REflexions

A Biannual digest for the real estate investment management industry | Issue 7 | EMEA | 2018

Deloitte.

Foreword

Dear readers,

As postulated by Sir Arthur Conan Doyle, “It is a capital mistake to theorize before one has data.” True to this statement, research is at the heart of REflexions 7, with each article providing us with food for thought and a basis of deeper understanding.

We open this edition with the key findings of a recent CoreNet Global and Deloitte Consulting research project on evolving corporate real estate operating models, highlighting the opportunities for public sector real estate property organizations to benefit from the experiences of the private sector, by embracing digital disruption and transformation.

Digitalization is a buzzword that transcends all sectors of the financial industry, including real estate. In an interview with Dr. Sven Olaf Eggers, Group Head of Platform Administration of Patrizia Immobilien AG, we explore how innovation can help asset managers prepare for the future. If it is true that digital transformation is not an end but a beginning, it is also true that it can reshape a number of processes to boost operational efficiency in areas such as payment executions, client reporting, and dashboarding.

We continue by looking at M&A transactions in Europe, which have considerably increased over the last years, resulting in a total volume of transactions amounting to €150 billion in 2017. Once again, technological disruption is a driving factor in market dynamics, with e-commerce strategies already affecting retail and logistics. It is indeed in those industries where some of the largest real estate M&A transactions took place. The positive trend can be expected to continue in the years to come, despite the potential pending risks, such as Brexit or the interest rate growth, to name but a few.

A positive outlook bares testimony to the real estate industry all over Europe down to the continent’s most western country, as confirmed by the perceptions of a panel of real estate industry professionals, interviewed for the Deloitte Portuguese Real Estate Investment Surveys.

We close this edition of REflexions exploring a rather unusual side of the Luxembourg real estate, with a highly commended guest contribution by Marc Baertz, Partner - Capital Markets at Inowai. For once, we are not highlighting the Grand Duchy for its funds hub, but for its development projects shaping the landscape and skyline.

Last but not least, as a special gift to you, our valuable readers, we enclosed the first edition of our real estate priority agenda poster with this edition of REflexions.

With this poster, you will be able to see which regulations, tax aspects, and other industry evolutions may affect your organization, weighing on their significance and possible outcomes given the respective timelines.

Feel free to attach the poster on your office wall as a reference point for you and your colleagues throughout the year.

We wish you an interesting read!

Benjamin Lam
EMEA Real Estate Funds Co-Leader

David Brown
EMEA Real Estate Funds Co-Leader

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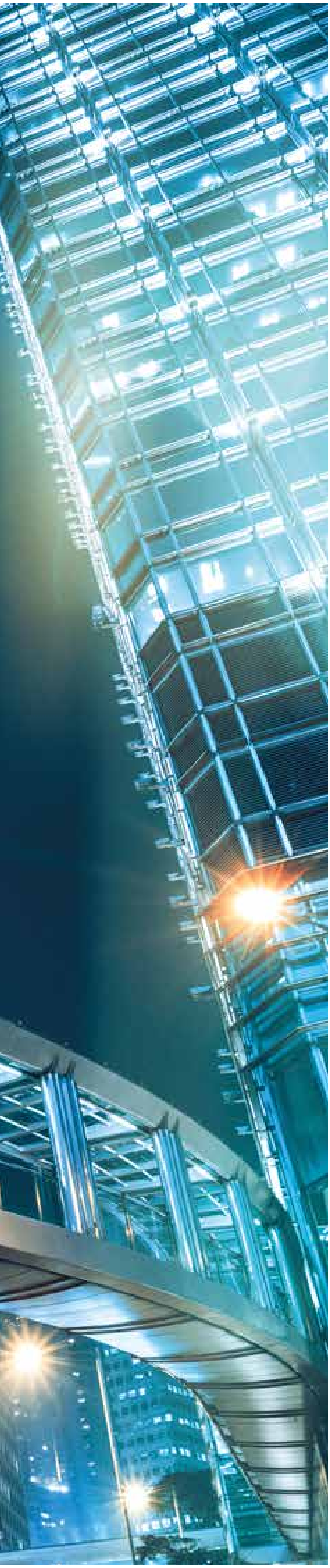

Transforming real estate operations

Leveraging high performance operating models in public sector real estate service delivery

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Private sector organizations have moved toward direct/center-led real estate operating models

Many private sector organizations have transformed their corporate real estate operating models over the last decade, and this transformation provides tremendous opportunity and "lessons learned" for public sector real estate operations around the globe. Specifically, many organizations are moving away from highly fragemented, inefficient operating models, and are turning toward center-led, high performance operating models to deliver a wide range of services for their diverse organizational real estate requirements. This article outlines the opportunity for public sector real property organizations to fully embrace digital distruption, transform their property operations and portfolios, and benefit from the learnings of the private sector.

Public sector real estate service delivery operations have a unique opportunity to transform and deliver effective and efficient services to benefit their client organizations

The public sector is collectively the world's largest service provider. Any favorable amelioration in public services will favorably impact millions of people, which calls for a radical transformation of the existing real estate operating models. The need to centralize operations, reduce the cost of back-office processes, and minimize inefficiencies is the standard expectation across businesses today, which has benefitted the private sector tremendously. The public sector can learn and implement many of the lessons learned from this experience.

Digital disruption is affecting virtually all sectors of the economy and real estate

The global economy has been experiencing synchronized, broad based and strengthening economic expansion. Digital disruption is affecting virtually every sector, including all property types that influence demand and supply for office, retail, industrial, institutional, land and specialized property asset classes. As a result, property operations and platforms need to fully embrace digital disruption, and specifically impacts on property in order to help their business to remain relevant and modern within the dynamic economy. Unfortunately, Deloitte's "Future of Work" research has identified that public policy tends to lag behind technological advancements. As such, organizations should consider exploring high performance real estate operating models to potentially help organizations embrace technological change.

Property operations and platforms need to fully embrace digital disruption, and specifically impacts on property in order to help their business to remain relevant and modern within the dynamic economy.

Decentralized operating models result in tremendous inefficiencies

The existing public sector decentralized real estate operating model presents a wide range of inefficiencies that affect their respective client organizations including:

- Higher costs due to the need for more resources to deliver services
- Inefficiencies and duplication across multiple teams
- A larger footprint to serve the multiple programs
- Space "ownership" costs, entitlements, and inefficiencies
- Highly complex governance, budget, and approvals processes
- Limited budgets for technology/ operations/capital and asset management
- Limited real property expertise to lead and deliver solutions across multiple property asset classes
- Fragmented outsourcing arrangements that fail to deliver true cost and efficiency benefits
- Traditional use of space, often with outdated workplace environments that fail to inspire innovation and new ways of thinking
- Wasted opportunities, typically available through a location, holistic strategic perspectives and teams

The real estate and construction market has been changing over the past few years. In this regard, Deloitte real estate conducted research with our many global clients and the CoreNet Global professional industry association to analyse market trends.

The public sector is collectively the world's largest service provider. Any favorable amelioration in public services will favorably impact millions of people.

CoreNet Global/Deloitte Research provides direction toward a centralized high performance real estate service delivery model
Three key findings indicated by recent CoreNet Global / Deloitte Consulting research are listed beside:

Organizations should consider the benefits of the direct/center-led operating model to drive change and deliver within an ever-changing environment.

01
Commercial real estate (CRE) organizations continue to deploy direct/center-led operating models

Many corporate real estate organizations have recently redesigned or are planning to redesign their operating models and organizational structures. As shown in Figure A, research participants indicate that they are shifting towards center-led operating models in order to drive strategic alignment, cost reduction, economies of scale, standardization, and continuous improvement.

02
Decentralized operating models drive lower levels of satisfaction from CRE organizations

As shown in Figure A, 77 percent of survey respondents have deployed a direct/center-led operating model. Furthermore, as shown in Figure B, research indicates that the direct/center-led operating model is associated with the highest level of satisfaction (70 percent very satisfied or satisfied), compared to other more distributed operating models.

Figure A: Tracking the shift towards center-led operating models

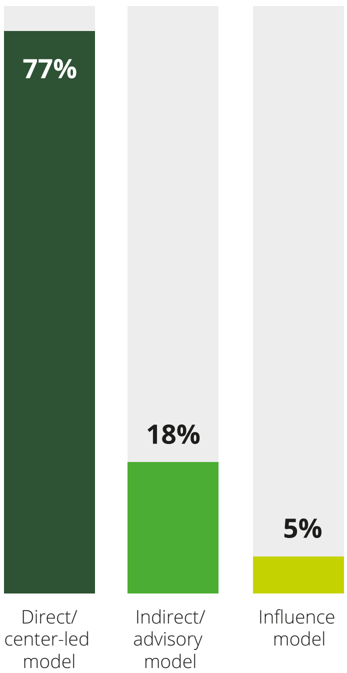
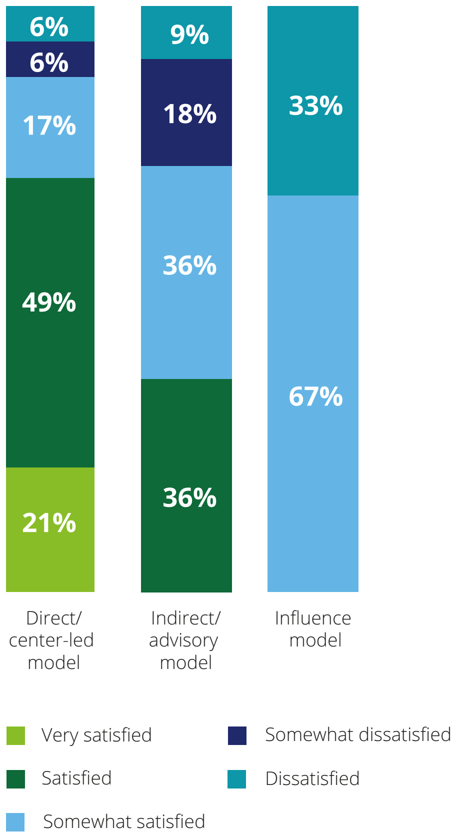


Figure B: Respondent's level of satisfaction with the corporate real estate operating model



03
CRE organizations are increasingly serving in the role of strategic partner

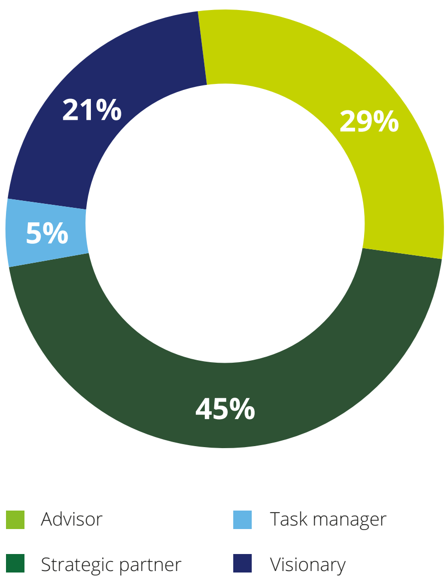
Corporate real estate is moving up the value chain and, in many cases, earning a "seat at the table" with senior leadership. That said, CRE organizations that aspire to be a strategic partner are often challenged to do so based on the current positioning of the CRE function. The industry-wide War for Talent and important role that CRE can play in creating innovative and high performance workplace environments provides an opportunity for the CRE function to inspire the enterprise and improve its positioning.

As shown in Figure C, CoreNet Global/ Deloitte Consulting research indicates that most organizations have evolved their CRE functions to incorporate the concept of strategic partnering:

- Nearly half of the survey respondents indicate that their CRE organization serves as a 'Strategic Partner' in supporting customer demands by designing and delivering end-to-end strategies and solutions
- The balance of the CRE organizations serve as an 'Advisor' (corporate real estate is proactive in interacting with customers and primarily focused on transactions and projects) or as a 'Visionary' (corporate real estate focuses on unlocking enterprise value and a key business partner leading to leverage real estate as a value protector and creator)
- Across research participants, only a small portion (5 percent) of CRE organizations serve as a traditional 'Task Manager' that largely responds to requests and is task oriented

For the public sector, moving beyond a Task Manager role toward a strategic partner or visionary role represents a tremendous opportunity and enables evolution towards a high performance delivery platform.

Figure C: The role of the CRE organization in supporting customer demands



In Summary: Deploying a center-led operating model accelerates high performance service delivery

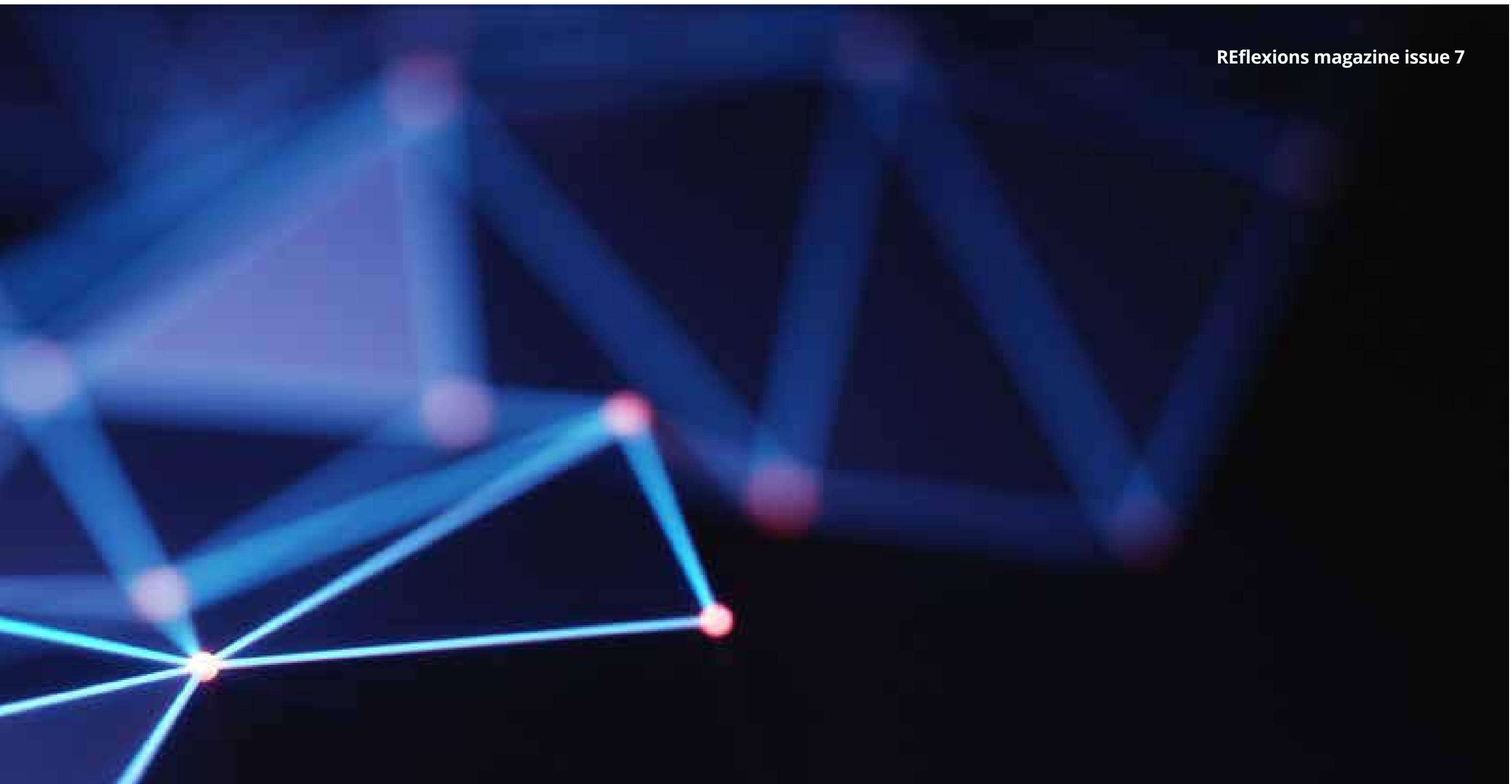
Real estate and real property organizations that are structured in a decentralized manner often leverage generalists across property types and requirements. These organizations may or may not possess deep functional skills and may need to source these capabilities from third party service providers. In contrast, organizations that have deployed direct orcenter-led operating models tend to internally host the functional skills required to drive a wide range of real estate activities, from strategy to planning to asset management to change management.

Corporate real estate operating models continue to evolve with advancements in technology and newly emerging workplace expectations. Never before has it been as critical for the CRE organization to "step-up" its game and deliver best-in-class services across a wide range of property types and occupier groups. Organizations should consider the benefits of the direct/center-led operating model to drive change and deliver within an ever-changing environment.

Dr. Sven Olaf Eggers

Dr. Sven Olaf Eggers studied business law after training as a banker and he also received his doctorate while working. In 2011 he moved to PATRIZIA WohnInvest KVG mbH firstly working as Director of Fund Accounting. In 2013 he was appointed Managing Director of PATRIZIA WohnInvest KVG mbH. That same year Dr. Eggers became Group Head Platform Administration of PATRIZIA Immobilien AG acting as responsible for managing the back offices of all European investment platforms. Since February 2017 Dr. Eggers additionally became Managing Director for the regulatory affairs of PATRIZIA Institutional Clients & Advisory GmbH embedding PATRIZIAs worldwide sales activities.

Dr. Sven Olaf Eggers holds a doctorate in business law from University of Siegen, Germany



Digital transformation
An asset manager’s view

Digitalization is a buzzword that transcends all sectors of the financial industry, including real estate. How does it affect the strategic orientation and business models of a real estate asset manager? What are the key areas to address? How should professionals prepare for the future in terms of smart buildings and sustainable use of resources?

Deloitte Partner Andreas Meier talked to Dr. Sven Olaf Eggers, Group Head of Platform Administration of Patrizia Immobilien AG, to address these topics from an asset manager’s point of view.

In relation to the field of digital transformation and innovation in general: Have you already set focal points for these areas in your current processes or strategic orientation? Do you see this topic becoming more important on the client side?

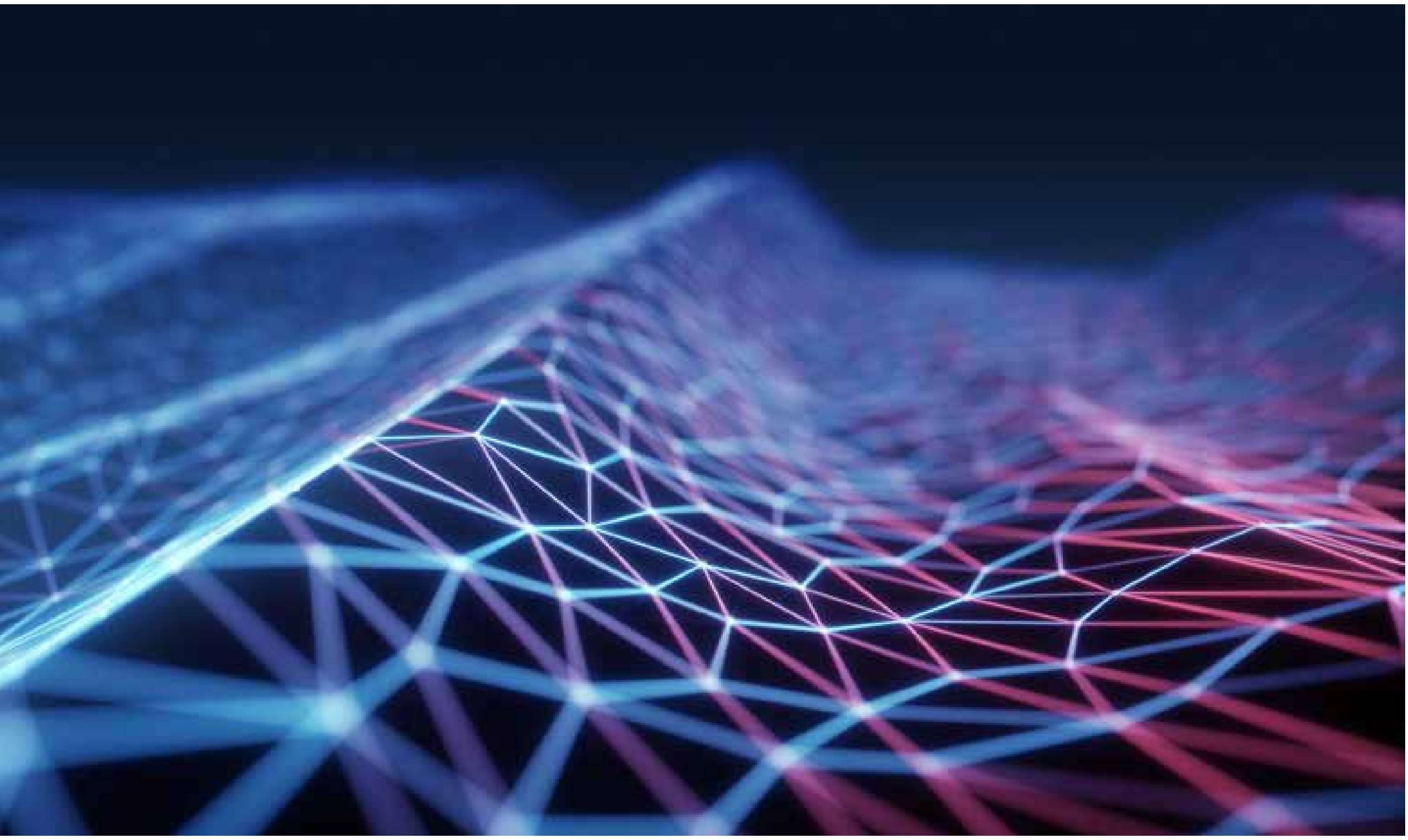
Yes, we recognize its importance. About three months ago, we founded and staffed a digital transformation unit and an innovation lab to centralize these new areas and topics within the company. Manning this digital transformation unit with an expert and an accompanying team has allowed us to make targeted know-how acquisitions on the market in response to increased client demand. We are also watching our competitors and have seen them creating their own innovation departments with corresponding accountability. We have identified increased client demand in the area of digitalization in particular, especially in client reporting and dashboards, where we see the need to increase the digital aspect of our offering. One interesting factor here is that clients don't really seem to mind where the data comes from. The important thing is to have it and to be able to use it effectively for reporting purposes.

Does this mean good data management can give a company an edge on its competitors?

Data management is certainly a very important topic for us and our clients. Not only have we already largely automated our reporting landscape, we have also created client logins. These allow clients to log in to online portals and access the products they have subscribed to, as well as other useful information, such as customized research findings. There, clients can read current reports on the funds they hold with us in a secure space. This is true for both private and institutional clients. We are tracking development in this area closely, and soon plan to offer an extension containing dashboard features that can be used not just through a stationary internet connection, but also on mobile devices. This information is valuable to our clients, and we intend to develop this feature to the asset level.

How do you manage the risks arising from the provision of personal client data?

Our relationship with our clients is built on mutual trust. The client sees this trust as all-encompassing and expects us not only to act with professionalism and care in the course of asset management, but also to exercise appropriate caution for things like data security. We have implemented the security measures we feel are necessary to



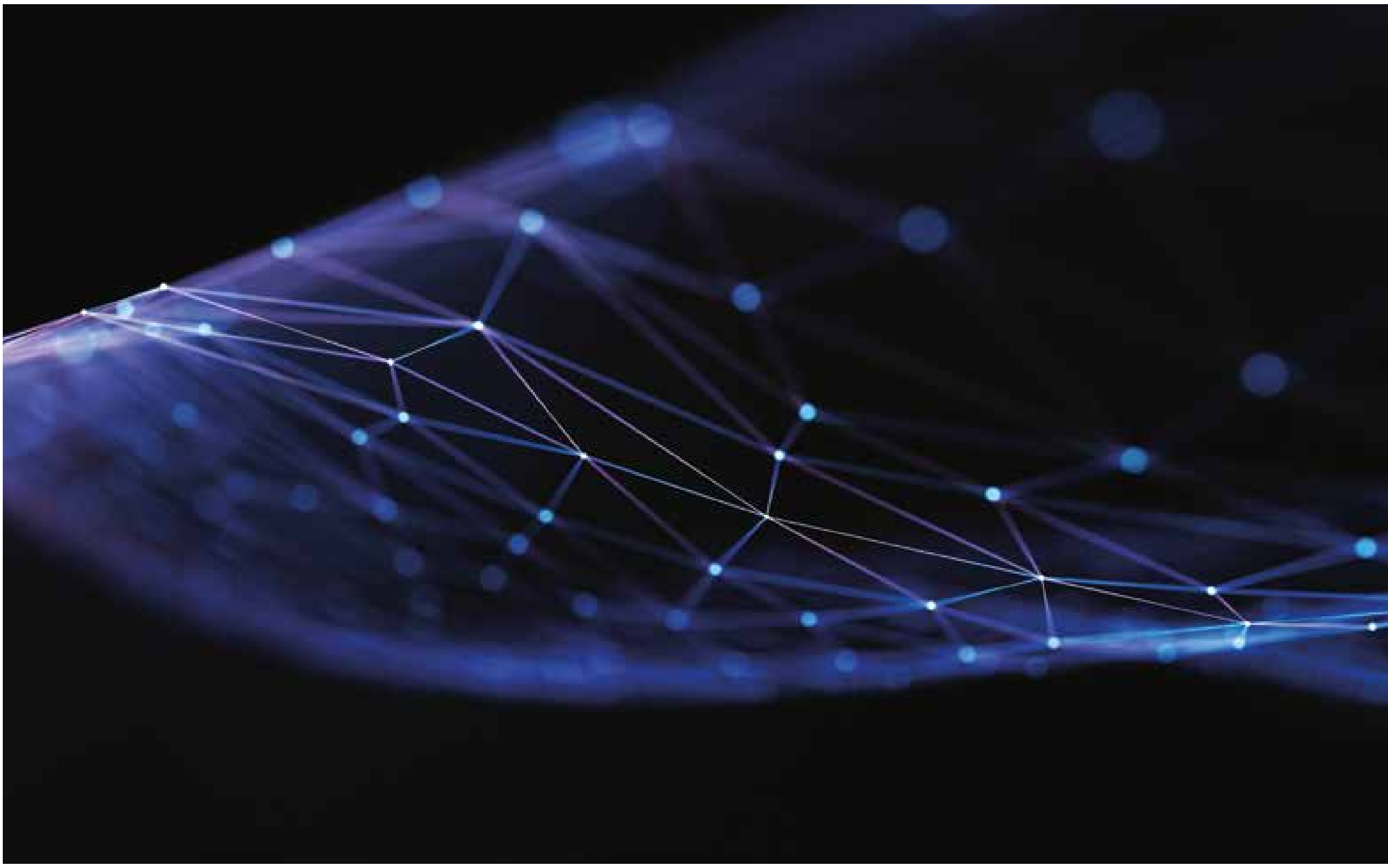
offer our clients the greatest possible degree of protection in line with market standards. One major contributor to the professional treatment of client data is our purpose-created Reporting Management department, whose role it is to generate and disseminate client reports. Employees in this department are fully aware of the extreme sensitivity of client information. We feel the advantages of these kinds of reports and online client resources clearly outweigh the disadvantages, provided the existing risks are propriately minimized.

We have implemented the security measures we feel are necessary to offer our clients the greatest possible degree of protection in line with market standards.

Logically, implementing new technological solutions means our employees will need to further develop the necessary skills.

Digital transformation is a broad field. What are the specific key topics for you in this area and what standards do your employees use? What issues do they have to deal with?
One thing we focus on is how we can further automate the management of our real estate in order to create value for our clients. We have set the fundamental goal of providing solutions that are at the cutting edge of technology. However, we also regularly assess whether individual measures are actually worthwhile. Digital transformation isn't an end in itself. We implement new technologies in areas where they will create added value for our clients. As for our internal processes, there are certainly places where we could further improve the integration of these issues. We also exchange information with other companies, some of which don't have a customer relationship management system, for example. This is extremely important for us due to increasing client numbers, more clients with international activities, and the fact that clients have often invested in our products multiple times. With the appropriate systems, we can even ensure that client preferences previously identified with another product originator are taken into account. It is for just this type of data management situation that we see great potential in process digitalization.

One often looks to the more advanced branches of an industry. Are there any interesting use cases for your branch, in the UCITS segment for example?
Yes, we're looking at interesting developments in payment processing, for example. This includes robotic solutions, which have found a foothold in the world of finance and banking in particular, and



which we are reviewing for suitability. In this area, we can already see the first potential within the invoice approval process, for initial plausibility checks on accounting books using standard algorithms, and for booking standard business transactions. However, I should add that in addition to potential implementations, we have also identified clear limits where none would be possible. But we are in tune to the field of robotics, and are looking far into the future.

To what extent will digital transformation change your company and business model in the medium to long term?
I feel it is important to continually compare your own business model and the processes it entails with the developments observed on the market in order to identify room for improvement, and then to ultimately make those improvements.

On one hand, this means speeding up processes and process chains, but it also means maintaining cost efficiency and striving to unburden employees to allow them to focus on the important things. Here, we see ourselves in a continuous process of implementing new technologies to generate added value. This means that when we find a successful concept on the market, we must use it to challenge our own business model and question our current procedures. Disregarding technological advancement will do major damage to a company even in the medium term.

To what extent does the advancement of digitalization influence your company's desired employee profile?
It's not just becoming more important to us for our employees to understand current IT solutions. Even more crucially, they must be of a mindset that not only allows them to adapt to system changes, but that also makes them intrinsically motivated to evolve with our company through this era of technological change. As I mentioned before, automation will give employees more time to assess and evaluate the matters at hand. Logically, implementing new technological solutions means our employees will need to further develop the necessary skills.

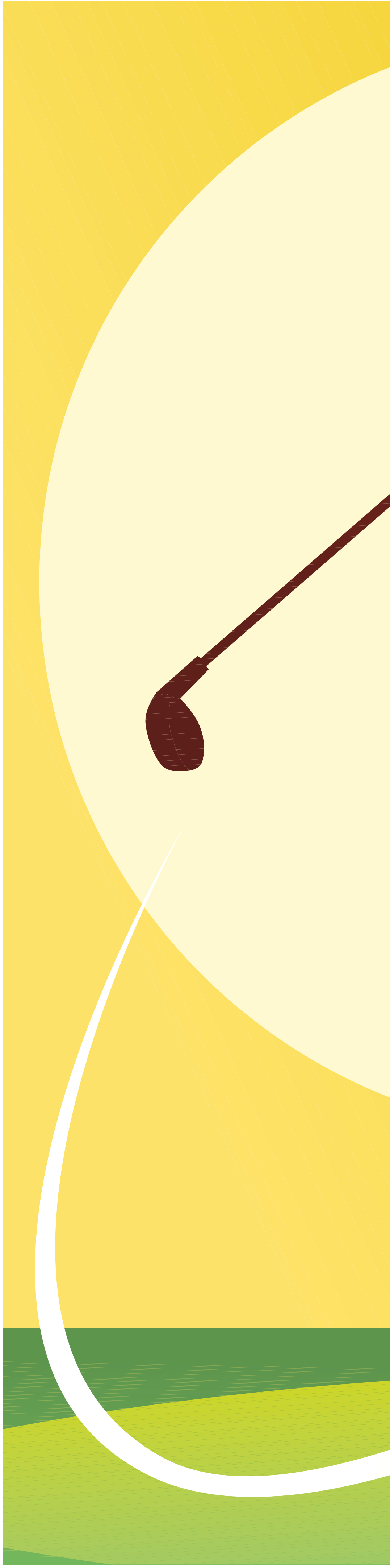
Now let's turn to the subject of sustainable building renovation and construction. How realistic do you think it is to imagine people living in smart cities in the medium term?
A few years ago, we appointed a Sustainability Officer to approach the subject of the sustainable use of resources from our clients' perspective and with regard to our company's assets. I think here, too, the key is not to over-technologize buildings, but to invest where it makes the most sense. Particularly in the commercial segment, we are seeing that certified efficient buildings can mean added value for major tenants. In residential property, we observe this criterion being required more and more often, but there it all depends on whether the individual tenants can actually perceive the advantages; for example, if their utilities costs are actually lower. I believe that we should always take a practical approach, because pumping too much technology into buildings would lead to costs the demand could no longer justify. We have to find a happy medium and take the right measures, although I certainly think renovating buildings that really are old and outdated to save energy is appropriate for our time, and is also necessary to meet the current and future demand for energy-efficient housing.

Digital transformation isn't an end in itself. We implement new technologies in areas where it will create added value for our clients.

Real estate M&A activity in Europe

Still on the growing path

Alberto Valls
Partner
Real Estate Leader
Deloitte Spain

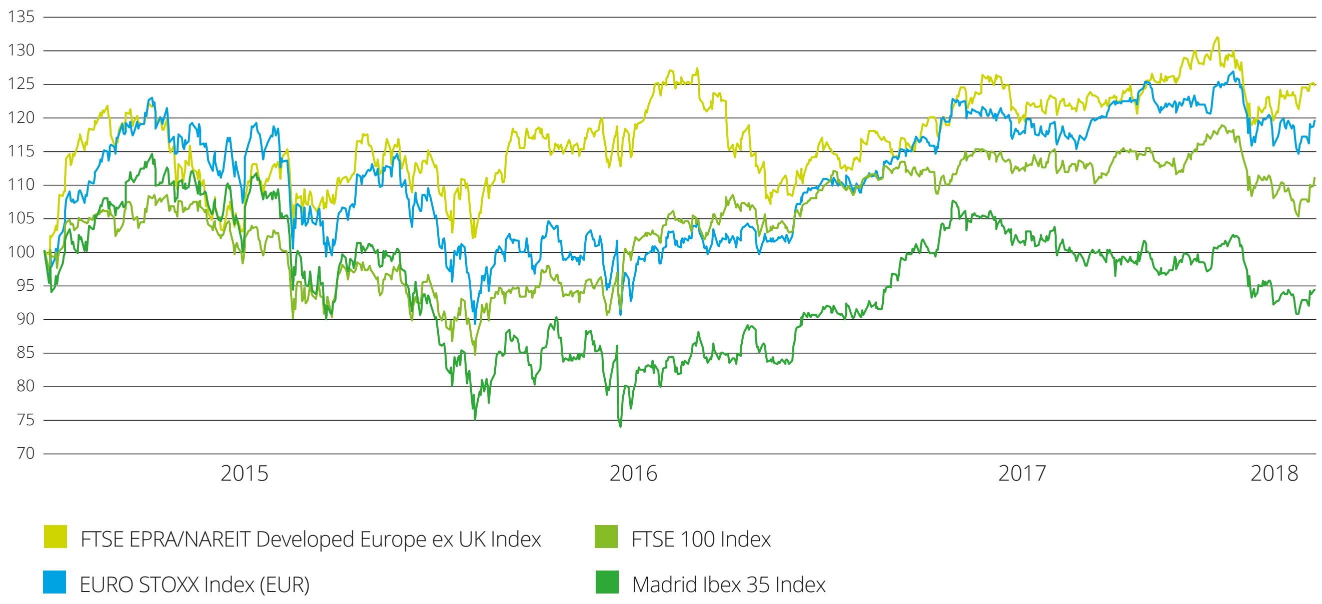


Over the past four years, Europe has shown strong economic growth and has positioned itself with a solid foundation for a sustained recovery. Therefore, accompanied by historically low interest rates, the macroeconomic forecasts for the coming years are positive.

Bond yields have fallen considerably, to record levels. However, there have been significant increases in the stock market despite bouts of volatility brought on by events like Brexit and the US elections. As seen in Graph 1, the market has evolved positively in general terms; however, the performance of real estate players has improved and been more stable than other indexes.

We have seen high levels of direct and indirect investment in real estate due to the record difference between real estate yields and fixed income (bond) yields ("Real Estate Premium").

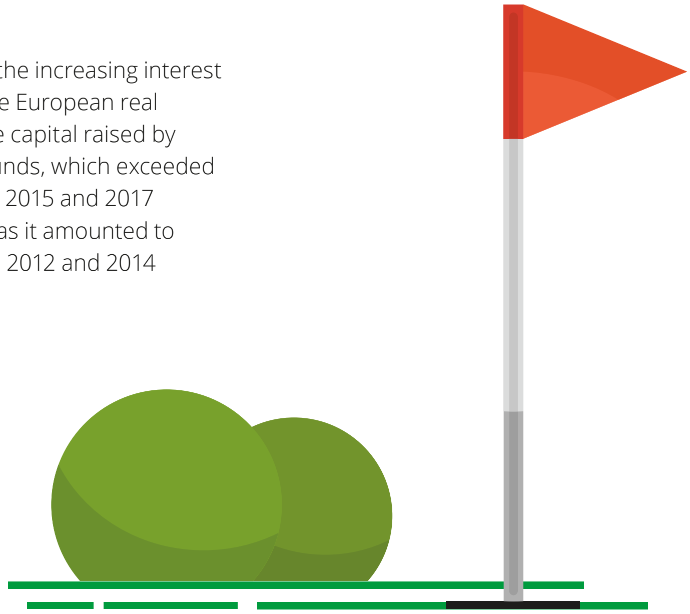
Graph 1 – Capital markets trend



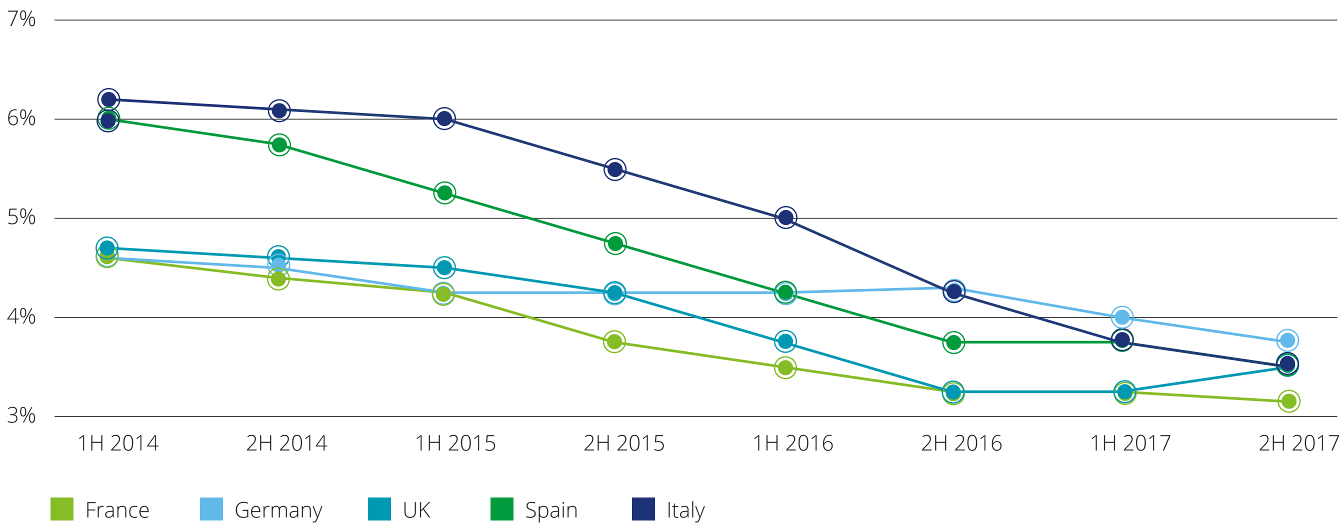
Source: Capital IQ

There has been a strong recovery in the real estate market and a significant yield compression over the past three years (see Graph 2 and Graph 3). This yield compression has boosted capital values in the main real estate asset classes. We have seen high levels of direct and indirect investment in real estate due to the record difference between real estate yields and fixed income (bond) yields ("Real Estate Premium").

Further evidence of the increasing interest and confidence in the European real estate industry is the capital raised by unlisted European funds, which exceeded €175 billion between 2015 and 2017 (see graph 4), whereas it amounted to €140 billion between 2012 and 2014 (+ 21 percent).

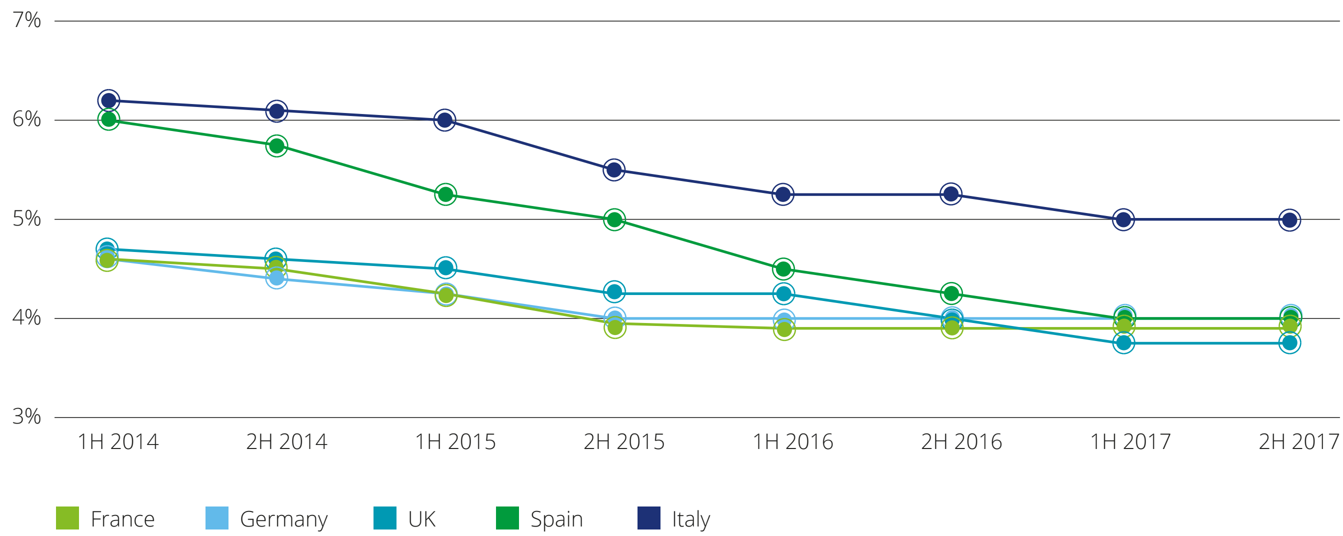


Graph 2 – Prime offices yieldst trend



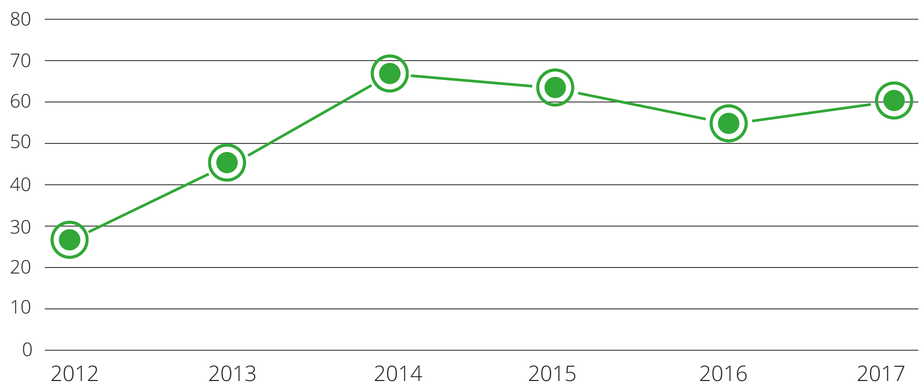
Source: Deloitte Analysis

Graph 3 – Retail yields trend



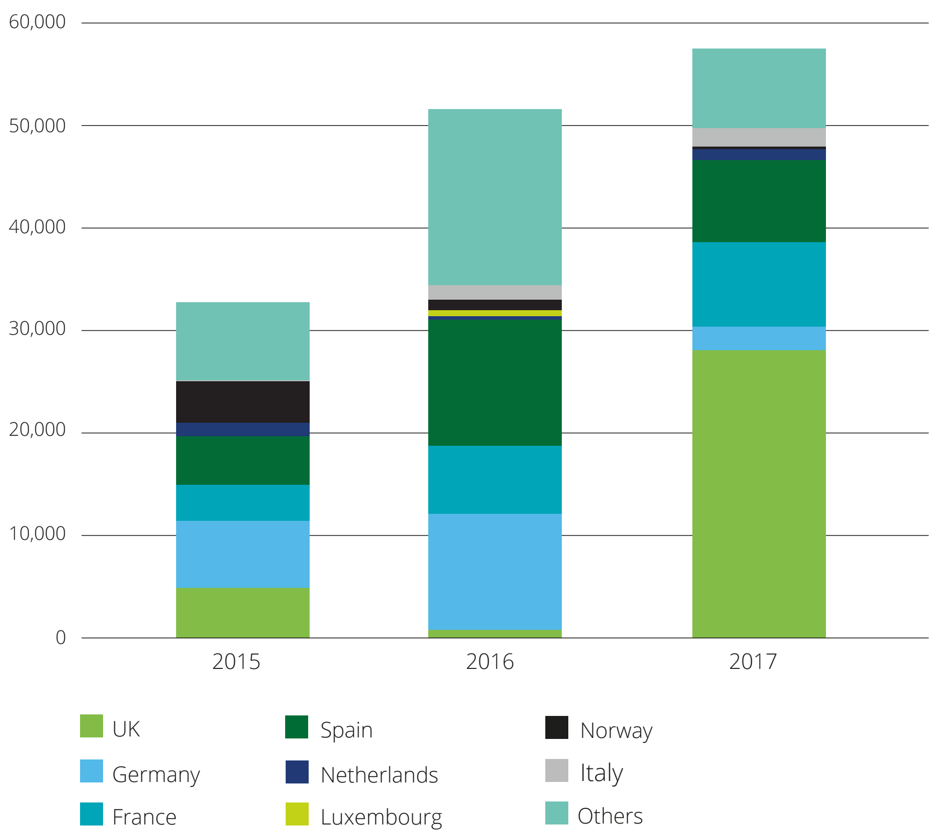
Source: Deloitte Analysis

Graph 4 – Equity raised in Europe for unlisted real estate funds
(€ billion)



Source: Inrev

Graph 5 – M&A activity in Europe trend
(€ billion)



Source: Mergermarket

The real estate market has evolved from alternative investments to structural investments, as several traditional fixed income and stock market investors have shifted their capital to the real estate market.

The real estate market has evolved from alternative investments to structural investments, as several traditional fixed income and stock market investors have shifted their capital to the real estate market. This gives cause for discussion. In any event, a wide variety of investors in the market (REITs, unlisted funds, institutional investors, family offices, etc.) are looking for the risk/return balance shown in the real estate euro markets that have outperformed in the last three years.

This shift in the interest of several investors is due to the significant opportunities for return offered due to rent increases and expected future yield compressions.

However, the real estate cycle is currently at a point where there is less upside in capital values, and investors must therefore identify other means of value creation. Examples of value creation strategies include the integration of major platforms, the creation of synergies, diversification, more efficient financial structures and access to the main indices on capital markets that provide share liquidity.

Consequently, we see evidence of a set of circumstantial and market conditions that, when met, provide a favorable backdrop for M&A activity. In our view, these conditions are now present in the market. We therefore expect the M&A trend to continue in the real estate industry in the coming years as the main players aim to become a part of a large-scale market that can help boost profitability and grant access to capital markets and more efficient financial structures.

As a result, M&A activity has increased over the last few years, resulting in a rise in the number of transactions and in volumes. For example, the total volume of transactions in Europe between 2015 and 2017 was greater than €150 billion, while it was only €100 billion between 2012 and 2014 (+50 percent).

Examples of value creation strategies include the integration of major platforms, the creation of synergies, diversification, more efficient financial structures and access to the main indices on capital markets that provide share liquidity.

Technological disruption is another key factor in market dynamics. No one knows how far-reaching the effects of e-commerce will be and how they may influence consumer habits, and major structural changes are expected. We already see a significant effect on the retail and logistics industries, where some of the largest real estate M&A transactions are taking place, including: LogiCor in logistics, amounting to €12 billion.

M&A activity has shown a positive trend in the main markets, with the exception of a period of low activity in the UK in 2016 due to Brexit (see Graph 5). The most mature markets, such as the United Kingdom and France, have shown the highest number of M&A transactions (more than 60 combined). This also includes Spain, whose market has recently recovered from a low thanks to the performance and M&A activity of key players such as Merlin (Testa takeover & Metrovacesa merger) and Colonial (Axiare takeover). This positive trend is due to the need for growth at this point the real estate cycle. It is important to highlight that achieving accretive deals in the market is challenging, as transactions take place at high prices due to low interest rates, capital values evolution and more aggressive financial structures, but still at reasonable LTVs.

Some potential risks that have been identified for the near future include political instability in Europe due to Brexit, the rise of new non-traditional political parties, and the potential rate of interest rate growth. These are currently the factors of greatest concern to real estate specialists.

However, we expect an uptick in M&A activity in the coming years, with a continuation of the positive trend, demonstrating positive sentiment on the part of corporations and shareholders towards concentration and the size as objective.

This positive trend is due to the need for growth at this point of the Real Estate cycle.

Selected recent M&A deals in Europe (*)
Source: Mergermarket

Announced date	Target company	Target country	Bidder company	Deal value (€ million)
Dec 17	Westfield (1)		Unibail Rodamco	20,920
Nov 17	Axiare Patrimonio Socimi, S.A. (71.21% Stake)		Inmobiliaria Colonial, S.A.	1,522
Jun 17	Eurosic SA		Gecina SA	5,797
Jun 17	Sponda Oyj		Blackstone Group LP	3,623
Jun 17	LogiCor Europe Limited		China Investment Corporation	12.250
Nov 16	Officefirst Immobilien AG		Blackstone Real Estate Partners Europe IV L.P.	3,300
Nov 16	PointPark Properties s.r.o.		GIC Private Limited	2,400
Sep 16	Conwert Immobilien Invest SE		Vonovia SE	2,858
Jul 16	Dundrum Town Centre Management Limited		Hammerson Plc; Allianz Real Estate Germany GmbH	2,460
Jun 16	Metrovacesa (Tertiary and Residential Assets)		Merlin Properties Socimi, S.A.	3,882
Apr 16	Fastighetsaktiebolaget Norrporten		Castellum AB	2,759
Mar 16	Fonciere de Paris SIIC		Eurosic S.A.	2,877
Jan 16	Gecina SA (22.94% Stake)		Ivanhoé Cambridge	1,572
Dec 15	Sato Oyj (22.9% Stake)		Fastighets AB Balder	1,870
Jun 15	DO Deutsche Office AG		alstria office REIT-AG	1,777
Jun 15	Sueddeutsche Wohnen GmbH		Vonovia SE	1,900
Jun 15	Testa Inmuebles en Renta, S.A.		Merlin Properties Socimi, S.A.	3,437
Feb 15	Fonciere des Murs SCA (23.8% Stake)		Fonciere des Regions S.A.	1,774
Feb 15	Canary Wharf Group Plc (30.63% Stake)		Stork Holdco LP	1,689

(1) Announced and pending to be closed

(*) Estimation based on public available information from Mergermarket, not including non-disclosure transactions.

On the rise

The status of the real estate sector in Portugal is positive, according to the results of the Portuguese Real Estate Investment Survey conducted in 2017.

The Portuguese Real Estate Investment Survey is a quarterly study that analyses the perception of real estate industry professionals in banks, corporations, private equity houses, real estate asset management companies, real estate funds, insurance companies and other related companies.

They reveal major market trends, analyzing the investment and disinvestment strategies according to current and future circumstances. Moreover, the surveys address financial and strategic topics in the real estate business, providing useful information for understanding the dynamic of the industry in Portugal.

The highlights of the surveys conducted in 2017 show an overall positive outlook to the real estate sector in Europe's most western country.

Real estate players are stronger on strategies of "acquiring assets" or "managing their portfolios".

Investment strategy
The study revealed that the Value Added category has the greatest potential for investment, both now and in the future, gathering an average of 41 percent and 51 percent of the respondents' options throughout 2017.

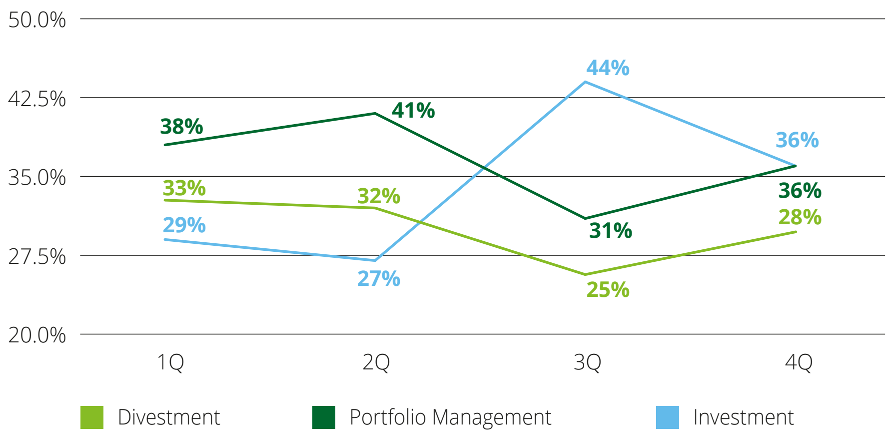
Asset improvement or market repositioning are the main drivers related to this option. "Core assets" reached 31 percent and 25 percent in Q4 for current and future strategy preferences, albeit on a decreasing trend.

Banks stood out as the main business feeders in the acquisitions of real estate assets, representing an average of 45 percent over the year, followed by Funds of Funds and Pension Funds.

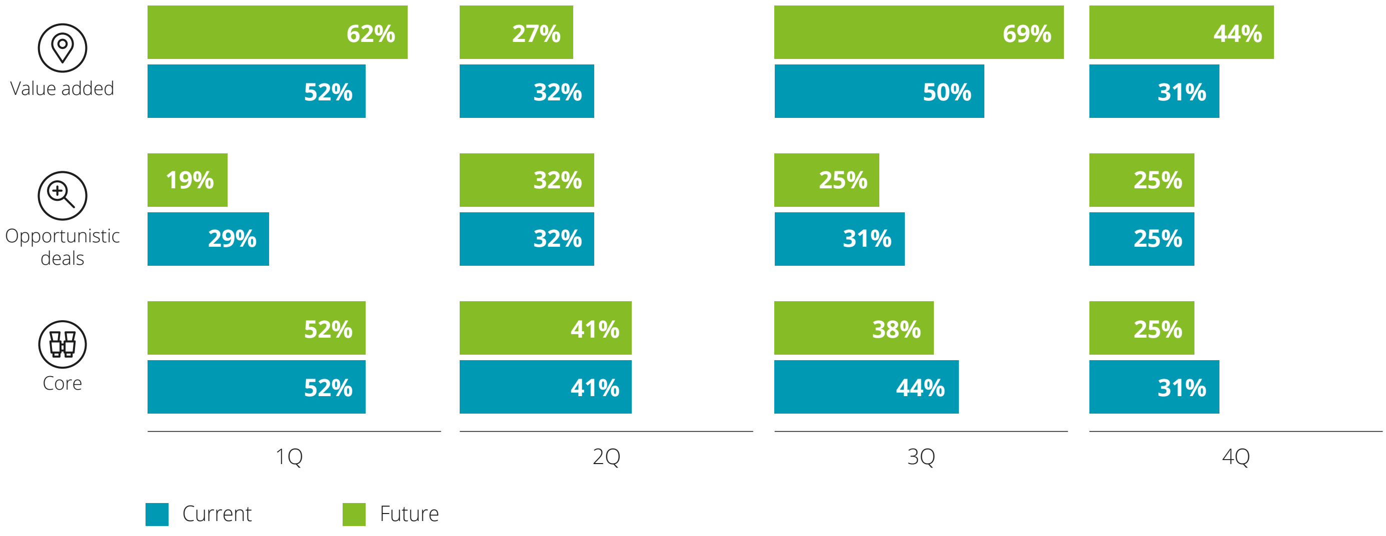
Europe was identified by respondents as the most likely source of capital (75 percent on average for 2017), followed by North America and Asia.

Linked to the fundraising approach, players revealed a clear trend towards easy fundraising processes for capital, together with shorter asset acquisition processes, which mostly range between three and six months.

Real estate strategy for 2017



Current and future investment strategy



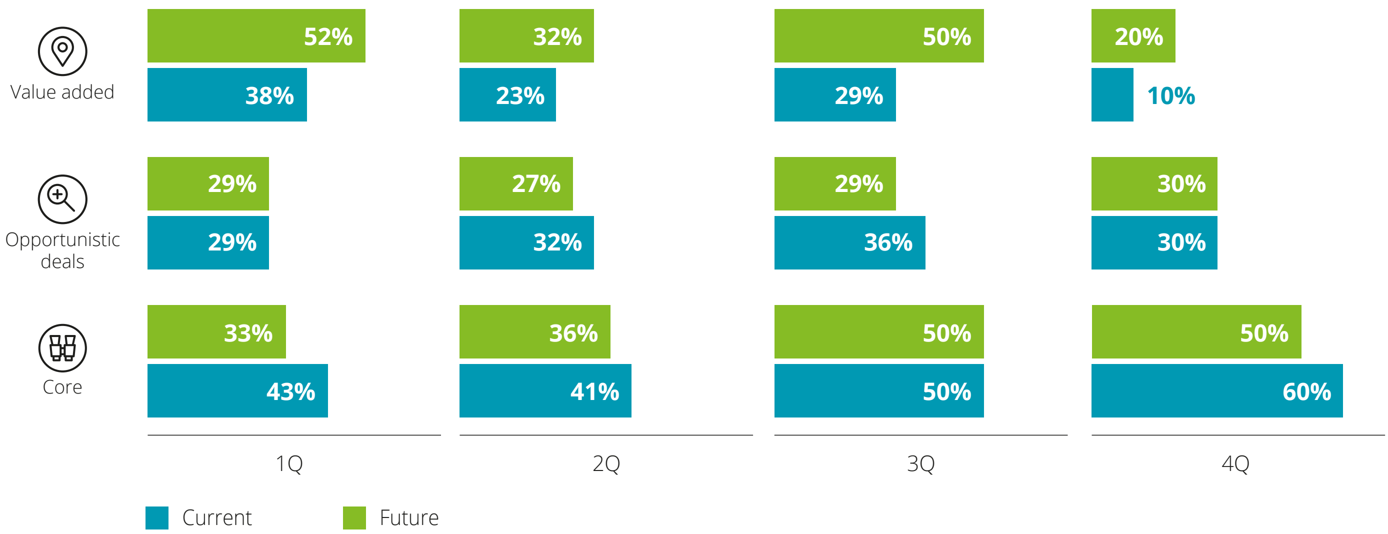
Core assets were and will be the main target of further divestment by industry players.

Divestment strategy
Core assets were and will remain the primary target of further divestment by industry players. In the current strategy, growth of 17 p.p. was recorded from Q1 to Q4 on the intentions of professionals active in the sector on a daily basis. The outlook is unchanged, but there has been a change in the perception of assets linked to Value Added, which had solid representation in Q1.

Generally, core assets are assumed to be safer investments, albeit with lower profitability. Players looking for this kind of investment aim to diversify their portfolios as part of a diversification and risk reduction strategy.

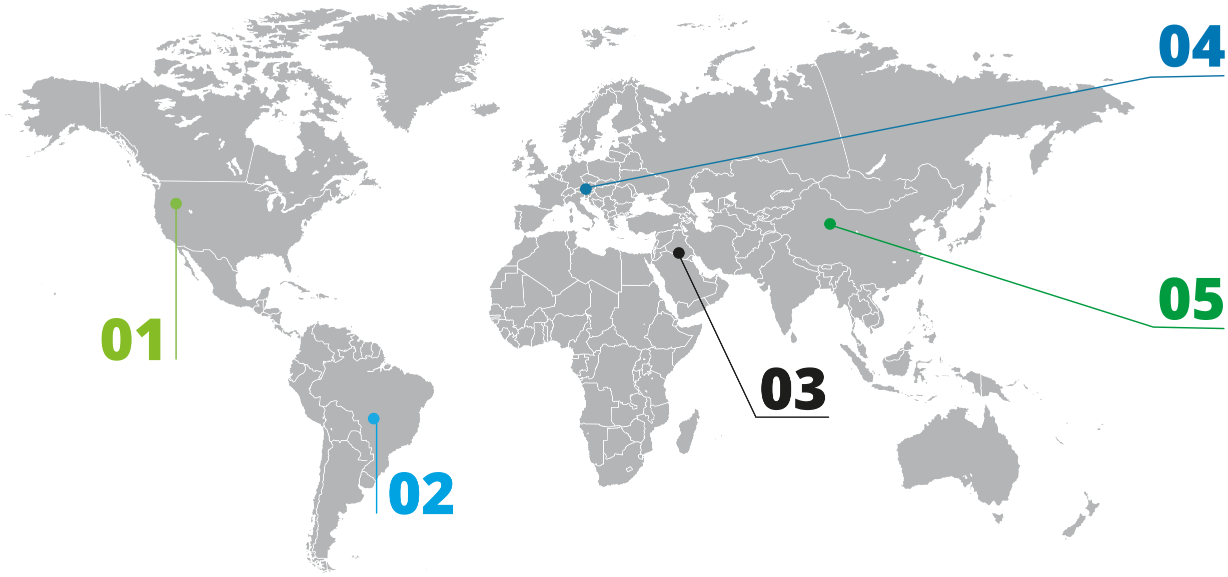
The importance of Funds of funds as the main real estate investors in Portugal stood out (45 percent on average in 2017), as did the growth of Insurance Companies (30 percent on average, representing growth of 21 p.p. from Q1 to Q4).

Current and future divestment strategy



Origin of investors

Most investors were European, followed by Asians and North Americans.



01 North America

1Q	2Q	3Q	4Q
52%	23%	57%	40%

02 South America

1Q	2Q	3Q	4Q
10%	18%	7%	50%

03 Middle East

1Q	2Q	3Q	4Q
19%	23%	21%	20%

04 Europe

1Q	2Q	3Q	4Q
71%	77%	86%	80%

05 Asia

1Q	2Q	3Q	4Q
33%	45%	36%	70%

Players perceived a stabilization in fundraising processes and a reduction in the length of asset disposal processes, most of which range from three to six months.

Length of the real estate asset's disposal process – 4th quarter


PRAZERES
12

Real estate market in Portugal showed signs of improvement in 2017

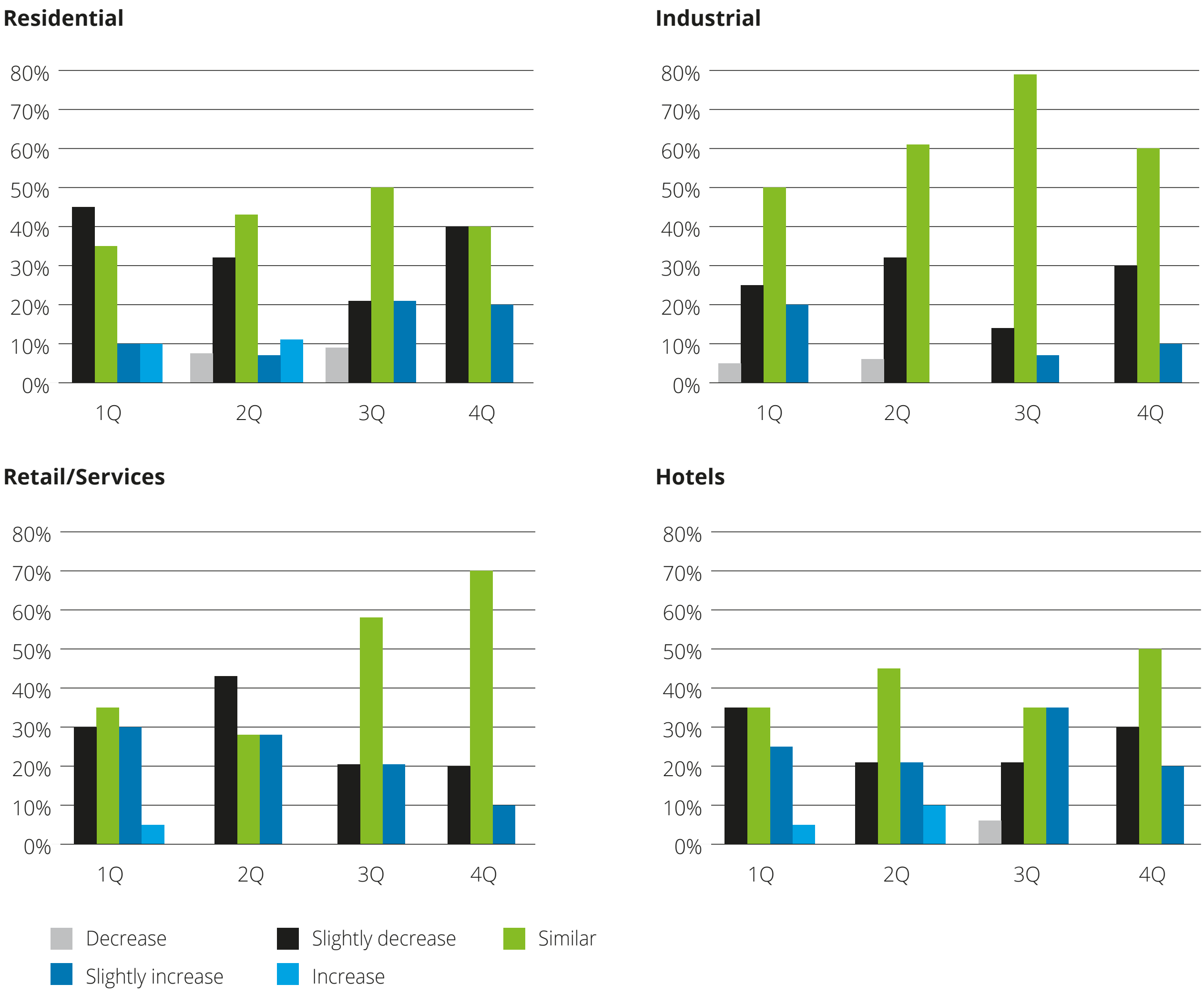
Real estate market in Portugal
The real estate market in Portugal showed signs of improvement during 2017. In terms of volume and sales prices by sector, we observed the largest increases in residential (71 percent on average), retail/services (80 percent on average) and hotels (78 percent on average).

2017 brought no major changes in the industrial sector, and the majority of the respondents believe it will remain steady.

Profitability rates by sector of activity show a more conservative scenario in view of real estate professionals. Starting off with falling profitability rates, a subsequent stabilization was perceived in the four sectors under analysis (residential, retail/services, industrial and hotel).

However, the residential market remains the most threatened sector in terms of profitability rates, with the "slight decrease" option matching the "similar" option in Q4.

Profitability rates by sector of activity



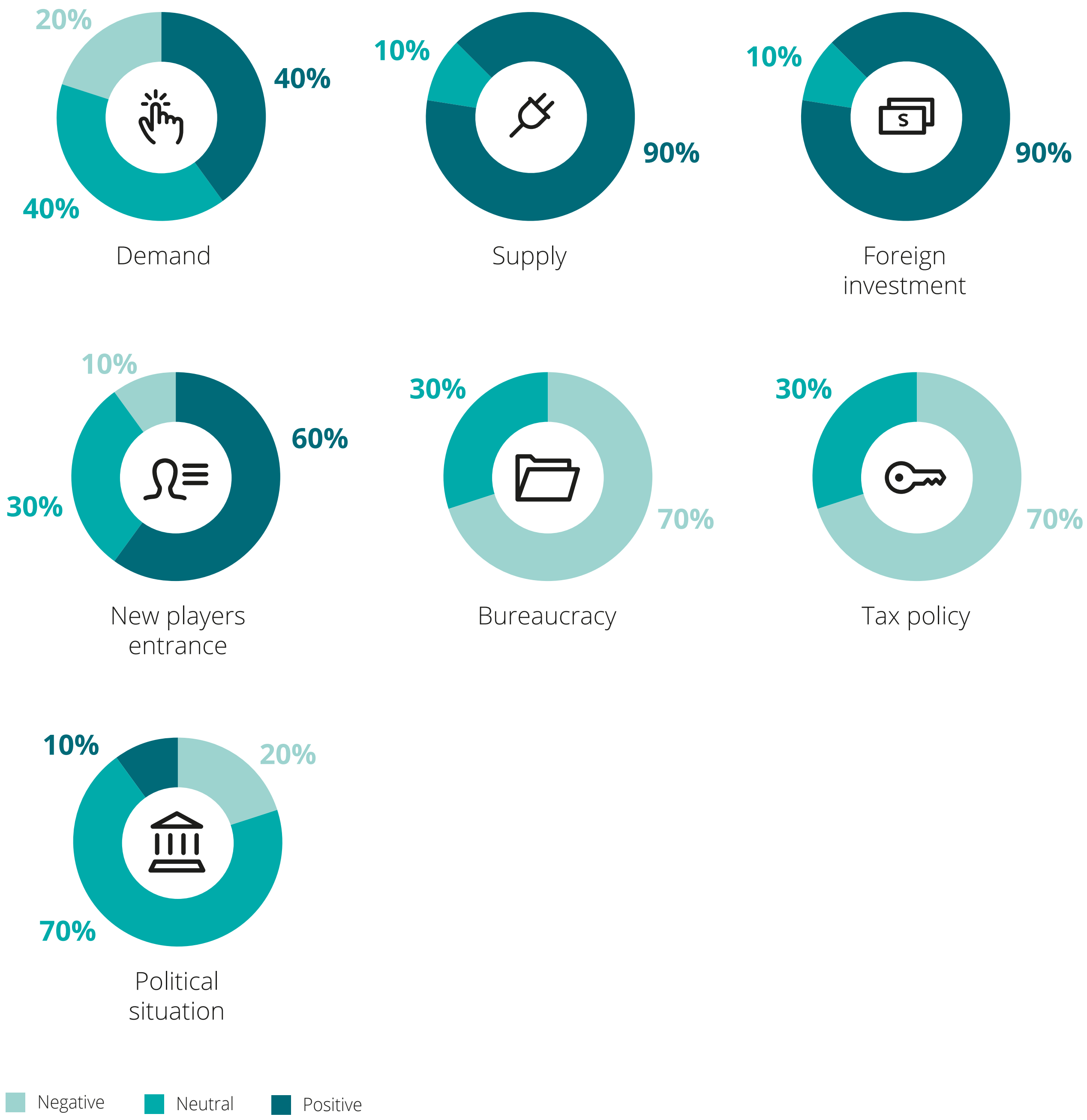
Respondents also felt that the success of real estate depends on diverse variables that contribute positively to market evolution. Supply, foreign investment and the entry of new players were identified as the factors with the greatest impact on evolution.

Bureaucracy and tax policy were unanimously perceived as the variables negatively impacting the sector.

Regarding the political situation, Q1 revealed a major concern on the part of players that was subsequently diluted, showing a neutral impact, through to the end of 2017.

The entire Portuguese Real Estate Investment Survey 2017 can be found here: *https://www2.deloitte.com/pt/en/pages/real-estate/articles/real-estate-investment-survey-q4.html*

Impact of several variables on the Real estate sector – 4th quarter



Focus on Luxembourg: Current development projects at a glance

Marc Baertz
Partner
Capital Markets
Inowai Luxembourg

Luxembourg is home to many investment funds specializing in real estate. These funds attract investors from around the world, and they also invest in projects worldwide. Recently, the local real estate market in Luxembourg has seen rising prices and a number of developments in office, residential, commercial and retail real estate. This suggests that the many real estate firms located in Luxembourg would do well to include the numerous investment opportunities that Luxembourg currently offers in their scope.

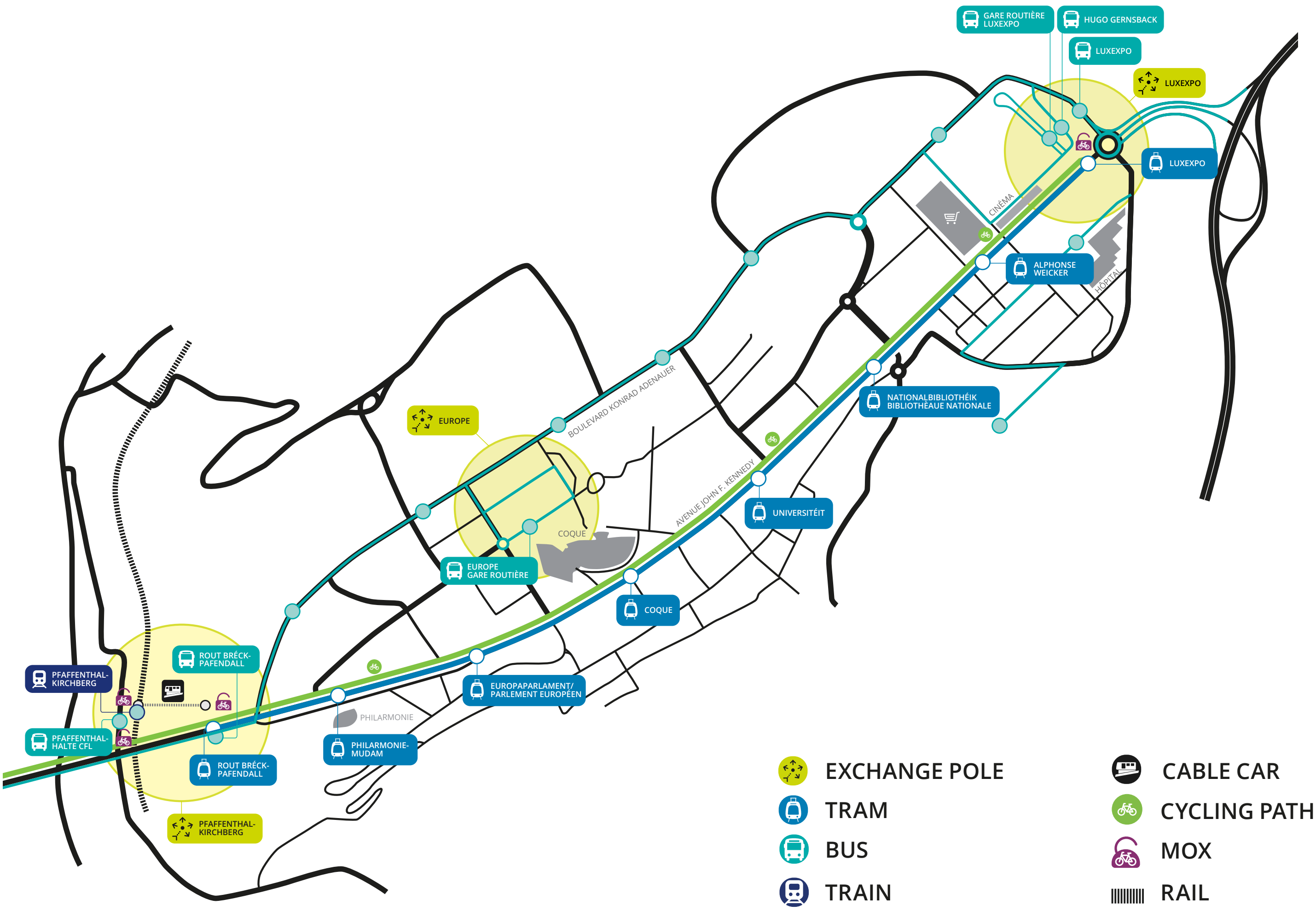
While driving through Luxembourg, one cannot ignore the multitude of construction sites dotting the capital and the rest of the country. We will now highlight a few of the major ongoing developments in Luxembourg. The Kirchberg plateau is most probably the best-known development area, and has been for over 40 years now.

The Kirchberg plateau is most probably the best-known development area, and has been for over 40 years now.

With the construction of the Red Bridge at the end of the 1960s, Kirchberg developed into what is now Luxembourg's largest office district, with more than a million m^2 of office space, most of which is occupied by the European Union (Court of Auditors, Court of Justice, European Investment Bank, etc.).

In fact, looking at the latest figures, Kirchberg accounts for around 1,077,000 m^2 of office space, which is roughly 27 percent of the Luxembourg stock. At the end of 2017, the vacancy rate was less than 2 percent, compared to just under 5 percent for the country as a whole.

	District	Stock (m^2)	Stock (%)	Vacancy (m^2)	Vacancy rate (%)
CITY	Kirchberg	1,077,500	27.44	20,401	1.89
	CBD	832,514	21.20	21,457	2.58
	Cloche d´Or	434,360	11.06	33,206	7.64
	Station	422,150	10.75	13,910	3.30
	Belair / Merl	91,500	2.33	9,057	9.90
	Limpertsberg	86,500	2.20	2,156	2.49
	Hamm	49,000	1.25	1,481	3.02
	Kalchesbrück	33,000	0.84	0	0.00
	Total	**3,026,524**	**77.07**	**101,668**	**3.36**
CITY - PERIPHERY	Airport	171,355	4.36	8,220	4.80
	Strassen	86,650	2.21	11,637	13.43
	Bertrange/Bourmicht	82,000	2.09	15,304	18.66
	Leudelange	73,556	1.87	2,892	3.93
	Howald	62,600	1.59	11,560	18.47
	Total	**476,161**	**12.12**	**49,613**	**10.42**
PERIPHERY	Belval	188,245	4.79	23,645	12.56
	Capellen	75,035	1.91	10,284	13.71
	Munsbach	60,100	1.53	5,951	9.90
	Windhof	40,600	1.03	705	1.74
	Esch-sur-Alzette	32,600	0.83	1,754	5.38
	Contern	27,890	0.71	1,668	5.98
	Total	**424,470**	**10.81**	**44,007**	**10.37**
Total		**3,927,155**		**195,288**	**4.97**
				+ Sub-letting: 11,353	



2017 has been yet another extremely successful year for the Luxembourg real estate market. With more than 200,000 m² leased out, and over €1.35 billion in transactions, 2017 ranks in the top three best years of the last decade. With only 76,000 m² of new office space delivered during 2017, the overall vacancy rate sank below 5 percent for the first time since 2008.

In December 2017, the first part of the new tramline (+/- 4 km) had its inauguration. Eventually, it will develop into a 16 km-long initial circuit enabling travel from the airport to the Cloche d'Or (by 2021/22).

The FUAK (Fonds d'Urbanisation et d'Aménagement du Plateau du Kirchberg) is developing a new bus-tram hub just next to the Serra roundabout at the end of Kirchberg. This will be paired with the development of two office buildings totalling 10,000 m², as well as a new P&R (Park&Ride).

With the construction of the Red Bridge at the end of the 1960s, Kirchberg developed into what is now Luxembourg's largest office district, with more than a million m² of office space, most of which is occupied by the European Union (Court of Auditors, Court of Justice, European Investment Bank, etc.).

To the north of the Serra roundabout is the PAP Mediapark, the result of the ongoing redevelopment of the former RTL premises into a mixed development site (office/residential/retail) of around 100,000 m^2. The first buildings (around 36,000 m^2) were delivered in 2017. The last building in this development should be delivered by 2023.

Where Kirchberg meets the central city, there are four more large ongoing developments. Just opposite the Philharmonie, the mixed project Infinity will develop 6,500 m^2 of office space, 6,200 m^2 of retail space and a residential tower with some 150 apartments by early 2020.

North of Avenue J. F. Kennedy, the third "golden" tower of the Court of Justice is under construction, and two streets farther down, on Boulevard Konrad Adenauer, the European Investment Bank is working on their third building.

A bit farther down Avenue J. F. Kennedy, the European Parliament will move into the new KAD building in 2019/20, bringing the 120,000 m^2 building to life.ArcelorMittal recently announced the winner of the architectural tender for their new headquarters, a development of around 55,000 m^2 just next to the Centre de Conference on Avenue J. F. Kennedy, with delivery scheduled for 2021.

Currently, the "other" major area for development in Luxembourg is probably the Cloche d'Or district south of Luxembourg city. It is the natural competitor of the Kirchberg plateau. At the beginning of the XXI century, the massive development in the Cloche d'Or area had already made headlines. In 2017, the Lycée Vauban was the first building to become partially delivered and operational. Projects under construction (not accounting for road works) include the condominiums close to the future park, which total 72,000 m^2 (delivery in 2018/19), the new Auchan topped by two residential towers for a total of 100,000 m^2 (opening April 2019), the new Deloitte headquarters tallying 30,000 m^2, the new Alter Domus office building with its 10,000 m^2 and the new fire station near the Glück roundabout.

In total, the Cloche d'Or development site will consist of more than 110,000 m^2 of residential buildings, 150,000 m^2 of office buildings and, last but not least, some 100,000 m^2 of retail space. Opposite the highway, another large construction site has opened: the beginnings of the new national football stadium that is scheduled to be ready for 2019. With the new stadium will come a new P&R with around 2,000 parking spaces.

This P&R will also be the last stop on the tramline coming from the airport. All this is expected to be ready in 2021/22. Very recently, it was announced that a new complex with two hotels and one long stay apartment complex totaling roughly 500 rooms will be also developed in this area, next to the football stadium.

These many real estate projects are a sign of Luxembourg's growing economy, in which numerous professional firms are creating new jobs. At the same time, the Luxembourg government continues to invest in its infrastructure to accommodate the expanding business sector. Together, these developments paint Luxembourg as an increasingly interesting place to do business given the wide variety of specialized companies and services that have already opted to set up shop in the country.

Projects under construction on the Cloche d'Or development site – © Grossfeld PAP

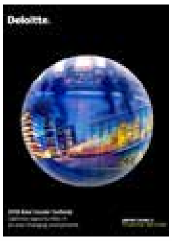
Recent thought leadership

Interested in further reading on real estate? Take a look at Deloitte's recent thought leadership.

Real Estate Predictions 2018 – Building the Future

The 2018 edition of Deloitte's predictions for the real estate industry, developed by Deloitte Netherlands, examines the real estate trends for 2018 that could impact your business, including blockchain, co-working, robotics, and more.

https://deloi.tt/2Es4ewE



Commercial Real Estate Outlook 2018 – Optimize opportunities in an ever-changing environment

How can real estate executives adapt their business models to keep up with the evolution of their ecosystem? Here are four priority areas for 2018 that may help them bridge the gaps while maximizing value and growth.

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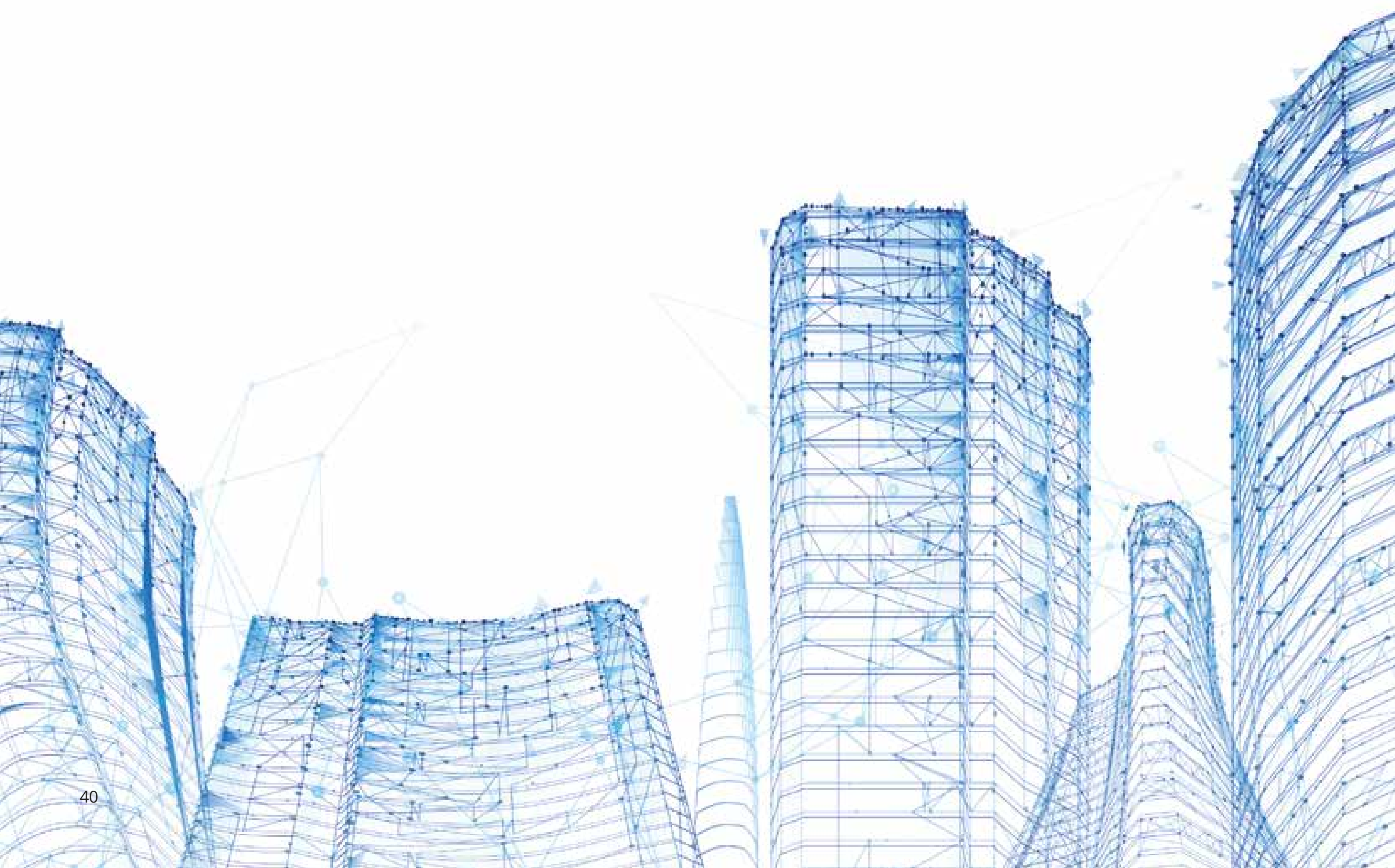

**Ten of our best – **Where business meets real estate
Learn about the impact we've made for our clients, our people and society over the past year. Through ten inspiring stories from across Deloitte real estate, this report showcases the breadth and depth of what we do.
https://deloi.tt/2JkZCIp

Portuguese Real Estate Investment Survey 2017 –
A turnaround for Portuguese real estate
The Portuguese Real Estate Investment Survey contemplates an analysis in the light of a panel of participants who work daily in the real estate industry, highlighting the main trends and obstacles that directly affect the growth of the national sector.
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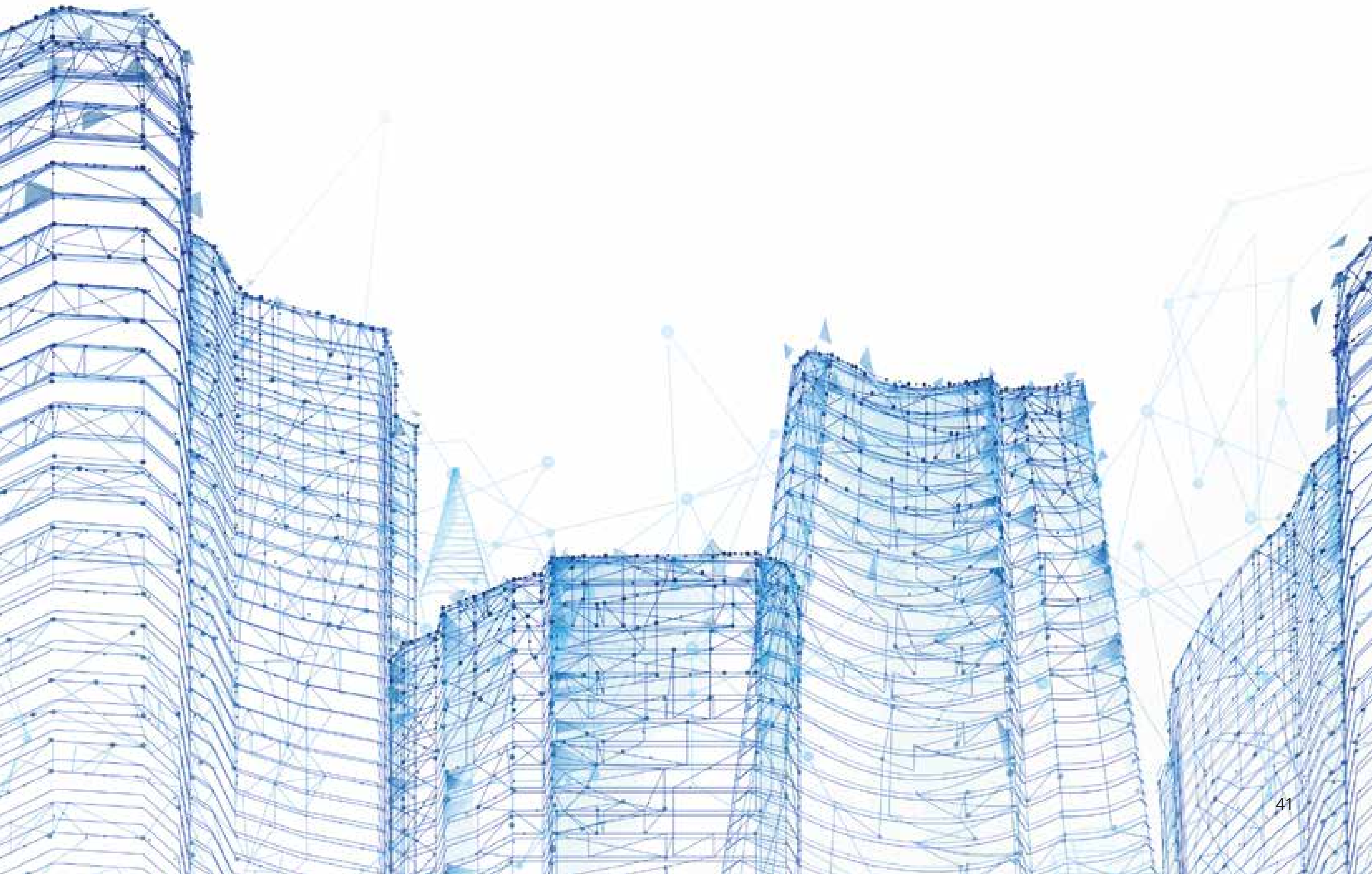

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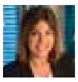

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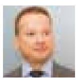

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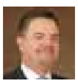

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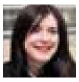

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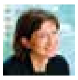

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