RESIDENTIAL RESEARCH

EUROPEAN CITIES REPORT 2018

ASSESSING RESIDENTIAL PROPERTY MARKET CONDITIONS ACROSS EUROPE'S KEY CITIES

PAST PERFORMANCE V FUTURE OPPORTUNITIES | CHANGING TIMES | DATA DASHBOARD

EUROPE, TEN YEARS ON...

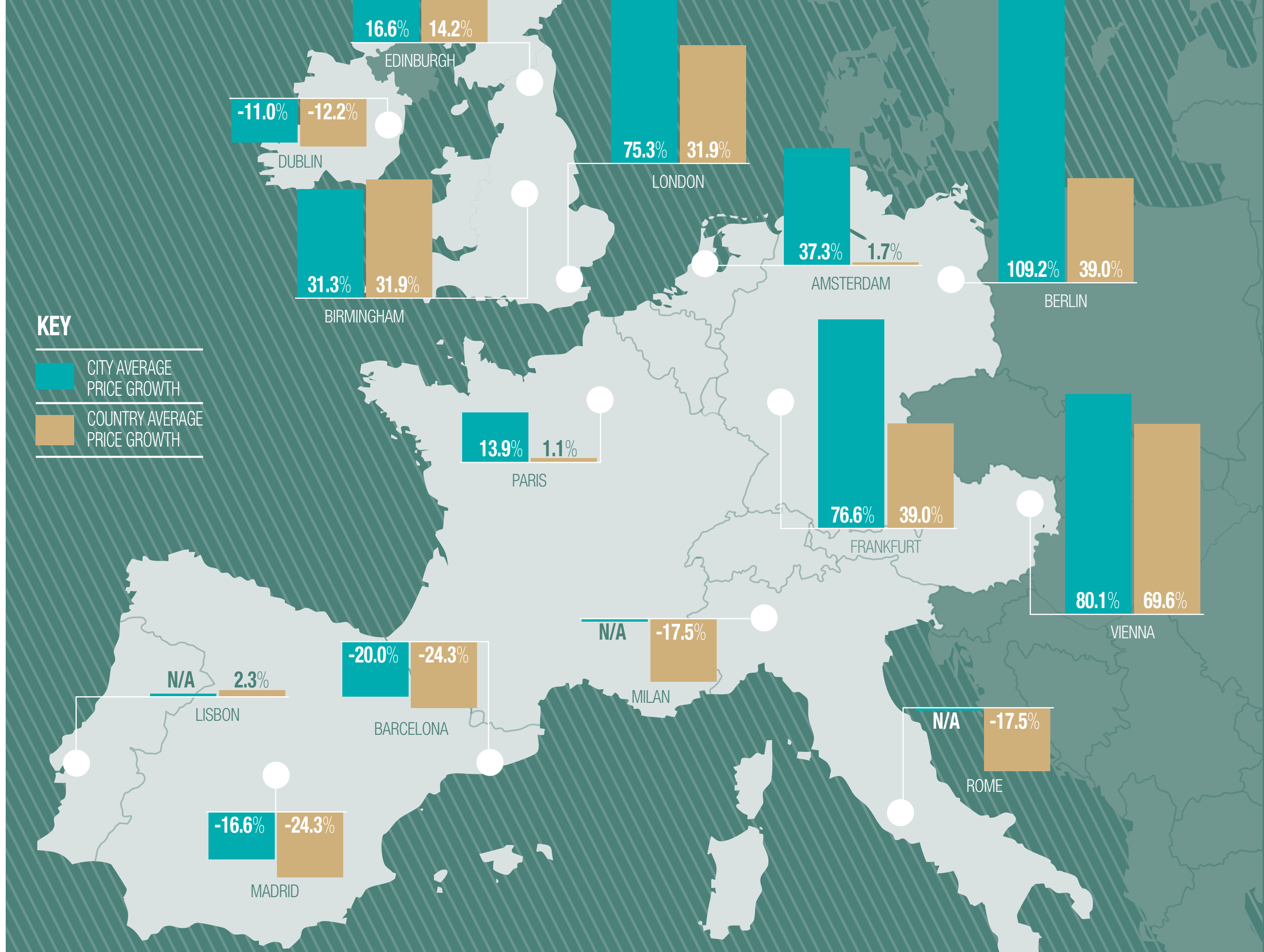
A decade on from the global financial crisis Europe's housing markets look very different. The last decade saw prices slide lower, before a more recent recovery. In many housing markets construction slowed to a virtual halt, in some interest rates entered negative territory, a stimulus of €2.4 trillion was injected into the Eurozone economy and tighter lending rules were imposed. With a number of European cities now firmly in recovery mode this report delves deeper into the data to understand where the future opportunities lie.

> This report was written in August 2018 and is based on the assumption that an agreement will be reached on the UK's withdrawal from the EU by the UK Government and EU Commission in March 2019. In the event this does not occur our outlook and forecasts for European residential markets will be subject to change.

FIGURE 1

TEN-YEAR PRICE CHANGE: CITY VS COUNTRY

% CHANGE Q3 2008* TO LATEST AVAILABLE

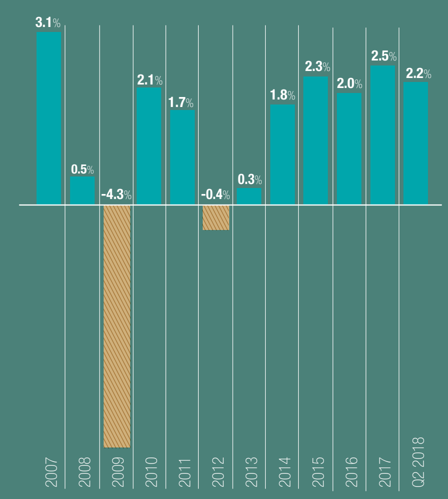


Source: HM Land Registry, INSEE, Federal Statistical Office of Germany, Spanish Ministry of Development, OeNB, Irish Central Statistics Office, Statistics Netherlands, Statistics Portugal, Immobiliaire Italia.
Q3 2008 = Lehman Brothers' filed for bankruptcy

FIGURE 2

ECONOMY STRENGTHENS

EU-28 GDP GROWTH (ANNUAL % CHANGE)

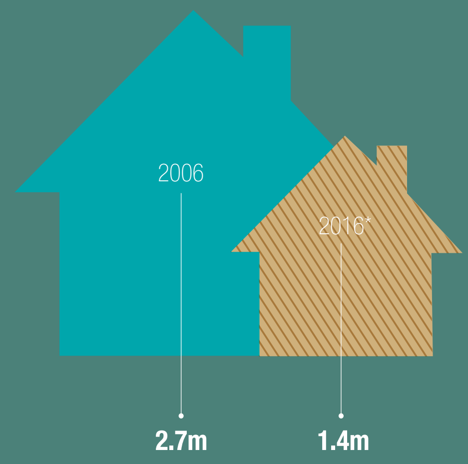


Source: Eurostat

FIGURE 3

THE SUPPLY TAP IS TURNED OFF

EUROPEAN RESIDENTIAL COMPLETIONS (MILLION)

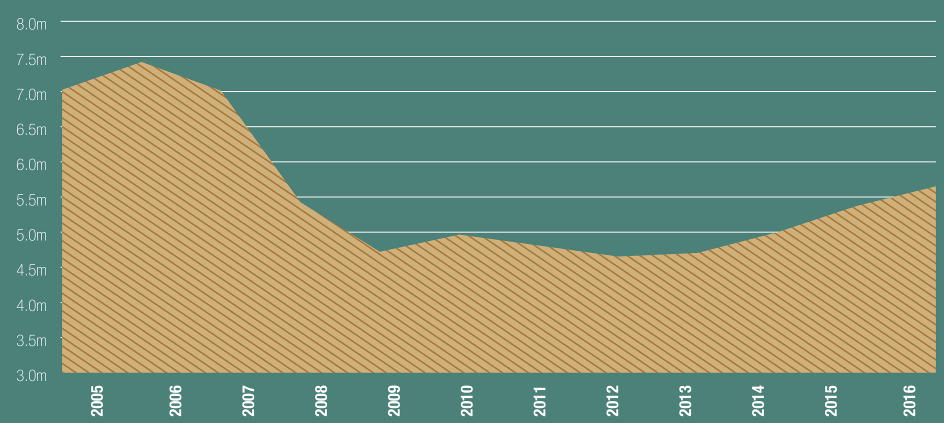


Source: European Mortgage Federation
*Latest available data

FIGURE 4

EUROPEAN RESIDENTIAL SALES PICK UP

NO. OF SALES



Source: European Mortgage Federation
*Data based on 23 countries, 2016 = latest data available

Of all the world regions, Europe's housing markets were arguably hit the hardest by the global financial crisis, in part because in 2007/08 some of its key economies – including the UK, Spain and Ireland – were building homes at their fastest rate on record and lending was at its peak.

However, 2017 marked a turning point – a year when Europe's recovery came into focus and this improved sentiment has continued into this year.

The fact Greece exited its €86 billion bailout programme this summer is testament to how far the region has come over the last decade.

Knight Frank's Global House Price Index, confirms that prices across Europe are rising at an average rate of 5.3% per annum, up from a low of -4% in the final quarter of 2009. In addition, residential transactions across the region are up 21% since their low in 2012 according to the European Mortgage Federation (figure 4).

Buyer sentiment amongst owner-occupiers has strengthened as the region's economic outlook has improved. The latest data show GDP growth across the EU-28 reached 2.2% in the 12 months to Q2 2018 with employment, wages and consumer spending all on an upward trajectory (figure 2).

> "SOME COUNTRIES WERE LARGELY UNAFFECTED BY THE FINANCIAL CRISIS WHILST AVERAGE PRICES IN OTHERS STILL SIT BELOW THEIR PRE-CRISIS PEAK."

However, it is not just owner-occupiers who have been buoyed by the upturn in the region's economic fortunes, cheap finance and rising rental demand has meant investors are looking at residential markets across Europe's cities with renewed interest.

That said, the region's performance both now and over the last decade is polarised. As the map above illustrates, not only have most key cities outperformed their wider national housing markets but some countries were largely unaffected by the financial crisis (Austria, Germany) whilst average prices in others still sit below their pre-crisis peak (Spain, Italy, Ireland).

In this report we assess how far Europe's housing markets have come. We set out the current and future housing market indicators for 14 of the region's main cities and outline how the landscape is changing, assessing the likely risks and opportunities for this diverse set of urban residential markets.

Despite the headwinds, cities look set to outperform as they become the hubs for innovation, knowledge-sharing and creativity. Across the EU-28, 73% of the population live in either cities, towns or suburbs. By 2050, the United Nations forecasts this figure will exceed 80% bringing with it significant repercussions for housing affordability, transport and social infrastructure.

EUROPE'S URBAN HOUSING MARKETS IN 10 CHARTS

The charts below provide a snapshot of how each of the 14 cities compare in relation to economic growth, price trends, demand and supply indicators, both now and over the next 10 years.

PAST

FIGURE 5
AVERAGE PRICE GROWTH ANNUAL % CHANGE (TO Q1 2018)

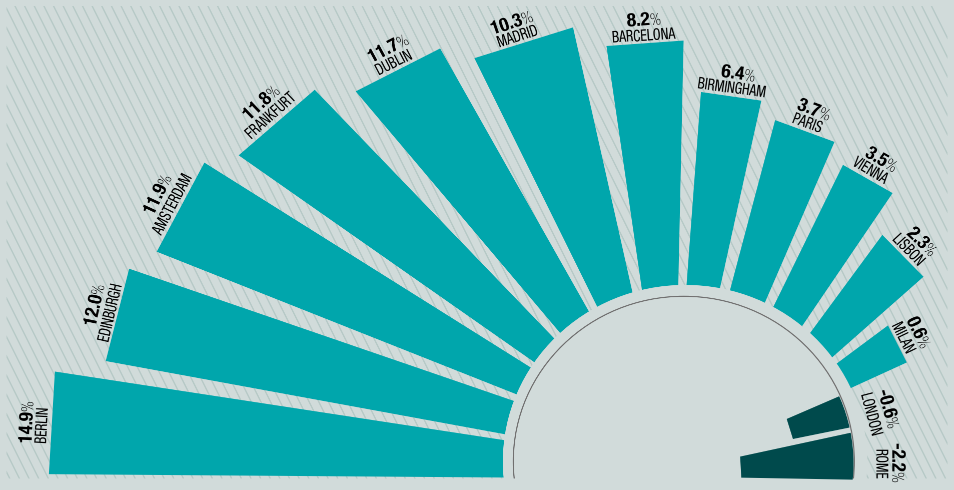


FIGURE 6
HOUSEHOLD DEMAND
5-YEAR % CHANGE (2013-2018)

FIGURE 7
NEW SUPPLY NEW-BUILD COMPLETIONS PER 1,000 RESIDENTS[1]

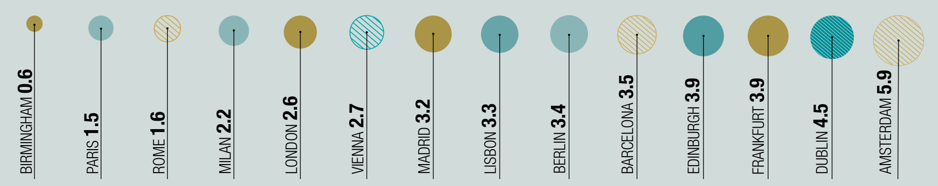


FIGURE 8
FINANCE
REPRESENTATIVE INTEREST RATE BASED ON NEW RESIDENTIAL LOANS 2016[2]

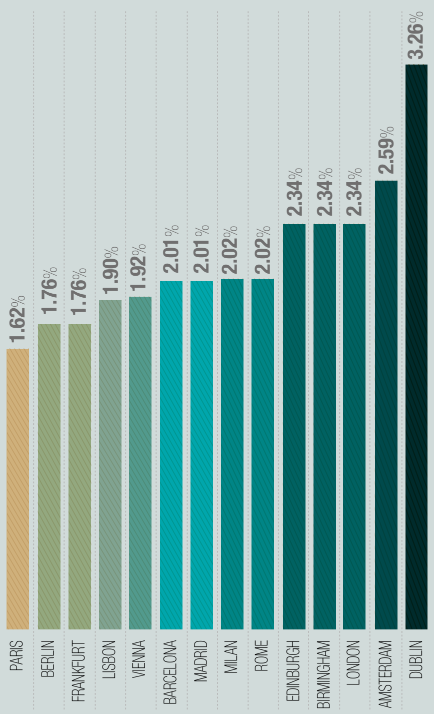


FIGURE 9
ECONOMIC GROWTH
GVA GROWTH 2018[3] (ANNUAL % CHANGE)

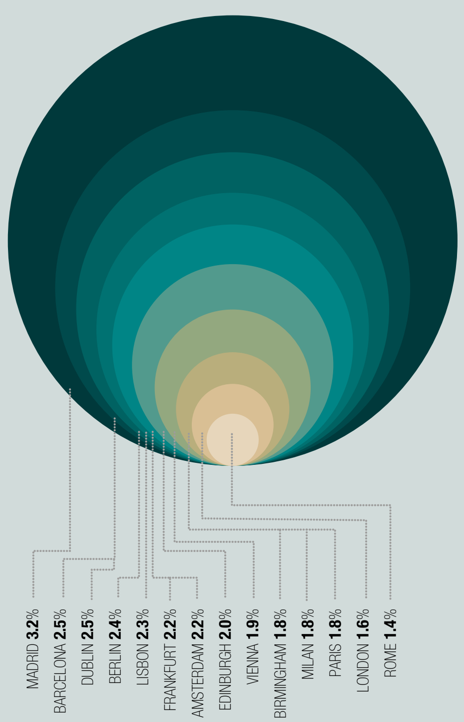
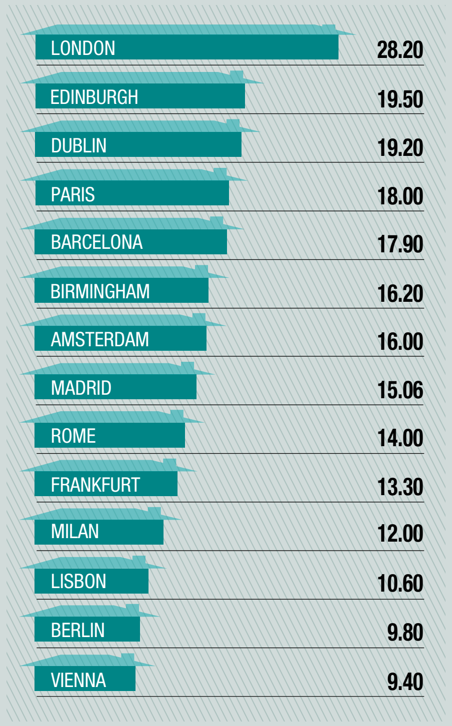


FIGURE 10
AVERAGE RENTS
MONTHLY RENT € PER SQ M



Note: Birmingham and Edinburgh: Data as at Q4 2017 based on Asking Rents

Source: National Sources, Oxford Economics, MHCLG, INE, CBS, Istat, Scottish Government, Ministerio de Fomento, Deloitte Advisory, Rightmove, European Mortgage Federation, HM Land Registry as at 13 June, CGEDD, Irish Central Statistics Office, Immobiliare Italia, Registers of Scotland, VDP Research Source: Dublin Chamber, Scottish Government, Statistics Austria, United Nations, Statistik Berlin-Brandenburg. [1] New-build completions: Vienna: private dwellings only, Frankfurt: data as at 2016. [2] National figure. Annual weighted average based on monthly figures. Includes initial fixed period rates from 1 to 10+ years. [3] Based on constant prices in local currency, 2018 figure = Oxford Economics forecast.

FUTURE

FIGURE 11
FUTURE ECONOMIC GROWTH
GVA GROWTH[1] % CHANGE (2018-2028)

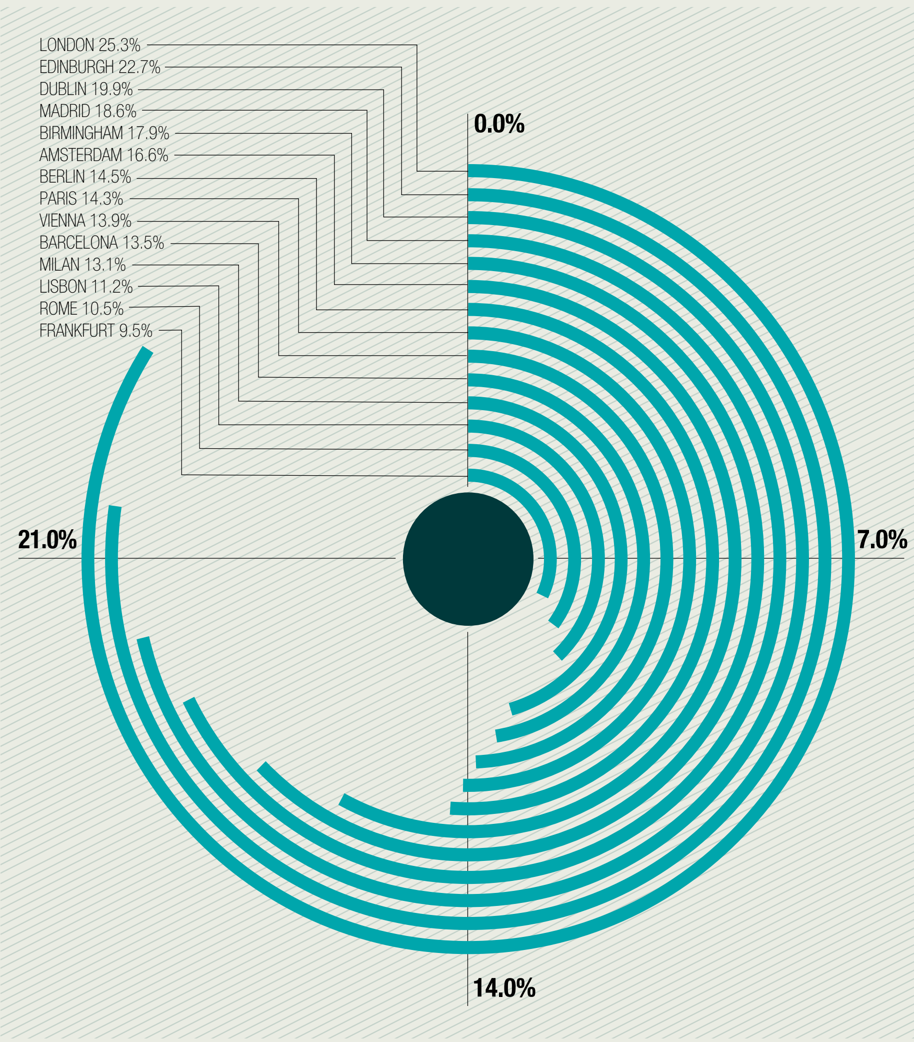


FIGURE 12
AVERAGE HOUSEHOLD INCOMES
% CHANGE (2018-2028)

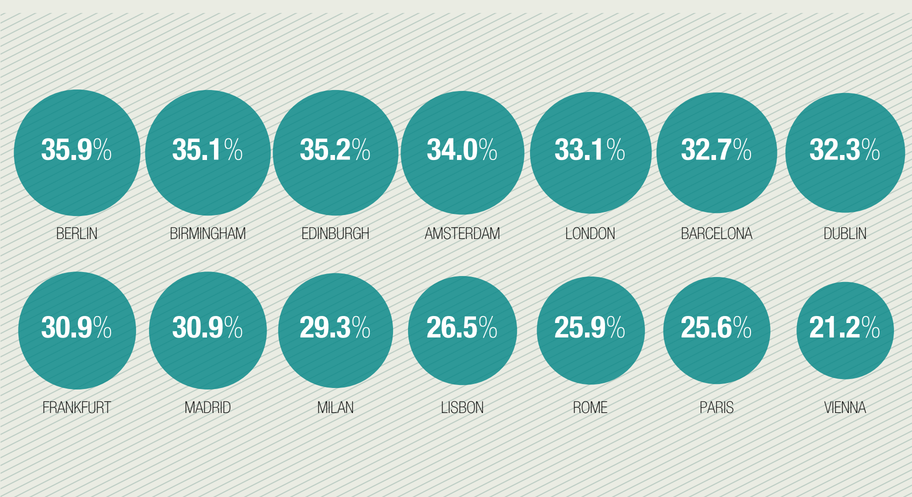


FIGURE 13
GENERATION RENT[2] AS A % OF TOTAL POPULATION IN 2028

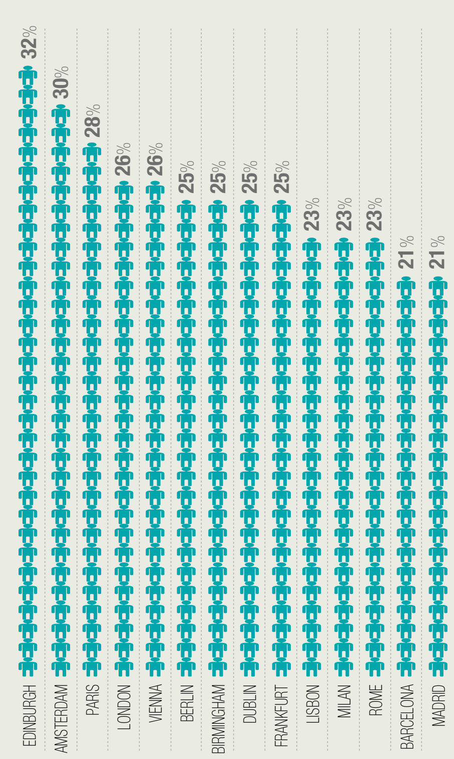
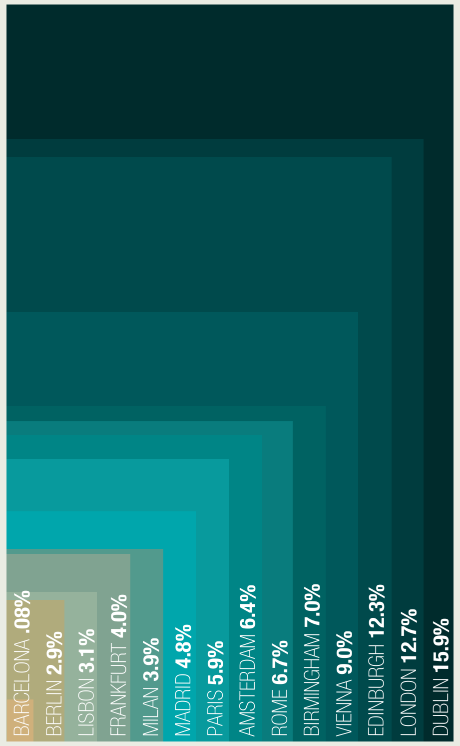


FIGURE 14
HOUSEHOLD GROWTH
FORECAST HOUSEHOLD GROWTH % CHANGE (2018-2028)



Source: Oxford Economics. [1] Based on constant prices in local currency. [2] 20-39 years.

TIGHTER MONETARY POLICY
Rising interest rates & removal of Quantitative Easing (QE) stimulus

CROSS BORDER INVESTMENT
Set to rise further

PROPERTY = MORE POLITICAL
Rules and regulations on who can buy what and where on the rise

AFFORDABILITY CONCERNS
Ageing population, gap between prices and rents/wages rising

SUPPLY CONSTRAINTS
Construction rates below target, planning process protracted

LOWER CAPITAL APPRECIATION EXPECTED
Investors will focus more on rental growth

CLAMPDOWN ON HOLIDAY LETS
To regulate disruptors such as Airbnb (rental days limited, registration required)

CITY CONNECTIVITY SET TO STRENGTHEN
Cities will be more synchronised with other cities, less in common with wider national market

THE KNOWLEDGE GAP
Cities with a high concentration of universities, technology and start-ups will outperform

TRANSPORT INVESTMENT =
Drivers of growth (London: Crossrail, Dublin: Tram & Metro extension, Paris: Europacity)

CHANGING TIMES

The investment landscape is changing. From monetary policy to demographics, and from property market regulations to currency shifts and transport plans, investors need to monitor multiple indicators to identify where the best opportunities lie.

Many of the factors that have defined the economic landscape over the last decade; low inflation, historically low interest rates and quantitative easing are shifting as we see the normalisation of monetary policy.

The European Central Bank is expected to shut down its bond-buying programme by the end of 2018 and the IMF is urging policymakers to "seize the moment to rebuild room for fiscal manoeuvre and push forward with reforms to boost growth potential."

But aside from monetary policy, other long-held fundamentals are also changing.

As highlighted in our latest Active Capital Report the world is getting smaller, the volume of cross border investment has increased by 80% in the last five years. The latest data from Real Capital Analytics show that more than half of the investment (residential and commercial) that took place in Europe in 2017 involved a buyer from a different country with intracontinental trade in Europe reaching US$65 billion.

But it is not only the economic landscape and the resulting capital flows that is unpredictable, property, in particular price inflation, is now firmly in the political arena too.

The desire amongst policymakers to monitor and control capital flowing into their property markets is one of the key characteristics that sets housing markets of today apart from those a decade ago.

Nearly all of the 14 cities under analysis have seen either a hike in property taxes, restrictions on holiday lets, tighter lending rules or rent caps introduced over the last decade and the volume and scale of such measures is only set to increase.

With incomes failing to keep pace with house price growth and rents accelerating in many cities, concerns surrounding affordability are mounting.

Added to this are concerns that disruptors such as Airbnb, HomeAway and FlipKey are expanding their market share, and reducing supply for end users, be they owner-occupiers or tenants. The rules around holiday rentals are changing as cities set up registries or set limits on the number of consecutive nights a property can be rented. Although a global trend, European cities have been amongst the frontrunners in establishing these new rules (figure 16).

The rate at which new homes are being delivered has also slowed. In 2006 Spain alone built over 735,000 homes, fast forward a decade and that figure had shrunk to 55,000. Despite government incentives for developers to build more (UK, Germany and Ireland) net additions to stock are falling short of targets and failing to keep pace with household growth.

Not immediately, but over time, the cost of finance across Europe will rise, as a result capital growth will moderate putting pressure on yields. We expect the spotlight for investors will shift from capital to rental growth.

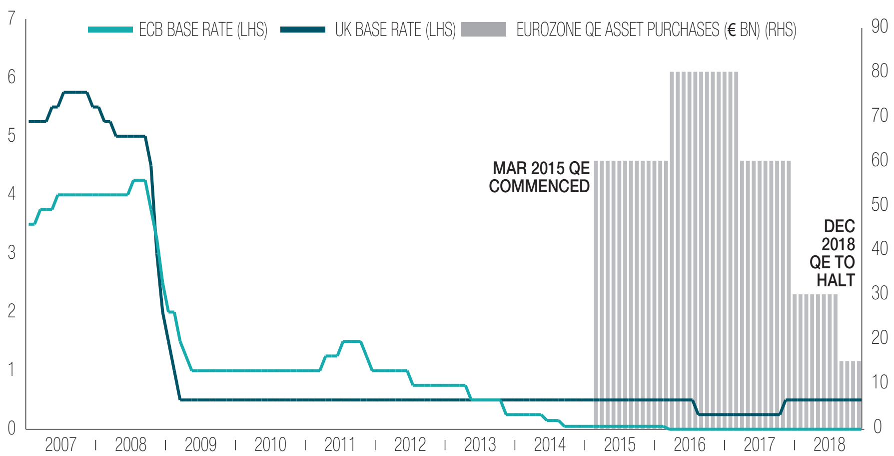
In response, some investors may chase greater returns by increasing their risk, either looking to emerging residential investment markets in Southern or Eastern Europe or by broadening their asset class, from mainstream residential to specialist markets such as retirement or student housing.

Major infrastructure projects such as Crossrail in London, the Metro extension in Paris and Milan's new Linea 4 are reshaping some of the region's key cities. Areas close to new stations, tramlines and large-scale regeneration projects will outperform their wider city markets. Below we highlight a selection of the planned infrastructure projects in each city which are expected to boost connectivity and revitalise key districts.

Our analysis shows property values within a 10-minute walk of Crossrail stations outperformed Knight Frank's prime central London index by 40% between 2008 and the end of 2016. The new Elizabeth Line (Crossrail 1) is expected to open in September 2019 and plans for Crossrail 2 are progressing.

> **"IT IS NOT ONLY THE ECONOMIC LANDSCAPE THAT IS UNPREDICTABLE, PROPERTY, IN PARTICULAR PRICE INFLATION, IS NOW FIRMLY IN THE POLITICAL ARENA TOO."**

FIGURE 15
END OF AN ERA
ECB AND UK BASE RATES VS. EUROZONE QE ASSET PURCHASES (€)



Source: ECB , Bank of England

FIGURE 16
WHICH CITIES HAVE SET LIMITS ON HOLIDAY LETS?
AS AT AUGUST 2018

	SHORT-TERM RENTAL LIMIT[1] (NO. OF DAYS)		SHORT-TERM RENTAL LIMIT[1] (NO. OF DAYS)
AMSTERDAM	60	LISBON	NO LIMIT
BARCELONA	LICENSE NEEDED	LONDON[2]	90
BERLIN	90	MADRID	NO LIMIT
BIRMINGHAM[2]	NO LIMIT	MILAN	NO LIMIT
DUBLIN	NO LIMIT	PARIS	120
EDINBURGH[2]	45 PROPOSED	ROME	NO LIMIT
FRANKFURT	42	VIENNA	NO LIMIT

Source: Knight Frank Research, Airbnb [4]
[1] Most cities operate a license or registration system for short-term lets as well as penalty fees. In some cases Airbnb collects a tourist tax on behalf of the local authority. Rules vary according to whether the entire property or individual rooms are being let. [2] If let more than 140 days the property is subject to business rates.

INFRASTRUCTURE PROJECTS BY CITY

Amsterdam	New north/south metro line, new terminal at Schipol Airport
Barcelona	Possible extension of metro Line 3 and the Trambaix light rail network
Berlin	New Berlin Brandenburg Airport, Berlin TXL (Tech & Innovation Park), Europacity
Birmingham	HS2, Midland Metro Extension (34km new tram network), Snowhill and wider city centre regeneration
Dublin	LUAS Tram line extension MetroLink New Runway at Dublin Airport
Edinburgh	New Queensferry Crossing, Edinburgh Gateway Rail/Tram Interchange
Frankfurt	New third terminal at Airport
Lisbon	New Lisbon Airport, upgrading of metro
London	Elizabeth Line (Crossrail), potentially Crossrail 2 and Bakerloo line extension, HS2, new Heathrow Runway
Madrid	Regeneration of Centro Canalejas and Castellana Norte
Milan	New Metro Line 4 (including 21 stations)
Paris	Metro extension ahead of 2024 Olympic Games, EuropaCity
Rome	Fiumicino Airport upgrade, Expansion of metro, lines A, B and C
Vienna	Third runway planned, aspern Vienna's Urban Lakeside development

Source: Knight Frank Research

EXPERT VIEW

Knight Frank's teams in Frankfurt, Lisbon and Dublin share their expertise, highlighting what sets their city's housing market apart and what is going to sustain it in the long term.

FRANKFURT

DOROTHEA METASCH

Frankfurt has been lined up as a potential Brexit beneficiary. What evidence is there to date of banks relocating and stronger housing demand?

To date we have seen announcements from Morgan Stanley, Citigroup, Nomura, Standard Chartered and Goldman Sachs, all of which are planning to increase their presence in the city as banks spread their operations throughout the European bloc. Such decisions are estimated to result in 5,000 jobs, some moving from elsewhere in Europe, others newly-created roles.

What does €600,000 buy in the city?

A one-bedroom apartment on the tenth floor at FOUR Frankfurt. Located in the Central Business District (CBD) the four high-rise buildings, up to 228 metres in height, will deliver 500 new apartments.

Which area do you think is up-and-coming?

Both the CBD and the inner city district of Bahnhofsviertel (literally: train station quarter) are undergoing a revival. Good transport connections, along with new restaurants and galleries are attracting a trendy crowd that mix alongside the bankers from the neighbouring financial district.

Which top three overseas nationalities are currently buying in your city?

Alongside German buyers we are seeing strong enquiries from UK, Chinese and Middle Eastern buyers.

What is going to sustain the market in the long term?

At 23%, Frankfurt has one of the lowest home ownership rates in Europe and the city's residency and commuter profile is changing. Home to only 732,000 residents but with 2.8 million residents within a 40-minute drive, workers used to commute into the city centre but live in the suburbs. The delivery of iconic projects in the city centre, of a high build quality is injecting new life into Frankfurt's CBD.

Are there any major redevelopment projects or transport improvements planned in your city?

Frankfurt's transport network is exemplary, the journey time from the CBD to the airport takes just 12 minutes. There are several new developments which look set to redefine the city's skyline, these include: FOUR and Omniturm.

How has the new development market changed in the last few years?

German purchasers still account for around 70% of enquiries but the city is on the radar of global buyers in a way it wasn't previously. The quality of the projects being delivered has improved immeasurably with additional facilities such as a concierge and gym now provided as standard.

LISBON

ALEX KOCH DE GOOREYND

Lisbon is buzzing but its emergence as a potential investment hotspot seems to have been rapid. Why?

Spain's recovery has been well-documented in the last few years, however, Portugal's housing market has been, until recently, markedly less mature and transparent. Like we saw in Madrid and Barcelona, commercial activity led the way in Lisbon and confidence has filtered through into the residential market. A number of factors then coincided; a realisation that average values were low and highly competitive, economic indicators shifted higher and tourism numbers surged.

What does €600,000 buy in the city?

A one-bedroom apartment in the upmarket area of Avenida da Liberdade, a two-bedroom apartment in the Embassy district of Lapa or a three-bedroom apartment in the residential area of Restelo.

Which area do you think is up-and-coming?

The main city centre areas of Liberdade, Principe Real and Chiado remain the key target for investors today, however, as more restaurants and bars open up in areas such as the Baixa, Alfama, Graça, Restelo and Belém these districts are on the radar of investors.

Which overseas nationalities are currently buying in your city?

The majority of buyers are coming from western Europe in particular from France, the UK, Switzerland and Sweden, all drawn by the lifestyle and the tax incentives for non-habitual residents (NHRs). Introduced in 2009, if employed NHRs can benefit from a flat 20% income tax rate and retirees can receive foreign income, including pensions, tax-free.

Added to this is the Golden Visa scheme - offering residency for non-EU residents in return for a €500,000 property investment. This is popular with buyers from China, Brazil, South Africa, Morocco, Turkey, Iran and Iraq.

What is going to sustain your market in the long term?

Portugal's tourism industry is booming, registering a 22% increase in arrivals in 2017. The city centre and historic waterfront in particular have seen huge investment and the creation of exciting new initiatives such as the transformation of an old farmer and fish market to create the Time Out market, a hub of restaurants, bars and start-ups.

Are there any major redevelopment projects or transport improvements planned in your city?

Lisbon's new Airport is due to open in 2019 and the metro is earmarked to receive investment of €684 million, including two new stations and a new cycle network.

Added to this, is the new Nova University site development in the centre of Lisbon.

How has the new development market changed in the last few years?

In the last five years the focus has been on refurbishing period buildings in the city centre, these opportunities are now running out and we are seeing a number of new modern riverfront apartment projects emerging.

	QUALITY OF LIFE* 1 = GOOD	EASE OF DOING BUSINESS 1 = GOOD	RESIDENTIAL RENT PER SQ M PER MONTH (€)
FRANKFURT	7	20	14.7
LISBON	38	29	10.6
DUBLIN	34	17	19.2

Source: Deloitte, Mercer, World Bank, INE
* Out of 231 cities

DUBLIN

RENA O'KELLY

What does €600,000 buy in the city?

A top floor three-bedroom 110 sq m apartment in Gandon House in the north Docklands, Dublin 1 with dual aspect and a terrace.

However, for those seeking Dublin's premier address of Dublin 4 it would buy a 81 sq m two-bedroom apartment in a niche development in a popular mews on Wellington Lane.

Which area do you think is up-and-coming?

Smithfield in Dublin 7 has seen renewed vigour from purchasers priced out of the Docklands and the area registered double digit price growth in the year to June 2018. Other areas that have become popular with purchasers are Dublin 6W and Harold's Cross.

In my view, Clonee is an undervalued commuter village. It is not far from the very established and sought after village of Castleknock.

Are there any major redevelopment projects or transport improvements planned in your city?

The LUAS, Dublin's light rail, has been extended in the city, significantly improving the city's connectivity and transport network. The new 6-kilometre extension to the Green Line opened in December 2017.

Which overseas nationalities are currently buying in your city?

Asian interest is strengthening, in the last year we have registered a high volume of enquiries from Chinese nationals, in particular from Shanghai and Beijing, as well as buyers from Hong Kong and India. With the economy in robust health, there is also a large number of Irish ex-pats moving back to the country having spent a number of years abroad.

What is going to sustain your market in the long term?

The Irish economy expanded by 7.3% in 2017 making it the fastest growing economy in Europe for the fourth consecutive year. Positive demographic indicators are supporting this economic expansion. Unlike other cities that are forecast to see a decline, Dublin's population of 20-34 year olds is forecast to rise by 17% over the next decade.

How has the new development market changed in the last few years?

Dublin has seen the arrival of large institutional landlords and publicly-listed developers such as Glenveagh Properties, Cairn Homes and Kennedy Wilson, these are bringing scale to the market which should help ease the lack of supply that has built up in recent years.

DATA DASHBOARD

Data is now the world's most valuable resource, below we set out the key economic, demographic and housing market indicators needed by our clients to help make informed investment decisions.

ECONOMICS

	GVA GROWTH 2018[1] (ANNUAL % CHANGE)	AVERAGE HOUSEHOLD PERSONAL DISPOSABLE INCOME PER ANNUM 2018 (€)	REPRESENTATIVE INTEREST RATE BASED ON NEW RESIDENTIAL LOANS 2017[2]
AMSTERDAM	2.2%	45,843	2.59%
BARCELONA	2.5%	45,578	2.01%
BERLIN	2.4%	38,753	1.76%
BIRMINGHAM	1.8%	48,886	2.34%
DUBLIN	2.5%	66,321	3.26%
EDINBURGH	2.0%	53,477	2.34%
FRANKFURT	2.2%	52,018	1.76%
LISBON	2.3%	37,004	1.90%
LONDON	1.6%	73,045	2.34%
MADRID	3.2%	48,803	2.01%
MILAN	1.8%	52,844	2.02%
PARIS	1.8%	48,863	1.62%
ROME	1.4%	44,017	2.02%
VIENNA	1.9%	49,328	1.92%

Sources: Oxford Economics, Eurostat, European Mortgage Federation, Statistical Office of Brandenburg.

All data corresponds to latest available. Exchange rate calculated as at 29 Dec 2017. [1] Based on constant prices in local currency (real) [2] National figure

HOUSING MARKET

	PRICING	DEMAND			SUPPLY	
	AVERAGE PRICES (ANNUAL % CHANGE) Q1 2018	5-YEAR HOUSEHOLD GROWTH (2013-2018)	AVERAGE HOUSEHOLD SIZE 2018	NO. OF INTERNATIONAL VISITORS/TOURISTS 2017[2]	NEW-BUILD RESIDENTIAL COMPLETIONS, 2017[3]	NEW-BUILD COMPLETIONS PER 1,000 RESIDENTS 2017
AMSTERDAM	11.9%	5.1%	2.00	6.6m	4,922	5.9
BARCELONA	8.2%	0.6%	2.47	7.6m	5,612	3.5
BERLIN	14.9%	5.5%	1.81	5.8m	12,785	3.4
BIRMINGHAM	6.4%	4.9%	2.45	1.2m	710	0.6
DUBLIN	11.7%	5.5%	2.77	5.0m	6,009	4.5
EDINBURGH	12.0%	8.3%	2.11	1.6m	1,999	3.9
FRANKFURT	11.8%	5.1%	2.04	2.5m	2,865	3.9
LISBON	2.3%	1.6%	2.39	3.3m	1,654	3.3
LONDON	-0.6%	7.4%	2.44	19.8m	22,790	2.6
MADRID	10.3%	3.3%	2.48	5.6m	10,176	3.2
MILAN	0.6%	1.1%	2.16	7.4m	2,866	2.2
PARIS	3.7%	2.7%	2.37	14.3m	3,338	1.5
ROME	-2.2%	-3.0%	2.18	9.6m	4,636	1.6
VIENNA	3.5%	5.7%	2.11	6.0m	5,000	2.7

Sources: National sources, Oxford Economics, MHCLG, INE, CBL, Istat, Scottish Government, Ministerio de Fomento, Deloitte Advisory, Rightmove, European Mortgage Federation, HM Land Registry as at 13 June, CGEDD, Irish Central Statistics Office, Immobiliare Italia, Registers of Scotland, VDP Research GmBH, Statistik Berlin-Brandenburg

[1] Where city-level data unavailable national average used. [2] Arrivals refers to international tourists, i.e. any person visiting another country for at least 24 hours, for a period not exceeding 12 months, and staying in collective or private accommodation. [3] New-build completions: Vienna: private dwellings only, Frankfurt: Data as at 2016.

INVESTMENT

	AVERAGE MONTHLY RENT PER SQ M 2017 (€)	GROSS RENTAL YIELD 2017	HOME OWNERSHIP RATE[1]	INVESTMENT VOLUMES ($) 12 MONTHS TO Q1 2018[2]	NO. OF UNIVERSITIES	SHORT-TERM RENTAL LIMIT[3] (NO. OF DAYS)
AMSTERDAM	22.3	4.7%	29.0%	5,646,000,000	4	60
BARCELONA	17.9	5.4%	71.9%	823,000,000	11	License needed
BERLIN	9.8	4.9%	15.0%	6,336,000,000	11	90
BIRMINGHAM	16.2	N/A	54.0%	1,020,000,000	6	No limit[4]
DUBLIN	19.2	5.1%	63.0%	2,529,466,900	7	No limit
EDINBURGH	19.5	N/A	52.7%	765,000,000	5	45 (Proposed)
FRANKFURT	13.3	4.1%	20.0%	4,394,000,000	4	42
LISBON	10.6	4.6%	74.8%	1,174,000,000	8	No limit
LONDON	28.2	3.7%	49.0%	17,371,000,000	33	90
MADRID	15.1	5.2%	73.0%	9,423,000,000	18	No limit
MILAN	12.0	4.0%	72.9%	2,375,000,000	9	No limit
PARIS	18.0	4.5%	33.0%	2,514,000,000	20	120
ROME	14.0	4.8%	72.9%	1,295,000,000	11	No limit
VIENNA	9.4	2.8%	23.0%	2,965,000,000	8	No limit

Sources: Deloitte Advisory, Experian, Eurostat, RCA, Times Higher Education, ABF Research, Ziegert Immobilien, INE, Idealista, AM/Pararius, Catella

[1] Home ownership rates for Rome, Milan and Lisbon are national rates. [2] Commercial and residential investment. Paris and London corresponds to central area only. [3] Most cities operate a license or registration system for short term lets as well as penalty fees. In sme cases AirBNB collects a tourist tax on behalf of the local authority. Rules vary according to whether the entire property or individual rooms are being let. [4] If let more than 140 days the property is subject to UK business rates

FORECASTS

	GVA % CHANGE (2018-2028)[1]	FUTURE HOUSEHOLD GROWTH (2018-2028)	FUTURE HOUSEHOLD GROWTH % CHANGE (2018-2028)	GENERATION RENT[2] POPULATION AS A % OF TOTAL POPULATION 2028	AVERAGE HOUSEHOLD PERSONAL DISPOSABLE INCOME % CHANGE (2018-2028)
AMSTERDAM	16.6%	48,900	6.4%	30.2%	34.0%
BARCELONA	13.5%	14,600	0.8%	21.4%	32.7%
BERLIN	14.5%	72,500	2.9%	24.7%	35.9%
BIRMINGHAM	17.9%	113,100	7.0%	25.1%	35.1%
DUBLIN	19.9%	106,800	15.9%	25.0%	32.3%
EDINBURGH	22.7%	34,300	12.3%	31.5%	35.2%
FRANKFURT	9.5%	53,600	4.0%	24.8%	30.9%
LISBON	11.2%	38,600	3.1%	23.0%	26.5%
LONDON	25.3%	800,000	12.7%	26.4%	33.1%
MADRID	18.6%	130,100	4.8%	21.3%	30.9%
MILAN	13.1%	84,600	3.9%	22.6%	29.3%
PARIS	14.3%	318,300	5.9%	28.1%	25.6%
ROME	10.5%	139,000	6.7%	22.7%	25.9%
VIENNA	13.9%	137,000	9.0%	26.1%	21.2%

Sources: Oxford Economics. [1] Based on constant prices in local currency. [2] 20-39 year.

OUTLOOK

Europe's recovery is now indisputable, but there are challenges ahead, not least in terms of affordability, housing delivery and the fact the region is playing catch up with Asia when it comes to infrastructure investment.

Europe is arguably more resilient to crises than a decade ago, be they economic or political. However, while Europe has been at the top of investors' lists for decades due to its transparency, stable governance and wealth, competition from other parts of the world is set to rise.

With public finances squeezed over the last decade, Europe has been slow to raise its game in terms of investment and infrastructure. The region has a long way to go if it is to compete with Asia and the world's largest infrastructure project; China's Belt and Road Initiative. China is expected to have between 30 and 40 cities of more than 10 million people by 2030. Latest forecasts suggest Europe will have only two cities of a comparable size by 2030; London and Paris.

The region's demographic fundamentals remain sound. Europe's cities have some of the lowest purchase and ownership costs globally and it boasts some of the most youthful, educated and qualified workforces in the world.

Although rental demand has expanded – in part due to affordability constraints – available rental stock has shrunk in some cities, either due to an increase in stamp duty for buy-to-let purchases, or as a result of rent caps or because of the expanding market share of holiday rental platforms. Rental demand is likely to increase further as a larger cohort of young professionals earn too much to qualify for public housing but too little to meet the strict mortgage rules now in place.

Some commentators have cautioned against being overly bullish on Europe given the headwinds on the horizon, namely Brexit, heightened property market regulations and a rising cost of finance. However, economic output remains the key driver of property markets and the region's GDP sits above its long-term average.

Although the focus amongst investors to date has been on Europe's large cities with highly-transparent property markets, we expect second tier markets to see investment activity strengthen. The focus will be on core central neighbourhoods as opposed to peripheral areas with long-term regeneration plans which may or may not come to fruition. New transport links, universities and technology hubs will be the future engines of growth.

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Get in touch

If you're thinking of buying in any of the 14 European cities covered by this report, or would just like some property advice, please do get in touch, we'd love to help.

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Knight Frank can advise on all aspects of property ownership across Europe's main cities, from acquisition to ownership and disposal. Relevant contacts are listed above. Further details are available on our website at www.knightfrank.com/overseas-property.

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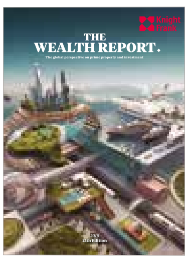

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