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SPOTLIGHT
Savills Research

World Research 2021

Global Living

Global city prospects, demographic trends, demand for operational residential and the 'Social' in ESG

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Report Highlights:

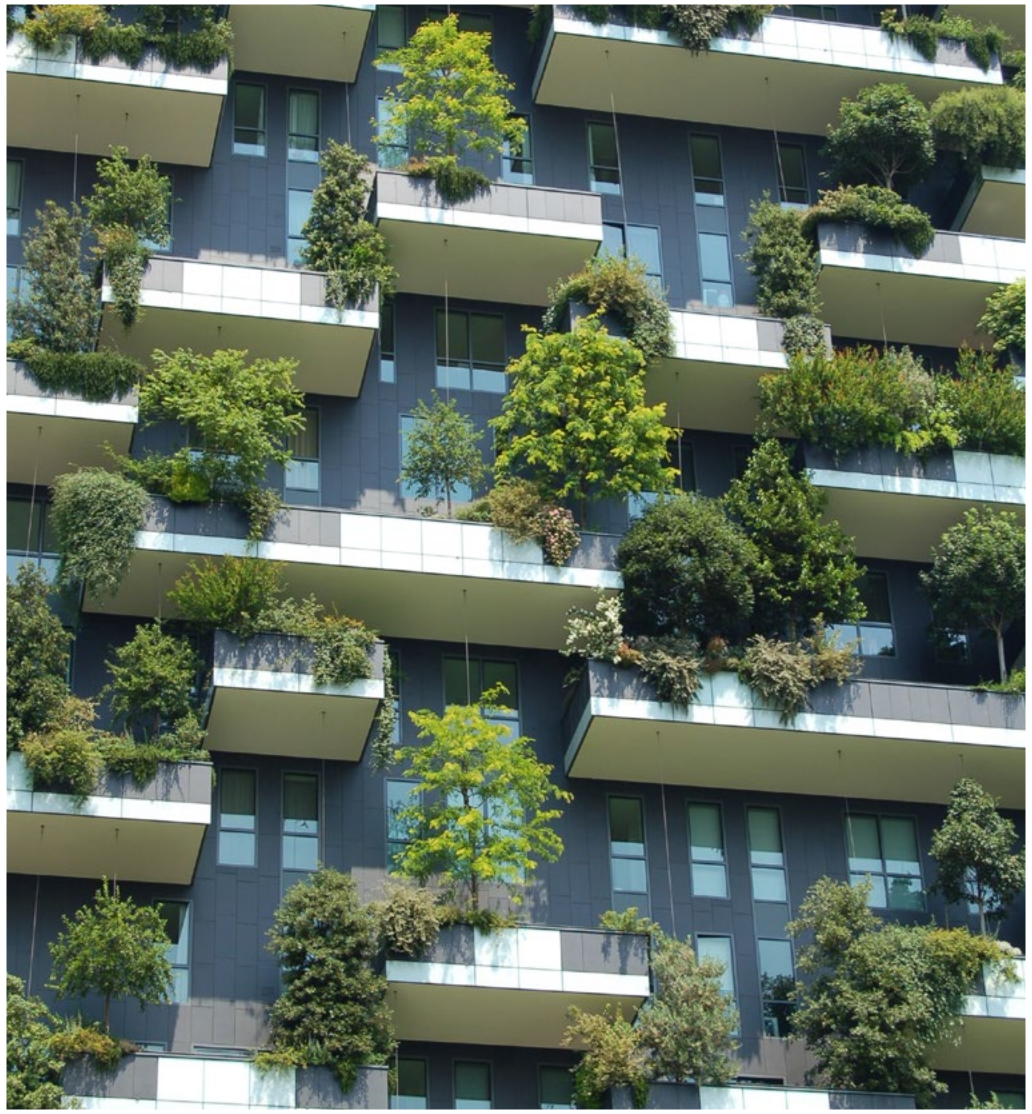
Operational residential investment held up strongly against other real estate asset classes through the Covid-19 pandemic

Occupancy levels and rental levels were also comparatively robust

Social changes and technological advances are driving significant demand for purpose-built, high-quality rental product globally

Cities still have a huge role to play in creating attractive and sustainable places to live for people of all generations, who want quality accommodation, amenity and a sense of community

The Social value and impact of new schemes is now a vital consideration, and includes aspects such as affordability, inclusivity, health and wellbeing



Introduction

Operational residential real estate has proven to be extremely resilient in a time of exceptional global upheaval. Global investment into the living sectors held up better than the office, retail or hotel sectors last year. However, the Covid-19 pandemic brought many challenges, and has accelerated changes to the way we live and work. For investors, lenders, developers and operators in multifamily, student housing, co-living and senior housing, it is important to understand how these forces are shaping the sector.

Change was already underway prior to the pandemic. Technological advances were transforming the way we live and interact with our urban environments. Decades of growth in our cities had seen demand for homes outstrip supply, squeezing affordability. This has fuelled demand for rental product, also supported by mobile workforces and student populations.

The Covid-19 pandemic has highlighted the need for cities and the real estate within them to evolve to respond to new challenges. Affordability, inclusivity, health and wellbeing are now high on the agenda.

Housing affordability

More than a decade of low interest rates has meant that those who could access mortgages were able to borrow cheaply. This, together with undersupply of new dwellings in many countries, fuelled price rises across the globe, outpacing income growth in mature markets.

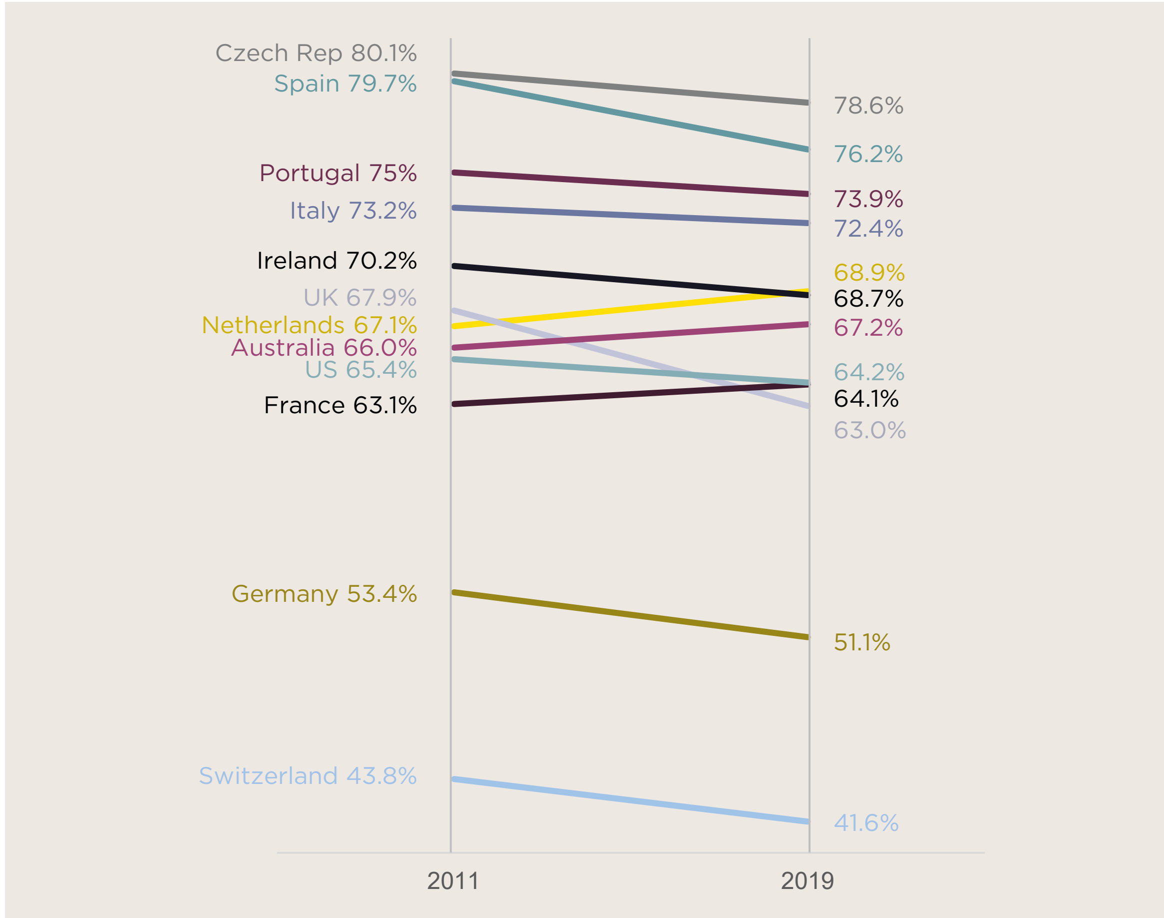
During the pandemic, this trend has only accelerated. House prices increased by 5% in 2020 across 12 major global cities at a time when their national economies shrank by an average of 5% – remarkable given this was amidst the steepest global economic contraction seen since the Second World War.

In many markets, there remains an aspiration for home ownership, but rental product – supported by growing institutional investment – has raised the bar by offering ease of living in a high-quality product. Homeownership rates have fallen over the last decade (see chart). A combination of affordability constraints in the sales markets (particularly impacting first-time buyers) and changing lifestyles is boosting demand for renting. There are exceptions, such as France, where sustained levels of home building in the last decade have supported growth in home ownership.

City-dwelling, mobile young people are settling down later in life and flexible rental models suit them well. At the other end of the spectrum, the baby boomer generation is entering retirement age. Healthier for longer, they want many of the same things Generation Y and Z are looking for: quality accommodation, access to amenities and a sense of community. Rental products are emerging to serve them too.

For many, our homes became both living and workplaces during the pandemic. The possibility of increased levels of homeworking in future puts even greater importance on the home, only intensifying interest in the operational residential asset class from investors. This may be particularly the case for single-family rental homes, which offer more living space.

Homeownership rates Selected countries



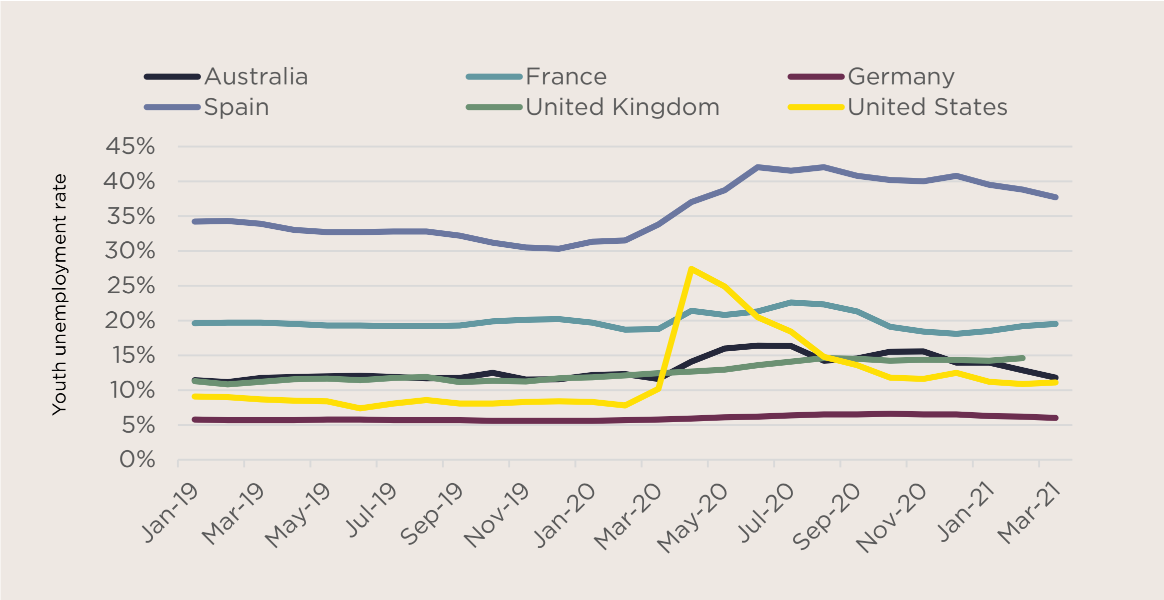
Source Savills Research using Eurostat, US Census Bureau, Australian Bureau of Statistics

“More positive economic forecasts imply recovery is on the horizon”

Recent factors shaping occupier demand

Unemployment spiked in the wake of the pandemic, with the young particularly impacted. Youth unemployment rates (those aged 15-24) across the OECD increased from 12% in January 2020 to a peak of 19% in April 2020. The US, with its highly reactive labour market, saw unemployment rise especially sharply last year, but this has since returned to 2019 levels as the US economy has opened up. In Europe, by contrast, furlough schemes have disguised the true impact of the pandemic on the jobs market, though more positive economic prospects imply recovery is on the horizon here too, as GDP forecasts show (see chart).

Youth unemployment rates 15-24 year olds, selected countries



Source Savills Research using OECD

In spite of headwinds, occupancy and rent collection in operational real estate has been resilient; testament to the secure and stable income streams that investment in ‘beds’ offers.

In the United States, multifamily rent collection was 95% in April 2021, with occupancy figures remaining steady as a result of eviction moratoria still in place across the country. Grainger, one of the largest BTR operators in the UK, reported that occupancy fell to 89%, but it had retained high levels of rent collection, with 98% paid. In mainland European markets, rental collection rates were lower but still strong at or above 80%, according to Savills Research.

Senior housing has been slightly less resilient, with US senior housing occupancy dropping to 80.7% in the fourth quarter of 2020 as residents and their families opted for alternative care solutions during the pandemic. This is similar to occupancy rates in European countries such as Spain, where occupancy stood at approximately 81% in September 2020, a figure down eight percentage points from 2019. Looking ahead, however, underlying demographic trends mean prospects are still very positive.

With international student mobility particularly impacted by the pandemic, student housing has been the most affected of the operational residential asset classes, though not as much as analysts had initially predicted. Domestic students have partially filled the void left by international students, while in some markets, such as the UK, certain groups of international students have risen to boost total numbers.

In most European markets, occupancy figures have remained north of 80%, although some cities such as Madrid and Dublin have seen occupancy fall to around 50-60%, according to Bonard. Remote study has been shown to work, although it is a poor substitute for on-campus tuition and the holistic student experience. As a result, demand for student housing is likely to recover quickly as restrictions continue to be removed.

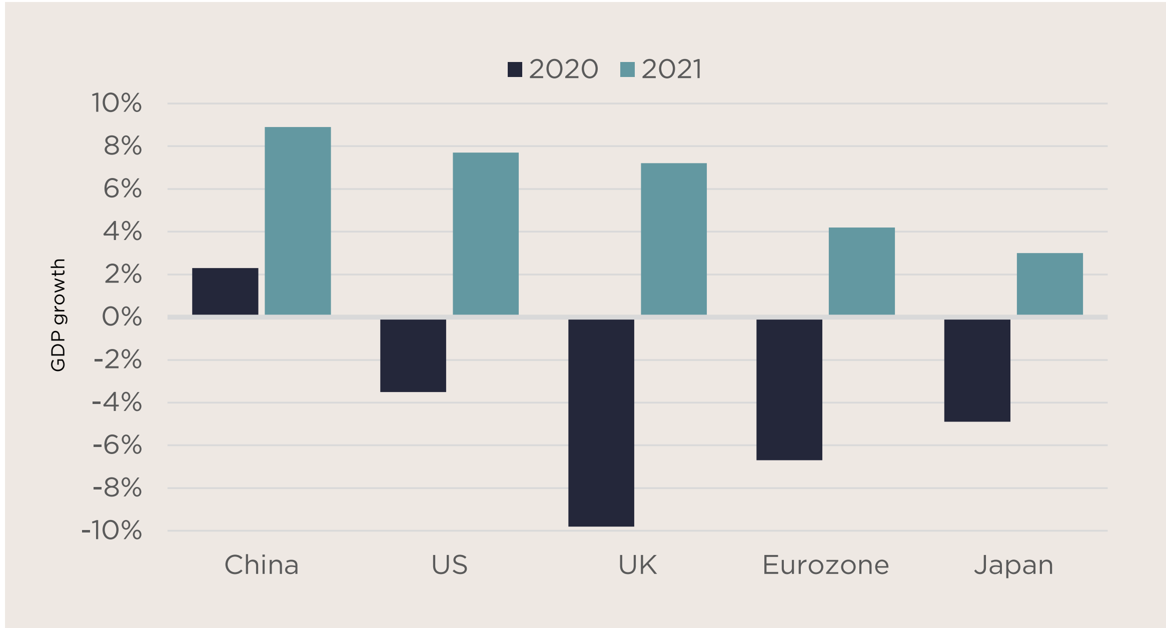
One medium term challenge to investors are rent regulations. Rents, rising at a faster pace than incomes, have made rental housing a highly politicised issue. These regulations are becoming more stringent in cities such as Paris, Amsterdam and Copenhagen (see Spotlight: European Multifamily).

Ireland has increased stamp duty to 10% on bulk purchases of 10 or more residential homes. There are also proposals to ring fence up to half of new developments for owner occupiers, but apartments will be exempt, in recognition of the role that institutional investment plays in the delivery of new supply.

Berlin’s rent cap was recently deemed illegal by the German federal courts and rolled back, though the decision was based on who could introduce rent caps rather than the legality of rent caps. Investors in the sector are generally comfortable with modest caps on rent inflation, as these can provide greater certainty of income while reducing perceived risk, and happy tenants are more likely to stay put for longer. However, there is a balance to be struck, and anything that impedes delivery of new stock at scale would be counterproductive.

Urban areas will account for
90%
of global GDP by 2030

Economic growth is forecast to rebound this year Selected countries



Source Savills Research using Oxford Economics

Evolving cities and the role of operational real estate

While in the West many people have rediscovered the suburbs and the countryside during the pandemic, cities still matter. Urban areas account for 80% of global GDP, forecast to rise to 90% by 2030, according to Oxford Economics. They are especially important to people’s formative years for study and work, building connections that can enhance social lives and accelerate careers long term.

Big cities are actively reinventing themselves to be fit for a post-pandemic world. The City of London has announced plans to convert vacant offices into residential, boosting its residential population. New York has adopted a policy of adaptive reuse of hotel and office buildings into residential.

The ‘15-minute city’ concept has gained traction, and major cities from London to Barcelona are expanding cycle networks. Some are embracing ‘micro mobility’, including e-scooters, with the potential to unlock areas for residential previously overlooked due to poor public transport connections.

Mixed uses benefit all uses. Investors, targeting long-term income streams, have a vested interest to ensure the wider environment they create is high-quality and well integrated into the wider community. Tenants are more likely to stay longer and pay a premium for this quality of experience.

Mono-use retail schemes, particularly impacted by the pandemic, are ripe for repurposing and reimagining. Residential will be central to this, helping to build viable, mixed-use places. To be truly diverse and sustainable they will need to attract a breadth of ages, incomes and demographics. This presents an opportunity for everything from student to senior housing, and critically, at a range of price points.

Cities to watch

While big, established cities are responding to meet today’s challenges, fast-growing knowledge industries are propelling smaller cities onto the global stage. Hubs for tech and life sciences businesses include global megacities such as London, New York and Singapore, but also smaller cities by global standards. These include Boston, Austin and Seattle in the US, Eindhoven, Oxford, Cambridge and Barcelona in Europe, and Tel Aviv, Melbourne and Cape Town. Savills Tech Cities and Science Cities programmes highlight the leaders in these fields.

Compact by world city standards, these locations offer city living on a smaller footprint, allowing shorter commutes, often by bike, and easier access to countryside and outdoor pursuits, contributing to a better work/life balance. They typically have more green space and better air quality than their big-city counterparts, a major advantage in today’s environment. For investors in operational real estate, this makes them opportune for quality residential rental product. While they may not offer the scale of the major global cities, the presence of growth industries means strong and rising underlying demand for accommodation from students and professionals.

“The UK has 22 ‘youthful’ cities”

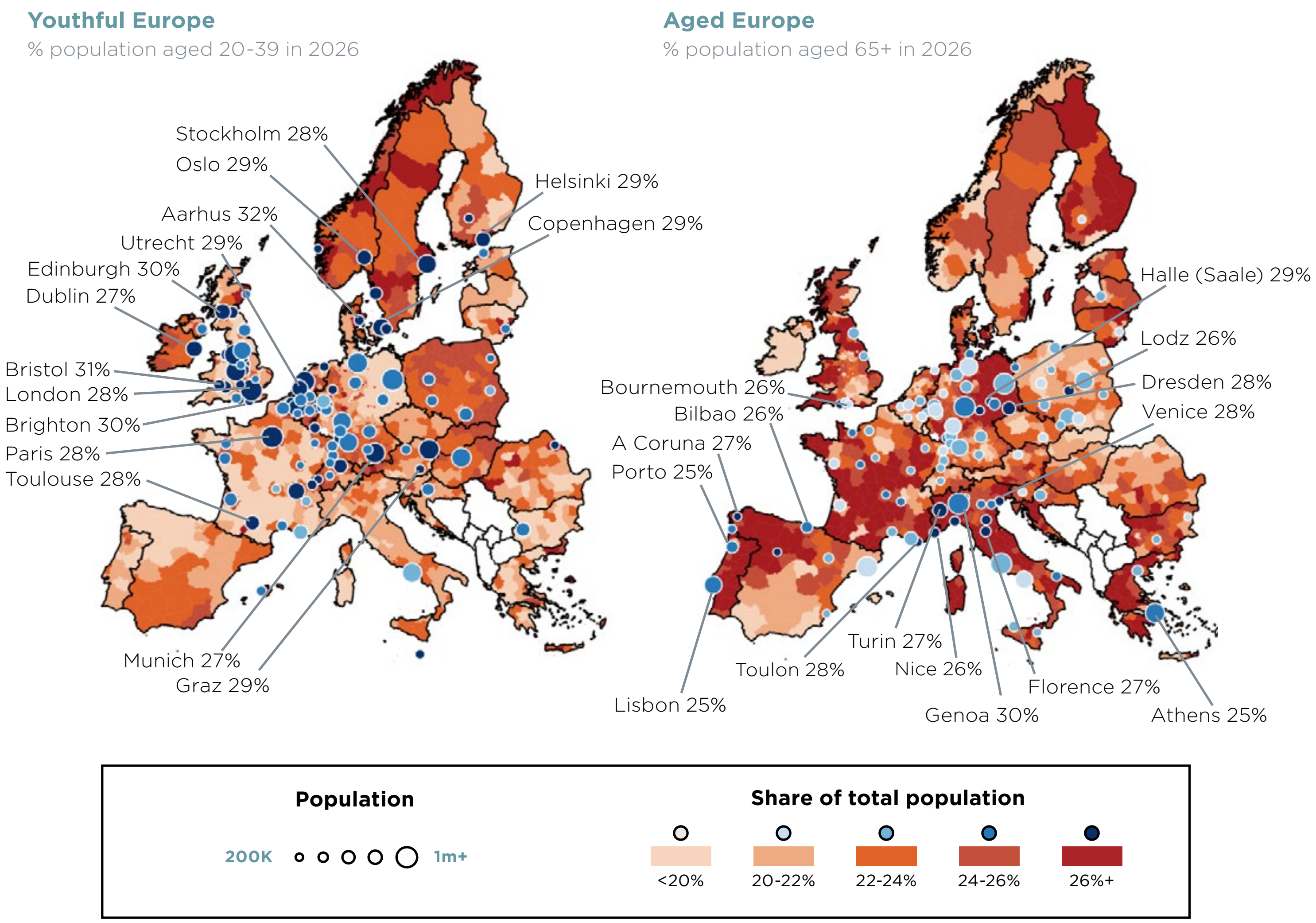
Demographic change

Much of the developed world is ageing, particularly in Europe, driving demand for senior housing. However, some regions and cities are forecast to remain youthful, underpinning demand for student and multifamily accommodation.

We have identified the places across Europe that in five years’ time will be particularly ‘youthful’ (the largest share of people aged 20-39) and those that will be the most ‘aged’ (65+).

These two groups are not mutually exclusive. Germany may be home to the most ‘aged’ cities in Europe, but it is also home to the second largest number of youthful cities. Scale is a factor too. The number of 20-39 year olds in Berlin, for example, is smaller only than London and Paris.

‘Youthful’ and ‘aged’ Europe in 2026



Number of ‘youthful’ cities in the top 100

Top five countries

UK	22
Germany	18
France	14
Netherlands	6
Belgium	5

Number of ‘aged’ cities in the top 100

Top five countries

Germany	25
France	15
Italy	14
Poland	11
Spain	8

Source Savills Research using Oxford Economics

The ‘S’ in ESG and what it means for operational residential

The ‘Social’ in ESG is about the wellbeing of places and people – the human side of sustainability.

In the case of operational real estate, creating social value involves engaging communities both within and around a development. Residents and building staff are integral to its social value, but so too are external communities that are also impacted by the property. Balancing the effects of neighbourhood regeneration and gentrification is key to creating and maintaining equitable social value.

Measuring social value

There is no universal definition of social value in real estate, which complicates creating a common framework. Social value is created when the built environment supports environmental, economic, and social wellbeing to improve quality of life. Measuring it requires recognising that it is a long-term and dynamic process involving multiple actors and requires careful consideration of local needs.

Certifications like WELL, FITWEL, BREEAM, and LEED have social elements in their criteria and could be utilised to increase social value. Another solution is ascribing a monetary value to social aspects of a scheme, such as community facilities, to ensure they are part of the process from the start – though there needs to be consideration around what is exclusive to the tenant who may be paying a rental premium for facilities. Indicators and measurements also need to be highly tailored to local environments to be useful.

Enhancing social value needs to be considered not only at a moment in time, but also its ongoing value: are the community facilities being used and is the community being enhanced and integrated? Property needs to be reframed away from the ‘asset’ paradigm back towards understanding the role and responsibilities of property across the value chain and life of the property.

From a community to the community

The pandemic has served to emphasise how social humans are and shone a light on the loneliness issue. Many operational residential models offer advantages to tackling this problem. Examples of this include housing with care, with individual space for residents but with a support network and community when needed, co-living which can provide contacts to people moving to a new city, and student housing which can help young people build networks and relationships.

The community is not just people and places. It’s also access to services and integration into the wider economy and society. From shops to schools to access to transport, a property’s access to things outside the walls of the development is also a critical consideration.

Affordability is also key: neighbourhood renewal and regeneration is good so long as rising prices don’t drive out current residents. Local authorities worldwide are prioritising affordable housing in new developments. Developers and investors have, to date, primarily focused on the ‘low hanging fruit’ by targeting wealthier occupiers, but diversity of product and affordability is key to meet Social criteria. Pressure is only going to increase with the rise of green finance and shareholder’s ESG agendas.

Savills World Research

We monitor global real estate markets and the forces that shape them. Working with our teams across the globe, and drawing on market intelligence and published data, we produce a range of market-leading publications, as well as providing bespoke research for our clients.

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Savills Operational Capital Markets

We provide our clients with valuation, consultancy, transactional and financing advice in the residential (PRS), student accommodation, co-living, senior living and healthcare sectors - across the UK and Europe. Our track record is unrivalled, having advised our clients on over £20bn of investment in the last three years alone.

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