The future of real estate

- Outlook 2020
- The Rise of Proptech

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- The rise and fall of WeWork
- Germany’s matchmakers
- CEE Summit

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- Views from Frankfurt, Amsterdam, Milan, Paris, London

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New decade heralds host of new real estate trends

As a new decade dawns, it is prescient to contemplate the events that have shaped the last 10 years in European real estate markets, and what trends might shape the 2020s.

For most, the closing decade will be remembered for the tumultuous workout of the global financial crisis, which gave way to the longest bull run in living memory. It was supported by broadly consistent global central banks’ monetary policy, which accentuated real estate’s enduring relative value.

The 2010s was also a decade in which the boundaries of real estate expanded, in terms of investment horizons (eg into the burgeoning institutional residential sector and social infrastructure); and through technology advances which have disrupted traditional sector boundaries (eg between industrial and retail). Technology has connected supply chains, automated many legacy human workflows and created entirely new human work. This is only just beginning.

TECHNOLOGY REVOLUTION

The foundations have been laid for further exponential change in the coming decade. Momentum in favour of greater technology adoption will likely accelerate in the 2020s, to maintain internal and external asset class competitiveness and to keep pace with investors’ increasingly exacting expectations.

Technology has connected owners and investors with end customers, tenants and users more than ever before, which will accelerate the imperative towards another hallmark 2020 theme: climate change.

Elsewhere, structural drivers such as demographics will continue to impact long-term real estate investment strategies: not only in the built environment (eg healthcare, senior living, modernised infrastructure, smart cities), but also in the extended working life of populations.

In this final issue of 2019, we take a closer look at one of the year’s most stunning stories: the near-collapse of co-working behemoth, WeWork. We examine how it happened, the impact on sector sentiment, and canvas views of co-working ‘bulls’ and ‘bears’ on how things might shake out (p11).

We also profile the transformation of Waterway Investments, a boutique, independent advisory firm, which has successfully expanded beyond its core services – in sell-side brokerage and transactions of German non-core real estate – to provide capital solutions, including equity placements, debt advisory and structurings. It is the story of multiplicity of a global client network and Waterway’s two founders talk about the origins of their client-driven pan-European business expansion (p14). Also, somewhat inevitably, we chime in on the outcome of the UK General Election and what it means for Brexit, the UK property market and capital flows (p8).

James Wallace
Editor

ESG comes to the fore

It has been a fascinating year in the markets and this is reflected in the insights in this issue. At the start of the year ESG was less of a focus within the investment community, but by EXPO Real it had become a discussion across all our events.

In August beef came off the menu at a London university to help reduce its carbon footprint. We have just seen the first commercial electric flight being tested. ESG, wellbeing and the drive for carbon positive will be increasingly influential on the real asset sector.

RAI wishes all our readers, partners and sponsors the very best wishes for the festive season, the New Year and the new decade!

Richard Betts
Group Publisher
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The crucial question is what kind of businesses will exist in 10 years. Expectations have changed so much. After all, the big occupiers of today, like Amazon or Microsoft, didn’t really exist 10 years ago.

Andrew Westbrook, Partner, RSM

‘Technology has been overtaken by climate change and environmental concerns as the number one influencer of behaviour in real estate.’

Andy Watson, partner, Europa Capital

When user experience is what matters, who creates it matters. It is the end of valuation by spreadsheet, because you cannot value a building based on numbers when what counts is the operator who can generate more money from the asset.

Anthony Slumbers, PropAI
‘Once you have built the eco-system and established the connection then you can use the data to customise the experience for each tenant. What is connected gets measured and what gets measured gets managed.’

Jan Jilek, co-founder, Spaceflow

‘There is a huge difference between collecting and accessing data and using them in an efficient way, and very few companies know how to do that.’

Yasmina Darveniza, investor, Round Hill Ventures
Decisive victory for Tories clears Brexit blockage

Investors waiting for political clarity expected to return to UK property market

Boris Johnson returned to Downing Street in mid-December after his winter Brexit election gamble delivered a landslide for the Conservatives, securing the party’s biggest electoral victory since 1987. Labour paid the price for taking an ambiguous position on the election’s defining issue – Brexit – with Jeremy Corbyn leading the party to its worst result since 1935.

The Conservatives’ 80-strong decisive majority significantly reduces – but does not entirely remove – the risk of a no-deal Brexit and ensures a pathway for Johnson’s Brexit deal to clear the House of Commons. This will conclude the end of the beginning of the UK’s protracted exit from the European Union by 31 January 2020.

The election result is expected to usher in a five-year period of greater political stability which will provide a fillip to investor confidence, business investment, a short-term boost to the GDP outlook. Sterling rallied sharply to $1.346, from $1.317 immediately before the exit poll, before rising further on Friday morning to $1.35, its highest level against the US dollar since May 2018. Sterling also rallied to €1.207 against the euro, its highest level against the since December 2016.

Within real estate markets, the result will unleash some of the pent-up demand for UK property and green-light previously shelved capex plans on existing portfolios by investors which have waited for uncertainty to recede.

The extent to which the demand-release translates into transaction activity in the short-term will depend on the size of the pricing expectation gap between buyers and sellers, according to Liam Bailey, global head of research at Knight Frank. However, the real Brexit complexity – in striking a new trade agreement with the EU – remains to be resolved which may limit the rebound in investment activity.

POLITICAL CERTAINTY

Stephen Clifton, head of commercial at Knight Frank, said: ‘Real estate decision-makers have long craved greater political certainty, and this morning, that is the headline they have woken up to. We expect this clearer direction for UK politics to empower corporates to dust off expansion plans, developers to commence new schemes, and investors at home, and abroad, to quickly buy into what now looks like a very attractively-priced real estate market. 2020 will therefore be a much more active year on all fronts, as the UK reconfirms its status as one of the world’s few truly global real estate markets.’

Will Scoular, co-head of origination at Investec Structured Property Finance, said the Conservative majority will relieve some of the Brexit uncertainty which has been an impediment to UK economic momentum since the 2016 referendum. ‘Uncertainty will not though be eliminated as questions over the UK’s permanent trading relationship persist. Still the removal of some of the Brexit fog should help lift business investment, UK growth and with it, housing activity too,’ he added.

Indeed, the Conservatives’ manifesto commitment of building 300k new homes per annum by the mid-2020s will boost to housebuilders. Jefferies picks Persimmon and Berkeley as among the sector stocks likely to benefit.

Bailey added: ‘Supply is likely to rise as political uncertainty recedes and private and public spending stimulate the UK economy. This will put downwards pressure on prices, however some vendors may expect a bounce in prices, which may create a stand-off between buyers and sellers as the market re-prices.’
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WeWork’s 2019: the epoch of belief, the epoch of incredulity

The opening salvo in Charles Dickens’ classic, A Tale of Two Cities, captures WeWork’s bipolaric 2019: ‘It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity.’ Here, we examine what happened

By James Wallace

2019 was the year of WeWork’s, or rather The We Company’s, peak success and its annus horribilis all rolled into one turbulent 12 months.

The story begins in 2008 when Adam Neumann and Miguel McKelvey co-founded GreenDesk, a precursor co-working business located in Brooklyn which featured recycled furniture and wind-powered electricity. Neumann and McKelvey sold GreenDesk to their landlord and founded WeWork, along with Rebekah Neumann, in February 2010 in the Soho district of New York.

WeWork secured an initial $15m investment in its founding year from Joel Schreiber, a Manhattan real estate landlord, for a 33% stake, which valued the company at $45m. This investment enabled WeWork to double in size from 2010 to 2011. In February 2014, Neumann’s fundraising prowess enabled WeWork to raise a further $150m from venture capital firm Benchmark, and later, further capital from, among others, JP Morgan, the Harvard Corp, and billionaire Mort Zuckerman, supported a $1.5bn valuation. WeWork’s valuation rapidly ballooned to $10bn the following year, supported by the explosive growth of co-working from 10,000 to 260,000 people in the five years to 2014.

TECHNOLOGY COMPANY

But there was more to these eye-watering valuations than a fast-growing market, the prospect of becoming the market leader and a charismatic and energetic CEO with exceptional capital-raising skills. Investors also bought into WeWork as a technology company, rather than what it plainly was: a real estate leasing company.

Technology company valuations are based on their potential to disrupt and dominate, compared to traditional real estate companies, which are valued based on the net of their assets, revenues, profits and liabilities, as well as the lucidity of management’s business strategy. Investors in WeWork were buying into the hype rather than the reality, providing ever greater tranches of new capital to scale bigger and faster. For WeWork, defining the company as a technology business meant access to quick, cheap capital – and lots of it.

This is where SoftBank’s part in the WeWork story begins. In 2017, it launched the world’s largest private equity fund, the $93bn Vision Fund, backed by two Middle Eastern sovereign wealth funds – Saudi Arabia’s £320bn Public Investment Fund (PIF) and Abu Dhabi’s $229bn Mubadala Investment Company – as well as Apple, Qualcomm and Sharp, plus the Japanese bank itself.

SoftBank initially invested $3.1bn in WeWork and bought $1.3bn worth of shares from investors in August 2017. In January 2019, ahead of the planned summer IPO, SoftBank’s Vision Fund invested a further $5bn, and bought $1bn worth of shares from investors. This took WeWork’s total
equity and debt raised to $8.4bn and to its peak $47bn valuation.

By mid-2019, WeWork had ballooned to 528 locations and 527,000 members across 111 cities, according to WeWork’s IPO prospectus, supported by an estimated 15,000 global workforce. But the co-working giant of course delayed its IPO after massive losses and investor scrutiny of CEO Neumann’s eccentric management and behaviour.

To many investors, Neumann appeared to run the company for personal enrichment. For example, he acquired buildings personally and then leased them back to WeWork. In another account, after Neumann changed the firm’s name to The We Company, then trademarked the ‘We’ brand and sought compensation from the company in stock for use of the new name.

‘ELEVATING CONSCIOUSNESS’

But the most grandiose pronouncement was Neumann’s ostentatious revised corporate mission statement, which was to ‘elevate the world’s consciousness’, according to a January blog post, and to ‘unleash every human’s superpowers’.

WeWork’s IPO prospectus reads in part like a confessional of spiralling expenses and in part repetitious platitudes regarding WeWork and Neumann’s ‘vision about the future of how people work, live and grow’ and their ability to leverage ‘technology infrastructure’ to ‘aggregate demand and facilitate the delivery of value-added products and services’.

The IPO prospectus reveals that in 2016, The We Company’s losses were $429m, on $436m in revenue, which spiralled to $890m in annual losses in 2017, on $886m in revenue. In 2018, WeWork doubled its revenue to $1.8bn in 2018 (2017: $886m), but net losses doubled as well, up to $1.9bn (2017: $933m), driven by a voracious appetite for global expansion. This included a 335% year-on-year acceleration to $477m in ‘growth and new market development’ costs, a 164% year-on-year jump in sales and marketing costs to $379m and $237m of interest related to 2018 bond issues.

In WeWork’s 2018 $500m bond prospectus, it reported a $139.3m loss (or -21.8%) for adjusted EBITDA in 2017, which

WeWork and Neumann’s ‘vision about the future of how people work, live and grow’ and their ability to leverage ‘technology infrastructure’ to ‘aggregate demand and facilitate the delivery of value-added products and services’.

‘It is probably only after this that we will start to see where the true equilibrium is for the level of serviced office providers in each market.’

Zachary Gauge, UBS-AM Real Estate and Private Markets

WeWork’s growth 2010-2019

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<td>401,000</td>
<td>527,000</td>
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Source: The We Company
gymnastically flipped back into the black, to $233.1m (or 26.9%), when recalculated as a ‘community-adjusted EBITDA’, which included adding back costs which investors might consider more fantasy than authentically indicative of cash flows.

In late October, WeWork accepted $9.5bn in a rescue package from SoftBank in exchange for an 80% stake. Neumann stepped down as CEO and chairman as part of the deal, pocketing as much as $1.2bn to leave, while the valuation of the co-working giant collapsed more than 80% to $8bn – after the $9.5bn cash injection.

‘JUDGMENT NOT RIGHT’
Masayoshi Son, founder, chairman and CEO of SoftBank Group, admitted in an earnings call on 6 November: ‘My judgment was not right in many ways – I regret it,’ according to a translated transcript. SoftBank and its Vision Fund collectively wrote down $8.2bn on WeWork.

In Q3 2019, WeWork’s quarterly losses were $1.25bn, up more than 150% compared to a $497m loss in the same quarter last year. While revenue almost doubled year-on-year to $934m in Q3, occupancy rates had slumped to 79% – the lowest figure since mid-2017, driven by the firm’s breakneck growth outpacing demand.

Son has confirmed a three-step turnaround plan for WeWork, which it now effectively controls: stop building new offices for around three to four years; cost reductions, including fresh landlord negotiations, as well as in relation to space designs; and disposal or closure of non-core and unprofitable businesses. ‘By those three initiatives, we believe that we will be able to have a big improvement in WeWork,’ Son said.

WeWork’s fall from invincibility is perhaps best understood as the hubris of an early-mover, instrumental in pioneering a new business model, but bereft of the necessary financial acumen and discipline to implement measured global growth. Or put more simply, WeWork was the first mouse to chase a newly-found big block of cheese and in its exuberance was caught in the mousetrap. WeWork was never a tech company, it is a real estate company with some technology, which notably was not directly responsible for any revenue, according to its IPO prospectus.

The impact of WeWork and co-working on traditional office space is unequivocal. Indeed, SoftBank’s turnaround plan may prove successful and WeWork could rise again, but it is unlikely to ever reach the starry heights of early 2019. So, has WeWork’s fall from grace influenced co-working sentiment? The initial indication seems to be that it is so far unaffected: the co-working bulls are still bullish, and the bears still have their reservations.

‘There is generally a bit more caution in the market in leasing to serviced office providers, particularly if they are looking to take a large proportion of an asset,’ says Zachary Gauge, European real estate analyst at UBS-AM Real Estate and Private Markets. ‘However, the concerns around WeWork’s real estate strategy were well known in the industry before so it shouldn’t really have changed anything.

‘WeWork’s problems shouldn’t affect the sector as a whole, and whilst occupier markets are generally strong, the models should continue to work. But as we’ve always said, the sector will only be truly tested in a downturn. It is probably only after this that we will start to see where the true equilibrium is for the level of serviced office providers in each market, reflecting the changes in occupier strategy and increased demand for flexibility.’
‘The fundamentals of the flexible workspace offer are still strong, driven primarily by continued occupier demand for both flexibility and increased service levels.’

Emma Swinnerton, Cushman & Wakefield

‘We’ve long been sceptical of WeWork and their business model, and the risks attached to the serviced office model are still exactly the same. That’s not to say we wouldn’t consider assets with serviced offices contained within, but the risks would need to either be mitigated or balanced out by an appropriate discount on the acquisition price.’

Today, WeWork manages 600 locations with 676,000 desks throughout 122 cities in 32 countries. London is its second largest market with 42,700 desks, 40,300 members and 94% occupancy. Under SoftBank’s control, executive chairman Marcelo Claure has been appointed WeWork’s new chairman and has outlined a 50-page ‘90-day game plan’ which includes plans to sell The Wing, the female co-working operator; Meetup, the social gathering network; and Wave Garden, a wave pool-making company.

WORKFORCE CUTS

The scale of the global workforce cuts is rumoured to be in the region of 4,000. In a memo to employees, Claure wrote: ‘These are the toughest decisions we have to make, but the unfortunate reality is that we will have to complete layoffs in the next several weeks.’

However, WeWork’s commitments to its existing leases and landlords is not at this stage part of the strategy refocus. ‘We don’t envisage WeWork defaulting on its existing commitments, largely because it would effectively destroy their business model as landlords would refuse to lease any space to them going forward,’ says Gauge. ‘The new owners have a very large vested interest in the company so we expect them to focus on making the existing portfolio work and become profitable before thinking about returning to a growth strategy, but defaulting would really spell the end for the venture.’

For London, to put the impact of WeWork leases into context, if all WeWork space came back to the market, the worst affected market would be London City where it would add 2.2 percentage points to vacancy, followed by Dublin (1.2%), the West End (0.9%) and Birmingham (0.9%), according to UBS analysis. Outside these markets the impact would be fairly minimal.

‘I haven’t observed any obvious knock-on [sentiment] effects,’ adds Gauge. ‘If we took UK REIT pricing as a proxy they’re actually higher than before the failed IPO. Retail is a much bigger issue for these companies at the moment.’

‘Despite recent events, the fundamentals of the flexible workspace offer are still strong, driven primarily by continued occupier demand for both flexibility and increased service levels,’ says Emma Swinnerton, EMEA head of flexible leasing solutions at Cushman & Wakefield.

‘Our recent research report showed that the percentage of flexible workspace in the central London market was predicted to reach 5.5% by the end of 2019, which is ahead of where we predicted it would be in our previous study. Despite the market fundamentals such as average lease length varying across key European markets, we are still seeing significant growth in key cities, therefore even if growth is dampened, we expect the sector to continue on an upward trajectory.’

Mark Furness, CEO and founder of co-working software specialist Essensys, remains bullish about the sector. ‘WeWork acted as a catalyst for the industry, not just on the supply side, but perhaps more importantly (and thanks to their brand and reach) they have helped to educate and inform the demand side too. This has led to a much wider understanding of the benefits of flexible “space-as-a-service” solutions by all types of occupiers.’

Furness continues: ‘I would echo the many voices that now see space-as-a-service becoming the demand default from corporate occupiers the world over. Over the past couple of years, we’ve witnessed this new demand default translate into an accelerated response from the world’s largest REITs, landlords and commercial real estate companies who are all now developing their own answers to these demand-side requirements, be that “buy”, “build” or “partner”.

‘This is the new normal for the commercial real estate industry and those landlords and CRE players that adapt to this structural shift quickly and efficiently will undoubtedly provide the most benefit to their customers and also see the most value created within their own businesses.’

The global co-working inventory is now approximately 125 million square feet, according to Cushman & Wakefield, which says the influx of new space is unceasing. However, the ripple effects from WeWork’s near collapse will likely rumble on, with members, landlords, investors, lenders and rivals all looking on closely.
Investment activity across Europe has plateaued in recent years, but at elevated levels. Transactional activity is expected to reach around the €230bn mark for the full year 2019 after the final deals are over the line, in line with the current five-year average, according to Savills forecasts.

It has been a consistently busy period for the asset class, which continues to receive support from low interest rates which, in turn, is supporting the sustained relative value of real estate against fixed income.

The enduring macro dynamic has been a boon for niche advisory firms, such as Waterway Investments, which in the last two years have expanded beyond their core German non-core sell-side brokerage and transactions into adjacent, complementary services, including equity and debt placement, capital raising and NPL advisory.

‘As long as the current macro interest rate environment continues, real estate will play a major role for pension funds and insurance companies,’ explains Christian Waterway Investments is broadening its business and leveraging an international network to compete in the competitive equity placement market.
Frankfurt and in London. Most of its clients Waterway started in 2011 with a base in sectors and quality profiles. underlying assets across the spectrum of portfolios secured by several thousand underwriting and analysing real estate loan perfect environment to hone their craft subsidiaries, in relation to the €160m Artemis secondary office portfolio, which the investor was on the brink of acquiring from Goldman Sachs. Corpus Sireo and Swiss Life were looking for a senior equity JV partner to team up with on the ownership of the Artemis portfolios. ‘We connected them with a Lebanese family office and private bank and the deal closed in summer 2018 – and that was the start of our equity placement business line,’ remembers Kohlmann, adding: ‘Equity raising mandates take a long time and the deals are complex.’

**EQUITY MANDATES**

Kohlmann and Zilly have been busy in the subsequent two years – Waterway has managed four separate equity mandates for a total of €370m which has been invested in separate portfolios, in aggregate worth approximately €1bn, including the Artemis deal. In addition, Waterway closed two other deals with a UK private equity fund that needed ad hoc equity for large development/repositioning projects in Frankfurt and Hamburg. Waterway is also mandated on an ongoing German platform deal with ‘a few hundred million euros under management’, Zilly says. It is currently marketing the deal with a number of investors.

All this, of course, is alongside Waterway's core business: sell-side brokerage and transactions of German non-core real estate.

Zilly explains: ‘Our equity placement activity usually deals with particular assets, developments or portfolios. When it comes to raising funds there are other specialist parties in the market. We analyse portfolios and assets on behalf of owners and aim to identify the ideal match on the investor side, which requires us to understand assets and business plan in detail, but also the investment requirements and triggers of international investors.

‘The fact that a lot of international investors still like yield and value-add plays steers them in the direction of non-core assets. This is where we help understand the ins and outs of the market as the vast majority are only familiar with the core markets.’

Zilly, co-founder of Waterway Investments. ‘The German transaction market has been growing over the past seven years and has also plateaued at around €65bn per annum. We expect to see these levels remain more or less constant over the next few years. The only thing that has really changed is the nature of the investment strategies. Players with true opportunistic strategies have been replaced by investors with a lower cost of capital.’

Karsten Kohlmann, Zilly’s joint co-founder at Waterway, picks up the thread: ‘Slightly more than half of all commercial real estate investments in Germany is now done by foreign investors, and the risk profile within that foreign investor universe is extremely diverse – from large family offices to pension funds and REITs. One theme running through each of these investors is their need for a local platform that knows the market and acts as the extended arm of the foreign partner.’

**HONING THEIR CRAFT**

Kohlmann and Zilly learnt their trade in one of the busiest private equity operations – Lone Star Funds’ special servicing subsidiary, Hudson Advisors. It was a perfect environment to hone their craft underwriting and analysing real estate loan portfolios secured by several thousand underlying assets across the spectrum of sectors and quality profiles.

Waterway started in 2011 with a base in Frankfurt and in London. Most of its clients are international with the most remote being Macquarie Bank’s Sydney office, after the team suddenly obtained ownership of a challenging asset in Germany.

‘Our focus has always been to be creative in identifying potential new and international investors for the investments that we bring to market. That has led to more and more international investors seeking our advice on investments and operating partners in the German market,’ Zilly says. ‘As a result, from the very early days of Waterway we have been sparring partners for international investors on how to enter and operate in the German marketplace.’

Building up the business has required constant networking with investors from all over the world as well as with German owners, developers and other stakeholders. ‘All of which has put us in a position where we are able to match German investment opportunities with international capital – by which we mean sourcing of capital partners and JV partners,’ says Kohlmann.

Waterway’s entry into equity placement was just over two years ago, in November 2017. Zilly and Kohlmann were approached by Corpus Sireo, the Swiss Life Asset Managers subsidiary, in relation to the €160m Artemis secondary office portfolio, which the investor was on the brink of acquiring from Goldman Sachs. Corpus Sireo and Swiss Life were looking for a senior equity JV partner to team up with on the ownership of the Artemis portfolios.

From the very early days of Waterway we have been sparring partners for international investors on how to enter and operate in the German marketplace.’

Christian Zilly, Waterway Investments
The world of equity distribution has become a lot more sophisticated in recent years. International family offices aim to invest direct due to demand from their clients. Countries like South Korea have investment banks that act as brokerages by either acquiring European assets directly and then syndicating with national institutional investors or directly structuring the deal accordingly. These types of intermediaries help Waterway to convey its message that German real estate is an attractive asset class for investors.

‘The fact that Germany has evolved into a major property market in the past decade, backed by its location and economic environment, has helped to position it at the forefront of investor interest in a globally competing market, where investors compare transactions between Continents,’ says Kohlmann. ‘Germany is diverse, different regional markets profit from different economic drivers and different regions therefore have attractive markets in their own right. It just requires trusted professionals to help investors manoeuvre through them.’

Waterway is currently raising equity for a London-based developer with a multi-billion track record in central London and the UK regions with a mandate to broaden the investor base and identify tailored investors for different types of development, high capex refurbishments and asset repositionings. Waterway has built this momentum for its equity placement business by travelling to capital sources, such as New York, Singapore and Australia. Kohlmann says meeting prospective investors and clients helps identify trends among foreign investors in Continental Europe and Waterway to ‘become a sparring partner for investors from those parts of the world’.

‘At any point in time in the last couple of years, we had mandates to source capital for German assets worth several hundred million euros on our desk. This shows the vast demand for international capital, especially for higher-yielding assets as historically German institutional investors preferred the core segment of the market.’

‘Obviously, this also requires some cultural bridging,’ Zilly adds. ‘Marrying Middle Eastern capital with German institutional investors or helping Asian investors leave their Continent for the first time to invest in Germany to transact with private equity funds entails a variety of challenges. Understanding of assets, markets, rules and regulations as well as deal structuring can take a while and requires a holistic approach.

INTERNATIONAL OUTLOOK

‘We have historically had a very international mindset and from the inception of Waterway we approached international investors for investments. And, due to our background, we created a wide network in the private equity and hedge fund investor universe early on.’

Over time, Waterway has broadened this network to include Middle Eastern private banks, Asian REITs, pension funds and a spectrum of European investors with

Carving a niche in debt advisory for high leverage deals

In recent years, Waterway has carved out a specialist role in debt advisory in Germany. From the early days, it has often been appointed as problem solver for challenging transactions. In part, this reflects Kohlmann and Zilly’s previous distressed investment background at Hudson Advisors and Lone Star Funds. This background led to them spotting a gap in the German financing market.

‘All our senior team members also spent a significant amount of time in their career with NPL investors and financing banks, which has led to a diverse network in the institutional and alternative lending universe,’ explains Zilly. ‘Those transactions are rarely plain vanilla as lack of alternative uses, tenant covenant, a variety of capex issues, location or asset class could lead to a requirement for non-traditional financing partners as the large pfandbrief banks often have a very binary view when it comes to financing in Germany.’

Zilly and Kohlmann had a few recent situations where buyers of deals Waterway was marketing were willing to pay a premium for an asset, but were unable to secure their desired leverage with the mainstream banks in Germany. ‘We stepped in and originated a finance

Waterway sourced a JV capital partner for Swiss Life/Corpus Sireo’s Artemis portfolio, and sold the THOR 2 portfolio, which both included offices in Neu-Ilsenburg (Artemis in red, THOR in yellow)
investment interests across the capital stack and risk-return spectrum. Thus far, Waterway’s equity placement business has been predominantly Germany based, but has expanded into the Netherlands, the UK and Ireland. Geography expansion tends to be client-driven with the probable next new market for Waterway being Poland. ‘Most of our clients have a European investment focus and once we have worked successfully with them in Germany, the question comes up where else they need help,’ says Kohlmann.

To cement its network, Waterway is in talks with its partners to open offices in New York and Singapore in 2020 to support capital raising.

‘When German asset managers, major developers and operating partners voiced their desire to broaden their investor network from the usual suspects, we identified very quickly that those demands from our national network matched the requests from our international network,’ explains Zilly. ‘We cannot only match supply and demand, but we also provide the research, financial modelling, finance advice (see below) and bring different stakeholders required for a transaction package – an 80% LTV for an Eastern German mixed-use property in a regional city,’ says Kohlmann. ‘Traditional banks provide great terms for core/core+ product in established asset classes and for institutional investors. If the vast set of requirements aren’t met and all boxes ticked, the search for alternative debt providers, regional banks and other institutions begins, with a large array of those parties being very “German”.

NICHE OPERATION
Zilly adds: ‘Dealing with the large banks has always been very straightforward for international investors, the debt advisory universe has been very limited compared to the Anglo-Saxon world. However, since more and more international investors are venturing into second and third-tier cities and alternative asset classes, we have identified a niche.

‘As we understand the international investor, understand real estate in detail and are able to create and explain the vision of an investment, but at the same time are able to be regional and in a position to mitigate the challenges for a regional or alternative lender when dealing with an international investor, we see ourselves in an excellent position to further venture into the debt advisory universe and to grow that business line in 2020.’

In particular, providing quasi staple finance for non-plain vanilla deals has become very attractive to a wide set of investors, says Kohlmann. ‘Similar to our dealings on the equity side, we don’t have a target framework when it comes to deal/loan size, LTV, margins etc. as we are always client-driven and strive to achieve the best result for a particular deal,’ he adds.

Waterway was approached by Corpus Sireo to source a JV partner for the Artemis portfolio, which includes Düsseldorf assets
‘More overseas capital targeting CEE offices’

More international capital is flowing to CEE countries and the office sector continues to be investors’ favourite target, accounting for an unprecedented level of interest. This is one of the main findings of the CEE Investment Report 2019: Thriving Metropolitan Cities, published by Skanska, Colliers International and Dentons.

Office stock in major CEE cities has been growing and is now 21.8 million sq m, but it will increase by a further 20%, reaching 26.5 million sq m in 2021. This reflects the region’s strong economic growth, which outpaces that of Western Europe, and its success in attracting multinationals, partly due to the availability of a highly skilled workforce.

Capital has come into the region from all corners of the world. First half of this year South Korean investors have been the most active in the CEE real estate market, but there has also been inflows from Singapore, the Philippines, China and Malaysia. A favourable exchange rate and higher yields are the main attractions for investors, as well as the quality of the office stock available.

Since 2013 the CEE region has accounted for less than 3% of all capital spent by Asian investors outside their continent, but this year that figure jumped to 9.5% and it is likely to grow further.

‘As the biggest office developer in the region, we have been observing how the flow of foreign investors has changed,’ said Adrian Karczewicz, head of divestments at Skanska commercial development business in CEE.

‘Europeans, led by the Germans, used to be the biggest group of investors looking for prime assets in our region, but new players, especially from South Korea, are becoming more active because they know that in CEE they can find best-in-class, future-proof office buildings and higher returns on investments.’

The growth and transformation of CEE cities is the other focus of the report, drilling down into what makes a town an attractive investment destination. CEE cities dominate the list of the fastest-growing metropolitan areas in the EU, accounting for 16 in the top 20. Prague is second on the list, just behind Dublin, and is followed by Wroclaw, which has recorded spectacular productivity growth.

‘Polycentric Poland becomes safe haven for investors’

Poland has a great potential, similarly to Germany offers multiple investment locations, which together with strong economic growth and great talents make the country unique on European investment map, Katarzyna Zawodna-Bijoch, President and CEO at Skanska commercial development business in CEE, told Real Asset Insight.

International capital has moved beyond Warsaw and is targeting Poland’s many strong regional cities, she adds.

‘We were the first to go into Poland’s regional cities. Back then it was a brave decision, but now no one doubts that it was the right one. They are attracting companies because they offer such a wide pool of well-educated human capital.’

The strengths of what used to be called secondary cities are now widely recognised. ‘Investors are very confident now about Poland’s regional cities, which also offer a 100-150 bps premium to what you would get in a German city,’ says Simon Wallace, head of research, Europe, alternatives, at DWS.

‘Poland attracts most interest, but the country that offers the best opportunities now is Romania.’

Katarzyna Zawodna-Bijoch, Skanska

There is plenty of life in CEE beyond Poland, however, says Zawodna-Bijoch: ‘As the biggest market it attracts most of the interest, but the country that offers the best opportunities now is Romania. There is great quality product, about 4 million sq m of modern office space and the new government is keen on making the market more transparent. Romania is a real rising star.’
HERE’S TO ANOTHER GREAT YEAR IN 2020

Thankyou to all our industry partners, speakers, attendees, advertisers, listeners, viewers and readers online and in print
Broadening investor base lifts Warsaw office sector in 2019

The office sector in Warsaw is on track for a record year and investments could reach €2.7bn by the end of 2019, delegates heard at the CEE Summit 2019, organised by Poland Today and Real Asset Media.

A broadening investor base is the reason why volumes have increased, as newcomers join established players in what they see as a dynamic and promising market.

‘Warsaw office transaction volumes were virtually double the long-term average at the end of September, driven by a slew of big-ticket deals during the first nine months,’ said Simon Mallinson, executive managing director EMEA & APAC at Real Capital Analytics.

‘BEST YEAR IN SIGHT’
So far this year RCA has recorded €1.6bn of office deals, just under the record €1.8bn for full-year 2018. ‘But as another €1.1bn of deals are still pending, even if not all of them are finalised by the end of December we should see 2019 at least reach, if not overtake, the 2018 figure,’ said Mallinson. ‘The best year ever is in sight.’

The office sector seems to be a favourite with investors, as activity across the CEE, including Russia, has reached a 10-year high of €7.6bn, according to new RCA figures. Warsaw has been the most active market, followed by Prague, Budapest, Moscow and Vilnius.

‘Our data suggests that a broader group of investors is becoming more comfortable with real estate investing across CEE markets,’ said Mallinson. One of the attractions is the relatively wide gap in pricing with the more expensive core Western European markets,’ he said.

The robust investment levels in the CEE region in general, and its office markets in particular, have resulted in rising levels of market liquidity. RCA’s Capital Liquidity Scores show that Warsaw is currently at its second highest level of liquidity ever, while Budapest has exceeded its previous record.

In Warsaw, liquidity is being driven by the very high proportion of institutional capital in the market and the fact that total investment volumes have increased, said Mallinson, but there is still an issue with the lack of domestic capital being deployed in the market, which makes Poland very dependent on foreign capital.

‘International investors do like to see a domestic investor base because it gives them confidence and the certainty of an exit,’ said Mallinson. ‘Any dislocation in global capital flows could affect the Polish market disproportionately.’
Real estate on national agendas as urbanisation trend continues
Opportunities exist for industry to make an impact

The real estate industry has a great opportunity to change and make an impact, delegates heard at the CEE Summit 2019.

‘I’ve never seen real estate and the built environment so high up the agenda of all governments because of rapid urbanisation – this presents our industry with a great opportunity,’ said Sean Tompkins, global chief executive of RICS.

It is a responsibility as well as an opportunity, he added: ‘The built environment is where we can provide leadership. Demand has never been so high, so innovation and high standards are needed more than ever.’

RICS has been leading a drive to harmonise standards across the industry and introducing ICMS (International Construction Measurement Standards) to allow projects to be easily compared across cities and countries.

There are three main trends which no industry player can ignore, Tompkins said. The first is that real estate is becoming more of a service and an experience rather than a fixed asset comprising bricks and concrete.

The second is that, despite late-cycle doubts, more capital is being deployed into real estate. ‘We expect more diversification and the uptake of more value-add and opportunistic strategies, as well as more acquisitions of platforms,’ said Tompkins.

TECH DISRUPTION
The third trend is the disruption brought by technology. ‘We’ve been latecomers to digitalisation, as the raw physicality of the assets has been an impediment,’ Tompkins admitted. ‘That is changing, as we develop an understanding of how to maximise efficiency and get more returns.’

The future is set to bring increased technological capability with the customer experience at the centre, while data analytics will make transactions more efficient. What needs to improve is the transparency and consistency of data.

‘In future investments will only be directed towards cities that are dealing with climate change and the environmental impact,’ he said. ‘Planning for resilience makes good business sense. It is as simple as that.’

Tompkins singled out Poland, which is the first CEE country to move from emerging to developed economy status: ‘It is a real milestone, and a reflection of the can-do, entrepreneurial spirit Polish people have.’

Poland pushes second tier cities

The whole of Poland is now a special economic zone, as the new government is keen to promote investment beyond Warsaw, delegates heard at the CEE Summit 2019.

‘Our attitude to investment has changed,’ said Tadeusz Koscinski, deputy minister of finance (pictured below). ‘The entire country is a special economic zone with tax incentives, because we want to promote high-tech, future-proof investments that will create good-quality jobs.’

The government is particularly keen to encourage investment into second-tier cities by focusing on infrastructure and improving transport links, Koscinski said.

An example of the scale of the government’s ambitions is the Solidarity Transport Hub, or CPK, a large project to build a new airport and infrastructure and railway hub 40km from Warsaw. The airport will be a hub for flights to and from the Far East, while improved train links and significantly faster travel times between cities will make a big difference to business.

The political elections earlier this month resulted in the ruling Law and Justice Party, or PiS, winning an unprecedented second overall majority in the Lower House and gaining an additional 2.3 million votes.

The new government appointed in November will be more pragmatic and business-friendly, said Marek Matraszek, chairman of CEC Government Relations: ‘It is likely to be less ideological and more technocratic and looking to forge a new relationship with post-Brexit Britain.’

Koscinski said that in future ‘the voice of the market will be listened to more and more. Politicians now listen to business first, then they speak and make decisions, while before it was the other way round.’
Poland prepares for alternative sectors as core markets evolve

In the buoyant real estate market in Poland traditional sectors such as retail are changing while alternative sectors are emerging, the recent CEE Summit in Warsaw heard.

The residential sector, for example, is set to see the introduction of PRS (private rented sector) accommodation. ‘We see great demand for institutional providers of apartments for rent,’ said Peter Noack, co-founder and managing director of Zeitgeist Asset Management. ‘We want to introduce resi for rent on a big scale and we have to develop the product because it doesn’t exist, so we are buying old buildings in good locations and converting them,’ he said. The sector is so promising that even the notoriously risk-averse German pension funds are investing in it, he added.

The banks are adopting a wait-and-see attitude, said Justyna Kedzierska-Klukowska, head of Warsaw office at Berlin Hyp: ‘The market is changing fast, but we need a certain critical mass and track record to invest in a sector, so we wouldn’t lend for PRS or student housing yet. Office, retail and logistics remain the core sectors, which we remain positive about.’

Investor sentiment about retail may have changed, she said, but consumers have disposable income and are happy to shop.

Being successful in retail today involves constant change, said Leszek Sikora, managing director Poland at ECE Projektmanagement: ‘We manage 200 shopping centres and we believe they will still be there in 20 or 30 years, but we need to keep reinventing them and look beyond short-term trends.’

EXPERIENCE PLATFORM

The changes involve combining online and offline, transforming the shopping centre into an experience platform, adding services and also adding a mixed-use element.

‘We have created co-working spaces at the heart of our shopping centres in response to customer demand,’ Sikora said. ‘This attracts people to the centre and provides a customer base for our tenants. We call it intensifying the use of the space.’

In the best locations residential could be added to the mix. ‘We are open to incorporating resi schemes in shopping centres,’ said Noack.

Student accommodation is another possibility, said Samuel Vetrak, CEO of Bonard: ‘We have done a student housing project in a shopping mall in Spain, but it is quite unusual. However, the sector is up and coming in Poland because of growing demand in the many University cities there are’.

Wroclaw chosen for the first foreign university in Poland

The UK’s Coventry University has chosen Wroclaw to establish the first foreign university in Poland, delegates heard at the recent CEE Summit in Warsaw.

‘We see ourselves as a global institution and we have hubs in the Middle East, Africa, South America and the Far East, but we had never had anything in mainland Europe before,’ said John Dishman, pro-vice chancellor at Coventry University. ‘Brexit has prompted us to move faster. We have looked at several countries in Europe, but we have chosen Poland.’

Out of eight cities the University looked at in Poland, Wroclaw was chosen for two reasons, he said: ‘The city welcomed us because it has such great ambition for the sector and there is a shortage of graduate labour to meet the needs of local companies.’

English language education is highly prized in Poland and employers are eager to engage in curriculum development to steer the content of courses to meet their needs, Dishman added: ‘There is strong demand for work-ready graduate labour because Wroclaw has a reputation as a university city and it has been very successful in attracting large foreign investment.’

The new fully operational campus will
One sign that the Polish real estate market is maturing is the attention being paid to heritage and period buildings, delegates heard during the ‘Revitalisation Projects – Generating the return on investment’ panel at the recent CEE Summit in Warsaw.

‘The trend was to demolish existing structures and build a shiny new tower block,’ said Kinga Nowakowska, member of the management board & operations director, at developer Capital Park. ‘Now there is an interest in preserving and conserving historic buildings’.

One example is Norblina Capital Park in Warsaw centre, which will bring new life to a 200-year-old factory, restoring 10 listed buildings and the old machines which will be housed in a special museum. Set to open in 2021, it will have retail, offices, a cinema, a rooftop restaurant and pedestrian walkways open 24 hours a day to become an integral part of the city.

The plan, said Nowakowska, is to create a leisure and entertainment destination and ‘find little brands that can’t afford to be in the big shopping malls, which attract people looking for something different’.

Another example is Monopolis in Lodz (pictured above), where an old vodka distillery is being transformed into a mixed-use district by developer Virako. ‘There are offices but the heart of the project is retail, not a traditional shopping centre but more of a culture and leisure destination,’ said Anna Celichowska, member of the board and leasing director at Virako. ‘Historical buildings are an asset with great future value.’

Scarcity of land is another reason behind the new trend, said Tomasz Trzóslo, managing director Central Europe, at JLL: ‘People struggle to find land for development so investors will look more and more at rebuilding, refurbishing and repositioning existing buildings.’

There will be more mixed-use projects in the future and most of them will involve a residential element, be it apartments or student housing, he said: ‘Residential will become an increasingly important part of these schemes.’

‘Wroclaw has a reputation as a university city and it has been very successful in attracting large foreign investment’

John Dishman, Coventry University

open in autumn 2020 and will offer UK qualifications with year-round multiple start dates and a mix of British and Polish academics doing the teaching. Initially it will offer degrees in Aviation, Business, Digital and Cybersecurity, in response to local companies’ needs, while the companies will offer students internships and work experience.

‘Later on we plan to add MBAs and other post-graduate qualifications,’ said Dishman. ‘We hope to encourage other universities to be more flexible and employer-friendly and we hope to attract students not just from nearby countries but also from China and the Far East. The cost of living is much lower in Poland than in the UK and there is also a friendlier environment to international students.’

The fees of 20,000 zloty a year are high by Polish standards but, as Dishman pointed out, ‘less than half the cost of British university courses’.
Momentum gathers to pass REIT legislation in Poland

Ministry of Finance in bid to convince Polish national bank of benefits and follow Spain and Portugal in adoption

Long-delayed REIT legislation could be approved by Poland’s new government, experts have told Real Asset Insight.

‘The Ministry of Finance believes the REIT legislation is a very good solution and I can promise we will be working to have it approved,’ said Maciej Zukowski, director, Ministry of Finance and president of the supervisory board at PFR Nieruchomosci. ‘I cannot give a precise time frame, but I know that the prime minister is very keen for the legislation to be approved to give security to investors.’

Until now, said Zukowski ‘unfortunately the law got stuck after the first reading because of strong opposition from the National Bank of Poland, that cited social and political risk. They were afraid that all the deposits would disappear and be invested in REITs, which is not a reasonable fear to me. It was a very emotional response to a rational argument, but we must do a job of persuasion now.’

People have been working for three years to establish a REIT regime in Poland, but nothing has happened yet, said Małgorzata Kosinska, president of the REIT-Polska Association, who added: ‘I want to remain optimistic and believe the rational reasons will sink in.’

A REIT regime could support the development of the Polish market, said Dorota Latkowska, partner at REINO Capital Partners: ‘People are waiting, the market is ready and we must also meet the expectations of international players.’

The obvious example to follow is Spain, where the introduction of REITs has led to many IPOs by Spanish companies and a thriving market. Portugal has now followed in its footsteps.

‘REITs guarantee the highest levels of transparency, scrutiny and corporate governance,’ said Tobias Steinmann, director public affairs at EPRA. ‘You have an army of analysts and investors looking into the companies, every figure is audited and triple-checked, which makes the sector attractive for foreign investors.’

‘The wording of the current Bill is not perfect, but I hope it becomes law because it will introduce individual investors to the market,’ said Karolina Sulma, head of Skanska Property Poland’s legal department.

‘REITs guarantee the highest levels of transparency, scrutiny and corporate governance,’ Tobias Steinmann, EPRA

Poland’s market has ‘safety in numbers’

There is safety in numbers in Poland, as the presence of such a range of foreign capital in the Polish market is an incentive for others to invest, experts agreed at the CEE Summit in Warsaw.

‘Poland now has such a range of international investors from virtually every continent that there is safety in that,’ said Ingo Martin, Head of International Real Estate & Structured Finance, Deutsche Hypo.

Capital is coming from new as well as established sources. ‘We have just done a strategic deal with the largest developer in Australia,’ said Dorota Latkowska, partner at REINO Capital Partners (right). ‘They looked at several countries in Western Europe first, but when they came here and saw the dynamism of the market they made the decision to invest very quickly.’

The number of foreign investors is in contrast with the lack of domestic capital in the market. ‘For us as value-add investors it’s all about liquidity,’ said Robert Martin, founding partner of Europa Capital. ‘In the last 10 years the liquidity situation has improved significantly, but it is still an issue.’

Foreign investors are looking beyond Warsaw to secondary cities such as Krakow, Poznan, Wroclaw, Lodz, Katowice, Gdansk and Gdynia. In time, Poland could become a polycentric country like Germany.

‘We see major developers going into regional cities,’ said Piotr Mirowski, senior partner, head of investment services Poland, at Colliers International. ‘Liquidity is improving, but given the size of these markets it will continue to be an issue. However, growth will continue as part of market dynamics.’
South Korea on track to become biggest investor in CEE this year

Asians head east after spending €3bn in Paris in 2018

South Korea could become the biggest investor in CEE this year, delegates heard at Real Asset Media and Poland Today’s recent CEE Summit.

‘Poland has become a hotspot for Asian investment,’ said Adrian Karczewicz, head of divestments CEE at Skanska Commercial Development Europe. ‘Interest from South Korean investors has been growing very strongly. The driver is the exchange rate, which makes it very attractive to invest in real estate. They spent €3bn in Paris in 2018, but this year they have moved east and in 2019 they are set to be the biggest investors in CEE.‘

‘DEFINITE SHIFT’
The interest in the property market is relatively new, said Chan Woo Bin, associate partner at JP Weber: ‘The first Korean investment in Poland was LG in 1995. It started with industrial companies then it expanded and now it has definitely shifted to real estate.’ South Korean investors are more interested in taking over existing projects rather than developing, he said, although their strategy may change in future.

‘We are seeing more South Korean and Singaporean investors, more pension funds and family offices and there’s a lot more to come,’ said Natalie Breen, global real estate legal leader, head of Asia real estate desk at PwC. ‘Geographical diversification plays a part, because they realised they were underweight in Europe.’

The region’s strong economic fundamentals and ease of doing transactions are also driving the capital flows, said Carsten Loll, partner at Linklaters: ‘The legal system is similar in South Korea, the concepts are the same so it is easier for them to invest here.’

Skanska has just completed a transaction in Budapest with the South Korean public sector workers’ pension fund. ‘Their way of working was very similar to ours, with a transparent and reliable approach,’ said Karczewicz. ‘They are ready for long-term partnerships. They are here to stay.’

‘Poland has become a hotspot. South Korean investors spent €3bn in Paris in 2018, but this year they have moved east.’

Adrian Karczewicz, Skanska Commercial Development

Investors turn to alternatives

Offices and logistics continue to dominate the Polish market, but investors are beginning to look at alternative sectors as well.

The factors driving the main sectors will continue to be relevant for many years, but in the meantime some investors are positioning themselves for the new wave of asset classes.

‘Office and logistics have been driving volumes for years, but investors see the trends in Western Europe and want to be at the front of the line,’ said Piotr Mirowski, senior partner, head of investment services Poland, at Colliers International. ‘They are interested in alternative sectors, but they need opportunities of a certain scale and often they struggle to find them.’

Other investors are more cautious about venturing into sectors that may not be mature or liquid enough.

‘As value-add investors we focus on sectors that have a tail-wind, like beds and sheds at the moment, everything from hotels to residential to distribution,’ said Robert Martin, founding partner of Europa Capital. ‘The problem is that there is no track record at all for alternative sectors in Poland. You don’t know what you are underwriting and you don’t know what supply and demand will be like.’

Europa Capital invests in student housing and PRS in the UK and the Nordics, but is taking a wait-and-see approach in Poland.

Part of the problem is the complexity of the operational side. ‘Even in a mature market like the UK the resi management business is still evolving,’ said Martin. ‘We have a 300-apartment tower in Manchester and management is the single biggest issue, so how would it work in Poland? Who would operate it for you?’

Mokrzycki added: ‘I don’t see beds & sheds happening in Poland yet, because city authorities need to approve and location and availability of labour are serious issues.’
As an investment manager, LaSalle takes steps to manage climate-related risks, such as the carbon emissions of the buildings we manage, to ensure our clients’ portfolios are resilient and pre-empt regulatory change and related expenses.

Environmental change is also one of the four key factors around which all of our investment strategies are built, alongside the long-term trends of demographics, urbanisation and technology. But now we at LaSalle, and our colleagues across real estate, are stepping up our efforts.

We are working to identify the best methodology for assessing climate risk, in terms of both the physical risk posed to the asset and the risks posed through the process of transitioning to a net zero carbon position. In this ongoing work, we have participated in the United Nations Environment Programme Finance Initiative pilot and engaged with our global insurers.

As well as seeking to minimise the negative environmental impact of our assets, we are also developing specific investment solutions which will positively contribute to the environment and society. We have incorporated these investments, whose primary purpose is to serve a societal rather than a commercial need, within the wider portfolios of many of our existing clients in the UK.

And, as long-standing members of the Better Buildings Partnership (BBP), a collaboration of the UK’s leading commercial property owners who are working together to improve the sustainability of existing commercial building stock, we recently signed the Climate Change Commitment. This represents an important step in escalating institutional property owners’ coordinated response to the threat of climate change, by setting out the pathway to the critical target of net zero carbon by 2050.

Under the BBP Commitment, we and the other 23 signatories have committed to publishing, by the end of 2020, our pathway to net zero carbon by 2050. We must also issue comprehensive climate change resilience strategies by 2022. And we must make annual disclosures on progress and develop industry benchmarks to be measured against.

**SYSTEMIC APPROACH**

Significantly, the systematic approach outlined by the BBP includes both operational and embodied carbon emissions and applies to the whole building, including tenant energy usage. This sets it apart from other public commitments in the sustainability space.

Accordingly, it will no longer be sufficient for investors and property owners to focus solely on improvements to building design. These must be accompanied by changes to occupiers’ approach towards energy consumption.

For example, modern glass and steel towers are often criticised as less energy efficient. However, they will remain in high demand as office buildings, because people typically prefer working in them and employers now largely understand the benefits that a high-quality built environment provides to employee physical and mental wellbeing and productivity. Instead, the onus will be on these buildings’ owners and occupiers to work together to realise alternative ways of enhancing energy efficiency. Human experience of buildings will remain front and centre and the BBP’s net zero strategy rightly recognises that.

In fact, a more comprehensive approach to reducing carbon emissions opens up new avenues for mitigating the environmental and societal impacts of real estate. Even subtle changes to existing lease practices, notably on full repairing and insuring leases, could foster better measurement and management of carbon emissions and improve transparency and awareness, thus being a critical component to improving energy efficiency.

The BBP’s programme also represents a call to action to a wider group of stakeholders outside of its membership, such as investors, engineers, professional bodies and governments, to embrace this agenda. The transition to a low-carbon economy is a broad societal challenge which requires engagement and commitment across the board.

After all, society as a whole has an existential interest in limiting carbon emissions and minimising the impacts of climate change. Within the real estate industry, property owners, occupiers, investors, policymakers and all other stakeholders each have crucial roles to play in reaching the critical target of net zero carbon by 2050.
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Asian capital fills void left by US and South African investors

Investment in the CEE region from Singapore, Malaysia and South Korea has almost trebled to 16% this year

Asian, European and domestic investment has replaced US and South African capital in Central and Eastern Europe. 'Investors like the CEE story,' says Kevin Turpin, regional director of research, CEE, at Colliers International.

By the end of Q3 2019 investments had reached €9bn, with the pace picking up towards the second half of the year. 'We are optimistic that we will come close to the €13bn mark like last year,' adds Turpin. 'The issue is product availability rather than investor appetite.'

Poland continues to dominate the region, accounting for around 50% of total investment volumes, followed by the Czech Republic, Hungary, Romania, Bulgaria and Slovakia.

Offices remain a positive story, with 60% of investment going into the sector and strong interest from international investors.

Foreign capital is still pouring in, but its provenance is changing. Historically a lot of capital has come from the UK, Germany, Austria and other European countries, as well as the US.

Europeans remain active, contributing 28% of total volumes this year, compared with 19% in 2018. US investors have been net sellers, shrinking from 19% to 6% of investment volumes and South African investment has halved to 7%.

Asian capital has stepped in to replace them, shooting up from 6% to 16% this year, says Turpin. 'We have seen Singaporean money, Malaysian pension money and quite a bit of South Korean capital in the last 12 to 18 months, so quite a diverse group,' he says.

DOMESTIC RISE

The really significant development in the last few years has been the rise in domestic CEE cross-border investment, which increased from 23% to 25% in 2019.

‘Most importantly, we have seen capital from Czech Republic and Hungary investing into their own markets but also in other countries in the region,’ says Turpin. ‘Poland doesn’t have a REIT structure yet, but if things change we’ll see more money coming from there as well.’

The macro picture looks healthy, but the slowdown in Germany is a concern for many, says Turpin, because most of the economies in the region are closely linked to their neighbour from a manufacturing and a demand perspective.

However, ‘CEE economies have diversified quite considerably and we believe they are quite robust now’, he says. ‘We see rents pushing upwards, development pipelines are relatively strong, but demand outstrips supply so our view on the region is positive’.

Business-friendly regime good news for real estate in Poland

Poland has a lot to look forward to and while legislation to establish a REIT regime has not been approved yet, the good news is that the market has matured to such an extent that it is ready to hit the ground running as soon as it gets the green light.

‘Lack of domestic capital is a pity, because we cannot buy in our country in an institutional way, so to speak,’ says Dorota Wysokinska-Kuzdra, senior partner, head of corporate finance CEE, at Colliers International. ‘On the other hand it creates an opportunity, because once we have the REIT legislation allowing pension funds to invest directly into real estate this will create even more liquidity very quickly.’

The Polish market is already large, developed, liquid and mature as the presence of good local asset managers shows, she said. Adding domestic capital ‘will make Poland even more attractive, because we know that liquidity is key for any investor in any market’.

There are some early, positive signs that the new government will be more business-friendly, experts agree.

‘Poland has seen tremendous growth
‘CEE is a very attractive proposition’: office and logistics growth continues

The office and logistics sectors are poised for further growth in CEE, experts have told Real Asset Insight.

‘From an occupier perspective CEE is a very attractive proposition,’ says Stuart Beety, senior vice president, business development, at Skanska Commercial Development Europe. ‘The cities are outperforming in terms of growth and connectivity, but also talent, with a highly educated workforce.’

A fast-rising sector is Business Process Outsourcing (BPO) shared services centres. ‘Poland is now third in the world after China and India in the BPO market, because it allows significant operational savings for large companies,’ he says.

REGIONAL CITY TREND

The trend started in the regional cities and has reached Warsaw only recently. ‘It has grown tremendously quickly,’ Beety says. ‘The market for back office has just started and it will lead to more demand for offices.’

At present the percentage of office space per inhabitant is 1.6% in Warsaw, compared to 5% in the German cities, so there is a long way to go. ‘Supply is increasing by 20% in the Polish capital, but demand and investor appetite are growing faster,’ adds Beety. Despite the additional stock, there is still a shortage.

‘There is a huge amount of investment going into BPO shared services centres,’ confirms Kevin Turpin, regional director of research, CEE, at Colliers International. ‘They are very cost sensitive, so wage growth is a negative for BPO centres, while it is positive for retail because people have money and enjoy spending it.’

Unemployment is at record lows and salaries have been rising in the region, but from a very low base, he adds: ‘Labour costs have been going up but they are still low in comparison to Western Europe. They are now 50% instead of a third, so there are still big savings.’

Existing and future infrastructure is another incentive for logistics investors. ‘Poland, and in particular the Lodz region, is in a perfect location at the crossroads of Europe between East and West, road links are great and infrastructure is improving all the time,’ says Freddie James, assistant fund manager at Tritax.

‘Now it also has the Chinese rail link which allows freight to reach China in 12 days, half the time it takes to ship to the same location.’

With a strong domestic market and good access to strong neighbouring markets and countries beyond, Poland is an obvious choice for logistics investors, he says: ‘We like the quality of the real estate, of the covenants and of the people. We hope to invest more in the future.’

‘Now we are seeing new laws that are helping businesses to develop. I hope this trend will continue’

Wojciech Koczara, CMS

despite an illiberal government, which four years ago passed laws restraining economic development and restricting business activity,’ says Wojciech Koczara, partner, head of CEE Real Estate, at CMS. ‘Now we are seeing new laws that are helping businesses to develop and even correcting the mistakes that were made. I hope this trend will continue.’

Looking at the number of buildings and the development of the real estate sector in ‘an unfriendly environment’, he says, it is legitimate to look at the future with renewed confidence and to expect even more growth.

‘Poland seems politically stable to us,’ adds Freddie James, assistant fund manager at Tritax. ‘There are many international developers, so we feel we are in good company. We are confident it will remain a good market to be in.’
Europe’s retail is a ‘model for the rest of the world’

Retailers show that bricks and mortar blended with e-commerce can work

Despite negative sentiment in some quarters, the retail sector is not in crisis. It is in fact changing and becoming a more interesting asset class to work in, claim experts.

‘It is great to be in retail today,’ says Eric Decouvelaere, head of retail EMEA at CBRE Global Investors. ‘We used to be in a supply-driven model and falling asleep on the job. Now we have a demand-driven model, consumers are changing, retailers are adapting and landlords are being much more reactive and collaborative.’

Now the emphasis is less on the bricks and mortar element and more about curating the activities that take place in the buildings.

‘For 30 years the creative element of retail was silent, but its importance is being realised,’ says Bill Kistler, executive vice-president and MD EMEA of ICSC. Everyone talks about mixed-use, but ‘the real catalyst is retail. You cannot have a successful product mix without retail,’ he adds.

Even with economic growth slowing in some countries, evidence shows consumers are still happy to shop. But they are opting to spend their money on different things, says Eri Mitsostergiou, director of European research at Savills: ‘They go for more experiential sectors like eating out or health & beauty, which are growing faster than traditional shopping, so we must redesign our retail spaces to cater to these changes.’

When it comes to retail Europe leads the way, says Kistler. ‘I believe retail in Europe is a model for the rest of the world. The pure-play e-commerce players are realising that having a physical store brings an uptick in sales in the catchment area of the store, so the two are complementary. E-commerce should not be seen as a bogeyman.’

BRICKS AND CLICKS

The so-called ‘halo effect’ refers to the positive interaction between the traditional physical store and the online channel or, as ICSC puts it, how ‘bricks impact clicks’. Andrew Westbrook, a partner at RSM, says retailers can ‘pinpoint within 2-3km where their customers are’ and that brands are increasingly accessing customers directly by having a store.

The UK, however, which has led the way in online penetration in Europe, is feeling the pinch. ‘One thousand stores, equal to 30 billion square feet, have been given back to landlords because of the increase in online sales from 4% to 21% of all retail sales in a decade,’ notes Westbrook.

But it is not all doom and gloom. The UK is streets ahead when it comes to innovation and mixed-use. ‘The UK is ahead of the cycle,’ says Mitsostergiou. ‘There is more focus on redevelopment and an awareness that better returns can be made through active asset management. There are some inspirational examples of non-performing schemes that have been transformed through hard work and a creative approach.’
Retail reacts to online challenge
Sector makes positive moves to transform physical assets

The fightback has begun: instead of being paralysed by fear or worry about the pace of change, the retail sector has started to adapt and to react positively, market experts have told Real Asset Insight.

‘Last year everyone was talking about disruption,’ says Herman Kok, head of research at Meyer Bergman. ‘This year we are talking about transformation, which is very positive.’

Looking at the consumer differently is part of the solution, he says. ‘We have to excel at the experience and hospitality that cannot be delivered online. When we look at consumers we see two things happening: on the one hand they want to be surprised and have novelty experiences. On the other they don’t want to waste time, so they’ll choose brands that guarantee quality.’

It is a mistake to think that customers have changed, because what has changed is their ability to communicate and express an opinion, says Eric Decouvelaere, head of retail EMEA at CBRE Global Investors ‘Our industry started with B2B, let’s find tenants, then moved to B2C, let’s find customers, and now things have changed and it’s C2B and also C2C. Our model is no longer offer-driven, it is demand-driven and to get things right we have to start listening.’

‘It is important to listen to what people actually want because there has been a shift in focus from people as consumers to people as human beings. In Sweden we have launched a programme to train people in human interaction,’ says Christofer Salmen, asset manager, retail portfolio, at Alecta.

Adapting to new market conditions means changing the way business is done and the way buildings are used. ‘Repurposing is a magic word for us, as in many cases retail assets will have to become last-mile delivery points, offices or residential,’ adds Guzman Vidal. ‘The occupiers are blurring the lines of what retail is supposed to look like and interesting things are happening. I think it’s the most exciting time to be in retail right now.’

Mixed-use is all the rage, but it is important to create the right mix and match it to the location.

‘Putting a hotel, offices or resi on top of a shopping centre is not enough, you have to get the mix of uses right,’ says Stuart Rough, group chairman of Broadway Malyan. ‘You have to activate the retail environment to its fullest, and that means bringing in extra uses that will bring footfall and generate business.’

South of Dublin a new retail-led destination is taking shape. ‘We are creating a mixed-use development in Clerys,’ says Andy Watson, partner at Europa Capital. ‘We are leaving 7,000 sq m of retail where there was 22,000 sq m, but we are doing exciting things with the other 15,000 sq m. There will be a hotel, co-working spaces, F&B and more.

Retailers should not try to be an alternative to online shopping. ‘We need to complement e-commerce shopping by providing focused and innovative solutions,’ says Ana Isabel Moita, head of marketing Europe & new markets at Sonae Sierra.

‘I think the term shopping centre will disappear and will be replaced with lifestyle destination,’ adds Michelle Buxton, managing director of Toolbox Group. “To get it right, you need a proptech strategy.”
Investors finding their way as innovation becomes critical

Smart, sustainable buildings coupled with data are the order of the day, but many are wondering where to start.

The word proptech appeared on the radar in 2017 and in the space of three years it has become a must-have. Investors know that innovation cannot be ignored, but often they are not sure which path to follow.

‘We want to be aligned with the megatrends of tomorrow, but there is so much happening that it is difficult to tell which are permanent changes that have to be embraced and which are just gimmicks or passing trends,’ Jack Sibley, technology & innovation strategist, real estate, at Nuveen Real Estate, told Real Asset Insight.

The answer is to ‘focus on structural features that will enable the building to be and stay smart over time’, he says. ‘We know that flexibility and sustainability are not issues that will go away. Let’s focus on making buildings more efficient and sustainable before moving on. Let’s walk before we try to fly.’

Adopting and using technology in the right way is the key step forward, experts agree. ‘In order to work as efficiently as possible we shouldn’t differentiate between real estate people and tech people,’ says Nikki Greenberg, founder of Women in PropTech. ‘The onus is on tech providers to make it user-friendly, keep it simple and clean and easy to learn.’

Cooperation is increasing, as companies that were competitors find they are all in the same boat. ‘If there is a clearer vision from investors on what they want and how to achieve it, companies will look at problem-solving together,’ says Willem Jan Buijs, founder of Chainels, a developer of a business-to-business retail community tool.

Technology-driven solutions are being chosen not just by investment managers but by investors as well, says Cassian Scott, senior vice president, EMEA & APAC sales at Altus Group: ‘Data aggregation is a key theme and for investors the biggest challenge is homogenised data for CRE in order to get useful outputs.’

IMPROVING EXISTING STOCK

There is a lot of focus on new, shiny and smart buildings, but the reality is that most existing real estate stock is old. ‘The knowledge and experience gained in making new buildings smart and future-proof can then help with renovating and improving existing stock,’ notes Gregoire Tripion, deputy managing director, head of business development Europe, at BNP Paribas Real Estate.

And when buildings need to be demolished, the materials should be recycled to minimise waste. ‘We should think differently and see buildings are materials banks and a key tool is having a digital twin of the building,’ says Norman Meyer, head of digital services at consultant Drees & Sommer. ‘Digitalisation is not an end in itself, but a tool to improve sustainability,’ he adds.

The acceleration of proptech is creating ever more data, now locked in data silos, but ‘the greatest challenge and greatest opportunity is connecting the silos’, he says. ‘In the end innovation has to come from the real estate industry itself.’

‘Technology can enable the creation of a **sustainable circular economy** and a society that is about the group rather than the individual. We are moving from **real estate-centric to human-centric**, from business model to value model, from growth to prosperity, from shareholders to stakeholders and from **information to super-smart**.’

Menno Lammers, initiator & chief proptech officer, PropTechNL
Thirst for data growing in rapidly maturing digital market

Harvesting information and using digital methods to analyse it is now seen as invaluable to all real estate stakeholders.

The digitalisation of real estate is proceeding at an increasingly fast pace. ‘Companies are moving to a digital business model,’ Norman Meyer, head of digital services at consultant Drees & Sommer, told Real Asset Insight. ‘We have seen a big change in mindset. They are working with start-ups even if some of them will fail.’

The new mindset has also radically changed the way proptech is being financed. ‘Now 53% of real estate companies are investing directly in proptech,’ says Guillaume Fiastre, SVP ARGUS product strategy at Altus Group. ‘In Germany two out of three companies invest directly to accelerate the digitalisation of their business, to disintermediate and facilitate discussions among stakeholders and to have access to data.’

Access to data is key. ‘The thirst for data is increasing, as is the sophistication with which the data are being used,’ said Tom Leahy, director of market analysis EMEA at Real Capital Analytics. ‘Now there are data scientists working for real estate companies, which never used to be the case. Our clients are pushing us to produce better data analytics and they use them to make better investment decisions.’

Large investment managers are now not just gathering a database, but ‘building data into their system and going from data to metadata’, says Fiastre.

The market is maturing very fast and expectations are rising along with the level of professionalism involved. Kyrill Radev, CEO of online real estate broker EverEstate, says: ‘Digitalisation is our big chance to change the industry and build scaleable business models. We gather data from customers all along the value chain and consolidate them in a way that’s meaningful to developers.’

Data analytics are invaluable to buyers and sellers, investors and developers, landlords and tenants, managers and intermediaries. ‘Future business models in real estate will have to be data-based,’ says Meyer. ‘The existence and accessibility of data is key to making properties more efficient and sustainable over the lifecycle of the building.’

Tech can help landlords improve their service

Tenants’ expectations have changed and most landlords are aware that ticking the traditional boxes is no longer enough. They used to be rent collectors, but are now increasingly service providers. Technology can help in delivering better service, Jan Jilek, co-founder of Spaceflow, told Real Asset Insight.

‘Real estate now is no longer B2B – it has become B2C, space is a service not a product and what matters is not ownership but access in real time,’ he says.

The building or the physical space is less relevant, because what matters is the technology within the space that makes them work, says Jilek. ‘You need great tech, great data and great humans. Two out of three is not enough.’

Landlords cannot control market conditions, location, the urbanisation trend or tenants’ expectations. But they can control operating costs through energy management, the property price through refurbishment, innovation and branding and generate extra revenue by streamlining payments and seeing space-as-a-service opportunities.

‘Technology is the first step, it opens up new opportunities by connecting every building with its users,’ adds Jilek.

‘Seamless communication leads to a collaborative environment and the integration of all smart building features makes the building more efficient.’

The Spaceflow app is a ‘remote control for space and services’ which creates a community that is connected in real time.

‘Once you have built the ecosystem and established the connection then you can use the data to customise the experience for each tenant,’ explains Jilek. ‘What is connected gets measured and what gets measured gets managed.’
Machine learning is the ‘most important tech of our era’

As the pace of change accelerates and technology increasingly drives future demand, artificial intelligence will transform real estate, a leading market expert told Real Asset Insight.

‘We are moving into an AI world,’ says Antony Slumbers, CEO of PropAI. ‘Offices built around old work will soon be obsolete. Most Asian companies are already using flexible space because businesses don’t want an office but a productive workforce, which is all about IT skills, data science, workplace design, hospitality capabilities and human resources.’

Real estate is no longer about buildings, says Slumbers, as the trend is to move from selling a product to delivering a service and from wanting ownership to requesting access.

‘When user experience is what matters, who creates it matters. It is the end of valuation by spreadsheet, because you cannot value a building based on numbers when what counts is the operator who can generate more money from the asset.’

There are signs that the office sector is responding to the challenge, while the retail sector is five years behind and has been slow in adapting. ‘There is a huge opportunity in fulfilment centres that allow quick deliveries, but whatever your retail strategy is, you need to be data-rich.’

Residential will also see huge change, as all areas can be improved by tech, from planning, design and construction through to living, as different products are created for different customers.

Already it is estimated that 49% of all the activities people are paid to do can be automated. ‘Machine learning, in particular, is the most important general-purpose tech of our era, comparable to electricity, the internet and the combustion engine in terms of importance and reach,’ says Slumbers.

Data must be harnessed to make the most of proptech

The integration of technology into everyday processes will be key to success and will lead to a new way of looking at buildings.

‘A building with no connectivity is worthless,’ says Hamish Dupree, head of London markets at Wired Score. ‘Insurance companies should look at technology when assessing the value of a building to understand how it will adapt and if it is future-proof.’

Today’s computational capabilities make it possible to predict the future value of a building, but that many do not take advantage of the opportunity due to lack of knowledge, says Yasmina Darveniza, investor at Round Hill Ventures: ‘There is a huge difference between collecting and accessing data and using them in an efficient way, and very few companies know how to do that.’

Successful companies will not just collect the data, but interpret them and offer solutions based on the knowledge, adds Matt Partridge, founder & CEO of Infabode: ‘More decisions will be made based on data, so their trustworthiness is crucial. Always question the data.’

To make good and sustainable decisions it is key to ‘always engage with occupiers, and validate the data with the enterprise client’, says Lisa Cations, senior director, head of enterprise sales Europe, at Hana.

Gathering new data allows investors to get a better picture and make better decisions. ‘The decision-making process is human. Technology just improves and speeds up process,’ says Michael Molloy, co-founder of Dashflow for CRE.

The first casualty of technology will be inefficiency, adds Daniel Sprunker, co-founder and managing director of realxdata: ‘We will be able to react quickly and to make precise decisions based on good analysis of the data.’

Some complain about the amount of data they have to deal with, but in some sectors ‘the problem is that there are not enough data to manage them effectively’, says Michelle Buxton, managing director of Toolbox Group. ‘Retail is detail, as in that sector in particular managers need all the information they can have.’
ESG now a must have for investors

Companies need to go above and beyond regulations in today’s marketplace

Companies that are proactive and address ESG issues before regulations force them to will reap huge rewards in future, experts have told Real Asset Insight.

‘When regulations get tighter, as they inevitably will, we will be ready while others will be victims,’ says Lars Schnidrig, CEO of Corestate Capital Group. ‘We have screened our entire portfolio and identified the assets that need intervention. We take sustainability very seriously.’

There has been a big shift recently and pressure is coming from investors, he says: ‘Many of our clients have already decided they will only invest in asset management businesses that have a clear, transparent and demonstrable ESG strategy.’

Corestate has 12 quantitative and qualitative targets that address every ESG issue. The plan is to achieve a 20% reduction in emissions, waste and water consumption by 2025, as well as a 30% increase in energy efficiency.

‘Words and statements of intent don’t matter anymore. You need measurable goals, verifiable facts and certifiable actions,’ Schnidrig adds.

SUSTAINABLE CODE

The German Property Federation (GPF) introduced a code on the sustainable management of buildings in 2011 and since then has pushed for members to be pro-active and not just obey regulations.

‘We have been working on green leases, on benchmarking and on valuation issues to try to be ahead of the curve,’ says Bärbel Schomberg, vice-president of GPF and a partner at Kingstone Investment Management. ‘You have to measure it, otherwise you can’t manage it.’

Collecting and analysing data can be daunting, but technology is making measuring and managing easier.

Measurabl, a California-based software company, has created an environmental data management platform, designed for the CRE sector, which automates the process of collecting environmental data on buildings, making it easier and smoother.

‘Technology and innovation can help in collecting and analysing data, simplifying and streamlining the sustainability recording process and deriving actionable insight for CRE owners,’ explains Sara K Anzinger, senior vice-president at Measurabl. ‘Our benchmark on carbon, energy and water consumption and waste, combined with target tracking, can show exactly how the asset or portfolio is performing relative to peers.’

As knowledge filters through, the process is no longer seen as a burden but as a potential game-changer. ‘Property owners are realising that not only can it reduce operating expenses, but there is a lot of upside in terms of revenue generation that can be realised as well,’ Anzinger says. ‘It leads to higher occupancy and rental rates and it provides a defence against systemic risk in a downturn.’

Tenants are increasingly demanding a sustainability strategy and are now willing to engage and cooperate. ‘It took some time, but finally tenants are now actively requesting green clauses in lease agreements, which can only work if there is cooperation and data exchange,’ says Christiane Conrads, head of German real estate desk at PwC Legal. ‘We are getting there’.

AHEAD OF THE CURVE

Certification schemes also have a big role to play in letting the market know what sustainability is. ‘Competition between different certification schemes is a good thing,’ Conrads says. ‘ESG is not just compliance with current regulations, it’s about being ahead of the curve and better than the law and it is being driven by the market.’

While different rules and standards still apply in different countries, things are moving in the right direction, away from green-washing and tick-boxing towards a more holistic and comprehensive approach.

‘There is no universal scheme of regulation, but we are starting to see some convergence, which is a positive thing,’ says Anzinger. ‘Crucially, we’ve seen the transition from green to ESG.’

‘Many of our clients have already decided they will only invest in asset management businesses that have a clear, transparent and demonstrable ESG strategy.’

Lars Schnidrig, Corestate

‘Technology and innovation can help in collecting and analysing data, simplifying and streamlining the sustainability recording process.’

Sara K Anzinger, Measurabl
The Netherlands is ‘punching above its weight in Europe’

Market sees more diversification in terms of sectors and investor base and is now the fourth largest

The Netherlands punches above its weight in the European real estate market, experts have told Real Asset Insight.

‘It has strengthened its position as the fourth largest investment market in Europe, which is remarkable for such a small country,’ says Raphaël Rietema, director, EMEA strategy & research, at CBRE Global Investors.

It now sits behind Germany, the UK and France and just ahead of Spain with an investment volume of €19bn in the first three quarters of 2019. By Q3 last year the figure was higher, €22bn, but according to Rietema Q4 will look better, because there is a lot of activity and a lot of liquidity in the market.

The Dutch market has become much more diversified in recent years, but residential is the star sector, followed by offices, industrial, retail and hotels. The Netherlands has the second-biggest residential market in Europe after Germany, worth €6bn.

‘The investor base has also become much more diversified,’ says Rietema. ‘The market used to be dominated by domestic players with a 60/40 ratio, but now it is the other way around.’

Amsterdam has also become the third city in Europe for tech-based employment after Dublin and Berlin and ahead of London. ‘This is the market that has seen the steepest rental growth,’ adds Rietema.

In the increasingly intertwined logistics and retail sectors, demand is such that vacancy rates are low despite a lot of development.

‘Demand drivers for logistics are changing,’ says Rietema. ‘Now it is less about trade and exports and more about the restructuring of supply chains because of e-commerce. In five years internet sales will be 21% of all retail sales compared to 14% now.’

The Netherlands will catch up with the UK and be far ahead of other European countries.

Utrecht is prime example of secondary cities to look at

Amsterdam tends to attract most of the real estate attention and the action, but there are other Dutch cities worth investing in.

As the market in Amsterdam becomes more competitive and more expensive, investors are looking at alternatives. The most obvious is Utrecht, which has undergone quite a transformation recently.

‘If I had to choose one place to invest, I would bet on Utrecht,’ says Raphael Rietema, director, EMEA Strategy & Research, at CBRE Global Investors.

‘Utrecht has long had a solid local economy. It lacked a proper CBD, but now it has one. The entire area around the station is being revitalised.’

‘Utrecht is like a suburb of Amsterdam now, it has an interesting dynamic,’ adds Adam Irányi, head of investment, Europe II, at Union Investment Real Estate. ‘It remains to be seen whether it will benefit from the over-performance of Amsterdam, whether it is just a spill-over effect or whether the city has its own momentum. It makes sense for us to be there, so we are currently looking to invest, but only in grade A assets.’

The city does have a momentum of its own, says Herman Kok, head of research at Meyer Bergman: ‘It is an infrastructure hub with a strong domestic economy and it is also the epicentre of the Dutch insurance sector. I like Utrecht as an investment destination.’

Opportunities can be found in different sectors, he adds, including retail, especially convenience and leisure retail.

Investors welcome a less competitive market, but must be careful not to expose themselves to risk. ‘We are open to investing in secondary locations but we do have concerns about liquidity over the long term and with the yield spread in secondary markets,’ says Irányi.
More rental growth expected in Amsterdam’s office market

Strong fundamentals and a move to a tech-based economy are keeping investors interested in the city

The Amsterdam office market will deliver more rental growth, market experts believe. ‘The Dutch economy is performing well and vacancy rates are extremely low, especially in grade A offices, which are a key part of our strategy,’ says Adam Irányi, head of investment, Europe II, at Union Investment Real Estate.

Vacancy rates have fallen from 15-20% a decade ago to below 5% across the market and they are even lower in the CBD.

‘Historically we have favoured Amsterdam, we tend to focus on it because we have never lost money for our investors there.’

‘In today’s polarised Europe, where core cities perform better, Amsterdam stands out,’ says Herman Kok, head of research at Meyer Bergman. ‘Its performance is underpinned by the Dutch economy’s strong fundamentals.’

The economy is now less reliant on trade with other countries and more tech-based, while domestic consumption and consumer confidence are strong and prospects are positive, given low inflation and low interest rates.

‘We like the office market in Amsterdam,’ says Oliver Kummerfeldt, European real estate analyst at Schroders. ‘Economic growth in the Netherlands is in the upper league of EU economies, which will fuel the office market going forward. Another positive factor is that the Dutch economy is very tech-based and this will deliver more rental growth.’

Tech companies that want to attract and retain skilled people need to be in the right location. Amsterdam, with its high quality of life and good infrastructure, is a desirable location. Rents may be increasing but ‘if put in a European context office rents are not high’, Kummerfeldt adds.

The city has managed its planning regime well and in the past many office buildings were converted to residential, as a quick way of increasing housing stock.

But now that the market has changed and demand for offices is so high there should be more development, says Raphael Rietema, director, EMEA Strategy & Research, at CBRE Global Investors: ‘Amsterdam would really benefit from more development activity.’

‘It makes sense for us to be in Utrecht, so we are currently looking to invest, but only in grade A assets.’
Adam Irányi, Union Investment
Investor appetite for offices picks up again after slow start to 2019

O ffice assets in Europe’s winning cities are still top of investors’ wish lists, experts have told Real Asset Insight. After a high volume of transactions in 2018, there was a significant slowdown in the first few months of this year as fears of a late cycle and higher interest rates took hold. But over the course of 2019 the tables have turned again.

‘In the lower for longer context, capital is being re-focused and investors are ready to deploy capital and make significant investments,’ says John Mulqueen, head of offices EMEA at CBRE Global Investors.

‘If you invest for the long term, you can fix very low levels of interest for long periods of time.’

CHANGE OF ORDER

Activity is picking up again and concentrating on the same top five countries, but in a different order. ‘The rankings have changed,’ says William Matthews, partner, global capital markets research, at Knight Frank. ‘Germany has overtaken the UK and is now the number one destination for office investment.’

Some investors may look at short-term opportunities where there are supply and demand imbalances, but for long-term investors, says Mulqueen, ‘the advice is stick to the winning cities’.

FOCUS ON QUALITY

‘In the lower for longer context, capital is being re-focused and investors are ready to deploy capital and make significant investments,’ says John Mulqueen, head of offices EMEA at CBRE Global Investors. ‘If you invest for the long term, you can fix very low levels of interest for long periods of time.’

The demand for flexibility also extends to leases. ‘We are offering more flexibility of leases, especially in the larger buildings, otherwise there is value left on the table,’ says Mulqueen. ‘You want tenants to stay because they want to, not because they are tied to a long lease.’

No one has a crystal ball but the most successful investors will be those who can anticipate market trends and spot the next big thing before everyone else.

‘The crucial question is what kind of businesses will exist in 10 years,’ says Andrew Westbrook, Partner at RSM. ‘Expectations have changed so much. After all, the big occupiers of today, like Amazon or Microsoft, didn’t really exist 10 years ago.’

Start-ups and tech companies are flocking to Berlin, where ‘rents have gone up but are still half of those of London or Paris so from our point of view it still has a long way to go’, says Mulqueen.

Follow the growth of tech to determine a city’s attractiveness, adds Ruitenburg: ‘The tech sector can produce double-digit numbers with no correlation to the country’s GDP, so that is what we look at rather than the cycle. It is true in Berlin and it is true in London, where the banks may be down but tech is still going up and up.’

The co-working trend is experiencing difficulties, but flexibility in the office sector will be a permanent fixture, say market experts.

‘Flexible space is a growing part of the market and it is here to stay,’ William Matthews, partner, Global Capital Markets Research, Knight Frank, told Real Asset Insight. ‘Corporates are prepared to pay a bit more for flexible space to attract talent. It makes sense at this point of the cycle, with record low unemployment in the UK and throughout Europe.’

‘Users now want flexibility,’ says Boudewijn Ruitenburg, COO of EDGE Technologies. ‘The capital markets want stability, investors and banks want cash flow and we try to find common ground and bring life into the buildings.’

FLEXIBLE EXPANSION

Occupiers no longer take extra space to prepare for future growth, but rent what they need in the knowledge they can expand when they need to.

It can be a win/win situation, adds John Mulqueen, head of offices EMEA at CBRE Global Investors: ‘Tenants are willing to pay a higher rent for the core space because they know the extra space is there if they need it. It’s a real synergy.’

The demand for flexibility also extends to leases. ‘We are offering more flexibility of leases, especially in the larger buildings, otherwise there is value left on the table,’ says Mulqueen. ‘You want tenants to stay because they want to, not because they are tied to a long lease.’

Some investors may look at short-term opportunities where there are supply and demand imbalances, but for long-term investors, says Mulqueen, ‘the advice is stick to the winning cities’.

FOCUS ON QUALITY

The demand for good-quality buildings in those cities is already strong and will intensify further, says Boudewijn Ruitenburg, COO of EDGE Technologies: ‘The future is winning cities and losing regions, because talent is concentrating in a few areas.’

Start-ups and tech companies are flocking to Berlin, where ‘rents have gone up but are still half of those of London or Paris so from our point of view it still has a long way to go’, says Mulqueen.

Follow the growth of tech to determine a city’s attractiveness, adds Ruitenburg: ‘The tech sector can produce double-digit numbers with no correlation to the country’s GDP, so that is what we look at rather than the cycle. It is true in Berlin and it is true in London, where the banks may be down but tech is still going up and up.’
Real Asset Insight visited five key European cities to find out what leading market experts in London, Paris, Frankfurt, Amsterdam and Milan see as the biggest trends and challenges of 2020.

International capital, the flight to quality, sustainability and ESG emerged as key themes. In addition, technology and innovation are being embraced, while political risk has been downgraded as investors prefer to focus on market fundamentals.

All reports by Nicol Dynes
For as long as buying real estate is investors’ main concern the sector will remain in good shape, delegates heard at Real Asset Media’s European Outlook Investment Briefing, which was held at PricewaterhouseCoopers’ Frankfurt office in November.

‘Buying real estate is the real market driver,’ said Dominique Pfrang, senior manager at PwC. ‘People feel there is some risk in the market and they are concerned about possible bubbles, but they are still very keen to invest in the sector.’

Pfrang used Google Trends to access data on search enquiries over the last 15 years, which shows that at the end of 2019 in Europe there was a sharp increase in interest in real estate bubbles and also a spike in searches on selling property.

However, these searches are dwarfed by the level of interest in buying assets, which is a signal the market is healthy.

‘Interest rates are low and there’s still a comfortable buffer between bond yields and prime office yields, so we expect transaction volumes to stabilise at high levels in 2019,’ he said. ‘The figures are looking good and our forecast for 2020 that volumes will stay there, in Germany as well as in Europe.’

**Risk factors**
The top five economic risk factors for real estate investors are construction costs, followed by European economic growth, the availability of suitable land or assets for acquisition or development, global economic growth and cybersecurity.

The top five social risk factors, according to PwC’s Emerging Trends 2019/2020 survey, are international political instability, which is far ahead as a concern of European and national political instability, housing affordability and national politics.

‘It is interesting that it’s the real economy, not the financial markets, that is the main concern, and in particular construction costs going up,’ said Pfrang. ‘When it comes to political concerns there is more worry about the impact of US/China relations than about the situation at home.’

The survey shows some changes in investors’ favourite sectors, with logistics moving from second to first place in the rankings, followed by retirement or assisted living. Co-living, which was number one last year, is now in third place, with PRS up from seventh to fourth place and Student housing up from sixth to fifth.

‘The overall tendency shows that investors are looking for returns,’ said Pfrang. ‘All these managed properties provide the necessary triggers to get more out of an asset and increase its value’. In general, he said, ‘investors know that you need to have good asset management to make your assets work. There is no such thing as easy money.’
Have prices gone too far as uncertainty hits Germany?

Success can be too much of a good thing for German real estate as some investors are put off by high prices, delegates heard at Real Asset Media’s European Outlook Investment Briefing in Frankfurt.

‘Germany is a very attractive market because it is strong, stable, transparent and easy to operate in,’ said Christopher Mertlitz, executive director of WP Carey. ‘It is the key market in Europe, but at current pricing levels the question is whether it is really that sound an investment anymore. The big challenging question, which I cannot answer, is whether prices have gone too far.’

Brexit uncertainty was a crucial factor in investors’ decision to switch to Germany because the UK was no longer seen as a safe destination for their capital.

‘There is a bit of a herd mentality in real estate, everyone piling in and prices going up,’ added Mertlitz. ‘As investors avoided the UK Germany became the remaining safe haven in Europe. We are present in a large number of countries, so we can afford the luxury of being selective. At these price levels, we might not do a deal in Germany for some years and only come back when we see opportunities and we are ready to invest again.’

Besides high prices and stiff competition for assets, investors have to deal with a slowing economy, some political uncertainty, rent regulations in Berlin and a tightening of the tax regime.

‘Political risk was not an issue for many decades in Germany, but now investors have to take it into account,’ said Christian Zilly, managing partner of Waterway Investments. ‘In some cities markets are so tight that politicians have to act, he said, but their actions have consequences. Blackrock, for example, decided not to invest in Berlin residential any more because of the rental freeze and introduction of caps.

‘It is true that by German standards now there is more uncertainty in the market, but compared to the uncertainty in other countries Germany still looks very sound,’ said Mertlitz. ‘There are signs that its relative attractiveness compared to other European countries will decline, but I am still very positive about the country and its economy for the next three to four years.’

‘Compared to the uncertainty in other countries Germany still looks very sound.’
Christopher Mertlitz, WP Carey

‘More and more investors realise that an ESG strategy is not just about risk management but also about value creation.’
Christiane Conrads, PwC Legal

‘Political risk was not an issue for many decades in Germany, but now investors have to take it into account.’
Christian Zilly, Waterway Investments

‘The office sector in Germany is very solid, it has good fundamentals. But there are limits to the liquidity of large assets.’
Assem El Alami, Berlin Hyp
ESG has become a ‘hot topic’ as transparency reigns

Regulation and investor demand contribute to swing

Environmental, social and ethical issues are now centre-stage and there is no going back, experts agreed at Real Asset Insight’s European Outlook Investment Briefing in Frankfurt.

‘ESG finally has become a hot topic,’ said Christiane Conrads, head of German real estate desk at PwC Legal. ‘It comes up in every client meeting and we work very hard to find tailor-made solutions that will increase the value of our clients’ real estate portfolio.’

The biggest change in the last 12 months has been an increase in transparency, she said: ‘More and more companies publish sustainability reports even if they don’t have to, set themselves binding targets and provide proof they have met them or explain why they haven’t.’

Risk management and compliance tests have also been adopted to implement ESG criteria. There are several drivers for this new commitment, from a changing social climate to investor demand and from regulation to sustainable finance.

‘There is a huge demand from investors to buy into sustainable assets and to have certificates for the assets they buy,’ said Nils Skornicka, managing director acquisitions & development, at Tishman Speyer. ‘Occupiers are increasingly looking for smart buildings, so that’s what we try to build, taking into consideration everything from technology to orientation and well-being.’

Lenders are also promoting green products and their risk assessments take into account a building’s environmental impact.

‘Two years ago we said we wanted 20% of our portfolio to be green in 2020 and we are right on track,’ said Assem El Alami, head of real estate finance, international key accounts and syndication at Berlin Hyp.

The environmental part of ESG gets the most attention, but social and governance issues will gain more prominence in the near future, said Conrads: ‘More and more investors realise that an ESG strategy is not just about risk management but also about value creation, because better financing and insurance conditions can offset higher operating costs.’

‘It’s the best time to be an office developer’

The outlook for German offices is positive thanks to high demand and low interest rates.

‘The beginning of the year was challenging because institutional investors were worried about higher interest rates,’ said Michael Becken, managing director of Becken Invest. ‘But as it became clear that interest rates would stay at current levels or lower, institutional investors have come back because the major asset class for the next few years will be real estate. For us as an office developer it is the best time.’

IW, the German Economic Institute in Cologne, calculates the current interest rate environment will remain in place until 2050, providing a strong support to real estate for the foreseeable future.

‘Insurance companies have billions and that money is going into real estate,’ said Christian Zilly, managing partner of Waterway Investments. ‘This has repercussions for the office market, because with so much money around companies will seek huge buildings and values will probably go higher and higher.’

There is a trend for buying ever-larger assets among investors. ‘It is a risky trend,’ said Becken. ‘I feel more comfortable with middle-scale buildings, between €50 and €200m, which can have single tenant or multi-tenant usage. Bigger buildings, €200 to €300m, are the first to get into trouble and they could have vacancy rates of 30/40%.’

Investing in quality rather than size is a better strategy, he said. Larger buildings are also harder to sell quickly.

‘We are a buy-and-hold investor, but even for us liquidity is a key criterion in underwriting any investment, so we think large office assets are a concern,’ said Christopher Mertlitz, executive director at WP Carey.

‘The office sector in Germany is very solid, it has good fundamentals and there are no clouds on the horizon,’ added Assem El Alami, head of real estate finance, international key accounts and syndication, at Berlin Hyp.

‘But there are limits to the liquidity of large assets. We cannot pretend that Frankfurt or Berlin are as huge a market as London or Paris,’ he added.

‘Institutional investors have come back because the major asset class for the next few years will be real estate.’ Michael Becken, Becken Invest
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Tenant demand leads shift to flexibility

Investors and developers are adapting as occupiers seek purpose-built facilities

Operational models will become prevalent in Europe as more investors follow the megatrends and put their capital in alternative sectors, experts said at Real Asset Insight’s European Outlook Investment Briefing in Amsterdam.

‘Residential is the biggest asset class to invest in at the moment in Europe,’ said Dirk Bakker, head of EMEA hotels at Colliers International. ‘Real estate is becoming more expensive, so more branding, more design and more lifestyle are used to drive value from buildings and new investment forms are coming in.’

Tenant demand

The resi sector is in a state of flux. It is tenants and customers that are now driving change while investors and developers adapt. In future companies will no longer develop products and then find tenants, Bakker said, instead it will be tenants who demand a certain product which will then be purpose-built.

‘Brands really matter because we are witnessing the operationalisation of real estate, to coin a word,’ said Crispijn Stulp, country head the Netherlands, real assets, at AXA Investment Managers - Real Assets. ‘There’s a combination of factors all pushing investors into alternative sectors’.

As tenants or customers demand flexibility, companies have to become flexible themselves, said Asli Kutlucan, chief development officer at Cycas Hospitality. ‘We operate 28 hotels and 14 brands, 50% of our portfolio is leases, but we keep inventing different structures, creative and hybrid – we are very flexible on that front.

‘We like the open-mindedness of different capital structures. It is yet another sign that the boundaries are falling,’ he added.

One example of a successful innovation is the ‘double-decker’ hotel concept, which combines a trendy hotel, such as Moxy, with an extended-stay, such as the Marriott Residence Inn. As the lines between business and leisure travel become increasingly blurred, dual-branded hotels make sense.

In general ‘the outlook for hotels in Europe is very healthy, as more tourists come, especially from Asia, and more cities become interesting destinations,’ said Bakker. ‘In fact the growth of tourism is our biggest problem in the Netherlands, as supply cannot keep up with demand. Keep in mind that only 2% of the Chinese population has a passport today.’

Healthcare is another alternative sector that is attracting more interest. ‘We see investors in the Netherlands, the UK and Germany paying more attention to nursing homes and medical office buildings,’ said Ron van Bloois, a partner at HEVO. ‘I believe the senior housing sector will explode. ESG is also driving demand for asset classes that have an impact, like education and healthcare.’

Healthcare’s other positive is that it has different aspects, he said: ‘Senior housing is about individual rents, while nursing homes are about the operator, so the sector will attract different kinds of investors.’
Alternatives are becoming mainstream in new order

Renting will become commonplace as student housing, co-living and micro-living become the norm.

In 2030 we will not be talking about alternative sectors anymore, because they will be standard and mainstream, said Samuel Vetrak, CEO of Bonard. He added: ‘Renting will be the new normal.’

The trend is being driven by the new generations that have a different mindset and investors and operators are adapting to the changing landscape.

‘The young don’t want to own anything,’ said Asli Kutlucan, chief development officer at Cycas Hospitality. ‘They will be in student accommodation to begin with, then move to micro or co-living or extended stay places as they progress in their careers. They will rent apartments and will end their lives in senior housing. That’s the lifecycle of the next generation.’

Blurring boundaries

It is little wonder, then, that investors are piling into all the new forms of residential. Operators are already blurring the boundaries between student housing, co-living, micro-living and hospitality and the trend is just beginning.

‘We like merging a few concepts together under the same roof and becoming a hub,’ said Kutlucan. ‘We can provide different services to different people that go well together, for example have a lifestyle hotel for young professionals alongside student housing for mature students.’

Student housing has been on the most notable upward trajectory and has attracted institutional investors because it is liquid, transparent and counter-cyclical. There are now more than 700 companies active in the sector and there will be consolidation ahead.

‘Finding capital is not a problem now, what is difficult is finding the right partner and the right assets in good locations,’ Vetrak said. There are investors with billions of euros looking at the Italian market, for example, but the problem is lack of opportunities.

‘It is a recession-proof asset class and that is why so many institutional investors are transferring capital from office and retail into student housing,’ he added. Most European universities are aggressively marketing abroad, so the number of international students is set to grow even faster.

The purpose-built student accommodation (PBSA) market in the UK and Continental Europe is set to double to €6bn.

Developers and investors are increasing their involvement but operators are in short supply. ‘A problem with student housing is the lack of operators,’ Vetrak said. ‘If there were more independent ones the sector would progress even faster.’

‘In five or ten years there will be student housing, co-living, a private residential offering and retirement homes under different brands but done by the same company.’

Asli Kutlucan, Cycas Hospitality

What they said in Amsterdam

‘The more operational character of investments provides added value. Investors don’t demand security, which is impossible, but they want a cushion and some control on cost versus income.’

Crispijn Stulp, AXA Investment Managers - Real Assets

‘Real estate is becoming more expensive, so more branding, more design and more lifestyle are used to drive value from buildings.’

Dirk Bakker, Colliers International
Italian resi attracts record foreign capital

Need to diversify is leading investors to look at niche sectors and secondary cities

The Italian residential sector is becoming a magnet for foreign investors and attracting institutional capital even from notoriously risk-averse German companies, said market experts at Real Asset Insight’s European Outlook Investment Briefing in Milan.

‘There is growing interest in Italy’s residential sector,’ said Lia Turri, partner and real estate leader at PwC Italy. ‘The best opportunity we see is the conversion of office buildings into serviced apartments or other types of resi with services similar to hotels, which is much in demand.’

Germany’s Corestate Capital Partners has already zoomed in on the market it wants to invest in. Italy will become part of Corestate’s pan-European operational platform and for its first venture into the market the group will focus on student housing and will widen its horizons beyond Milan, where most foreign investors tend to land.

Underserved markets
‘We see opportunities, especially in student housing and micro living in Italy, which are very underserved markets,’ said Douglas Edwards, head of group equity raising & client services at Corestate. ‘There are around 11 students for every bed, while in Germany the ratio is more like 2 to 1, so the supply and demand imbalance is striking.’

‘Land in Milan is very expensive;’ said Edwards. ‘We are looking at several university towns like Bologna, Turin and Venice. We plan to finalise our first deals in Q2 next year.’

Companies’ need to diversify is working in favour of alternative and nice sectors. Residential, in particular, is on the up because of positive sentiment. At a time of economic uncertainty and political instability, resi is seen as a defensive play and a safe haven, experts agreed.

‘Student housing is the sector that has the biggest potential in Italy, especially in university towns like Florence, Padua and Bologna that have a high number of foreign students coming on the Erasmus or other exchange programmes,’ explained Gabriele Pompei, managing partner at Pure Investment Management.

Residential is the biggest trend for the future, but it is the office sector that continues to dominate investors’ strategies. Last year the office sector reached a €2.3bn investment volume, an increase of 50%, according to PwC data. Milan’s status as favourite market is confirmed, as the city accounted for 65% of all investments.

Meanwhile, foreign investors’ presence in Italy has strengthened further this year. In 2018 international investors accounted for 65% of the total, while in 2019 the percentage has risen to 84%, while domestic investors’ share has shrunk to 16%.

‘The switch started in 2012 and has progressed gradually, but this year the pace has accelerated considerably,’ said PwC’s Turri. ‘Until recently Italy attracted mainly opportunistic investors, but now more core and core-plus investors are coming. We are seeing substantial capital flows and more and more big international players in the market.’

‘We see opportunities, especially in student housing and micro living in Italy, which are very underserved markets.’
Douglas Edwards, Corestate Capital Partners
Japan and Canada expected to increase presence next year

New entrants will increase competition for assets as urbanisation and sustainability become key themes

European real estate will continue to attract significant capital flows from the usual suspects, but also from new entrants, which means that competition for assets will become even more intense, said experts at the Milan outlook. If South Korean investments were the big story of this year, 2020 might be the year that Japanese investors finally step into the European market in a significant way.

‘Korean investors are being a lot more selective now, but in Japan there is $40bn and more of capital ready to be invested,’ said Douglas Edwards, head of group equity raising & client services at Corestate Capital Group. ‘They will become significant players in core markets and in residential in the next two or three years.’

Capital, especially intra-European capital which accounts for 65% of flows, will continue to come from all sources – from institutions to retail to family offices. Different types of investors will have one thing in common: they will be more selective and looking for specific assets.

The urbanisation trend across Europe is making residential in all its forms very attractive, but across all sectors the sustainability theme is becoming more dominant.

‘Interest in ESG has increased enormously over the past 12 months and it will continue to grow, because it is driven by regulation but also by investors and by occupiers who want a better working and living environment,’ said Christiane Conrads, head of German real estate desk at PwC Legal.

Sustainability is no longer an option but a necessity now. In places like the German cities, where land prices are high and the shortage of assets is acute, ESG requirements can be a catalyst for redevelopment.

‘Germany has a lot of old office stock that needs to be demolished or refurbished,’ said Thomas Veith, partner real estate at PwC Germany. ‘This need presents a huge opportunity for investors.’

What they said in Milan

‘The best opportunity we see is the conversion of office buildings into serviced apartments or other types of resi.’
Lia Turri, PwC Italy

‘Student housing is the sector that has the biggest potential in Italy, especially in university towns.’
Gabriele Pompei, Pure Investment Management

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Christiane Conrads, PwC Legal

‘Germany has a lot of old office stock that needs to be demolished or refurbished. This presents a huge opportunity.’
Thomas Veith, PwC Germany
‘Flight to quality’ is the theme for 2020

Operators are improving assets for tenants that are willing to pay more for good space

Real estate investors, developers and operators have to respond to the increasing demand for quality space in all sectors, from offices to residential and from hospitality to retail, market experts told Real Asset Insight in Paris.

‘The flight to quality is a theme we’ve seen this year and which will be even more visible in 2020,’ said Beverley Shadbolt, country manager, France, at LaSalle Investment Management. ‘Tenants want to be in a good space and they are willing to pay for that.’

Supply is extremely limited in the office sector in Paris, she added, so ‘we have done a lot of value-add investments recently and we have seen the rental growth come through in our buildings’.

Paris has a lot of outdated stock in the office as well as the residential sector, so there is ample scope for redeveloping and repositioning assets to make them more eco-friendly.

Alexandre Martin founded Colonies to respond to the lack of quality housing in Paris. ‘Demand was so high that everywhere was full, so there was no incentive for landlords to make improvements and the quality of housing had really decreased,’ he said. ‘We saw an opportunity to give people a good quality product and good service.’

The model, shared housing, is a step up from student housing, Martin said: ‘The average age of our tenants is 29, they are people who work, can afford a good place and actively choose co-living.’

Colonies is exporting the model to other European cities like Berlin and Basel because demand is high in most countries. ‘Residential will grow tremendously,’ said Martin. ‘It is the asset class with the steadiest fundamentals and the best prospects.’

Urbanisation, like demographics or technology, is a big structural theme that can give an edge in investment performance. ‘We’ve chosen to hang our hat on the urbanisation theme,’ said Andy Watson, a partner at Europa Capital. ‘We do a lot of residential across Europe and we focus on cities, which are getting younger, while countries are getting older.’

One interesting development is that investors and developers are looking at themes, trends and fundamentals and are not deterred by social or political turmoil, be it Brexit in the UK or the Yellow Vests in France.

‘Europeans are not worried about political risk anymore,’ said Martin Schellein, head of investment management Europe, Union Investment RE. ‘Look at Barcelona, which despite the struggle for independence, has been outperforming Madrid.’

In such a strong market financing is not an issue. If senior lenders have a conservative approach, borrowers can easily turn to debt or mezzanine funds, said Renaud Jézéquel, general manager, Paris branch, at Helaba: ‘The outlook for financing is very good. We are very positive, it’s been a good year and we really look forward to 2020.’
Asian investors drive record investment volumes in France

South Koreans in particular are responsible for €5.5bn of deals as Paris office market continues to appeal

Investment volumes into France have reached record levels in 2019, driven by Asian and in particular South Korean capital, and prospects look good for 2020.

‘This will be a record year for France,’ said Larry Young, head of international investment group at BNP Paribas Real Estate. ‘The final figure should be €35bn, up €1bn from the 2018 figure, as Q4 is proving to be very strong.’

Asian investors, especially from Singapore and South Korea, have been very active in Europe. South Koreans invested €13bn this year, €5.5bn of which has been in France.

‘France is the favourite destination in Europe for Asia-Pacific investors, who this year accounted for 41% of all inflows, compared to 16% in the UK and 10% in Germany,’ said Young. ‘Domestic investors usually dominate in France, but this year they have had to take a back seat.’

The office market is by far the strongest in France, accounting for 60-70% of the total and increasing by 25% thanks to some very big deals such as the €1.1bn Lumière building in Paris, which was bought by South Korean investors in H1 2019.

The Paris office market is the first target for most foreign investors. ‘There has been a lot of cross-border activity in French offices, with over €15bn of transactions executed. There has been a real spread of capital looking at Paris offices that hadn’t really looked at France before,’ said Young.

**Record low vacancy**
The reasons are that the economy has picked up, many tenants are coming in and the Brexit effect is increasing demand for office space in the French capital. Not surprisingly, vacancy rates are at record lows and in the Paris CBD they are now below 2%. Office prime yields follow the European trend and are extremely low, down at 3% in Central Paris.

France’s success this year is not a flash in the pan and it is likely to be repeated in 2020, according to Young. ‘Looking ahead, we think France has a more compelling outlook regarding capital values over the next year,’ he said. ‘We expect a growth rate of 1% in London and 4% in Berlin, but our forecast for Paris CBD is +6.1% and for La Défense it is 6.6%.’

‘The two big questions for 2020 are when will be the right time to get back into the UK market and when will it be the right time to get back into retail?’
Larry Young, BNP Paribas RE

‘The **flight to quality** is a theme we’ve seen this year and which will be even more visible in 2020. **Tenants want to be in a good space** and they are willing to pay for that.’
Beverley Shadbolt, LaSalle Investment Management

‘The **outlook for financing** is very good. We are very positive, it’s been a good year and we really look forward to 2020.’
Renaud Jézéquel, Helaba
International capital poised for UK return

Once uncertainty surrounding exit from EU clears the ‘floodgates will open’

ESG and the UK are likely to be the two big investment themes of 2020, experts told Real Asset Insight at the London Outlook.

‘The shift has happened, capital has made the decision that sustainability is key,’ said Richard Bentley, head of real estate finance UK, at Helaba. ‘The investors are ahead because they don’t want to be the ones with buildings that are no longer lettable, and the lenders will follow. ESG will be the biggest thing in 2020.’

There is pressure from below, but also from above as the EU steps up regulation. European Central Bank president Christine Lagarde, Ursula von der Leyen, president of the European Commission and Bank of England governor Mark Carney have all made sustainability a cornerstone of their agendas.

Occupiers are also pushing in the same direction, said Ekaterina Avdonina, CEO and co-founder of logistics developer Mirastar: ‘There is such a fight for labour in the logistics sector that landlords have to provide quality spaces and have a good ESG agenda if they want to find employees. It has become a standard package now.’

It’s a win-win situation for tenants and landlords, as occupiers demand energy-efficient buildings which also have lower operational costs. ‘Having an ESG strategy has become a retention issue for key talent. But the demand for quality also drives up rents,’ said Alexander Fischbaum, managing director of AF Advisory.

2020 will also be the year that investors realise UK assets are mispriced and return to what was international capital’s first port of call in Europe.

There is substantial pent-up demand for UK real estate, which is now seen as good value as prices and the currency have declined since the EU referendum.

‘A lot of international capital is poised to come back,’ said Richard Divall, head of cross-border capital markets, EMEA, at Colliers International. ‘The investors are sitting on the beaches waiting to come in as soon as the political conditions are right and their investment committees give them the green light.’

Some have sought to exploit the opportunity before others, he said: ‘In the last couple of months family office money has come back in a big way, looking around the UK because the institutional money is not there and they fear that the pound will go up again after Brexit.’

As soon as the UK leaves the EU ‘the floodgates will open’, said Richard Pilkington, managing principal, head of European equity at Cain International. ‘There is so much capital ready to be deployed that it will not wait for the trade deal with the EU to be finalised. As value-add, opportunistic players we see the best opportunities in the residential sector in challenger cities in the north of England.’
Infrastructure trumps political risk in changing environment

New era predicted as sustainability and technology come to the fore and mega-projects lure investors

The real estate sector is facing massive change in 2020, said Damian Harrington, director, head of EMEA research at Colliers International.

‘We will see the end of this cycle and the transition to a new cycle, a shift to a new era,’ he said. ‘We’re looking at a lot of change next year.’

There will be more focus on environmental policies and sustainability, technology will play a bigger role and the link between real estate projects and infrastructure will become even closer.

The French capital is the current darling of the market because of the huge Grand Paris project which will shift occupiers to new areas in the fringes. ‘It’s the polycentric model as we have seen in London,’ said Harrington. ‘That’s the direction of travel for a lot of investment.’

It also shows that infrastructure trumps political risk, as investors are more interested in the transport links that open up new areas of the city than in social unrest, strikes and the Yellow Vests.

Milan’s Porta Nuova project offers another glimpse of the future. ‘It’s a really well thought-out mixed-use scheme which has seen huge rent increases,’ said Harrington. ‘It shows that mixed-use will be the big theme.’

International interest remains

Some things will not change in 2020, however: international capital will continue to target European real estate. ‘Asian investors, in particular, can get a higher yield in Europe than they would at home plus hedging gains, so they get better returns,’ said Harrington. ‘This explains why Europe is one of the most diversified real estate markets in the world: 50% of all investments are cross-border, while in Asia it is 30% and 20% in the US.’

Looking across the Continent, there’s a dominance of landlord-friendly markets and an imbalance between supply and demand.

‘We are looking at another year at least of higher rents in the office and logistics sectors in Europe,’ Harrington said. ‘Retail is a different story, but some parts present an opportunity. The growth of online shopping has reached a plateau and omichannel is driving sales. People are realising that retail is not dead, it just needs to change.’

What they said in London

‘The shift has happened, capital has made the decision that sustainability is key.’
Richard Bentley, Helaba

‘Having an ESG strategy has become a retention issue for key talent. But the demand for quality also drives up rents.’
Alexander Fischbaum, AF Advisory

‘There is so much capital ready to be deployed [in the UK] that it will not wait for the trade deal with the EU to be finalised.’
Richard Pilkington, Cain International
Pricing for logistics assets expected to sharpen as demand continues

Germany, the Netherlands and Central and Eastern Europe will continue to attract capital as Southern Europe joins the party

Logistics has been flavour of the month for several years, but the sector is still in growth mode and investors can find opportunities.

‘Lower for longer interest rates are leading even more investors across the spectrum to deploy their capital in logistics, so pricing will get even sharper over the next three to six months,’ says CBRE Global Investors’ head of logistics EMEA, Philip Dunne. ‘But you can still find opportunities by partnering with good quality developers.’

Germany, the Netherlands and CEE countries have been at the heart of the logistics boom over the last few years and continue to attract investors’ attention.

Robert Dobrzycki, CEO Europe of Panattoni Europe, says: ‘We have an established presence in CEE and have reached our limit there, so we are pursuing a pan-European strategy and see the Netherlands as the next place to grow our business. It is the perfect time to expand.’

Demand is coming from investors traditionally interested in the sector, from retail investors moving their allocation to logistics and now from bond investors as well, so there is a lot of capital ready to be deployed.

‘Germany and the Netherlands are a focus for us, because 25% of GDP is still manufacturing, so there are many drivers for logistics, not just e-commerce,’ says Ingo Steves, managing director of Gazeley North Europe.

There are opportunities in Southern Europe as well. ‘Northern Italy is absolute value for money, but the problem is finding product,’ says Dunne. Alvaro Otero, partner at CMS Spain, adds: ‘There is a huge appetite for logistics in Spain, from big box to urban logistics, with new players coming into the market even for smaller deals and second-tier locations.’

The problems virtually all European locations share is scarcity of product to buy and lack of land to develop. ‘Finding land is the main challenge,’ says Dobrzycki. ‘There are variations in different markets, but in general land is more difficult to buy, while demand from investors is strong and the markets are getting tighter.’

Urbanisation leads to growth in the last-mile market

Urban logistics in Europe’s top cities is the best bet for investors, claim experts. ‘Western Europe is the engine of growth and urbanisation is the biggest theme, so last-mile logistics in the main European cities is the most defensive strategy,’ Ali Imraan, director of debt & special situations at LaSalle Investment Management, told Real Asset Insight.

‘We make sure 80% of our portfolio is in the top locations and the right urban areas, where you are most likely to see rental growth,’ he adds. ‘We don’t believe there will be rental growth across the board.’

Logistics has been a success story but investors must not become complacent.

‘Be careful with the rental growth story,’ says Philip Dunne, head of logistics EMEA, at CBRE Global Investors. ‘There will be rental growth, but only for the best product in the best places.

Chasing yield in secondary markets is a risky strategy.’

CITY CENTRE DIFFICULTIES

Urban logistics has many positives – it is much in demand, it can deliver rental growth and it has easy access to labour, which often is a constraint for out-of-town logistics. But it is difficult to find suitable space close to city centres and there can be issues with neighbours and local councils.

‘Last-mile logistics is not popular with the authorities,’ says Alvaro Otero, partner at CMS Spain (pictured left). ‘They are happy with big boxes out of town, but they are very resistant to having fulfilment centres in residential areas, so that is a real challenge.’

Last mile is only one part of the market, says Dunne: ‘Urban logistics is the cool stuff everyone gets excited about, but it is still a small part of the business. We have done some multi-storey in London and Paris where land is expensive, so going up with ramps makes sense. But in the next layer of cities all you need is traditional logistics space.’
Sustainability adds value to buildings

Legislation will push retailers into addressing the carbon issue

The retail sector has an obligation to decarbonise for business as well as environmental reasons, Clemens Brenninkmeijer (pictured above), head of sustainable business operations, Redevco, told Real Asset Insight.

‘Legislation will only get tougher so it’s better to be ahead of the curve and invest now to futureproof your buildings, reducing long-term risk and making them inherently more valuable,’ he said. ‘We proactively futureproof our portfolio because it will add to its value.’

As a big investment manager in retail, Brenninkmeijer added: ‘We cannot control what happens in our stores, but we need to engage in a dialogue with tenants and operators and explain that it’s worth doing the little things, because every energy efficiency measures make a difference.

‘It’s about making the link more explicit: if you do the right thing and adopt CO2 reduction measures it leads to less risk, lower yields and higher value.’

Progress is being made on how to incorporate the carbon performance of a building into its valuation. ‘There is an increased understanding of what is necessary to translate the performance of a building into something that can be directly linked to value,’ he said.

‘It is not an easy process, but getting there would give investors very clear choices and would be reflected in transaction prices.’

‘Get your data, make your strategy and act. Do something, don’t just talk about it or present how green you are. Do something about it’

Jan von Mallinckrodt, head of sustainability, Union Investment Real Estate GmbH,

‘We all need to move towards standardising how we define what is or what is not a sustainable building’

Mark Fidler, executive director, Valuation & Advisory Services, CBRE

‘Legislation will only get tougher so it’s better to be ahead of the curve and invest now to futureproof your buildings, reducing long-term risk and making them inherently more valuable.’

Clemens Brenninkmeijer, Redevco

‘Over the whole loan portfolio, the energy efficient loans have the highest ratings’

Sven Schukat, head of treasury, Berlin Hyp AG
'We are pursuing a pan-European strategy and see the Netherlands as the next place to grow our business. It is the perfect time to expand.'

Robert Dobrzycki, CEO Europe, Panattoni Europe

'Western Europe is the engine of growth and urbanisation is the biggest theme, so last-mile logistics in the main European cities is the most defensive strategy.'

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We focus on people in education and unsettled professionals, because their requirements are very similar. There is a lot of homogeneity on the product side, so both groups can easily be integrated.

Rainer Nonnengasser, CEO, International Campus

'A problem with student housing is the lack of operators. If there were more independent ones the sector would progress even faster.'

Samuel Vetrak, CEO, Bonard

'Mobility is key, so flexibility is needed in housing choices. That's why the product is always evolving. In future there will be even more focus on the technology that will keep the community connected and there will be more all-inclusive offers.'

Clare Thomas, partner, CMS

'Germany and the Netherlands are a focus for us, because 25% of GDP is still manufacturing, so there are many drivers for logistics, not just e-commerce.'

Ingo Steves, managing Director, Gazeley North Europe.

'There's a massive growth opportunity across Western Europe for senior living; I would focus on urban versus out-of-town locations, a high-service offering and I think rental will be the way it goes in most countries long term.'

Dan Pottorff, managing director, LaSalle Investment Management
Pro-business Porto reaps its rewards

Foreign capital continues to pile into the Portuguese city attracted by a welcoming government and high-quality talent pool.

Porto has seen a 333% growth in international projects since 2016, outperforming other cities in fast-growing Portugal.

‘Portugal is the country in Europe where foreign direct investments are growing the fastest and Porto is growing faster than the national average,’ Ricardo Valente, city councillor for economy, tourism & commerce at Porto City Hall, told Real Asset Insight. ‘Now it’s the time to invest.’

Foreign capital accounts for 60% of investments into Porto and the top six countries are France, UK, Germany, US, Brazil and Spain. ‘There is more liquidity in the market because there is more core capital coming to the city, institutional and private investors as well as the opportunistic capital,’ says Hugo Lima, general manager of Lucios Real Estate.

REIT REGIME

The legal environment has been crucial in attracting foreign capital, with a tax rate of 10% for foreign companies, incentives to renovate buildings and regenerate neighbourhoods and now a REIT regime. ‘The new SIGI investment vehicles, or REITs, that have just been approved by law in Portugal will increase the liquidity and transparency of the market and attract more international capital,’ says Maria Santa Martha, a partner at CCA Law.

Foreign investors also know they can count on a big pool of skilled workers. ‘Another attraction specific to Porto is the availability of talent,’ says Valente. ‘It is our secret weapon. Porto accounts for 37% of all the talent in Portugal, second only to Lisbon that has 44%. Porto is second in Europe for engineering graduates, and the digital side of our economy is very strong.’

Even by Portuguese standards Porto has a particularly pro-business stance, says Santa Martha: ‘The local government is very welcoming, has a constructive, problem-solving approach and is open to innovative solutions, which is why so many foreign companies have chosen to set up their headquarters in the city.’

The list includes Natixis to Euronext, Endesa, Sodexo and BMW, which has chosen Porto for its high-tech Development Centre. ‘We can be the next Silicon Valley, but with better wine,’ quips Valente.

The growing presence of foreign companies means there is demand for new, state-of-the-art offices, says Ana Jordao, associate director of Predibisa: ‘We are building brand new spaces for these companies, but there is also a need for residential projects and for hotels, as tourism is a growing sector.’

There are more than 100 hotels in the city and the current pipeline will increase that number by 50%, but there are still opportunities to be found in the sector. ‘Many more American and Chinese tourists are coming to the city, so more five-star hotels are needed,’ says Lima. ‘Student housing is another asset class that offers opportunities, because of the growing demand/supply imbalance.’

‘The local government is very welcoming, has a constructive, problem-solving approach and is open to innovative solutions, which is why so many foreign companies have chosen to set up their headquarters in the city.’

Maria Santa Martha, CCA Law
Porto’s momentum still persists as the value drivers attached to the discovery of the city as a unique place to set up business remain: quality of life, fantastic availability of talent, first-class infrastructure and city governance focused on enabling a city with a multifunctional ecosystem, writes Ricardo Valente, city councillor for economy, tourism & commerce at Porto City Hall.

Porto’s reputation as an innovative city is primarily due to its cultural features, which are as much differentiating as they are essential to the urban quality of life. They are also one way of making the city known to the world.

Porto is an open city with a vibrant cultural life, a resurgent entrepreneurial scene, a world-class university, and a unique centre which carries a culture of diversity in its genes. This unusual capacity of combining our cultural heritage with innovation gave origin to a set of unique projects in the city, aiming to make Porto a port of talent and skills for the 21st century economy.

At the Municipality, we are investing a lot to make Porto a new economic centre in the region and in the country. We are developing a new area of the city (Campanha, on the east side) and preparing the city to be more competitive and sustainable with the Campanha Intermodal Transport Terminal, reconversion of the former Porto Slaughterhouse, and renovation of Bolhao Market.

On the up: Porto’s urban rehabilitation areas (ARU) & expansion areas

1. Rehabilitation of the Bolhão Market
2. Rehabilitation of the Rosa Mota Pavilion 3. Matadouro
4. Porto Innovation District
5. Strategic Masterplan of the Eastern Area of Porto
6. Campanha Intermodal Transport Terminal
7. Quartel de Monte Pedral Affordable Housing Project
8. Monte da Bela Affordable Housing Project
9. Lordelo do Ouro Affordable Housing Project
10. Student Residence - Bainharia Block Intervention Unit
11. Tourist Accommodation - Pelames Intervention Unit

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Hugo Lima, general manager, Lucios Real Estate
Europe’s big cities offer insulation against economic fluctuations

London remains very much in the picture for investors despite continued uncertainty over impending EU withdrawal

A focus on European cities with economies that will outperform will serve investors well, experts told Real Asset Insight.

‘If there’s anything we should have learnt from the last cycle, it’s that chasing yield is not an investment strategy,’ says Daniel Harris, principal – head of European investments, at Cain International. His advice is not to go to secondary cities, but rather ‘focus on Europe’s gateway cities, because when there are bumps in the road they bounce back the quickest’.

Large cities like Paris, London or Madrid are underpinned by solid macro fundamentals that will withstand economic fluctuations and they will continue to attract young talent, which will guarantee future growth.

‘Vienna will follow in Berlin’s footsteps,’ says Stefan Walter, managing partner at RSM Austria. ‘It is the perfect place to live and it’s attracting young talent.’ The young vibe is also making Dublin a target for investors, says Harris: ‘It’s a very dynamic market with a huge uptake from the IT and start-up scene.’

As for London, many investors have adopted a wait-and-see approach regarding the UK’s fraught departure from the European Union, but this is creating opportunities for others. ‘It’s generating returns in excess of Europe and now, because of Brexit, it’s a less competitive market,’ says Andrew Angeli, head of European strategy and research at CBRE Global Investors.

Investors with a long-term view look beyond current instability, which in any case is not confined to the UK, says Harris: ‘We are big on London. Once the Brexit issue is resolved there’ll be a huge inflow of capital into the city.’

Money will definitely flow into London again, agrees Larry Young, head of international investment group at BNP Paribas Real Estate: ‘Investors want to get back, it’s not a question of if but rather of when.’

Lower for longer interest rates attract global capital

More capital will be allocated to European real estate from all over the world, as the ‘lower for longer’ interest rate environment makes investing in property attractive, experts told Real Asset Insight.

‘There has been a fundamental shift in the market and it is a fact that bond portfolios are not very attractive, so in this scenario real estate wins,’ says Andrew Angeli, head of European strategy and research at CBRE Global Investors. ‘I expect allocations to real estate to grow over the next few years.’

Capital is coming from east and west and from old and new investors. Damian Harrington, director, head of EMEA research at Colliers International, opted for Warsaw as a long-term play, ‘because it has dynamism, it has changed a lot and it keeps changing and innovating’.

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‘Focus on Europe’s gateway cities – when there are bumps in the road they bounce back the quickest.’
Daniel Harris, Cain International
Hybrid residential models emerge to accommodate all demands

The need for assets to perform year-round has seen the development of assets that appeal to different groups

Residential is shape-shifting. The new hybrid models accommodate different people at different times, such as students during the academic year and tourists in the summer or young people in education or in work.

‘We focus on people in education and unsettled professionals, because their requirements are very similar,’ says Rainer Nonnengasser, CEO of International Campus. ‘There is a lot of homogeneity on the product side, so both groups can easily be integrated.’

Students and young professionals want to be close to the city centre, and they want good design, leisure facilities and large shared spaces. They are both highly mobile and prefer renting to owning.

‘We see the boundaries between these two groups breaking down,’ says Rienk Oosterhof, development director at The Student Hotel. ‘The same room is fine for both, although we may add a kitchenette for professionals.’

The key words are mobility, flexibility, community, connectivity and affordability.

‘Mobility is key, so flexibility is needed in housing choices,’ says Clare Thomas, a partner at CMS. ‘That’s why the product is always evolving. In future there will be even more focus on the technology that will keep the community connected and there will be more all-inclusive offers.’

‘All borderlines are melting away,’ says Nonnengasser. ‘Soon restrictive labels will disappear and there will just be one blended product which meets the requirements of young people.’

Some stretch beyond the younger generations. The Student Hotel, for example, has a hybrid model that combines student housing, co-working and co-living and rents out rooms to tourists in the summer. ‘We’re open to everyone regardless of age and 50% of our customers are not students,’ says Oosterhof. ‘We call them young at heart.’

YEAR-ROUND BUSINESS

The tourism element is crucial because the asset must be busy 12 months a year. ‘In the past we did not look at Milan, despite its big student population, because the numbers didn’t work in the summer,’ adds Oosterhof. ‘But now that the city is attracting many more tourists we are very interested in Milan.’

Italy, France, Iberia and Ireland are the most attractive markets for these hybrid models because of their potential, but the trend is taking root all across Europe and attracting the attention of developers and institutional investors.

‘Risk is key, so flexibility is needed in housing choices,’ says Clare Thomas, a partner at CMS. ‘That’s why the product is always evolving. In future there will be even more focus on the technology that will keep the community connected and there will be more all-inclusive offers.’

However, ‘banks don’t always understand these new asset classes, which leaves room for alternative lenders like us to underwrite the projects,’ says Thibault Valla, debt & special situations at LaSalle Investment Management. ‘It is a recurrent theme that developers start with student housing and then branch out to other residential products. We have a big pipeline in co-living.’

‘Banks don’t always understand new asset classes, which leaves room for alternative lenders like us to underwrite the projects.’

Thibault Valla, LaSalle Investment Management

Student housing tops alternatives

Student Housing has become the number one alternative asset class out of 19 in terms of volume, with more than 700 companies investing in the sector.

‘There is a wall of capital ready to be deployed and a pipeline of €10.6bn of new projects in Europe,’ says Samuel Vetrak, CEO of Bonard. ‘The only problem is that it is difficult to find the right product to invest in.’

The sector is attractive to investors because it is mature and transparent and because ‘it will continue to deliver in economically challenging times’, Vetrak adds. ‘International student demand remains strong and consistent regardless of the cycle.’

Demand is high and rental growth has been above inflation. ‘In some hotspots like Dublin or Porto we have seen double-digit growth,’ Vetrak says. Iberia, the Netherlands, Germany and Italy are the main markets for new development, along with the UK where investments are set to grow due to the weakness of the pound and loosening of regulations.

According to new data presented by Bonard, an independent research provider that specialises in alternative asset classes, 1.1 million student beds need to be built in Europe to keep up with the UK. The current pipeline of 592 projects, representing investment of €17bn, will deliver only 151,000 private beds in the next two and a half years.

Vetrak identifies three distinct markets that can appeal to different investors:

● Super-sized cities that have more than 30,000 international students. These are Paris, Vienna, Madrid, Berlin and London, which is way ahead with over 110,000.

● Big cities with a student population of between 15,000 and 30,000, which include Munich, Rome, Barcelona and Budapest.

● Mid-sized cities with between 5,000 and 15,000 international students, such as Amsterdam, Frankfurt, Oslo, Heidelberg and Turin.
Brexit benefit is just ‘the cream on top’ for Germany

Low interest rates and safe haven status keep market buoyant even amid the slowing economy

Brexit is just the ‘cream on top’ as there are other drivers behind Germany’s rising appeal in investors’ eyes.

‘Brexit has been an advantage for Germany and has led directly to an increase in demand and in prices, but it is just the cream on top,’ says Rainer Schorr, founder & owner of PRS Family Trust. ‘There are other factors at play, notably low interest rates and the safety issue. For pension funds and family offices all over the world Germany is a safe haven, not just in Europe but on earth.’

Even now that the economy is slowing down, investors do not doubt its resilience or stability.

‘Stability used to be boring but at a time of insecurity it becomes an important asset,’ says Sven Henkel, CEO of Ziegert Bank und Immobilienconsulting. ‘Add to that a transparent market, great liquidity, clear regulations so that investors know exactly what they can and they cannot do, and you get the current situation where supply cannot keep up with demand and prices keep rising.’

The residential sector is a safe haven within the safe haven, he adds, because of the supply/demand gap, particularly in Germany’s main cities.

‘We see a very positive future for the residential sector in Germany,’ says Henkel. ‘Our new report focuses on Germany’s top eight cities and it shows they are all developing strongly and growing faster than the rest of the country.’

DOMESTIC INVESTORS STEP BACK

International investors’ interest is such that sometimes domestic capital chooses to take a step back. ‘In Germany often local investors will not compete with foreign investors,’ notes Tobias Schulteß, managing partner of Blackbird Real Estate. ‘The locals know the issues and the problems and they don’t want to pay too high a price, but foreign investors want to be in Germany at all costs and they are prepared to pay.’

They tend to stick to the main cities they know, but ‘in Germany there are many regional cities they have never heard of that actually deliver better returns’, he says.

Berlin tipped to be as big as London and Paris

The German capital will continue being a magnet for domestic as well as international investors.

‘I fully believe that Berlin will be a big capital like Paris or London,’ says Sven Henkes, CEO of Ziegert (pictured). ‘It is only 30 years old, and there was no investment for decades. It has been catching up in the last 10 years and that process will continue.’

If the city were a building in construction, he said, ‘it would be between the ground and the first floor, but it will soon reach those top floors’. There is still a lot of land, both public and private, that has not been released to the market for development, so ‘the growth potential is huge’.

Demand outstrips supply in the office and residential sectors. ‘In the residential sector the vacancy rate is 1.4% which makes moving very difficult, and the office sector is in a similar situation,’ says Henkes.

Demand has caused prices to increase, but ‘from an international perspective Berlin is still cheap compared to London or Paris, even if at present they cannot be compared’, says Rainer Schorr, founder & owner of PRS Family Trust. ‘None of Germany’s top 30 listed companies has its headquarters in the capital, which is an unusual and indeed unique situation.’

Meanwhile, investors’ concerns about the imposition of rental caps in the residential sector can be exaggerated. ‘Rent controls are a political trend that is Europe-wide and not limited to Berlin – Vienna, for example, has much more drastic plans,’ adds Schorr. ‘In Berlin in any case, if a rental cap were to be imposed it would not affect new builds. But I don’t think that in the end these regulations will be brought in.’

The German Property Federation is challenging the law introduced by Berlin’s local government last October, which introduces a rent freeze for five years and rent caps. If the law were found not to comply with the Constitution it will need to be amended.
Sustainability: ‘Everyone finally starting to do something’

More investors and developers are expected to embrace sustainable practices as young occupiers drive demand

There is more cooperation across the industry on all sides as well as a push from below, as young people are demanding answers and action.’

Felicity Beasley, Cain International

ESG awareness has grown in all sectors

Regulation from above and pressure from below, community engagement and scientific evidence are all combining to put ESG issues in the spotlight, say experts.

It used to be a very hard sell, but now awareness of the issues has grown in all real estate sectors. ‘We started focusing on sustainability in 1995 and we felt quite alone for a very long time, but now more investors are incorporating ESG in their business strategy,’ says Elsa Monteiro, head of sustainability and corporate communications at Sonae Sierra (below).

Regulation is often feared but it can work, she adds: ‘At European level they are putting pressure on companies and governments to decarbonise, which in turn helps to put pressure on everyone else.’

The result is that sustainability in Europe is being pushed up the agenda and linked closely with health and wellbeing.

Certification is also becoming important. ‘I am not a fan of labels, but certification and transparency are crucial if you want change to happen,’ says Alexandra Boot, managing director of the Blue Building Institute.

Sonae Sierra has analysed years of data to persuade clients that ‘there is a business value in investing in energy and water efficiency, because it leads to savings in operating costs which always turn out to be better than forecast’, says Monteiro.

‘At the moment there is a mismatch as investors who want to exit in three years’ time don’t want to pay the extra upfront and operational costs which a sustainable building has,’ says Felicity Beasley, head of client capital & investor relations at Cain International. ‘It will be interesting to see how it plays out, because if you look at it long term then you realise that you can attract higher rents and keep the value of the building over time.’
We need more heroes
A new decade looms and with it a new era for real estate as tech and digitalisation make their mark. But we cannot lose the human input, says Thorsten Herbert

The first year of Real Asset Media has come to an end and we finished it with a great event in London with a fantastic panel and more than 120 attendees discussing the global outlook for real estate investment and where the markets are heading to.

Year one of Real Asset Media has meant 60 events, 300 speakers, 750 Thought Leader Interviews, 8,000 readers for the Real Estate Day newsletter and more than 105,000 YouTube views. This is in addition to four issues of Real Asset Insight magazine and two editions of Living Retail magazine – 40,000 copies delivered to readers globally — thousands of visitors to the International Investors Lounge at Expo Real, and countless posts, shares, comments and likes on LinkedIn, Twitter, Instagram and Facebook. We have arrived!

Now we have a short break for the festive period, so it is the right moment to say thank you to our team and all our supporters for keeping us company on this journey and for making all of this happen. I learned a lot, especially in terms of leadership and am proud and happy to have such a strong and motivated group of highly educated and specialised, as well as lovely and charming people, with us. Trust is a great value.

We are living in times of quick changes — how many times did we hear the word ‘disruption’ this year? Big waves of money are hitting the markets and lowering returns and product availability. New asset classes are born or created by definition, the sharing economy is here, the millennials are taking over, we live in a ‘co’ society, we see marketing and capital creating a fast-expanding player in the office market which then nearly collapses after a failed IPO.

Was it all marketing or has all of this been demanded by the customer, the human? When we received the advert for MIPIM 2020 (published in this issue) and I saw the headline ‘The future is Human’ I felt my thinking had been confirmed. The customer, the person, needs to be in the centre — the ‘human factor’ (Faktor Mensch) and their influence, their competence, and their performance. ‘What I can do’ and ‘What I actually do’ are the key factors for success.

THE HUMAN FACTOR
The next wave is coming quickly and it is technology and digitalisation. Digitalisation has not yet started and we cannot begin to imagine what it means for real estate and for real estate as a service — for our daily lives.

We see real estate products and proptech, data and innovation growing together and becoming one and the same thing, but digitalisation and artificial intelligence will have a much bigger impact on our daily life and work. How will we co-exist with super-intelligent technologies? With the help of simple AI we are creating a society of knowledge, but knowledge does not mean understanding. We need more awareness. And we need more heroes who will form the new society of humans, technology, understanding and awareness.

‘Digitalisation has not yet started and we cannot begin to imagine what it means for real estate and for real estate as a service.’

Hasta la vista, baby. I’ll be back.

Thorsten Herbert is founder and partner of Real Asset Media
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