2024 Europe

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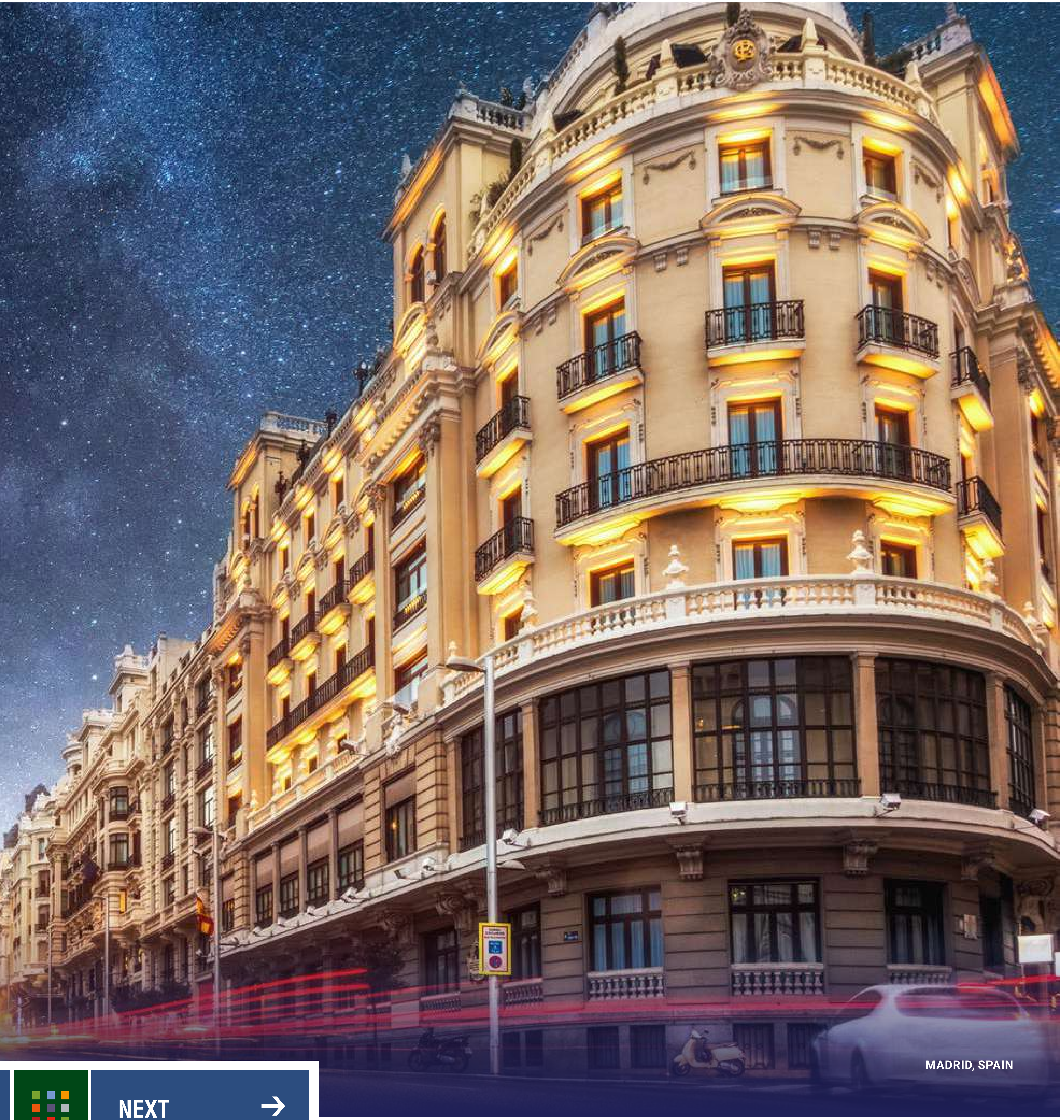
CONTENTS

EXECUTIVE SUMMARY

"We try to invest in the economy of the future and not so much in today's economy. We always start with the megatrends, and then you actually automatically end up in newer sectors."

Head of real assets, global pension fund



MADRID, SPAIN

FRANKFURT, GERMANY

Europe's real estate leaders are slowly coming to terms with a market burdened by inflationary pressures and increasing interest rates while addressing the ever-growing commitments around environmental, social and governance (ESG) issues.

Central bank interest rate increases in 2022 and 2023 have left large sections of the industry forsaking dynamic strategies for a wait-and-see assessment of changes in the cost of debt, valuations, construction costs and distress risk. Huge uncertainty pervades this market.

A wedge continues to be driven between market price expectations and book valuations. Fears over "catching a falling knife" are expressed by many of the 1,089 industry leaders canvassed for this edition of *Emerging Trends in Real Estate® Europe*. One acknowledged consequence has been record-low investment volumes. But the relative risk-adjusted return outlook in a higher-for-longer interest rate environment is also raising questions about real estate's status as a favoured asset class.

Though the survey indicates greater business confidence and profits for 2024 than a year ago, this is from a low base and is still well below the optimism of previous years. Much of the positivity among interviewees is based on the strength of underlying occupier demand. So far, the changing macro background to real estate has taken a heavy toll on investor sentiment, but it is yet to be felt fully in occupier markets. Therefore the industry is paying close attention to economic forecasts that suggest sluggish growth at best across Europe but with real worries for the big economies, such as Germany and the UK. Many interviewees regard recession as a "realistic concern".

Sentiment is inevitably clouded by the geopolitical backdrop to business and investment, not least the devastating crisis in Israel and Gaza, although the war in Ukraine is still very much front of mind. This year, the risk around national political shifts to the right — as a result of recent or upcoming elections — has also become a talking point.

Three other, interlinked social and political issues have risen to prominence in the survey: housing affordability, social equity/inequality and mass migration. Some respondents identify the ingredients here for social unrest and further political upheaval.

As to whether investors can break free from the market stasis of 2023, there is some hope for greater clarity on inflation and interest rates to help revive transaction activity in 2024. But there are mixed expectations for debt and equity availability in the coming years when capital will be required for refinancings and generally making real estate fit for purpose. The denominator effect on institutional allocations to this asset class — a major impediment coming into 2023 — remains problematic one year on.

Moreover, a return to healthier investment volumes depends on confidence in the valuation of real estate. Yet in one of the most remarkable survey findings, as many as three-quarters of respondents believe that current valuations "do not accurately reflect" all the challenges and opportunities in real estate, whether it is climate change, social impact or even occupier demand fundamentals.

Market participants are therefore more careful than ever about how and where they deploy capital. For many investors and developers this means focusing on cities that offer liquidity in riskier times. In this respect, it is no surprise that London and Paris take the top two places in the city rankings once again. But the premium on liquidity allied with economic performance is also evident in other cities in the ascendancy in this year's survey: Madrid, Milan and Lisbon.

Though still relatively highly placed, the German cities of Berlin, Munich, Frankfurt and Hamburg have slipped in the rankings in terms of investment and development prospects.

The overall gloomy economic outlook for Germany in 2024 is influencing sentiment for cities revered as safe havens for capital not so long ago. Some interviewees also suggest that real estate pricing has been slower to adjust here than across most of Europe.

ESG — “a licence to play”

Despite the prevailing economic uncertainty, the survey confirms that the issues around sustainability and ESG compliance cut across every aspect of real estate, short and long term.

The interlinked challenges of environmental sustainability, regulation and asset obsolescence — already significant — are only expected to increase in importance over the next five years. As many as nine out of 10 survey respondents believe that ESG issues will have the biggest impact on real estate by 2050.

For many years, *Emerging Trends Europe* has highlighted the importance of sustainability. But this year’s research indicates a ratcheting up of the collective pressure from institutional investors, lenders and occupiers to accelerate the implementation of the E in ESG.

For global firms, this means grappling with regional differences as well as preferences on an end-user level. There are significant concerns over the amount of standing stock requiring work while some industry players warn that “sub-optimal regulation” could be counter-productive and drive a culture of greenwashing.

In practice, the interviews indicate that market participants are struggling to fulfil ESG compliance at a difficult time of high interest rates and construction costs alongside other competing demands on their finances. It is also evident that environmental issues dominate the agenda here, and many industry players are still figuring out how to measure the benefits of the S in ESG.

Yet as one CEO of a pan-European property company says: “ESG compliance is not a ‘nice-to-have’. It’s a licence to play.”

In terms of sectors, the ESG influence is significant. For the third year running, new energy infrastructure is identified as the sector offering the greatest overall prospects for investment, development and rents. For many, the combination of decarbonisation and soaring energy prices simply reinforces the attractions of this sector.

Niche, operational sectors once again dominate the sector rankings, underpinned by global megatrends — climate change, information technology, demographics and urbanisation. Just below them lie logistics and various forms of housing, which offer similar attractions.

According to this year’s research, ESG may help open up a new world of potential investible

STOCKHOLM, SWEDEN

> **The industry is developing a more sophisticated understanding of what drives rental income and value in real estate occupation.**

DUBLIN, IRELAND

products in other niche areas, including battery storage for renewable energy, solar farms and electric vehicle parking and charging. As we explore in Chapter 5, this is part of a broader industry shift towards the provision of social infrastructure that could amount to “a massive amount of quasi-real estate investments” over the next five to 10 years.

This is not to diminish the immediate challenges and opportunities in mainstream real estate, notably offices. The impact of hybrid working on the office sector remains the burning issue for many senior professionals. They believe reducing overall costs, location, and attractiveness to talent will be the three most important factors driving occupiers’ workplace strategies. Shorter leases and more flexible workspaces will be part of the offer.

More importantly, there are signs that the more progressive industry players — already well versed in the need for repurposing outmoded assets — are advancing ideas around “co-location”: in other words, combining different uses in a single building or location.

More than eight out of 10 survey respondents believe co-location will increase. A third of respondents point to a hybrid model of three or more sectors — including a somewhat rejuvenated retail sector — as the most likely mix within their portfolio. Nearly a fifth expect to combine residential and offices.

As one senior professional says: “The industry is developing a more sophisticated understanding of what drives rental income and value in real estate occupation.”

While the survey and interviews reflect an industry largely in a wait-and-see period, they also indicate a point in the market cycle where the rewards could be significant for those who are brave enough.

There is sense now that some “big calls” will need to be made, whether that’s timing the bottom of the market, putting serious cash to work on a “brown-to-green” repositioning strategy, deciding between an electric or hydrogen-fuelled car fleet of the future, or nailing colours to the mast on where the “hybrid working” model will settle.

CHAPTER 1

BUSINESS ENVIRONMENT

"The watchwords on our side are discipline and patience. There is just no value in rushing this."

Senior executive, European institutional investment firm

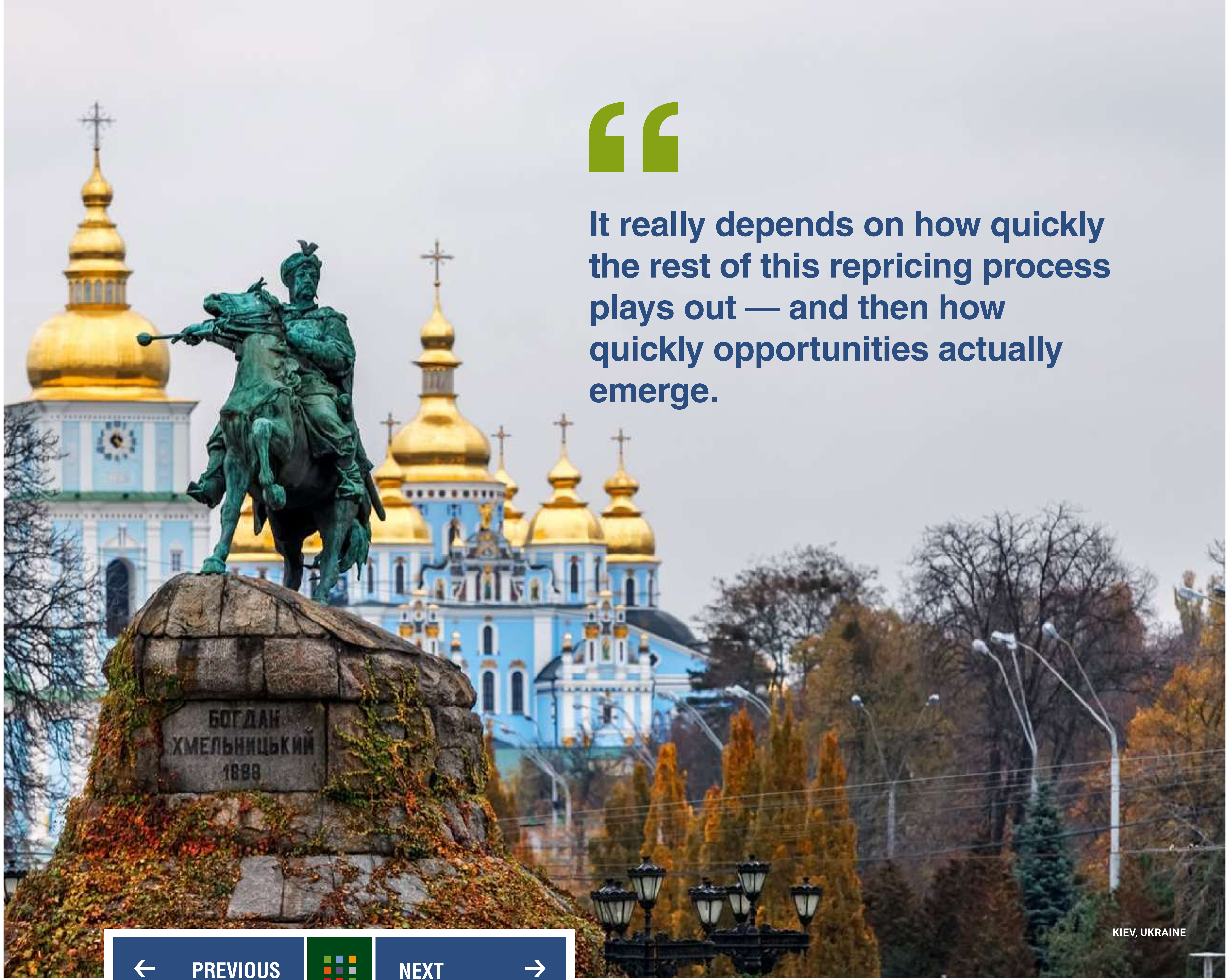
LONDON, UK

Adjusting to the burden of inflationary pressures and the resulting high interest rates has not been easy for Europe's real estate industry, which has endured record low transactions in the last 18 months.

The industry is still coming to terms with hugely challenging financial circumstances after a decade of cheap debt which drove deals and globalisation trends that enabled construction, followed by monetary policies that papered over the cracks caused by the pandemic.

Central bank interest rate hikes throughout 2023 have left large parts of the industry in passive mode, waiting for better news in 2024. A wait-and-see approach to the price of debt, valuations, construction costs, distress risk and the relative attractiveness of securities has often replaced more dynamic strategies. The high cost of capital, meanwhile, has morphed into a credit crunch.

War in Ukraine has remained the chief political factor in Europe, but national political shifts to the right are a recurring theme among the industry leaders interviewed for *Emerging Trends in Real Estate Europe® 2024*. After Hungary, Poland, Italy and Sweden, populism is seeking power in The Netherlands, France and Germany, even as its primacy weakens in the UK. Macroeconomic pressures on the US and China in 2024 cloud the bigger picture, while the prospect of an expanded BRICS bloc and the shifting seats of global dominance imply a less Eurocentric future for world politics. The survey and interviews were conducted before the devastating crisis in Israel and Gaza but undoubtedly it is only adding to geopolitical uncertainty.



> **It really depends on how quickly the rest of this repricing process plays out — and then how quickly opportunities actually emerge.**

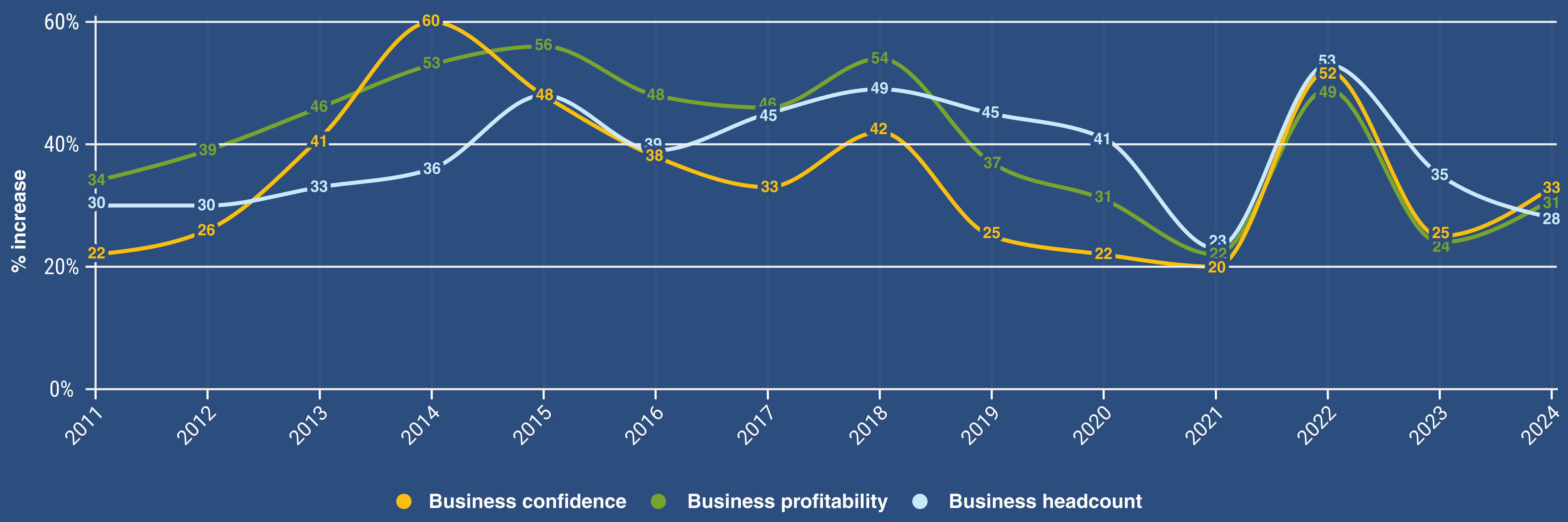
KIEV, UKRAINE

PREVIOUS NEXT

> Everyone seems to think we'll avoid recession. I'm not so sure. I see further negative news coming, especially for the development industry.

Figure 1-1 **Real estate business sentiment, 2011-2024**

Source: *Emerging Trends Europe survey 2024*



Europe's sluggish economies, meanwhile, have brought affordability factors to the forefront of social debate. Yet, as inflation retreats from peak levels globally, and the prospect of future interest rates rises starts to diminish, many in the European real estate industry believe that opportunities will follow.

"Although we have typically been a thematic investor, we now think there's going to be an interesting window ahead to have at least part of our capital be opportunistic," suggests the head of strategy of an investment manager.

Indeed, the proportion of respondents in this year's survey expecting business confidence and profitability to increase is higher than last year, with around a third selecting this option, although this is roughly half those that showed optimism going into 2022 (Figure 1-1).

"It really depends on how quickly the rest of this repricing process plays out. And then how quickly opportunities actually emerge," says the research head of a global private investment firm.

Fewer respondents are expecting headcounts to go up than last year amid ongoing workforce issues. A senior executive at a real estate services firm highlights "the difficulties in finding and retaining qualified human resources", adding: "This problem may cause us to change even the way we do business."

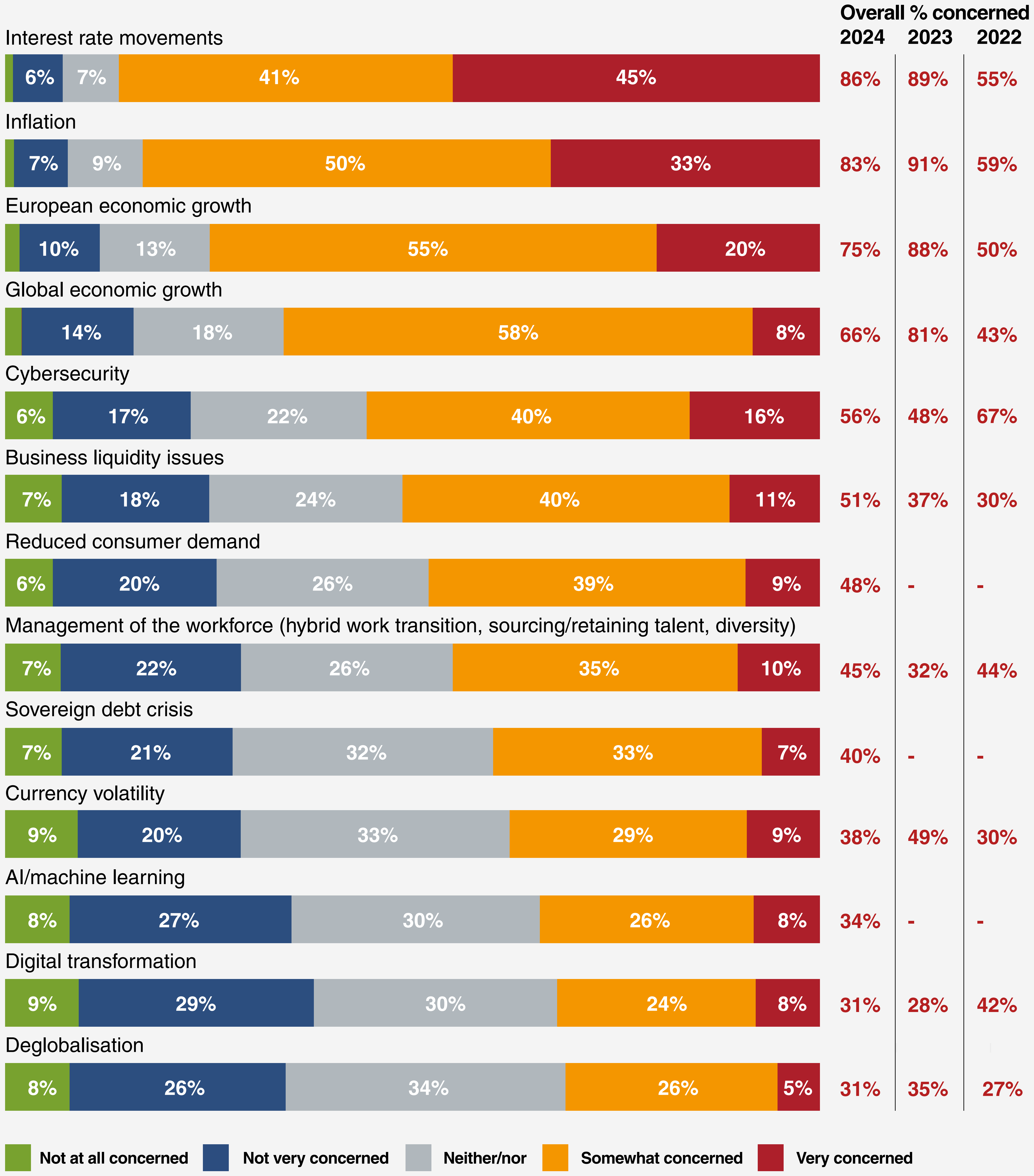
"Rising wages are likely to keep the pressure on core inflation, even if it will eventually settle," adds the asset management head of a German fund manager.

And on balance, over 10 years of surveys, overall sentiment on real estate business issues tends towards the pessimistic. "After COVID, war in Ukraine and climate change, the appearance of another black swan remains a high probability," the asset management chief adds.

Most forecasts for the UK and Eurozone suggest a sluggish economy at best in 2024, with recession a realistic concern. Contrary to this, stubborn inflation in the tertiary sector, across both services and wages, keeps the spectre of stagflation alive, and with it, the possibility of further rate hikes by the European Central Bank.

"Everyone seems to think we'll avoid recession. I'm not so sure. I see further negative news coming, especially for the development industry," says the European CEO of a global research body. "Even if we evade recession, where is the growth going to come from?"

Figure 1-2 **The European business environment issues causing concern in 2024**



Source: *Emerging Trends Europe survey 2024*

Though the challenging macro backdrop to real estate has taken a heavy toll on investor sentiment so far, it is yet to be felt fully in occupier markets. The interviews indicate that may change in 2024 with the exception of the logistics, housing and alternative sectors, where demand remains resilient. "It's taking longer to let space. You're seeing break clauses get exercised, you're seeing business failures slowly start to increase," says the European director of a global asset manager.

"Occupier markets will be hit to varying degrees because of the slowdown in economic activity," an investment manager warns. "They'll be part of that slowdown in economic activity and that must have a consequence for the occupation of real estate."

According to another pan-European asset manager, even a return to modest economic growth would be "insufficient to push occupational markets", meaning development is "relatively stalled" and is likely to remain so in the short-to-medium term. "Therefore, we are not really talking to investors about the value-add story yet."

Unsurprisingly, the survey shows that interest rate movements, inflation and European economic growth are top of the industry's general business concerns, although the weighting is down on last year (Figure 1-2).

"An awful lot of interest rates forecasts were wrong, which has severely hampered confidence right across the board," suggests a senior executive in European real estate.

> Our expectation is that inflation is stabilising and hopefully from next year, we will see a decrease.

Others are more sanguine. "Our expectation is that inflation is stabilising and hopefully from next year, we will see a decrease," says a global fund manager. "Our base scenario is that we will probably come down to a level around 3 percent, 2.5 percent in 18 to 24 months."

Yet the survey shows that interest rates, inflation and European economic growth remain the chief worries for the industry as a whole over a five-year horizon.

"We will be net sellers over the medium term, somewhat frustratingly, as I feel we will be selling into a down market," remarks a senior executive at a global investment management firm.

"Markets will get worse before they will get better," suggests a Polish market player, reflecting a common sentiment. There are also rising concerns over workforce management, and a greater appreciation of the impact of AI, even if this is not an immediate fear.

> AI will definitely shake up the industry, but it's hard to assess how many jobs will disappear, or if in fact new jobs may appear from that to balance things out.

"AI will definitely shake up the industry, but it's hard to assess how many jobs will disappear, or if in fact new jobs may appear from that to balance things out," says the chief executive of a global real estate association.

The top real estate concerns remain construction costs and resource availability by some distance, although the proportion of respondents selecting these factors is down on last year's results. This is perhaps not surprising for an issue that commenced with the onset of the pandemic and has now dogged the industry for four years.

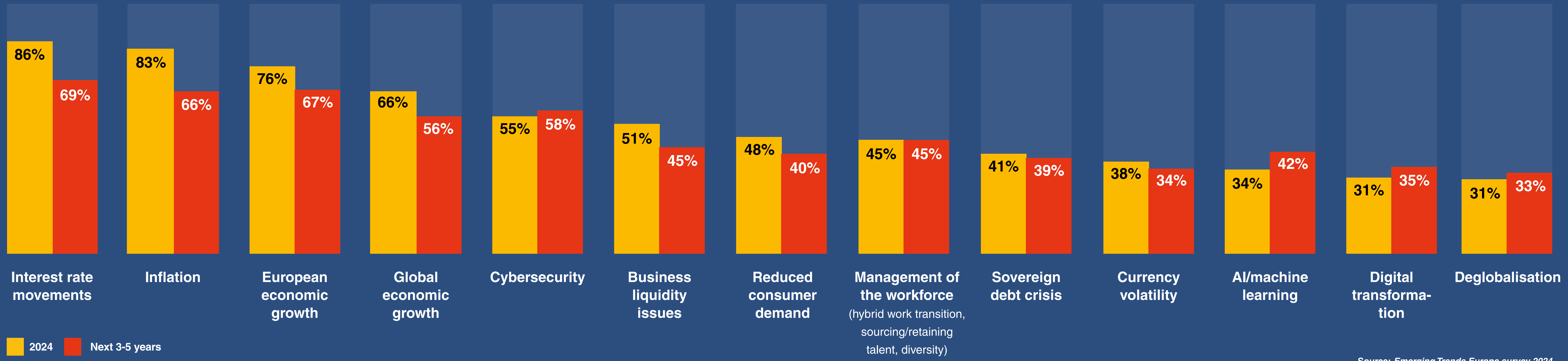
Survey respondents and interviewees display some hope that there is light at the end of the tunnel.

"For us, construction price inflation has eased," notes the CFO of a British property firm. "Last year we saw some material increases in commodity prices, timber, labour, energy; steel prices tripled. A lot of that has subsided. But we worry about inflation driven by potential energy hikes, albeit that has come down, and shortages of labour in the construction market."

Moreover, a spate of bankruptcies in the German construction sector in the second half of 2023, affecting firms such as Gerchgroup, Centrum Group, Euroboden and Project Immobilien, has reminded the industry that many of their development partners are at breaking point. "This could remain problematic for the next 18 months," according to a PwC/ULI roundtable discussion among German property leaders.

Figure 1-3 **General business environment issues in 2024 and over the next five years**

Note: Combined percentage of "concerned" and "very concerned" respondents.



Source: *Emerging Trends Europe survey 2024*

"We haven't seen the last casualty in the German construction sector, and let's not forget that a German REIT collapsed," says one German fund manager, reflecting on Germany's candidacy for the title of "sick man of Europe". Another sign of the sentiment shift here is that the five German cities covered in the survey have all slipped down the rankings (see Chapter 3).

The implosion earlier this year of listed real estate firm Adler, when its balance sheet woes were exposed to creditors, showed that no firm is too big to fail. Even if some of these risks do ease up, industry leaders remain fixated on a cascade of ancillary issues, including capex, environmental matters, the availability of finance, regulation and asset obsolescence, which have all grown in importance, according to the survey (Figure 1-4).

"Asset obsolescence could accelerate, driven by sustainability requirements on the one hand, and tenant demands on the other," suggests the CEO of an association for the built environment.

> Asset obsolescence could accelerate, driven by sustainability requirements on the one hand, and tenant demands on the other.

"My gut feeling is that even less finance will be available over the coming year," says the CEO of a European private real estate company.

Two-thirds of respondents reference market liquidity issues. While this is the first time the question has been explicitly asked in the survey, the challenge here is a big talking point among interviewees.

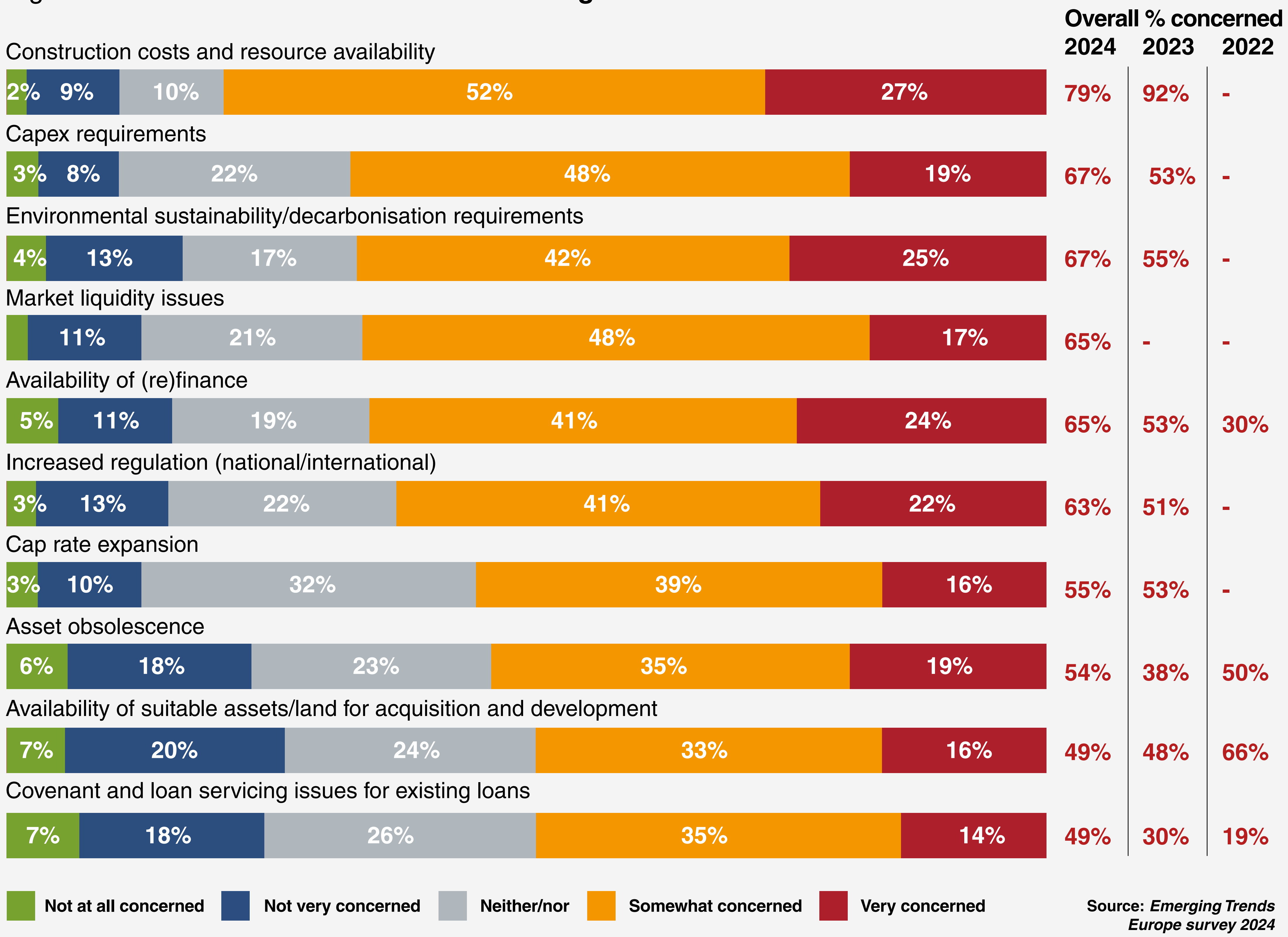
"Transactions have not really been happening, and secondary assets, specifically in the office sector, are not trading at all," observes the head of real estate for a global fund manager. "Investors don't want to catch a falling knife."

In fact, fewer than a third of respondents (29 percent) expect to be net buyers of real estate assets by the end of 2024 (Figure 1-5).

The issue has become a catch-22 for valuers, the real estate chief adds. "The longer landlords sit on their assets, the longer we remain in the dark about where values are heading."

As to whether the market stasis will persist in 2024, there is some hope that the stars are aligning — namely clarity on inflation, interest rates and valuations — to facilitate greater transaction activity in 2024. However, there is unlikely to be a single timeline for this across Europe's diverse markets.

Figure 1-4 **Real estate business issues causing concern in 2024**



Source: *Emerging Trends Europe survey 2024*

Figure 1-5 **Appetite for European real estate in 2024**

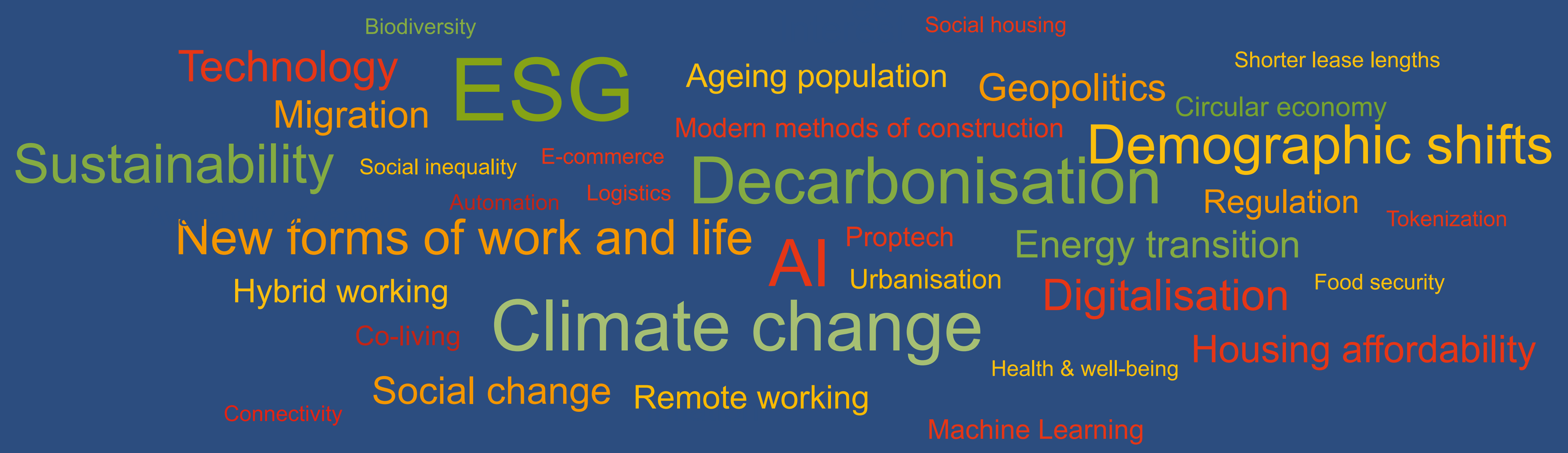
Source: *Emerging Trends Europe survey 2024*

Figure 1-6 **Social/political issues in 2024**

Issue	Not at all concerned	Not very concerned	Neither/nor	Somewhat concerned	Very concerned	Overall % concerned 2024	2023	2022
Further escalation of Russia's war with Ukraine		8%	13%	50%	28%	78%	88%	-
Housing affordability	3%	9%	13%	45%	30%	75%	65%	68%
Political instability (international)		10%	14%	53%	21%	74%	79%	58%
Environmental issues (e.g. air quality/climate change)		10%	15%	42%	31%	73%	76%	76%
Social equity/inequality	3%	14%	21%	44%	18%	62%	60%	63%
Political instability (Europe)	3%	19%	23%	43%	12%	55%	68%	45%
Political instability (national)	9%	24%	18%	34%	15%	49%	54%	43%
Mass migration	5%	21%	27%	35%	12%	47%	42%	41%
Climate activism (e.g. Extinction Rebellion, Just Stop Oil etc.)	8%	23%	31%	28%	10%	38%	-	-

Source: *Emerging Trends Europe survey 2024*

Figure 1-7 **Trends that will have the most impact on real estate industry by 2050**



Source: *Emerging Trends Europe survey 2024*

"It's worth always separating the UK from the rest of Europe," notes a corporate development chief at a private real estate investor. "The UK has continued to see quite a lot of flows from US and Asian investors, because it is a market that has repriced faster than any other market in Europe. Whereas now I think there will be better opportunities somewhere else if you are able to capture that repricing."

Yet there are fears of further price falls in the UK due to ongoing issues around sentiment and the economy.

"The UK felt like the market that had most found its level but is now moving towards a double dip of capital value decline," suggests an institutional investor.

Other respondents think that distress will be a key trigger for the return of transactions.

"I anticipate very significant distress in some sectors. The 'which' and the 'where' depend on how much leverage people put in and how they arranged it," says a global investment manager. When pressed on which sectors, this manager adds: "Not all offices are bad, but that's probably the one that landlords should most pay attention to."

According to another global investment manager, "regulatory constraints and the end-of-life of some funds will also spark sales".

Finally, political and social matters are still very much front of mind with a further escalation of the Ukraine war topping concerns for 2024 (Figure 1-6).

> "The UK felt like the market that had most found its level but is now moving towards a double dip of capital value decline.

The inflationary climate, after all, has not been solely provoked by general deglobalisation pressures on the prices of goods and wages, but amplified by a black spot in Europe that triggered massive energy price hikes last year and halted the movement of resources and people. The enormity of the issue has lessened a little for respondents this year, perhaps because it has already been "priced in". But increasing hostility from Poland, Hungary and Slovakia in the form of produce bans has underlined the lack of EU unity on the matter.

"There is no end in sight for the Ukraine problem in the short term," says a senior executive at a German investment manager.

Ukraine is not the only geopolitical worry for Europe's real estate industry. Upcoming elections in several European states could result in a further political shift to the right, while the hawkish Federal Reserve and pressure on US banks from its bloated office market are influencing sentiment.

"There are different challenges in each region, and they will all have some degree of impact, whether that's the Ukraine conflict or [deflation] in China," says the real estate CEO of an institutional investor.

Three other social and political issues show up in the survey which are heavily interlinked. These are housing affordability, social equity/inequality and mass migration; some respondents identify the ingredients for social unrest and further political upheaval (Figure 1-6).

"Housing affordability is becoming more political. The shifts to the right that we've seen after elections could continue," suggests the chief executive of a real estate association.

Meanwhile, a senior executive at a global real estate investment manager warns: "We're seeing climate-related migration already and it's only going to gain pace. The political response to that is going to be challenging."

ESG "licence to play"

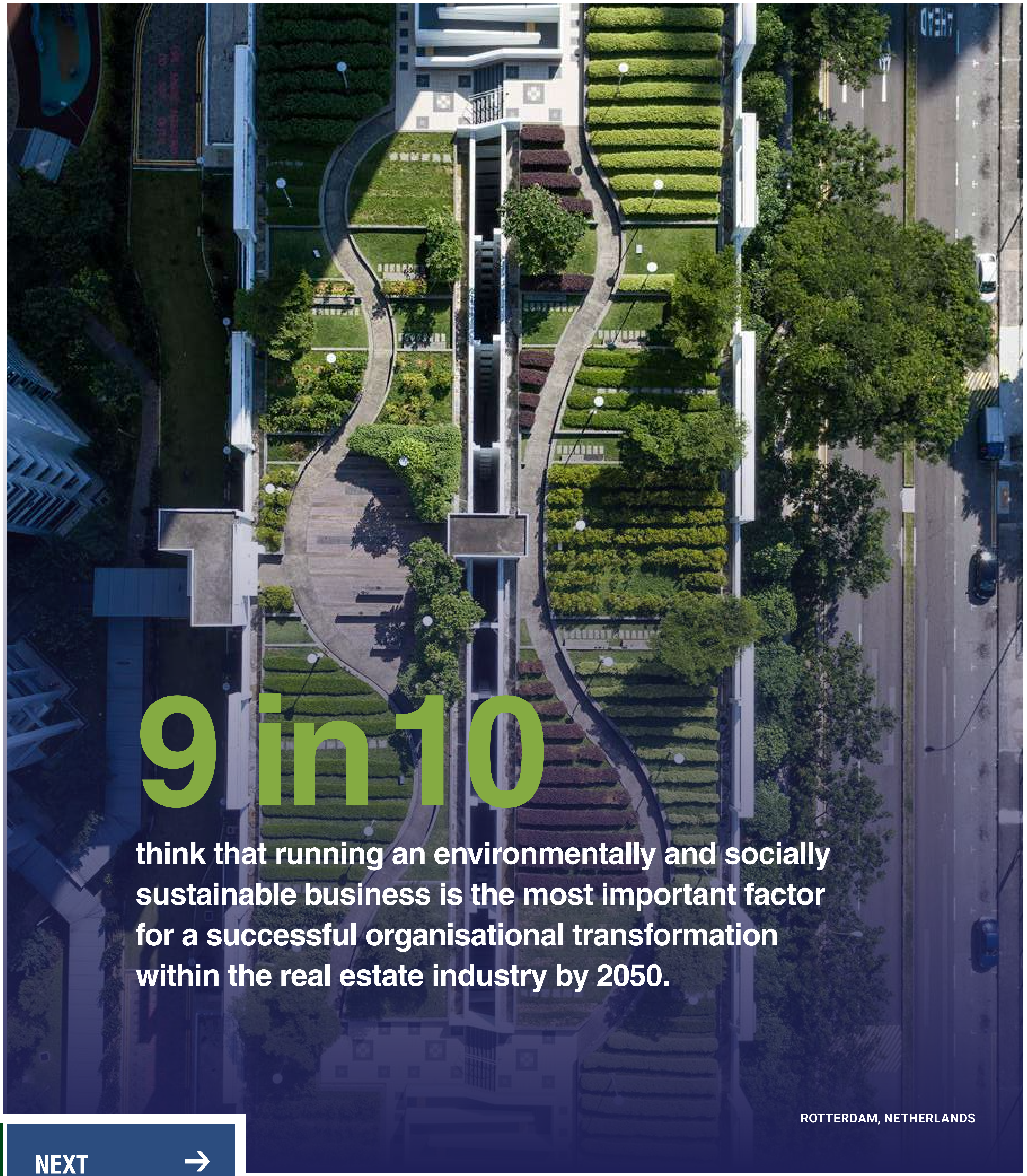
With each passing year of *Emerging Trends Europe,* the importance of environmental, social and governance (ESG) matters grows throughout the real estate industry.

And that's in both good times and bad, as from a legislative standpoint, the issue does not diminish in relevance in periods of recession or political and social challenge. "[ESG] legislators don't care about the economy," the asset management head of a global fund manager says with just a hint of irony.

Indeed, the ESG-related deadlines of 2025, 2030, 2040 and 2050 — encompassing targets of varying difficulty imposed by country, political bloc, or internally by corporations — have continued to edge ever nearer despite COVID-19, the outbreak of war, and macroeconomic headwinds.

It is not surprising that ESG matters are predicted to have the biggest impact on real estate by 2050, according to as many as nine out of 10 survey respondents. "We're now in a kind of Darwinism, with buildings being divided into those that are fit and unfit for purpose, or less fit," notes the CEO of one European property firm on the pressing topic of obsolescence. The sheer quantity of standing stock requiring work shocks some respondents, not least in heritage-bound Italy where industry leaders canvassed for this report ask: "Who is prepared to invest such huge amounts to upgrade all this?"

There is further evidence of the industry's preoccupations in the three-to-five-year outlook for real estate issues. The interlinked challenges of environmental sustainability, regulation and asset obsolescence — already significant — are only expected to increase in importance over the medium term (Figure 1-8). There are a range of reasons, according to interviewees.

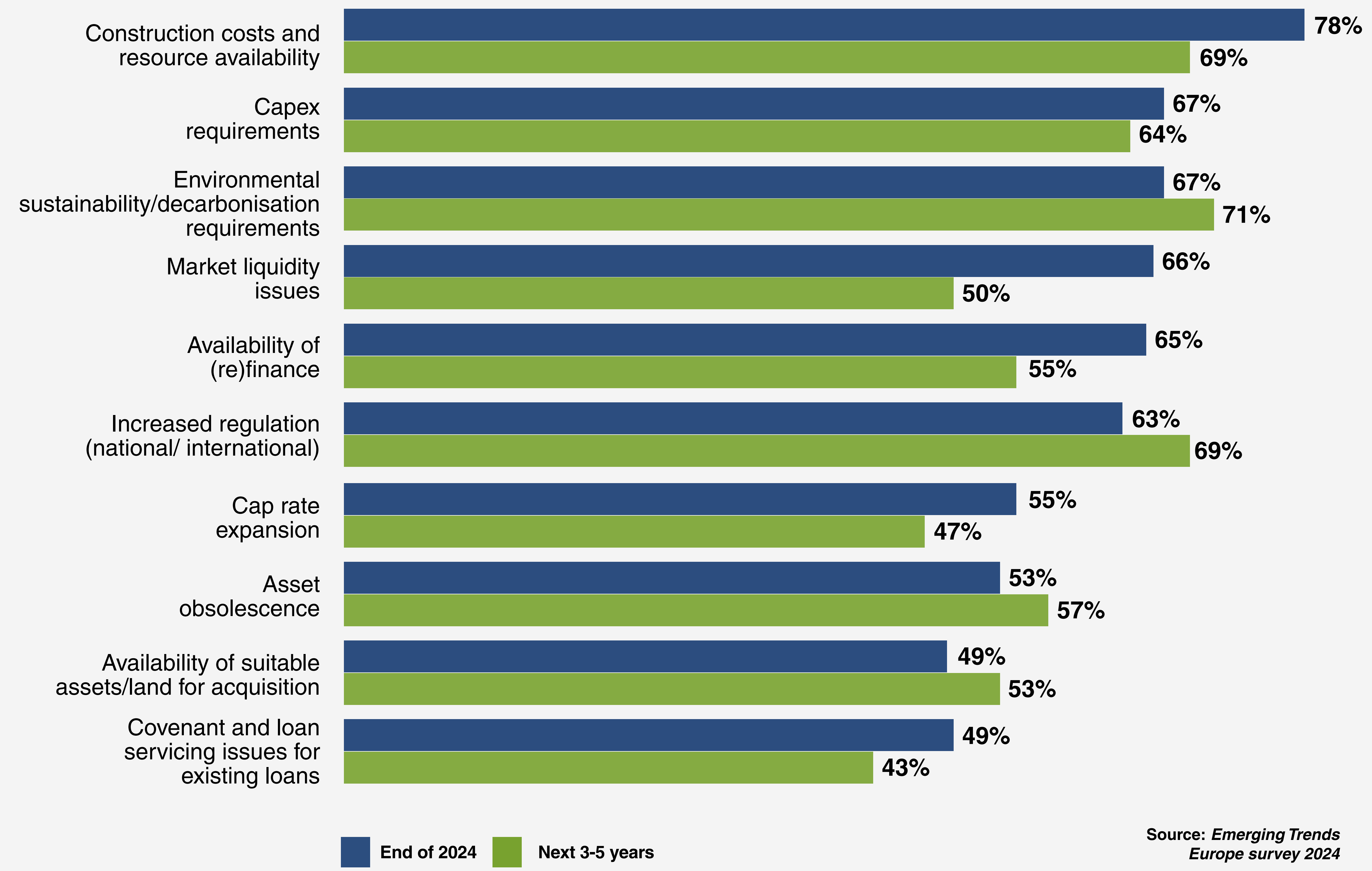


9 in 10

think that running an environmentally and socially sustainable business is the most important factor for a successful organisational transformation within the real estate industry by 2050.

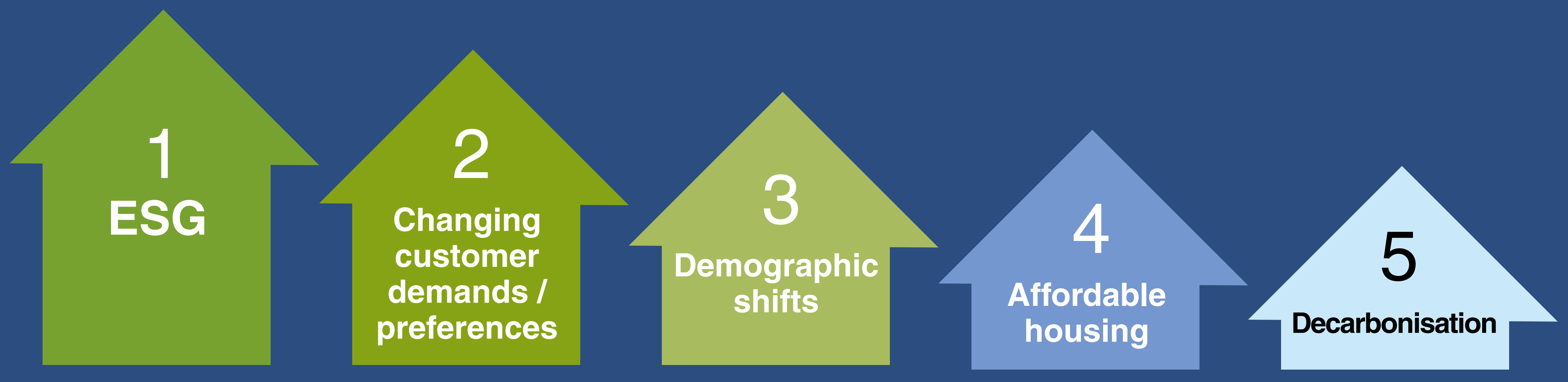
ROTTERDAM, NETHERLANDS

Figure 1-8 **Real estate issues for 2024 and the next 5 years**



Source: *Emerging Trends Europe survey 2024*

Figure 1-9 **Top 5 themes which will drive real estate investment decisions and strategic planning**



Source: *Emerging Trends Europe survey 2024*

It's often less about greening your portfolio and more about meeting all the reporting requirements.

"ESG compliance is not a 'nice-to-have'. It's a licence to play," says the CEO of a pan-European property company. "The personal opinion of the developer is irrelevant if investors, regulators, banks and everyone else thinks it's important."

Indeed, the survey finds that ESG is the number-one driver behind investment decisions, followed by changing customer demands (Figure 1-9). "Reputational upkeep plays a part," says the European chief executive of an institutional investor. "But it's often less about greening your portfolio and more about meeting all the reporting requirements, which takes a lot of energy and time."

The survey reveals that the collective pressure from institutional investors, banks/lenders and tenants/occupiers will most likely accelerate the implementation of ESG (Figure 1-10). For global firms, this means grappling with regional differences as well as tastes and preferences on an end-user level.

"The overriding complexity comes from policy regulation and the politics surrounding it," notes the research head of a global fund. "In the UK, it's unlikely EPC deadlines for 2027 and 2030 will be extended and I can't see how that will be viable."

Frustrated professionals are finding flaws, too, in present and incoming legislation. "EU taxonomy monitoring purely looks at energy consumed during building use, rather than primary energy used to construct a building. So, we're missing the bigger picture," suggests a European asset management chief.

There are further concerns from some interviewees that sub-optimal regulation will simply drive a culture of greenwashing. For one European real estate head of a global fund manager, the "unknown" factor in climate modelling makes the challenge here even more difficult. "If our attempts to mitigate climate risks ultimately fail, the portfolio improvements we are making today might completely miss the mark."

With European economies stuck in a cyclical low, there are consequences for both real estate companies and end users as calls louden to reduce emissions, price carbon, and improve the social impact of real estate. "If you go into recession, ESG becomes a harder sell," admits one global private investor.

Indeed, just 37 percent of survey respondents say they would be willing to forgo financial return altogether in exchange for environmental and social impact (Figure 1-11). There is palpable frustration at the distance between ESG idealism from those setting the targets and real-world pragmatism. One global asset management chief notes: "If you can't find the solar panels or the labourer to fit them due to resource shortages, tough."

Striving for social impact

Anecdotally, the E in ESG is taking precedence over the S according to a number of interviewees. In fact, the survey shows the importance of creating social impact alongside financial return is slightly down on last year at 81 percent.

Part of this may be due to a lack of benchmarking on social aspects, notes a global head of asset management for a fund manager. "Social housing is the only aspect of the S reflected in the EU taxonomy, and there are no real international standards that can be applied at the moment in this area."

It is not much of a leap to assume that the funding spotlight is staying on the E for the same reason, despite attempts to establish more of a framework around social impact, such as the merging of the Taskforce on Inequality-related Financial Disclosures (TIFD) and Taskforce on Social-related Financial Disclosures (TSFD).

Another industry chief also points to an inherent conflict between environmental and social issues, often due to the capital commitments required to bring a standing asset up to scratch, which imply rent increases. "If you were to make the investments that you would want to do from an environmental point of view, you would crowd out the current tenants," says the head of strategy of a European investment manager.

> The S requires a paradigm shift. While the E often implies thinking about assets in isolation, the S is about creating places.

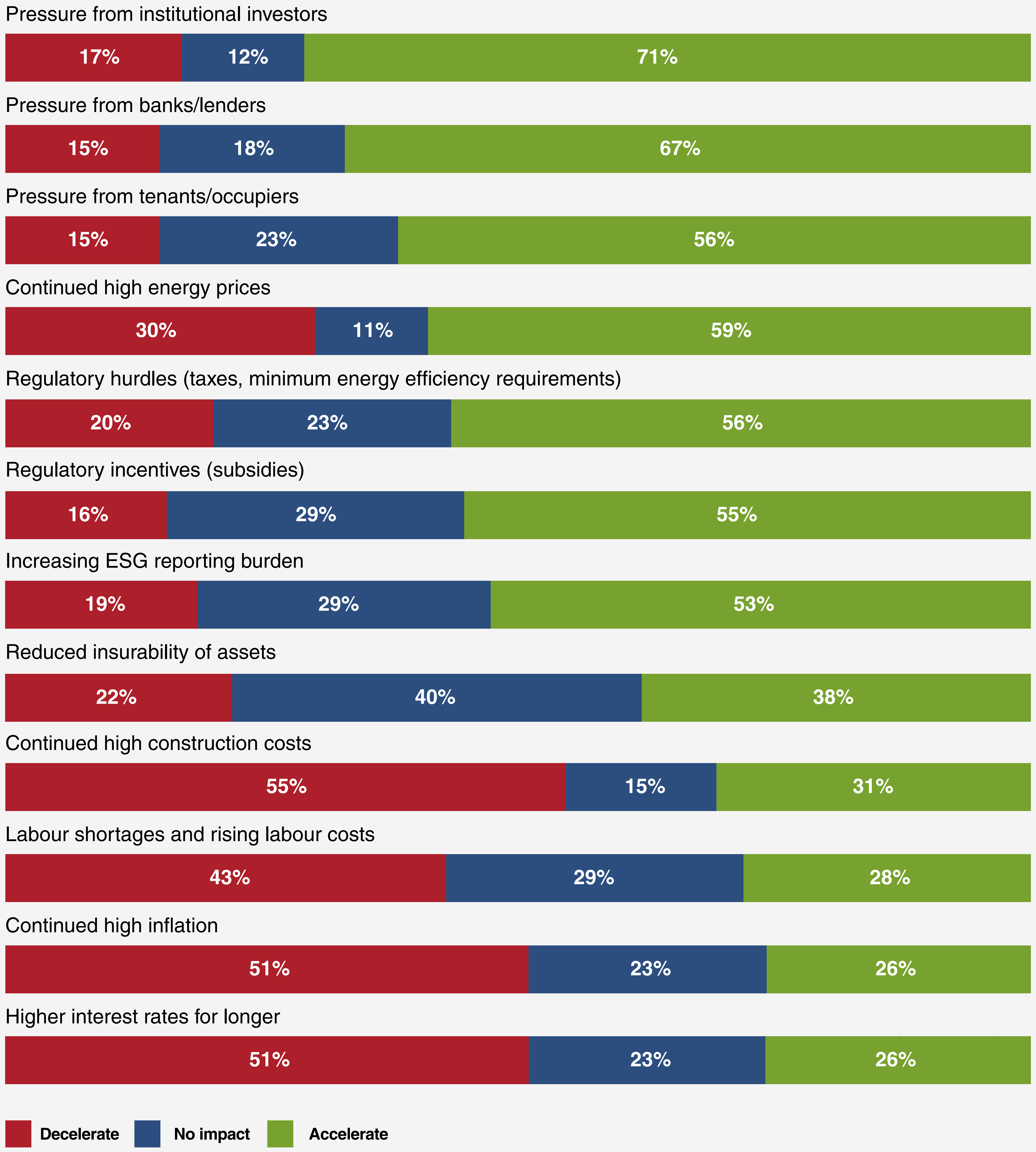
"Eventually, you cannot have a regulation that drives everything to the maximum standards because certain parts of the population will not be able to pay for them. This is not necessarily the case for commercial real estate."

Social causes and environmental targets are not always at odds, however. "Social inequality and climate change are related issues," notes another European real estate CEO, identifying growing divergence between the "liveable" and "disaster-stricken" parts of the globe as rising temperatures and extreme weather take hold.

Overall, survey respondents recognise that the social impact of real estate is likely to be a key issue over the coming five years, and there are moves to meet the challenge (Figure 1-12).

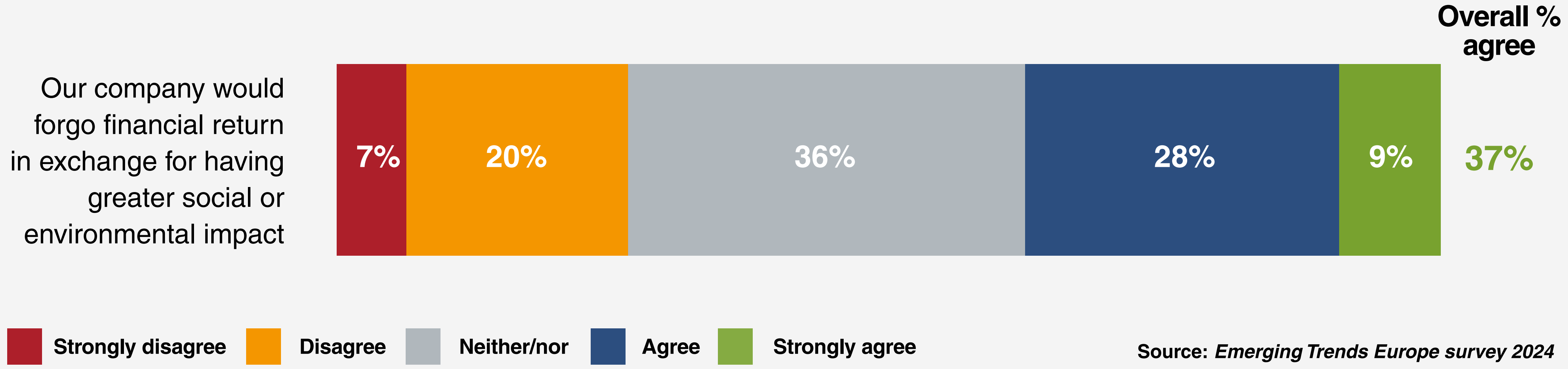
"The S requires a paradigm shift. While the E often implies thinking about assets in isolation, the S is about creating places," says a global investor. "I think that will change how we approach environmental matters too."

Figure 1-10 **Factors affecting the implementation of ESG**



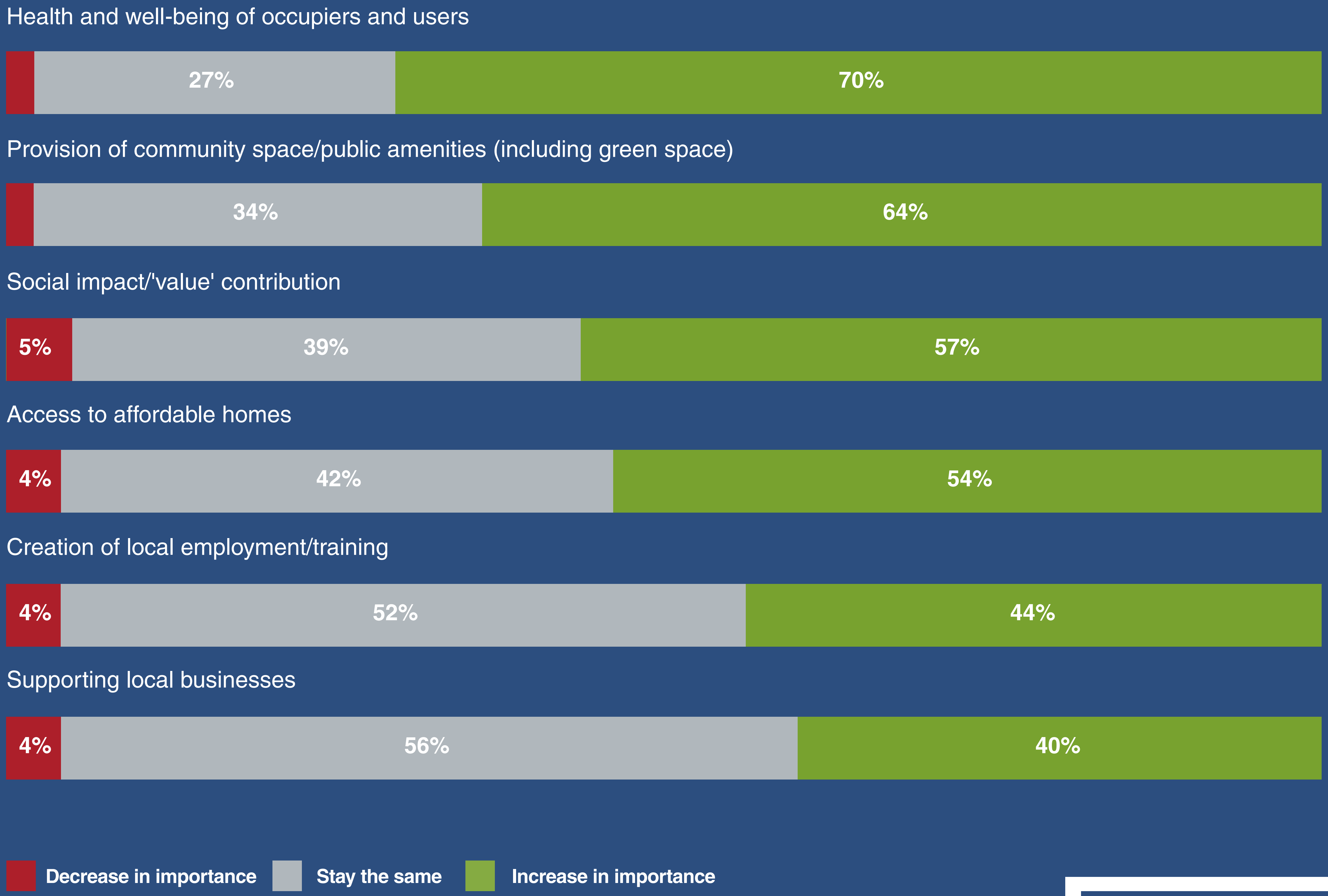
Source: *Emerging Trends Europe survey 2024*

Figure 1-11 **To what extent do you agree or disagree with the following statements?**



Source: *Emerging Trends Europe survey 2024*

Figure 1-12 **How do you think incorporating these environmental and social aspects will change in importance in your portfolio in the next 3-5 years?**



Source: *Emerging Trends Europe survey 2024*

"Selfishly, it helps us from a political perspective," says a C-suite executive from a British property investor. "If we're talking to a local council about a new development, we can often demonstrate all the things we do around the area, things we have in place to help the community, jobs that we've set up, the space that we provided."

Of all the moving parts of the S, the importance of the health and well-being of occupiers and end users has increased the most since the start of 2023 and is expected to rise further in significance over the next five years.

"We try firstly to make sure that our tenants are enjoying the properties they occupy, and that they have a healthy environment. It starts with air quality, but it also extends to amenities for them to use," says a European asset management head at a global investment manager.

Diversity, equity and inclusion (DEI) might not be capturing quite as many headlines this year as attention lingers on macroeconomic headwinds, but industry leaders assure *Emerging Trends Europe* that it is still a priority.

"We have a major internal programme to onboard a more diverse team," affirms one asset management chief based in Germany.

Sometimes it allows a firm to combine wins. "Building a diverse workforce is the biggest factor for us in the S of ESG," notes a global investment manager. "We've been reaching out to students in parts of East London to find candidates who might not traditionally have interned at an investment manager."

> Social tension is increasing across Western economies, and we need to make sure that, as an industry, we are really inclusive of people from different backgrounds.

Though gender has typically been seen as the easiest diversity "win", there is increased urgency around tackling other parts of DEI, such as socio-economic aspects. "Social tension is increasing across Western economies, and we need to make sure that, as an industry, we are really inclusive of people from different backgrounds," urges one European asset management chief at a global real assets investor.

Finally, despite attempts by global companies to have their employees "sing from the same hymn sheet" on ESG, evidence points to increasing divergence between Europe and the rest of the world on some aspects of compliance and its place in strategy. "Our US colleagues have different views," says the European CEO of a global institutional investor. "Especially on the E part, where it's not always a given that investors appreciate that money needs to be spent on sustainability."

Another interviewee shares an anecdote from the chairman of a US-based, global property company, who recounts receiving letters from the governors of various US states "effectively saying don't take ESG too seriously". The interviewee adds: "That experience was corroborated by several other American managers."

Trending topics

The valuation challenge

The science of valuations in a bloc as diverse as Europe has always been complicated by labyrinthine laws and regulations, affecting everything from how often values are updated in different territories to the factors influencing an asset's perceived worth.

If the free market aspect of dealmaking has helped set prices and diminish the impact of this, a distinct lack of transactions in recent times has had the opposite effect. Add in ongoing macroeconomic headwinds and a reluctance to write down assets, and the cycle of uncertainty and inactivity perpetuates. As one pan-European investment manager puts it: "Potential buyers say we believe the price will drop more, so we sit and wait; don't touch a falling knife."

Some markets have seen revised pricing settle more rapidly. "In the UK, valuations seem to react more quickly than European valuations, which seem a bit more pedestrian," says a senior executive at a global investment manager. Yet the chief financial officer of a British property firm identifies ongoing reticence in the UK: "Direct investors say we're still unclear on the political environment, the economic environment, and we'd rather miss the first 10 percent after you hit the bottom than invest now and lose another 30 percent."

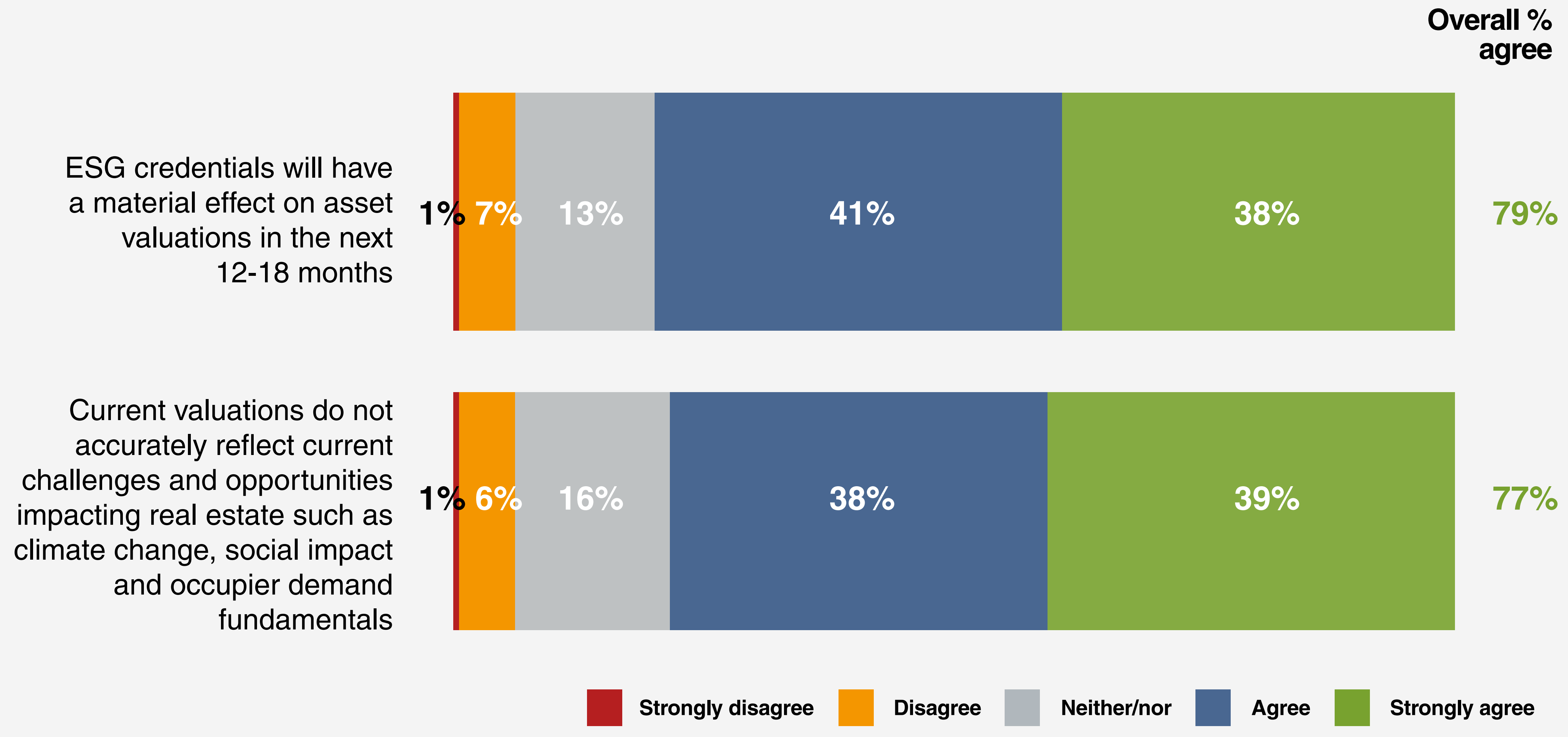
Such uncertainty is glaringly evident in the survey: a remarkable 77 percent of respondents believe that current valuations "do not accurately reflect all the challenges and opportunities impacting real estate, such as climate change, social impact and occupier demand fundamentals" (Figure 1-13).

"Valuations have not settled. They are not yet representative of what the real price would be of some of the assets we see in the market, or that we have in our portfolios. I think in some geographies, this will never really come close to market pricing," says the European head of asset management of a global investor.

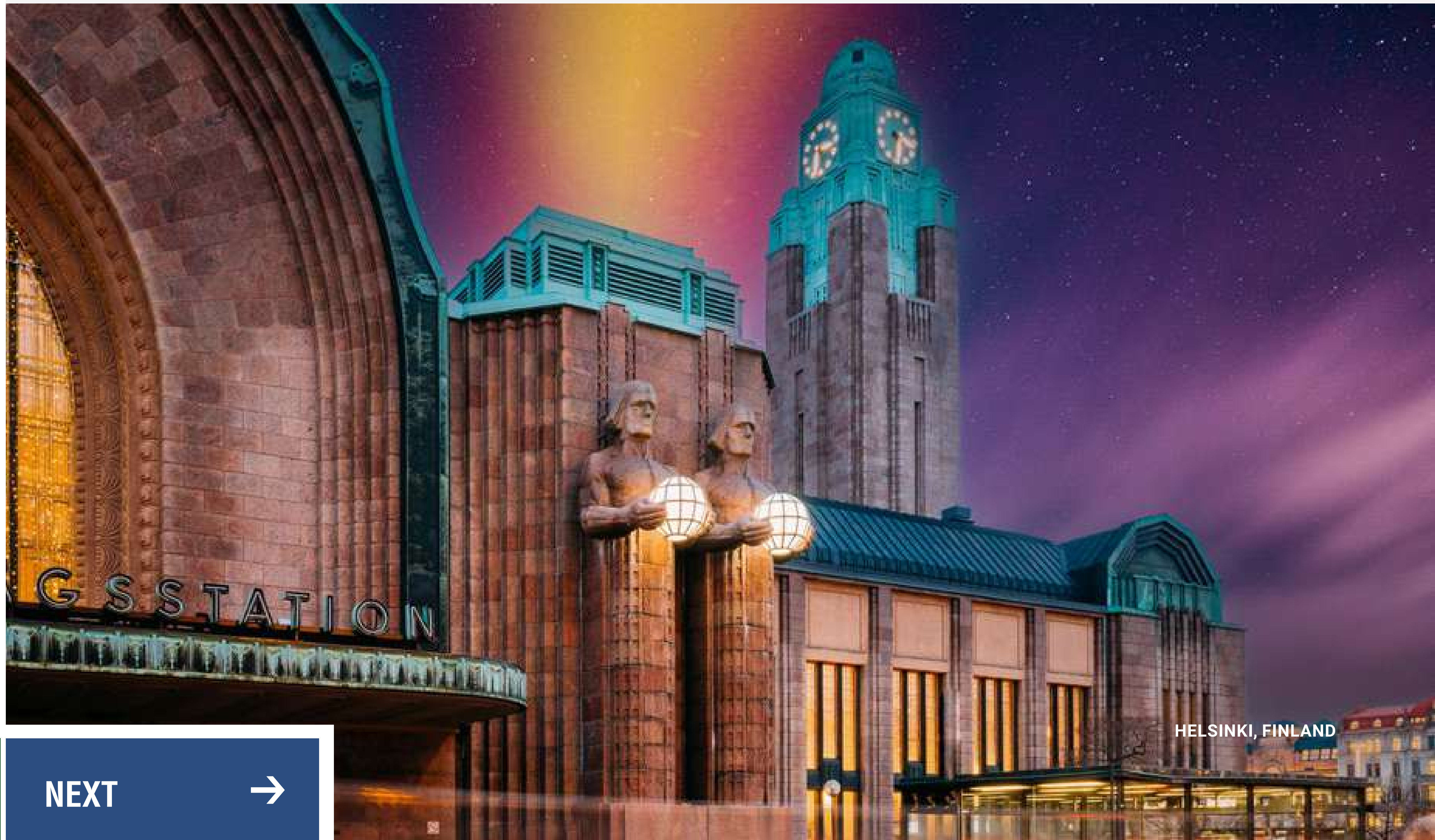
Furthermore, 79 percent of those surveyed believe that ESG credentials will have a material effect on asset valuations in the next 12-18 months, roughly in line with last year's views, when 81 percent were in agreement with the thesis. However, this too is fraught with complexities.

"The obvious one is how do you value stranded offices? I don't think valuers have had sufficient guidance as to how to actually value the energy transition," says a senior executive at a global investment manager. The concern is that while investors want prices that reflect how much they have spent on ESG compliance, the markets might not deliver. Accordingly, this manager asks the investor to factor in "the risk of not doing that" instead and invest in decarbonisation regardless.

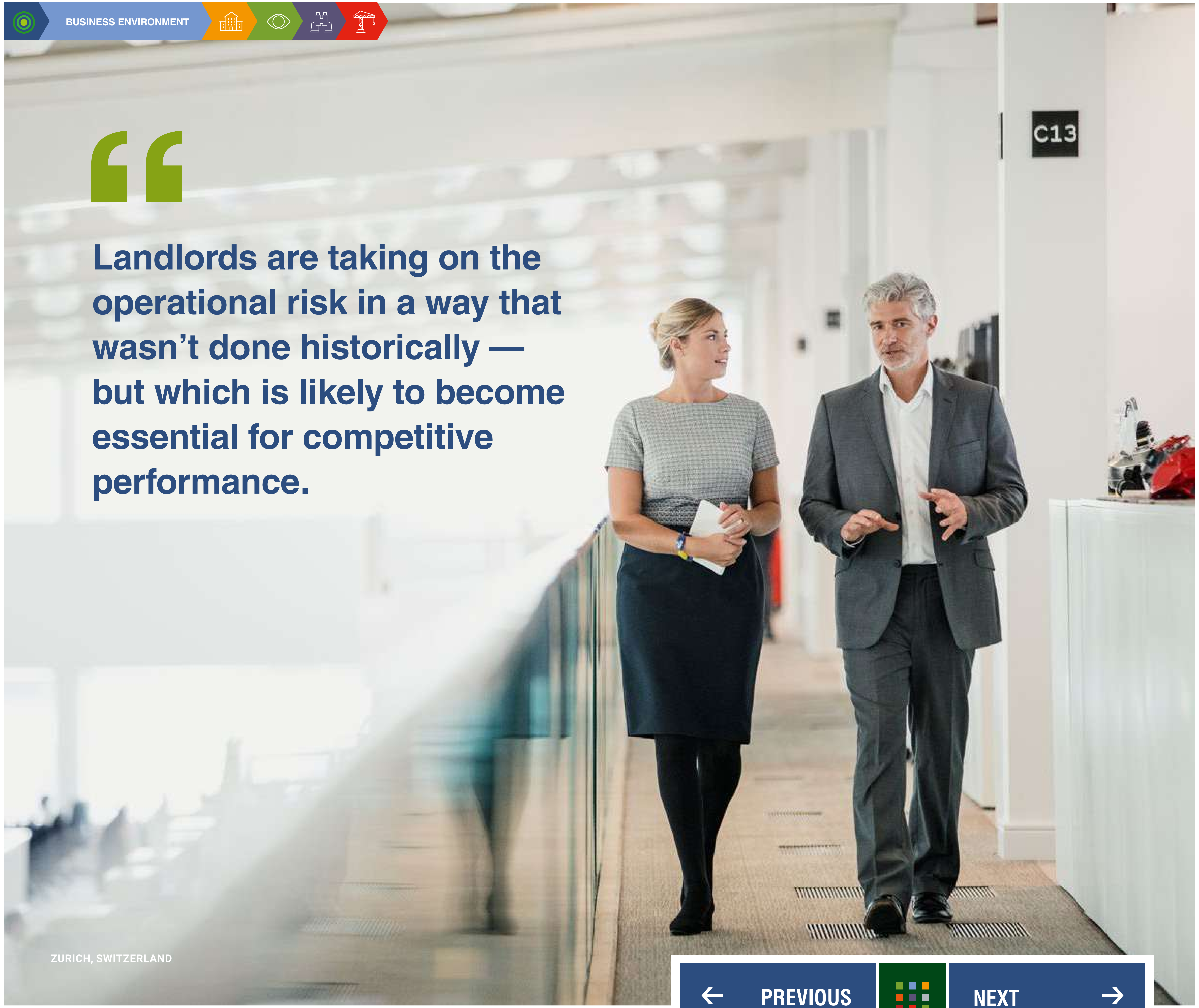
Figure 1-13 **Valuation challenge**



Source: *Emerging Trends Europe survey 2024*



HELSINKI, FINLAND



"Landlords are taking on the operational risk in a way that wasn't done historically — but which is likely to become essential for competitive performance.

ZURICH, SWITZERLAND

Valuation shifts, meanwhile, have teed up allocation issues for institutional investors. "Some pension funds are now overallocated to real estate," says one fund manager, "but the uncertainty surrounding valuations and therefore the transactions market leaves them stuck."

For others, valuations are increasingly complex in an industry ever-more reliant on extracting revenues from real estate provided as a service, where lease lengths, fit-outs, location and economic headwinds can all cause huge variations in revenue and thus the relative utility of an asset. "Landlords are taking on the operational risk in a way that wasn't done historically — but which is likely to become essential for competitive performance," says one pan-European investment manager.

One conclusion from a PwC/ULI roundtable discussion among property leaders in Greece highlights the implications: "Property owners are realising that if tenants face operational issues, it impacts them directly, in assets like hotels. This is most evident when properties are tailored for a certain tenant, making re-leasing or repurposing more challenging."

But that also means that profits are no longer just contingent on owning the real estate — buying and "sitting back" is simply not good enough. "You need to really understand the drivers of each specific niche as an asset class, or you can make huge mistakes," says one senior industry player, highlighting data centres as an example. "The business isn't the building — it's about the electricity supply, the right voltage, and the continuity of service et cetera."

AI makes its presence felt

If 2023 was the year that artificial intelligence (AI) invaded the popular media and pub chat, it was also the year that corporate committees asked what it could do for real estate.

After proliferating in systems offered by proptech providers in recent years, the recent success of platforms like ChatGPT and Google's Bard has suggested that AI might have much more wide-ranging, "general purpose" applications. As the CEO of one pan-European firm says: "AI will impact the entire property management chain."

According to the survey, AI, technology and digitalisation are seen as second only to ESG as top trends for the future of real estate. Almost a third of respondents' companies have used AI in the past 12 months, and the majority of those surveyed think that AI/machine learning will affect most aspects of the real estate value chain (Figure 1-14). While areas such as marketing and leasing are seen as offering the greatest potential applications for AI at 95 percent, respondents think it could help teams as diverse as planning, asset management, construction and investment (Figure 1-15). "How can we use this internally to become a much more efficient organisation? Why are we using spreadsheets?" asks the CFO of a listed real estate company. "Can we bypass some of this and use the advancements in technology to make us a much more efficient, leaner, faster-running business?"

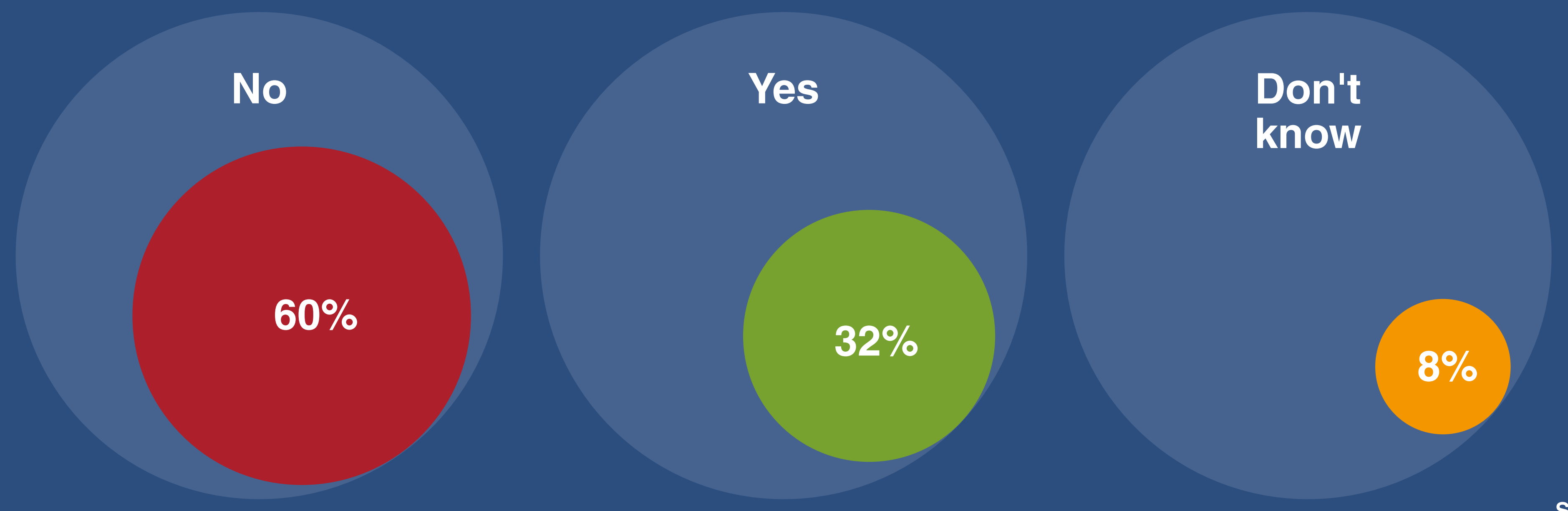
Furthermore, AI is increasingly seen as an aid in tackling ESG, particularly in modelling climate risk, as well as with monitoring tasks such as identifying water leaks or resource wastage. The CEO of a European REIT, for instance, is using it to "collate energy data and look at ways to save costs for both the business and tenant".

Others are less convinced about the digital revolution. "AI can help with simple tasks; however it cannot replace any jobs that seek to balance the interests of stakeholders," says the managing director of a German property firm. "Its success in Germany will also be hampered by a lack of transparency." At worst, it could add to cybersecurity risks, which are seen as a growing concern in the medium term for almost 60 percent of respondents.

> AI will impact the entire property management chain.

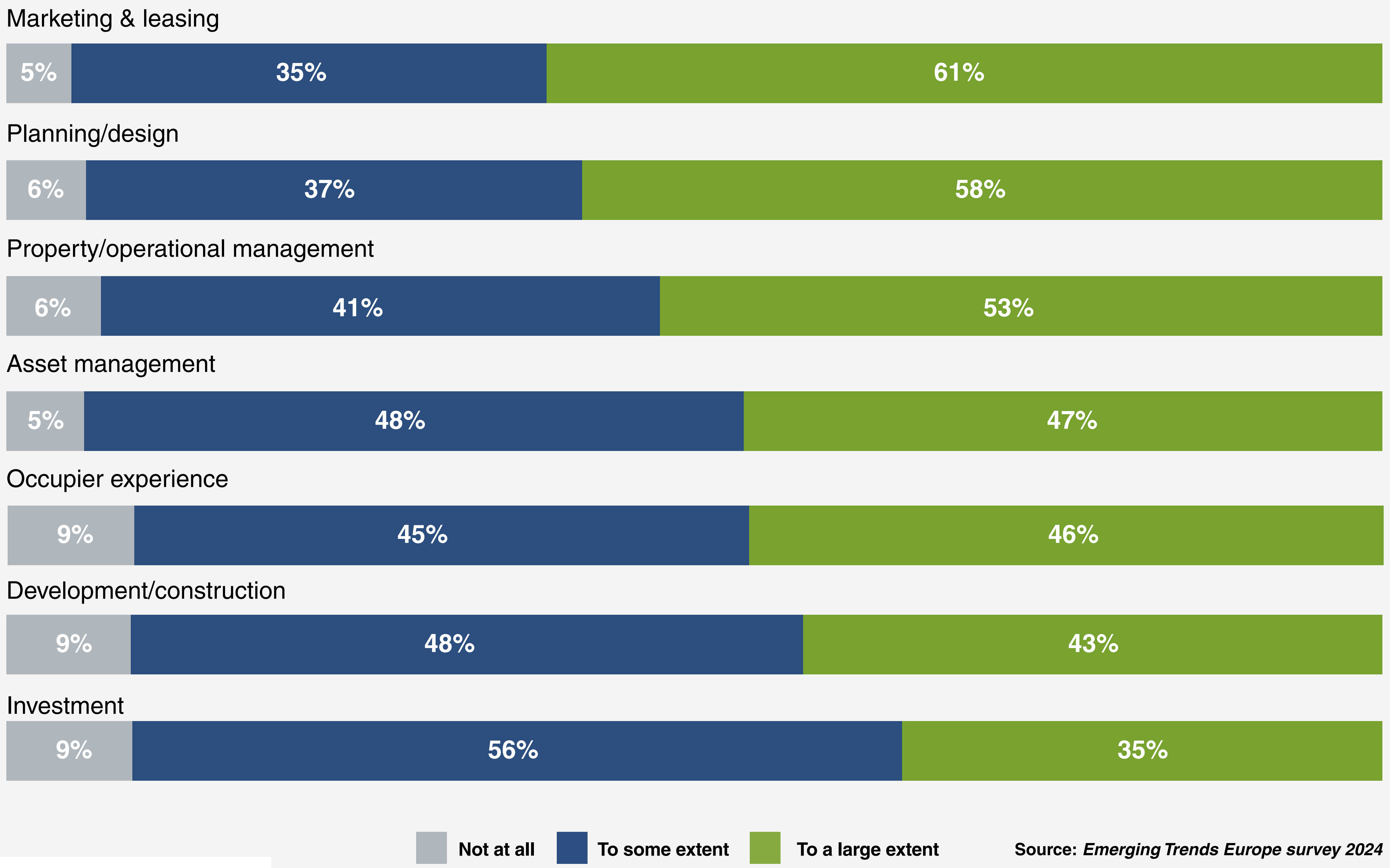
The CEO for Europe of a global institutional investor thinks AI is more likely to "accelerate the trend to be in more central, high-quality offices to attract that top talent, which will be even more focused on creative collaboration and exchange, while a lot of the routine work is being done by AI".

Figure 1-15 **Proportion of real estate industry that has used AI/machine learning to assist in real estate activities (e.g. investment decisions, transactions, asset management, deals etc.) in the past 12 months?**



Source: *Emerging Trends Europe survey 2024*

Figure 1-14 **To what extent will AI/machine learning affect the following parts of the real estate value chain in the next 10 years?**



Source: *Emerging Trends Europe survey 2024*

"

Geopolitical and demographic risks in Asia and the US could make Europe a relative safe haven.

POLAND

Making the most of shifting demographics

Demographics is considered a major trend influencing the future of real estate in this year's survey, with one in 10 of respondents citing it as an important, long-term factor.

Though the industry has dwelt on Europe's ageing population in the past, the discussion around demographics has become more nuanced in recent times.

Europe is nothing without geopolitical context and, compared to the US, with its similarly ageing population, is arguably benefitting more from "inward migration, positively influencing its demographics", according to the EMEA real estate head of an investment bank. "Geopolitical and demographic risks in Asia and the US could make Europe a relative safe haven."

"Everyone thinks the States is a country of migrants," says the European head of research of a global investment manager, "but their migration rate at the moment is far below what Europe has taken in." This includes Ukrainian refugees fleeing to Poland, Hong Kong citizens taking British residency, and South American migrants moving to Spain.

While this migration implies economic and workforce benefits for the destination states, it is also informing wider geopolitical discussions, and even inspiring dog-whistle politics.

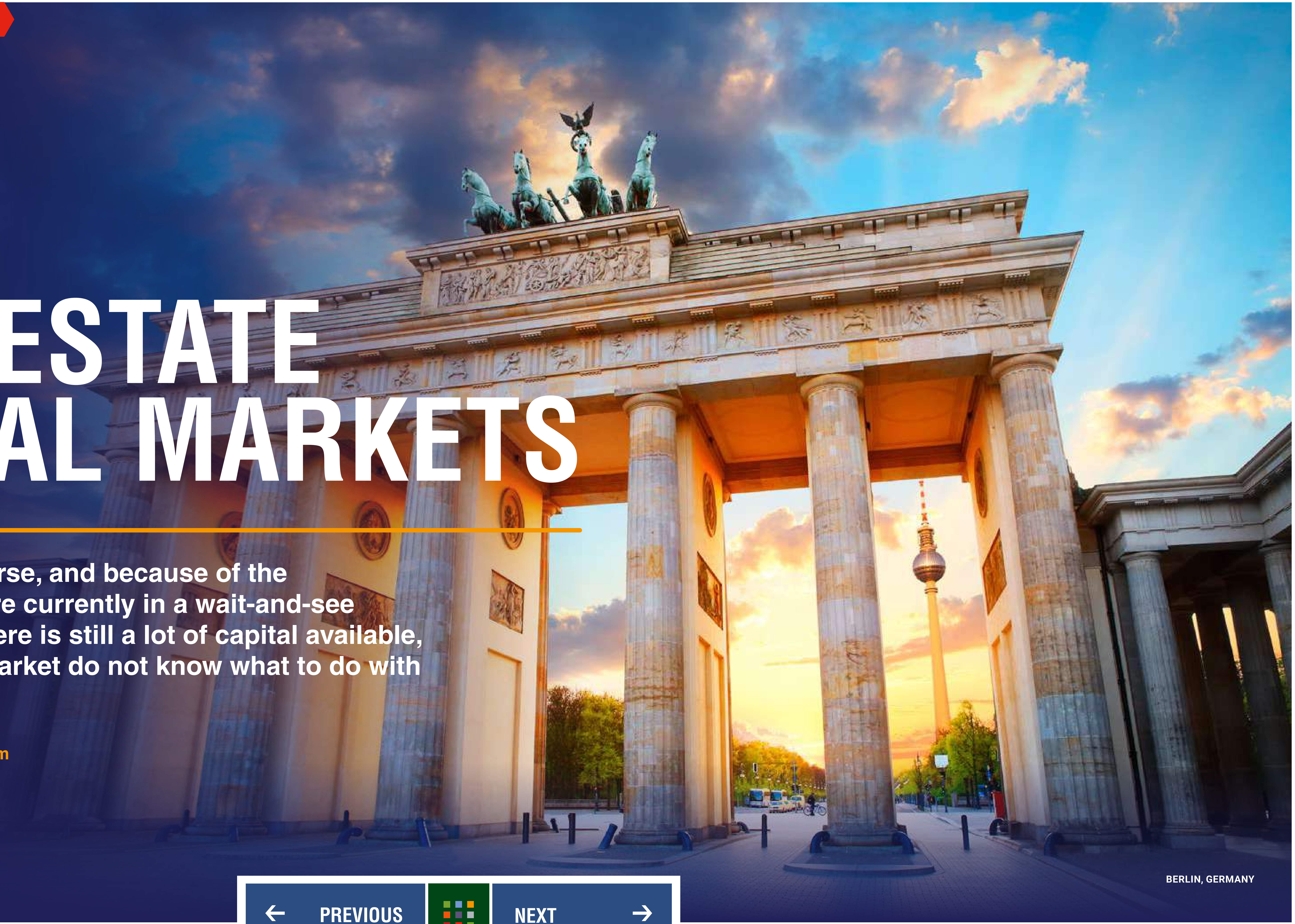
The chairman of a real estate investment boutique ponders if Europe's current "inability to accept immigrants on a merit basis" could ultimately create further tension.

Other respondents are not so sure that migration trends will alter the West's ageing population curve. "I guess Japan is a bit of a preview of the future," says a senior executive at a global investment firm. "Societies will look very different because they're much older, and that will shift demand for real estate in a number of ways."

Those industry leaders who are alread anticipating such a shift believe that it is never too early to seize on related real estate opportunities. "You have to make those relationships, gain experience, build those contacts, scope out your product now, if you want to be developing senior housing in 2030 to deliver in 2032," says the European head of research for an institutional investor.

Finally, there are broader concerns about the impacts of climate change on global populations and how that is stimulating migration and affecting the liveability of cities.

"It cannot be that the 'haves' occupy the temperature-wise, liveable north of Europe and the poor kind of stick to the riskier and not-so-liveable equator zone," says the CEO of a European property firm. "That could quickly spiral out of control."



CHAPTER 2

REAL ESTATE CAPITAL MARKETS

"Everyone is risk-averse, and because of the uncertainties many are currently in a wait-and-see position. Although there is still a lot of capital available, many people in the market do not know what to do with their money."

Director, German venture capital firm

BERLIN, GERMANY

PREVIOUS NEXT

Investors and lenders continue to grapple with a cost-of-capital crisis as higher interest rates compound the challenges of an uncertain economic outlook and growing pressure around ESG compliance.

It is little wonder that “stay alive until 2025” has become something of mantra among property leaders.

With inflation still uncomfortably high in Europe's major economies, the prospect of interest rates staying “higher for longer” is dampening the mood in real estate capital markets.

Investment liquidity remains very low, and a wedge is being driven between the pricing expectations of buyers and sellers. In some areas the bid-ask price gap is so wide that many interviewees believe that investment turnover will be slow to recover.

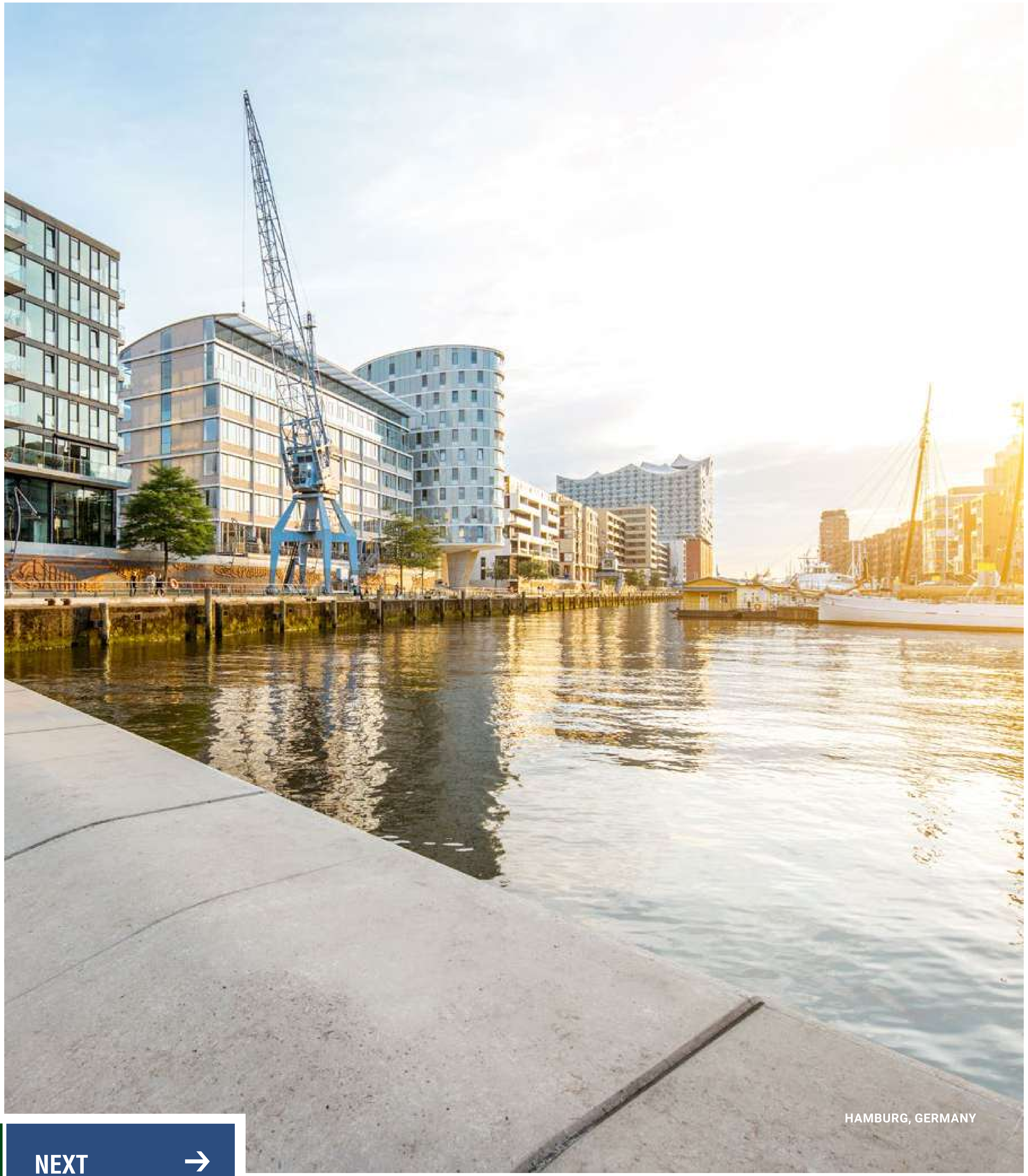
In this market, the current approach of many investors is characterised by inertia and stasis. That could change if interest rate reductions are signalled by central banks sooner rather than later, though that is not the majority view. In the absence of a pick-up in the real economy, the wider expectation is that far more distress will be necessary to close bid-ask gaps and allow liquidity to return. That would be painful for the industry as a whole.

Though most market participants expect to see more opportunities arising from distressed sellers, there are limited signs of them so far.

“Not only are bonds looking better as an investment, but they’re also delivering the yield that investors want, and therefore arguably investors need real estate less.

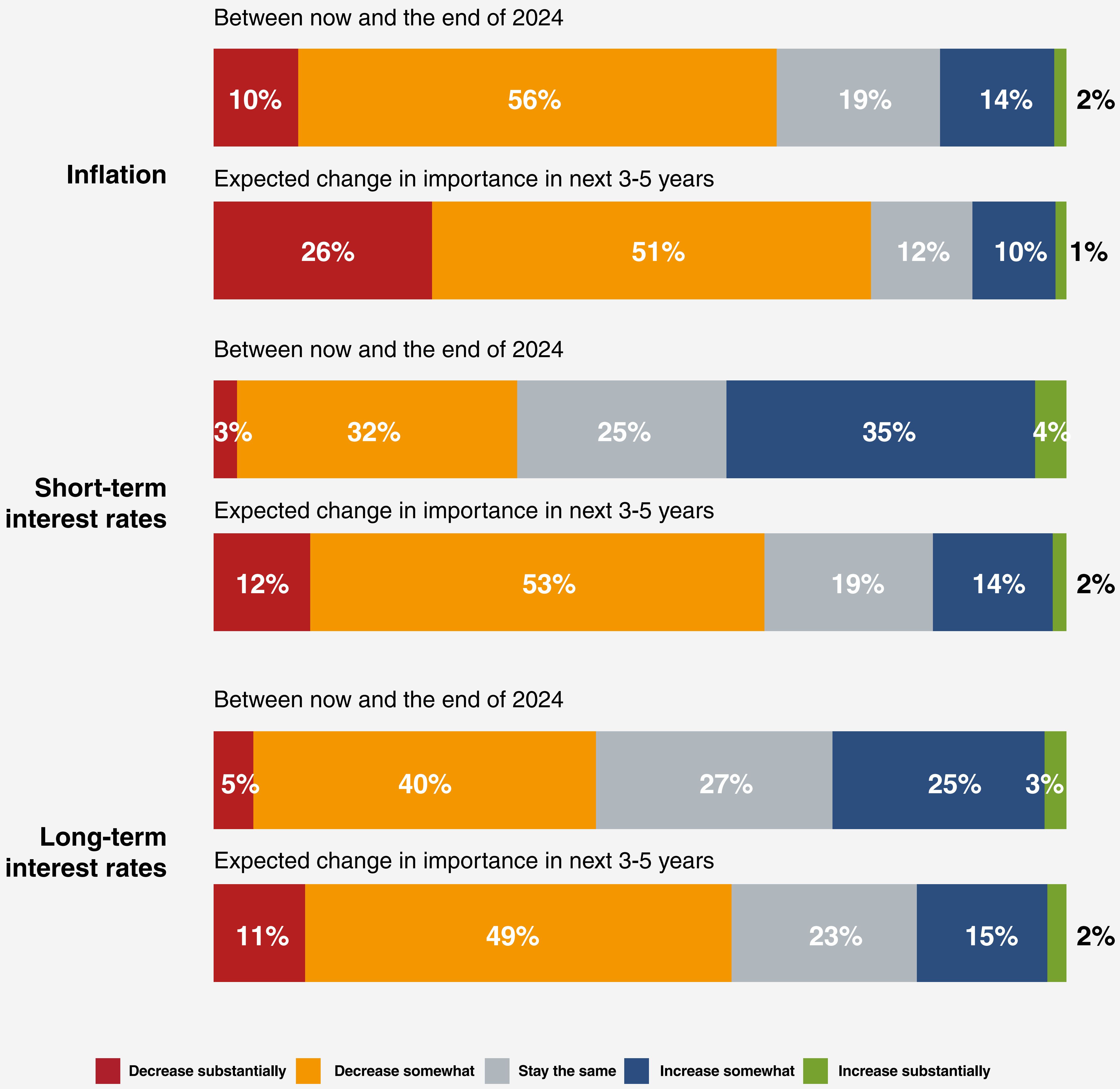
Debt and equity are still available but capital decisions are subject to restraint and caution.

Against such an uncertain backdrop to investment, there are deeper concerns about real estate retaining its status as a favoured asset class. Raising capital is more difficult. Some institutions are reducing their real estate allocations in favour of fixed income, possibly because the denominator effect — a big theme in last year’s report — continues to cloud investor perspectives. As one interviewee says: “Not only are bonds looking better as an investment, but they’re also delivering the yield that investors want, and therefore arguably investors need real estate less.”



HAMBURG, GERMANY

Figure 2-1 **Inflation and interest rate expectations for 2024 and the next 3-5 years**



Source: *Emerging Trends Europe survey 2024*

"Polycrisis" engulfs property

Sharply slower economic growth, stubbornly high inflation and concern about how much higher interest rates will rise continue to cast a shadow over European real estate investment. This is on top of the ever-present challenges of geopolitical volatility, increasing policy and regulatory burdens.

One leader sums up the magnitude of the situation: "We're clearly going through another major transition in the capital markets on a scale probably only slightly smaller than the global financial crisis (GFC), and it seems like we're about halfway through it." Others describe a "polycrisis" unfolding, and one compares it to a "cocktail which is not tasting so good at the moment".

With progress on reducing inflation across Europe clearly slowing, there is a growing acceptance in real estate capital markets that interest rates will stay "higher for longer". As one senior director of a global investment manager explains, "If you look at core inflation, there are reasons to believe it might be stickier, so the [interest rate] cycle could be longer." That raises concerns about another possible leg down in valuations.

That unpleasant cocktail of issues has caused European real estate investment volumes to plummet and prices to fall. According to MSCI, only €119 billion of investment turnover was recorded across Europe during the first nine months of 2023, less than half the level for the same period in 2022 and the weakest activity in 13 years.

> "We're clearly going through another major transition in the capital markets on a scale probably only slightly smaller than the global financial crisis.

As the managing director of a global investor puts it, "If investors have a choice to sit on their hands, they're doing it."

Investment activity in every real estate sector has been hit hard, but offices stand out with just €33 billion transacted by the end of the third quarter of 2023, representing a paltry 20 percent of the sector's annual average since 2007. On top of the negative impact of rising capital costs, the office sector is also caught in a confluence of post-COVID structural challenges. Not only are patterns in how occupiers use real estate continuing to shift, the policy and regulatory landscape is rapidly evolving around ESG requirements.

That is causing concern about rising building depreciation rates, as a senior director at a global private equity investor notes, "the domino effect of depreciation is yet to come", and a global fund manager says, "you've got some significant potential equity declines which have to be managed". That nervousness is felt keenly among lenders, which have already increased their risk provisioning. According to one banker: "We will see some really ugly stuff happening."

Figure 2-2 **Country transaction volumes**

Country	Q4 2021–Q3 2022 (€bn)	Displayed on map Q4 2022–Q3 2023 (€bn)	% y-on-y
United Kingdom	93	45	-51%
Germany	107	34	-69%
France	45	31	-31%
Spain	18	13	-29%
Netherlands	22	12	-48%
Sweden	28	8	-72%
Belgium	5	6	10%
Italy	14	5	-60%
Austria	9	4	-52%
Denmark	12	4	-65%
Switzerland	8	3	-58%
Norway	11	3	-70%
Ireland	8	3	-63%
Poland	10	3	-72%
Portugal	3	3	-3%
Finland	6	1	-79%
Czech Republic	3	1	-63%
Romania	2	1	-58%
Slovakia	2	1	-64%

Source: *MSCI Real Assets*

Shifting expectations

As a result of the prevailing market uncertainty, leading occupiers, investors and lenders are reviewing their expectations for real estate, in a financial and non-financial sense.

The emerging picture, however, is blurred to say the least. The survey shows almost as many respondents expect target returns to increase as decrease in 2024 (Figure 2-3). There was a similar theme last year, when players were just starting to digest a complex mix of sharply higher capital costs, changing real estate risk premia and evolving rental growth expectations. However, it is notable that expectations at both ends of the spectrum have increased.

Higher capital costs for real estate are being influenced by improved returns available from fixed-income assets. As one CIO of a pan-European real estate fund manager puts it, “We’ve had 12 years, give or take, where real estate was a good substitute for bonds. We now have a period where bonds are a really good substitute for real estate.” As the consensus builds around rates staying higher for longer, could this herald a “great rotation” from real estate back to bonds? There is certainly a sense that the relative risk-adjusted return picture for real estate is losing its lustre after such a long spell in the sun.

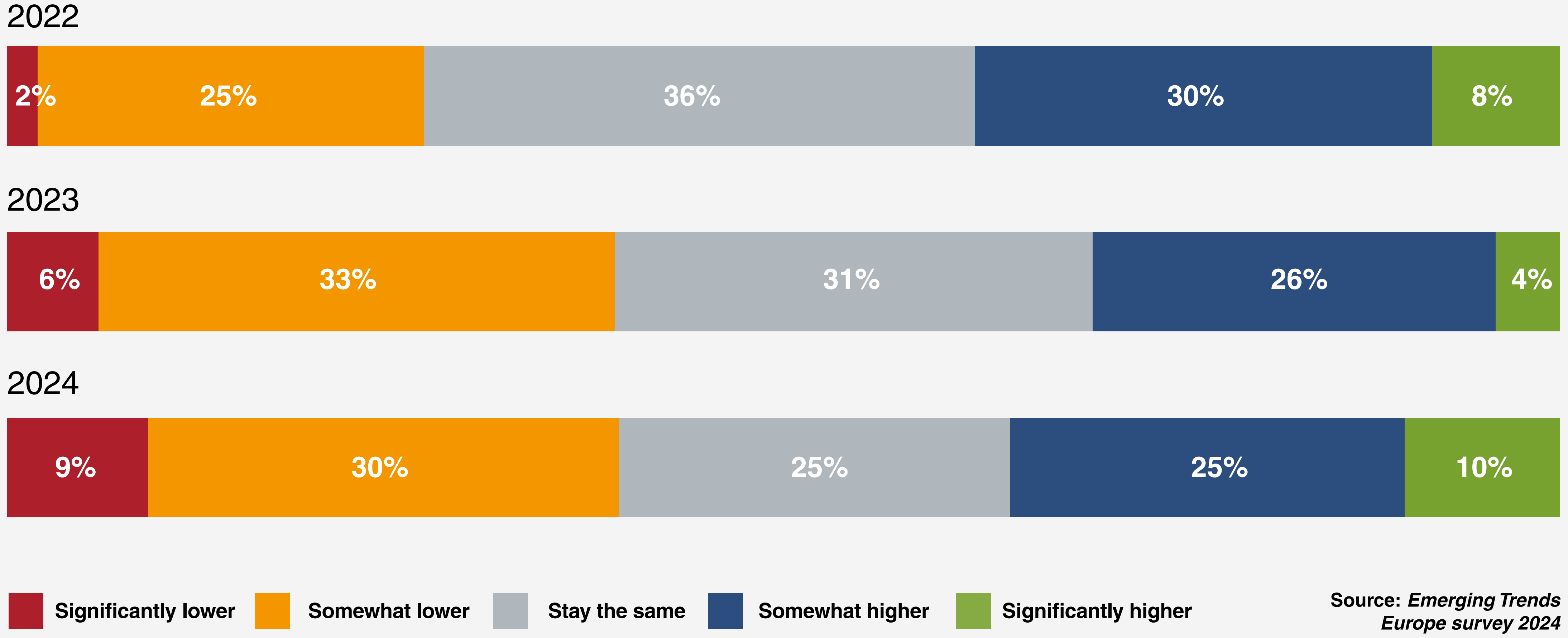
Expectations looking out over the next five years are still fairly subdued. Only slightly more than 10 percent of respondents are expecting substantial falls in short- and long-term interest rates, which some view as essential to ease upward pressure on yields. Meanwhile, there is considerable uncertainty about how unwinding the world’s quantitative easing programme will play out. “Free cash sent asset prices through the roof and “fuelled inflation … now” we’ve got the opposite, exaggerated by political turbulence and supply chains,” warns one global investment manager.

Many interviewees agree that the uncertain backdrop to investment is also making conditions for raising capital incredibly difficult, particularly for core assets.

“The core funds space is dormant, and that’s a question around valuations,” says one pan-European institutional investor. According to the CEO of a major global investment manager, “a lot of people prefer to be on the debt side these days just looking at risk-adjusted returns, and there’s definitely less liquidity on the equity side.”

> “We’ve had 12 years, give or take, where real estate was a good substitute for bonds. We now have a period where bonds are a really good substitute for real estate.

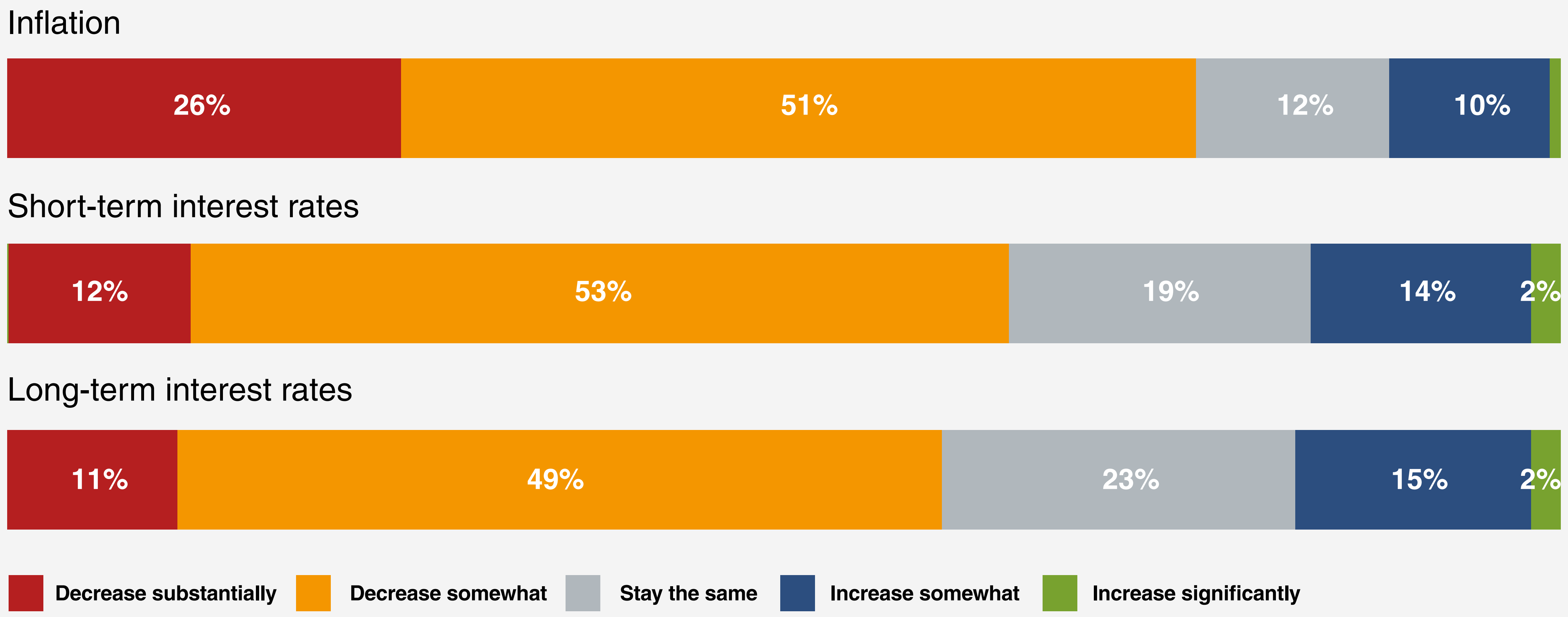
Figure 2-3 **Returns targeted compared with the previous year**



Source: *Emerging Trends Europe survey 2024*

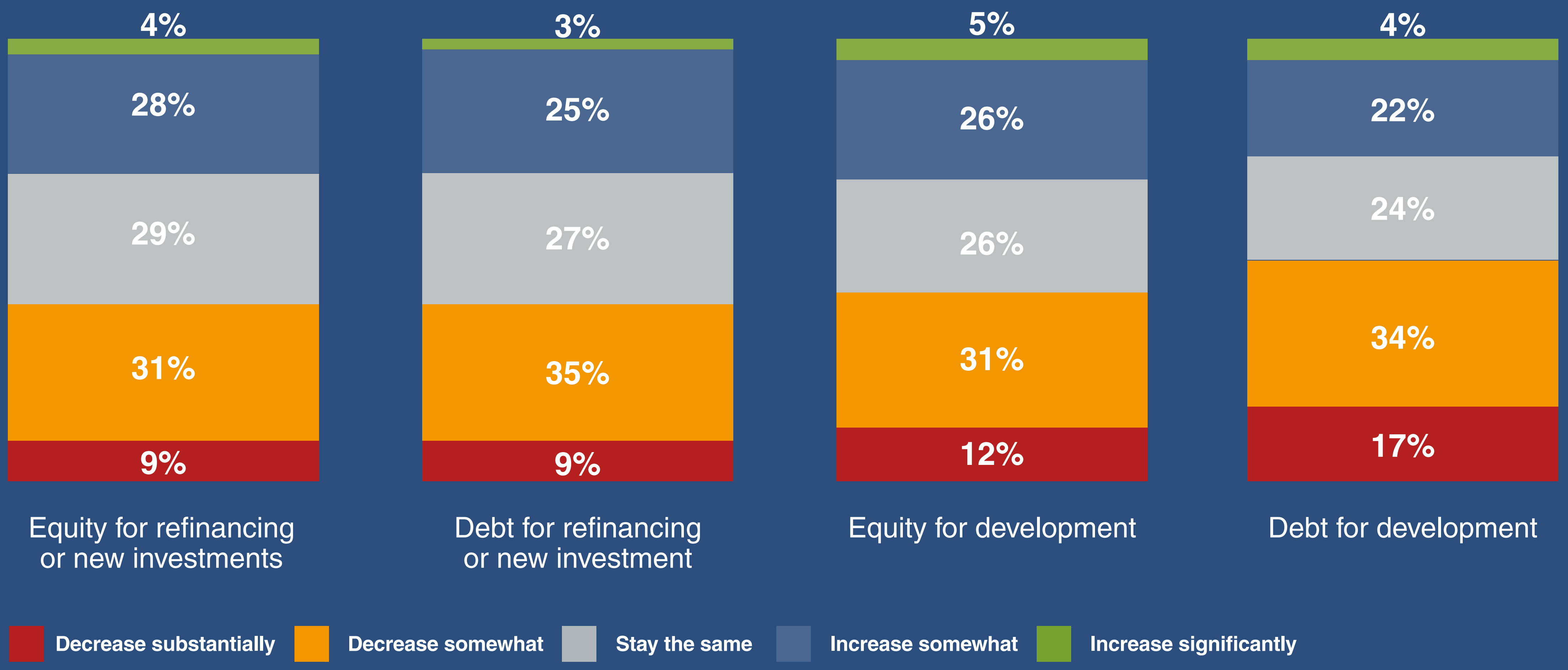
LISBON, PORTUGAL

Figure 2-4 **How do you expect the following to change over the next 3-5 years?**



Source: *Emerging Trends Europe survey 2024*

Figure 2-5 **Availability of debt and equity in 2024**



Source: *Emerging Trends Europe survey 2024*

Some institutions are even reducing their real estate allocations in favour of fixed income. This is in part a continuation of the denominator effect, where an allocation to property, slower to be revalued than other asset classes, will increase relative to falling equity and bond values, therefore preventing further investment. “That’s going to hang over the market longer than I think many would like,” says one global institutional player. Another points out that “not only are bonds looking better as an investment, but they’re also delivering the yield that investors want, and therefore arguably investors need real estate less.”

Some 45 percent of survey respondents expect the availability of capital for debt refinancings or new investments to decrease against 28 percent expecting it to increase (Figure 2-5). That explains why the proportion expressing concern about the ability to refinance in 2024 jumps to 65 percent from 53 percent for 2023, and only 30 percent for 2022. Furthermore, almost one in two respondents are concerned about covenant and loan servicing issues, up from 30 percent for 2023 and only 19 percent in 2022.

Yet the survey also reveals growing optimism about equity availability in 2024, especially for development. Is that a case of wishful-thinking triumphing over realism, something *Emerging Trends Europe* has encountered in previous investment cycles?

There certainly are pockets of active equity out there, notably Asian high net worth investors who, as one global investment manager says, “tend to be buying very high-quality office buildings in Paris or [London’s] West End. They’ll still pay good prices because they’re not necessarily using debt.” Other institutional investors have “considerable dry powder” and those with confidence in the interest rate cycle are starting to explore opportunities to deploy capital.

Adding to the sense of optimism about rising capital availability in 2024, many investors and lenders are viewing the underlying occupier markets in a positive light. As ever, “beds-and-sheds” sectors are very popular, with logistics and residential benefiting from undersupply and attractive rental growth fundamentals. The tone towards the retail sector has noticeably improved. “[It’s] now worth another look as rents have generally bottomed out and big falls in value mean that income yields are now attractive,” says one global investor.

Many also speak about the continuing “bifurcation” of the office sector, quickly pointing out evidence within their portfolios of premium rents being achieved in the best office buildings. Overall, however, there is a deep sense of gloom settling over secondary offices among investors and lenders, especially those with US office exposures.

Yet the interviews indicate that more equity sources are reported to be on the sidelines, waiting for clarity about the inflation and interest rate cycle peak, and for distressed buying opportunities to emerge. As one European pension fund manager puts it, “slowly more equity is emerging to invest because people do see that there are some interesting buying opportunities”, albeit not on the same scale as pre-pandemic.

However, those opportunities rely on valuations catching up with investor sentiment, and as the survey and interviews show, real estate leaders believe they are still far away from that point. Many agree that valuations do not accurately reflect current challenges impacting real estate and that prime assets are overpriced. Bid-ask spreads remain wide and do not look likely to close quickly. “Valuations are too high, [there’s] no evidence and not many motivated to sell,” says the head of a UK-based investment management firm.

Asset devaluations are indeed expected to accelerate in the next 12 to 18 months, particularly if rates stay high as refinancing activity picks up. That could force more sellers to adjust pricing expectations, and we could see investment volumes pick up in 2024 from 2023’s cyclically low level. However, few leaders speak about a return to pre-COVID levels of activity, and as one points out: “Investors are going to be precious with their investment dollars … focusing more on capex, investing more into assets that they know well and want to retain.” That approach matches the more cautious attitude in the lending community.

Lenders remain cautious

Through increased regulatory oversight, Europe’s banking sector is arguably in a better position now than in 2006/07 before the GFC struck.

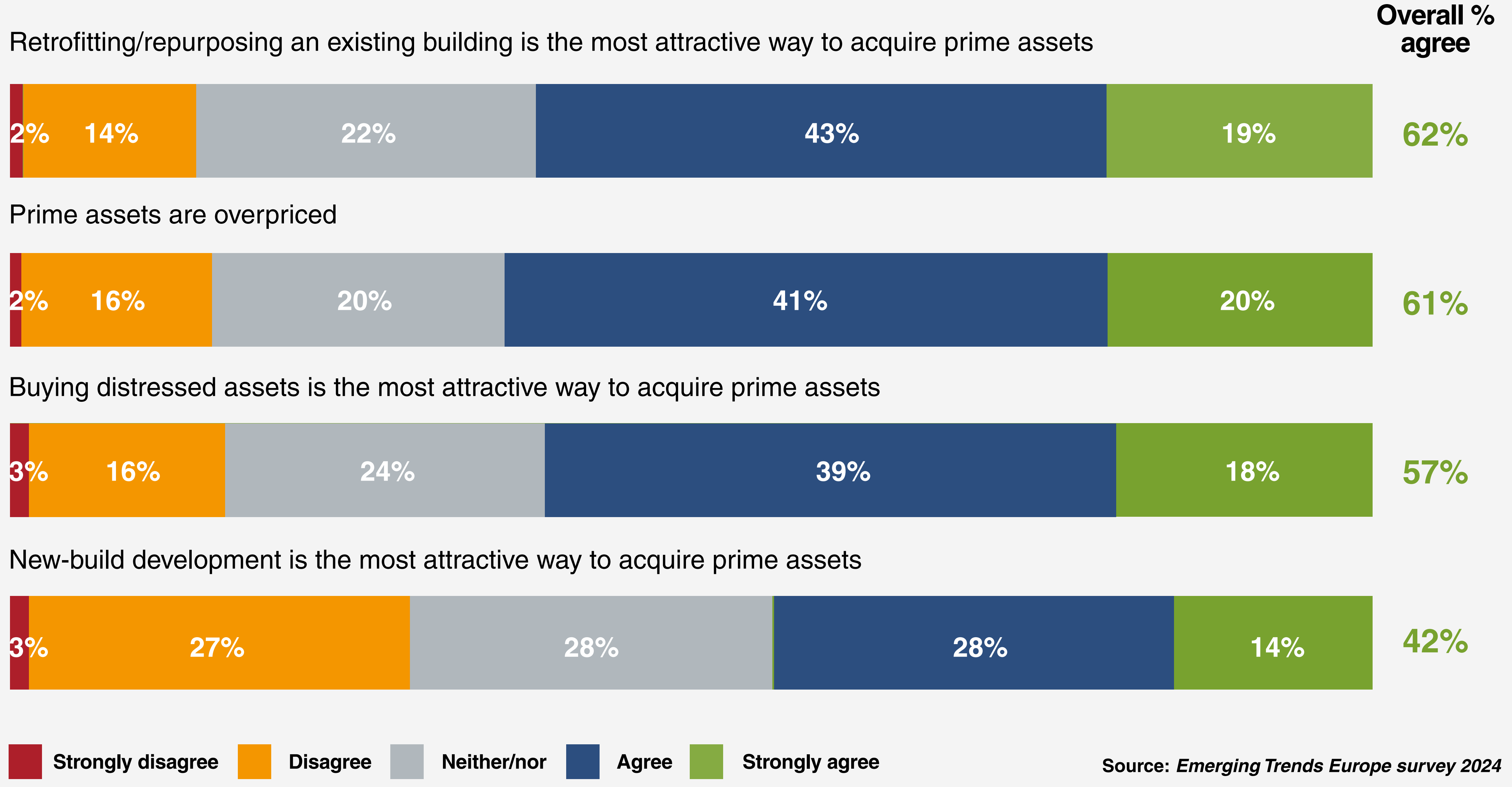
But no one is complacent. There are pockets of risk to financial stability, as the International Monetary Fund points out in Sweden, for example. And the potential for a nasty surprise is never far away, as a senior global banker notes: “Credit Suisse is showing us you never know where it’s coming from … their KPIs were all perfect.”

> “There’s no question there will need to be recapitalisations. The big story is the potential pain that lies ahead.

Given that, the mood among banks with large commercial real estate loan books is palpably “risk-off” as they remain wary of future asset devaluations. “There’s no question there will need to be recapitalisations. The big story is the potential pain that lies ahead,” says one seasoned CIO. Banks are especially cautious about lending on development and secondary offices. “Offices is a no, whatever the numbers are,” according to one senior banker.

Yet some lenders are taking a pragmatic approach of providing finance to strong sponsors with credible plans to improve buildings in key citycentre locations. Some interviewees even suggest “banks will fight for the good [assets] and price them very competitively”, while one comments that “it feels like a pretty constructive debt financing market for good quality assets [if] covenants aren’t under pressure”.

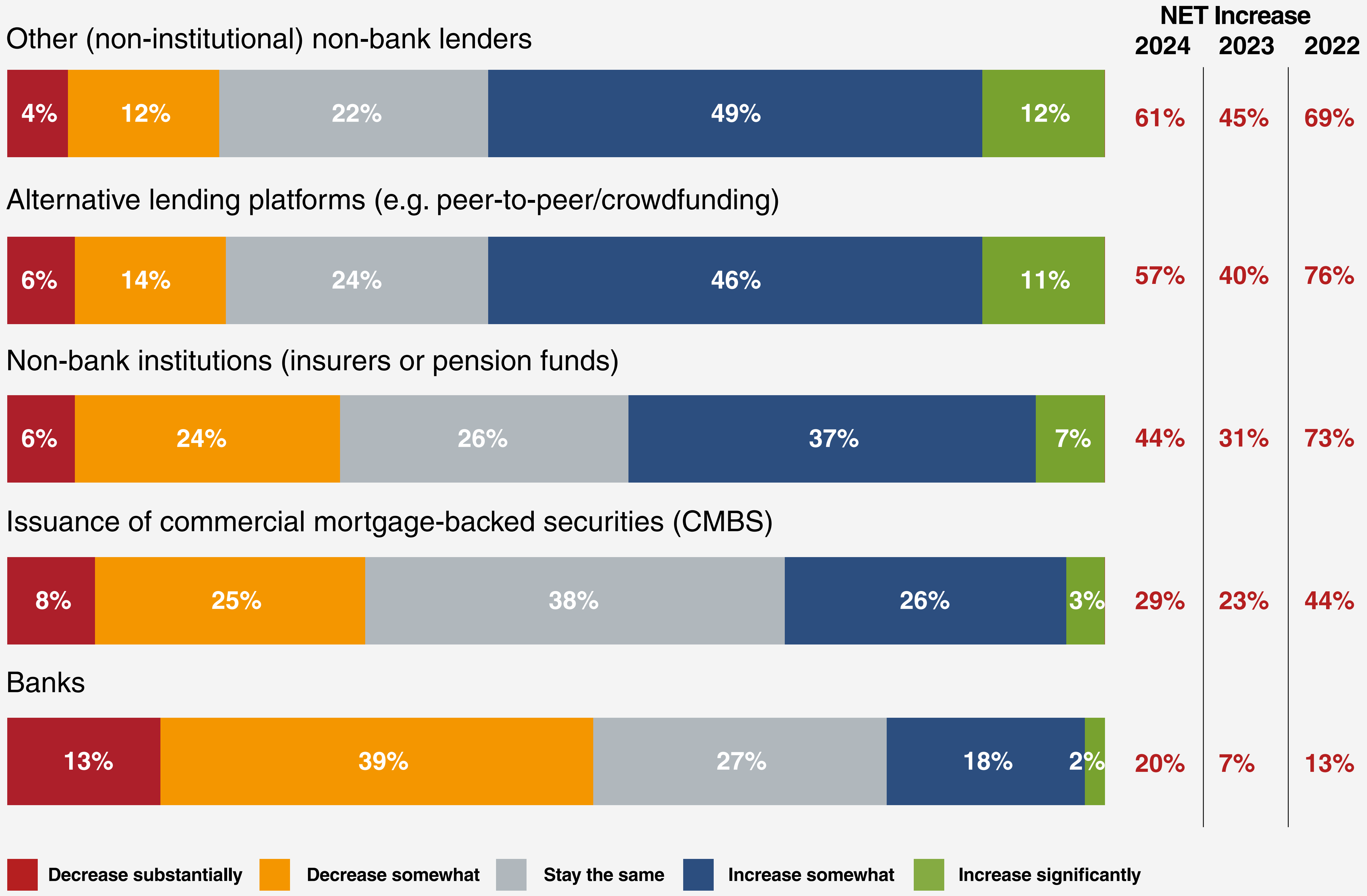
Figure 2-6 **To what extent do you agree or disagree with the following statements?**



Source: *Emerging Trends Europe survey 2024*

PREVIOUS
NEXT

Figure 2-7 **Expected availability of lending sources in 2024 compared with the previous year**



Source: *Emerging Trends Europe survey 2024*

Many interviewees say downside risks to occupational markets and high construction costs are holding back development financing. They fear, as one puts it, "a second wave of the market dislocation [with] higher rates of building obsolescence leading to losses for the banking industry". The fear is for a vicious cycle of asset write-downs triggering loan defaults, leading to increased distressed selling.

> When the liquidity returns, the banks will be back and there will be plenty of lending.

As a result, banks are concentrating on active loan books and existing clients as the market adjusts. Borrowers are facing tighter loan terms, higher rates and margins, and lenders are scrutinising asset management plans much harder, especially with respect to ESG improvements. All of that challenges the optimism about rising equity availability, as more owners are potentially required to inject equity to existing assets or simply to beef up their capital expenditure plans ahead of looming minimum energy efficiency requirements.

With such wide bid-ask spreads throwing doubt over valuations, it also raises the question of just how far alternative, non-bank lenders will step into the breach.

Survey respondents overwhelmingly expect the shift away from traditional bond and bank financing to accelerate, with more lending expected to come from debt funds, alternative lending platforms and non-bank institutions in 2024 than in 2023 (Figure 2-7).

However, that optimistic view is not quite as positive as it was two years ago. As one pension fund manager explains: "There are a lot of alternative lenders out there, but they realise that their capital comes at a premium, so it'll be high cost of debt and therefore limited." Many investors continue to place a high value on long-term banking relationships for the flexibility they need during turbulent times. One European business leader confidently predicts: "When the liquidity returns, the banks will be back and there will be plenty of lending." But the questions of when that might be and how much pain will have to be endured before then, remain open.

Adding value through ESG

Could 2024 be the year of investment opportunity for European real estate, when a wave of distressed sales comes forward and rising liquidity frees the shackles of bank lending?

Or will "the risk of catching a falling knife" continue to keep investors at bay, justifying the "stay alive until 2025" mantra? The survey hints at some of the strategies investors might look to pursue in the near future.

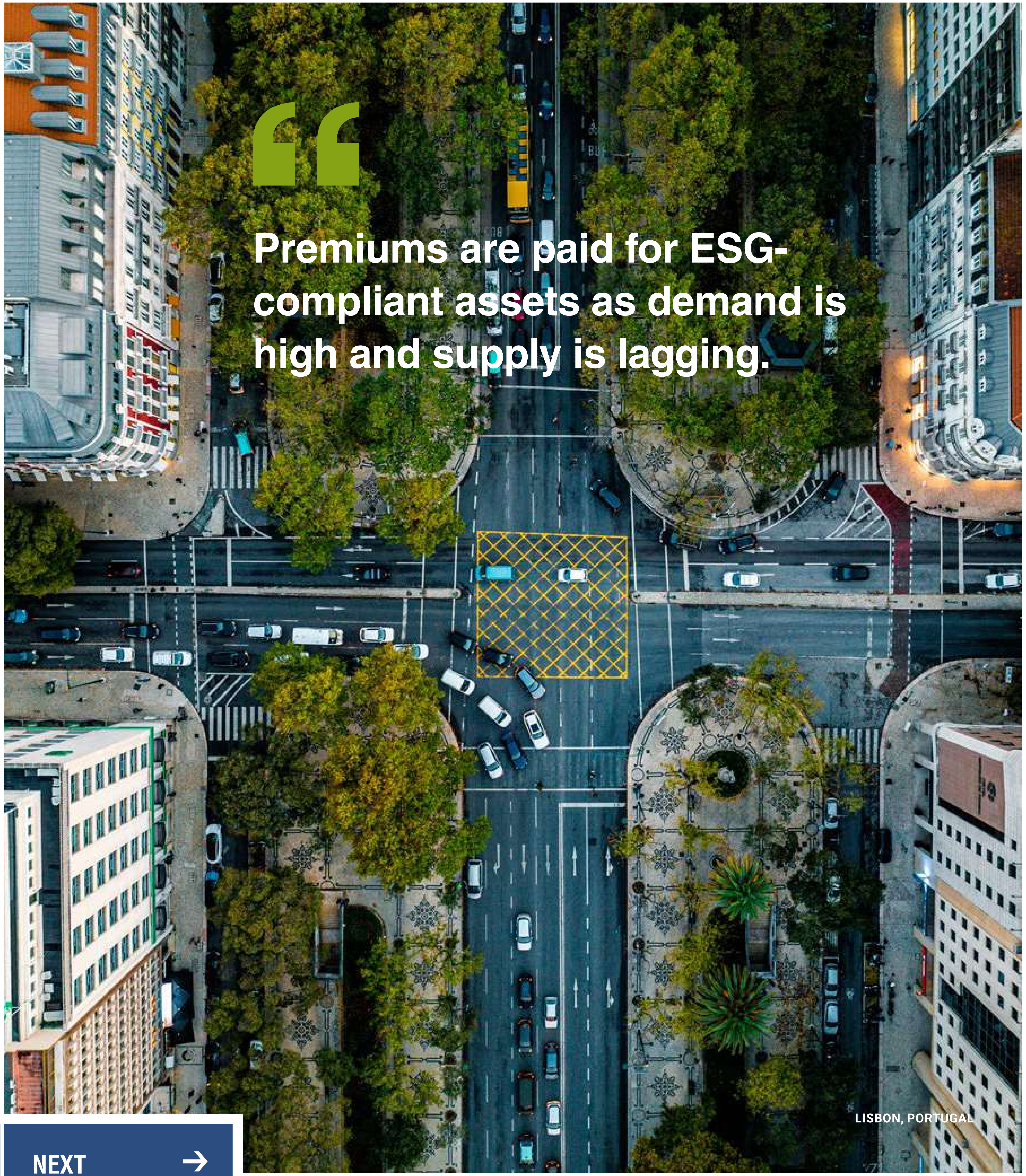
There is strong agreement about the importance of ESG credentials to future real estate capital values. Not only is retrofitting or repurposing buildings seen as a good way to secure high-quality product, it plays into the trend of increasing aversion at the city-level to new development. “Regulation is starting to mean that there will be legally enforced minimum levels of capex,” according to a global investment manager.

The survey backs this up, as 62 percent of respondents agree that retrofitting or repurposing is the best route to acquire prime product, against 43 percent in favour of new development. But as the “brown-to-green” strategy space becomes more crowded, will the expected tsunami of EPC-related capex be limited to a trickle by capacity constraints in the construction sector and capital markets? Certainly, lenders say they are well aligned with ambitious decarbonisation pathways, and many now include penalties in loan terms for inadequate ESG-improvement plans. One puts it bluntly: “We don’t underwrite anything if there’s not a plan to go from brown to green during the loan.”

But investors are finding that stacking up the economics of decarbonisation is increasingly problematic, due to high construction costs and labour shortages. That is leading to a narrow focus on Europe's highest land values and most expensive rental markets, potentially leaving second- and third-tier markets behind. All of this raises serious doubts about the sector’s ability to deliver against increasingly demanding, legally binding national decarbonisation requirements.

Some interviewees believe that a recent softening of approach to ESG targets by various European governments has led to greater uncertainty.

Even so, more in the industry now speak about the value that ESG investment adds rather than the cost it entails. “Premiums are paid for ESG-compliant assets as demand is high and supply is lagging,” says a global pension fund manager. Another global asset manager endorses the approach that taps directly into strong occupier demand: “We have more than enough demand if we can create that product, and we get higher rents than we ever anticipated we were going to get.” That is a big if, given concerns about high construction costs and caution among lenders to finance development.



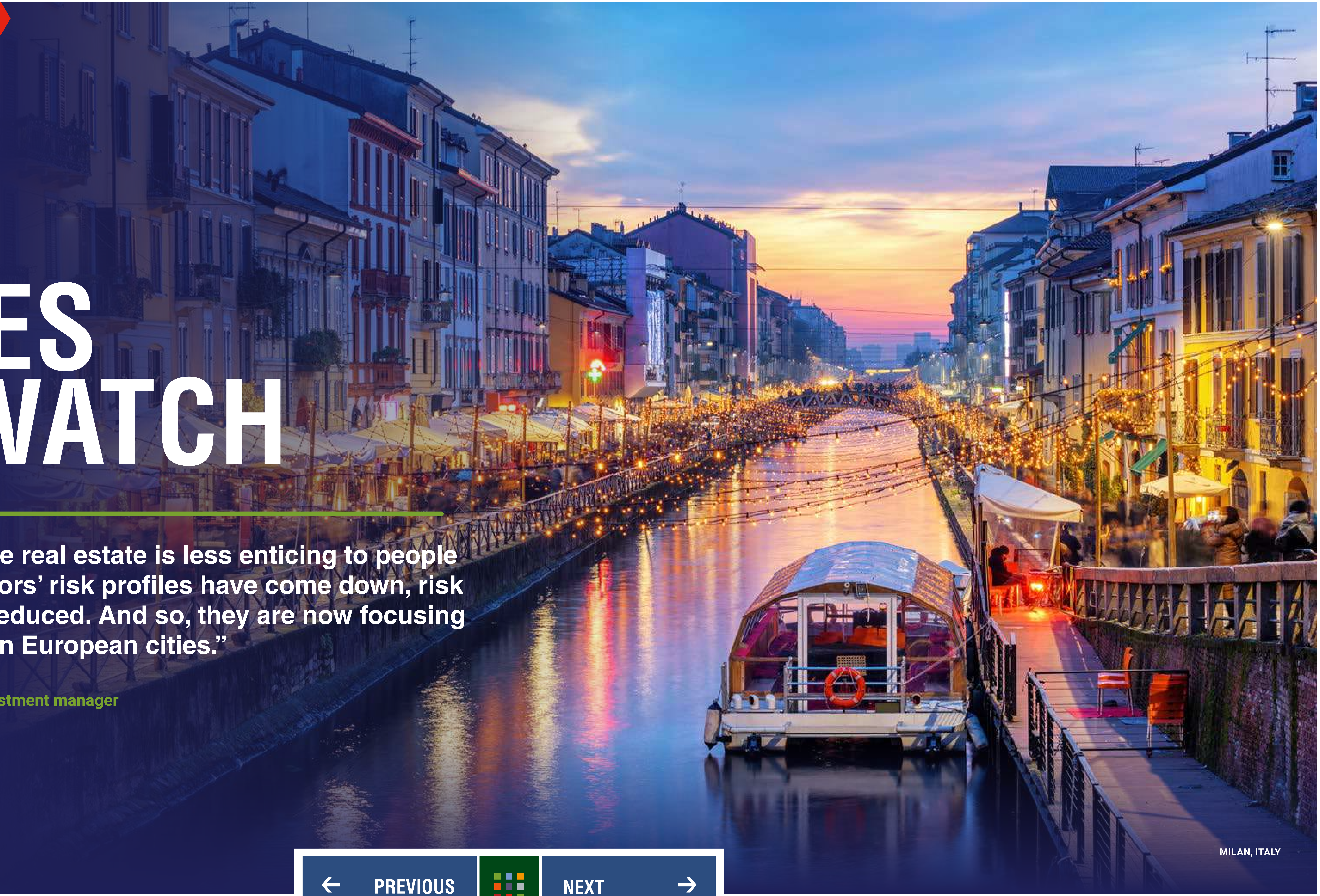
LISBON, PORTUGAL

CHAPTER 3

CITIES TO WATCH

"In a world where real estate is less enticing to people generally, investors' risk profiles have come down, risk appetites have reduced. And so, they are now focusing on major Western European cities."

Senior director, global investment manager



MILAN, ITALY

While European real estate transactions remain on ice as inflation and interest rates push market pricing towards an uncertain new equilibrium, investors, developers and their advisers face evolving performance expectations across Europe's leading investment locations.

Unsurprisingly, given the generally gloomy macroeconomic outlook, industry leaders point to economic performance as the most important consideration in choosing a city for investment or development, closely followed by transport connectivity (Figure 3-1).

Partly because of the survey methodology, those cities attracting the most capital tend to be near the top of the *Emerging Trends Europe* ranking, but over recent years there has been a discernible rise among "tier one" cities: national capitals and economic hubs. This may reflect a desire for greater liquidity and stability in riskier times, with the likes of Milan, Lisbon and Madrid making significant climbs.

London's top position for the third successive year confirms this premium on liquidity. There is also a sense that its market fundamentals remain resilient, with one REIT CEO noting that "direct investors, sovereign wealth, pension funds and foreign capital still believe in the long-term benefits and wealth preservation and income that London can provide".

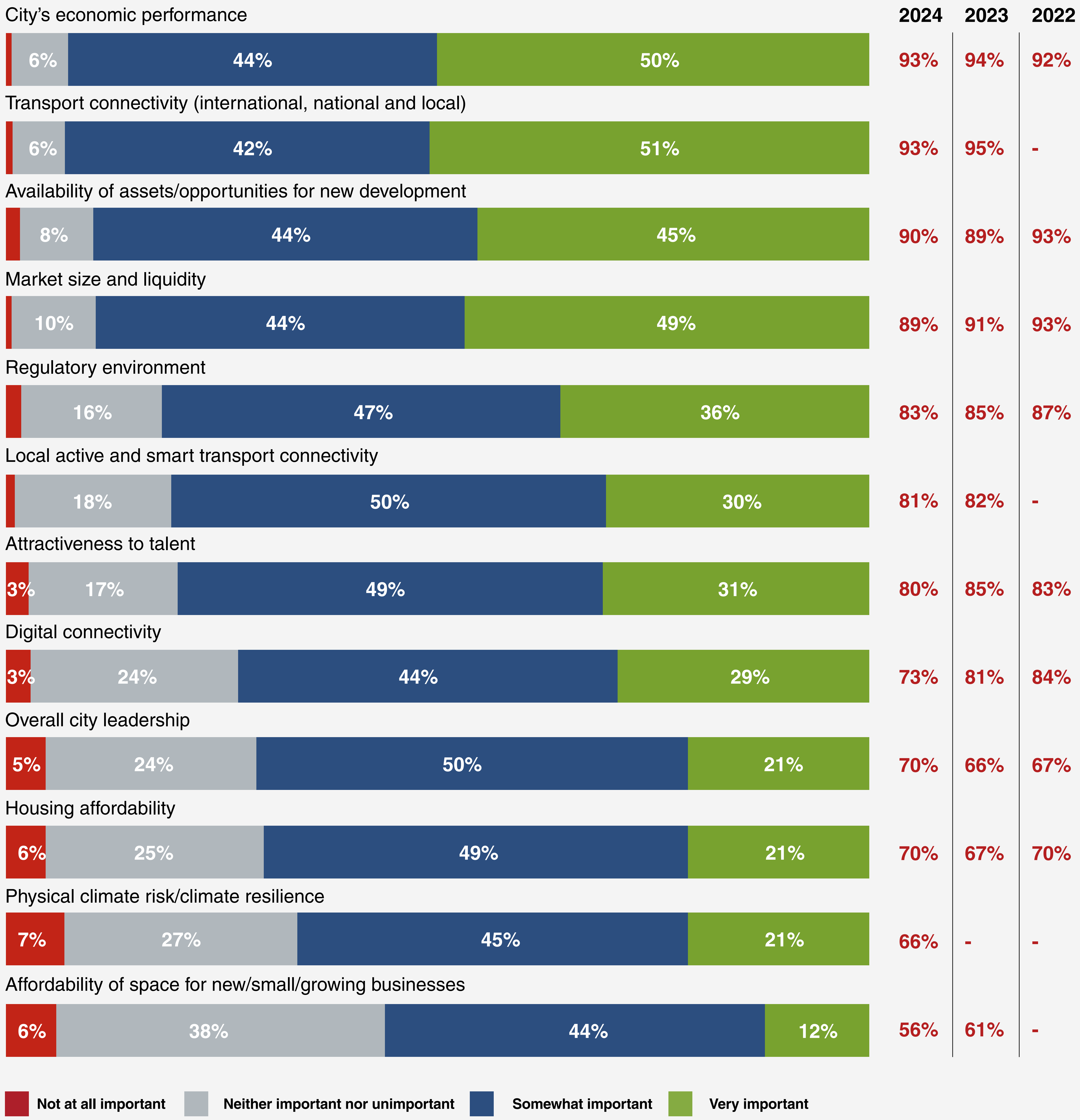
But this may apply to some parts of the market more than others. As a global manager says, "In the West End it's really hard to find space to rent. And there's real liquidity in office buildings if you want to buy one. But Canary Wharf's struggling. And the City's somewhat in between." Indeed, London is not without its critics, with a number slating the long commutes and quality of life. Yet others also commend the generally high sustainability ratings of its buildings.

Another perceived advantage of London is pricing, as the UK has generally repriced quicker in response to higher interest rates than other parts of Europe, notably Paris.

Even so, the relative resilience and liquidity of Paris has helped it maintain its second place from last year. The Olympics effect is also outweighing any negativity surrounding recent protests on the streets while reinforcing its position as the world's favourite tourist destination, according to the World Travel and Tourism Council. However, one Europe-wide service provider sees Paris hosting the Games in 2024 as more important for the speed of planning processes than for any PR benefits. Given its size, Paris is also widely seen as offering opportunities for last-mile logistics.

But for offices, Paris mirrors the market bifurcation experienced in London. Though staff have largely returned to the workplace, there is agreement that demand is growing for the more enticing spaces. As an international manager says: "B calibre office buildings anywhere are struggling and La Défense is having a tough time; but in the Golden Triangle, it's fine."

Figure 3-1 **Importance when selecting a city for investment or development**



Source: *Emerging Trends Europe survey 2024*
Note: values may not add to 100% because of rounding

Figure 3-2 City rankings — overall prospects

Overall City Prospects					City growth prospects		City liquidity		
City	ETRE Ranking (2024)	ETRE Ranking (2023)	Change	Overall Prospects Score	Real GDP growth forecast p.a. (2024-26)	Population growth forecast p.a. (2024-26)	Transaction Volumes Q4 2021 - Q3 2022 (€bn)	Transaction Volumes Q4 2022 - Q3 2023 (€bn)	% change (y-on-y)
London	1	1	—	2.24	1.6%	0.9%	26.4	8.8	-67%
Paris	2	2	—	2.01	1.6%	0.2%	11.0	12.6	15%
Madrid	3	4	▲	1.94	2.0%	0.3%	5.2	3.7	-29%
Berlin	4	3	▼	1.7	2.1%	0.5%	27.8	4.8	-83%
Amsterdam	5	6	▲	1.57	2.1%	0.7%	3.5	1.6	-55%
Milan	6	10	▲	1.53	1.3%	0.1%	4.6	1.6	-65%
Munich	7	5	▼	1.45	1.9%	0.5%	6.1	3.5	-43%
Lisbon	8	11	▲	1.44	1.7%	0.1%	1.1	0.5	-59%
Frankfurt	9	7	▼	1.36	1.7%	0.3%	4.7	0.8	-84%
Barcelona	10	9	▼	1.35	1.7%	0.2%	2.4	1.5	-40%
Hamburg	11	8	▼	1.26	1.4%	0.3%	6.5	1.5	-77%
Brussels	12	15	▲	1.08	1.8%	0.4%	3.1	3.4	8%
Dublin	13	13	—	1.08	2.9%	0.9%	6.3	1.7	-74%
Warsaw	14	16	▲	1.08	3.5%	0.0%	3.0	0.7	-76%
Vienna	15	12	▼	1.07	2.4%	0.6%	5.6	2.4	-57%
Zurich	16	17	▲	0.94	1.5%	1.0%	0.7	0.3	-63%
Manchester	17	18	▲	0.84	1.9%	0.6%	3.4	1.8	-48%
Copenhagen	18	14	▼	0.8	3.2%	0.9%	3.8	1.0	-75%
Rome	19	21	▲	0.8	0.8%	0.1%	1.2	0.4	-63%
Luxembourg	20	20	—	0.78	3.6%	1.7%	0.6	0.3	-49%
Stockholm	21	19	▼	0.73	2.0%	1.1%	7.5	2.3	-70%
Birmingham	22	22	—	0.68	1.3%	0.4%	2.2	1.9	-12%
Athens	23	23	—	0.64	1.6%	-1.2%	0.1	0.0	-76%
Edinburgh	24	26	▲	0.6	1.5%	0.7%	1.2	0.7	-36%
Prague	25	27	▲	0.58	2.9%	-0.4%	1.7	0.4	-76%
Lyon	26	24	▼	0.54	2.1%	0.5%	1.0	1.0	-3%
Helsinki	27	25	▼	0.53	1.7%	0.6%	2.2	0.5	-79%
Budapest	28	28	—	0.44	3.2%	-0.2%	0.7	0.5	-26%
Oslo	29	30	▲	0.37	1.9%	0.6%	3.7	1.3	-66%
Istanbul	30	29	▼	0.36	1.7%	0.6%	N/A	N/A	N/A

▲ Went up ▼ Went down — No change

Source: *City overall prospects:* Emerging Trends Europe survey 2024 *Population and Real GDP forecasts:* Oxford Economics *Tranaction volumes:* MSCI Real Assets

Note: Respondents who are familiar with the city scored the expected change for 2024 compared to 2023 on a scale of 1=decrease substantially to 5=increase substantially and the scores for each city are averages. For more detail on city scores, see appendix.

In third place, Madrid stands out for its seemingly inexorable rise from sixth in 2022 and fourth last year. One pan-European manager enthuses that it is "one of the most attractive places to invest in Europe because it's growing from a stable population and it's attracting immigrants, students and a huge amount of tourism". They also see this as building on Spain's relatively strong economic growth and infrastructure, which since the GFC have been fostered by the more business-friendly approach of local and national government.

Those already holding assets, particularly CBD offices and residential, may be well placed, but new entrants can face difficulties. As a property company CEO notes: "There's hardly any land for housing. There is a new area called Southeast District due to be developed soon, but that's going to be absorbed without any problem."

Meanwhile, like the other German cities in the survey, Berlin has slipped down the table this year, moving from third to fourth place. This partly reflects the gloomy growth forecast for the national economy in 2023 and the relatively weak rebound expected in 2024, while some suggest that real estate pricing and valuations have adjusted slower here than across most of Europe.

But there are also city-specific political and micro-economic factors in play. "Berlin is difficult," one developer says. "A lot of people want to go there, but it is just so awfully governed." A banker bemoans "the slow planning process: on average it takes seven years from buying land to getting a permit to build". But the city still has many fans: "It continues to be attractive with low vacancy rates and strong talent," says a global manager.

> "Madrid is one of the most attractive places to invest in Europe because it's growing from a stable population and it's attracting immigrants, students and a huge amount of tourism.

Though falling from fifth to seventh, Munich also has its supporters. One developer notes that "big high-tech companies are now moving more to Munich than to Berlin. Berlin may be a nice city to live, but Munich is ahead for skilled labour and future-facing businesses."

Down two places to nine, Frankfurt is "the most challenging city in Germany", an adviser says, due to the level of vacancy in the CBD and the reliance on banking. On the positive side, the economy has diversified to the benefit of logistics and data centres, with less than half of business output now in financial services.

In keeping with this cooling of sentiment towards German cities, Hamburg falls from eight to 11, perhaps hampered by its somewhat staid reputation and reliance on traditional industries, although some interviewees see this as enhancing stability.

By contrast, Amsterdam has risen steadily up the rankings in recent years to reach fifth place. This partly reflects the strong focus in the Netherlands on sustainability, both in general construction and in renewable energy generation in the wider economy, which augurs well for compliance with EU regulation at building and fund level. However, clouds on the horizon for investors include the onset of housing rent regulation in 2024 and political uncertainty with the national government having fallen and elections not due until the end of 2023.

With an even more dramatic rise from 10th to sixth place this year, Milan is viewed positively by international and local real estate players alike. Interviewees point to its liveability, attractiveness to talent and relative economic strength compared with the rest of Italy. "The growth numbers for Milan are the same as in Northwestern Europe. Apart from the economic cycle, you also have structural changes in some markets," says one large pension fund manager, implying opportunities if investors pick the right location.

Lisbon is also increasingly finding favour among survey respondents, rising over three years from 16 to eight. Investors are drawn to the city's economic performance (at least relatively), availability of assets, regulatory environment and attractiveness to talent. These are all important criteria for survey respondents when selecting a city.

The survey scores Lisbon even higher for development than for investment. Lisbon's authorities tend to look favourably on plans to redevelop less fashionable parts of the city, and there is not as much resistance to change of use as in Spain. However, some interviewees warn that the housing shortage across Portugal may undermine the strength of Lisbon's position.

Barcelona shares many of the attributes of Madrid in terms of economics, demographics and infrastructure, but has seen less of an uprating among survey respondents. This may be mainly a question of political risk, but on the ground, rent regulations have also started to have an impact in Barcelona's housing market.

Another city in the ascendancy is Brussels, up three places to 12, as investors come to terms with its prevailing focus on reusing existing real estate. Even so, there is clearly an issue for local interviewees with the time taken to obtain construction permits, which they fear may deter leading occupiers, such as the European Commission, from maintaining their footprint.

As a relatively small city, Dublin punches above its weight with a consistent ranking of 13 over the last three years. One local developer is "optimistic about Dublin as the only English-speaking capital left in the EU. Brexit continues to be a benefit for Ireland." The city has also benefitted from a similarly rapid downgrade of values to the UK, while the economy is seen as relatively strong, which should support housing development.

BUDAPEST, HUNGARY

MADRID, SPAIN

Meanwhile, despite the neighbouring war in Ukraine, fundamentals look good for Warsaw, which is up two places to 14. One adviser sees the outlook as "very strong for all asset classes because of generally bigger markets [compared with elsewhere in Central and Eastern Europe] and competitive pricing". This adviser also highlights the strong operational performance of the assets, high occupancy and good cash flows. The survey indicates that CEE-based respondents take a particularly rosy view of Warsaw's prospects.

The UK provincial cities of Manchester and Edinburgh have edged up to 17 and 24 respectively, perhaps partly reflecting the favourable pricing adjustments that have been seen in the UK. One logistics operator believes northern England to be fertile ground with its "big cities which are relatively close together and densely populated" compared with the rest of Europe. According to one developer, the fact that the UK government's "levelling-up" social and economic programme across the country is broadly supported by opposition parties is another big plus for the UK regions. One potential downside for Manchester has emerged — after the survey was conducted — with the cancellation of the HS2 rail link north of Birmingham although the capital savings are to be redeployed into other transport projects.

However, Birmingham appears entrenched at 22, same as last year but with another post-survey event clouding its immediate prospects: the city council effectively declared itself bankrupt in September 2023.

There are no such doubts over infrastructure in Zurich, which has moved up one place to 16, reflecting "the lower vacancy rate and people having returned to the office", according to a local insurer. "That's a function of infrastructure and commuting patterns: It's easy to get around this city and the office accommodation is pretty good." Prague has moved up to 25, with a global investor seeing it as a safe bet: "Nothing much is developed and most of the market is owned by core German and Austrian capital. Few transactions happen."

The Czech market is also viewed favourably for logistics investment with its centrality in the region. However, Budapest, at 28, continues to be blighted by Hungary's political situation.

Rome has long stood in the shadow of Milan for institutional investment, although its ascent two places up to 19 reflects a more bullish mood among survey respondents and interviewees alike. There is agreement that the city could be a big opportunity, with a local manager stating that "Rome needs everything: offices, new houses, revising the urban form". And a global manager enthuses that "even in 40-degree heat, it's still a pretty cool place to be. It feels different. It feels very vibrant".

Lyon has slipped two places to 26 although it remains France's second destination for investment and its economy has proved resilient through 2023. One pan-European manager cautions against writing off second-tier centres: "A lot of cities that are growing across Europe – such as Lyon or Leipzig – are smaller cities that are still large enough to offer everything that people want from a cosmopolitan lifestyle. Some of these are ambitious in how they want to develop."

The Nordic cities are slipping down the rankings with the exception of Oslo in so far as the Norwegian capital climbs one place to a still lowly 29. One local manager suggests that international capital will come to Oslo if the political conditions are right and taxation can be moderated, as "Norway has softer recessions, and population growth is the highest in the Nordic region". However, there is a fear of financial contagion from Sweden's bond market, which is casting a shadow over the whole region's prospects.

The implications are clearly most serious for Stockholm, down two places to 21, with more distress than in any other European market, largely due to the prominence of listed companies, which are significantly leveraged and have seen big falls in share price. One insurer says the "banks are solid in the Nordics, but in Sweden a lot of debt has to be refinanced, and many banks have set aside capital for this. It will probably affect the willingness to lend in the next one-to-two years." On top of this come concerns about rent controls impacting the housing market.

Helsinki's prospects have also been affected by market conditions in Sweden, as it is a major source of capital for Finland. The fall of the Swedish krona against the euro has made Finnish property more expensive, while Swedish banks are in a weaker position to provide finance in Finland than in the past. But the most surprising movement may be for Copenhagen, which has fallen four places to 18.

Some interviewees remain positive, emphasising the city's ESG credentials, its demographics and its "community-centric" design. But the downside to its relative stability may be a potential lack of distressed opportunities compared with other parts of Europe, while the market is not large enough to rank among the first tier of global investment targets.

> "In Sweden a lot of debt has to be refinanced, and many banks have set aside capital for this. It will probably affect the willingness to lend in the next one-to-two years.

A similar contradiction emerges for Vienna, where the level of survey coverage is relatively low, resulting in a fall of three places to 15. A European insurer notes the "capital value appreciation in the centre" and the strong interest from "family offices and high net worth individuals".

At 20, Luxembourg also has a fixed position in the eyes of survey respondents. It benefits from the presence of a large number of institutional vehicles and favourable development conditions which have raised the ESG quality of the stock — its offices are among the newest in Europe.

Luxembourg, Vienna and Copenhagen are typical of the smaller cities that perform well across many of the survey's city investment criteria but which are often overlooked by international investors. As the rankings indicate, these cities suffer disproportionately from their smaller size and lack of liquidity.

AMSTERDAM, NETHERLANDS

LISBON, PORTUGAL

BRUSSELS, BELGIUM

ROME, ITALY

> “Istanbul and the coastal regions which rely on foreign tourism are performing quite well, not least because the currency is cheap.

Athens remains stuck at 23, despite positive survey responses from local market participants on both investment and development prospects. One locally based observer notes that “it’s growing faster than the rest of Europe, catching up following a protracted period of crisis”.

However, others have been struck by the severe climatic conditions that have impacted the city in 2023.

Slipping to the foot of the table once again is Istanbul, which suffers from Turkey’s “depleted foreign exchange resources, very high inflation and unorthodox policies”, according to one interviewee. But there are certain export-related bright spots: “Istanbul and the coastal regions which rely on foreign tourism are performing quite well, not least because the currency is cheap.”

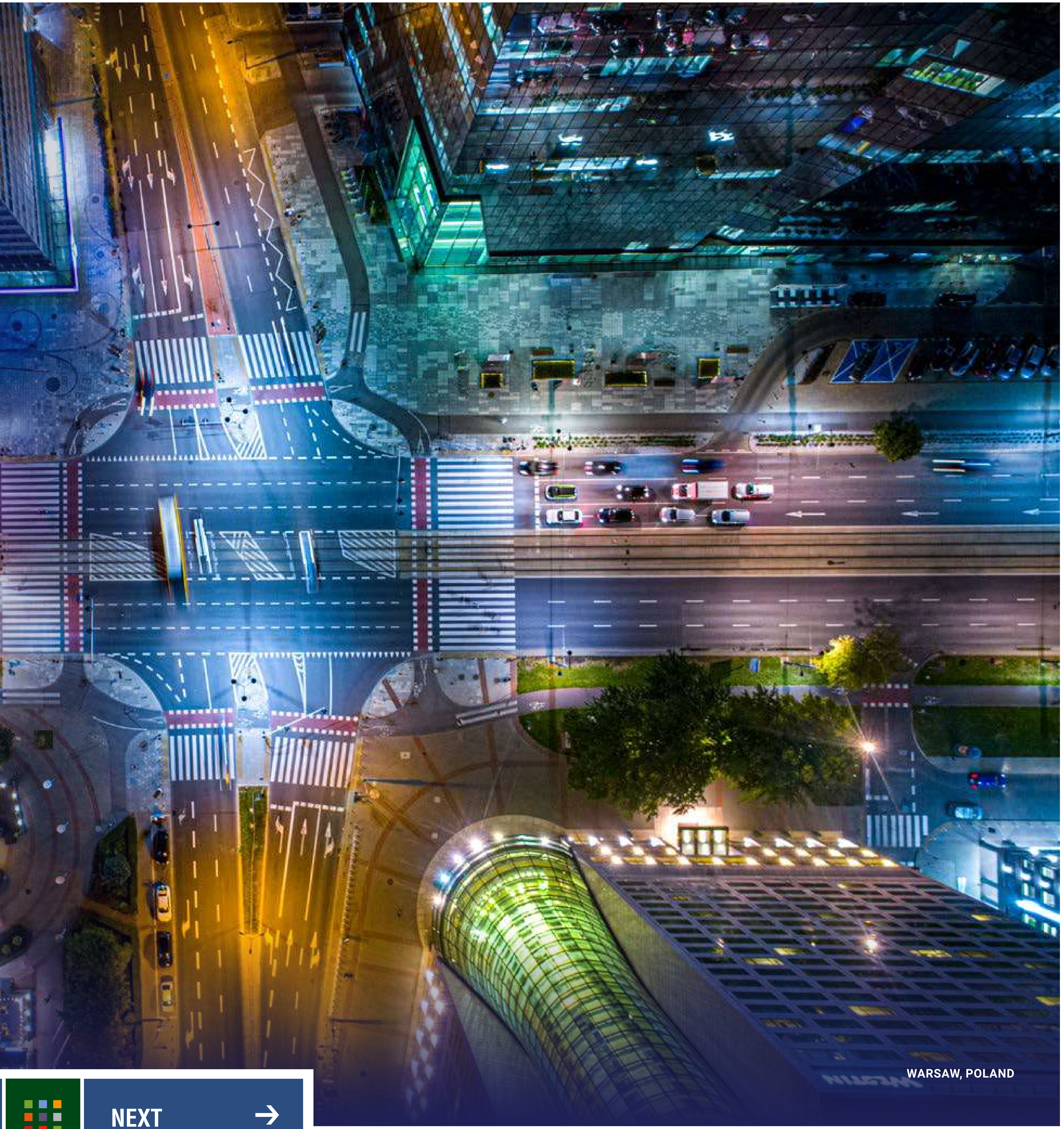
PREVIOUS NEXT

CHAPTER 4

SECTORS TO WATCH

“Mixed-use assets with a high level of sustainability and low energy costs are one of the biggest trends in real estate.”

Managing director, advisory firm



WARSAW, POLAND

Most European investors still take a sector-based approach to real estate. When asked about their priorities for allocating capital, 71 percent of respondents to this year's survey rank it within their top three criteria, and for a quarter it is their first consideration. For all the talk of the blurring of sector boundaries, it seems that old habits die hard.

But with offices joining retail as a sector in which the viability of many assets has come into question, the two segments that historically constituted the lion's share of the market currently hold limited appeal for many investors. Meanwhile, structural factors are overlaid by cyclical ones, as the onset of higher interest rates and a likely region-wide economic downturn further impact the appeal of traditional, commodified sectors.

Moreover, real estate's relative appeal to other asset classes, and therefore its ability to attract capital, has been undermined by the closing yield gap with fixed-income assets. That means managers are casting around for a story to sell to investors: "We all are thinking about what themes we can offer to our institutional investors to invest with us in real estate," says an interviewee.

Consequently, the imperative to identify sectors that provide stable income that is proof against recession and disruption is stronger than ever before. "Anything with a clear demand driver, which is not necessarily correlated to GDP, is proving attractive from an investor's perspective," says an adviser.

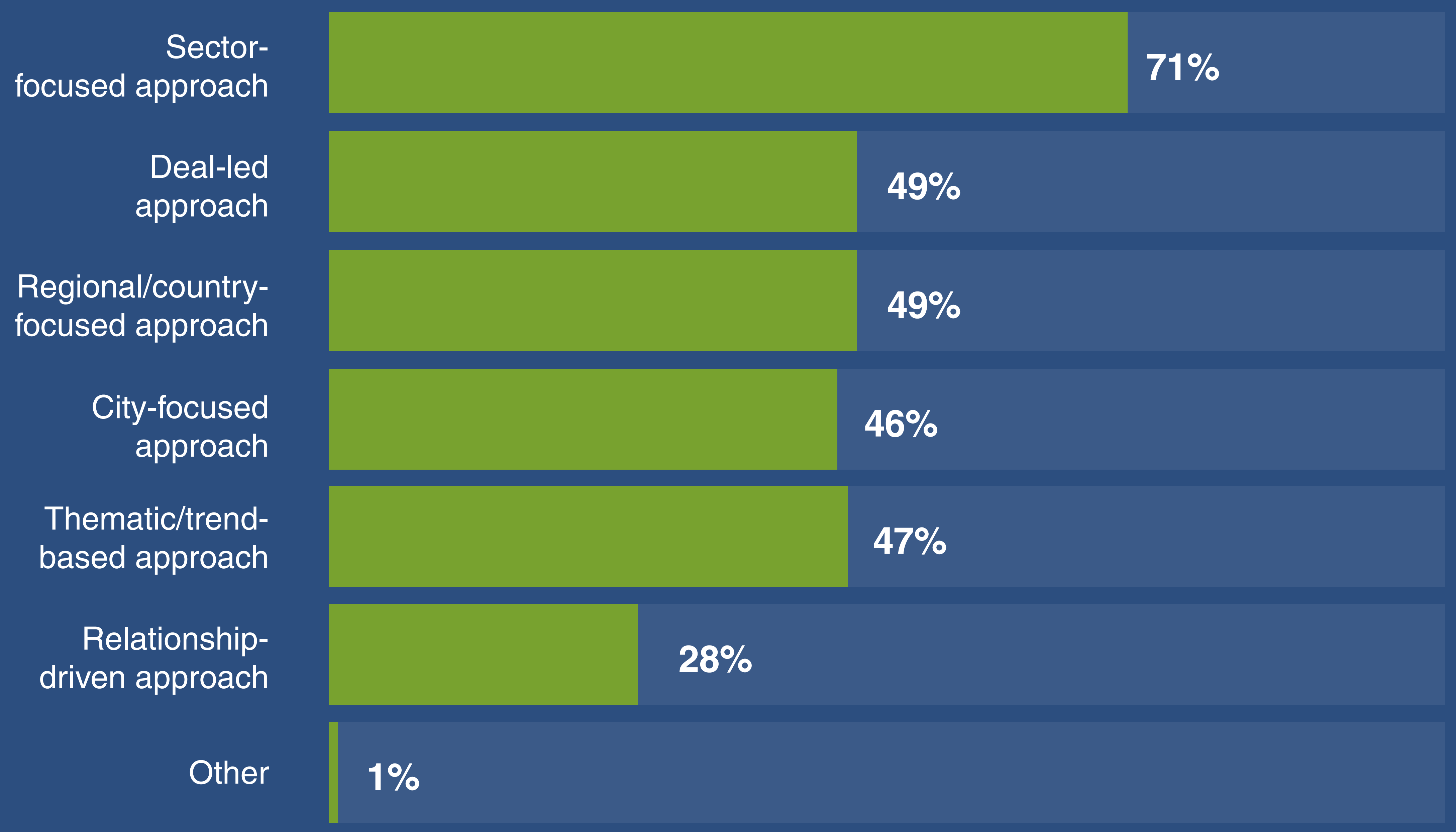
> The industry is developing a more sophisticated understanding of what drives rental income and value in real estate occupation.

As a result, the top six spots of the rankings are once again dominated by niche, operational sectors that are acknowledged as being underpinned by global megatrends — energy transition, information technology, demographics and urbanisation (Figure 4-2). Below them lie the most popular representatives of the well-established "beds and sheds" theme, which offer similar attractions.

"The industry is developing a more sophisticated understanding of what drives rental income and value in real estate occupation," observes a senior consultant. That is leading to an increasing willingness among investors to accept more operational risk with the aim of securing higher returns and capturing the defensive certainty provided by harnessing megatrends.

New energy infrastructure is identified as the sector offering the greatest overall potential for the third year running, also securing the highest score in all three categories — investment, development, and rents. For many, the combination of decarbonisation and soaring energy prices makes it a no-brainer as a thematic play.

Figure 4-1 **How investors allocate capital to real estate**



Source: *Emerging Trends Europe survey 2024*

MANCHESTER, UK

Figure 4-2 **Sector prospects in 2024**

Generally good = above 3.5 | Fair = 2.5 to 3.5 | Generally poor = under 2.5

Overall prospects

Rank	Sector	Score
1.	New energy infra	4.50
2.	Data centres	4.36
3.	Healthcare	4.11
4.	Student housing	4.08
5.	Retirement/assisted living	4.07
6.	Self-storage facilities	4.06
7.	Logistics facilities	4.01
8.	Co-living	3.98
9.	Serviced apartments	3.97
10.	Private rented residential	3.94
11.	Life sciences	3.93
12.	Industrial/warehouse	3.93
13.	Affordable housing	3.91
14.	Hotels	3.80
15.	Social housing	3.75
16.	Leisure	3.55
17.	Housebuilding for sale	3.47
18.	Flexible / serviced offices and co-working	3.33
19.	Parking	3.20
20.	Retail parks	3.19
21.	Central city offices	3.06
22.	High street shops	2.92
23.	Business parks	2.71
24.	City centre shopping centres	2.58
25.	Out-of-town shopping centres/retail destinations	2.53
26.	Suburban offices	2.10

Investment

Rank	Sector	Score
1.	New energy infra	4.54
2.	Data centres	4.49
3.	Healthcare	4.20
4.	Student housing	4.16
5.	Retirement/assisted living	4.13
6.	Self-storage facilities	4.12
7.	Logistics facilities	4.10
8.	Co-living	4.07
9.	Life Sciences	4.04
10.	Serviced apartments	4.04
11.	Private rented residential	4.04
12.	Industrial/warehouse	3.99
13.	Affordable housing	3.98
14.	Hotels	3.97
15.	Social housing	3.80
16.	Leisure	3.69
17.	Flexible / serviced offices and co-working	3.51
18.	Housebuilding for sale	3.48
19.	Retail parks	3.43
20.	Parking	3.33
21.	Central city offices	3.16
22.	High street shops	3.10
23.	Business parks	2.85
24.	Out-of-town shopping centres/retail destinations	2.80
25.	City centre shopping centres	2.78
26.	Suburban offices	2.18

Development

Rank	Sector	Score
1.	New energy infra	4.43
2.	Data centres	4.24
3.	Student housing	4.00
4.	Retirement/assisted living	4.00
5.	Self-storage facilities	4.00
6.	Healthcare	3.99
7.	Logistics facilities	3.92
8.	Serviced apartments	3.92
9.	Industrial/warehouse	3.87
10.	Co-living	3.85
11.	Private rented residential	3.84
12.	Life Sciences	3.82
13.	Affordable housing	3.82
14.	Social housing	3.70
15.	Hotels	3.63
16.	Housebuilding for sale	3.45
17.	Leisure	3.41
18.	Flexible/serviced offices and co-working	3.15
19.	Parking	3.08
20.	Central city offices	2.96
21.	Retail parks	2.93
22.	High street shops	2.76
23.	Business parks	2.56
24.	City centre shopping centres	2.38
25.	Out-of-town shopping centres/retail destinations	2.25
26.	Suburban offices	2.01

Rents

Rank	Sector	Score
1.	New energy infra	4.27
2.	Data centres	4.24
3.	Logistics facilities	4.01
4.	Private rented residential	3.97
5.	Co-living	3.97
6.	Student housing	3.96
7.	Serviced apartments	3.95
8.	Industrial/warehouse	3.91
9.	Self-storage facilities	3.90
10.	Hotels	3.90
11.	Healthcare	3.89
12.	Retirement/assisted living	3.88
13.	Life Sciences	3.86
14.	Affordable housing	3.72
15.	Social housing	3.57
16.	Leisure	3.53
17.	Housebuilding for sale	3.41
18.	Retail parks	3.37
19.	Parking	3.31
20.	Flexible/serviced offices and co-working	3.28
21.	Central city offices	3.16
22.	High street shops	3.05
23.	City centre shopping centres	2.83
24.	Business parks	2.78
25.	Out-of-town shopping centres/retail destinations	2.78
26.	Suburban offices	2.22

* e.g. solar, wind, energy storage, electric transportation

Note: Respondents scored sectors' prospects on a scale of 1=very poor to 5=excellent, and the scores for each sector are averages; the overall rank is based on the average of the sector's investment and development score. The survey also covered communication towers/fibre but the number of respondents rating the prospects for this niche sector was too small for it to be included in the rankings.

Source: *Emerging Trends Europe survey 2024*

"ESG will open a new world of potential investible products for private equity and opportunistic money," predicts an investment manager. As we analyse in Chapter 5, a new generation of niche sectors, including battery storage for renewable energy, solar farms, electric vehicle parking and charging, and other infrastructure, could amount to "a massive amount of quasi-real estate investments over the next five to 10 years".

> ESG will open a new world of potential investible products for private equity and opportunistic money.

But to date few real estate players have established a major stake in the market, and for many of the investors interviewed it still falls within the "infrastructure" bucket, albeit sometimes as the responsibility of their broader real assets division. Some still regard it as "too niche" for institutional capital, and others are awaiting greater regulatory clarity before taking the plunge.

However, industry leaders note that renewable power generation assets are increasingly being developed and traded. A Scandinavian interviewee says that in their region the sector "has gone from project financing to dealing with existing assets, from small deals to big deals, from local players to big international players". A pan-European manager has begun to invest in solar parks: "They are super-opportunistic. It's very attractive to go there, but at a higher risk." Another interviewee adds: "As an innovative product we want to focus on renewable energy storage."

Renewable energy generation is about land, construction, permits, and dealing with operational issues, says an international investor-developer. “We feel quite strongly that we are actually well positioned to play in that sector.”

The complexity and relative novelty of the sector still present obstacles, though. “How investible are the infrastructure pieces?” asks a head of research. “It feels like the right thing to say: ‘we should do green infrastructure,’ but executing at scale is a big challenge.”

While few interviewees are comfortable with investing in stand-alone energy generation facilities, many more are providing what one fund manager calls “local infrastructure” by installing renewable energy generation within their existing property portfolios. Logistics investors are taking advantage of the solar energy potential of large roof spaces to satisfy the needs of their increasingly automated, electricity-hungry occupiers. “That is really driving our push into the energy business,” says a warehouse developer.

In some jurisdictions, however, regulation has failed to keep pace with investors’ ambitions. “Although there is merit in building photovoltaic or wind farms, and providing the energy to our real estate portfolio, we wouldn’t be able to do it under the current regulatory regime,” complains an investment manager.

They also point out that some German vehicles cannot invest in “anything which is not purely real estate”. German legislators are attempting to remedy the situation: in August 2023 a draft bill was introduced to allow open-ended funds to buy properties that use renewables for energy generation.

“

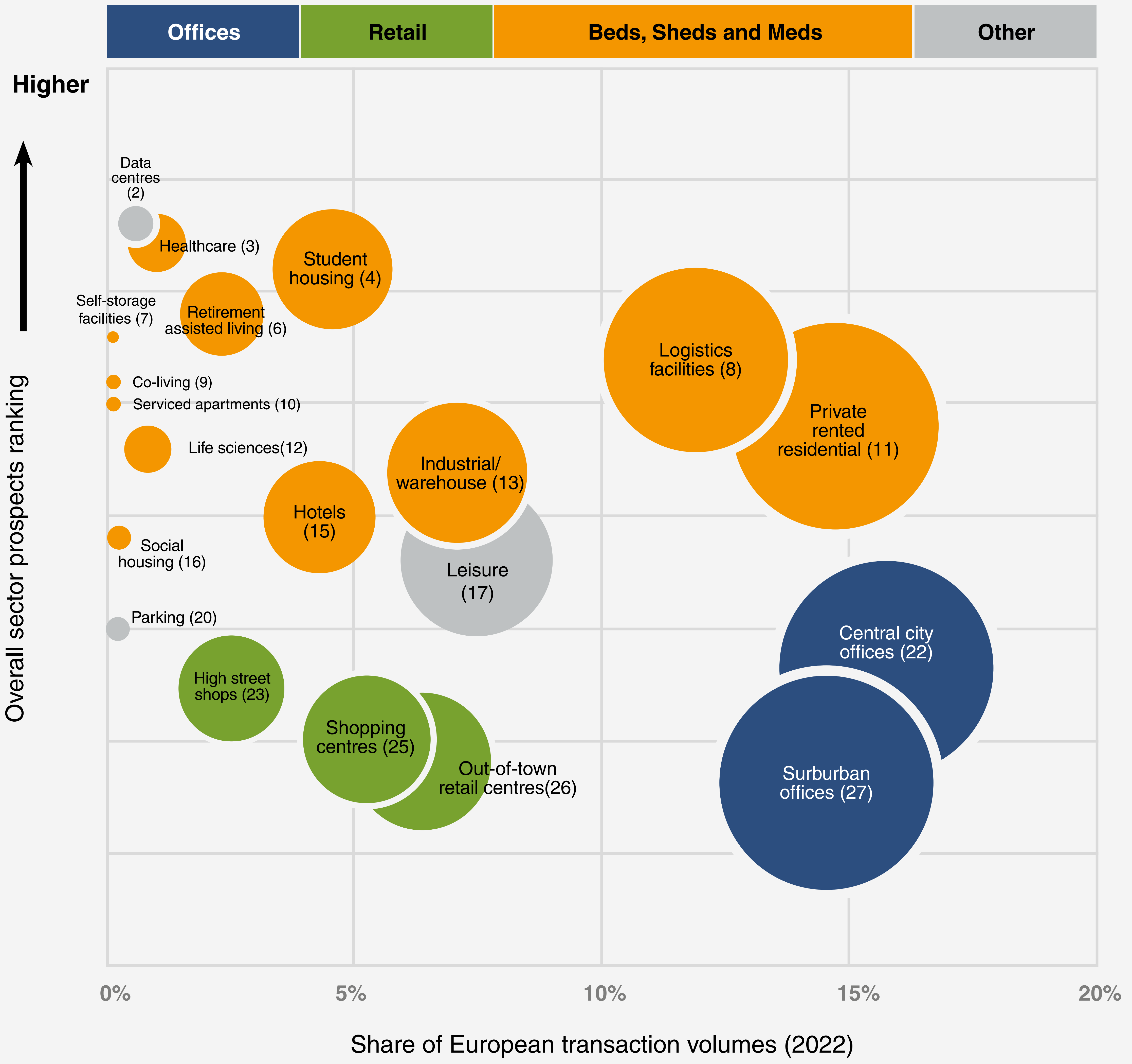
It feels like the right thing to say: ‘we should do green infrastructure’, but executing at scale is a big challenge.

Another alternative sector, data centres, occupies second place, one slot higher in the chart than last year. The segment has been consistently favoured by respondents, ranking in the top six for eight of the last 11 years (see Appendix, p64), as investors identify it as a real estate play through which they can tap into the seemingly limitless rise in data usage and storage. Nonetheless it has remained a relatively small market in terms of volume, and many investors have been deterred by the eye-watering upfront capital expenditure and specialist technical knowledge required.

The backers of data centres, however, are spurred on by the anticipated boom in artificial intelligence pioneered by much-publicised generative AI solutions like ChatGPT, and perhaps also by the need for more so-called “edge” data centres, which are smaller than conventional data centres and located closer to end users. Further endorsement came in the summer of 2023 when Blackstone's BREIT embarked on a sales programme to raise billions of dollars to invest in the sector.


DATA CENTRE FARM IN EUROPE

Figure 4-3 **Overall sector prospects ranking and size of transaction volumes**



Source: *PwC-ULI ETRE 2024, MSCI Real Assets*

Note: size of bubble scaled by size of annual transaction volumes in sector. Number in brackets indicates sector prospect ranking 2024

"If a Blackstone decides data centres is our new office sector, they will make the market like they did in logistics, but there will be developments needed," says an interviewee. Data centres will be the "next oil rush", predicts another. An industrial property company head likens the stage of development of the data centres market today to the logistics market of 10 years ago, implying enormous scope for growth.

> If a Blackstone decides data centres is our new office sector, they will make the market like they did in logistics, but there will be developments needed.

Large data centres can be a problematic investment from an ESG standpoint, however, because of their hunger for power, unsightliness, and limited direct employment generation potential. Across Europe it can be difficult to deploy capital in this sector, which is why some investors are choosing to focus on smaller, local facilities. "We believe in medium-sized data centres. A lot of capacity will be required in Europe," says a private equity manager.

Beds, sheds and meds

Property market analysts now commonly extend the "beds and sheds" mantra to another group of real estate subsectors perceived as being supported by structural trends.

"Beds, sheds and meds" encompasses healthcare, a popular sector in the ranking for much of the past decade, which sank to 16 last year, but is viewed as having the third-best overall prospects in 2024. In an increasingly institutional market, MSCI data show that European investment volume grew by 650 percent between 2007 and 2022, albeit to a relatively modest €3.4 billion overall. Meanwhile retirement/assisted living, which combines elements of both beds and meds, occupies the fifth spot.

"One of the clearest megatrends is ageing populations. And that trend is not represented well enough in our portfolio yet," observes a pension fund manager. A lack of product in which to invest is blamed, but this manager predicts that development will start to fill the gap.

The demographic bulge created by the ageing of the baby boomer generation will drive demand for "senior residences, nursing homes, hospitals, clinics, and more", says one of a substantial number of interviewees aiming to develop real estate strategies to fulfil that need.

It is notable that another "meds" sector, life sciences, has fallen sharply in this year's ranking.

> Life science is a square root of nothing. That's a sector people get very excited about, but it's just sort of weird offices. There's not really an opportunity there.

First entering the list at number three in 2021 as the pandemic raged, it remained one of the most in-demand sectors, taking second place for the next two years. But its honeymoon period appears to be over in 2024 with a fall to 11.

"Life science is a square root of nothing. That's a sector people get very excited about, but it's just sort of weird offices. There's not really an opportunity there," says a sceptical consultant.

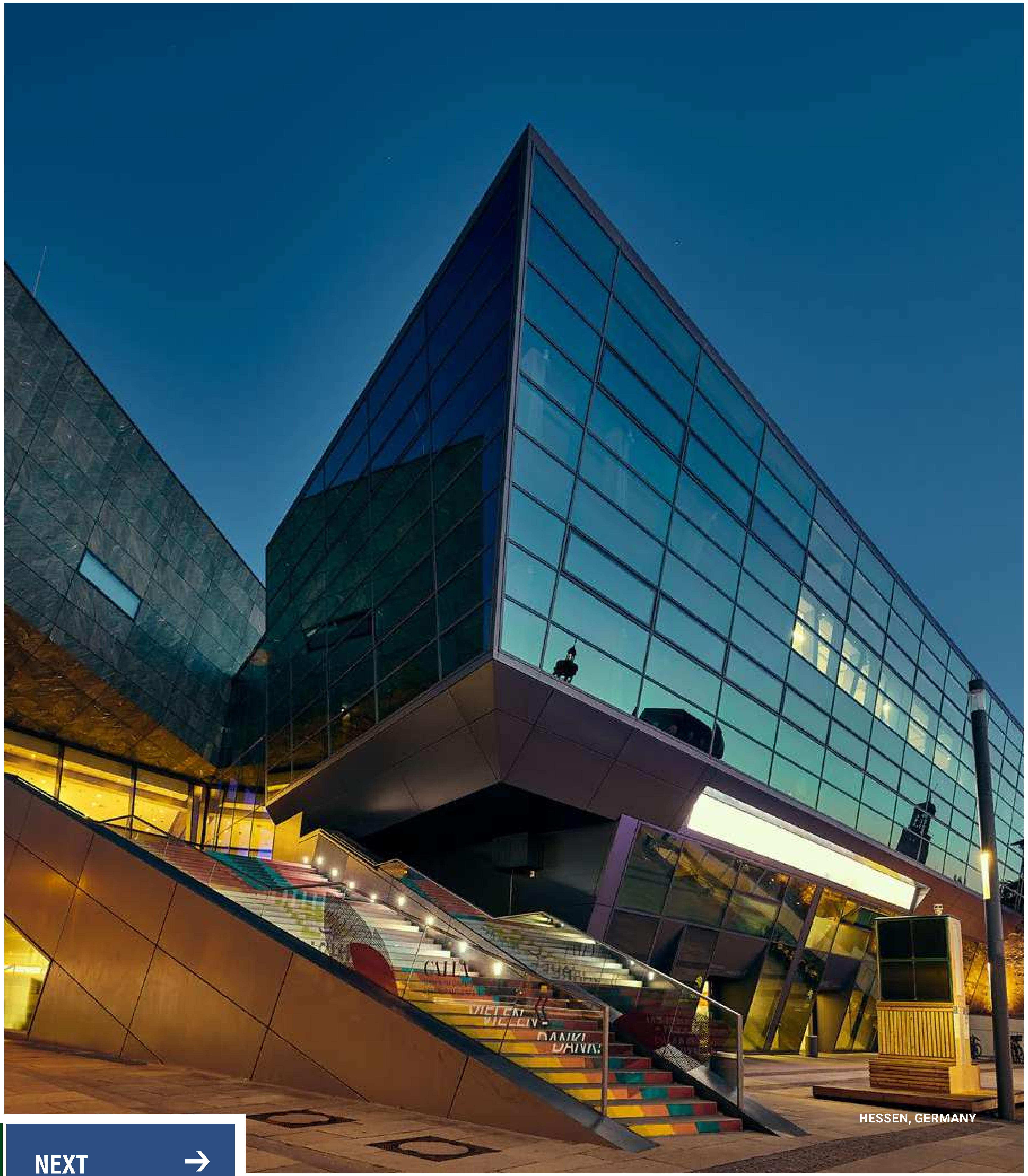
Investors still like the rationale for the sector, but they find it difficult to allocate capital because it remains small and illiquid, suggests an investment manager. "Even though everyone wants to do it, no one really knows how to. The market is still small, so there's a risk of too much interest, thus raising prices to unreasonable levels." In some key markets there is very limited purpose-built lab stock available, and development is frequently constrained, with little land available near the most-favoured clusters.

Mixed use on the increase

While sector strategies still play a central role in many investors' allocation decisions, there are signs that more progressive industry players are beginning to look beyond a siloed approach and embrace the possibilities offered by mixed use.

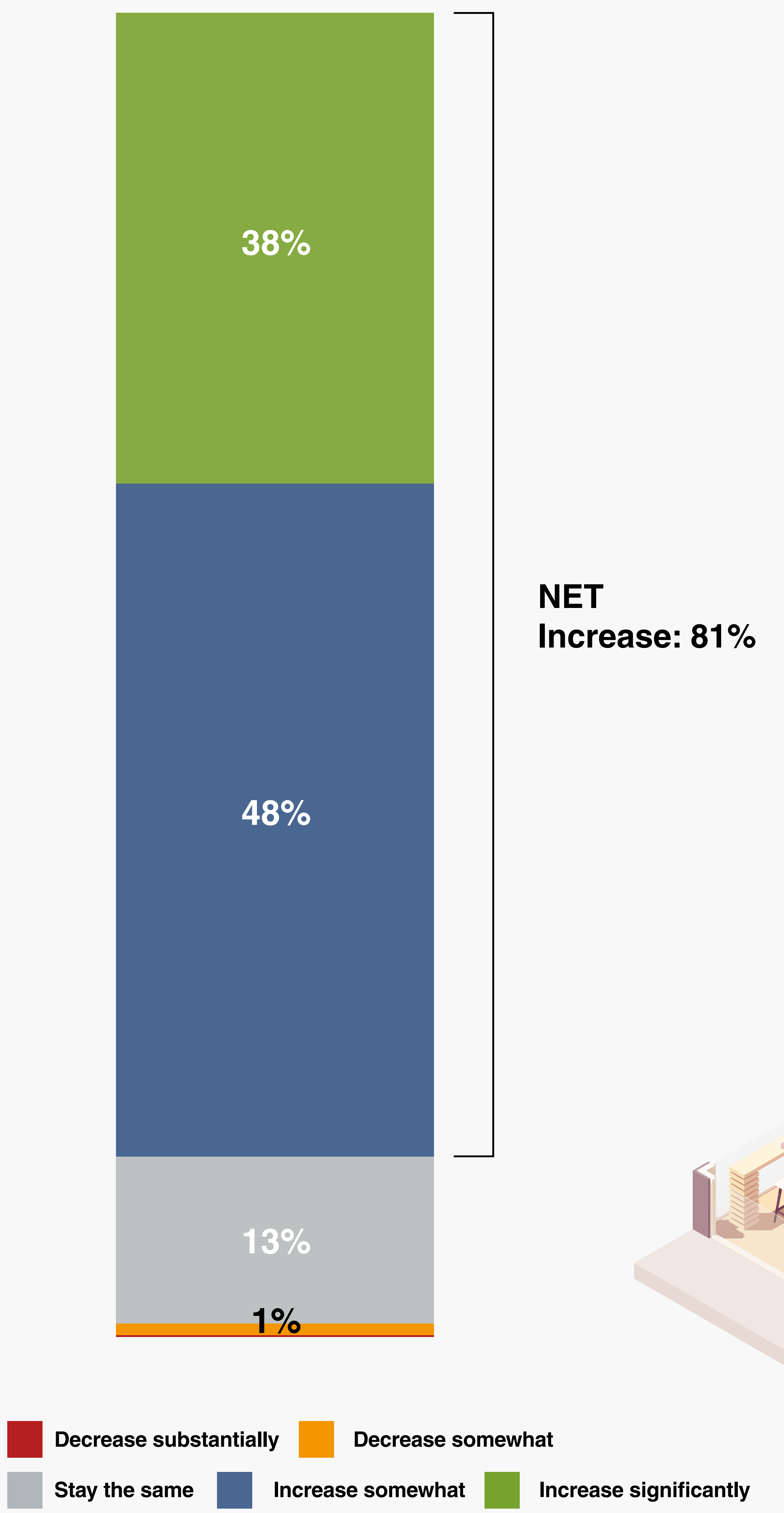
More than eight out of 10 respondents say they expect to see a shift towards co-location — in other words, combining different uses in a single building or location. Some 35 percent expect a hybrid model of three or more sectors to be the most common combination within their portfolio, and 18 percent expect to combine residential and offices.

Successful places will feature multi-use space that attracts different generations and types of user, argues one institutional investor, and it will be large, sophisticated real estate players with the scope to control and reshape whole districts that are likely to lead the charge. "Those places will be urban, and transport-led. You have to be a big player to generate scale and management efficiencies. Valuing them is complicated. Managing them is complicated. But that's the future."



HESSEN, GERMANY

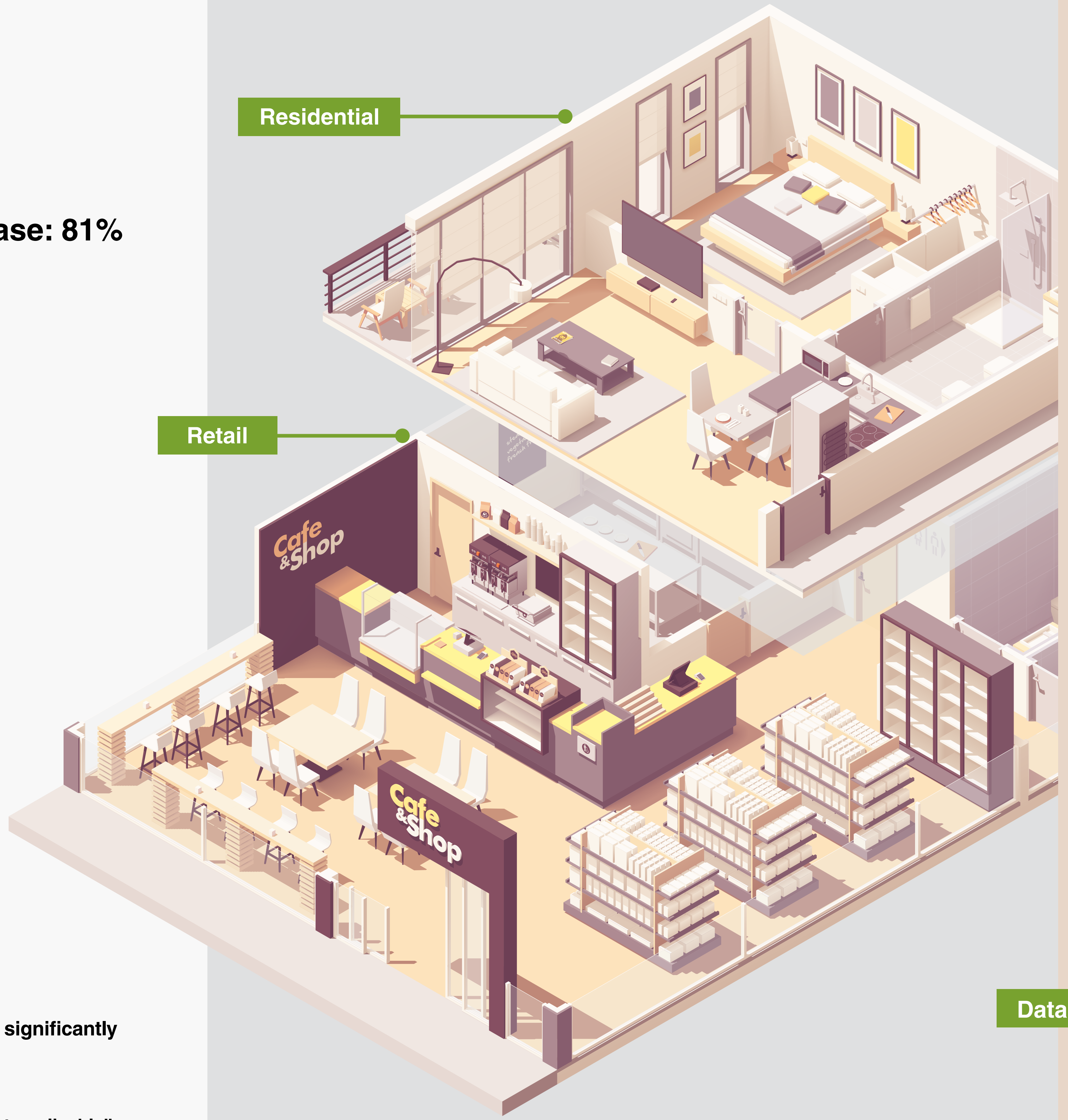
Figure 4-4 **To what extent do you expect to see more co-location of real estate sectors**



Source: *Emerging Trends Europe survey 2024*

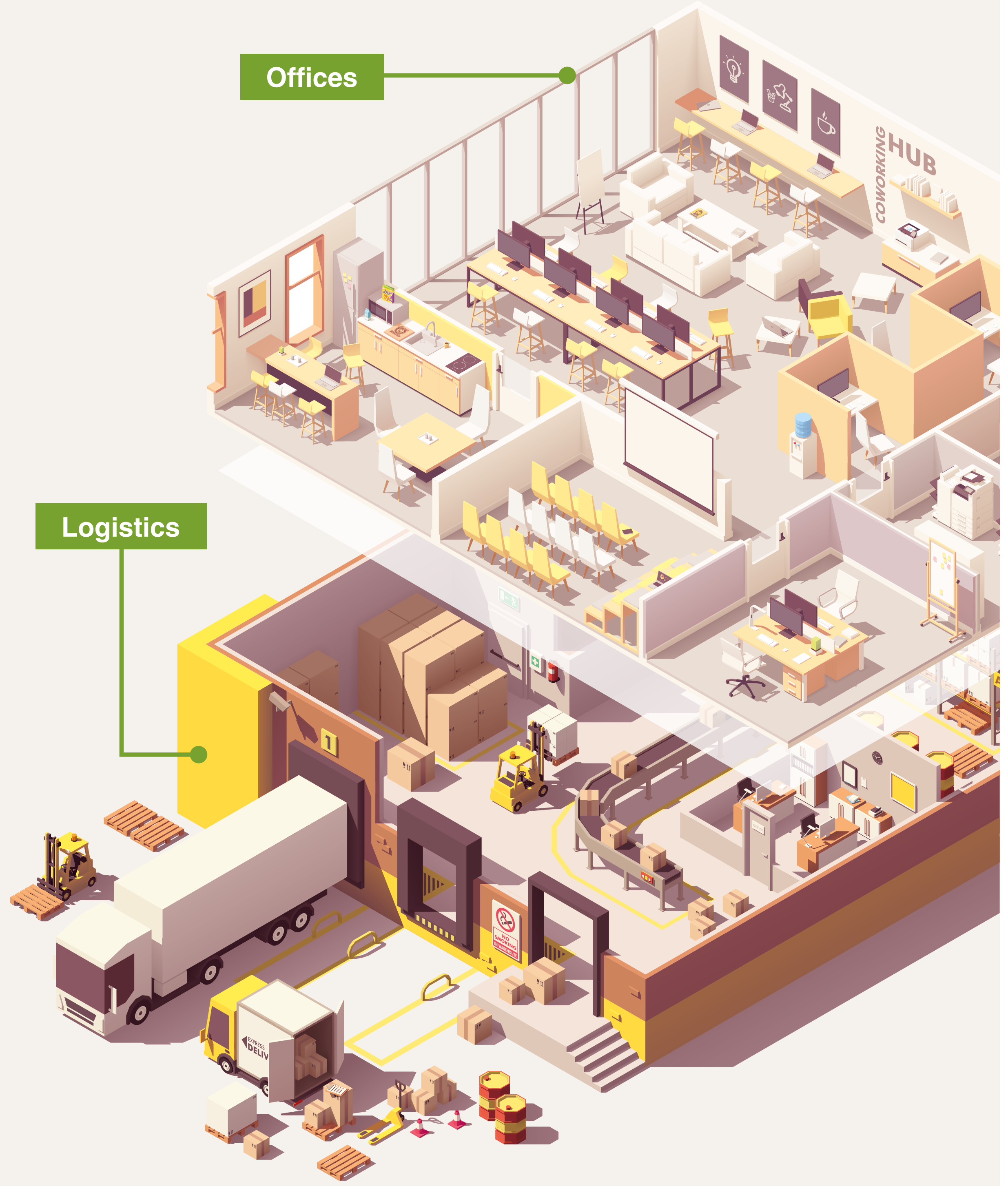
Note: 5% of respondents answered this question as "Don't know/not applicable" and 0% as "Decrease significantly".

"Residential will become more mixed use with amenities and service apartments. Office will need to transform itself.



"I expect we will see especially more office buildings with different alternative uses including for example life science and data centre areas.

"I think centrally located offices will see refurbishment and more retail and hospitality. Out of town offices/business parks will see some life science, potentially battery storage, warehousing industrial.



Offices

The impact of hybrid working on the office sector remains the burning issue for many real estate professionals, but little hard evidence has yet emerged as to how the trend will ultimately play out.

Interviewees report that the pace of the post-pandemic return to workplaces varies between countries and cities. “Because office is such a big component of global real estate, it will have a big impact on what our strategy is, but it's hard for me to tell you what that is,” says a chief investment officer, reflecting the industry dilemma.

There is broad agreement on what the industry needs to do: prioritise quality space that helps companies adapt to the latest working practices. Survey respondents expect office landlords to offer shorter leases and more flexible workspaces (Figure 4-5). They believe reducing overall costs, location, and attractiveness to talent will be the three most important factors driving occupiers’ workplace strategies (Figure 4-6).

Office landlords need to help occupiers attract employees back into the workplace, unlocking the benefits to their business of shared culture and collaboration, says an office developer: “People want less space — 15 to 20 percent less on aggregate in London — but better quality.” Tenants’ wish lists include sustainability credentials, proximity to public transport, and flexible space, plus “terraces, amenities, cycling, showers”.

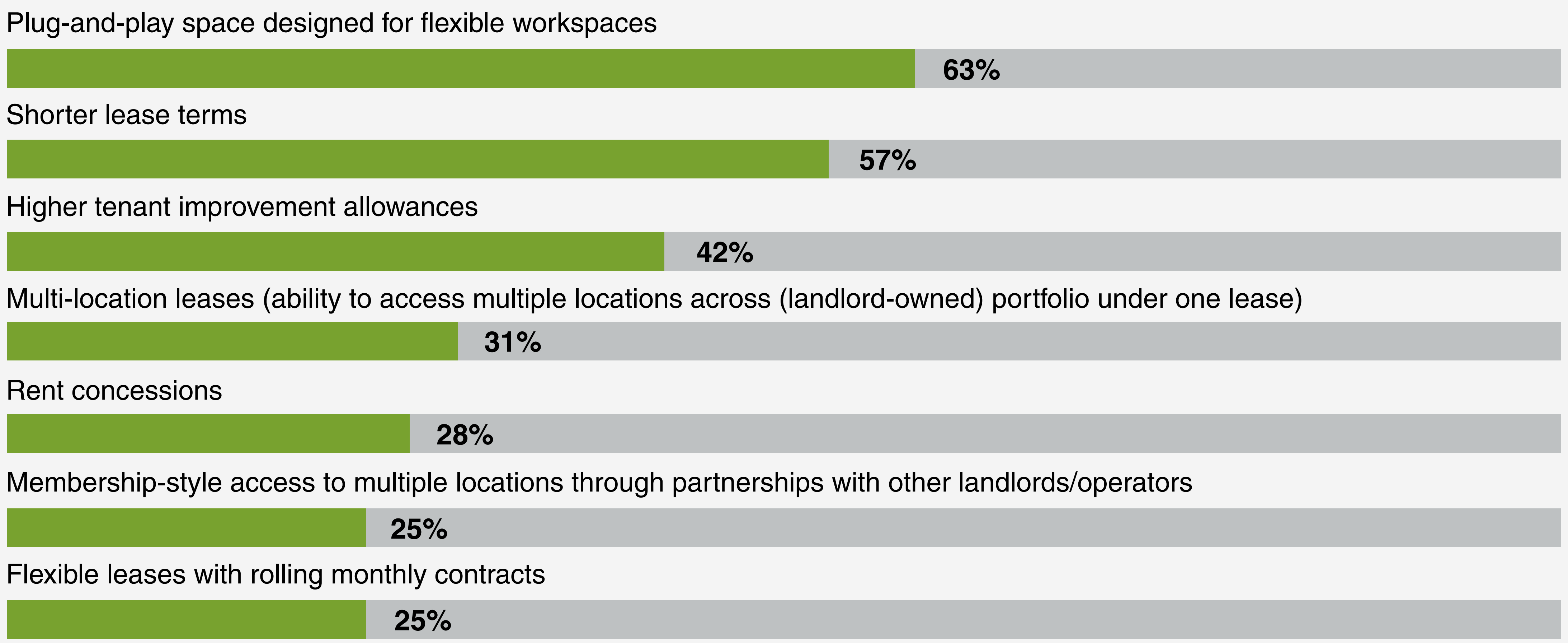
> Demand for flexible, sustainable offices is going to increase, and the supply is non-existent.

Some interviewees question whether shorter lease terms are a priority for tenants, although there is widespread agreement that the direction of travel is towards more flexible arrangements overall. The trend is perhaps inevitable in the context of declining corporate longevity. In 1980, the average lifespan of a company in the Standard & Poor’s 500 Index was more than 36 years. That had fallen to less than 20 years by 2022.

A number of landlords are embracing a less rigid approach as a means to generate value: “I would be more interested in buying a new office that I can manage in a more flexible way than one with a 20-year lease contract on it,” says one.

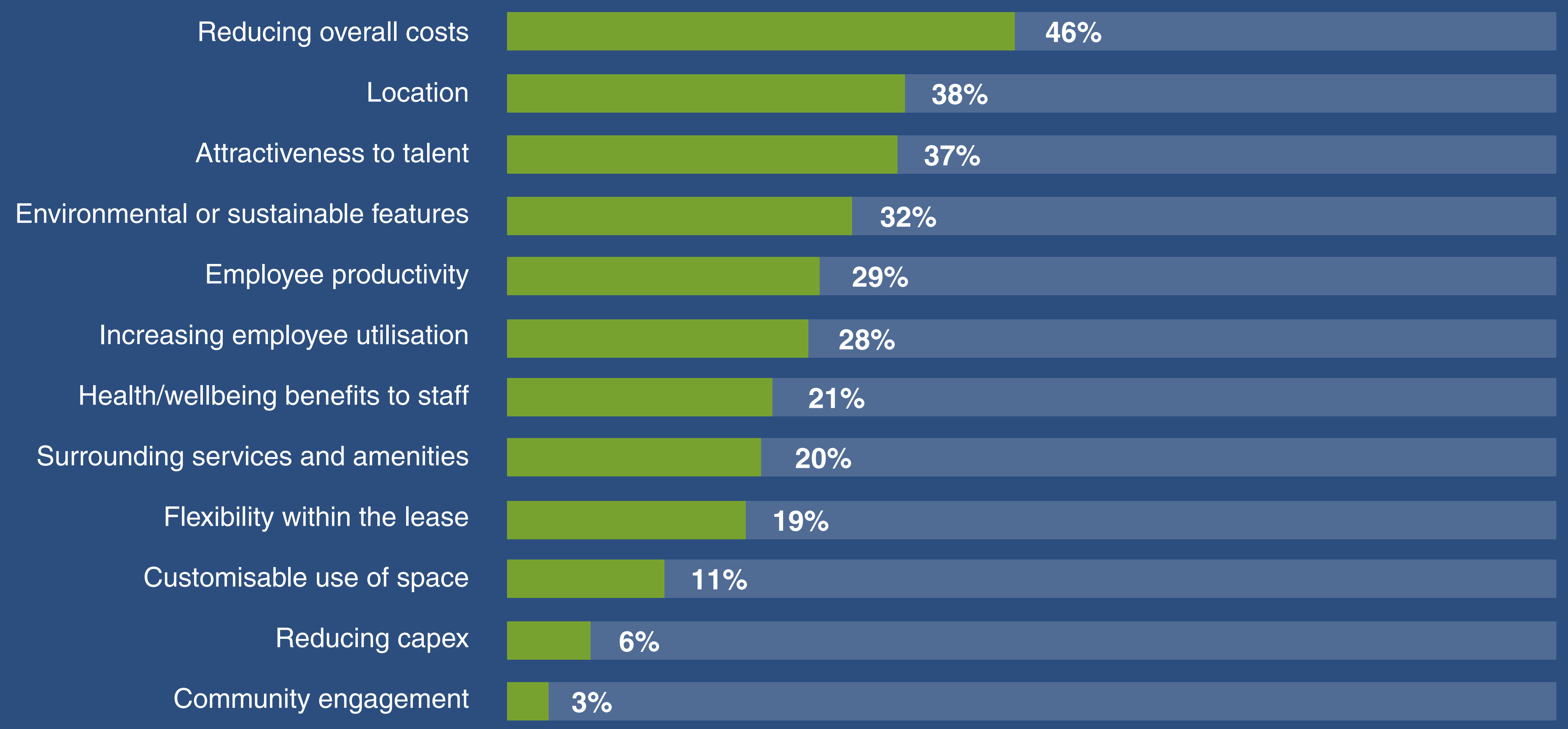
Office development has slowed dramatically, so attractive new buildings for occupiers wishing to relocate are in short supply, notes a CEO. “Demand for flexible, sustainable offices is going to increase, and the supply is non-existent.” Consequently, a number of interviewees are pursuing “brown to green” strategies, improving old buildings in the most desirable city centre locations to meet demand.

Figure 4-5 **Expectations for how office landlords will change the overall flexibility of leases in response to tenants adopting hybrid working models**

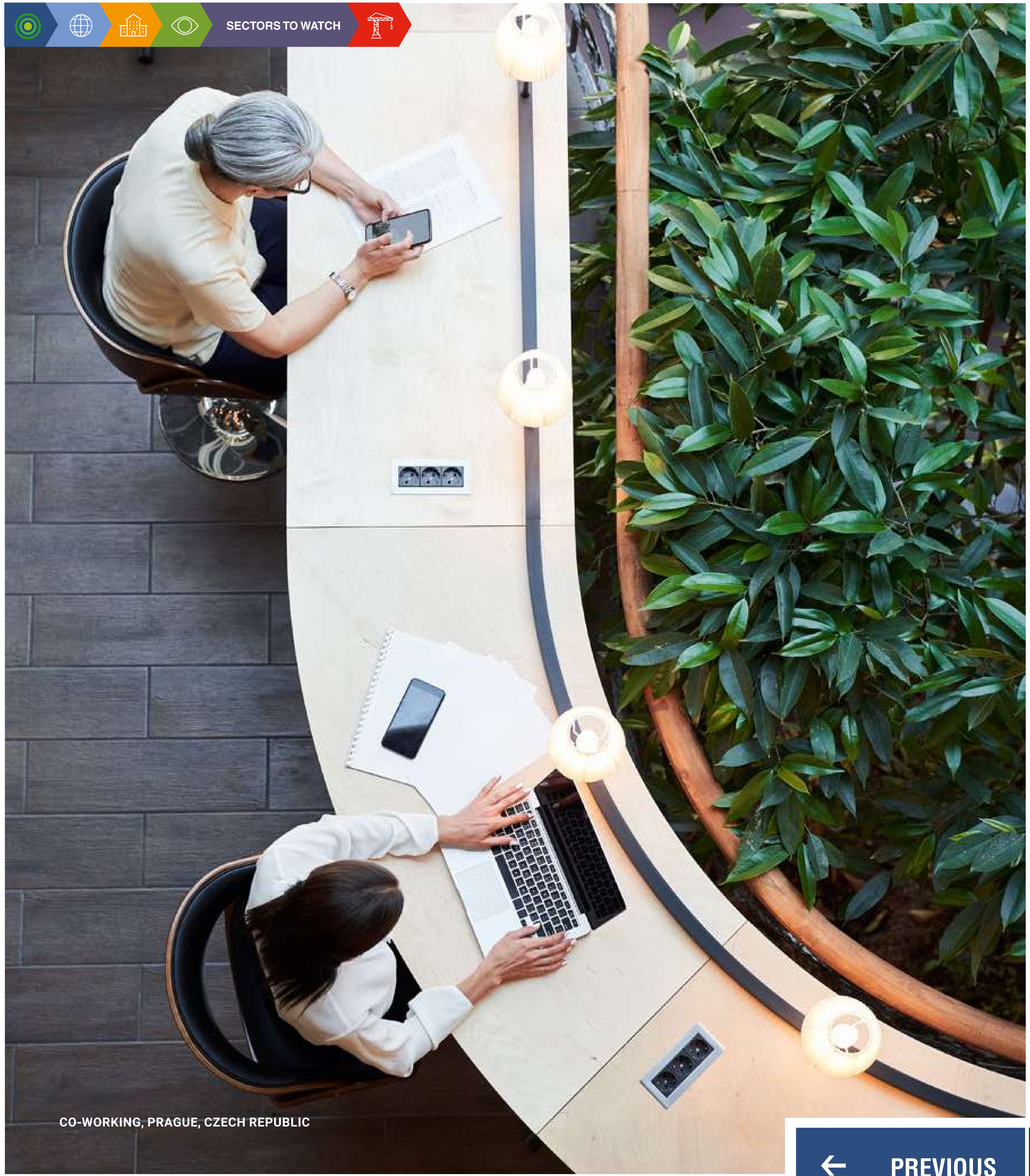


Source: *Emerging Trends Europe survey 2024*

Figure 4-6 **What the industry believes is driving occupiers’ workplace strategies over the next 18 months**



Source: *Emerging Trends Europe survey 2024*


CO-WORKING, PRAGUE, CZECH REPUBLIC

The trend will be reinforced by regulation in many markets. "At city level we are seeing carbon taxes being implemented," says one interverwee, "so you can only re-use existing buildings. You will not be able to knock down and start again." However, it is currently viable only in high-value locations, particularly at a time when real estate prices are falling, cautions a fund manager. "The cost of meeting ESG specifications is the same everywhere. It's not an option in many lower-rent cities."

In the post-pandemic era, any analysis of the risk of obsolescence in the office sector has invariably dwelt on the widening gap between primary and secondary assets. Some in the industry now anticipate a "trifurcation" in the sector, still with high-quality, green and in-demand assets at the top and at the other extreme those buildings in secondary locations where investment is unviable. But it is in the middle where the "green transition" is arguably at its most challenging. As one senior investment manager points out, there is a huge number of buildings in good locations but which still require upgrading or repositioning. "That's actually where a lot of the financing is needed."

Yet the survey reflects deep doubts over the short-term prospects for all forms of offices. Flexible/serviced offices and co-working is ranked a lowly 18. The subsector's decline is epitomised by the troubles besetting its standard bearer, WeWork, which is seeking to renegotiate nearly all its leases worldwide amid doubts over its future as a going concern.

City centre offices are even less favoured by respondents at 21 in the ranking while suburban offices languish at the foot of the table, with the lowest rating among all sectors for investment, development and rents.

"There is a taint on offices, a virus that started in America and has infected most real estate investors there. That virus is spreading to Europe and Asia," says a global investment manager. However, interviewees dispute whether US levels of office vacancy will be replicated in European city centres, where development land is scarce, and where commutes are often shorter. "Zurich is not like San Francisco, and Munich is not like Houston."

> Office may not remain the largest asset class over a three-to-five year view.

Offices accounted for 27 percent of European investment volumes up to Q3 2023, according to MSCI. And yet the story is one of long-term decline. In 2007 office transactions made up 46 percent of the market. A fundamental shift appears to be taking place, and as one adviser predicts: "Office may not remain the largest asset class over a three-to-five year view."

Housing

Over the past 15 years, MSCI figures show investment volumes across the living sectors gradually closing the gap with offices, growing by 317 percent.

And yet an interviewee describes it as "still an emerging sector, with a lot of runway left to make impact". Another notes that the overall volume of residential property far exceeds commercial real estate globally. "If even a small portion becomes institutional, it would be the biggest sector."

A combination of resilient income and strong fundamental demand has seen the various forms of housing established in the higher reaches of the *Emerging Trends Europe* rankings over recent years, and it is still seen as a safe bet in troubled times. Residential subsectors account for five of the top 10 most favoured asset classes this year. "The living sector is holding up remarkably well compared to every other sector," argues a residential developer. "It performed extremely well during COVID and the [prospective] returns still look compelling, whether over a one, three, five or 10-year period."

Higher interest rates have rendered mortgages less affordable and pushed housebuilding for sale to 18, its lowest ranking in the last decade. But the same dynamic favours rented residential, notes an investor-developer: "House prices in European cities have increased by 45 percent in 10 years while salaries have increased by 17 percent. If you combine this with high interest rates, it's obvious that people will go more for rent than for sale."

Respondents rate the prospects for student housing as much-improved this year, and the sector has climbed eight places to fourth. Its relatively low ranking in 2021(14), 2022 (15) and 2023 (12) could be interpreted as a COVID-influenced blip in the light of long-term trends — it was previously ranked outside the top six in only one year between 2014 and 2020.

Interviewees identify a mismatch between supply and vigorous demand for purpose-built student accommodation across several European territories, including Benelux, Germany, Italy and the UK. A residential specialist calls it the "biggest winner in the living sector", because of its combination of annually rebased rents, which provide a hedge against inflation, and supportive structural drivers. "The cost-of-living crisis is not directly affecting the money that families can dedicate to educational purposes."

The prospects for affordable and social housing are rated less favourably than last year, despite the deepening of the Europe-wide affordability crisis.

Several interviewees single out the capital cost of upgrading properties' energy efficiency as a worry for potential investors, and a possible reason why both affordable and market-rate rented housing have lost some of their lustre. "How do you pursue the green agenda while also addressing housing affordability? Essentially, who pays for decarbonisation and the energy transition?"

The age and condition of Europe's residential stock presents a huge challenge for decarbonisation efforts. EU Building Stock Observatory statistics show that 38 percent of the bloc's residential buildings were built before 1970. By 2020, only 12 percent had been renovated to meet climate change targets. "Decarbonisation is not really priced into our assets at this point," warns a residential fund manager. "If you apply the polluter pays principle then they will devalue. So far, we are only seeing the beginning of that."

The threat of greater regulation, including rent controls, is another deterrent: "Rental growth is a two-edged sword. We are seeing rents increase, and I guess most investors are hoping that it doesn't get out of hand, which would then lead to rent regulation."

Logistics and industrial

Logistics remains a favoured sector, albeit to a lesser degree than its golden age of 2018-22 when it was never outside the top three in the survey rankings for overall prospects. This year sees a one-place improvement to seventh, driven by strong confidence in the outlook for rental growth, for which the sector is ranked third.

The pandemic, painful for most other sectors of the economy, was a boon for e-commerce logistics. "Demand has definitely slowed. The two years of COVID were a real anomaly positively, and we're back to where we were in 2019," says a logistics developer.

"E-commerce is less of a driver than it was during the height of the pandemic, but remains a factor," says an industrial specialist, who notes that the gradual encroachment of online shopping on traditional retail markets has not halted, but instead has returned to its pre-pandemic trajectory.

Demand remains robust, supported by the shift to onshoring and nearshoring in supply chains. "People don't want to be caught short if there is another disruption to the supply chain," adds the logistics developer, and that has helped to underpin rental growth. "We think it will continue as the underlying demand drivers are structural, and remain in force," says the head of an industrial property company.

Values for industrial property have adjusted more quickly than for other asset classes, and with most players employing low leverage, there has been little distress. However, some forced selling is predicted in situations where developers bought land at peak-market prices and now find that their underwriting no longer stacks up. That will represent a short-term buying window for some investors. "Because the market is pretty illiquid at the moment, these opportunities are being priced much more interestingly."

"People don't want to be caught short if there is another disruption to the supply chain.

The outlook for industrial/warehouse property is rated less favourably, its ranking slipping one place to 12. With the fierce occupier demand for warehousing abating slightly, some interviewees foresee a widening gap between values for modern high-quality space and older stock. "That performs a very valuable function as affordable industrial units, but it won't meet energy performance requirements," says a consultant.

Retail

Expectations for retail property are still subdued, with high inflation and interest rates continuing to squeeze consumer spending across Europe.

Meanwhile retail businesses have been battered by higher borrowing and operating costs at the same time as pandemic support packages are being wound down. This year, retail parks stand at number 20, high street shops at 22, and out-of-town centres at 25. MSCI figures show that retail transactions, which accounted for 29 percent of investment volume in 2010, were just 14 percent of the European market in 2022.

Many high streets remain pockmarked by empty units, which contribute to the image of a sector in decline. The outlook for the asset class overall is more nuanced, however. “Food retail, essential, necessity-oriented value and convenience goods is a very sensible place to be,” says one pan-European investment manager. “And as people threw the baby out with the bath water, they’re just way cheaper.”

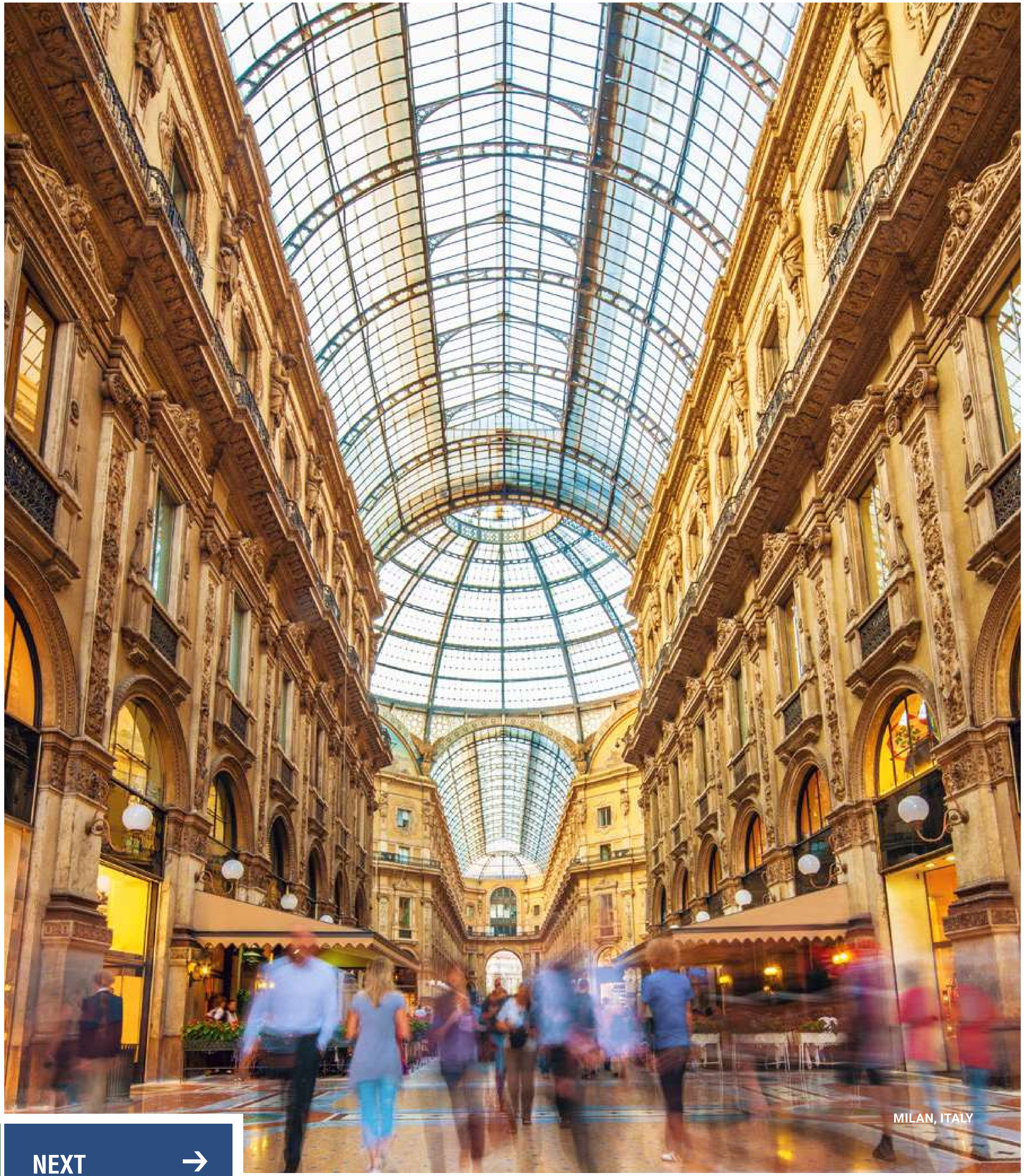
Pan-European supermarket chains are willing to do sale-and-leaseback deals to release liquidity, notes an asset manager. “If you are an equity buyer, and you have some bullish assumptions, you can have very interesting opportunities these days.”

For shopping centres, interviewees’ views are coloured by the extent to which they think the market has rebalanced. Some are keeping a sharp eye out for the turning point. “I’m not saying it’s done yet, but there’s a lot more clarity about what works now and what didn’t work, doesn’t work, and will never work,” says a fund manager. “We will get more comfortable with retail in the next three to five years.”

> “If you are an equity buyer, and you have some bullish assumptions, you can have very interesting opportunities.

“For the right retail value propositions, it’s closer to the bottom than some other sectors if you ask me today,” says another investment manager. “But you have to really understand the fundamentals of whether you can drive value in a specific place.”

An institutional investor takes a still more positive view: "The right centres are full." With offices in decline, and other sectors “more or less flat,” retail will be a “relative outperformer for the next 12 months”.



MILAN, ITALY

CHAPTER 5

EVOLVING REAL ESTATE

"It is increasingly clear that there is a whole sector of investible assets in real estate that are not being targeted by the mainstream but are core to society's physical needs."

Managing partner, private equity fund manager.

OSLO, NORWAY

Europe's real estate industry has reached a point in its evolution where it knows it must balance making short-term money with providing for the longer-term needs of a complex and fast-changing society. It just needs to figure out how to get there.

As part of that process, the rise of real estate sectors once considered alternative, or niche, has been slow and steady over the past two decades although it is now speeding up dramatically. The more progressive real estate investors are increasingly basing investment decisions on social and megatrends like demographic change, the need to decarbonise the economy and digitisation. As a result, they are venturing into sectors beyond the traditional "big three" of offices, retail and, more recently, logistics, although the last remains firmly on the agenda given the way we source goods.

"The people who make money over the next decade will be the people who solve the problems of society," one investment manager says. The problems that need solving include affordable housing, healthcare, decarbonisation, digitisation and communication. Real estate is already deploying more capital into sectors that address these fundamental needs.

According to the *Emerging Trends Europe* survey, property leaders are turning their attention to the next generation of alternative sectors. This move represents a major diversification of the industry's approach to investment, from the creation of clean energy and assisting the need for food security and new ways of feeding growing populations to a far broader involvement in healthcare. Such diversification reflects the industry's greater understanding of the positive and negative impact of the built environment on society. The perception of risk, of what is secure income, is changing.

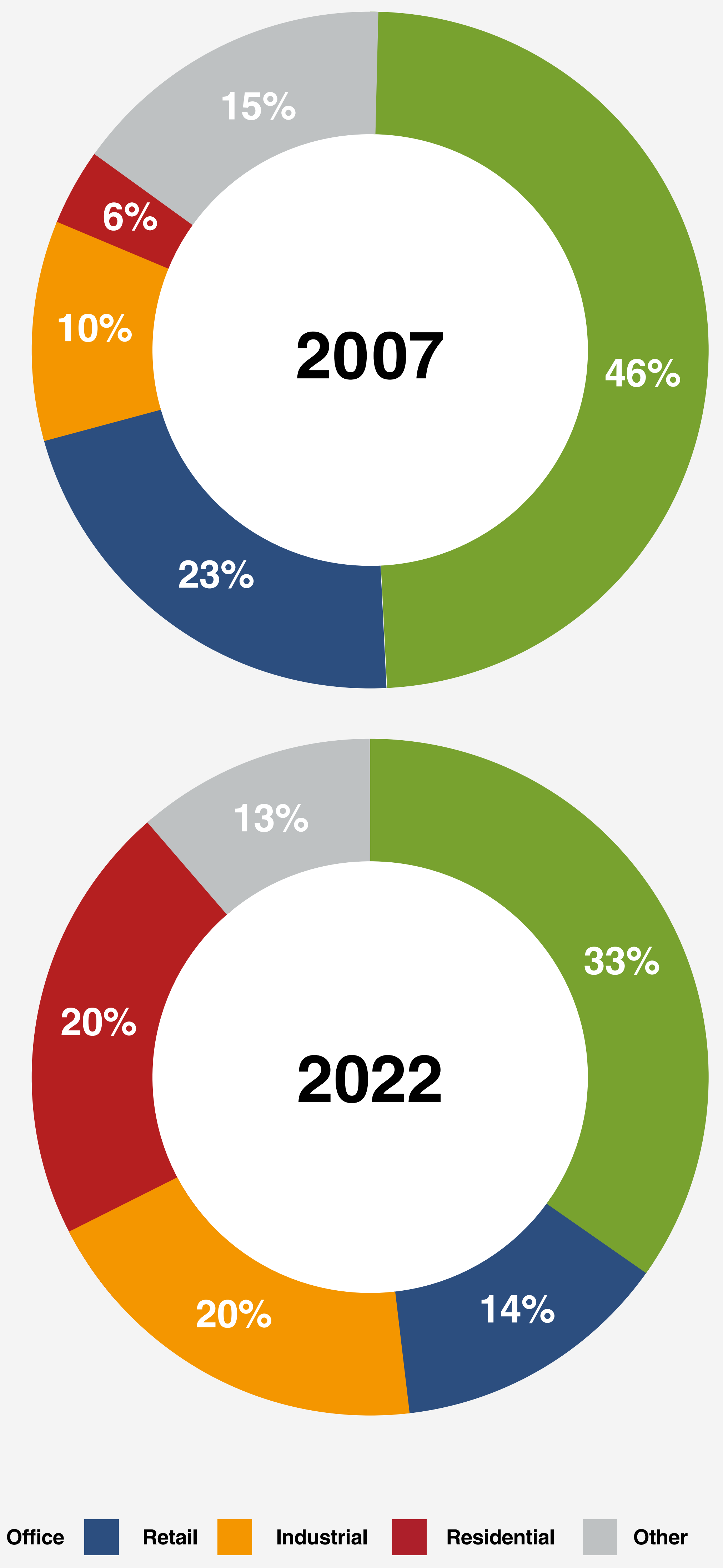
> "The people who make money over the next decade will be the people who solve the problems of society.

In that sense, a theme emerging from the interviews is that of real estate being akin to "social infrastructure", and the definition of what can be considered an investible asset is becoming wider, the lines between real estate and infrastructure more blurred. Not all industry players think in this way, and the term social infrastructure may not cross their minds. But they are providing this infrastructure nonetheless, in a trend that is accelerated by the desire from investors for their real estate investment strategies to align with broader environmental, social and governance (ESG) policies.

This trend is reinforced by the cut in funding from governments across Europe and globally for assets and services that fulfil fundamental human needs, such as affordable housing, elderly care, healthcare and education.

BERLIN, GERMANY

Figure 5-1 **Europe transaction volumes by sector type**



Source: *MSCI Real Assets*

> The alternative sectors that are supposed to be niche in the eyes of the institutional investors are mainstream in the capital markets already.

That is a problem for society, but a huge opportunity for the real estate industry, which can provide, or at the very least facilitate, such services.

But while investors know where capital needs to go, real estate as it is currently structured is ill-suited to take advantage of the opportunity. The alternative or niche sectors most likely to benefit from demographic and societal trends are complex and highly operational, something some investors embrace, but from which many still shy away.

The barriers to entry here are many and varied: legal documentation, technological infrastructure, inflexible definitions of what is and is not real estate, and finding the right kind of skills. However, these problems are not insurmountable. Indeed, many investors are already overcoming them and making significant returns in the process. What needs to change most of all is a mindset, the overcoming of a fear of the unknown and a willingness to embrace innovation, complexity and difference.

Looking at the evidence

The evidence that real estate investors increasingly want to put their capital into alternative sectors has been evident in *Emerging Trends Europe* for years.

When the report was first published in 2004, it analysed the prospects for just nine sectors. The number is now 26. This year, as has been the case for the past decade, the top 10 sectors ranked for investment and development prospects are dominated by alternatives, led by new energy infrastructure, data centres and healthcare. Only logistics makes the top 10 from the traditional sectors, with self-storage, life sciences and various subsectors of an increasingly nuanced and specialist residential sector also placing highly.

Beyond *Emerging Trends Europe*, the listed real estate sector, particularly in the US, also signals where the industry is heading. Research by CBRE Investment Management uses data from the FTSE NAREIT All-Equity Index to show that in 2009, office, retail and industrial REITs accounted for 47 percent of the market capitalisation of US REITs.

By June 2023 that share was 24 percent, with office and retail in particular falling from 38 percent to just 11 percent.

Cellular/mobile phone towers is now the single largest sector of the US REIT universe, and data centres and healthcare are both almost as big as office and retail combined. The world's two largest REITs are American Tower, the cell tower giant, and Public Storage, a self-storage REIT. As one investment manager interviewee says: "The alternative sectors that are supposed to be niche in the eyes of the institutional investors are mainstream in the capital markets already."

A paper from Harrison Street, the fund manager that focuses on alternative asset classes, highlights that even in the US NFI-ODCE index, an index of funds where participants need to invest at least 75 percent in traditional asset classes to qualify for inclusion, the allocation to niche sectors has risen from less than 1 percent in 2012 to 10 percent in 2022.

Europe's listed real estate sector is not as diversified as that of the US, nor is the private/unlisted real estate sector. But the direction of travel is the same, and in Europe, much of the investment in alternative sectors is happening in the unlisted sector.

According to MSCI, alternative sectors, including residential, still considered an alternative in most of Europe, accounted for 33 percent of the €326 billion invested in Europe in 2022, compared with 21 percent of all investment in 2007. The share of office and retail fell from 70 percent to 47 percent in that time (Figure 5-1).

Further data from Savills and MSCI reveal that while overall investment in real estate fell 19 percent in 2022, investment in student accommodation, senior living and data centres rose 30 percent. In the UK alone, those sectors with particular operational intensity, many of which are niche currently, have the potential to grow from a current asset value of about £250 billion (€287 billion) to more than £750 billion (€862 billion) over the next decade, according to research by law firm Macfarlanes and management consultancy Montfort Communications. Build-to-rent residential and senior living are likely to see the biggest absolute growth, while single-family rental will increase the most relative to its current size.

Embracing societal change

Real estate players are often depicted as reluctant to embrace change, but interviewees argue that the industry is slowly but surely adapting its investment practices to benefit from the changing way that people use buildings and cities.

"What we're looking for are needs-based structural drivers of demand. So, we're looking at demographics and then we're looking at customer changes and disruption that is driving activity in a particular area, and we're trying to avoid cyclical risks," one fund manager says. "We're looking for sectors that have inflation linkage, where we have reliable, secure, growing cash flows. And it just feels like a lot of these more emerging sectors have some of those characteristics."

The megatrends of demographic change, digitisation and decarbonisation are now at the forefront of investor minds when making investment decisions, rather than just financial risk assessments, interviewees report.

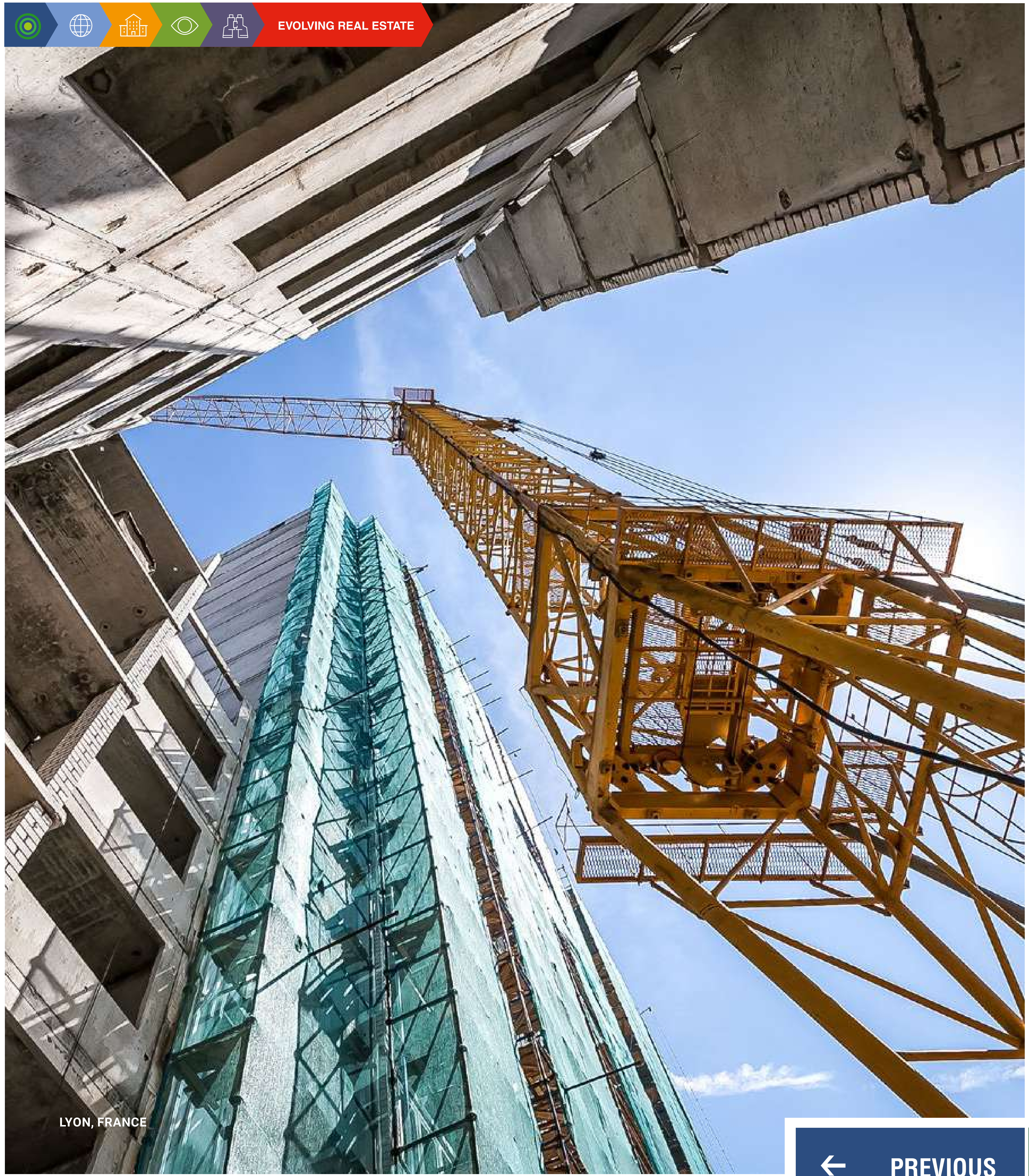
In that sense, real estate is increasingly seen by investors, governments and citizens as "social infrastructure". It is an industry that is not just "creating a lease so we can collect the rent", as one investor says, but investing in the space required to meet the most fundamental needs of society, in many cases fulfilling needs traditionally met by government.

"

> Back in 2003 co-living did not exist, so it's a new sector in itself, and there's demand for it.

The traditional property sectors are also responding to societal needs and can be seen through the lens of social infrastructure. Logistics serves the supply chains that keep the modern economies functioning and will be a critical pathway to decarbonise the transportation industry. Retail and leisure schemes provide the spaces where we gather and interact in an increasingly digital world. High-quality offices are central to the knowledge economy and, in turn, critical to the success of cities.

FRANKFURT, GERMANY


LYON, FRANCE

> There is definitely pressure from governments to go back into residential because of the social housing segment for low-income workers.

And as one French interviewee observes, there are uses in 2023 that did not exist in 2003. “Co-living, for example, did not exist at all, so it’s a new sector in itself, and there’s demand for it.” But real estate players are clearly looking at needs that go beyond previously dominant types of assets.

“We’ve created 3,500 new childcare and educational places in the last three or four years from buildings that were perhaps institutional resi but vacant, or care homes or old schools, which were going to close down,” one investment manager says.

By investing in assets owned by operating companies, at a rent that could be sustained by the business, this manager freed up capital that has allowed those companies to expand.

Some investors explicitly promote themselves as social infrastructure investors. “It is increasingly clear that there is a whole sector of investible assets in real estate that are not being targeted by the mainstream but are core to society’s physical needs,” one investment manager says, citing sectors like education, healthcare, waste management, clinical healthcare, pathology and funeral services.

“It’s an interesting set of uses that society needs,” this interviewee adds. “ And even in a recession, you still need them. Nothing is immune from serious contractions of economies, but they keep going long after you decided not to buy your second pair of trainers or to go on a second holiday.”

These occupational needs have always been there although real estate capital has not targeted them previously. But as populations grow and the way society pays for these essential services changes, they are coming into focus.

The need to fill the gap left by cuts in government funding to services like childcare, elderly care and waste management presents an opportunity for real estate, even as it creates a problem for society. Some people are able to pay for services once provided by the state, while others are not. “It’s very distressing for society, it’s not great for social justice,” one interviewee observes, “but the private sector is having to step in and provide more services.”

Indeed, investing in housing for low- and middle-income citizens remains the most common route for investors to access social infrastructure. “There is definitely pressure [from governments] to go back into residential because of the social housing segment for low-income workers,” one global pension fund manager says. “So, you have to find a way as part of ESG, or at least the S part of the ESG.”

"But it's not easy to get scale because the sector is controlled. And you have to buy and finance new development, to add to the stock, because if you buy an existing portfolio, what are you adding?"

But as the *Emerging Trends Europe* survey indicates, there is a disconnect here. Respondents cite lack of social/affordable housing as the second most pressing issue facing the industry in 2024, yet affordable housing has slipped down the ranking of sectors with the best prospects.

In large part that is because, though governments call for more private investment in affordable housing, increased politicisation of housing is creating more regulation, making investment less attractive. Rent controls, transfer taxes and ESG requirements have all caused unease among interviewees over the years.

> A lot of value was created just because of the fact that cap rates were going down.

Some industry players believe that pushing the definition of real estate as social infrastructure can go only so far. "We all have members or shareholders or stakeholders, unit holders, that we have a fiduciary duty to," says a global pension fund investor. "That is not the same as directing investment where society most needs it. Hopefully there's overlap periodically, but you can't rely on that. A really good example of that is housing. The private sector should not be required to house the nation, it's not its job."

Sustainable demand

The shift to alternatives was already evident during the prolonged period of historic low interest rates, where assets of almost all qualities in most sectors (apart from retail) have seen capital values rise.

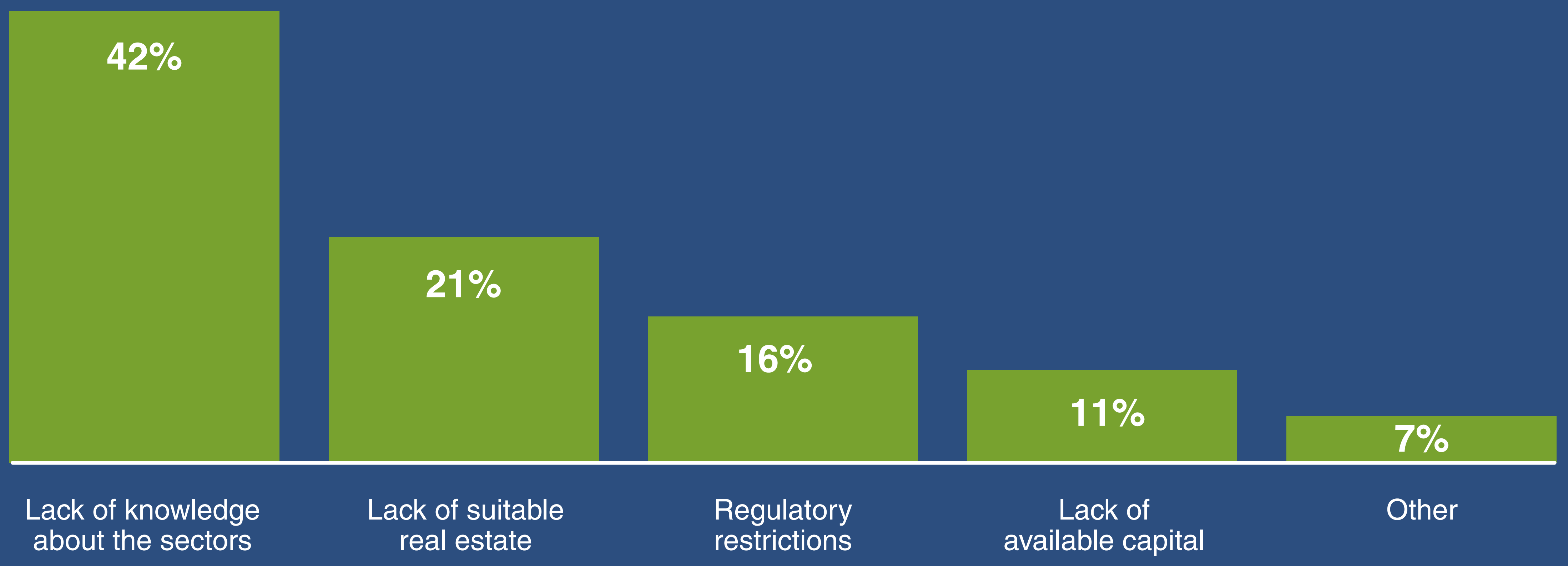
But interviewees agree that in an era where higher rates will be the new normal, and capital value increases will not be guaranteed, the move towards complex and more operational alternative sectors is likely to accelerate.

"A lot of value was created just because of the fact that cap rates were going down," one global investor says. "Now we're in an environment where cap rates are going up, so it's a lot harder to make money." That puts more emphasis on creating value by growing income and having assets where demand will be sustained.

"Candidly speaking, with the way that the cost of capital has increased, unless you have conviction that you can outperform the markets, just put it into fixed income," one asset manager says. "Why would you take the risk if you are a big pension fund, [when] your portfolio strategy has evolved significantly over the last 18 months?"

SOCIAL HOUSING, UK

Figure 5-2 **Barriers to increased institutional investment in niche and emerging alternative real estate sectors**



Source: *Emerging Trends Europe survey 2024*

MADRID, SPAIN

On a longer time frame, the shift towards alternative sectors with a greater operational component significantly changes the investment rationale of real estate. It is more complex, but if you get it right, returns are actually more stable, and risk is reduced, because income is being driven by long-term, steady demand.

One global pension fund investor points to the structural changes that have shaken up real estate over recent years, such as e-commerce and its impact on shopping centres, or the impact on office demand from hybrid working and more recently AI. “These changes make investing in the sector more appealing, but more complicated at the same time,” this investor says. “Alternatives are responding to those changes and are realistic about how people will live tomorrow.”

A step into the unknown

There remain many issues hindering the growth of alternative real estate sectors, despite the favourable investment case and the growing perception of real estate as social infrastructure.

When asked about the biggest barrier for institutional capital investing in alternative sectors, the most commonly cited factor by survey respondents is lack of knowledge, perhaps a lack of confidence in its ability to manage operational complexity, followed by lack of suitable assets (Figure 5-2).

Niche or alternative sectors are inherently less mature, smaller, sometimes comprise small assets, like individual single-family rental units. Or they require development, given the lack of existing stock, but without the benefit of comparable assets already in existence, something pension funds in particular often shy away from.

“We often had to develop these markets ourselves, and they’re still going through a consolidation phase where a few larger-scale companies will eventually be successful,” says one large global pension fund investor with a history of moving early into new sectors. “And that’s of course the ones that we hope to be able to back and support and to scale up.”

Institutional investors are typically backing specialist operators in alternative sectors to build them a portfolio that will provide long-term stable income. For those operators, there is a feeling that if they can find the capital and build a portfolio, there will be liquidity once the asset pool reaches a certain size.

“It’s a risk we’re taking that we can aggregate a portfolio of enough substance and scale that institutional investors will want to buy into it,” one value add fund manager says. “But our view is that the research we’ve done and the reason we’re investing will appeal to others as well in due course. And then our job is to package it up into a position that a lower-risk investor finds acceptable.”

The deployment of such capital into alternatives in Europe has been slow to pick up. Residential and other alternatives accounted for only a third of real estate investment in Europe in 2022, according to MSCI. In other words, the much-maligned office sector on its own still trumps alternatives despite their impressive showing for investment prospects in *Emerging Trends Europe* for almost a decade now.

Only 11 percent of survey respondents this year believe lack of capital is a barrier to the growth of alternatives. But there is a catch. Raising money for nascent alternative sectors can be difficult. Investors often do not want to back a first-time fund in a new sector, but in new sectors there are no existing funds, creating a catch-22.

Marrying up capital with opportunity can be a slow process. "I've spent a decade trying to get new sectors going and it's often the efficient follower, not the trailblazer who does well and makes money," one investment manager says. "Being out there on your own way ahead of everyone else is actually not a good place to be. You want company, you want people having similar conversations. You want competition, actually."

New sectors are often hard to categorise and can fall between the cracks created by rigid definitions of different types of real asset. Is a biomass energy generation plant real estate or infrastructure? Would a business with a large real estate portfolio and high operational component, like short-term rentals, be bought by private equity or a real estate investor?

> "Often you'll find that if there's any operational complexity, real estate investors get a bit scared and say it's private equity.

"I'll often hear from investors, 'I like it, but you need to speak to my infrastructure colleagues,'" the manager says. According to one adviser: "Often you'll find that if there's any operational complexity, real estate investors get a bit scared and say it's private equity."

"Finding like-minded people who have got a track record of doing something similar elsewhere has paid off well in the past," the same manager adds. "Those that have got a track record of investing in alternative sectors before they're predefined is a good indicator. I've spent half my career convincing people who are never going to get there. And on reflection, I should have targeted fewer people, but those that are best aligned."

Valuation is another issue frequently cited by interviewees as a problem in alternative sectors. How do you put a value on a battery storage facility, when there are few similar assets trading, allowing a valuer to find a comparison?

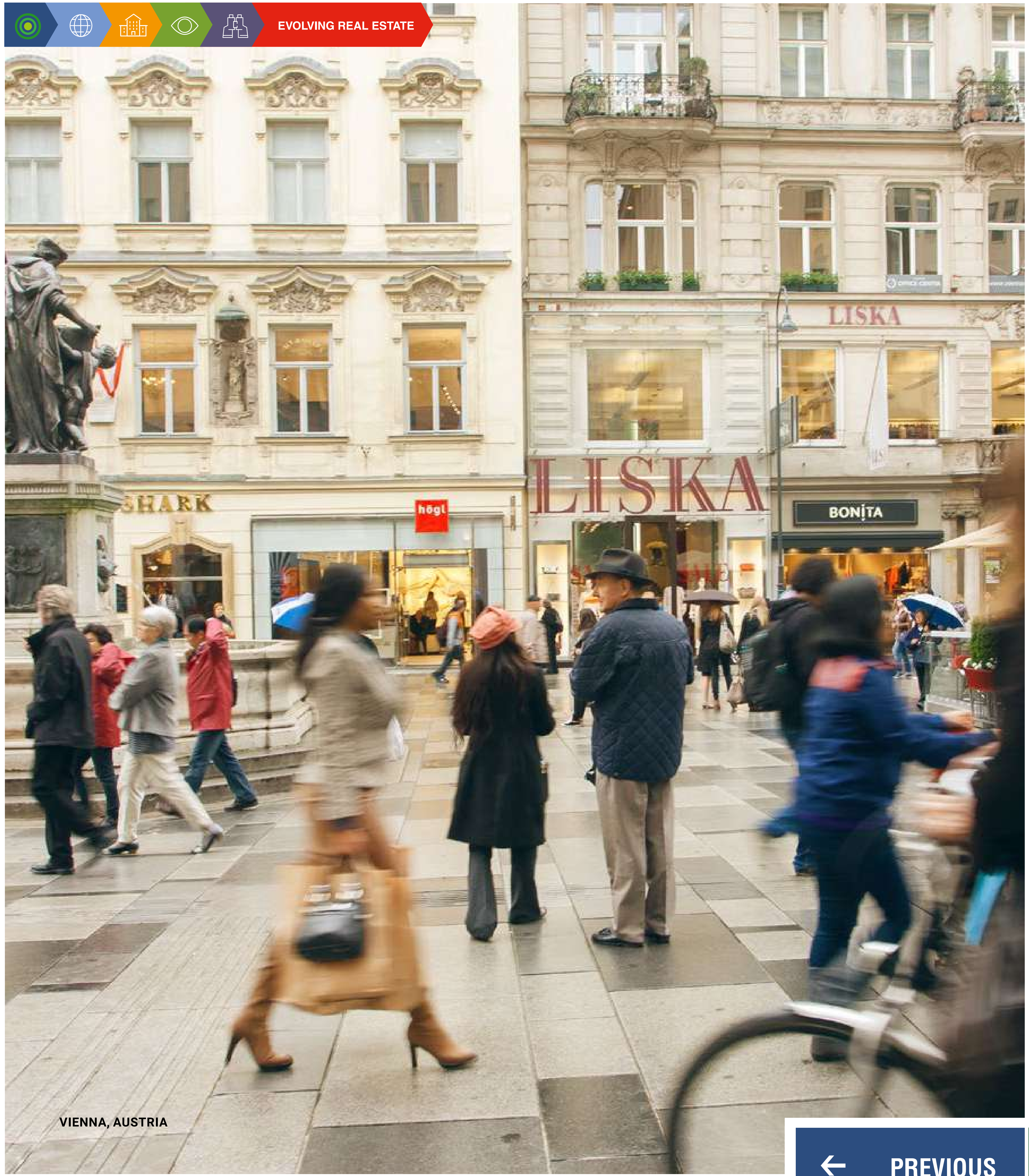
Greater use of discounted cash flow methodologies, and a focus on income rather than capital value growth mitigate this issue to some degree. Assessments of income strength and the strength of the operator are also complex in many emerging sectors. Calculating the ESG impact of these assets will be key to value in future: who gets "credit" for solar PV panels, the operator, lessor, owner, or occupier?

Similarly, if a platform, portfolio or company has a hefty operational component, which can be costly to set up or to run, do you ascribe a value to that operating element, or only to the real estate assets?

"Valuation is the main topic that causes eye rolls around the table, in terms of pain points for the market," one adviser says. Large investors can afford simply to hope that the buyer of an operational real estate business puts a value on the operations, meaning more upside on a sale, they say. For most of the industry, that is not a luxury they can afford. Taken together, these factors suggest a fundamental change in the way real estate is valued is needed to unlock investment fully in emerging sectors.

As one global pension fund investor concludes: "We wouldn't invest in alternatives if we think that this alternative sector would not become a traditional sector. If the sector is still alternative in five years, it probably means that it was not necessarily the right thing to do."


COPENHAGEN, DENMARK



VIENNA, AUSTRIA

Calling the operator

The degree of operational complexity and risk associated with many alternative sectors is a key issue with which investors are grappling, leading to new breeds of companies and partnerships and new ways of thinking.

There is no doubt that some investors are put off by the fact that so many alternative sectors and areas of social infrastructure are operationally complex. Insurance companies, for instance, do not want to take on operating risk.

"Don't forget, the only reason insurance companies invest in real estate is to match a future liability," says one global institutional player. "So, what they don't want to do is add a liability to something which is supposed to offset the liability. If you employ a vast amount of people, thousands, it has operational risk, it has liabilities attached to it."

> Don't forget, the only reason insurance companies invest in real estate is to match a future liability.

But there are other investors willing to embrace operational complexity, and they are doing it in various ways. It is accepted practice among some investors to allocate capital to sector specialists through joint venture agreements, with legal structures giving them varying degrees of control. The operator gets access to capital, and the investor gets a specialist team and therefore exposure to a growth sector they might not be able to access alone.

"Increasingly we are working with partners, because more and more of them exist than 10 or 20 years ago," one fund manager says. "Now you can outsource the operations and pay a fee to an operator. It gives us more flexibility to work with the right operating partner for the right asset in the right city, and then to have more flexibility around when we might sell the assets."

Another common strategy is for larger investors to become vertically integrated, building up management capability for specific sectors in-house, where they have a strong expectation of positive long-term returns.

"They are then offering their services as an investment manager, but at a different level in the structure, as operator to their fund clients," one adviser says. "This enables them to control the quality of the services provided to their investors, and to really have an institutional level of oversight and give their investors the comfort."

The change here is one of mindset — a different assessment of what constitutes risk. Taking on an operational component to your business is less risky than limiting yourself to sectors or structures that will not benefit from structural and societal demand. This is especially true when looking at real estate over the long term.

It is also common for large institutional investors to take a stake in an operating company so that they can exert greater control over the running of the business, and drive returns. AXA IM Alts is a majority shareholder of life science developer and operator Kadans Science Partner, for instance. APG is a shareholder in the Student Hotel operating company, and Ivanhoé Cambridge has a stake in Belgian co-living firm Cohabs.

“Taking ownership in the entity, that makes us a lot smarter in terms of understanding what’s going on in the business, understanding what drives the business, understanding what causes success, and frankly understanding where the risks are,” one global pension fund investor says.

“You won’t get the full value of that sector if you don’t invest into the operations and if you only invest in the hard assets,” another global investor says. “You can buy a lease in the hotel without the operation, without a management contract, without basically the manager who's running it. But I’m not sure it’s a great investment, because you’re the last owner of the chain. And lots of people before you have been able to collect some of the performance through the operation, and you’re left with what is left at the end.”

Taking an ownership stake in operating companies requires a different approach, and to some degree that involves hiring staff from outside the traditional real estate sector. Many interviewees say that to assess and invest in operational businesses, they are looking for people with a private equity background or mindset, rather than pure real estate skills.

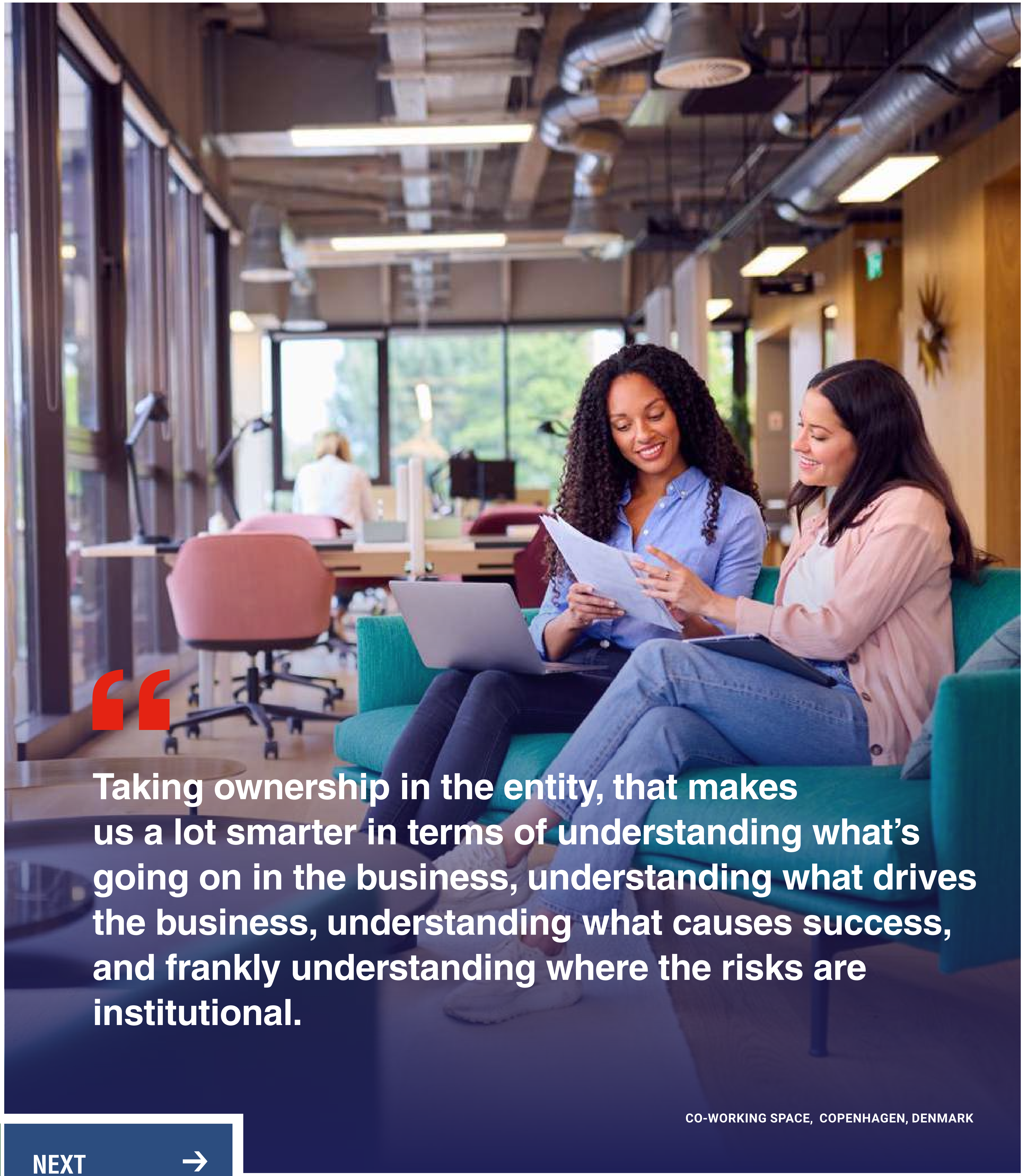
Finding these people, and the staff needed to manage the underlying real estate assets, is a challenge for the industry when labour markets are tight. But fresh ways of thinking are vital in sectors that are growing or that are entirely new.

“The average age in my team is probably mid to late 20s,” one investment manager in an emerging sector says. “If anyone’s come through a traditional surveying background, I say, ‘Keep that technical skill, that’s good, but throw the rule book out’, because we’re not creating businesses based on the old way of doing things.”

The aim is to build operating businesses that happen to have a lot of real estate involved, not the other way around. For this to succeed, with assets both big and small, requires investment in technology and data analysis to identify investible assets, particularly in granular sectors like single-family rental, care homes and doctors’ offices. It is important to be able to build scale.

“Operators in niche sectors need to create a structure whereby they can deploy capital and manage the assets in a repeatable way, one asset manager says. “If you go from 50 to 100 assets and have to double your head count, that is inefficient. Creating scalable structures and processes, like IT systems, is critical to increasing efficiency and generating economies of scale.”

Those interviewees in sectors that seek to decarbonise the built environment, or that are aiming for a defined social impact, say that having a “purpose” is making it easier to find staff.



“Taking ownership in the entity, that makes us a lot smarter in terms of understanding what’s going on in the business, understanding what drives the business, understanding what causes success, and frankly understanding where the risks are institutional.

CO-WORKING SPACE, COPENHAGEN, DENMARK


WARSAW, POLAND

Linked to the greater operational intensity and complexity of alternative asset classes is the possibility of opening up new income streams for owners and investors. First came the embrace of shorter duration income in sectors like rented residential or flexible offices. Next comes the ability to make money from services beyond the provision of physical space: combining electrical vehicle charging facilities with parking and logistics and selling the electricity to a fleet operator; providing diagnostic services for doctor tenants; selling post-production services to content creators.

These are all ways of making money currently being pursued by owners in growing sectors, and in some cases, the amount charged can reach almost the same level as the rent. As practices evolve, we are likely to see much more sophistication around these services including non-asset specific, non-real estate services and "loss-leaders"— all with the aim of enhancing overall income and value to investors.

“This is why I love working in new sectors, there’s more white space, and that undefined space typically you haven’t had to pay someone for,” one investment manager says. “If I stumble into any normal logistics, office or retail market, the pips have been squeezed dry and there’s not much room for creative flair to create new cash flows. Whereas here, it’s, ‘Give us an hour and I’ll fill your whiteboard.’”

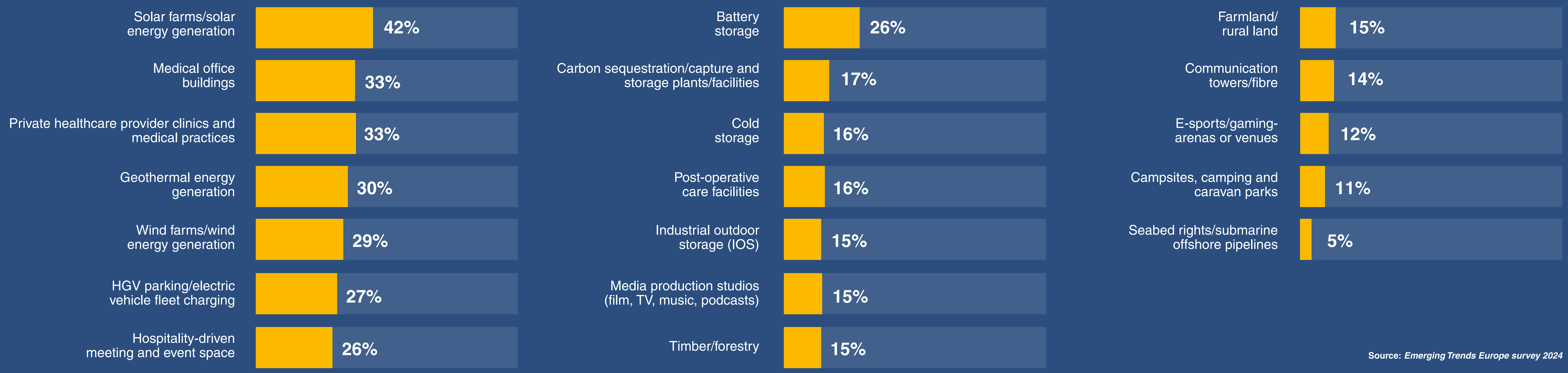
Security and dignity

With an embrace of new ways of categorising and ascribing value to real estate, Europe’s property industry knows it can benefit from changes in society through investing in the next generation of alternative sectors.

The journey has been long and slow, but the pace of change is picking up. “I was down in MIPIM this year, and I’ve never been more sought after by investors,” one investment manager in an emerging sector says. “One of the biggest pension funds in the world said to me that’s because what you do now is core, in terms of what investors want to be thinking about.” Though office remains the largest single investment sector in Europe, its market share is shrinking every year.

“There are two key themes for countries in Europe, and they are security and dignity,” one fund manager says. And so, in tough times, there is an emphasis on food security, water security, border security, data security, climate security. But those priorities invariably become “quite nationalist and selfish”. As this manager concludes: “ Any decent society needs dignity as well. You need to make sure as the wealthier [members of society], you pay your tax, you help look after people who can’t afford healthcare or education. There’s simply no point you being secure in your little bunker if the rest of the society is struggling out on the street.”

Figure 5-3 **% expecting to increase exposure over next 5 years**



Source: *Emerging Trends Europe survey 2024*

Sectors to watch

Over the past decade of *Emerging Trends Europe*, alternative sectors have generally scored highly in terms of investment and development prospects. As the years have gone by, some of those sectors, such as student accommodation, have moved into the mainstream.

This year, survey respondents have been asked to go further and consider the next generation of alternative real estate (Figure 5-3). Will they increase their exposure to this group of diverse and highly specialised sectors over the next five years?

A strong thread has emerged around health — both of the planet and people — which industry leaders believe will draw capital in the future.

Clean energy

There are two clear themes in this section: energy and health. Several of the nascent sectors highlighted involve the creation, storage or utilisation of renewable energy.

Investors are most likely to increase their exposure to solar farms and solar energy generation

Geothermal energy generation, wind farms, electric vehicle fleet charging, battery storage and carbon sequestration are among the favoured sectors. According to one interviewee, hydrogen power generation and storage facilities could be added to the list, as the technology in this area advances.

"For probably the first time ever, the real estate industry has got a chance to take on the transport and hydrocarbons market, and we're really getting after the big hydrocarbons businesses," one investment manager says. This manager is talking specifically about EV charging, but it is a

comment that could apply to any sector that helps the generation or utlisation of clean energy.

Thus far, when it comes to sustainability, real estate's focus has been on cutting back on the use of carbon-burning energy. Now, the industry believes it has the chance to create clean energy, supercharging its drive towards sustainability.

Even within mainstream sectors like logistics, residential and offices, investors and operators are setting up sustainable ecosystems, providing energy for tenants sourced from on or off-site renewable sources to decarbonise assets and the built environment more widely.

Vertical farms have garnered a lot of attention, but remain difficult to build, and power is an issue for this sector, as with data centres.

VERTICAL FARM, EUROPE

Health benefits

When it comes to health, medical office buildings and private healthcare provision clinics are two of the top five sectors for survey respondents, with the demographic driver of an ageing population and the ever-increasing focus on health and wellness cited as key factors.

“Doctors seldom go bankrupt,” one interviewee says. “They are a basic human necessity, and they’re conservative people. So, once they get into your premises, they want to stay because it’s a hassle to inform the patient base to move around.”

Beyond those two themes, food security is seen by interviewees as a growing concern for society, and thus an area of potential expansion for real estate, beyond traditional agricultural land: as societies continue to expand, the challenge of feeding populations will require innovative solutions.

And conflicts like the Russian invasion of Ukraine, with its impact on grain supply, highlight the fragility of global food supply chains. Cold storage is a rapidly expanding sector in the US, and one on the rise in Europe too. “We have some quite significant automated cold storage clients who are very ambitious, and very interested in pursuing food security as an emergent real estate sector,” one adviser says.

Vertical farms have garnered a lot of attention, but remain difficult to build, and power is an issue for this sector, as with data centres. On the edge of the radar are onshore fish farms, which are seen by some in the fishing industry as more sustainable than offshore facilities.

As water security becomes an increasing geopolitical flashpoint in the face of rising temperatures and a climate emergency, onshore water desalination plants could also be more common, and a target for real estate investors.

Beyond those fields, myriad niche sectors have caught the eye of investors large and small, from film studios and content creation facilities, to e-sports and gaming venues, and industrial outdoor storage.

And real estate, perhaps the ultimate terrestrial asset class, is even beginning to look to the stars: one interviewee points out that data and communications technology requires the launch of ever-more satellites. As companies like SpaceX begin to turn a profit, space ports and the real estate required to support the aerospace industry have the potential to become niche but viable investments.

APPENDIX

MILAN, ITALY

City prospects

The city rankings are based on overall prospects, which are ranked according to how much they deviate from the average/mean score; these are shown in Figure 6-1.

The scoring is based on the views of both those who are familiar with the city and others who potentially could be investing or developing there but are not. The investment and development prospects provide the local outlook. For these, respondents who are familiar with the city scored the expected change for 2024 compared with 2023 on a scale of 1 = decrease substantially to 5 = increase substantially, and the scores for each city are averages.

Tier 1 cities remain strongest for investment opportunities as they continue to generally outperform Tier 2 cities by comparison. London and Paris dominate this year's rankings with London gaining a slight edge over Paris in all categories. Following these two heavyweights, Madrid and Berlin continue to remain attractive investment opportunities due to regional significance with Milan steadily climbing the rankings to secure a comfortable position within the top 10 in all categories for a second year running.

Figure 6-1 **City prospects in 2024**

Source: *Emerging Trends Europe survey 2024*

Investment			Development			Rent			Capital values		
Rank	City	Score	Rank	City	Score	Rank	City	Score	Rank	City	Score
1.	London	2.27	1.	London	2.18	1.	London	2.11	1.	London	1.90
2.	Paris	2.05	2.	Paris	1.92	2.	Paris	1.93	2.	Paris	1.68
3.	Madrid	1.97	3.	Madrid	1.89	3.	Madrid	1.73	3.	Madrid	1.60
4.	Berlin	1.72	4.	Berlin	1.63	4.	Berlin	1.65	4.	Berlin	1.39
5.	Amsterdam	1.60	5.	Amsterdam	1.50	5.	Amsterdam	1.55	5.	Amsterdam	1.31
6.	Milan	1.56	6.	Milan	1.45	6.	Munich	1.45	6.	Milan	1.22
7.	Munich	1.48	7.	Lisbon	1.39	7.	Frankfurt	1.36	7.	Lisbon	1.20
8.	Lisbon	1.47	8.	Munich	1.35	8.	Milan	1.35	8.	Munich	1.18
9.	Barcelona	1.38	9.	Barcelona	1.28	9.	Barcelona	1.29	9.	Barcelona	1.17
10.	Frankfurt	1.38	10.	Frankfurt	1.27	10.	Lisbon	1.28	10.	Frankfurt	1.13
11.	Hamburg	1.29	11.	Hamburg	1.18	11.	Hamburg	1.24	11.	Hamburg	1.05
12.	Brussels	1.10	12.	Warsaw	1.06	12.	Brussels	1.15	12.	Brussels	0.98
13.	Dublin	1.09	13.	Brussels	1.03	13.	Vienna	1.01	13.	Warsaw	0.89
14.	Warsaw	1.09	14.	Dublin	1.03	14.	Warsaw	0.98	14.	Dublin	0.85
15.	Vienna	1.08	15.	Vienna	1.00	15.	Dublin	0.96	15.	Vienna	0.85
16.	Zurich	0.96	16.	Zurich	0.88	16.	Zurich	0.91	16.	Zurich	0.78
17.	Manchester	0.86	17.	Manchester	0.78	17.	Luxembourg	0.84	17.	Luxembourg	0.71
18.	Rome	0.83	18.	Luxembourg	0.74	18.	Manchester	0.77	18.	Manchester	0.67
19.	Copenhagen	0.81	19.	Rome	0.74	19.	Rome	0.74	19.	Rome	0.65
20.	Luxembourg	0.80	20.	Copenhagen	0.73	20.	Copenhagen	0.73	20.	Copenhagen	0.64
21.	Stockholm	0.73	21.	Stockholm	0.66	21.	Stockholm	0.66	21.	Athens	0.60
22.	Birmingham	0.67	22.	Athens	0.63	22.	Birmingham	0.64	22.	Stockholm	0.58
23.	Athens	0.64	23.	Birmingham	0.62	23.	Edinburgh	0.61	23.	Birmingham	0.56
24.	Edinburgh	0.61	24.	Edinburgh	0.57	24.	Prague	0.58	24.	Edinburgh	0.51
25.	Prague	0.58	25.	Prague	0.56	25.	Athens	0.57	25.	Prague	0.50
26.	Helsinki	0.55	26.	Lyon	0.51	26.	Lyon	0.55	26.	Lyon	0.46
27.	Lyon	0.54	27.	Helsinki	0.49	27.	Helsinki	0.53	27.	Helsinki	0.43
28.	Budapest	0.43	28.	Budapest	0.45	28.	Budapest	0.46	28.	Budapest	0.39
29.	Oslo	0.38	29.	Istanbul	0.35	29.	Istanbul	0.43	29.	Istanbul	0.37
30.	Istanbul	0.37	30.	Oslo	0.34	30.	Oslo	0.35	30.	Oslo	0.30

Tier 1 cities show their strength

The city rankings for this year illustrate the strength of Tier 1 cities and their overall attractiveness to real estate industry professionals. London comes out on top securing 1st place for the 3rd year in a row due to its investment potential and economic significance in the global market. Similarly, Paris comes in second followed closely by Madrid, Berlin, and Amsterdam.

Over the last couple of years, capital cities as a whole continue to retain their economic clout even when European markets are in a state of flux. Geopolitical uncertainty coupled with rising interest rates has created a jittery market that appears to continue favouring mostly capital cities due to their global significance, access to capital, and growing demand for development. Notable gains have been seen since 2021, particularly for Milan and Lisbon due to their emerging significance as regional gateways for finance and development.

Figure 6-2 **City rankings over time**

Source: *Emerging Trends Europe survey 2024*

2024		2023		2022		2021		2020		2019	
Rank	City	Rank	City	Rank	City	Rank	City	Rank	City	Rank	City
1.	London	1.	London	1.	London	1.	London	1.	Paris	1.	Lisbon
2.	Paris	2.	Paris	2.	Paris	2.	Berlin	2.	Berlin	2.	Berlin
3.	Madrid	3.	Berlin	3.	Madrid	3.	Paris	3.	Frankfurt	3.	Dublin
4.	Berlin	4.	Madrid	4.	Berlin	4.	Frankfurt	4.	London	4.	Madrid
5.	Amsterdam	5.	Munich	5.	Amsterdam	5.	Munich	5.	Madrid	5.	Frankfurt
6.	Milan	6.	Amsterdam	6.	Milan	6.	Madrid	6.	Amsterdam	6.	Amsterdam
7.	Munich	7.	Frankfurt	7.	Munich	7.	Amsterdam	7.	Munich	7.	Hamburg
8.	Lisbon	8.	Hamburg	8.	Lisbon	8.	Hamburg	8.	Hamburg	8.	Helsinki
9.	Frankfurt	9.	Barcelona	9.	Frankfurt	9.	Barcelona	9.	Barcelona	9.	Vienna
10.	Barcelona	10.	Milan	10.	Barcelona	10.	Brussels	10.	Lisbon	10.	Munich
11.	Hamburg	11.	Lisbon	11.	Hamburg	11.	Milan	11.	Milan	11.	Paris
12.	Brussels	12.	Vienna	12.	Brussels	12.	Vienna	12.	Dublin	12.	Luxembourg
13.	Dublin	13.	Dublin	13.	Dublin	13.	Dublin	13.	Brussels	13.	Copenhagen
14.	Warsaw	14.	Copenhagen	14.	Warsaw	14.	Zurich	14.	Warsaw	14.	Athens
15.	Vienna	15.	Brussels	15.	Vienna	15.	Warsaw	15.	Vienna	15.	Oslo
16.	Zurich	16.	Warsaw	16.	Zurich	16.	Lisbon	16.	Luxembourg	16.	Lyon
17.	Manchester	17.	Zurich	17.	Manchester	17.	Luxembourg	17.	Zurich	17.	Prague
18.	Copenhagen	18.	Manchester	18.	Copenhagen	18.	Copenhagen	18.	Stockholm	18.	Zurich
19.	Rome	19.	Stockholm	19.	Rome	19.	Stockholm	19.	Copenhagen	19.	Stockholm
20.	Luxembourg	20.	Luxembourg	20.	Luxembourg	20.	Manchester	20.	Prague	20.	Milan
21.	Stockholm	21.	Rome	21.	Stockholm	21.	Rome	21.	Helsinki	21.	Warsaw
22.	Birmingham	22.	Birmingham	22.	Birmingham	22.	Birmingham	22.	Rome	22.	Budapest
23.	Athens	23.	Athens	23.	Athens	23.	Athens	23.	Manchester	23.	Brussels
24.	Edinburgh	24.	Lyon	24.	Edinburgh	24.	Helsinki	24.	Birmingham	24.	Birmingham
25.	Prague	25.	Helsinki	25.	Prague	25.	Prague	25.	Edinburgh	25.	Manchester
26.	Lyon	26.	Edinburgh	26.	Lyon	26.	Lyon	26.	Lyon	26.	Edinburgh
27.	Helsinki	27.	Prague	27.	Helsinki	27.	Edinburgh	27.	Budapest	27.	Barcelona
28.	Budapest	28.	Budapest	28.	Budapest	28.	Oslo	28.	Athens	28.	Rome
29.	Oslo	29.	Istanbul	29.	Oslo	29.	Budapest	29.	Oslo	29.	London
30.	Istanbul	30.	Oslo	30.	Istanbul	30.	Istanbul	30.	Istanbul	30.	Moscow
				31.	Moscow	31.	Moscow	31.	Moscow	31.	Istanbul

Sector diversity

Over the last two decades, sectors for real estate investment have expanded considerably.

The outlook for real estate sector investment is expected to remain diverse and will likely evolve with the industry's emerging trends. Increasing demand for technology and energy infrastructure remain a key area for investors as new energy infrastructure and data centres continue to dominate the rankings with both sectors remaining in the top 5 for the fourth year in a row. Retirement and assisted living also remains a strong sector for investment as it is ranked 5th for second year in a row owning to Europe's ageing population and need for healthcare infrastructure. On the contrary, the life sciences and affordable housing sectors have dropped out of the Top 10 for the first time since 2021 thereby suggesting a potential shift in perception to two historically attractive niche sectors.

Figure 6-3 **Sector rankings over time**

Source: *Emerging Trends Europe survey 2024*

Rank	2024 Sector	2023 Sector	2022 Sector	2021 Sector	2020 Sector	2019 Sector
1.	New energy infrastructure	New energy infrastructure	New energy infrastructure	Data centres	Logistics facilities	Co-living
2.	Data centres	Life sciences	Life sciences	Logistics facilities	Retirement/assisted living	Logistics facilities
3.	Healthcare	Data centres	Logistics facilities	Life sciences	Co-living	Retirement/assisted living
4.	Student housing	Social housing	Data centres	New energy infrastructure	Private rented residential	Flexible/serviced offices
5.	Retirement/assisted living	Retirement/assisted living	Healthcare	Industrial/warehouse	Student housing	Data centres
6.	Self-storage facilities	Affordable housing	Retirement/assisted living	Health care	Affordable housing	Student housing
7.	Logistics facilities	Self-storage facilities	Industrial/warehouse	Private rented residential	Healthcare	Private rented residential
8.	Co-living	Logistics facilities	Affordable housing	Affordable housing	Data centres	Serviced apartments
9.	Serviced apartments	Co-living	Self-storage facilities	Social housing	Serviced apartments	Housebuilding for sale
10.	Private rented residential	Private rented residential	Private rented residential	Retirement/assisted living	"Flexible/services offices and co-working"	Social housing
11.	Life sciences	Industrial/warehouse	Housebuilding for sale	Self-storage facilities	Industrial/warehouse	Healthcare
12.	Industrial/warehouse	Student housing	Social housing	Housebuilding for sale	Self-storage facilities	Affordable housing
13.	Affordable housing	Leisure hotels	"Multi-let/flexible industrial parks"	Co-living	Hotels	Hotels
14.	Hotels	Serviced apartments	Co-living	Student housing	Housebuilding for sale	Science parks
15.	Social housing	Parking	Student housing	Serviced apartments	Science parks	Industrial/warehouse
16.	Leisure	Healthcare	Serviced apartments	Central city offices	Social housing	Self-storage facilities
17.	Housebuilding for sale	Housebuilding for sale	"Flexible/serviced offices and co-working"	Parking	Central city offices	Central city offices
18.	"Flexible/serviced offices and co-working"	"Flexible/serviced offices and co-working"	Leisure	Business parks	Leisure	Parking
19.	Parking	Leisure	Central city offices	"Flexible/serviced offices and co-working"	Parking	Business parks
20.	Retail parks	City centre offices	Retail parks	Suburban offices	Business parks	High street shops
21.	Central city offices	Retail parks	Business parks	Retail parks	Suburban offices	Suburban offices
22.	High street shops	Business hotels	Hotels	Leisure	High street shops	City centre shopping centers
23.	Business parks	Business parks	Parking	High street shops	Retail parks	Retail parks
24.	City centre shopping centres	High street shops	Suburban offices	Hotels	City centre shopping centres	
25.	Out-of-town shopping centres/retail destinations	City centre shopping centres	High street shops	City centre shopping centres	Out-of-town shopping centres	
26.	Suburban offices	Suburban offices	Out-of-town shopping centres/retail destinations	Out-of-town shopping centres/retail destinations		
27.		Out-of-town shopping centres/retail destinations	City centre shopping			

ABOUT THE REPORT

LONDON, UK

About the survey

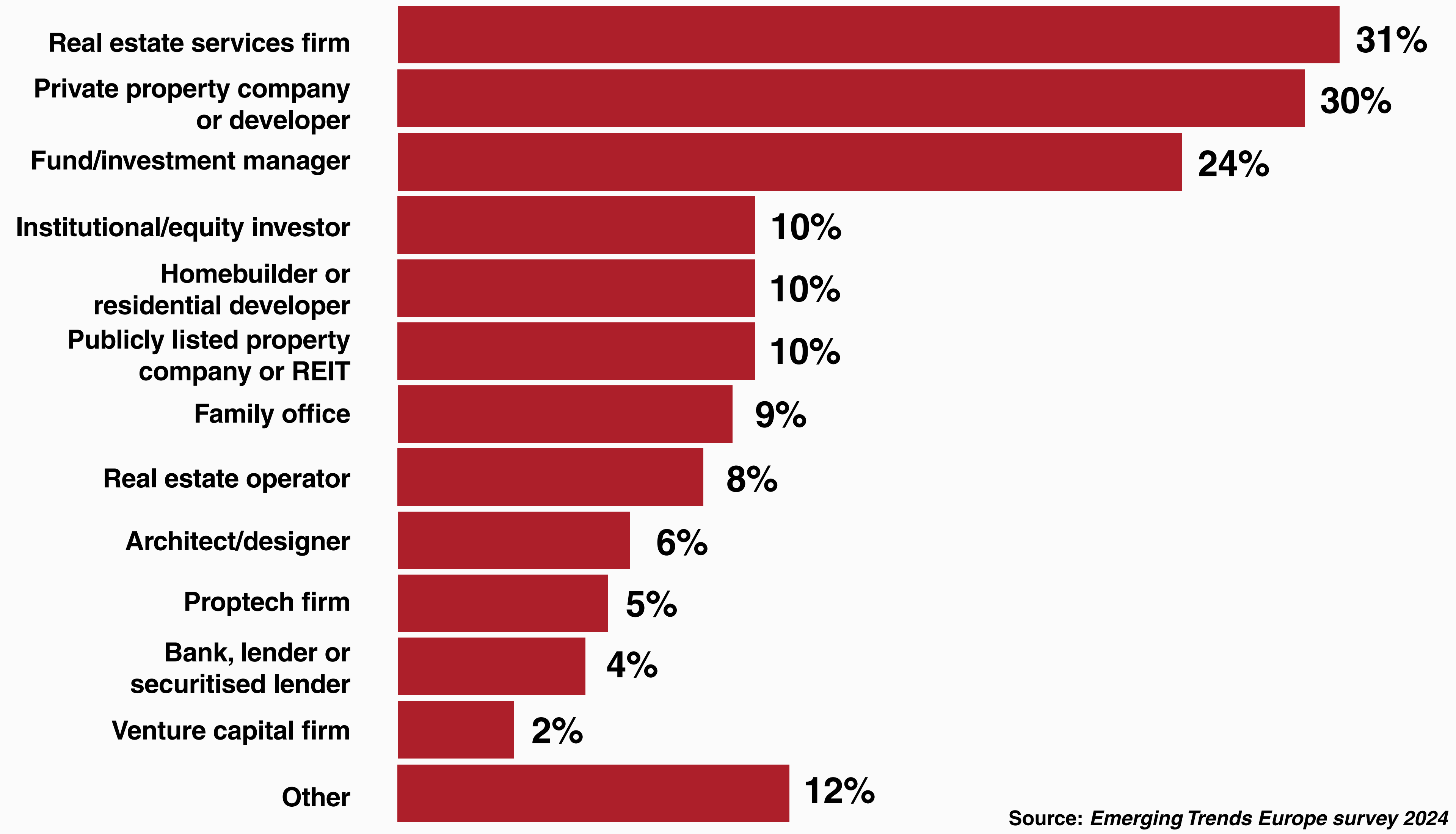
The *Emerging Trends in Real Estate® Europe* is a highly regarded and widely read trends and forecast publication in the real estate industry.

This 21st edition of the report, which is undertaken jointly by PwC and the Urban Land Institute, provides an outlook on real estate investment and development trends, real estate finance and capital markets, cities, property sectors and other real estate issues throughout Europe.

Emerging Trends in Real Estate® Europe 2024 reflects the views of 1,089 property professionals who completed surveys, were interviewed, or took part in a series of roundtable meetings across Europe as a part of the research for this report. The views expressed are from these surveys, interviews, and roundtable meetings and do not express the opinions of either PwC or ULI.

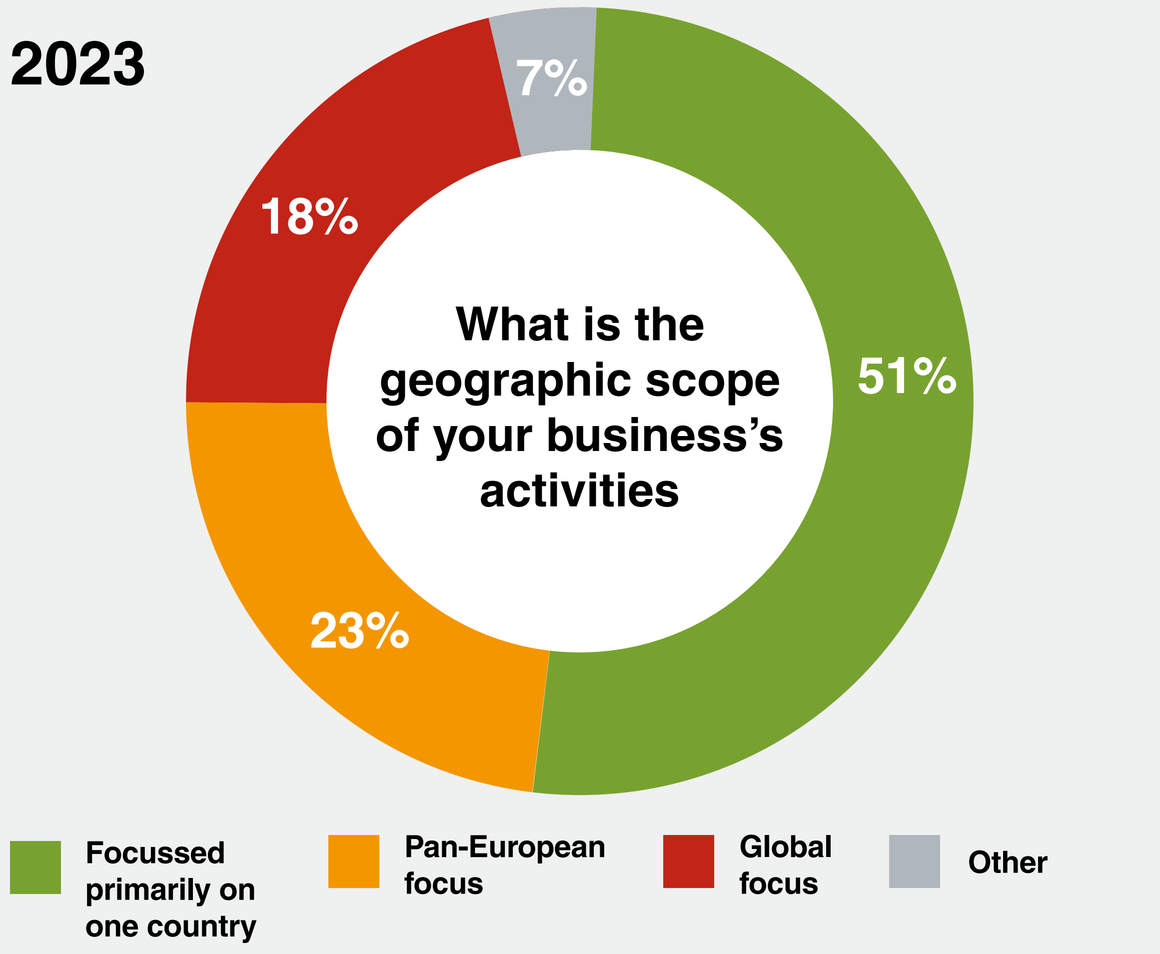
The interviewees and survey participants represent a wide range of industry experts, including investors, fund managers, developers, property companies, lenders, brokers, and consultants. A list of the interviewees and roundtable participants in this year's study appears on the following pages. To all who helped, ULI and PwC extend sincere thanks for sharing valuable time and expertise. Without their involvement, this report would not have been possible.

What are your business's primary activities?



Source: *Emerging Trends Europe survey 2024*

Survey responses by geographic scope of firm



Source: *Emerging Trends Europe survey 2024*

Survey responses by geographic scope of firm (%)

Country	%
Austria	4
Belgium	7
Cyprus	0
Czech Republic	1
Denmark	1
Finland	2
France	7
Germany	10
Greece	5
Ireland	4
Italy	5

Country	%
Luxembourg	1
Netherlands	6
Norway	0
Poland	5
Portugal	3
Spain	11
Sweden	1
Switzerland	9
Turkey	2
Ukraine	0
United Kingdom	16
Other	1

Source: *Emerging Trends Europe survey 2024*

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About Urban Land Institute

The Urban Land Institute is a global, member-driven organisation comprising more than 48,000 real estate and urban development professionals dedicated to advancing the Institute's mission of shaping the future of the built environment for transformative impact in communities worldwide.

ULI's interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics. Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 84 countries. ULI has been active in Europe since the early 1990s and today has almost 5,500 members in Europe across 15 National Council country networks.

The extraordinary impact that ULI makes on land use decision making is based on its members sharing expertise on a variety of factors affecting the built environment, including urbanisation, demographic and population changes, new economic drivers, technology advancements, and environmental concerns. Drawing on the work of its members, the Institute recognises and shares best practices in urban design and development for the benefit of communities around the globe.

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Recommended bibliographic listing: PwC and the Urban Land Institute. *Emerging Trends in Real Estate® Europe 2024*. London: PwC and the Urban Land Institute, 2023

Front cover image: Milan, Italy

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