

# European Multifamily



“The entry of new market players and supportive lending market conditions will underpin transaction activity and establish multifamily as one of the top asset types of choice in Europe.”

## Multifamily becomes the largest sector in Europe

Multifamily investment exceeded office investment by a few million Euros in 2021 driven by large-scale mergers and acquisitions

### Multifamily accounted for 28% of total investment in Europe

- European multifamily investment volumes (12 countries) reached approximately €92.3bn in 2021, marking a steep 79% increase yoy and a 120% increase on the past five-year average. Global capital allocations in European real estate is rising, due to strong fundamentals and low interest rate environment. Uncertainties around the future of offices and retail have shifted investor interest to residential and logistics sectors. Multifamily investment exceeded office investment for the first time on record by a few million Euros across the 12 markets we monitor. Each sector accounted for 28% of total investment activity.

- Multifamily activity was underpinned by two mega corporate transactions: the acquisition of the Deutsche Wohnen business by Vonovia and the purchase of the Akelius residential portfolio in Germany, Sweden and Denmark by Heimstaden. Both accounted for about 40% of the total.

- The share of multifamily investment was as high as 54% of the total in Denmark, 46% in Germany, 39% in Ireland, 35% in Sweden and 32% in Finland. In all these markets the sector was larger than offices in 2021.

- Germany captured an even higher share of the total activity this year at 55% due to the Vonovia-Deutsche Wohnen transaction, followed by Sweden at 15% and Denmark at 8%, also boosted by the Heimstaden-Akelius deal.

### Multifamily yields at record low levels

- Intense competition is putting further downward pressure on yields. The average prime multifamily yield in Western Europe compressed by 7 basis points (bps) yoy in 2021 to reach a record low of 3.05%. Prime net multifamily yields are 3% or lower in the German to six cities (2.2%), Amsterdam, Paris (2.8%), Copenhagen and Madrid (3.0%). Prime net yields in Eastern Europe are above 4%.

### Outlook - Competition will intensify

- The challenge for core investors in 2022 will be to identify stabilised assets, while more opportunities will be available for new developments and forward funding agreements. However, labour shortages, rising construction costs and supply chain disruptions will slow down development activity.

- Competition for income-producing assets is expected to be stronger than ever and prices may rise further, especially in markets where rental housing supply lags demand.

- Economic uncertainty is likely to intensify demand for renting, but rental growth prospects will be muted, due to affordability concerns. Nevertheless, residential income streams offer a hedge against inflation in most markets.

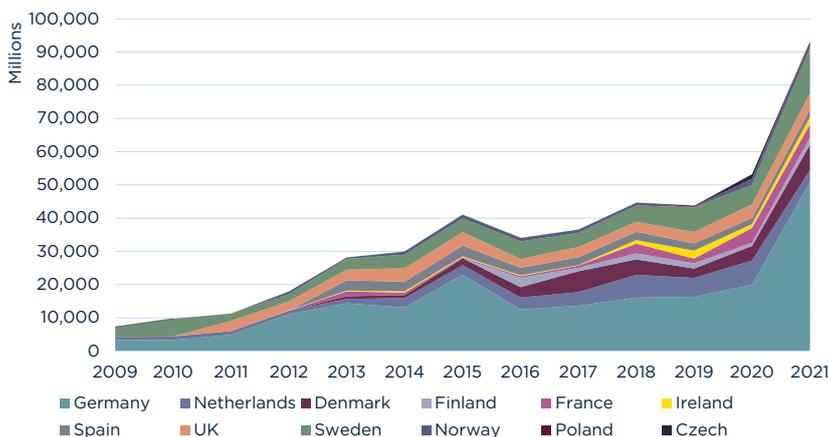
- One of the emerging risks of the sector is the more stringent regulatory environment, which aims to protect households from rising rents. We believe that while these measures

limit rental growth prospects, they provide security to tenants thus reducing the risk of frequent tenant turnover, and suit core investment strategies.

- A challenge for residential investors is the increasing operational intensity of the assets. Post pandemic, occupiers are spending more time at home, and focus on wellness and convenience. The design of residential space needs to adapt to the rise of ‘working from home’ with separate work/office space essential for some tenants. Following the lockdown experience, outdoor spaces and better access to larger and operable windows have become a prerequisite. Heightened interest in safety and sanitation is likely to continue after Covid-19. As a result, touch-free technologies are incorporated as well as design of more spacious communal areas. Additional amenities depend on the location of the property and the demographic profile of the residents. Overall, this points to greater operational complexity and required expertise.

- Finally, there is increasing pressure to modernise the existing housing stock by ESG requirements and a more strict regulatory environment. More than 85% of the EU building stock was built prior to 2001 and most of these structures will be in use in 2050, when Europe is aiming to achieve climate neutrality. Renovation is vital for achieving energy efficiency.

### European multifamily investment increased sharply in 2021



Source: Savills Research



**3.05%**

Is the average prime net multifamily yield in Western Europe

28%

The share of multifamily investment in 2021. The highest shares were seen in Denmark (54%) and Germany (46%) due to entity transactions.



Multifamily was the most active sector last year at €92.3bn.



Multifamily investment increased by 79% YoY and by 120% vs the five-year average.



Germany was once again the largest market in 2020 capturing 55% of the activity.

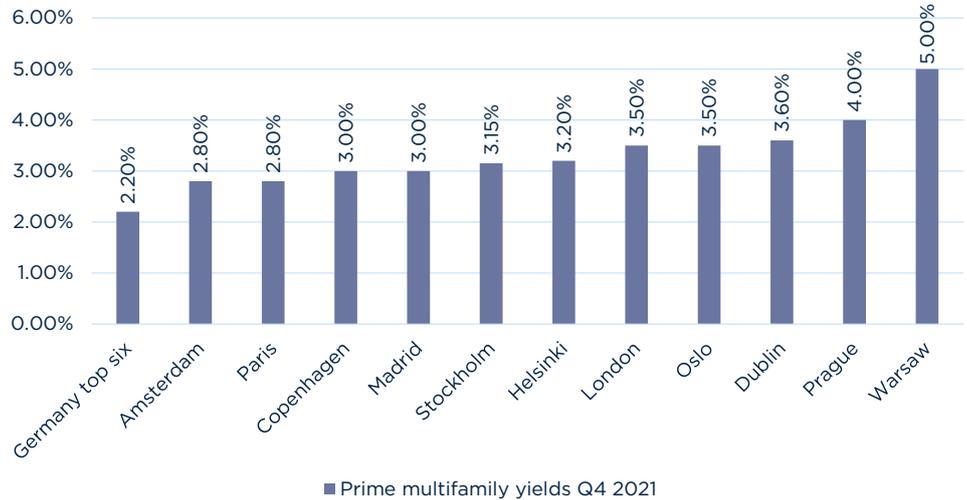


Two mega deals accounted for 40% of the total multifamily investment turnover across the 12 markets we monitor.



Residential rent collection rates were above 80% on average across the key markets.

European prime net multifamily yields moved in further in Q4 2021



Source: Savills Research

## The impact of the pandemic on city migration

### The legacy of COVID-19 on housing

#### The impact of Working From Home

Covid is likely to leave a lasting legacy on the way we work, live and spend our leisure time. New flexible ways of working are not a novelty, but lockdowns have caused drastic changes in a very short time. The share of people working from home has more than doubled from about 5% to 12.3%, according to Eurostat data. Finland now boasts the greatest proportion of remote employees in the EU, with a quarter of its employed inhabitants working from home. Luxembourg and Ireland are second and third, respectively, with home working rates exceeding 20% in both countries. In Eastern Europe, the share of people working from home is much lower.

This shift has brought changes in people's daily routines and priorities. Hours previously lost in commuting have been used more productively and people have appreciated the flexibility to enjoy a better work-life balance. The return to the office will be gradual and it is widely accepted that most employees will prefer to work once or twice a week from home.

The criteria of choosing an apartment or house were different pre-pandemic. Access to the workplace, public transport and amenities were top priorities. As a result prices have been climbing up for apartments and town houses in central areas and locations around transport hubs.

In recent months we have seen a shift in housing demand. Flexible working arrangements in the service sector have allowed young adults and families to look for larger, more affordable homes in less congested neighbourhoods with easier access to open spaces and nature. There is evidence of negative population growth in a number of European cities such as London, Paris, Stockholm, and the German cities. Although the scale of outward migration remains low, it creates new housing demand in suburbs and satellite towns of major cities.

#### France

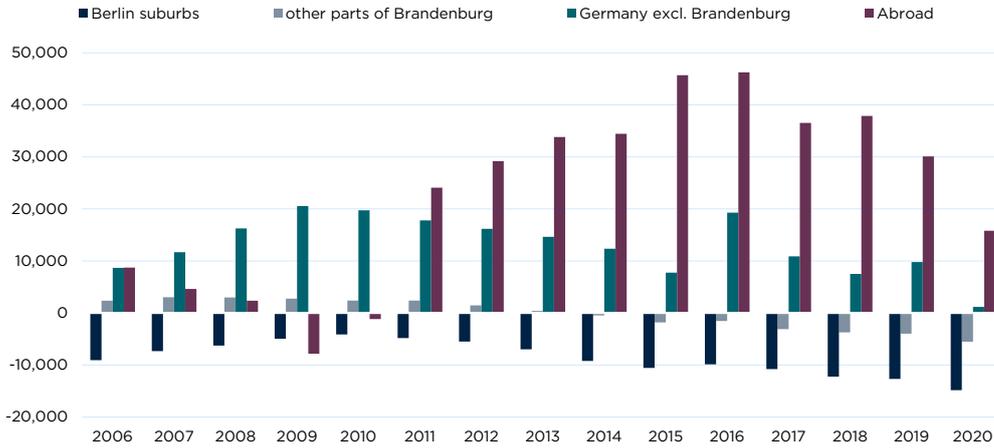
An exodus from Paris has already started pre-pandemic, triggered by the terrorist attacks in 2015 and the social unrest caused by gilet jaunes in 2018-19. Some Parisians

have moved out of inner Paris towards peripheral suburbs and neighbourhoods which have been recently connected with the city centre through the expansion of Grand Paris. Areas where housing is cheaper have become more accessible and connected with employment locations and the cultural, leisure and shopping points of interest in central Paris. During the pandemic, this trend has been exacerbated, as more people started seeking larger accommodation, with outdoor space. Several households have relocated as far as Lyon and Bordeaux, which benefit from fast train connections with Paris.

#### Germany

For around four years, relocations beyond the city walls have been gaining momentum. Since 2017, the top six cities have shown overall negative net internal migration. Rising suburbanisation has been mainly driven by the extremely low vacancy rates in many cities and the lack of available and affordable housing. Between 2017 and 2019, Berlin was losing a net balance of approximately

**Migration balance of Berlin** relocations to the suburbs have been rising



Source: Statistisches Landesamt Berlin-Brandenburg

12,000 inhabitants per year to surrounding areas, while gaining population from other parts of Germany and abroad. Outward migration to suburbs has been rising since the beginning of the pandemic, approaching 15,000 people in 2020. We estimate that the trend was similar in 2021. In addition there is an increasing number of people moving to rural areas (5,500 people in 2020). Nevertheless, the lack of high-speed internet is still a barrier to some rural areas being considered as a place of residence for remote workers.

As a result of the migration into suburbs, prices in these areas have also accelerated, even faster than inner city neighbourhoods in some cases. A price differential nevertheless remains. In 2020, rents in the surrounding areas of the top six cities were, on average, around 25% lower than in the corresponding core cities. The differential was particularly wide in Munich and Frankfurt at 33% and 31% respectively.

In terms of type of product in demand since the start of the pandemic, analysis of search queries is showing rising demand for single family houses. Moreover, an analysis of Google search queries is indicating rising demand for features like “garden”

or “balcony”. An analysis of the average asking prices shows that the strongest price increases are currently being seen in single-family homes.

The pandemic and its repercussions could lend further momentum to suburbanisation and further increase in demand for residential property in city outskirts and smaller towns. This would produce further growth in rents and sale prices and more new housing construction.

**Denmark**

Outward migration from the capital city to the suburbs is a trend also in Denmark. The past five years the net growth of inhabitants in the Copenhagen City municipalities has been ca. 40,000 while the net-migration out has been ca. 14,000. The main destinations have been suburban areas with good connectivity to the capital region.

**Netherlands**

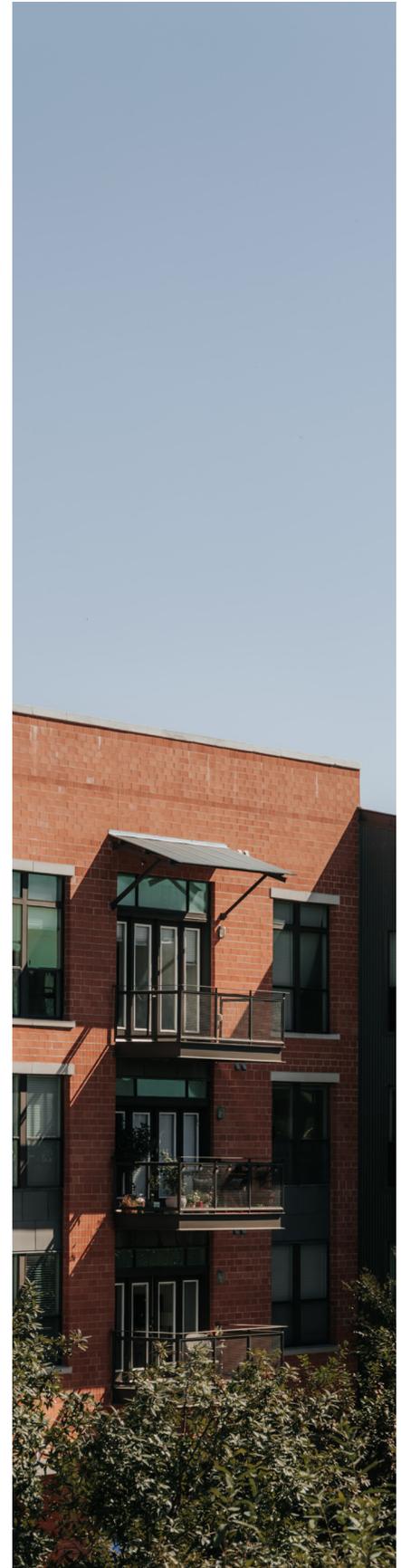
Outward migration during the pandemic in the Netherlands has been part of a general trend that predates COVID-19. Population has been moving out of the largest four cities (G4) (Amsterdam, The Hague, Rotterdam, and Utrecht) to secondary cities with good accessibility for some

time. Examples include cities such as Amersfoort, Arnhem, ‘s-Hertogenbosch and Ede, which are well connected, both by public transport and car, to the G4. This trend has been fuelled by increasing transaction prices and rent prices throughout the whole country, but especially in the G4. Transaction prices and rent prices in the largest cities have increased substantially in the last five years. This increase was smaller in secondary (regional) cities.

Data suggests that 2020 was the first year in which more people migrated out of the Randstad (the economic centre containing the G4 cities) than in the Randstad. Although we believe that this is mainly attributable to the rising housing costs, Covid-19 and the rise of remote work may have acted as catalysts for people’s decision to relocate.

**Spain**

According to anecdotal information, the population of well-connected municipalities near Madrid (especially in the mountain area, 45-50 minutes from Madrid) has grown during the last two years. This may comprise Madrid households that temporarily moved to their second homes, but also people who have relocated from Madrid in these



less dense areas to rent a house, taking advantage of remote working arrangements. We believe that these are temporary outflows and there will be more clarity around this trend depending on the evolution of the pandemic and the future of work. For the time being, the impact on the population of Madrid is minimal. In contrast, the impact is more significant on these peripheral towns where rental prices are rising and there is pressure to increase the provision of municipal services.

With regards to type of product in demand, information from the Association of Property Registrars (Colegio de Registradores) shows that the total sales volume of single-family homes in 2020 recorded its highest level in the historical series across Spain. In addition, there was a rising preference for larger homes with open spaces (terraces and gardens). The average surface area of all closed residential deals was 100.85 sq m, a rise of 2.19% compared to 2019 (98.69 sq m). Although 2021 data is not available yet, preliminary information shows that the trend towards purchases of larger homes and single-family homes was not as clear as in 2020.

**Sweden**

In 2020, there was a record-breaking relocation from Stockholm County. The relocation has been driven by housing shortages and high house prices and has been accelerated by remote work arrangements. In net relocations, Stockholm municipality lost 8,495 inhabitants during the full year 2020, and in total Stockholm County had a negative net relocation of 5,596 people. The net relocation for the full year 2021 is estimated at -4,600. Municipalities in close proximity to Stockholm such as Knivsta, Håbo and Gnesta have benefited from this trend.

The main demographic group to relocate was young adults. This is a phenomenon that

had already started in 2018, due to rising house prices. Developers have responded by building new residential premises in regional cities taking advantage of lower construction and land costs. Growing population has been also supported by rising student numbers.

We predict that the negative emigration trend will continue, albeit in line with 2018 and 2019 levels.

**UK**

London, and other major cities in the UK, have long seen a net outflow of domestic residents. Although this is largely balanced by inward international migration.

In the months following the initial lockdown in 2020 there was evidence of domestic residents leaving London to other parts of the country. When combined with a fall in international inward migration it is likely that the London's population fell for the first time in over 30 years.

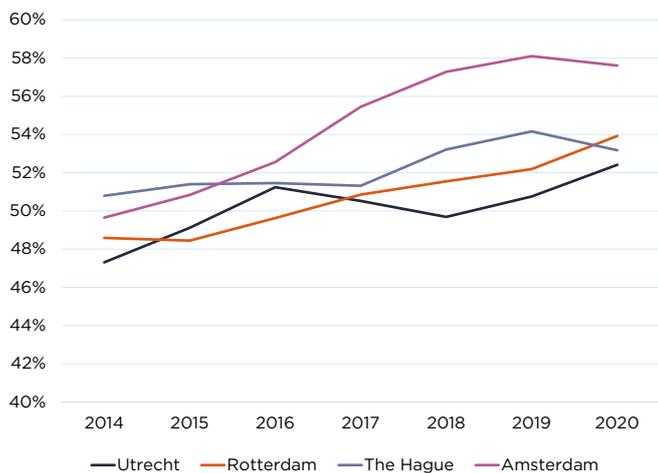
However, recent analysis by the Greater London Authority indicates that since spring 2021 there has been a reversal of the exodus of the younger population and a slow return to growth in international inward migration. As a result London's population has once again returned to growth.

**Cities' initiatives to enhance liveability and resilience**

Although the impact of these shifts to the overall population of major cities is small, city leaders are trying to enhance the attractiveness of their cities and improve the quality of life of their citizens. Visionary mayors across Europe, have introduced initiatives such as the extension of bike lanes, pedestrian zones and green spaces, the decentralisation of services and the introduction of more affordable housing. Barcelona aims to turn 21 streets, totalling 33 km, into pedestrian green areas with improved bike facilities. Paris has invested €150m into cycling infrastructure, inflicting a 50% annual rise in cycling across the city. The mayor of Paris is aiming to make the French capital a '15-minute city', where work, shops, cafes & restaurants, schools and gyms will be within a 15-minute walk or short bike ride from home. Milan is planning to become a city of cyclists by creating a massive 750km network of cycling routes to make bikes the most convenient mode of transport in the city. 86% of Milan's residents will live within 1km of the new network.

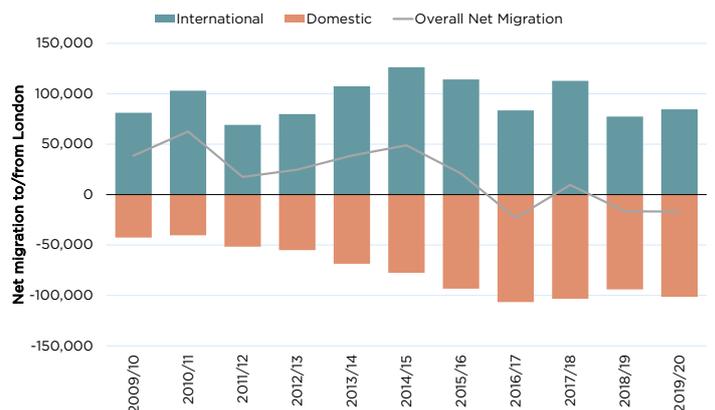
Multifunctional, mixed-use neighbourhoods have emerged once again as the ideal environment for thriving communities. This can lead to more mixed-use developments, which in addition to residential, include uses that will make them more attractive and resilient (affordable housing, convenience retail, flexible offices, health and wellness etc). In Germany the concept of developing mixed-use 'quarters' ('Quartier') is not new. The rising number of quarter developments is also providing more investment opportunities. This opens up the possibility of acquiring an entire quarter or individual buildings. Quarter properties in Germany changed hands for almost €2.8bn in 2019, which was the highest figure from the last five years, and €1.7bn in 2020.

**Outwards relocations as a % of total relocations in the big four cities of the Netherlands** have been rising



Source: Savills Research

**Net migration to and from London** Population has returned to growth



Source: ONS

## Diverse housing demand and investment opportunities

Post pandemic trends are likely to create a more diverse demand for housing in the coming years.

### Affordable housing for inner cities

Essential workers who cannot work from home, students who want to be close to their university campus and young professionals who value easy access to work, are likely to prefer living in central locations. Inner cities offer easy access to shopping, leisure and cultural amenities, in addition to education and healthcare facilities, which can attract both younger and older demographic groups. Nevertheless large cities continue to suffer from housing shortages and rising living costs. Additionally the existing stock is outdated and requires extensive energy-efficient renovations.

Covid19 has highlighted the importance of the quality of housing for our personal wellbeing. At the same time housing costs continue to outstrip wage increases. Higher supply of affordable housing, improvements in public infrastructure, expansion of green spaces, renovation of old buildings and the adoption of smart city solutions require more public and private collaboration and investment.

Investment into housing has become a core investment strategy for many institutional investors who are seeking stable income streams. Investing in affordable housing specifically, has a wider relevance too: offering energy efficient and accessible housing promotes equality and creates sustainable communities, supporting investors impact investing goals. Housing developments that focus on environmental impact (eg refurbishment and reuse of obsolete buildings in central locations) contribute further to investors ESG credentials.

Planning authorities could provide the framework that attracts private investment in the creation of affordable housing stock. Minimum affordable housing ratios, tax incentives, land concessions, long leases are some of the tools that enhance public-private partnerships and ensure the financial viability of the investments.

- Milan recently approved a new city plan that enables developers to increase their Floor Area Ratio by building affordable housing. In major residential developments they are required to provide 35% of intermediate housing as they receive 50% discount on municipal building fees.

- Transport of London has identified sites in its portfolio suitable for housing, intending

to allocate 50% to affordable homes, through direct development but also joint ventures and disposals.

- Porto's development agency is encouraging construction on public land, by assigning leasing rights to the private sector for a period of 50 years.

### Single family houses in the suburbs

At the same time, the current crisis could lead to an increasing preference for housing in urban peripheries and secondary cities. Demand for single houses as well as town houses that offer more living and open space is likely to rise. Currently the supply of this product in European cities is low and typically designed as build-to-sell, while build-to-rent product is almost non-existent. Well connected city fringe locations with land availability could offer housing development opportunities for this type of product in the future. When these are not in close proximity to existing amenities, then integrated mixed use developments should be considered to ensure easy access to key services.

In the UK there is increasing investor interest in suburban build-to-rent, with L&G launching a £1bn fund focused on the sector in 2020 and Goldman Sachs purchasing Project Thistle portfolio in January 2021. More housebuilders, landowners and developers are actively considering the potential for suburban BTR to be delivered on large strategic (1,000+ unit) sites alongside traditional build-for-sale product to accelerate the delivery of the scheme. The main investors are Sigma, Placefirst, Goldman Sachs and Hearststone.

### UK: Suburban vs Urban Build to Rent comparison



Source: Savills



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### **Savills Commercial Research**

We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.

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