EMEA Living

Quarterly Bulletin

Q2 2020

Introduction

Governments, business and communities are currently facing up to the impact of Covid-19. The short-term impacts on economic growth, business activity and how we live our lives are undeniable.

While the current consensus is for the global economy to rebound in the latter half of the year, the exact trajectory is unknowable and the situation remains fluid.

The purpose of this bulletin is to provide an update on the Living sectors, as well as highlighting the potential implications of the situation going forward. While Living sub-sectors are driven by many of the same demand characteristics, there are obvious nuances that ensure that the impacts from Covid-19 are likely to be felt differently across the Living spectrum.

JLL will continue to monitor the chronology of the crisis and use our global reach to identify market insights from the Covid-19 battlegrounds all over the world.

Jeremy Eddy
Head of EMEA Living, Hotels and Hospitality Capital Markets

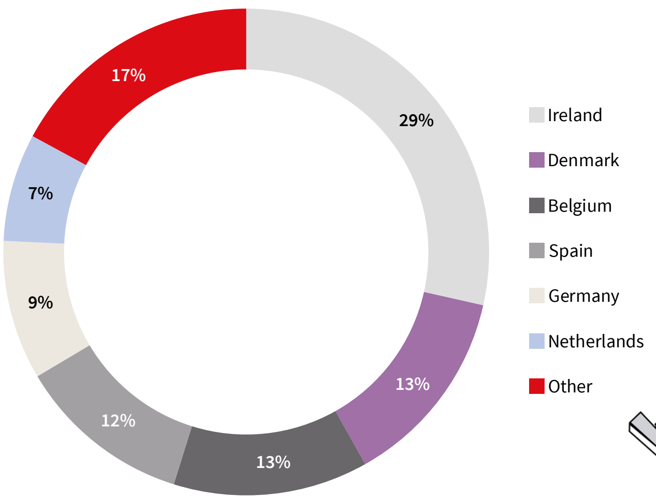
Student Housing

The effects of the Covid-19 pandemic on student housing investors, operators and developers have been significant. While many impacts were felt right across Europe, local market manifestations have diverged over time. Immediate operator responses focused on ensuring tenant health and wellbeing, maintaining occupancy and rental income. Encouragingly, institutional investor demand for student housing remains resilient.

The first quarter of 2020 represented a record start to the year for student housing, with total volumes reaching €6.2 billion across Europe; far surpassing previous totals of €2.1 billion in 2018 and €1.2 billion in 2019, respectively.

This total was buoyed by activity in the UK (€5.8 billion), which accounted for over 90% of total volumes in Europe. 12 deals transacted in Europe's largest student housing market during the first three months of the year, but one represented the largest private property transaction in the UK. Blackstone's purchase of iQ for €5.4 billion makes it the second largest private operator of student housing in the UK, with its newly acquired platform containing 28,000 operational beds, a development pipeline, and the integrated operational business. The portfolio has a 25% weighting to London, accounting for an estimated 50% of the portfolio value. This is reflected in the sub 4% expected yield for the entire portfolio, with premium pricing due to the strategic nature of the acquisition. The high level of competition for the sale illustrates not only the quality of the opportunity and underlying market conditions but also the growing demand for scaled, student housing platforms in Europe.

2020 Q1 Investment Volumes: Rest of Europe - % Share by Country (exc. UK)



Source: JLL, RCA

Other defined as Norway, Finland, Austria and Italy

The largest deal outside of the UK, was Round Hill Capital and NBK Capital's acquisition of a 368-bed scheme in Dublin. The opportunity has a GDV of €85 million and represents the joint venture's second acquisition in the Ireland student housing market.

The immediate impact of Covid-19 on student housing has focused primarily on university closures across Europe that have placed significant pressures on operators, with many facing immediate requests for reductions or full refunds in accommodation costs for the final term of the university semester. This pressure is felt most acutely in the UK, where many operators have agreed to forgo rents for the final term, following early moves made by Unite and Student Roost. Many responses have tended to be investor led, with the focus of maintaining high levels of tenant satisfaction and brand reputation a priority for operators. For example Xior, alongside other local Belgian operators, has offered students a 10% discount for the months of April and May.

Medium-term sector prospects are heavily dependent on two key factors. First, confirmation of the start date for the next academic year will provide crucial income for a sector that has already foregone most of its rent for the final term and summer months. Second, the return of international students will prove vital for the market as a whole, with many higher education institutions indicating that they expect the international share of their student base to fall for the 2020/2021 academic year. International student's willingness to return or continue with their plans to study abroad will be influenced by their perception of how host countries have dealt with the pandemic and the protections in place for a safe return to studies.

Key contact:

Philip Hillman

Chairman, Living Capital Markets

Sector focus
Student Housing

Interview with Philip Hillman, Nick Wride and Konstantin Kortmann

For the student housing sector, how does the Covid-19 pandemic differ from previous crises?

Philip Hillman
Chairman, Living Capital Markets

The last major challenge the student housing sector faced was in the aftermath of the Global Financial Crisis in which the sector performed relatively well, demonstrating resilience and its countercyclical qualities.

The economic impact of Covid-19 can draw parallels with the GFC, with rising unemployment of students' parents squeezing their ability to pay university fees and rents for accommodation. This will also impact on many students' ability to supplement financial support from parents with part-time work.

Where the current situation differs most significantly, however, is the behavioural and social changes that the Covid-19 pandemic is both creating and accelerating within universities and accommodation options. It is hard to imagine laboratories full of students or lecture halls with people sitting next to each other 50 to a row, even if they're all wearing face masks. I'm not sure that's going to be socially acceptable until the vaccine is out there and trusted.

PBSA providers are facing significant issues of property management, following government guidance on social distancing, particularly for shared kitchens and communal areas. Amenity provision is a big selling point for newer PBSA projects, so careful management of this is necessary to continue to attract residents. Student and parent concern over the ability to isolate within a unit may shift demand away from cluster flats and towards studios, which are typically more expensive.

Attending university remains a significant life event, and demand should continue to be strong through and beyond this crisis. The conventional undergraduate and postgraduate routes will remain residential based, as opposed to online. However, the crisis could also accelerate cultural preferences for how accommodation is provided, for example whether catering is necessary, which is particularly the case in Southern Europe.

How can we characterise the impact of the crisis on different universities?

We are in an unprecedented situation. There are not many times in the history of the continent's universities that they have had to shut their doors. Universities are long-term institutions. That is after all one of the great attractions to investors in the sector.

Broadly speaking, the higher ranked universities will do better out of this than others, given their academic credentials and magnetic pull both locally and internationally. There is, however, a consideration of the extent to which their student body is international, given these students tend to pay higher fees and often subsidise their domestic counterparts. Universities are modelling for a significant reduction in international students for the 2020/21 academic year, which will undoubtedly represent a significant impact on their finances.

At a European level, there is more likely to be an existential threat to the smaller universities who do not have a significant brand pull or strong graduate outcomes. This crisis will force new students to consider value for money more closely when choosing universities. Private PBSA has, however, typically focused on strong university cities with multiple institutions, therefore offering a degree of protection for operators.

Sector focus
Student Housing

Interview with Philip Hillman, Nick Wride and Konstantin Kortmann

Spain is one of the most popular European destinations for short and long-term international students. How do you assess demand for the summer term, the 2020/21 academic and beyond?

Nick Wride
Head of Student Housing Spain & EMEA

The current academic year is either a write-off or we are looking at very low numbers staying within their accommodation. Universities have gone online, and the small number of students that have stayed on in halls and residences are either unable to return home due to putting elderly family members at risk, travel restrictions or because the situation at home is worse than in Spain.

There is a consensus that Spain will see a September start for the next academic year, although it could be slightly later than usual, as the 'Selectividad' university entrance exams have been delayed. Some institutions may have a part classroom, part online approach as they adapt to social distancing measures, but the students still want the experience of going away to study. Most operator clients of ours have commented that in terms of domestic students, booking numbers for AY 2020/21 are similar and even in some cases up on last year. The uncertainty is around international students, and that will of course depend case by case on the country of origin, travel restrictions and visa application processing where applicable.

Going beyond, we believe that Spain will remain a top destination for international students, and once restrictions have been lifted and we reach the next 'new normal', we will again see a high number of internationals. For many of our clients, international students are key to their business, accounting for some 30% of total demand and for the high-end accommodation segment, significantly more.

How have student developers and operators reacted to the current crisis in Germany? How has the sector performed so far, and what is the likely trajectory over the longer-term?

Konstantin Kortmann
Head of Residential Investment Germany

The student housing sector in Germany has reacted positively to the current crisis. Residential micro-apartments, branded as student housing, are often the main residences for students and young professionals and have seen very few rental cancellations or vacancies. Investors and operators are, however, putting any expansion plans on hold for the moment, as they would like to see the full effects of the crisis before committing further capital into the sector. Additionally, due diligence processes are taking longer, given travel restrictions and difficulties professionals are having accessing sites.

The countermeasures introduced by the federal and state governments have proven effective, both in terms of keeping infections and deaths down, but also in terms of supporting incomes and the economy. We have begun to see an easing of lockdown measures and expect to see strong student demand for the new academic year as a semblance of normality returns.

The pandemic is unlikely to have a long-term and fundamental effect on the studying and migration patterns of domestic students, who are attracted to strong local and national universities. Meanwhile, we are expecting a continuation of the trend that has seen the number of foreign students growing faster than German students in recent years, even if there is a little dent in demand in the short-term. With its social systems, healthcare infrastructure and economic power, Germany represents an attractive destination when compared with other countries and has probably not lost any of its appeal to foreign students.

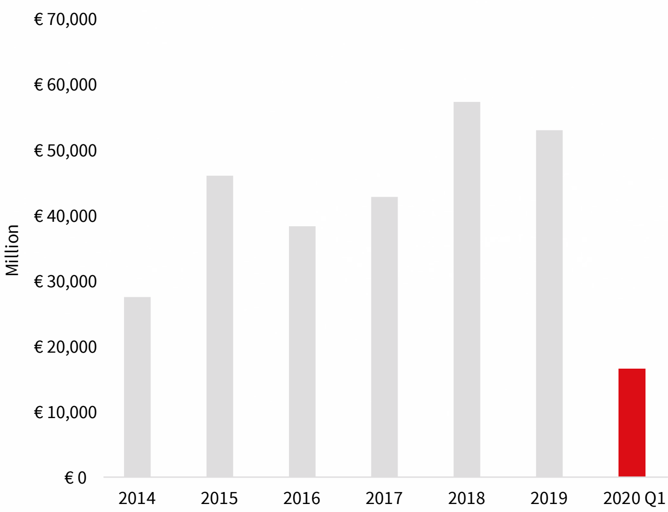
Multifamily

Multifamily is widely considered amongst the most resilient sectors to the real estate impacts from Covid-19, but this will become clearer should growing unemployment begin to soften rental demand. The widespread use of income protection schemes across Europe will mitigate the worst of these impacts provided they remain relatively short in duration.

Before the major effects of the Covid-19 pandemic began to be felt in Europe, the first three months of the year started off strongly. Total investment across the continent totalled €16.6 billion, which was up 64% year-on-year, and equated to 31% of 2019's near-record volumes for the sector. Continental Q1 activity was driven by strong year-on-year growth in Germany (+149%), Finland (+109%) and France (+77%). The major markets of the UK, Sweden and Denmark were more subdued but still received total investment volumes of over €2.2 billion between these three markets.

This buoyant investment activity has been achieved, not only against a backdrop of Covid-19 but also during a period of greater political and legislative intervention in the sector, including tighter controls over rental increases and local market rent indices. This concern was heightened by the 23rd February implementation of a particularly strict programme of controls in Berlin, though there is likely to be a constitutional challenge that could draw the saga out over the medium term.

Multifamily Investment



Source: JLL

Germany continued to be the greatest recipient of capital deployment, with activity totalling €9.9 billion for Q1, which accounts for nearly 60% of the continental total. Adler Real Estate's €6 billion takeover by the Israeli Ado Properties S.A was by some way the largest deal for Europe's principal multifamily market. Despite political intervention in Berlin, the market continues to lead activity, with transaction volumes of €550m, followed by Frankfurt am Main (€470m) and Munich (€450m).

Elsewhere in Europe, Round Hill Capital and Blackstone's sale of the Residomo portfolio in Czech Republic to Heimstaden. This €1.3 billion deal, comprised of 42,584 residential units and 1,675 commercial properties, represented the Nordic-based investor's first foray into the CEE multifamily market. This follows Heimstaden's expansion outside of the Nordics to the Netherlands and Germany, and further consolidates it's place as one of Europe's largest multi-market residential landlords.

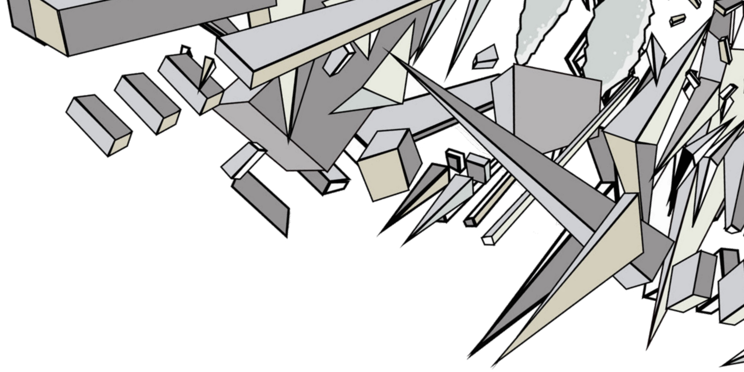
JLL advised German real estate investor ECE on the acquisition of three multifamily schemes from Dandara in a €470 million deal. The transaction marks ECE's debut in the UK multifamily market and is comprised of 2,063 build-to-rent homes across three key city centre schemes: Aston Place in Birmingham, Chapel Wharf in Manchester and Leodis Square in Leeds. ECE's acquisition of the three sites encompasses 324 units already completed at Aston Place, and a further 1,739 units under construction and due to be completed later this year at the other two sites.

Transaction activity towards the end of the quarter showed only limited signs of slowing down. Excluding the Adler/Ado deal which completed in March, the month saw 65 transactions worth over €3.5 billion. Into the start of Q2, however, activity has begun to slow as the Covid-19 pandemic has provided an exogenous shock to investment activity. Early indications of rent collections levels are positive, with many investors reporting over 95% of income, spread across local markets.

The lifting of travel restrictions will also enable investors to conduct crucial on-site due diligence in the coming months. The overall impact on investment transactions will largely depend on how long the current uncertainty lasts and to what extent the political measures can dampen the economic slump, for both households and companies. Q1 performances are unlikely to be equalled in the next two quarters, but liquidity will still remain high over the coming months. The ECB's decision to start purchasing corporate (not just government) bonds for the first time looks likely to stimulate an increased investment interest in real assets, in particular multifamily properties.

Key contact:

Jeremy Eddy
Head of Living & Hospitality Capital Markets, EMEA



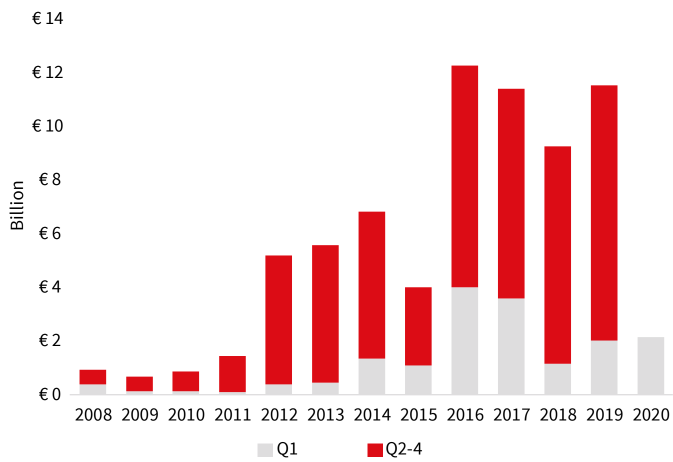
Healthcare

The European healthcare market has never seen higher levels of attention and scrutiny given the ongoing effects of the Covid-19 pandemic. The impact on operating hospitals and care homes have become significant in recent weeks, however the deployment of capital into the sector shows no sign of slowing.

2019 was a near record-breaking year of investment, with €11.5 billion invested across the spectrum of healthcare asset types from primary care buildings to senior living complexes. The first three months of 2020 started off in a similar vein as investment volumes reached €2.2 billion in Q1, up 7.5% year-on-year. The majority of deals were completed in January and February, with these two months accounting for 82% of quarterly investment across 26 separate deals.

Transactions occurring in March were largely completed on the same terms as agreed pre-Covid-19. Of the dozen deals in the month, Orpea's expansion into Ireland was the largest and the 6th largest of the quarter as a whole (see below), while numerous smaller transactions in the UK, Germany and Italy also completed.

Investment Volumes



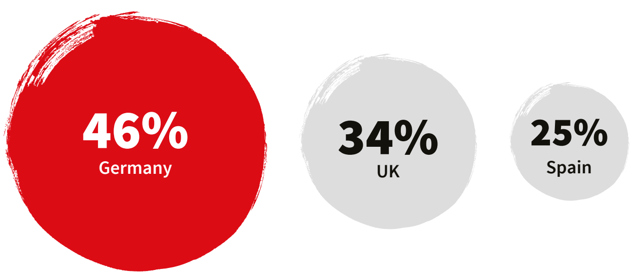
Source: JLL, RCA. Deals > $5m

The largest was the public takeover of Finnish Hoivatilat by Belgian specialist Aedifica for €400m. Aedifica acquired Hoivatilat through its local subsidiary Aureit Holding, in a takeover which was initially launched in November 2019 but completed in January. This purchase adds 182 properties to Aedifica's European holdings, including elderly care, specialist care and child day-care assets, and also represents Aedifica's first expansion into the Nordics. Hoivatilat's portfolio consists of 127 operational assets and 50 developments in Finland, as well as 5 additional pipeline assets in Sweden. There are 46 tenants operating the completed assets and committed pipeline, and the WAULT of the completed portfolio is c. 13 years.

Other significant transactions in the Q1 2020 include four portfolio deals in Germany in excess of €100m. The largest was of AviaRent's purchase of a €185m, 12 property portfolio from Deutsche Wohnen for its European Social Infrastructure I (ESI I) fund. The dozen assets comprise of 958 rooms, more than 1,400 inpatient care places, and 140 assisted living units, located mostly in secondary cities across multiple states. Outside of Germany, French operator Orpea's purchase of the TLC Group's 5-home, 674-bed portfolio expanded its ownership and operations into Ireland for the first time, in a deal worth over €140m.

The Covid-19 pandemic is first and foremost a health crisis, which has undoubtedly pushed the healthcare sector into the public mainstream. Despite increased media attention, institutional capital remains confident of the sector's continued success in the medium to long-term. Transactional activity in Q2 and Q3 is anticipated to remain subdued, not least because of logistical difficulties in inspecting assets for potential investors. The strong underlying interest in the sector means deals should pick up again towards the end of 2020, assuming access restrictions are lifted.

Proportion of private care home beds run by 40 largest operators



Source: JLL, DBK, EAC, PM Pflegemarkt

In the longer-term, there are likely to be opportunities for consolidation in the market. The care home sector is particularly fragmented across the continent and current difficulties for some smaller operators will encourage larger, well capitalised landlords and operators to seek portfolio growth opportunities. In the previous quarter's bulletin, it was noted that 2020 could be the year that a wider range of institutional capital targets the healthcare sector. It is now, however, unlikely that institutional capital will choose to enter the market at this time, with large healthcare specialists expected to pull even further ahead in the market over the next 6 to 12 months.

Key contact:

John Gladstone

Lead Director – EMEA Healthcare Capital Markets

Coliving

The European coliving pipeline continued to grow over the first three months of the year, with several schemes receiving planning permissions in the quarter, including:

Name	Units	Location	Developer/Investor
Rockingham Street	1,370	Sheffield, UK	Code Living
College Road Tower	817	London, UK	Tide Construction
Niche Living, Blanchardstown	210	Dublin, Ireland	Bartra Capital
Rathmines House	97	Dublin, Ireland	Blondie Issuer

Institutional capital is looking ever closer at the sector, trying to learn lessons from early movers in the market, and developing new brands to engage their products with potential tenant pools. Recent examples include PFA's tie up with La Française, which included the renovation of a 13,700sqm Parisian building into a mixed used coliving and co-working block at the end of 2019. Catella also purchased three separate assets from Bouwhuis Groep in the Netherlands, which are based on its Edelwonen concept, for a total value of €52m. The buildings are a 141-unit redevelopment in Nieuwegein (near Utrecht) scheduled to open later this year, a 19-apartment block in Dordrecht (near Rotterdam), and a 128-unit apartment complex in Rijswijk, the Hague which is currently being refurbished.

Fundraising has continued during the quarter. The Collective, based in the UK, agreed a new £140m (€160m) four-year debt financing package with Deutsche Bank and GCP Asset Backed Income Fund to expand its presence both domestically and globally. Smaller operators have also continued to be active, with a number raising capital in Q1. Colonies raised €30m in a Series B funding round in early March, while also linking with a €150m investment commitment by developer LBO France for the construction of assets that it will eventually manage.

The Covid-19 pandemic has put the spotlight on shared living arrangements, where personal and communal space is balanced differently to traditional homes. Despite some operational challenges, most coliving companies have responded well to the crisis, leveraging the benefits of their service-driven model.

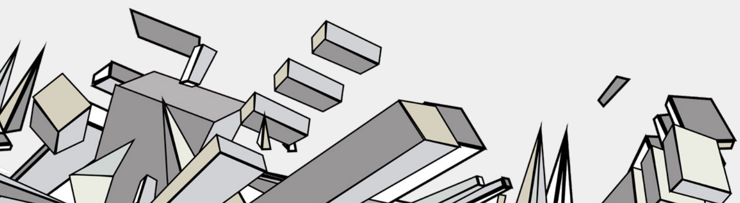
Nonetheless, it has raised questions about different ownership and operational models that exist within the sector. These differences will have implications for the operators and investors that emerge successfully from the crisis. There are two main types of coliving operational model across Europe:

- **Lease agreements:** Coliving operators enter into a lease agreement with the landlord at an agreed level, for which the operator is then liable.
- **Management contracts:** Coliving operators enter into a management agreement with the landlord on a fee-based model and receive a percentage of revenue without liability.

The Covid-19 pandemic has highlighted some of the vulnerabilities of the former model. With many operators not well capitalised and only managing a small portfolio, cash flow issues could become apparent in the sector if the balance between revenues and costs alters significantly. Management contracts, instead, should offer a more resilient and prudent operating model in these testing times. As we move forward, the defensive characteristics of some operators will be stronger than others, with short and long-term ramifications for the sector.

The crisis has also shown the risk of assets heavily weighted towards short-term leases, which are offered by many operators targeting tenants relocating for work, new migrants or people between homes. The lease flexibility granted to tenants is generally seen as a strength of the sector, but an over-weighting towards more short-stay beds is likely to impact occupancy and revenues for some.

With fundraising and institutional appetite remaining strong, capital deployment will grow in late 2020 and early 2021. There are, however, a number of considerations for investors engaging with the sector moving forward. Our view that the sector will continue to develop quickest in European capitals and key gateway cities remains unchanged. The pandemic, however, should sharpen the view on design and quality standards of assets as well as the infrastructure and capabilities of operators. Alongside this, there will be an improved understanding of tenant demand, requirements and priorities, which may well flow through to adjustments in the operational performance metrics used to underwrite investments.



Key contact:

Richard Lustigman
Director – Living Capital Markets – Coliving

Outlook

Student Housing

Across the Living sectors, student housing operators have absorbed the greatest short-term impact on incomes from Covid-19. The start of the next academic year and the return of students, both internationally and nationally, will be key indicators to watch over the coming quarter. If these factors see only moderate changes in the short to medium term, institutional investor demand for the sector is likely to remain strong in the later part of 2020 and in the years ahead.

Multifamily

Despite Covid-19 and regulatory intervention, demand for the sector remains at an all-time high. It's resilience will depend on how long the current uncertainty lasts and the extent that political measures can dampen the economic slump, for both households and companies. If the story remains positive, JLL anticipates that multifamily will represent a greater share of institutional investors' real estate activity in the coming months.

Healthcare

The sector has come under the highest levels of attention and scrutiny given the ongoing health implications of the Covid-19 pandemic. While effects on operations of hospitals and care homes have become significant in recent weeks, the deployment of capital into the sector showed no sign of slowing as we moved into 2020. In the longer-term, there are likely to be opportunities for consolidation in the market, particularly for healthcare specialists who already dominate the market. JLL anticipates that these specialists will pull even further ahead in the market over the next 6 to 12 months, as institutional investors delay decisions to enter the market for the first time.

Coliving

Pipeline growth and capital raising in the Coliving sector has continued to illustrate the demand for the nascent Living sub-sector. The Covid-19 pandemic has put the spotlight on shared living arrangements and the risk of assets heavily weighted towards short-term leases. We expect that demand for Coliving in key gateway cities will be unchanged and is likely to accelerate from secondary geographies over the coming months.

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