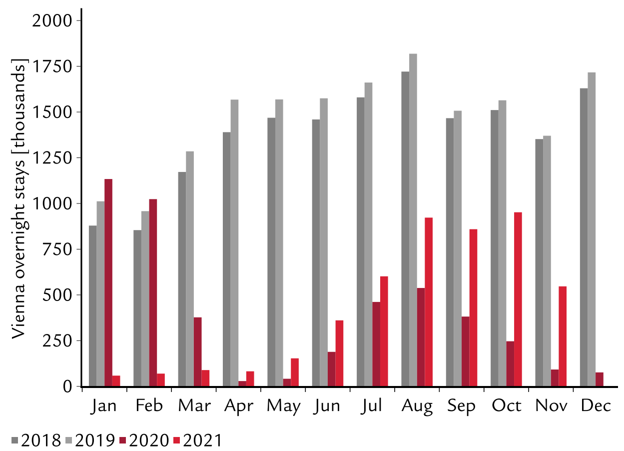
Real Estate House View
Benelux, Austria, Ireland

First half of 2022

Key takeaways

- **Offices remain resilient:** Letting activity has showed signs of improvements in both the Irish and Dutch markets as occupiers make decisions about space requirements. The Vienna office market is the exception, however with little new stock, vacancy rates remain low
- **Logistics supply constraints:** Occupational demand remains strong for modern logistics space, but supply is increasingly constrained. Occupiers are moving into lower grade stock and rental growth continues whilst the development pipeline catches up.
- **Retail parks and newcomers are sustaining the sector:** High street rents have declined for the past quarters; hence pure players are taking advantage of the dampened market to seize opportunities in prime locations. Traditional occupiers and investors are targeting food-anchored retail parks and discount stores, which have proven to be resilient during the crisis.
- **The residential sector:** Rental growth prospects in Vienna and Amsterdam are lowered by the active development activity. The remote working trend is generating a shift of the demand from expensive city centres towards suburbs and second-tier cities offering affordable rents.
- **Investment markets persistently focused on resilient sectors:** Logistics, residential and healthcare properties, as well as core offices, are favoured by investors in the markets under review.

Chart in focus



Source: City of Vienna

Amsterdam, Dublin or Vienna - all booming tourist destinations before the pandemic. In Amsterdam, tourism has been debated for years and the Amsterdam city council adopted a regulation in July 2021 that limits tourism to 20 million overnight stays per year. Currently overnight stays are still far from capacity, as the example of Vienna shows. However, the recorded pick-up in tourist numbers and overnight stays when travel is not restricted makes us positive about the prospects for the hotel sector as the pandemic eases. Confidence remains in leisure tourism with more scepticism for business travel.

As elsewhere in the Eurozone, the inflation rate also rose sharply in these medium-sized member states last year. While this increase should remain largely temporary, the decline in the inflation rates in Belgium and Austria could be comparatively slow. In Belgium in particular, there is traditional indexation of wages to price developments, which can increase inflation. Economically, all countries are still in an upswing, which is also supported by international demand. A further easing of supply chain problems will accelerate domestic industrial activity.

Offices remain resilient

Letting activity across Irish, Belgium and Dutch office markets have showed signs of sustained improvement.. In Dublin, office take-up has been split evenly between city centre and suburban markets, providing good evidence of demand despite continued uncertainty of working practices. In Vienna, although demand has been weak over the period, little new stock has become available, so vacancy rates remain low at 4.5%, with prime rents remaining stable. Conversely, the Amsterdam office market has seen higher volumes of new stock, resulting in rising vacancy, which is putting downward pressure on rents. In the medium term, we expect rental growth for out-of-town markets including Rotterdam and The Hague where space is at a discount. In Brussels, take-up is in line with the 10-year average and prime headline rents have remained mostly stable although lease incentives have become more generous. Across all office markets, we identify a growing occupational requirement for modern workspaces with a focus on ESG, whereby landlords and developers are bearing the associated costs. Sustainable, modern, and flexible offices will remain resilient and drive prime rental growth in 2022.

Logistics in short supply

The logistics sector across all markets continues to drive all-property returns due to substantial capital value growth arising from significant yield compression. Occupational demand for space has led to record low vacancy rates putting significant upward pressure on rents. In Dublin, a lack of available stock has led to increased transactional activity of Grade C buildings. Currently with over 210,450 sqm under development and to be delivered over the next 15 months. In the Austrian and Dutch markets, legal restrictions and environmental regulations to control land consumption, has constrained new development and, as such, brown land is increasingly important to meet demand. In Belgium, nearly all logistics take-up is based on custom-built developments as the current vacancy rent of 0.53% is a historical low. Whilst the development pipeline catches up, rental growth will continue across these markets.

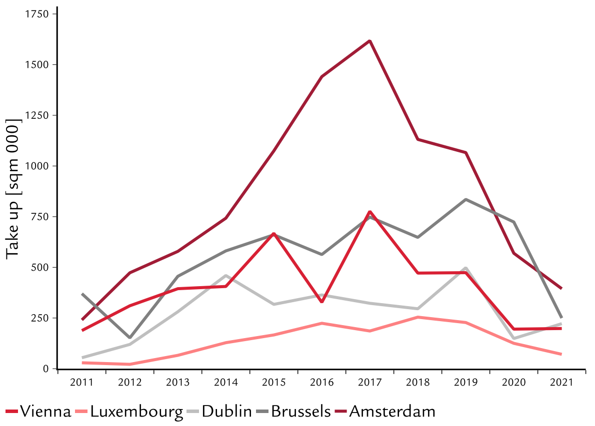
Retail

The retail occupational markets were primarily sustained by out-of-town retail parks, where the presence of convenience, essential shops and hard discounters drove footfall during the pandemic. It was most notable in Belgium with a record take-up observed since the beginning of the year. Furthermore, the number of insolvencies remained lower than expected thus far due to government support. Trouble may come when the support disappears. Conversely, high street market conditions remain difficult in main cities like Amsterdam and Dublin due to lack of tourists and the rise of e-commerce. High street prime rents declined over the last three quarters in the major Dutch markets. Numerous newcomers see the current situation as an opportunity to establish themselves in attractive locations, e.g. former pure online players. Investors are adopting a ‘wait-and-see’ or opportunistic approach, but the difficult financing conditions negatively impact the value-add investment market.

Residential

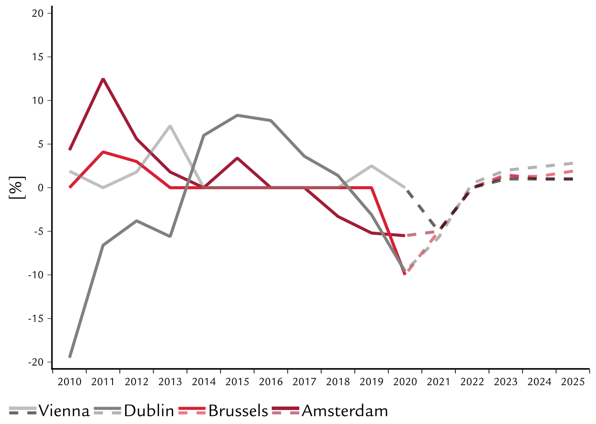
Strong development pipelines in Vienna and Amsterdam are taming residential rental growth prospects, while the emerging build-to-rent (BTR) sector in Brussels and Antwerp has stimulated the occupational market and prime rents; BTR is also dominating the Irish investment market. The attractivity of the Dutch capital city centre is negatively impacted by the remote working trend, as these workers favour the lower rents obtained in the surrounding areas, in Rotterdam or The Hague. New residential formats such as co-living are being developed to cater for the needs of these people.

Chart 1: Office rolling annual investments



Source: RCA (Dec 2021)

Chart 2: High street prime rent changes



Source: SLAM, Cushman&Wakefield, PMA

Authors

Mayfair Capital
Rachel Singleton
Analyst, Research, Strategy & Risk
rsingleton@mayfaircapital.co.uk

Swiss Life Asset Managers, France
Elie Medina
Investment Analyst
elie.medina@swisslife-am.com

Swiss Life Asset Managers, Germany
Andri Eglitis
Head of Research AM DE
andri.eglitis@swisslife-am.com

Swiss Life Asset Managers
Francesca Boucard
Head Real Estate Research & Strategy
francesca.boucard@swisslife-am.com

Marc Brütsch
Chief Economist
marc.bruetsch@swisslife-am.com

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