

PRESS RELEASE

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AEW 2018 European market outlook - Fundamentals driving fears away

At time when investors' focus remains on downside risks, particularly given the recent political uncertainty and the prolonged unwind of the GFC, AEW's annual outlook provides an in-depth analysis across European markets. The report argues that there is currently little risk on new supply, rising interest rates and financial leverage in the medium term, and makes the following key conclusions as follows:

- Investors should consider a broader range of European markets, focus on income and expand into value creation, based on our market scoring, changed pricing and risk assessment
- Remaining concerns from investors should take into account limited level of risk on new supply, rising interest rates and financial leverage in the medium term
- Robust economic fundamentals and constrained supply are driving occupier and investment markets in a positive direction over the next 2 and possibly up to 5 years
- On a relative basis our value outlook for the next 5 years is positive as the yield gap with government bonds remains

AEW's assessment is based on its market scoring, the strong recovery in Europe's most liquid core investment markets' capital values in recent years and the low level of systematic market risk at the moment. The market scoring is based on sector specific macroeconomic drivers, volume of investment transactions, historical risk factors and forecasts for returns.

Rob Wilkinson, European CEO at AEW says: "This report highlights the strategies that will deliver outperformance over the medium term based on our market scoring. AEW's global in-house research capability is fully integrated at every level of the decision making process. The role of the research team is critical in delivering performance for our investors in these uncertain times and challenging market conditions."

Our outlook shows robust economic fundamentals are driving occupier and investment markets in a positive direction over the next 2-5 years. Continued national and sector specific GDP, retail spending and industry sector employment growth across the three main property segments are driving demand

for space. At the same time, new supply of space across most markets is limited due to banks being unable to lend against speculative new development under their new more stringent regulations.

Ken Baccam, Director of Research at AEW explains: “Occupier markets are showing better market rental growth as new supply remains modest and net absorption steps up with improving consumer spending and employment growth. E-commerce is a key driver for both the bifurcation in the retail markets and the new record take-up across logistics.”

Looking ahead, further capital value growth is expected to be positive but modest. As market rental growth comes through in income growth, yield widening will be offset to lift capital values across most markets. However, total return will largely come from income going forward. As central banks remain focused on normalizing credit and capital markets, interest rates remain near historical lows and are not forecasted to rise significantly in the short term. Even at low rates, overly aggressive pricing for acquisitions remains very limited as the use of financial leverage is disciplined with lenders staying below historical average loan to value (LTV) ratios.

Hans Vrensen, Head of European Research at AEW says: “The relative value outlook for European real estate for the next five years is positive. This is based on the yield premiums available across our four different property sectors over the forecasted 10 year government bond yields. Even though not quite as strong as the last five years, investors benefit from yields beating both the post global financial crisis (GFC) period of 2008-2012 and the pre GFC period of 2003-2007.”

Investors’ focus remains on downside risks, given the recent political uncertainty and the prolonged unwind of the GFC. However, our in depth analysis across European markets in our 2018 outlook shows little risk on new supply, rising interest rates and financial leverage in the medium term.

ABOUT AEW

AEW is one of the world's largest real estate asset managers, with near €60bn of assets under management as at 30 September 2017. AEW has over 600 employees, with its main offices located in Boston, London, Paris and Hong Kong and offers a wide range of real estate investment products including comingled funds, separate accounts and securities mandates across the full spectrum of investment strategies. AEW represents the real estate asset management platform of Natixis Investment Managers, one of the largest asset managers in the world.

As at 30 September 2017, AEW managed €26.6bn of real estate assets in Europe on behalf of a number of funds and separate accounts. AEW has close to 400 employees based in 10 offices across Europe and has a long track record of successfully implementing core, value-add and opportunistic investment strategies on behalf of its clients. In the last five years, AEW has invested and divested a total volume of over €17.5bn of real estate across European markets.

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Saida Grosvalet
+33 (0)1 78 40 92 10
+33 (0)6 15 40 60 11
saida.grosvalet@eu.aew.com

FTI Consulting
Richard Sunderland/Claire Turvey
+44 (0)20 3727 1000
aew@fticonsulting.com