EUROPEAN REAL ESTATE

MARKET OVERVIEW

EVOESTATE

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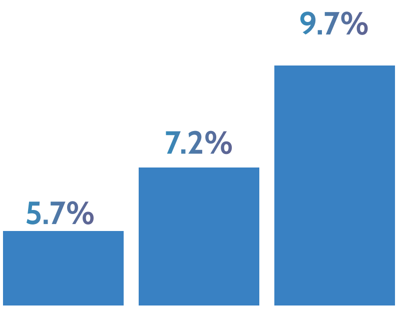
Introduction

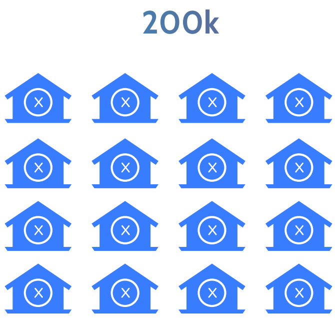
While the European Real Estate Market had an excellent year in 2019, resulting in a number of records across multiple markets, the outcome of the second half of 2020 remains unclear after the global pandemic of COVID-19. EvoEstate 2020 Real Estate Market Overview covers the key markets of EvoEstate investments while aggregating leading data sources of given markets to provide our clients with a more in-depth analysis.

USEFUL LINKS

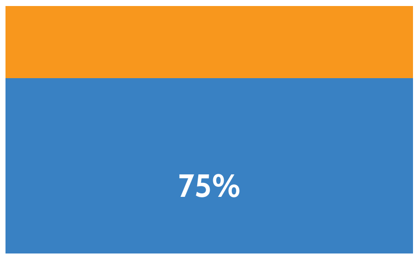
Why there are no new Skin in the game projects?



The housing prices in Spain have increased by 5.7% during 2019, while in Lithuania by 7.2% and by impressive 9.7% in Estonia.



Berlin housing market has a shortage of over 200 thousand housing units.



75% of total Italian Real Estate investments are made by foreigners.

During the lock-down, the most affected asset-class which was crowdfunded through EvoEstate was the short-term vacation rentals in the coastal cities of Spain. During the period of 4 months, between March and June, they have yielded a 0% return to the investors. Contrary to owning a physical rental property, investors did not have a negative return during this period. Spain has announced that it will be opening borders from the 1st of July and properties have already received a significant amount of reservations.

Although most of the European businesses were shut, borrowers of the financed projects on EvoEstate have been mostly paying interest on time, while the total projects' portfolio only had 2% late payments. During the 4 months of the quarantine, a total of 7 projects from 4 countries have repaid principal investment with an average annualized return of 11.2%.

SPAIN

Direct investment in Spain stood at €12,142 million in 2019, beating the average figure for the previous six years of €11,500 million – if we exclude corporate deals, according to CBRE. Compared to previous years, there was a notable lack of corporate deals in 2019. However, this figure does demonstrate the sector's resilience in a year gripped by economic and political uncertainty, both at home and abroad. Around 60% out of total investment was made by overseas investors, 9% by Socimis and the rest by national investors. It seems increasingly apparent that low-interest rates are here to stay, a factor which continues to trouble the sector. This, alongside the instability of the financial markets, will continue to drive investment in the real estate sector in 2020 in light of the rock-bottom yields being offered by low-risk investment options, such as 10-year bonds – which, in the case of the German bund, is currently offering a negative rate.

“Spain's Residential Market” report by Servihabitat expected that in 2020, housing prices will increase moderately by 4.8%. That presumption came, based on the data that in 2019, housing prices increased around 5.7%. Accordingly, the average value of transactions is higher in the Community of Madrid, the Balearic Islands and the Basque Country, followed by Catalonia in fourth place, both in 2019 and 2020. Compared to last year, those with the highest percentage increase of transactions were the Community of Valencia, Andalusia and the Balearic Islands. The average time taken for a household in Spain to purchase a home continues to rise, reaching 7.5 years in terms of gross income in 2019, an increase on the 7.4 years in 2018.

According to CBRE, Madrid's overall prospects are also highly rated, more so than Barcelona's. Spain's capital is attracting strong corporate investment from international companies, and much of its office stock is “an obsolete product”. Mixed-use development and residential for rent are tipped as less-exploited sectors offering good opportunities. Barcelona still figures high on shopping lists, but there is an inhibiting factor. Politics affects the view of Barcelona where rental growth is very strong, even stronger than Madrid.

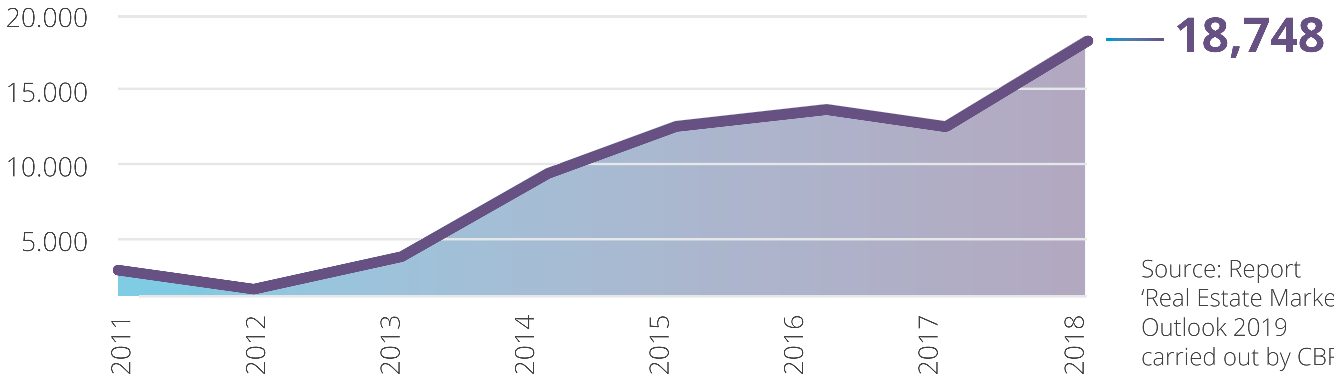
The strong demand for residential space in recent years is due to population growth and the continuing influx into metropolitan regions and medium-sized cities. This has led to a significant increase in the prices of properties for sale and rent. New construction activities were also unable to meet the high demand. Kai Enders from Engels and Voelkers explains: "The demand for residential space will not decrease even in the face of the corona crisis - because people will always be in need to have a roof over their heads.

It is not yet foreseeable that property prices will fall as a result of the Corona crisis, given the current market situation. However, it is only possible to estimate how prices and the number of sales transactions resulting from COVID-19 will develop in the second or third quarter of this year. At present, however, it appears that the property market will remain stable in terms of prices despite the corona crisis, particularly in the major cities. Especially in times of crisis, real estate is once again proving to be a safe investment.

Real Estate Investments in Spain - 2018

Source: Data collected by Inmoley.com from report on the 2018 Real Estate in Spain prepared by Savills Aguirre Newman

Real Estate Investments in Spain - 2018



Source: Report 'Real Estate Market Outlook 2019 carried out by CBRE'

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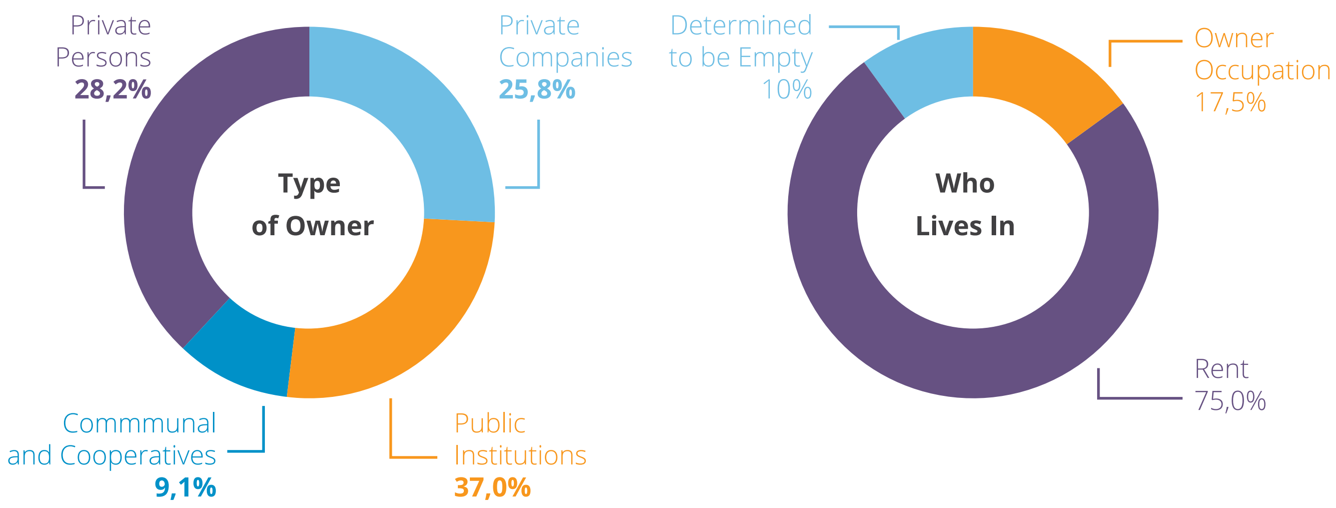
GERMANY

Guthmann Estate suggests that at the end of 2018, there were almost 327,000 residential buildings in Berlin with about 1.95 million apartments, the majority of them in multi-story buildings with 3 or more units. About 1.45 million apartments in Berlin are rented status 2018. Around 337,000 units, including apartments in detached and semi-detached houses, are used by the owners themselves.

Apartments for rent Berlin 2018



According to Guthmann Estate, there are currently about 205,000 units lacking to cover housing needs in Berlin. They calculate the deficit from the difference between the ratio of the number of inhabitants to the statistical household size, minus the housing stock. The size of the boxes refers to the number of inhabitants of the districts, the colour signals the percentage housing deficit related to the existing housing stock.

The shortage situation in the Berlin housing market cannot only be explained by the influx of new residents. A look at the past shows that the waves of immigration were based on an overhang of demand that was already high. In 2013, there were about 3.470 million registered residents in Berlin. With a statistical household size of 1.76 persons, the arithmetical demand at that

time was 1.971 million apartments. The capital was already lacking around 88,600 apartments at that point - and since then Berlin has continued to grow.

Due to the COVID-19 pandemic, uncertainties about the future development of German real estate prices have increased considerably. A global flight to safety should drive prices for residential properties up. In the short-run, the downturn in economic activity, particularly during the first half of 2020, and considerable uncertainty about the future as well as the psychological burden are likely to result in price declines, Deutsche Bank Research believes. The expected economic downswing leads to particular uncertainty about the demand for office space. Prices for office buildings may temporarily decline in metropolitan areas. Still, they will probably continue to be regarded as relatively secure investments, as they have been in the last few years, and should also benefit from the flight to safe havens.

Once the end of the pandemic is in sight, the monetary and fiscal policy environment will shape the future price path. Considerable infringements of personal liberties, significant economic interventions and the huge support packages during the crisis months may result in unorthodox measures during the normalization phase. There are significant political incentives for allowing higher inflation; after all, higher inflation would reduce crisis-related debt in real terms and prevent rates from staying at their low pre-crisis level for years to come, the researchers add.

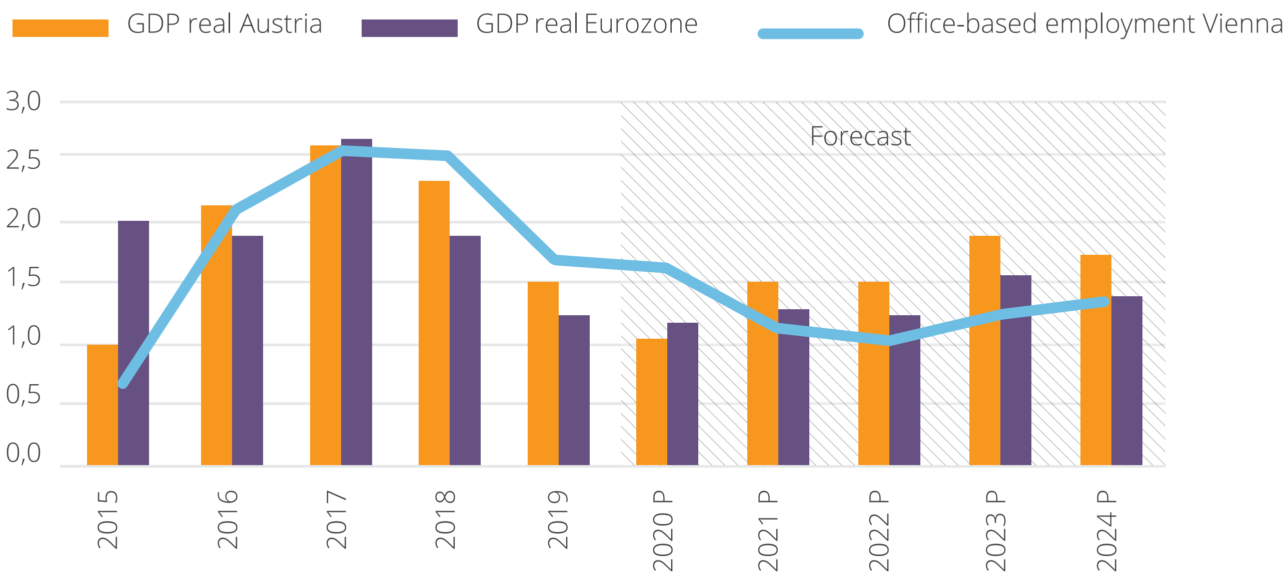
Rents for existing homes are unlikely to be increased this year. Regardless of temporary restrictions on terminating rent contracts, many small landlords may be particularly interested in the personal circumstances of their tenants and stable payments. The same applies to commercial landlords. Moreover, rent increases in the midst of the crisis may be a considerable reputational risk for large investors. Still, long-term, regular rent increases and contractual provisions, such as index-linked rents, will remain in force. Such contracts are relatively rare in Germany, however. New tenancy contracts are unlikely to provide for significant rent hikes either.

In addition, Deutsche Bank Research adds that some landlords may leave newly built apartments vacant and opt to take advantage of the planned provisions on the deferral of loan payments. This provides for the possibility of suspending interest and redemption payments for existing loans for three months. In other words, payment obligations due by 30 June 2020 are to be deferred for three months – until 30 September 2020, if the debtors' livelihood or the economic basis of their businesses are at risk.

AUSTRIA

Austrian CBRE Report suggests that the growth of the national economy slowed down significantly in 2019. With real economic growth of around 1.5%, Austrian growth once again exceeded that of the Eurozone and Germany last year. In 2020, the economic dynamic is expected to continue to slow down. Growth in Austria is likely to reach a temporary low of only about 1.0%. The weakness of German industrial production and exports will become, after a short delay, more noticeable in Austria.

Economic Conditions in Austria



Source: CBRE Research, 2020; Oxford Economics

The completion rate of new apartments in 2019 remained relatively stable compared to the previous year, however, a new completion record (at le-ast since 2005) is expected in Vienna for the current year. In particular, the number of new rental apartments will more than double compared to the previous year (2019). In addition to the almost 10,000 new subsidized rental apartments scheduled for completion in 2020, the high level of activity by in-stitutional investors in recent years has also led to an increase in the number of new, built-to-rent apartments to more than 5,000 units.


ESTONIA

After seven years of strong house price rises, Estonia's housing market is now cooling - mainly due to rising mortgage rates, as well as slowing economic growth. Demand is now falling, yet residential construction continues to rise strongly according to experts at Global Property Guide. Experts suggest that Estonia's housing market is expected to slow this year, amidst rising mortgage rates and slowing economic growth, according to local property experts.

The average sqm price for an apartment in Tallinn increased by 9.7% in 2019 reaching €2,024 per sqm in December 2019. The reasons behind the increased prices for apartments include low-interest rates, rising income levels, and the purchase of apartments for investment purposes. Altogether 40% of the deals took place without a bank loan and overall 10-20% of the apartments were bought as investments if we look at the numbers presented by researchers at Ober-Haus.

Ober-Haus experts also suggest that in 2019, rents for apartments in Tallinn increased by around 3% on average, while the average asking price per sqm in Tallinn was 7% higher compared to the end of 2018 and the number of listings has grown 20% during the last 3 months of 2019 and the period for finding tenants has somewhat increased. Compared to sales prices, rental increases were lower due to the increased supply of new apartments for rent on the market.

+3%

In 2019, rents for apartments in Tallinn increased by around 3% on average

+7%

Average asking price per sqm in Tallinn was 7% higher compared to the end of 2018

+20%

Number of listings has grown 20% during the last 3 months of 2019

In the center of the city, demand is highest for one or two-room furnished apartments, which are rented for €450 to €550 per month, preferably with parking. Tenants pay their own utilities on top of the rent. The new trend is mini-apartments of 12-25 sqm, priced between €4,000 to €6,000 per sqm in the city center, for short term rent.

The gross rental yield of apartments in Tallinn in 2019 was around 5-6% depending on the location and the property according to Ober-Haus.

The demand for new apartments is high, as most of Tallinn's apartments were built between 1960 and 1990 and these apartments have high utility costs, especially heating. The growing rental market in Tallinn is driven by domestic migration, as due to unemployment elsewhere in Estonia, people converge on Tallinn. The population in Tallinn has grown by 50,000 during the last 10 years.

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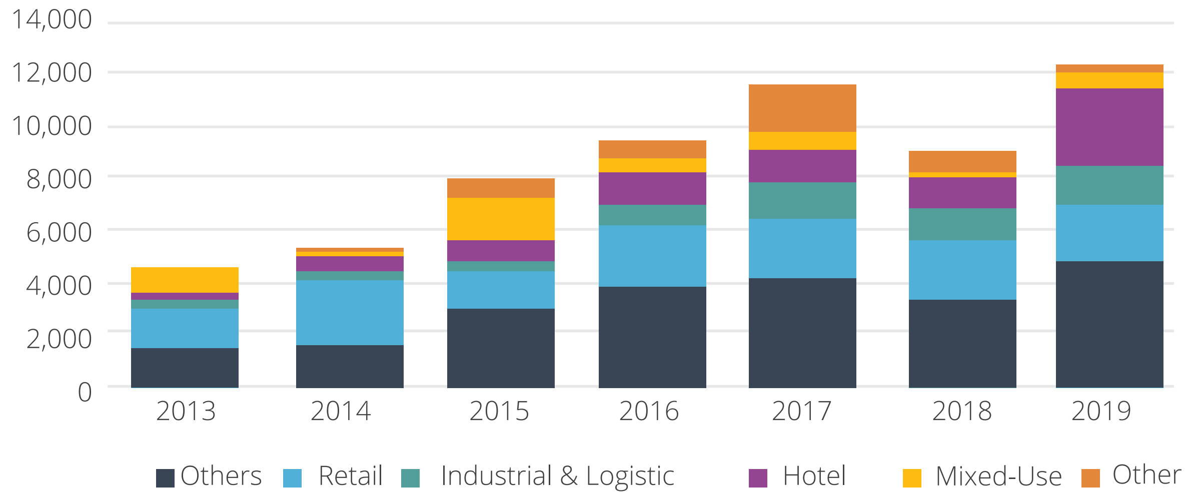
ITALY

2019 was a brilliant year for the Italian real estate market and all the conditions were there to expect that 2020 would also have an excellent performance, given the favorable economic status quo - starting with interest rates - and the great attention of foreign investors in Italy. However, the Southern European State has been greatly affected by Covid-19 and investors' confidence can diminish. The commercial real estate closed its best year ever, with the transactions totaling over €12 billion in 2019.

Increase in tourism combined with yet limited size of this sector, one can easily see why in 2019 Italy recorded one of the largest European growth figures, +37%, compared with a year that was mostly stagnant in Europe. Last year, the figures demonstrate that hotels accounted for more than half of the growth of the entire Italian real estate industry. Another contribution came from offices, which recorded a record performance in Milan, approximately 70% of the entire Italian market, based on CBRE data.

Investment Volumes

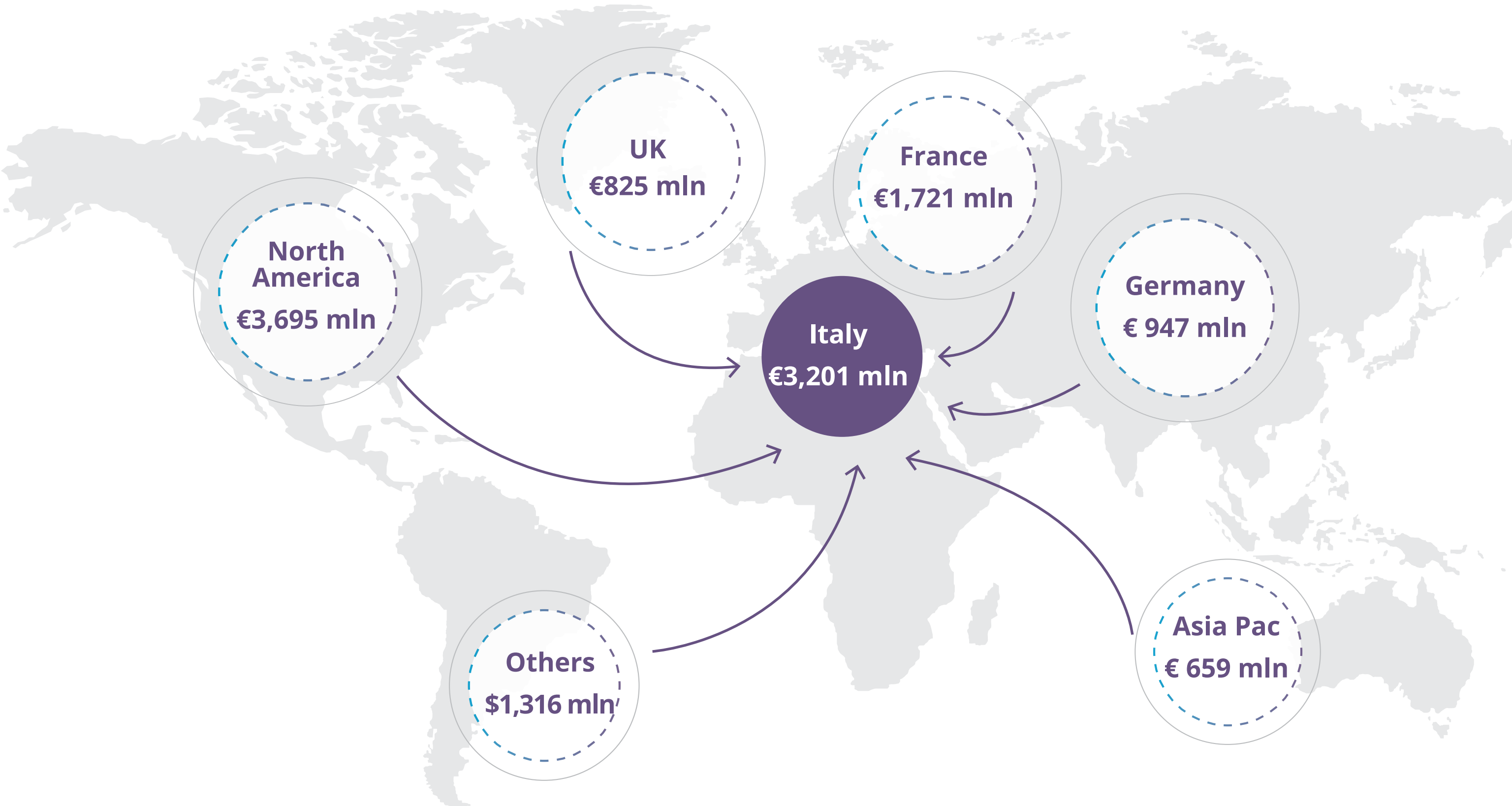


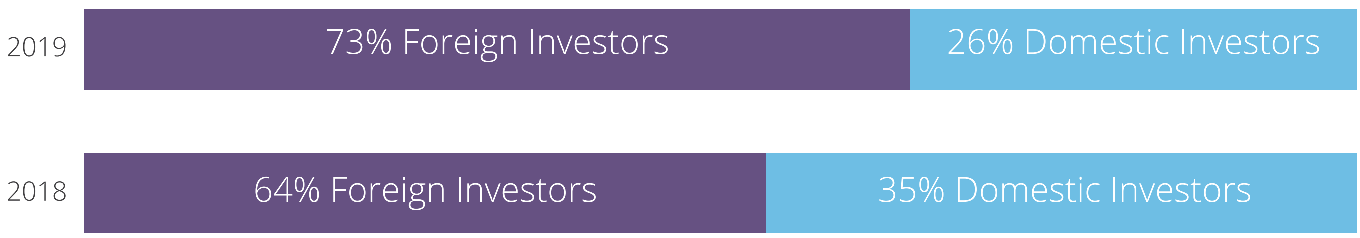
Source: CBRE

In recent years, the global residential market has really caught the interest of institutional investors. Based on CBRE data in 2018, in the EMEA region, the record of €53 billion in investment in the residential asset class was broken for the first time. Looking back to 2006, this sector only accounted for 6% of total investments in Europe, but by 2019 it had grown to 17% of the total commercial real estate investment volumes, with €52 million invested in this sector. The global success of multifamily real estate has finally reached the Italian market. Major urban developments in metropolitan cities are currently set-up to face the needs of a growing population looking for an ever-shrinking supply of rented accommodations.

According to CBRE, foreigners play a predominant role in the Italian market - they make three out of four investments and are worth €8-9 billion a year. This remains small, however, given that Italian investors continue to show less interest in investing in the Italian market.

Flows of Foreign and Domestic Capital to Italy 2019





Source: CBRE, 2019

LITHUANIA

In 2019, the Lithuanian economy experienced one of the most active periods of development since the recent economic downturn in 2009-2010. Rapid growth was recorded in almost all sectors of the economy, furthermore, and some record performances were even achieved. The real estate sector was no exception. However, at the start of 2020 coronavirus disease (COVID-19) shook the global markets and it is obvious that it will also have an impact on the Lithuanian economy and the real estate market.

Therefore, the perspectives of the real estate sectors presented are based on the assumption that the spread of this virus will be brought under control in the course of the year and the situation in the Lithuanian economy will remain positive in general. Nevertheless, the probability of an economic downturn remains high, which could lead to noticeable consequences for the whole real estate market. The Lithuanian economy showed solid growth once again in 2019. GDP grew by an additional 3.9% following on from growth of 3.6% in 2018. Analysts forecast a further 2.0–2.5% GDP growth in 2020.

The year 2019 saw one of the most active periods in the Lithuanian housing market in the history of independent Lithuania. Within a year, apartment prices in five major cities of Lithuania (Vilnius, Kaunas, Klaipeda, Siauliai, and Panevezys) prices increased on average by 7.2%; this is the largest annual price increase since 2007. Depending on the city, apartment prices increased from 6% to 13% in 2019. Apartment prices in Vilnius increased by 6.9% in 2019, after an increase of 3.0% in 2018, according to the Ober-Haus Lithuanian apartment price index.

Population surveys predict that in the most densely populated regions of the country, housing prices will continue on an upward path in the nearest future.

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56% Of SEB Bank survey respondents think prices would increase in Vilnius Region

9% Think prices would decrease in Vilnius Region

A survey commissioned by SEB Bank at the end of 2019 showed that 56% of the respondents (compared to 69% in 2016, 64% in 2017 and 65% in 2018) thought that housing prices would increase in the Vilnius region and only 9% of respondents thought that housing prices would decline in 2020.

The volumes of new mortgage loans and the total mortgage loan portfolio in Lithuania have reached new heights. According to data from the Bank of Lithuania, at the end of 2019 the total value of outstanding residential loans stood at almost €8.4 billion, a historic high. Currently in Lithuania, the value of mortgage loans is around 17.5% of GDP. However, this rate is one of the lowest compared to other EU countries (EU-28 average in 2018 – 45.7%).

COVID-19 European Markets

The Covid-19 outbreak continues to unfold across the world. The measures such as travel restrictions, followed up by population lockdowns, are creating a dramatic fall in activity in many European countries. BNP Paribas Real Estate researchers expect commercial real estate's investment volumes in Europe to fall dramatically in 2020. However, the investment market is still performing in most countries despite the lockdown measures.

Investors should focus more than ever on prime locations and the pressure on prime yields may still be strong after the crisis. In some markets, the risk premium between core and non-core assets could come under pressure. The increase in office vacancy will be more significant than expected but under control in most markets. Most central business districts should maintain high rental values. The average rents could moderately decrease in some districts where the structural vacancy remains high. The measures to prevent the spread of the pandemic are having a profound impact on the economy which is increasingly showing up in the economic data. BNP Paribas also expects the second half-year should see an improvement in the activity of this sector.

USEFUL LINKS

Evo Investors update on COVID-19

Investors do not all have the same strategy: some favor a cautious, wait-and-see attitude, without calling into question the appeal of real estate; others see this as an opportunity to acquire more properties in a less competitive environment. International trade also continues, even if the key players tend, as in every crisis, to retreat somewhat to their domestic markets. Institutional investors base their decisions less on the price per square meter than on real estate yield, which is established in return for a risk on the asset, such as its location, rental condition or the quality of the building.

Also, the return on commercial real estate is comparable to that of bonds, in a long-term investment perspective that is relatively secure and not very volatile. Today, however, financial rates are very low, benefiting from very positive real estate yields, which are much higher than government bonds. Real estate investments, therefore, benefit from a risk premium in their favor, even in this uncertain context. For the most sought-after properties, prices could, therefore, be impacted very little, despite this exceptional situation. On the other hand, for properties with defects that were insufficiently reflected in yields and valuations before the crisis, more significant value adjustments may be seen.

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Global Property Guide

Ober-Haus Market Report Baltic States 2020

BNP Paribas Real Estate COVID-19 report

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