European Living Sectors

Investor Survey

2023/24

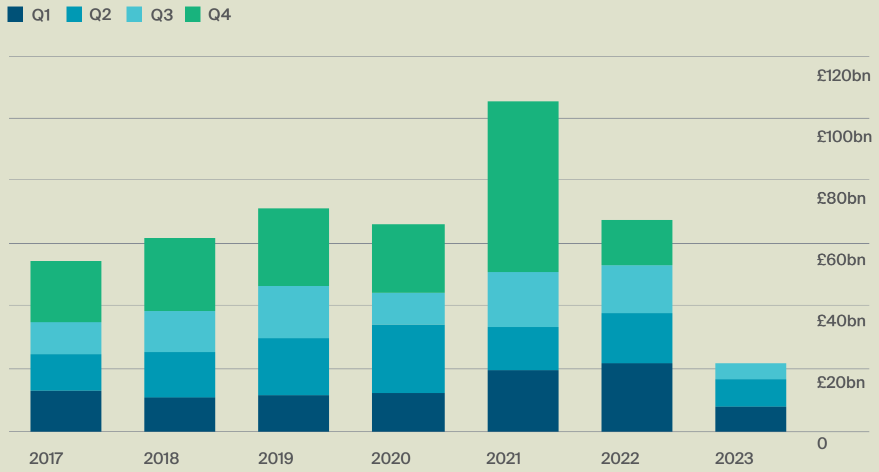
Knight Frank's annual review of trends across institutional rental accommodation across Europe, including the findings of a survey of major investors in the sector.

knightfrank.com/research

Counter-cyclical and undersupplied

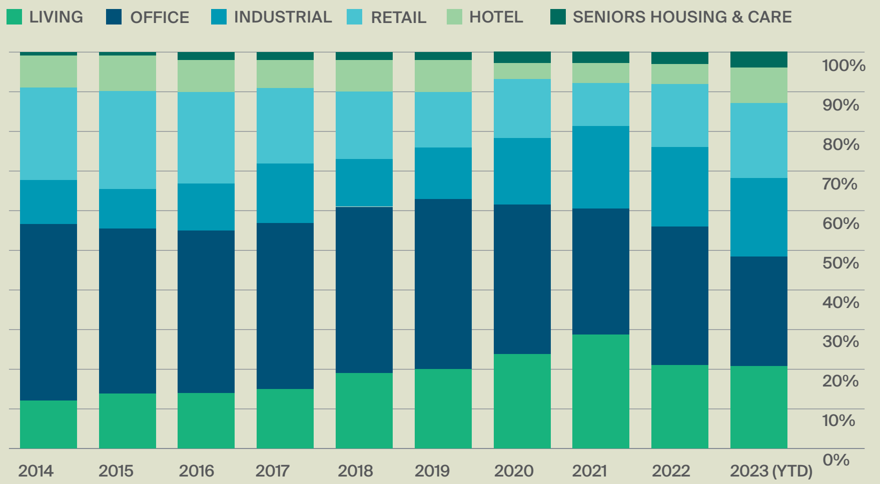
To gauge sentiment and understand what the future holds, we surveyed 51 investors currently active across the multihousing, purpose-built student accommodation (PBSA), and seniors housing markets in Europe, representing nearly €67 billion of Living Sector assets under management.

European Living Sectors investment
Quarterly volumes



Source: Knight Frank Research, RCA

Living Sectors capture a greater share of European CRE investment
Investment as a proportion of total



Source: Knight Frank Research, RCA

Investment in European Living Sectors fell in the third quarter of 2023, provisional figures show, both compared to the previous quarter and Q3 last year. In total, €5.6bn billion was invested, with €22bn spent in the first nine months of the year.

As with all other real estate, the higher interest rate and inflationary environment has restricted investment volumes. Some investors, particularly those that require debt funding, have put investment plans on hold. Others, keen to remain active, have looked to reduce or renegotiate offers.

There has been a decline in marketing processes for assets being launched or in the market. Processes currently underway have generally been extended, while transactions have taken longer to close, with investors considering the impact of changing swap rates on their hold period, and in most cases re-basing pricing. There is also a lack of stock available in the market, further restricting access to product.

Demand is underpinned by a fundamental undersupply, while the counter cyclical nature of Living Sectors makes them an attractive hold given current uncertainty.

This is reflected by the results of our survey of more than 50 investors active in the Living Sectors across Europe. Some 54% said that the current geopolitical and macro-economic environment had made investing in European Living Sectors more appealing.

> Demand is underpinned by a fundamental undersupply, while the counter cyclical nature of Living Sectors makes them an attractive hold given current uncertainty.

Eurozone GDP growth slowed to 3.5% in 2022 from 5.3% growth in the previous year due to record high inflation and rising borrowing costs. There was, however, significant divergence across the region. Of the largest economies, Spain (5.5%) and Italy (3.7%) outperformed the Eurozone GDP average, while France (2.6%) and Germany (1.8%) expanded more moderately.

The economic outlook for Europe and globally is relatively soft, driven by sticky core inflation, weakening demand and tighter financial conditions. But there are reasons to be optimistic. The Eurozone economy created almost 3.7 million jobs in 2022 and unemployment is at the lowest rate on record. Wages are also rising, supporting rental growth.

Germany continues to be the largest investment market and deals continue, despite a challenging environment. Meanwhile, private renting continues to expand in the UK. The build-to-rent sector has grown and diversified to include single-family rental and co-living.

Key takeaways

78%
of investors plan to significantly increase their exposure to European Living Sectors in the next five years

49%
of investors expect to have invested in all three primary Living Sectors by 2028, up from 25% currently

London, Madrid and Milan
are key target locations for investment

Co-living / Flex Living
is an area of growth, with 69% of investors planning to invest in the coming five years, up from 49% currently

Regulation
is a barrier to deploying more capital, with rent controls flagged as a concern by half of investors

80%
of investors believe that schemes with strong sustainability credentials will command a value premium

Increasing investment

Investors look to up allocations to Living

By 2028, 78% of surveyed investors said they plan to significantly increase their exposure to the Living Sectors across Europe. In total, more than half are planning to increase their exposure by between 20% and 40%. A further 21% plan to increase their exposure by between 40% and 100%, whilst 15% intend to double current allocations. Should their ambitions be realised, our survey respondents alone have earmarked a further €22.3 billion to invest over the next five years.

Growth is supported by both long and short-term tailwinds. Demand for rented homes has never been higher, with affordability issues across the continent making it ever harder for people to buy a home. Meanwhile, student numbers across Europe continue to rise – further increasing the need for PBSA. By 2050, the OECD forecasts that 29% of the population of the UK and European Union will be aged over 65, supporting demand for age-targeted seniors housing.

Multifamily and student at the heart of investor strategies

Reflecting current investment volumes, multifamily and purpose-built student accommodation (PBSA) are the most common sectors for investors to have exposure to, at 86% and 78% respectively for our survey respondents. The proportion of investors currently active within the Seniors Housing sector across Europe was lower, though this is expected to increase notably in the coming years.

Overall, whilst just 25% of survey respondents currently invest across all three primary Living Sectors, this is expected to rise to 49% by 2028. When asked which sectors are particularly appealing from an investment perspective over the next five years, respondents ranked the PRS (inclusive of multifamily, single-family housing (SFH) and co-living) and student sectors top, followed by logistics, seniors housing and life sciences.

London, Madrid and Milan are key target locations

London ranked top across all sectors. Madrid was the second most popular choice for PBSA and PRS, with Milan second for Seniors. Other locations of note in the top 10 include Paris, Berlin, Glasgow and Dublin. Broadly, the responses suggest a focus on liquidity and safe havens with some opportunistic investment.

New sub-sectors are set for growth

Survey respondents also indicated a desire to diversify into sub-sectors within living as they look to tap into the biggest pools of demand. SFH and co-living were both identified as opportunities, with 61% and 69% looking to invest by 2028, up from 45% and 49% respectively. In some markets, like the UK, Nordics, the Netherlands and France, houses and not flats are the dominant residential asset type, highlighting the scale of the opportunity for SFH.

Cost of finance is the biggest barrier to deploying more capital...

61% of investors highlighted the higher cost of debt as a barrier to deploying more capital, which reflects the sharp increase in financing costs over the past 18 months. While they have eased slightly from recent highs, Euro area swap rates remain more than 50 basis points higher than a year previously – a move which has increased costs for investors. With returns being affected across the capital spectrum, Living Sectors have not been immune.

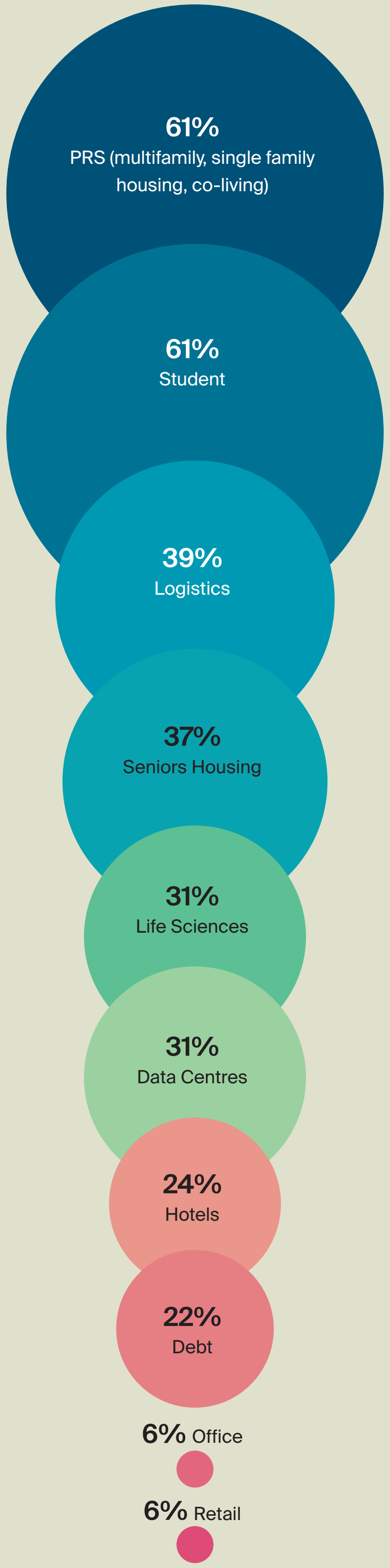
Top target cities for investment

Ranked by number of respondents who selected each city

	Student	PRS	Seniors	All Sectors
1	London	London	London	London
2	Madrid	Madrid	Milan	Madrid
3	Milan	Dublin	Barcelona	Milan
4	Paris	Milan	Madrid	Paris
5	Glasgow	Glasgow	Paris	Glasgow

Source: Knight Frank Research

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



Source: Knight Frank Research

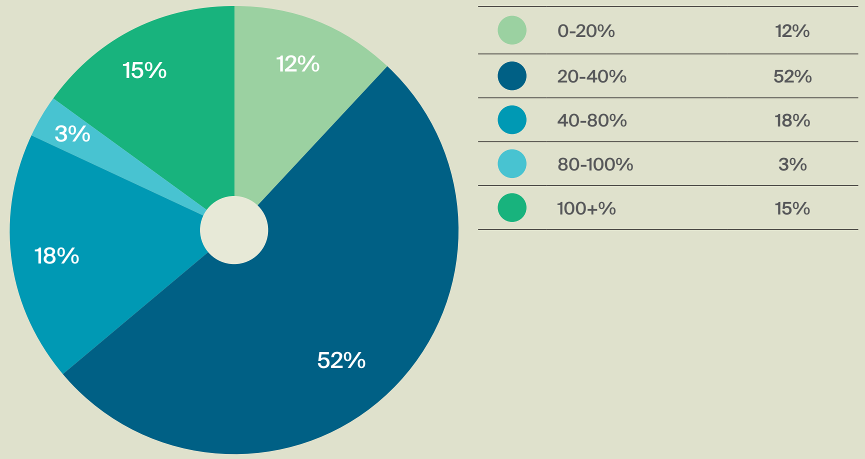
78%

of surveyed investors plan to increase their exposure to Living

How do you expect your total investment into Living to change by 2028?

Source: Knight Frank Research

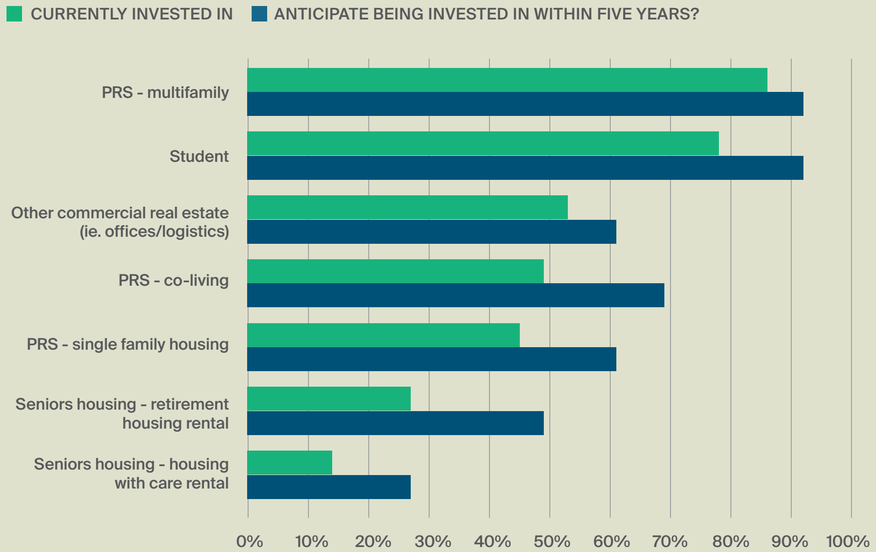
How much do you plan to invest in Living Sectors over the next five years, as a % of total current investment?

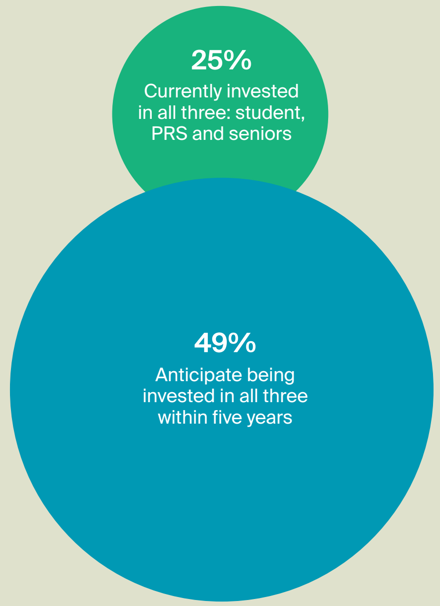


Source: Knight Frank Research

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

% of respondents





Source: Knight Frank Research

… and 47% flagged rent controls as a concern

Investors also highlighted regulatory risk as a barrier for investment. Rent controls in Europe range from strict caps on the initial rent that can be charged, to measures that moderate in-tenancy increases. Given recent sharp rises in rents in many European cities, pressure to introduce controls in new locations, both temporary and permanent, has been growing. Uncertainty created by changes, or even potential changes, makes it more difficult for investors to take long term investment decisions.

Investors also face challenges in accessing stock

Some 28% of survey respondents highlighted this as a barrier, in line with previous surveys. This reflects the emerging nature of some of the Living Sectors across Europe, and the need to fund the development of more institutional grade stock.

New housing supply remains subdued across Europe, and, crucially, well below meeting housing demand across all tenures. Inflationary pressures and supply chain delays have contributed to a spike in construction costs over the past few years. However, the rate of growth is slowing, which will help support viability.

Affordability, regulation and rising costs identified as operational challenges

Nearly two thirds (65%) of investors identified affordability as the biggest short-term operational challenge for the market, which reflects the sharp increase seen in rents over the last 12 months. Regulation was identified as the next largest pressure at 61%, while just over half of investors flagged rising operational costs, on the back of a spike in energy costs, as a challenge.

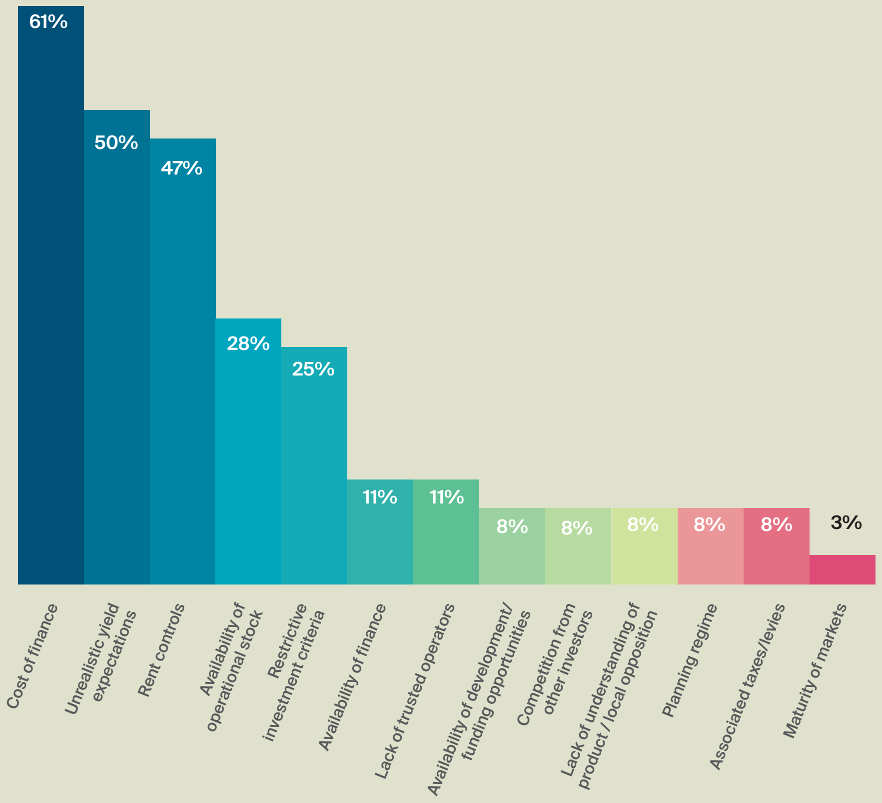
20% of investors are looking to increase financial leverage to fund development

In total, 64% of our survey respondents said that access to the debt market was either very important or important to their investment strategy. There are signs some of these pressures are moderating, however, with swap rates easing from recent highs.

As the cost of debt comes down, and with interest rates expected to peak in the short term, transactional activity levels will pick up in the first half of next year. Of those investors planning to increase their financial leverage, 29% are doing it to enhance returns, with 28% planning to use it for acquisitions. A fifth plan to use it to fund development.

What are the key challenges to investors deploying capital into Living sector assets?

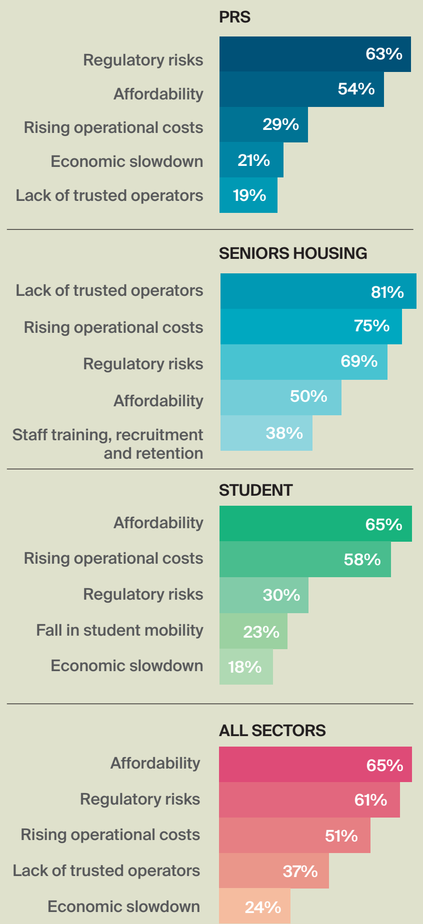
Respondents selected top 3



Source: Knight Frank Research

What are the short-term operational challenges for the market?

Respondents selected top 3



Source: Knight Frank Research

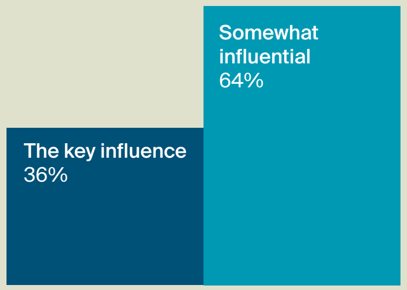
ESG factors continue to drive investor decisions...

Some 36% of survey respondents say that sustainability considerations will be the key factor determining investment strategy during the next three to five years. The remaining 64% say the metric will be 'somewhat influential'. A push towards ESG is primarily driven by investors, with 69% of our respondents stating that investors are 'very important' in dictating their approach to ESG. That's more influence than regulatory change (53%), or tenants (19%).

80% said that schemes with strong sustainability credentials will create a value premium

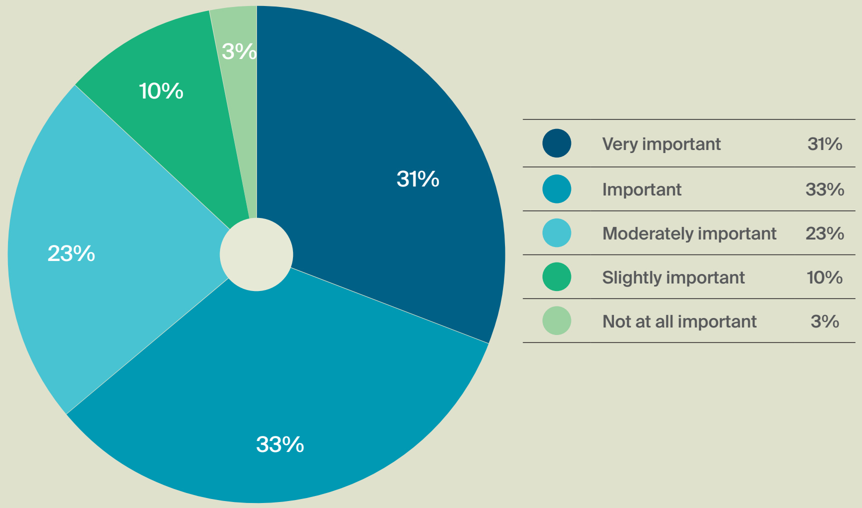
Whether that premium is being passed to tenants in the form of higher rents has been a source of uncertainty, though that appears to be changing. More than 77% of investors believe good ESG credentials will help improve the occupancy and tenant retention of their buildings. A further 63% agree that green properties will be able to charge premium rents.

How influential will sustainability considerations be in determining your investment strategy over the next 3-5 years?



Source: Knight Frank Research

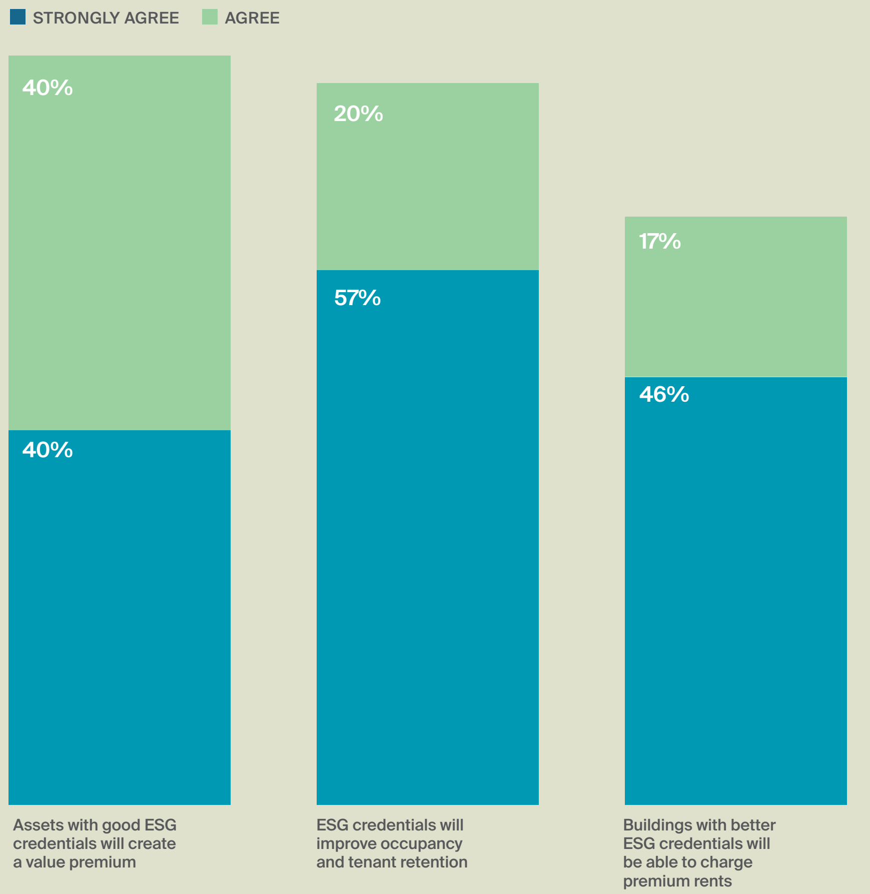
How important is access to the debt market to your investment strategy?



Source: Knight Frank Research

To what extent do you agree with the following statements?

% of respondents who 'agree' or 'strongly agree'



Source: Knight Frank Research

Living market spotlights

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

NETHERLANDS

EVERT MERIJER, DIRECTOR, CAPITAL MARKETS RESIDENTIAL

€6.1BN | 0.9M | 30% | 20%

The introduction of new rent regulations and a more challenging macroeconomic backdrop have weighed on transaction volumes over the last 12 months. Notably, cross-border investment has slowed as some international investors become wary of new regulations and high transfer taxes.

Yet, the fundamentals of the market remain strong. High construction costs have limited new supply coming to market. Consequently, there is a stark imbalance between the supply of new homes, of all tenures, and the high demand for rental housing. The result has been a period of strong rental growth. Investment pricing has also held up, despite higher interest rates.

Looking forward, robust economic fundamentals and expectations for further wage growth in the medium term should support a recovery. Already, Dutch pension funds – who traditionally have been the heartbeat of the Dutch residential investment market – are returning to the market. That said, the nature of the Dutch economy, means the market is deeply connected to the global economic outlook.

IRELAND

TIM MACMAHON, DIRECTOR AND HEAD OF RESIDENTIAL CAPITAL MARKETS, IRELAND

€2.1BN | 0.2M | 14% | 15%

Investment in the first half of 2023 has been subdued, totalling €333m, reflecting investor caution across all asset classes. Investment levels have fallen from 39% of total spend on real estate in Ireland last year to 31% in H1 this year. Last year, investment in the sector reached €1.8bn.

Lack of product is set to remain the biggest challenge for investors seeking to enter the market or expand within it. The assets that had been offered to the market were secured by state backed entities for social and affordable housing, a trend that is set to continue.

Demand for living sector assets in Ireland remains firmly underpinned by the demographics. The population increased by 8% between 2016-2022, reaching over 5.1m. Housing delivery over the last decade has consistently lagged behind the number of units required to provide all forms of housing, from new homes to rental accommodation, student housing and senior living. The labour market also continues to excel with employment in sectors such as MedTech, Professional Services and TMT remaining on an upward trajectory.

SPAIN

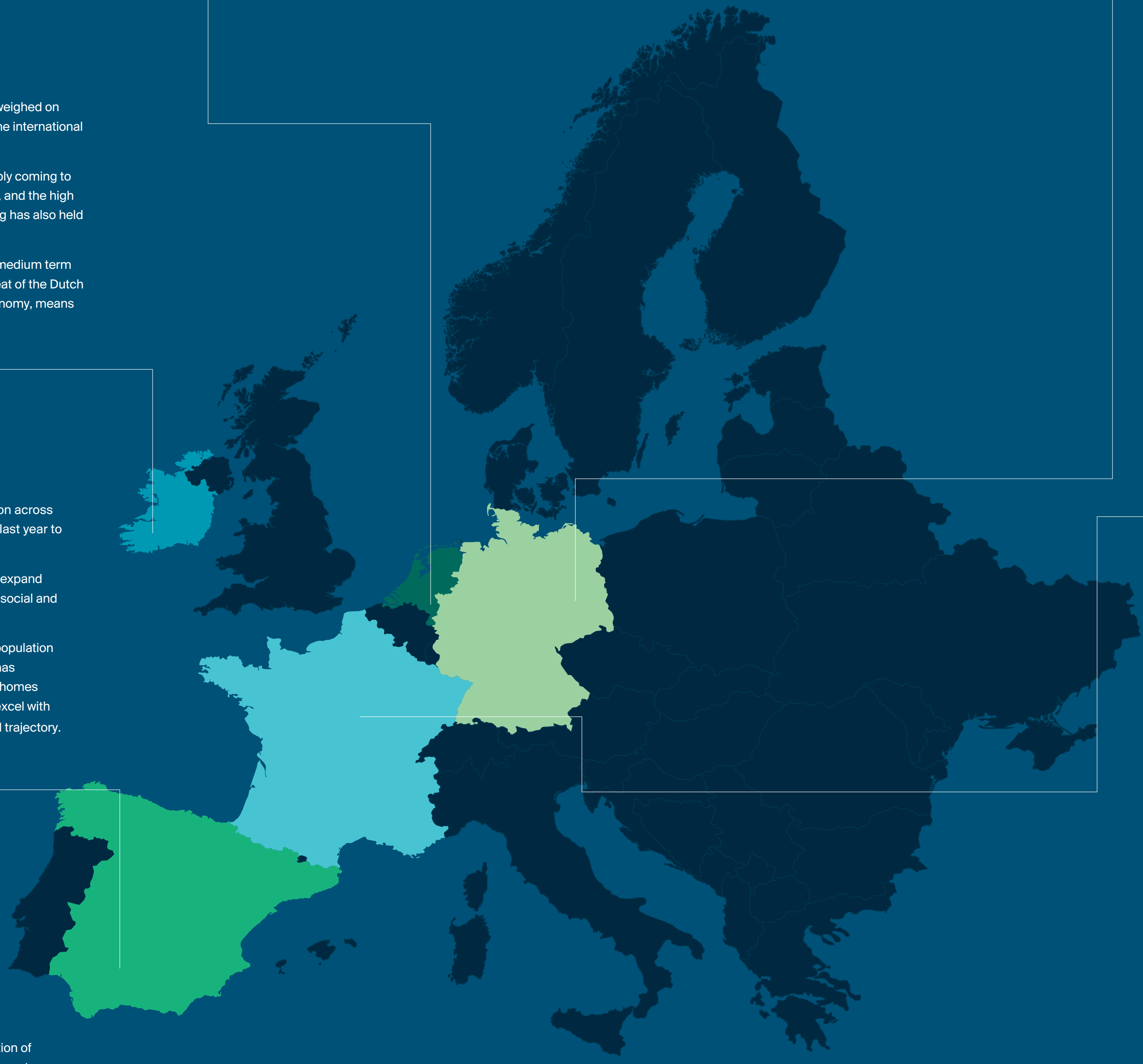
ELAINE BEACHILL, HEAD OF LIVING, SPAIN

€2.3BN | 2.1M | 15% | 20%

Spanish living sectors continue to offer attractive fundamentals with investor interest high for PBSA and multifamily, and growing for flex and seniors housing. The Spanish economy continues to outperform the broader Eurozone with a growth forecast of 2.3% in 2023 according to the OECD, ahead of the US (2.2%) and Japan (1%).

The supply of new homes is expected to fall short of demand. Some 182.500 new households are expected to be created every year over the next 15 years, versus a current annual average production of 92.000 new build properties, the majority of which are destined for the private sales market. We expect to see the delivery of approximately 15,800 multifamily units over the next 18-24 months of which 40% are in Madrid and Barcelona as investors turn their attention to second and third tier cities.

Rental demand is supported by the current outlook for the sales market where average prices have risen by 3% over the last 12 months, and finance costs for buyers are elevated. Strong demand for rental property has supported rental growth of 9.5% over the last 12 months.



GERMANY

ALON BRAHM, MANAGING DIRECTOR, BERLIN

€29.8BN | 3.3M | 43% | 22%

The residential investment market in Germany has undergone significant change. Current economic uncertainty and the high cost of debt have resulted in greater hesitancy, while yield expectations have also shifted outwards.

Furthermore, there has been a decline in building permits and new housing starts, indicating reduced demand from both institutional and private investors. Sharp increases in land and construction costs have made viability more challenging. Despite this, the rental market continues to be undersupplied relative to demand. This is driven by population growth, high immigration and a shifting preference towards renting. The financial burden of buying property has grown considerably.

This dynamic means we expect further rental growth in the medium term – although high inflation and energy costs may temporarily temper this. Regardless, there remains a compelling case for investing in assets supported by both long-and short-term tailwinds, and which provide strong counter-cyclical features and inflation-matching characteristics. However, rental performance will differ across locations and segments in the coming years.

FRANCE

DAVID BOURLA, CHIEF ECONOMIST AND HEAD OF RESEARCH, FRANCE

€5.4BN | 2.7M | 15% | 21%

In the first half of 2023, the volumes invested in the residential market reached just over €1.3 billion, a fall of 64% compared to the same period last year. While a few significant projects will be completed, it is mainly single transactions and small portfolios that will drive the market between now and the end of the year, keeping volumes invested at relatively low levels while we await the signing of major portfolios.

French investors remain the key players in the residential market. In the first half of 2023, they accounted for 84% of all capital committed in France compared to 90% in 2022. Players in the market who traditionally target intermediate and social housing remain very present. However, insurers and OPCIs and SCPIs, which stood out last year due to a few large-scale deals and several important transactions, have been more discreet since the start of the year. The proportion of foreign investors has risen slightly but remains modest, accounting for 16% of total investment in the French residential market. As usual, British and North American investors have been the most active of international investors, purchasing buildings exclusively situated in the Greater Paris Region. The Danish pension fund PFA has also continued to invest in France, both in the Paris region and in the provinces.

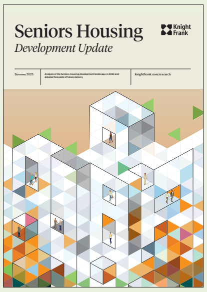
These past few months have seen the completion of some significant deals on behalf of international investors, such as PFA's purchase of a senior citizen's residence in Amiens. In the Greater Paris Region, Greystar acquired a student residence in Ivry-sur-Seine, while Ares Management has taken over a co-living space in Saint-Ouen as part of the "Bauer Box" project.

Source: Knight Frank Research / RCA / Eurostat / World Bank
NB. latest available data

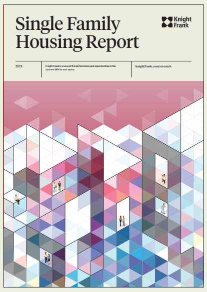
Recent Research

UK Living Sectors
Investor Survey - 2023

UK Student Housing -
Market Update Q2 2023



Seniors Housing
Development Update -
2023



Single Family Housing
Report - 2023

Keep up to speed with global property markets with our range of dedicated sector newsletters

SIGN UP ONLINE

Residential Capital Markets, Ireland

Tim MacMahon
Director and Head of Residential Capital Markets
+353 1 639 0318
tim.macmahon@ie.knightfrank.com

European Living Investment

Stuart Osborn
Head of European Residential
Investment Transactions
+44 20 7861 1735
stuart.osborn@knightfrank.com

Capital Advisory

Lisa Attenborough
Head of Debt Advisory
+44 20 3909 6846
lisa.attenborough@knightfrank.com

Research enquiries

Oliver Knight
Head of Res Dev Research
+44 20 7861 5134
oliver.knight@knightfrank.com

Matthew Bowen
Head of Living Sectors Research
+44 20 7945 2641
matthew.bowen@knightfrank.com

Knight Frank