



EUROPEAN REAL ESTATE MARKETS:

UK, FRANCE, GERMANY, SPAIN, ITALY, CEE, PORTUGAL

High-level analysis from leading market players of major trends and challenges facing individual European real estate markets

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“ European real estate markets are navigating a complex landscape, each with its own distinct challenges and opportunities. Geopolitical instability, the global pandemic, and rising inflation and interest rates have impacted the continent in varying ways, with every country experiencing unique dynamics.

Europe GRI 2024 brought together the leading industry players from each of these unique markets, to participate in over 60 roundtable discussions and examine the nuances across individual markets, highlighting the diverse realities faced by each country.

This report offers a deep dive into these exclusive conversations, revealing the country-specific insights that are shaping the future of European real estate.

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** 



UNITED KINGDOM - NEW DEMANDS SHAPING LONDON

» **London's Appeal and Investment Outlook**

Despite political challenges, London has retained its global appeal, continuing to outshine its competitors in attracting international real estate capital. As one participant described, the “stickiness” of London is unmatched. The market still sees significant inflows of capital despite Brexit, COVID-19, and recent political turbulence.

While other global markets are struggling with investment volumes, London is holding steady, even outpacing major peers like New York and Paris. The city has a transactional environment that allows capital to flow more freely, which is critical as foreign investors remain heavily interested in London's long-term growth potential.

Over the past six months, the market has been driven by private equity funds, which see value in London's capacity to rebound quickly. Although institutional money, such as sovereign wealth funds, remains cautious, the optimism is growing that these funds will return once stability is clearer, particularly for regeneration projects.

» **Planning and Political Landscape**

London's planning system is viewed as functional but slow. While deals eventually come through, there are inefficiencies in the system that unnecessarily extend project timelines, and many large projects, such as regeneration schemes, are hindered by bureaucratic delays, frustrating developers and investors.

Brexit and the instability in the UK government have raised questions among foreign investors about the country's governance. Investors are concerned about tax penalties, the treatment of non-domiciled residents, and overall economic policy direction. Improving tax structures, including corporation tax, corporate dividend tax, and tax on retained earnings, is critical to maintaining London's attractiveness.

Another significant issue raised was the perceived uneven treatment of international investors compared to domestic ones. Investors from abroad feel that they receive less favourable treatment, especially regarding taxes and regulatory hurdles, and discussions made calls for a more balanced approach to level the playing field.

» Sector Specific Insights

Offices

The COVID-19 pandemic drastically altered how businesses approach office spaces, forcing companies to rethink their office setups and shift toward hybrid work models. London has quickly adapted by creating more flexible and amenity-rich spaces to entice workers back. Today's employees demand more than just a functional office, and buildings must now offer home-like comforts with a modern, employee-centric environment in order to retain talent.

Some large investors, particularly sovereign wealth funds, are still reluctant to reinvest in office spaces. The market is at a tipping point where convincing investors of the sector's viability is critical, and the consensus is that London is moving in the right direction in this regard.

Residential

London faces an ongoing affordable housing crisis. Some ongoing regeneration projects are expected to deliver thousands of homes, but a significant challenge remains in making a substantial portion of these affordable. Public land in London requires 50% of homes to be affordable, which is a difficult target to meet financially.

Public sector involvement is crucial for de-risking large-scale regeneration projects. Participants referred to some projects currently being developed which are partly funded by central government investment, and a substantial portion of the funding has already been secured. However, private capital is needed to complete the transformation of these projects, and patience is required given the long-term nature of regeneration projects.



» Infrastructure and London's Reinvention Potential

Ageing Infrastructure

London's infrastructure is ageing, and its Victorian underground network is becoming increasingly problematic. There was a strong call for more investment in infrastructure, particularly transport systems. Suggestions were made about introducing private participation in funding London's underground network, similar to models used in Japan.

While the Elizabeth Line has been a significant addition to London's transport network, it is not enough. Discussions suggested that projects like Crossrail 2 are essential for the long-term growth of the city. The existing infrastructure cannot keep up with London's current or future demands.

Life Sciences and New Sectors

London has a unique ability to reinvent itself by pivoting toward new growth sectors. The life sciences sector, in particular, has seen substantial investment, and London and the Oxford-Cambridge Arc are positioning themselves as global hubs for life sciences, competing with major regions like Boston in the US.

Education continues to be a significant driver of growth. London's globally recognised universities, such as King's College and the London School of Economics, remain crucial in attracting international talent. These institutions are expanding, and education-related developments are creating new real estate opportunities, especially in areas like the Knowledge Quarter.

New Urban Areas

London has a unique and impressive potential to create entire new areas of the city through regeneration. The city is well-equipped to handle large-scale, multi-decade projects, and there is optimism that projects can meet the city's growing needs for homes, jobs, and commercial spaces. However, beyond office space, London needs to attract tourists and casual visitors to keep its vibrancy alive.



» Sustainability and Green Initiatives

London's commitment to sustainability is becoming a critical factor for investors, and companies and developers are increasingly required to deliver projects that meet high environmental standards, such as being carbon-neutral and ESG-compliant. This trend is more than lip service in London, as many investors now demand such credentials to secure the best tenants and highest rents.

While some European markets lag behind in greening their real estate, London has taken a leadership role. One European developer remarked that sustainability in other cities is not prioritised as highly, but in London, it has become essential to ensure long-term investment viability.

A key strategy has been repurposing older office buildings that no longer meet modern standards into residential or hotel spaces. Stranded assets in the City of London are being quickly converted for alternative uses, for example. This strategy allows the city to maintain its momentum while addressing a very tight supply.





FRANCE - BOOSTING REGIONAL REAL ESTATE MARKETS

» Market Performance

The discussion addressed the matter that commercial real estate investment volumes in France experienced a significant decline in the first semester of 2024, with a drop of about 20-40%, depending on the sector and counting method.

This decline was primarily felt in the Paris region, which traditionally accounts for a large portion of the market. However, the overall market has shown resilience due to increased interest in regional cities.

Investors are cautious, but many still view France as a safer long-term bet compared to other regions in Europe.

Foreign Investor Trends

The US remains the largest foreign investor in French real estate, representing almost half of foreign direct investment (FDI) in the country. European investors follow closely behind, while Asian investments, particularly from China, Japan, and India, are growing.

Investors are drawn to Paris not only for its economic potential but also for its cultural and emotional appeal. The discussion noted that despite challenges, Paris remains a top destination for international investors due to its combination of history, culture, and high-quality real estate.

» Regional Investment Shift

Traditionally, the majority of commercial real estate investments in France have been concentrated in the Paris region, and a large part of this focused on office spaces. However, recent trends show a shift, with regional markets gaining more interest.

Lyon has emerged as an important player in this shift. This growing regional investment is partly attributed to the limited availability of premium assets in Paris, encouraging investors to look beyond the capital.

Investors are taking advantage of prime office buildings in smaller cities like Nantes and Rennes, where there are still opportunities for significant returns. In addition to traditional office investments, regions are seeing increased activity in logistics, retail, and residential sectors.

» **Grand Paris Express, The Olympics, and Infrastructure Development**

One of the key drivers of increased regional investment is the Grand Paris Express project, a massive infrastructure initiative aimed at improving transportation around Paris. This project has made areas outside the immediate Paris region more accessible, increasing their attractiveness to both investors and businesses. The connectivity provided by this and similar infrastructure projects has played a crucial role in decentralising real estate investments.

The discussion also highlighted how the Paris Olympics accelerated urban development and infrastructure improvements. The success of these initiatives demonstrates how coordinated political efforts can drive market growth and could serve as a blueprint for future urban transformation efforts.

The infrastructure improvements made for the Olympics are expected to have a lasting impact on the attractiveness of the Paris region. The Olympics served as a catalyst for the development of residential, commercial, and mixed-use properties, and it is expected that these changes will continue to draw investment to the region.

» **Political and Taxation Risks**

A significant concern raised was the unpredictability of local tax and regulatory policies in France. Frequent changes in property taxes and real estate regulations create uncertainty for investors, impacting liquidity and complicating transactions as they are introduced after many investments have already been made. This type of retrospective policy change is seen as a major deterrent for institutional investors.

Local authorities play a critical role in shaping real estate developments, but their priorities often conflict with those of investors. While cities want to maximise tax revenue and control urban development, investors seek stable regulations and the ability to quickly convert and develop properties. This misalignment creates delays and complicates investment decisions.



» **Sector-Specific Insights**

Industrial & Logistics

The logistics sector is experiencing significant growth, especially outside the Paris region. As e-commerce continues to expand, there is a greater need for logistics and industrial spaces across France, which has helped increase the share of regional investments.

These types of assets are highly sought after, particularly in cities with good transportation networks, like Lyon, and investors are proving keen to capitalise on this demand growth across the country.

Offices

Paris has a remarkably low vacancy rate for office spaces, starkly contrasting those of major US cities where office vacancy is reaching up to 30%, demonstrating stability and resilience in Paris' office market.

Participants noted that American investors often incorrectly apply their experiences with high office vacancy rates in the US to Europe. This misunderstanding leads to missed opportunities, as the dynamics of the European market are much more favourable.

Office to Residential Conversion

The demand for residential properties in Paris is high, and this demand is driving interest in converting obsolete office spaces into residential units. However, the process of conversion faces several obstacles.

One of the key challenges highlighted was resistance from local governments and municipalities. While many office buildings, especially in suburban areas, are obsolete and would be better suited for residential use, local authorities are hesitant to approve conversions due to the increased infrastructure requirements that residential developments bring, such as schools and public services, as well as the desire to maintain the tax revenues generated by office spaces.

Luxury Residential

Regarding the high-end residential sector, Paris continues to be a highly attractive market for foreign investors. Locations like Cannes, Courchevel, and the Côte d'Azur have maintained stable property values, even through economic downturns such as the COVID-19 pandemic. High-end residential properties in these regions continue to see strong demand from international buyers, particularly from the US and the Middle East.



GERMANY - ARE MATURING LOANS A DOUBLE-EDGED SWORD?

» **Costly Capital and Lacking Liquidity**

Germany has witnessed a reduction in investment activity over the past decade, as the elevated cost of capital has pushed alternative lenders to source more attractive opportunities outside the country.

With banks less willing to take on additional risk without substantial capital contributions from borrowers, buyers and developers have also faced an increasingly challenging scenario to secure financing. Several discussion participants mentioned that the vast majority of borrowers are injecting new capital when extending loans, underscoring the increased financial burden.

Meanwhile, banks are reluctant to sell or write off loans, preferring to wait for better times. One lender expressed that they are assisting clients by offering loan extensions when necessary, but with “painful” terms, involving very high interest rates.

Furthermore, the lack of liquidity in the market is also compounded by the fact that many mezzanine lenders have pulled out of the market, limiting the available financing options.

» **Market Adjustments Limbo**

There is debate around how to manage asset revaluations, as it is acknowledged that despite properties being worth less, some lenders and appraisers are resistant to marking down valuations.

Several participants noted that appraisers in Germany are taking a long-term view, moving valuations downward only very slightly (2-3% per quarter), rather than making dramatic adjustments. This contrasts with markets like the UK, where more aggressive revaluations have been common.

This reluctance to revalue assets is creating stagnation in the market as lenders await values to bounce back, and assets remain stuck in “limbo” in the meantime.

» **Pressure on Valuers and Lenders**

Appraisers and banks in Germany are under intense pressure to maintain the valuations on their books, even though the market realities suggest that assets are worth far less. Valuers are reluctant to move valuations downward because they know it would trigger covenant breaches for many borrowers, forcing them to inject more equity or risk foreclosure.

One participant highlighted that there are wide discrepancies in valuations between different firms, with some valuations varying by as much as 25% for the same asset. This inconsistency is adding to the confusion in the market, as different lenders and borrowers operate under different assumptions about the true value of their properties.

» **Conservative Banking Practices**

German banks have adopted a very conservative approach, preferring to extend loan maturities instead of triggering asset sales. This is partly driven by a desire to maintain relationships with borrowers and avoid forced sales that could damage reputations.

Unlike the US, where banks are quicker to dispose of distressed assets, German banks are more hesitant, which is slowing down the necessary market corrections. The reluctance to address these issues is contributing to a “wait and see” attitude in the market, with many players hoping for a recovery in asset values over time.

Some participants expressed frustration, noting that the lack of decisive action by banks is delaying market corrections and preventing new transactions from happening. This is particularly evident in syndicated loans, where decisions are harder to reach due to the involvement of multiple banks with different agendas.

Banks may be holding out for market recovery, but discussion participants warned that they must also simultaneously prepare for the possibility that revaluations will eventually have to be made, and write-offs may become inevitable for certain assets.



» Development Projects

Development projects in Germany face significant challenges due to the heavy leverage used to finance them during the boom years. Many of these projects are now struggling to move forward, with some even becoming insolvent.

Discussions highlighted that once construction halts on a development project, it becomes incredibly difficult to revive it. One participant suggested that developers were required to inject very little equity into projects during the boom, and as a result, many projects were fully financed by lenders. Now, with the market downturn, these developers are unable to inject new capital, causing many projects to stall indefinitely.

There is also a distinction between development projects and stabilised, cash-flowing assets. While development projects are in deep trouble, stabilised assets are viewed more positively, as they continue to generate income, albeit at lower yields than before.

However, even these assets need some level of leverage to be profitable, and with banks hesitant to provide financing, these projects can also struggle to move forward.



» Market Segmentation

The German market is becoming more segmented, with higher-quality, prestigious assets such as prime office buildings still seen as valuable, while lower-tier properties, including older, less energy-efficient office buildings in less desirable locations, are unlikely to recover their previous values.

Prestigious properties bought at the right price are still considered viable investments, however these are often tied up in complex loan structures or insolvencies, and as such, are not hitting the market as quickly as expected.

Meanwhile, lower-tier assets are seeing dramatic value declines, with some considered unsellable. These assets are likely to stay depressed for the foreseeable future, with little expectation of recovery.

» Long-Term Outlook

There is a sense of long-term optimism, with many market players standing firm behind their belief in the stability and centrality of the German real estate market. Germany remains one of the largest and wealthiest economies in Europe, and its central location within the European Union makes it a key hub for business and investment.

Some participants expressed confidence that, over time, the market would recover, though this would require patience. They believe that as market fundamentals stabilise, high-quality assets will regain their value and the market will start to move again.

Others are less optimistic, particularly regarding lower-tier assets which may never recover. Discussion participants agreed that pain is inevitable in the short to medium term, as the market adjusts to new interest rates, higher costs of capital, and the need for asset revaluation.





SPAIN - TACKLING THE RESIDENTIAL SUPPLY IMBALANCE

» BTR Boom

The discussion highlighted the growing demand for rental properties in Spain, which has become more prominent than ever, especially in large cities where affordability for homeownership is becoming increasingly out of reach.

In some cases, developments with 200 to 300 rental units are fully leased within just two months post-opening - a lot faster than anticipated in business plans. This absorption rate indicates a strong, unmet demand for rental properties in Spain's urban areas.

Rental properties are now offering higher margins than traditional build-to-sell developments due to shorter timelines and fewer risks. A development project for sale can take 7 to 8 years from start to finish, which exposes it to various risks, including market fluctuations. By contrast, a rental project can generate income in as little as 2-3 years, offering a quicker return on investment and reducing exposure to long-term risks.

The build-to-rent (BTR) model is gaining traction as it allows developers to create income-generating assets more rapidly than traditional build-to-sell models. Developers who once focused on selling properties are now shifting to the rental market due to the higher potential returns and shorter project lifespans.

Rent Controls

The concern around rent controls arose during discussions, as measures to cap rents have been implemented in some areas, including Barcelona. There is concern that this move could spread to other parts of Spain, which developers view as a risk of deterring investment by reducing potential returns.

While rent controls may seem like a short-term solution to affordability issues, developers argue they discourage new construction and reduce the availability of rental properties, ultimately exacerbating the housing shortage in the long run.

Developers are wary of political decisions that prioritise short-term voter satisfaction over long-term market stability, and they believe that the government needs to provide a clearer and more supportive framework for real estate development, especially regarding rental housing.

» **Price Elasticity**

Cities like Valencia and Barcelona are demonstrating high residential pricing elasticity, which is allowing for developers and investors to see good returns on residential real estate projects. Elasticity refers to how responsive prices are to changes in demand, and in these cities, as demand has risen, prices have been able to rise accordingly, leading to significant profits.

In contrast, secondary cities, such as Cordoba, face challenges in terms of price growth. The residential market in smaller secondary cities is not as dynamic, and price increases are limited. This makes investments in these areas less attractive as margins are tighter and profitability is lower compared to primary cities. These areas lack the same demand pressures seen in major urban centres.

» **Land Availability and Pricing**

One of the significant hurdles for real estate development in Spain is the lack of land availability. There is very little “ready-to-build” land being produced, making it increasingly difficult for developers to find new opportunities.

Due to this scarcity, landowners have begun financing developers as part of land deals to help them meet their internal rate of return (IRR) and profit targets. This shift in land financing allows developers to secure land without the upfront cash outlay that was traditionally required, helping to maintain margins and financial viability.

There is tense competition among developers for land, and politicians are expected to play a role in addressing this shortage by making more land available, potentially lowering costs and creating a healthier balance between supply and demand in the market.

The long-term hope is that once more land is made available by government intervention, costs will drop, and the supply of homes will increase, easing some of the current housing pressures, especially for the affordable segment.



» **Affordable Housing and Government Role**

There is a growing need for affordable housing, particularly for young people and those unable to enter the market due to rising costs. The discussion highlighted that the government is not keeping pace with the demand for affordable homes, leading to long waitlists and significant unmet demand.

The private sector is increasingly seen as essential to solving the housing crisis, with the government needing to adjust land production laws and incentivise affordable housing projects. Government policies, such as providing affordable rental schemes or releasing land at lower costs, could help alleviate some of these pressures.

The demand for rental units under affordable schemes is overwhelming, with thousands of applicants when units are made available, indicating a massive shortfall in supply. The private sector believes it can address these issues more efficiently than the government, but needs regulatory changes to do so effectively.

» **Urban Redevelopment**

There has been a steady migration of people from rural areas and smaller towns to larger metropolitan areas. This shift is driven by better job opportunities, higher wages, and a greater quality of life in the cities, which leaves rural areas increasingly depopulated.

As a result, Spain has hundreds of thousands of vacant homes, particularly in smaller towns and rural areas. These homes often remain unused while major cities struggle with housing shortages. Developers suggest that these vacant homes could be repurposed or modernised to meet current housing needs, such as accommodating remote workers or providing affordable housing options.

Rather than constantly seeking new land for development, the focus should be on redeveloping these existing properties. Many of these homes are located in villages near large cities, which could attract young families and elderly residents if modernised and equipped with the necessary infrastructure, such as internet access for remote work.

The lack of focus on vacant properties was suggested to be a missed opportunity, as developers continue to demand new land, and the discussion addressed the potential for incentivising people to move to smaller towns. However, it was also acknowledged that without major improvements in infrastructure and job opportunities, it will be difficult to reverse the trend of people leaving rural areas for the cities.

» **Labour and Construction Challenges**

The construction industry in Spain is facing a significant labour shortage, particularly among skilled trades workers. Many of these workers are approaching retirement age, and younger workers entering the industry to replace them are in short supply.

These labour shortages, combined with inflation, are contributing to rising construction costs, making new developments increasingly expensive and further exacerbating the housing shortage.

Developers are exploring technological solutions with the aim of reducing construction costs, such as prefabricated and modular construction. While these methods require upfront investments in factories and new technologies, they could reduce both costs and timelines to complete projects. Germany has been a leader in this area, building homes faster and more efficiently, and hopes are for the Spanish market to follow suit.

» **Equity and Financing Issues**

The Spanish real estate market is highly dependent on private equity funding, especially for large-scale projects. However, many developers are struggling to raise additional equity, particularly from international investors who may view Spain as a riskier market compared to other European countries.

There is a notable lack of financial culture among Spanish households, with many preferring to keep their money in deposits rather than investing in real estate or funds. This results in a lack of domestic capital flowing into the real estate sector, leaving developers reliant on foreign investment.

Although banks have been supportive in providing financing for real estate projects, overexposure to the real estate sector has made them more wary, and they are now demonstrating more selectiveness around whom they lend to, especially for larger projects.

Meanwhile, small and medium-sized developers are finding it increasingly difficult to secure equity, and participants suggested this is one of the biggest challenges facing the industry. The discussion emphasised the need to mobilise domestic savings and attract more international investment to support housing development at the scale required.



ITALY - ARE THE VALUE-ADD OPPORTUNITIES THE BEST IN EUROPE?

» Market Stagnation

With elevated interest rates making borrowing more expensive over the past two years, the market is now awaiting more significant rate cuts and more lucrative opportunities to emerge, causing stagnation in the market as investors hold back in the meantime.

Participants highlighted difficulties around predicting exit cap rates, particularly in the office sector, with the consequent reluctance from property owners to sell aggravating this market stagnation. Many are opting to hold onto their assets, refinancing rather than selling, in the hope that future market conditions will offer more favourable selling opportunities. This has led to a scarcity of quality assets on the market, further contributing to the current stagnation.

The situation is exacerbated by the buyer-seller disconnect, where sellers are anchored to pre-2020 prices, but buyers expect discounts due to higher interest rates and increased market risk. As a result, many potential transactions are not happening, with both sides waiting for the other to adjust their expectations.

Financing is also presenting major challenges in Italy, compounded by the lack of competition among lenders. Some discussion participants shared that while they can secure financing, it is often at higher costs than they are willing to accept, making leveraged deals unattractive. This has pushed several investors toward unleveraged or less leveraged deals, minimising risk, but also reducing potential returns in the meantime.



» **Value-Add Opportunities**

The Italian banking system has stabilised since the financial crises of the early 2010s, with fewer non-performing loans (NPLs) on the books. As a result, the era of NPL-driven opportunistic investment has largely ended. Investors who previously relied on distressed asset purchases are now looking for value-add opportunities through the conversion of underperforming assets.

Value-add capital returns in Italy were historically in the mid-teens, around 17-18%. However, in recent years, these returns dropped to 12-15%, reflecting a cooling in the market and increased risk aversion.

Now, returns have bounced back to above 20%, making the market potentially more attractive for those willing to take on risk. Discussion participants highlighted that despite this recovery, there is still uncertainty about whether the market can sustain such high returns, given the volatility in cost structures.

» **Emerging Market Dynamics**

European Market Integration

Italy, particularly Milan, is becoming more integrated with the broader European real estate market. Cities are now more important than countries when it comes to attracting investment, and Milan has risen to a comparable status with Paris and major cities in Germany.

Investors who previously avoided Italy are now reconsidering it, either through direct equity investments or through debt funds. Participants noted that even some investors who had previously exited the Italian market are now returning.

Middle Eastern and Asian Interest

Investors from the Middle East and Asia are also showing increased interest in long-term investments in Italy. These investors are not necessarily looking for quick returns; rather, they are focusing on sectors such as logistics, student housing, and high-end residential developments, which offer stable, long-term returns.

Family Office Role

Italian family offices are playing a pivotal role in real estate investments, particularly in deals between EUR 50 and EUR 100 million. These investors are filling a gap left by institutional investors, who tend to target larger transactions. Family offices are also more flexible in their investment strategies, often willing to hold onto assets for longer periods to realise greater returns.

Institutional Investors

Pension funds and insurance companies are also becoming more active in the Italian market, particularly in prime locations like Milan and Rome. These investors have lower return expectations than private equity but are willing to hold assets for longer periods, which gives them a competitive advantage in bidding for prime assets.

Private Equity Funds

Private equity funds, which typically operate on a 3-5 year investment horizon, are finding it difficult to deploy capital in the current market. The returns they are targeting, typically around 20%, are harder to achieve given current market conditions. The panel suggested that private equity may need to extend its investment timelines or lower its return expectations to succeed in the Italian market.

» Strategies

Investors are increasingly shifting toward long-term strategies, with a focus on creating value through consolidation and platform-building, rather than relying on quick returns from opportunistic investments.

Several investors highlighted the importance of creating platforms by consolidating smaller assets, particularly in the hotel and logistics sectors. For instance, some investors are looking to acquire multiple small hotels and aggregate them into branded portfolios, which can then be sold at a premium once they have achieved scale.

For many investors, the focus has shifted from quick capital gains to generating steady cash flow. This is particularly true for institutional investors, who are willing to hold assets for longer periods if they can generate consistent returns through rental income.

» Sector-Specific Insights

Industrial and Logistics

Italy's logistics sector is seen as a promising area for investment, largely due to the country's relatively low e-commerce penetration compared to other European markets. Italy's e-commerce market accounts for just 8% of retail sales, whereas other European countries, such as Germany, have closer to 18%, and the UK's e-commerce market sits around 25%.

This suggests significant room for growth in e-commerce, which could drive demand for industrial and warehouse spaces. The logistics sector in Italy has recently seen investments from major players who are positioning themselves to take advantage of this expected growth.

Hotels

The hotel market in Italy is particularly fragmented, with only 20% of hotels branded, leaving the majority of the market dominated by family-owned or small-scale operators. This fragmentation makes it difficult for large institutional investors to enter the market without taking on operational challenges.

However, there is significant opportunity for consolidation, with investors looking to create platforms by acquiring and branding small hotels. Luxury and business hotels are particularly attractive due to higher margins, but there is also interest in resorts and leisure-focused properties, especially in regions like Tuscany, Puglia, and the Italian Alps.

Investing in the hospitality sector presents operational challenges, particularly regarding seasonality, as many Italian resorts have short peak seasons (e.g. summer for coastal resorts and winter for ski resorts). This limits their income-generating potential, meaning investors must carefully assess the seasonality and ADR (average daily rate) of properties before making investment decisions.

Offices

Milan's office market was noted as particularly strong, with vacancy rates in the Central Business District (CBD) as low as 2%. This tight vacancy makes it difficult to find prime office space, driving up rents and pushing investors to consider peripheral areas for development.

However, predicting future cap rates for office investments is difficult, making it harder for investors to formulate reliable exit strategies. Despite this, the office market remains one of the more stable and attractive sectors for long-term investors.





CENTRAL & EASTERN EUROPE - ARE OPPORTUNITIES RIPE FOR THE PICKING?

» Market Performance and Prospects

Similar to the rest of Europe, Central & Eastern Europe (CEE) has seen record low transaction rates in recent years, however Q1 2024 marked a turning point, with increased activity, indicating a gradual recovery.

Moving into Q2, transactional activity increased significantly, and the region is now witnessing several deals progressing, signalling a return of confidence to the market. Although volumes remain below pre-pandemic levels, the outlook for 2024 is positive, with transaction volumes expected to almost double compared to 2023.

Transaction volumes in Poland are expected to reach EUR 4 billion, while the broader CEE region is projected to reach EUR 7-8 billion by the end of 2024. This is a substantial increase from the previous year and points to renewed investor confidence in the region.

The market is experiencing a certain level of dislocation. Current conditions, including geopolitical instability and the macroeconomic scenario, have contributed to a constrained supply in sectors like offices and industrial properties, offering opportunities for investors to capitalise on potential price adjustments and rising rents in the near future.

Need for Capital Inflows

One of the main challenges for the CEE region is attracting sufficient capital, particularly from international investors. While local capital is increasingly stepping in, the region still relies heavily on foreign investment to drive growth.

Many participants felt that asset pricing in the region has either bottomed out or is close to doing so. This creates an attractive entry point for investors, especially those willing to take a long-term view. Some participants noted that the market is unlikely to see significant further price declines, making it an opportune time to buy.

Creative Deal Structures

The region has experienced difficulties in financing, leading to more creative deal structures, including joint ventures and alternative funding methods. This shift away from traditional acquisitions has led to more complex transactions involving multiple stakeholders. These alternative structures, such as forward funding and sale-and-leaseback agreements, are helping to close deals in a challenging financial environment.

» **The Investor Pool**

Value-Add Investors

Particularly in Poland, the investor landscape is currently dominated by value-add buyers. These investors are more willing to engage in transactions where they see opportunities to enhance value through redevelopment or restructuring, but the pool of investors remains relatively small.

Domestic Investors

Local buyers and new entrants include Polish ultra-high-net-worth individuals (UHNWI). This marks a notable shift as more local capital seeks investments in commercial real estate, previously dominated by foreign players. This capital inflow can help balance out the absence of larger institutional investors who may still be hesitant due to broader macroeconomic concerns.

Institutional Investors

There is a trend towards greater institutionalisation in the region's real estate markets, particularly in Poland. However, the market lacks the critical mass of institutional stock seen in more mature markets. This gap represents a significant opportunity for early investors to enter the market, especially in sectors like student housing and residential, which are underdeveloped from an institutional perspective.

» **Sector-Specific Insights**

Offices

In Warsaw and regional Polish cities, office development has slowed significantly compared to the past decade. The market is expected to see less than half the new office space that was developed in the last 10 years. As a result of this reduced supply, office rents are expected to rise gradually, though the impact will be felt more strongly in regional cities than in Warsaw.

The focus within the office sector is increasingly on prime spaces in central locations. These assets are attracting more interest due to their lower vacancy rates and higher demand from international tenants.

Industrial and Logistics

CEE's industrial and logistics sector, particularly in Poland and Romania, has been one of the top performers in 2024. Strong net absorption rates are being driven by demand for warehouse and logistics space, spurred by e-commerce and manufacturing reshoring trends.

Capital values for industrial assets are rising, with high demand from both domestic and international investors. However, leasing in the logistics sector has experienced some setbacks, with less liquidity in the market than anticipated. Despite this, the overall outlook remains positive, and transaction volumes are expected to pick up throughout next year.

Growth in the sector is expected to continue in the coming years, and there is believed to be significant potential for further investment.

Residential

Poland's residential market is bolstered by strong urbanisation trends, as people move from smaller towns to major cities. Demand for housing remains strong, particularly in urban centres like Warsaw, Krakow, and Wroclaw.

Even outside the urban centres, there is a clear undersupply of residential units across Poland, which, combined with strong demand, makes the sector attractive for long-term investment. Poland also lacks the scale of institutional residential stock seen in Western Europe, which presents an opportunity for investors to build or acquire residential properties that cater to the increasing demand for high-quality housing, particularly in the BTR sector.

Student housing is another promising area which is still underdeveloped across CEE. The region's growing student population creates opportunities for institutional investors to establish a foothold in this niche market.

» Geopolitical and Economic Context

The ongoing conflict in Ukraine and broader geopolitical shifts continue to impact investor sentiment. However, in spite of the close proximity to the area of conflict, discussion participants highlighted that the CEE region is still demonstrating more economic resilience than Western Europe.

GDP growth in Poland and Romania is forecast at 3-4% in 2024 - significantly higher than in Western Europe, where growth is expected to hover around zero. Additionally, CEE countries enjoy lower unemployment rates, making the region more attractive for businesses and investors.

The discussion highlighted concerns about Germany's influence on the CEE region. As a major economic driver, Germany plays a crucial role in the region's economy. Any slowdown in Germany could have a ripple effect on CEE countries, which are heavily reliant on exports to Germany. Any substantial downturn in the German economy could therefore significantly impact the economic stability of the CEE region.



PORTUGAL - WILL LEGISLATIVE CHANGES UNLOCK GREATER GROWTH?

» Market Dynamics

The Portuguese real estate market continues to be attractive, particularly in prime locations such as Lisbon, Cascais, and Porto, and tourism continues to play a crucial role in this.

The country's surge in tourists, particularly from the US and Brazil, are increasingly looking at Portugal not just as a vacation destination but also as a place to invest or live. Foreign buyers have been particularly attracted to short-term rental properties in tourist hotspots like Lisbon, Porto, and the Algarve.

Demand for luxury real estate also remains high, especially among these international buyers. Despite the reduction in Golden Visa buyers, American and Brazilian investors continue to show strong interest, driven by Portugal's safety, lifestyle, and lower property costs compared to the rest of Europe and the US.

A significant portion of the demand is also driven by international students, particularly in Lisbon. Universities are attracting foreign students, and this has increased demand for rental properties. Many students are willing to pay higher rents, which has put additional pressure on the housing market and contributed to rising prices.

There is a strong sentiment that the continued growth of tourism and foreign interest will sustain the market, even as local demand fluctuates.

Domestic Market

Another interesting trend is the continued activity from domestic buyers, as discussions revealed that a large portion of the Portuguese population owns property outright, without mortgage debt. This has insulated the domestic market from external shocks, as most property owners are not under financial pressure to sell.

Portuguese buyers have stepped in to fill some of the gaps left by foreign buyers, following recent legislative changes discouraging foreign interest. This is particularly the case in high-end markets, enabled by the increasing wealth of many Portuguese families over the past decade, as property values have risen and personal debt has remained low.

» Foreign Investment Legislative Changes

The Golden Visa

The Golden Visa program had attracted significant foreign investment into Portuguese real estate, as non-EU investors were able to acquire residency by purchasing real estate. However, modifications to the program have shifted international investors' focus towards private equity and venture capital investments. This change has significantly reduced the number of real estate investments from high-net-worth individuals.

The discussion highlighted confusion in the market, with many potential investors, especially from the US and Brazil, being unaware that the Golden Visa still exists but under different terms. This lack of communication has resulted in a perception that the program has been entirely scrapped, significantly damaging foreign investment.

Non-Habitual Resident (NHR) Scheme

The termination of the Non-Habitual Resident (NHR) tax regime for pensioners in December 2023 has had a significant effect on real estate. The NHR was a major draw for retirees, particularly from high-tax countries, considering the attractive tax exemptions on foreign income. The cancellation of this benefit has led to a drop in high-net-worth pensioners moving to Portugal.

However, the NHR regime is still in place for entrepreneurs and those earning income from business activities, including sectors like startups and tech companies. As a result, Portugal is attracting a different type of investor - namely, entrepreneurs and business owners looking to benefit from tax incentives on business-related income.

The discussion emphasised that the end of the NHR for pensioners, combined with the end of the Golden Visa in its original form, has caused a sharp reduction in international demand for Portuguese real estate, particularly in the luxury sector.



» **Shifts in Buyer Preferences**

There is a noticeable shift in buyer preferences, particularly among international buyers. Americans, in particular, are looking for larger homes with more amenities, reflecting their cultural expectations. Developers are beginning to adapt by designing properties with larger rooms and more luxurious features to cater to these buyers.

Wealthy international buyers are also increasingly interested in purchasing second homes in rural or suburban areas. This is partly driven by safety concerns in urban centres and a desire for more space. Suburban areas around Lisbon and Cascais have become particularly popular for high-end buyers looking for more privacy and larger properties.

The discussion also highlighted that these high-net-worth individuals often purchase multiple properties. For example, many American buyers are interested in owning both a city apartment and a countryside villa, indicating strong demand across different property types.

» **Affordability and Housing Supply**

A major concern is the ongoing affordability crisis, particularly in Lisbon and other major urban centres. Rents have skyrocketed, and middle-income families are finding it increasingly difficult to afford housing. This has led to social unrest, and the government has made affordable housing a priority.

The new government is working on several initiatives to increase the supply of affordable housing, including transforming unused or underutilised land for affordable housing developments and simplifying the licensing process. However, progress has been slow, and there are concerns that the government's focus on affordability might not be enough to keep up with the rising demand.

Additionally, there is growing interest in converting commercial buildings into residential units to help address the housing shortage. Many commercial properties, particularly offices, are underused, and converting them into residential spaces could alleviate some of the supply constraints. However, such conversions face regulatory and bureaucratic challenges.

» **Licensing and Construction Costs**

One of the major bottlenecks for real estate development in Portugal is the licensing process. Developers are often faced with long delays in getting approvals, which can hold up projects for years.

Legislative changes to the Simplex program, which were intended to streamline the real estate licensing process, have not yet proved effective in speeding up approvals. Participants expressed frustration with the inefficiency of licensing, especially in Lisbon, where delays are long and bureaucratic. There is hope that the new government will correct these issues, as the licensing process is crucial for attracting investors.

Rising construction costs are another significant challenge. In some cases, the cost of materials and labour has doubled, making many projects financially unviable. This is particularly problematic for affordable housing projects, where margins are already slim. As a result, developers are being forced to scale back projects or increase prices, exacerbating the affordability crisis.

» **Economic and Political Stability**

Despite challenges, Portugal is perceived as a stable and attractive destination for real estate investment. The country's political stability, coupled with its growing economy and strong tourism sector, has helped maintain positive sentiment in the real estate market.

Participants in the discussion noted that while other European markets are experiencing more significant economic and political instability (e.g. the war in Ukraine and economic struggles in Germany), Portugal has managed to remain relatively insulated. This has helped sustain interest from foreign investors.

However, elevated interest rates have slowed down some transactions, particularly among foreign buyers who rely on debt to finance their purchases. Investors are waiting for interest rates to stabilise before making major acquisitions. Nevertheless, the long-term outlook remains positive, and participants believe that as soon as interest rates come down, transaction volumes will increase.

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