EUROPE WATCH

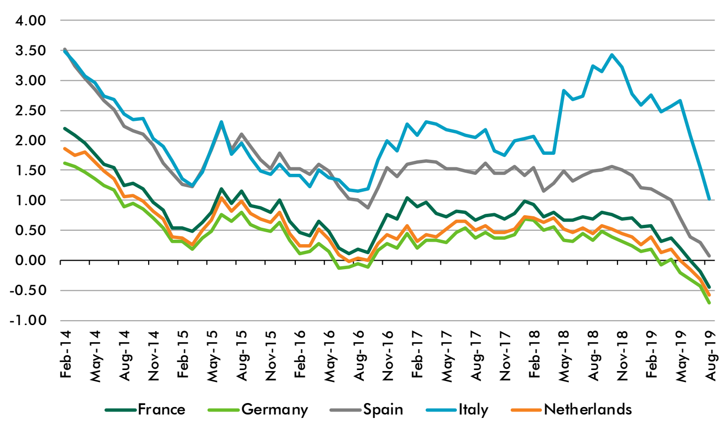
SEPTEMBER 2019

In response to a slowing European economy and heightened global risks, there has been a radical U-turn from central banks in the approach to monetary policy. In the Eurozone, we now anticipate a "lower for longer" environment and that there will be further stimulus in the form of asset purchases. This is already reflected in bond markets and is helping sustain downward pressure on property yields. Pricing of traditional core property is at record highs in most European markets, and the search for yield has investors looking beyond traditional property sectors. Mixed-use assets present an attractive investment opportunity. As more people flock to urban areas, multi-functional schemes are turning developments into destinations, drawing people together to live, work and play while providing investors with a diversified income profile. In this latest edition of Europe Watch, we examine a burgeoning trend toward mixed-use, its development to date in major European cities, and the reasons why investors are increasingly drawn to this distinct property type.

MIXED-USE AS A TOOL FOR REGENERATING CITIES

Mixed-use properties are gaining prominence across Europe. Typically blending residential, commercial and cultural uses into one site, the intention is often to reimagine underutilised site, create complimentary uses and promote pedestrian flows. Mixed-use schemes are either contained in a single building or part of a wider regeneration project aiming to improve the overall fabric and appeal of a city. Across most of Europe, government policy has supported the continuation of the city centre's role as a main location for business, retail and leisure activity, explaining the rapid evolution of mixed-use schemes in city centre locations. Paris is a great example with numerous innovative projects underway, with the objective of reinvigorating city centre living. In Rotterdam, the redevelopment of the docks has been occurring since the 1980s and now includes a variety of locally embraced uses. Interestingly, if we look at the 2019 Mercer Quality of Living Survey which ranks 231 cities globally on quality of life, we see that the top performing cities in Europe are those which have incorporated mixed-use as part of their urban development strategy, including Vienna, Zürich and Munich.

10-YEAR GOVERNMENT BOND YIELDS IN THE EUROZONE DECLINING FURTHER



Source: Thompson Reuters Datastream

3,426.76 ▼ 1.2%
Euro Stoxx 50

0.00% =
ECB Policy Rate

-0.698% ▼ 25 bps
10-yr. German Bond

$60.43 ▼ 7.3%
Brent Crude

Data points through end of August 2019.
Change represents month-over-month change.

PRINCIPAL CONTRIBUTORS:

Najeeb Ahmed
Karine Woodford

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CBRE GLOBAL INVESTORS

MIXED-USE CAN GENERATE REVENUE PREMIA

From an investor perspective, the main reason for considering mixed-use is a diverse income profile. Indeed, the mix of uses in a building can generate a rent premium over an adjacent single-use building. Mixed-use buildings also provide some diversification within the same asset or investment. For example, if the retail component of a mixed-use building suffers because that local market or sector is underperforming, the office and residential components of that same building may continue to produce revenue growth. Finally, a mixed-use asset presents opportunities for retrofitting during a business plan, thus protecting against downside risks.

2019 MERCER QUALITY OF LIFE SURVEY - EUROPEAN CITY RANKING

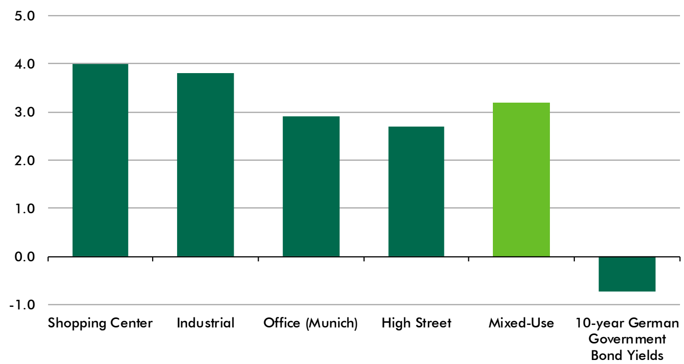
RANK	CITY
1	Vienna
2	Zürich
3	Munich
4	Düsseldorf
5	Frankfurt
6	Copenhagen
7	Geneva
8	Basel
9	Amsterdam
10	Berlin

Source: Mercer

GERMANY DOMINATES MIXED-USE INVESTMENT

So where are the development and investment opportunities? Development can be an entry path to mixed-use ownership in major European markets. The last two years have seen a rapid increase in mixed-use property construction across Europe and this trend is expected to continue. In a challenging environment, retailers see the value of mixed-use developments. At the end of last year, IKEA announced plans to invest €3bn in such developments in European city centres. Ingka Centres are looking at cities such as Madrid and Stockholm, with the aim of buying sites to redevelop, including former post offices or department stores. There are also opportunities to buy core, or mixed-use assets in many European cities, which many investors are drawn to because of the anticipated steady cash flow.

RELATIVE YIELDS IN GERMANY



Source: CBRE Research

TOP MIXED-USE INVESTMENT DEALS IN 2019

It is undeniable that investors - particularly those with a long-term view - can generate compelling returns and predictable income by investing in mixed-use assets. Although developers face some constraints as some cities have strict building and planning regulations and designing innovative projects can be challenging, the better use of space through mixed-use regeneration can have positive implications for our cities. It's not just about regenerating rundown areas but also about thinking about how to better utilise urban environments for the benefit of inhabitants. Mixed-used schemes can be a winning format which has exciting and varied possibilities. One thing is clear - occupiers, locals, tourists, developers and investors alike all stand to benefit from new modern schemes of the future.

TOP MIXED-USE INVESTMENT DEALS BY SIZE, 2019 - EUROPE

Town	Submarket	Price (€MN)	Components
Berlin	Mediaspree	490.0	Office(95%), Unit Shops(5%); main tenant is BASF Service Europe
Hamburg	Peripherie Nord	100.0	Office(20%), Other(70%), Leisure(10%)
Stockholm	OOT	68.0	Industrial, Office, Unit Shops
Cologne	Ehrenfeld/ Braunsfeld	200.0	Superstore (36%), Office (47%), Residential (21%); bought by Tristan in 2015 for 110€m.
Hamburg	Flughafen	85.0	Office(75%), Industrial(25%); financing by Münchener Hypothekenbank
Prague	Prague 8	163.0	Office, Unit Shops
Milan	Bicocca	90.0	Office(70%), Lab space (30%); fully let to Pirelli Tyre S.p.A until 2032 with break in 2028
Madrid	CBD	250.0	Office(75%), Shopping Centre(25%)

Source: PMA