SURVEY

Savills Research

European Living & Hotels

Investor Sentiment Survey 2024

Investors continue to increase their allocation to Living

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Key Points

48%

Close to half of investors we surveyed are looking to increase their allocation to the Living and Hotels sectors over the next three years.

€64BN

In that period, those investors are aiming to deploy €64bn of capital.

CHANGE OF STRATEGY

Investors are now seeking higher returns, with a quarter of respondents in 2024 looking at Opportunistic strategies, up from just 10% in 2023.

RETURN EXPECTATIONS

There has been an increase in the unlevered total return expectations of investors in Multifamily: in 2023 60% of investors were expecting between 4-8% pa, whereas in 2024 63% are expecting returns of over 8% pa.

ROUTES TO MARKET

More than two-fifths (43%) of investors have a preference for direct private market investment as their route to accessing the Living and Hotels sectors.

DEBT

13% of all respondents listed either direct private debt or direct public debt as their preferred route to gaining exposure to the sectors.

RENT REGULATION

Rent regulation was highlighted as the biggest concern for investors in meeting their investment aspirations, with 83% of respondents saying they somewhat or strongly agreed with it being a barrier. Other risk factors were scarcity of stock, and cost and availability of debt for refinancing.

ESG

65% of our respondents said they are planning to refurbish non-ESG-compliant assets, pointing to an awareness of the scarcity of new stock as well as the embodied carbon benefits of refurbishing existing assets.

Introduction

Investors are increasingly diversifying away from the traditional commercial real estate sectors into Living (or 'beds') and Hotels. In Europe, this is demonstrated clearly by the rapidly increasing proportion of investment into these sectors, rising from 23% of total investment in 2014 to 33% in 2023.

Our 2024 European Living Investor Sentiment Survey shows that this trend is set to continue. Now in its second year, Savills and Savills Investment Management have undertaken an extensive survey of major European investors who are active within the Living and Hotels sectors.

We have defined this as the investible universe of Residential (Multifamily, Single Family, Affordable Housing, PBSA, Co-living, Senior Housing), as well as Hotels (which includes Mid-Market, Lifestyle, Luxury, Budget, Hostels, Serviced Apartments and Branded Residences).

The survey gathered responses from 63 investors, who collectively have over €700 billion in real estate assets under management (AuM). A majority of investors (63%) are based in the UK, with the remaining large proportion (37%) based in continental Europe.

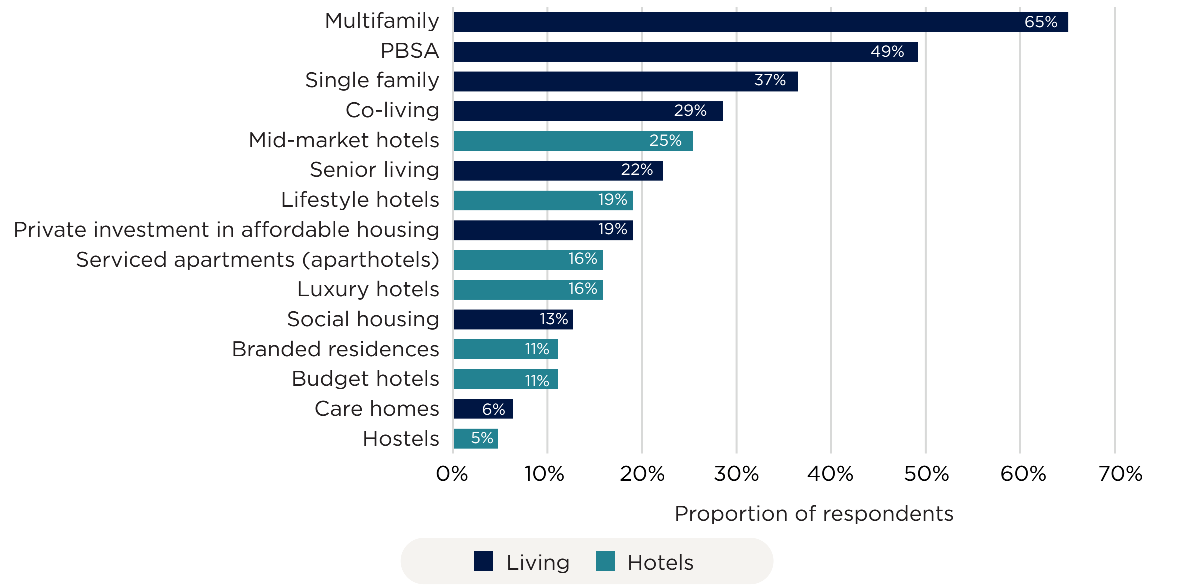
Increasing allocation to Living

Only around a third (37%) of respondents to our 2024 survey currently have less than 25% of their real estate AuM allocated to Living.

This is a significantly lower proportion than last year, when 63% of respondents reported having less than 25% of AuM allocated to the Living sectors – highlighting the increase in investors who are focused on Living. When asked about the sectors they currently have the most exposure to, the three most common Living sectors are Multifamily (65%), Purpose-built Student Accommodation (PBSA) (49%) and Single Family Housing (37%). Within Hotels, the most common subsector is Mid Market Hotels, where a quarter of respondents already have exposure.

By contrast, only 6% of respondents have exposure to Care Homes and 5% to Hostels, which are more niche segments of Living and Hotels.

Fig 1: Which segments do you currently invest in?

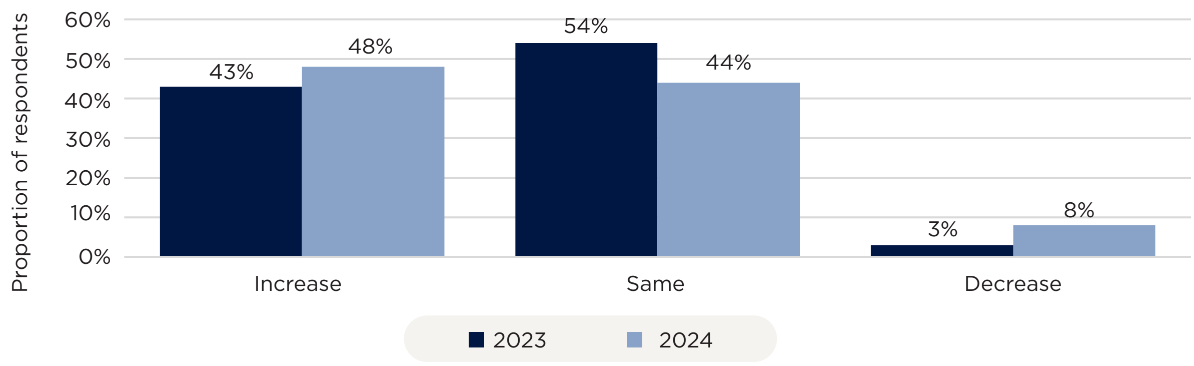


Source: Savills, Savills Investment Management

When asked about how their allocation to the sectors will change over the next three years, almost half of respondents are planning to increase their exposure.

This is slightly higher than the 43% of respondents in 2023, highlighting the continued growth of investor appetite for Living and Hotels.

Fig 2: How will AuM allocated to Beds change over the next 3 years?



Source: Savills, Savills Investment Management

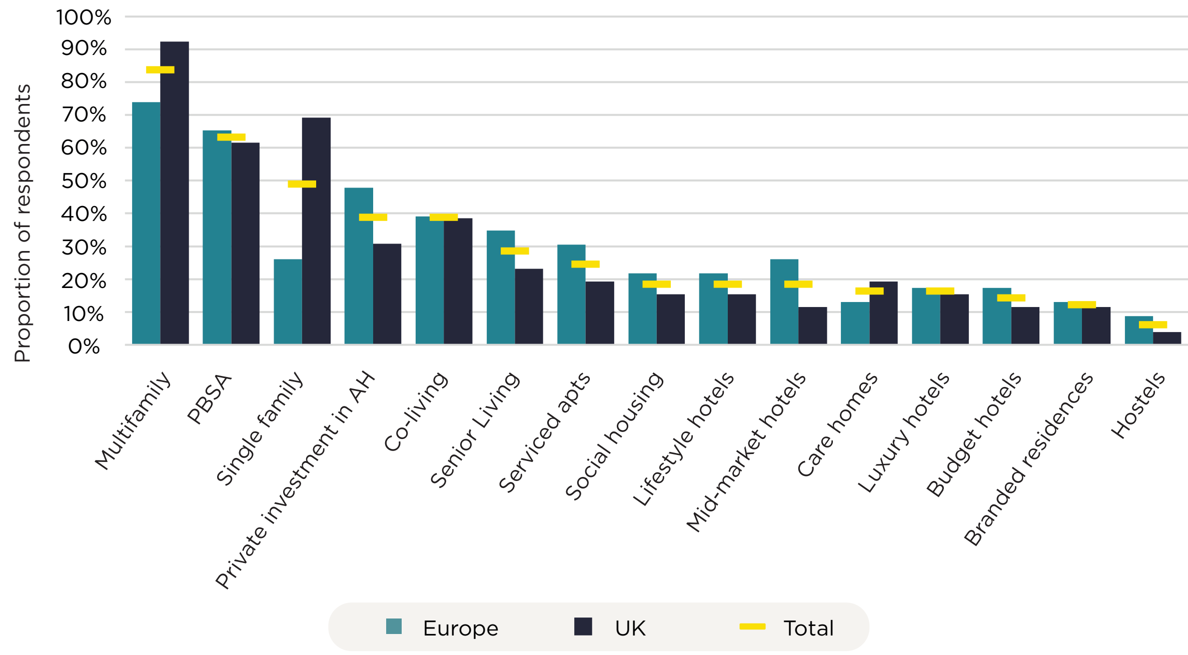
What sectors are investors targeting?

Multifamily is the most sought-after sector for investors, with 84% of respondents saying they intend to increase their exposure, followed by PBSA (63%) and Single Family (49%).

The latter is being driven primarily by the intentions of UK-based investors, with 69% of these respondents looking to invest, compared with only 26% of continental European investors. European investors are more focussed on investing in Affordable Housing, with 48% of respondents wanting to invest in the sector, compared with 31% of UK-based respondents.

This highlights the growth potential of that sector across the continent and we expect to see an increasing number of opportunities coming to the market, with the need for additional investment and development in this segment coming to the fore given cost of living increases in recent years.

Fig 3: Which sectors are investors targeting over the next 3 years?



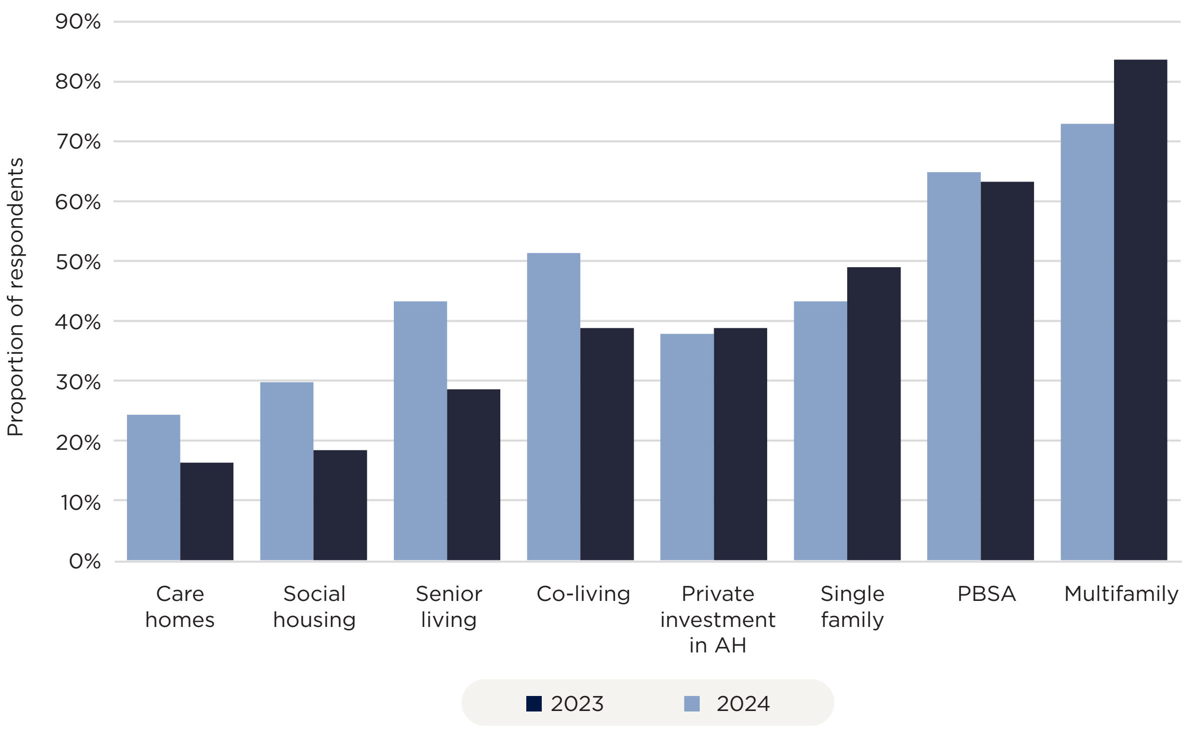
Source: Savills, Savills Investment Management

Comparing investor appetite for different sectors with our survey results from last year shows a continued commitment to Multifamily, PBSA and Single Family, with the proportion of investors targeting these sectors up slightly or broadly the same.

One of the largest shifts in investor intentions has been in Co-living. In 2023, over half of investors expressed a desire to invest in the sector, but that has fallen to only 39% in 2024. This decline likely reflects a shift in priorities during the recent period of uncertainty, away from a nascent sector in order to focus on the more 'core' Living sectors. There was also a fall in the proportion of respondents intending to invest in Care Homes (16% in 2024 vs 24% in 2023), Social Housing (18% in 2024 vs 30% in 2023) and Senior Living (29% in 2024 vs 43% in 2023).

The fall in investor appetite for Care Homes may be reflective of market challenges and the more specialist nature of the segment compared with some other Living sectors.

Fig 4: Change in target Living sectors between 2023 and 2024



Source: Savills, Savills Investment Management

> **Respondents are looking to invest c.€64 billion over the next three years alone across the Living and Hotels sectors.**
>
> Multifamily and PBSA can expect to see the greatest inflows of capital: €16.5bn and €12.1bn respectively.

How much capital are investors looking to deploy?

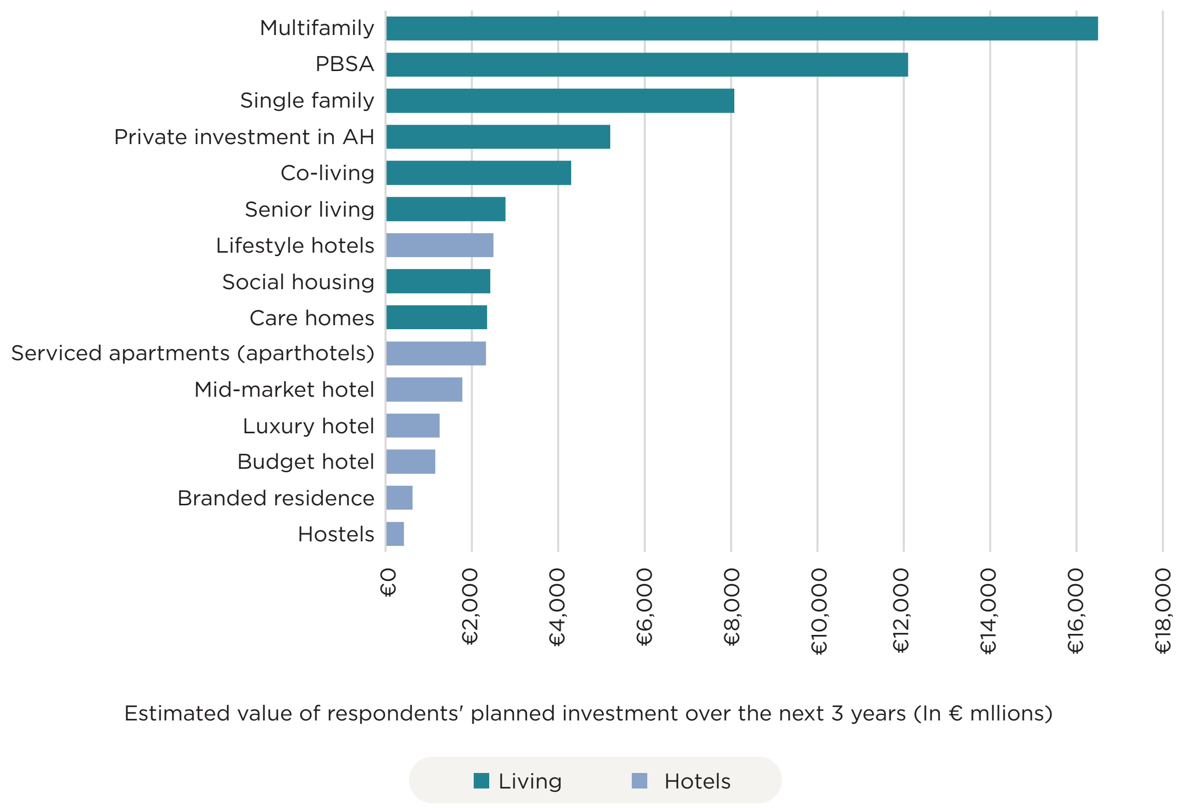
Our survey reveals that respondents are looking to invest c.€64bn over the next three years alone across the Living and Hotels sectors.

The majority (84%) of this capital is targeting Living, with Multifamily and PBSA expecting to see the greatest inflows of capital: €16.5bn and €12.1bn respectively.

In the Hotels sector, Lifestyle Hotels are projected to receive the greatest influx of capital. Respondents expressed their intention to deploy more than €2.5bn in this segment within the next three years.

Notably, despite fewer respondents looking to invest in this sector compared to Serviced Apartments and Mid-market Hotels, those who do intend to invest appear committed to growing significant holdings.

Fig 5: How much do investors plan to deploy in each sector over the next 3 years?



Source: Savills, Savills Investment Management

Regional expansion

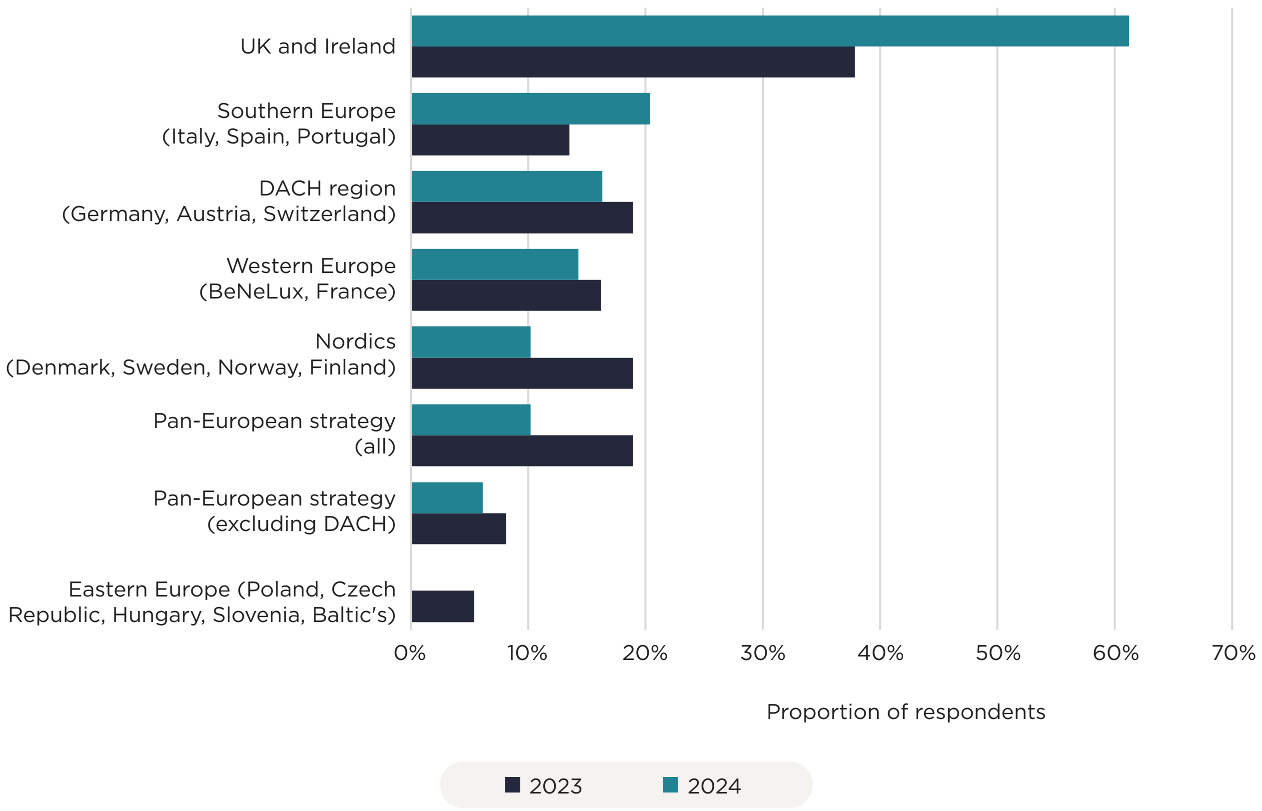
When investors were asked about where in Europe they are looking to target, the UK and Ireland came out as the highest priority market over the next three years – mirroring the trend seen in 2023.

However, there has been a change in the ranking of other priority markets compared with last year.

Southern Europe (Italy, Spain and Portugal) has risen to the second highest priority market, up from sixth in 2023. This reflects the growing number of opportunities for investors in these markets and returns achievable compared with some more mature Northern European markets. The DACH region (Germany, Austria and Switzerland) has slipped to the third most sought-after location.

Interestingly, there has been a fall in the proportion of investors targeting a pan-European strategy as their highest priority, from 19% in 2023 to only 10% in 2024. This points towards a desire by investors to focus on a handful of specific geographies where they feel they can gain a deep understanding and leverage scale.

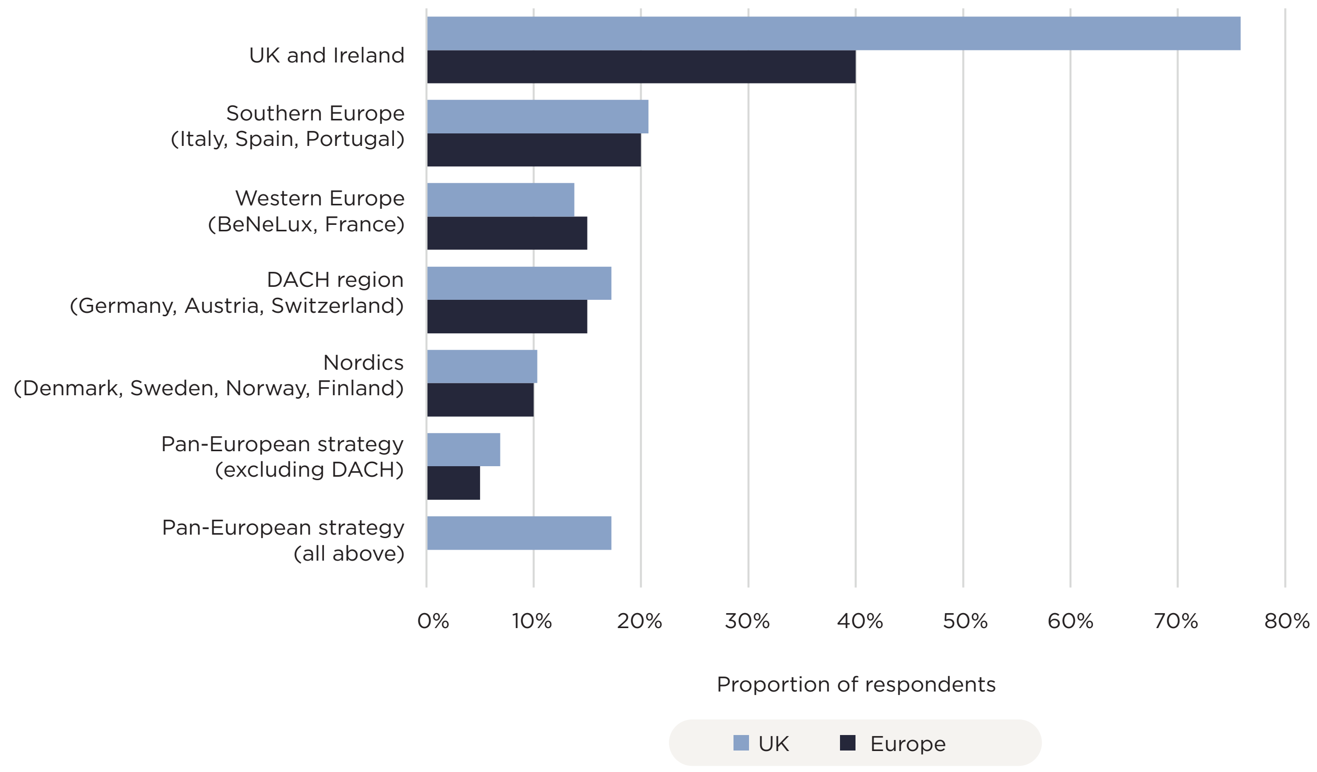
Fig 6: Change in priority investment locations between 2023 and 2024



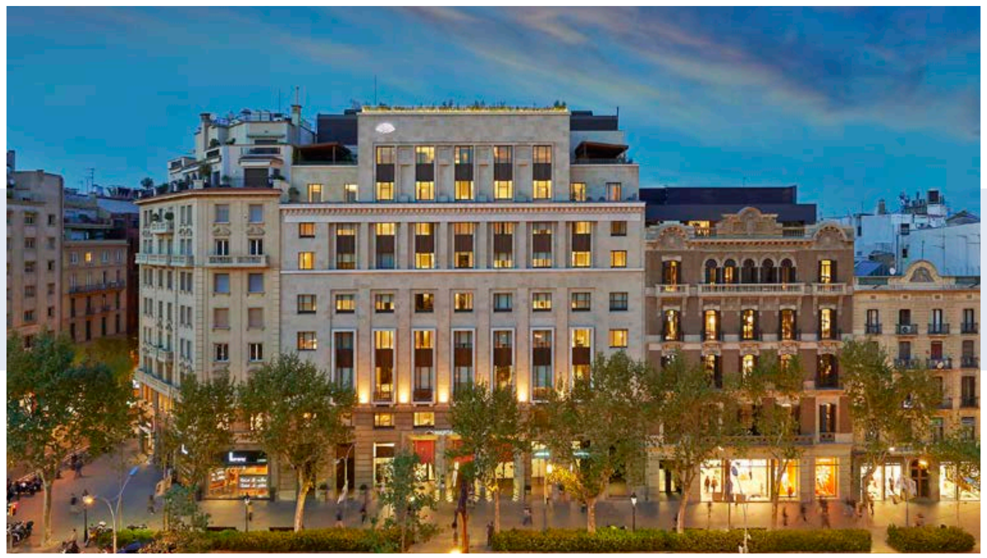
Source: Savills, Savills Investment Management

There are also slight differences in target geographies when comparing the preferences of European and UK-based investors. While the largest proportion of both groups put the UK and Ireland as their highest priority market, the proportion that do is significantly lower for European investors, at only 40%, compared with 76% for UK investors. Further to this, European investors have a slightly higher preference for Western Europe (BeNeLux and France) and a slightly lower preference for the DACH region.

Fig 7: Differences between UK and European investor target geographies



Source: Savills, Savills Investment Management



In search of higher returns

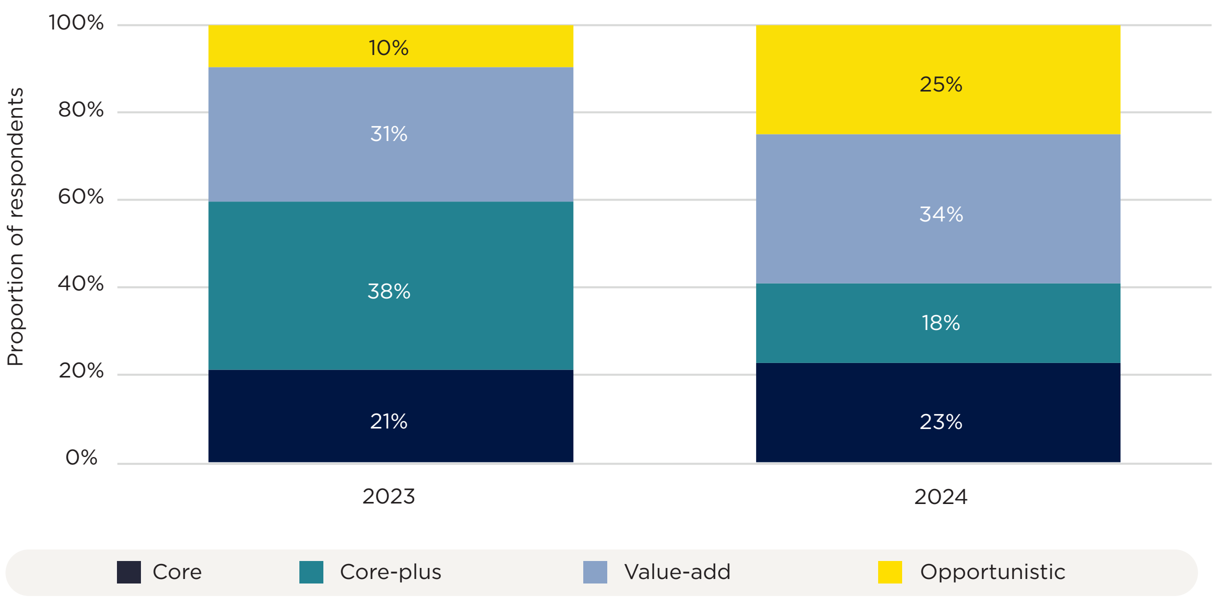
There has been a marked shift in the strategies investors are pursuing in the 'beds' sectors.

This is most clearly seen in the increased proportion of investors targeting Opportunistic strategies, which has risen from 10% in 2023 to 25% in 2024.

The increase is perhaps unsurprising given the more challenging environment facing investors over the past year, including the heightened cost of debt.

At the same time there has been a fall in the proportion of investors who are targeting Core-Plus strategies, down from 38% in 2023 to 18%.

Fig 8: Change in investment strategies for the beds sectors between 2023 and 2024



Source: Savills, Savills Investment Management

The higher weighting to Value Add and Opportunistic strategies is reflected in the upward shift in return expectations for stabilised Multifamily assets in 2024. In 2023, three-fifths of investors were expecting between 4-8% per annum unlevered total return for standing, income-producing investments. However, in 2024 the majority of investors (63%) now expect to see unlevered annual returns of 8% plus over the next 3 to 5 years – with close to two-fifths expecting over 10%.

There has been a marked shift in the strategies investors are pursuing in the 'beds' sectors.

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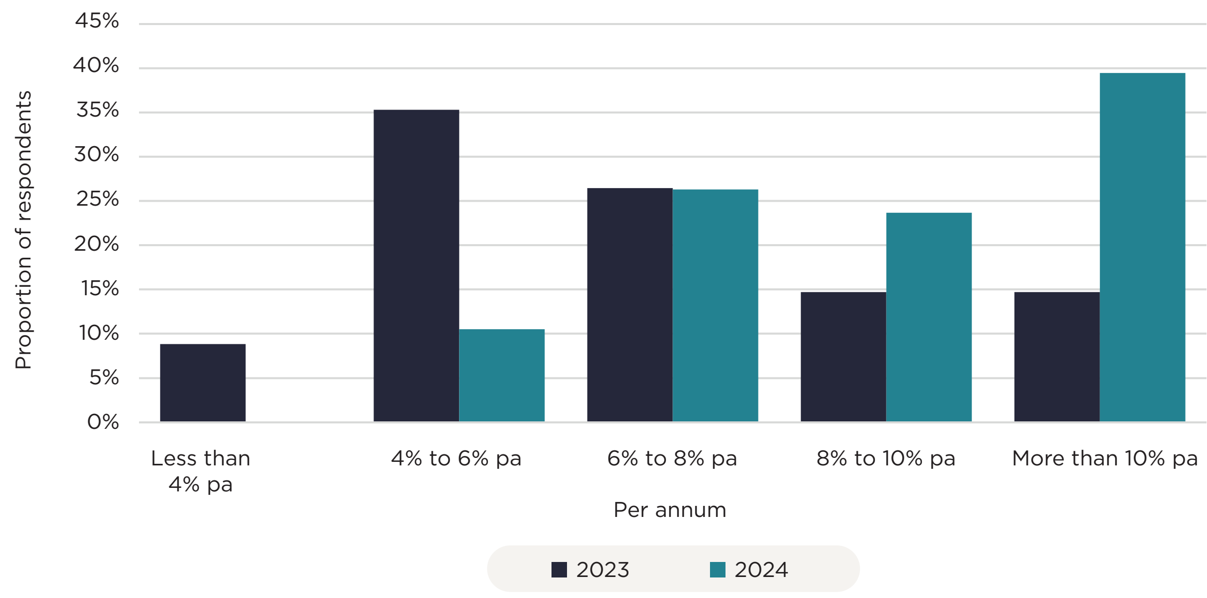
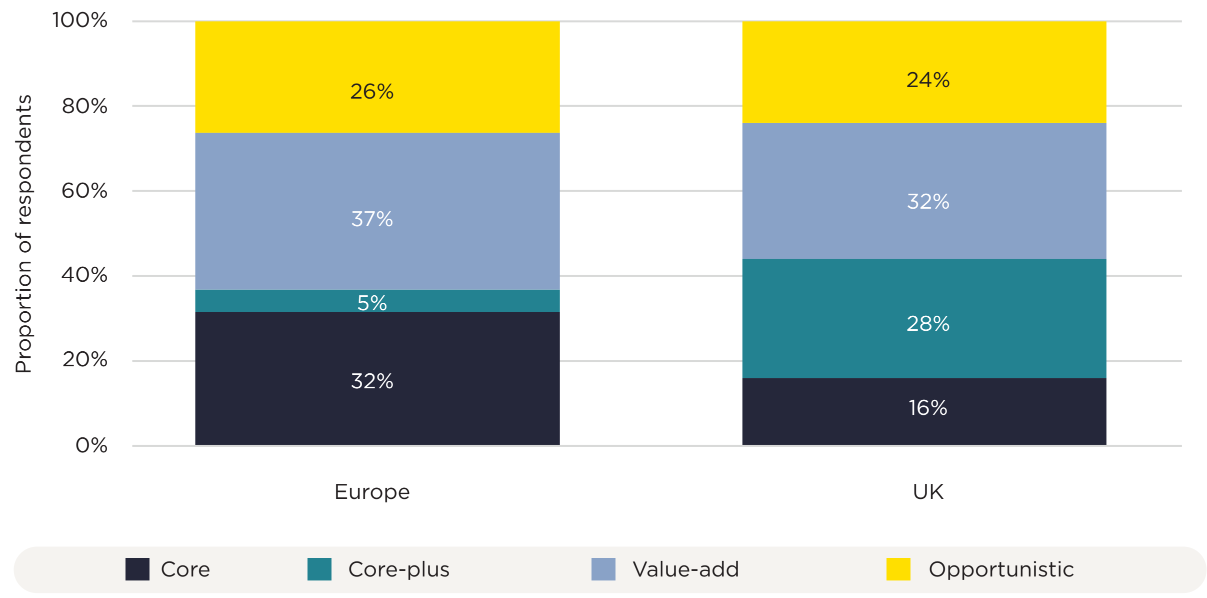
Fig 9: Change in investors unlevered total return expectations for Multifamily over the next 3-5 years



Source: Savills, Savills Investment Management

There is however, a divergence in the strategies being pursued by investors in continental Europe compared with their UK compatriots. Amongst the former, almost a third of investors are targeting Core strategies, double the proportion of UK investors (16%). The opposite is the case for Core-Plus strategies, with a very small number of European respondents (5%) selecting this option, compared with a large proportion of UK investors (28%).

Fig 10: Difference between UK and European investors' investment strategies for the Living sectors

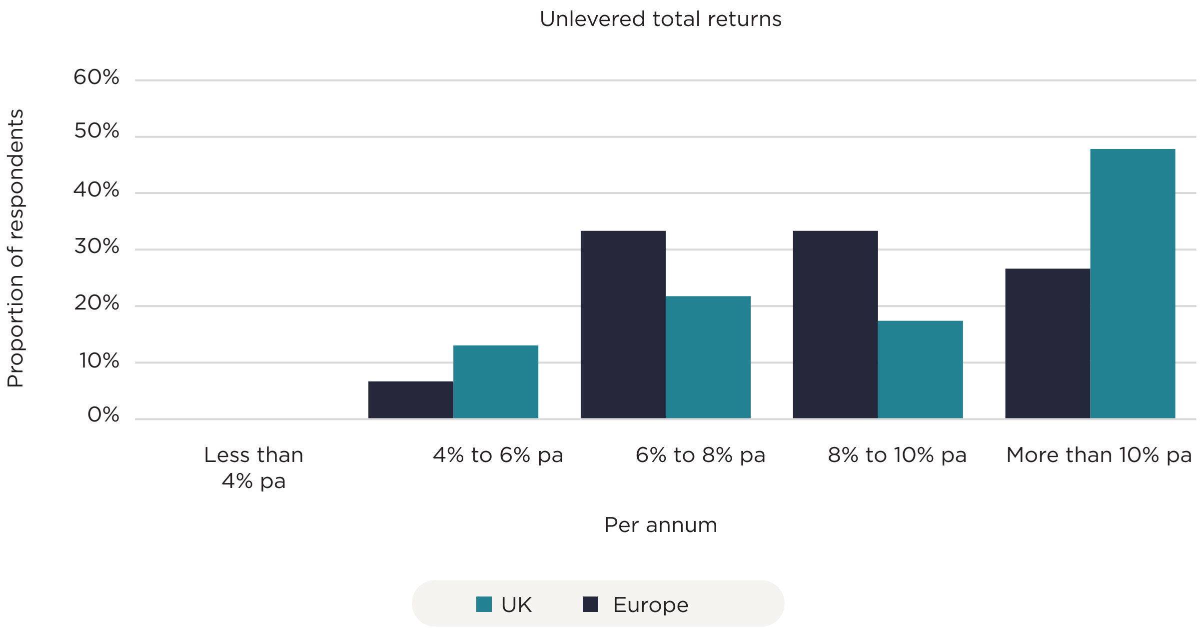


Source: Savills, Savills Investment Management

Mirroring the higher proportion of European investors looking for Core strategies, there is a higher proportion who are expecting slightly lower unlevered total returns in the Multifamily sector compared with UK investors.

Two-thirds of the former expect between 6%-10%pa, compared with only 39% of the latter. Nearly half (48%) of UK investors expect more than 10%pa returns, whilst only around a quarter (27%) of European investors do.

Fig 11: Difference between UK and European investors' unlevered total return expectations for Multifamily over the next 3-5 years



Source: Savills, Savills Investment Management

Routes to market

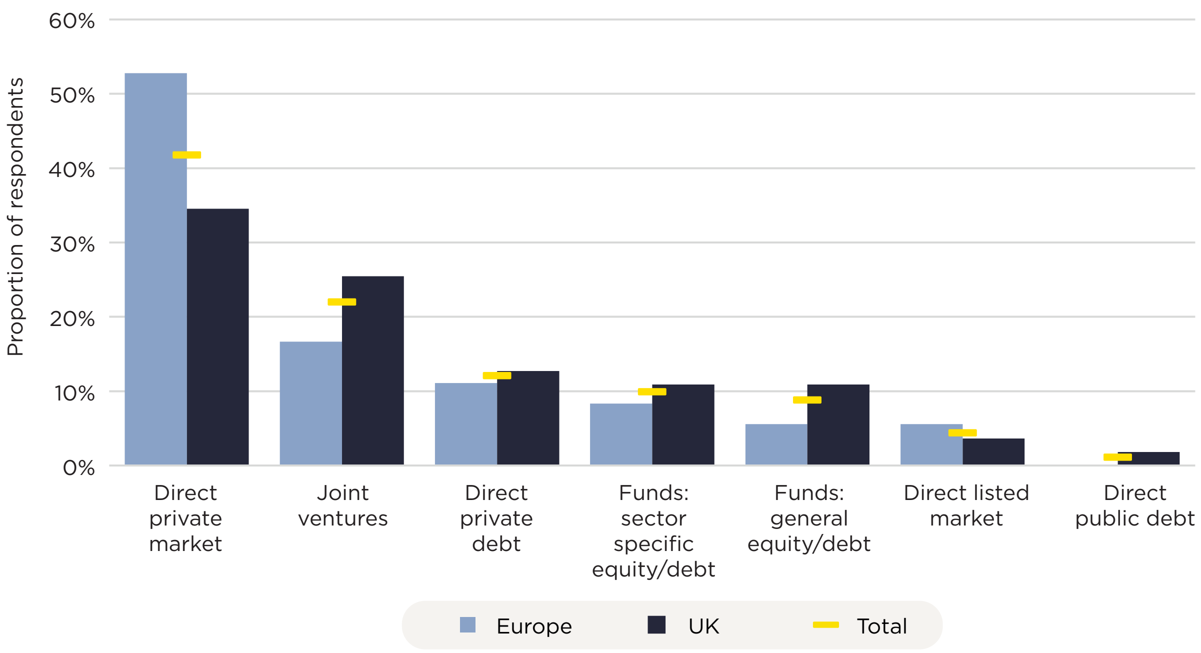
When asked about their preferred routes to market, most respondents had a preference for direct private market investment.

Although this was a more favoured route for European respondents than those based in the UK, at 53% and 35% of respondents respectively.

The other major difference was the higher proportion of respondents in the UK (25%) who preferred to use joint ventures, compared with only 17% on the continent.

There was also a large minority who are looking specifically at Debt to gain exposure, with 13% of all respondents listing either direct private debt or direct public debt as their preferred route.

Fig 12: Respondents' preferred routes to market



Source: Savills, Savills Investment Management

Barriers to investment

There is no denying the scale of the ambition amongst investors to increase their investment into the Living sectors. However, there remain potential barriers to achieving these aims.

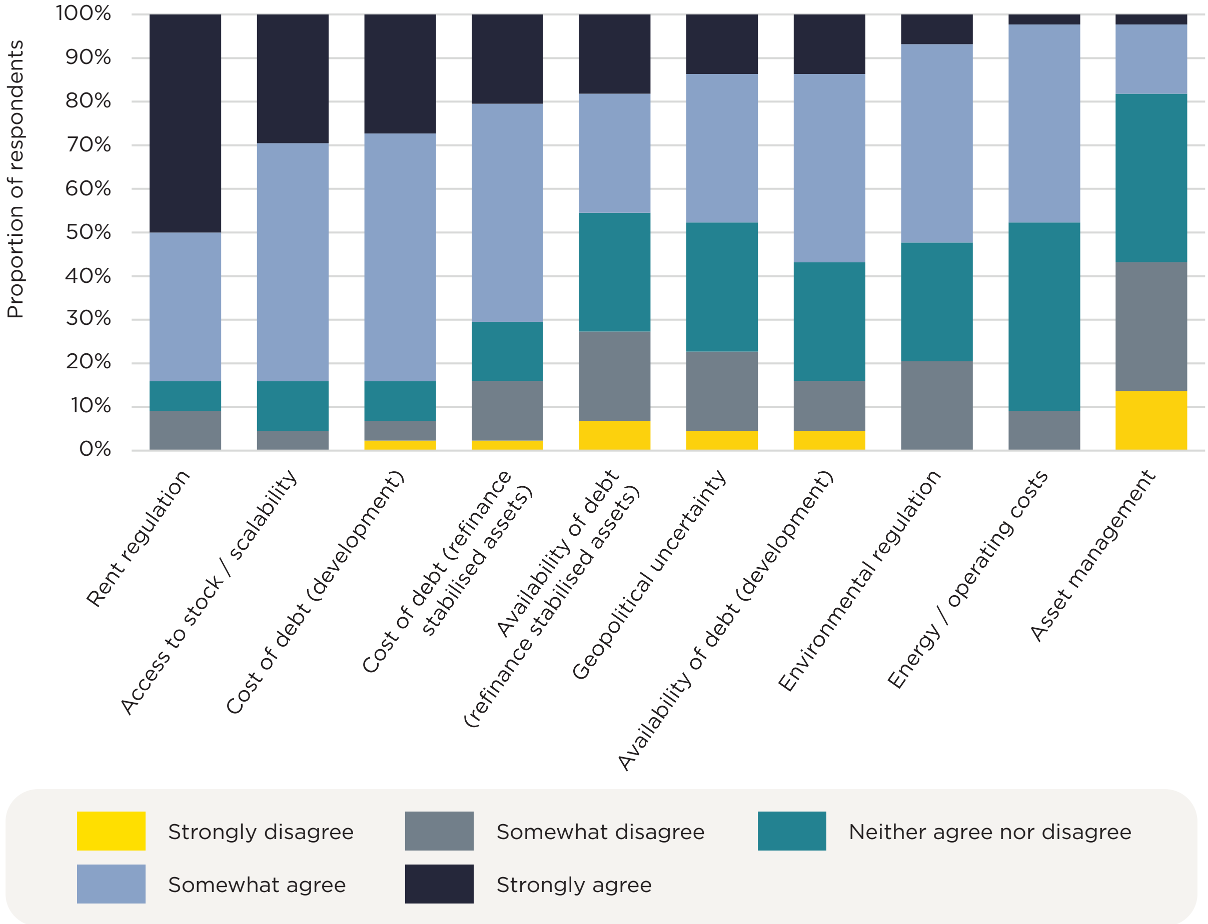
When asked about the factors that could disrupt their plans, respondents highlighted rent regulation as their biggest concern, with half of respondents strongly agreeing that it is a risk. This shows the potential for sector disruption, particularly as regulatory measures tighten or are under discussion across several European markets. Governments will need to be mindful if they want to sustain investment flowing into new housing.

A further challenge cited is access to stock and scalability, with 30% of respondents strongly agreeing that this is a risk and a further 50% saying they somewhat agree.

This points towards the need for further development of new product in many markets, although this could be challenging in the near term as the cost of development finance is the third greatest concern for investors.

On the other hand, respondents are less concerned about asset management, with only 2% strongly agreeing that this is a risk factor. It also appears that worries over the cost of energy and operating costs have now receded to a degree after the spikes seen in costs during 2022 and 2023.

Fig 13: How much do you agree that the following factors are risks to further investment in the beds sectors over the next 3 to 5 years?



Source: Savills, Savills Investment Management

Rising to the ESG challenge

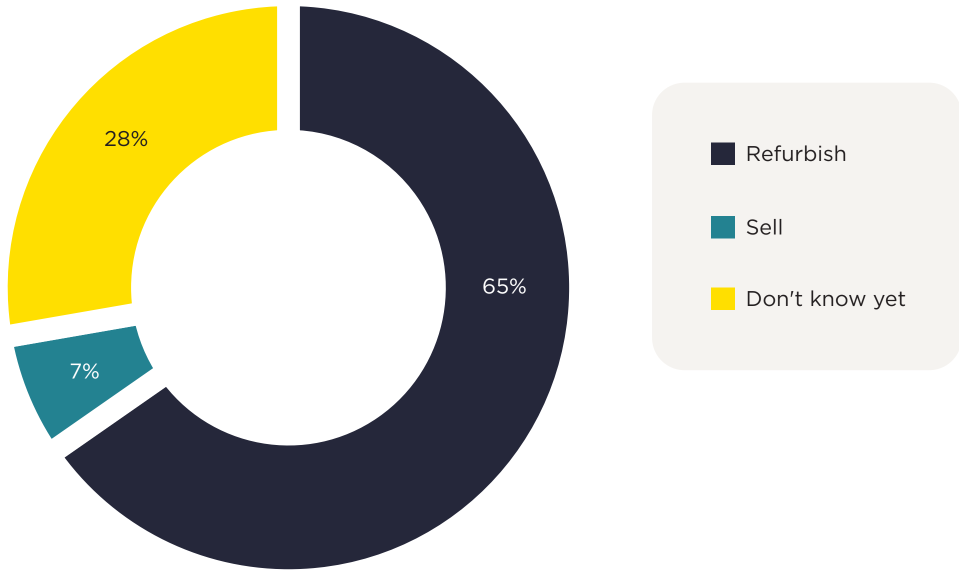
When asked how they plan to deal with their current stock that doesn't meet ESG standards, close to two-thirds (65%) of respondents plan on refurbishing stock, with only 7% saying they plan to sell.

This is indicative of an environmentally-conscious investment sector who want to future-proof their assets, understand embodied carbon and the positive ESG outcomes that can be had from refurbishment, and are in the sectors for the long run.

However, this strategy isn't without its own challenges, and it may also be partly a response to the issue investors face in terms of accessing stock, realising they may not be able to grow at scale if they rely upon buying only new stock and selling off non-ESG-compliant assets.

This is especially true as new development slows in the near term, with finance more constrained and construction remaining challenging.

Fig 14: Respondents' intentions with stock that doesn't meet ESG criteria



Source: Savills, Savills Investment Management

> According to the American Institute of Architects, renovation and reuse projects typically save between **50-75%** of the embodied carbon emissions compared with constructing a new building. An understanding of the relative cumulative CO2 emissions, accounting for both embodied and operational emissions, is therefore key to evaluating the carbon credentials of a development proposal.
>
> ESG-focussed technical due diligence and net zero carbon roadmaps can help to identify specific engineering and material interventions that will deliver on organisational ESG objectives for retrofit projects.

Dan Jestico
Director - Sustainable Design Savills Earth

The need for refinancing

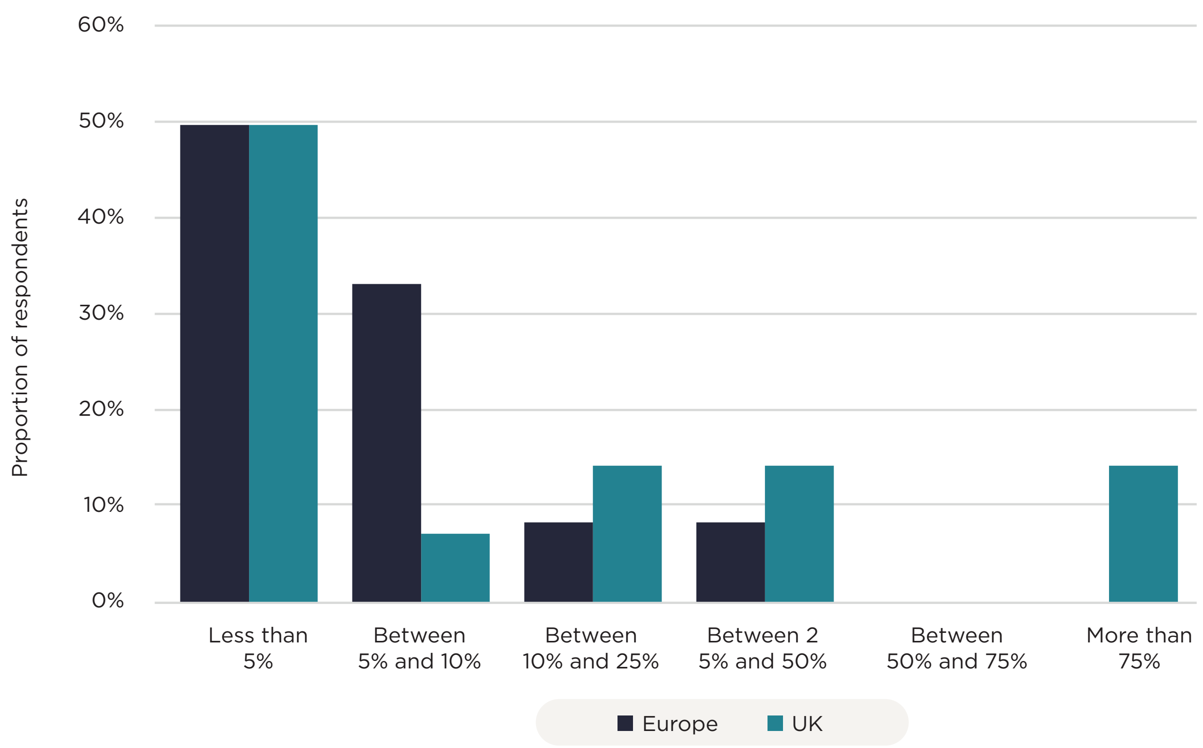
Respondents have highlighted the cost and availability of Debt for refinancing as being potential barriers to meeting their investment aspirations.

However, reassuringly when asked about upcoming refinancing, half of respondents have less than 5% of their existing portfolio requiring refinancing in the next 12 months.

For European investors there is even less imminent pressure, with 83% of investors reporting that less than 10% of their portfolios require refinancing this year.

And with expectations that interest rates will start to fall later this year, the 36% of European respondents that need to refinance between 25% and 75% of their portfolios in the next 2 years should benefit from an improving debt market.

Fig 15: Proportion of respondents' 'beds' portfolios that have debt that needs refinancing in the next 12 months



Source: Savills, Savills Investment Management

We continue to see strong liquidity and risk appetite from both the bank and non-bank market.

With transaction volumes lower, lenders are keenly pursuing new opportunities when they present themselves and the Living sectors are firmly at the top of the list. New transactions at new values and yields will receive strong support and the principal focus is on interest cover when sizing debt.

The more challenging part of the market is refinancing existing positions, and this will often require a revised capital structure with fresh equity, whole loans, mezzanine or preferred equity to resize the debt appropriately.

Andrew McMurdo
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A dedicated team with an unrivalled reputation for producing insightful analysis, research and commentary across all property sectors throughout the UK, Europe, Americas, Asia Pacific, Africa, India and the Middle East.

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Savills Operational Capital Markets

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Savills Investment Management

Savills Investment Management (‘Savills IM’) is a specialist real estate investment manager investing in Equity and Debt real estate strategies on behalf of a global institutional investor base with more than £25.5bn in assets under management. Savills IM is headquartered in London, UK and has established presence in 16 locations in 13 countries with over 430 staff including 154 investment professionals globally. Savills IM was formed in 1987 as a division within Savills Group a leading global real estate services company with 700 offices across 60 countries which offer a full spectrum of real estate services.

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