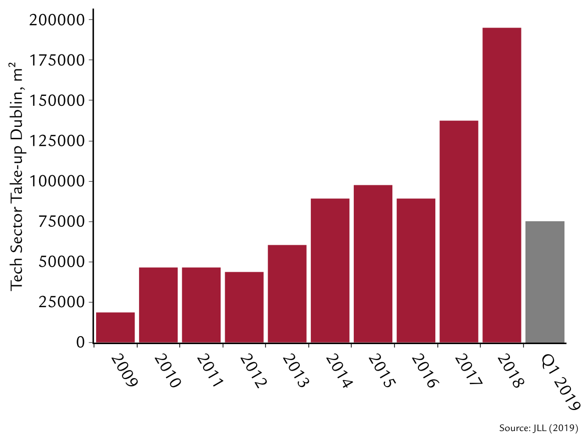
Real Estate House View
Benelux, Austria, Ireland

Second half-year 2019

Key takeaways

- Investors' demand for real estate remains strong, resulting in stable or decreasing yields in most sectors.
- Transaction volumes diverge between markets and have tended to decline due to a lack of quality stock on the market. All markets but Belgium show a decrease in investment volume over the first months of the year.
- Occupational demand in the office sector is robust. Dublin recorded strong Q1 2019 take-up, which included Ireland's largest-ever single office letting to Salesforce. In Brussels and Luxembourg, demand from administrations, finance and tech occupiers boosted the rental market. In contrast, Amsterdam and Vienna saw subdued demand at the beginning of the year.
- The shortage of space in central locations is a feature of all office markets and is pushing up rents, with the exception of Vienna. We expect rental growth to continue, but to slow with increasing completions, especially in Amsterdam and Dublin.
- Retail remains under pressure from structural change, and there is increasing polarisation between winning central locations and losing non-prime locations. Prime retail remains stable, but secondary stock is weaker and prone to rising vacancy rates, putting rents under pressure.
- By contrast, the logistics sector is benefiting from e-commerce and is pushing demand for space, including in urban areas which do not belong to major markets driven by manufacturing or international trade.

Chart in focus



Dublin has seen strong take-up from tech occupiers over the last few years. Google, Facebook, Amazon and Linked-In have all based their European HQ in the city and continue to grow their local presence. In Q1 2019 Salesforce secured a 43,600 sqm pre-letting, Ireland's biggest ever office deal, on top of sizeable deals to Facebook (16,200 sqm) and DocuSign (9,200 sqm). Dublin is attractive due to its skilled workforce, low tax regime, regulatory environment and Eurozone membership. Jobs in Dublin's tech sector are forecast to grow by 5.9% over the next five years, according to Oxford Economics, meaning that further expansion should be expected.

One of the main characteristics of these Eurozone economies is their strong exposure to external demand, which has suffered from the global industrial downturn. Hence, sentiment in the manufacturing sector – as measured by the Purchasing Managers' Indices (PMI) – has declined over the past one-and-a-half years, albeit from generally more elevated levels and somewhat delayed compared to the Eurozone average. The Netherlands is the only country in the group where the PMI is still above the expansion threshold of 50, while the Austrian manufacturing sector currently fares worst according to this measure. All these economies have seen a relatively strong decline in unemployment rates, which has helped to sustain solid growth in wages. Nevertheless, consumer sentiment has recently suffered and led to a moderation in private consumption. On a positive note, these economies have done their homework in terms of debt reduction over the past years and are now benefiting from new all-time lows in interest rates. Using the fiscal space that has opened up, they are all pursuing pro-cyclical fiscal policy this year, with the Benelux group being the most expansionary.

Buoyant investment activity

There is ongoing investor demand for commercial real estate in Western Europe, but transaction volumes in the region are mixed. In Belgium, Q4 2018 and Q1 2019 volumes totalled almost EUR 3 bn, equalling the year-back record. For the Netherlands, Savills reported around EUR 4 bn invested in Q1 2019, a slight decrease compared to the same period last year. In Ireland, total volumes of EUR 600 m in Q1 2019 were a third lower than a year before. Austria presents the same picture with EUR 900 m of investments in Q1 2019, a 20% decline in a year. Lower investment volumes are deemed to relate to a lack of available stock, not a lack of demand, with competitive bidding evident for quality product. Yields have been maintained or compressed further for the main non-retail segments.

Office take-up varying

Letting activity in Belgium and Ireland was strong in Q1 2019. By contrast, Amsterdam and Vienna saw a slowdown in letting volumes. In Brussels, rolling annual take-up grew 19% to 485,000 sqm as at Q1 2019. Brexit boosted office demand due to administration relocation. In Luxembourg, demand kept growing (+20% year on year) with finance occupiers in the market, and tech occupiers increasing their Luxembourg-based staff. In Dublin, Q1 2019 saw a record 1.4 m sqft of take-up, 85% more than the same period last year. Tech occupiers accounted for 57% of the Q1 total. The market still offers prime office rental growth potential over the next two years. In Amsterdam, take-up was not convincing in Q1 2019, but vacancy carried on declining. The shortage of space in sought-after locations continued to stimulate rents significantly. Future new supply is likely to slow the pace of rental growth in the medium term.

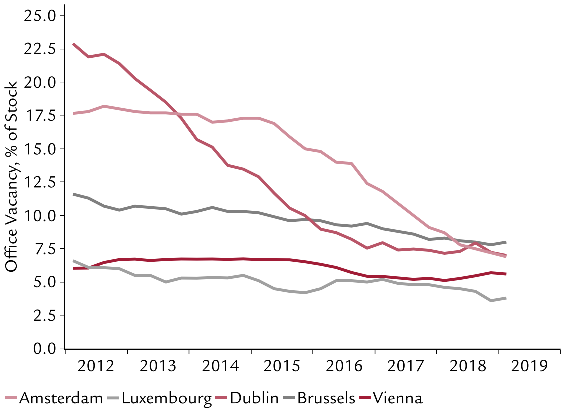
Increased polarisation in retail

The retail sector is increasingly polarised, reflecting structural shifts. Prime retail demand in Dublin is stable and we anticipate ongoing rental value growth. Demand for secondary stock is weakening and vacancy rising. In Belgium, prime retail rents and yields are stable. Prime streets are not as affected by vacancy, but non-prime locations suffer more, with vacancy reaching 16% in some locations. International retailers are still seeking top locations in Vienna, but in secondary areas landlords are forced to find new concepts, such as hotels or co-working spaces in former retail areas.

Logistics serves e-commerce needs

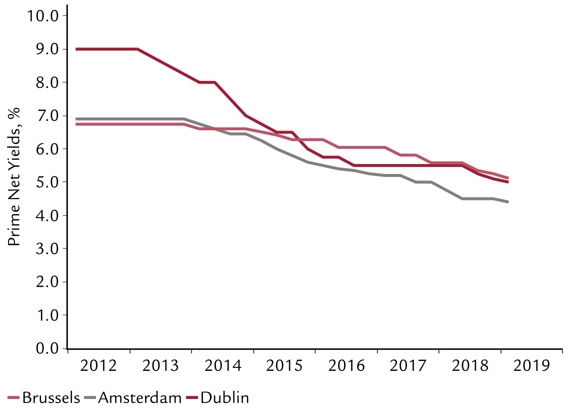
Investor appetite for logistics remains, with the sector benefitting from the disruptions in the retail sector. In Vienna, not known as a strategic logistics hub, the market is driven by demand from e-commerce and parcel services. Rents are rising and there are strong indications that this will continue. Dublin's industrial occupational market is buoyant with Q1 2019 take-up 54% higher than Q1 2018. The prospects for the sector are strong, with both prime rental value growth and yield compression expected in 2019/20. Logistics take-up in Belgium was lower than expected, with 280,000 sqm transacted over 2018, 11% below the 10-year average. However, high-quality product is increasingly rare, pushing rental values higher in Antwerp (+4%) in Q1 2019. Rental values in Brussels were flat and limited growth is expected in the coming quarters.

Chart 1: Office vacancy rate



Source: PMA

Chart 2: Logistics yields still falling



Source: PMA

Authors

Corpus Sireo
Andri Eglitis
Director Research
andri.eglitis@corpussireo.com

Swiss Life Asset Managers France
Charlie Jonneaux
Financial Analyst
charlie.jonneaux@swisslife-am.com

Mayfair Capital
Tom Duncan
Senior Associate – Research, Strategy & Risk
tduncan@mayfaircapital.co.uk

Swiss Life Asset Managers
Francesca Boucard
Economist Real Estate
francesca.boucard@swisslife.ch

Marc Brütsch
Chief Economist
marc.bruetsch@swisslife.ch

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