



Real Estate Predictions 2021

Understanding the Private Rented
Sector property

**Solving the structural need for rented
housing in the main capitals**



One of the megatrends in real estate is the need for rented housing in the main capitals. COVID-19 has accelerated this trend. The reasons behind the increased demand are the rising population, the fall in the average number of people per household, restrictions on financing combined with decreasing savings ratio and changes in habits. However, there is an insufficient and inadequate stock of rental housing, so a specifically designed product must be developed to match demand and offer new real estate opportunities.

Housing is a fundamental right that is included in the constitution of the EU and in those of its member states. Over the last few years, the demand in the rental market has increased dramatically, not only in Europe but also in the rest of the world. This is a result of population increases in the main urban areas and the rise in the number of households due to the decrease in their average size.

Another contributing factor is the greater difficulty of access to the housing market due to financial restrictions and increasing prices and changes in life habits, especially among the new generations.

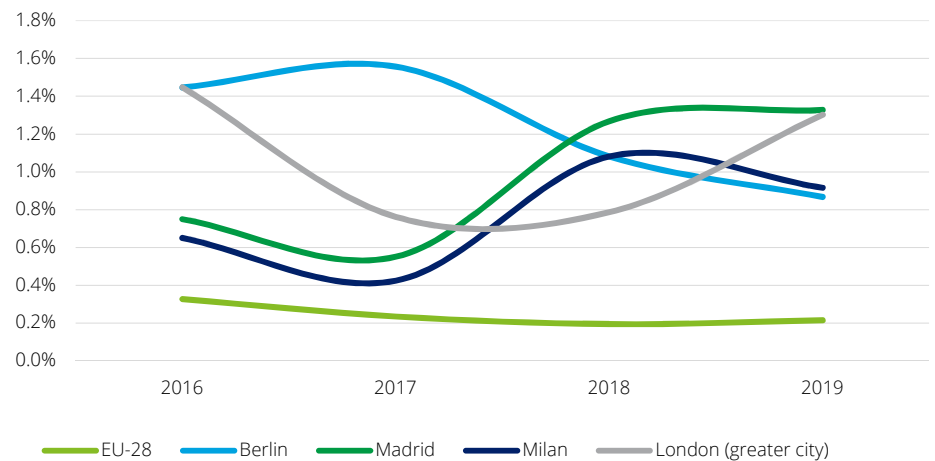
As a consequence of the structural lack of balance in supply and demand, the PRS (Private Rented Sector) market is expanding. In particular, there is an imbalance (shortfall) in social and affordable housing. The market requires new solutions to respond to these urgent needs. There will be a significant capital allocation to this asset class in the coming years.

Megatrend: Household growth in main capitals

By 2050, 70% of the world population will be living in cities. The increasing demand for housing in these cities will be driven by three main factors:

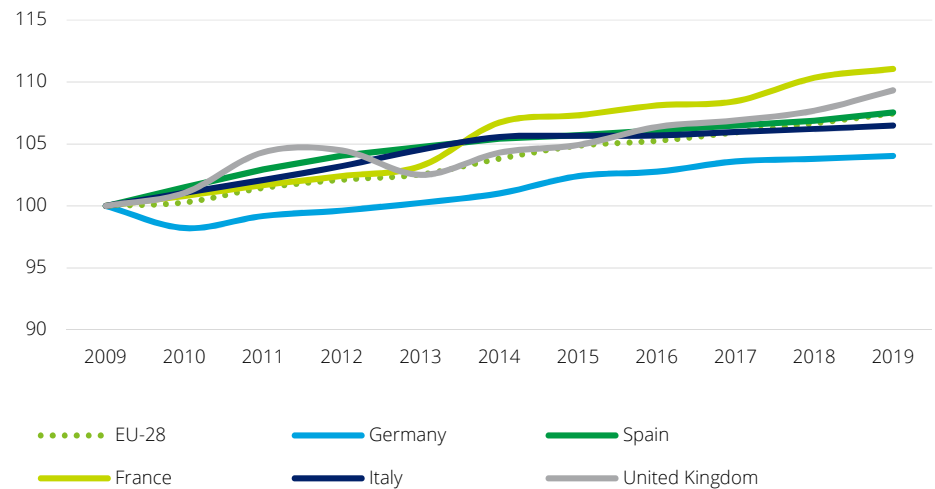
1. the megatrend of population growth in the main capitals (see graph 1),
2. a continuous household creation in the main countries of the EU (see graph 2) and,
3. a declining number of average persons per household (see graph 3).

Graph 1. Population trend of the main cities and the EU-28 (Y-o-Y)



Source: Eurostat

Graph 2. Number of households variation (2009 = 100)



Source: Eurostat

This is triggering the need for additional housing units that are smaller in size and adjusted to current needs.

The trend towards rental

Disposable income and effort rates are key in the shift towards the PRS market, driven by macroeconomic variables such as GDP per capita, employment and the savings rate. The increasing property prices in city centers, as well as restrictions on financing, mobility and changes in consumer habits have structurally enhanced the rental demand in Europe (see graphs 4 and 5).

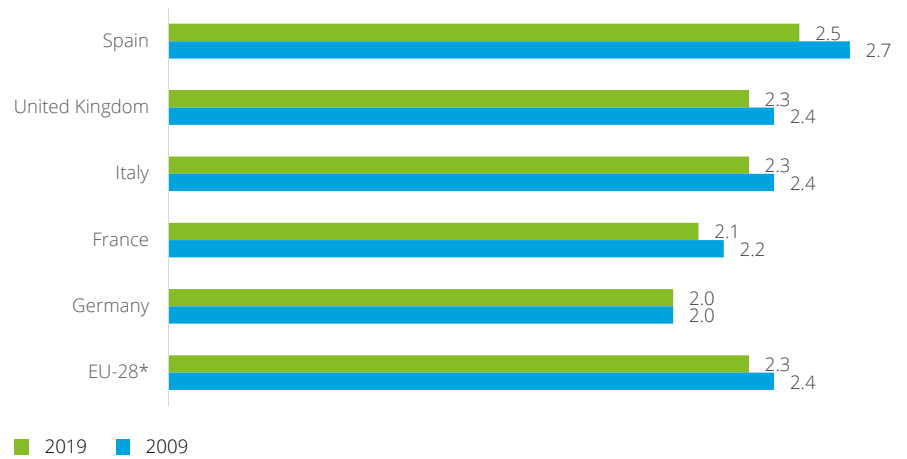
Affordable housing: accelerated by the crisis

The rental market across Europe is concentrated around young and low-mid income tenants. The global financial crisis has eroded economic growth, impacted employment and led to containment in salary growth, which has increased the demand from these tenants. Salaries in the EU countries rose with an average of 1.9% per year between 2014 and 2019, while the price of housing rose by 3.8% on average during the same period. This trend, combined with a decreasing savings ratio, is shifting demand from purchasing towards rental. The recession and economic uncertainty caused by the COVID-19 pandemic has accelerated this trend.

“Build To Rent” as a need

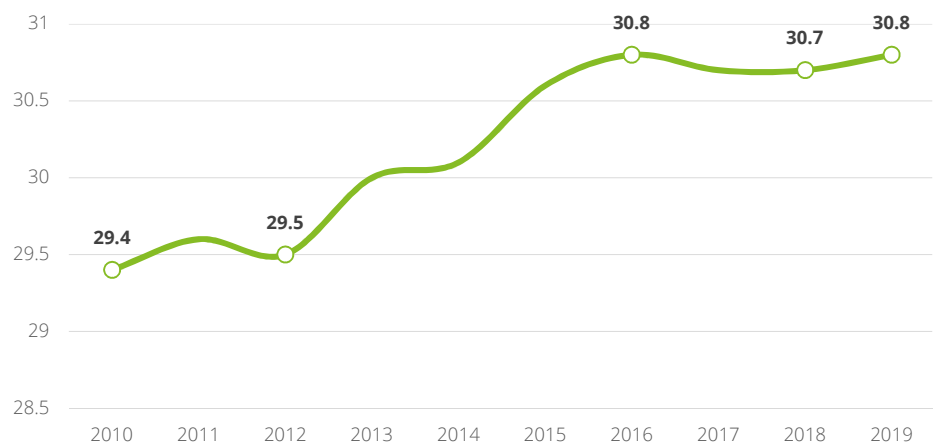
The need to develop an adequate housing stock that is specifically designed to meet rental market demand needs has led developers to use a significant portion of their stock of land to “Build To Rent” (BTR). Turnkey and forward purchase agreements have become an emerging trend. In Spain alone, the investment pipeline for rental platforms exceeds 30,000 units. BTR will continue to be a real estate trend through 2021 and beyond.

Graph 3. Average household size of the main countries and the EU-28



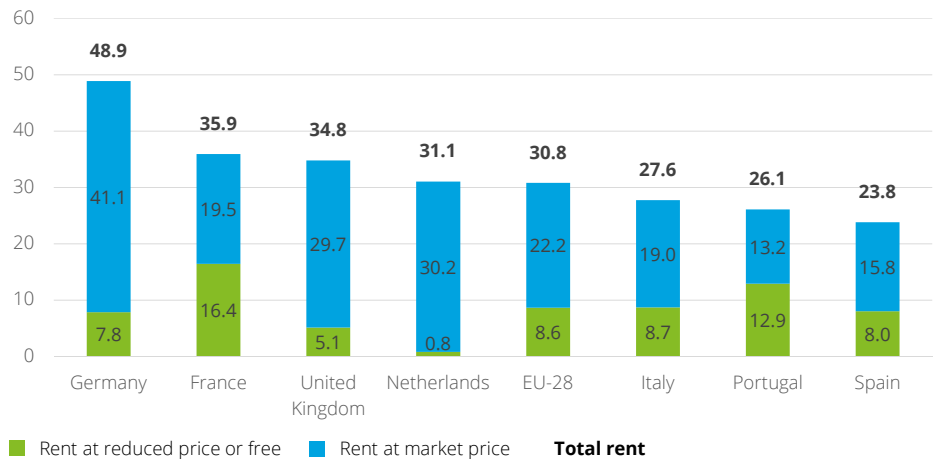
Source: Eurostat

Graph 4. % households renting in EU-28



Source: Eurostat

Graph 5. % households renting in EU (2019)



Source: Eurostat

Opportunities for investors

PRS offers an attractive risk-return profile based on the yield premium compared to risk-free (at maximum levels in the present context of interest rates). It has proven to be a more resilient asset class in times of crisis, with a lower performance volatility due to granularity. In certain markets, limited institutional competition presents a clear opportunity for the development and consolidation of platforms. If BTR is going to be structural, the key for investors is to ensure the operational capabilities (end to end) for the successful execution of the investment strategy - sourcing, development and operation.

Large investors, such as large investment managers, insurance companies and sovereign funds, are already taking advantage of key strategic markets, confirming the megatrend and converting PRS to the main asset class in the future.

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