



News release

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Cautious European real estate investors look for a mix of healthy occupier markets and new asset classes as the sector edges towards end of the cycle - ULI/ PwC's Emerging Trends in Real Estate Europe 2019

The hunt for secure long-term income is driving European real estate investment as the industry hedges against potential interest rate rises and an uncertain geopolitical backdrop, according to *Emerging Trends in Real Estate® Europe 2019*.

The annual report, published jointly by the [Urban Land Institute](#) (ULI) and PwC, is based on the opinions of over 800 real estate professionals in Europe, including investors, developers, lenders, and advisors.

“Investors are becoming more cautious, and investment and development preferences are more and more driven by real estate fundamentals such as the economic growth prospects and health of the local occupier markets. Sentiment is more negative on cities and countries facing higher (geo) political risks, which creates uncertainty that investors don’t like. Brexit is a clear example in this respect, where a number of respondents feel the UK will lose some of its competitive advantage, which impacts investment and development prospects”, stated Francesca Postolache, Assurance Partner, real-estate industry group Leader, PwC Romania.

”On the Romanian real-estate market we have seen a constant increase in asset prices in recent years, although we are still 30 to 40% below price levels registered in 2008. Although the fundamental analysis shows that there is still space to see an asset increase in Romania, at least in large cities, investors tend to be cautious in terms of kick-starting new major projects and look also at the wider European context when making investments decisions”, added Francesca Postolache.

This caution is also reflected in the expectations related to the availability of equity and debt, with around 28% of survey respondents believing that the amount of equity available for refinancing or new investment will increase, compared with 50% last year. However, last year’s confidence was particularly high, and there are few current concerns about liquidity, other than for challenging sectors such as retail, as demonstrated by the majority (54%) who believe the availability of equity will be about the same.

One of the main barriers to investment continues to be the availability of suitable assets as capital continues to flow into Europe, with strong increases expected from Asia. This is putting pressure on the core end of the market with 70% of survey respondents either agreeing or strongly agreeing that prime assets are over-priced.



Interest in alternative asset classes continues to rise in face of tough capital markets environment

One response to this more challenging capital markets environment is that investors are turning to asset classes that are experiencing structural tailwinds and which are less likely to be affected by the current cycle. But *Emerging Trends in Real Estate® Europe* suggests that this is only part of the story.

“The last five or so years has seen a remarkable shift by investors towards alternative real estate, or ‘niche’ sectors. In part this is clearly driven by where we are in the cycle and the search for income. But it is also a response to the innovation that is disrupting the more traditional sectors and a number of long term trends such as demographics and urbanisation”, added Francesca Postolache.

Residential stands out in this respect, with seven out of the top ten sectors preferred for investment and development, including some form of residential, ranging from co-living, student housing, retirement living to social housing and regular residential housing.

In addition to residential, logistics and niche sectors such as data centres and flexible offices are making up the top ten. Logistics clearly continues to benefit from the growth of e-commerce. Traditional formats such as city central or suburban offices and retail formats continue to languish at the bottom of the rankings.

Sector prospects in 2019 - top ten

Overall ranking	Sector	Investment ranking	Development ranking
1	Co-living*	1	1
2	Logistics facilities	3	2
3	Retirement/ assisted living	4	3
4	Flexible/serviced offices	5	4
5	Data centres*	2	5
6	Student housing	6	6
7	Private rented residential	8	7
8	Serviced apartments	7	8
9	Housebuilding for sale	13	9



10	Social housing	10	10
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**a significantly lower number of respondents scored this sector*

European cities ranked for investment and development prospects

The annual city rankings included in *Emerging Trends in Real Estate® Europe* reflect the industry’s appetite for smaller, “late-cycle play” newcomers combined with some of the larger, established markets, while at the same time considering geopolitical risks. Lisbon jumped ten places to take the number one spot in a late-cycle play, with interviewees also praising the city’s quality of life and political leadership.

The more established German cities still dominate the top ten with Berlin taking second place followed by Frankfurt, Hamburg and Munich ranked five, seven and ten respectively. However, for some, the year-on-year popularity of these cities is beginning to take its toll with many respondents citing overpriced investments in these locations.

The rest of the top ten is largely made up of cities, such as Madrid, Amsterdam, Vienna and Dublin that score positively on real estate fundamentals and rental growth prospects, but in many cases also on quality of life, connectivity, innovation potential and attractiveness to talent.

European cities - overall prospects 2019

Overall ranking	City	Investment ranking	Development ranking
1	Lisbon	1	1
2	Berlin	3	2
3	Dublin	2	5
4	Madrid	6	4
5	Frankfurt	5	3
6	Amsterdam	7	8
7	Hamburg	9	6
8	Helsinki	4	13
9	Vienna	8	11
10	Munich	14	7



Despite investment volumes and occupier demand for offices in London holding up well, Brexit continued to overshadow London's short-term prospects, with 70% of Europe's senior professionals believing that the UK's ability to attract international talent will fall following the March 2019 deadline whatever the final deal.

Social value of real estate continues to grow in importance

The report also examined the growing influence of social value alongside the financial returns from investments. Nearly 60% of survey respondents believe the industry is moving towards using a wider range of non-financial measures to assess the value of real estate and real estate businesses. Similarly, 59% agree that non-financial metrics are increasingly important in measuring returns.

Notes to editor

1. *Emerging Trends in Real Estate 2019* is available online at <https://www.pwc.com/etre2019europe>

About the Urban Land Institute

The Urban Land Institute is a non-profit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. Established in 1936, the institute has over 40,000 members worldwide representing all aspects of land use and development disciplines. For more information, please visit europe.uli.org, follow us on [Twitter](#), or follow our [Linkedin page](#).

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