

Real Estate House View

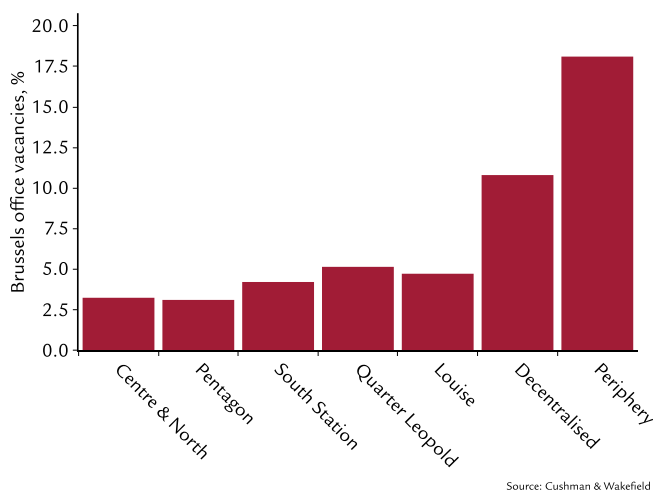
Benelux, Austria, Ireland

First half year 2020

Key takeaways

- Investment activity has been robust in Benelux, Austria and Ireland, and outside the retail sector, prime yields are broadly stable, although there may be further yield declines in selected markets. An increase in stamp duty in Ireland announced in October 2019 may impact activity in this market over the next 12 months and is expected to have lowered property values in the fourth quarter of 2019.
- Office markets continue to experience good levels of occupational demand and in many cities, supply is limited. However, conditions vary significantly by submarket. Central areas are most tightly supplied, reflecting occupiers' preferences, with vacancy rates increasing significantly in suburban or peripheral markets.
- Prime office rents have been stable in most cities but increasing activity in Brussels has driven rental growth. Opportunities for further growth will be focused in central locations, reflecting occupier preferences. The exception is Vienna, where a lack of supply in the centre is displacing demand to the city fringe.
- The situation for logistics assets is mixed, with softening demand in Ireland and Belgium but increased demand in Austria. The current uncertainties (US-China trade war, Brexit), could moderate initiatives from investors in the coming months.
- The retail sector (high street, shopping centres) is suffering due to structural changes and particularly, the shift to online retail. Prime retail pitches will be most resilient but secondary stock is experiencing increased vacancy and falling rental values.

Chart in focus



Within these markets, the underlying fundamentals of the office sector are good: occupier demand is strong; construction limited; and vacancy rates are low. However, submarket data reveals growing polarisation. Central locations are attracting most tenant demand, reducing supply and driving rental growth. In contrast, decentralised locations are experiencing high levels of supply. This is clear when looking at the disparity of vacancy rates across office submarkets in Brussels (see chart) and Amsterdam. In Dublin, the vacancy rate in the city centre is just 3.9%, compared with 7.1% across the city overall. Understanding dynamics in the micro-location is critical when selecting stock.

The slowdown in economic dynamics accelerated in the second half 2019 as Austria and the Benelux economies are all exposed to weaker global trade dynamics. Purchasing managers' indices for the Netherlands, Ireland and Austria all suggest that manufacturing activity is still contracting. Supported by firm services industries and robust construction activity, labour markets remain a strong support to private consumption, but the trend towards lower unemployment rates is coming to an end everywhere except Luxembourg. In marked contrast to Germany, the Dutch government is ready to make use of its fiscal room to manoeuvre, which means that the fiscal impulse for the Dutch economy is comparably stronger in 2020 than elsewhere in Europe.

Strong investment environment

Investment in Irish commercial real estate is expected to reach record levels in 2019. Overseas investors are active and there is increasing interest in the residential sector. Prime yields are stable, except for retail, which has seen a slight softening. However, values are expected to have fallen in Q4 2019, following the Irish government's decision in October to raise the rate of commercial stamp duty from 1 November 2019. Austria saw strong transaction volumes in 2019 and prime yields are still under pressure. Prime office yields are close to 3%.

Office markets remain robust

Leasing has been robust in Dublin, but vacancy has crept upwards as developments complete. There is a considerable volume of space in the pipeline that may have a negative impact on rents in the medium term. The Vienna office market is recovering from the high completions of 2018 thanks to robust demand, but only limited rental growth is forecast in the coming years. Low levels of development in the city centre have shifted demand for space to the city fringe, where rents have been rising. The Amsterdam office market remains healthy but polarised between the sought-after central locations and weak peripheral areas. Further rental growth will be focused on top locations. The Brussels office market is increasingly active. Take-up in 2019 to end-September was 35% higher than the same period in 2018. Rents have risen 5% y-o-y and yields are compressing, reportedly to below 4%. The Luxembourg

office market has been stagnating as prime rents have reached a psychological threshold of EUR 600 psm p.a. No growth is expected in 2020. However, supply is falling despite continued development, suggesting occupational demand remains strong.

Mixed picture in logistics

Dublin's industrial occupational market softened in H2 2019, due to concerns related to future trade with the UK. Supply remains constrained, supporting rental values. The boom in online retail continues to drive investor interest in logistics in Vienna. Record transaction volumes are expected in 2019. At around 5%, prime yields look attractive by international standards. Logistics rents and yields in Belgium were stable in H2 2019. Take-up remains at average levels and the market is considered exposed to global trade tensions.

Prime retail!?

The Irish retail market remains polarised. Prime streets are attracting new entrants and vacancies are low. Retailers are downsizing in secondary markets, increasing vacancies and driving rents down. Vienna is Austria's top retail market, but growth in e-commerce will subdue short-term rental growth. The attractiveness of retail space, especially in shopping centres and retail parks, must be upgraded and requires considerable expenditure. Conditions are similar in the Netherlands and we do not expect retail rental growth in Amsterdam at present; even prime rents are under pressure.

Residential – investors' new darling with some restrictions

Investor appetite for residential products in Dublin is strong but a lack of standing stock means many buyers are opting to forward commit to schemes. Rising build cost inflation is beginning to impact viability. Around Vienna (as in many European regions), the neighbouring municipalities are attracting investors as they deliver new products. In contrast, housing construction in the city of Vienna is becoming less attractive due to the proportion of subsidised housing that has been made mandatory.

Chart 1: Prime retail rents

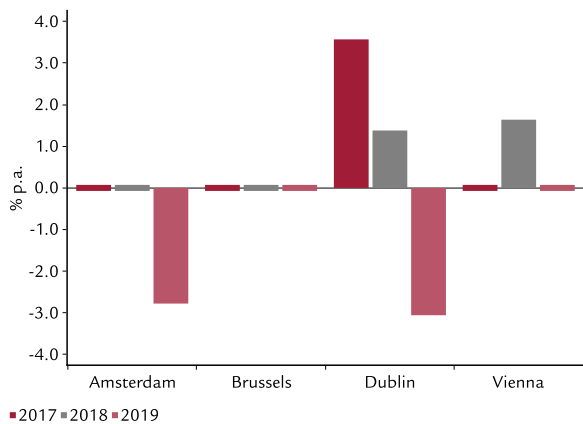
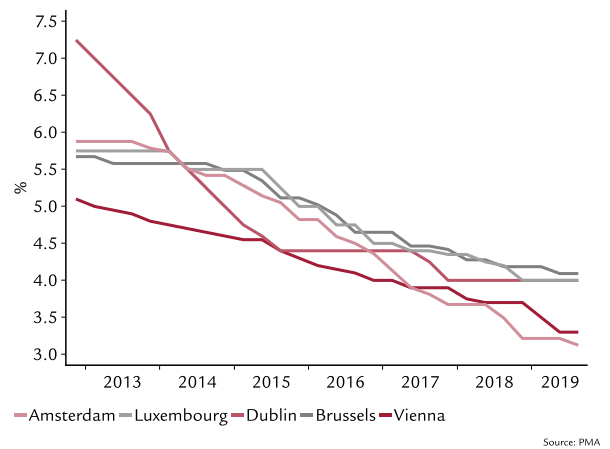


Chart 2: Office prime net yields



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