

## REAL ESTATE

# Building through diversity

Text Stephen Evans

Few places have the concentrated mix of opportunities for real estate professionals as Luxembourg.

Not only is there high domestic demand for new builds, but also this is the European hub for cross-border real estate investment funds. Once again, trade association LuxReal will be taking this message to Mipim, Europe's leading real estate trade fair.

**L**uxembourg's real estate sector has a unique interdisciplinary mix," remarked Sven Rein, the chairman of LuxReal. "There are professionals with expertise that ranges from understanding the practical side of making deals and building properties, through to financial services specialists who can structure and distribute investment funds cross border," he added. Hence, the 300 or so Luxembourg-based professionals arriving at Mipim 2020 – Europe's premier real estate trade fair and conference – have a unique story to tell. Delegations from most other countries tend to be property developers and agents focused on their national market.

## MIPIM – A KEY DATE

Launched in 1990, the Mipim trade fair in Cannes first attracted a handful of Luxembourg professionals in 1999. Many will then follow up with a visit to the Expo Real fair in Munich in October. "The industry cliché is that deals first discussed in Cannes are signed in Munich," said Rein. Nearly 27,000 visitors are expected at Mipim between 10 and 13 March this year, including

investors, financial institutions, end users, architects, developers, business service providers and more. They will come from around 100 countries to network and see some 3,800 exhibitors and 130+ conferences. There will be more than 6,300 visitors from financial firms, representing about 60 institutions which account for \$650bn of property investment. Luxembourg's unique offering will be highlighted at Mipim at a networking cocktail which LuxReal will host in partnership with the Association of the Luxembourg Fund Industry (ALFI) on 10 March.

## GREEN BUILDING IN DEMAND

Sustainability will be a key theme of this year's fair. Thus, Mipim will look at cities and how they can provide the housing and mobility people need, in ways that maximise quality of life and sustainability. Rein believes this trend is "not just a fad but a clear long-term trend for the real estate sector and more generally". Increasingly, home owners want to live in environmentally sustainable premises with top class insulation, and low-emission heating and cooling

systems. Similarly, staff are more likely to wish to be recruited and retained by environmentally responsible employers.

As well, investors are increasingly looking to back projects that work towards lower carbon emissions and cutting other sources of pollution. The fund industry analyst Morningstar points to sustainable products in Europe accounting for €668bn of assets in 2018, an increase of 58% over the year. One of the big challenges of green investing is ensuring that projects supported make a genuine beneficial difference. Property is a good option as it is relatively easy to run sustainability audits on buildings to check their green credentials. Luxembourg fund professionals are at the forefront of working to understand the challenges of building green investment portfolios.

## RECORD YEARS FOR CONSTRUCTION

Luxembourg's office property market is small but robust. Last year saw the second largest take-up of office property in history, on the back of 183,000m<sup>2</sup> new space being completed, →

**27,000**  
nearly 27,000 visitors  
expected to go  
to Mipim in March 2020

**325,000m<sup>2</sup>**  
of office space set  
to be completed  
in 2020

**17.7%**  
growth in net assets  
of Luxembourg  
real estate investment  
funds in the year  
to Q3 2019

## REAL ESTATE BUILDING THROUGH DIVERSITY

said a recent market report by the real estate consultants CBRE Luxembourg. This was based on €2.24bn investment last year, the highest figure since the financial crisis, and more than double the figure seen in the mid-2010s. Despite this, the vacancy rate of property ended the year on a very tight 3.4% – half the figure seen in 2011.

Around 325,000m<sup>2</sup> new completions are planned for this year, with three-quarters of this being pre-committed, and the rest set to supply the open market. Output is likely to be half this number in 2021, but 2022 could



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see 400,000m<sup>2</sup> new office space come on stream. This will push the total stock in this country to around 4 million m<sup>2</sup>. CBRE estimate that supply is probably set to match demand, with rental values unlikely to move considerably if current trends continue. This contrasts with residential property, where the difficulty of acquiring building land has seen purchase prices rise by double-digits last year.

This is a highly international market, with two-thirds of investment last year coming from the three neighbouring countries plus Luxembourg. Otherwise funding comes mainly from the rest of Europe, with contributions from the Middle East, the US, South Korea and others.

#### DYNAMIC FUND SECTOR

Net assets under management for real estate investment funds supervised by the financial services regulator rose by 17.7% in the 12 months to the end of September 2019, reaching €82.2bn, according to a survey conducted by ALFI. To this total can be added an undisclosed number of funds run on the behalf of experienced investors who do not need regulatory oversight for their funds.

Funds are attracted by the particular ability of Luxembourg players to manage assets in numerous countries – using a range of flexible structuring

vehicles – and distribute across borders. Nearly three-quarters of the real estate funds surveyed invest in Europe, whereas 11% of funds invest globally and 6% are in the Asia-Pacific region. Multisector strategies account for around a third of funds. This flexibility makes the country the number one in Europe for serving this asset class cross-border.

#### MEETING AT THE CROSSROADS

LuxReal celebrated its 10<sup>th</sup> anniversary last September. Rein explained that “*an organisation of this type was needed as there was a gap that was not covered by existing groups of architects, engineers, financial services professionals and others*”. The association now has around 250 members and their events regularly attract up to 150 people. As well as this giving the country a voice with the European trade association and thus with EU decision makers, they are the interlocutor with local industry bodies, the state and regulators. It is also a think tank designed to discuss industry trends, with working groups tackling the details.

Investment fund professionals and property specialists have a lot to learn from each other. It is LuxReal’s role to bring these diverse groups together to help take the industry forward. ■