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Real estate investment tips for 2020: EMEA

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The rise of e-commerce is driving demand for logistics space, while the outlook for prime offices is positive

Reflecting underlying employment growth forecasts, low levels of supply and rental growth prospects, our outlook for European offices is positive for 2020. Core investors should continue looking at prime offices, but consider well-connected non-CBD locations too.

Rising rents, long commute times and new flexible ways of working all suggest a need for less centralised business centres. These submarkets offer stock at lower rental levels and, in a slowing economy, this makes them attractive to both property and human resource managers.

In the Middle East, a lack of stock suitable for global corporates has led to the rise of build-to-suit developments. Opportunity exists for developers to target international occupiers that are consolidating their operations.

The rise of e-commerce across Europe is driving demand for logistics space, led by countries where the penetration rate is highest, such as the UK, the Netherlands, the Nordics and Germany (see *Savills Spotlight: UK Cross Sector Outlook 2020*). Good logistics schemes are becoming scarce in most European countries, and this will continue to put upward pressure on rents.

In the Middle East, e-commerce is forecast to become a circa $29 billion industry by 2022 with CAGR of 30%, underpinning demand for new logistics space in the region.

The re-pricing of retail assets in some European countries is bringing new opportunities for value add investors. Shopping centre and retail warehouses that are dominant in their catchments can be considered for refurbishment or repositioning (see *Savills Spotlight: EU Property Themes 2020+*).

Urbanisation, new flexible ways of living and affordability constraints in the for-sale residential market is spurring investment into the multifamily or build-to-rent sector. In European countries where the housing sector is not overly regulated, notably the Nordics, the sector offers opportunity for investors seeking secure long-term income streams. Rapidly growing middle class populations in the Middle East will help underpin demand for mainstream housing development for sale.

2020 EMEA tips

Core

1. Prime offices in CBD locations in Berlin, Paris, Munich, Dublin and London, taking advantage of solid occupier demand and low vacancy rates.
2. Prime CBD offices in Luxembourg, Oslo, Amsterdam, Stockholm, Madrid and Barcelona – cities with the best rental growth prospects – or Warsaw and Milan, where further yield compression is expected.
3. Build-to-suit prime offices in Dubai and Riyadh.

Core plus

1. Prime offices in well-connected non-CBD locations in Paris, Stockholm, Madrid and Barcelona, all cities with good rental growth prospects.
2. Logistics assets in strategically located areas with demand and supply imbalances and rising e-commerce penetration in Germany, the Netherlands, Poland and Czech Republic, and Dubai in the Middle East.
3. Mixed-use residential for-sale schemes in Cairo and Riyadh.
4. Life sciences and biotechnology in Oxford, Cambridge, London and Manchester, where renowned universities are present.

Value add

1. Office development and refurbishments in CBD and non-CBD locations within Stockholm and Paris and smaller markets such as Luxembourg and Lisbon.
2. Retail repositioning of good-quality schemes in the UK and Germany.
3. Upscale hotels across Riyadh and upcoming locations across the Red Sea in the North West.

Opportunistic

1. Repriced secondary retail schemes for redevelopment/repurposing in countries where e-commerce has impacted retailer demand.
2. Office development in non-core, higher-yielding cities such as Athens and Bucharest.
3. Redevelopment of office schemes in South Riyadh.

Alternative

1. Residential for rent (multifamily) in countries with strong urbanisation trends and housing shortages such as Stockholm, Helsinki, Copenhagen and in the top four Dutch cities, for secure long-term income streams.
2. Hospitality in tourist destinations in Italy, Portugal and Greece, taking advantage of rising visitor numbers.
3. Student housing in Dubai.

Source: Savills Research

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