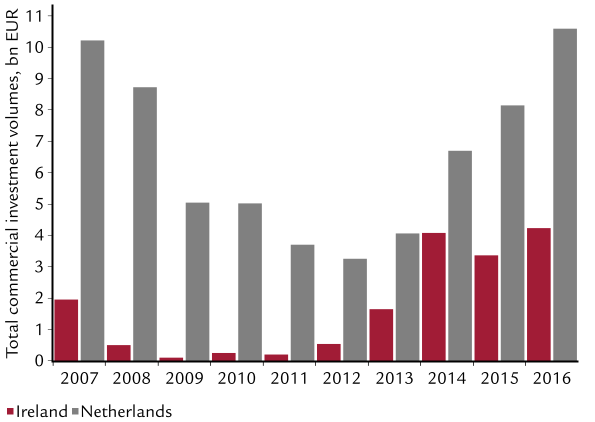
Real Estate House View
Benelux, Austria, Ireland

First half of 2018

Key takeaways

- These markets in Western Europe are a heterogeneous group with two significant trends: the recovery of the markets in Ireland and the Netherlands after the global financial crisis on the one hand and the stability of the real estate markets in Austria, Belgium and Luxembourg on the other hand.
- In the office sector, Amsterdam benefits from rising demand in a recovering economy but also from the conversion of office space to alternative uses. Dublin's recovery is based on increasing take-up as a result of business growth.
- Dublin, Amsterdam and Luxembourg are benefiting from the recovery of the European finance sector and could profit from the outcome of Brexit, although the effects are not yet visible.
- Vienna and Brussels are among the most stable European office markets; Brussels still suffers from a high vacancy rate in its urban office area but prime locations are sought-after by tenants (though availability is markedly lower).
- The Vienna office and retail markets are benefiting from the good economic situation in Austria, leading to upward pressure on rents and strong investor demand.
- International investors are increasingly driving the markets in Western Europe but in some areas supply is picking up only slowly as economic recovery pushes up demand.

Chart in focus



Source: PMA

Interest in European real estate is unabated and investors are peeking across borders. In particular, we see investment volumes increasing in Western European markets that have previously been lagging behind – notably the Netherlands and Ireland.

The Netherlands and Austria are perfect examples of how quickly firm economic data push political woes among investors to the background. Annual real GDP growth surpasses 3% in both countries. Unemployment is declining rapidly everywhere, and countries like Belgium or Austria with their regulated labour markets are among the few Eurozone members where inflation exceeds the European Central Bank's target of "close to, but below 2%". We expect the economic boom to continue in all four countries, supported by firm private consumption as disposable incomes are likely to grow further. In the medium term, the Dutch and Irish real estate markets are potential beneficiaries from Brexit relocation decisions in the IT and pharmaceutical sectors.

Investors peek across borders

International investors increasingly play a role in Western European real estate markets. In the Netherlands in particular, international investors dominate the market, investing not only in commercial property but also in the residential market, accounting for about 20% of total investment in the last couple of years. But even in Austria, where the domestic investors had a dominant 60% share in recent years, international investors are increasingly important. This is mainly driven by the attractive yield spread compared to other major cities such as London and Paris but also by diversification. For the same reason, Dublin too has exhibited strong investments figures, although lower than in 2016. However, the decrease in volume is mainly due to a lack of assets coming to the market. Consequently, yields decreased in all markets in 2017 and are now expected to stabilise.

Economic upswing benefits offices

In Vienna, the slight increase in office property prices continued in the first months of 2017, following a yield compression of 30 basis points in 2016. Recent figures indicate a stabilisation of the prime yield at 3.9%. In Amsterdam, one of the laggards in the current investment cycle, prime yields continue to be under pressure: in the first nine months of 2017, the yield decreased by circa 60 basis points. The dynamics of the development have declined during the course of the year, yet a further decline is expected for the coming quarters. This is due to the current level of 4.2% (Q3 2017), which still exceeds that of many European markets and rental prospects being positive. Especially as take-up has increased significantly in the context of the improving economy, mainly driven by some very large lettings in 2016/2017. Demand is focused in central locations and established business locations (e.g. South Axis), whereas properties in peripheral areas and/or with poor infrastructure suffer. Only Dublin is expected to see (slightly) lower rental growth than before, as a lack of availability of good assets and space are subduing movements in this market. So far, there have been no direct impacts from Brexit in the market.

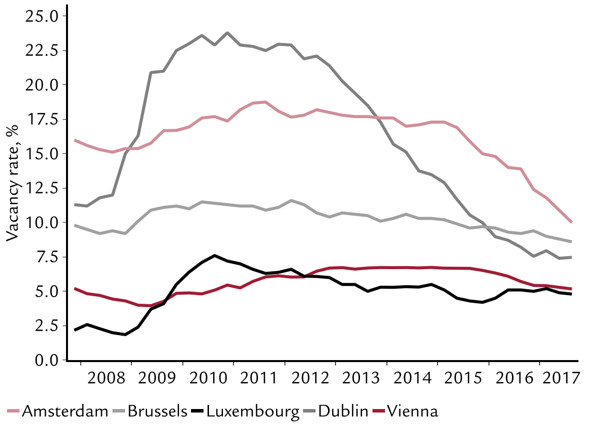
Retail on track

The competition with e-commerce exerts pressure on store-based retailing. However, capital cities in monocentric countries still benefit from their position as a gateway for retail expansion, supported by their attractiveness for tourists. This results in rental growth prospects. Tourism plays an important part in Vienna's and Amsterdam's high streets, where in particular luxury goods are in high demand. In contrast, rents in Dublin increased due to the lack of ongoing development and a very low vacancy rate. After the enormous slump in the wake of the financial crisis, the Dublin market is in a much stronger upward movement. There is increasing variance in the level of rents that different retailers can afford, which potentially will price some retailers out.

Demand for rented apartments

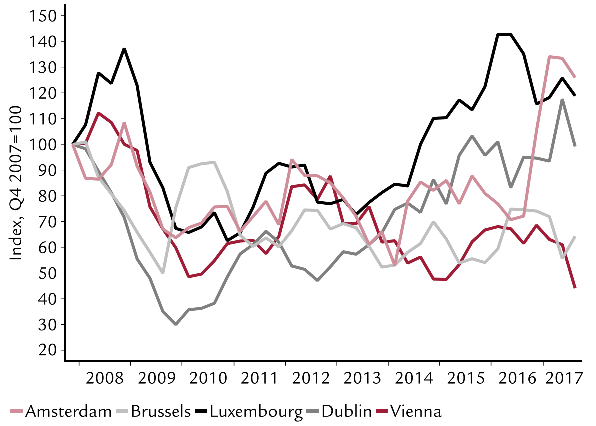
Capital cities are benefiting from national or international migration boosting the demand for new apartments, with affordability playing an important role. Vienna is a good example of development being focused in the high-price segment despite there being a lack of affordable housing. The Dutch residential market has been hit hard by the financial crisis but is steadily recovering in line with the economic upswing. Dublin's strong population growth from 2011 to 2016 (3.8% per annum on average) led to an increasing demand for apartments. But due to the lack of supply, rents have significantly increased. As Dublin is also experiencing strong demand from investors in the residential segment, supply should increase in the future.

Chart 1: Reduction of office vacancies in crisis-hit markets (Dublin, Amsterdam)



Source: PMA

Chart 2: Rolling annual take-up in the office market



Source: PMA

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