PRESS RELEASE

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# AEW 2020 European Outlook: Bad headlines can mean good news for property

**EUROPEAN REAL ESTATE MARKETS RELATIVELY MORE ATTRACTIVE, DESPITE NEGATIVE HEADLINES**

- As political uncertainty dominates global news headlines, business confidence and economic growth appear to be trending down. But, central banks' policies are expected to keep rates lower for longer.
- These lower for longer yields are good news for commercial property values with AEW's latest risk-adjusted return approach identifying 80 of the 100 covered markets as attractive or neutral.
- Many prime shopping centre and high street markets score well in this approach, despite the prevailing negative sentiment. A value-add UK retail strategy should prove attractive.
- London City and West End remain among the highest ranked office markets, regardless of Brexit uncertainty.
- Dublin logistics identified as an unexpected beneficiary from the UK's anticipated departure with the EU-as some supply chains re-align directly into the Irish capital rather than via mainland Britain.
- This benign overall outlook allows for renewed focus on adoption of ESG processes and reporting procedures, as the traditional cyclical risks of excessive new supply and use of debt remain low.

Despite worsening global economic growth and business confidence, AEW's 2020 European Outlook report highlights that the outlook for property has improved. In reaction to declining business confidence and slowing economic growth central banks cut interest rates, pushing bond yields lower for longer. In turn, these lower for longer bond yields are expected to keep property yields more stable than previously expected. AEW has found that more than 80 of the 100 markets assessed are attractive or neutral. This is a significant improvement from half of the 90 markets covered to last year.

While lower economic growth is expected to limit rental increases, the positive effect of lower for longer property yields more than offsets this negative income impact. The degree of this change varies across markets, but is generally positive. AEW's detailed approach of 100 market segments (which are catagorised by property type and are city specific - with each city allowed a maximum of four property types) helps it to identify the most attractive opportunities. This has translated into an improved outlook with values expected to remain stable in the medium term, with limited downside risk.

More specifically, the results show that 26 of 39 retail markets are classified as attractive or neutral, despite the prevailing negative sentiment and structural changes to consumer behaviour; London West End and City are amongst the best ranked office markets, regardless of the prolonged uncertainty of Brexit; and Dublin logistics is an unexpected beneficiary from Brexit-related supply chain re-alignment, as supply chains are re-aligned directly into the Irish capital rather than via mainland Britain.
Practically, the overall outlook is positive for core investors across the board. But, value-add strategies in UK retail with a focus on change-of-use and redevelopment can be attractive. Also, development in urban logistics should fit with core plus risk appetite in attractive markets.

**Rob Wilkinson, CEO of AEW in Europe commented:** “After the recent central bank policy reversals, the lower-for-longer scenario has now become our base and, perhaps counter intuitively, this can mean good news of real estate investors. With bond and property yields expected to remain at current levels for some time to come, strong competition for deals will continue. For those with an intimate on-the-ground knowledge of specific markets, value can still very much be found, often in places that might seem out of favour, although stock selection remains crucial.”

**Hans Vrensen, Head of Research & Strategy at AEW in Europe added:** “As the European property market cycle is extended, the sector can focus on adopting the latest best practice ESG processes and reporting procedures, especially on the building level. This is consistent with our positive market outlook, as the usual cyclical risks of excessive new supply of space and use of debt are now less of a concern. We could call it the calm before the storm - with no clouds on the horizon yet.”

The 2020 European Market Outlook can be accessed at www.aew.com/research

## ABOUT AEW

AEW is one of the world's largest real estate asset managers, with €70.2bn of assets under management as at 30 September 2019. AEW has over 700 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 2019, AEW managed near €32.3bn of real estate assets in Europe on behalf of a number of funds and separate accounts. AEW has over 400 employees based in 9 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 €20bn of real estate across European markets.

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