

Theme 3) Surging operational real estate opportunities

The definition of core assets has been challenged during the pandemic. Although offices will continue to prevail investment strategies, as it is the largest and most liquid commercial sector, investor interest has shifted towards the residential sector, as an alternative core asset class. In 2021 (up to Q3) investment in European multifamily only was 21% up yoy, with several new players entering the field. The average prime European yield reached record low levels at 3.15%. The sector is supported by strong demand and supply fundamentals; rising urban populations seeking rental accommodation in cities with structural undersupply of housing. According to our analysis housing completions lag new household creation not only in most European capitals, but also in dynamic secondary cities in Germany, Netherlands, and Spain. Additionally demand for rental is rising also in markets with traditionally high home ownership ratios, such as Southern and Eastern European cities.

Another benefit of multifamily investments is that income streams are typically linked to inflation, offering a hedge against rising prices. One of the emerging risks of the sector is the more stringent regulatory environment, which aims to protect households from rising rents. We believe that while these measures limit rental growth prospects, they provide security to tenants and suit core investment strategies. We anticipate

local governments to start focusing more on the increase of housing supply rather than regulation in the coming years, which should limit the upward pressure on rents. We also expect more collaboration with the private sector in the production of affordable housing. The challenge for core investors in 2022 will be to identify stabilised assets, while more opportunities will be available for new developments and forward funding agreements.

An additional challenge for residential investors is the increasing operational intensity of the assets. Post pandemic, occupiers are spending more time at home, and focus on wellness and convenience. The design of residential space needs to adapt to the rise of 'working from home' with additional or separate work/office space essential for some tenants. Following the lockdown experience, outdoor spaces and better access to larger and operable windows have become a prerequisite. Heightened interest in safety and sanitation is likely to continue after Covid-19. As a result, touch-free technologies are incorporated as well as design of more spacious communal areas. Additional amenities depend on the location of the property and the demographic profile of the residents. Overall, this points to greater operational complexity and required expertise.

PBSA (Purpose Built Student

Accommodation) and care homes have also been performing strongly in 2021 and are expected to continue growing rapidly in 2022. The two sectors have proven their resilience as overall, their activity levels quickly bounced back to pre-pandemic standards. Both sectors benefited from reduced investment allocation in the traditional asset classes such as retail and offices, yet they also make an increasingly strong investment case. The fundamentals of these two aged-restricted residential sectors are solid, based on long-term demographic changes. Both asset types provide a long-term secured rental income stream, which in many cases can be supplemented by additional revenues from a-la-carte services. Additionally, with ESG taking higher stakes in investors' strategy, the intrinsic nature of student and care home residences benefits from natural leverage over the social aspect of ESG policies. In 2022, we anticipate care home investment will be driven by further M&A (Mergers & Acquisition) activity. Regarding the student housing sector, we expect further consolidation and expansion movements from the major European market players. Additionally, towards the end of 2022, we expect the next wave of PBSA portfolio transactions, as the first generation of developers and operators will be ready to sell their assets and exit.

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