REPORT | Q4 2024

EUROPEAN REAL ESTATE

SECTOR-SPECIFIC ANALYSIS:
Offices, retail, hotels, logistics, data centres, build-to-rent, student housing

A comprehensive review of discussions among the most prominent figures in European real estate

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European real estate has been recently challenged by geopolitical instability, a global pandemic, global conflict, and unprecedented inflation and interest rates. The industry finds itself at a moment of adaptation to the reality of the twenty-first century, including pandemic-accelerated trends and technological evolution which have impacted all sectors of the real estate industry to different extents.

During the 60+ roundtable discussions which took place at Europe GRI 2024, the market's most prominent figures analysed the current scenario and opportunities in each of the distinct sectors within real estate. This report provides an exclusive and comprehensive look into the insights shared during these high-level conversations.

Enjoy reading!

GUSTAVO FAVARON
CEO & Managing Partner, ***GRI Club***

INTRODUCTION

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potentialising the real estate market.

GRI Club reports present the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report was compiled following the annual **Europe GRI 2024** conference in Paris, gathering the most senior and respected real estate market players in Europe to analyse the current market scenario, sharing insights and experiences among industry peers at more than 60 topic-specific roundtable discussions over two days.

CHECK OUT ALL THE PHOTOS FROM **EUROPE GRI 2024**

OFFICES

» Market Divergence: US vs. Europe

US Office Market
Discussion participants noted that the US office market is under significant strain, with cities like New York and San Francisco facing soaring vacancy rates (around 20%) driven by work-from-home (WFH) policies, which have drastically reduced demand for office space.

Additionally, local policies in some US cities are exacerbating the situation by making downtown areas less attractive for both businesses and employees, with participants exemplifying concerns about safety and urban decay in cities like San Francisco.

European Office Market
In contrast, European office markets, particularly in prime locations like Paris, Milan, and London, are performing much better. Vacancy rates in these cities are significantly lower, often below 5%, especially in Central Business Districts (CBDs).

Although the WFH culture has impacted Europe, it has been to a lesser degree when compared to the US. However, this recovery is uneven across regions and sectors, with suburban offices and secondary cities seeing slower rebounds compared to prime urban centres. Prime office spaces in European capitals are seeing more robust demand, but there is a growing bifurcation, with only top-tier assets in major cities showing real resilience.

Office spaces in the CBDs of Paris, Milan, and London were even reported to be “safe” investments due to their central locations and strong tenant demand, and consequential low vacancy rates and stable rental incomes.

Meanwhile, the struggle with office spaces in secondary or suburban locations is, in many cases, driving the consideration of repurposing or converting these buildings to other uses, such as residential or mixed-use developments.

Regional Differences in European Office Markets
Regional differences in commuting patterns and work culture are playing a significant role in office demand. Cities in Eastern Europe, as well as Milan and Madrid, where commuting times are short, are seeing demand for office space remain relatively stable. In these cities, workers are more willing to return to the office, and the social culture favours in-person work.

In contrast, despite the relative better office performance in London, the return of workers to the office has, in fact, been slower, as many employees face long commutes and high living costs.

Investors noted that initial fears of a permanent office exodus were exaggerated, however, even in regions where tenant demand has remained stronger, there remains a wider trend of increased operational demands, such as providing better amenities and flexible working options to attract and retain tenants.

» Office Sector Specialisation: From One Class to Many

Participants acknowledged that the office sector will not disappear, but it is undergoing a fundamental transformation and becoming more complex, with greater emphasis on operational excellence, tenant experience, and sustainability.

The office market is no longer considered a homogeneous asset class, after recent fragmentation into multiple specialised sectors, each with its own needs and operational complexities. Flexible office spaces, co-working models, and high-amenity buildings catering to lifestyle needs are emerging as distinct categories.

Tenants now expect more than just a functional workspace; they want spaces that offer amenities like gyms, cafes, and wellness features to attract and retain talent. The traditional model of office ownership, where investors could simply collect rent with minimal effort, is no longer viable. Investors will need to be more hands-on and adapt to the changing landscape, with an eye toward long-term value creation.

Flexible leases and co-working spaces have become key trends, with some investors suggesting that the office market's more operational character is even akin to the hospitality sector. This shift towards more operational complexity has increased the need for expertise in areas like design, tenant services, and capital expenditures (CapEx) to maintain competitiveness.

Image: GRI / Midjourney

» Capital Challenges

Difficulty in Capital Raising

Raising capital for office investments has become more challenging, especially for assets that are considered high-risk or located in secondary locations. Investors noted that capital is increasingly being funnelled into sectors like logistics or residential real estate, which are seen as more stable. Office investments requiring heavy redevelopment face even more significant hurdles in securing financing.

CapEx Requirements

The need to invest in existing office buildings to make them more attractive to tenants is another significant challenge. Investors discussed the large amounts of CapEx required to bring older office buildings up to modern standards. These upgrades often include implementing green technologies to meet environmental regulations, improving amenities, and making spaces more flexible.

Without these improvements, offices risk becoming obsolete, however competition for limited capital is forcing investors to prioritise where they allocate their spending. In many cases, it's about balancing immediate needs, such as tenant experience, with long-term goals, such as ESG compliance.

» Sustainability and Future-Proofing

Green Building Requirements

Investors are increasingly focusing on the sustainability of their office assets, encouraged largely by tenant demand for green buildings, driven by both environmental regulations and corporate ESG goals.

Regulatory pressures are also very real, and strict government regulations in Europe with ambitious energy efficiency targets and impending deadlines are threatening obsolescence for certain buildings that don't meet the standards.

For instance, by 2030, many office buildings in the UK will need to meet stringent energy performance standards (Energy Performance Certificate ratings of 'B' or higher). With up to 70% of current office stock falling below this grade, market players face a massive challenge in upgrading their properties.

Image: CRI / Midjourney

The CapEx Question

Retrofitting older buildings to meet ambitious sustainability regulatory standards is expensive. A key challenge is the uncertainty surrounding how much CapEx is required to make buildings compliant with modern environmental standards. Investors are struggling to accurately predict the quantum of CapEx needed, as the extensive and expensive renovations needed in older buildings often equates to more than initially anticipated.

For example, upgrades may include overhauling HVAC systems, improving insulation, replacing windows, or even retrofitting the building's entire structure to meet new energy performance standards.

Some investors talked about categorising CapEx spending into different levels based on the severity of the upgrades needed. The first level involves just small operational improvements, the second; "little CapEx", and the third; "super CapEx". However, even with these categories, it is still extremely difficult - or impossible, according to some - to predict just how much capital is required.

Payback Period Uncertainty

Another major concern discussed was the uncertainty about the payback period for sustainability investments. While the potential benefits are clear (higher rents, stronger tenant demand, future regulatory compliance), the exact timeline for return on investment is difficult to predict.

Achieving full returns on the CapEx invested in greening a building will take time, and the benefits may not be immediate, in fact the payback period may extend over decades rather than years. However, the consensus was that it is a necessary investment for long-term competitiveness.

Some participants also acknowledged that there is a significant opportunity for long-term value creation within sustainable buildings, referencing higher rents, lower vacancy rates, and more stable long-term cash flows, as well as increased marketability of buildings with green certifications.

Image: GRI / Midjourney

RETAIL

» Retail Recovery

Retail, especially in the form of physical shopping centres, has made a significant recovery since the pandemic, and discussion participants reported footfall and sales near pre-COVID levels in many European countries.

Food Retail was particularly noted for its strong footfall and sales, with participants exemplifying leading supermarket chain, Carrefour, for its continual and aggressive expansion in diverse formats. Expansion has ranged from cash and carry to convenience stores, as well as expansion into travel retail, reflecting the diversity and resilience of physical retail formats despite the rise of e-commerce. The chain was also noted for its operational adaptability, highlighting that adjustment of their model to face the recent economic crisis contributed to the recent success.

Food and beverage offerings are increasingly central to retail's value proposition, creating experiential shopping environments. Gastronomy-focused retail was reported to be thriving, with a strong demand for food and beverage spaces in shopping centres.

Leisure and entertainment retail formats are also performing well, although they are more cyclical compared to other categories.

Health and beauty retail remains a key growth area across Europe, with high performance in recent years.

Fashion retailers like Zara, Mango, and H&M have continued to show strong results, despite concerns over e-commerce. These brands have adapted by consolidating their operations into fewer but larger stores in prime locations. This trend of "bigger, better, fewer" involves closing smaller, less profitable outlets while expanding footprints in key urban centres.

» The E-Commerce "Monster"

Although the rise of e-commerce has been a challenge for physical retail, participants discussed how the pandemic accelerated changes in consumer behaviour, leading to a more balanced perspective on the role of e-commerce versus brick-and-mortar retail. The "e-commerce monster" was tamed as consumers recognised the value of in-store experiences after being forced into online shopping during lockdowns.

The growing trend of combining retail experiences with other forms of entertainment or services such as food, beverage, and leisure is helping physical retail compete with e-commerce by offering something that online platforms cannot.

» Operational Performance vs. Market Performance

Value Adjustments

Spain was identified as a key market where retail assets have undergone significant repricing. Yields for retail assets have risen to 8-9%, signalling that the market may have reached a bottom.

Investors who had previously made offers on Spanish assets that were rejected, found that two years later, deals are now closing at the same prices they initially offered. This makes Spain one of the most attractive markets for retail acquisitions, with investors now seeing clearer opportunities at these new price points.

This repricing echoes across other European markets. In France, the pricing correction has been most evident in smaller cities, where yields have risen significantly. Retail assets, including hypermarkets, are trading at yields of 8-9%, which is a dramatic shift from the peak years, particularly outside of major urban centres. Investors highlighted that prime retail assets in Paris were previously trading at yields as low as 2-2.5%, which many considered unsustainable.

In Germany, retail assets are viewed as essential infrastructure, particularly in the food retail segment. Despite this, valuations have remained relatively low. Although repricing has not been as dramatic as in Spain or France, yields have widened slightly.

The UK market has also experienced repricing, particularly for shopping centres. One investor, managing some of the largest shopping centres in the UK, pointed out that traditional capital has been slow to return to this sector, resulting in discounted prices for these assets.

Valuation Stabilisation

Participants suggested that retail valuations are stabilising, and in some cases, may have reached the bottom. This stabilisation is evident in regions like Spain and Portugal, where retail assets are now transacting at stable prices after a period of significant correction.

In some cases, new types of capital have entered the market, allowing for price discovery at these lower valuations. This has led to clearer pricing for retail assets, and in certain markets, like the UK and Spain, traditional capital is starting to show interest again after several years of hesitation.

Market Disconnect

Despite strong operational performance across most retail formats, there is a clear disconnect between this and the capital markets. Many investors noted that while their retail operations have recovered, the capital markets have not yet reflected this in terms of asset valuations.

A number of participants shared that operational KPIs, such as occupancy and tenant retention rates, have remained strong, yet valuations in both private and public markets have lagged.

One participant revealed that their portfolio of 600 retail properties had near 100% tenant retention, and rents have increased by an average of 5% per year over the past three years, but these positive metrics are not yet reflected in valuations.

Capital Flow

Several investors reported that traditional sources of capital have been slow to return to the retail sector even as operations have improved, however they have finally started to see increased interest in recent months. There is also an uptick in interest from Asian investors who are seeing retail as a promising asset class given its inflation-hedging characteristics.

Investors also raised concerns about macroeconomic factors such as rising interest rates, inflation, and energy prices, which have impacted consumer sentiment and retail operations. However, the panel agreed that retail assets, particularly essential retail formats like supermarkets, are more resilient to these challenges.

It was agreed that the sector has not been as negatively impacted by rising interest rates as other sectors, such as offices or hospitality. Since many of these assets are leased to tenants on long-term contracts, with inflation-indexed rents, they have remained stable, even as borrowing costs have increased.

Overall, investors agreed that now is a good time to deploy capital in retail, given the low prices and strong operational fundamentals. The current scenario where retail assets are undervalued was described as a "window of opportunity" that could last one or two years, providing a chance for investors to acquire assets at attractive prices before valuations recover.

Image: GRI / Midjourney

HOTELS

» Hotel Performance: Luxury vs. Economy

The anticipated wave of distress sales in the hotel sector following the COVID pandemic did not materialise as expected. Instead, the sector has shown remarkable resilience, with hotels bouncing back quickly in terms of revenue and net operating income (NOI). Investors who expected to acquire distressed assets have faced stiff competition, as operational performance has largely exceeded expectations.

While hotel performance has been strong post-pandemic, some investors expect growth to slow slightly in the coming years. The post-COVID recovery saw rapid revenue growth, particularly in the leisure sector, but this is unlikely to continue at the same pace. Investors are becoming more cautious about forecasting future growth rates, focusing instead on stabilising and optimising operations.

The two extremes of the market, the luxury and economy hotel segments, have shown the most significant growth post-pandemic.

Luxury hotels benefit from high pricing elasticity, allowing operators to charge premium rates, especially as global travel demand for top-tier hotels increases. Meanwhile, budget hotels have maintained strong operational performance due to their low cost structures and operational efficiency.

In contrast, mid-range hotels are under more pressure, as they face rising operational costs and competition from both ends of the spectrum. The middle class is also feeling the impact of inflation, which is reflected in softer demand for mid-tier hotels.

» Challenge in Finding Assets

Investors have found it challenging to identify high-quality hotel assets in competitive markets. Competition for quality assets is fierce, especially in well-established markets. Investors noted that many hotels are tightly held by long-term owners including both families and institutional investors, who are reluctant to sell. This means that prime assets in key markets are rarely available, and when they are, they often attract multiple bidders, driving up prices.

The challenge is exacerbated by the lack of materialised distress post-COVID, mismatch in buyer-seller price expectations, as well as lengthy transaction processes due to complex ownership structures, regulatory hurdles, and the need for due diligence on operational performance.

One of the strategies discussed was focusing on granular or fragmented markets. In regions like Southern Europe, hotels are often owned by small operators or families. These markets offer opportunities to find assets that may not be actively marketed but can be acquired through local relationships and knowledge. Such opportunities can be fitting for investors less suited to large processes and open-market acquisitions with high price competition.

» Value-Add Opportunities

Value-add strategies were a central theme of the discussion. This approach involves purchasing hotels in need of operational improvements, such as rebranding or major refurbishments, to significantly increase their value. Investors believe that the ability to "add value" is a key differentiator between hotels and other real estate assets.

Investors talked extensively about the **operational side of value-add.** Many hotels, they noted, are still operated under inefficient or outdated contracts, and this creates opportunities for improvement. For example, investors can change management teams, renegotiate supplier agreements, or update contract terms with brands or operators, to reduce costs and improve service quality.

A significant part of value-add involves optimising a hotel's **cost structure.** This could mean reducing operating costs, such as energy, cleaning, or staffing, and improving margins.

Another core value-add tactic discussed was **rebranding** a hotel or changing its management. Hotels may be operating under the wrong brand, which limits their performance. Switching to a better-known brand with a stronger distribution network or a more effective management company can dramatically increase occupancy rates and average daily rates (ADR).

Investors also talked about **changing the operator** as a key value-add strategy. In some cases, the existing operator might not be maximising the hotel's potential, so bringing in a more experienced or specialised management company can unlock additional value. Some panellists even suggested that value could be created by switching from a full-service operator to a white-label or independent operator to reduce costs and increase flexibility.

Physical improvements, such as refurbishing rooms, upgrading common areas, or enhancing food and beverage outlets, were seen as essential elements of value-add strategies. Investors pointed out that even small, targeted refurbishments can have a significant impact on a hotel's attractiveness to guests, leading to higher occupancy and revenue.

For some properties, **heavy refurbishments** may be necessary to reposition the asset. For example, taking a tired, mid-range hotel and upgrading it to a boutique or lifestyle property could open the hotel to a new, higher-spending demographic.

Value-add strategies often include **creativity in asset use**, such as converting underutilised spaces into revenue-generating areas. For instance, unused meeting rooms could be turned into co-working spaces, or rooftop areas could be developed into premium dining or bar spaces to attract both guests and locals.

Investors noted the **flexibility** that hotels offer compared to other real estate assets. Unlike office or retail properties, hotels can be repositioned creatively in ways that appeal to changing consumer preferences, whether through design, service enhancements, or experiential offerings.

The conversation also covered the **types of markets** where value-add opportunities are most prevalent. Southern European markets were highlighted, especially where family-owned hotels may be undercapitalised or mismanaged. Investors also mentioned that secondary cities or tourist destinations with strong demand but fragmented ownership structures offer good value-add potential.

Granular or **fragmented markets** with a lot of smaller players present opportunities for investors with strong local teams who can identify underperforming assets that might not be on the radar of larger institutional investors.

» Cities with Barriers to Entry

Cities with high barriers to entry, such as established urban centres and key tourist destinations in Europe, are often heavily regulated, making it difficult to build new hotels. These cities have stringent zoning laws, historic preservation regulations, and other development restrictions that limit the creation of new hotel supply. As a result, existing hotels in these cities are more valuable as there is less risk of oversupply driving down occupancy rates or room rates.

These markets are seen as more stable for long-term investments. With fewer new developments being built and limited competition, the demand for existing hotel properties remains strong, supporting higher room rates and occupancy, and allowing owners of existing properties to maintain pricing power and achieve stronger returns over time.

Investing in cities with barriers to entry was also seen as a defensive strategy, especially during economic downturns. Even if demand softens due to macroeconomic factors, these cities' limited supply ensures that hotels can maintain profitability better than in markets where new hotel supply can quickly flood the market.

Investors particularly mentioned key gateway cities in Europe, such as Paris and London, as prime examples of locations with high barriers to entry, while also referencing Barcelona and Milan. These cities have well-established hotel markets, strong demand from both leisure and business travellers, and significant limitations on new development.

Although hotels in these cities often come with higher acquisition costs, the panellists argued that the price premium is justified. The relative stability of the market, combined with the difficulty of building new properties, creates a "moat" around existing assets, making them more attractive to long-term investors.

Image: GRI / Midjourney

» Branded Residences

Opportunities in branded residences are gaining investor attention, particularly in Southern Europe. These projects allow developers to sell residential units under a hotel's brand, often providing early cash flow to help finance the hotel's construction. This model has been successful in resort destinations and high-demand urban centres.

Branded residences work best when they are part of an integrated ecosystem - such as Four Seasons Residences - where the brand's reputation enhances the overall value of the property and the hotel benefits from established loyalty programs and strong distribution systems.

However, some discussion participants displayed scepticism about the long-term value of branded residences. While they can help generate early revenue, the high fees of branding may not always be justified and can erode profits, particularly in mid-range and budget hotels.

Furthermore, in certain markets, branding might not add significant value. For instance, in resort locations with high repeat customers, the added cost of a major brand may not justify the returns. However, in urban centres with heavy competition, having a recognised brand can increase a hotel's visibility and appeal to a broader audience.

There is also the challenge of managing branded residences alongside hotel operation and ensuring that both the residential and hotel components complement each other. There are also questions about whether consumers will continue to see value in these branded residential products as they become more common.

The discussion also touched on the benefits of creating their own hotel brands or using white-label operators, allowing for control over operations and avoiding franchise or management fees. In some cases, investors have even created entirely new hotel brands to better fit the local market and maximise profits.

» Debt and Yield Expectations

Debt Availability

While the broader real estate market has seen a reduction in available debt, particularly for office buildings, participants agreed that the hotel sector still has substantial access to financing. Banks and lenders are willing to finance hotel deals, especially for value-add opportunities, where there is clear potential to increase net operating income (NOI) through operational improvements.

Yield Expectations

On the debt side, it was suggested that hotels tend to offer higher yields compared to traditional real estate assets like offices or industrial properties. This is due to the operational complexity and higher risk associated with hotels, which require active management and constant optimisation. Lenders typically expect higher interest rates for hotel loans, and spreads on hotel debt can be significantly wider than for office or industrial loans.

» Capital Structure and Strategies

Debt and Equity Mix

Discussion participants agreed that both debt and equity are important for hotel investments, with debt often providing structured financial security while equity allows for more control and the ability to make operational changes.

Investors are increasingly cautious about how they structure their capital, ensuring they have the flexibility to either sell or refinance depending on market conditions.

Operational Flexibility

Many investors prefer to retain flexibility in hotel management contracts, guaranteeing they have the option to switch operators or even reposition the asset as market conditions change. This flexibility allows for continual adjustments to the business plan, helping investors to maximise returns.

Exit Strategies and Liquidity

The discussion pointed out that selling hotel assets, especially high-end, stabilised properties, can be challenging due to the limited number of buyers in the luxury sector. While luxury hotels attract interest from high-net-worth individuals and institutional buyers, the pool of potential purchasers is smaller compared to more affordable or value-add properties.

One effective strategy discussed was selling hotels before operations are fully stabilised, allowing buyers to purchase the potential rather than just the existing cash flow. This “sell the dream” approach can attract buyers who believe they can optimise the asset further, even if the current operator hasn’t fully maximised the hotel’s performance.

Regarding value-add properties, once a hotel has been rebranded or refurbished, finding a buyer who sees the additional value can still be challenging. However, the broader pool of this type of hotel buyer can provide more exit opportunities.

INDUSTRIAL & LOGISTICS

» Supply and Demand Dynamics

Slowing Supply

One of the main factors driving logistics real estate prices is the limited availability of land suitable for development, particularly near major cities and transport hubs. This scarcity is exacerbated by strict European regulations and environmental protection of land, which often restrict new developments. This was highlighted to be particularly the case in Germany and Italy.

Furthermore, rising construction costs have slowed the pipeline of new logistics developments in recent months, and this limited supply is likely to put upward pressure on rents in the coming years, as demand continues to outstrip supply.

Demand Drivers

Meanwhile, the demand for logistics space remains strong despite economic uncertainties, driven by key trends such as the rise of e-commerce, nearshoring, and reshoring.

- **E-Commerce** - E-commerce continues to be a major driver of logistics demand. While the UK has seen e-commerce penetration rates exceed 30%, countries like Germany and Italy are still catching up, with penetration rates at around 20% and 10%, respectively. As e-commerce grows in these countries, demand for modern logistics facilities will continue to rise.
- **Reshoring and Nearshoring** - These trends are driven by the need for businesses to secure their supply chains and reduce dependency on distant markets. Geopolitical tensions, supply chain disruptions, and increasing transportation costs have encouraged companies to bring production closer to home, increasing demand for logistics space in Europe.

» Rental Growth and Affordability

The discussion noted that logistics rents have grown significantly in recent years, particularly in highly desirable, urban-adjacent areas such as central London. Despite the recent increases, investors believe there is still potential for rental growth due to the scarcity of supply.

A key argument in supporting continued rental growth is that, for many logistics businesses, rental expenses constitute a relatively minor portion of their overall cost structure when compared to transportation, labour, and fuel costs.

Even with higher rents, businesses can still benefit financially from being closer to urban centres through reduced transportation costs which often outweigh the rent itself. The discussion suggested that even if rents were to double or triple in some areas, the savings from reduced transportation costs would make these locations attractive.

However, while some markets may experience pockets of strong growth, the era of double-digit rental growth appears to be over. Investors expect more modest, but steady, rental increases of 2% to 4% annually, with specific high-demand regions such as Southern Europe seeing stronger growth.

» Capital Sentiment

The rising cost of financing has led to a slowdown in capital deployment for some investors, however there are signs that liquidity is returning to the market. While the number of buyers in the market has shrunk, family offices and smaller investors are still active and willing to invest, particularly in core assets with long-term tenants. More recently, major transactions also involving large players signal that investor confidence is gradually returning.

Investors are cautiously optimistic that once interest rates begin to ease, capital will flow back into the logistics sector more freely. The current environment is seen as a temporary hurdle, and many believe that the long-term prospects for logistics remain strong considering solid long-term fundamentals.

» Speculative Development

While speculative development has slowed in some areas, it has not disappeared entirely. In some sub-markets, particularly those with minimal new supply, developers remain confident that speculative projects will lease quickly once completed.

It was emphasised that the reality has shifted since two years ago when developers could build almost anywhere, and tenants would rush to sign leases. Today, the focus has shifted to more careful market analysis, where developers only move forward in markets where they see a clear supply-demand imbalance. Furthermore, occupiers are taking longer to make decisions, adding uncertainty to speculative projects.

Image: GRI / Midjourney

» ESG and Innovation

Environmental Sustainability

ESG factors have become increasingly central to both investors and occupiers, with many new logistics developments designed to meet stringent sustainability standards, including energy efficiency, renewable energy integration, and minimising carbon footprints.

Demand for ESG implementation is also coming largely from occupiers, particularly multinational corporations. For many tenants, securing a facility that aligns with their sustainability goals is a critical factor in their decision-making process.

There is an increased interest in retrofitting existing logistics facilities to improve their environmental performance rather than demolishing and rebuilding, considering the high carbon emissions associated with new construction. In cases where retrofitting is not feasible, some investors are opting for new, highly energy-efficient builds.

Automation and Innovation

As logistics operators seek to improve efficiency, there is a growing trend towards automation in warehouses. Automated systems, such as robotic picking and sorting, help reduce labour costs and increase throughput, making facilities more efficient and attractive to tenants.

Automated facilities often come with higher upfront costs, but their operational efficiencies can justify higher rental rates and tenants have proven to be willing to pay premium rents for facilities that reduce their overall operational costs, such as transportation and labour.

Automation is particularly important in urban logistics facilities, where space is limited, and the need for efficiency is greater. Market players are increasingly focusing on developing high-tech urban logistics centres that can meet the growing demand for rapid delivery in densely populated areas.

Electrification of Fleets

Many occupiers, especially those in the transportation and logistics sectors, are beginning to electrify their vehicle fleets. This shift is driven by both regulatory pressures and the desire to reduce operating costs. Investors and developers are responding to this demand by incorporating electric vehicle (EV) charging infrastructure into their logistics parks.

The debate between hydrogen and electric vehicles continues, with some companies investing in hydrogen-powered trucks for long-haul logistics, while others focus on electric vehicles for shorter, urban routes.

DATA CENTRES

Consensus revealed that the demand for data storage and AI-driven computing will continue to grow exponentially. AI requires massive computational power, which will drive further expansion of data centres, with projections that the market will double or triple in the next five years, regardless of improvements in data storage efficiency.

» Speculative Development

There is an increasing trend of speculative development for data centres, particularly near urban centres where demand is high. Some investors are willing to build data centres without pre-leasing, betting on the strong demand from hyperscalers and other large tenants. However, this strategy is considered risky, especially for developers without significant financial resources.

Participants addressed phased development strategies, where a large data centre campus might be built in stages. For instance, a 150 MW campus could be developed in 10-20 MW increments, with subsequent phases depending on tenant demand. This approach allows developers to manage risk more effectively while meeting market demand over time.

» Power

The exponential growth in demand for data centres requires rapid development in infrastructure to keep pace, and most crucially, infrastructure facilitating access to power.

In most European markets, securing power is a critical prerequisite before acquiring land for a data centre. Land located near urban centres was highlighted to facilitate access to strong power in comparison to more rural areas, however, this land also commands higher prices.

Investors noted that without guaranteed power supply, buying land becomes highly risky. Different countries have varying regulations and processes for securing power. In Germany, for example, the approval process requires local negotiations with energy providers and municipalities. This was contrasted with markets like Spain, where power can be secured more easily before completing land transactions.

Furthering the challenges around power supply, as part of the regulatory framework, data centres are increasingly required to source all of their power from renewable energy sources. While some companies claim to be 100% green, participants were sceptical about the practicality of these claims, pointing out that many centres still rely on non-renewable energy despite offsetting through green credits.

» Energy Efficiency & Obsolescence Risk

Discussions addressed Power Usage Effectiveness (PUE) as a key metric for energy efficiency in data centres. In colder climates like Norway, it is easier to achieve lower PUE values (e.g., 1.03) by using natural cooling from nearby lakes. Participants noted that achieving a perfect PUE (1.0) is unrealistic for most regions, although future innovations such as fully submerged liquid cooling may shift this landscape.

This shift from air-based cooling to liquid-based cooling, which is required to handle the increasing density of servers used in AI and high-performance computing applications, may lead to the rapid obsolescence of older data centres, as retrofitting them to meet modern standards is often not cost-effective.

Investors expressed concerns about the potential obsolescence of data centres given the speed of technological change. A data centre built today might be outdated in five years, raising questions about the long-term value of these investments. It is crucial to plan for future technological shifts, such as quantum computing, however this adds significant complexity and risk.

» Regulatory Pressures

A major focus of discussions was the German Energy Efficiency Act, requiring data centres to comply with strict PUE targets by 2026, including the additional challenge of sourcing 100% of power from green energy by 2027. Company executives could face liability risks if they fail to comply.

Meeting these standards is particularly challenging for smaller and older data centres, and the discussion highlighted that only large-scale hyperscalers like Google, Amazon, and Microsoft are equipped to handle these requirements, while smaller companies struggle with compliance due to limited resources and expertise.

The conversation noted that smaller companies are also often unaware of regulatory changes and will face difficulties adapting to them. This gap in awareness is expected to lead to increased demand for outsourcing data storage to professional data centre operators who can meet the regulations.

Image: GRI / Midjourney

» Outsourcing and Hyperscalers

The discussion addressed the tension between outsourcing data storage to hyperscalers and the desire of some companies to maintain control by running their own data centres. Participants noted that, while hyperscalers offer reliability, some enterprise clients prefer having dedicated control over their own servers for security reasons. However, managing their own data centres efficiently and legally will become increasingly difficult as regulations tighten.

For smaller data centre operators, the challenge is convincing clients to move away from managing their own IT infrastructure and servers to use third-party facilities, while also competing with the efficiency and scale of hyperscalers.

» Investor Strategies and Risk Management

- **Diversify Client Portfolios** - Participants discussed the benefits of diversifying their client base, serving both hyperscalers and smaller enterprise clients. This helps mitigate the risk of relying too heavily on one type of customer.
- **Strong Local Partners** - The discussion emphasised the importance of having strong local partners to manage negotiations with municipalities and power providers.
- **Mitigate Obsolescence Risk** - The discussion covered strategies to reduce the risk of obsolescence, such as designing flexible data centres that can adapt to future technological changes. However, there was recognition that predicting the future needs of data centres over a 10-20 year period is incredibly difficult, particularly with the rapid evolution of technology.
- **Exit Strategies** - Investors noted that the long-term returns of data centres are uncertain due to the risk of obsolescence. The challenge lies in balancing the capital-intensive nature of building data centres with the potential that technological advancements might render them less valuable in the near future. Some investors suggested focusing on building portfolios that could be sold to hyperscalers or other large-scale operators once fully developed.


Image: GRI / Midjourney

RESI: SINGLE-FAMILY & MULTIFAMILY BUILD-TO-RENT

» Market Resilience

The discussion began by acknowledging the resilience of the multifamily residential (MFR) sector despite significant challenges over the past five years, such as inflation, energy crises, and geopolitical tensions. However, while the asset class has been stable, it is certainly not immune to capital market pressures.

Multifamily assets, although operationally strong, have seen declining valuations in the capital markets, in both the debt and equity spaces. This decline is largely attributed to narrow yields and rising interest rates, making financing more expensive.

However, participants expressed optimism due to the recent "pivot" in interest rates, hoping this would signal a shift in market sentiment. Some noted that the equity and bond markets have recently shown signs of improvement, especially for real estate companies, which could herald the start of a new investment cycle in the residential sector.

Overall, investor sentiment remains positive, and many expressed confidence that smaller deals will continue to take place, even if larger transactions face headwinds. Meanwhile, the total amount of capital flowing into the sector may be smaller in the future, due to rising fixed-income returns, making bonds and other lower-risk investments more appealing to pension funds and institutional investors.

» Construction Costs and Financing

Construction costs, a key concern for developers, were discussed in depth. While material costs in many parts of Europe have stabilised, labour costs continue to rise, pushing overall development costs up and making it harder for developers to finance new projects without taking on significant risks.

Financing also remains a significant challenge, and developers are hesitant to build on a speculative basis without securing partners or long-term financing due to the high risks associated with today's economic environment.

A number of participants noted, however, that in some regions developers are finding it slightly easier to lock in long-term fixed-price contracts for new construction projects, which wasn't possible in the immediate post-COVID era.

» Regulatory Paradox

Several markets are also experiencing significant pressure due to rent caps and other forms of regulation. These measures have, according to participants, led to underinvestment in new stock and made it difficult for investors to generate the returns needed to justify their investments. Several cities have even witnessed international investors pull out due to unpredictable regulatory environments.

Investors cited how regulations have created a paradox: supposedly implemented to improve housing affordability, but often having the opposite effect by reducing the supply of new homes.

Regulation brings both stability and uncertainty. While a stable regulatory environment allows the market to adjust and perform efficiently, any hint of potential changes, such as rent freezes or caps, can cause immediate pullbacks in investments.

» Investor Profiles and Strategies

There has been an interesting shift in investor profiles in the build-to-rent (BTR) space. Historically, dominated by institutional capital and large greenfield multifamily projects, there is now a growing interest from private capital eyeing high returns in these sectors, particularly in markets with large housing shortages.

This shift towards private capital is seen in several European markets, but particularly in countries like Portugal, where there is a significant imbalance between housing supply and demand.

However, rising costs of construction and labour, and limited ability of tenants to afford premium rents create difficulties in achieving the investment objectives necessary for the market to grow sustainably.

» Single-Family Market

Single-family homes, particularly in the UK, were discussed as a growing area within the BTR sector, although still largely nascent in Europe compared to multifamily, and many investors are hesitant due to a lack of sufficient data and established benchmarks for evaluating returns. Additionally, similarly to MFR projects, rent caps and high development costs present challenges in making these projects viable.

Investors are interested but cautious, particularly in finding ways to scale single-family investments efficiently. One participant mentioned the difficulty of aligning development strategies with housebuilders who are more focused on selling homes rather than engaging in long-term rental deals.

The discussion noted that housebuilders with too much land have been engaging in package deals with investors to sell units at a slight discount. However, the discounts are usually minor, limiting the scope for opportunistic investors to reap large gains from these transactions.

Furthermore, these deals typically involve bulk transactions spread across different locations, bringing challenges in managing them efficiently. To make these deals work, investors need to buy a significant number of units to achieve the scale needed for operational efficiency.

» Operational and Asset Quality

A key point raised was the importance of operational excellence and the quality of assets in generating consistent rental income in the BTR market. Improving the operational side of rental properties and keeping costs under control is crucial to ensuring future profitability in a market where significant rental growth is difficult to achieve due to economic pressures.

Innovations like densifying living spaces (e.g. micro-living or co-living arrangements) can enhance returns by generating higher per-unit rents, however they come with challenges, including regulatory hurdles and maintaining high occupancy rates.

ESG

Ensuring high quality assets includes incorporating ESG-oriented characteristics. Older housing stock, particularly those that do not meet modern energy efficiency standards, are beginning to lose significant value if not adapted to comply with modern ESG standards.

The challenge lies in the high cost of upgrading old stock to meet these standards, and there's still uncertainty around who will bear these costs - the tenants, landlords, or governments.

However, it was agreed that ESG-related upgrades not only improve asset value and environmental outcomes, but can also unlock new sources of financing, such as transformation loans. Although it was cautioned that securing capital for such projects requires a clear business plan for improving older properties.

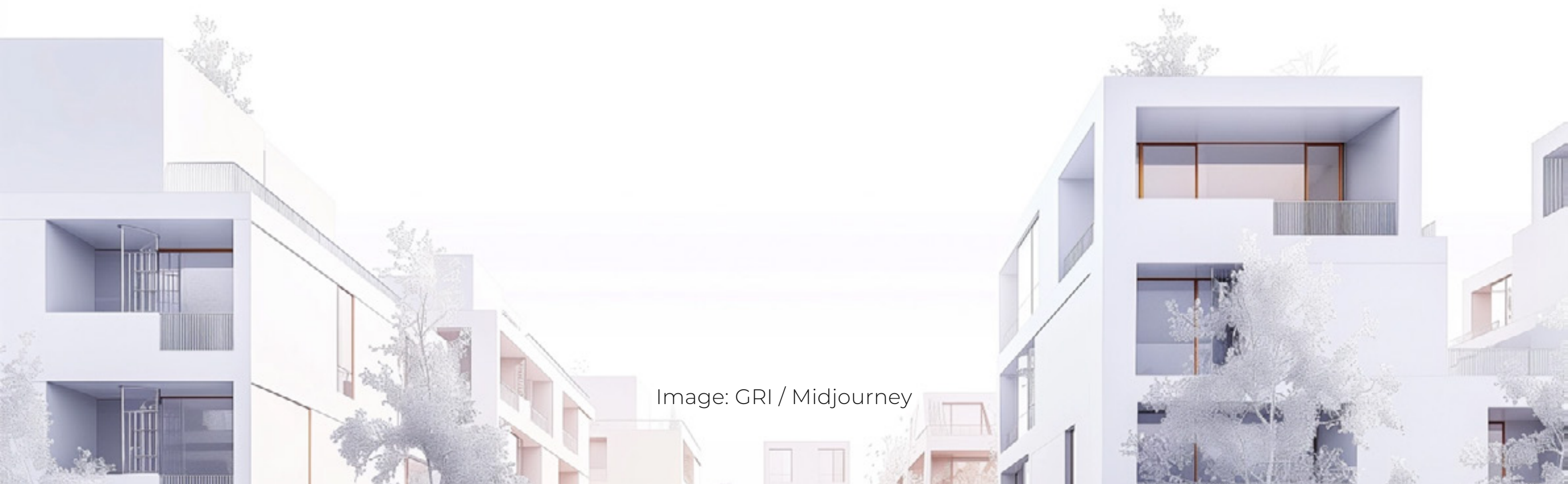

Image: GRI / Midjourney

STUDENT HOUSING

The demand for purpose-built student accommodation (PBSA) is growing, particularly driven by international students seeking well-managed housing options. This is evident in markets like the UK, where student housing has developed significantly over the years, making the region a leader in the sector.

The rest of Europe is considered to be around five years behind in terms of PBSA supply, providing a promising investment opportunity for developers and investors who are willing to take a long-term view.

» Investor Sentiment

Investment challenges in the student housing sector revolve around capital constraints, yield volatility, and rising interest rates. The sector remains attractive, but transaction volumes have slowed due to these economic factors.

Investors noted that many parties are interested in the sector, with some stating they have significant capital allocated for student housing investments, yet they are hesitant to make moves due to uncertain market conditions. This “wait-and-see” approach has led to fewer transactions than expected.

Liquidity in the student housing market is therefore currently low. Investors believe that the sector will experience a recovery, but not until 2025 - pushed back from earlier predictions of a recovery in the second half of 2024. The rebound is also expected to be concentrated in locations where distressed assets, bank foreclosures, or office buildings can be converted into residential or student housing.

» Operational Complexities

Another challenge is the operational complexity of running student housing developments. The sector’s reliance on effective management is crucial, especially in times of inflation or rising operational costs, particularly impacted by energy prices. Some participants highlighted the difficulty of managing leases during inflationary periods, where long-term fixed leases might fail to keep pace with rising costs.

Flexible lease structures have been seen as more advantageous, allowing operators to adjust rents in line with market conditions and inflation, but they require skilled management to implement effectively.

Moreover, investors emphasised the importance of having a good manager who understands the intricacies of managing student accommodations, such as turnover rates, maintenance, and inflation hedging. Managing student housing requires balancing operational costs while ensuring the property remains competitive and attractive to students.

Well-managed properties, even during difficult market conditions, can continue to perform well due to their flexibility and ability to adjust rents annually.

» Regional Differences

Investors are acutely aware of the regulatory environments in different countries, as these heavily impact the attractiveness and profitability of student housing investments.

United Kingdom
The UK currently has a favourable regulatory environment for student housing, with no strict rental controls at the moment. However, investors expressed concern about the potential for future regulations, particularly considering the entrance of the Labour government. New policies, such as rental caps or more stringent tenancy laws could impact profitability and thus deter new investments.

There was also mention of the Building Safety Act, a regulatory challenge affecting the development of new housing in the UK, particularly high-rise buildings. This act has slowed the development of new projects as developers struggle to comply with new safety standards. Investors noted that until these regulatory issues are resolved, the supply of new beds will remain constrained, which could affect the market for the next few years.

Ireland
In Ireland, regulatory changes have posed significant challenges for student housing operators. The government introduced rental caps and other tenancy regulations, including rules about the length of tenancy contracts. These regulations were initially introduced to protect students and ensure affordability, but they have had unintended consequences for operators.

Limits on tenancy lengths which cap contracts at 41 weeks have proven problematic. Many international students, who make up a large portion of the student housing market, prefer to stay in accommodations for the entire year, but regulatory caps now force them to vacate after 41 weeks. This has created inefficiencies in the market, making it harder for operators to keep beds filled year-round.

Additionally, rent caps which were implemented to shield students from sudden rent increases, disregard rising operational costs, particularly for utilities, which have spiked since the pandemic. Rising energy costs and other operational expenses are further straining operators.

France

In France, the rights of tenants are heavily protected by law, which creates challenges for student housing operators. Removing non-paying tenants is particularly difficult, and this applies both to individual tenants and operators managing buildings under lease agreements. Once a lease is signed, it becomes very difficult to evict a tenant, even if they fail to pay rent, making operations riskier for investors.

Investors discussed the contrast between lease agreements and management contracts in France. Lease agreements offer stability but come with regulatory risks due to the difficulty of enforcing terms, especially if the tenant defaults.

On the other hand, management contracts provide more flexibility since operators can change the management of the property quickly if needed, but they may not offer the same level of long-term security for investors.

Investors in France need to be more knowledgeable about the nuances of French law and the risks of tenant protection which has led some to shy away from the French market unless they are confident in their operational model or have strong partnerships with experienced local managers.

Germany

Germany also has strong tenant protections, making it difficult for operators to manage student housing properties. Investors pointed out that many German pension funds and other institutional investors are restricted from operating the management side of student housing due to regulatory requirements. Instead, these funds must rely on the rental contract system, which limits their flexibility in managing the properties and responding to market changes.

This lack of operational control can make it harder to align investor interests with the day-to-day management of the properties, as they are locked into long-term rental agreements with limited ability to adapt quickly. Investors emphasised the need to find solutions that align the interests of the property manager and the investors, which is crucial for the long-term success of student housing investments in Germany.

Poland and Eastern Europe

In Poland, while demand for student housing is high, the regulatory environment and development complexity are significant barriers to entry. Investors noted that development projects in Eastern Europe, including Poland, are particularly difficult to navigate due to the complicated regulatory framework, which can delay projects and make it harder to attract capital.

Participants revealed that development in cities like Warsaw faces considerable hurdles, despite the high demand for student housing from international students. Regulatory delays, zoning issues, and bureaucracy can slow down the approval and construction process, making it harder to meet the demand for new student housing.

This is compounded by currency risks in markets like Poland, where rents may be collected in Zloty, but costs and financing are often in Euros, creating additional financial challenges for developers and operators when it comes to hedging currency risk.

Spain
In Spain, the regulatory environment is viewed as more favourable, making it a more attractive market for investors. Barcelona was highlighted as a strong market for student housing, with robust demand and less stringent regulatory hurdles compared to other European cities.

However, investors noted that the regulatory landscape can vary significantly across regions within Spain, meaning that a micro-analysis of each market is necessary to fully understand the local challenges and opportunities

» Political Rhetoric

The discussion also saw concerns about broader political rhetoric and its impact on student housing markets, particularly in terms of international students. The rise of political movements that are hostile to immigration and foreign students, particularly in countries like the US, UK, and Australia, has had a chilling effect on investment in student housing.

In countries like the US, political rhetoric during the Trump administration led to a noticeable decline in international student applications, which redirected many students to countries like Australia and Spain. This shift in student mobility, driven by political narratives, directly affects the profitability and attractiveness of student housing investments in certain regions.


Image: GRI / Midjourney

» Affordability and Competition

Affordability is a growing concern in the student housing market, particularly in prime cities where rent inflation has been substantial. While student housing developments targeting wealthier international students have performed well, many markets are beginning to hit affordability thresholds.

Investors noted that in some regions, students are opting for cheaper alternatives such as private rental schemes or build-to-rent platforms, which offer a different value proposition compared to PBSA.

The rise of BTR platforms and the increasing number of private rented sector (PRS) developments have created more options for students, making the market more competitive. Operators of these platforms have become more adept at targeting students, offering similar services to PBSA but often at a lower cost.

As a result, student housing operators must differentiate their offerings through additional amenities and services, which may appeal to students who prioritise community living or convenience.

» Integrated Management Models

Despite short-term challenges, investors remain optimistic about the long-term potential of the student housing market. They see it as a resilient sector that will continue to grow as student numbers increase globally, especially in markets with a high influx of international students.

The key to success lies in focusing on quality assets in prime locations and ensuring that operations are well-managed. Investors are particularly in favour of an integrated model, where the real estate asset and management are combined under one roof. This structure allows for better alignment of interests between the real estate investors and operators, as decisions are made with a long-term focus on maximising the value of the property.

Integrated models also allow for better handling of market volatility, as the same entity controls both the operational and real estate aspects, leading to more strategic, long-term decisions that benefit the business.

The discussion highlighted the contrast between traditional real estate investors and those who understand the operational nature of student housing. Traditional investors often focus solely on the asset, while those more familiar with the sector recognise the importance of operational performance in generating returns.

This operational focus means that management quality is critical to success in the student housing market, and investors are advised to partner with experienced operators who can adapt to changing market conditions.

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