Principal
Asset Management℠

Europe Real Estate sector report

SPRING 2024

KEY:

🟢 Improving 🟡 Neutral 🔴 Deteriorating

↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

Sector conditions and outlook[1]

		Current condition	Outlook[1]
RESIDENTIAL	Residential values have not been immune to the impact of rising interest rates. However, the re-pricing of this property type has been more modest than previously anticipated, although with some exceptions. Meanwhile, in response to the cost of living crisis and worsening housing affordability, several European governments have introduced or extended measures to curb rental growth. Nevertheless, the living sector ranks among investors' top preferences amid structural supply-demand imbalance and low institutional penetration.	🟡	↗
HOTEL	The hotel sector has started the year quite well, benefitting from growing investor appetite. Preliminary figures show that transaction volume reached €4.4bn in Q1 2024, representing an increase of 20% over the same period last year and the strongest first quarter since Q1 2019. RevPAR, the primary metric used to measure the hotels' revenue performance, increased by 5.5% in Q1 2024 compared to a year ago. Meanwhile, European tourism is expected to gain further momentum in the remainder of the year, and resume its long-term upward trajectory.	🟢	↗
INDUSTRIAL	Industrial capital values contracted by 2% on average across Europe in Q4 2023, the sixth consecutive quarterly decline since the peak in mid-2022. However, this re-pricing has been entirely capital markets driven, as structural tailwinds continue to support the medium-term fundamentals of the sector. Meanwhile, e-commerce penetration, the key structural driver behind the expansion of the logistics asset class, increased in most European countries in 2023, excluding Germany and Sweden. Thus, the continental average reached 15.8%, a level significantly below the UK's 26%.	🟡	↗
OFFICE	The sentiment towards the office sector remains extremely weak. Values have declined by a further 5% in Q4 2023 on average across Europe, extending the sector's price adjustment to -23% from its post-pandemic peak, according to the MSCI property index. Equally, preliminary transaction figures for Q1 2024 point to one of the weakest quarters since records began in 2007. However, investors should not be misled by the overall negative picture. High-level figures can mask the resilient performance of high quality offices in supply constrained locations.	🟡	↘

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[1] Outlook refers to the next 12 months

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🟢 Improving 🟡 Neutral 🔴 Deteriorating

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Sector conditions and outlook continued

		Current condition	Outlook[1]
RETAIL	European retail property values declined by 2% on average in Q4 2023, the sixth consecutive negative quarter. Thus, since central banks tightened interest rates, the retail sector's re-pricing extended to -13%. Fundamentals in the occupier market are improving due to several factors, including easing inflation, a recovery in consumer confidence, and a pick-up in tourism. Rent collections and vacancies have normalised after the extreme stress of COVID-related closures and rent holidays.	🟡	↗
DATA CENTRES	The data centre sector has the brightest outlook in our view. Developing new sites is becoming increasingly challenging due to limited power supply and scarcity of available permitted land. Vacancy rates in Tier 1 markets declined significantly in Q4 2023, with the tightest market, Frankfurt, having a sub 1% vacancy rate, according to DCByte. Barriers to entry and supply bottlenecks in tier 1 markets continue to translate into very substantial rental growth and increasing penetration in secondary markets across Europe.	🟢	↗
STUDENT HOUSING	Student housing is one of the sectors considered most attractive by institutional investors, amid a growing student population and a concurrent decrease in the availability of private rental properties for students (or shared apartments) that traditionally cater for the vast majority of beds. Indeed, this is the symptom of a broader housing availability and affordability crisis undergoing in several European cities. Meanwhile, the sector was not exempt from the slowdown affecting real estate capital markets. Thus, transaction volume declined to €5 billion in 2023, the lowest annual amount over the last eight years.	🟢	↗
HEALTHCARE	Healthcare transaction volume reached €5.7 billion in Europe for the whole of 2023, representing a decline of 27% over the year prior. Preliminary data for Q1 2024 point to another quarter of subdued activity amid low sentiment and difficult financial conditions. Although the sector is widely recognised for benefitting from positive long-term drivers such as ageing demographics and the rise of chronic diseases, it is currently in a phase of cyclical weaknesses due to high operational costs and shortage of skilled labour.	🟡	↘

[1] Outlook refers to the next 12 months

Source: Principal Real Estate, April 2024.

RESIDENTIAL

Sector rating	New supply[1]	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
↗	↗	→	↗	→	↗

Key: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

*REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium.
[1] New supply: Red downward signifies new supply is currently high.

Private equity

Residential values have not been immune to the impact of rising interest rates. However, the re-pricing of this property type has been so far more modest than previously anticipated, although with some exceptions.

According to Eurostat, residential property values fell by a modest 0.3% in Q4 2023 in the European Union, totalling a decline of 1.3% since the historical peak reached in 2022. Among core countries, the German housing market was the most volatile. Over the last six quarters, it has pared all the steep gains accumulated since the global pandemic outbreak. The multifamily segment led the decline, dropping by 20% in 2023, followed by single-family (-11%) and apartments (-9%), according to the German Real Estate Index published by the Kiel Institute. On the other hand, Southern Europe's residential values proved more resilient. Portugal outperformed the rest as tax incentives and golden visas for non-EU buyers boosted demand. Thus, house prices increased by 8% in 2023 and 60% in the last five years.

Meanwhile, in response to the cost of living crisis and worsening housing affordability, several European governments have introduced or extended measures to curb rental growth. In the Netherlands, rent controls were already in place for social housing, and the government is now considering extending these to other housing tiers. In Scotland, after some local authorities declared a housing emergency, the government made plans to cap rental increases during and in between tenancies in the private sector. In Spain, the regional government of Catalonia recently announced the expansion of a pre-existing rental control system to additional cities. Although all this legislation has good intentions, it also risks distorting the housing market. As pointed out by recent analysis carried out by Idealista, a prop-tech company, rental control measures have reduced the supply of rental houses in some markets and are likely to fuel prices in the medium term, creating opportunities for real estate investors.

Indeed, the living sector ranks among investors' top preferences amid structural supply-demand imbalance and low institutional penetration. As of the end of 2023, institutional supply accounts for only 7% of the total 80 million rental homes available in the European Union and the UK.

Public equity

The European housing sector has slightly underperformed so far in 2024, falling back after a very sharp rally over the fourth quarter last year. Changing interest rate expectations remained the main short-term driver of residential stocks. After the fourth quarter's aggressive re-pricing of the interest rate outlook (ignoring policymakers' attempts to dampen speculation), financial markets' expectations fell back in line with central banks' guidance. Since then, bond yields have risen steadily. Signs that weak eurozone economic activity data may be bottoming and the recession ending, along with a pick-up in some core inflation measures, tempered speculation of aggressive and extensive interest rate cuts, with the consensus now expecting a first reduction in June.

Historically, residential rents have been a good inflation hedge over the longer-term. However, the backward-looking multi-year periods used to calculate rent indices for regulated housing in markets such as Germany mean there's a delay before in-place rental growth catches up with inflation. Positively, this now seems likely to occur over the next few years if inflation continues to fall. Lower energy prices should also allow margins to recover in the Nordics, where heating costs are included in the rent, while boosting tenant's real disposable income.

Given the positive reversionary potential, strong demand, and limited supply of affordable housing in most markets, rents are expected to continue growing, but the outlook for values remains a little uncertain. In Germany, values have so far fallen by 15% from peak and are expected to bottom out later this year, with most listed companies operating in the sector guiding for a final 4-5% fall to trough. Positively for the listed market, a steady flow of disposals and refinancings, along with a re-opening of the corporate bond market for property, have diminished fears that equity raises will be needed to repair balance sheets and some companies have restarted dividend payments. The sector now trades at an average discount of approximately 35% to last published NAV.

HOTEL

Sector rating	New supply[1]	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
↗	↗	↗	↗	→	→

Key: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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[1] New supply: Red downward signifies new supply is currently high.

Private equity

The hotel sector has begun the year quite well, benefitting from growing investors' appetite. Preliminary figures show that transaction volume reached €4.4bn in Q1 2024. It represents an increase of 20% over the same period last year and the strongest first quarter since Q1 2019. Two UK portfolio transactions largely contributed to the rise, including the transfer of 66 branded hotels to a leading budget operator, and the acquisition of 10 assets in central London by an American private investment firm.

Meanwhile, tourist demand has finally surpassed pre-pandemic levels. According to Eurostat's latest data released in March, the number of nights spent in all types of tourist accommodation establishments in the EU reached half a billion in Q4 2023 and almost 3 billion in the full year. This marks an increase of 1.4% compared with 2019 and 6.1% over 2022, with the international tourism segment accounting for the majority of the growth.

The recovery was not homogenous. While the Netherlands, Spain, France, and Portugal saw significant increases in absolute terms, other countries still lag behind pre-pandemic levels, including Italy and Germany. The rise in tourist demand has contributed to improving the average occupancy rate of European hotels by five percentage points to 69% in 2023 over the year prior, according to STR. Although this is still below the 2019 level, occupancy is expected to improve further in the following quarters amid buoyant hospitality sector outlook. For example, the ACI (Airport Council International) has recently upgraded its forecasts and now expects airport passenger traffic in Europe to increase by 9% above the pre-pandemic level by 2027.

Another common trend shared by the majority of the European hotel markets was a strong growth in ADR (the average daily rate charge per occupied room). Rome and Paris were the best-performing markets, with 57% and 55% ADR growth over 2019, respectively. Indeed, all the gateway cities achieved remarkable increases, especially those with a strong international leisure appeal. The luxury segment has outperformed the rest as these establishments benefitted from inelastic demand and limited stock in many markets. Thus, high-end international brands are planning to expand their European footprint. For example, Savills expects a selection of well-known luxury hotel providers to expand their stock by 50% between 2023 and 2028.

Public equity

Hotels are a relatively small listed sector in Europe, with only one index play available (a Swedish listed pan-European player, an asset-heavy non-REIT) while other non-index plays are mostly through asset light operators. The sector has outperformed the broader property index YTD in 2024 as business transient demand has continued to improve, albeit still below pre-COVID levels. There are few signs of a let up in demand to date, with further tailwinds still to come in 2024 in the form of the Paris Olympics and football's European Championships in Germany, both expected to boost leisure travel, while Germany's trade shows continue to ramp up. European economies seem to have passed the worst of the downturn, but growth still lags the other regions. General concerns about affordability and potential weakness at the lower end of the market have not slowed demand to date in Europe, while easing of recent high levels of inflation have benefitted the cost bases of hotel operators. For most of the COVID recovery, rate growth has been the main driver, with occupancy lagging, however from H2 2023 we have seen occupancy improvement playing a bigger part in the sector recovery and this is likely to continue through 2024.

Hotel NAV estimates have proven more resilient vs. other property types in the restrictive interest rate environment due to higher starting yields and the ability to pass through inflation increases more quickly to customers through daily room pricing. Asset heavy hotel stocks trade at approximately 20% discount to consensus NAV, while more operationally focused and asset light players generally trade much closer to NAV and in-line/above pre-COVID multiples. Asset light players and asset heavy landlords have had similar performance YTD.

INDUSTRIAL

Sector rating	New supply[1]	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
↗	↘	↗	↗	↗	→

Key: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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[1]New supply: Red downward signifies new supply is currently high.

Private equity

Industrial capital values contracted by 2% on average across Europe in Q4 2023, the sixth consecutive quarterly decline since the peak in mid-2022. However, this re-pricing has been entirely capital markets driven as structural tailwinds continue to support the medium-term fundamentals of the sector. Nevertheless, take-up moderated by 25% in 2023 compared to the year prior, returning to normal levels in line with the five-year annual average. A mix of factors, including subdued occupier demand, reduced development activity, low space availability, and a cloudy macroeconomic outlook, have all contributed to suppressing take-up. Space demand from e-commerce players was subdued, with the notable example of a large global e-commerce player, whose key priority shifted from expanding its European fulfilment centres network to optimising its operations. The company continues to invest in new robots and other AI-powered technologies that can reduce reliance on labour and increase the intensity at which warehouses operate. This reflects a broader demand shift towards modern and highly efficient units closer to the end customers in densely populated areas.

According to MSCI, vacancy rates increased slightly in the last quarter of 2023 but remain very low in most core markets. And since construction activity is being constrained by higher building and financial costs, rental growth is expected to stay positive in the medium-term. Rotterdam was the best-performing logistics market last year, with prime rents jumping by 24% to an average of €105 per square meter by the end of 2023, according to PMA. Strong performance was also recorded in Paris, where prime rental values rose by 15% in 2023, and the development space underway is largely pre-let. At the other end of the scale, German cities saw more moderate rental growth, in the mid single-digit range, due to a deterioration of manufacturing conditions and a weak business climate.

Meanwhile, e-commerce penetration, the key structural driver behind the expansion of the logistics asset class, increased in most European countries in 2023, excluding Germany and Sweden. Thus, the continental average reached 16%, a level significantly below the UK’s 26%. This signals that the sector still has considerable growth potential, especially in countries like Italy, Spain, and France, where the share of online retail spending has so far lagged behind.

Public equity

Industrial has outperformed the property index YTD in 2024. Overall supply remains relatively tight, with little speculative stock being built due to high interest rates, still elevated construction costs, restriction on land use and lower development margins. Tenant demand is resilient, but vacancy has crept up marginally as supply feeds in. Structural tailwinds seem likely to continue while rental growth has slowed to more normalised levels.

Industrial stocks have outperformed as investors believe valuations have stabilised and may soon post gains after a period of rapid correction. The expectation that central banks may pivot soon has contributed to this trend. Investors also favoured industrial stocks because of their higher growth cashflows and development pipelines.

Within the industrial sector, companies with smaller last mile logistics assets have underperformed as previously red-hot demand normalises. On the other hand, companies with large development pipelines have recovered as construction and financing costs stabilise and investors move back to focusing on the long-term growth potential of their pipelines. Industrial REITS typically trade at premiums to last reported NAV.

OFFICE

Sector rating	New supply[1]	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
↘	→	↘	↘	↘	↘

Key: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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Private equity

The sentiment towards the office sector remains extremely weak. Values have declined by a further 5% in Q4 2023 on average across Europe, extending the sector’s price adjustment to -23% from its post-pandemic peak, according to the MSCI property index. Equally, preliminary transaction figures for Q1 2024 point to one of the weakest quarters since records began in 2007. However, investors should not be misled by the overall negative picture. High-level figures can mask what is happening underneath the surface.

Indeed, the advent of remote working technologies and tightening sustainability standards have seriously undermined the demand for space in purpose-built office monoculture districts. Large office blocks and old towers are certainly not in fashion as they used to be. In these markets, including London Docklands and Paris La Défence, vacancy rates are hovering at record-high levels, and landlords must either offer generous incentives to attract tenants or embark on expensive repurposing projects.

However, prime office assets in desirable locations do not face the same destiny and share a brighter outlook. There is a notable discrepancy between resilient submarket performance in the central areas where high-quality office space is undersupplied and well-bid by tenants, compared to a poorer outcome elsewhere. In fact, despite macroeconomic headwinds and concerns about hybrid working, leasing activity of Grade A space increased in several centres across Europe in 2023 compared to the year prior, including London, Bristol, Brussels, and Rome, according to Cushman and Wakefield, a commercial real estate advisory firm. Also, rental growth for the best assets (identified as those in the lowest yielding quartile of the MSCI property index universe) increased by 5.8% in 2023, a level which is quite healthy and signals how the highest quality space is relatively insulated from the wider structural and cyclical weaknesses confronting the sector as a whole.

Meanwhile, office attendance continued to recover ground, having increased from 55% to 59% over the last year, but remains well below the pre-pandemic average of 70%, according to Savills. Recent surveys revealed remote working practices stabilised at less than one day per week in all European countries, excluding the UK, where the frequency is one and a half days per week.

Public equity

The office sector has been one of the weakest property sectors so far in 2024. Companies providing flexible office space have been more resilient, boosted by improving investor confidence as signs of rebounding economic growth have surfaced. Higher quality CBD focused portfolios in capital cities have underperformed this year despite decent operational results, as doubts remain about the long-term prospects for offices and rising cap rates hurt values. Regional and lower quality portfolios have been weakest.

Although employment is now above pre-COVID levels and at multi-year highs, working from home remains widespread, at least for part of the week, resulting in sub-optimal daily office occupancy in most territories. While this has led to rising vacancies in most markets, there is substantial bifurcation within the sector. Prime buildings in the best locations are noticeably stronger than secondary assets in less desirable hubs in almost all markets, and secondary vacancy rates are substantially higher than prime. Newer, well-located, high-quality assets are favoured as both tenants and landlords increasingly value sustainability credentials, energy efficiencies, ease of commute, amenities, collaboration spaces, and flexibility. Lower quality offices risk becoming stranded assets unless owners invest substantial capex to counter the risk of obsolescence. Falling values reflect this.

The listed office sector is trading at a discount to last reported NAV of approximately 22% and typically owns assets at the better end of the quality spectrum, where tenant demand has been more resilient. Class A office is performing quite well, exhibiting positive net absorption and significantly higher market rents. Importantly, nearly 50% of conduit CMBS office exposure is considered Class A, a fact that is not reflected in highly elevated market risk premiums. Investors that can approach office exposure with a more discerning viewpoint are positioned to benefit from current pricing levels over the longer term.

RETAIL

Sector rating	New supply[1]	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
→	↑	→	→	→	↗

Key: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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[1] New supply: Red downward signifies new supply is currently high.

Private equity

Retail capital flow declined by roughly 37% in 2023 compared to the same period last year, and preliminary figures for Q1 2024 point to the lowest quarter since the GFC. Only Spain, Portugal, and the Netherlands started the year on a positive note, while in all other countries, volumes continued to slow.

In terms of valuations, European retail properties declined by 2% on average in Q4 2023, the sixth consecutive negative quarter. Thus, since central banks tightened interest rates, the retail sector's re-pricing extended to -13%, in line with hotels and residential (-12% and -14%, respectively), and better than industrial and offices (-21% and -23%), according to the MSCI European index.

Meanwhile, fundamentals in the occupier market are improving due to several factors. First, easing inflation and a better economic outlook should contribute to a recovery in consumer confidence and household disposable income. Second, the availability of new space is becoming more constrained following fifteen years of declining development pipeline. Third, tourist volume has grown more than anticipated and it is expected to maintain a positive trajectory for the remainder of the year, contributing to increase retail sales, especially in gateway cities and tourist hotspots.

In Paris, after three years of subdued demand, the number of key retail chains opening has increased in 2023, positively affecting vacancy rates. Equally in Madrid, there have been signs of renewed retailer demand, which was reflected by a marked fall in vacancy rates, while rents recovered from the decline that followed the pandemic. In Milan, retail activity has also picked up in 2023, although vacancies are still well above pre-pandemic levels.

Across the sector, food stores, luxury brands and retail park formats have so far proven more resilient than the average retail store, and we believe they will continue to outperform in 2024 as well.

Public equity

So far in 2024, retail REITs have outperformed. Falling inflation and high wage growth has boosted real disposable incomes, which are now growing again and restoring consumer confidence. Retail property continues to benefit from its higher starting yield and low investor expectations, while signs of improving economic growth and real incomes boost expectations of discretionary spending growth. Rent collections and vacancies have normalised after the extreme stress of COVID-related closures and rent holidays, with rent levels and values now stabilising after steep falls over the past decade. Footfall has recovered but typically remains below pre-COVID levels. Basket sizes have expanded, but after adjusting for inflation, volumes often remain lower. Retail rents have recovered rapidly after the stress of the COVID shutdowns as tenants have honoured rent indexation agreements.

Retail REITs still trade at large discounts to NAV, at an average of approximately 28% below last published NAVs. Most retail REITs continue to deleverage by selling assets and paying down debt, though within the property sector there is now less concern about retail REIT balance sheets given the progress already made. Returning liquidity in parts of the market has allowed companies to show progress in reducing debt while also providing transactional evidence of values. However uncertainty remains in those parts of the market experiencing fewer transactions such as the largest regional malls. Retail property owners continue repurposing excess space for alternative uses where this makes economic sense. A sign of returning confidence is that a large French publicly traded mall operator recently made its first acquisition in seven years.

DATA CENTRES

Sector rating	New supply[1]	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
↑	↘	↑	↑	→	N.A.

Key: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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[1] New supply: Red downward signifies new supply is currently high.

The data centre sector has the brightest outlook in our view. In the five most important European markets, Frankfurt, London, Amsterdam, Paris, and Dublin (FLAPD), developing new sites is becoming increasingly challenging due to limited power supply and scarcity of available land.

Thus, vacancy rates in the FLAPD markets in Q4 2023 have declined significantly, with the tightest market, Frankfurt, having a sub 1% vacancy rate, followed by Paris and Dublin, according to DCByte. In these markets, the growing demand from cloud service providers and hyperscalers absorbed virtually all the new supply as soon as it was delivered. Equally, in London, the largest European market, the vacancy rate is expected to reach a record low by the end of 2024.

Meanwhile, barriers to entry and supply bottlenecks in the FLAPD markets continue to drive demand to secondary locations, making these markets more and more interesting from an investment point of view. Among these, Berlin, Madrid, and Warsaw are forecast to achieve the fastest supply growth (in megawatts), equal to 39%, 54%, and 59% respectively, according to JLL. Although still much smaller in size, Southern European and Nordic markets are also expected to grow significantly this year. In particular, the latter region benefits from abundant renewable energy sources, which offer the double benefit of lowering operating costs while boosting sustainability.

Going forward, the rise of artificial intelligence (AI) and machine learning technologies is set to drive a new wave of growth and exacerbate the sector's demand-supply imbalance. Morgan Stanley, a global investment bank, has recently predicted that AI will account for up to 70% of total data centres' power consumption by the end of 2027.

STUDENT HOUSING

Sector rating	New supply[1]	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
↑	→	↑	↑	↗	↗

Key: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

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Student housing is one of the sectors considered most attractive by institutional investors amid a growing student population and a concurrent decrease in the availability of private rental properties for students (or shared apartments) that traditionally cater for the vast majority of students. This is the symptom of a broader housing crisis in some European markets. Thus, purpose-built student accommodation (PBSA) aims to fill this widening gap. And although it is still an embryonic sector in mainland Europe, it is broadly recognised for having a positive long-term potential.

The sector was not immune to the slowdown affecting real estate capital markets. Transaction volume declined to €5 billion in 2023, the lowest annual amount over the last eight years. Of this, the UK accounted for 60%, followed by France (16%) and Germany (5%). Preliminary figures for the first half of 2024 indicate a gradual recovery.

In terms of valuations, this asset class weathered the recent capital markets storm relatively better than other property types and may pivot sooner. For instance, in the UK, student housing capital values declined by 8% from the post pandemic peak to trough, the lowest decline among the sectors tracked by the MSCI UK index. Additionally, student housing was also the only sector that recorded positive capital value growth in Q4 2023, the last available quarter as of the writing of this report.

Meanwhile, the occupier market continues to be strong despite macroeconomic headwinds. This is attributable to the sector's supply-demand imbalance and its countercyclical nature. In all European countries, student housing occupancy rates were above 96%, with the Netherlands, Germany, and Portugal being the tightest markets (99%), according to Bonard, a data provider. Rental growth reached 13% in the UK and 5% in mainland Europe in 2023. Two factors can explain this difference. First, the UK has the largest population of international students in Europe (circa 700k individuals, equivalent to almost one-third of the total full-time student population), a segment of the market which is typically less price-sensitive. Second, in some continental regions, rental control measures in the residential sector may curb student housing performance due to market correlation and substitution effects.

HEALTHCARE

Sector rating	New supply[1]	Demand	Rent growth	Capital values	REIT pricing relative to NAV*
→	→	↘	↘	→	→

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Healthcare transaction volume reached €5.7 billion in Europe for the whole of 2023, representing a decline of 27% over the year prior. Preliminary data for Q1 2024 point to another quarter of subdued activity as difficult financial conditions and uncertainty related to the interest rates outlook curbed deal flow.

Thus, in all markets, yields continued a trend reversal started in 2022, and softened by a further 50-100bps over the course of 2023, according to JLL. German and Dutch assets recorded the sharpest re-pricing, but may have now found a balance at 5.25%.

Although the sector is widely recognised for benefitting from positive long-term drivers such as ageing demographics and the rise of chronic diseases, it is currently in a phase of cyclical weaknesses. Indeed, insolvency cases among healthcare operators are relatively high. Rising operational costs, difficulties in recruiting staff and tighter access to financing have strained the balance sheet of some occupiers. This trend is particularly acute in the care home sector as companies are generally restricted from transmitting the higher costs to residents.

For example, a recent analysis carried out by the German Hospital Federations revealed an unusual number of insolvencies and they expect the level to rise further during the course of this year. In England, where operators are in an equally difficult financial environment, the Department of Health and Social Care has increased the weekly rate paid to care homes by 7% starting from April 2024.

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