

CBRE

Intelligent Investment

2022 European Investor Intentions Survey

REPORT

EMEA
REAL ESTATE

CBRE RESEARCH
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Executive Summary



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Positive investor sentiment points to another strong year for EMEA real estate investment

Despite the prevalence of the Omicron variant of COVID-19, Europe's investment market is in a stronger position than it was a year ago. Full-year investment volume rose to EUR 360 billion in 2021, an increase of 25% y-o-y. CBRE is forecasting a 5% y-o-y increase in investment volume in 2022, which would mark another record year.

CBRE's 2022 EMEA Investor Intentions Survey reflects this upbeat view, with 60% of respondents expecting to purchase more real estate this year. Selling intentions also strengthened in this year's survey, indicating a healthier climate for commercial real estate investment in Europe in 2022.

Intended as an accompaniment to the 2022 EMEA Investor Intentions Survey Figures report¹ published earlier this year, this ViewPoint by CBRE Research provides an in-depth analysis of investors' buying appetite and preferred markets, sectors and strategies in 2022.



Chris Brett,

Head of Capital Markets EMEA

Other key findings include:

- The office sector retains its status as the most preferred property type for European investors in 2022. This was likely driven by a combination of improving expectations for a return to the office and strong real estate fundamentals.
- Core and core plus strategies remain popular among European investors, while interest in value-add acquisitions was up year-over-year as investors reach for yield.
- Germany scored highest in terms of country-level performance expectations. The U.K. had a much stronger showing in 2022 due to waning uncertainty around Brexit, ensuring it finished second in the rankings of cross-border country preferences.
- Respondents showed a clear willingness to adopt ESG criteria both to protect the future value of real estate assets and the environment. Upgrading existing assets for green certification is the primary method of implementation.
- Compared to 2021, pricing for all asset classes is expected to strengthen. Upward pressure may intensify for logistics and prime office, while expected discounts in retail, hotel, and value-add office assets should continue to narrow.

¹ <https://www.cbre.com/insights/reports/emea-investor-intentions-survey-2022>

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2022 European Investor Intentions Survey

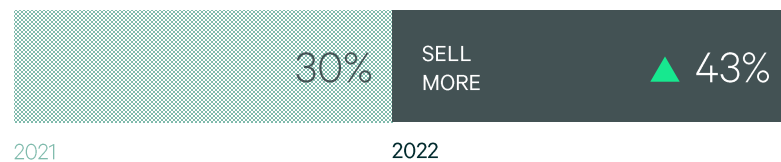


PURCHASING AND SELLING EXPECTATIONS POINT TO ANOTHER RECORD YEAR

Investors intend to buy more
% of respondents



Selling intentions retained
% of respondents



Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

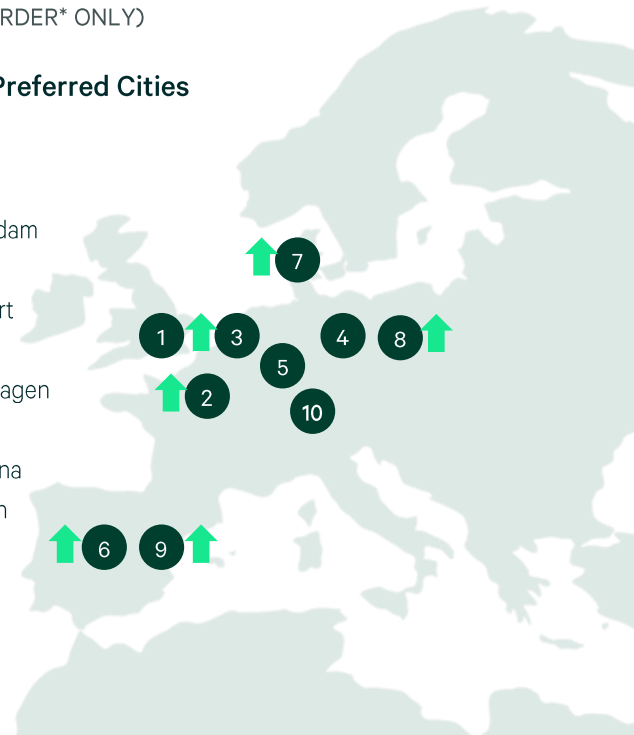
TOP CITIES FOR INVESTMENT

(CROSS-BORDER* ONLY)

Top 10 Preferred Cities

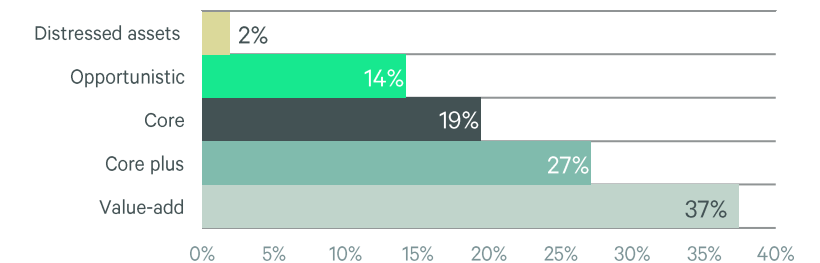
1. London
2. Paris
3. Amsterdam
4. Berlin
5. Frankfurt
6. Madrid
7. Copenhagen
8. Warsaw
9. Barcelona
10. Munich

Legend
 ● Top ten preferred cities*
 ↑ Higher ranking than in 2021

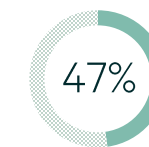


PANDEMIC ERA INVESTING

1 Investors increasingly interested in value-add strategies

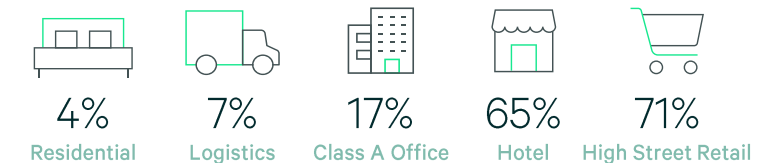


2



47% of investors believe demand for physical office space will either remain the same or increase in the coming three years

3 Pricing expected to strengthen across all sectors in 2022*



*Percentage of Investors Expecting Discounts in 2022 Relative to 2021 Pricing

01

Activity Expectations and Preferred Markets

Most investors expect to increase purchasing activity

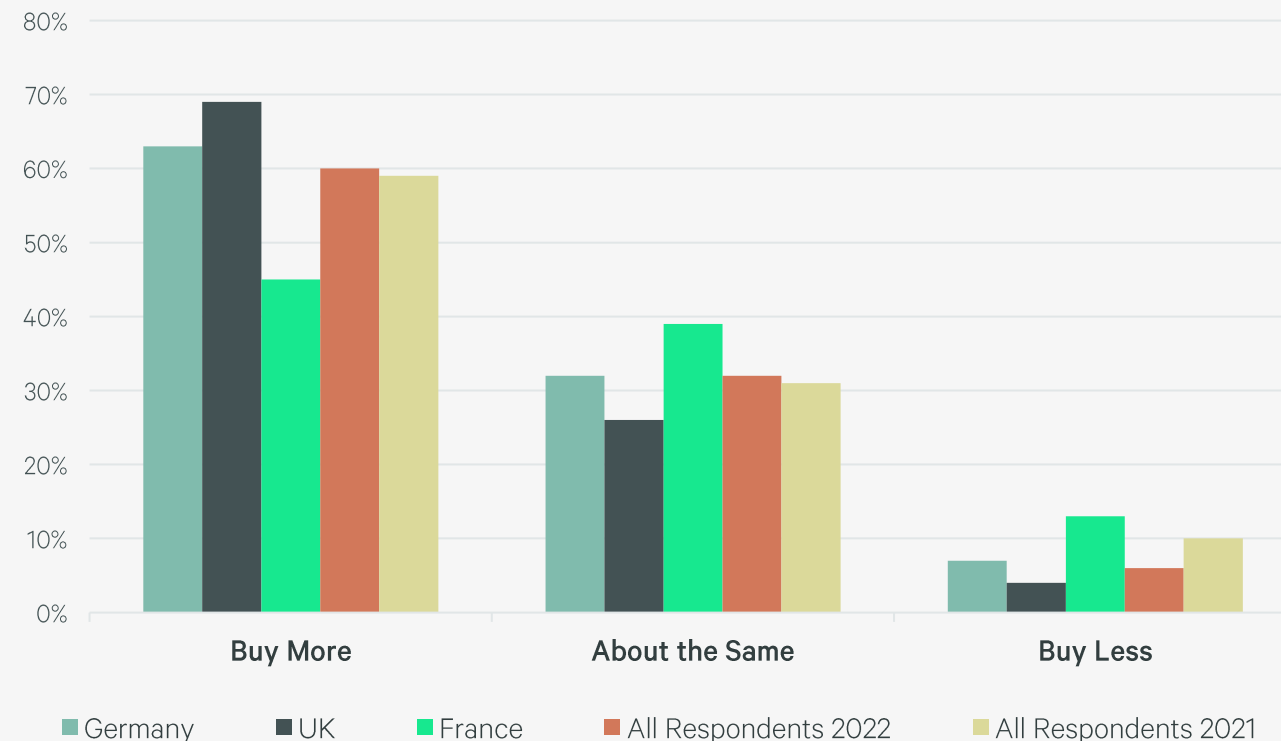
Approximately two-thirds of respondents expect to purchase more real estate in the coming year, a similar level to the previous year’s survey. With full-year investment volume reaching all-time-high in 2021, continued upbeat sentiment points to another strong year for commercial real estate investment.

By country, U.K.-based respondents were most optimistic. German-based participants registered a 10pp increase in purchasing expectations—the largest increase in Europe—surpassing the regional average.

Despite being lower than the European average, investor expectations in France and the Netherlands remained stable. Respondents with exposure to the French and Dutch markets but domiciled elsewhere in Europe exhibited stronger purchasing expectations than those based in these markets, indicating positive cross-border sentiment.

In terms of AUM profiles and purchasing activity expectations, this year’s survey uncovered some substantial changes. Small to medium size firms were most optimistic in 2021, perhaps due to their higher risk profile and the emergence of discounts. This year, however, respondents from the largest firms displayed the strongest purchasing expectations. As discounts have narrowed, and willingness to bid-up core assets is proving key to acquisition, larger managers and investors may be better positioned to underwrite deals in the current environment.

Figure 1: Purchasing activity expectations



Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

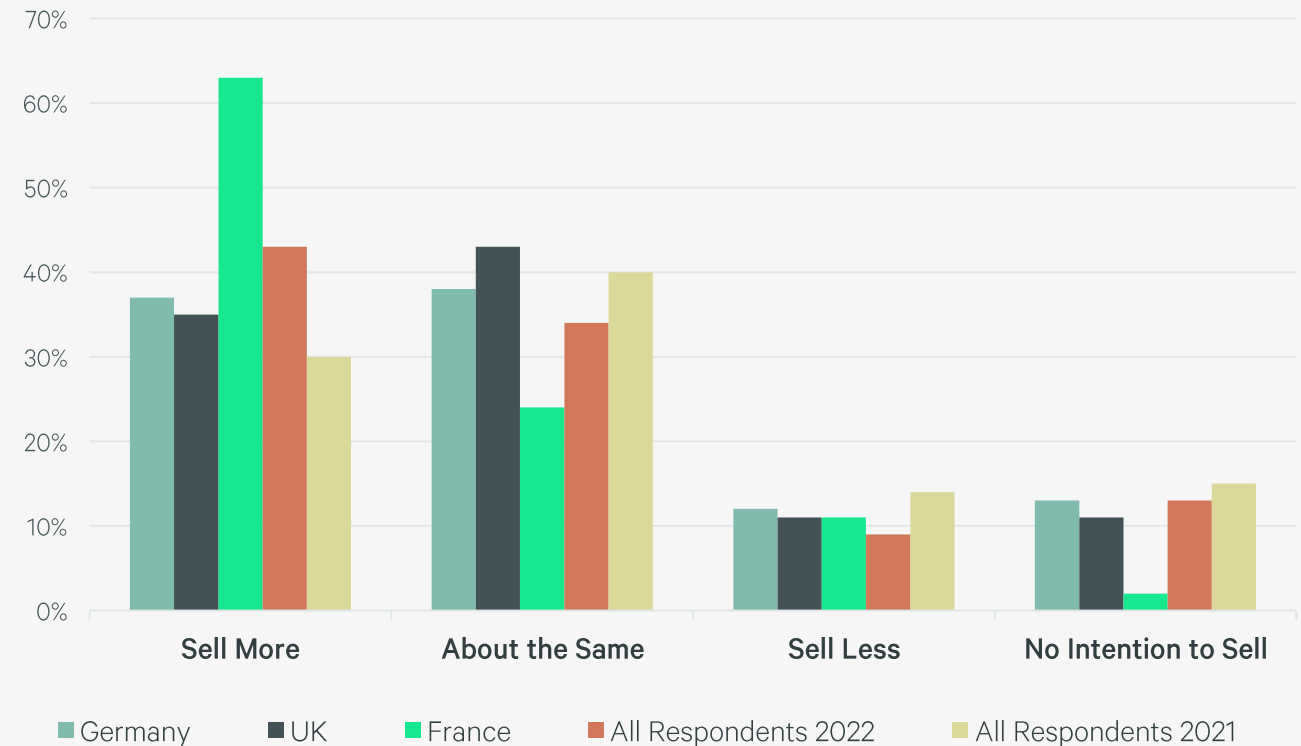
Overall selling expectations strengthen

As pandemic related uncertainty wanes and pricing levels are established, European investors are becoming more willing to sell assets. Selling activity expectations in this year's survey increased by 13pp over 2021, indicating a healthier climate for commercial real estate investment in 2022.

With the exception of the U.K., selling expectations in major markets either remained the same or increased. The decline in selling expectations among U.K.-based respondents is likely due to the timing of the previous year's survey which was released in the midst of Brexit negotiations. Negative sentiment has since waned, and the anticipated large volume of distressed sales did not materialise.

The largest increase in selling expectations was observed among French respondents, 62% of whom expect to sell more real estate in 2022, a significant upturn from last year's 30%. This result can be attributed to the sharp increase in COVID-19 cases and concerns of another lockdown at the time the survey was conducted.

Figure 2: Selling activity expectations



Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

Germany retains top ranking; U.K. displays resilience post-Brexit

When asked to identify the country they believe would perform best in 2022, just over a quarter of cross-border respondents selected Germany. This finding came on the back of a 39% y-o-y jump in investment volume in Germany in 2021, underpinned by Vonovia’s EUR 22.3 billion residential take-over of Deutsche Wohnen. With 86% of German respondents expecting demand for multifamily space to increase in the next three years, the trend of large portfolio acquisitions is likely to continue in 2022.

The U.K. ranked second in this year’s survey, with just under 25% of cross-border respondents expecting the country to be the best performer in 2022. Investment volume in the U.K. surged by 49% y-o-y to EUR 71 billion in 2021 and purchasing activity is expected to remain solid this year, supported by positive market sentiment. Across all major markets, investors targeting the U.K. displayed the highest interest in value-add acquisitions, particularly in the industrial and office sectors.

Despite lingering pandemic-related concerns affecting Paris office transactions, France rounded out the top three in terms of countries expected to register the strongest performance in 2022. With recent legislative measures having removed all work-from-home obligations, the outlook for office demand is improving. Investment activity in Q4 2021 was strong, with momentum expected to carry into 2022.

Central European countries moved up the rankings in this year’s survey, with two countries finishing in the top 10. Italy, Spain, and Sweden rounded out the rankings after registering steady y-o-y gains in investment during 2021.

Figure 3: Country-level performance expectations (cross-border* only)



Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

*Includes respondents domiciled in a different country and excludes domestic respondent views.

London remains most preferred city

When asked to identify which cities they found the most attractive for cross-border investment, London was again named the most popular. Investors remain optimistic about the city’s prospects post-Brexit, with both German and French respondents selecting it as the most attractive cross-border city. Manchester and Birmingham were viewed as the second and third most attractive U.K. cities by all respondents.

Paris moved up two places in the rankings to finish second. While the preference for multifamily or more specifically, privately rented residential assets, was the lowest in Paris among the top five cities, this is primarily due to limited stock. As this sector continues to develop, deal flow will likely be boosted in the short to medium term. Investment volumes in 2022 will also be supported by the continuation of a recent upswing in office purchasing.

Both cross-border and in-country respondents displayed upbeat views towards cities and sectors in Germany. Investors seeking exposure to Munich preferred multifamily, while the focus in Frankfurt was industrial & logistics. Just under half of investors who selected Berlin as their most attractive city favoured office properties.

Amsterdam also moved up in the rankings in this year’s survey, finishing third overall. The Dutch capital’s multifamily housing market saw strong deal flow towards the end of 2020 as investors rushed to close deals before the introduction of new property tax regulations. After a quiet 2021, the market is poised for another upswing in activity, with German investors—who are among the most optimistic towards the multifamily housing market—naming the city as their second most attractive cross-border destination after London.

Other noteworthy additions to the top ten most popular cities were Madrid and Barcelona; a result aligned with Spain’s seventh place finish in the top country rankings. Warsaw’s placement in the top ten bodes well for an increase in investment in Central Europe this year.

Figure 4: Most preferred city (cross-border* only)



Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

*Includes respondents domiciled in a different country and excludes domestic respondent views.

02

2022 Market Trends

Office remains most popular sector

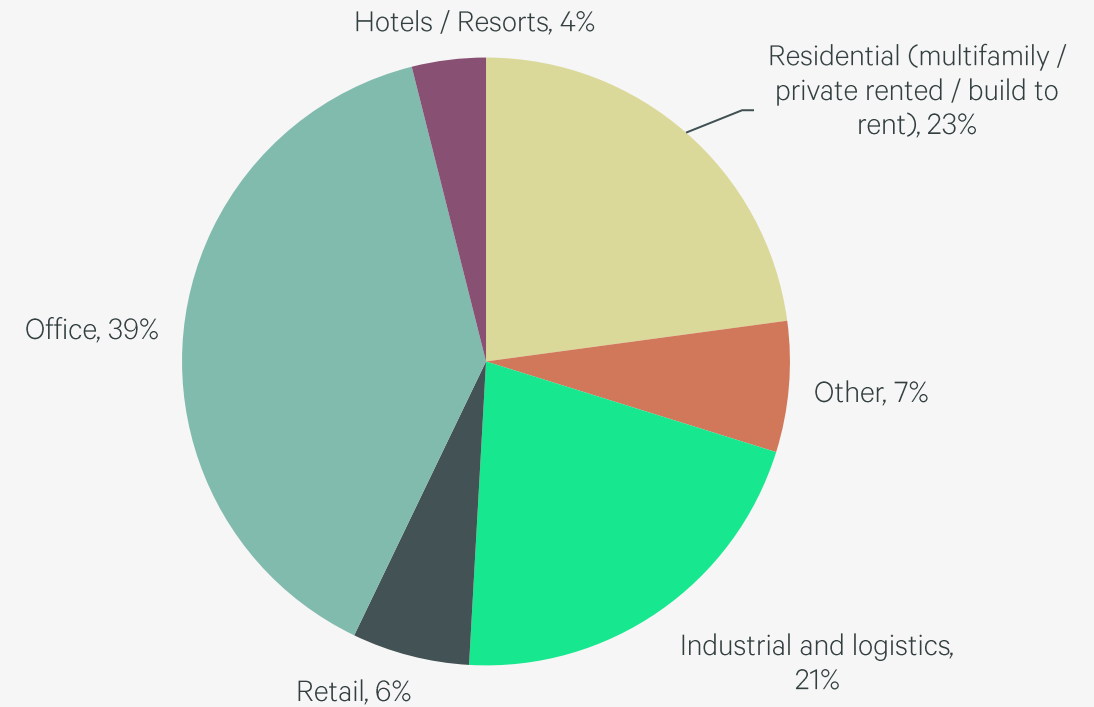
On a pan-European level, the share of respondents selecting retail, logistics, and multifamily as their preferred sector for investment were all largely unchanged from last year's edition. Office remains the most sought-after asset type, selected by 39% of respondents, a 3pp increase y-o-y from last year.

Multifamily remained the subject of strong interest and was the preferred property type for 23% of investors. Of the 7% of respondents selecting "other" as their preferred asset class, the majority chose an alternative residential subsector such as healthcare, senior living or mixed-use facilities, reflecting investors' underlying preference for residential properties.

Amid an ongoing pandemic-fuelled flight to quality, respondents selecting office as their preferred sector signalled that they primarily sought "Class A" assets in centralised locations.

With flight to quality also a trend among logistics occupiers, just over half of respondents favouring this sector selected modern logistics facilities in peripheral cities or aged logistics facilities in major cities as their favorite sub-sector. The latter in particular provide attractive opportunities for brownfield value-add strategies.

Figure 5: Sector preference – 2022 Investor Intentions Survey

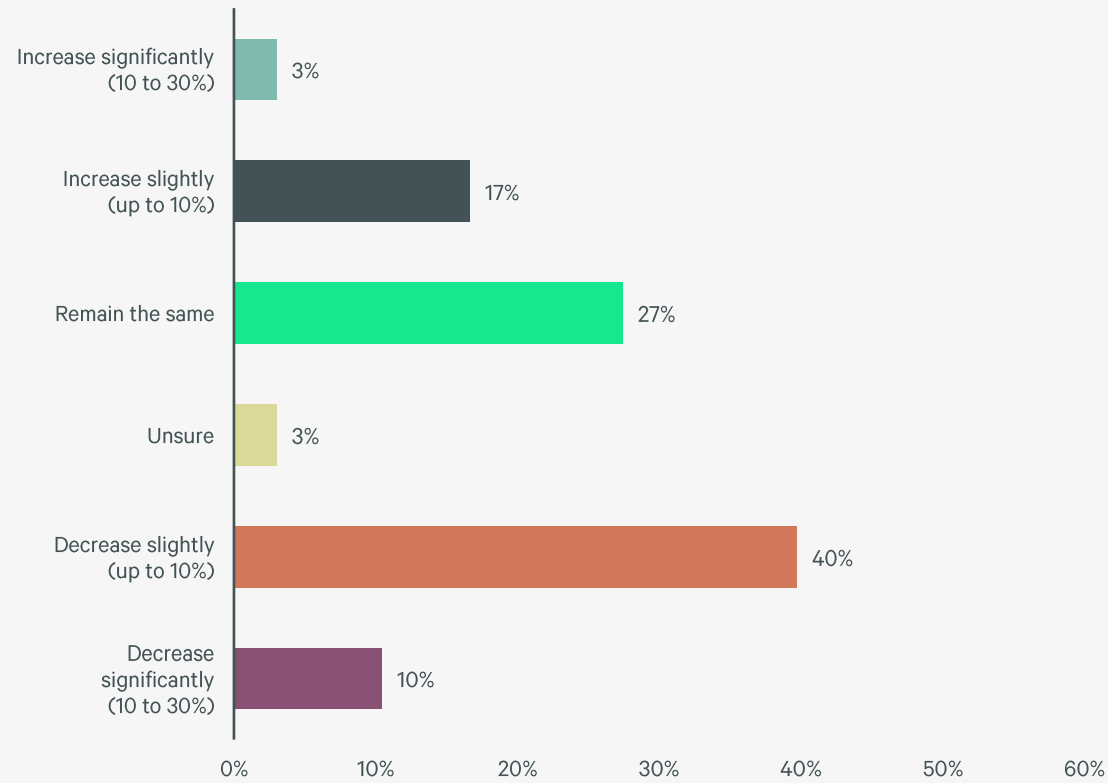


Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

Office remains most popular sector (cont.)

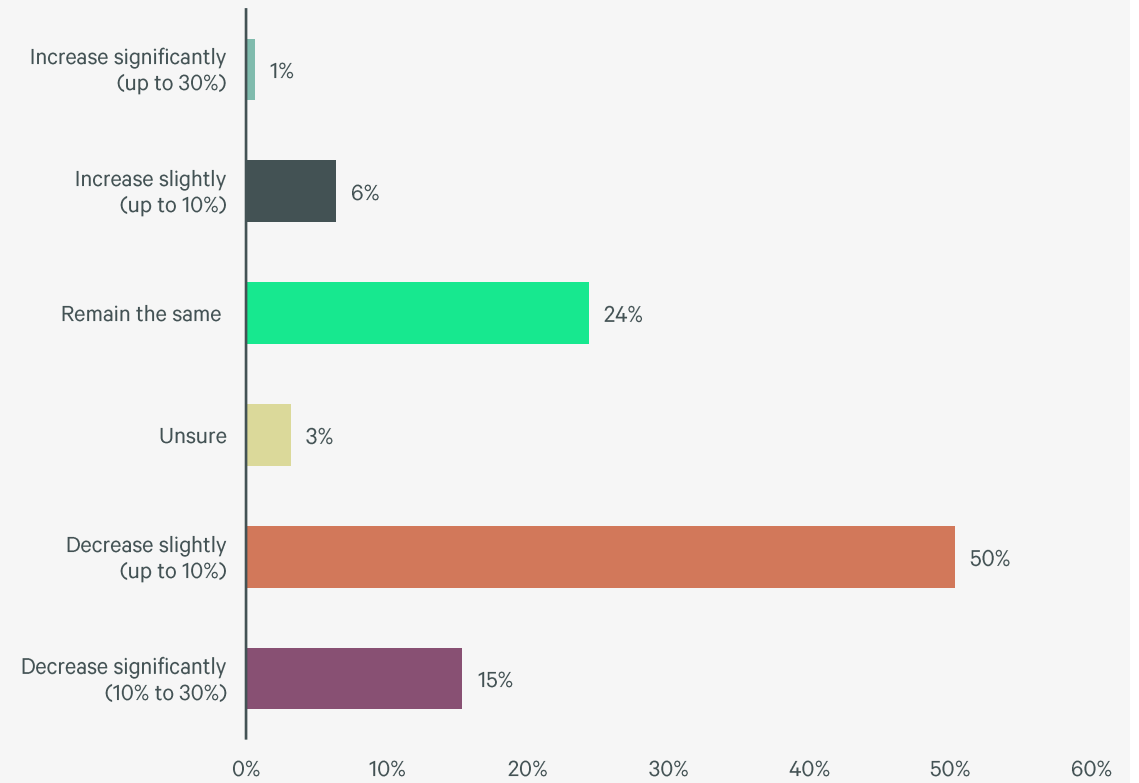
Improved sentiment towards future of office was corroborated by the response to the survey question about demand for physical office space, with 47% of respondents expecting similar or higher demand for physical office space in the coming three years, as opposed to only 31% in 2021's survey.

Figure 6: Office demand expectations for upcoming three years 2022



Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

Figure 7: Office demand expectations for upcoming three years 2021



Source: EMEA Investor Intentions Survey, CBRE Research, January 2021

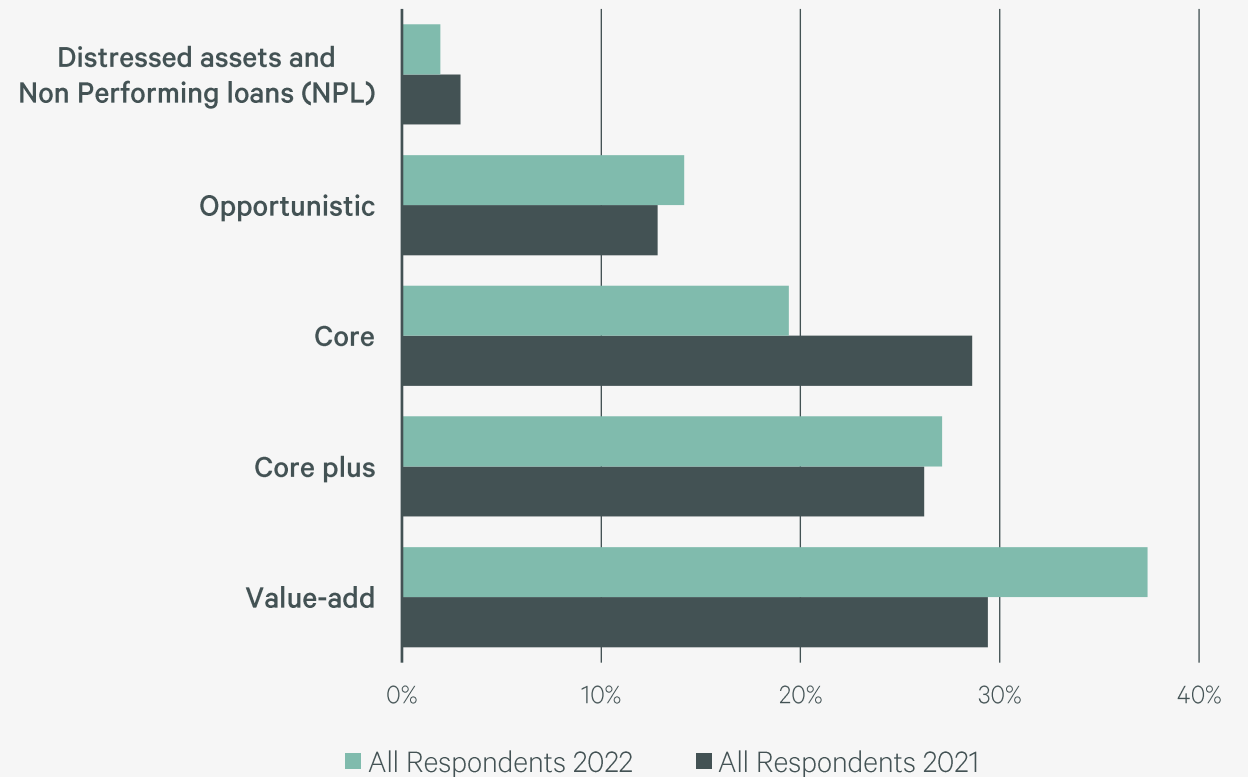
Core strategies remain popular; value-add approaches see stronger interest

Investors seeking higher yields are increasingly turning to value-add properties as intense competition puts upward pressure on pricing. A lack of available properties for sale in the logistics and multifamily sectors is also driving this trend.

Investors from the U.K. had the largest deviation from the European average, with 45% of such respondents selecting value-add as their favourite strategy, and only 12% choosing core. Investors from Germany and France were somewhat more conservative, with 35% and 30% opting for value-add, and 19% and 20% for core, respectively. All major markets finished close to the European average for core plus. Reflecting their higher risk tolerance, small to medium sized investors were most inclined to pursue value-strategies.

Despite moderate changes to preferred strategies, investors' target returns have largely remained stable from the previous year's survey. Investors with a preference for core and core-plus strategies indicated minimal change, while buyers preferring value-add strategies also maintained similar target returns for brownfield value-add strategies.

Figure 8: Preferred strategy



Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

Expectations of discounts narrow amid willingness to bid-up logistics and multifamily prices

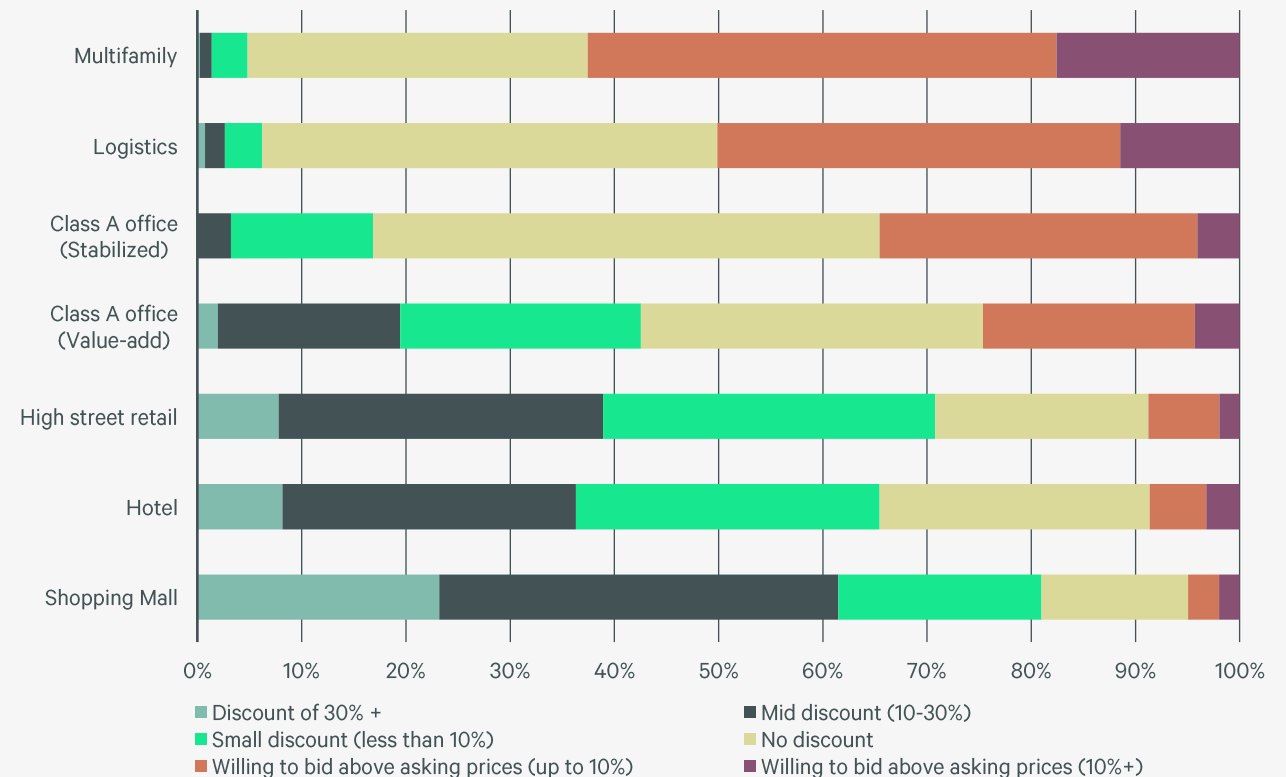
As pricing expectations have strengthened considerably since last year’s report, distressed opportunities remain limited. Just 65% and 71% of respondents expect discounts (from the year prior) for the hotel and high street retail sectors, respectively, a substantial decline from the 99% and 95%, respectively, in the previous year’s survey.

Office also saw a strong rebound in pricing expectations, with more than 80% of respondents expecting pricing to either remain stable or increase in 2022. German and U.K. respondents expect an increase in asking prices for prime office buildings, while most French investors expect no change. Value-add office had the greatest change in pricing expectations across all sectors, with only 44% of investors expecting discounts, compared to 87% in 2021. This demonstrates the change in sentiment towards future demand for office space in EMEA as well as the expectation that COVID-19 will become endemic.

The logistics sector maintained strong pricing expectations in this year’s survey, with half of all respondents expecting to bid up prices. This represented a moderate increase from the year prior, when only one-third of investors expected to do so. Although willingness to bid up logistics properties was consistent across all major markets, German investors indicated a higher level of aggressiveness in this regard.

Across all sectors, multifamily is expected to have the highest level of competition. Two-thirds of respondents are willing to bid up asking prices due to the lack of suitable products and higher amount of capital targeting this sector.

Figure 9: Pricing expectations in 2022 compared to 2021



Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

03

ESG Investing

Rise in Environmental, Social and Governance (ESG) investing

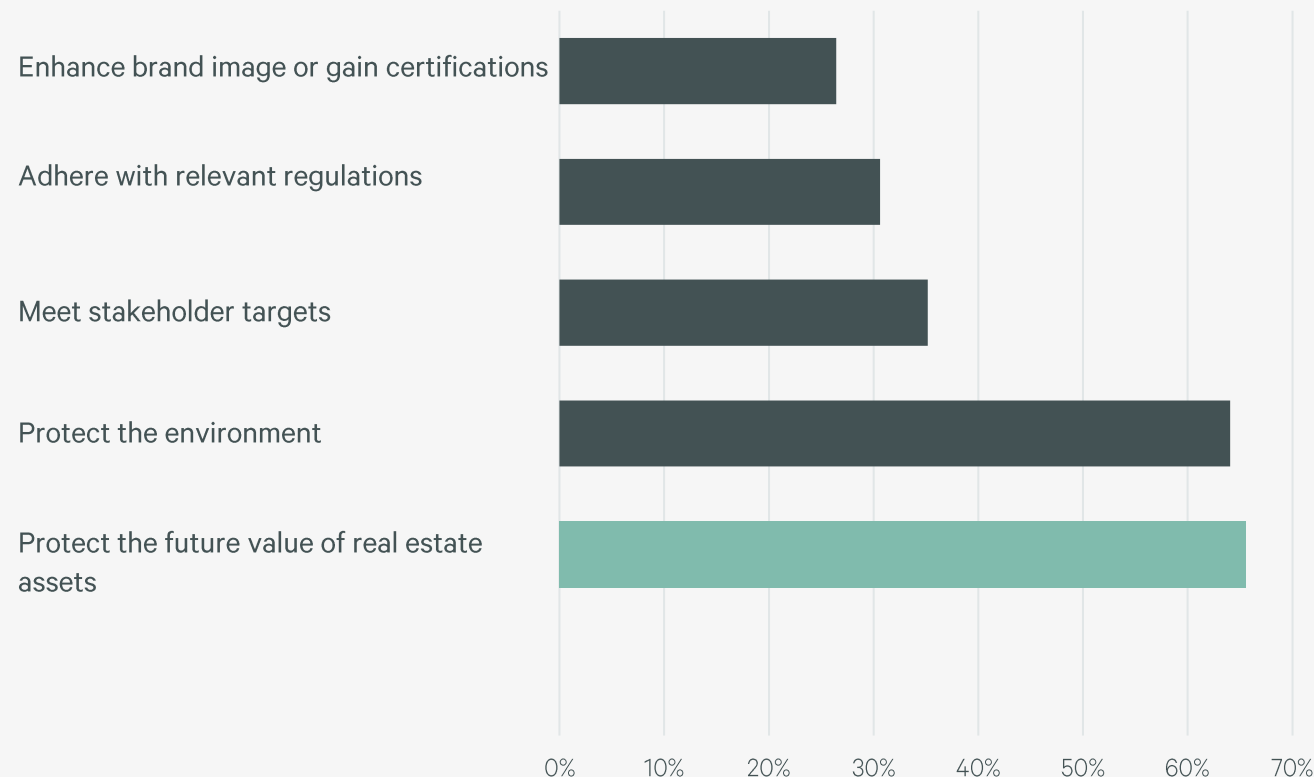
This year's survey found that 70% of respondents stated that they had already incorporated ESG criteria into their investment decisions. Adoption was highest among respondents with larger AUM profiles, while non-adoption was highest among investors with smaller AUM profiles.

In terms of approaches to ESG, 80% of investors selected asset enhancement as their preferred method of meeting ESG criteria. Although consulting external rating parties when assessing asset acquisition was identified as the second most popular option, only one-third of respondents were willing to pay a slight premium for existing ESG-compliant assets. Furthermore, the divestiture of non ESG-compliant assets was only selected by 12% of respondents.

As for primary goals of ESG strategies, protecting the future value of real estate assets and the environment were both selected by two-thirds of respondents. Nevertheless, more respondents selected environmental protection as the key priority of their ESG strategy. This was a higher percentage than those selecting meeting stakeholder targets and adhering to relevant government regulations combined.

While respondents were also asked about the Social and Governance aspect of ESG, no responses related to these elements, such as increased transparency, leadership composition, or improvement of local communities placed in the top five. This finding underlines the fact that investors' primary focus remains on the environment. Nevertheless, CBRE believes that social and governance elements are likely to garner more focus in coming years as the adoption of ESG criteria becomes more widespread.

Figure 10: Implementation of ESG strategies



Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

04

Investment Forecast and Other Key Findings

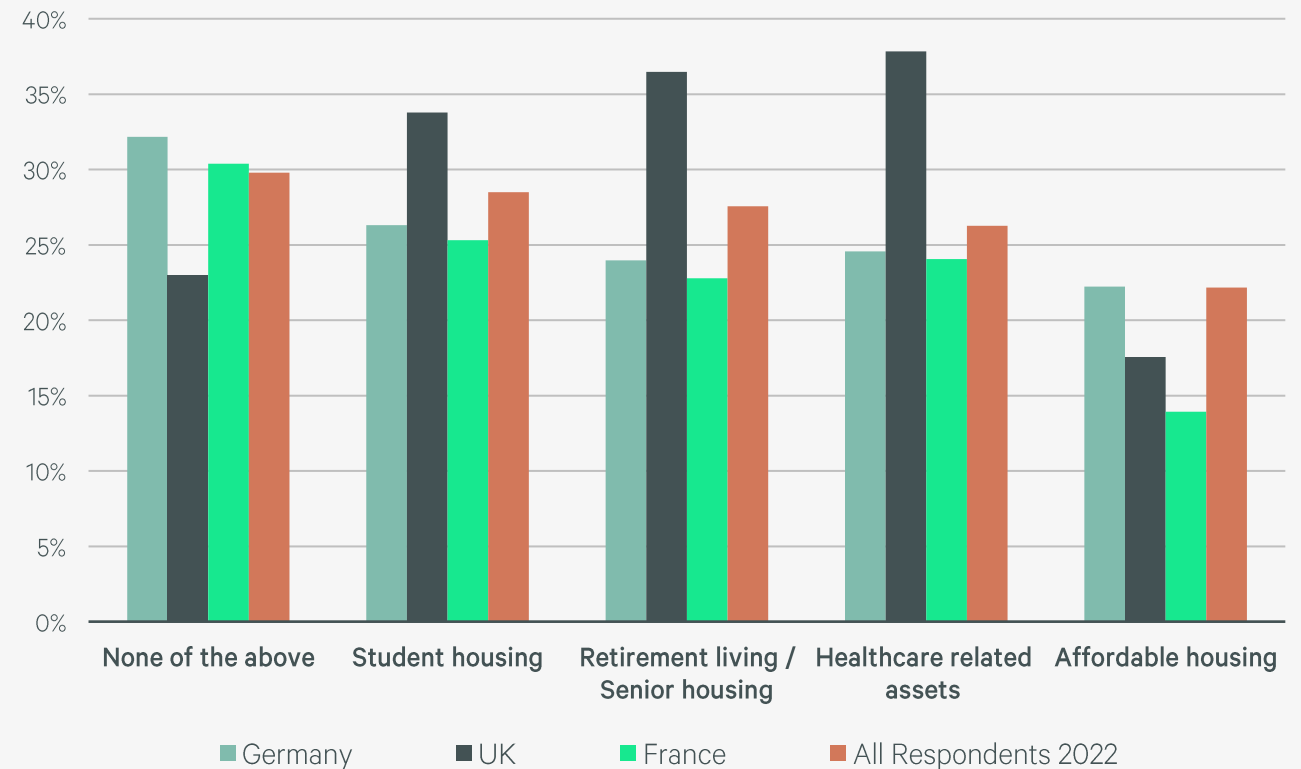
Residential assets remain most popular alternative

Most investors adopted a more conservative approach to investment at the onset of the pandemic in early 2020. Some of this caution persists, with one-third of investors this year stating that they were not pursuing any alternative assets. Among those who do intend to target alternative sectors, most selected an alternative residential investment sub-sector such as student housing or senior living.

Healthcare related assets gained some traction in this year's survey, especially in the U.K. and the Nordics. More specifically, nursing homes were included in the most popular property types among respondents selecting "other" in the preferred sector rankings.

Although data centres were not named in the top five most popular alternatives, the survey uncovered some interest in this asset class, especially from respondents in Central European (CEE) markets. While respondents indicated a limited appetite for self-storage, cold storage, and hotels, yield compression across traditional asset classes will further support demand for alternative properties in the coming year.

Figure 11: Alternative investment sector preference



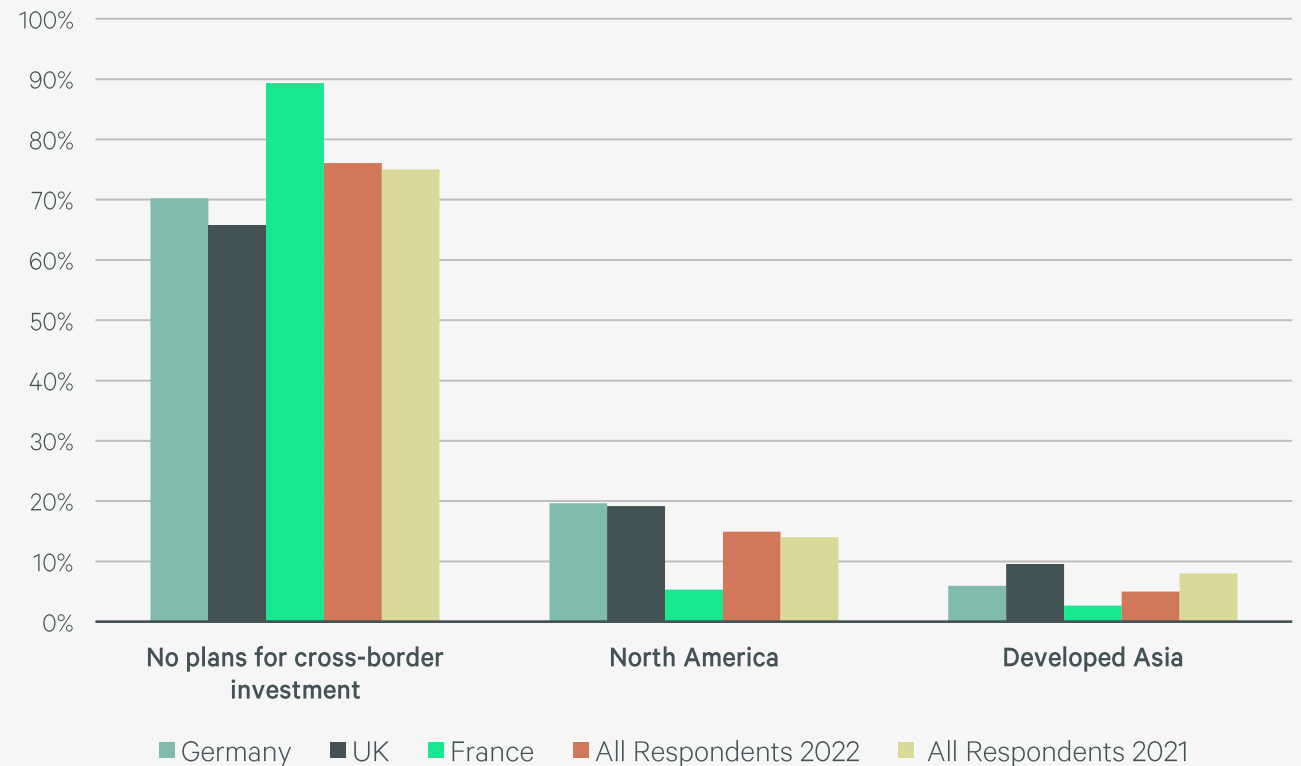
Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

European capital expected to mostly stay in region

European capital has historically remained within the region, with only a relatively limited number of investors seeking opportunities elsewhere. This year's survey affirmed this trend as only 26% of respondents stated they are seeking cross-regional exposure. The results for the U.K. and Germany were above the European average, with 35% and 30% of respondents, respectively, expecting to invest outside of Europe.

North America is the primary destination for European investment abroad. CBRE expects the low yield environment in Europe and the resumption of international travel to support higher levels of outbound investment as the current cycle matures.

Figure 12: Cross-regional investment intentions



Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

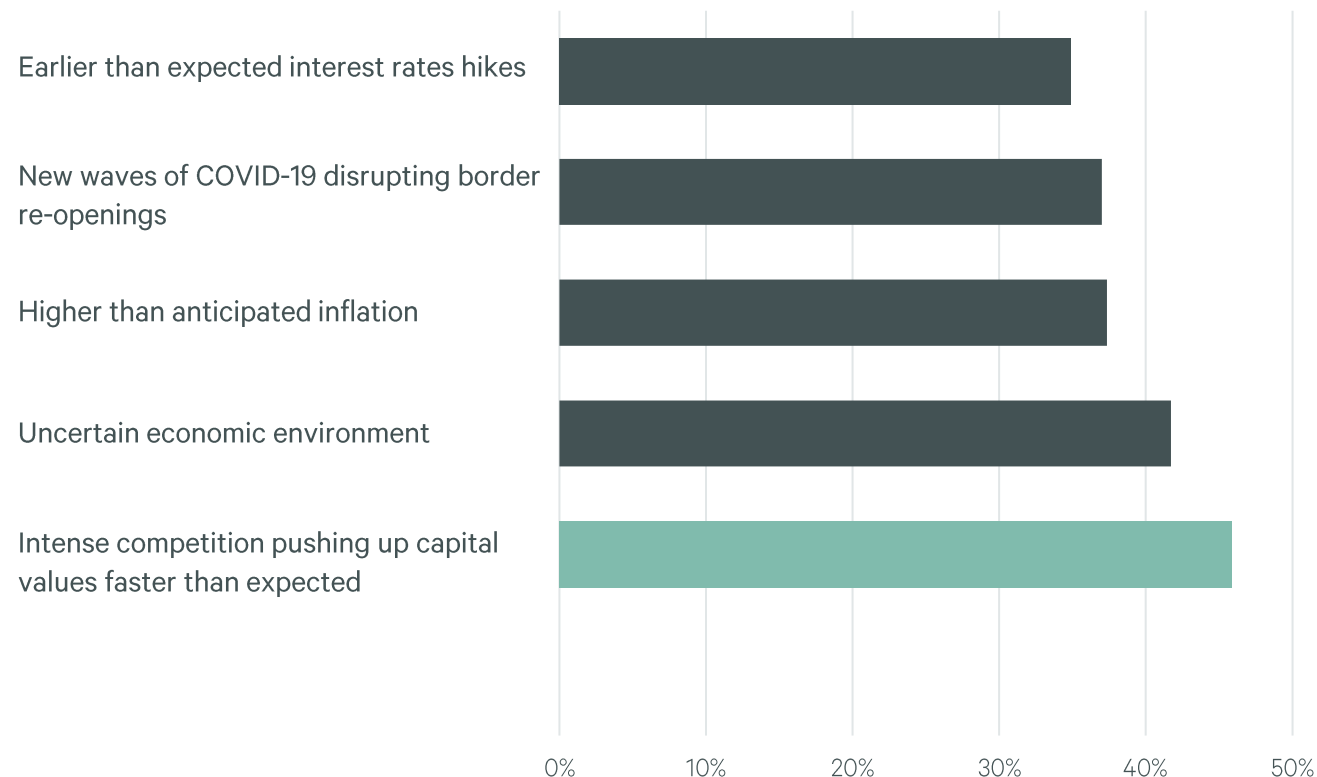
Major challenges include upward pressure on pricing, economic uncertainty and prolonged pandemic

This year's survey asked respondents to identify three major challenges to investing in EMEA real estate in 2022. Nearly half of respondents stated that capital values rising faster than expected would be the greatest challenge; a finding supported by CBRE data that indicates upward pressure on pricing has resulted in some yield compression across major European markets.

Economic uncertainty - particularly that related to persistent elevated inflation and potential changes in monetary policy – ranked second among investors' concerns. Nevertheless, Euro Area inflation remains lower than that in the U.S. and U.K., and the European Central Bank (ECB) has expressed a continued willingness to pursue accommodative monetary policy in the near term.

While the pandemic was listed as a major challenge, the gradual decline in Omicron cases has led many countries to signal a new public health posture involving fewer restrictions.

Figure 13: Major challenges facing real estate investment in 2022



Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

Investment volume expected to increase further with potential upside

The positive investor sentiment illustrated in this year’s survey bodes well for EMEA real estate investment in 2022. Investment volume rose 25% y-o-y to EUR 360 billion in 2021, an all-time high. While this sharp increase was partly due to the low base set in 2020, meaning that a similar rate of growth is unlikely to be witnessed this year, robust purchasing activity is expected to result in a further 5% y-o-y increase in investment volume in 2022.

The investment market is in a much stronger position compared to a year ago. Along with stronger purchasing intentions among domestic buyers, foreign investment—which bottomed last year—should return more fully to the market in the coming months, boosting deal flow.

Shifts in market dynamics, solid interest in value-add strategies and continued demand for multifamily assets will also prop up investment volumes. Office sentiment is also more upbeat compared to last year, with nearly half of investors expecting demand to remain the same or increase in the coming three years.

As vaccines and therapeutics help authorities manage the pandemic more effectively and improve the public health environment, CBRE expects this to further bolster investor sentiment and support market activity.

Figure 14: EMEA Investment Volume Forecast (EUR Mill.)



Source: CBRE Research, January 2021

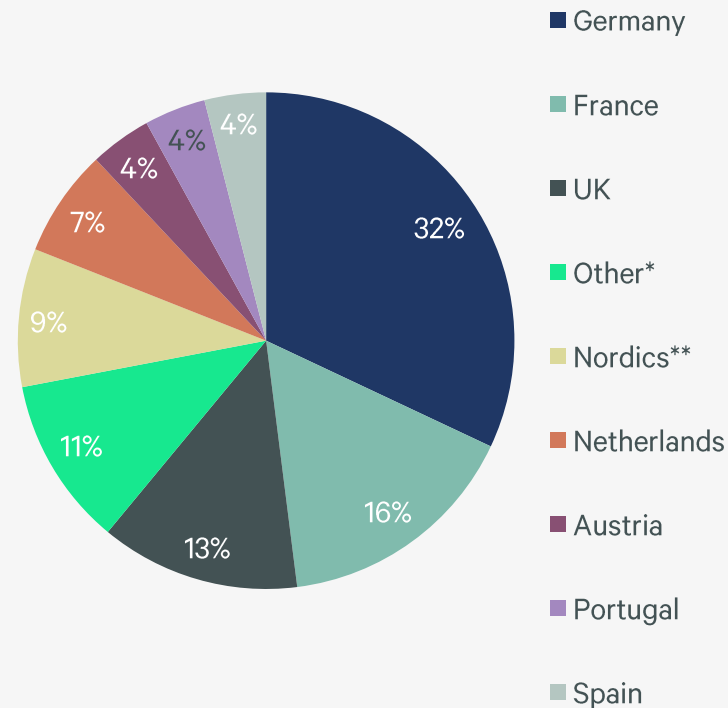
05

Respondent Profile

Respondent Profile

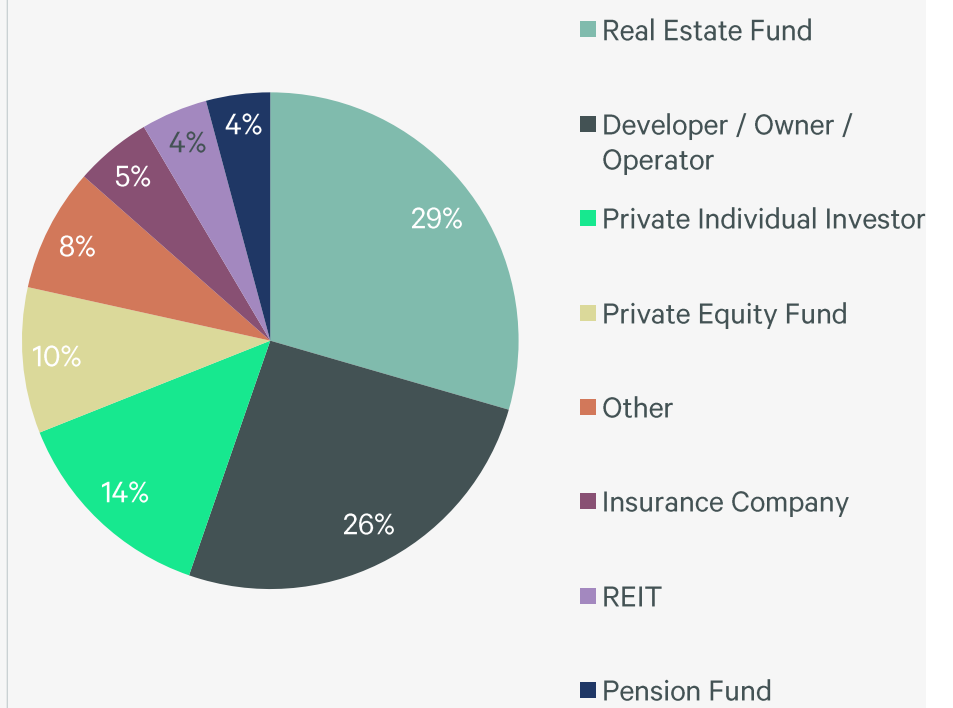
- The 2022 European Investor Intentions Survey was conducted between Nov 22, 2021, and Dec 22, 2021.
- A total of 603 Europe-based investors participated in this survey.

Figure 15: Percentage of respondents by market



Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

Figure 16: Percentage of respondents by investor type



Source: EMEA Investor Intentions Survey, CBRE Research, January 2022

*Other markets includes respondents from The Baltic States, Central and Eastern Europe, Italy, Luxembourg and Switzerland

**Nordics includes respondents from Denmark, Finland Norway, and Sweden

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