

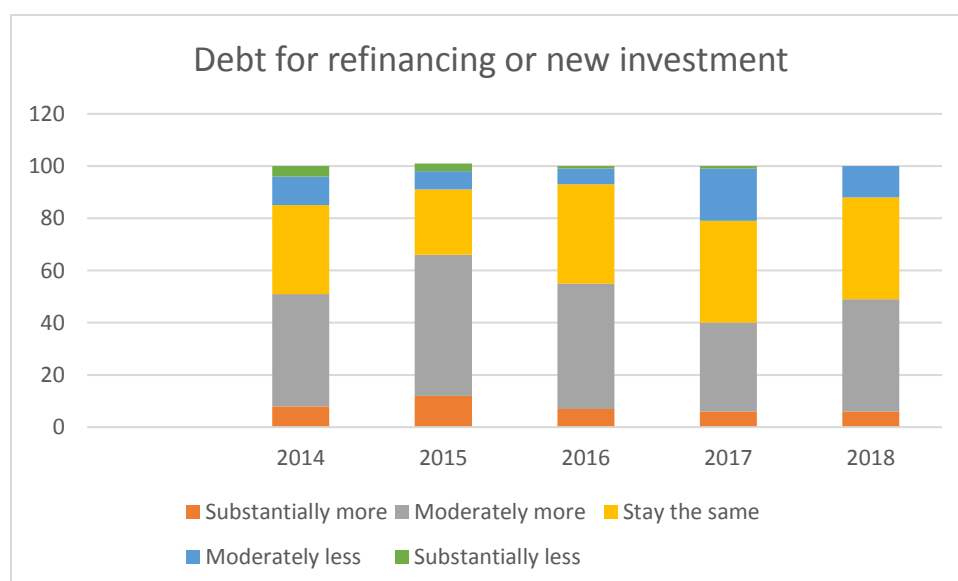
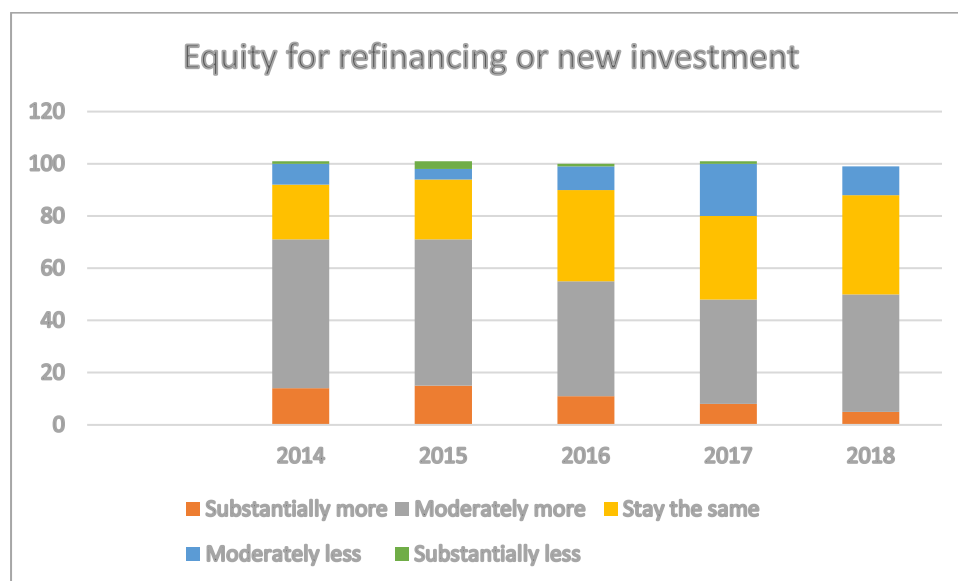
## ULI /PwC Emerging Trends in Real Estate Europe 2018

### Capital Markets Blog

By John Forbes, John Forbes Consulting

The annual ULI / PwC Emerging Trends in Real Estate Europe report for 2018 was published on 1<sup>st</sup> November. As always, the league tables of city rankings have attracted most of the attention, so here are a few brief thoughts on the capital markets findings.

As the report notes, “the dominant theme for real estate capital markets in 2018 is the tension between the pressure to invest and the fear that real estate is late in the cycle, highly priced and thus carries latent risk”. Although expectations regarding the availability of equity and debt are slightly down from peak enthusiasm when we carried out the survey for the 2015 report (see charts), they are on a par with last year. Only a very small minority of those surveyed expect the availability of equity and debt to reduce.

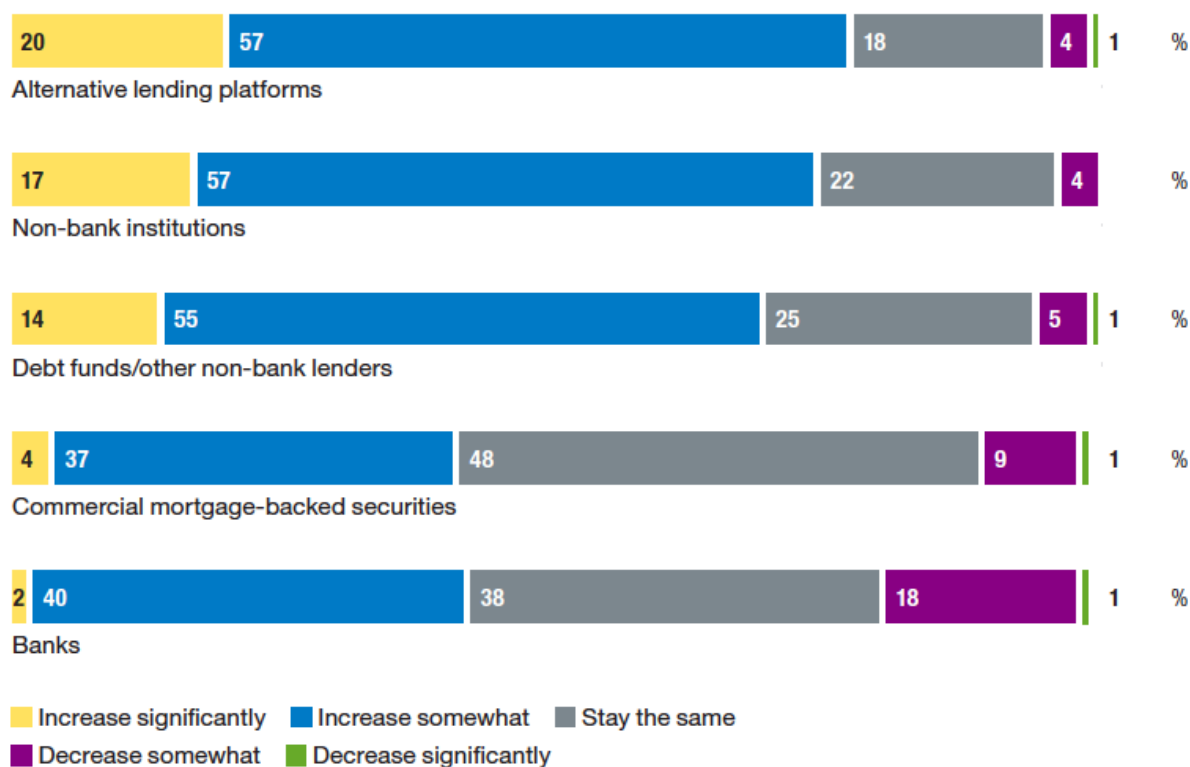


The strongest sentiment amongst the various capital market predictions is the continued inflow of Asian capital. 71% of respondents expect capital inflows from the Asia Pacific region to rise during 2018 and only 7% expect a fall. The growth in Asian capital is expected to durable trend. As the report notes, “In terms of Asian investors, the outlook is for a large increase in the medium to long-term, but with some short-term bumps in the road as a result of Chinese regulatory intervention”. This is a continuation of the prediction of the previous year.

The biggest change was in expectations for investment from within Europe, with 51% of respondents expecting an increase, up from 38% a year ago. Although not quantified, strong inflows from retail investors were noted, particularly in France.

In terms of predictions for debt, respondents expect non-bank lending to expand relative to bank lending.

**Figure 2-4 Sources of debt in 2018**



Source: *Emerging Trends Europe survey 2018*

The difference is, however, less stark than a year ago. This year 42% of those surveyed expect bank lending to increase, compared to only 30% in the previous report. Equity raised by debt funds has increased significantly since last year.

So what can we look forward to in the panel debate about the report on 12<sup>th</sup> December?

Firstly, a huge amount of capital is being raised for opportunistic strategies, up again from the previous year. In a low return environment with improving economies, where will the managers find high return opportunities to deploy the money coming in? I am sure this will provoke healthy debate amongst the panelists.

Much of this capital has been raised in the United States. Views differ as to whether this will be sustained in 2018. 41% of those surveyed thought that capital from the US would increase in 2018 and 26% thought it would decrease.

In the UK, there has already been considerable debate about retail investment in real estate. The report suggests that this might be a broader theme across Europe.

Finally, as in previous years, I am sure that there will be considerable debate about the importance and direction of non-bank lending.

So plenty of capital markets stuff to look forward to on the 12<sup>th</sup> of December before we get to those city league tables....