Principal Asset Management®

# Europe Real Estate sector report

SPRING 2025

**KEY:**

● Improving ● Neutral ● Deteriorating

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

## Sector conditions and outlook(1)

| | | Current conditions | Outlook |
|---|---|---|---|
| OFFICE | Office capital value growth turned positive in Q4 2024 for the first time after nine consecutive negative quarters. However, the sentiment towards offices remains weak. Although transaction volume increased by 34% in Q4 2024 compared to the year prior, the office share of total commercial real estate volume remained at an all-time low. Occupier demand continues to be polarised by sub-market and asset quality. Overall, vacancy rates rose further in the quarter to 9.5%, while improving in core business districts with limited supply and high employer competition. | ● Deteriorating | → Neutral |
| INDUSTRIAL/ LOGISTICS | Industrial is one of the property types leading the real estate transition from correction to recovery. Market values increased for the third consecutive quarter, and market liquidity, defined as deal volume, improved to a level in line with the ten-year average, driven by Spain, amid a favourable supply-demand imbalance, increasing e-commerce penetration, and a relatively positive outlook. More broadly, occupier demand is normalising between the COVID-19 pandemic highs and the lows touched during the energy crisis and monetary tightening period. However, the outlook is clouded by heightened geopolitical tension and trade war risks, but partially offset by increased EU defence spending. | ● Improving | → Neutral |
| RESIDENTIAL | Residential capital values continued to recover for the third consecutive quarter. All metro markets in Europe contributed to the rise, except for the UK cities of Leeds, Edinburgh, and London. The Netherlands was the best-performing market due to a severe shortage of building land, grid congestion, and complex project development legislation. Meanwhile, in Germany, residential properties are showing signs of a turnaround, although older stock continues to face pressure. Overall, residential ranks highly among investor preferences. | ● Improving | → Neutral |
| HOTEL | Hotel sector performance continued to strengthen amid a continued surge in tourism, rising business travel demand, above-inflation operating performance, and a positive outlook. Indeed, the hotel sector's share of total European transaction volume reached a record annual high of 12% in 2024. Investors' demand was particularly strong for assets located in the UK, France, Spain and Italy. Revenue per available room (RevPAR) increased at double-digit rates across all segments in 2024, while occupancy has now pared the post-pandemic losses in most countries. Barring any unexpected economic shocks, we anticipate revenue growth in 2025 to be steady, albeit more moderate than in previous periods. | ● Improving | → Neutral |

**KEY:**

● Improving ● Neutral ● Deteriorating

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

**Sector conditons and outlook**[1] (continued)

| | | Current conditions | Outlook |
|---|---|---|---|
| RETAIL | Retail capital flow increased by roughly 40% in Q4 2024, driven by Italy and Spain. The structural headwinds that have impacted the sectors in previous years have driven consolidation, reduced new developments, and resulted in a smaller pool of high-quality, resilient assets that investors now feel comfortable acquiring, particularly in Southern Europe. Capital growth was positive for the second consecutive quarter in Q4 2024, driven by retail warehousing and shopping centres. Meanwhile, European consumer spending remained flat in Q1 2025, though underlying sentiment reflects continued caution. | ● Neutral | ↗ Moderately positive |
| DATA CENTRES | Data centres continue to rank among the most attractive property types, owing to supply-demand imbalance and a bright outlook. Take-up for colocation space reached a new record high for the seventh straight year, driven by the expansion of cloud infrastructure and AI capacity. In the tier one markets, the demand-supply imbalance continued to widen, pushing the vacancy rate to new lows, down to 8% as of December 2024. CBRE expects demand to outpace supply growth in 2025, thereby exerting further downward pressure on vacancy rates across Europe and accelerating the expansion of secondary markets such as Berlin and Milan. In our view, cloud data centres are more resilient to downside risks than assets developed solely for generative AI model training. | ● Improving | ↗ Moderately positive |
| HEALTHCARE | Healthcare transaction volume remains below the sector's ten-year average following a prolonged period characterised by rising costs and uncertainty. However, the last quarter of 2024 marked a significant improvement in deal activity amid a more favourable trading environment. Operators' margins have begun to adjust, and occupancy rates show an increasing trend. Values started to pare some of the losses that occurred since June 2022, although they remain 7% below the last peak. | ● Neutral | → Neutral |
| STUDENT HOUSING | Student housing investment volume reached €6.1bn in 2024, slightly above the previous year, but still below its long-term average. Deal activity in the UK was subdued, due to tighter visa rules and a decline in international student applications, particularly at second-tier universities. Conversely, there has been a notable increase in investment targeting Southern Europe, particularly Spain, which recorded its second-best year on record. | ● Neutral | → Neutral |

(1) Outlook refers to the next 12 months

# OFFICE

| Sector rating | New supply[2] | Demand | Rent growth | Capital values | REIT pricing relative to NAV[3] |
|---|---|---|---|---|---|
| ↘ | ↗ | ↘ | → | → | ↓ |

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

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

## Private equity

The European real estate market ended 2024 on a positive note, suggesting optimism for the year ahead. Indeed, office capital value growth turned positive in Q4 2024 for the first time after nine consecutive negative quarters, according to MSCI. However, two recent developments risk tempering investors' sentiment and deferring the market recovery. First, the trade relationship between the U.S. and Europe has deteriorated since President Trump introduced a 25% import duty on steel, aluminium, and cars, which was followed by 20% tariff on any other imports from the EU. At the time of the writing of this report, it is unclear whether the European Commission will seek a deal or retaliate. Should the tension between the two long-standing partners escalate further, it could potentially lead to retaliatory actions and higher inflation. Second, changes in the U.S. administration's behaviour towards the NATO alliance have prompted a significant shift in European and German fiscal policy to finance military and defence spending. While this can stimulate economic growth, it can also exert upward pressure on bond yields, reducing the property risk premium.

Against this backdrop and sector-specific structural challenges such as hybrid working and tightening sustainability requirements, the sentiment towards office assets remains weak. Although transaction volume increased by 34% in Q4 2024 over the year prior, office share of total commercial real estate volume remained at an all-time low for the third consecutive quarter.

The occupier demand continues to be polarised. Across Europe, vacancy rates rose further to 9.5% in Q4 2024, a level last seen almost a decade ago, but still below the 11% peak that followed the Global Financial Crisis (GFC), according to PMA, a property research firm. This compares to 13% and 19% in Asia Pacific and the US, respectively in Q4 2024. The most notable quarterly increases were recorded in Paris Western Business District (WBD) (190bps to 17.1%), Birmingham (120bps to 14.0%), and Stockholm (90bps to 14.8%) due to a combination of robust completions, weaker demand, and the release of surplus space by occupiers. Conversely, vacancy rates improved in core business districts with limited supply and high employer competition, including the City of London (-90bps to 8.3%), London West End (-40bps to 6.9%) and Milan (-40bps to 12.3%). Meanwhile, rent incentives are hovering at or near record levels in several office hubs, particularly in mainland Europe. This represents a further indication of fragile sector conditions and a drag on effective rental income.

## Public equity

The REITs office sector has performed in line with the property index average so far this year, recording a price decline of ca. 1.0%. However, there has been a wide divergence in returns across the sector. Nordic office and flexible office providers have generally performed weaker in 2025, recording declines of -2.7% and -10.8%, respectively. Conversely, higher-quality CBD-focused portfolios in capital cities have bucked the trend, increasing by 4.8% year-to-date, amid generally improved operational results.

Despite employment levels now exceeding pre-COVID levels and reaching multi-year highs (apart from the notable exception of the UK), working from home remains widespread, at least for part of the week, resulting in daily office occupancy still being well below pre-pandemic levels in most markets. Vacancy rates have been rising in nearly all office markets, but there is a notable bifurcation by sub-market and asset type. Prime buildings in desirable locations are noticeably more resilient than secondary assets in almost all markets. Newer, well-located, high-quality assets are favoured as both tenants and landlords increasingly value energy efficiency, superior flexibility and ease of commute. Lower-quality offices risk becoming stranded assets unless owners invest substantial capex to counter the risk of obsolescence. Thus, values have kept declining. Similarly, the transaction market is improving for higher-quality, newer assets, but remains challenged for secondary and value-add buildings.

The listed office sector is trading at a discount to NAV of ~30% and typically owns assets at the better end of the quality spectrum, where tenant demand has been more resilient.

# INDUSTRIAL

| Sector rating | New supply[2] | Demand | Rent growth | Capital values | REIT pricing relative to NAV[3] |
|---|---|---|---|---|---|
| ↗ | ↗ | ↗ | ↗ | ↗ | ↗ |

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

(2) New Supply: Red downward signifies new supply is currently high.
(3) REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

## Private equity

The industrial sector—alongside residential, data centres and hotels—is one of the property types leading the real estate transition from correction to recovery, underpinned by favourable long-term structural drivers and positive investor sentiment. Indeed, industrial capital values increased by 1.2% in Q4 2024, which was the third consecutive quarter of positive capital growth following a 22% peak-to-trough correction between September 2022 and March 2024, according to MSCI.

Market liquidity has also improved considerably over the last six months. Transaction volume reached €45bn in 2024, a level that is in line with the ten-year average, although approximately 35% below the record levels of 2021 and 2022. A notable increase was recorded in Spain, where deal activity grew by 60% in 2024 over the year prior, totalling €2.5bn, equivalent to the country's second-best year on record, according to RCA. Foreign investors were the largest buyer group by far, attracted by a favourable supply-demand imbalance, increasing e-commerce penetration, and a positive economic outlook. Indeed, Spain's GDP is expected to grow by 2.5% in 2025, outpacing the Eurozone average of 0.9%, according to Bloomberg consensus forecasts. Positive momentum was also recorded in Italy, the Netherlands and France.

In the occupier market, leasing activity and take-up improved across most geographies in Q4 2024, indicating that demand is normalising between the highs reached following the COVID-19 pandemic and the lows touched during the energy crisis and monetary tightening period. Going forward, the outlook remains highly uncertain due to heightened geopolitical volatility and growing trade tensions with the United States. On the one hand, the pledges made by Germany, Italy, France, Spain, and the UK to significantly increase spending on defence and infrastructure have the potential to foster economic activity and logistics demand. For instance, at the beginning of March 2025, the share prices of several European industrial companies recorded their largest daily increase since 1998, amid the prospect of substantial fiscal spending, that could boost GDP growth by 1.5 percentage points in Germany next year, according to the Kiel Institute, a research company. However, the blanket tariff imposed by the U.S. administration on all European goods could disrupt supply chains and potentially drive logistics occupier demand back into the doldrums.

## Public equity

The price performance of industrial REITs has been strong so far this year, at 9.7%, outpacing the property index, which is down 1.0% year-to-date, and helping to pare some of the 20% loss made in 2024. Indeed, the industrial sector has experienced a pickup in tenant demand throughout Q4 and into Q1, with tenants seeking to expand, particularly into smaller units, despite economic uncertainty. Notwithstanding the uptick in interest levels, tenants continue to take longer to sign new leases.

Overall supply levels remain relatively tight, with speculative demand continuing to slow despite construction costs having plateaued. Valuations are stabilizing and returning to growth after a period of rapid yield expansion. The investment market remains active and stronger relative to the other property sectors.

Within the industrial sector, companies with smaller last-mile logistics assets have underperformed as rental growth continues to normalize from recent elevated levels. Conversely, companies with large development pipelines have typically outperformed as construction and financing costs stabilize, and investors shift their focus back to the long-term growth potential of their pipelines. Industrial REITs trade close to NAV.

# RESIDENTIAL

| Sector rating | New supply[2] | Demand | Rent growth | Capital values | REIT pricing relative to NAV[3] |
|---|---|---|---|---|---|
| ↗ | ↗ | ↑ | ↗ | ↗ | ↓ |

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

(2) New Supply: Red downward signifies new supply is currently high.
(3) REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

## Private equity

Residential values continued to recover for the third consecutive quarter. According to the MSCI Property Index, capital growth increased by 1% in Q4 2024 in Europe, totalling a 2% increase from the June 2024 trough. Data show that all metro markets contributed to the rise, except for the UK cities of Leeds, Edinburgh, and London.

Once again, the Netherlands was the best-performing market, with 3.0% and 2.6% value growth in Q3 and Q4 2024, respectively. Capital Economics, a consultancy firm, expects the Netherlands to continue outpacing other European residential markets in the coming years, underpinned by a lack of rental stock and supply bottlenecks. Unlike other markets, higher demand does not lead to increased Dutch housing supply due to a severe shortage of building land, grid congestion and complex project development legislation. Thus, the number of newly completed houses remains relatively low, resulting in higher prices and worsened affordability. Although the delivery of new-build homes is projected to increase to 73,000 in 2025, from 68,000 in 2024, this remains well below the government's annual target of 100,000.

Meanwhile, in Germany, residential properties are showing signs of a turnaround. Capital growth reached 0.8% in Q4, following a 0.6% rise in the previous quarter, driven by the income component. However, values remain 20% lower compared to the peak of June 2022, according to MSCI. The latest figures from the GREIX Index point to segment divergence. While demand for new builds has returned in strength, older stock remains under pressure. Looking ahead, the volatility of debt markets could temper momentum in the residential sector over the short term. The German 10-year Bund yield has increased by 80bps since the start of 2025 amid rising expectations of government debt and an improving economic outlook. Consequently, household mortgages and business loans are likely to become more expensive.

In terms of capital flow, the residential sector—encompassing multifamily, single-family, built-to-rent, co-living, and student housing—reached €42bn in 2024, equivalent to 22% of the total European transaction volume, a share which is in line with the last five-year average. According to the PMA Investor Survey for Q1 2025, residential ranks highly among investor preferences, alongside data centres, hotels and logistics. In particular, the UK, Germany, Spain, and the Netherlands are the residential markets where investors are keener to deploy capital this year.

## Public equity

Residential has underperformed so far this year, primarily due to the sector's high interest-rate sensitivity, which has made it a victim of the recent sharp rise in bond yields.

Historically, rents have served as a good inflation hedge over the long term, although the backward-looking multi-year periods used to calculate rent indices result in deferred adjustments, especially in regulated housing markets such as Germany. Thus, rental growth has only recently begun to catch up with inflation after several quarters of negative real rental growth. Going forward, rents in regulated markets are expected to continue rising, driven by the positive reversionary potential, strong demand, and limited supply of affordable housing. Conversely, in the UK, where market dynamics purely determine tenancy costs, rental growth is moderating after a period of abnormally high increases. Improving real disposable income among tenants means that affordability metrics are also stabilising. Meanwhile, in the Nordics, where heating bills are typically included in the rent, companies' margins are recovering as inflated energy costs have started to subside.

Values are now typically around 15%-20% below their peak. In most markets, valuations have stabilised and, in some cases, begun to recover, according to the latest listed companies' financial results. However, the recent sharp rise in bond yields has raised uncertainty about whether this positive trajectory will continue. The re-opening of the corporate bond market and successful deleveraging sales have repaired balance sheets, allowing some previously paused growth initiatives to be restarted and dividend payments to resume. The sector trades at an average discount of ~40% to the last published NAV.

# HOTEL

| Sector rating | New supply[2] | Demand | Rent growth | Capital values | REIT pricing relative to NAV[3] |
|---|---|---|---|---|---|
| ↗ | → | ↗ | ↗ | ↗ | ↘ |

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

(2) New Supply: Red downward signifies new supply is currently high.
(3) REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

## Private equity

The hotel sector's performance continued to strengthen, following a record-breaking 2024 summer. In terms of capital flow, European hotels have bucked the trend and proven more resilient than most other property types despite macroeconomic headwinds. Investors have taken note of the continued surge in tourism, rising business travel demand, above-inflation operating performance and a positive short and medium-term outlook. Thus, the hotel sector's share of total European transaction volume reached a record annual high of 12% in 2024. Indeed, the capital targeting the sector increased to €22.5bn, outpacing 2023, 2022, and the 10-year average. Investors' demand was particularly strong for assets located in the UK, France, Spain, and Italy. A further testament to the growing investor appetite can be seen in JLL's hotel investor sentiment survey: a record 80% of investors intend to maintain or increase their capital allocation in the sector in 2025, the highest share since the survey began in 2000.

RevPAR, a standard indicator for the hospitality industry, increased at double-digit rates across all segments in 2024, driven by the upscale (13%) and midscale (12%) classes, according to STR, the hospitality research company. Much of the growth in hotel RevPAR over the last few years has been driven by the average daily rate (ADR). For example, in Italy and France, ADR is now 150% above 2019 levels. Nevertheless, actual occupancy has also recovered to its pre-pandemic peak in most countries, and bookings for Q1 2025 indicate further growth, particularly in Southern Europe. Although business travel has also recovered, destinations reliant on it continued to lag. Conversely, markets with a strong mix of both leisure and business have outperformed.

Looking ahead, a growing global economy and the expansion of the middle class in developing markets are expected to support medium and long-term growth in the hotel sector. A more detailed analysis of the future trends shaping the market is presented in our European Hotel Outlook 2025.

## Public equity

Hotels are a relatively small, listed sector in Europe, with only one index play available (a Swedish listed pan-European asset-heavy player), while other non-index plays are mostly through asset-light operators. The sector has underperformed the broader property index year-to-date in 2025, due to increasing concerns over a potential trade war with the U.S. and its implications on the economic outlook. Group travel continues to recover post-COVID, while leisure transient has been more resilient in Europe compared to other regions. Hotels have also benefited from falling inflation with less pressure on expenses, particularly utilities and staffing costs, which have been high over recent years. Occupancy continues to benefit from increased business, group and leisure travel demand.

Hotel NAV estimates are gradually pushing higher. Asset-heavy hotel stocks currently trade at approximately 20% discount to consensus NAV, reflecting recent macroeconomic concerns, which were partially offset by positive operating fundamentals. Asset-light players have generally performed in line with asset-heavy peers YTD in 2025.

# RETAIL

| Sector rating | New supply[2] | Demand | Rent growth | Capital values | REIT pricing relative to NAV[3] |
|---|---|---|---|---|---|
| ↗ | ↑ | → | → | ↗ | ↘ |

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

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

## Private equity

Retail capital flow increased by roughly 40% in Q4 2024 compared to the same period last year, up to €11.7bn, a level in line with the previous ten-year quarterly average. Italy and Spain were the two western European markets that recorded the highest uplift. A substantial increase in tourism, urban design, a warmer climate, and cultural habits are some of the reasons contributing to the renewed appeal of retail properties in Southern Europe. More importantly, the structural headwinds that have impacted the sectors in previous years— including e-commerce, the global pandemic, and the cost-of-living crisis—have driven consolidation, reduced new developments, and resulted in a smaller pool of high-quality, resilient assets that are likely to perform well in the future. Thus, investors now feel comfortable deploying capital at scale to acquire shopping centres and retail parks, which offer relatively higher yields and superior risk-adjusted returns. Indeed, in Southern Europe, prime schemes are experiencing strong occupier demand and consequently positive rental growth. Brands and operators that have successfully embraced omnichannel sales strategies are set to drive leasing activity, thereby expanding their footprint and reaching a broader audience, according to Savills.

Regarding valuations, European retail capital growth was positive for the second consecutive quarter in Q4 2024, driven by retail warehousing (1.5%) and shopping centres (0.4%). Conversely, local convenience centres registered the tenth consecutive quarterly decline. Among the metropolitan and regional geographies tracked by MSCI, 17 were positive or flat, while the remaining eight markets continued to record negative capital growth for another quarter.

## Public equity

Apart from the UK, retail REITs have outperformed consistently so far this year. Despite weaker consumer confidence and rising savings rates, retail sales have grown significantly, boosted by increasing real disposable incomes and falling inflation and interest rates. High savings rates bode well for future consumer spending when confidence recovers. Rents are growing in line with the broader property market, and positive reversionary potential is creeping up. Stable yields mean values are rising, driven by the rental component.

Retail REITs continue to trade at significant discounts to NAV, averaging approximately 20% below the last published NAVs. Returning liquidity has enabled companies to reduce debt through asset sales, while also providing transactional evidence of values. However, volumes remain subdued. Retail property owners continue repurposing excess space for alternative uses where this makes economic sense. Conversely, those with stronger balance sheets are now investing again, either in their own assets or through acquisitions.

# DATA CENTRES

| Sector rating | New supply(2) | Demand | Rent growth | Capital values | REIT pricing relative to NAV(3) |
|---|---|---|---|---|---|
| ↑ | ↗ | ↑ | ↑ | ↗ | N/A |

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

(2) New Supply: Red downward signifies new supply is currently high.
(3) REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

## Private equity

Data centres remain the top-performing property type and continue to have the brightest outlook, despite a recent shift in the AI landscape that has led some investors to question whether demand may start to ease. Let's review the current state of the sector before examining its outlook. In Europe, take-up for colocation space outstripped new supply for the fourth consecutive quarter in Q4 2024, according to CBRE. On an annual basis, take-up reached a new record high for the seventh straight year, driven by the expansion of cloud infrastructure and AI capacity. Meanwhile, in the tier one markets (Frankfurt, London, Amsterdam, Paris, and Dublin, also dubbed FLAPD), the demand-supply imbalance continued to widen, pushing the vacancy rate to new lows for the third consecutive quarter, down to 8% as of December 2024. Dublin and Frankfurt were the two tightest markets, with vacancy rates hovering at 5% amid severe supply bottlenecks, including power grid shortages and regulatory restrictions. For example, in Dublin an on-going moratorium persists preventing the issuance of new data centre licenses until at least 2028, unless the projects have on-site power generation, such as a gas turbine or renewable energy sources.

Regarding the market outlook, CBRE expects demand to outpace supply growth also in 2025, thereby exerting further downward pressure on vacancy rates across Europe and accelerating the expansion of secondary markets such as Berlin, Milan, and Brussels. In the medium term, the risk of accumulating excess data centres capacity does not subsist in our view, for three main reasons. Many companies are still in the process of digitising their operations and moving to the cloud. Internet usage is expected to continue increasing in the years ahead. Additionally, AI economics are shifting towards more efficient models that require less capex and lower power requirements. Lower barriers to entry should foster AI penetration and adoption, which in turn is set to boost the amount of data generated, stored, and exchanged. A more detailed analysis of the latest industry trends is presented in our paper "Beyond DeepSeek: AI disruption and the implications for real estate".

# HEALTHCARE

| Sector rating | New supply[2] | Demand | Rent growth | Capital values | REIT pricing relative to NAV[3] |
|---|---|---|---|---|---|
| → | → | → | → | → | ↘ |

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

(2) New Supply: Red downward signifies new supply is currently high.
(3) REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

## Private equity

Healthcare transaction volume reached €4.4bn in Europe in the whole of 2024, representing a decline of 23% over the year prior and 30% below the sector's ten-year average. However, the last quarter of 2024 marked a significant improvement in deal activity, following a subdued start to the year and a prolonged period characterised by rising costs and uncertainty. Indeed, operators' margins have started to improve, particularly in the UK but also more broadly in Europe. Care homes' occupancy rates have now exceeded pre-pandemic levels and are showing an increasing trend, according to a pan-European provider of housing solutions for elderly people.

Capital growth was positive in Q4 2024 for the third consecutive quarter. Indeed, values have started to pare some of the losses that occurred since June 2022, although they remain 7% below the last peak, according to the MSCI Property Index. The improvement was driven by rental growth, while prime yields remained stable across most markets, ranging from 5% in the UK and the Netherlands to around 6% in Italy.

Data from Eurostat and the UK Office for National Statistics (ONS) show the ageing trend is set to accelerate from 2025 onwards. For example, the number of people older than 80 is expected to double by 2060 in Europe, fuelling demand for the healthcare sector. Based on the current supply stock, there will be an estimated shortfall of around 350k beds in Spain, 200k in the UK, and 150k in the Netherlands by 2050.

# STUDENT HOUSING

| Sector rating | New supply[2] | Demand | Rent growth | Capital values | REIT pricing relative to NAV[3] |
|---|---|---|---|---|---|
| → | → | → | ↗ | ↗ | ↘ |

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

(2) New Supply: Red downward signifies new supply is currently high.
(3) REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

## Private equity

Student housing investment volume reached €6.1bn in 2024, slightly above the year prior, but still 24% below its long-term average and 60% lower than the record reached in 2022. Deal activity in the UK was subdued, although it remains by far the largest market, accounting for 50% of the total European volume. Tighter visa rules have contributed to a decline in international student applications and occupancy rate, particularly for second tier universities.

Conversely, there has been a notable increase in investment targeting Southern Europe, particularly Spain, which recorded its second-best year on record. According to the latest data from Spain's Ministry of Education, the number of international students increased by 8% over the last academic year to 240k, and by 16% compared to pre-pandemic levels. Additionally, 530k students—equivalent to 30% of the total university population—are enrolled in a province different from their origins. This compares to a current student housing supply of around 107k beds, and a further 10.5k in the pipeline, planned to be delivered by 2026, according to Savills.

In response to this growing demand, the Spanish government is taking steps to expand student accommodation and ease pressure on the residential housing market. For example, at the end of 2024, a protocol was signed requiring new private universities to provide housing for their students, according to ICEF, an international education consultancy.

**Risk considerations**

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed. Potential investors should be aware of the risks inherent to owning and investing in real estate, including value fluctuations, capital market pricing volatility, liquidity risks, leverage, credit risk, occupancy risk and legal risk. All these risks can lead to a decline in the value of the real estate, a decline in the income produced by the real estate and declines in the value or total loss in value of securities derived from investments in real estate.

**Important Information**

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. The opinions and predictions expressed are subject to change without prior notice. The information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account.

Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided. All figures shown in this document are in U.S. dollars unless otherwise noted.

This material may contain 'forward looking' information that is not purely historical in nature. Such information may include, among other things, projections, and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This document is issued in:

- The United States by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.
- Europe by Principal Global Investors (Ireland) Limited, 70 Sir John Rogerson's Quay, Dublin 2, D02 R296, Ireland. Principal Global Investors (Ireland) Limited is regulated by the Central Bank of Ireland. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (Ireland) Limited ("PGII") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGII, PGIE or PGII may delegate management authority to affiliates that are not authorised and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority, or the Central Bank of Ireland. In Europe, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID).
- United Kingdom by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorized and regulated by the Financial Conduct Authority ("FCA").
- United Arab Emirates by Principal Investor Management (DIFC) Limited, an entity registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as an Authorised Firm, in its capacity as distributor / promoter of the products and services of Principal Asset Management. This document is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organisation.
- Singapore by Principal Global Investors (Singapore) Limited (ACRA Reg. No. 199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act 2001. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.
- Australia by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS Licence No. 225385), which is regulated by the Australian Securities and Investments Commission and is only directed at wholesale clients as defined under Corporations Act 2001.
- This document is marketing material and is issued in Switzerland by Principal Global Investors (Switzerland) GmbH.
- Hong Kong SAR (China) by Principal Asset Management Company (Asia) Limited, which is regulated by the Securities and Futures Commission. This document has not been reviewed by the Securities and Futures Commission.
- Other APAC Countries/Jurisdictions, this material is issued for institutional investors only (or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

Principal Global Investors, LLC (PGI) is registered with the U.S. Commodity Futures Trading Commission (CFTC) as a commodity trading advisor (CTA), a commodity pool operator (CPO) and is a member of the National Futures Association (NFA). PGI advises qualified eligible persons (QEPs) under CFTC Regulation 4.7.

Principal Funds are distributed by Principal Funds Distributor, Inc.



MM12006-06 | 04/2025 | 4376144-042026