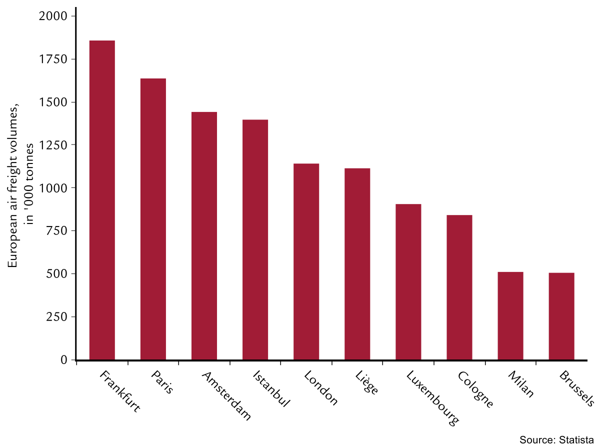
Real Estate House View
Benelux, Austria, Ireland

Second half-year 2021

Key takeaways

- **Investment activity remains limited:** All markets, except Ireland, saw activity remain well below long-term averages. Ireland saw activity increase over the first half of the year. Activity will likely increase throughout 2021 as international travel restrictions ease and investors are able to access markets.
- **Offices demonstrate resilience:** Office markets have remained resilient throughout the pandemic. In several markets, landlords have used incentives to support rental values. Prime rents and yields are expected to remain flat in Brussels, Luxembourg and Amsterdam, driven by pre-lets, and to soften slightly in Dublin and Vienna in the short term.
- **Logistics continues to outperform:** Logistics has outperformed other commercial property sectors across Benelux, Austria and Ireland. Demand from e-commerce occupiers continues to drive demand. Supply constraints in several markets have supported rents.
- **The diverging fates of retail:** High street retail rents and yields are adjusting downwards due to high e-commerce penetration rates and low tourism inflows. Out-of-town retail attracts more value-focused customers.
- **Multifamily offers strong prospects:** Significant demand and a lack of supply is driving yield compression and rental growth as investors focus on the residential sector.

Chart in focus



Given the impact e-commerce has had on European property performance since the start of the pandemic, it is clear logistics has outperformed. Those cities with the fundamentals to take advantage of the structural changes that have taken place should perform well in the future. Air freight volumes across Europe help demonstrate which cities have the capacity to take advantage of growing international logistics demand. With three of the largest ten European airports in terms of cargo based within Benelux, it is well placed to see continued demand from logistics occupiers.

Progress in the vaccination campaigns and the ongoing procyclical support from monetary and fiscal policy ensure the continued recovery from the recession of 2020. According to the Purchasing Managers' Index, industrial activity in the Netherlands is buoyant, which bodes well for the labour market and the logistics sector. In Austria, a high frequency indicator provided by the central bank measuring economic dynamics suggests that activity gathered momentum towards mid-year 2021. The return to pre-crisis levels in terms of real gross domestic product, GDP, is likely to materialise in the first half of 2021. While these countries' export sectors are benefiting from strong demand out of Asia and Northern America, uncertainties related to Brexit remain in place for the time being.

Offices remain resilient

Across Benelux and Austria, office markets have remained relatively resilient, even during the pandemic. Given the nature of the markets, driven by pre-lets, they have been able to maintain strong prime rents despite falls in take-up. We expect prime rents in Vienna to remain stable this year given stable vacancy rates and ongoing demand. However, in Dublin rents have faced pressure with a lack of deals. Landlords have favoured adjusted term lengths and rent-free periods where possible to maintain rents. With the economy opening, the tech sector has led the way with several tech companies announcing expansions to their workforce, which should lead to increased office demand. Take-up in Amsterdam held up relatively well as a result of the expansion of crisis-resistant tech firms and pre-letting deals. Vacancies have risen but remain relatively low in a historic context at about 7%. We expect prime rents to ease slightly in 2021 with a modest recovery thereafter.

Logistics rolls on

While Vienna is not considered a European logistics hub, e-commerce is supporting the local market and the rest of Austria. Demand for space is rising and vacancy rates are very low, which is leading to upward pressure on rents. E-commerce is also the main driver pushing markets in the Netherlands and Belgium, which have benefited since international trade started to recover this year. Large ports such as Rotterdam, Antwerp and Amsterdam have supported the recovery. Following Brexit, the region has benefited from Brexit-related demand from British companies seeking a continental location to handle their business. In Dublin, lockdown restrictions have continued to impact take-up. However, industrial has remained one of the best performing sectors supported by a lack of good quality supply.

Retail down except out-of-town

In-store retail sales volumes have fallen once again in 2021, with fashion sales suffering disproportionally in main cities such as Dublin. The Irish capital, having had one of the most stringent lockdowns in the world, recorded a 10% vacancy rate in its city centre, a 10-year high. The magnitude of the fall in high street prime rents in 2020 remains difficult to assess due to the level of incentives granted in most European markets. However, a further downward adjustment is to be expected for 2021, especially since tourism is not expected to achieve pre-pandemic levels by the end of the year. In Amsterdam and Vienna, we expect rents to stabilise in 2022. Conversely, some formats stand out: out-of-town retail witnessed a record year in 2020 in Belgium and Luxembourg, due to the presence of essential shops (i.e. grocery, drug stores) acting as a catalyst for these performances. But beyond this, it is the format which is increasingly appealing to consumers, retailers and developers.

Growing appetite for residential

Residential investment has been an investor's favourite in Belgium, the Netherlands and Austria in recent quarters, with the focus tending to be on new buildings in Belgium and Austria while on existing properties in the Netherlands. The coronavirus crisis accelerated the development of the build-to-rent sector in countries like Belgium, based on strong interest from international investors driven by rental growth prospects and resilient rent collection rates. The historical owner-occupier market is catching up against established lessor markets, such as Dublin or Amsterdam. Yields for multifamily property in Belgium compressed in 2020 and remain under downward pressure. In the Netherlands, stronger regulations are to be expected while in Austria, a high level of new construction activity is dampening growth potential.

Chart 1: Office vacancy rates

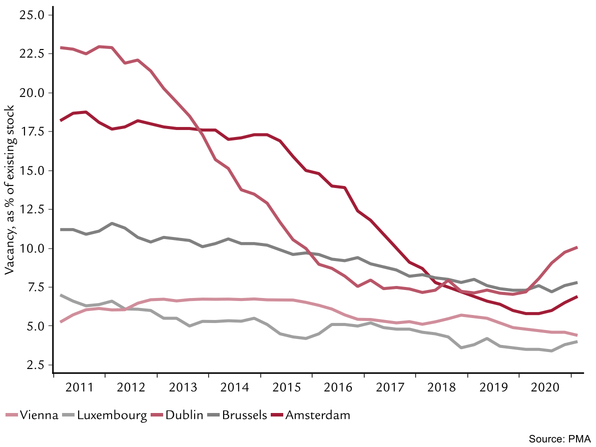
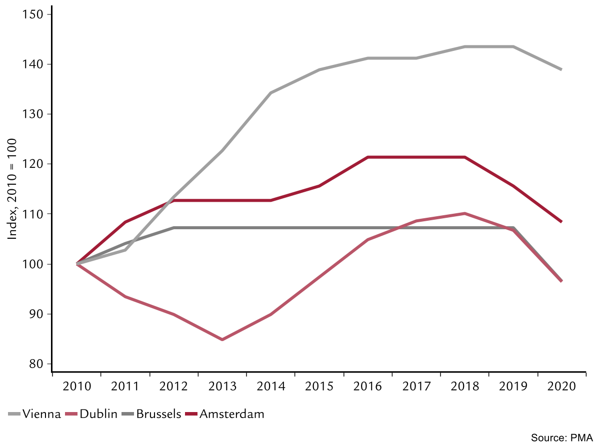


Chart 2: High street rents



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