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# REAL ESTATE IMPACT OF THE MIGRANT CRISIS

INVESTORS' JOURNAL

April 2016

Chris Urwin



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## INVESTORS' JOURNAL



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## 1. Introduction

Europe is currently experiencing humanitarian migration on an unprecedented scale with Germany the destination for the majority of migrants. The outlook for refugee numbers is extremely uncertain but evidence from previous crises is that a significant number will settle permanently. This paper looks at the real estate consequences of this increase in migration into Germany.

An increase in immigration can affect real estate through its impact on the economy and through demographics. The economic effects of immigration can be beneficial for the host country, provided the migrants are well integrated into the labour market. Studies have looked at indicators of integration for Germany's existing foreign-born population and found that it does not perform particularly well in an international context. The nature of the current wave of migration suggests that considerable political will and significant resources will be needed to integrate them successfully. If achieved, this could allow immigration to have a positive impact on the long-term prospects for real estate.

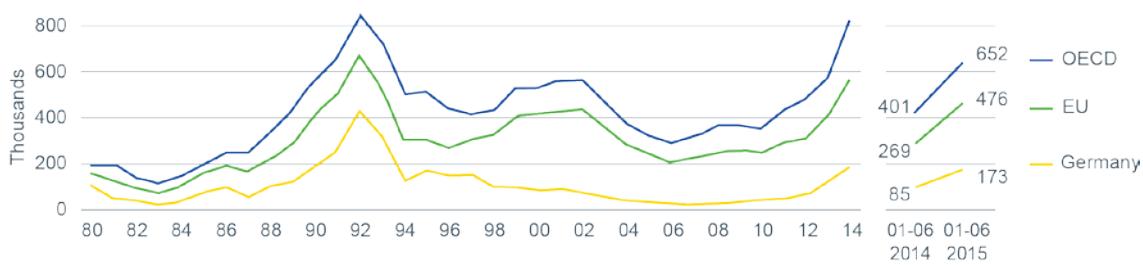
In terms of demographics, we find that a pronounced and sustained pick-up in migration could help stabilize the overall population for a period but that the working-age population will fall significantly nonetheless. We continue to expect this to have a significant impact on demand for German real estate in the period ahead. We would therefore expect that successful investment strategies in Germany will have to:

- discriminate significantly based on the demographic profile of specific locations.
- recognize that fewer people of working age implies less demand for office space.
- exploit opportunities arising in healthcare as the infrastructure to support an aging population is put in place.

## 2. Unprecedented humanitarian migration into the OECD with Germany the main destination

Excluding the immediate post-war years, Europe is currently experiencing humanitarian migration on an unprecedented scale. According to the OECD<sup>1</sup>, about 1.5 million people claimed asylum in its member states during 2015. This is roughly twice the number recorded in 2014. More than 1 million of these crossed the Mediterranean Sea in search of international protection in Europe. This is the largest influx of humanitarian migrants since 1992 during the conflict between Bosnia and Serbia when over 600,000 asylum applications were received by EU states<sup>2</sup>.

Number of new asylum seekers 1980-2014 in the OECD, the EU and Germany



Source: UNHCR

1. <http://www.oecd.org/migration/oecd-and-unhcr-call-for-scaling-up-integration-policies-in-favour-of-refugees.htm>  
2. Is this Refugee Crisis Different? – OECD Migration Policy Debates No.7, Sept 2015.

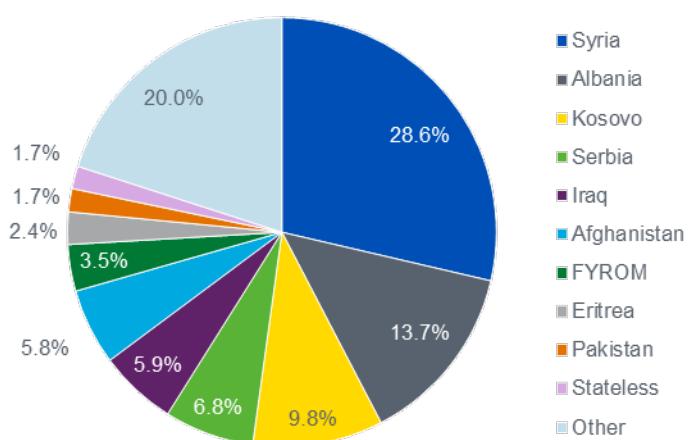
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Top 10 countries of origin of initial applications and granting of protection status: 2015 (Jan-Oct)



Source: BAMF, Asylum Statistics Jan-Oct 2015

In Germany in the first ten months of 2015, Syria accounted for almost 30 per cent of asylum applications with Albania and Kosovo the next largest sources<sup>6</sup>. The OECD also notes that this crisis is seeing migrants come to Europe from further afield than before. Factors such as these, plus the uncertain outlook for conditions in Syria, make it impossible to predict how many more refugees will seek to come to Europe, how many might move on to further destinations and how many will seek to stay long term in Europe. The OECD notes, however, that the evidence from previous refugee crises suggests that a significant number will seek to settle permanently<sup>7</sup>.

### 3. Germany has a long history of significant immigration

While the current humanitarian migrant wave may be unprecedented in numbers, Germany has long been one of the world's largest recipients of immigrants. A look at Germany's immigration history is useful to provide context to current events. Academics have highlighted a number of phases of German post-war immigration<sup>8</sup>:

- The post-war period saw massive resettlement of expelled Germans from the East. In 1950, 15-20 per cent of residents of both East and West Germany were expellees<sup>9</sup>;
- Gastarbeiter programmes brought the recruitment of foreign labour especially through the 1960s;
- Immigration through family reunion and elevated number of births to foreigners resident in Germany (1970s - present);
- Immigration of ethnic Germans (Aussiedler) and foreigners with the collapse of the Eastern Bloc, late 1980s to mid-1990s;

In addition, following the financial crisis and global recession of 2008-9, significant numbers of people have moved to Germany in search of work. An estimated 1.2million people moved to Germany in 2010-13, mostly from other EU countries<sup>10</sup>.

While in the current crisis, Italy, Greece and Hungary are the first EU states that most migrants enter, most do not seek asylum here. Instead, most move on to Northern Europe with Germany, in absolute terms, and Sweden, Austria and Switzerland in per capita terms receiving the most asylum applications. The OECD<sup>3</sup> notes that these patterns are very similar to the early 1990s during the Balkan wars. Germany received close to 1 million asylum applications during 2015<sup>4</sup>, equivalent to roughly 1 per cent of its population and the largest absolute number of applications ever received by an OECD member<sup>5</sup>.

While much of the recent focus has been on the large inflow of Syrian refugees to Europe, the OECD notes that the origins of the asylum seekers are in fact very heterogeneous and more diverse than in previous refugee crises.

3. Ibid

4. <http://www.dw.com/en/almost-a-million-refugees-recorded-as-new-arrivals-in-germany-in-2015/a-18899244>

5. Is this Refugee Crisis Different? – OECD Migration Policy Debates No.7, Sept 2015.

6. Bundesamt für Migration und Flüchtlinge, Asylum Statistics.

7. Making Integration Work, refugees and others in need of protection; OECD 2016.

8. Changing Patterns of Immigration to Germany, 1945-1997: Rainer Münz and Ralf E. Ulrich

9. Ibid

10. Determining Labour Shortages and the need for Labour Migration in Germany, Federal Office for Migration and Refugees Working Paper 64, 2015

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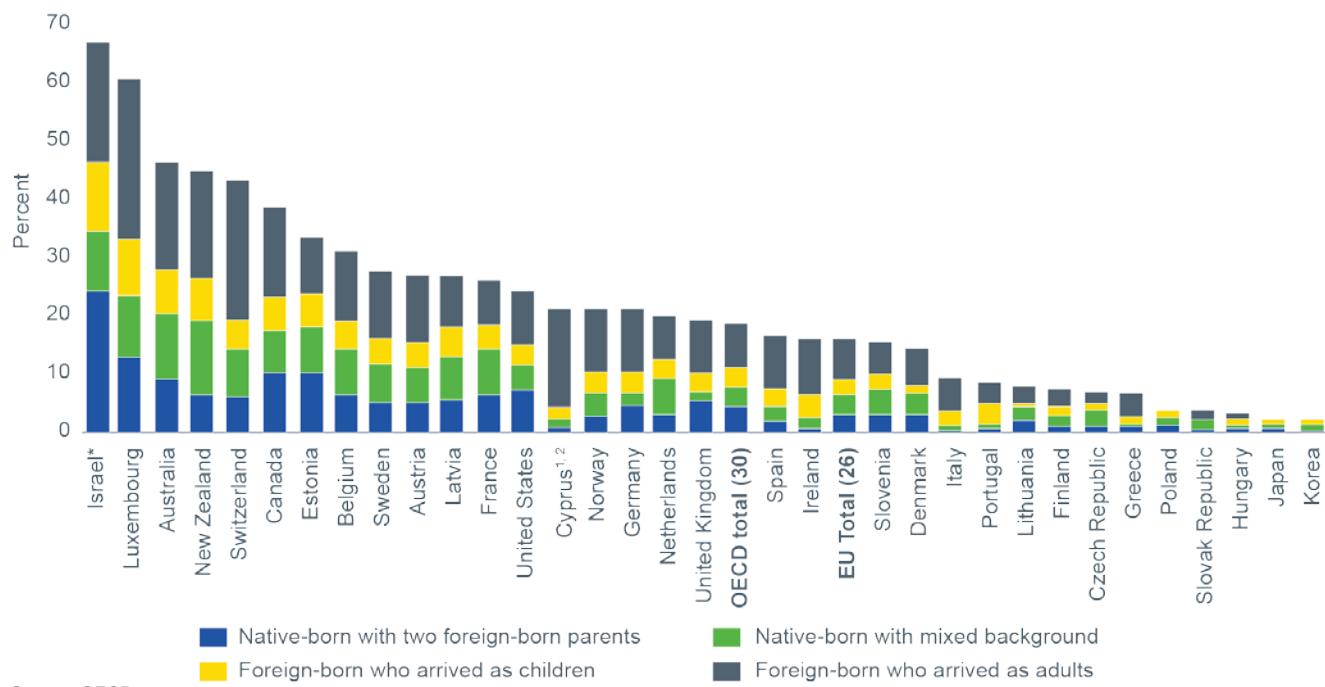
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## Immigrants and native-born offspring of immigrants, 2013 or most recent year

Percentage of the total population



Source: OECD

As a result, Germany is far more a nation of immigrants than is often assumed. According to the OECD, 13.3 per cent of Germany's residents in 2011-12 were foreign born which is above the EU average of 10 per cent and higher than the shares in France and the UK for instance (both 11.9 per cent)<sup>11</sup>. Approximately 20 per cent of German residents have a migration background and this rises to about one third for children under ten years<sup>12</sup>. Immigration has also been the major source of population growth over the decades. For example, an estimated two thirds of West Germany's population growth between 1950 and 1996 was due to immigration, excluding movement from East to West<sup>13</sup>.

## 4. Though its integration outcomes are relatively poor in an international context

In the current crisis, many people are understandably concerned about Germany's ability to successfully integrate what could turn out to be an unprecedented number of non-German refugees. In seeking to analyse this issue, it is useful to look at how well previous immigrants have integrated in Germany.

The OECD<sup>14</sup> compiles indicators for the foreign-born populations of its 34 member states. It finds that, in general, immigrant populations tend to have lower economic and social outcomes than the native-born, though not always by much, and these differences tend to moderate over time. Interestingly, it finds that integration challenges do not increase with the share of immigrants in the population. In fact, if anything, countries with larger proportions of immigrants tend to have better integration outcomes.

In addition, the OECD finds that integration outcomes vary significantly by country depending on their immigration histories and policies with indicators tending to be less favourable in European countries including Germany.

Among the most successful at integrating immigrants are Australia, Canada, Israel and New Zealand, a group the OECD terms the "Settlement Countries". In these, immigration is considered a part of the national heritage and on average almost half the population is either foreign born or native born with at least one immigrant parent. Integration indicators are generally successful in part due to these countries' policies of encouraging migration for labour purposes especially for highly-educated individuals.

11. OECD Indicators of Immigrant Integration 2015

12. Migration Report 2014, Bundesamt für Migration und Flüchtlinge

13. Changing Patterns of Immigration to Germany, 1945-1997: Rainer Münz and Ralf E. Ulrich

14. OECD Indicators of Immigrant Integration 2015

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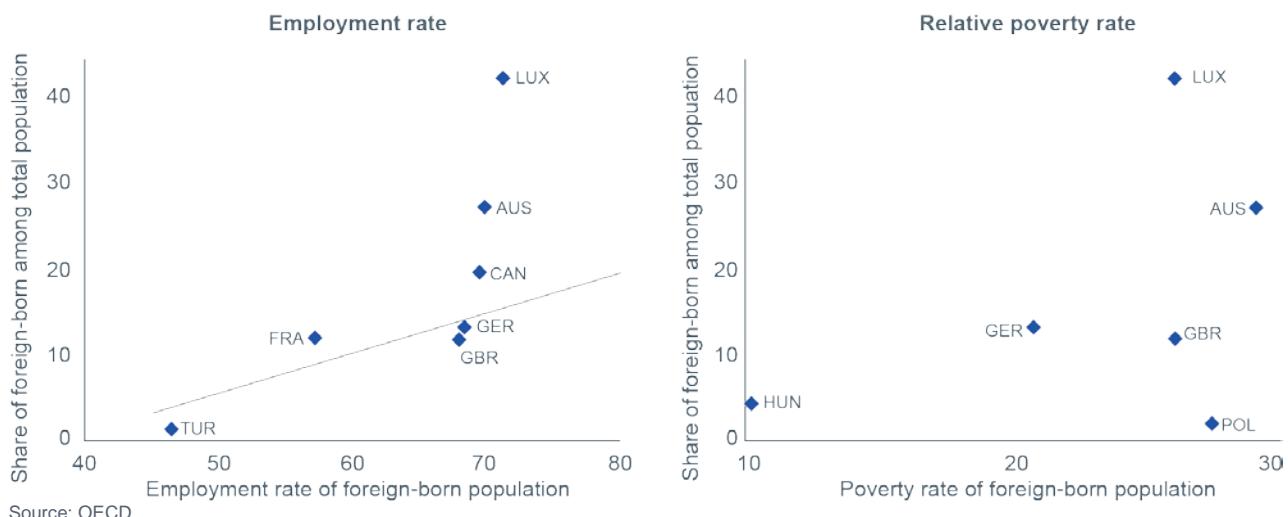
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Link between two indicators – employment rate and relative poverty rate – and the proportion of immigrants in the total population, 2012 - 2013

Percentage



Source: OECD

**"Long-standing destinations with many recent and highly-educated migrants"**, a group comprising Luxembourg, Switzerland, the UK and the US, are host to large numbers of long-settled and recently-arrived migrants. For the European countries in this group, most of the latter are economic migrants who tend to be highly educated. Immigrant labour market outcomes in these countries are generally positive and broadly similar to those of the native born.

Along with Austria, Belgium, France and the Netherlands, the OECD places Germany in a group it calls "**long-standing destinations with many settled low-educated migrants**". Immigration to these countries was heavily influenced by inflows of low-educated "guest workers" during the economic boom after the second world war. These were followed by large numbers of family migrants also with low levels of education on average. All of these countries are host to large numbers of humanitarian migrants also.

In most cases, integration outcomes are worse for these countries than for the previous two groupings. Education and labour market outcomes are relatively weak and relative poverty is high. Housing quality is relatively poor and immigrants in these countries are much more likely to be concentrated in densely-populated areas. Worryingly, disadvantages related to weak levels of education are passed on to the children of migrants. Because of the long-standing nature of immigration to these countries, they all have a large share of native-born people with at least one immigrant parent, 7 per cent of the population for Germany, 15 per cent for France. And education and employment outcomes for these tend also to lag significantly those of the native born. This is in sharp contrast to the performance of this group in the "settlement countries". In addition, outcomes tend to be worse for immigrants from outside the EU when compared to immigrants from other EU countries.

## 5. Nature of current migration suggests considerable integration challenges

The OECD's analysis suggests that integration outcomes are most positive when migrants are highly educated and are moving for employment reasons. Neither of these conditions are in place in the current migrant crisis. Most are moving for humanitarian reasons and are coming from low-income countries with relatively low levels of education attainment. The OECD notes that refugees in general tend to have lower levels of education than migrant workers as well as lower than the native population of the receiving countries<sup>15</sup>. It also notes, however, that education attainment varies widely amongst the current migrants. In Germany in 2014 for instance, 15 per cent of asylum-seekers had a tertiary degree while at the other end of the scale, 11 per cent had not attended school at all.

Overall, however, the nature of the current wave of migration suggests that there will be considerable challenges in integrating the migrants and that significant political will and resources will be needed.

15. Is this Refugee Crisis Different? – OECD Migration Policy Debates No.7, Sept 2015.

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## 6. How might the surge in migrants affect the German real estate market?

An increase in immigration can affect real estate through its impact on the economy and through demographics.

## 7. Migration can benefit the receiving country economy – if the migrants are well integrated

The OECD identifies three important means by which migration affects the host country economy<sup>16</sup>. These are:

- Effects on public finances:
- In the short term, humanitarian migration is a significant burden on the public purse, Germany expects to spend an additional 0.5 per cent of GDP in 2016 and 2017 to meet the needs of newly-arrived migrants<sup>17</sup>.
- Longer-term studies of the impact of immigrants on public finances suggest net benefits, however, especially for labour migrants<sup>18</sup>.
- The labour market:
- Migrants have accounted for a large share of workforce growth in Europe in recent years and can be important in filling important niches both in fast-growing and declining sectors of the economy.
- Economic growth
- Migration boosts the working-age population and adds to the skills base of the economy which can boost long-term growth prospects. In the short term, the OECD notes that the extra government spending on the needs of migrants can act as potential demand stimulus<sup>19</sup>.

Overall then, migration can have a positive impact on the receiving economy. Again, however, the key issue is how well the migrants are integrated into the host economy with their labour market outcomes particularly important. The OECD notes for instance that successful employment outcomes are the biggest determinant of migrants' net fiscal contribution<sup>20</sup>. How quickly Germany can process the asylum applications, provide them with appropriate education and training and get them into the workforce is therefore key. Germany of course is currently enjoying extremely low unemployment rates suggesting job opportunities are relatively good.

### Development of Germany's population by 2060

#### Variant 1: continued trend based on lower immigration.

*Birth rate of 1.4 children per woman; life expectancy at birth in 2060: 84.8 years for boys/88.6 years for girls; long-term net migration; 100,000*

		2013	2020	2030	2040	2050	2060
Population, total	(thousands)	80 767	81 434	79 23	75 963	71 902	67 563
	2013 = 100	100	100.8	98.1	94.1	89.0	83.7
under 20 years	(thousands)	14 684	14 315	13 841	12 572	11 429	10 928
	%	18.2	17.6	17.5	16.6	15.9	16.2
	2013 = 100	100	97.5	94.3	85.6	77.8	74.4
20 to under 60 years	(thousands)	44 137	42 937	37 462	35 521	32 522	30 005
	%	54.6	52.7	47.3	46.8	45.2	44.4
	2013 = 100	100	97.3	84.9	80.5	73.7	68.0
60 years and older	(thousands)	21 946	24 182	27 926	27 871	27 951	26 630
	%	27.2	29.7	35.2	36.7	38.9	39.4
	2013 = 100	100	110.2	127.3	127.0	127.4	121.3

Source: Federal Statistical Office of Germany, Germany's Population by 2060

16. Is Migration Good for the Economy, OECD Migration Policy Debates, May 2014.

17. How will the Refugee Surge affect the European Economy, OECD Migration Policy Debate No.8, November 2015.

18. How will the Refugee Surge affect the European Economy, OECD Migration Policy Debate No.8, November 2015.

19. Is Migration Good for the Economy, OECD Migration Policy Debates, May 2014.

20. Is Migration Good for the Economy, OECD Migration Policy Debates, May 2014.

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## 8. Demographics – Germany's population already aging and set to decline over longer term

Demographic trends are of course a major determinant of demand for all forms of real estate and we have previously written about the demographic outlook for Germany<sup>21</sup>. This outlook is characterized by two major trends.

First, the population looks set to shrink overall. This is generally expected to be relatively gradual in the near term. Germany's population is forecast to decline by c2 per cent between 2013 and 2030 but the pace of decline is expected to accelerate thereafter such that a fall of more than 15 per cent is expected by 2060.<sup>22</sup>

Second, the population looks set to age considerably. There will be an increasing share of people of over 65 years and declining shares of working-age population (20-64) and of the young (0-19). This aging of the population is already well under way.

## 9. Demographics – even a pronounced pick-up in immigration will not prevent population aging

Demographic trends are driven by three factors: fertility rates, mortality rates and net migration. Germany has long had below-replacement fertility such that it has a negative “rate of natural increase”, a term that represents the portion of population change determined exclusively by births and deaths. Trends in fertility and mortality are relatively stable and do not change suddenly.

Migration rates, as we have recently seen, can change suddenly however. So could a pronounced pick-up in immigration reverse the demographic trends?

To help address this question, it is useful to look at the migration assumptions in the German government's population forecasts<sup>23</sup>. Its base-case scenario (“Variant 1”) assumes net immigration of 100,000 people per annum indefinitely. In this scenario, the total population falls by c2 per cent by 2030 and the working-age population by c15 per cent. On the

### Development of Germany's population by 2060

#### Variant 2: continued trend based on higher immigration.

*Birth rate of 1.4 children per woman; life expectancy at birth in 2060: 84.8 years for boys/88.6 years for girls; long-term net migration; 200,000*

		2013	2020	2030	2040	2050	2060
Population, total	(thousands)	80 767	81 953	80 919	78 906	76 115	73 079
	2013 = 100	100	101.5	100.2	97.7	94.2	90.5
under 20 years	(thousands)	14 684	14 411	14 240	13 271	12 308	11 989
	%	18.2	17.6	17.6	16.8	16.2	16.4
20 to under 60 years	2013 = 100	100	98.1	97.0	90.4	83.8	81.6
	(thousands)	44 137	43 349	38 655	37 470	35 186	33 163
60 years and older	%	54.6	52.9	47.8	47.5	46.2	45.4
	2013 = 100	100	98.2	87.6	84.9	79.7	75.1
60 years and older	(thousands)	21 946	24 192	28 024	28 165	28 621	27 926
	%	27.2	29.5	34.6	35.7	37.6	38.2
Young-age, old-age, total dependency ratios Per one hundred 20 to under 60 year olds there are	2013 = 100	100	110.2	127.7	128.3	130.4	127.3
under 20 year olds	33.3	33.2	36.8	35.4	35.0	36.2	
	60 year olds and older	49.7	55.8	72.5	75.2	81.3	84.2
	together	83.0	89.1	109.3	110.6	116.3	120.4

Source: Federal Statistical Office of Germany, Germany's Population by 2060

21. Real Estate in an Aging Society, Aviva Investors Investors Journal, September 2013.

22. Germany's Population by 2060, Federal Statistical Office of Germany, 2015.

23. Germany's Population by 2060, Federal Statistical Office of Germany, 2015.

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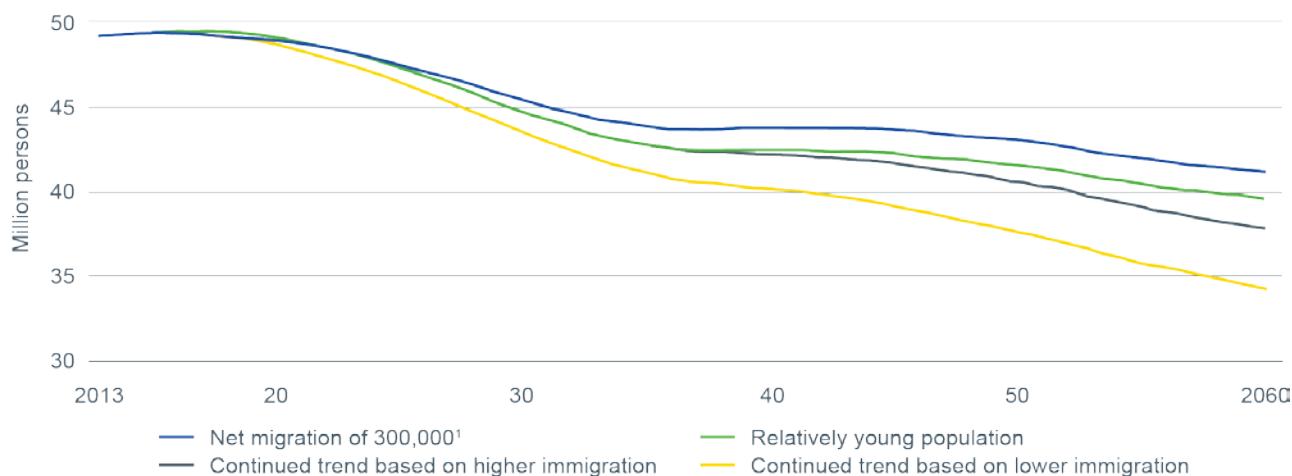


assumption of net immigration of 200,000 people per annum ("Variant 2"), there is no overall population decline by 2030 but the working-age population still falls by over 12 per cent. Even with annual net immigration of 300,000 people, the working-age population declines by c10 per cent by 2030 (Figure 8).

It is worth noting that rates of immigration of the order of 200,000 or 300,000 indefinitely would be unprecedented for Germany. The only time period when immigration (adjusting for total population) has exceeded this level is the period before and especially the five years or so after reunification. Even the Wirtschaftswunder years of the 1960s didn't see such large net immigration.

## Working-age population from 20 to 64 years

From 2014, results of the 13<sup>th</sup> coordinated population projection



Source: Federal Statistical Office of Germany, Germany's Population by 2060

Model calculation: fertility rate of 1.4 children per woman; life expectancy at birth in 2060: 84.8 years for boys/88.6 years for girls; long-term net migration; 300,000

## 10. So demographic trends to remain a major driver of German real estate

So, while a pick-up in immigration may help stabilize the overall population, it can only slow, not reverse, the decline in working-age population. In turn, we continue to expect this to generate significant risks and opportunities in terms of demand for real estate<sup>24</sup>. To succeed, investors will need to be prepared to alter existing real estate assets, adjust portfolio exposures and identify opportunities for new real estate investments.

In particular, investors need to be aware that:

- Fewer people of working age implies less demand for traditional office space
- Retail assets may need to be repositioned for a different shopping population
- In housing there will be increased demand for smaller houses rather than large family homes
- In healthcare, greater infrastructure will be required to care for an aging population and opportunities in nursing homes and assisted living facilities are likely to emerge
- Fewer people going to university is likely to impact on the demand for student accommodation.
- Local variations in demographic trends are very significant and need to be well understood. Several districts in the state of Bayern are expected to experience population growth and only gradual aging, for example.

The strength of demographics are so great that significant immigration does not greatly impact on this issues at a national level. Nevertheless, local impacts could be significant. In certain locations, immigration is going to require greater provision of housing and infrastructure. Housing to serve the larger family size typical of recent immigrants may need to be supplied.

24. Real Estate in an Aging Society, Aviva Investors Investors Journal, September 2013.

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In terms of the geographical impact, given that migrants tend to be drawn to more dynamic localities, a pronounced pick-up in immigration could accentuate regional differences in population change.

## 11. Heightened political risk

We are relatively positive on the near-term prospects for real estate in Germany and in the wider euro zone. In general, continental Europe is at an earlier stage in the cycle in both occupier and investor markets compared to many other developed economies.

Political risk in the single currency area is already elevated however and the risk of its fracturing is not negligible. And the migrant crisis is adding to political risk in Europe. Immigration policy is largely determined at a national level and efforts at EU co-ordination have often been difficult. The different goals of the national governments in relation to migration are adding to political tensions and have the potential to erode European solidarity. Uncertainty such as this has the potential to decrease foreign real estate investor confidence and deter long-term occupier commitment.

## 12. Summary & Conclusions:

- Europe is in the midst of an unprecedented wave of humanitarian migration. While it is impossible to predict how many migrants will settle long term in Europe, evidence from previous refugee crises suggests that a significant number will do so.
- While the current humanitarian migrant wave may be unprecedented in numbers, Germany has long been one of the world's largest recipients of immigrants. An international comparison of integration outcomes suggests however that Germany's immigrants are not as well integrated as in some other developed economies.
- Highly-educated migrants moving for labour reasons tend to have the best integration outcomes. While the current migrants are more heterogeneous than often realized, nonetheless, they do not generally fit this description. This suggests considerable political will and resources will be needed to ensure successful integration.
- An increased rate of immigration has the potential to affect real estate through its effect on the economy and on demographic trends.
- Migration can have positive effects on the economy through the public finances, labour market and economic growth. The extent to which migrants are successfully integrated into the labour market is the key determinant of whether these positive effects are realized.
- Germany's demographic outlook is for modest population decline in the near term but more significant decline in the working-age population. A pronounced pick-up in immigration could lessen the decline in working-age population but will not reverse the process.
- As a result, demographic change is still expected to lead to significant risks and opportunities in German real estate sectors.
- The migrant crisis of course also adds to political uncertainty and risk at the wider euro-zone level.

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