SPOTLIGHT
Savills Research

European Cross Border Investment

Will Europe reclaim its throne in 2024?

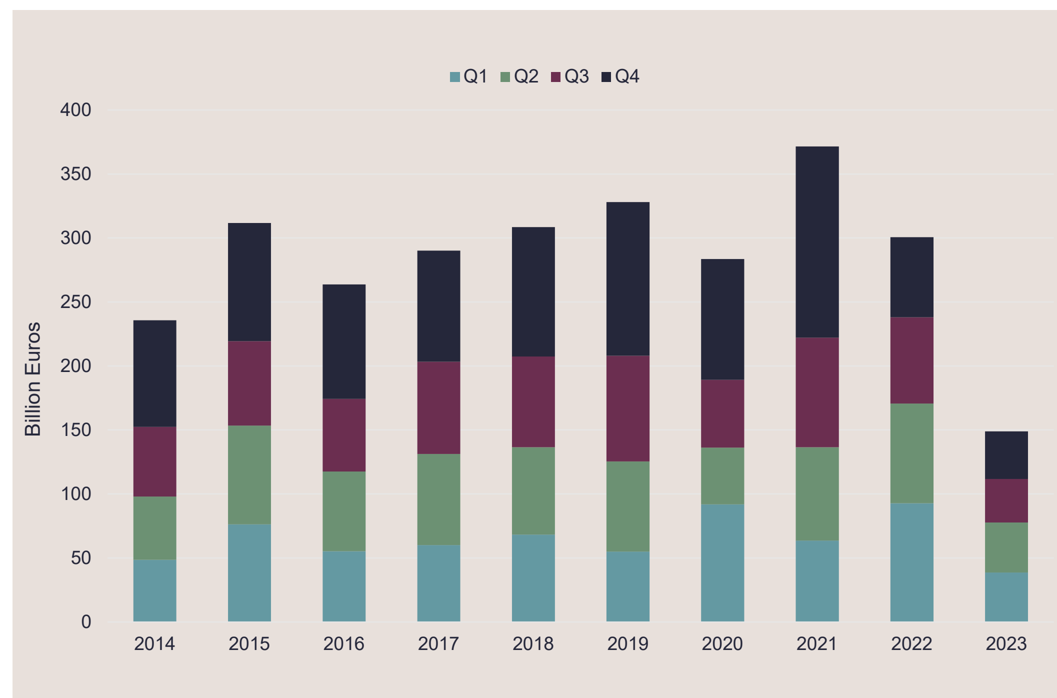
European investment review and outlook

2023 will be remembered for achieving record levels of inflation and interest rates within the eurozone, marking a year characterised by heightened investor caution. European investment transactions plummeted to their lowest levels since the aftermath of the eurozone debt crisis, with various factors contributing to the decline in investment activity throughout the year. These included sluggish economic growth, the unavailability of affordable debt, a misalignment between vendors' and purchasers' expectations, and a narrowing spread between long-term interest rates and real estate yields. Consequently, investment activity experienced a continuous slowdown quarter after quarter.

The European investment volumes reached around €149 billion last year, representing half the volume transacted in 2022 and a 48% decrease from the five-year average. This decline was widespread across all European countries, excluding Greece, which saw a boost, but it is important to note that this was due to a substantial portfolio deal. Similarly, all asset classes were affected, with the office sector facing the most significant downturn. The least worst affected sectors were senior housing, hotels, and retail.

Investor attention is now centred on the anticipated first interest rate cut. According to Capital Economics, a 25 bps cut is predicted in Q2 2024, with rates expected to decrease from 4.00% to 2.75% by the end of 2024. This is poised to once again enhance the appeal of real estate investment. Additionally, as the gap in buyer and seller price expectations begins to narrow, we expect a gradual resurgence in investment activity, particularly in the latter half of 2024. We expect a modest rebound of 20% in investment activity. The investment pick-up is expected to be most pronounced in areas where pricing corrections have been significant. We expect beds and sheds to maintain their status as preferred asset classes.

Fig 1: European investment volume



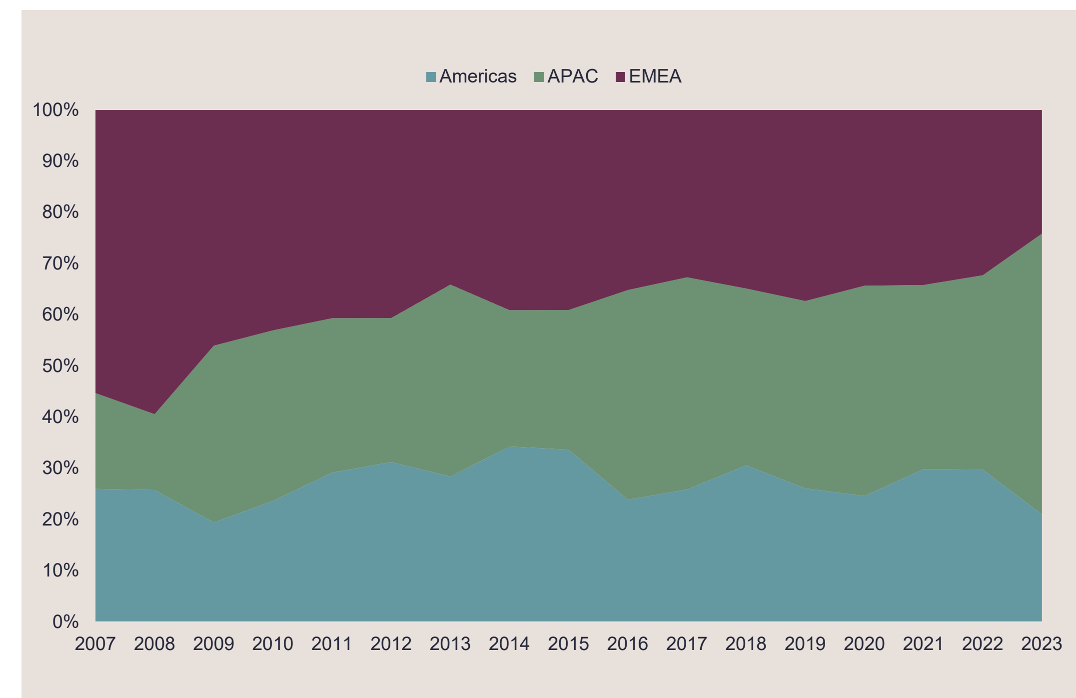
Source: Savills

Europe in a global cross-border investment context

In light of repricing driven by interest rate increases, global cross border investment in real estate amounted to €196.3bn, 40% down on the five-year average, with declining inflows across all continents, according to RCA. However, EMEA was hardest hit, recording a 59% decrease on the five-year average (-56% from the American continent and -12% from Asia-Pacific). Hence, the Asia-Pacific region solidified its position as the primary destination for global cross border investments for the fourth consecutive year, highlighting its remarkable resilience. Meanwhile, Europe experienced a decline, with its share of global cross border volumes dropping to 24% last year, its nadir.

We believe the obstacles to cross border investment in Europe are driven by conjectural influences conditioned by recent episodes of geopolitical tension and heightened inflation rather than longer-term structural shortcomings. This is why we anticipate Europe will likely reclaim its leading position as the foremost destination for cross border investments in the next 12 to 18 months, but where will the money come from, and how will it be attributed across European countries and asset classes?

Fig 2: Destination of global cross border investment



Source: RCA

European cross border investment inflows

Looking specifically at continental Europe, the amount of cross border capital entering the market totalled €65.2bn last year, according to RCA data. This is 60% down on the five-year average. We estimate that slightly less than 40% of the European investment volume originated abroad. This is the lowest share recorded since 2010.

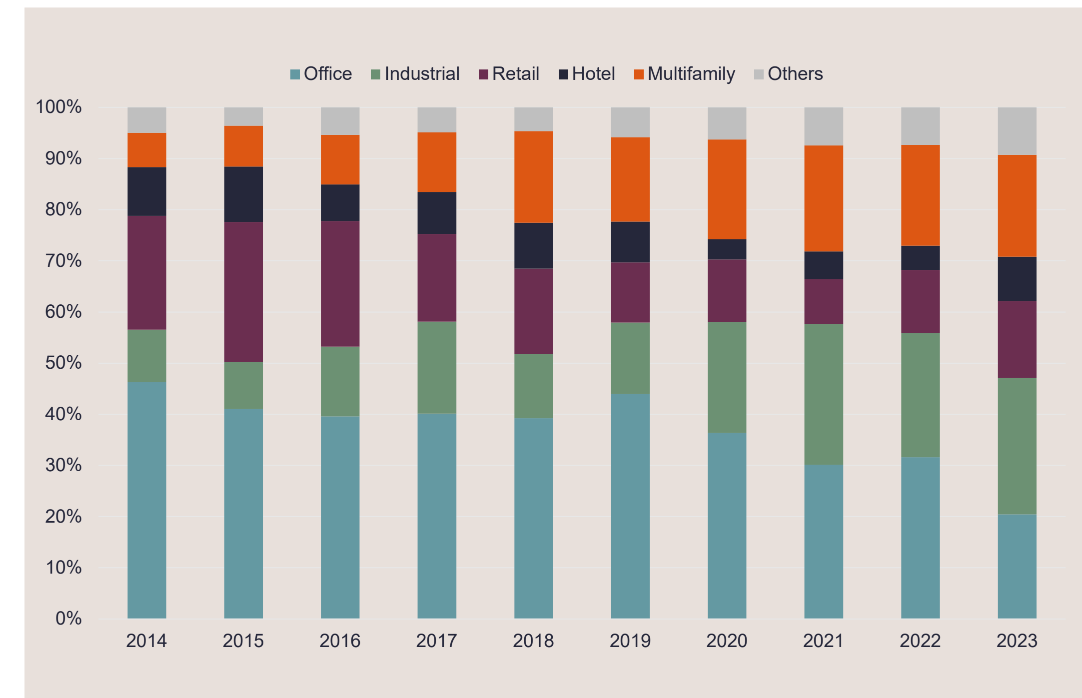
Despite intra-European cross border volumes falling to nearly €34bn, some 60% down on the five-year average, it does remain the dominant cross border flow on the continent, accounting for just over half of all cross border volumes. Long-haul cross border investment activity also fell sharply, notably due to the significant withdrawal by large North American institutions, which had been so dominant in the region historically. 2023 volumes into Europe fell by 29% from the Middle East and Africa, 60% from North America and 72% from Asia-Pacific against their respective five-year averages.

Last year, there was a notable shift in cross border investment trends, with logistics taking centre stage as the primary target for investors, making up 27% of the total volume. Strong activity in this sector was particularly evident in the UK, Germany, the Netherlands, and Sweden. Following closely, offices secured the second-largest portion of cross border investments, holding a 20% market share. However, the sector witnessed a substantial decline (-71% compared to the past five-year average) due to the pronounced aversion of US investors. Multifamily properties also played a substantial role, making up 20% of European cross border investments, driven by sizeable portfolio transactions and heightened activity in the UK, Germany, Spain, and Denmark. Retail claimed a 15% share of the cross border investment volume, particularly marked by increased interest in prime high streets, urban shopping centres, and retail warehouses. Despite a 39% decrease compared to the past five-year average, hotels proved to be the most resilient sector, accounting for 9% of the total cross border volume. This decline was the smallest across all asset types, partly attributed to a revival in tourism activity. Spain, France, the UK, and Portugal were the fourth-largest recipients of cross border investments in the hotel sector.

Overall, the UK, Germany, and Spain were the three largest destinations targeted by cross border investors, accounting for 61% of the European cross border volume.

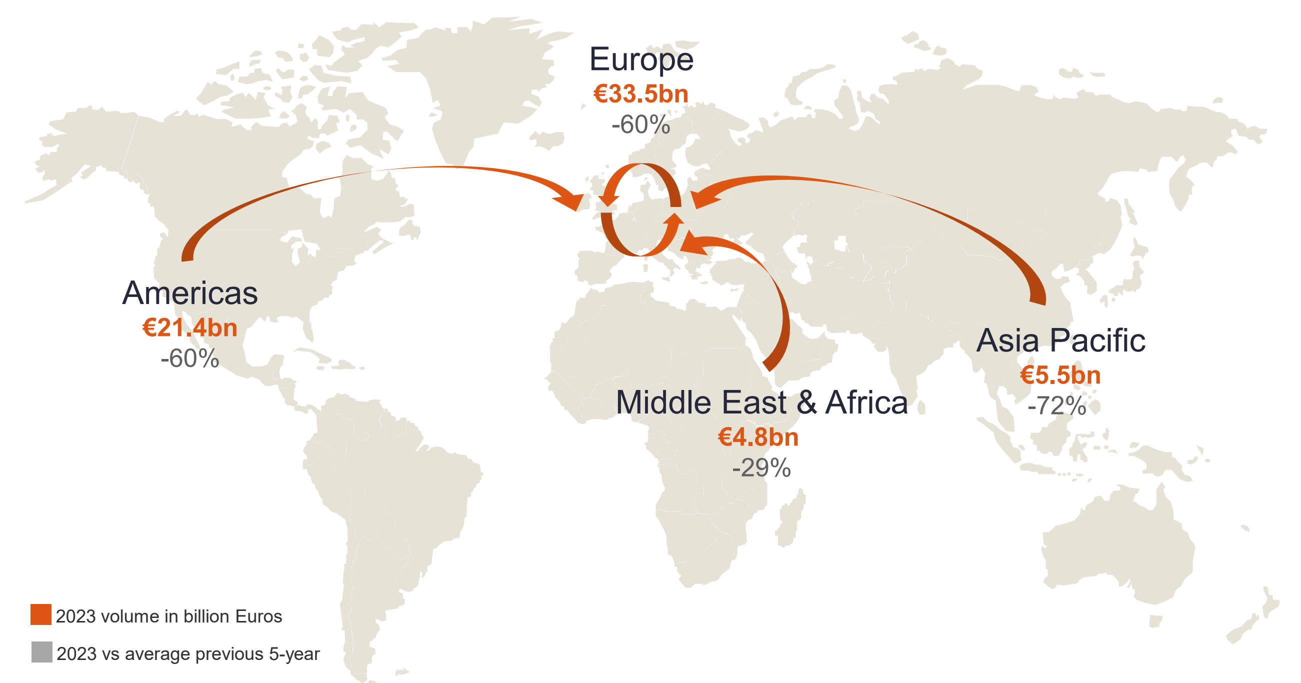
Looking forward, we anticipate a gradual uptick in cross border investment activity throughout 2024. This recovery is expected to be fuelled by interest rate cuts and a projected modest economic revival. Investors operating across borders will strive to capitalise on the increasingly attractive pricing levels observed in various European jurisdictions. The UK is poised to solidify its leading position as the primary beneficiary of cross border investment, driven in part by the strong pricing correction experienced last year. Logistics is set to maintain its status as the preferred asset class among cross border investors across Europe, with multifamily (and other residential sub-sectors) gaining traction, particularly in Northern Europe. We anticipate sustained cross border appetite for prime high streets and hotels situated in key tourist destinations, as well as a growing interest in retail warehousing in prime urban shopping centres, especially in Southern and Eastern Europe.

Fig 3: Breakdown of European cross border investments by asset types



Source: RCA

Fig 4: European cross border investment inflows



Source: RCA / Savills

Investor watch

We have identified a few potential sources of cross border investment into Europe in 2024.

Investors' origin	Investment targets
France	Whilst investment from French investors was down last year compared with the previous five-year average, it still proved to be a significant source of cross border investment, showcasing a resilience in a generally lacklustre environment. This sustained activity can be attributed to the robust performance of French SCPIs in 2023. Despite a substantial decrease in capital inflows in the third quarter of the previous year, new diversified SCPIs, which continue to distribute attractive returns, managed to draw substantial net subscriptions. Consequently, the New Year is likely to herald continued activity from French SCPIs with the potential for new groups to enter markets in Eastern Europe or the UK (despite non-euro-denominated currencies) in order to leverage softer yield profiles. Moreover, with muted domestic investment activity in Germany, it is predicted that cross-Rhine investment by SCPIs will increase as entities look to rebalance portfolio compositions which were light on exposure to the German market due to historic pricing levels and stiff local competition. Capital will continue to be deployed across a variety of asset classes, albeit we envisage that individual lot sizes will remain on the lower side with only a few SCPIs able to invest at quantums in excess of €30m.
Spain	The second half of 2023 saw a perceptible uptick in cross border flows out of Spain, with core and core plus office product in Western Europe a clear beneficiary. Much of this activity was generated by family offices looking to capitalise on pricing dislocation in key gateway markets. In certain instances, this interest extended to acquisitions in the logistics, hotel and living sectors, typically in the core space as well. In addition to this private capital flow, we witnessed healthy outbound activity and intentions from Spanish insurance companies. Looking forward to 2024, we expect this combination of insurance companies and family offices to continue in their deployment, driven in part by stubbornly stable price points locally and the use of Spain as a portal to the rest of Europe by capital ultimately derived from Latin America.
Taiwan	Though cautious in nature and somewhat dormant in their transactional activity of late, Taiwanese life insurance companies are beginning to express nascent interest in a re-entry to the European markets. With recent presidential elections now behind us, it is possible that regulators controlling the flows of outbound investment might start to soften their stance, allowing the life insurance companies to capitalise on depressed pricing levels in Europe, with a particular focus on large-scale offices, hotels and potentially logistics if quantum allows. Moreover, we anticipate the potential for increased activity from Taiwanese family offices targeting smaller investment volumes in the UK and Western Europe and the potential for a handful of new REITs, possibly targeting overseas investment strategies, to be founded.
Israel	Investment outbound from Israel is likely to see a sustained uptick over the course of 2024, driven by a blend of pension funds and HNWI activity. Generally focussing on core plus risk profiles, Israeli investors, in most cases, tend to prioritise entries at softened yield levels, hoping to capitalise upon a recompression of yields over the medium term as well as elevated cash on cash returns in the interim. Interest is evenly distributed amongst asset classes with robust activity in offices, retail and hotels, whilst lot sizes vary according to investors, with some private capital demonstrating significant firepower.
US	Investment from large North American institutions, which are ordinarily the dominant cross border buyers in Europe, dropped by nearly 60% last year compared to the past five-year average, with a slight revival of activity recorded in the final quarter of the year. Many well-established managers and pension funds currently hold substantial amounts of unallocated capital. As we approach the market's bottom and new opportunities emerge, we anticipate a substantial increase in cross border investments from US funds throughout 2024. The emphasis is expected to remain on the logistics and multifamily sectors though substantially repriced offices could evoke interest as entry yields make the sector difficult to ignore.
Japan	Investment activity from Japanese institutional funds in Europe surged last year, witnessing transaction volumes triple the past five-year average. As the statistics are testament to, capital from Japan tends to concentrate on allocating funds to the UK due to its transparency and liquidity. A wealth of financial resources empowers them to seize the current moment as an opportune window to heighten their competitiveness. As a result, we anticipate a significant increase in Japanese capital investment in Europe in 2024, with the UK, and in particular office developments, remaining a primary focus. However, in their pursuit of diversification to avoid substantial setbacks, as seen in the late 80s, there is potential for an expanded focus on other key markets in Western Europe.

Source: Savills

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