



MARKET TRACKER OCTOBER 2015

Densified cities – space is becoming scarce in Europe

Demand for housing has been rising steeply in almost all European cities for many years, and this phenomenon has led to higher prices than have ever been seen before. The result of this urbanisation trend will be the continued rise in population density in towns and cities. By 2050, two-thirds of all people worldwide will be living in them. The real estate sector should actively get involved in shaping the future of urban areas.

Greater density leads to discussions about regeneration

Immigration, population growth and other factors, such as rising demand for space per person, will lead to a considerable increase in the population density of towns and cities in the years to come. The real estate industry has come up with two alternatives to help meet demand for residential property: new builds or regeneration. As space for new builds is scarce, this strategy requires a new understanding of the issue along with creativity to ensure optimum use of available land when transforming the urban environment. Regeneration will also see its importance increase greatly.

Table 1 shows that as the number of urban dwellers has grown, the space available to each resident has declined significantly in most European towns and cities over the past 15 years. This trend is set to continue. The implication is clear – we will see a massive increase in urban population densities, a process which can be described as “inward development”. This increase in density is rising apace in major cities such as London, Paris, Frankfurt and Stockholm, and the same can be said of traditional university towns. In contrast, Copenhagen, Vilnius and Riga are experiencing the opposite development.

A rift in Europe’s residential habits

If you look at a breakdown of Europe’s residential property market, you’ll notice the following spread: at one end is the vogue, arguably exaggerated at times, for luxury flats with over 150 m² of living space and located in multi-storey towers, while at the other are “micro flats” with an average floor space of 24 m². Both are above-average expensive when compared with the price per square metre or rents and leases charged in their surroundings. In between the two extremes is the large and fast-growing segment that can be described as average flats of approx. 55-70 m². Around Europe, this “affordable housing” is viewed and defined according to different national characteristics. It is a class that covers social housing or accommodation with fixed rents and leases, and each country has its own types. Some are as follows:

- France: *HLM Habitations à loyer modéré*
- Denmark: Non-profit housing associations – *almede andelsbolig foreninger*
- Sweden: *Sociala bostäder*

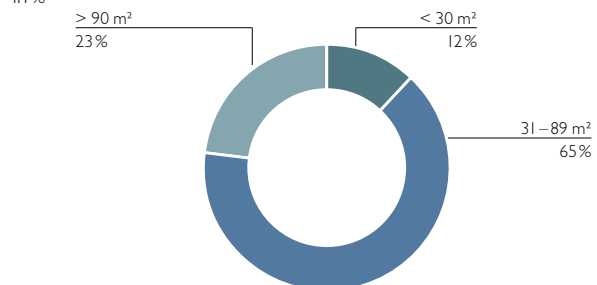
Demand increases as availability falls

As demand for accommodation grows in locations close to the centres of towns and cities, so too do rents and property prices. In contrast, new-build flats are a commodity with limited availability. According to table 1, the populations of the major cities we looked at grew by approx. 8.1% between 2000 and 2014. This trend will probably continue between now and 2020.

To offset the shortage of new flats, projects for residential new builds are currently being planned, elaborated and carried out, above all in Europe’s larger cities. Many of the resulting developments have a mixed use character, with purely residential undertakings representing an exception when sites undergo development.

Converting attics and raising rooflines is one short-term strategy to alleviate pressure. Scaled-down houses are another option that has its fans. A familiar sight in Asian countries, this approach sees houses constructed in the gaps between other buildings or even en masse. These micro homes are designed in such a way that they function as a fusion of furniture and

ACCOMMODATION IN EUROPE, CLASSIFIED ACCORDING TO SIZE IN 2015
in %



Source: Catella Research

Catella is a leading financial advisor across Europe and asset manager for the areas of property, fixed-income and equity. We occupy a leading position in the real estate sector, with a strong local presence in Europe with around 500 employees across 12 countries.

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architecture – “plug & live” is one way of describing them. Capsule homes and modular buildings are other variations on this theme. The smaller a housing unit is, the higher the quality of the surrounding area’s amenities has to be in order to serve as a counterweight to the constricted space available indoors. Against this backdrop, the issue of public vs private space is going to grow in relevance, and it is a classic example of the three-way challenge for urban administrators, investors and users.

Residential property in Europe in 2025: more modern, more varied, more expensive

If the current development continues unabated, we will find ourselves in a situation where growing numbers of people will be moving to Europe’s core cities; there will be continued shortages of accommodation, above all in the affordable segments; and we will see a further drop in the number of social housing units being built, leading to further price increases. People living in urban areas will have to make do with less space and, in the most positive scenario, adopt new forms of housing such as micro homes.

Possible ways of tackling this development:

- Develop new types of residential property
- Focus on entire districts instead of single plots of land
- Develop a regional masterplan for each metropolitan region to ensure diversity regarding functions

The political establishment can exert a regulatory influence on the “dynamic” property market. For this reason alone, the real estate sector, with all its expertise, should step up its involvement in planning processes and end its single-minded focus on buildings. Many commentators have predicted that Europe’s major cities could end up like Tokyo, but the continent’s urban centres have avoided this particular fate thanks to the continued existence of construction regulations, fire prevention laws and certain social attitudes. Buyers’ readiness to pay ever-increasing prices is another factor that will shape the future of housing.

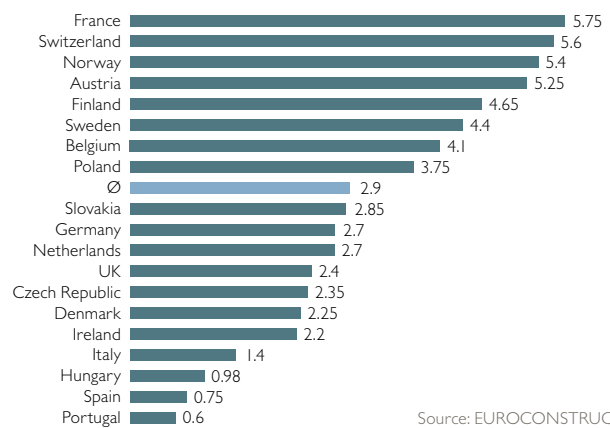
At the same time, we believe that the situation will not see any structural de-escalation in any of the cities in our study before the end of this decade, regardless of scores of new residential projects and the expectations people have of them. In 2025, Europe’s core cities will be more modern and home to more infrastructural variety, but they will also be more densely built and more expensive.

CAUSES FOR TOWNS AND CITIES’ INCREASINGLY DENSE POPULATIONS:

- Demographic changes
- Economic changes, shift from the industrial to the information society
- Changing economic and employment structures
- Importance of knowledge in the information society, digitalisation, networking, flexibility
- New, project-based employment models
- Rising quality of life
- New forms of mobility
- Social and technological progress
- Increasingly efficient use of resources
- Smart homes and smart cities
- Development processes of the intelligent city

Source: Catella Research

CONSTRUCTION OF HOUSING UNITS IN EUROPE IN 2015
Completed housing units in new-build residential developments per 1,000 inhabitants



Source: EUROCONSTRUCT

TABLE I: POPULATION GROWTH AND SPACE PER INHABITANT IN MAJOR EUROPEAN CITIES

Catella locations	No. of inhabitants (2000)	No. of inhabitants (2014)	Δ %	Area in km²	Inhabitants per km² (2000)	Inhabitants per km² (2014)	Space per person in m² (2000)	Space per person in m² (2014)	Δ %
Stockholm	750,000	911,989	+21.6	188	3,989	4,851	250	200	-20.0
Copenhagen	658,000	583,525	-11.3	88	7,477	6,631	130	150	+15.4
Helsinki	555,000	620,031	+11.7	185	3,000	3,352	330	290	-12.1
Vilnius	554,281	532,261	-4.0	401	1,382	1,327	720	750	+4.2
Tallinn	392,000	429,899	+9.7	159	2,465	2,704	400	370	-7.5
Riga	806,000	643,368	-20.2	307	2,625	2,096	380	470	+23.7
Berlin	3,382,169	3,469,849	+2.6	892	3,792	3,890	260	250	-3.9
Frankfurt	646,550	717,624	+11.0	248	2,607	2,894	380	340	-10.5
Düsseldorf	569,364	604,527	+6.2	217	2,624	2,786	380	350	-7.9
Munich	1,210,223	1,429,584	+18.1	310	3,904	4,612	250	210	-16.0
Hamburg	1,715,392	1,762,791	+2.8	755	2,272	2,335	440	420	-4.6
Madrid	2,882,000	3,165,235	+9.8	606	4,756	5,223	210	190	-9.5
Barcelona	1,506,000	1,602,386	+6.4	102	14,765	15,710	70	60	-14.3
Paris	2,148,000 ¹⁾	2,241,346 ²⁾	+4.3	105	20,457	21,346	50	40	-20.0
Lyon	453,000	496,343	+9.6	48	9,438	10,340	100	90	-10.0
London	7,172,000 ²⁾	8,538,689 ²⁾	+19.1	1,572	4,562	5,432	220	180	-18.2
Luxembourg	79,713	111,287	+39.6	51.5	1,548	2,161	641	460	-28.2
Average	1,498,805	1,638,867	8.1	367	5,392	5,746	307	284	-8.2

¹⁾ Île-de-France ²⁾ Greater London
Date: 31 December 2014

Source: Catella Research