European Commercial - January 2025

SPOTLIGHT
Savills Research

EME Investor Sentiment Survey

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• Sectors • Geographies • ESG

Investor risk appetite increases

Investors show an increased willingness to diversify into traditionally non-core geographies and beyond the beds and sheds sector.

Introduction
Savills Europe and Middle East (EME) Investor Sentiment Survey 2025 consists of 40 investors, representing over €800bn of assets under management (AUM). 2025 marks Savills third annual EME investor sentiment survey and responses were collected between 16th November 2024 and 6th January 2025, with respondents' companies headquartered in the UK (22%), France (22%), Germany (13%), Rest of EME (18%), US (20%) and APAC (5%).

Risk appetite has returned.
The proportion of investors who expect to increase their investment risk appetite has risen YoY from 28% in 2024 to 45% in 2025, indicating a shift towards value add strategies. Further good news for the real estate industry is that the proportion of investors whose companies are looking to increase their asset allocation to real estate has increased from 35% in 2024 to 53% in 2025. Following capital value adjustments in 2023-24, investors find themselves underweight to their target allocation, which should support a recovery in demand throughout 2025.

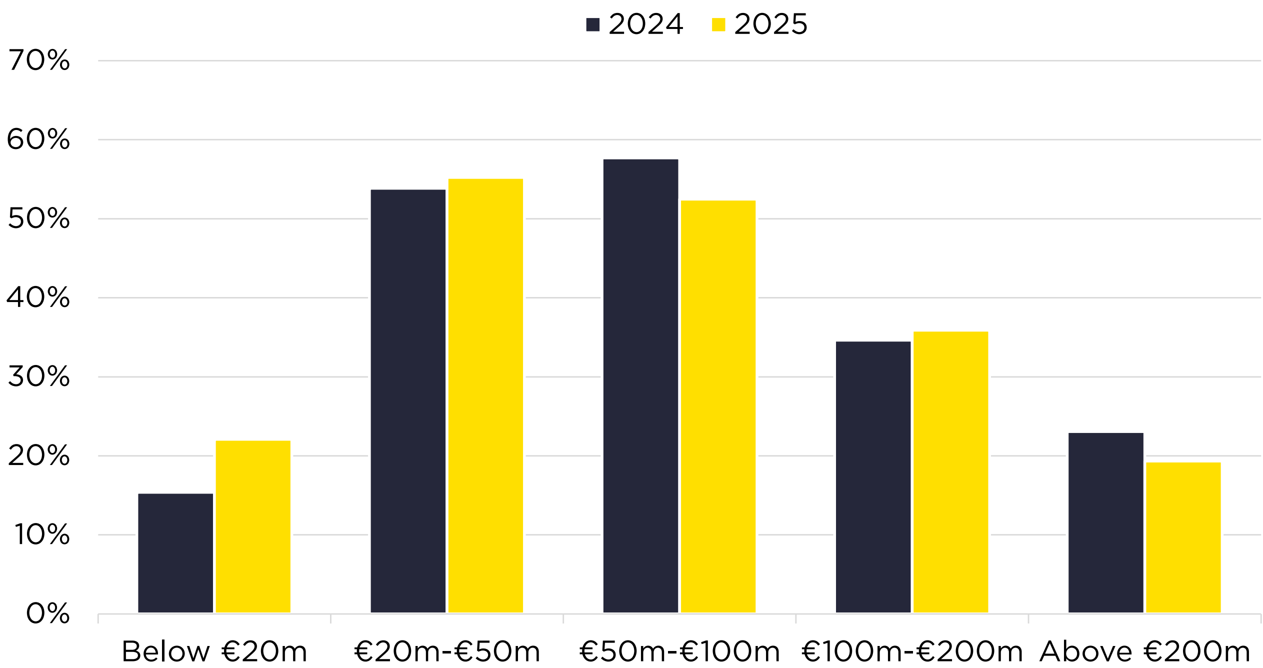
€20-60m lot size remains the sweet spot.
Despite an increased risk appetite, investors maintain a preference for smaller lot sizes. Investor demand remains strongest for the €20-€50m and €50-€100m lot size bands, with little variation YoY. The depth of demand for €100m+ lot sizes remains low despite falling debt costs, however, we anticipate that the number of larger lot size transactions will gather pace throughout the remainder of 2025 as debt costs fall further.

Investors looking for geographical diversification.
At a country level, Spain has become the most popular investment market in 2025, up from 4th place in 2024, supported by strong economic growth prospects delivering rental growth. Southern European counterparts, Italy and Portugal also rose YoY following a stronger economic performance.

The core markets of the UK, France and Germany all featured within the top five countries, and all recorded an increase on an annual basis, highlighting an investor preference for liquidity, despite rising French government debt levels and a federal election in Germany likely to prolong investment decision-making processes.

Elsewhere, investors report they are more than twice as likely to invest in Poland compared to 2024, given Poland is forecast to see the strongest economic growth in Europe in 2025 which we expect to filter across the CEE region. Overall, we anticipate the CEE region to see the strongest investment

Chart 1: Which of the following best describes your target lot size?



Source Savills

transactions growth during 2025, supported by private CEE investors.

We anticipate domestic investors across the Nordics to be more dominant, given falling central bank interest rates, and low vacancy rates supporting rental growth.

Investors seeking value beyond beds and sheds.
Big box and urban logistics sectors remain most favourable for investors in 2025, supported by rising e-commerce growth and demand for deliveries. Despite a weaker manufacturing sector, good-quality, well-located stock remains scarce, which has already supported the return of yield compression in some geographies. The return of real household income growth has also improved sentiment towards retail, along with a repricing across the sector.

There remains resilient demand from investors for the living sector, given the shortage of new supply driven by high construction costs, which should support rental growth prospects.

Hotels reported one of the strongest improvements in sentiment, following resilient tourism numbers and the ability for landlords to drive income returns by capturing rental growth.

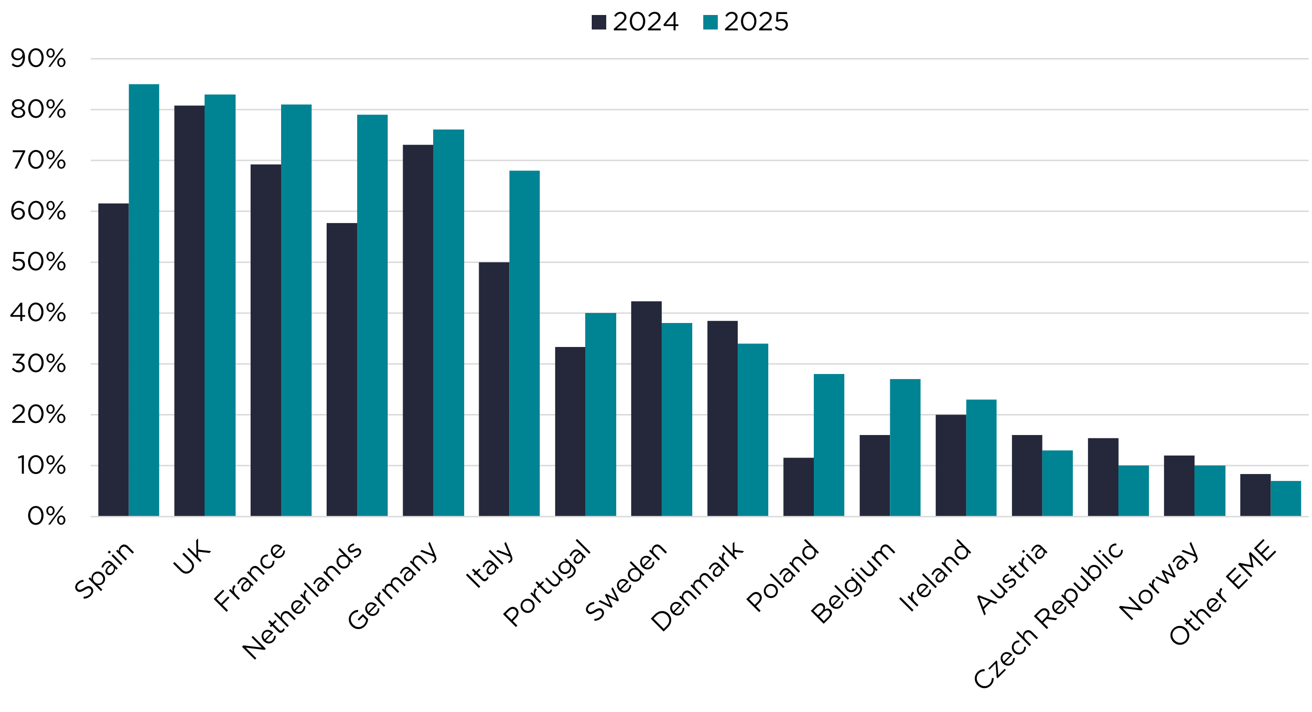
Since last year, CBD offices have recorded an increase from 29% to 47% of investors looking to deploy, supported by increasing tenant demand in the sector, recovering occupancy rates and stable vacancy rates. Non-CBD offices also observed an increase on an annual basis. However, US investors remain more cautious on the office sector than European investors.

Rising demand, for cloud storage, a shortage of supply and increasing visibility on the sector has supported investor demand for data centre acquisitions in 2025. We expect to see some conversions of older office and industrial stock to data centres to ease over the next couple of years to appease the structural undersupply.

A shortage of stock remains.
As interest rates have fallen significantly on an annual basis, the factors presenting a major challenge to investment have changed. Now, only 15% of investors report debt costs to be a challenge to making new investments, down from 73% in 2024. The proportion of investors reporting pricing to be a challenge has also fallen from 62% to 34% YoY, following outward yield movement, as buyers and sellers become more aligned on price expectations, which we expect to support an investment recovery in 2025.

Now, the biggest challenge is that there is a shortage of suitable product

Chart 2: In which countries will landlords invest over the next 12 months? (% likely)



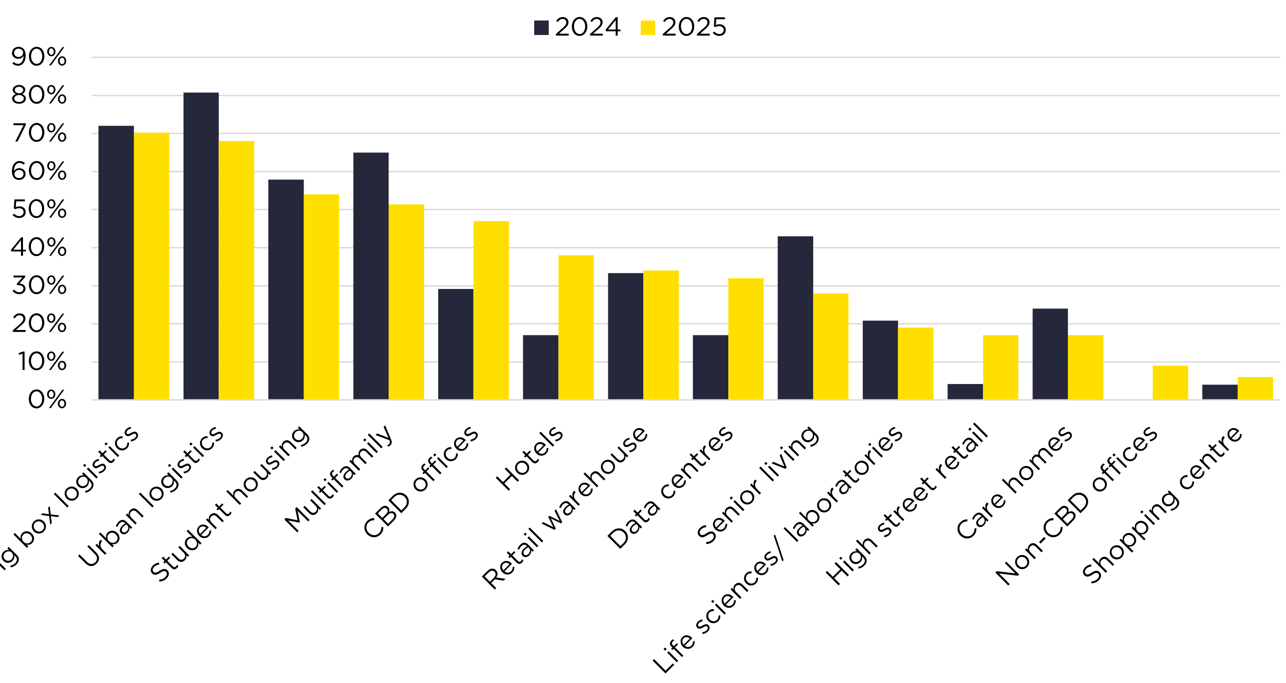
Source Savills

to acquire (47%), likely as a result of the lack of distress we have observed during the cycle. As investor demand recovers, and banks observe a recovery in transaction volumes in 2025, we expect banks to apply further pressure on borrowers, increasing bank-led sales. A lack of dry powder also remains a prohibitive factor for new investments, as higher interest rates have restricted fundraising during 2023-24.

Geopolitics will continue to extend investment decision-making periods, with investors seeking more clarity around the impact of tariffs on trade relations and economic growth. Cross-border investors will seek political safe-havens, but will also focus on the attractive real estate fundamentals of scarce good quality stock and attractive pricing.

Manage to ESG strategies are becoming more popular.
All investors reported that they currently have an ESG strategy, with an increase in the proportion of investors willing to undertake a 'manage to ESG' strategy, from 72% to 79% YoY. We are observing a returning appetite for refurbishment strategies, given new-build construction costs remain high, which will create a shortage of Grade A space delivered between 2025-2027.

Chart 3: In which sectors will landlords invest over the next 12 months? (% likely)



Source: Savills

Outlook

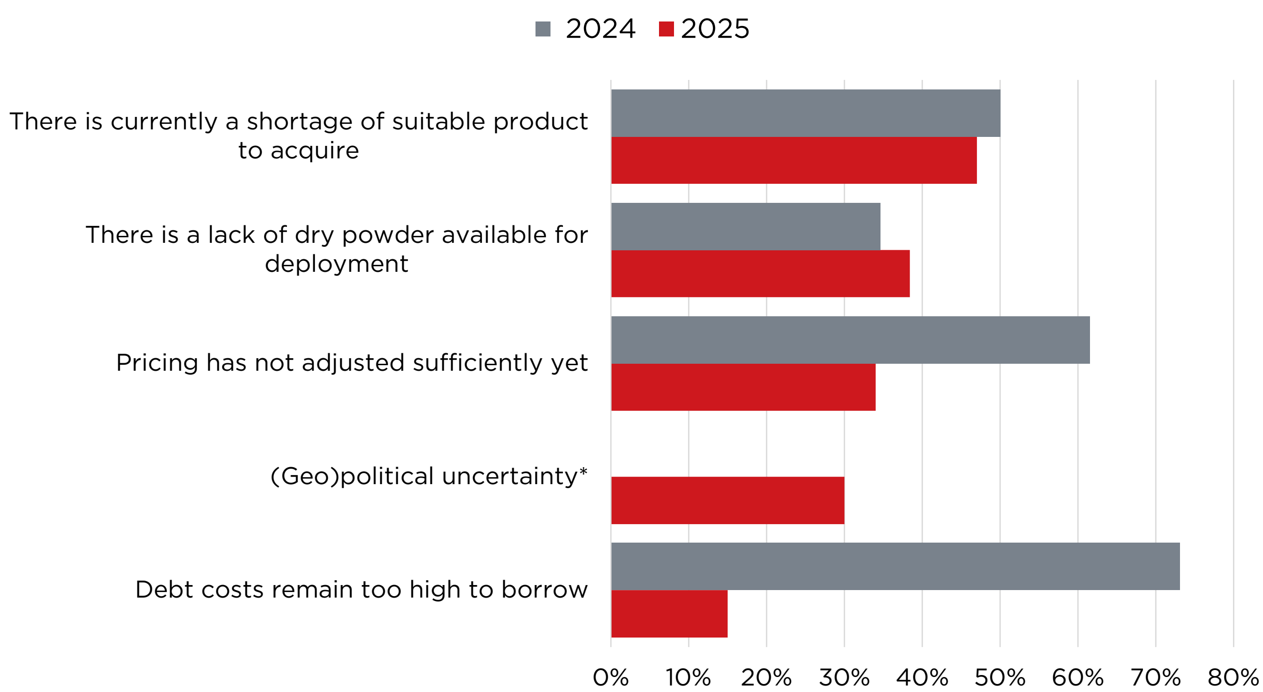
What do these results tell us?

Clearly, investors are back and are more motivated to transact in 2025. The big change over the year shows an increased willingness to diversify into traditionally non-core geographies and beyond the beds and sheds sector as the perception of relative risk has changed. Income growth and liquidity remain key drivers for investors, as demand intensifies for prime stock which meets tenant requirements.

There remain headwinds for an investment recovery in the form of a) the speed of interest rate cuts, b) the lack of openly-marketed stock and c) geopolitical uncertainty. However, buyers and sellers are now more aligned on pricing expectations, and as the depth of buyers returns and bidding activity gradually becomes more competitive, we expect prime yields to move in throughout the year.

Overall, we anticipate 2025 European investment transaction volumes will rise by 23% YoY, with a wider pool of cross border activity supporting demand. Investors will continue to scrutinize pricing on an asset by asset basis, but are aware that yields are beginning to compress, and buyers will maximise their returns by returning to the market sooner, rather than later.

Chart 4: Proportion of investors who consider the following a "major challenge" to making new investments



Source: Savills

Savills Commercial Research
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