

Savills unveils key themes and top picks for European real estate investors in 2024

2 years ago



Savills has unveiled its key themes and top picks for European real estate investors in 2024, predicting that price discovery, energy, Artificial Intelligence (AI) and Environmental, Social and Governance (ESG) considerations will all have a significant impact on the industry this year.

Overall, the international real estate advisor forecasts a stronger outlook and more opportunities for European property investment over the next 12 months. Savills believes that European interest rates will start to drop this year while, for now, investors' returns will continue to be driven by income returns instead of capital growth.

Top picks for core/core+ investors:

1. Prime logistics markets in the UK, Germany, the Netherlands, France and Spain, driven by robust rental growth and index-linked rental structures.
2. Prime CBD offices with a diversified tenant mix in western and southern European markets with low vacancy rates and resilient economic growth prospects, including Paris CBD, Madrid, London West End, and Copenhagen.
3. Prime multifamily across Europe's largest cities but increasingly in Southern Europe.
4. Small and medium-sized grocery stores, particularly discounters, with good accessibility.
5. Prime retail parks across Europe, in strong catchment areas anchored by at least one large supermarket.

Top picks for value-add investors:

1. Older CBD offices for refurbishment in undersupplied markets to capture rental uplift such as

Germany's top six cities.

2. Modern logistics assets with two-three years unexpired lease terms providing the ability to capture market reversion in rents
3. New Purpose-Built Student Accommodation (PBSA) schemes, due to the continued rise in domestic and international students across the continent bolstered by increased levels of English language courses, particularly in Southern Europe.
4. Life sciences in Western Europe as rising demand for digital health has boosted investment into the sector, leading to increasing demand for office and laboratory facilities, notably in the UK, Germany, France, the Netherlands, Belgium and Switzerland.
5. Data centres in cities such as Prague, Genoa, Munich, Duesseldorf, Berlin, Milan, Cambridge, Manchester and Birmingham

Top picks for opportunistic investors

1. Nascent industrial and logistics sub-sectors, including Industrial Outdoor Storage (IOS), self-storage and electric vehicle charging, are seen as having high potential.
2. Repurposing of distressed real estate assets after strong price corrections.

Marcus Lemli, CEO Germany and Head of Investment Europe at Savills, says: "Motivated sellers are finding the buyer pool for European real estate is gradually returning, and we anticipate that equity-rich investors who are able to secure discounts for core stock before the competition returns will be rewarded. Among the more active buyer groups will be the newer French SCPIs, European insurance companies, Middle Eastern investors and US private equity firms."

Mike Barnes, Associate Director European Research at Savills, adds: "We expect investment activity in Europe's core real estate markets to gather pace as yields start to settle in H1."

Themes

Price discovery

2023 marked a year of price adjustment in European real estate but economists anticipate that the European Central Bank's interest rates have peaked at 4% and could drop to 2.75% by the end of the year. As a result, Savills anticipates there will be significant opportunity for investors to buy at the bottom of the market, with a focus on opportunities where capital values have either over-corrected, or where rental growth prospects might be accelerating.

Energy

In order to meet Net Zero Emissions (NZE) targets, the energy intensity of the property sector in Europe needs to decline nearly five times more quickly over the next decade than it has over the past decade. This means the energy consumed per square metre in 2030 must be around 35% less than in 2022. Those companies seeking to reduce their energy costs will opt for operationally efficient real estate. Changes in the energy landscape are also influencing investment patterns in the property sector. Markets with more independent energy sources or stronger renewable energy infrastructures could attract greater interest from investors.

AI

Savills expects that AI is set to significantly influence the landscape of retail, office, and logistics real estate across various aspects. Notably, in the instance where AI is used as a complement to labour and helps to improve productivity, the industry could see a secular shift in demand as the standard of living improves in economies where it is well implemented.

ESG

Properties that have achieved the highest green ratings are leasing faster, are future-proofed against further tightening regulations, are easier to secure debt against and have a lower liquidity risk upon disposal. Savills anticipates that increased demand and competition among occupiers to lease such buildings could lead to higher growth of prime rents in markets where there is a lack of availability, and, as a result, increase the income such buildings generate for their landlords.