

# Multifamily & Co-living



🍷 Last year multifamily investment reached €40bn for the first time. In half of the markets volumes were higher than offices 🍷

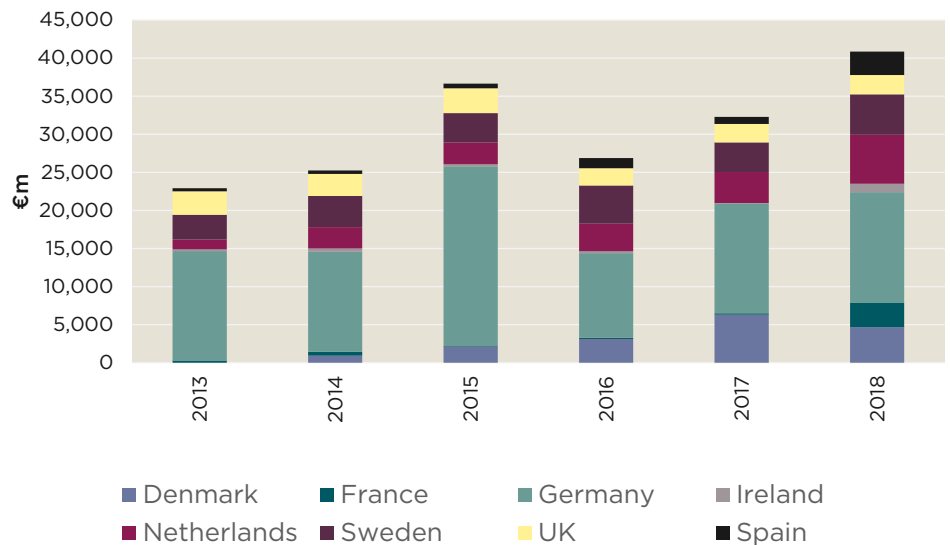
### EUROPE NEEDS MORE RENTAL HOUSING STOCK

The price of owner-occupied housing continues to rise across Europe. Last year house prices increased by 2.9% on average, with the highest rises noted in Slovenia (11.3%), Portugal (10.2%) and the Netherlands (8.0%), driven by demand and supply imbalances around the major cities.

At the same time housing rents are also rising, with more people looking to rent as buying has become unaffordable, particularly for the younger generations. The index of house price to income shows that since 2010 house prices have moved faster than the average European household disposable income. Portugal (117) the Netherlands (114) and Czech Republic (113) are at the top of the list. The prospect of rising interest rates will become another hurdle in the future years for buyers, therefore the pressure for more rental stock will not ease.

Property investors have been noticing these trends and have been seeking opportunities to get exposure in the sector, either through direct investment, development opportunities or the listed sector.

### Multifamily investment activity reached €40bn for the first time



Source: Savills Research

## European multifamily

### 2018-2019 investment trends in eight markets

#### Multifamily investment: from alternative to mainstream

Last year multifamily investment reached €40bn for the first time across the eight European markets that we monitor. This was 26.6% higher compared to the year before. In half of the markets, namely Denmark, Sweden, The Netherlands and Spain, the volume of multifamily investment was higher than offices, making it for the first time the most preferred property investment segment. What historically has been considered an alternative sector to commercial real estate now accounts on average for 17% of the total investment, up from a five year average of 13%.

The markets with the highest annual changes were France, which grew from less than €200m in 2017 to almost €3.2bn in 2018, Ireland where investment volumes increased tenfold to €1.1bn and Spain where the turnover jumped from less than a million to over €3bn last year.

#### New developments offer investment opportunities

The largest market was once again **Germany** with €15.1bn of turnover, the third highest volume of the last ten years. Germany's share dropped from 45% in 2017 to 36% of total in 2018 as most of the other countries registered a significant rise of investment activity in the sector.

From an investor's perspective, the situation in the German residential market is still positive in view of the strained rental apartment markets and a continued shortage in new-build activity. The market's safe haven status remains intact despite additional regulatory hurdles. First time buyers in the German market were responsible for approximately 17% of the overall transaction volume.

As per the previous two years, disposals of development projects accounted for a significant proportion of investment activity. Such transactions were responsible for approximately 26% of the transaction volume in 2018.

There were €2.7bn of transactions in the first quarter of the year, which was 52% down compared to last year. However the further growth in the investor base, including a number of newly launched residential property funds that are only just beginning to build their portfolios, is likely to ensure above average transaction volume once again this year.

Publicly-owned housing companies were rather active on the investment market. They accounted for 29% of the total residential transaction volume in the first three months. This is in line with the strategy of local politics to increase the stock of the publically-owned housing companies. To reach this aim, they are not only increasing their own development activity, but also buying portfolios and newly-built properties.

**Netherlands** had its best year on record at just below €6.5bn, capturing 16% share of the eight countries' total. This was 58.4% up from the year before, underpinned by large portfolio

17%

The share of multifamily investment over the total property investment turnover in 2018



Last year multifamily investment increased by 26.6% yoy



France, Ireland and Spain saw the highest annual rise in multifamily investment



Since 2010 house prices have moved faster than the average European household income



The average prime multifamily yield was at 3.1% in Q4 2018, 13bps below the previous year



We expect the share of residential investment to reach 20% in most markets in the medium term

transactions as investors are looking for efficient ways to gain exposure in the market. Last year Vesteda, Deutsche Bank and DM Equity Partners were involved in such deals.

It was the first time that multifamily accounted for a larger share than offices, at 38% of the national total. Investor interest is fuelled by housing shortages and the expectation for further increases in house prices, especially in the Randstad area. Although the market has been traditionally dominated by Dutch players the share of international investors has risen to almost 40% of the activity.

Although the start of 2019 has been much slower, we expect activity to pick up over the coming quarters as there are still portfolios awaiting to change hands.

Spain witnessed a 238% rise of investment in the multifamily sector last year. Despite the dominance of private investors in the rental market and the lack of institutional quality product, investors are entering the market increasingly through forward funding deals with developers. An example of this type of transactions is the sale of an ongoing project of 135 units in the heart of Madrid to AXA Investment Real Assets.

AXA is an already active player in the market owning 28 buildings in Madrid and Barcelona. Blackstone

is currently the largest owner of multifamily portfolio, acquired through different REITS, with approximately 24,000 units.

A recent amendment to the leasing law to offer more protection to the tenants could affect the attractiveness of the sector to investors, however we believe that interest will remain strong in the context of a general shift of investment strategies towards residential.

Sweden also had a record year in 2018 in terms of multifamily investment at €5.3bn compared to a five year average of €4bn and accounted for 37% of the total investment activity. Residential properties had a strong first quarter, with an investment volume of SEK 10bn (€960m) and a market share of 24%. Noteworthy, forward funding deals represented 64% of the residential investment volume. From 2010, a gradually growing share of forward funding deals have been observed in the segment. Investor interest is strong for all types of residential assets, both new builds and old stock, hence we expect volumes in the sector to remain high throughout 2019.

Just over €1.1bn was invested in Irish PRS assets during 2018. This represented a tenfold increase on the 2017 figure and was 2.5x the previous record set in 2014. Investors have been attracted

by a scarcity of supply relative to occupational demand – the vacancy rate in the PRS is currently sub-2% in all locations. The weight of capital is particularly focused on Dublin which accounted for 51% of Ireland's employment gains in 2018 and where population growth is strongest. Rents are currently rising by 7.8% per annum, and rental growth is set to continue, albeit at a moderating rate.

#### Yields are compressing

The average prime multifamily yield across the capital cities of the eight markets that we monitor was at 3.1% in Q4 2018. This was 13bps below the previous year and 36bps below the average prime office yield.

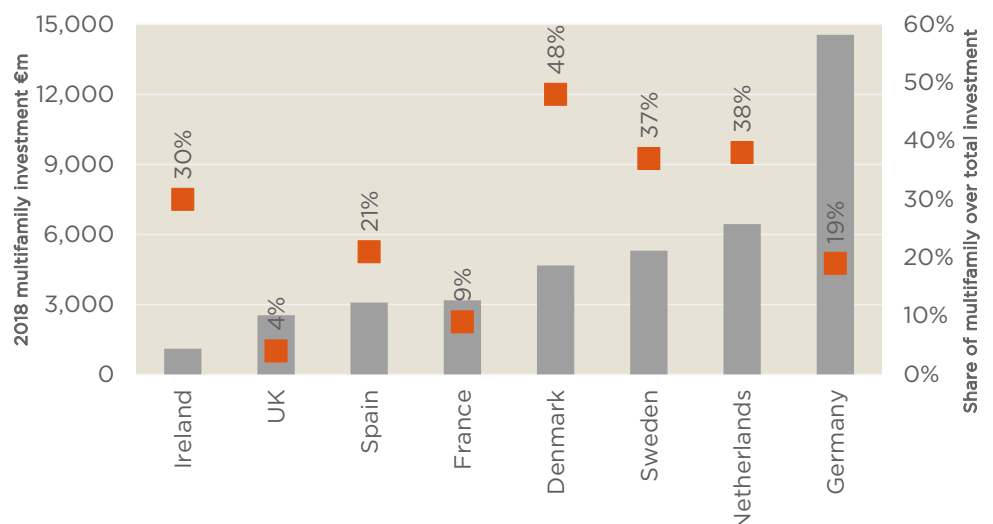
Prime multifamily yields are now below prime office yields across all markets. They are on par with offices in Paris at 3.0% and Dublin at 4.0%.

The most dramatic yield compression over the past three years was noted in Berlin (-81bps), Dublin (-75bps) and Amsterdam (-61bps).

#### Outlook: further expansion

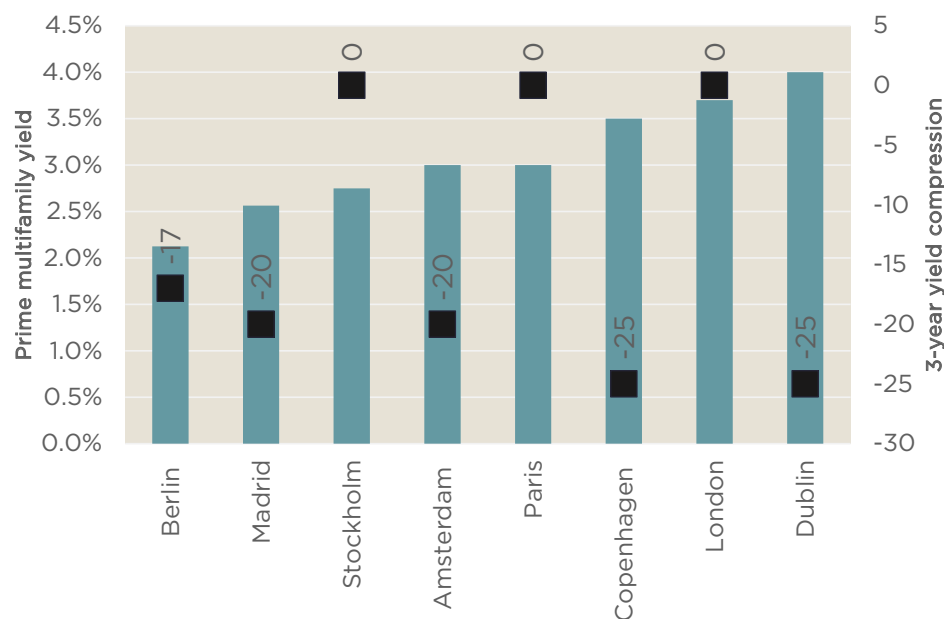
We believe that 2018 was a turning point for the evolution of the European multifamily investment sector, with volumes surpassing even office investment turnover in some markets. This

### Multifamily investment 2018 Germany was once again the largest market



Co-living is driven by the growth of the sharing economy but is also an answer to the issues of affordability and loneliness in the larger urban centres

**Prime multifamily yields 2018:** have dropped below prime office yields in most markets



Source Savills Research

confirms the rising investor interest in the sector, despite the fact that yields have already compressed significantly. The attraction of the long term income streams and the anticipation of future rental growth on the back of rising demand for rental homes and restrained supply have been the main factors driving activity.

We expect this trend to continue and we see the share of the multifamily sector rising up to 20% of the total investment activity in most markets in the medium term. This will be supported by the general shift of investors towards income producing assets and sectors whose fundamentals are driven by structural change rather than cyclical factors.

Portfolio sales and rising development activity will bring more product in the market, which in combination with a wider investor base should result in higher turnover levels especially in the markets that come from a lower base. There is growing potential especially in markets such as France, UK, Spain and Ireland.

Prime yields have reached record low levels, however we anticipate some further yield compression, particularly in the above-mentioned markets. Although locations with demand and supply imbalances can experience further rental growth, we need to bear in mind that governments could introduce regulations to protect tenants from rental hikes.

## The rise of Co-living

The values of the sharing economy bring disruption to the residential sector

Real estate around the world is being shaped under the disruptive impact of technological innovation and the subsequent change of behaviours, priorities and values. Brought into prominence particularly by younger generations, collaboration, connecting and sharing are affecting every aspect of property. People's willingness to co-habit with relative strangers has spurred the opening of an increasing number of co-living schemes around the world. More than 60 can be found across Europe, with the majority located in Spain and France (Source: getkin.io). Many of these communities are targeting professionals who travel while working. Often they are located in holiday destinations rather than big cities and offer an attractive combination of work and lifestyle.

Living in a community, often with shared leisure facilities, and exchange ideas with like-minded people, the co-living format is competing with traditional residential markets, and offers an element of flexibility that customary housing models don't. Leases can be short or even operate on a membership basis, giving those signed up the

opportunity to switch between a range of different residences around the world, thereby meeting the needs of an increasingly globally mobile and transient workforce.

Co-living has also become an answer to the issue of affordability and loneliness in major cities and an alternative to flat sharing. As the number of single households rises and people don't have families until later in life, there is demand for inexpensive micro-apartments. The concept of co-living is also evolving to appeal to longer term tenants, offering slightly larger apartments with private bathrooms and kitchens, but still creating communities where people can benefit from social interaction and shared services.

In the UK the co-living concept is fairly well established conceptually, with schemes in London and elsewhere. In addition to The Collective, plenty of other operators in London have defined themselves as offering 'co-living' or 'shared living' accommodation, such as The Studios24, WeLive, Spaces Property and

Noiascape. Aside from these, there are a number of smaller 'one-off' schemes. There are also innovative start-ups acting as shared living 'agents' that help find & manage properties let to shares, usually on behalf of buy-to-let landlords, such as Capital Living and Lyvly.

From an investor perspective we do not have much evidence of stabilised assets changing hands, therefore there are no pricing comparables. However the more developers initiate new projects, the more product will be created and the more liquid the segment will become. The main challenges that we expect the sector to face, are in relation to planning, the right balance of public and private space and the pricing point that will match tenant affordability and expectations.

Co-living is another example of the use of space as a service and it is changing irreversibly the way we approach the housing issue in the large urban areas.



### **Savills Commercial Research**

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