

# REFlexions

A Biannual digest for the real estate investment management industry | Issue 5 | EMEA | 2017

---

## Cautious optimism

The 2017 real estate outlook in the United States

Page 4

---

## Future-proofing real estate

An insight into the potential use of blockchain in real estate funds

Page 12

---

## How BEPS will affect cross-border real estate investment

Page 18

---

## Shared and self-driving cars

A game changer in real estate and area development?

Page 22



# Foreword



Dear readers,

The real estate market is about to enter an era characterized by new technologies, taxation regimes, and the recovery of economies. At the same time, we continue to face political uncertainty in Europe as an outcome of President Trump's recent inauguration and the launch of article 50 commencing the Brexit negotiations. Inevitably, this will influence the real estate market; the years to come are potentially going to be the most exciting yet.

It is hence no coincidence that many of the aforementioned aspects are featured in this edition of REflexions:

We start off with a look across the Atlantic. The US market benefits from a modest economic growth, but also has to face regulative burdens and the threat of higher interest rates, which will likely negatively affect the volume of transaction activity and pricing. Whereas there is cautious optimism in the US, the Spanish market is still prospering in the shopping center segment, thanks to strong economic fundamentals such as consumption – another topic on which we will focus.

Changes in taxation continue to shape the industry. Therefore, following a well-proven habit, this time we will again shed light on

the impact of tax changes, investigating how BEPS will affect cross-border real estate investment.

We also venture a glimpse into the future. After trying to future-proof real estate investments against political uncertainty and the inevitable impact of blockchain, we take a look at self-driving cars and car sharing, which might put the market en route toward entirely different scenarios, changing the “let's wait and see-approach” and offering opportunities that today seem unthinkable.

With over 24,200 industry professionals attending from 100 countries, MIPIM 2017 confirmed once again its position as the premier international real estate event. It acts as an indicator of where the industry stands – therefore a short summary of the main trends we saw at MIPIM had to be part of our magazine.

As always, we wish you a fruitful and thought-provoking read and look forward to your comments and suggestions. We sought to combine a wide array of topics in this REflexions edition, with articles combining information and insight, featuring challenges already around the corner and others that lie in the future. However, all of them require the industry to get ready and prepared, not tomorrow—but already today.

A handwritten signature in black ink, consisting of a stylized 'B' followed by a horizontal line.

**Benjamin Lam**  
EMEA Real Estate Funds Co-Leader

A handwritten signature in black ink, consisting of a stylized 'D' followed by a horizontal line.

**David Brown**  
EMEA Real Estate Funds Co-Leader

# Contents



Page 4



Page 18



Page 22

---

04

**Cautious optimism**

The 2017 real estate outlook in the United States

---

12

**Future-proofing real estate**

An insight into the potential use of blockchain in real estate funds

---

18

**How BEPS will affect cross-border real estate investment**

---

22

**Shared and self-driving cars**

A game changer in real estate and area development?

---

30

**MIPIM17**

When geopolitical uncertainty meets the digital revolution

---

34

**Retail therapy**

A positive outlook for Spain's shopping center segment

# Cautious optimism

## The 2017 real estate outlook in the United States

### Bob O'Brien

Partner  
Global Real Estate Leader  
Deloitte

The United States real estate industry is increasingly influenced by rapid technological advancements and significant demographic shifts, which include growing urbanization, longevity of Baby Boomers, and differentiated lifestyle patterns of Millennials. In addition, macroeconomic and regulatory developments continue to affect profitability. How can companies gain a competitive advantage and drive top- and bottom-line growth? Here are some trends to which we should pay attention in 2017. ➤





**Economic outlook: Growth tempered by higher interest rates?**

US gross domestic product growth will likely increase by 2.5 percent in 2017, according to Deloitte's 2016 US Economic Forecast. The modest economic improvement could temper the pace of commercial real estate (CRE) transaction activity.

Volatile global markets have led to continued low interest rates. The Deloitte economics team anticipates the Federal Reserve is likely to raise interest rates in the short-to-medium term. Higher interest rates are likely to increase mortgage costs and could deter real estate investments to some extent.

An improving employment scenario and rising labor participation are expected to result in an unemployment rate of less than 5 percent. The employment-to-population ratio is projected to peak in 2018, as retiring Baby Boomers may reduce the share of employed. The improving labor markets and household wealth will likely boost consumer confidence.

**Regulatory outlook: Greater compliance costs on the horizon**

New accounting standards on lease accounting and revenue recognition will likely increase the compliance and administration costs for private equity investors, real estate investment trusts (REITs), and engineering and construction (E&C) companies.

While increased exemptions under the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA) will increase foreign investments in CRE, risk retention rules will likely lower commercial mortgage-backed securities (CMBS) issuance and reduce capital availability in secondary and tertiary markets.

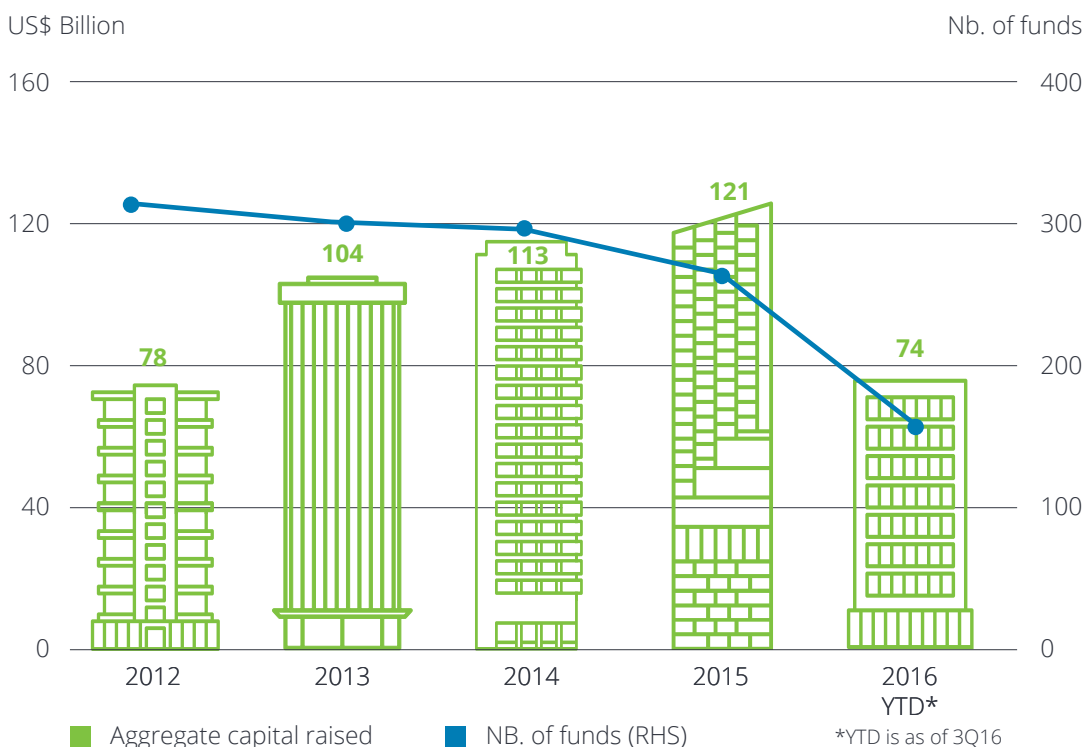
In addition, the Protecting Americans from Tax Hikes (PATH) Act of 2015 will not only ease REIT tax provisions and research and development (R&D) tax credits for E&C companies, it will also increase the flexibility to invest in startups for R&D experimentation. At the same time, corporate tax reforms will reduce flexibility for corporations to spin off real estate assets into REIT structures.

**Private equity real estate: Focus on niche sectors may ease the pressure on returns**

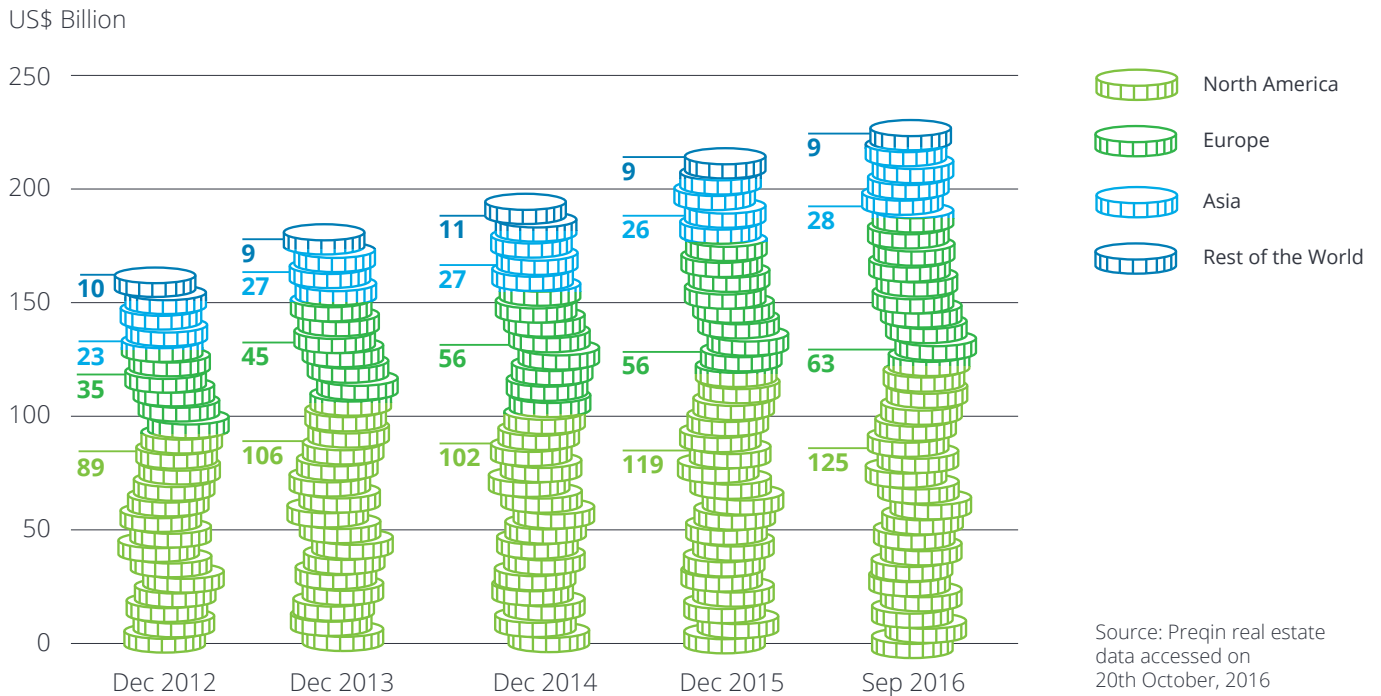
US private equity real estate (PERE) fundraising will potentially continue to slide as fund managers' focus on deploying existing funds. As a case in point, global PERE fundraising declined 24.5 percent year-over-year in the first three quarters of 2016 to US\$74.2 billion, possibly due to funds' focus on deploying their existing dry powder.

Investors are mostly focusing on primary markets and high-growth secondary markets in the United States.

**Global private equity real estate fundraising**



**Global dry powder by region**



Despite the challenges, fund managers remain confident about deploying their capital into niche sectors, such as student housing and healthcare real estate.

PERE returns have also been affected, as many large institutions are opting to invest in real estate directly rather than going through a fund to save management and performance fees. We could see an increase in redemptions in open-ended funds as investors try to book profits on the appreciation over the past five years, considering the uncertainty about strong returns in the future.

**US commercial real estate: Favorable performance will continue amid increased caution**

New supply may offset positive net absorptions, though technology advancements and changing consumption patterns will have more influence on CRE demand. Demand for office space will reduce as corporates adapt to employees' "live, work, and play" behavior and leverage technology to automate tasks.

Industrial and distribution center real estate will potentially continue to benefit from the rise in ecommerce activities, especially in non-core markets. Improved consumer confidence and rising urbanization will likely support retail and multifamily demand, even though excess supply may limit the improvement in multifamily fundamentals.

Retail real estate owners will continue to creatively reuse the space vacated by anchor retailers to offer a variety of entertainment options and ultimately enhance customer experience.

Transaction activity will continue to decline and upward momentum in pricing is likely to slow down due to modest economic growth and ongoing political uncertainty. Investors are mostly focusing on primary markets and high-growth secondary markets in the United States. ➔



The Association of Foreign Investors in Real Estate's 2016 survey reiterates that the United States continues to be the most favored destination for real estate investments. The survey suggests that foreign investors are most concerned about a potential interest rate hike in the United States and economic slowdown globally. Investors will have to develop unique capabilities to distinguish themselves. They will also have to be very creative about where they seek value opportunities—secondary/tertiary markets or niche asset classes, such as student housing, healthcare, and single-family homes, could all be explored.

Credit availability may be a concern going forward, because of the continued low CMBS issuances and banks tightening the lending standards across all CRE loan categories due to increased federal scrutiny. However, companies should consider accessing alternate sources of financing, such as life insurance companies, mezzanine debt, and other investment vehicles.

### **US Homebuilders: Demand-supply mismatch may offset rising confidence**

Homebuilders' confidence is on the rise due to improved employment, household income, and strong demand from Millennials. However, a demand-supply mismatch may continue due to ongoing labor shortages and permit issuance delays. Housing starts increased by 0.9 percent year-over-year in August 2016, even though housing permits reduced 1.2 percent year-over-year in August. Deloitte's Q3 2016 US Economic Forecast suggests that housing starts are likely to reach 1.5 million in 2017 compared with an estimated 1.3 million in 2016.

In contrast, in the first half of 2016, orders for homebuilders grew by an average of 29 percent compared with the second half of 2015, but deliveries by homebuilders declined by an average of 14 percent. As a result, the average order backlog has climbed to 36 percent, due primarily to labor shortages and permit issuance delays. ➤

Transaction activity will continue to decline and upward momentum in pricing is likely to slow down due to modest economic growth and ongoing political uncertainty.



Rise in homebuilder confidence

Favorable macroeconomic factors



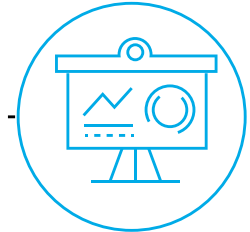
**Credit availability**

The Q3 2016 Deloitte US Economic Forecast suggests housing loan standards may be loosening at a slower rate.



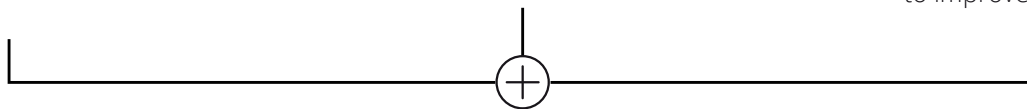
**Improving employment scenario**

Decline in unemployment has been driving housing demand.



**Improved household income**

Household income has been on the rise and is contributing to improved demand.



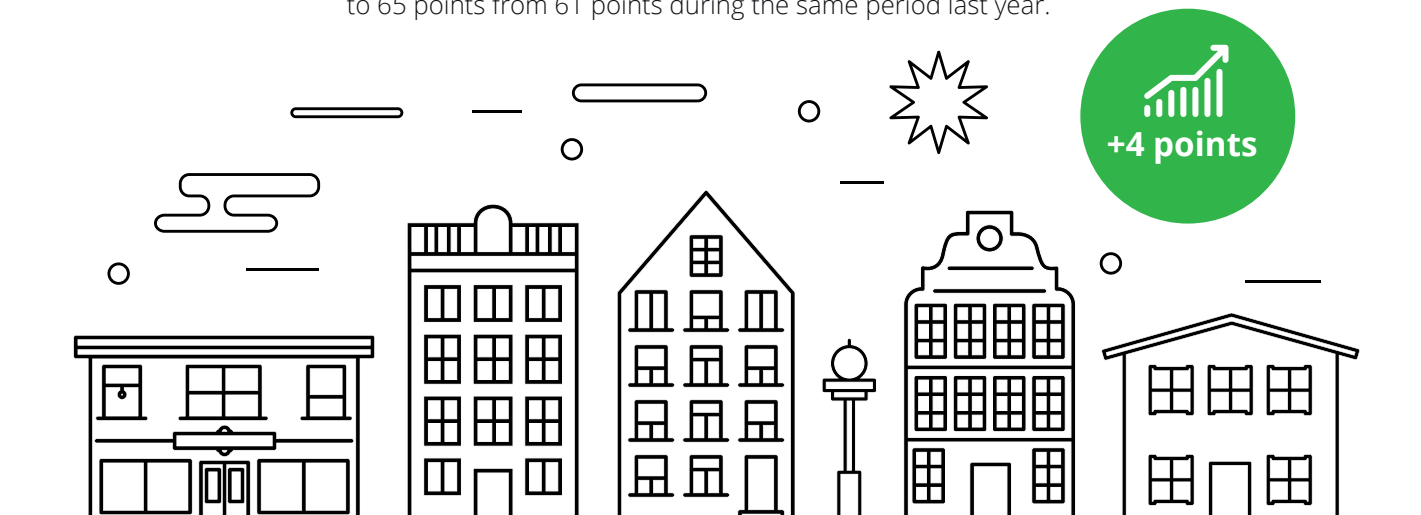
Strong demand from Millennials



Demand for home purchases by Millennials is on the rise as they are now older and beginning to start families.

**RISE IN HOMEBUILDER CONFIDENCE**

In September, the National Association of Home Builders/Wells Fargo Housing Market Index increased to 65 points from 61 points during the same period last year.



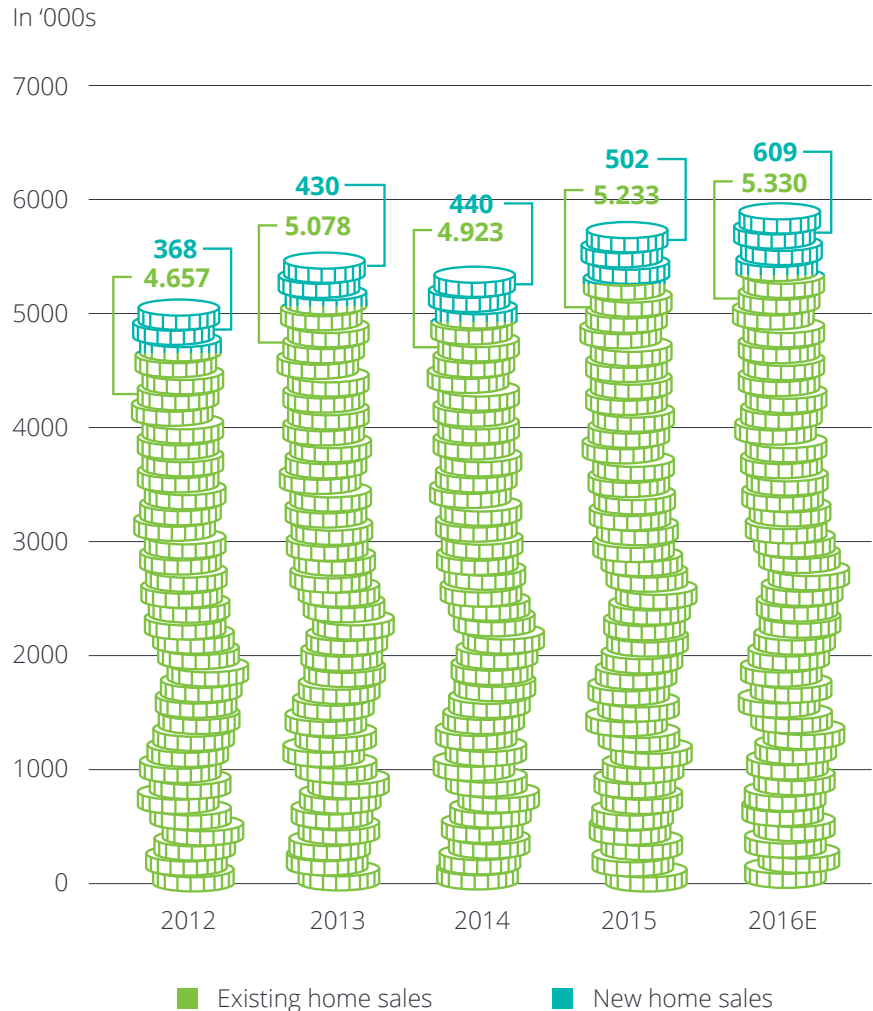
Home prices are likely to grow, albeit at a slower pace, due to limited inventory and supply. According to the quarterly Zillow® Home Price Expectations Survey, the Midwest region may witness a surge in demand due to job growth and relatively lower prices compared with the coastal markets.

In 2016, total home sales are expected to grow at approximately 3.6 percent on an annual basis. The slower growth is likely to be driven by supply constraints, potentially higher interest rates, and rising prices. Sales for new homes are expected to grow by 21.3 percent year-over-year to 609,000 homes. In contrast, sales for existing homes are expected to grow at a slower rate, approximately 1.9 percent year-over-year, to 5.3 million homes. This is in line with the Deloitte economics team's Q3 2016 forecast.

Home mortgage originations and delinquency rates improved in 2015, but they could be affected by an imminent interest rate hike, even though banks have gradually loosened residential mortgage standards.

Homebuilders are building more units for rent, as rental demand and rental values have been strong and homebuilders look to grow and diversify. This strategy is likely to influence homebuilders' business models and blur lines with multifamily owners.

**US new and existing home sales (seasonally adjusted)**



Note: Sales for 2016 are expected sales based on August monthly data seasonally adjusted to annual rates. Source: National Association of Home Builders, October 2016

Home mortgage originations and delinquency rates improved in 2015, but they could be affected by an imminent interest rate hike, even though banks have gradually loosened residential mortgage standards.



### Engineering and construction: Improved construction spending alongside financial performance headwinds

Spending on nonresidential construction and defense is likely to grow at a slow pace due to muted expansion in manufacturing, mining, and oil exploration. In July, US nonresidential construction spending grew 1.4 percent year-over-year on the back of a 7.3 percent increase in private spending, even as public spending declined 6.3 percent year-over-year.

According to Deloitte's 2016 US defense outlook, DoD spending is expected to stabilize and grow from 2016 onward after a continuous decline in the previous five years due to budget cuts. As of September, commodity prices were flat year-over-year due to weak global demand, implying limited exploration and mining activity. However, prices are expected to improve slightly in 2017, due to tighter supplies after being essentially flat in the first nine months of 2016 with weak global demand.

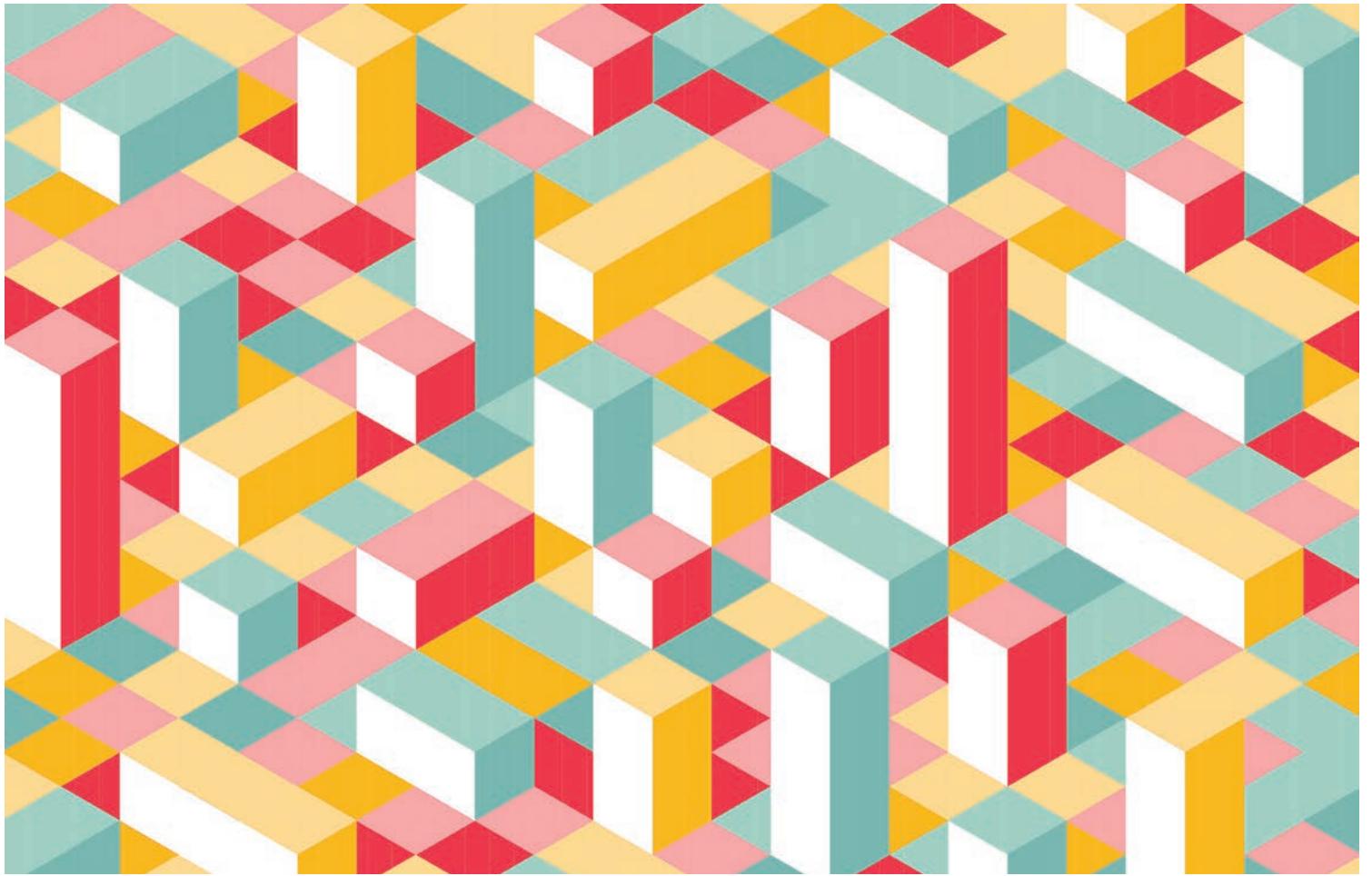
### Continued volatility in architectural billings and construction backlogs signals slow growth in 2017

The Architecture Billings Index continues to be volatile and had declined below 50 in August 2016, suggesting a decline in billings. The Construction Backlog indicator remained flat at around eight months' backlog over the past few quarters, suggesting muted construction growth in the near-to-medium term.

The key enablers of future growth IoT, geospatial, and mobile technologies can help E&C companies improve operational efficiency in a slow-growth environment, while 3D printing and sustainable construction can help save costs, improve quality, and enhance brand value.

### In closing:

Cautious optimism is the overall sentiment for 2017. Although real estate fundamentals such as occupancy and rent growth continue to improve in many US markets and property types due to modest economic growth, increasing development activity and supply additions to the market may begin to negatively affect fundamentals in 2017. In addition, the threat of higher interest rates will likely negatively affect the volume of transaction activity and pricing. There continues to be significant investor interest in US commercial real estate, with significant amounts of private equity capital, REIT financing, and foreign investor capital looking for opportunities in US commercial real estate. ●



# Future-proofing real estate: An insight into the potential use of blockchain in real estate funds

**David Dalton**

Partner  
Consulting  
Deloitte

**Lory Kehoe**

Director  
Consulting  
Deloitte

**Cillian Leonowicz**

Senior Manager  
Consulting  
Deloitte

**John Hallahan**

Analyst  
Consulting  
Deloitte

**Introduction**

The global real estate funds industry has recently experienced a stunt in growth due to a number of factors, most notably

- Uncertainty regarding the European Union, e.g. Brexit
- A slowing Chinese economy
- More recently, the US presidential election
- An increase in 'rich pricing'

A slightly lower level of transactional activity of \$292 billion was recorded in H1 of 2016 in comparison to the figure of \$324 billion in H1 of 2015<sup>1</sup>. Yet, fundraising on average amongst the top 5 private equity real estate firms, over a five year period, has increased by \$26,735.67 million (US) indicating the leading players remain confident in the future state of the industry. (See figure below).<sup>2</sup>

This article will explore existing real estate property management solutions, focusing on the top private equity real estate platforms in the marketplace, including subject matter expert's viewpoints on the existing software infrastructure. Blockchain technology and its core distinctive characteristics, will be discussed as an alternative solution whose unique features are well suited to the real estate funds industry. Lastly, future considerations will be addressed in order to assist industry players consider and understand the value of incorporating a blockchain solution for the whole asset management process.

**Industry sector ripe for disruption**

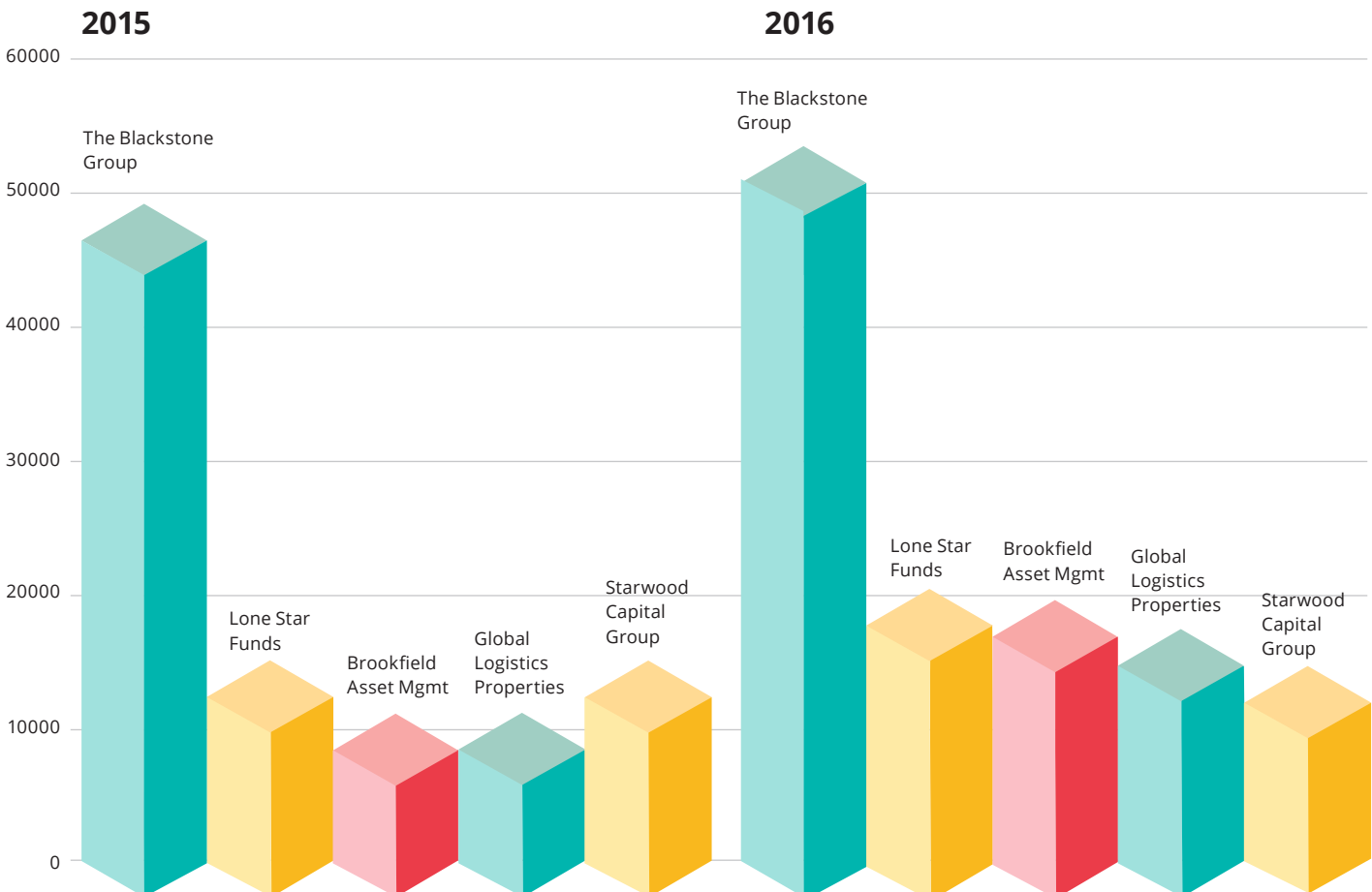
This decline has resulted in global investors taking a more conservative approach, focusing on gateway cities and managing their expected return on investments accordingly. The industry is undergoing a

sizeable change in its core offering away from real estate as a financial asset to real estate as a service. For example, Germany is regarded as the prime hub for capital within Europe, followed by Ireland. Both locations are considered prime locations for investment and property development for 2017.

*"Blockchain technology is rapidly advancing and we see in real estate an opportunity to drastically improve efficiency and reduce costs leveraging this technology"* – David Dalton, Partner Deloitte Ireland, Global Blockchain Leader

Industry players will need to identify and realize new efficiencies and achieve cost savings in order to compete in this increasingly changing landscape. ➔

**Top 5 largest private equity real estate firms in the world by fundraising in million US\$**



1 Prequin, Real Estate Spotlight, August 2015

2 PERE's Annual Ranking of the Largest Private Real Estate Firms in the World, May 2016, 2015

As highlighted by Mark Degnan, Director Corporate Finance, Deloitte Ireland: *“the buy and sell side of transactions in real estate funds are hampered by a lack of technology being used in the process. The management information (MI) being used is derived from a number of different systems and has to be manipulated, which takes time and proves to be expensive. There is an opportunity for technology to be leveraged to expedite this process for all involved”.*

Currently, there are a number of different systems used by asset managers including property management software, loan software and arrears software amongst many others. A common concern raised by industry players is the lack of integration amongst the different systems, people and teams working in silos and ultimately not effectively communicating with one another. As such, this lack of integration and consistency presents pitfalls for data manipulation to take place when producing management information (MI) required for a deal to take place. The key to enabling all deals to move quickly (not just those specific to real estate funds) is to:

- Involve and engage all stakeholders
- Keep stakeholders up to date
- Resolve issues quickly

What are the common denominators to the points above? It's simple, people and data! The real estate funds sector requires very detailed information (right the way down to the wiring in a building) and for that information to be able to be shared securely and quickly with the other participants. So what is required is an industry standard technology which is used by all participants to store information securely, to share data quickly and which can be trusted by all participants to be accurate view.

Due to the detailed level of data which needs to be recorded for a property, investing in a secure and transparent property management software would provide a clear means of enhancing the efficiency of the real estate management process for all stakeholders. YARDI, MRI and SS&C are regarded as the top private equity real estate software providers. These platforms enable users to efficiently track and manage the vast numbers of documents required to ensure compliance with all of the contractual and legislative requirements affecting their company currently in the marketplace. It will become clear when we walk through their service offerings how a more advanced solution with an ability to connect all users in transparent way would be a favourable alternative for all involved.

*“Real estate transactions and valuation data tend to be relatively lower in volumes and highly complex. We believe that this, coupled with the fact that this process remains relatively manual across multiple participants, means fund administration in this sector will be one of the greatest beneficiaries of Blockchain transformation”.* – Cormac Dinan, Director Consulting, Deloitte Ireland

### The existing property management solutions: a sub-par game?

#### Oracle JD Edwards

Oracle JD Edwards EnterpriseOne Real Estate Management integrates all of the information about your properties under management, hereby working to streamline financial and operational processes throughout the entire real estate lifecycle. Users have noted easy configuration, good mobile access and excellent customer support. Therefore, it will not come as a surprise that that Oracle JD Edwards is a popular choice amongst the US real estate investment trusts, per Deloitte US analysis.

#### Yardi

More than 20,000 businesses, corporations, and government agencies rely on Yardi software to manage and drive their real estate business. This property management platform facilitates clients worldwide to access information specific to their needs, including owners, managers, investors, and other stakeholders. Yardi offer two platform services; the Yardi Genesis<sup>3</sup> platform for smaller real estate firms, and the Yardi Voyager platform for mid- to large-sized property owners, managers, and investors.

Both platforms include accounting, operations, and ancillary processes with mobility for residential and commercial portfolios. The solutions serve over 18 real estate markets, including construction development, government, office, industrial, retail and airports.<sup>4</sup>

#### MRI

With over 45 years of experience with clients in five continents, MRI offers business management software solutions to the global property management industry. As one of the leaders in real estate enterprise software applications and hosted solutions, MRI serves the global multifamily and commercial properties by helping them improve their bottom line and returns on their business portfolios.

The multifamily suite effectively manages the entire real estate cycle, from online leasing to renewals and statement of deposit. The commercial suite provides budgeting and forecasting, financials and accounting, and tenant connect.<sup>5</sup>

3 Oracle, November 2016

4 Yardi, October 2016

5 MRI, October 2016

6 SS & C, October 2016

7 SAP, October 2016



**SS & C**

SS & C provides property management software, real estate fund administration services to more than 6,900 clients globally. It offer a vast array of products such as; SKYLINE which is a property management and accounting platform and TNR Solution which provides portfolio and fund managers with the tools to track and manage property deals and relationships at the fund and Investor level.<sup>6</sup>

**SAP RE FX**

Outside of the US, SAP offers a full stack, integrated work management solution that aims to simplify the complex real estate operations for clients of all sizes. This software has the added benefit of also being fully integrated to SAP financials, which from our analysis, some users note as a major benefit.<sup>7</sup>

A clear trend in our analysis is that the systems discussed are currently struggling to handle the massive amount of data that now needs to be held on each property. This has seen these systems see faults such as severe lagging, increase in cost and in the worst cases system failure. It is abundantly clear that an alternative solution could prove to be a better fit. In theory, a system which has the capacity to distribute a ledger to all parties involved in the process would be a major plus. This shared nature would mean no single point of system failure, and its security could be achieved with high levels of encryption. The cost would also be less, as scale would be achievable as the ability to add more parties would be written into the software. It is our opinion a viable alternative could be a blockchain based solution.

**Real estate in a blockchain world**

*“We believe that blockchain technology holds tremendous potential for the financial services industry, particularly as a digital ledger of transactions that can increase efficiency and reduce errors. In the alternatives sector, I can foresee potential uses for blockchain in the recording of mortgage liens and property title transfers in real estate, as well as clearing and settlements in the private equity space. We are closely watching and evaluating these areas of application.”* Alan Flanagan, Global Head of Private Equity & Real Estate Fund Services BNY Mellon. ➔

The global real estate funds industry has recently experienced a stunt in growth due to a number of factors, most notably uncertainty regarding the European Union, Brexit, a slowing Chinese economy, and, more recently, the US presidential election.



The hype around blockchain is one which is not going away, with Don Tapscott going as far as calling it 'the technology most likely to change the next decade of business.'<sup>8</sup> In 2016 we have seen a vast majority of the world's largest financial services clients test the technology either through consortia, such as R3, or in proof of concepts by themselves. While some sceptics claim this is little more than marketing to 'stay relevant', what cannot be denied is blockchain technology has a number of key characteristics which are well suited to a plethora of identified use cases. Below we will look at how there are some key characteristics which could alleviate some of the current issues problems with the property management software discussed.<sup>9</sup>

**Cross-border** – an easy to use, cross-border ledger, which is particularly powerful for the nature of this business. This is particularly powerful given the current trend in real estate funds to diversify their portfolio across locations.

**Transparency** – easy auditing and tracking of transactions across the network is a clear benefit of a blockchain enabled solution. By having full transparency between all parties on the ledger, users will have a clear, holistic view relating to the property.

8 Harvard Business Review, May 2016

9 Deloitte Netherlands, "Blockchain technology: 9 benefits & 7 challenges," 2016

10 Deloitte Netherlands '#3 Blockchain – the benefits of smart contracts', November 2016

**Permanent trusted records** – a blockchain is an immutable record of transactions, which ensure no manipulation or loss. This is particularly powerful to have when selling on a property, as there is the opportunity to cut the time for due diligence significantly.

**Automation** – the possibility of conditional transactions via smart contracts, which can ensure less error on behalf of operational staff looking after the property, both on & off site.<sup>10</sup> This could potentially see the introduction of smart contracts which could track mortgage arrears.

**Multi-party** – a blockchain by nature is a multi-party technology, with transaction information being shared peer to peer across the network. A criticism of some of the software vendors currently is the inability of parties to communicate on the platform, which could be eliminated by using a solution powered by blockchain technology. Low overhead to add many different parties, whether trusted or untrusted.

**Secure** – strong encryption functions built in. No single point of failure like the current systems due a distributed record of the truth across a number of different devices.

**Real time** – close to real time data available to all stakeholders, which can ensure total confidence in the investment for all parties.

*For instance, a distributed ledger could be used to record all operations related to property management where whole invoicing (payables and receivables) and related payments maybe reported on a distributed ledger, or even actually paid with fiat currency-backed virtual money. These data can then be retrieved upon authorisation as input of the property valuation, streamlining as such various processes such as reporting, valuation or risk management."* – Thibault Chollet, Director Consulting, Deloitte Luxembourg

It is clear when reading the above that a blockchain-enabled property management solution would be well suited to the real estate funds business. A real-time, secure view of the data relating to a property is something that many of the current systems struggle to provide in an easily digestible format.

A blockchain-enabled solution could solve this issue, and drastically reduce the time it takes to manipulate the data about a property into usable management information. We will now look at some key considerations moving forward for the real estate funds industry.

*"By implementing additional blockchain applications in the real estate industry transaction times and costs can be reduced further. Furthermore it enables decision makers to use data analysis for making future investment decisions on selling, buying and constructing real estate,"* according to Jan Willem Santing, manager of Deloitte Real Estate.





“Blockchain technology works best when there is a clear business problem to solve and clear business benefits to be achieved. With no multi-party, secure, fast and inter-operable industry standard technology in the real estate fund sector, blockchain has all the features to rapidly become the ‘go-to’ technology solution.”

**Lory Kehoe, EMEA Blockchain Hub Lead**

#### **Future considerations and conclusion**

As Thibault Chollet contends, “It is difficult to exactly shape the future of the real estate industry ecosystem that distributed ledger technology will enable. But have no doubts that blockchain is coming” Indeed, while we may not see blockchain technology cause a paradigm shift across the whole industry in the near term, it is abundantly clear from the above that an alternative real estate management system would be the perfect use case to test the applicability of blockchain in this market. The benefit for the big players is being part of the transformation of the industry as we know it, and building solutions which will see lower costs and greater efficiencies.

As Cillian Leonowicz mentions “there is an open goal for an asset servicer to take real estate by the scruff of the neck, create a new standard, control the killer app platform and then invite inefficient competitors to their new blockchain enabled platform on a service model fee basis”.

Deloitte’s Global Head of Real Estate, Bob O’Brien remains very positive on the future of blockchain in real estate, remarking “Blockchain technology has significant potential to impact the private equity real estate industry by enhancing the speed and quality of data shared in the due diligence process of transactions, improving property level operating and performance information

available to portfolio and asset managers, and facilitating communications between fund management and fund investors.”

The future for blockchain is much closer than people realise and whether people realise it or not (and or like it or not), blockchain is here to stay! The opportunity for distributed ledger technology is significant and now is the time to start your blockchain journey. By developing POCs and carrying out pilots, the true potential of the technology can begin to be realised and what Tapscott claims will be the most disruptive technology of the next decade. Don’t be tempted to sit on the fence and adopt a ‘wait and see’ approach. We don’t want to be here next year saying we told you so...

Now is the time. Be Ready. ●



**David Brown**  
EMEA Real Estate  
Co-Leader  
Deloitte

# How BEPS will affect cross-border real estate investment

**For real estate investors and developers, certainty about the long-term tax costs of a project or investment is critical to accurate underwriting and pricing. Where tax costs move significantly, there is likely to be a knock-on effect on the returns achieved on individual investments, which will ultimately feed through to real asset pricing. An example of this is the impact of the recent changes of the UK stamp duty land tax regime, which has added three percent to the acquisition cost of residential property (for those who already own a home). The regime has dampened activity, and anecdotally is reducing values both for completed stock and for land, particularly in London. The impact here is readily apparent as the tax cost is clear and the additional bill falling on buyers easily computed.**

The real estate investment market is, however, also facing a number of tax changes where the impact is less easy to calculate. Investors therefore need to think hard as to the likely effects and how any increased tax costs may bear on investment underwriting.

The two changes on which this article will focus arise principally from the OECD's Base Erosion and Profit Shifting (BEPS) initiative, which was put in train by the G20 in 2013 and is starting to work through into legislation. While there are 15 separate themes, or actions, within the BEPS project, some touch on real estate investment only tangentially. The focus is therefore on the two main areas—BEPS Action 6, which relates to tax treaty access, and the series of actions that touch on relief for interest expenses, including those actions relating to interest deduction restrictions, and hybrid instruments. We will cover transfer pricing in a future edition.

It is well understood that cross-border real estate investment has relied extensively on fund and corporate structures as the industry has evolved over the last 20 years or so. Most structural elements have clear non-tax purposes—a fund vehicle for example is the legal vessel that regulates relations between a manager and multiple investors, typically allowing investors to diversify their portfolio, and benefit from an increased scale of investment and specific, expert, and often local management teams.

In order to make the returns work for investors, however, fund structures tend to have the overall goal of mimicking the tax position of an investor if it was to invest directly. Sometimes this can be done by using tax transparent vehicles—the Jersey Property Unit Trust flourished for investment in the UK for just this reason. Replicating the effect of direct investment in other markets has, however, generally involved creating a tiered structure of property and corporate holding entities, which must then seek to benefit from tax treaties (or EU Directives) in order to minimize the tax drag on profit repatriation (largely a result of withholding taxes).

Through the BEPS Action, however, the OECD has sought to minimize the abuse of tax benefits by setting out minimum standards for treaty access. Within Europe, the key tool is likely to be a “principal purpose test,” introduced either directly into tax treaties or through the BEPS Multi-lateral Instrument, which will restrict benefits to those entities whose creation was not principally tax driven or which have substantial operations in the country in which the taxpayer seeks to benefit from treaty access.

At present, few funds of any kind—whether real estate, private equity, or infrastructure—have such substantial operations anywhere. Further, very few holding companies are created without the benefit of tax advice and, while non-tax reasons for their creation and

location may exist, it is not clear that any of these reasons will be sufficiently robust to withstand tax audit from a payer jurisdiction. As a result, treaty access could be denied and withholding tax costs increase dramatically. To what extent is likely to be determined by the approach in each investment location.

While the OECD has responded to lobbying with a set of specific examples for funds (or “non-CIVs” in its slightly topsy-turvy terminology), treaty access for real estate funds may still be hard to obtain. The OECD is currently considering responses to the non-CIV consultation that ran until early February 2017, although the winding-down of the project team as a whole may lead to the conclusion that significant change to the current examples is unlikely.

We are not yet at the end of the road but it is starting to become clear that treaty access in a fund context, if available at all, may ultimately rely on disclosing the identities of investors, and the investors' own treaty positions, in order for fund entities to benefit from treaty access. This may have a significant effect on who will invest and how the fund manager deals with fund tax affairs in the future. ➔



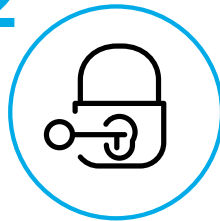
As a result, changes to the current “model” fund may include:

1



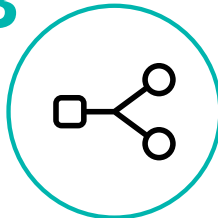
**Investors being required to disclose detailed treaty status prior to subscription**, and maintain up to date treaty or residence certification as required

2



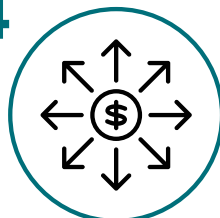
**Restricting fund access** solely to investors who benefit from broad tax treaty access (or, conceivably but not certainly, having a maximum percentage of non-treaty investors)

3



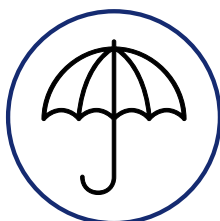
**Segregating investors** into separate fund pools or partnerships so that “good” investors are not tainted by non-treaty co-investors and any withholding tax costs may be ring-fenced

4



**Redrafting distribution waterfalls** to ensure that withholding tax leakage (even within underlying fund entities) can be streamed solely to those investors whose status gave rise to the tax

5



**Indemnification of the fund by investors** who fail to disclose accurately or maintain properly their tax status or certification



The non-CIV examples cover “good” entities who may be expected to garner treaty benefits. Local implementation of treaty charges to include PPT provisions, and the process of implementing these changes through the multilateral instrument, is likely to take another few months more.

Funds now in formation need to at least communicate how changes are likely to affect fund documentation and may ultimately affect returns. Early movers are even now bolstering operations in key holding jurisdictions such as Luxembourg, or else planning to move holding companies into those territories where they have substantial operations, such as the UK.

The changes to interest relief are going to move quickly—for example, UK and Denmark have already enacted anti-hybrid legislation, which may deny interest (or even rental) deductions in certain structures. The presence of hybrid entities is prevalent among larger PERE funds that

file US check-the-box tax elections for fund entities, by creating an entity that is typically transparent for US tax purposes. Working through the effects of these rules is complex and results are frequently non-intuitive, i.e., the rules may apply even where the hybrid nature of an entity or investment does not result in a loss of tax. The UK rules came into effect for taxpayers subject to corporation tax from 1 January 2017; those changes are likely to hit non-resident landlords who, owing to a peculiarity of UK tax law, are subject to income (rather than corporation) tax, during 2018.

A second wave of changes, concerning earnings stripping rules, is also underway with the impact in the UK likely to be most significant at first. The UK is moving from a “pure” transfer pricing approach—where, broadly, interest was deductible if on arm’s length terms—to an approach where deductions will be limited by reference to a ratio of 30 percent of tax EBITDA (or the group’s overall EBITDA ratio if higher). The effect is likely to be quite dramatic in terms

of tax cost although the impact on most real estate investment (that from non-UK resident investors) is not expected before 2018 at the earliest (as the law is relevant for corporation tax only). The rules are expected to apply from 1 April 2017 for UK corporation taxpayers, however, which includes many “operating real estate” sectors such as hotels, serviced offices, and self-storage.

Many funds have already built the 30% limit into underwriting assumptions and distribution projections and those who have not need to move quickly. The knock-on effect on asset pricing is harder to read and, with tax rates likely to reduce to 17%, may not be as great as may be feared. ●

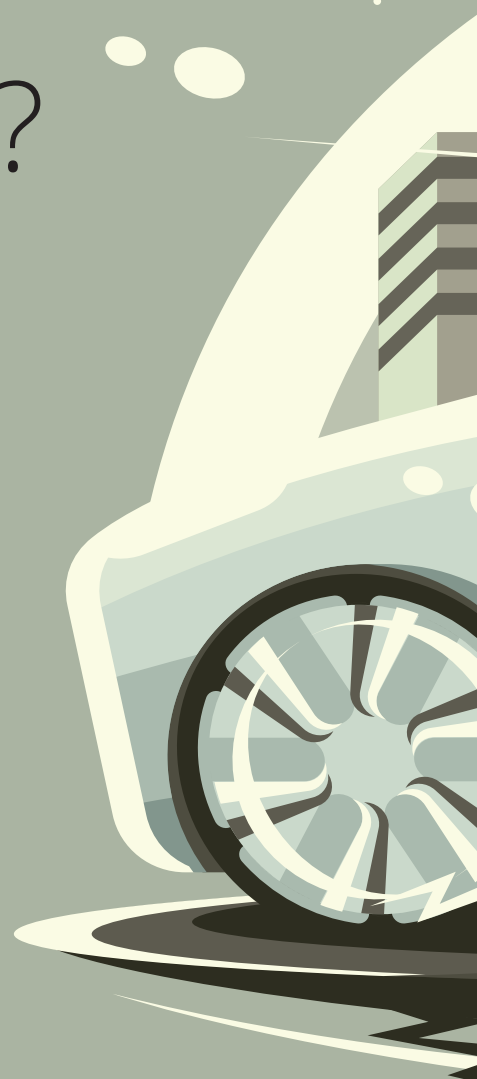
# Shared and self-driving cars

## A game changer in real estate and area development?

**Wilfrid Donkers**  
Director  
Financial Advisory  
Deloitte

**Wouter de Wit**  
Business Analyst  
Financial Advisory  
Deloitte

Shared and self-driving cars have moved from fantasy to reality. Car-sharing initiatives from the likes of Uber, Lyft, Snappcar, and Blablacar are rapidly changing the perception of car ownership and car usage. Combined with the application of autonomous vehicles, which are already operating in some places, this might well be the next game-changer in real estate and area development. We expect large-scale pilot projects in Europe in the coming years aimed at getting a better understanding of the related challenges and opportunities that lay ahead. >





What can real estate developers, investors, and government bodies expect from this potentially disruptive force, and how can they prepare themselves? What do we already know and what can we expect in the short and longer term?

### Transportation technology drives area development

Throughout history, the available modes of transportation have driven area development. In the colonial times, cities clustered around ports as ships were the main means of delivering supplies and residents. With the introduction of streetcars, cities developed along radial streets that extended outward from the city center in a star-shaped layout. And when owning a car became the norm, urban sprawl developments started to prevail.

Cities have thus been forced to adapt from a primarily pedestrian-oriented environment to an auto-centric lifestyle with a continuously growing demand for parking and road capacity. In order to provide for future-proofed real estate and area development, both real estate developers and (government) urban planners have tried to predict these lifestyle changes resulting from progress in transportation technologies. Currently many of them point to the rapid expansion of shared and autonomous road vehicle initiatives as the new disruptive force. This raises the question: are we in the midst of a paradigm shift? In order to answer this question, we have to look at how travel patterns have changed over the years.

### Commuting time has remained approximately constant over time

Over the years, people have gradually adjusted their lives to their living conditions, including the location of their homes relative to their workplace, such that the average commuting time stays

approximately constant at one hour. This constant is known as Marchetti's constant and is important for policymakers as it casts doubts on the contention that investment in infrastructure saves travel time. Instead of actually saving travel time, people seem to invest this time in travelling longer distances. This partly explains why expanding highways only relieves congestion in the short term. As people adjust to the new situation by using the newly available highway capacity to travel further and more often, a new equilibrium of road congestion will be reached in the longer run. But to what extent will Marchetti's constant also hold if travelers could be completely productive during their travels?

### Shared and self-driving cars will increase the number of vehicle movements

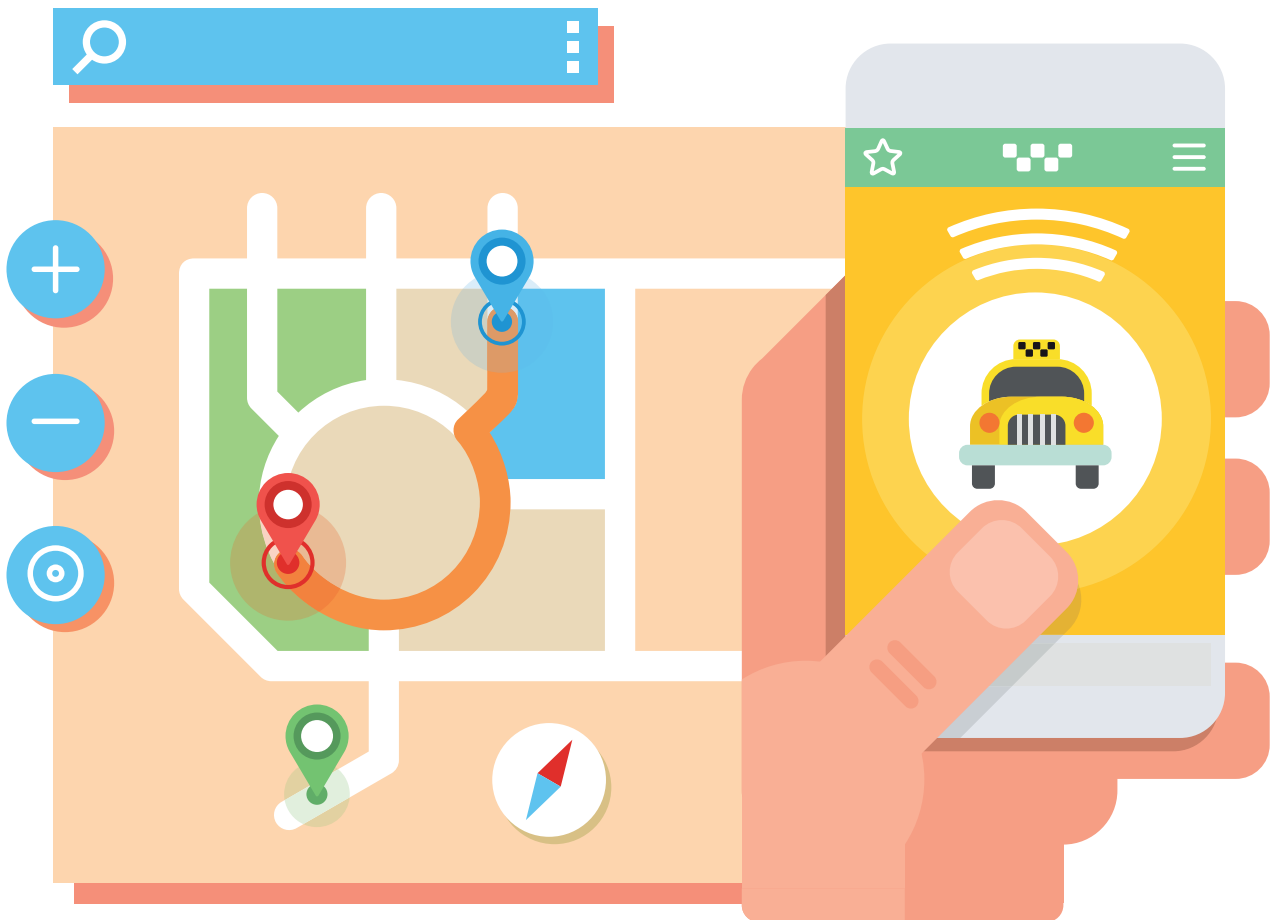
Nowadays car users generally drive their own cars, and as a result they have little else that they can do during this time. But if autonomous vehicles would pick up passengers at home, without any waiting

time, and enable them to fully focus on things other than driving, this would change. Depending on the comfort level of the vehicle, the car could then become a place to work or even to sleep. Arguably this would reduce the perceived travel time to almost zero.

The latter is likely to encourage current car users to travel longer distances and more often. As vehicles will also run empty now and then, for example for repositioning, the total number of vehicle movements by current car users will significantly increase. Additionally, a large share of non-car users can be expected to switch to the use of shared and self-driving vehicles. This group consists of people that currently prefer other modes of transport and people unable to drive themselves, such as elderly, disabled, children, as well as those who are under the influence of medicine or alcohol. As a result of these changes, the total number of miles driven is likely to increase. It remains to be seen if additional road capacity is needed.

The expected increase of (self-driving) car usage could partly be offset by the application of new technologies that will make traffic flow much more smoothly.





### It remains to be seen if additional road capacity is needed

The expected increase of (self-driving) car usage could partly be offset by the application of new technologies that will make traffic flow much more smoothly. An example of such a technology is "platooning." This allows a group of vehicles to travel together (in a platoon) at high speed and with short distances between the vehicles. Each vehicle communicates with the other vehicles in the platoon. There is a lead vehicle that controls the speed and direction, and all following vehicles (which have precisely matched braking and acceleration) respond to the lead vehicle's movement. As a result of platooning much less road capacity is needed to accommodate the same flow of vehicles. In addition, it also increases the safety resulting in fewer accidents, and thus, less congestion.

It is hard to predict to what extent these new technologies will offset the expected increase in car use. Therefore, it remains to be seen if new road capacity will be required. However, it is clear the layout of the road network will have to change. Developers and urban planners can already anticipate the requirements of the future by looking at recent trends.

### Car ownership will progressively decrease, especially in Western cities

After a period of suburbanization, particularly in the United States, we are currently in a phase of (re)urbanization, with virtually everywhere in the world people migrating to big cities. In addition, especially in Europe an increasing share of the inhabitants of these cities does not own a car. ➔

Instead, they increasingly rely on public transport, cycling, and ride-sharing. Furthermore, as the average car is still used only 50 minutes a day,<sup>1</sup> there seems great potential for further growth by ride-sharing companies and it comes as no surprise that they are rapidly gaining market share.

Additionally, several ride-sharing companies are already testing autonomous taxis, like Uber in Pittsburgh and nuTonomy in Singapore, and are likely to do so in Europe as well in the coming year. Due to the elimination of driver costs, autonomous bus and taxi services could be offered at a much cheaper price. The introduction of these services is therefore likely to further reduce the incentives to own a car, especially in big Western cities. It is therefore expected that car ownership will progressively decrease in the longer term.

**The market for personal mobility could transform dramatically over the next 25 years**

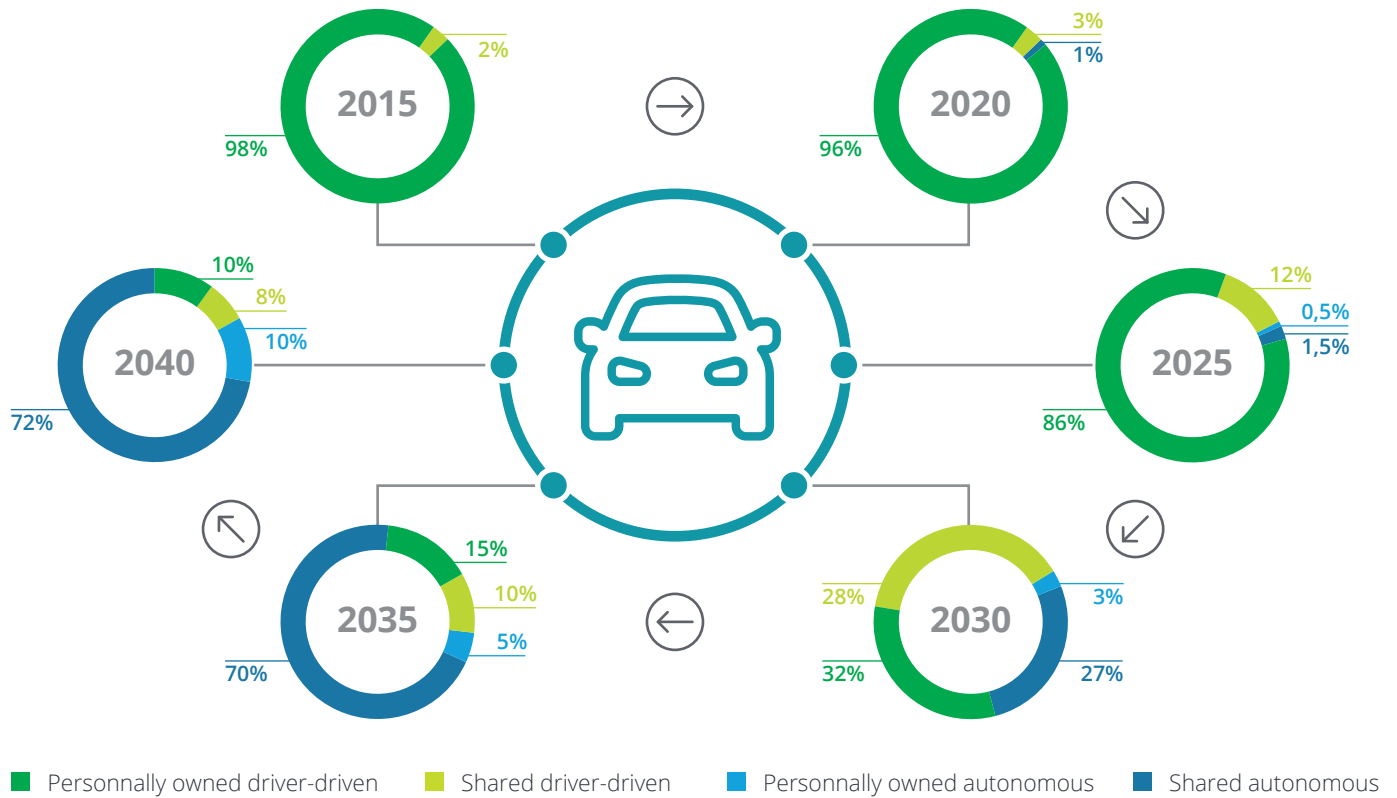
Deloitte research based on data from the United States<sup>2</sup> suggests these changes could occur more quickly and at greater scale than many are prepared for, especially in densely populated areas. If shared and autonomous vehicles are adopted as quickly as other technologies (like cell phones, smartphones, and the internet), our modeling finds that significant change will begin within five years and that the market for personal mobility could transform dramatically over the next 25 years. Deloitte predicts that by 2030, shared vehicles could overtake personally-owned vehicles in urban areas. Shared driver-driven vehicles will likely grow quickly until 2030 but then lose market share to shared autonomous vehicles (see Figure 1)

In addition, total miles driven will likely increase by up to 25 percent until 2040, with shared mobility accounting for the vast majority of them (see Figure 2). ➔

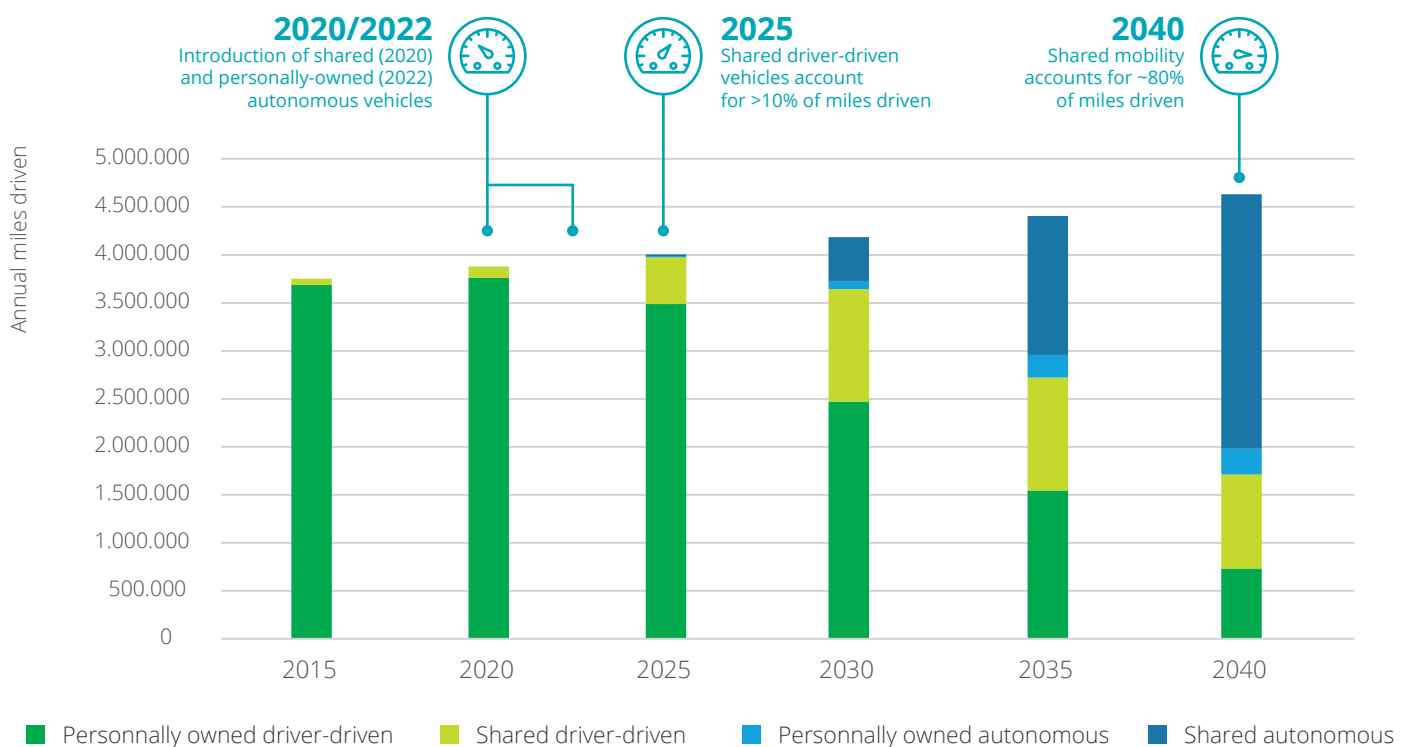
1. Source: "Urban Mobility System Upgrade: How shared self-driving cars could change city traffic," International Transport Forum of the OECD (2016). See: [http://www.itf-oecd.org/sites/default/files/docs/15cpb\\_self-drivingcars.pdf](http://www.itf-oecd.org/sites/default/files/docs/15cpb_self-drivingcars.pdf)
2. Source: "The future of mobility: What's next? Tomorrow's mobility ecosystem," Deloitte University Press (2016). <https://dupress.deloitte.com/dup-us-en/focus/future-of-mobility/roadmap-for-future-of-urban-mobility.html>, Written By: Scott Corwin, Nick Jameson, Derek M. Pankratz, Philipp Willigmann.



**Figure 1 – Forecasts of new vehicle sales distribution in urban areas in the United States**



**Figure 2 – Forecasts of total miles driven in the United States**



**A different city layout and policy is required**

Decreasing car ownership and increasing reliance on shared or autonomous vehicles has large implications for city street layouts. Access roads to residential building blocks and offices will need to be redesigned to accommodate high volume pick-ups and drop-offs. In addition, parking capacity may well become redundant over time. An analysis by the OECD<sup>3</sup> suggests that fleets of self-driving cars will completely remove the need for on-street parking. As a result, valuable city space will become available, which generates new opportunities for alternative uses. For the city of Lisbon, the model city of the OECD analysis, this amount is equivalent to nearly 20 percent of the curb-to-curb street space or 210 football fields. This perspective forces developers and governments to apply an agile long-term development strategy. Scenario-thinking and building in flexibility are the key words here. As expanding parking capacity is still required in many urban areas at least in the short term, the trick is to design the garages in such a way that they can easily be transformed to suit new purposes, such as retail, in the long run.

Furthermore, the decreasing demand for parking has interesting policy implications as well. After all, municipalities generally require real estate developers to provide for a certain level of parking capacity, depending on the size of the building that is being developed. This requirement can significantly diminish a developer's return on investment, especially when the parking capacity needs to be realized underground. As an increasing share of inhabitants of large cities relies on public transport, cycling, and ride sharing, municipalities have started to rethink their policies.

**Figure 3 – Parking capacity can be converted into new functions**



**Municipalities are experimenting with new policy instruments and pilot projects**

Take parking permits for example: in many cities they have become valuable assets due to the waiting lists that municipalities have set up to regulate the demand for parking. As a result, most permit owners are unwilling to give up their permit even though they hardly use it. The Municipality of Amsterdam therefore started to provide incentives for them to do so. In addition, it is also looking at reducing the parking requirements for areas that are being (re)developed. Although it is not easy to change these types of regulations in the short term, there is a clear need to assess whether “old policy instruments” still make sense in today's rapidly-changing environment. We therefore expect many local governments to start experimenting with regulation changes while also inviting

the private sector to provide solutions. As an example, for a redevelopment project in the city of Rotterdam, an architectural firm collaborated with a construction firm and an automobile manufacturer in order to develop a new urban living concept. This included a car sharing service as a way of compensation for the limited parking capacity provided.

In addition to these experiments, we expect many trials and pilot projects in the coming years. In 2016, the Future Bus successfully ran between Schiphol and Haarlem, while other smaller autonomously driving vehicles have been tested elsewhere in the country. Continuation of these pilot projects have been announced. In addition, Nissan will demonstrate self-driving cars in London this month, being the first mass-market brand to launch semi-autonomous vehicles to the public

3. See Timmerhuis Rotterdam. Architectural firm OMA collaborated with construction firm Heijmans and automobile manufacturer BMW, see also: <https://www.youtube.com/watch?v=LqCVfn7mwgw>

in Europe. These trials should provide insight on the potential impact of shared and autonomous vehicles and result in a next step toward the introduction of commercial services. This brings us to the last and perhaps most difficult and interesting question:

**What are the implications for real estate prices and the importance of location?**

According to the famous rule, there are three main factors that determine real estate prices: location, location, and location. Will this still be the case if perceived travel time is reduced due to an increased use of shared and autonomous cars? Will many people opt for a larger and cheaper house outside the city in these cases, thus reducing price differences between urban and rural areas?

Perhaps, but let's not forget that experts have underestimated the role of location before. Only 15 years ago, leading economists and urban planners predicted that the internet would revolutionize area development and real estate prices. As the internet drastically reduced the cost of communicating over distances, many of them argued that the importance of location would practically disappear. "The Dead of Distance" (Cairncross, 1997) and "The World is Flat" (Friedman, 2005) are illustrations of these theories.

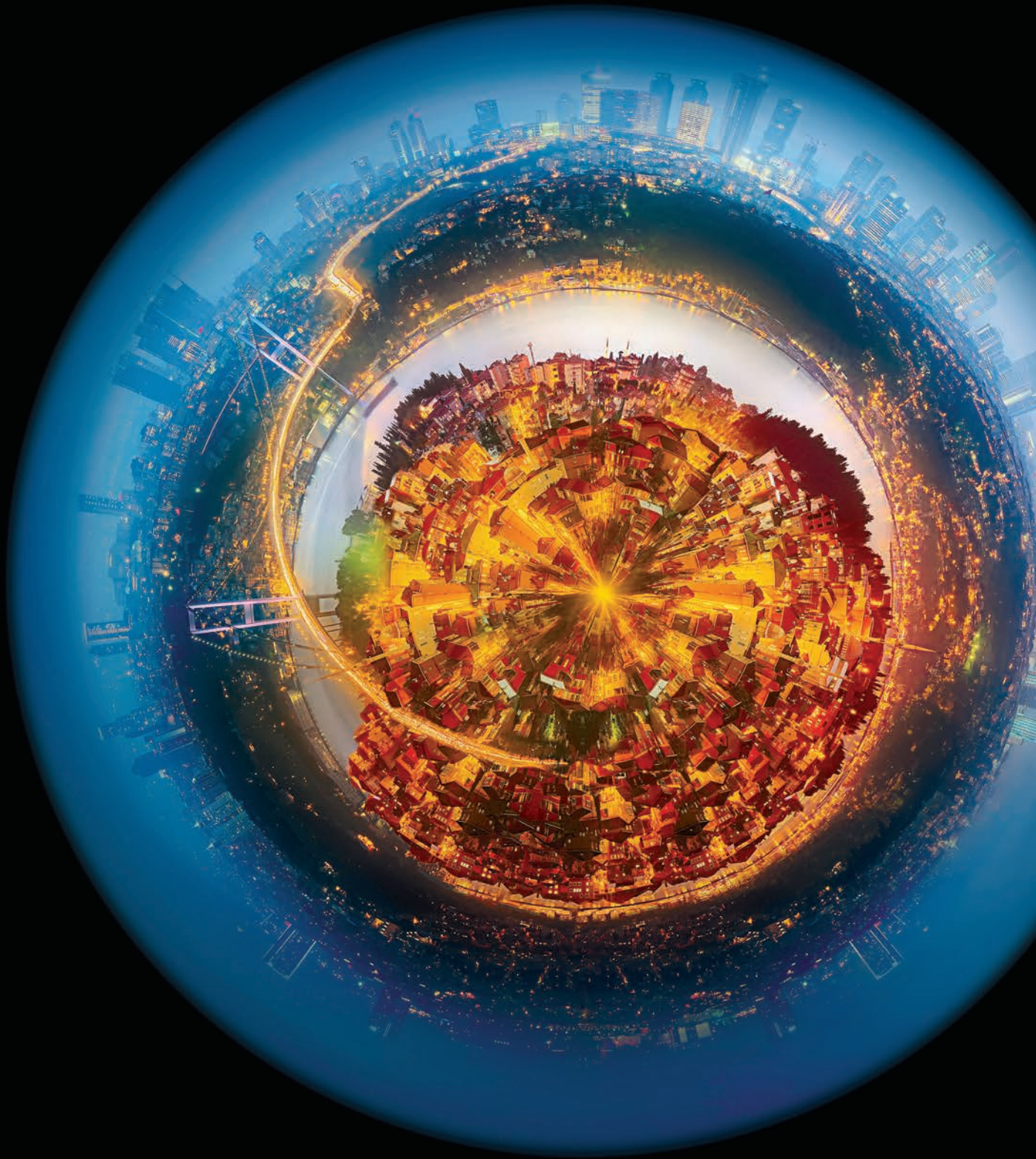
Current insights show that the opposite has in fact happened. The low prices of connecting over long distances accelerated globalization. Yet instead of reducing the need to travel, the importance of location has only grown bigger because decision-making and innovation still largely takes

place with face-to-face communication. In "Triumph of the City," Glaeser (2011) it was concluded that "the declining cost of connecting over long distances has only increased the returns to clustering close together." This largely explains the high real estate prices in, for example, the City of London or Silicon Valley.

As autonomous cars, unlike the internet, would enable people to attend meetings in person, while largely reducing the perceived travel costs, a flattening effect on real estate prices should not be stricken. However, it may be too early to see an impact on real estate prices, 2017 is set to be an exciting year for the development of the technology itself. ●

A large share of non-car users can be expected to switch to the use of shared and self-driving vehicles.





# MIPIIM17

## When geopolitical uncertainty meets the digital revolution

**Karine Thil**

Partner  
Tax  
Deloitte

**Valérie Tollet**

Partner  
Tax  
Deloitte

**Stéphanie Maschiella**

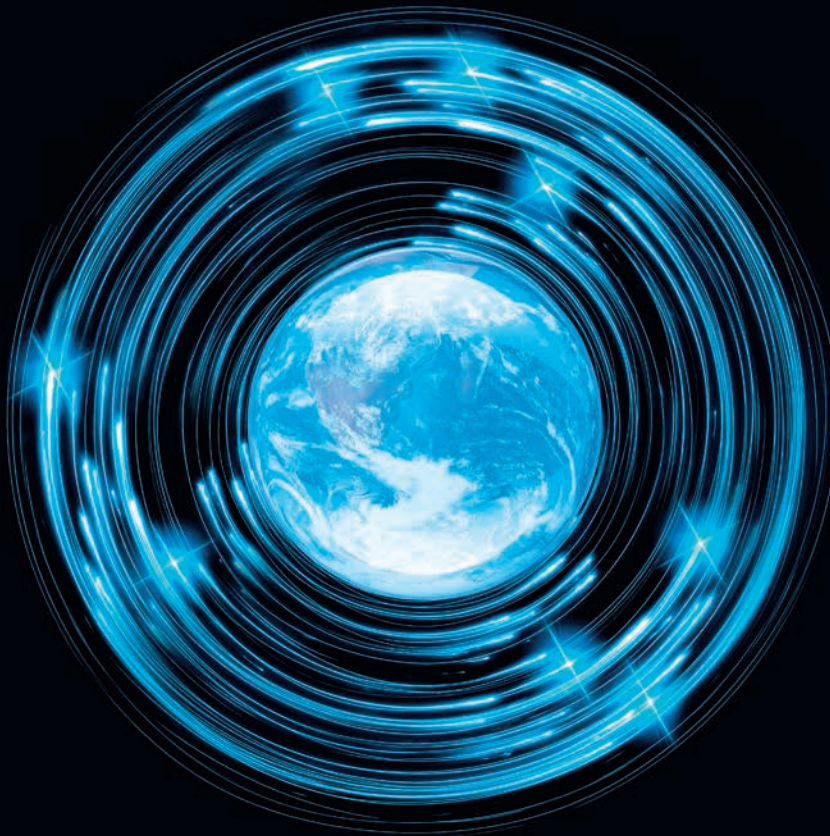
Director  
Tax  
Deloitte

**Francesco Piantoni**

Director  
Consulting  
Deloitte

With over 24,200 delegates attending from 100 countries, including 5,000 investors and financial institutions, MIPIIM 2017 once again confirmed its position as the premier international real estate event. This year, it was regarded by many as a test for the health of the marketplace, and notably to evaluate the potential of doing business with some countries in the light of growing political uncertainties in the European Union—notably in France, Italy, and the Netherlands—Donald Trump, and Brexit. ➤

Data released during the MIPIM identified the UK as the third most popular target for investors, following the US and China.



#### UK omnipresent

The impact of Brexit on the real estate industry was the topic on everyone's lips. While Theresa May has triggered Article 50 of the Lisbon Treaty, the UK government has significantly increased its presence in Cannes this year to ensure the global investment community understands that the latter is committed to creating the most business-friendly environment possible.

For the first time in its history, the UK government hosted its own pavilion, highlighting their support to promote international investments, and its role in building a positive future for the UK economy in a post-Brexit landscape. This was also reflected in the largest-ever UK presence at MIPIM, with 960 UK companies and cities—up 24 percent from 2016—and over 5,600 attendees.

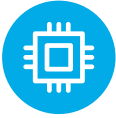
It appeared that investors remain bullish about investing in the UK, and there is a lot of appetite from Asian and Middle Eastern investors. In addition, major international companies have stepped up their commitment to the UK market with outstanding real estate projects.

Data released during the MIPIM identified the UK as the third most popular target for investors, following the US and China. Indeed, the strength of real estate in the US has also been confirmed, highly praised as a stable and secure investment market, providing sustainable economic growth, a strong currency, and the best opportunity for capital appreciation according to the Association of Foreign Investors in Real Estate (AFIRE).



## Other trends

What are the significant trends observed in various markets and asset classes?



### Technology innovation

Blockchain (the technology behind bitcoin) is a technology that could transform the way the property industry operates, as it could lead to cheaper, faster, and more transparent transactions. Blockchain technology relies on a digital distributed ledger that operates in a shared and transparent environment without the need for a trusted authority to validate transactions. Even if the old ways of doing business will not die out any time soon, blockchain could be widely adopted by the real estate sector in the coming years. The city of Rotterdam, Cambridge Innovation Center (CIC), and Deloitte Netherlands are developing the first real estate blockchain application to record lease agreements. While recording legally binding contracts on blockchain is a first step toward a more efficient and transparent management of real estate, the next step will be monitoring rental payments.



### Offices

Working practices are evolving with digital disruption, leading to changes in the traditional office building. Occupiers are demanding flexibility and now expect more tailored working spaces, with an increase in the number of open spaces and a greater emphasis on wellness with break-out spaces, fitness rooms, and green spaces.



### Hotels

Hotel operators are rethinking their development policy in the face of increased competition from the likes of accommodation-sharing websites.



### Logistics

With the new way of consuming, the logistics market is benefiting from the explosion of e-commerce, and is going to compete with retail for traditional retail space due.



### Healthcare

An aging population is driving demand for healthcare properties. This sector has emerged as a significant asset class in 2012 when European investment volumes had tripled. More generally, investment managers are searching for yields outside the traditional real estate asset classes, and niche strategies such as healthcare and student housing are becoming mainstream.



### Retail

In order to compete against online sales, shopping malls need to offer a leisure experience that you cannot find over the internet. Hence, shopping mall developers are striving to make commercial centers capable of attracting and keeping customers rather than being pure retail outlets.

## Conclusion:

Overall, according to Cushman & Wakefield<sup>1</sup>, the amount of new capital available for global real estate investments in 2017 stands at US\$435 billion, lower than 2016 but still the second highest figure recorded since 2009, supporting the good health of the real estate industry despite the geopolitical and economic uncertainty. This foretells many new investment opportunities to come in a world where the "so far, so good" principle never made real estate players smile so much. ●

<sup>1</sup> Report issued by Cushman & Wakefield and titled "The Great Wall of Money" <http://www.cushmanwakefield.com/en/research-and-insight/2017/great-wall-of-money-2017/>

# SHOPPING CENTER



# Retail therapy

## A positive outlook for Spain's shopping center segment

**Javier Garcia-Mateo**

Partner  
Financial Advisory  
Deloitte

The outlook for the shopping center segment in 2016 was positive, thanks to strong economic fundamentals such as consumption. At the same time, the large number of tourists that visit Spain also continues to break records and this has undoubtedly helped to drive activity in Madrid, Barcelona, and other coastal cities. Local Spanish retailers are in full expansion mode and prime rentals have reached the levels achieved before the crisis.

According to figures released by INE, throughout 2016 retail sales grew by more than two percent, which runs in line with consumption growth. Given the private consumer spending growth forecasts, it is expected that sales growth will continue to increase in 2017. ➔

### Spanish shopping center investment accounted for eight percent of the total activity in Europe

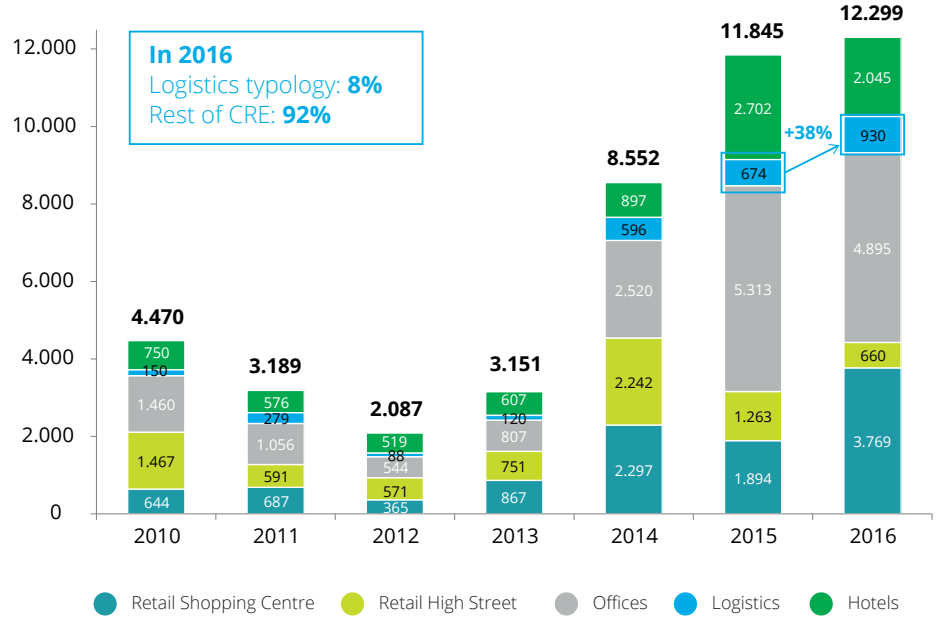
After many years of subdued activity, shopping center investment bounced back with relevant growth in 2015. The subsequent year continued to see heightened levels of liquidity, reaching an investment volume of €3.7bn—double of the year before. It is likely that 2016 will have marked the highest investment volume in the current property cycle.



### Spanish investment market

Logistic property investment **increased by 38%** in 2016 while total non residential investment only **increased by 4%**. The “revolution” which is taking place throughout the whole supply change cycle for products and services is key. The logistics segment continues to gather momentum.

Investment in €m



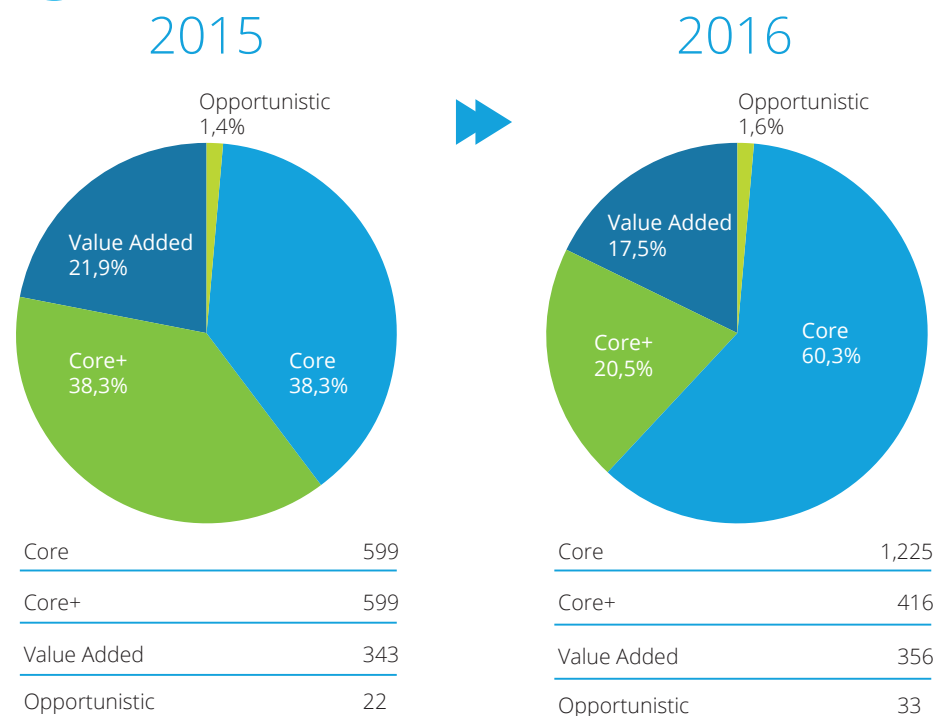
### Investor profile

The investor profile is varied, with the international institutional “core” investors leading the way, followed by the SOCIMIs (Spanish equivalent of REITs) that are listed on the Spanish Stock Exchange. The Spanish market has evolved from an opportunistic base in 2013 to a “core” market, with institutional capital entering the market from 2015.



### Investor profile

**Investor typologies** according to transaction type (by yield in €m)



**Prime yields at record lows, rent going up**

In all retail segments, prime yields are reaching record lows, with some deals being completed at below four percent and prime high-street deals at below 3.5 percent. Investors are now focusing on potential rental uplift in order to achieve their rental growth in Europe over the next five years, with average annual growth of 5.6 percent.

The recovery of consumer figures, household spending, and shopping center footfall has facilitated the rise in turnover for the main retailers (as widely reported in the media). The immediate effect has been the steady decline in temporary rental discounts, which were being implemented almost as standard in recent years. As a result, net rental growth has been achieved.

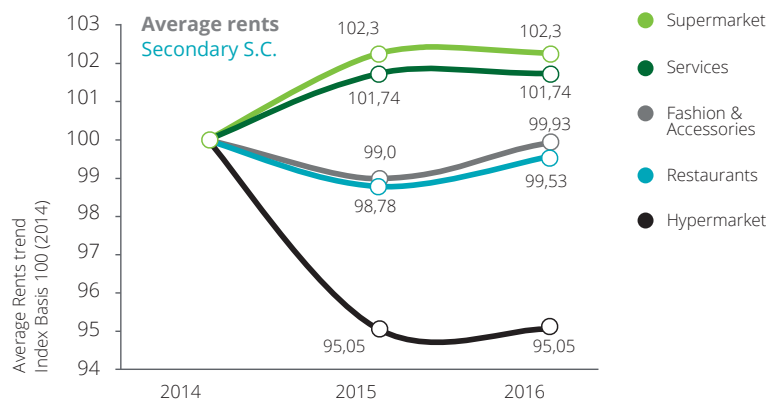
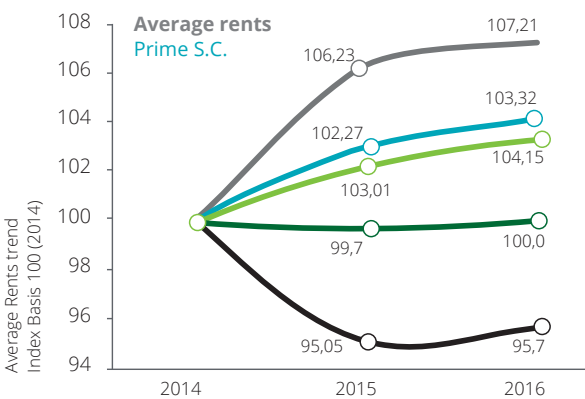
With regard to new contracts signed, one can only really talk about growth in prime centers, although the lack of available retail units makes it difficult to quantify average growth, as very few retailers have moved into these projects.

The vacancy rate in established secondary centers that dominate their immediate catchment area is slowly falling, which has been reflected in a slight increase in rent. On the other hand, there is a number of schemes with extremely low occupancy rates in which rental adjustments serve to target potential occupiers. ➔



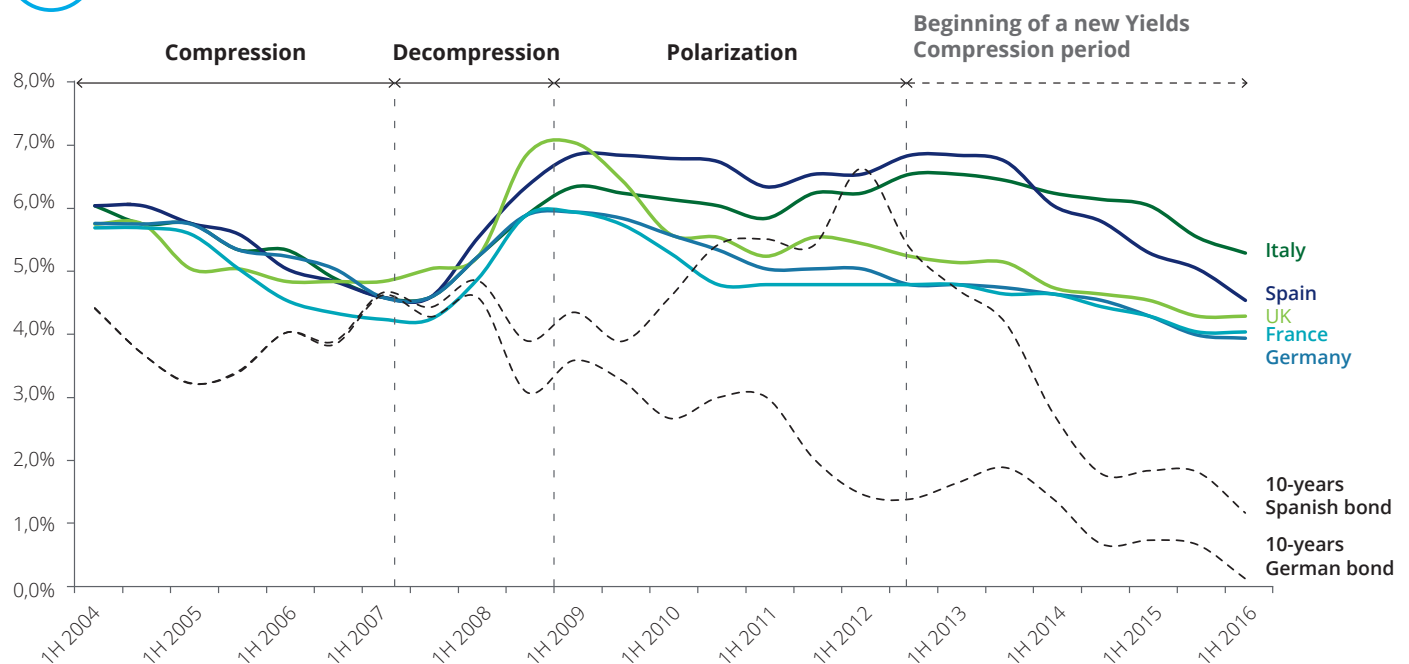
**Rental market**

Recovery on consumption indicators is finally having a slight impact on rents



**Europe and Spain**

Analysis of the average trend yields in Europe (%)





**Asset rotation**

When it comes to vendors, international vendors remain the all-out leaders. Some players, such as private equity and opportunistic funds, are divesting before leaving the market, having bought at the bottom of the market, while others have reached the natural moment for asset rotation, while making the most of the signs of market recovery to obtain capital gains.

**National and international lenders are back**

The recovery in the investment market has been due in part to banks starting to lend again. Lending for new developments is determined by the viability of the project, based on letting rates and retailer confidence in the product, but cash is now flowing in order to finance new developments.

Perhaps the most interesting change is the arrival of national institutions on the scene. The professional retail market was

for some time dominated by international institutions, not just on the buy-side and sell-side, but also as lenders.

In contrast, over the last two years, the upturn in the main socio-economic indicators and confidence in forecasts anticipating that economic growth will continue to consolidate appear to have encouraged national banks to take part in large-scale property transactions.

The change of strategy is more than evident as retail business had primarily been focused on retail banking clients.

**Cross-border investment**

In a market where international players traditionally dominate, the arrival of SOCIMIs to the scene in 2014 somewhat leveled the playing field for domestic investors as they are classified as national firms, despite the fact that some of their shareholders are international.

Among cross-border investors, American funds entered the market strongly in 2014, eclipsing European fund activity, which until then had been breathing new life into the market. The devaluation of the euro against the dollar has given them a competitive edge, which has been strengthened further by the drop in interest types. In 2016 the European Funds have once again gathered momentum.

**Recovery in shopping center development**

It is remarkable that there has been very little shopping center development for over five years, and only eight projects were delivered in the last two years, a total GLA of 267,000 sqm. This year will see more openings than the last two years, with more than 660,000 sqm of potential GLA coming on to the market, including new project extensions. The most relevant project opening will be the Parque Nevada complex in Granada. Among these openings there will be some retail parks such as the Alfafar Park in Valencia, with 80,000 sqm.



Thanks to economic recovery there is more interest in new openings. In recent months new projects have come up, such as Finestrelles (Espluges de Llobregat), Open Sky (Torrejón de Ardoz), and the extension of Bonaire (Aldaia), even though the construction of these new projects has not yet started.

Retail investment in 2016 reached €3.7 bn, an all-time high. Within the retail sector, the shopping center and retail parks sector recorded investment of €2.8 bn, which was also a record high. After six years of sluggish activity, both 2015 and 2016 registered frenetic activity in the retail sector, as Spain's economic recovery coincided with a huge investor appetite, strong levels of liquidity, and a large accumulation of available products after several years of little activity. It will be difficult for investment volumes in 2017 to reach those achieved over the past two years, primarily due to the lack of product. Despite this, investors will continue to be active, and so far in Q1 2017 the investment volume stands at €650 million.

Based on this figure, we expect that the shopping center sector could register an investment volume of circa €1.5 bn in 2016.

#### Rise in high-street investment

The high-street retail unit investment market, which has traditionally primarily been comprised of private investors and family offices, has seen a strong showing from institutional funds interested in strategically located retail units, with various deals exceeding €20 million being signed on the best streets. High-street units are changing due to large retailers favoring the flagship store concept, which has pushed up the number of large assets. However, the sector continues to have a lack of products and demand continues to outstrip supply.

#### Retail areas undergoing transformation: Gran Vía and Las Ramblas

The Gran Vía in Madrid and Las Ramblas in Barcelona are undergoing a major retail transformation. The high levels of tourist footfall in these areas is one of the reasons for this success, but by no means the only one. There is heavy competition between retailers to position themselves on these high-streets. There is a long list of new retailers now installed on Gran Vía, of particular note are Primark, Parfois, Tous, and Adidas, while on Las Ramblas, there are a growing number of retailers looking to join established brands such as H&M, Desigual, Mango, and Nike, among others.

#### High-street investment gaining momentum

Following the stellar 2016 figures, we expect the high-street investment market in 2017 to continue to be a hive of activity. The renovations and extensions are likely to create some of the biggest investment deals of the year, as was the case in the last years. ●

Among cross-border investors, American funds entered the market strongly in 2014, eclipsing European fund activity, which until then had been breathing new life into the market.

# Recent thought leadership

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



## **Deloitte Legal Handbook for Real Estate Transactions 2016**

With over 1.600 experienced legal professionals in 72 countries, Deloitte Legal has a strong team of skilled legal professionals with various level of experience and specialization; this provides both expert knowledge and the flexibility required to address matters cost efficiently.

<http://deloi.tt/2o1YYXs>



## **Commercial Real Estate Outlook 2017**

The real estate industry is increasingly influenced by rapid technological advancements and significant demographic shifts, which include growing urbanization, longevity of Baby Boomers, and differentiated lifestyle patterns of Millennials. In addition, macroeconomic and regulatory developments continue to impact profitability. How can companies gain a competitive advantage and drive top- and bottom-line growth? Here are some trends to pay attention to in 2017.

<http://deloi.tt/2oZX0o3>



## **Real Estate Predictions 2017**

Welcome to the 2017 edition of Deloitte's predictions for the Real Estate industry. Developed by Deloitte Netherlands, this series examines what changes lie ahead? Discover the Real Estate trends for 2017 that will impact your business. Read about how cyber risk, blockchain, smart mobility and more will affect the real estate industry.

<http://deloi.tt/2p00MOI>







# Contacts

## Austria

---



**Alexander Hohendanner**  
Partner  
+431 537 002 700  
ahohendanner@deloitte.at

## Belgium

---



**Jean-Paul Loozen**  
Partner  
+32 2 639 4940  
jloozen@deloitte.com



**Frédéric Sohet**  
Partner  
+32 2 639 49 51  
fsohet@deloitte.com

## Central Europe

---



**Diana Rádl Rogerová**  
Partner  
+420 603 809 719  
drogerova@deloittece.com



**Michal Melc**  
Senior Manager  
+420 603 809 719  
mmelc@deloittece.com

## CIS

---



**Steve Openshaw**  
Partner  
+74 95 787 06 00  
sopenshaw@deloitte.ru

## Denmark

---



**Lars Kronow**  
Partner  
+45 22 20 27 86  
lkronow@deloitte.dk

## Finland

---



**Jan Söderholm**  
Partner  
+358 20 755 5509  
jan.soderholm@deloitte.fi

## France

---



**Laure Silvestre-Siaz**  
Partner  
+ 33 1 55 61 21 71  
lsilvestresiaz@deloitte.fr



**Jean Csuka**  
Partner  
+33 1 58 37 95 13  
jcsuka@deloitte.fr



**Sylvain Giraud**  
Partner  
+33 1 40 88 25 15  
sgiraud@deloitte.fr

## Germany

---



**Michael Müller**  
Partner  
+49 892 903 684 28  
mmueller@deloitte.de



**Jörg von Ditzfurth**  
Partner  
+49 211 877 241 60  
jvonditfurth@deloitte.de



**Christof Stadter**  
Partner  
+49 89 29036 8269  
cstadter@deloitte.de

## Greece

---



**Michael Hadjipavlou**  
Partner  
+30 210 67 81 100  
mhadjipavlou@deloitte.gr

## Ireland

---



**Brian Jackson**  
Partner  
+353 1417 2975  
brijackson@deloitte.ie



**Padraic Whelan**  
Partner  
+353 1417 2848  
pwhelan@deloitte.ie

## Italy

---



**Elena Vistarini**  
Partner  
+390 283 325 122  
evistarini@deloitte.it



**Claudio Tierno**  
Director  
+390 283 325 078  
ctierno@deloitte.it

## Luxembourg

---



**Benjamin Lam**  
Partner  
+352 451 452 429  
blam@deloitte.lu



**Lize Griffiths**  
Partner  
+352 451 452 693  
lizgriffiths@deloitte.lu



**Pierre Masset**  
Partner  
+352 451 452 756  
pmasset@deloitte.lu



**Basil Sommerfeld**  
Partner  
+352 451 452 646  
bsommerfeld@deloitte.lu

## Middle East



**Robin Williamson**  
Managing Director  
+966 1 288 86 00  
rwilliamson@deloitte.com

## Netherlands



**Paul Meulenberg**  
Partner  
+31 88 2881 982  
pmeulenberg@deloitte.nl



**Jef Holland**  
Partner  
+31 882 881 991  
jholland@deloitte.nl

## Norway



**Thorvald Nyquist**  
Partner  
+47 95 75 31 41  
tnyquist@deloitte.no



**Stig Ingve Bjorken**  
Partner  
+47 97 75 24 47  
sbjorken@deloitte.no

## Portugal



**Jorge Marrão**  
Partner  
+351 21 042 25 03  
jmarrao@deloitte.pt

## South Africa



**Patrick Kleb**  
Partner  
+27 828 208 363  
pkleb@deloitte.co.za

## Spain



**Javier Parada Pardo**  
Partner  
+349 143 818 06  
japarada@deloitte.es



**Alberto Valls**  
Partner  
+349 143 811 26  
avalls@deloitte.es

## Sweden



**Magnus Larsson**  
Partner  
+46 733 97 73 17  
maglarsson@deloitte.se

## Switzerland



**Karl Frank Meinzer**  
Partner  
+41 58 279 8086  
kmeinzer@deloitte.com

## United Kingdom



**David Brown**  
Partner  
+44 20 7007 2954  
debrown@deloitte.co.uk



**Nigel Shilton**  
Partner  
+44 20 7007 7934  
nshilton@deloitte.co.uk



**Siobhan Godley**  
Partner  
+44 20 7007 2745  
sgodley@deloitte.co.uk

## US



**Robert O'Brien**  
Partner - Global Real Estate  
Sector Leader  
+1 312 486 2717  
robrien@deloitte.com

## Canada



**Ciro DeCiantis**  
Partner  
+1 416-601-6237  
cdeciantis@deloitte.ca



**Sheila Botting**  
Partner  
+1 416-601-4686  
sbotting@deloitte.ca



**Anthony Cocuzzo**  
Partner  
1-416-601-6432  
acocuzzo@deloitte.ca

# Contacts



**Robert O'Brien**

Partner - Global Real Estate Sector Leader  
+1 312 486 2717  
robrien@deloitte.com



**Javier Parada Pardo**

Partner - EMEA Real Estate Leader  
+34 914 381 806  
japarada@deloitte.es



**Benjamin Lam**

Partner - EMEA Real Estate Funds Co-Leader  
+352 451 452 429  
blam@deloitte.lu



**David Brown**

Partner - EMEA Real Estate Funds Co-Leader  
+44 20 7007 2954  
debrown@deloitte.uk

Please do not hesitate to contact your relevant country experts listed in the magazine

## Deloitte.

Deloitte is a multidisciplinary service organization which is subject to certain regulatory and professional restrictions on the types of services we can provide to our clients, particularly where an audit relationship exists, as independence issues and other conflicts of interest may arise. Any services we commit to deliver to you will comply fully with applicable restrictions.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.

Deloitte provides audit, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

© 2017. For information, contact Deloitte Touche Tohmatsu Limited.  
Designed and produced by MarCom at Deloitte Luxembourg.