Transformation in the property markets

- Sustainable transformation becoming more commercially attractive
- Mixed-use concepts increasingly in favour


Olaf Janßen, Head of Research, and Volker Noack, Member of the Management Board at Union Investment Real Estate GmbH.

Sustainable transformation of their real estate holdings is right at the top of the agenda for institutional property investors in Europe. Given growing pressure from European as well as national and local regulations to improve the sustainability of property stock, 68 per cent of the 150 real estate companies surveyed across the three largest European economies by Union Investment for its investment climate study are responding primarily by investing in sustainable refurbishment of their portfolios. At 73 per cent, Germany has the highest number of respondents committed to sustainable transformation, while in France the figure is 72 per cent. Investors in the UK, where only 57 per cent are investing in their existing buildings, drag the average down.

Majority of investors paying more attention to taxonomy compliance

Over two thirds (70 per cent) of the British real estate investors surveyed are particularly keen to ensure that properties have the relevant local sustainability certificate. In France, having the right certification is important to 79 per cent of respondents, whereas in Germany the figure is just 60 per cent. Similarly, 79 per cent of those surveyed in France are now paying more attention to whether properties are taxonomy compliant. In the UK, the figure is 68 per cent, with Germany on 53 per cent.

"When compared to demolition followed by a new build, transformation of existing properties is indeed typically still the more expensive option at present. With construction costs continuing to rise and tougher sustainability regulations, however, the commercial attractiveness of transforming existing properties will become much more compelling," said Volker Noack, a member of the management team and head of asset management at Union Investment Real Estate GmbH.

Price premium for sustainable properties

The majority of investors surveyed agree when asked whether sustainable properties will command a premium in future. In total, 83 per cent answered yes to the question. In the UK, an impressive 96 per cent expect prices for green properties to rise. In Germany, the figure is 87 per cent. Only in France are the investors surveyed more sceptical: just 65 per cent anticipate a price premium.

Investment focus: mixed-use concepts increasingly in favour

When asked about their investment focus over the coming 12 months, respondents continued to rank offices and residential as their two most favoured asset classes. Some 35 per cent of respondents plan to invest primarily in offices, with 30 per cent making residential property a priority. In Germany, however, unlike in France and the UK, residential is the most in-demand asset class rather than offices – 45 per cent of respondents intend to invest in the segment in the coming 12 months.

In addition, mixed-use concepts are playing an increasingly large role in the investment strategies of the investors surveyed, with 38 per cent of respondents already investing more in mixed-use properties. A further 27 per cent would like to invest more, but are being held back by a lack of supply. For just under a quarter (24 per cent), by contrast, mixed use currently plays no role at all.

In Germany and the UK in particular (45 per cent in each case), investors are already increasing their allocation to mixed-use properties. In each country, a further 15 per cent would like to invest more. In France, the supply of mixed-use concepts seems to be particularly tight, with 56 per cent of local investors indicating that they would like to invest more.

Respondents are not turning to conversion of single-use properties to overcome these supply issues, however. Only 5 per cent of investors are currently converting single-use properties in their portfolio to mixed use.

Investment climate index: muted mood in Germany

Despite the current omicron wave, European real estate investors are still relatively upbeat. In all three countries, the Real Estate Investment Climate Index compiled by Union Investment in Germany, France and the UK remains at or even slightly above pre-coronavirus levels. In France and the UK, the mood in the second half of 2021 actually improved slightly. In France, the index rose 1.9 points to 69.1, thus standing 1.5 points above the pre-coronavirus figure recorded in the second half of 2019. In the UK, the national index climbed 0.1 to 68.8 points, lifting it 4.4 points above the pre-coronavirus level. Only Germany saw a decline in the national index, with a softening by 2.7 to 64.0 points. None the less, the index is still 0.8 points above the pre-pandemic level.

"Sentiment among German investors remains good, but the euphoria seen in the last survey has evaporated. It's now clear to them that the coronavirus pandemic will be with us for longer than expected, and that economic growth in Germany in the current year will be down on the forecasts made in mid-2021," said Olaf Janßen, head of real estate research at Union Investment.

As a result, German investors in particular have lowered their expectations. The corresponding indicator fell by 8.5 points to 51.1 in the second half of 2021. That is still 0.5 points above the level before the pandemic, however. In the UK and France, by contrast, the expectations index has risen slightly: in the UK (60.5) by 3.3 points, putting it 13.9 points above the pre-pandemic level, while in France (59.9) it increased by 0.3 points, taking it 2.3 points higher than at the start of the pandemic.

About the Union Investment survey

Union Investment launched its European Real Estate Investment Climate Index in 2005, with the survey taking place at six-month intervals since spring 2008. The index is based on four indicators: market structure, the general environment, location factors, and expectations, each with a weighting of 25 per cent. For the latest survey, market research institute Ipsos conducted interviews between November 2021 and January 2022 with 150 property companies and institutional real estate investors in Germany (n=60), France (n=43) and the UK (n=47).

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