansive shared spaces

2019 has been a breakthrough year for the sector across Europe. An increased number of operational beds has spurred investor interest and familiarisation with emerging concepts. But given its infancy, the sector is still navigating a number of hurdles, in particular relating to product design and an uncertain regulatory and planning environment.

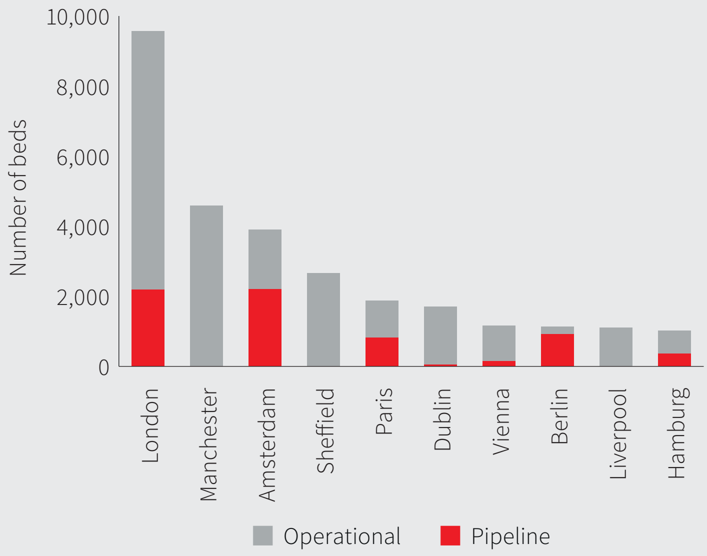
Coliving has emerged against the backdrop of increasing housing pressures on cities, providing rental homes purposely designed for sharers. It provides a flexible and modern solution at a time when demands on urban land use are increasing, impacting levels of supply and affordability.

As of Q1 2020, JLL research estimates that over 40,000 coliving beds are either built or in the development pipeline across Europe. While this is a fraction of the size of other Living sectors, the speed at which this new sector has grown over the last two years means it will not be long before it becomes a prominent part of the overall Living market.

Developers, investors and operators are still trying to define coliving assets in terms of physical form and how it contributes positively to urban housing need. Today, coliving draws on elements of the Student, Multifamily and Serviced Apartment and broader Hospitality sectors. Student housing developers and operators have led much of the new delivery of stock, including The Student Hotel, Downing and Crosslane, while earlier assets were delivered by coliving start-up platforms such as The Collective, Common and Medici's Quarters. Though all of these groups will remain at the forefront of defining and growing the sector, the next phase in its evolution may well include the branded operators and developers from both the Multifamily and Hospitality sectors.

2019 saw the launch of a number of vehicles specifically targeting coliving assets, linking together investors and operators. Corestate and Medici Living agreed to invest up to €1bn of capital into expanding their coliving presence across the continent, through the Medici brand Quarters. Recent investments include a 69-bed scheme in the Hague opening in early 2020 and a 226-bed new build development in Berlin which opened in the second half of 2019. DTZ Investors also set up a coliving fund in October 2019, 'COLIV', in conjunction with The Collective. This aims to raise £650m (c €770m) to invest in six to ten assets in the UK's capital. The fund's first investment was to forward fund The Collective's 222-bed scheme in Harrow, north-west London. Audacia launched a French-focused fund in September 2019, 'Audacia Elevation' in partnership with the coliving operator Sharies, aiming to reach an investment capacity of €50m across four to five assets. In December, it purchased a 60-bed scheme in Vanves, in suburban Paris.

Top 10 cities by stock



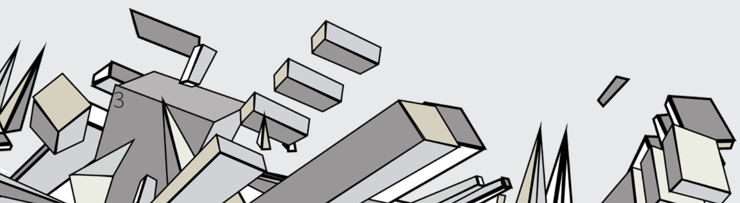
Source: JLL

Many institutional investors are now raising significant capital to target coliving opportunities. JLL expects this trend to continue its upward trajectory over the coming year, with new investors to join those already active in the sector as scaled opportunities begin to come forward. This will also drive investment activity into nascent markets with strong fundamentals.

Key contact:

Richard Lustigman

Director – Living Capital Markets – Coliving

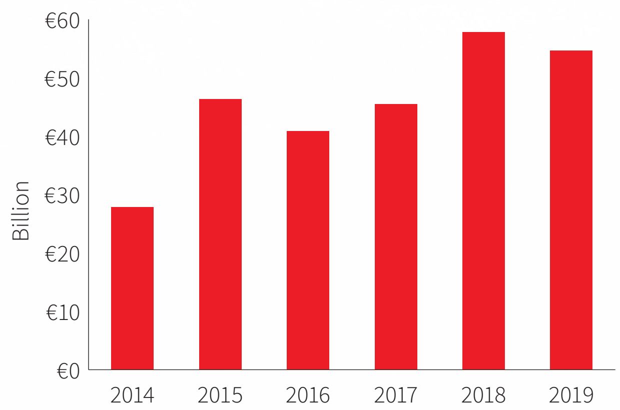


Multifamily

Real estate investment in European multifamily markets reached a near all-time high in 2019, with volumes representing the second strongest year on record.

Investment across the region fell 7% from 2018 (€58.5bn). This surpassed market expectations given the lack of large-scale opportunities that came to the market during 2019. Mature markets have performed well against a backdrop of regulatory intervention by legislators. Emerging markets also attracted more meaningful allocations of capital.

Multifamily investment*



Source: JLL
**Includes direct investment, M&A and development activity*

In Germany, investment in multifamily reached €20 billion, up 7% on 2018. This exceeded forecasts (€18 billion) and represented the second highest total ever for the country. Multifamily investment in Germany has now grown for the fourth year in succession and investor confidence remains high, despite increased market uncertainty due to regulatory intervention, notably in Berlin.

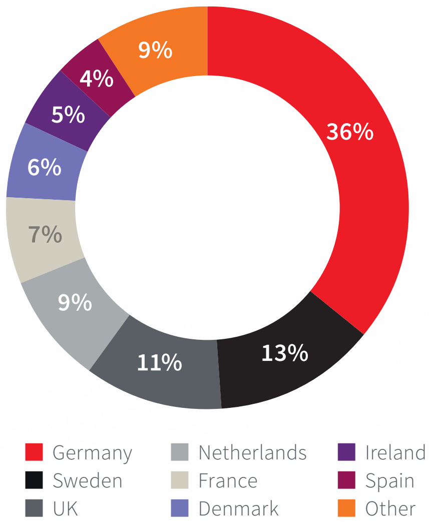
In the Nordics, where investment volumes grew 7% to €12.8 billion in 2019, activity has been driven by the strong performance of Sweden. Volumes rose by over 40% in the region's largest market. This was spurred on by forward deals and heightened M&A activity. Vonovia's high-profile acquisition of Swedish multifamily landlord Hembla from Blackstone swelled Sweden's figures for 2019. The acquisition represented the largest deal in 2019 and now cements Vonovia as one of the largest owners of multifamily in Sweden.

Other European markets continued to draw in capital throughout the year, with Ireland and Poland both recording significant increases in total investment, up by 141% and 127% respectively. Interest in nascent multifamily markets grows unabated as investors are forced to work harder to find returns. Forward deals continue to represent the greatest share of activity in these markets as institutional investors develop the sector from the ground up.

In contrast, caution prevailed in the UK as investors waited on the sidelines for the outcome of the country's general election and Brexit bill. Investment was down 14% from 2018.

The result of the General Election will drive improved investor confidence in UK multifamily for 2020 and we expect a greater pool of international investors to look at the UK as an attractive place to deploy capital.

2019 Multifamily Investment, by country



Source: JLL, RCA

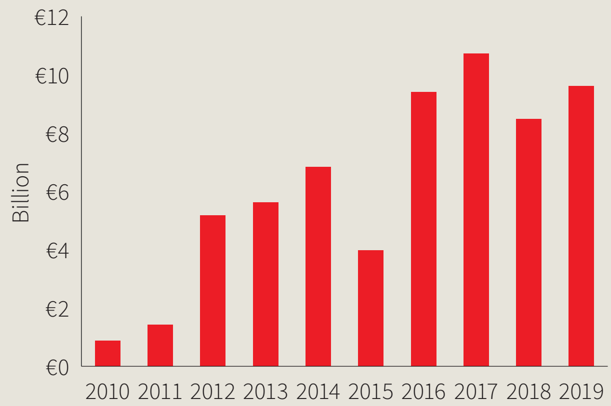
Key contact:

Gemma Kendall
Head of Multifamily, EMEA

Healthcare

European investment volumes for healthcare totalled just over €9.6 billion in 2019, with almost half of all activity attributed to assets in the UK. The annual growth in capital deployed (13.5%) took volumes to the second highest ever level.

Healthcare investment*



Source: JLL, RCA
**Includes direct investment, M&A and development activity*

The healthcare investment universe includes retirement homes, primary care facilities and hospitals, though the majority of acquisitions were made in the care home sub-sector. In total, there was a deal volume of €6.5bn in this sub-sector, accounting for 68% of the total sector activity.

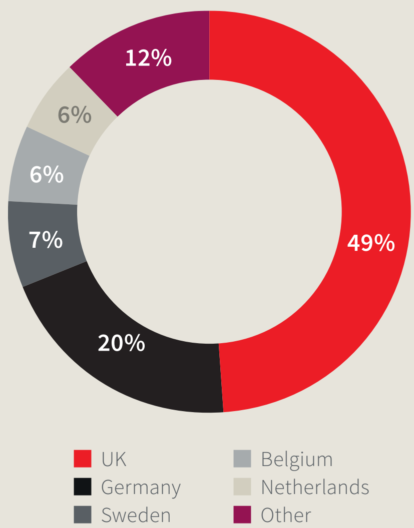
The UK market was the largest in the continent, accounting for €4.7bn worth of deals, or just under half of the total transaction volume. The UK has now received the highest volume for healthcare investment for three of the last five years. The 2019 total represented a 123% increase year-on-year, and 49% above the five year average for the country.

Activity in Germany was also particularly strong, with market activity totalling €1.9bn for 2019. This represented a fifth of total European activity despite a 42% decline year-on-year in Europe's second most liquid healthcare market. Other strong investment markets with significant activity included Sweden, Belgium and the Netherlands, which each recorded transaction volumes of over €500m.

The market was headed by two mega deals, defined as in excess of €500m, driving the average deal size to reach €45m, nearly double last year's figure of €25m. The first of these was the sale of the GHG Hospital Portfolio to Medical Properties Trust for €1.7bn at the tail end of 2019, which comprised 30 acute care hospitals. The hospitals will be leased back to Circle Healthcare under a master lease structure with an initial fixed term of 30 years, two five year extension options, and annual rent escalators linked to UK consumer price inflation. The second was Aedifica's purchase of a 92-property portfolio from Lone Star Funds, advised by JLL, also in the UK. The deal value was €515mn, and the assets are care homes leased to 14 different operators. The leases in the portfolio are inflation-linked triple net leases with a WAULT (Weighted Average Unexpired Lease Term) of 22 years.

Listed REITs and fund managers remained the most active purchaser types in the market. The former accounted for €4.7bn worth of acquisitions across the year (50% of the total), while the latter were responsible for a further €2.6bn.

European Investment 2019: % Share by country



Source: JLL, RCA

Key contact:

John Gladstone
Lead Director – EMEA Healthcare Capital Markets

Sector focus
Healthcare

Interview with John Gladstone, Lead Director – EMEA Healthcare Capital Markets

How would you characterise the 2019 European Healthcare market?

The market continued to be dominated by specialist pure-play healthcare investors over the past 12 months. All eight deals above the €250 million threshold that transacted in 2019 involved at least one healthcare specialist on the buy-side. It's clear that specialist healthcare investors are currently the most active investors in the market and are currently undergoing a process of portfolio aggregation and consolidation.

Medical Properties Trust were the most active investor in 2019, with almost €2.2 billion deployed across three deals. Aedifica, Primonial and Icade Santé were also among the most prevalent investors last year, with the latter two acquiring the large Epione portfolio (€254m) in France, with JLL mandated on the sell-side.

The UK saw the greatest share of European activity, with all 4 of the largest European deals changing hands in the country. The UK has seen the second largest increase in retirees over the last decade (2.3 million), with only France seeing a greater absolute increase during the same time period. These deals alone represented over €3 billion of healthcare investment in the past year and highlights the scaled investment opportunities that come to market in the UK. This, however, does not reflect the entire picture. 2019 was also a year of geographical expansion for some of Europe's largest healthcare REITs. This includes Aedifica acquiring listed investor Hovatilet, that has exposure to Sweden and Finland and Cofinimmo's backing of Clece Vitam in Spain.

Do you expect this to continue in the year ahead and are there any emerging trends that we should be aware of?

Given that both Adedifica and Cofinimmo both raised capital over 2019, we expect them to remain active in the year ahead. Icade Santé remain committed to investing beyond its French origins, targeting Germany, Italy and Spain ahead of its planned IPO by 2022. Other healthcare specialists are also expected to remain active in the market and likely to raise new sources of capital in the short term. These investors are expected to look at a broader set of investment destinations and a wider pool of healthcare sub-sectors

This concentration of specialist management and investment may make it difficult for new investors to access the market but there exist a number of opportunities for them to gain exposure to a sector underpinned by strong fundamentals. Joint ventures are likely to prove increasingly popular with commercial real estate investors, especially in markets with a lack of institutional grade product.

2020 may become the year in which assisted living receives greater investor attention and consolidation. It may also help bridge the gap between more operational healthcare specialists and those who have previous experience in other forms of Living investment.

Outlook

Student Housing

Forecast demand from institutional investors is extremely strong and it is expected that market volumes for the sector will reach €10 billion for the first time. Given Blackstone's acquisition of IQ for over €5 billion, investor attention will switch to other opportunities that come to market, both in the UK and on the continent. Nascent markets are also expected to see increased investor activity, through newly formed joint ventures.

Coliving

Since the release of the JLL European Coliving Index in October 2019, the total number of operational and pipeline assets has increased by 17,500 across Europe. We expect the European pipeline to continue growing, with a large percentage of these beds becoming operational in the next three years. Several new institutional investors will enter the market, supporting sector growth and diversification of the investor profile.

Multifamily

While investor demand for multifamily remains extremely high, a lack of suitable product and regulatory intervention will inhibit significant growth in investment volumes over the year ahead. Large scale income-producing portfolios are relatively infrequent, and M&A remains a route to market for only a select few investors across Europe. Market volumes are expected to remain broadly in line with aggregate activity over the past two years, with nascent markets expected to consolidate around a growing pipeline and heightened activity.

Healthcare

The dominance of specialist-healthcare investors is likely to remain a pertinent trend for the year ahead. With a significant amount of capital raised, these investors are likely to broaden their investment activity, both in terms of geography and sub-sector investment. The emergence of commercial real estate investors into the market will be keenly observed by market players. This is particularly true in the assisted living space, which most closely resembles the multifamily sector and is not as operationally intensive and regulated as other Healthcare sub-sectors.

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