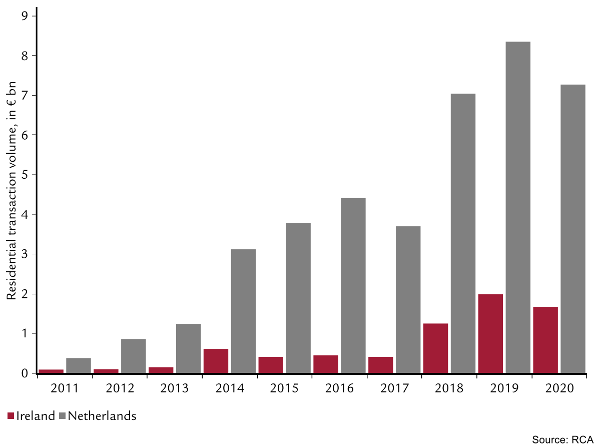
Real Estate House View
Benelux, Austria, Ireland

First half of 2021

Key takeaways

- **Limited investment activity:** investment markets recorded lower liquidity in H2 2020 compared to the highs seen in 2019 as volumes were more in line with the ten-year average. We expect activity to increase throughout 2021 as coronavirus is contained and the economy recovers.
- **Core is key:** Investors are focused on core products supported by long-term trends. City centre offices, apartments and healthcare assets are of particular interest to investors.
- **Office values remain firm:** office markets remained resilient despite the coronavirus pandemic and economic uncertainties. We expect prime rents and yields to remain flat in Brussels, Luxembourg and Vienna and to soften slightly in Dublin in the short term.
- **Logistics still on the rise:** occupational demand remains buoyant for modern logistics stock but supply is still constrained. This should support rental growth and an increase in capital values in H1 2021.
- **Retail decline continues:** the retail sector is still struggling under the pressure of enforced lockdowns and a lack of tourist travel. Rising vacancy rates, declining rents and weaker investment conditions are likely to persist in 2021.
- **Investors favour the residential sector:** significant demand and a severe lack of supply are driving yield compression and rental growth as investors focus on the living sector.

Chart in focus



The shift of investors towards the residential sector is a clear and decisive trend on the investment market. Some countries, including the Netherlands, have already established residential investment markets, while others, such as Ireland, are still catching up. Increased demand due to urbanisation and an insufficient supply of housing is driving rents and prices in all major cities. In Ireland, for example, housing unaffordability has become a major political issue. Investment volumes in Ireland, almost exclusively Dublin, have grown particularly strongly in response to the level of unmet demand.

All the economies of this group have benefited from intact global supply chains during the second wave of the pandemic. A newly introduced high frequency indicator by the Austrian central bank to track Austria's GDP suggests that domestic activity dropped significantly in December as new lockdown measures were imposed. However, the external trade of goods appears unaffected, thus ensuring a far less severe impact on overall activity compared with the situation in the spring. Temporary bottlenecks in trade with the UK may dampen dynamics in the Benelux and Ireland in the first half of the year. However, prospects of successful vaccination programmes and more clarity with regard to trade going forward with the UK provide reasons to expect a significant economic rebound by the end of 2021.

Mixed picture for offices

Dublin has recorded high leasing volumes in the last few years. COVID-19 prompted a pause in activity, with office lease renewals delayed or cancelled, thus leading to a low take-up in H2 2020. The supply pipeline is also high, which will result in occupier-favourable conditions. As a result, we expect rents to fall and yields to soften in the short term. Take-up was significantly down in Luxembourg and Brussels. However, the stable nature of the Brussels market should protect it from large corrections, particularly in comparison with other European markets. Developments in Luxembourg are strongly driven by pre-lets and pre-sales. As a result, despite the pandemic, vacancy rates have remained in check at 3.5% up to H2 2020. The Dutch office markets recorded a much lower take-up in 2020 alongside rising vacancy rates. Prime rents remain largely stable, as the volume of occupier incentives has risen. We expect prime rents to remain stable in Amsterdam but to decline in Rotterdam in the short term. Vacancies and prime rents in Vienna have so far remained resilient, although rents are likely to decline slightly in 2021.

Logistics performing well

Logistics take-up activity proved relatively robust in Belgium in 2020 despite very modest development activity. In view of the seemingly pivotal role of logistics, we anticipate stable rents and hardening yields in the short term. In Dublin, take-up was relatively subdued in H1 2020. Although occupier demand is considered reasonable, an acute shortage of modern stock is restricting activity. Stable fundamentals should support performance in 2021, leading to modest rental growth and yield compression. This will be aided by a no-deal Brexit having been averted, which should bolster demand.

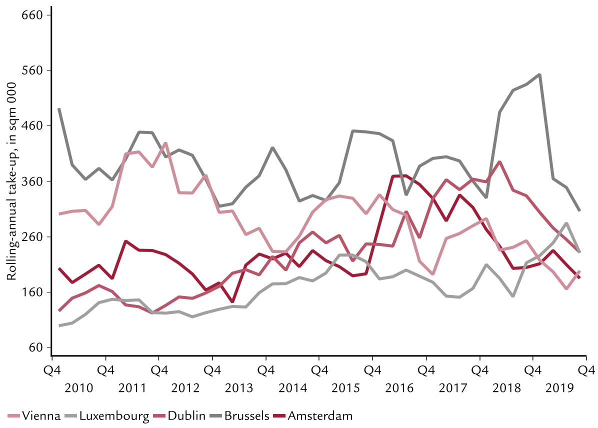
Difficult prospects for retail

High streets and shopping centres in all markets experienced severe pressure due to national lockdowns and the loss of tourist inflows which are particularly important to Dublin, Vienna and Amsterdam. With coronavirus still to be contained, the pain for retailers will persist and vacancies are set to rise further. Structural changes brought about by the pandemic are likely to have permanently lowered occupational demand and much retail space will need to be repurposed for alternative uses. Many landlords have already or are soon to experience double-digit rental falls. Luxury assets, such as those in Vienna, where letting is based on more strategic than economic considerations, may be an exception.

Strong residential performance

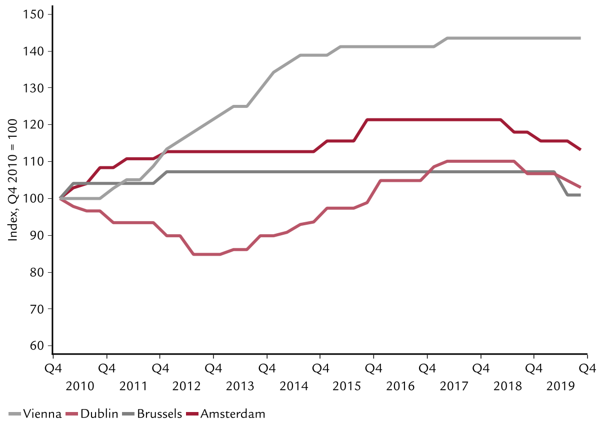
There is a significant residential supply shortage in Dublin, which is grappling with major housing affordability issues. A lack of products and strong demand are creating an ideal opportunity for investors and H1 2021 is set to bring renewed interest to the sector. All types of residential products are needed, including multi-family housing, co-living, retirement living and care homes. Although rental increases have been subdued in Belgium and Luxembourg, the investment market remained very active with sustained price increases in 2020. The COVID-19 crisis has reduced the supply of building permits in Belgium, exhausting the stock of new assets, which should support price rises in the coming months. In the Netherlands, the housing market continued its upward trend in rents and prices in the first part of 2020. The housing shortage provides the basis for projecting annual rental growth of 2% in the coming years. The upside potential is probably higher in the secondary markets than in high-priced Amsterdam. Similar trends have been seen in Austria, where it is likely that new-build apartments will see more momentum than existing stock.

Chart 1: Office rolling annual take-up



Source: RCA (commercial summarizes office, industrial, retail and hotel)

Chart 2: High street rents



Source: PMA

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