## Residential sector on the rise to comprise 30% of European investment volumes in this new cycle

* Despite regulatory and market challenges, lack of supply, rising rents and strong demographic fundamentals set to expand residential sector
* Investors flocking to residential housing as a safe-haven asset, given the diversity of options and strong fundamentals supporting investor expansion
* Housing prices in many major European capitals soaring due to supply-demand mismatch
* Demand to remain strong with continued household growth in major European cities
* Growing ‘affordability gap’ has led some governments to intervene in the market, creating uncertainty for investors
* Regional cities remain more affordable, with many attracting investor interest

**Warsaw**, **July 2, 2021** – Colliers (NASDAQ: CIGI; TSX: CIGI), a leading diversified professional services and investment management company, has issued a new report [**European Residential: On the Rise**](https://www.colliers.com/en-pl/research/2021-european-residental) examining the drivers behind mounting investor interest in residential properties in Europe’s major cities. The report ranks major destinations in terms of their allure to investors and highlights the opportunities and risks emerging around an increasingly prominent asset class.

With more and more Europeans seeking to live in renowned business, cultural and educational centres such as London, Paris and Amsterdam, and rising incomes lifting more families beyond qualifying thresholds for social housing, the underlying supply-demand imbalance in most cities is resulting in house prices rising faster than average incomes.

This ‘affordability gap’ means many younger city-dwellers are renting for longer than previous generations before stepping on to the property ladder. Additionally, more empty-nesters are entering retirement age, creating opportunities for investors to provide and expand the availability of rental and owner-occupied housing, including in the build-to-rent, build-to-sell, private rented, co-living, senior and student housing sectors. A total of €60.7 billion flowed into the residential investment sector in Europe in 2020, an 18% growth in activity compared to the five-year average. The ubiquitous nature of the residential sector and the broad range of opportunities it offers will lead to a rise in market share of the ‘beds’ sector relative to other commercial real estate types, reaching 30% of investment volumes in this new cycle as activity expands and deepens across European countries and cities.

“Given the underlying demographic and market dynamics, investors are increasingly seeing residential property as a relatively stable, defensive asset class amidst the huge disruption to economies and behavioural patterns caused by the pandemic,” said **Richard Divall**, Colliers’ director and EMEA Head of Cross-border Capital Markets. “More and more pension, insurance and private equity funds are increasing their allocations to what looks set to remain a compelling opportunity for the long term, especially given the turbulence of the past year and the uncertain outlook for many other asset classes.”

According to Colliers research, Paris, London, Amsterdam, Munich and Manchester rank as the five least-affordable cities for owner-occupiers, in terms of the cost of floor space relative to average local income levels. Buyers can almost double the amount of space they can afford in the likes of Dusseldorf, Cologne, or Marseille relative to these cities. In Warsaw, based on average household incomes, the typical buyer can purchase three times as much residential floorspace as in Paris. This reinforces the attractiveness of these cities for the private rented sector, as the average age of first-time buyers widens to 34-years of age. Additionally, the relatively high cost of housing in these cities is also pushing investors into alternative secondary and emerging residential market destinations, where there is potential upside to capital values.

Despite the broadly positive outlook the report makes it clear that residential investing is not without risks, as many governments move to address the affordability gap with measures to tame prices or new regulations favouring tenants. “Cities such as Berlin and Amsterdam have introduced new rules, sometimes in an unsustainable way, that have injected an element of uncertainty into residential investing,” said **Damian Harrington**, Colliers’ Head of Research in EMEA. “Investors are building their awareness of the political sensitivities around housing, and how these are likely to play out in policy terms. The optimal solution is to create more supply by supporting investment in development, rather than imposing regulations that reduce the willingness to invest and operate rental housing”

**London maintains pole position**

London’s concentration of lucrative jobs, high-ranking universities and cultural assets, combined with the highest economic output density in Europe per sq km, help explain why it has the highest house prices of the cities analysed, at an average of €11,600 per square meter, although prices have been relatively stable since 2017. Brexit has emboldened its appeal to investors in residential property, as prices had remained flat until this year. Investor interest is undiminished, with investment volumes over the past five years more than 130% higher than the second city in the top 10, Berlin, and investor interest is expected to remain high as the United Kingdom’s vaccination initiative and recovery from the pandemic is moving ahead of European counterparts.

**Regulation creates complexity in Berlin**

Berlin remains one of Europe’s most attractive residential investment destinations, but the investment climate has been turbulent recently due to government efforts to close the affordability gap. Berlin introduced the Mietendeckel rent control law in January 2020, mandating rent reductions which came into effect in November 2020. However, in April 2021 the courts declared the Mietendeckel unconstitutional and this has resulted in investors regaining comfort and confidence in the Berlin market.

**Madrid boasts critical mass and exciting returns prospects**

Spain has been hit hardest out of all European countries by the COVID-19 pandemic, resulting in an equally strong rebound in the economy for 2021 and 2022. This rapid return to growth, coupled with a limited shift in rents and yields in the past few years, points to a strong recovery backing growth in capital values and returns for investors. The potential scale of demand is also significant, given the average age of first-time buyers in Spain is 41yrs, much higher than the 34 years average for Europe.

Rising population, recovery set to support Amsterdam residential market Amsterdam’s population is forecast to rise by a further 123,000 over the next decade, reflecting the city’s cosmopolitan culture and appeal as a base for corporate head offices, although demand for housing fell sharply in 2020 as COVID-19 deterred expat workers. Affordability is already an issue, with owner-occupied housing in Amsterdam being the third least affordable of the cities assessed by Colliers. The city has sought to address this by introducing stricter regulations, leading many investors to consider alternative cities in the Netherlands.

**Copenhagen a compelling investment prospect**

Though prices in Copenhagen have increased rapidly in recent years due to a shortage of housing, residential assets in Copenhagen are still affordable in comparison to many of the other cities assessed. The Danish capital also encapsulates a high number of younger households and solid economic growth prospects. When combined with its familiarity and openness to overseas investors, it is one of Europe’s most interesting residential investment opportunities.

**Warsaw stands out among emerging cities**

Warsaw has long been split between owner-occupied housing and social rentals, but a new generation of younger, wealthier Varsovians is coming to appreciate the flexibility of private rental accommodation. Incomes and housing prices are rising sharply in Warsaw, creating opportunities for pioneering investors eager to enter a city that is rising in importance on the European and global stage.

“When it comes to residential sector, Warsaw can be perceived as one of the most important developing cities in Europe. Although currently almost the entire housing stock in Warsaw still consists of owner-occupied and municipal flats, due to the strong economic growth of Warsaw and the social changes taking place in it, the PRS market is clearly expanding, and the number of foreign investors interested in this segment is growing,” comments **Dorota Wysokińska-Kuzdra**, Senior Partner at Colliers, Director of Corporate Finance.

“Although the *European Residential: On the Rise* report mainly analyzes the capitals of European countries, it is worth noting that the PRS segment in Poland is concentrated not only in Warsaw. We can observe an equally dynamic development of this sector in Wrocław, Kraków, Gdańsk, Poznań and Łódź,” adds **Dorota Wysokińska-Kuzdra.**

Download the *European Residential: On the Rise* report [here](https://www.colliers.com/en-pl/research/2021-european-residental).

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About Colliers

Colliers (NASDAQ, TSX: CIGI) is a leading diversified professional services and investment management company. With operations in 67 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice to real estate occupiers, owners and investors. For more than 25 years, our experienced leadership with significant insider ownership has delivered compound annual investment returns of almost 20% for shareholders. With annualized revenues of $3.0 billion ($3.3 billion including affiliates) and $40 billion of assets under management, we maximize the potential of property and accelerate the success of our clients and our people. Learn more at [corporate.colliers.com](file:///C%3A%5CUsers%5CCheungA3%5CAppData%5CLocal%5CMicrosoft%5CWindows%5CINetCache%5CContent.Outlook%5CYKT03WTZ%5Ccorporate.colliers.com), Twitter [@Colliers](https://twitter.com/Colliers) or [LinkedIn](https://ca.linkedin.com/company/colliers).

Colliers has been active in the Polish market since 1997 and operates through offices in Warsaw, Kraków, Wrocław, Poznań, Gdańsk, Katowice and Łódź with 300 employees in total. The company has been often honored for its achievements by industry organizations such as Eurobuild, CIJ Journal, CEE Quality Awards and the International Property Awards. Colliers’ distinctions include the “Outsourcing Star”, given in recognition of its status as one of the most active real estate advisors in the outsourcing sector; and the “Gazele Biznesu” for being one of the most dynamically developing companies in Poland. More about Colliers in Poland at [Colliers.com](http://www.colliers.com) and our [LinkedIn](https://www.linkedin.com/company/colliers-international/), [Instagram](https://www.instagram.com/colliers_pl/?hl=pl), [YouTube](https://www.youtube.com/channel/UC6Axep7hRUl3Sig7lhz8S5g) or Facebook pages.