

EUROPE

REGIONAL INVESTMENT OPPORTUNITIES

BACKDROP

- Vaccine rollout should lead to a strong economic bounce-back in the second half of 2021 as services reopen and households spend accumulated savings.
- A rapid pace of growth, albeit from a low base, will support demand for real estate, creating opportunities for investors.
- Low interest rates and liquidity support programs are set to remain in place for some time, supporting low real estate yields.
- Income growth rather than yield shift will dominate the next cycle.
- Opportunities to outperform come from recovery in weaker sectors or by growing income streams through the acquisition of assets in sectors with strong demand or via development or repositioning across sectors.
- Risk appetite is improving again, prompting a push toward higher-returning operational sectors.



There are opportunities for developments of new, modern living stock to meet rising rental demand — and also to access higher returns in non-traditional living segments, such as senior housing.

FLORIAN RICHTER

Author, 2021 Global Outlook
Vice President, European Investment Research, PGIM Real Estate

Given our assessment of the outlook for the European economy and real estate market, we identify the following opportunities as being among the most attractive on a risk-adjusted basis over the next 12 months.

INVESTMENT OPPORTUNITIES

● SHORT-TERM REPOSITIONING

Grade A Offices

After a tough year, offices are set for a cyclical rebound as workplaces reopen, supported by the prospect of employment-driven economic growth.

- COVID-19 has weighed heavily on office occupier performance and net effective rents are still falling.
 - Remote working is set to remain contained, as clear productivity and skills benefits relate to locating in dense markets such as office central business districts.
 - Development pipelines are adjusting, and the grade A space that occupiers are increasingly demanding will quickly be in short supply once demand picks up.
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● ONGOING TAILWINDS

Modern Living Space

Institutions have a growing role to play in delivering modern, affordable living space for younger and older generations alike.

- Rising demand and a need for modern stock are driving investment opportunities across Europe's residential market.
 - For-rent residential offers an attractive risk premium, although absolute returns are low — especially because rental growth is limited by rent controls in some markets.
 - Value-add investors are increasingly targeting specialized non-traditional sectors such as senior living, wherein development and operational exposure can generate higher returns.
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● ACCELERATED CHANGE

Logistics and Cold Storage

European logistics has a strong returns outlook on the back of ongoing leasing momentum.

- Logistics still represents an attractive investment opportunity in Europe based on favorable leasing and rental growth momentum in the near term.
 - Yields are low, but make sense given an improved occupier demand profile.
 - For higher returns, investors can assess developments, non-core markets with low but fast growing online sales and specialist niches like cold storage.
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● LONG-TERM CORRECTION

Distressed Retail

Retail is in the process of a sharp value adjustment but looks close to finding a floor in the UK, with Continental Europe close behind.

- Retail values are adjusting because the impact of online spending means there is too much space.
 - In real terms, prime retail values are down by 40% in the UK — extreme in a historical context — with Continental Europe on a similar path.
 - Distress is arising as loans mature, and even though risks remain high, by stabilizing in-place income, investors can benefit from a falling risk premium.
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