

## DTZ INSIGHT

# EUR472bn assets held longer than average

## European Hold Periods

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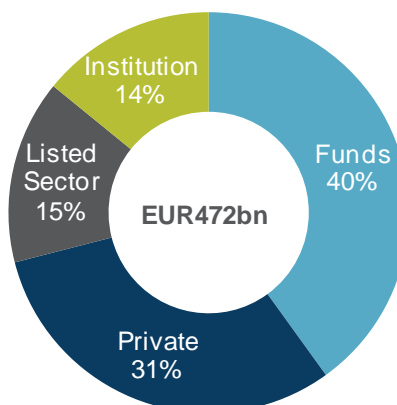
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- DTZ has analysed the hold periods of European commercial real estate based on a sample of over 4,000 repeat transactions since 2000 with a value of nearly EUR160bn. These represent just over 17% of the total volume of activity.
- Hold periods across Europe have averaged 6.5 years. In the UK they are typically longer at 7.25 years supported by longer upwards only leases. Hold periods on the Continent average just six years. They vary across the continent from 7.75 years in Benelux to just 4.5 years in the Nordics.
- Unlisted Funds hold for shorter periods across whole of Europe reflecting their limited life and relatively higher market share. Private investors and developers also have shorter hold periods, with private investors the most likely to re-trade within a year of purchase. Institutions and Listed companies hold longest.
- Foreign investors hold for similar lengths of time on both the Continent and in the UK (6.5-6.75 years). Domestic Investors tend to hold for shorter periods of time than foreign investors on the continent. This trend is reversed in the UK.
- A higher proportion of assets acquired in 2003 were subsequently re-sold and on average at a premium to the original price. Fewer assets acquired in 2006 (11%) and 2007 (8%) were re-traded and led to an average loss of up to 18% on assets acquired in 2007.
- A high proportion of assets (83%) or EUR770bn, acquired since 2000 have yet to trade. Of these we estimate that EUR472bn are currently held beyond the average hold period (Figure 1). A majority are held by unlisted funds (EUR190bn) and private investors/developers (EUR149bn).

Figure 1

Future market sales by investor type



Source: DTZ Research

# European Hold Periods

## Historical trends

In 2014 DTZ released the first ever European Transaction Based Price Index which tracks pricing of commercial real estate on a repeat sales approach. In developing this index, DTZ has drawn on sales of over 37,000 transactions in its own database since 2000. Of these, over 4,100 repeated sales have been identified with a value of close to EUR160bn, or 17% of total capital volume of transactions<sup>1</sup>.

In an extension to this work, this research outlines some initial findings into the hold periods of commercial real estate across Europe. The research examines how hold periods vary across markets and different investor groups. It also considers the volume of stock which has the potential to be traded over the near term.

### UK assets held longer than assets on Continent

The average hold period across Europe is six years. Assets are on average held for a longer period in the UK (7.25 years) than across the Continent (6 years) (Figure 2). The European average is 6.5 years. This does appear counter intuitive given the high level of liquidity in the UK, though clearly with a high level of stock there are more assets that could be traded relative to other European markets. Longer leases and upwards only reviews might also support relatively longer hold periods in the UK.

### Shorter hold periods in Nordics

There are variations across the Continent. We observe higher hold periods in Benelux markets (7.75 years) and falling to an average of just 4.5 years in the Nordics. The market in Benelux has below average liquidity whereas the Nordics region is highly liquid, thus providing a possible link between liquidity and hold periods. Relatively shorter lease lengths (five years) in many Nordic markets may also be a factor.

### Unlisted funds highly active, institutions prefer longer holds

Unlisted funds dominate the market, accounting for 43% of the repeated transactions recorded (Figure 3). It is therefore no surprise that these funds have the lowest average hold period (6.25 years). Unlisted funds typically have a lifespan of between 7-10 years and an investment period of 2-3 years, leading to higher levels of turnover. This trend was little different between in the UK and on the continent (Figure 4).

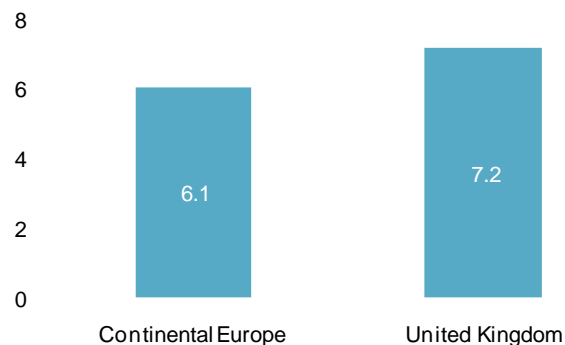
Private investors and companies have also traded more frequently, especially in continental Europe. Many will be spotting an opportunity and re-trading relatively quickly. Private investors had the highest proportion of all the investor types to sell an asset within a year of purchase. Listed companies have averaged longer hold periods than both funds and private investors. Being accountable to public shareholders may influence their level of activity.

Unsurprisingly, Institutions held assets for a longer period of time as many seek to draw on long term secure income in support of matching liabilities.

<sup>1</sup> Portfolio sales are excluded from the analysis where individual assets cannot be matched.

Figure 2

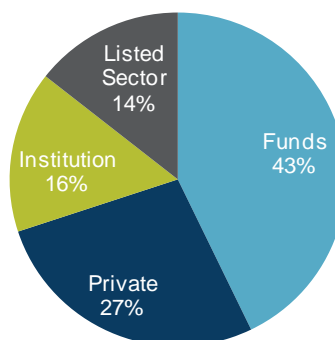
#### Average hold period, years



Source: DTZ Research

Figure 3

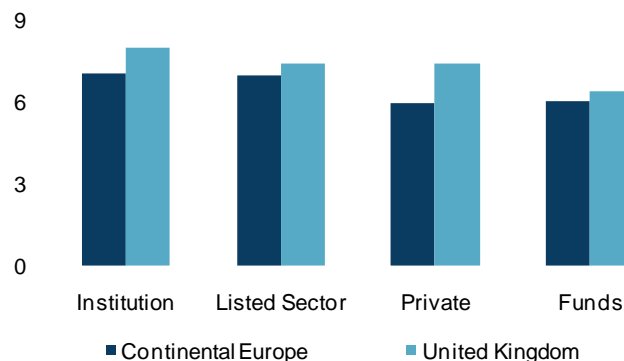
#### Repeat sales by investor type and volume of trading



Source: DTZ Research

Figure 4

#### Hold periods by investor type, years



Source: DTZ Research

# European Hold Periods

## International funds drive hold period for foreign investors

Hold periods for foreign investors (Figure 5) are little different in the UK (6.5 years) and on the continent (6.75 years). This partly reflects the high level of trading by unlisted funds, who often source capital from across multiple jurisdictions, and who represent close to half of all foreign transactions.

## UK investors hold longest

We see bigger differences with domestic funds. In the UK, domestic investors, hold for a longer period (7.25 years) than those on the continent (nearly 6 years). The lower domestic hold period on the continent is partly driven by lower hold periods in the Nordic region where domestic investors represent over 80% of trading.

Notably, UK Investors generally held for longer periods both domestically and overseas, which is partially driving the higher domestic hold periods in the UK and overseas hold periods on the continent.

## Financial crisis impacts liquidity and re-trading

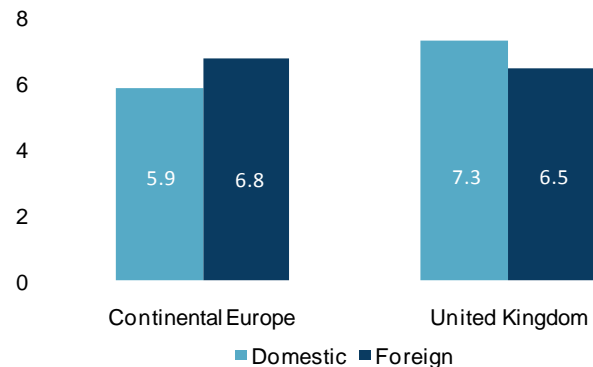
Assessing hold periods by vintage is limited by the length of consistent data that we hold (14 years in total across Europe). Also since 2008, trading levels have been impaired by falling prices and illiquidity in debt markets. Just 2% of the invested stock traded in 2009 compared to an average of 5% since 2000. Our own price indices show that by Q3 2014, values were still around 20% below their peak in the UK and below by over 10% below on the continent.

## Falls in profits sees lower trading volumes

Analysing the data on hold periods for assets acquired in the period 2003-2007 shows a steady reduction in the proportion of assets that have been re-traded, and closely aligns with the profitability on sale (Figure 6). Of those assets acquired in 2003, 18% have since been re-traded with an average price increase of 21%. Fewer assets acquired in 2006 (11%) and 2007 (8%) were re-traded. These were also sold at a loss, averaging 11% for 2006 vintage and 18% for 2007 vintage. This trend is potentially leading to an increase in typical hold periods, but these may reduce as we see above average liquidity and price recovery in the market.

Figure 5

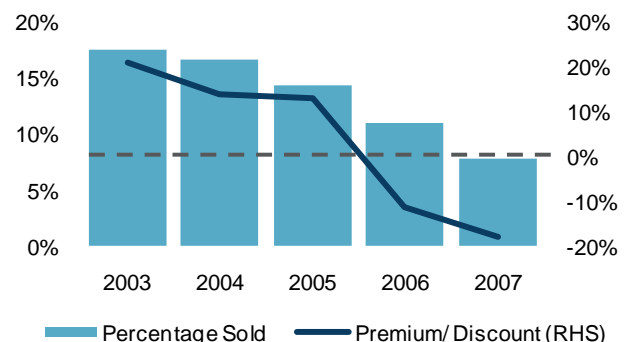
Hold periods by capital source, years



Source: DTZ Research

Figure 6

Proportion of assets re-traded by vintage and premium/discount to purchase price (RHS)



Source: DTZ Research

# European Hold Periods

## Future trading potential

### High proportion of assets yet to trade

Whilst 17% of assets by value have traded, there still remains a high proportion (83%) or EUR770bn of assets which have been acquired since 2000, but have yet to re-sell.

Some of these may not be expected to sell as they have been held for as relatively short period of time. But many will have been held for a longer than average period as implied by the current analysis.

### EUR470bn of assets held longer than average

In applying the average hold period by investor type and geography we estimate that EUR472bn of assets have been held for longer than average and could become available to the market. This would be more than double the volumes in 2014 and our projected volume of trading of EUR210bn in 2015.

### Majority held by unlisted funds and private investors

The majority of these assets are held by unlisted funds (EUR190bn) and private investors/developers (EUR149bn). Our analysis shows that both these groups have a typically higher propensity to trade. Listed companies and institutions represent close to 30% of the total. The former group has been highly active over recent years in deleveraging their portfolios, so sales opportunities might be relatively limited.

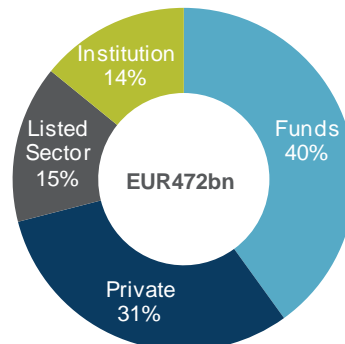
There is also a relatively higher proportion of assets in the UK reflecting the longer hold periods and the higher share of trading in the UK over 2000-2004.

It is unlikely that this entire product will come to the market. Arguably hold periods are higher given that the vast majority of assets remain unsold. As our vintage analysis shows, assets acquired towards the top of the market have often traded below par stifling liquidity. The lack of liquidity in the market over recent years is likely to have extended the period in which assets has been held. Many unlisted funds extended their life as a result of falling values.

With time we will build deeper datasets that will enable a comparison of hold periods over a longer period of time, and thus providing a clearer picture of ownerships and changing trends over time.

Figure 7

Future market sales by investor type



Source: DTZ Research



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