

# Real Estate House View

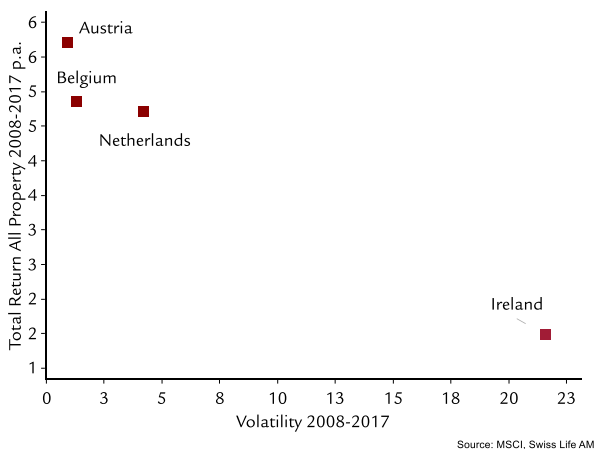
## Benelux, Austria, Ireland

Second half-year 2018

### Key takeaways

- All Western European markets are benefiting to varying degrees from strong Eurozone economic performance and the synchronous global upswing. This is reflected in real estate market conditions.
- Dublin dominates the real estate landscape in Ireland. Demand for property in Dublin has been solid from both investors and occupiers and it is growing. A lack of buying and leasing opportunities due to a low quantum of market stock has restricted activity but the strength of demand is implied by prime net yield compression. Prime rental growth is also apparent.
- In the Netherlands, the recovery of the real estate markets continued in 2017, especially in the Amsterdam office market, and we see no change in the positive momentum in the short term.
- After a period of weak demand last year, the Vienna office market will face the challenge of numerous, largely speculative completions in 2018, which will dampen short-term rental growth.
- Luxemburg and Brussels will see slowing rental growth over the medium term after several quarters of sustained significant increases.
- Following strong results in recent years, rental growth and a slight yield compression should result in solid total returns in the Western European markets in 2018.

### Chart in focus



The performance data over the last 10 years illustrate the different volatility of the markets under consideration in a striking way. Ireland, for example, has recorded double-digit returns (All Property) between 2013 and 2016, including a 39.7% total return in 2014. However, this recovery should be considered in the context of the capital declines recorded immediately following the financial crisis. Austria and Belgium, on the other hand, recorded more steady total returns in each year during this period.

The economic boom in this heterogeneous group continues, albeit at a more gradual pace. Purchasing manager indices (PMI) for the manufacturing sectors are well above the 50-point expansion threshold in Austria, the Netherlands and Ireland. We observe firm wage growth in Belgium and Austria. Unemployment rates are declining in all countries, with the Dutch unemployment rate having fallen from 5.1% to 3.9% in the twelve months from April 2017. Therefore, we have an optimistic view on domestic consumption and corporate investment spending. Everywhere, fiscal policy is likely to have a pro-cyclical effect this year and in 2019. US trade policy impacts exporting industries in all economies, with Austria and Belgium probably most exposed to downside risks in case of further escalating trade tensions.

## Supply determines investment market

Investment activity in Western Europe remained at a high level in 2017, but clear regional differences were evident. Belgium and Luxembourg had relatively stable volumes whilst the Netherlands and Austria saw strong increases compared to the previous year (+40% and +70% respectively). The figures underline the recovery of the Dutch market and ongoing demand for real estate in the stable Austrian market, though recent activity was underpinned by some large deals. Conversely investment volumes in Irish real estate were EUR 2.2 billion in 2017 which represents nearly half the volume traded in 2016. This is believed to reflect a lack of buying opportunities rather than a fall in investor appetite. Dublin dominates the Irish investment landscape, capturing 82% of all capital invested according to Cushman and Wakefield.

## Yield compression squeezes returns

Prime office, retail and logistics yields have continued to compress over the last 12 months in all Western European markets. Rental values in selected locations are growing, especially in the Amsterdam and Dublin office markets. We expect further but marginal yield compression in most markets and sectors in the coming quarters of 2018. The strong market momentum is reflected in the performance figures. Solid All Property

total return figures (MSCI) of roughly 6.5% were seen in Austria, Belgium and Ireland in 2017. Compared to previous years, returns in Ireland have slowed well below the double-digit returns seen every year since 2013, reflecting a cooling in volatility. By contrast, the Netherlands continued to gain momentum reaching an All Property total return of 12.4%, mainly fuelled by the residential and office sectors. Further growth in rents and prices is likely to result in positive capital growth and solid total returns in Western Europe in 2018.

## Office take-up trends vary

The office markets carried on their upturn at the end of 2017 and the first months of 2018, as reflected by falling vacancy rates. By contrast, take-up varied and showed signs of a slowdown in some locations, especially in Amsterdam following some exceptional recent lettings. In contrast, Dublin saw rising office occupation over the last 12 months with strong demand emanating from the tech sector in particular. Even so, vacancy rates have remained fairly stable, amounting to 7.3% at the end of 2017. We expect strong rental momentum in the short term, but this is likely to slow or even become negative in light of a significant increase in completions. Amsterdam should see a similar picture even though we forecast less volatility. In Brussels and Vienna, a slightly positive trend in rents is likely to continue, with Vienna having to cope with this year's high level of completions. Finally, Luxemburg is expected to see modest growth in rents as the market is slowing after two consecutive years of strong growth.

## Residential spotlight on Dublin

Residential demand in Dublin has experienced a strong turnaround due to high growth since the global financial crisis. Ireland sustained high population growth between 2011 and 2016 (average of 3.8% per annum), with Dublin seeing the strongest increase. This has created demand for a significantly greater number of new houses than are currently being built. Demand combined with compressing yields in more traditional commercial property sectors has led to escalating interest in alternatives – particularly the Private Rented Sector (PRS) and student housing. The Dublin market has a large supply shortfall in both of these sectors and as a result rents have increased rapidly.

Chart 1: Prime office yields starting to bottom out

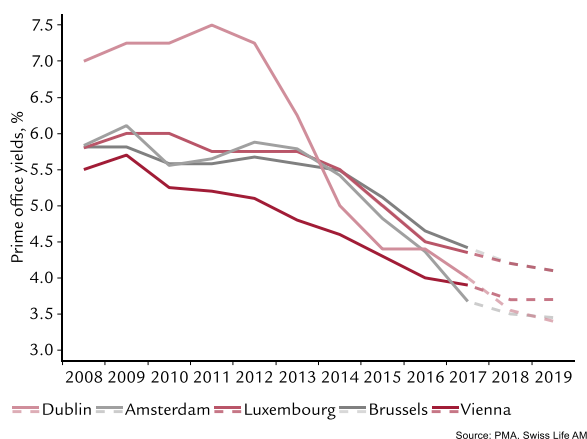
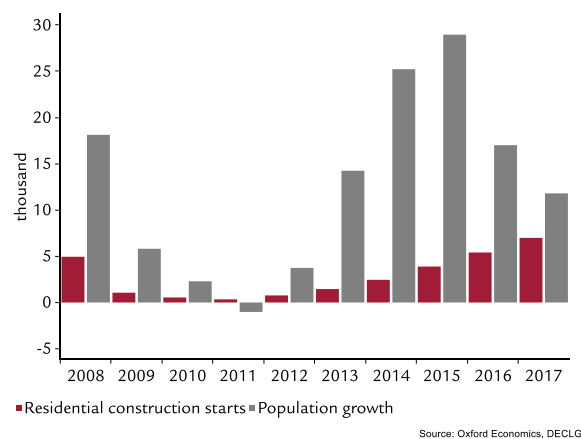


Chart 2: Dublin residential market driver



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