Europe's investible residential landscape

Assessing country-level private rented residential investment markets

September 2015

Stockholm, Sweden

Aberdeen

Contents

Executive summary

- In this paper, we examine the European residential sector at a country level. More specifically we are looking at the rented, institutionally owned element of the residential sector, also known as "multi-family" in the United States and Asia, or private rented sector (PRS) in the U.K. We are specifically not looking at housing that is owner-occupied by private individuals, or social housing (an affordable housing program).
- European demand fundamentals for private rented residential are largely very positive and contrast markedly with those of many commercial property markets. There are multiple reasons for the strong demand: increasing migration, strong population growth, later marriage, shrinking household size and the sheer cost of buying in some markets.
- The situation is exaggerated even further in some European countries and especially in certain "winning cities." The Nordic capitals, London and Amsterdam are particularly affected by surging demand.
- Supply is already constrained across Europe and ongoing capacity constraints are commonplace. Development levels have not been able to keep up with demand. Reasons include planning restrictions such as green belts around cities and the preservation of historic areas, a lack of bank funding for new development, and rising environmental standards that are increasing the cost and complexity of developments.
- Germany is Europe's most established investible market. It's as big as all the other markets put together and ten times the size of the second-largest investible market, the Netherlands. Nonetheless, significant investment opportunities are rapidly emerging in the Netherlands, Sweden, Switzerland, Denmark, France, and increasingly, the U.K.
- Residential regulations vary in Europe, across countries and even within cities. Local expertise is key.
- High-quality and consistent international private rented residential models are emerging, which could be transferable across borders. That said, the quality of operators and management varies enormously at the moment. Pricing estimates can be inconsistent. Our initial analysis confirms that rental costs in Germany, the biggest market, look very affordable relative to incomes.
- Accessing stock is likely to be competitive given persistently low interest rates and government bond yields, and as the residential sector's ability to deliver secure income returns becomes more recognised by institutions. Forward-funding developments are a potential solution to accessing stock for investors.
- Our key country-level conclusions are detailed below. However, we emphasize that residential markets can differ enormously between countries and within individual cities. Again, local expertise is key.

Country	Conclusion
Germany	Very large and investible, and as big as all other European markets put together.
Switzerland	A very substantial market, which is tightly held by Swiss institutions. Very expensive and likely to be of limited international appeal.
Sweden	Tightly regulated market with low yields. Potential for long-term income growth.
Netherlands	A large, established market recovering after the downturn. Government reforms will reduce regulation and open up opportunities for investors.
France	A large, disaggregated, privately-owned rental market with limited institutional activity to date; potential for growth. More regulated than other markets, such as the U.K.
Denmark	A high level of private renting in Copenhagen. Pre-1991 properties are regulated.
U.K.	Limited institutional activity and a strong, unregulated private market. Substantial potential for growth and chronic housing shortage presents interesting opportunities. Institutions are likely to have to develop stock themselves.
Italy, Spain, Austria, Finland, Belgium, Norway	Limited current investment opportunities for institutions, although some offer strong growth potential.

Introduction

- In this paper, we have examined private rented residential property at a country level across Europe.
- In our view there has been a lack of research which has compared consistently across European countries.
- While there are major gaps and inconsistencies in the data, the scale of the markets and the potential opportunities require us to address the topic.
- We believe that country-level views should not be the key criteria when investing, but this paper does aim to provide some background and context.
- Residential has been seen as an alternative property investment in some, but not all, European markets. We see it as becoming increasingly mainstream and offering very secure income streams with minimal vacancy risk. Investors are increasingly interested in building pan-European residential portfolios. The purpose-built, privately rented block – known as "multi-family" in the United States – is becoming increasingly commonplace. Frankly, the way renters live has increasing similarities across the world's developed economies, arguably with greater parallels than we see in global commercial property markets.
- We strongly suggest that investors draw upon "best-in-class" strategic and operational elements from around Europe and beyond. We remain convinced that the residential sector will form a rewarding long-term allocation for property investors – in many countries the dynamics are compelling. Understanding the investment landscape is key.
- The next phase of our European residential research will include:
    - Pricing in a fundamental value context, which is consistent with our approach to pricing of global commercial property markets;
    - A city-level analysis to supplement work we have already completed for the German and U.K. markets and
    - Other residential segments beyond private renting, such as student halls and senior living.

1. Demand: strong population growth, shrinking household size, the sheer expense of buying and increasing migration are all driving demand

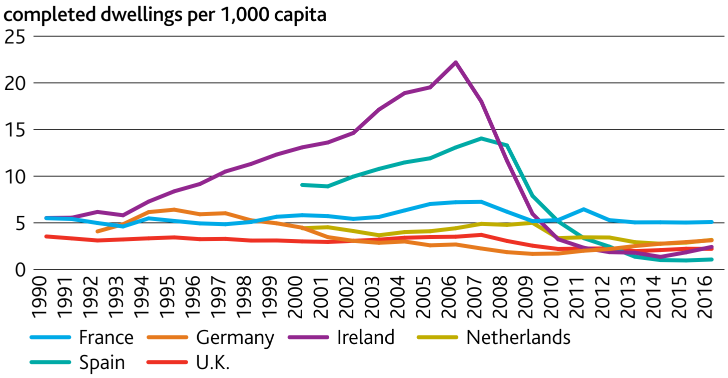
- Many commentators incorrectly focus on the fact that Europe's population is expected to remain stable over the next 15 years, because at a country and city level they vary significantly.
- Even at a national level, there are **some countries where population is projected to grow sharply. These include the U.K., France, Switzerland and the Nordic countries**. This is driven by a combination of high rates of immigration and, especially in the case of France, aided by high birth rates (Table 1 in appendix).
- In other markets, such as Italy and Germany, population is projected to remain fairly stable.
- However, growth rates at a European city level can easily exceed those from emerging markets' cities (as described in our paper "How to invest in property in global winning cities").
- Not only is population growing, **but household sizes are shrinking (table 1)**, which mean that a greater number of homes are required per capita. Smaller households also tend to take up more floorspace per capita as each household requires facilities like a kitchen and a bathroom. Such space inefficiencies don't appear to be replicated in commercial markets.
- The European labor force is becoming increasingly flexible and mobile. **Increasing migration volumes, on a national or international basis, are positive for private rented residential**, as migrants are likely to rent for several years before buying a property.
- The trend towards **marrying and having children later in life, less predictable career paths, the expansion of tertiary education, the continued growth of city-based service sector employment** and the decline of manufacturing are also driving the growth of private rented residential across Europe.
- Renters are typically young, mobile and affluent.
- **As capital values have risen in an era of ultra-low mortgage rates, the sheer expense of buying has forced many into the private rented sector** (see section 3). Banks tightening their lending criteria by requiring larger deposits – as in the U.K., Sweden and the Netherlands, for example – are having the same effect.
- Renting is becoming a necessity rather than a choice in some locations.
- These national trends are typically outweighed by more pronounced trends at a city level. Urbanization rates continue to increase (table 1), with private renting far more prevalent in "winning cities" that are highly-populated and growing with prospective renters.
- **Typically, "winning cities" are growing more strongly than their respective countries**. These cities – including London, the Nordic capitals, Amsterdam, Frankfurt, Munich and Berlin – are projected to grow by 15-30% over the next 20 years, **which is, rather surprisingly, on a par with some emerging markets' cities.**
- "Winning cities" are increasingly youthful in terms of their age structure, which in turn encourages faster rates of population growth. This trend is covered in more detail in our "How to invest in property in global winning cities" paper.
- The availability of information on tenant demand and local supply has improved drastically with the growth of cross-border managers and online data portals (such as the U.K.'s Rightmove, Denmark's Boligportal, Spain's Idealista, Sweden's Blocket and Germany's Immobilienscout and Immonet). They provide huge data pools, which could provide useful leading indicators. This could create a cleaner and more efficient marketplace than exists anywhere else in property.
- We think the risk of weakening demand for private rented residential property is very small. Indeed, the growth in supply of modern, well-run wholesale private-rented portfolios may well stimulate more demand as the tenure is increasingly trusted by tenants.

2. Supply: development levels have not been able to keep up with demand; capacity constraints prevail

- **Europe has a structural undersupply of residential assets and considerable capacity constraints.**
- **Development levels for residential property are very subdued throughout Europe**, averaging less than 0.5% of existing stock per annum, despite the strong demand detailed above. Some markets with strong demand – such as Germany, the Netherlands and the U.K. – have particularly low development levels (Table 1 in appendix).
- **Planning constraints, such as green belts around cities and the preservation of historic areas, are a key reason behind subdued residential development levels throughout Europe**. Many residents and the politicians that represent them are unwilling to tolerate high levels of new supply that could threaten their amenity and hold back house price growth. New offices and retail development are seen in a much more positive light because they generate employment, and create less opposition; **they also take up less physical space per capita.**
- **The lack of bank funding for new developments and rising construction costs (given rising land prices and higher sustainability standards) are also inhibiting new developments** in many markets. With the exception of Ireland and Spain (which have experienced a pronounced lack of planning constraint), most residential markets did not experience a development boom before the global financial crisis (Table 2 in appendix and chart 1 on the following page).

- **The supply booms in Spain and Ireland have resulted in catastrophic busts.** In both countries, small homebuilders were largely wiped out during the global financial crisis. This has reduced the development capacity, causing new undersupply tensions in some areas of those markets, notably the main cities.

Chart 1: Development levels have collapsed in the wake of the financial crisis



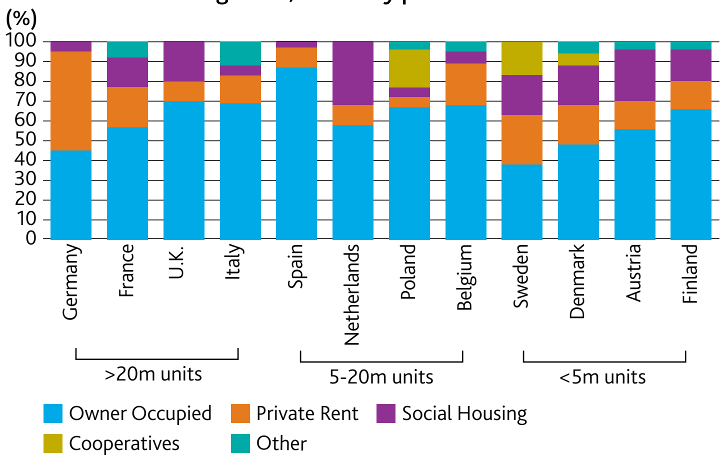
Source: Aberdeen Asset Management, national statistics, Bulwien, PMA, Euroconstruct, 2015. For illustrative purposes only. Projections are offered as opinion and are not reflective of potential performance. Projections are not guaranteed and actual events or results may differ materially.

- As a final point, it is also worth highlighting that **higher sustainability standards are increasing the cost and complexity of new constructions.**
- Although this means lower energy bills for tenants, it also means that **supply may be more limited as construction costs rise rapidly.**
  - Germany has been particularly focused on meeting the Energy Performance of Buildings Directive (EPBD) target for all new buildings in the E.U. to be "Nearly Zero-Energy Buildings" from 2020.
  - U.K. rental properties that do not meet the minimum energy efficiency standards can't be rented beginning in April 2018 under existing proposals.
- This strongly implies that the operating efficiency of wholesale buildings will be increasingly relevant.
- Publicly-provided social housing is also not in great shape. National governments are struggling with high and increasing debt levels, and they do not have budgets to build high levels of social housing. Lower-income tenants may increasingly be forced into subsidized privately-funded stock, such as housing associations and shared-ownership schemes.
- **Supply constraint is even more pronounced in certain "winning cities**," where a remarkably consistent picture emerges of housing development not keeping up with household growth. The consequence is a **cumulative excess of demand over constrained supply.**
- Indeed, in many of these cities the situation has been exacerbated by the financial crisis.
- Migration levels from the weaker economies of southern Europe and other parts of the country (such as rural areas or struggling de-industrializing towns) have increased dramatically.
- This general supply constraint contrasts sharply with the office market, where up to 10% of stock can be developed in a single year for strong markets.
- It also contrasts with the retail sector, which is struggling with the loss of trade online, which essentially represents a wave of "invisible" supply.
- In addition, **many occupiers of office and retail assets are motivated to occupy less space in order to cut costs. Meanwhile, occupiers of residential homes would prefer to occupy more space.** Open plan (as opposed to cellular) offices, electronic archiving, flexible working and hot-desking all mean that offices can be occupied more efficiently than in the past, and less space is needed per capita. Vacancy rates are much higher for offices than for residential. Many retailers are looking to shrink store portfolios to just dominant locations, as an increasing proportion of turnover goes online. **The income stream from residential property is usually extremely secure.**
- The failure of supply to keep pace with demand has meant that **capital values for residential tend to grow more quickly than for offices**. Again, this is a remarkably consistent pattern across Europe.
- **Ultimately, supply has been restricted and it's just not keeping up with demand.**
- The risk of a sharp increase in development levels appears slim, perhaps confined to London and a few major German cities. Even so, the supply shortfall is so extreme that the increase in development levels would need to be extremely high to keep up with the growing number of households in these cities.
- We believe that there is no obvious supply risk in many "winning cities." More supply is likely to create a much needed release valve for demand and, in turn, create an environment that is more typical of the North American markets. The whole notion of owner-occupation being the key choice of tenure appears fundamentally challenged in many countries, and notably their main cities.

3. Market size and investibility: the institutional market in Germany is bigger than the rest of Europe put together

Chart 2: Investibility is not only a matter of size but also market structure

Breakdown of housing stock, sorted by private rented share



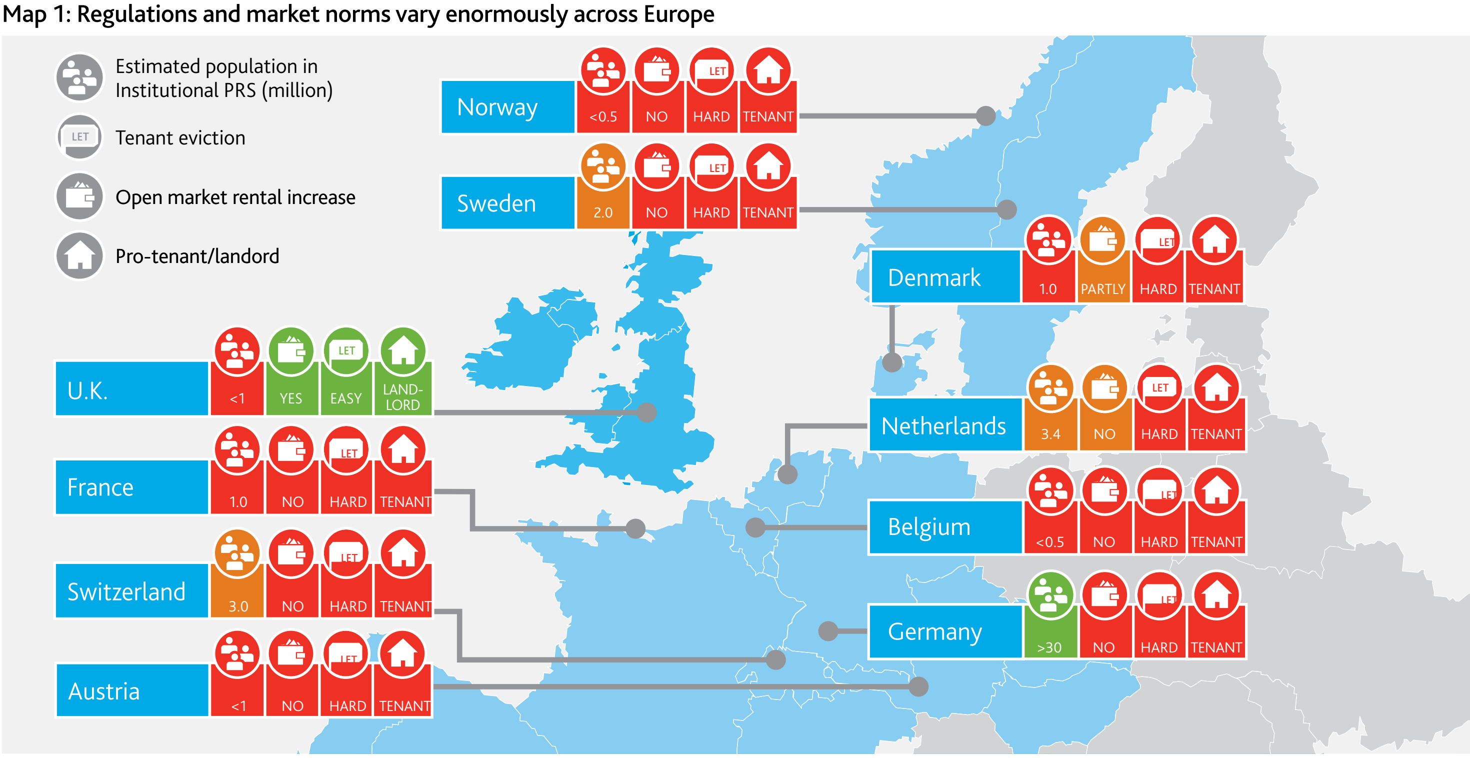
Source : Housing statistics in the European Union 2010 & CECODHAS - Housing Europe Review 2012 – The nuts and bolts of European social housing systems. For illustrative purposes only.

- **Germany is, by some margin, the largest and most liquid market in Europe.**
- **The sheer size of the German population combined with the very high proportion in institutionally-owned private rented accommodation mean that the scale of the investible market in Germany is extremely large – more than all other European countries put together** (Table 3 in appendix). Also, in contrast to almost every other European market, there is a very large listed sector, with the three largest companies – Deutsche Wohnen, Deutsche Annington and LEG – having a market capitalization of over €20 billion (USD$ 22.5 billion), as at the end of March 2015.
- **We also regard Sweden, Denmark, the Netherlands, Switzerland and France as having significant opportunities for investment, although not to the scale of Germany (Table 3).**
- **The U.K. is a minor market at the moment in terms of institutional investment but it offers considerable scope for growth** and it is generating substantial investor interest.
- There is currently a rash of new U.K. residential funds and a much wider interest from institutions but we are extremely wary of the scope for all funds to succeed in a market starved of investible product. As such, it is likely that investors will have to consider building for themselves. At the moment, there is one major U.K.-listed residential property company, Grainger plc. As a result, there are few investment avenues for prospective U.K. investors.
- The **U.K. market is dominated by small-scale private investors** with buy-to-let properties, although there are a few exceptions, such as the traditional landed estates. Domestic institutions drastically shied away from the sector in the 1970s following rent control legislation and, despite the reversal of the regulation in the 1980s, the established institutional market is miniscule. In the U.K., new purpose-built private rented stock is needed to allow the investment market to grow.
- There is **more institutional investment in France**, but over 90% of rented stock is still owned by private landlords. The institutional sector has shrunk over the last decade given its relatively low yield and regulatory restrictions. Again, there is potential for this to grow with pronounced housing shortages in some areas, such as Paris, Lyon and the Côte d'Azur.
- In addition, the French government is keen to encourage institutional investment into the residential sector to **boost the construction sector and help solve the housing shortage. The government is reducing value-added tax (VAT) rates for residential investment, as well as making residential funds exempt from property tax for 20 years**. The Portuguese government is also promoting that institutional capital goes into the residential sector.
- In France, Powerhouse (which invests in disaggregated, affordable housing associated with the power industry in France) plans to list a new French residential REIT, which is looking to raise €370 million (US$416 million); as yet this residential REIT market is nascent, too.
- **The Netherlands has a large and investible market, including a considerable social housing provision.** However, the Dutch government is encouraging social housing providers to sell off stock, and also changing regulations to enable a faster rate of rental growth for higher income tenants that are paying discounted rents in social housing. We believe that these changes represent a considerable opportunity for institutional investors.
- Southern European markets, such as Spain, have relatively small institutional private rented markets. Owner-occupation rates are particularly high. In large part, this is a result of cultural factors, such as the tendency to remain within the parental home until marriage. In Italy, the mean age of leaving the parental home is over 30 (Eurostat, 2015). In contrast, in Sweden, Denmark and Finland, it is less than 23 (Eurostat, 2015).
- As a consequence, **countries with much smaller populations, such as Denmark and Sweden, have bigger investible markets given the greater prevalence of private renting (Table 3).** Nevertheless, southern European markets do offer the potential to grow, as private renting in the major cities becomes more commonplace. For example the SOCIMIs (Spanish REITs such as Hispania, Merlin and Grupo Lar) are all targeting residential as part of their portfolios.
- Switzerland has a very high proportion of institutional renting (it constitutes 46% of the Investment Property Databank (IPD) index). However, the assets are tightly held by domestic institutions, and they are also extremely expensive as a result of low yields and high rents. While the sector forms the bedrock of domestic institutional property investment, it does not offer significant appeal to non-domestic investors.
- **In summary, we believe Germany is by far Europe's most investible market. Sweden, the Netherlands, Denmark, Switzerland and France offer substantial investment opportunities. The potential for growth is significant in the U.K. from its current small base.**

4. Regulations and market norms: These vary enormously across Europe. Local expertise is key.

- **Landlord and tenant relationships vary significantly from country to country, even city to city, and local expertise is key to understanding this fully (Table 4 in the appendix and Map 1 below).** The U.K. is unusual in that legislation favors the landlord, with open market rent views and little security of tenure for the tenant. **Conversely, tenants are generally well protected in most continental European markets**, with rent reviews often restricted to Consumer Price Index (CPI) inflation. Removing tenants can be very difficult, too.
  - **Germany** is also implementing a brake on rental growth (Mietpreisbremse); please see our paper "Rental cap – implications for investment in German residential (May 2015)."
  - In contrast, **the Netherlands** is loosening regulation to enable above inflationary rental growth for high income tenants residing in social housing.
  - In **Denmark**, homes built post-1992 are generally subject to market rents, while older stock is heavily regulated.
  - We cover these topics in our detailed papers on the German rental cap, as well as the Dutch and Danish residential markets.
- **Greater tenant protection in continental Europe may actually encourage the development of large, institutionalized, professionally-run portfolios**, as more people are willing to rent privately. There is not the same preference for owner-occupation as there is in the U.K., given the insecurity of renting and vulnerability to sharp increases in rents. There may be opportunities for institutional landlords to charge for additional services, such as wholesale utilities, broadband and insurance.
- **Regulation "per se" is not necessarily a bad thing,** although **changing regulations** are highly likely to unnerve investors – a situation we suspect prevails in the U.K.
- **Rent controls may result in under-rented portfolios, with the potential to capture a significant upward reversion in rental income at some point in the future. We see this as a distinct advantage for the cautious, long-term investor** (see Table 4 in the appendix).
- **There is a considerable difference in the average length of tenancy between countries**. The average length of tenancies varies from as high as 12 years in Germany to as little as two years in U.K. The income stream in Germany is very long and secure.
- German residents are comfortable with a secure, well-run rental model. It leads the European market in how an efficient and appealing investment market can work. Should this be replicated elsewhere, the scale of opportunity would be immense.
- **However, we would not wish to overstate the importance of length of tenancy in the residential sector.** Although markets such as the U.K. typically have short tenancy periods, residential units are very easy to re-let, although this does involve more management cost and time.
- The average vacancy period across our European residential portfolio is just 10 days.
- In summary, regulations and market norms vary enormously across Europe, and are subject to change. We believe that local expertise is key to understanding and minimising such risks.

Map 1: Regulations and market norms vary enormously across Europe



Source: Aberdeen Asset Management, 2015. For illustrative purposes only.

5. Pricing and affordability: rents in Germany look very affordable

- There is no consistent, comparable pan-European residential performance data at a national level, and there is limited analysis of pricing and affordability as a result.
- There are many metrics to measure the price and affordability of residential property, and ultimately any decision is best determined at an asset level.
- **However, our fundamental value indicator suggests that some of the major European residential markets, such as Germany and the Netherlands, are close to fundamental value and offer the potential for good medium-term returns.** In contrast, many office markets, particularly in gateway cities with yields pushed significantly below 4%, are overpriced and long-term performance prospects are much weaker.
- We are working on our fundamental value indicators for the remaining European countries.
- **In our view, the key comparable affordability metric for private rented residential is the rent to income ratio (Table 5 in the appendix).** Our view is that when this ratio exceeds 30%, we have concerns over affordability. Most European national markets are below this level (see Chart 3 below), although many city-level markets will exceed this approximate guide and investors should be wary.
- **Germany is the most affordable European market** with rents at just 25% of household income **(Figure 1). Spain and the U.K. are the most expensive**. However, we would, highlight the relatively small size of the Spanish private rented market.

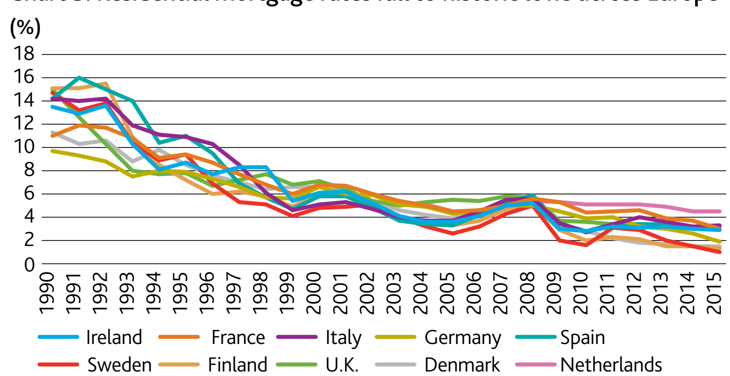
Figure 1: Rents are very affordable in Germany

	Average % of household income spent on rent	Average Monthly rent in Euros
Germany	25	600
Austria	27	562
Belgium	29	614
Netherlands	29	625
France	30	598
Denmark	30	624
Italy	30	538
Finland	32	492
Ireland	34	679
Sweden	35	500
U.K.	39	902
Spain	39	622

Source: NHF, Eurostat, 2015. For illustrative purposes only.

- The U.K. market is also heavily skewed by London. This is one market where we have concerns about affordability as rents as a percentage of income are over 40%. That said, London is a very large market and our strategy for the south east of England is detailed in our 'London, beyond the core" paper.
- We stress the importance of analyzing at a city/local market level rather than at crude national level. That said, it can provide a helpful strategic influence as despite domestic concerns renting in Germany appears affordable.
- **Value can also be analyzed by looking at the affordability of houses to buy (housing prices as a multiple of income). This also varies dramatically across Europe and among cities in those countries.**
- As expected, the U.K., Germany and France have some of the highest rates of housing prices as a percentage of income. Housing prices have continued to grow as interest rates collapsed after the global financial crisis and banks are demanding much bigger deposits for home purchases.
- **This is forcing more people into the private rented stock, particularly in the major cities where prices are more stretched.** In London, housing prices are as high as ten times earnings, and buying has become out of reach for lower-and middle-income groups. Over 50% of residents now rent in London.
- Overall, Ireland and Spain are now some of the most affordable markets following a significant correction in prices.
- **Looking at housing prices as a multiple of income can be misleading, as the plunge in interest rates has meant that mortgage repayments are becoming increasingly affordable** as a percentage of income. Mortgage financing costs have collapsed to historic lows across Europe, as the European Central Bank's (ECB) base rate has dropped to 0.05%, (chart 3). It is likely that prices and rents will continue to be driven upwards.

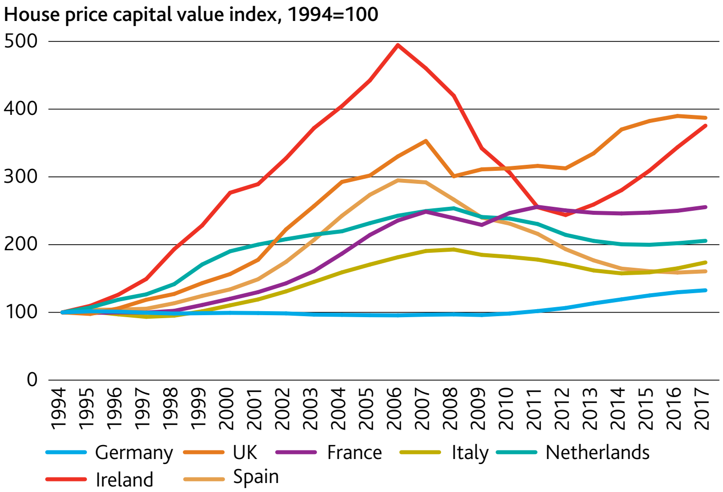
Chart 3: Residential mortgage rates fall to historic lows across Europe



Source: Thomson Reuters Datastream, February 2015. For illustrative purposes only.

The way housing purchases are financed varies significantly across Europe, which can also help explain the widely differing volatility in the residential market. Long, fixed rate deals are the norm (currently possible at approximately 1%) in Germany. This is one reason for the exceptionally low volatility of house prices in Germany over the past twenty years (see Chart 4). Again, Germany is in stark contrast to other markets, such as the U.K., Spain and Ireland, which have a high proportion of mortgages on short-term variable rates – this helps explain the pronounced volatility in house prices. Spain and Ireland have experienced huge development booms in contrast to the rest of Europe, and very volatile economic cycles, which are also key to the extreme volatility in house prices shown in chart 4 below.

Chart 4: German residential values have been remarkably stable



Source: Aberdeen Asset Management, PMA, May 2015. For illustrative purposes only.

Conclusion

- **The demand fundamentals for private rented residential are very positive**, given strong population growth in some European markets and certain cities. Increasing migration, later marriage, shrinking household size and the sheer cost of buying in some markets are also driving demand for private rented property.
- **Supply is constrained.** Development levels have not been able to keep up with demand growth.
- The size of the investible market varies considerably, with **Germany standing out as the largest investible residential market in Europe by far.** It is as big as all the other markets put together and is ten times the size of the second-largest investible market. We also think the Netherlands, Sweden, Switzerland, Denmark, France and, increasingly, the U.K. offer significant opportunities for investors.
- Finally, pricing and affordability vary considerably across Europe, between countries and even cities. In Germany, for example, rental costs look very affordable relative to incomes.
- **Private rented apartments have considerable cross-border similarities, and the operational skills are likely to be interchangeable across countries**. This will be enhanced by the development of cross-border management skills, which are easily transferred. The increasing proliferation of data on the market (provided by online letting portals) will also be helpful. The absence of skilled management within a country is no longer the barrier that is was in the past.
- Accessing stock is likely to prove competitive **but forward-funding developments are a potential solution for investors.** We do not underestimate the complexity of adding appropriate supply, but we see a considerable, consistent market emerging across much of Europe.
- The next phase of our European residential research will look at three key aspects of the sector: pricing in a fundamental value context, consistent with our approach to pricing of global commercial property markets; other segments of the residential sector, such as student halls and senior living; and residential property on a city-level basis.

John Danes - Head of Continental European Property Research

Appendix

Table 1: Demand, ranked by poulation growth rate

	2015 population, million	Predicted population at 2035	Growth or Decline (million)	Overall Population Growth 2015 - 2035 (%)	Projected net immigration 2015-2020	Individuals per Household 2013	Individuals per Household, change since 2005	% urban population 2005	% urban population 2015	% urban population 2035	% change 2005 - 2035	Cost of buying a House	Appeal of renting due to regulation	Comments
Switzerland	8.1	9.9	1.8	22	300 000	2.3	0	73	74	77	3.7	High	High	Exceptionally strong population growth and high cost of buying drives strong PRS demand.
Norway	5.1	6.0	0.9	17	150 000	2.1	0	77	80	85	7.3	High	Moderate	Very strong growth in Oslo, some regions depopulating
Sweden	9.7	11.0	1.3	13	200 000	2.1	0	84	86	89	4.3	High	High	Very strong growth in Stockholm, some regions depopulating. Regulations and high cost of housing. make renting very attractive.
U.K.	63.8	69.9	6.0	9	900 000	2.3	0	80	83	87	6.6	High	Low	London growing by over 1 million per decade, private renting growing rapidly due to affordability issues. Tiny institutional PRS market to date.
France	65.0	70.5	5.5	8	600 000	2.2	-0.1	77	80	84	6.6	Moderate	Moderate	Strong growth in Ile de France, Rhône Alpes, Midi Pyrénées and PACA.
Denmark	5.7	6.1	0.4	8	75 000	1.9	-0.1	86	88	90	4.6	Moderate	High	Very strong growth in Copenhagen.
Austria	8.6	9.1	0.6	6	150 000	2.3	0	66	66	70	4.0	Moderate	High	Population growth driven by immigration, regulations make renting attractive.
Belgium	11.2	11.8	0.6	5	100 000	2.3	0	97	98	98	1.0	Moderate	Moderate	Population growth has been accelerating, driven by immigration. However private renting has been in decline for decades.
Finland	5.5	5.7	0.2	4	50 000	2.1	0	83	84	87	4.2	Moderate	Moderate	Strong growth in Helsinki, limited elsewhere.
Netherlands	16.8	17.3	0.4	3	50 000	2.2	-0.1	83	90	96	13.1	Moderate	High	Strong growth in Randstad cities, depopulation in North and South-East. Regulations make renting attractive.
Spain	47.2	48.4	1.2	2	499 000	2.5	-0.3	77	80	84	6.4	Low	Low	High levels of net immigration compensate for low fertility rate, however immigration has slowed with the economic crisis. Tendency for young people to live in family home limits PRS demand.
Italy	61.1	61.0	-0.1	-0	750 000	2.4	-0.1	68	69	73	5.7	Moderate	Moderate	Growth in Milan, decline in southern Italy. Private renting declining and for lower income groups. Tendency for young people to live in family home limits PRS demand.
Germany	82.6	78.0	-4.5	-5	500 000	2	0	73	75	80	6.4	Moderate	High	Very strong growth in largest 7 cities and many major cities in economic strong regions/metropolitan areas, falling population and vacant properties in some former East, industrial towns and rural areas. Tenant protection makes renting very attractive.
Average			***1.1***	***7.2***				***79***	***81***	***85***	***5.7***			

Sources Unites Nations, Eurostat May 2015. For illustrative purposes only.

- Positive for private rented sector (green)
- Neutral for private rented sector (yellow)
- Negative for private rented sector (red)

Table 2: Supply (ranked low to high in 2013)

	2013 Completion	2013 Completed as % Population	Average (2002--2013)	Average (2002--2013) as % population	Comments	
Spain	64,636	0.14	391,171	0.83	Historically high rates of construction have now collapsed. Localised oversupply, especially on the coasts.	
U.K.	137,980	0.22	179,511	0.28	Most pronounced housing shortage in Europe, particularly in London and the South East. Tight planning controls with Green Belts.	
Denmark	13,742	0.24	21,615	0.38	Weak in context of strong population growth in Copenhagen.	
Germany	214,817	0.26	219,278	0.27	A very low rate in a European context, fallen dramatically over past decade. Since re-unification, high 1994 (524,606)/low 2009 (136,500).	
Netherlands	49,311	0.29	65,394	0.39	Development collapsed after crisis, bankruptcy of developers and lack of bank financing. Housing shortage in Ranstad region.	
Sweden	29,500	0.30	24,867	0.26	Lowest long-term completion rate in Europe despite strong population growth in Stockholm.	
Italy	204,000[A]	0.33	257,222	0.42	Housing shortage less pronounced than elsewhere in Europe.	[A] 2010
Belgium	47,000[B]	0.42	45,554	0.41	Modest levels of development that have not been particularly cyclical.	[B] 2012
Norway	27,733	0.54	24,138	0.47	Housing shortfall in Oslo, new completions not keeping up with household growth.	
Finland	29,566	0.54	29,584	0.54	Housing shortage in Helsinki but not elsewhere.	
France	357,412	0.55	418,042	0.64	Supply shortfall of 200,000 units per annum, particularly pronounced in Paris.	
Austria	50,957[C]	0.59	42,964	0.50	Relatively high in European context, albeit low absolute number.	[C] 2009
Average	102,221	0.37	143,278	0.45		

Source: Hypostat, PMA, statistik.at, May 2015. For illustrative purposes only.

Positive for private rented sector

Neutral for private rented sector

Negative for private rented sector

Table 3: Stock and tenure (ranked by investible market size)

	Owner Occupied %	PRS %	Social Housing %	Cooperatives %	Other %	Total population in PRS (million)	Estimated population in institutional PRS (million)	Estimate million sqm	Investibility	Potential for institutional PRS investment	Comments
Germany	45	50	5	0	0	41.3	>30	>900	Easy	Very high	Extremely high proportion of private renting and very large population make this by far Europe's biggest market. Bigger than all other markets put together, and many of the other markets are difficult to invest in. Extremely large listed sector.
Netherlands	58	10	32	0	0	1.7	3.4*	102	Easy	Yes	High level of social sector provision, with subsidized rents and good standards, and many middle income tenants. Government is trying to reform and degulate the sector, which may bring more stock to the market.
Switzerland	44	52	4	N/A	N/A	4.2	3.0	90	Hard	Some	Despite large market, investment stock very tightly held by Swiss institutions. Also very expensive, prime Zurich yields approximately 2.4%.
Sweden	38	25	20	17	0	2.4	2.0	60	Moderate	Yes	Renting has been in decline with the growth of tenant-owned co-operatives. Still a large and investable market, albeit expensive.
France	57	20	15	0	8	13.0	1.0	30	Hard	Limited	High number of renters but 93% of landlords are private investors, just 7% institutions, Institutions sold off large amount of stock 10 years ago due to low yields. Many developments sold unit by unit as this is seen as most profitable.
U.K.	70	10	20	0	0	6.4	<1	<30	Hard	Growing from low base	Large number of people in private renting but the institutional sector is small, dominated by private investors. High potential for growth of institutional sector. £10bn of potential investment looking for PRS opportunities (DCLG).
Denmark	48	20	20	6	6	1.1	<1	30	Moderate	Yes	Very high level of renting in Copenhagen, only 20% owner-occupation.
Italy	69	14	5	0	12	8.6	<1	<30	Hard	Minimal	Private renting share is declining and concentrated among lower income groups. Rent regulations with long fixed term contracts and lengthy eviction procedures are not supportive to a residential investment market. Institutions have some legacy portfolios but are not growing PRS holdings. Taxation increasing on housing.
Spain	87	10	3	0	0	4.7	<1	<30	Hard	No	Very small private rented sector, inefficient eviction procedures. High home ownership levels encouraged by tax breaks for home ownership.
Austria	56	14	26	0	4	1.2	<1	<30	Hard	Minimal	Relatively small market in a European context, strictly regulated.
Finland	66	14	16	0	4	0.8	0.5	15	Hard	Minimal	Relatively small market in a European context, rent controls have limited rental growth to marginally above inflation.
Belgium	68	21	20	17	0	2.3	<0.5	<15	Hard	Minimal	No history of institutional private renting. Dominated by private investors. 75% owner occupation with renting typically for lower income tenants/social housing.
Norway	78	17	5	0	0	0.9	<0.5		Hard	Minimal	Extremely small institutional market.

Sources: Eurostat, CECODHAS, Aberdeen Asset Managment, 2015. For illustrative purposes only.

- Positive for private rented sector (green)
- Neutral for private rented sector (yellow)
- Negative for private rented sector (red)

Table 4: Regulation, ranked by investible market size

	Open market rental increase	Tenant eviction	Pro-tenant/ landlord	Comments
Germany	No	hard	Tenant	Tenant-favorable legislation means average tenancy length is 12 years. Rental growth tied to CPI. New rental cap being introduced.
Netherlands	Partly	hard	Tenant	A points system is in place that determines the maximum initial rent for dwellings renting for less than €699 (USD$785), while maximum rent increases for such properties are linked to inflation. Regulations are being loosened to attract institutional interest. Dutch government reducing tax relief on mortgage payments.
Switzerland	No	Hard	Tenant	Rents often linked to a reference-interest rate (currently 2%) which is noted in the lease contract. If reference interest differs this could result in a up-/downgrade of rents. CPI could be reflected in rents but only up to 40%.
Sweden	No	hard	Tenant	More than 20% of all housing in Sweden is public housing, owned by municipalities. Waiting lists are long for tenants wanting to rent in these properties. Rents in these public housing properties regulate the private rental markets, where rents are prohibited from being substantial higher than comparable public housing. As a result, rents are typically very low in large parts of the rental market, especially in central areas.
France	No	hard	Tenant	Three- to five- year leases, with CPI links. Initial rents freely negotiated but rental increases fixed and linked to inflation.Tenant eviction can take several years
U.K.	Yes	easy	Landlord	Least regulated market in Europe, short lease contacts and landlords can charge market rents for contracts signed after 1989. Only 34% of rental contracts renewed each year.
Denmark	Partly	hard	Tenant	Rents in the Danish residential market are partly regulated. Properties constructed up until 1991 are in general compromised by rental regulations. Rents follow year of construction, which leads to city centers with old stock having lower rents than suburbs with newer residential stock. Rents for units constructed from 1992 and later are in general subject to market rents. Potential to increase rents on old stock closer to market level if landlord carry out complete renovation when changing tenants.
Austria	no	hard	Tenant	The Act on tenancy law (MRG) generally regulates the lease of apartments. In cases not governed by the MRG, the Austrian Civil Code (AGBG) usually applies. Fixed-term lease agreements may not be terminated prior to the end of the lease term. Usually, rent may be freely negotiated and is usually paid in advance on a monthly basis. For lease agreements falling under the full scope of the MRG, the rent may be capped.
Finland	Can be freely determined, but must be agreed upon	moderate	Landlord	The agreed rent must be in line with the current market rate in the area. If the Finnish courts deem this not to be the case, they are within their rights to alter your agreed rate accordingly.
Belgium	No	Hard	Tenant	Rents for existing contracts linked to health index (excludes alcohol and tobacco). There are four types of rental agreements, although the standard 9 year tenancy and short term contracts of 3 years or fewer are the most common. New tenancies are at market level.
Norway	No	hard	Tenant	No regulation on rents, difficult to terminate rental contracts before expiry (can be fixed date or running lease with notice period).

Source: Aberdeen Asset Management June 2015. For illustrative purposes only.

Table 5: Pricing (ranked by rent as % salary)

	Rent as % of Salary	House price to household income ratio relative to long term average	House price to renting cost, relative to long term average	Average Resi Mortgage Rate	Comments
Germany	25	-15.8	-8.7	1.9%	Rents very affordable as % income, and housing prices do not look at all overstretched at a national level.
Belgium	27	46.6	57.9	N/A	Housing prices appear very stretched compared to cost of renting, and incomes. Buying looks expensive relative to renting.
Netherlands	29	16.8	3.7	4.5%	Housing prices look much less stretched after the sharp fall of last few years, and starting to recover.
France	30	27.4	28.9	3	Rents very affordable as % salary (except in Paris).
Italy	30	8.1	-6.6	3.3%	Housing market and rental levels do not look overstretched relative to long term average.
Denmark	30	7.9	12.1	1.5%	Housing prices do not appear that stretched compared to incomes and costs of renting.
Finland	32	-1.2	33.2	1.3%	Buying looks expensive relative to renting.
Sweden	35	22.0	33.8	1.0%	Buying looks expensive relative to cost of renting, and rents take up high % of salary.
U.K.	39	21.3	37.0	3.2	Prices and rents as % income very stretched in central London, better value elsewhere. Buying looks expensive relative to renting.
Spain	39	7.0	4.0	3.0%	Renting looks expensive after fall in wages, only small % rent though. House prices look much more affordable after large falls in recent years.
Norway	N/A	33.1	N/A	N/A	House prices are very expensive relative to incomes.
Austria	N/A	16.8	11.7	N/A	Government-subsidized residential construction means housing is still relatively affordable beyond central areas of Vienna.
Notes		0=long-term average	0=long-term average		

Sources Source - PMA, Eurostat, OECD, Thomson Reuters Datastream, House Builders Federation June 2015. For illustrative purposes only.

Positive for private rented sector
Neutral for private rented sector
Negative for private rented sector

At Aberdeen, asset management is our primary business.

Aberdeen Asset Management is a global asset manager and a member of the London-based FTSE 100, one of the world's most widely-used stock indices. Today, we manage more than US$483.3 billion for institutional investors and private clients, as of June 30, 2015.

Our clients include retirement plans, state and local governments, hospitals, insurance companies, multi-employer plans, endowment and foundations, family offices and private individuals. We engage with clients using a consultative approach focusing on a rigorous investment discipline, risk control, and a commitment to transparency.

For more information about how our global capabilities can help meet your investment objectives, contact our U.S. Institutional Business Development team by calling (215) 405-5700. Learn more about how Aberdeen invests around the world by visiting: **aberdeen-asset.us/InstitutionalInvestor**

Private individuals are encouraged to speak with their financial advisor or wealth manager. Advisors are invited to call our Advisor Services team at (800) 485-2294.

For Canadian investors, our Canadian Institutional Business Development team can be reached at (416) 777-5570 or by visiting: **aberdeen-asset.ca**

IMPORTANT INFORMATION
PAST PERFORMANCE IS NOT AN INDICATION OF FUTURE RESULTS
FOR PROFESSIONAL INVESTORS ONLY - NOT FOR USE BY RETAIL INVESTORS OR ADVISERS

Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards, and political and economic risks.

These risks are enhanced in emerging markets countries.

Real estate investments are relatively illiquid and the ability of property to vary its investments in response to changes in economic and other conditions is limited. Property values can be affected by a number of factors, including, inter alia, economic climate, property market conditions, interest rates, and regulation.

This brochure is for information purposes only and should not be considered as an offer, or solicitation, to deal in any of the investments mentioned herein. AAM does not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaims liability for errors or omissions in such information and materials.

Some of the information in this document may contain projections or other forward looking statements regarding future events or future financial performance of countries, markets or companies.

These statements are only predictions and actual events or results may differ materially. The reader must make his/her own assessment of the relevance, accuracy and adequacy of the information contained in this document and make such independent investigations, as he/she may consider necessary or appropriate for the purpose of such assessment.

Any opinion or estimate contained in this document is made on a general basis and is not to be relied on by the reader as advice. Neither AAM nor any of its agents have given any consideration to nor have they made any investigation of the investment objectives, financial situation or particular need of the reader, any specific person or group of persons.

Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the reader, any person or group of persons acting on any information, opinion or estimate contained in this document.

AAM reserves the right to make changes and corrections to its opinions expressed in this document at any time, without notice.

Aberdeen Asset Management ("AAM") is the marketing name in the U.S. for the following affiliated, registered investment advisers: Aberdeen Asset Management Inc., Aberdeen Asset Managers Ltd, Aberdeen Asset Management Ltd and Aberdeen Asset Management Asia Ltd, each of which is wholly owned by Aberdeen Asset Management PLC "Aberdeen" is a U.S. registered service mark of Aberdeen Asset Management PLC.

In Canada, AAM is the marketing name for Aberdeen Asset Management Inc., Aberdeen Fund Distributors, LLC, Aberdeen Asset Management Asia Ltd and Aberdeen Asset Management Canada Limited. Aberdeen Asset Management Inc. is registered as a Portfolio Manager in the Canadian provinces of Ontario, Nova Scotia, and New Brunswick, and as an Investment Fund Manager in the Canadian provinces of Ontario, Quebec, and Newfoundland and Labrador. Aberdeen Asset Management Asia Limited and Aberdeen Asset Management Canada Limited are registered as Portfolio Managers in Ontario. Aberdeen Fund Distributors, LLC operates as an Exempt Market Dealer in all provinces and territories of Canada. Aberdeen Fund Distributors, LLC and Aberdeen Asset Management Canada Limited are wholly owned subsidiaries of Aberdeen Asset Management Inc. Both Aberdeen Asset Management Inc. and Aberdeen Asset Management Asia Ltd. are wholly owned by Aberdeen Asset Management PLC.

Ref: 23772-270815-4
019311-0915-PHL
SEG-INVESTIBLE-WP

Aberdeen