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# Europe Roundtable 2025

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# Green shoots of recovery appear in European real estate

*Now is a good time to deploy capital in the region's real estate markets, say participants in PERE's European roundtable. But political risks still cloud the outlook. Stuart Watson reports*

European private real estate managers believe the low point of the cycle is behind them and are beginning to look forward with greater optimism. That is the key message from participants in *PERE*'s European roundtable discussion in London. Interest rates have stabilized, pricing has corrected and buying opportunities are emerging in attractive market segments for those with capital to deploy. But the participants also identify plenty of challenges on the horizon that could impact fundraising, dealmaking and investment performance.

CBRE's full-year transaction volume data shows European commercial real estate investment activity totaled €206 billion in 2024, representing a 23 percent increase on 2023. The fourth quarter saw transactions surge to €68 billion, a 32 percent rise year on year, indicating burgeoning confidence across the region.

Optimism has increased since the EXPO Real industry fair in Munich last September, notes Nicole Pötsch, co-head of investment for Europe at Munich-based manager PIMCO Prime Real Estate. "For an investor with dry powder, 2025 could be a very interesting year if they are able to pick sectors and geographies supported by economic growth with the right underlying fundamentals. If you have a cautious and selective approach, there are good deals to be found already this year."

While interest rates were at their peak, equity investors focused largely on value-add and opportunistic strategies, while others shifted part of their real estate allocation to credit vehicles. The participants agree that with rates expected to taper, the balance of risk and return is slowly beginning to tilt back toward core and core-plus strategies, and to equity investment generally. Indeed, European industry association INREV found that 38 percent of respondents to its *Investment Intentions Survey 2025* cited a preference for core real estate strategies in Europe, up from 21 percent in 2024's survey.

Committing capital to debt strategies was obviously the correct move when investors could make high single-digit returns in senior credit, says Jon Strang, managing director at London-based manager Cain International. "Those returns are probably still achievable, but the repricing in equity markets is getting to the level where the risk-return balance is now making sense for equity investments, too. There is a lot more engagement from equity investors, and that correlates directly with improving sentiment."

Nevertheless, a recent uptick in real estate performance was short-lived. INREV's Quarterly Fund Index shows total returns for Europe were positive at 0.59 percent in Q3 2024, but capital growth turned negative to -0.16 percent, after only one quarter of positive capital growth in Q2 at 0.09 percent.

## Liquidity returns

There is still a lack of core takeout capital in the market, says Jasper Gilbey, head of housing and alternatives for

PHOTOGRAPHY: **RICHARD DAWSON**

**Jasper Gilbey**

**Head of housing and alternatives, Europe, Nuveen Real Estate**

Gilbey's primary focus is to grow Nuveen's €4 billion European housing and alternatives platform through the creation of strategic partnerships with local operating and development partners. Nuveen, the investment management arm of pension provider TIAA, has total AUM of around $145 billion (As of 30 September 2024).

**Greg Minson**

**Global head of asset management, real estate, ICG**

Minson joined alternative asset manager ICG in May to provide global leadership across asset and fund management, debt capital markets and portfolio finance and operational functions. The firm manages $107 billion of assets, including $11.6 billion of real assets across both debt and equity strategies.

**Cristina Garcia-Peri**

**Partner, head of business development and strategy, Azora**

Garcia-Peri is a senior partner at Madrid-based real estate asset manager Azora. The firm manages approximately €14.4 billion of real estate assets, including €10 billion in Europe. Its main investment focus is operational real estate, such as living and leisure hospitality, value-add offices, logistics and retail.

**Nicole Pötsch**

**Head of north and central Europe, co-head of investment Europe, PIMCO Prime Real Estate**

Pötsch is responsible for acquisitions, sales and asset management in north and central Europe for PIMCO Prime Real Estate, part of the $183 billion PIMCO real estate platform. The global core and core-plus real estate specialist manages over $97 billion of total assets.

**Jon Strang**

**Managing director, head of logistics and net lease, Cain International**

Strang is a managing director in Cain's European real estate equity team, overseeing the firm's €2 billion industrial and logistics and net lease portfolio. In May, industrial and logistics manager Blackbrook merged with London-based Cain, creating a combined business with $17 billion in real estate AUM.

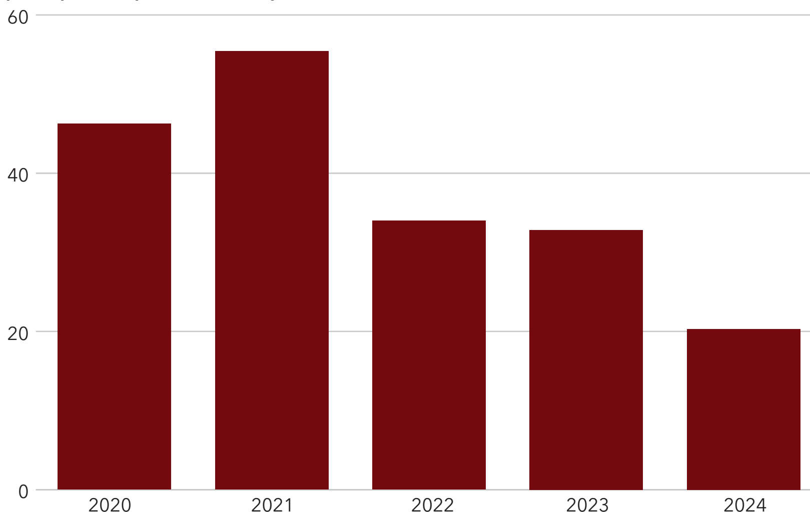
*"It feels like continental European markets are starting to unblock"*

**JASPER GILBEY**
**Nuveen Real Estate**

Europe at New York-headquartered asset manager Nuveen Real Estate. However, he notes that many investors evaluate the market from a relative value perspective, seeking to identify which assets and sectors demonstrate the best value in a region at any given time, and waiting for pricing to shift.

"It has taken time for underlying valuations on the private real estate side to correct and bridge the buyer-seller gap. We are now starting to see that gap narrow to the point where liquidity is back. Interest rates are coming in, so we are seeing leverage becoming increasingly accretive, and it feels like continental European markets are starting to unblock," he says.

**With Europe-focused fundraising volume plummeting over the last three years, roundtable participants hope for a recovery in 2025 ($bn)**




Source: PERE

"Transaction activity is limited but growing," observes Pötsch. "Ticket sizes are smaller than we have seen in the past. We are not seeing massive dealflow so far, but there are early green shoots. And depending on the sector, with logistics being one example, we do see competition for assets returning on the core and core-plus side, but activity in that segment of the market remains subdued."

While interest rates are trending down, investors awaiting further significant falls before resuming buying activity may be disappointed, says Cristina Garcia-Peri, a senior partner at Madrid-headquartered manager Azora. "A lot of the things the Trump administration is talking about doing, like decoupling from China and tariffs, could have an inflationary impact, which means rates could stabilize at a higher level than what we all thought six months ago. We may potentially get a few more reductions, but this might be nearly as good as it gets, which makes it a good time to get into the market."

"Sentiment is improving, albeit off a

low base, and real estate funds deployed at 2024 and 2025 asset pricing will be a good vintage," predicts Greg Minson, global head of asset management, real estate, at London-based manager ICG, which invests through both debt and equity strategies. But it is still not an easy market environment in which to operate, he adds.

"The question is: how do you capitalize that vintage in a very difficult fundraising environment and make sure you're able to attract competitive bank debt? Credit is still a good opportunity, but that makes it also a challenging situation for equity. There are a lot of factors that you need to balance appropriately to get the best out of this vintage."

**Geopolitical risk uncertain**

The participants agree that the level of interest rates will be the most influential factor in determining the trajectory of the recovery in Europe. "That is the difference between a good return and an outsized one," says Minson. Given the sluggish growth of many European economies, one might expect interest rates to be lower, but it appears they are being propped up by perceptions of heightened geopolitical risk, he observes. "The crucial question over the next 12 to 24 months is: what will be the level of geopolitical risk? Is it going to be a riskier environment or a derisked one?"

Could policies set by the administration of US President Trump cause rates to increase again? "We are assigning that a very low level of probability, but certainly not zero," says Garcia-Peri.

Considering the full range of factors, the most likely scenario is that rates will decline gradually in line with the European Central Bank's expectations, says Pötsch. But she concedes it remains possible that events could play out differently.

Rates staying higher for longer could worsen Europe's economic stagnation, warns Strang. "If rates are dictated by what is happening in the US, then it could lead to a downward spiral, particularly if tariffs do come through. Some of Europe's most critical economies, Germany especially, could be hit hard. That would be a bad sign for solving Europe's slow growth problem."

Conversely, if the new occupant of the White House's enthusiasm for rapid growth overcomes his protectionist tendencies, it could benefit property markets, suggests Minson. "If Trump liberalizes the ability for retirement savers to participate in private markets, and that capital is allocated by managers across their global strategies, then we could see more liquidity coming into the market."

Garcia-Peri hopes the new US president will make good on his promise to end conflicts. Peace in Ukraine would be particularly welcome from a European perspective. "If Trump can make a deal with Putin, the investment that needs to go into Ukraine should benefit the whole of Europe. But it will boost the German economy most of all as the region's largest and most industrialized

## European capital formation prospects improve, but from a low base

**With only $20.3bn raised for Europe-focused funds in 2024, per *PERE* data, the roundtable participants reflect on the outlook for capital formation in 2025**

**Nicole Pötsch:** Investor sentiment seems to be steadily improving, but there is still a way to go. There is more demand for value-add and opportunistic strategies. Many investors for core and core-plus remained on the sidelines in 2024, but this may slowly improve as more investors revert to long-term levels of real estate allocations in their portfolios.

**Greg Minson:** Sentiment in the fundraising environment is improving, but off a low base. Investors are increasingly willing to engage to understand the strategy and your perspectives on the market and sector. We are starting to see conversion rates increase, which is a good sign.

**Cristina Garcia-Peri:** Over the last 18 to 24 months, we have seen many of our largest investors restricting new allocations to equity mandates but doing significant allocations to credit mandates instead. However, they are now all starting to look at equity again.

**Jon Strang:** On the equity side, 2025 is going to be a better year for us in terms of capital raising because of greater certainty about the assumptions you can make and the relative attractiveness of real estate versus other asset classes. Sector specialists will have the greatest success raising capital because investors are favoring clearly defined, nuanced strategies rather than a broad-brush approach.

**Jasper Gilbey:** We are getting a lot more enquiries about core-plus strategies than we did this time last year. Some of this is now in the active pipeline, such as a new core mandate in the German living space, which should launch imminently.

*"In a highly unpredictable world, on a relative basis, today feels less risky than the beginning of 2024"*

**GREG MINSON**
**ICG**

country. And if Germany grows, that is good for everyone in Europe."

If a relatively uncontroversial peace settlement can be reached, then the resumption of Russian natural gas supplies to Europe will help to dampen inflation by lowering energy costs, adds Minson. "In a highly unpredictable world, on a relative basis, today feels less risky than the beginning of 2024. But no one knows what's going to happen, so it is important to make sure you invest in sectors with tailwinds for growth," he reasons.

## Market dynamics

Local political factors are also impacting investor sentiment around European property markets. Some investors are cautious about committing to the UK while they wait to assess the effect of the Labour government's economic policies, says Gilbey. "Some core investors are putting on the handbrake while they wait to see how recent regulatory and tax reforms play out, combined with all-in borrowing rates remaining higher than stabilized cap rates.

"However, from the Nuveen perspective, we still see the UK as a very interesting market, particularly the living sector, where supply has been constrained, and the UK government has been very vocal in its commitment to deliver 1.5 million new homes over a five-year term." Markets currently in favor among Nuveen's investors include southern European countries and the Nordics, with Germany and France a more opportunistic play, he adds.

Residential market dynamics in Spain, Italy and Portugal are "extremely compelling," with a lack of housing and an even greater shortage of affordable housing in markets with no risk of oversupply because of the difficulty of delivering fully permitted land, says Garcia-Peri. "These are very low-risk, very stable investments and a good inflation hedge, having allowed us to pass increased costs onto tenants while maintaining healthy effort rates."

Indeed, the countries once derided as the 'PIGS' – Portugal, Italy, Greece and Spain – have been among the most vigorous continental economies in recent years. Meanwhile Germany, formerly the powerhouse of Europe, has seen its fortunes flatline, with GDP falling 0.2 percent last year after dropping 0.3 percent in 2023.

However, since Germany's industrial base is much larger than its competitors', recent negative sentiment has created an opportunity to snap up desirable industrial assets, says Strang. "As other investors retreat, we can gain access to core markets that we were completely priced out of. Also, we are not seeing those economic problems affecting pricing or performance in the markets we are operating in. They are still showing healthy take-up, limited supply and rental growth in the mid-to-high single digits."

Following the collapse of the 'traffic light' coalition government in November last year, German federal elections are due in February, in which the populist far-right Alternative for Germany party has the potential to win greater influence.

Germany has lost its preeminent position as Europe's traditional safe

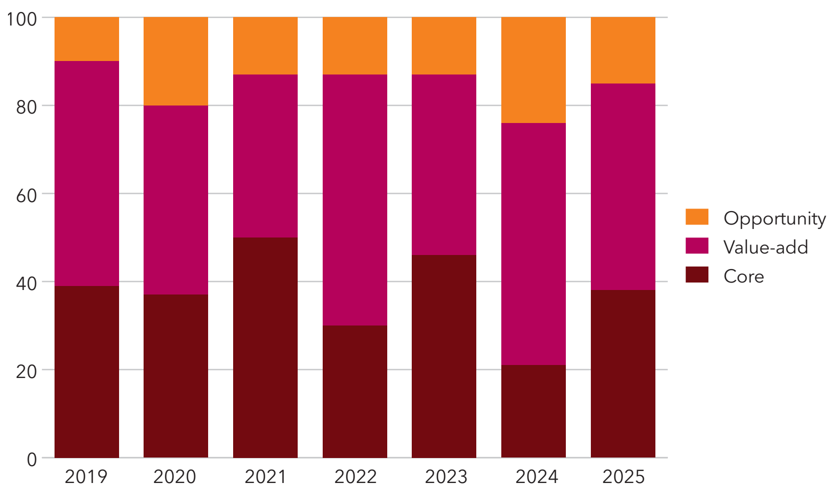
haven for capital, admits Pötsch. "It is no longer the case that international investors in Europe need to have a German allocation. But pricing has come down very significantly from the peak, so you can find interesting deals, and that maybe balances the weaker economic position."

France has also suffered a period of political instability after its summer elections delivered a hung parliament, and economic growth is expected to slow in 2025.

Such difficulties in Europe's core markets will accelerate the reallocation of investor capital toward the south, argues Garcia-Peri. "The combination of very strong trends of undersupply, generally higher economic growth and underrepresentation in institutional investors' portfolios is going to create a period when we will see a disproportionate amount of capital coming in as those markets catch up."

Nuveen also sees outperformance potential in southern Europe, says Gilbey. But while pricing and demand from domestic capital sources remains subdued in Europe's core markets, there are still pockets of opportunity to be found there, he argues. He mentions the student housing sector in France, where Nuveen acquired a €540 million portfolio at the end of 2024, as one such opportunity. "We are seeing opportunities emerge in the likes of France, Germany and the UK that, off rebased pricing, result in a very interesting access point."

**High-risk strategies dominate in investors' preferences for European real estate, but core is regaining traction (%)**




Source: INREV Investment Intentions Survey 2025

## Regulatory burden

In recent times, European real estate investors have increasingly bemoaned the burden of regulation, a trend reflected among the roundtable participants. In the residential sector, soaring

> *"We may potentially get a few more [interest rate] reductions, but this might be nearly as good as it gets, which makes it a good time to get into the market"*
>
> **CRISTINA GARCIA-PERI**
> **Azora**

## The real assets question

**Roundtable participants weigh in on the competition and blurred lines between real estate and infrastructure**

**Cristina Garcia-Peri:** Our sector needs to watch out for competition, not only from fixed income, but also from infrastructure. Investors already have much larger existing allocations to real estate, and infrastructure returns have some compelling characteristics. They are less correlated with the cycle and more firmly linked to inflation.

**Greg Minson:** There are examples where aggregating infrastructure and real estate under a single umbrella makes sense. But an infrastructure investor won't want to own a tenanted office building, and a real estate investor won't want to invest in pipelines. However, there will be some overlap around assets like data centers.

**Nicole Pötsch:** For new sectors like data centers, we see that some investors treat it as infrastructure and others like real estate. However, for the traditional sectors like office, living, logistics and retail, I believe that investors will continue to look for specialized real estate teams.

**Jon Strang:** A key distinction is that real estate is 'occupied,' while infrastructure is 'utilized.' Real estate competes for tenants, with shorter lease terms and a focus on user experience to secure income. Infrastructure operates as location-specific, regulated monopolies, requiring a completely different approach to dealmaking. From an investment and asset management standpoint, deep expertise in each remains critical.

**Jasper Gilbey:** At Nuveen we restructured our real estate platform in Europe four years ago to move from a country- to a sector-specialist model – while also better leveraging our broader real assets business. We have executed sizable real estate-anchored deals where we have also leveraged our private equity division to assist with onboarding operating companies while also feeding off the specialist knowledge of our infrastructure and renewables teams.

*"Transaction activity is limited but growing, and depending on the sector, we do see competition for assets returning on the core and core-plus side"*

**NICOLE PÖTSCH**
**PIMCO Prime Real Estate**

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**JON STRANG**
**Cain International**

rents have provoked a popular outcry which has prompted some local and national politicians to respond by introducing rent control measures.

"Regulation is only going one way: more," says Garcia-Peri. "You try to invest in those parts of the living market that are less prone to regulation. But, having said that, if the regulation is there when you invest and you know that is the framework, you can price it in. The problem is when regulation changes halfway through the investment holding period."

Decarbonization regulations are also excessive, she argues, and are beginning to have an impact on economic growth. She warns that smaller companies are already struggling to meet directives on carbon reporting, and that efforts to accelerate tech innovation risk being stifled by bureaucracy. "Deregulation in the US is only going to make the difference in terms of economic growth more apparent. Hopefully, that will force Europe to reconsider some of these regulations," she says.

A wholesale retreat from ESG investing in Europe is unthinkable, however. Minson expects many of the assets that ICG will acquire over the coming years will require expenditure on ESG-related improvements. Green capex represents a crucial pillar of value creation in a higher interest rate environment in which investors can no longer rely on cap rate compression to generate returns, he argues. "The ESG initiatives that our investors want are commercial improvements that drive NOI and value creation in the asset, not those that are performing ESG for its own sake."

Many green building regulations not only improve performance but also help to drive returns, says Strang. But he agrees that some ESG rules have become too burdensome, making certain projects less feasible. "If we want markets to continue pursuing these initiatives, a healthy balance is needed, along with greater investment in education, to prevent ESG requirements from weighing on returns, causing delays or discouraging investment."

There is consensus around the table that in a higher-for-longer interest rate environment, value-add activities such as green capex, together with active asset management and taking operational risk – the traditional "hard work" of real estate investing – will be crucial to delivering attractive returns.

Investors can take confidence from interest rates having stabilized. Meanwhile, the supply-demand balance looks favorable across many European markets in sectors such as multifamily, student housing and logistics. In that context, Gilbey says potential unlevered returns across most key sectors are in the 7-10 percent range on a forward-looking five-year horizon.

"With financing on top of that I think we start to get to the point in some of the continental markets where real estate equity returns look relatively attractive versus private credit and other asset classes," he says. "We have moved away from the paralysis of 2023 into a market where we are starting to see increased liquidity and a favorable entry point. Now is the time to start structuring interesting deals." ■