Silverline
Real Estate

Silverline's EuroEstate Investment Index 2023: Charting the Ideal European Investment Destination

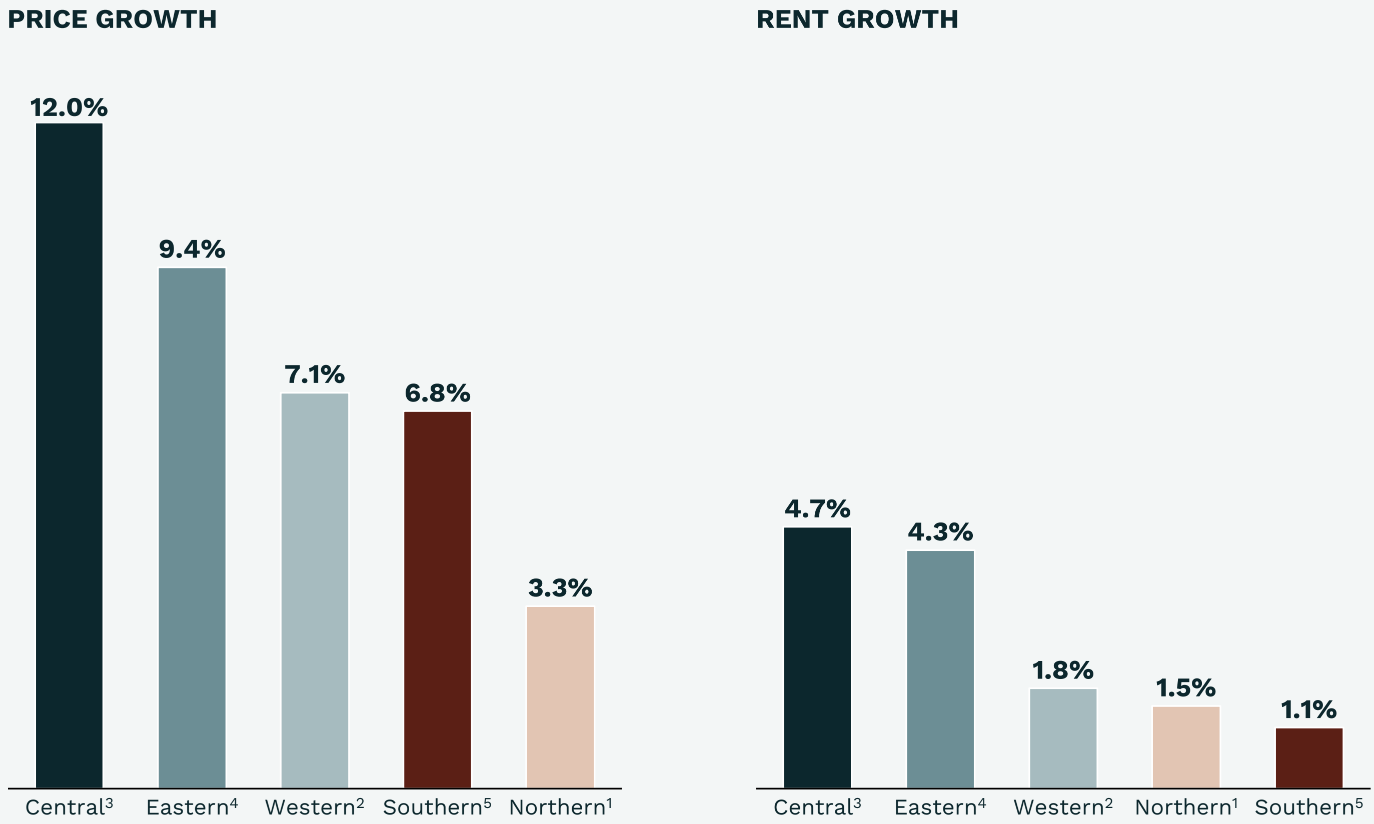
EuroEstate Investment Index 2023
latest edition of Silverline Real Estate's annual study on the best countries to invest in residential real estate within Europe.

Motivation and Methodology

The Central and Eastern European countries exhibit a consistent long-term trend of economic convergence with Western Europe and Northern Europe in terms of purchasing power, price levels, and other key indicators, which made them popular for real estate investments. However, since the CEE countries experienced strong growth in real estate prices (12% p.a. over the past 4 years, ca. 70% higher compared to WE), many consider their advantage in investment potential to be significantly reduced or even gone. Well, is it?

Central Europe has seen the highest growth in both real estate prices and rents, with Eastern and Western Europe following in both statistics.

CAGR 2018-2022 (% p.a.)



1. Northern: Norway, Sweden, Finland, Denmark
2. Western: France, Belgium, Netherlands, Germany, Switzerland, UK, Ireland, Austria
3. Central: Poland, Czech Republic, Slovakia, Hungary
4. Eastern: Romania, Croatia, Bulgaria, Latvia, Slovenia, Estonia, Lithuania
5. Southern: Portugal, Spain, Italy, Greece

Source: Silverline Real Estate

Silverline’s EuroEstate Report compares potential of 26 European countries to discover Europe’s optimal destination for residential real estate investment. Selected countries are also split into regions to allow uncovering regional differences:

- **Northern Europe (NE):** Norway, Sweden, Finland, Denmark
- **Western Europe (WE):** France, Belgium, Netherlands, Germany, UK, Ireland, Austria
- **Central Europe (CE):** Poland, Czech Republic, Slovakia, Hungary
- **Eastern Europe (EE):** Romania, Croatia, Bulgaria, Latvia, Slovenia, Estonia, Lithuania
- **Southern Europe (SE):** Portugal, Spain, Italy, Greece

Attractivity of an investment is evaluated based on housing affordability, rental yields, historical real estate market trends, overall economic performance, interest rates and projected economic growth for these countries. Housing prices and rents are considered as national averages, they specifically correspond to large cities outside of city centers. Key performance indicator is return on equity for an investment in each location. Key data regarding overall economic performance and historical market trends can be found in the appendix.

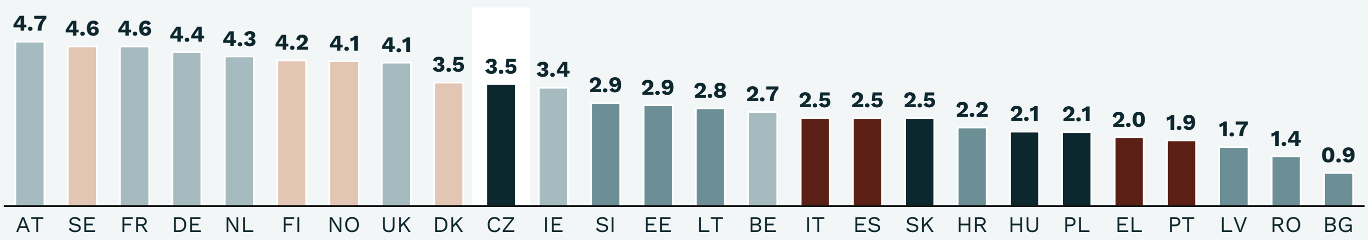
House Prices: CE countries among least affordable despite having average property prices

When it comes to prices, there is a clear distinction between the CEE regions and the Northern and Western regions of Europe. Expectedly, North/West Europe share the common trait of being some of the most expensive countries to purchase residential real estate within Europe, and the CEE region takes up the opposite role. The difference is so extreme between some nations that Austrian housing is actually more than 4 times the price of Bulgarian housing coming in at EUR ths. 4.7 per sqm and just EUR ths. 0.9 per sqm respectively. With almost 50% price per sqm premium, Czech Republic is more comparable to Western and Northern Europe than it is to the rest of Central Europe.

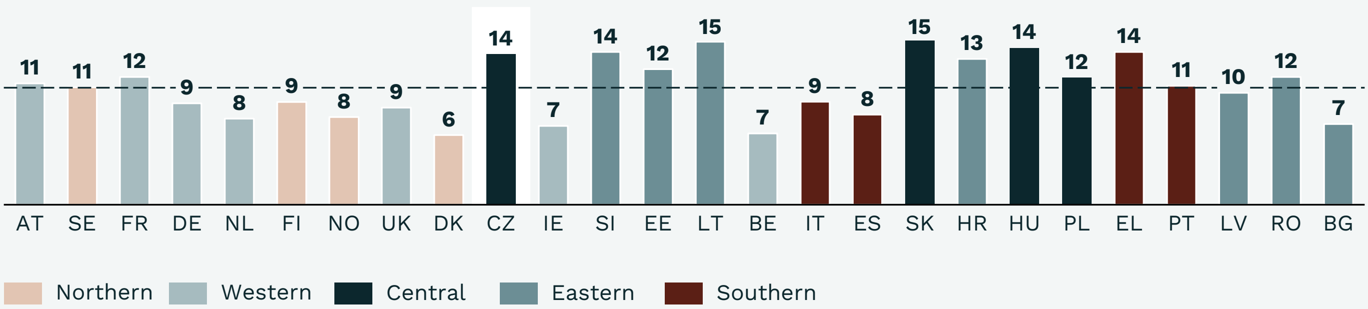
When it comes to affordability, Western and Nordic countries strongly outperform other regions with 30-50% higher affordability for locals. On the contrary, the Czech Republic fits right in with the rest of Central Europe being among the least affordable markets for locals throughout Europe, averaging with 14 annual salaries required for purchase. Italy and Spain take the opposite position, fitting in with Central and Eastern Europe pricewise, but when it comes to affordability, they sit closer to the North/Western markets with 8-9 multiple.

Central European Real Estate shown to be the least affordable for locals compared to other European regions despite relatively average prices.

Price per sqm in the European Market (ths. EUR[1]/sqm; 2023)



Net annual salaries needed for purchase of a 70 sqm apartment



1. All prices shown in Euros using the mid year exchange rate from 2023
Source: Silverline Real Estate

Rents: With rents yet to catch up to recent property price growth, yields are as low as 3%

Similarly to property prices, there is a clear divide between WE/NE and CEE in terms of monthly rent, with EUR 11/sqm monthly rent being the divider. The Czech Republic sits again close to WE/NE cluster being the most expensive among CEE countries. While positioning of individual countries suggest clear correlation between purchase price and rent prices, there is still plenty of variation in the relationship between the two throughout different countries and regions within Europe, as shown by the gross rental yields.

Owing to the robust growth of property prices in the CEE region, which has not been entirely mirrored by a corresponding rise in rents, the historical substantial gap between yields in the WE/NE and CEE regions is rapidly diminishing.

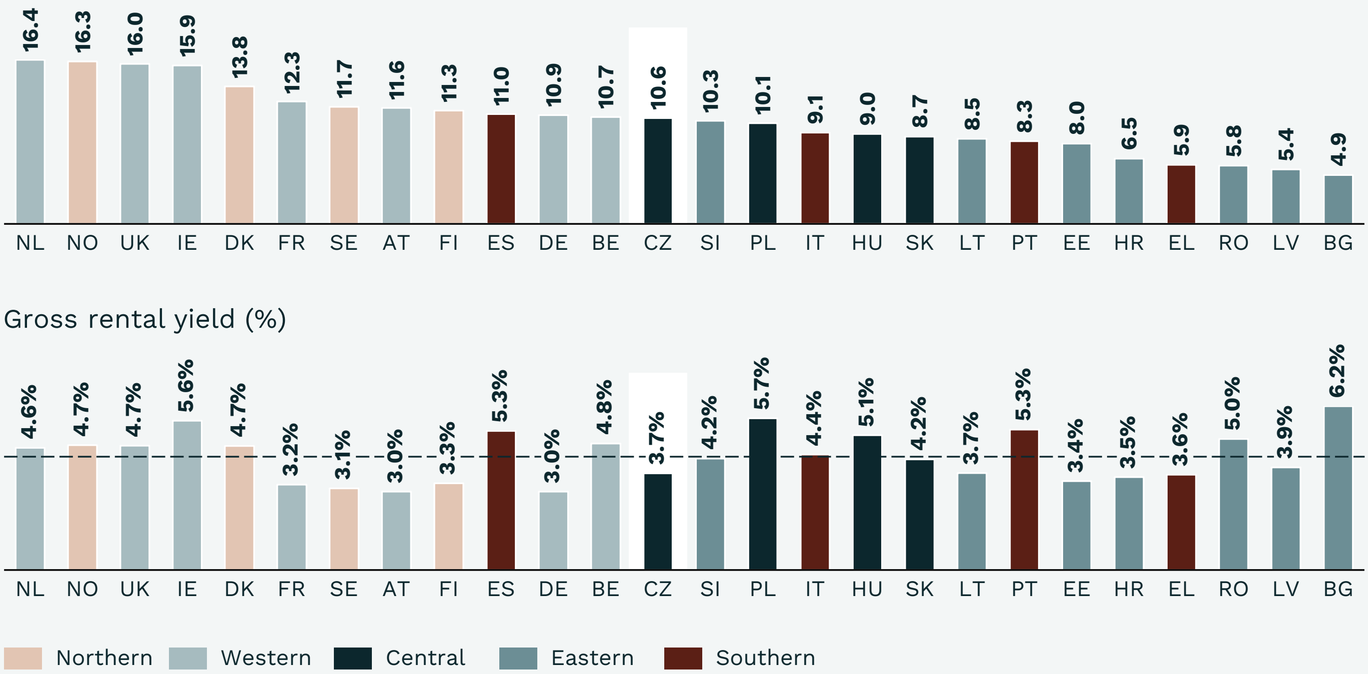
Currently, the gap between the highest-yield and lowest-yield regions is a mere 0.7%. Top to bottom regional yields:

- **CE:** 4.7%
- **SE:** 4.4%
- **EE:** 4.4%
- **WE:** 4.1%
- **NE:** 3.9%

In a European context, yields exceeding 5% are already deemed high and are associated with some of the riskier markets, such as Bulgaria. Despite having the lowest rents across Europe, this country manages to lead the rental yield charts with an unparalleled yield of 6.2% per annum. Similarly, other countries showcasing elevated yields, such as Ireland, Spain, and Portugal, share a similarity with Bulgaria in terms of higher volatility within their real estate markets. As a consequence, investors hold higher return expectations from these markets.

Bulgaria leads Europe in rental yield despite having the lowest rent prices.

Average monthly rent for a 70 sqm apartment (EUR[1]/sqm, 2023)



1. All prices shown in Euros using the mid year exchange rate from 2023

Source: Silverline Real Estate

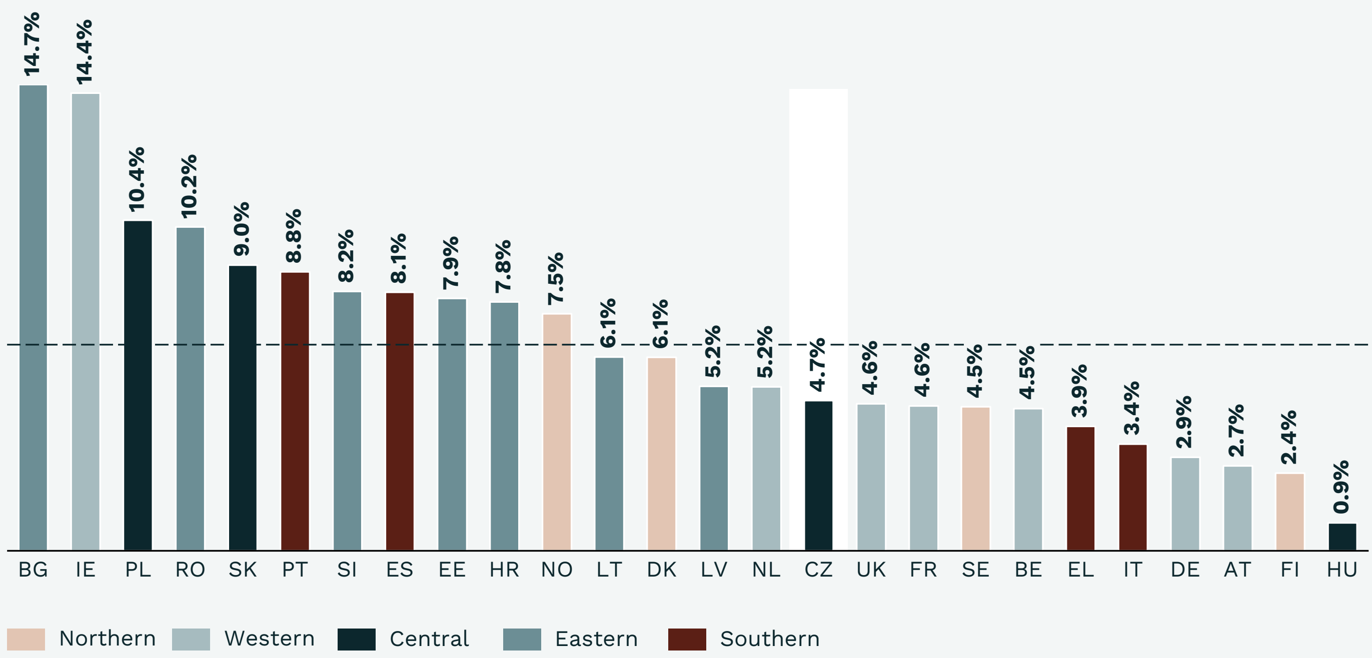
EuroEstate Investment Index: High-yield countries take the top spots amid low price growth expectations

With Europe dealing with high inflation, volatile supply of natural resources, and armed conflicts on its borders, capital gains in the next years are not expected to be as drastic as they have been in recent history. This leads to an investing environment impacted by high interest rates, where more emphasis is placed on rental yields. Top-scoring countries in Silverline's EuroEstate Investment Index are therefore those, that offer combination of above-average yields and growth prospects, rather than the pure capital gain focus we saw in recent years.

EuroEstate Investment Index is based on annual return on equity (RoE), i.e. net operating income in addition to expected capital gains and divided by the equity investment. Calculations are done for 3-year investment into an average 70 sqm dwelling outside of the city center. Other assumptions LTV 65%; operating expenses are equal to 30% of annual rent; interest rates are projected over the next 3 years based on current interest rates and 2.5% 3y target set to all countries; capital gains of properties are based on economic outlooks and Silverline's expert opinions. Full list of assumptions is available in the Appendix.

CEE still offers premium vis-à-vis WE, great investment opportunities expected mainly among high-yield countries

RoE of a 3-year investment (% p.a.)



Source: Silverline Real Estate

Bulgaria and Ireland are leading the pack in terms of expected returns, with forecasted RoE above 14%, creating a significant gap from the rest. Both countries offer a unique combination of high yields (5%+), interest rates below 4% p.a., and capital gain expectations above 3% p.a. However, investment in both of these countries is considered among the riskiest in Europe. Ireland real estate was historically volatile and prone to quick falls during economic downturns due to loose mortgage regulations and strong reliance on economic migration. As a result, property prices saw a steep decline from 2007 until 2013 of 51% and still did not return to its historical heights. Bulgaria's dim population trajectory limit long-term potential of property price growth.

Countries following the top two, with expected returns ranging between 8-9% p.a., can be considered strong investment candidates for the next three years. All of these countries hail from the CEE region, accompanied by Portugal and Spain. Poland and Romania primarily benefit from high expected capital gains of 3%+ p.a., but are hindered by high interest rates (6%+). Other countries in this group are members of the Eurozone and enjoy lower interest rates. While these countries also demonstrate above-average yields, their growth prospects are comparatively lower, typically around 2% p.a.

Denmark and Norway stand out as the most promising investment destinations within the WE/NE region. This is primarily due to their favorable yield profile (4.7%) and below-average interest rates.

The Czech Republic and Hungary both fall short of meeting the expected returns seen in other CE countries. For both nations, interest rates play a significant role in this discrepancy. While Hungary boasts the highest current interest rate among all countries in the study, reaching over 10%, the Czech Republic faces an above-average interest rate of 5.75%. Furthermore, the Czech Republic's low-yield profile also contributes to its lower ranking.

While the gap is gradually closing, WE countries still present comparatively lower investment potential vis-à-vis their CEE counterparts. With rental yields falling below 4% and average projections for real estate capital gains hovering around 2% p.a., achieving the double-digit returns witnessed in index-leading nations becomes a challenging endeavor. Nevertheless, investments within these markets are perceived as less risky, primarily attributed to their stability and scale. Moreover, the heightened affordability of real estate for local residents in these nations serves to curtail the possibility of substantial market downturns, thereby potentially propelling their future growth beyond current expectations.

With 13 out of 26 assessed countries having negative Net Operating Income, property investments across Europe cannot be currently viewed as straightforward cash generators. Investors are therefore expected to prefer new acquisitions in growing high-yield countries, such as Poland, with yield close to 6% p.a. and project capital growth of properties above 3% p.a. More dynamic investors may also select countries with lower yields, but speculate on high future growth – e.g. Romania with yield below 5% and negative Net Operating Income, but projected property capital growth close to 4% p.a.

Appendix: Table 1

Country	Historical real estate price growth (CAGR 2018-2022)	Property price/ sqm Average price per sqm for 70 sqm apartment outside city center (EUR, 2023)	Affordability Net salaries for purchase of a 70sqm apartment 2023	Monthly rent / sqm Average Rent per sqm per month excluding city center 2023 (euro)	Gross Rental Yield 2023
Bulgaria	8.2%	€ 945	7.4	€ 4.9	6.2%
Ireland	5.7%	€ 3,380	7.2	€ 15.9	5.6%
Poland	10.0%	€ 2,108	11.6	€ 10.1	5.7%
Romania	4.9%	€ 1,413	11.7	€ 5.8	4.9%
Slovakia	9.7%	€ 2,504	15.0	€ 8.7	4.2%
Portugal	10.2%	€ 1,870	10.9	€ 8.3	5.3%
Slovenia	9.3%	€ 2,942	14.0	€ 10.3	4.2%
Spain	4.6%	€ 2,505	8.2	€ 11.0	5.3%
Croatia	9.7%	€ 2,237	13.3	€ 6.5	3.5%
Norway	1.6%	€ 4,134	8.0	€ 16.3	4.7%
Denmark	4.6%	€ 3,523	6.4	€ 13.8	4.7%
Estonia	12.4%	€ 2,876	12.4	€ 8.0	3.4%
Latvia	9.3%	€ 1,682	10.2	€ 5.4	3.9%
Netherlands	10.8%	€ 4,266	7.9	€ 16.4	4.6%
Czech Republic	13.4%	€ 3,481	13.8	€ 10.6	3.7%
United Kingdom	6.1%	€ 4,089	8.9	€ 16.0	4.7%
France	5.3%	€ 4,555	11.7	€ 12.3	3.2%
Sweden	5.0%	€ 4,557	10.8	€ 11.7	3.1%
Belgium	5.2%	€ 2,686	6.5	€ 10.7	4.8%
Lithuania	12.2%	€ 2,788	14.9	€ 8.5	3.7%
Greece	7.6%	€ 1,964	14.0	€ 5.9	3.6%
Italy	2.0%	€ 2,517	9.4	€ 9.1	4.4%
Finland	2.0%	€ 4,152	9.4	€ 11.3	3.3%
Germany	7.6%	€ 4,392	9.3	€ 10.9	3.0%
Austria	9.3%	€ 4,695	11.1	€ 11.6	3.0%
Hungary	14.9%	€ 2,121	14.3	€ 9.0	5.1%

Appendix: Table 2

Country	Purchase Price 70 sqm dwelling outside the city center (EUR ths.)	Monthly Rent 70 sqm dwelling outside the city center (EUR ths.)	LTV Loan-to-Value of Debt Financing (%)	Interest Rate (3y projection, % p.a.)	Property price growth (3y projection, % p.a.)	Operating Expenses (Annual, EUR ths.)	Net Operating Income (Annual, EUR ths.)	Equity Investment (EUR ths.)	Expected Nominal RoE in local currency (% p.a.)
Bulgaria	€ 66	€ 0.34	65%	3.64%	3.16%	€ 2.8	€ 1.3	€ 23.2	14.7%
Ireland	€ 237	€ 1.11	65%	3.96%	3.66%	€ 10.1	€ 3.2	€ 82.8	14.4%
Poland	€ 148	€ 0.71	65%	5.63%	3.28%	€ 7.9	€ 0.5	€ 51.7	10.4%
Romania	€ 99	€ 0.41	65%	5.75%	3.84%	€ 5.2	-€ 0.3	€ 34.6	10.2%
Slovakia	€ 175	€ 0.61	65%	4.10%	2.88%	€ 6.9	€ 0.5	€ 61.3	9.0%
Portugal	€ 131	€ 0.58	65%	3.98%	1.94%	€ 5.5	€ 1.5	€ 45.8	8.8%
Slovenia	€ 206	€ 0.72	65%	4.25%	2.67%	€ 8.3	€ 0.4	€ 72.1	8.2%
Spain	€ 175	€ 0.77	65%	4.28%	1.94%	€ 7.6	€ 1.6	€ 61.4	8.1%
Croatia	€ 157	€ 0.46	65%	3.73%	2.70%	€ 5.4	€ 0.1	€ 54.8	7.8%
Norway	€ 289	€ 1.14	65%	4.13%	1.99%	€ 11.9	€ 1.8	€ 101.3	7.5%
Denmark	€ 247	€ 0.96	65%	3.80%	1.32%	€ 9.6	€ 2.0	€ 86.3	6.1%
Estonia	€ 201	€ 0.56	65%	4.70%	3.48%	€ 8.2	-€ 1.4	€ 70.5	7.9%
Latvia	€ 118	€ 0.38	65%	6.59%	3.37%	€ 6.4	-€ 1.8	€ 41.2	5.2%
Netherlands	€ 299	€ 1.15	65%	4.45%	1.46%	€ 12.8	€ 1.0	€ 104.5	5.2%
Czech Republic	€ 244	€ 0.74	65%	5.75%	2.83%	€ 11.8	-€ 2.9	€ 85.3	4.7%
United Kingdom	€ 286	€ 1.12	65%	5.25%	1.74%	€ 13.8	-€ 0.4	€ 100.2	4.6%
France	€ 319	€ 0.86	65%	3.59%	1.67%	€ 10.5	-€ 0.2	€ 111.6	4.6%
Sweden	€ 319	€ 0.82	65%	4.00%	2.02%	€ 11.2	-€ 1.4	€ 111.6	4.5%
Belgium	€ 188	€ 0.75	65%	4.57%	1.19%	€ 8.3	€ 0.7	€ 65.8	4.5%
Lithuania	€ 195	€ 0.60	65%	4.74%	2.65%	€ 8.2	-€ 1.0	€ 68.3	6.1%
Greece	€ 137	€ 0.41	65%	4.02%	1.46%	€ 5.1	-€ 0.1	€ 48.1	3.9%
Italy	€ 176	€ 0.64	65%	4.50%	1.05%	€ 7.5	€ 0.2	€ 61.7	3.4%
Finland	€ 291	€ 0.79	65%	3.98%	1.32%	€ 10.4	-€ 0.9	€ 101.7	2.9%
Germany	€ 307	€ 0.76	65%	4.37%	1.69%	€ 11.5	-€ 2.3	€ 107.6	2.7%
Austria	€ 329	€ 0.81	65%	4.23%	1.53%	€ 12.0	-€ 2.2	€ 115.0	2.4%
Hungary	€ 148	€ 0.63	65%	10.25%	3.41%	€ 12.2	-€ 4.6	€ 52.0	0.9%

Silverline Real Estate is a Qualified Investor Fund obsessed with finding sweet-spot segments for its investors in markets with robust legal frameworks in real estate, namely Europe and North America.

Constantly, we are reviewing performance of selected markets, segments and assessing opportunities within to deliver double-digit returns for our investors.

Please, do not hesitate to contact us.

Dan Vasko
Co-founder, Partner & Managing Director
dan.vasko@silverlinere.com
+420 601 576 328

Martin Benroth
Co-founder & Investment Director
martin.benroth@silverlinere.com
+420 606 175 819

Vojtech Brix
Co-founder & Investment Manager
vojtech.brix@silverlinere.com
+420 731 748 854

Robert Trapnell
International Markets Analyst, University of California
rtrapnell@g.ucla.edu

in