

Europe's real estate renaissance?



Stefan Wundrak

Head of Research, Real Estate, Europe

European real estate markets have lived in the shadow of seemingly unshakable U.S. markets since the global financial crisis. In that period, investors with a global remit chose European investments for diversification and exposure to specific opportunities, and less with the expectation to outperform a U.S. portfolio. With the U.S. charting a new course, is it time for a fresh look at Europe?

MEASURED POLITICS AND THOUGHTFUL REGULATION

Politics abound in a continent of 44 countries, including 27 EU member states. But rarely do they offer high-stakes political theatre or radical policy shifts. The European Union, at the heart of European policy making, does not reward confrontational hyper-partisan politics. A myriad of interlinked supra-national institutions, national governments and courts encourage compromise, hemming in even the most powerful political positions in Europe.

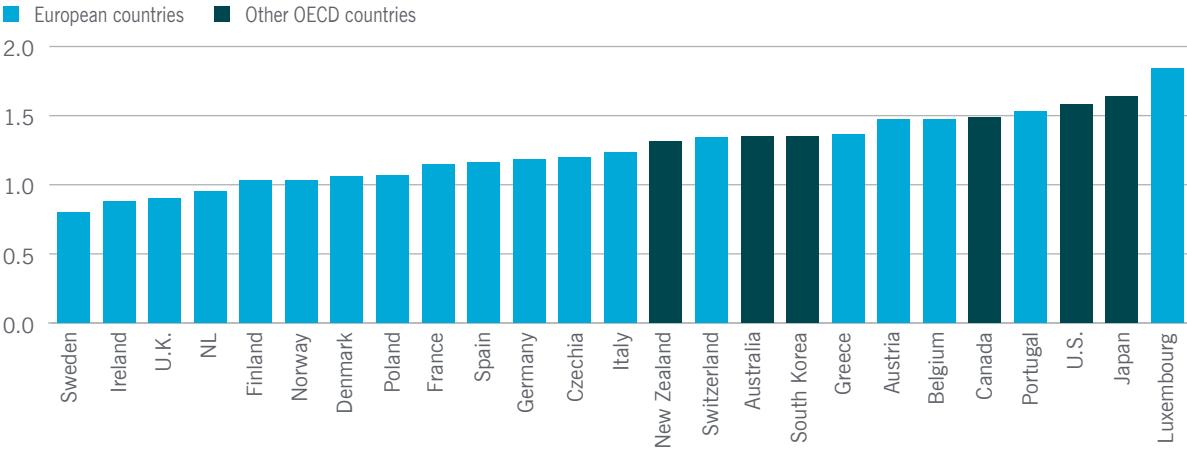
European governments and the European Union are often chided for overregulation and red tape. However, the relatively dull political procedure and the bureaucracy's power deliver regulatory stability, giving investors a degree of certainty. More importantly, it has created a framework with a somewhat low regulatory burden for European countries among the developed countries of the OECD, which runs counter to received wisdom (Figure 1).

In the same vein, negative sentiment on public finances seems out of sync with reality. Only Greece and Italy can compete with U.S. levels of public debt per GDP, while the average budget deficit in the EU was 3.2% in 2024, about half of the U.S. level.

FOR PUBLIC DISTRIBUTION IN THE U.S. OR PROFESSIONAL INVESTOR USE IN OTHER JURISDICTIONS WHERE APPLICABLE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

Figure 1: Product market regulation
(0: most competition-friendly; 6: least competition-friendly)



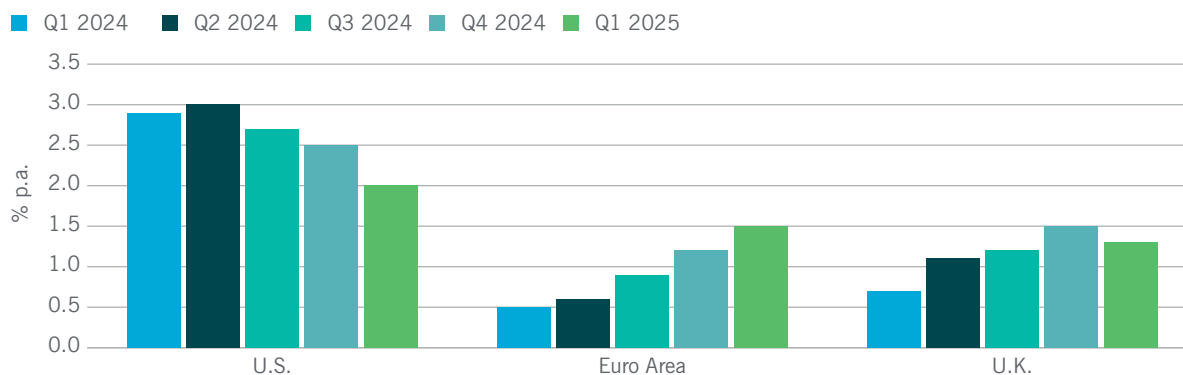
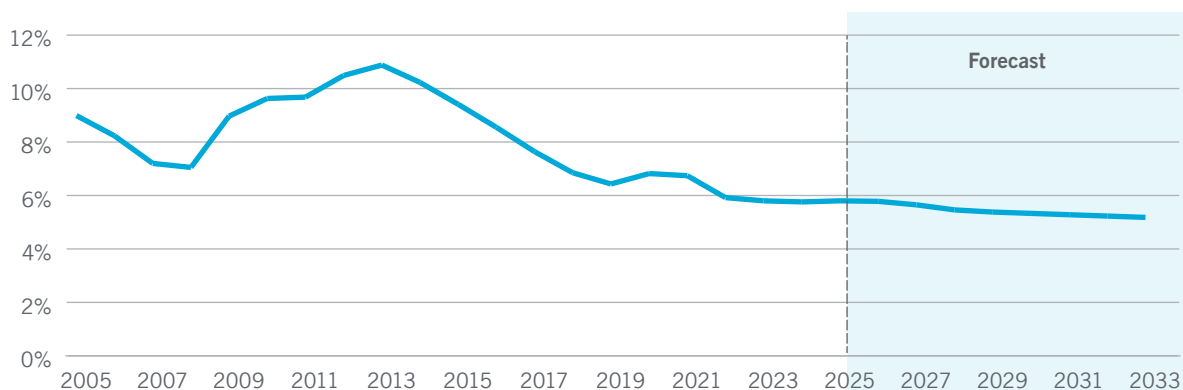
Source: OECD, 2024

AN ECONOMY ON THE RIGHT TRACK

As mature highly developed economies, European countries are unlikely to top international GDP growth rankings in any economic environment. However, financial market returns only have a very weak correlation with growth rates, which are influenced by economic structures, tax regimes, competition and institutional quality among other factors. Many European countries score highly in these areas, making them attractive places to live and work. This is reflected in rankings and indices that measure ease of doing business, legal frameworks, human wellbeing, life expectancy, per capita GDP, liveability, educational quality, equality and sustainability. The strong interest to emigrate to Europe from all over the world is testament of that overall attractiveness. Europe’s unemployment rate peaked in 2013 and has almost constantly improved ever since.

The energy shock and inflation spike caused by the Russian invasion of Ukraine has caused some economic difficulty in Europe, but crucially it did not push Europe into recession. New import sources for fossil fuels were quickly found and renewables accelerated. The latter account for over 50% of 2025 electricity production in the EU. More recently, the continent has pushed forward an ambitious agenda of renewable energy, infrastructure and defence investments, benefiting the domestic economy over the coming years.

Considering all these factors, the region’s economy appears to be on the right track. As figure 2 shows, economic growth is on an upward trajectory and unemployment is at a record low.

Figure 2: Moving in the right direction*GDP Y-o-Y growth**Combined EU and U.K. unemployment rate*

Source: Macrobond (Most current data as of 19 May 2025); Central banks' websites; Nuveen Real Estate Research), ILO, Oxford Economics, 2025

GLOBAL CAPITAL FLOWS AND THE EUROPEAN RENAISSANCE

Awareness of imperfectly diversified portfolios – including potential under-allocations to European currency, bond and equity markets – is growing. At the time of writing, European equities have experienced strong performance, with the European STOXX 600 delivering 6.6% year to date, and the euro has appreciated, reflecting demand for European assets. It is too early to report capital flows for real estate, given investment decisions usually follow extensive periods of research and the deployment of capital can stretch over a number of years. But, increasing

interest in European real estate is noticeable already from sentiment surveys and anecdotal private market evidence. This includes European capital switching back to domestic strategies from global markets. In U.S. real estate, cross-border capital is of marginal importance, but in Europe, international flows can be market making. In London or Paris, for example, non-domestic buyers regularly contribute more than half of the capital.

AN OPPORTUNISTIC ENTRY POINT

Real estate is a highly cyclical enterprise. A dearth of stock triggering construction booms, followed by another bust that lays the groundwork for the next boom is a well-rehearsed cycle. It lends a certain predictability to the asset class and makes investment market timing of crucial importance.

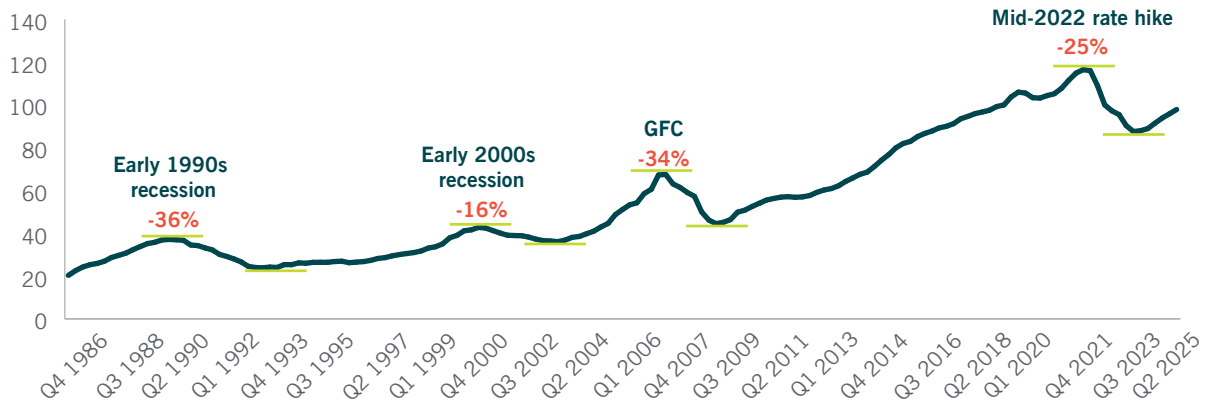
Spot market data positions the bottom of the European real estate market around mid-2024 (figure 3). This is backed up by valuation data bottoming out towards the end of 2024. In data series going back to the mid-1980s, values have never experienced a true double dip. This suggests that, previously, it has served investors well to

re-enter the market in a period with the same attributes as today. Historic patterns demonstrate that recouping peak values in full may take between 17 to 27 quarters (figure 3) and that entering the cycle late materially diminishes the return potential.

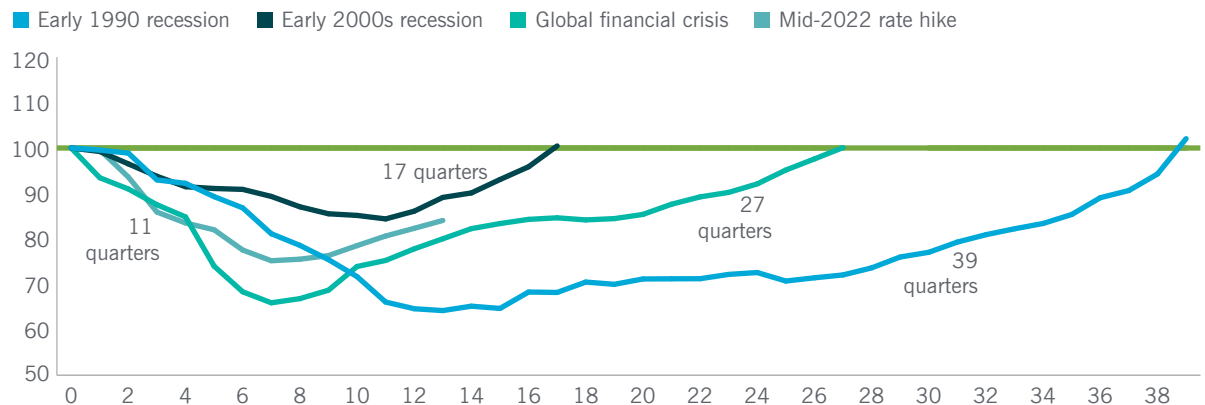
Recent political uncertainty has slowed the positive momentum in investment activity globally, but investors have remained fully engaged and retained the cautious deployment pace of 2024. Furthermore, office and retail sectors no longer dominate allocations. Since early 2024, offices, retail, logistics, residential and alternatives have had almost equal share of investment volumes.

Figure 3: European real estate values have bottomed out and are recovering

Peak to trough capital value declines



Number of quarters to capital value recovery



Source: CBRE Prime Capital Value Index, 2025

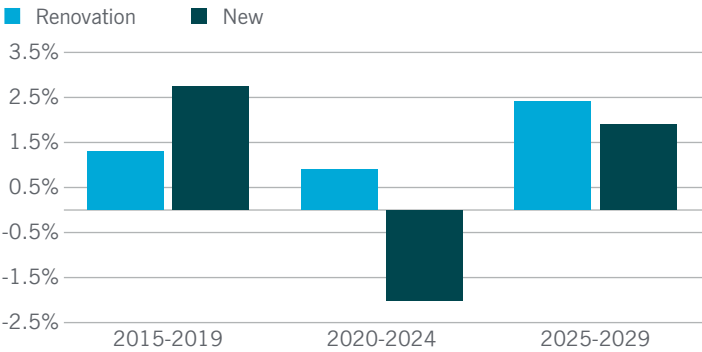
BUOYANT LETTING MARKETS

Past downturns comprised a correction in investment values and a downmarket in occupier markets, leading to higher vacancies and falling rents. In contrast, this most recent cycle was an interest rate-driven investment market correction, while letting markets delivered some inflation-hedging by accelerating rental growth on the back of economic price pressures. Since inflation has returned to around normal levels, rental growth also has normalised. Due to good supply discipline and a focus on renovating existing buildings (figure 4), rents have kept growing and are forecast to continue on a healthy upward trend.

In logistics and residential, demand for space remains unabatedly strong, while the office sector has buoyant occupier demand for prime accommodation (tracked by the PMA series in figure 5), with only average and weaker assets going through a more difficult market (GreenStreet series in figure 5). Retail suffered a structural market correction in the Covid years and now, after a period of successful consolidation, is experiencing rental growth. Among the independent forecasts

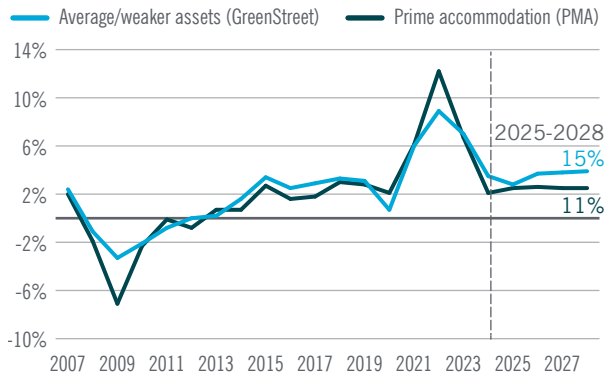
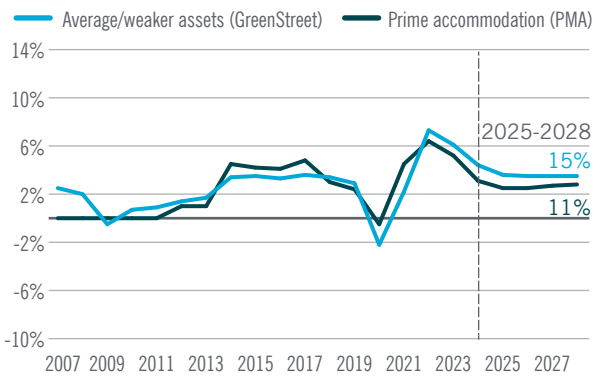
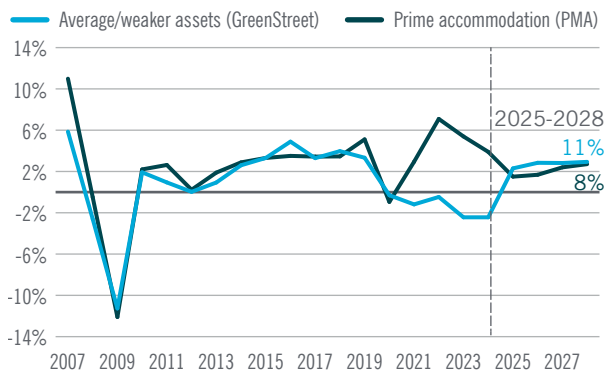
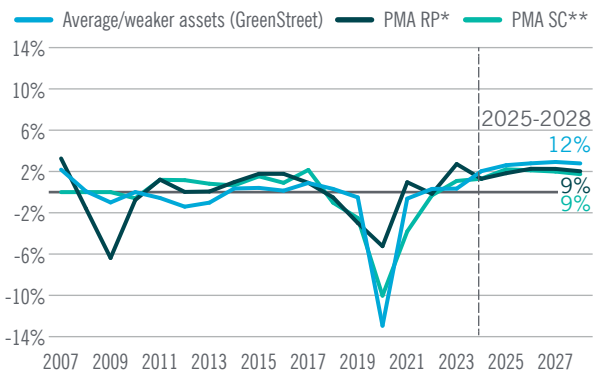
Figure 4: Construction has shifted away from new-builds

European commercial real estate, change in construction work done



Source: Oxford Economics, Haver Analytics, June 2025

(figure 5), even the more downbeat numbers are encouraging. The data covers the next two and a half years. Further out, the dearth of new projects in the pipeline points to tighter markets in the medium term, strengthening landlords’ hands at setting rental tones.

Figure 5: Forecasts range between good and very good**Logistics rental growth, p.a.****Residential rental growth, p.a.****Office rental growth, p.a.****Retail rental growth, p.a.**

Source: GreenStreet, PMA, 2025

Note: *RP stands for Retail Parks

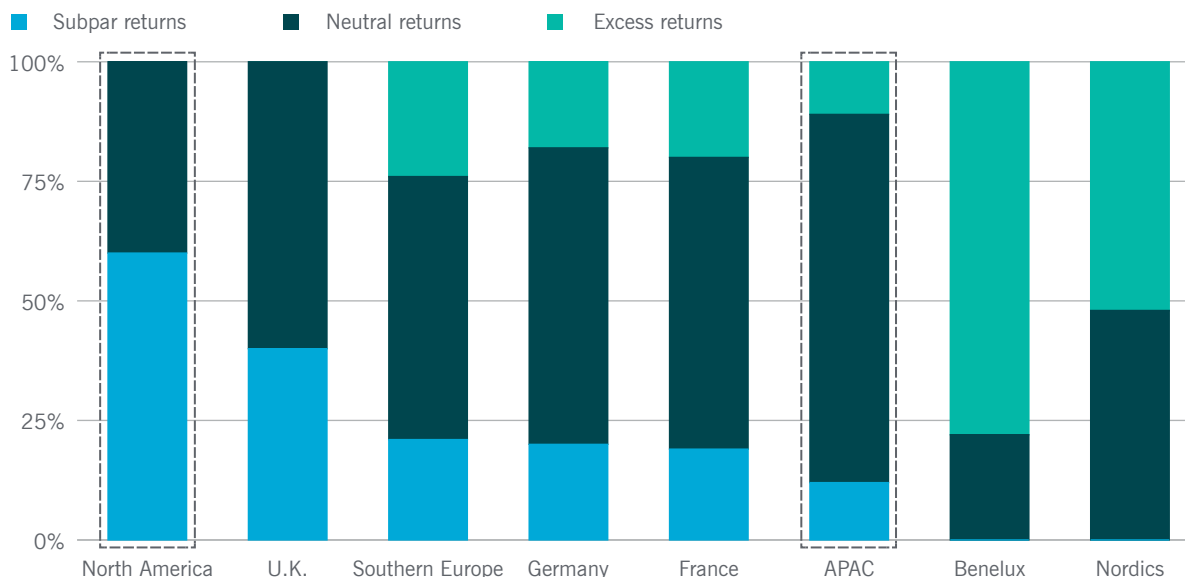
**SC stands for Shopping Centres

RETURNS SPEAK FOR THEMSELVES

Adding strengthening investment markets and resilient occupier markets together, the return outlook is strong. Figure 6 shows attractive expectations for prime assets without using leverage, indicating that taking limited risks could deliver double-digit returns.

Figure 6: Forecasters agree on strong 5-year return outlook for real estate**Prime assets total returns by different forecasting houses p.a., 5 years from end 2024 (unlevered)**

Source: CBRE, JLL, Greenstreet, PMA, Costar, January 2025. Data is based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially.

Figure 7: Relative to the risk-free rate the eurozone comes out on top*% of markets in each relative return category by region, 2025*

Source: Oxford Economics, 2025

The relative return index compares Oxford Economics' expected return forecasts over the next five years to a required return built using traditional valuation methods by adding CRE risk premia to the risk-free rate

The return case for Europe strengthens with leverage. Figure 7 compares the five-year return outlook to a theoretical required returns made up of the risk-free rate (also a proxy for financing costs) and respective property risk premiums. The eurozone and the Nordics stand out, combining a strong return position with a relatively low interest-rate environment.

SMALL IS BEAUTIFUL

The route to investment also plays an important role in investment performance. Research by Oxford Economics using European Preqin real estate data from 2003 to 2024 has shown that smaller, nimbler investment vehicles have performed much better than their larger cousins (figure 8).

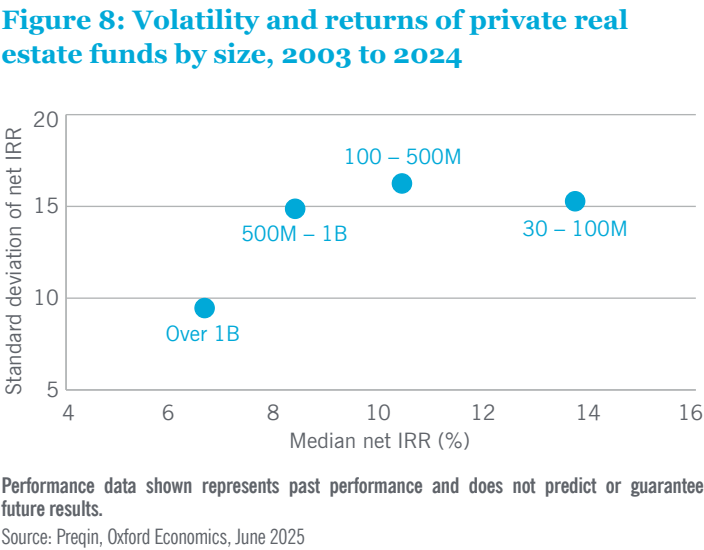
Mid-sized funds in the range of €100-500 million in size have achieved around double-digit median returns compared to funds larger than €1 billion. One reason could be that these smaller funds allow the fund management team to focus and avoid undue pressure to deploy. For funds that remained smaller than €100 million, there was a higher variety of outcomes, perhaps because they did not achieve the target fund size and/or a minimum level of diversification.

Oxford Economics also found that large lot-size retail and office assets have been a factor in weaker performance of bigger funds. Core funds are the exception because, in this area, a minimum fund size helps steady performance. The curse of low-returning mega funds befalls core strategies at a higher size threshold than value-add funds, while smaller size agility benefits the highly active and more complex investment style of value-add.

CONCLUSION

In a rapidly changing global picture, Europe’s advantages on regulation and macroeconomic predictability are brought into sharp relief.

European real estate’s return outlook looks strong based on occupier market resilience, lower financing costs and an investment market in the early stages of recovery. At this point in the cycle, investors should not need to take risks to achieve high returns. To achieve this in practice, investors should consider nimble, small to mid-sized funds. They have demonstrated the ability to provide superior outcomes on the value-add return spectrum, while core investments have a sweet spot in mid-sized vehicles.



For more information, please visit nuveen.com.

Endnotes

Sources

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain “forward-looking” information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example.

Past performance is no guarantee of future results. Investing involves risk; principal loss is possible.

Important information on risk

Investing involves risk; loss of principal is possible. Real estate investments are subject to various risks associated with ownership of real estate-related assets, including fluctuations in property values, higher expenses or lower income than expected, potential environmental problems and liability, and risks related to leasing of properties. The real estate industry is greatly affected by economic downturns or by changes in real estate values, rents, property taxes, interest rates, tax treatment, regulations, or legal. Prices of equity securities may decline significantly over short or extended periods of time.

Nuveen Real Estate is a real estate investment management holding company owned by Teachers Insurance and Annuity Association of America (TIAA). All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

This information does not constitute investment research as defined under MiFID.

Nuveen, LLC provides investment solutions through its investment specialists.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

nuveen
REAL ESTATE