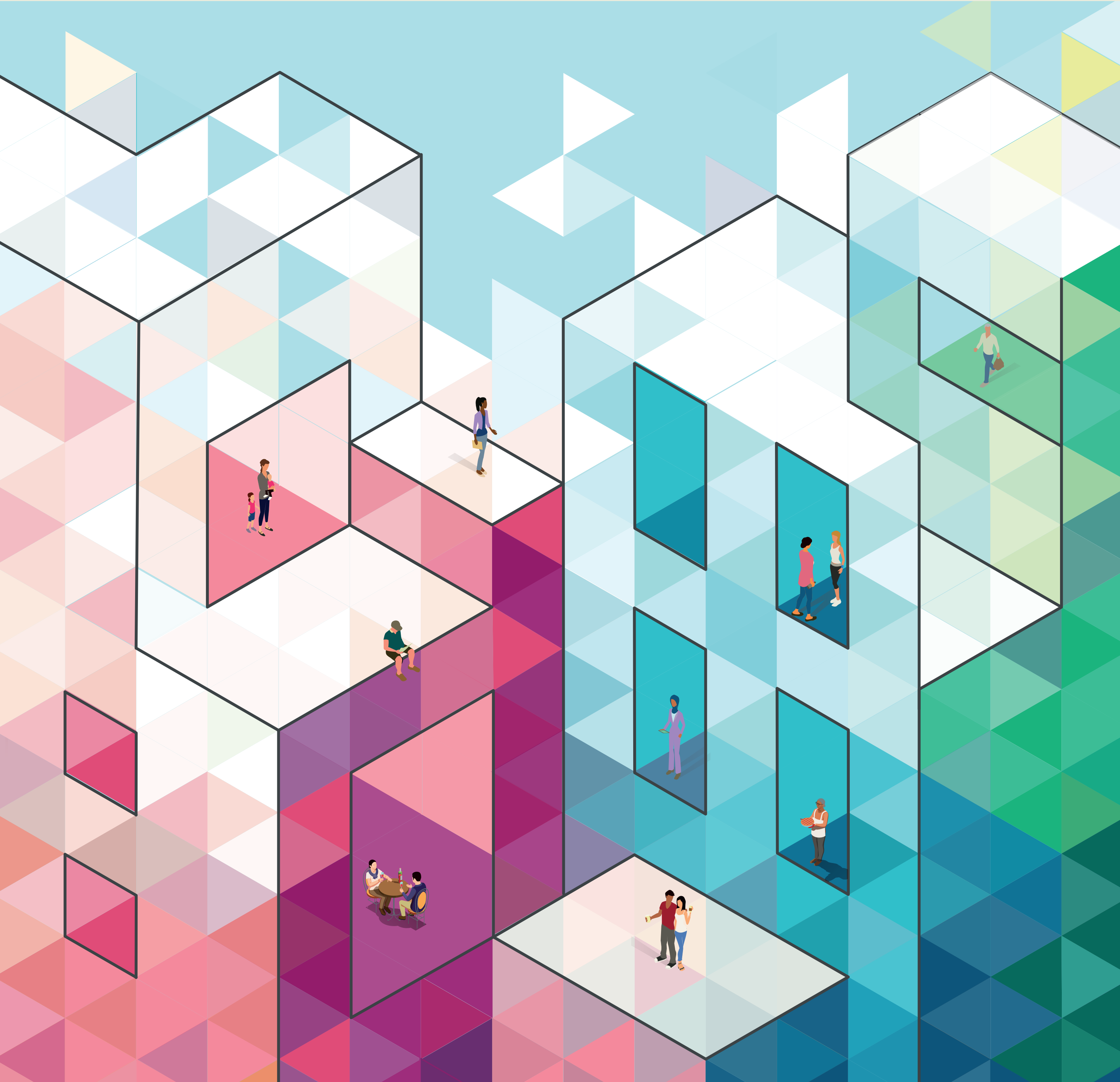
European Living Sectors

Investor Survey

2024/25

Knight Frank's annual review of trends across institutional rental accommodation in Europe, including the findings of a survey of major investors in the sector.

knightfrank.com/research



Market in transition

Now in its third year, our 2024 European Living Sectors Investor Sentiment Survey represents the views of 55 leading European investors active across the build-to-rent, purpose-built student accommodation and seniors housing markets. Collectively, they have more than €98 billion in living assets under management.

The significant changes in the interest rate environment during the past two years impacted European living sector transactions. After two years of consecutive declines, Q2 2024 showed the first signs of stabilisation. Provisional data for Q3 suggests this has continued with €7.5 billion transacting, up marginally year-on-year.

However, with €36 billion spent across the Living Sectors in Europe over the past 12 months, activity is 3% higher year-on-year, albeit annual volumes remain notably below the five-year average.

Overall, the Living Sectors accounted for around a fifth of total commercial real estate investment in Europe so far this year.

Europe seems to be finally emerging from a broadly stagnant post-COVID environment. While some volatility remains, inflation is stabilising towards target levels, and GDP forecasts are starting to improve.

Monetary policy remains in the spotlight, but the conversation has shifted to the pace of rate cuts, rather than when they are expected. The European Central Bank (ECB) and several other central banks in Europe are likely to cut rates further in the coming months, while the 12-month Euribor swap rate dipped below 3.0% in early August for the first time since January and currently trades at around 2.5%, down from around 3.9% a year ago.

This decline has helped make debt more accretive to returns and has allowed for easier access to loans for deals. Forecasters expect the main ECB policy rate to settle at around 3.75-4.00% by the end of 2024, with further rate cuts anticipated in 2025.

A more positive outlook is reflected by the results of our survey, with 71% of respondents agreeing that debt is now supportive of investment strategies.

An improving backdrop means investment is poised to continue a gradual recovery in the next few quarters, although financing rates remain elevated compared to the past.

Living Sectors will have to deal with these economic developments and challenges going forward, as well as navigating in-country pressures around regulation and affordability, but they are well-placed, thanks to the strong fundamentals underpinning the occupational market.

Meanwhile, the Living opportunity will continue to broaden in Europe, with our survey respondents highlighting both their desire to double down on established sectors like student housing and multifamily, as well as the opportunities they see in more developing sectors like single family housing for rent, co-living and seniors rental.

The structural imbalance between supply and demand continues to drive rental growth. After a slight slowdown during the pandemic, annual rental growth picked up again, peaking at double digit levels in some European cities.

This growth reflects the strong fundamentals of the Living Sectors across Europe, and the trailing impact of higher inflation. Given challenges which exist for new construction, both rental and supply pressures are here to stay, especially in the most sought-after cities.

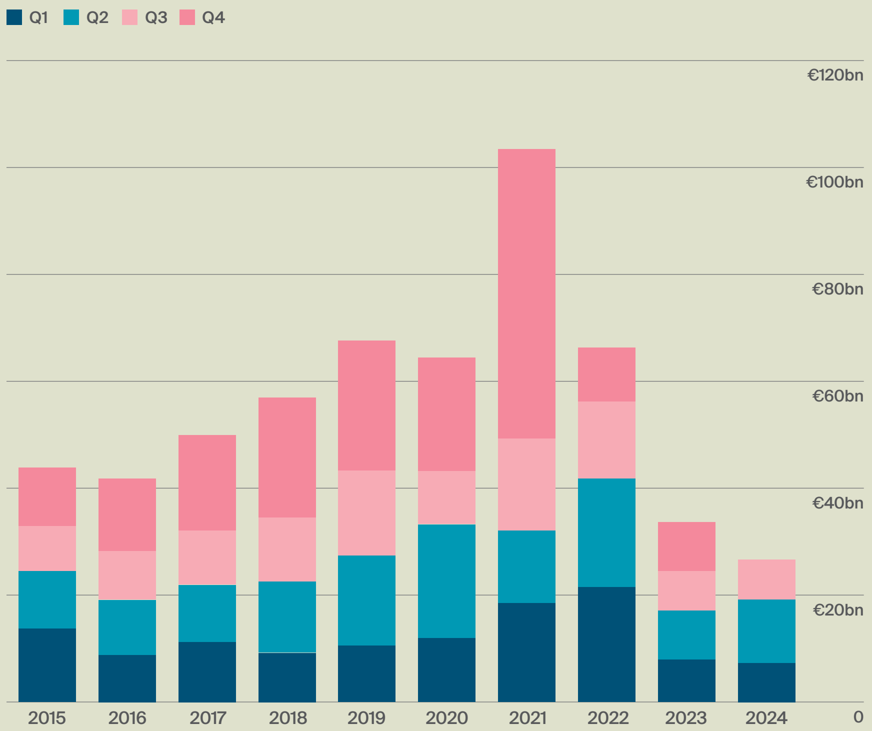
€36bn

spent across the living sectors in Europe over the past 12 months, activity is 3% higher year-on-year

71%

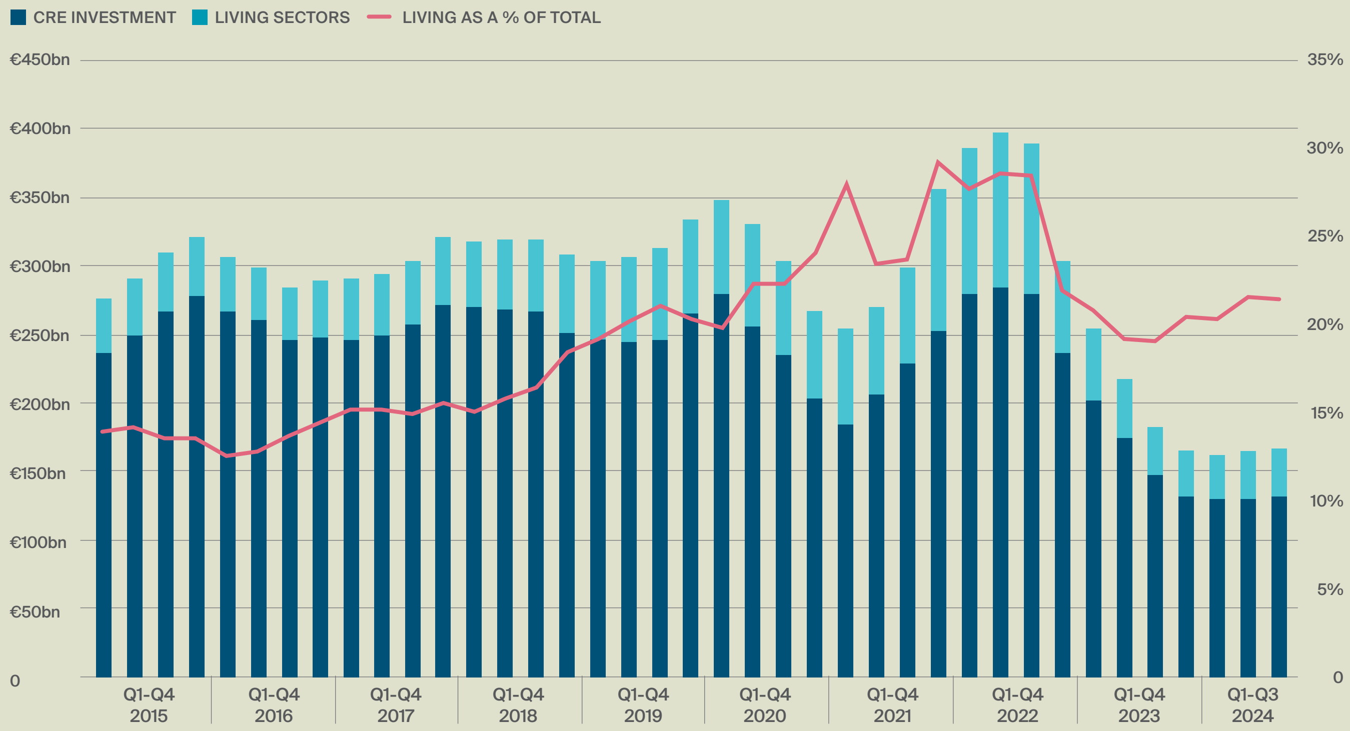
of respondents agreeing that debt is now supportive of investment strategies.

European Living Sectors investment volumes



Source: Knight Frank Research, RCA

Living Sectors as a proportion of total European CRE



Source: Knight Frank Research, RCA

Messages for the sector

Below we highlight some of the key findings from the survey that will influence and shape the future of European Living Sectors in 2025 and beyond

41%

Of investors surveyed are planning to increase their allocation to the Living Sectors over the next five years by between 40% and 100% of current capital invested.

€64bn

Over the next 5 years, investors are aiming to deploy €64 billion of capital.

London, Madrid and Berlin

London, Madrid and Berlin are the top three target locations for investors across the Living Sectors. Other locations of note in the top 10 include Dublin, Milan, Amsterdam and Barcelona.

54%

Single family housing was flagged as a major growth area by respondents, with more than half looking to have invested in the sector by 2029, up from 31% who said they currently invest.

60%

Of investors surveyed said they expect their requirements for debt to increase in the coming 12 months, up from 20% who said the same in our 2023 survey.

62%

Potential new regulation was identified as the biggest short-term operational challenges for the market by 62% of respondents, followed by affordability. Given recent sharp rises in rents in many European cities, pressure to introduce controls in new locations, both temporary and permanent, is growing.

Investment allocations set to rise

Investment allocations to the Living Sectors are set to rise significantly in Europe

All our surveyed investors said they plan to increase their exposure to the Living Sectors across Europe over the coming five years. In total, 41% are planning to increase their exposure by between 20% and 40%. A further 27% plan to increase their exposure by between 40% and 80%, some 14% by 80% to 100%, and 7% said they intend to double current allocations.

Should their ambitions be realised, our survey respondents alone have earmarked a further €64 billion to invest over the next five years.

Reflecting current investment volumes, multifamily and purpose-built student accommodation (PBSA) are the most common sectors for investors to have exposure to, at 79% and 73% respectively for our survey respondents. The proportion of investors currently active within the seniors housing sector across Europe was lower, reflecting its relative maturity, though this is expected to increase in the coming years.

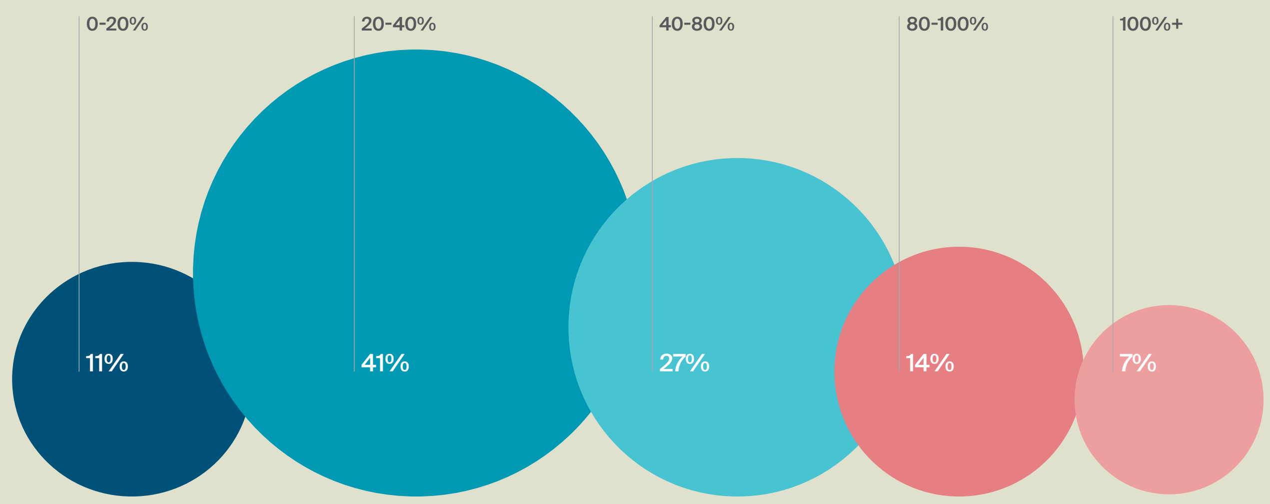
Indeed, while just 23% of survey respondents overall currently invest across all three primary Living Sectors, this is expected to rise to 37% by 2029. While there are differences in market drivers, the desire for diversification has been a constant theme since we launched our first report in 2022. This reflects the fact there are synergies across all three sectors, particularly with regards to construction and operations.

That said, the proportion of respondents saying they expect to have invested across all sectors within five years was lower than in our 2023 survey. The higher cost of debt and wider political and economic uncertainty is likely to be a reason some investors are holding back plans to blend strategies across Living Sectors.

41%

plan to increase their exposure to the Living Sectors across Europe by between 20% and 40% over the next five years.

How much do you plan to invest in Living Sectors over the next five years, as a % of total current investment?



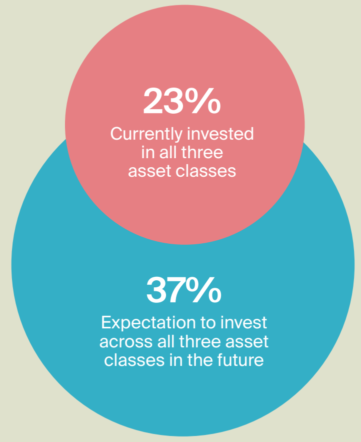
Source: Knight Frank Research

Top target cities for investment
Ranked by number of respondents who selected each city

	Student	BTR	Seniors
1	London	Madrid	London
2	Madrid	London	Alicante
3	Berlin	Amsterdam	Bologna
4	Milan	Berlin	Costa del Sol
5	Barcelona	Dublin	Costa Valenciana

Source: Knight Frank Research

Expectation to invest across all three Living Sector asset classes in the future % of respondents



Source: Knight Frank Research

WHAT, WHERE AND WHEN

When asked which sectors out of all real estate sectors are particularly appealing from an investment perspective over the next five years, respondents ranked the student sector top, followed by data centres, single family housing, logistics and multifamily.

London, Madrid and Berlin are the top locations when investors were asked about where in Europe they are looking to target – broadly mirroring the trend seen in 2023. London was the most popular choice for PBSA and seniors housing, with Madrid pipping London to top spot for BTR.

Other locations of note in the top 10 include Dublin, Milan, Amsterdam and Barcelona. The responses suggest a focus on liquidity and safe havens with some opportunistic investment.

Some 65% of respondents said their investment horizon was between three and seven years, with 30% planning to hold assets for longer than that time. Just 5% said their investment horizon was less than three years.

HOW TO SPEND IT

When asked about their preferred routes to market, most respondents had a preference for acquiring stabilised stock or forward funding development at 69% equally. This was followed by forward commitments (58%). Some 50% of respondents said they were actively targeting joint ventures, with the ability to share risk with an experienced developer attractive in the current environment.

There was also a notable proportion who are looking specifically at debt or preferred equity to gain exposure and risk adjusted returns with 29% and 27% respectively listing it as a target route, particularly within the BTR and student sectors.

65%

of respondents said their investment horizon was between three and seven years, with 30% planning to hold assets for longer than that time.

New kids on the block

The living sectors are broadening as new sub-sectors become increasingly appealing to investors

The Living Sectors are becoming larger for institutional investors and more diverse than they have ever been. This is reflected in our survey results with respondents indicating a desire to diversify into sub-sectors within living as they look to tap into the biggest pools of demand, continuing a trend seen in our previous surveys.

Single family housing was identified as the biggest growth area, with 54% of respondents looking to have invested in the sector by 2029, up from 31% who said they currently invest. In some markets in Europe a shift towards investing in houses for rent is well underway. In the UK, for example, investors have spent more than €3.7 billion (£3.1 billion) funding or acquiring SFH since the start of 2023, accounting for 40% of total build to rent investment over that time.

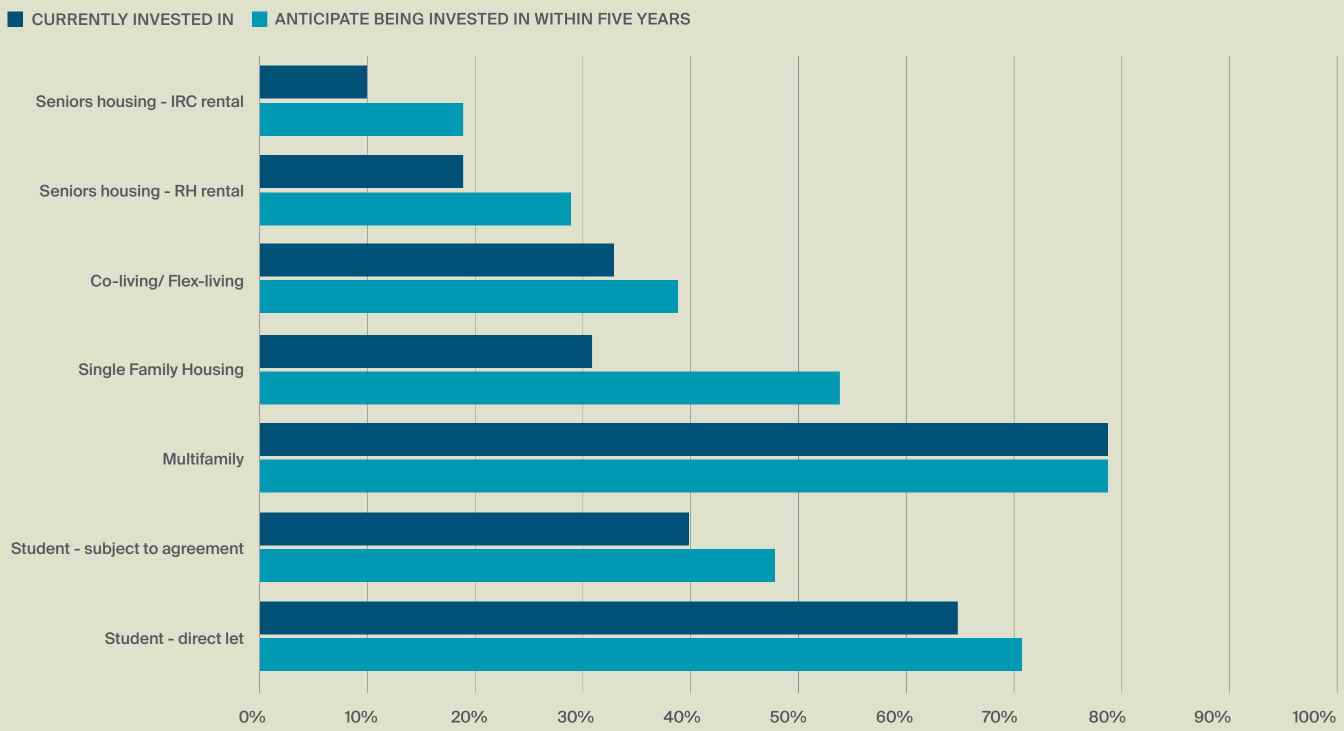
In some markets, like the UK, Nordics, the Netherlands and France, houses and not flats are the dominant residential asset type. This highlights the growth potential of that sector across the continent, and we expect to see an increasing number of opportunities coming to the market.

54%

of respondents are looking to have invested in single family housing by 2029.

In which sectors are you active currently, and which do you anticipate being active in within five years?

% of respondents



Source: Knight Frank Research

CONTINUED APPETITE FOR PBSA, MFH AND SFH BUT CO-LIVING STALLS

Comparing investor appetite for different sectors with our survey results from last year shows a continued commitment to multifamily, PBSA and single family, with the proportion of investors targeting these sectors up slightly or broadly the same. Multifamily is the most sought-after sector for investors, with 79% of respondents saying they intend to increase their exposure, followed by direct let PBSA at 71%.

However, one of the largest shifts in investor intentions compared with previous years has been in co-living. In 2023, over half of investors expressed a desire to invest in the sector in the future, but that has fallen to 39% in 2024. This decline likely reflects a shift in priorities during the recent period of uncertainty, away from a nascent sector to focus on the more 'core' living sectors, though there is still strong appetite in certain markets, like Spain.

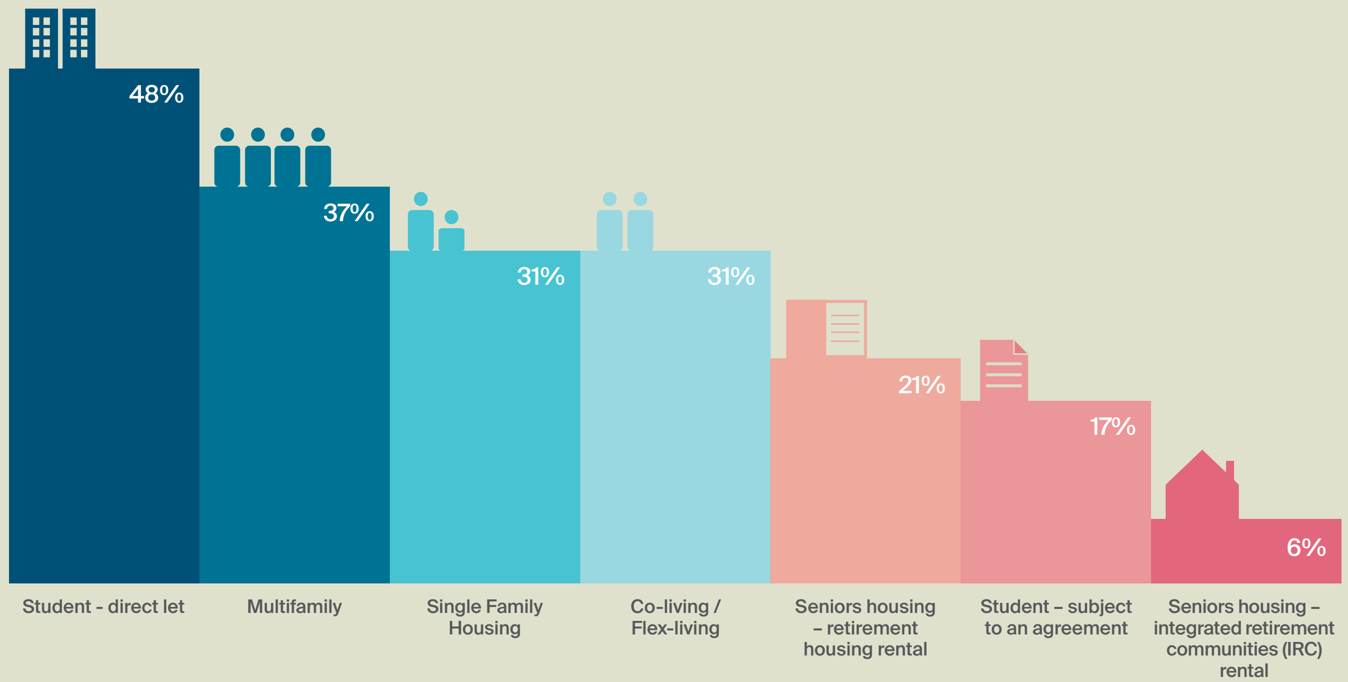
When asked specifically about which living sectors are particularly appealing from an investment perspective over the next five years, respondents ranked direct let student accommodation top, followed by multifamily housing.

79%

of respondents say they intend to increase their exposure in the Multifamily sector.

Which of these asset classes do you believe will be particularly appealing from an investment perspective over the next five years?

% of respondents



Source: Knight Frank Research

Investors plan to increase financial leverage

Challenges in the debt market remain but are receding

60%

of respondents said they expect their requirements for debt to increase in the coming 12 months, up from 20% who said the same in our 2023 survey.

This year's survey was conducted at a time when a period of soaring inflation across Europe is finally coming under control, and when central banks across the continent have started rate cutting cycles. Given this shift, it is unsurprising that 60% of respondents said they expect their requirements for debt to increase in the coming 12 months, up from 20% who said the same in our 2023 survey.

As the cost of debt comes down, and with interest rates expected to peak in the short term, transactional activity levels will pick up in the first half of next year. Of those investors planning to increase their financial leverage, 37% are planning to use it for acquisitions, with 27% using it to enhance returns. A fifth (19%) plan to use it to fund development.

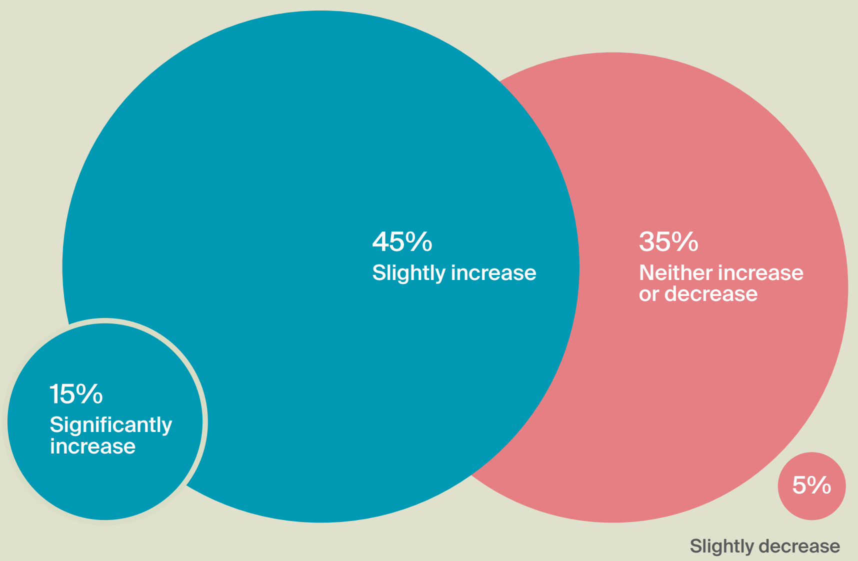
At the same time, 73% of respondents said they expect to see an increased focus on equity investments.

Reflecting the more positive outlook for debt markets, just a tenth of respondents (10%) said they plan to dispose of assets because the cost of refinancing is too great, while just 2% said they were under pressure from lenders to refinance. Nearly 30% of respondents said that the biggest driver of planned disposals over the next 12 months will be to explore an opportunistic sale.

POSITIVE OUTLOOK FOR YIELDS

A more positive investment backdrop is also likely to give investors more pricing certainty. With yields having moved out across all sectors in Europe over the last few years, the expectation over the next three is that yields will start to come back in – 40% versus 21% who said they would remain the same in student and 42% versus 27% in BTR.

To what extent do you expect your requirement for debt to change over the next 12 months?

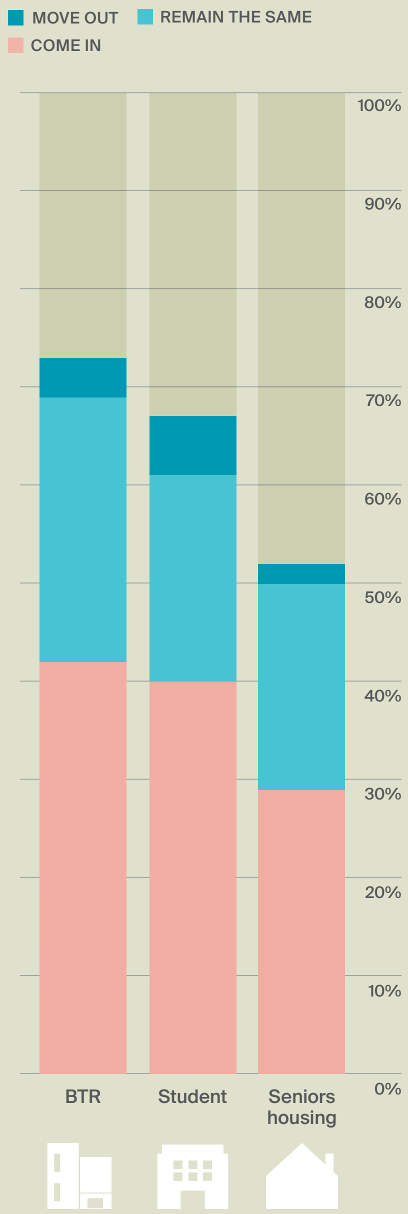


Source: Knight Frank Research

73%

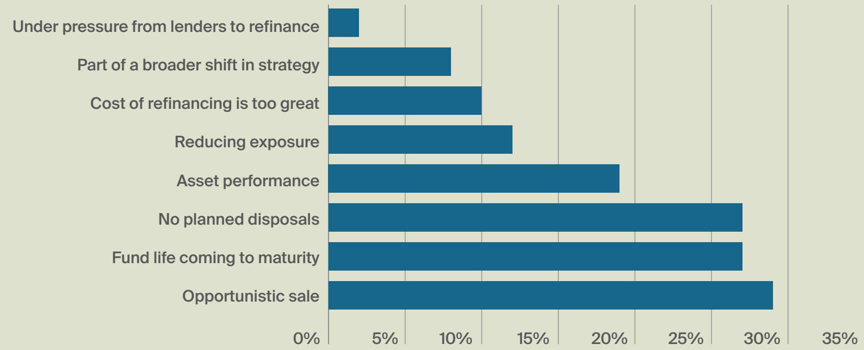
of respondents said they expect to see an increased focus on equity investments.

What do you think will happen to yields over the next three years?



Source: Knight Frank Research

What are the key drivers of any planned disposals of Living Sectors assets over the next 12 months?



Source: Knight Frank Research

Lenders continue to expand focus

Lisa Attenborough, Head of Knight Frank Capital Advisory

As 2024 nears its end, market sentiment is shifting towards a more positive outlook. European interest rates are declining, signalling the end of the high-cost capital era and fuelling investment momentum, particularly in the Living Sectors. Last year's predictions of peaking interest rates in 2024 have materialised and with inflation under control, rates are expected to continue falling in 2025.

Investor concerns about financing costs have eased significantly. Last year, over 60% of respondents to our survey cited high finance costs as a barrier to growth; this year, only 15% still feel this way.

Debt market liquidity is robust, with lenders becoming increasingly willing to deploy funds. Many domestic lenders, previously conservative with loan-to-value (LTV) ratios, are now offering up to 60% LTV, reflecting their growing confidence. Competitive pricing has returned, a trend most prominent for the living sectors. Over 70% of respondents now agree that debt is accretive.

Refinancing risks have also eased, as lenders extend existing loans rather than pressuring investors. Strong rental demand supports debt serviceability, with minimal loan defaults in the sector. As we look to 2025, 60% of those who responded to our survey expect their requirement for debt to increase next year driven by accretive debt, refinancing events, or acquisition ambitions.

Lenders are expanding their focus to include emerging sub sectors like senior living and co-living and structuring flexible terms to support business plans. Non-bank lenders are increasingly offering junior debt and preferred equity options. Altogether, rising transaction activity and narrowing buyer-seller expectation gaps point to a promising outlook for 2025.

Regulation and affordability impacting investment decisions

While the fundamentals are strong, there are barriers to deploying capital

There is no denying the scale of the ambition amongst investors to increase their investment into the Living Sectors. However, there remain barriers to achieving these aims. When asked about the key challenges to deploying capital, respondents highlighted unrealistic yield expectations (39%) as their biggest concern, followed by the planning regime.

This represents a notable shift from last year's survey when the cost of finance was identified as the biggest barrier by more than 60% of respondents. This year, just 15% flagged it as a barrier to investment. Similarly, whilst just 8% of respondents highlighted planning as an issue in our 2023 survey, this had risen to 35% this year.

A sharp rise in concerns around planning comes as new housing supply remains subdued across Europe and, crucially, well below meeting housing demand across all tenures. Governments will need to be mindful if they want to sustain investment flowing into new housing. Indeed, 29% of respondents said a lack of government support or recognition of Living Sectors is a challenge to deploying capital.

In line with previous surveys, access to stock, both operational (23%) and via development or funding opportunities (17%) is another challenge. This points towards the need for further development of new product in many markets, though this could be challenging in the near term as construction cost inflation was flagged as the biggest obstacle for growth by investors.

OPERATIONAL PRESSURES

Potential new regulation and affordability were identified as the biggest short term operational challenges for the market by 62% and 60% of respondents respectively. Given recent sharp rises in rents in many European cities, pressure to introduce controls in new locations, both temporary and permanent, has been growing. Uncertainty created by changes, or even potential changes, makes it more difficult for investors to take long term investment decisions.

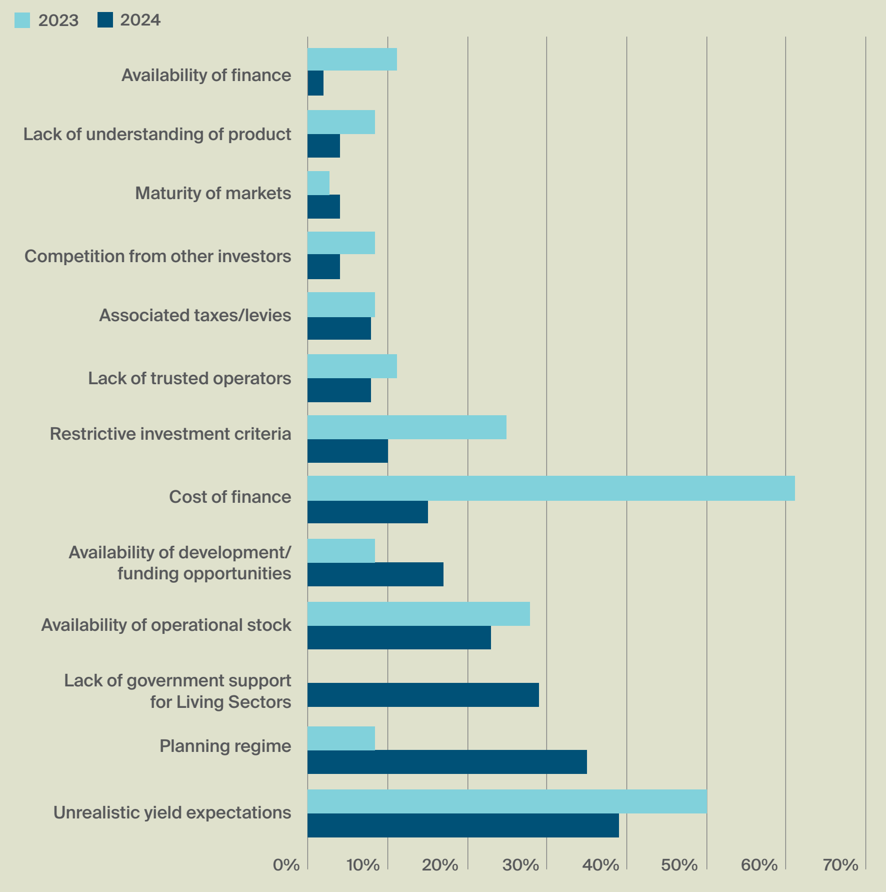
This was followed by concerns over international demand. Changes to visa eligibility rules in some markets, such as in the UK, have impacted overseas student demand this academic cycle. There is a risk that increased hostility to immigration could have larger ramifications for the attractiveness of some locations as a place of study for international students.

As inflationary pressures have receded across the continent, so too have concerns around rising operational costs with 40% of investors flagging it as a concern in this year's survey, down from 51% in 2023.

29%

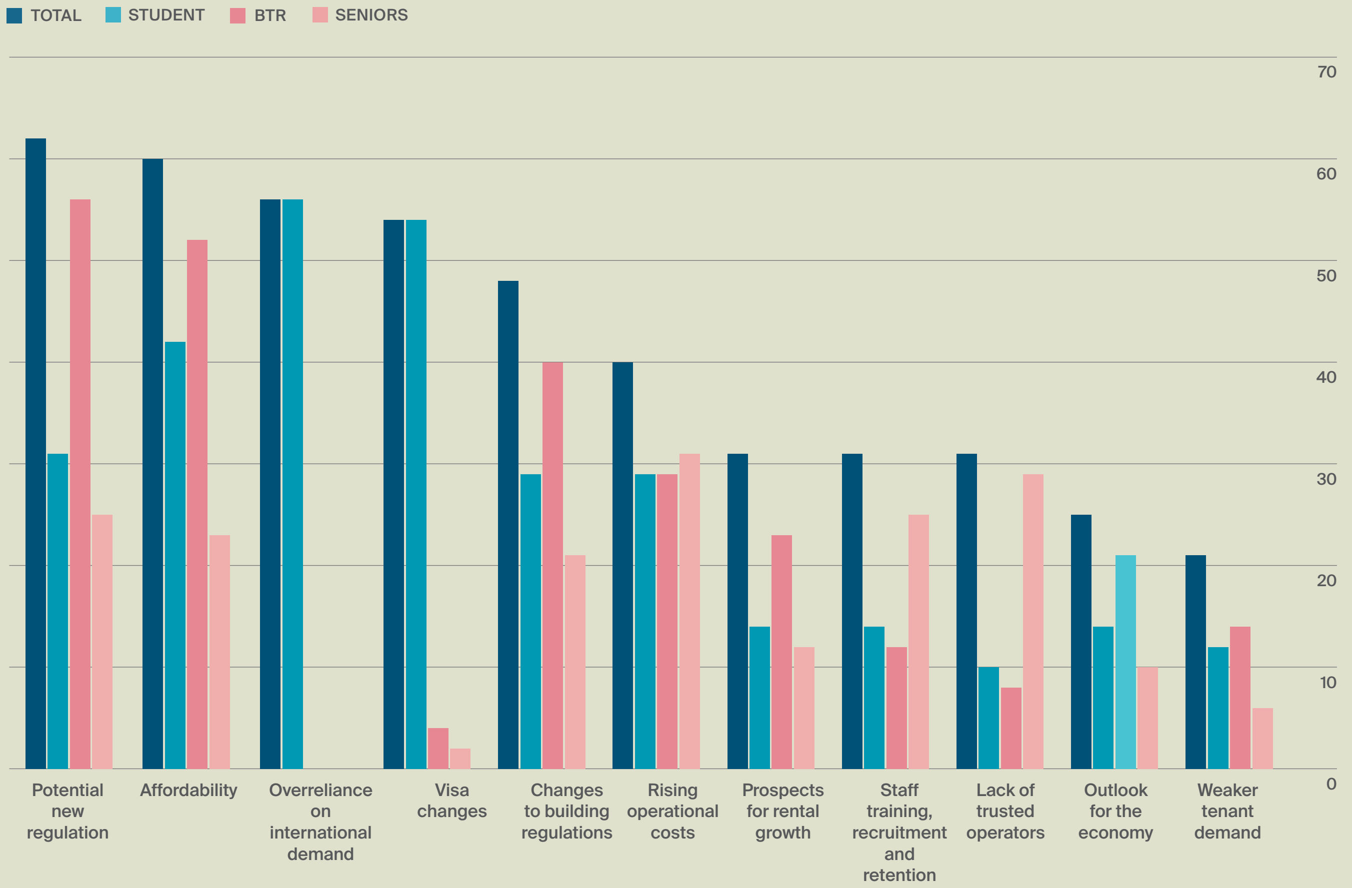
of respondents said a lack of government support or recognition of Living Sectors is a challenge to deploying capital.

What are the main challenges to deploying more capital?
Respondents can choose up to three



Source: Knight Frank Research

What are the short-term operational challenges for the market?
Respondents were asked to choose the top three by sub-sector



Source: Knight Frank Research

Future-proof

Considerations around ESG (environmental, social and governance) have risen up the agenda

The survey results highlight the importance that investors place on ESG factors, as they look to future-proof assets and meet demands from tenants, regulation and their own environmental goals.

As has been the case in previous surveys, a push towards ESG is primarily driven by investors, with 69% of our respondents stating that investors are 'important' or 'very important' in dictating their approach to ESG. That's more influence than regulatory change (65%), or tenants (52%).

In the drive toward net zero, we are seeing more investment in sustainable developments. When asked what investors are targeting for new developments, solar power generation (38%) was the most cited feature, followed by EV charging points and energy monitoring systems, with 37% of investors stating these features must be included in their homes.

Some 31% of investors are targeting a minimum EPC rating of A, while 29% plan to install heat pumps.

As more and more investors consider ESG as a key criteria in underwriting investment, demand and therefore the liquidity of buildings with green ratings is likely to increase. Green-rated buildings are more likely to be future-proofed against potential legislative changes, as governments embed carbon targets into law, as well as being future -proofed against shifts in tenant sentiment and preferences.

CARROT AND STICK

When asked what represented the most significant challenges to sustainable investment in the Living Sectors, more than half (52%) highlighted the cost of capital required to make existing buildings sustainable. Related to that, some 42% of respondents flagged the high proportion of older buildings that are energy inefficient. Across the EU, 38% of residential buildings were built pre-1970, just 12% have been renovated to meet the climate change targets. A carrot and stick approach will be needed to encourage more action, with 35% of respondents agreeing that a lack of government incentives was a further challenge.

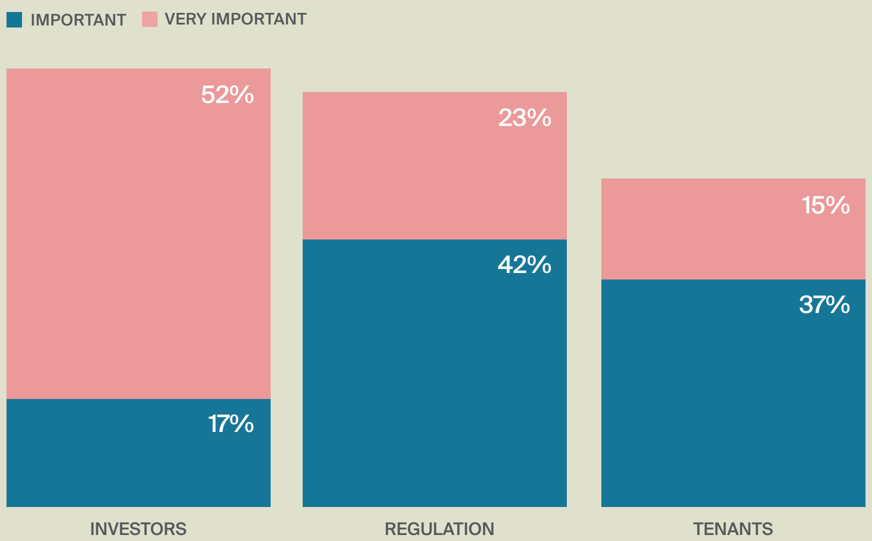
42%

of respondents flagged the high proportion of older buildings that are energy inefficient.

38%

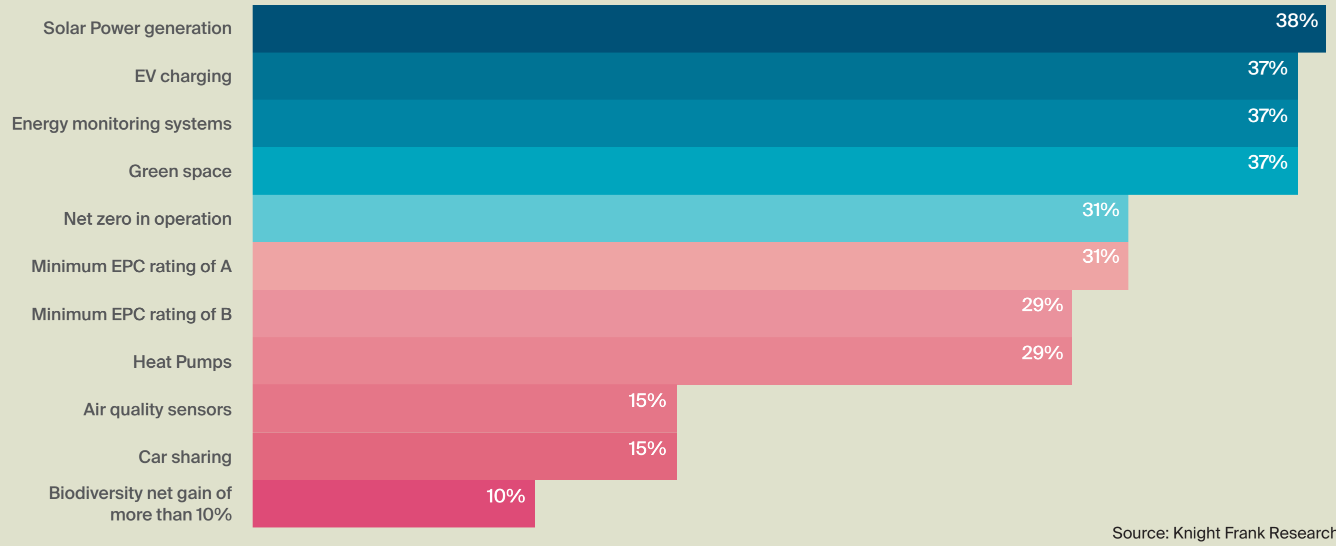
of investors said solar power generation was the most cited feature they are targeting for new developments.

Which of the following represent the most significant challenges to sustainable investment when investing in the Living Sectors?



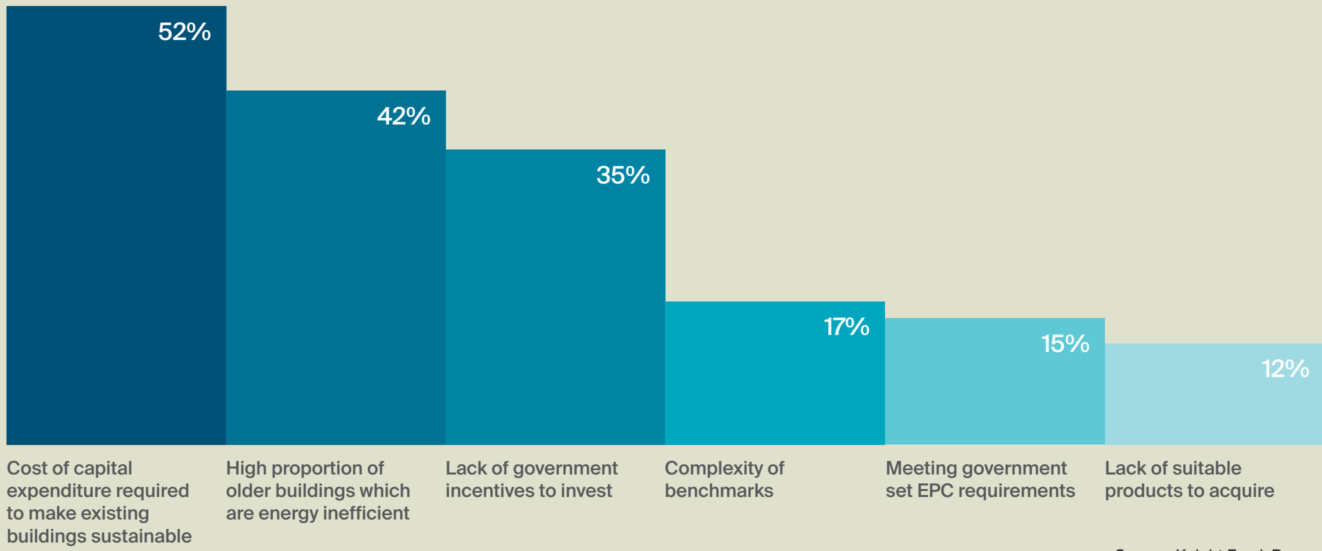
Source: Knight Frank Research

Which of the following are you targeting for new developments?



Source: Knight Frank Research

Which of the following represent the most significant challenges to sustainable investment when investing in the Living Sectors?

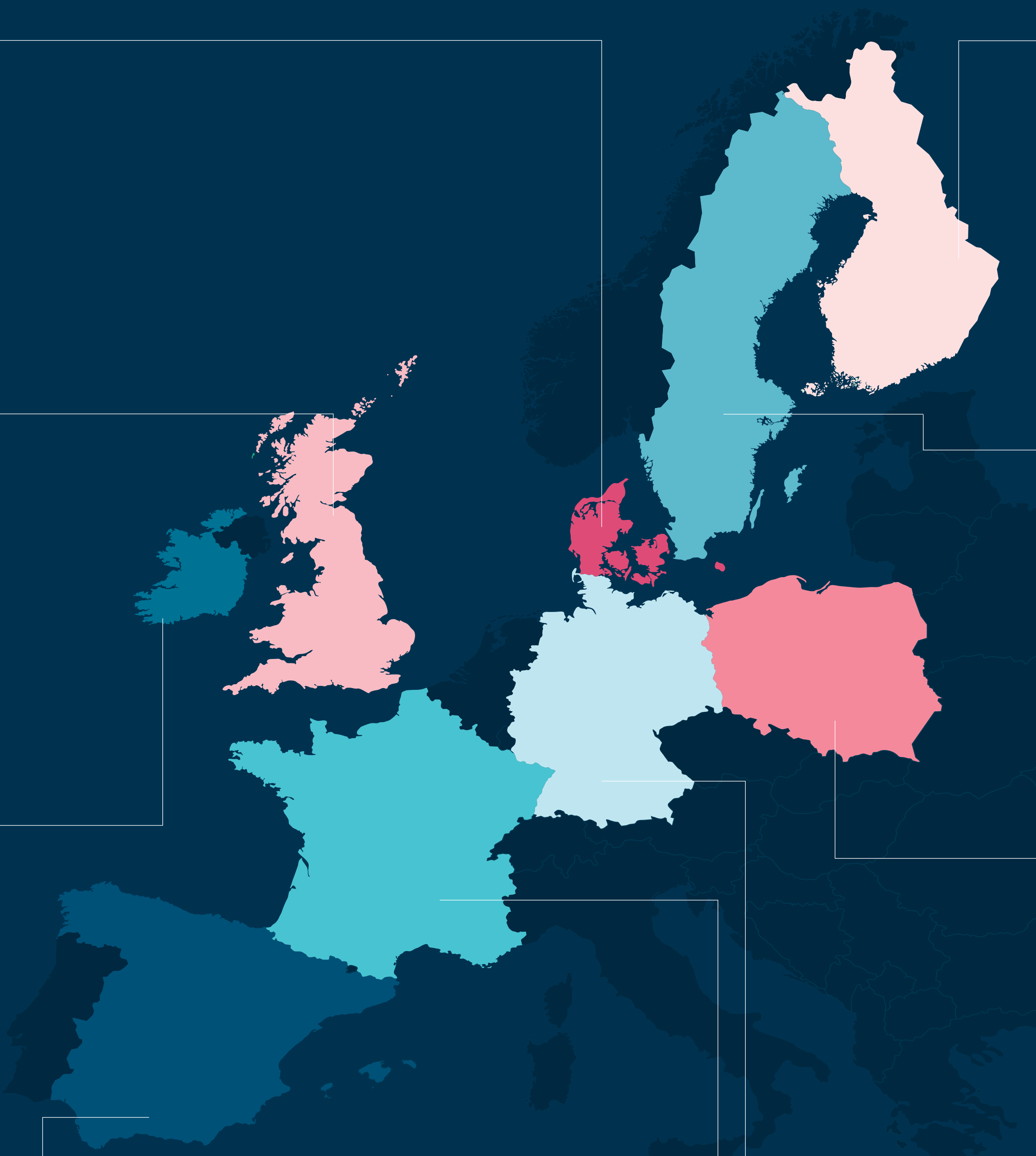


Source: Knight Frank Research

Living market spotlights

AVERAGE LIVING INVESTMENT VOLS (LAST THREE YEARS) | FULL-TIME STUDENT NUMBERS | % OF HOUSEHOLDS RENTING PRIVATELY | % OF POPULATION AGED 65+

Source: Knight Frank Research / RCA / Eurostat / World Bank
NB. latest available data. Approximate figurers in some cases



DENMARK

MARTIN SPANGDAHL-FAFARA, MANAGING DIRECTOR, CROISETTE / KNIGHT FRANK DENMARK

€5.4bn | 143k | 23% | 21%

Foreign investment into Living Sectors has fallen from 60% to 20%, which has fuelled a period of ongoing price adjustments. Despite this, international demand is expected to recover in 2025, particularly in key urban areas such as Copenhagen, Aarhus, and Odense. However, opportunities to acquire operational product are limited. This structural shortage of supply has placed upward pressure on rents and restricted access to affordable housing options. Due to an aging population, the appetite for senior housing is strong.

UK

MATTHEW BOWEN, PARTNER, HEAD OF GLOBAL LIVING SECTORS RESEARCH

€12bn | 2.4m | 20% | 20%

So far in 2024, £7.6 billion has been invested in UK Living Sectors (+23% YoY), with liquidity greatest for smaller lot sizes. For student and seniors, land acquisitions have been the primary route to market. For BTR, volumes have been supported by an increase in capital targeting single family housing.

Planning is a key challenge, though the government's focus on boosting housing supply should provide a tailwind for development. As debt costs continue their downwards trajectory, more forward funding opportunities will emerge.

IRELAND

TIM MACMAHON, DIRECTOR, HEAD OF RESIDENTIAL CAPITAL MARKETS IRELAND

€1.5bn | 199k | 18% | 15%

A diversification of sub-sector Living assets is at play. Historically multifamily has dominated (70%+ of turnover), but so far this year PBSA and social housing are a combined 45%, with all transactions operational.

Co-living interest is growing, albeit the number of operational schemes remains low due to a previous planning ban. Consistent changes to regulations have made investors wary. The most recent was an increase to SDLT on bulk purchases of 'own door' units, which impacts single family investments.

SPAIN

ELAINE BEACHILL, DIRECTOR, HEAD OF LIVING SPAIN

€3.5bn | 1.4m | 25% | 21%

Income generating BTR and PBSA is top of investor's lists. Demand for mid-stay rental products is spurring development in the flex (co-living) market, which offers attractive returns. Interest in senior living is rising especially in coastal areas. Spanish planning authorities are introducing initiatives to expand land availability, including through converting office space to affordable rental, which currently accounts for 1% of the market.

Meeting investor ESG requirements is crucial, but Spain's ageing housing stock is a barrier, particularly given the widespread use of gas heating systems.

FRANCE

DANIEL ERITH, PARTNER, FRANCE

€3.4bn | 2.9m | 16% | 21%

Co-living and flexible spaces are gaining traction as housing solutions for young professionals and students. However, the cost of development and current planning policies pose significant challenges, despite government efforts to boost housing availability, including social housing.

The transformation of obsolete office stock into residential or mixed-use spaces presents a substantial opportunity, particularly in Paris, well-connected suburbs, and select regional areas. Meeting financial targets on conversion projects remains complex particularly on obsolete office buildings and development land bought prior to the interest rate spike.

FINLAND

JALMARI JANHUNEN, MANAGING DIRECTOR, CROISETTE / KNIGHT FRANK FINLAND

168k | 30% | 23%

The yield for prime assets is currently at 4.30%, compared to 3.05% in Q1 2022. However, increased transactional activity during the second half of 2024 has provided more evidence which should give the market confidence about where pricing sits.

That said, there has been a shift in deal structures. Forward arrangements have been the most common route to market in recent years, but the wider macro-economic environment has made funding markets challenging. Positively, construction cost inflation is cooling, but investors and developers remain mindful regarding the profitability of new projects which has led to a slowdown in new development starts.

SWEDEN

OLLE HÅKANSON NOBEL, CO-HEAD OF CAPITAL MARKETS CROISETTE / KNIGHT FRANK SWEDEN

€4.5bn | 383k | 35% | 21%

Value-add assets in strong locations, such as Stockholm, are in demand with a focus on development. For prime new builds, yields remain in the 5.00-5.50% range. However, this is out of sync with developer expectations of 4.50-4.75%.

Standing stock in regional cities offers an opportunity for core+ capital, supported by stronger than average rental growth and the value-add opportunity from the regulated rental environment for older schemes. Subsequently, interest from foreign investors is growing, but so far domestic players dominate.

POLAND

KRZYSZTOF CIPIUR, MANAGING PARTNER, POLAND

€0.253bn | 1.2m | 13% | 20%

Warsaw, Kraków, Wrocław and Tricity are top of investor lists. However, the lack of operational stock presents a barrier to entry – particularly in Warsaw. In comparison with 2022/23, rents are stabilising and lease up times are marginally longer.

University halls house approximately 10% of the student population, thus the potential for private direct let investment in PBSA is substantial. For the BTR sector, investors are choosing more serviced land due to high costs and scarcity of direct residential land assets.

GERMANY

ALON BRAHM, MANAGING DIRECTOR, GERMANY

€14.3bn | 2.9m | 58% | 22%

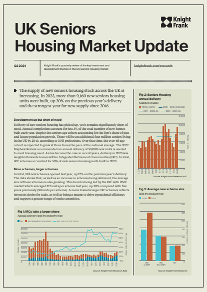
Core capital is targeting key cities like Berlin and Frankfurt. Yet, limited asset availability and slow vendor/purchaser price adjustments present challenges. An improving macro backdrop and yield compression in prime cities is shifting focus toward secondary and emerging urban markets.

Demand for ESG-compliant assets and development opportunities in BTR and PRS is strong. However, ESG compliance remains a challenge for core capital, but "manage-to-green" strategies are expected to provide some resilience and stability.

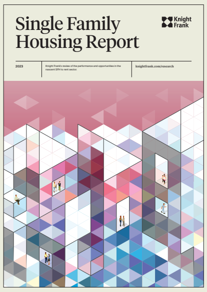
Recent Research

UK Living Sectors Investor Survey - 2023

UK Student Housing - Market Update Q3 2024



Seniors Housing Market Update - Q2 2024



Single Family Housing Report - 2023

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