European Living
Investor Survey

2020

Contents

The 2020 JLL European Living Investor Survey was open for responses from early December 2019 until 31st January 2020, before the outbreak of Covid-19. The subsequent spread of the virus across the globe and Europe has caused widespread economic and social disruption, with serious but as yet uncertain impacts on Living real estate investment. JLL Research is monitoring these effects and will be reporting on market impacts as they emerge.

Introduction

This year's JLL Living global investor survey provides insights into allocations into the Living sub-sectors, investor intentions, market expectations, and views on key topics.

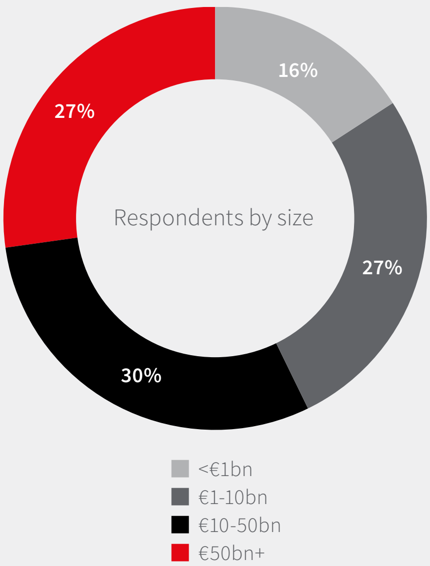
Our latest report, in conjunction with Aberdeen Standard Investments, builds on last year's inaugural paper. Using comparisons to data from 2019, the 2020 report identifies the main shifts in attitudes and intentions and how these are changing within the sector.

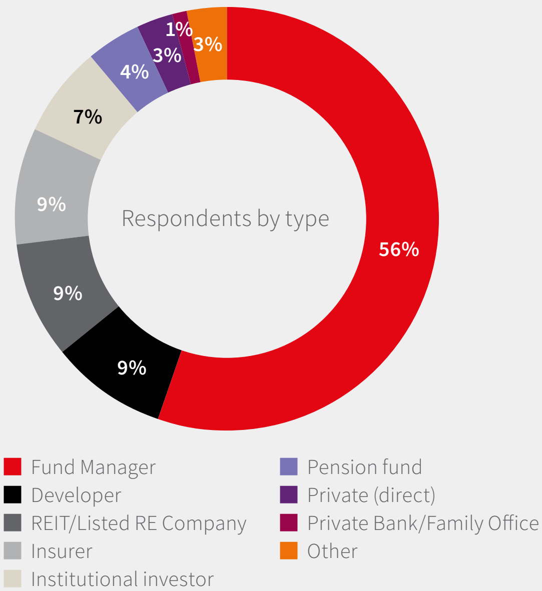
Living, as an asset class, incorporates student housing, affordable housing, coliving, multifamily and healthcare. It continues to present some of the most exciting opportunities in European real estate, accounting for €73bn of investment across the continent during 2019.

This paper summarises the key themes from the survey responses. Responses come from 70 investors representing nearly €6 trillion in assets under management, encompassing different investor profiles, varied investment mechanisms and diverse pools of available capital. 83% already have exposure to European Living in one form or another, but only 9% of these investors deploy capital to one sub-sector exclusively, showing the ability of investors to flex between different asset types.

Aggregate allocations to Living by respondents are set to grow by 4.4 percentage points in the next year, representing over €77bn in extra capital chasing the variety of assets and geographies the sector offers. With this weight of capital, yield pressure will continue, though a majority of investors (80%) are not altering their primary investment strategy.

JLL is committed to helping investors identify solutions to their Living investment ambitions in Europe and this survey provides invaluable insight along this journey.





Investor actions & ambitions

Route to market

Survey respondents use a variety of mechanisms to invest in all real estate sectors. 66% of investors we surveyed access the market in more than one way.

81% of respondents are **direct investors**. Direct control over the asset and operating platform is a recognised way to derive value from assets, particularly for operationally intensive Living products.

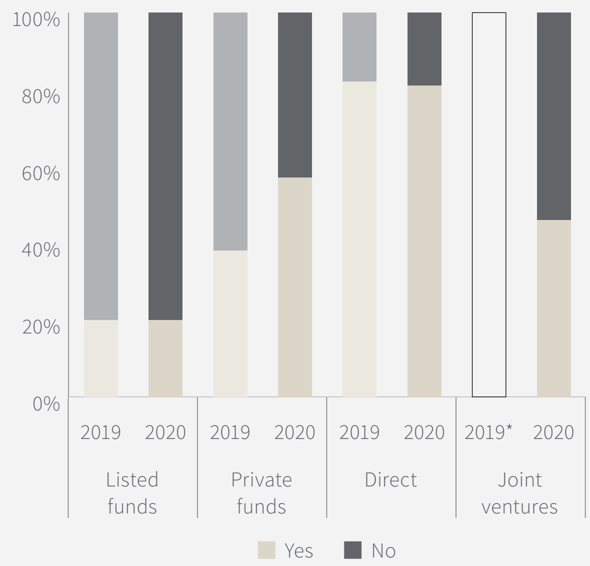
57% of respondents used **private real estate funds**. The shift in use of private funds represents a 19 percentage point shift compared to last year. This showcases both the reliance new capital sources have on established investment managers to identify and operate Living assets, and correspondingly the potential new players in the market in the coming years.

Joint ventures are a preferred way to access the Living markets, with a range of high profile joint ventures announced in the past few years. Typically, institutional investors draw on development and/or operational expertise, with 46% of those surveyed choosing to invest through this approach. It is particularly common in markets where these investors have a lack of sub-sector expertise or geographical exposure.

Listed funds represent the least likely route to market, which is unsurprising given the sector's lack of maturity and the benefits of more direct control. In some European markets, the listed REIT market is only in its infancy.

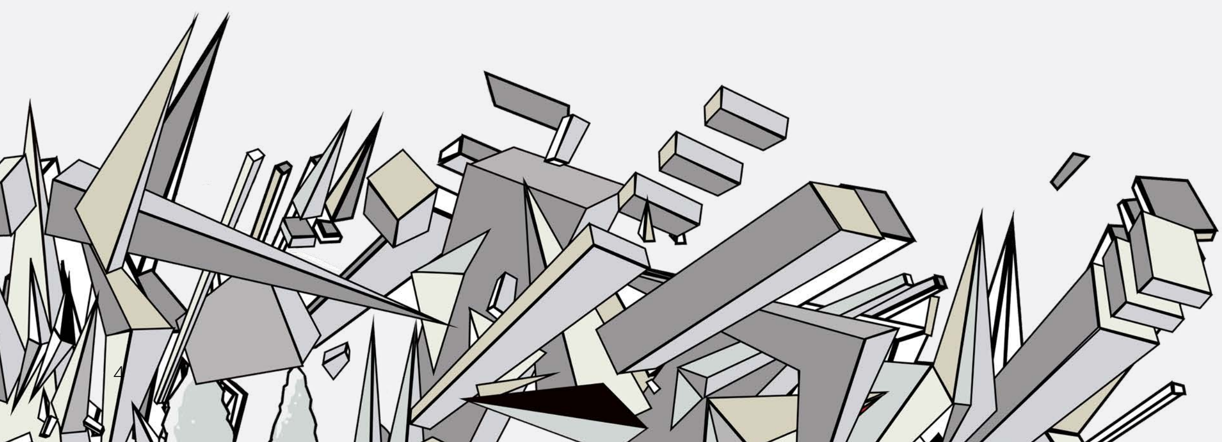
It follows that larger investors are more likely to have multiple routes to market. Only 11% invest in real estate in all four ways, of which three quarters have assets under management in excess of €50bn. 47% of small and medium sized investors (AUM < €10bn) only have one route to market and for 90%, that route is through direct investments.

Respondent route to market



** Question not asked in 2019*

Living investors have a range of mechanisms through which they can access the sector – two thirds of respondent do so in multiple ways.



Investor actions & ambitions

Current investor allocations

Proportion of respondents exposed to Living sub-sectors in each country

Investor actions & ambitions

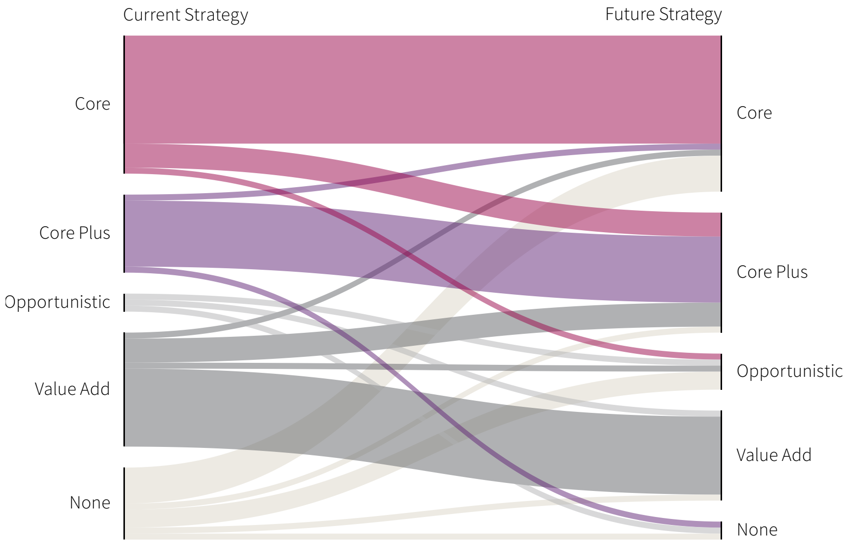
Shifts in strategy

Primary investment strategies are shifting within Living. While in the wider market, real estate investors are looking to move up the risk curve in search of improved returns, we found that for Living the balance was relatively neutral.

Core product remains the preferred asset type, matching investor expectations of returns and stability for the longer-term. It accounts for 40% of current strategies, and 39% of expected strategies, including many of those with ambitions to invest, but not currently exposed. For future intentions, **value-add strategies** (33% current, 22% future) have been overtaken by **core plus** investments (22%, 30%) as the second most popular risk profile.

Investor attitudes to risk are relatively immutable – 77% of those continuing to invest in Living are not changing their strategy in the short-term (12-24 months). Of the quarter shifting strategy profile, the split is roughly 50/50 between increasing and decreasing risk.

Strategic intentions



Investment *drivers*

The main reasons investors choose to allocate capital towards Living assets remain clear. Similar to last year, the most important reasons were:

84%
looking for a **long-term stable income stream**

69%
taking advantage of **good supply and demand dynamics**

64%
gaining **exposure to structural population changes**

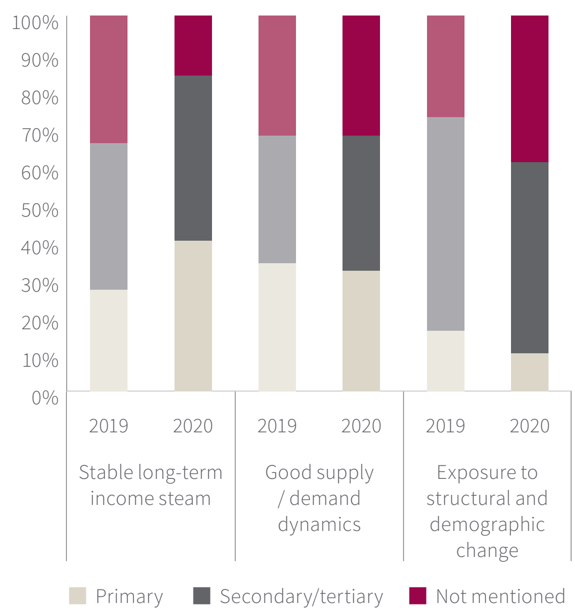
40%
the ability of Living assets to **diversify investment portfolios**

The jump in proportion of investors choosing Living assets for a **stable, long-term income stream** compared to last year may be reflective of wider investment concerns. This includes factors such as market timing and the need for defensive, counter-cyclical real estate performance, as well as more disruption in other sectors such as retail and office. **Diversification** was also a principle reason for investing – 10% highlighted it as a primary reason with 29% mentioning it as a secondary or tertiary reason.

This reflects the kinds of investors now active in, or at least targeting, the sector. There has been a clear shift towards institutional investors with lower costs of capital and typically longer hold periods, now that the Living market has a higher proportion of income producing investment opportunities. These investors are usually willing to accept longer-term returns, have greater mandates around ESG (Environmental, Social and Governance) and impact investment, and are not generally targeting short-term capital value appreciation. This kind of investment into the sector is likely to grow and shape Europe's Living markets as a result.

The demand for European Living assets is expected to grow unabated in the near-term, based on these strong fundamental influences driving the sector. While current investors are largely looking to increase allocations (53% of survey respondents), the sector's growth will also come on the back of a deeper and wider pool of new capital from across the globe targeting opportunities in the continent.

Top reasons for investing



Investment from longer-term, institutional investors into the Living sector is likely to grow, shaping the European market in the coming years

Investment *barriers*

Barriers to investing in Living

Living has firmly established itself as the second largest real estate investment sector in Europe, behind offices. In 2019, aggregate Living volumes were €73bn, of which the majority (€55bn) was in multifamily. Nevertheless, as our survey suggests, there remain a number of significant challenges for investors to achieve their allocation ambitions.

A **lack of suitable product** was the most cited barrier for investment in the Living sector, with 74% identifying it as a top three issue. This is unsurprising given the lack of year-on-year growth in investment across European Living in 2019, which is not reflective of a lack of growth in demand, but rather a lack of product and large scale opportunities coming to market across the year.

The lack of opportunities has encouraged some investors to take on development projects. Others, by contrast, are reticent to take on this risk, instead preferring to buy existing assets in other sub-sectors with proven demand and an existing operational platform. In most European cities, demand for student beds, coliving units, residential dwellings, and care/retirement homes is outstripping current levels of supply. There is a clear imperative for investors to play a central role in creating different kinds of homes for Europe's diverse population segments.

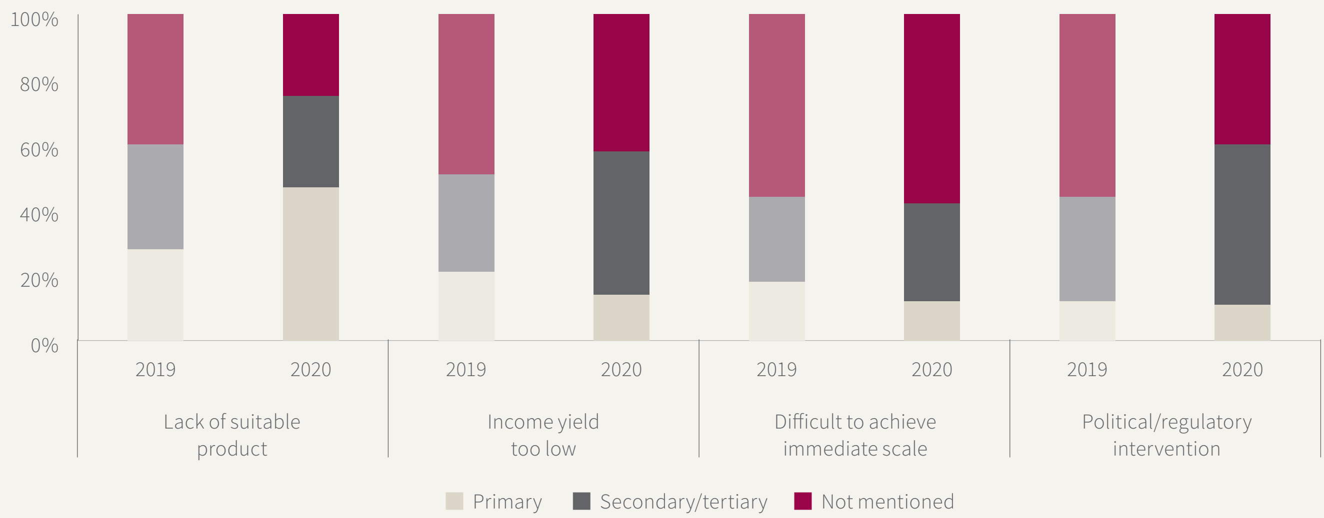
The investment case for institutions is not made easier by yields which have compressed in recent years. They **no longer meet investor return requirements** (57%), unsurprising given the volume of capital chasing the sector. There is also a **lack of access to scale** (43%). Several larger portfolios have traded over the last few years, but the combination of scale at target pricing is relatively infrequent.

Further, 59% identified **political and regulatory risk** as an impediment to meeting ambitions within the sector. This is a significant upward shift compared with 2019 survey results, which is understandable given the noises currently being made on tightening regulation in different markets, as discussed on page 15.

Significant shifts include a reduction in those identifying **market transparency** as an issue (21% in 2019 and 11% this year). Early movers into the more nascent geographies and sectors such as student housing in Spain or multifamily in Ireland, have begun to demonstrate strong investment motives that others are learning from. A growing market intelligence in terms of pricing and operational performance appears to be thawing investor attitudes to Living, though transparency has some way to go to catch up with traditional commercial sectors.

Of the few investors with no current exposure to European Living, nearly half (42%) are **currently scoping the market** looking for their first investment opportunity. By contrast, a third have no current mandate to invest in the sector. Europe Living markets present a number of barriers to first-time entry, including a relatively low return profile (50%), lack of suitable product (33%), and difficulty in achieving immediate scale (33%).

Top barriers to investment



Future *expectations*

69% | **79%** 2019

Have ambitions to expand into new European markets

67%

Have ambitions to expand into new Living sub-sectors

32% | **30%** 2019

Growth in respondent Living investment volumes

Future allocations

Investors are retaining a strong appetite to increase allocations to the Living sector. Weighted by AUM, current allocations to European Living are 14% of investors' real estate allocations, whereas investment plans are projected to increase this to 18.5% in the short-term (including those with planned investments in the sector). If achieved, this would **grow the Living holdings of those surveyed by nearly one third to over €320bn** (+€77bn from the current level).

> This ambition is channelled by the desire to invest in both new Living sectors and new markets across the continent, both of which have been identified by over two thirds of respondents.

While 83% of investors surveyed are currently exposed to Living to some extent, their growth ambitions go beyond their current geographies and sector specialties. Over half (53%) are looking to **increase allocations**, with only 9% reducing (or completely stopping) their exposure as a proportion of their real estate investment strategies. In order to do so, a majority are looking at investing beyond their traditional sector expertise and/or into new markets. These ambitions tend to align, though moving into a new sector and market simultaneously may not be a preferred route for all.

For investors with a narrower geographic scope (currently investing in one or two markets), 54% want to expand into more countries. This varies between identifying one or two new markets, which are usually geographically close and with similar market or regulatory dynamics (favoured by 36% of those looking to expand), or casting the net further. 43% are looking to make their maiden Living investments in four or more markets. This suggests the continual rise of the fully fledged European Living investment managers. For more pan-European operators (exposed to four or more countries), the confidence they have gained with multi-jurisdiction operations means nearly three quarters (74%) are looking to further expand across borders.

In addition, of those not currently investing, 42% have **concrete plans to invest** in the next 12-24 months, while an additional 50% are **potentially wanting to gain exposure** to different sectors and geographies within the European Living market. For these investors looking to invest in European Living for the first time, the most popular sectors to target were residential (75%) and student (33%). From both a liquidity and operational standpoint, these two sectors make the most sense for investors getting started. New entrants are targeting Europe's key Living investment markets – 58% want to invest in Germany, 42% in the UK, and 33% in France and Ireland each.

Of market expansion ambitions of current Living investors, Germany is the most popular market. 61% of those not currently invested there identified it as a target market. This was followed by France (49%) and Spain (33%). As the most liquid market across the Living spectrum, Germany's popularity is unsurprising, though investors are also looking at smaller growth markets to meet their investment ambitions, such as Portugal, Finland, Poland and Belgium.

Future expectations

2020 market expectations

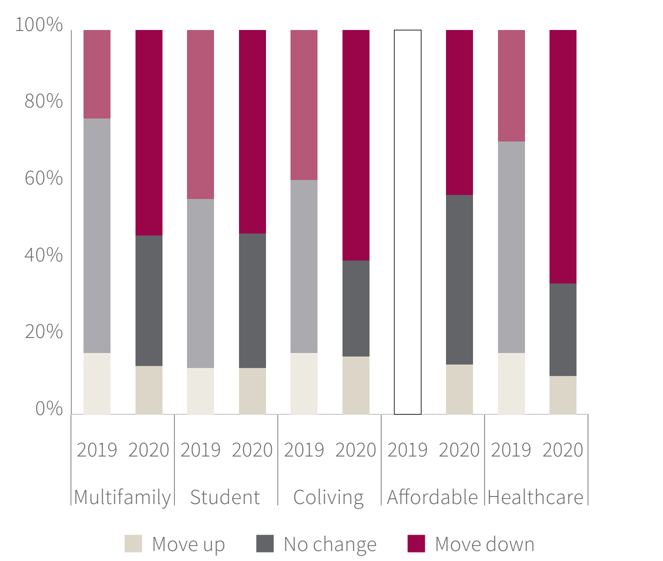
After a period of yield stabilisation in 2019, investors expect tighter pricing over 2020. The strongest yield compression over the past 12-24 months has come in smaller, more nascent stage markets, such as Ireland and Spain. From a sub-sector perspective, **63% expect yield compression in healthcare**, compared with 29% in 2019. Across the Living spectrum, the main driver of stronger pricing is the overweight of capital against investment opportunities.

There is a corresponding strong belief that there will be improved liquidity across Living in 2020. These expectations come off the back of a year where continental aggregate volumes were stable year-on-year. Despite barriers to entry being a significant problem, investors expect higher investment volumes in 2020. This is based on the view that new investment opportunities will come to market throughout the year across sectors.

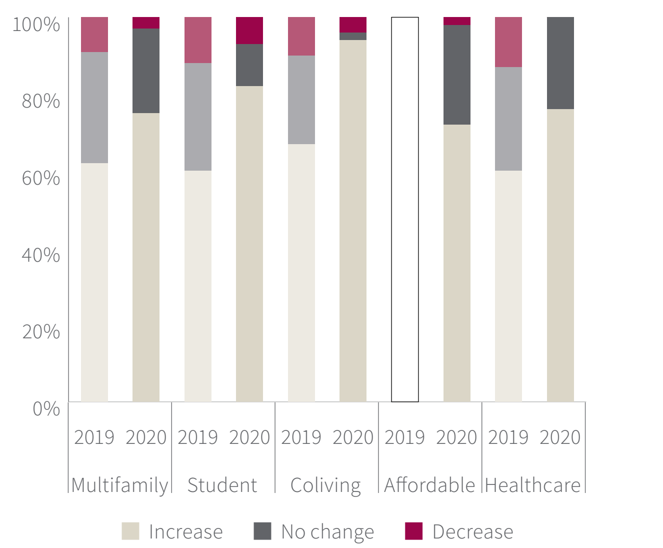
While we did not survey attitudes on the affordable sector in 2019, there is strong and increasing investment demand from institutions. With a greater focus on ESG and impact investment, investors are looking for assets that rent below market rates to meet social goals. While the sector takes different regulatory forms between countries, we believe it will be increasingly popular for 2020.

The **coliving sector** has an extremely positive outlook, with over 95% of respondents expecting more investment activity over the next 12 months. 2019 saw the launch of a number of vehicles specifically targeting coliving assets, including the Medici Group/Corestate joint venture, DTZ Investors UK coliving fund in conjunction with The Collective, and Audacia Elevation's French-focused fund. As these and other investors build out their coliving pipeline, it is expected that a number of assets will transact and investors will become more comfortable forward funding developments in higher volumes.

Yield expectations



Investment expectations



Sustainable *investment*

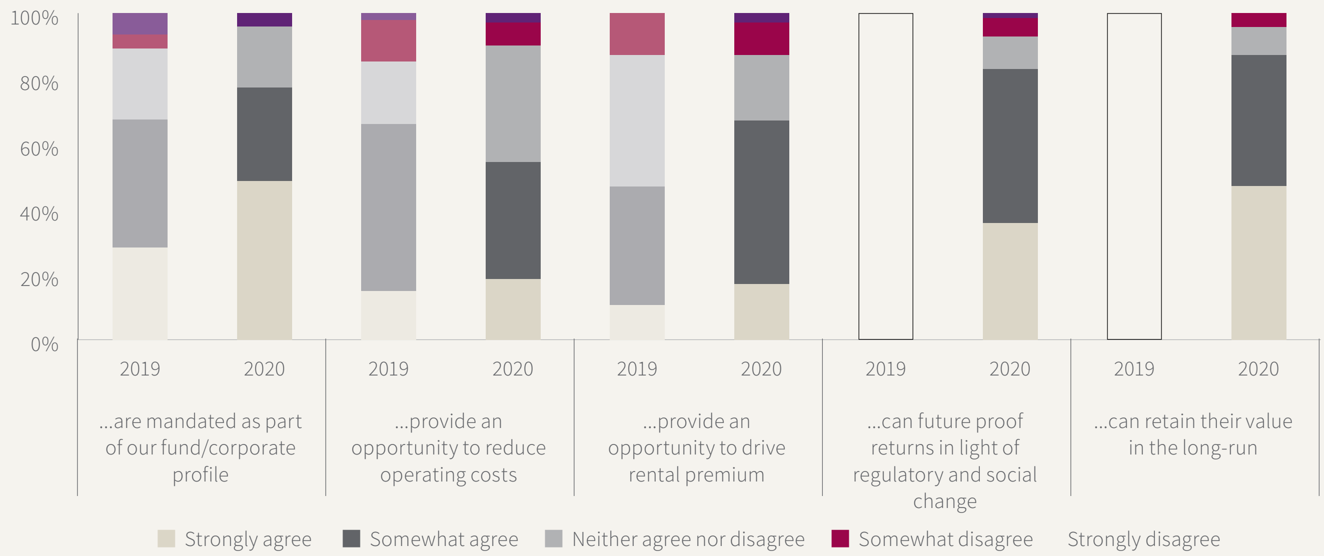
The European Union declared a climate emergency in 2019, alongside a number of countries across the globe. With real estate accounting for an estimated 36% of global energy use and responsible for 39% of the world's energy-related carbon emissions[1], Living investors increasingly need to consider their sustainability credentials to attract new funds and occupier demand. It is encouraging, therefore, that the survey suggests sustainable investment decisions are increasingly accounted for by these large investors.

Sustainable Living assets

Compared with the previous year's survey, respondent attitudes to sustainable Living assets have become more positive. 94% believe future Living investments will be **focused more on sustainable assets**, backed up by 77% having these mandated within their investment structure. The corresponding figures for 2019 were 80% and 69%, showing a big shift in attitude and predicting how the market will continue to move in the coming years.

Investors see the durability and longevity of sustainable assets as their defining feature, particularly within the context of changing regulatory regimes, where policies on areas such as building and emission standards are likely to be tightened up. Further, a majority still see sustainable assets as an opportunity to drive a **rental premium** (65%) and **reduce operating costs** (53%). Attitudes to the former picked up (20% in 2019), indicating a growing tenant consciousness around sustainable Living and their willingness to pay a premium for things such as renewable energy provision. While improving the sustainability of Living portfolios is seen as the "right" thing to do, it also has positive commercial connotations for investors.

Sustainable Living assets...



1 Global Alliance for Buildings and Construction, 2019 Global Status Report

Sustainable investment

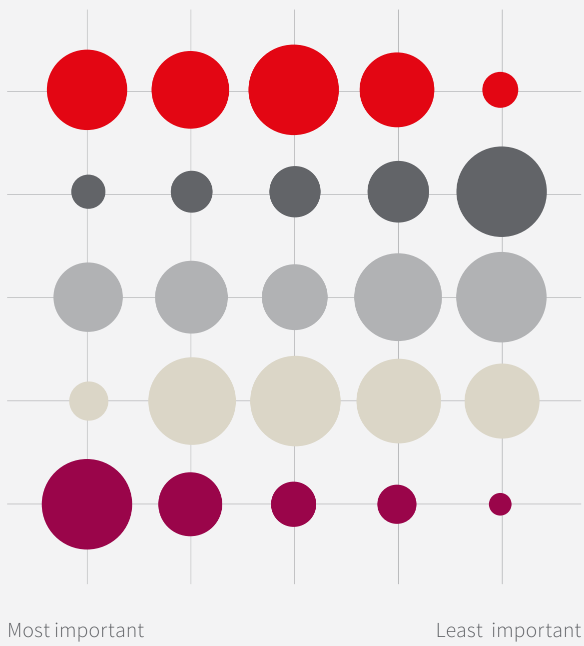
Within impact investing, the strongest narrative exists around **energy and resource efficiency**. 48% of respondents identified this as the primary pillar of their sustainable investment strategy. This was followed by delivering **social value and impact** (25%). Promoting **health and wellbeing** was seen by some as important, while **responsible corporate governance** is not prioritised within impact investing agendas – 49% ranked it as the least important pillar.

This exemplifies the view of investors that green credentials are the most relevant, driving desires to be more efficient in the construction and management processes for different homes.

Of those with impact/sustainable investment agendas, the **multifamily** sector was the most likely (61%) to be identified as the best sector to meet ambitions. This is perhaps because of longer length tenancies compared with a more transient population for coliving or student units. **Affordable housing**, generally seen as a socially beneficial investment, was identified by 15%, the second highest sector. While some **coliving** operators are tapping into growing consumer preferences for wellness and are articulating the benefits of the affordable product, only 7% thought it was the best sector to drive their sustainability ambitions.

Motives for sustainable investing

Size of bubble denotes number of respondents identifying it as a reason, ranked by importance



- Social value and impact
- Responsible corporate governance
- Net zero carbon
- Health and wellbeing
- Energy and resource efficiency

> [There is a] push for sustainability agenda from tenants and investors alike, driving costs of technology solutions and operational budgets down.
>
> Fund Manager

Technological *innovation*

Technological disruption seems pervasive across a number of real estate sectors, though it has yet to fully influence Living in the same way. Our lives continue to be influenced by the latest changes in technology, within real estate and beyond. There were an estimated 22.5 million homes containing 'smart devices' in 2017 across Europe and this is projected to increase to 84 million by 2022 (+255%)[2]. This technology could allow landlord investors to better understand their tenant pool and their requirements for living space. But technological shifts are not just limited to 'front of house' end-user experience; property management and new product development can also be optimised through tech platforms.

Technology and Living real estate

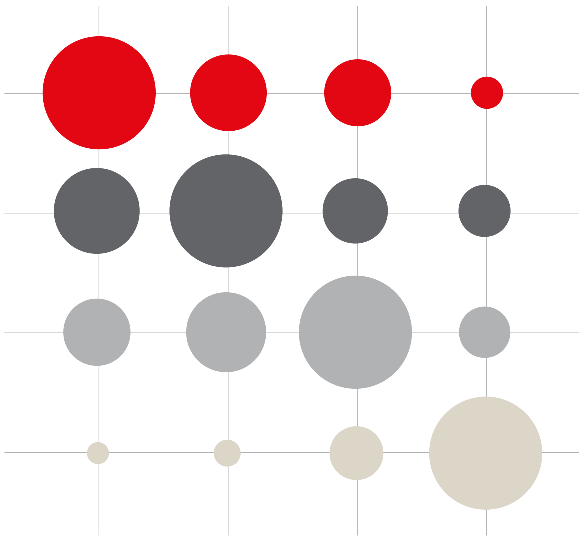
Technological innovation in the property sector, and beyond, is happening at an ever faster rate. Grouping innovations into seven main segments, the survey respondents found **Big Data** (56%), **Smart-home Technology** (49%), and **Digital Marketplaces** (34%) the most important technologies for Living real estate investment and property management.

Motivations for investing in technology varied, though most favoured the benefits that they could bring to **tenant experience and customer satisfaction**. 53% of respondents ranked it as the most important impetus, while a further 24% placed it second. This links to the types of tech these investors deem important – using big data to better understand tenant needs, space efficiency, and meeting customer expectations of fully technologically enabled homes.

Technology can help create more flexible space within Living buildings. This is not limited to tenant units, but also other common areas. It can therefore **diversify income opportunities**, such as facilitating ground floor Food and Beverage or retail offerings, ensuring tenant experiences remain positive and driving down future void rates. Investors, however, did not prioritise this incentive. One key aspect of the operational efficiency of assets relates to their ESG performance – often against industry benchmarks – and investors were keen to point out the links between improved tech and improved sustainability.

Motivations for investing in technology

Size of bubble denotes number of respondents identifying it as a reason, ranked by importance



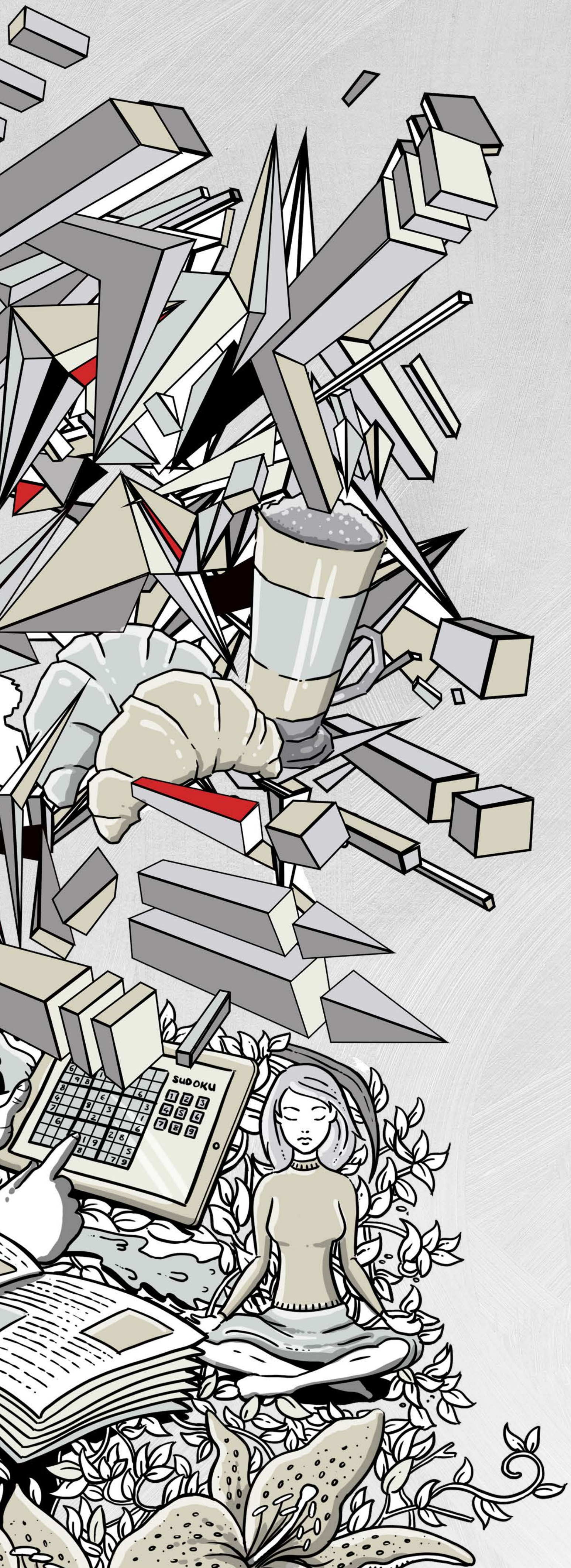
Most important technological developments for Living real estate

Big data
56%

Smart-home tech
49%

Digital marketplaces
34%

2 Berg Insight



"Data [is needed] to ensure we have the right product to meet changing demand... we need to make use of it and translate into actionable and valued output."

Institutional Investor

Regulatory *changes*

Political intervention in Europe's housing markets has increased during 2019 to manage growing unaffordability in urban centres and to encourage the development of the right kinds of homes for different cities' needs.

Berlin proposes the strictest new rules: a five year rent freeze, with the local index level ('Mietspiegel') across Germany due to be recalculated. Other new regulations have been introduced:

- **in Paris** – a renewed framework for rent control
- **major Spanish cities including Barcelona** – caps on rent increases and a new price benchmarking system
- **Denmark** is tightening the ability to increase rents following major renovation, and
- **Amsterdam** is currently drafting its new housing vision that is likely to include more checks on free-market rents.

While these are perhaps most obviously felt in the multifamily sector, a myriad of regulations are also applicable to other Living sub-sectors. For example, coliving developers are experiencing challenges around gaining planning permission for assets in this nascent sub-sector. There is inconsistency in the planning use class being applied to most new developments coming through, but operators face challenges in persuading local planning authorities about smaller unit sizes, how much amenity space should be provided, and whether the product is valuable for the local demographic.

Within the student sector, there are development subsidies for purpose-built stock in Italy, controls on rents in the Netherlands (since student accommodation falls under the regulated sector) and regulations on energy performance of buildings in the UK. In France, a recent move to reduce tax breaks for amateur landlords renting to students has encouraged an institutionalisation of the sector, causing an uptick in investor interest, as shown by AXA's purchase of the Kley portfolio in late 2019. In London, investors are hesitating over the current uncertainty in the draft London Plan – the city's spatial framework – which requires 35% of new units to be affordable, rented at roughly 60% of market rates.

Regulatory changes

Impact of regulation

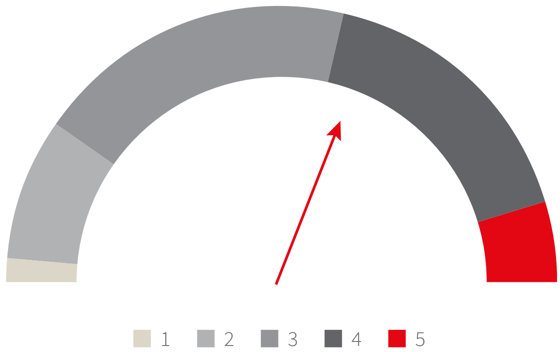
Investors show a relatively balanced approach to the impact of potential new regulatory changes on their investment strategies. On a scale of 1-5 (1 being no impact, 5 being a very significant impact), the average score was 3.3. The results suggest caution and scepticism, but not a blanket rejection of new regulations.

As the data above illustrates, regulatory intervention may not have a significant impact on investor plans. However, some of the proposed policies are shown to have a potentially significant impact. **Rent freezes** and **limits of rent increases between contracts** would impact the strategies of the highest proportion of investors, 67% and 71% respectively. Regulation is not inherently bad for investors, but the exact type of regulation introduced and the clarity with which it is signposted is important for those navigating changing Living markets.

Regulations are not new phenomena for investors to navigate. Indeed, 52% of current investors identify at least one regulation that has impacted their investment strategy to date. But that does not mean they would not change strategy if more were introduced. The most popular responses to increased regulatory pressure within Living were: **stop or reduced planned investment in Living assets** (52%), **relocate investments to new markets** (45%) and **switch investment to other asset classes** (39%). 21% of respondents suggested they would not directly react to new regulation, however underwriting models would need to be adjusted and scheme viability (for new developments) could change.

Impact of further regulation on investment strategies

Values from 1 (no impact) to 5 (very significant impact)



Regulatory impacts on Living investment strategies

	Rent freezes	Limits on rent increases within contracts	Limits on rent increases between contracts	Non free-market rent setting	Local market rent indices	Space standards	Removal of development subsidies
Have already impacted	24%	30%	20%	29%	16%	16%	4%
Would impact	67%	60%	71%	61%	57%	51%	49%
Would not impact	9%	10%	9%	10%	27%	33%	47%

Our experience suggests that where regulation can be economically fair and stable it likely can match the aspiration of long-term landlords to considerable mutual benefit. However, our fear is clumsy, uneconomic and unstable regulation that quite simply will deter the considerable capital that is waiting in the wings. It is obvious that policy makers and investors have to collaborate and not act in conflict.

Andrew Allen, Global Head of Investment Research, Real Estate, Aberdeen Standard Investments

Final word

The Living investment market is predicted to continue its growth trajectory. While the rise in overall volume invested in 2019 remained flat following a record-breaking 2018, this survey suggests strong investor appetite to deploy capital into the various opportunities the sector presents.

Still, it is not easy for investors to realise their ambitions. The mismatch of available capital against new opportunities continues across all sub-sectors and as a result there will be pressure to take on development risk or explore fringe geographies. Joint ventures and agreements with local developers are necessary in some instances – the market has seen these deals grow in significance over the last two to three years – while other capital sources will fill this gap, building product before selling it on to core institutional money. One of the consequences of growing investment into Living, beyond giving funders of development more confidence, is that the quantum of investment-grade stock will grow rapidly, further improving perceptions of and liquidity into the sector, creating a virtuous cycle based on strong fundamentals.

Investors are facing a number of topics head on: regulatory pressures coming off the back of increasingly unaffordable housing markets, sustainability challenges to build the buildings of tomorrow, and a changing technological landscape. This survey offers insights into the threats and opportunities posed by these diverse trends. Investors have a nuanced view on regulation and an appreciation for the benefits technology can bring to investment and operational activities. There has been a surge towards improving sustainability within Living and this should increasingly be used proactively to sway Government of the benefits that come with institutional ownership.

The potential for growth of the Living sector in Europe is obvious from the investor intentions highlighted in the survey. Challenges however, such as finding product and dealing with sector complexity, will have an impact on investment volumes. But the rewards remain available for those willing to take some calculated risks and develop the specialist knowledge to succeed across the sector.

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