Intelligent Investment

2024 European Investor Intentions Survey

REPORT

CBRE RESEARCH
FEBRUARY 2024

Executive Summary

CBRE's 2024 European Investor Intentions Survey was conducted between November 6, 2023, and November 30, 2023. 888 Europe-based investors participated in the survey, which asked respondents a range of questions regarding their buying appetite and preferred strategies for sectors and markets in 2024.

Respondents indicated considerably stronger purchasing and selling expectations than the year prior and are optimistic that the investment market will recover in the near to medium-term. However, downward pressure on pricing and a degree of yield expansion is expected to continue in the immediate term. By the second half of 2024, this should start to reverse.

Investors are particularly attracted to value-add and opportunistic strategies as they search for higher returns in the current interest rate environment. Core and core-plus interest in residential and logistics also remains elevated for markets where stock is available. CBRE expects investment activity to increase in 2024, with most deal flow to occur in the second half of the year.

Tasos Vezyridis
Head of Thought Leadership for Europe

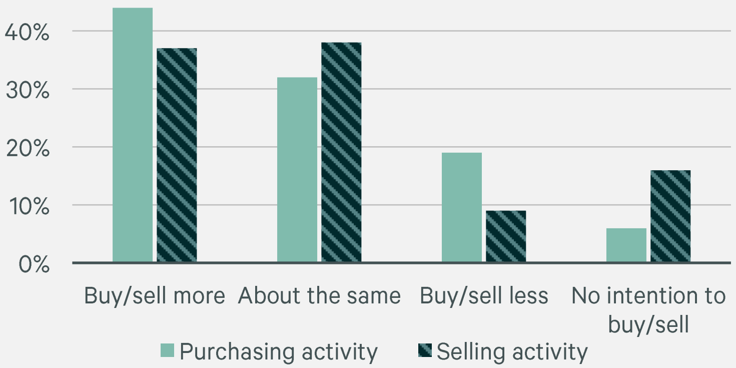
Chris Brett
Head of Capital Markets, Europe

2024 European Investor Intentions Survey Highlights

Investment activity to increase in 2024

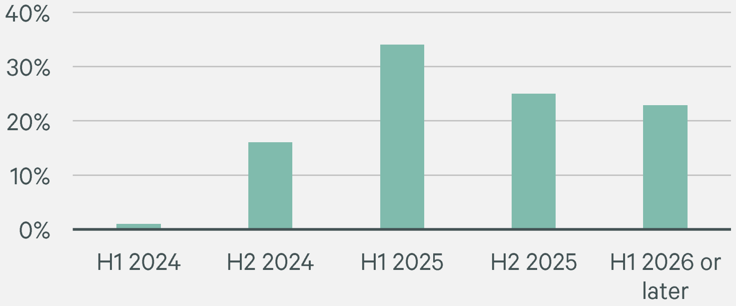
Three quarters of investors will maintain or increase activity

% of respondents expecting buying/selling activity to change relative to 2023



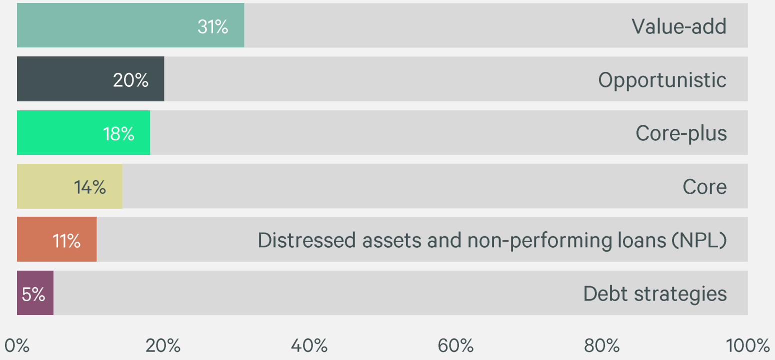
Respondents expect market to recover fully in med. term

Expectation of when market activity will return to levels registered prior to rate hikes



Flight to yield amidst high interest rate environment

1 Opportunistic and value-add strategies top of mind



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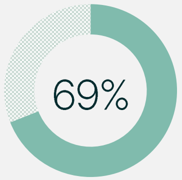
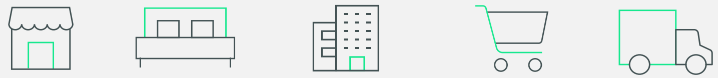


of investors from firms with AUM > $50bn expect their allocation to real estate to remain unchanged or increase in 2024

3 Pricing will continue to soften across certain sectors



57%	69%	72%	74%	72%
Hotel	Residential	Grade A Office	High St. Retail	Logistics

*Percentage of investors expecting discounts in 2024 relative to Q1 2022 pricing levels

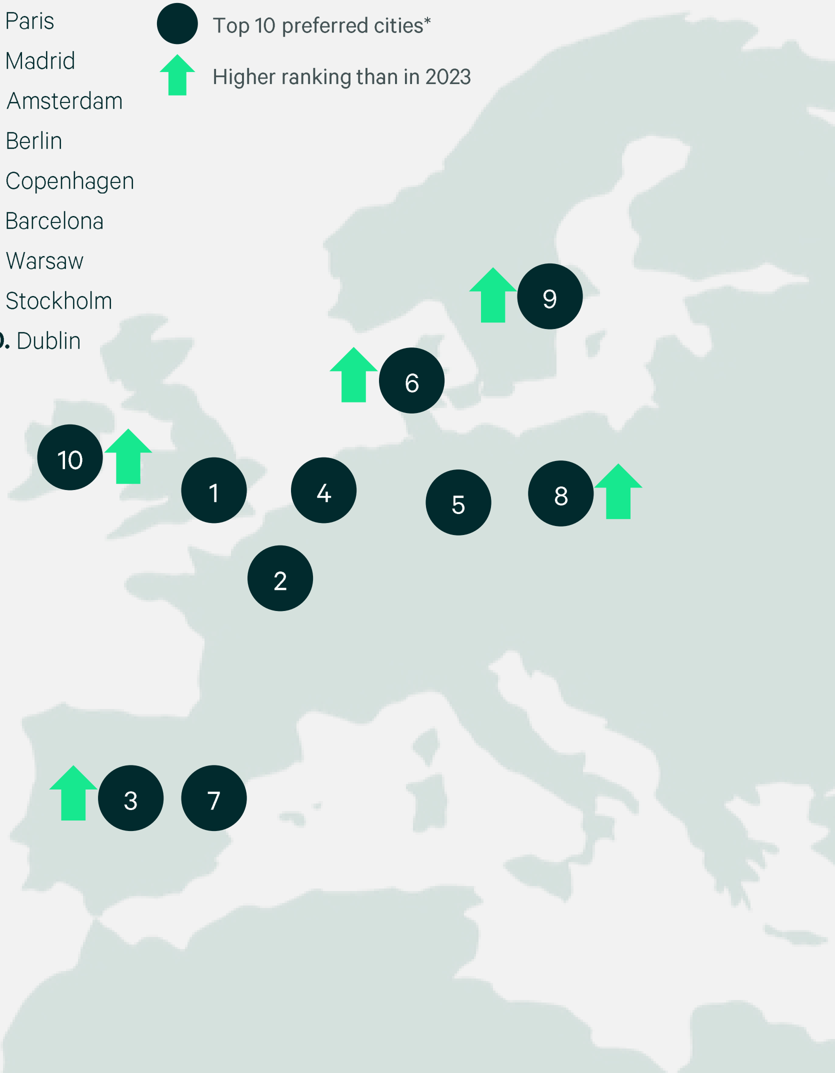
Markets expected to see highest cross-border interest

1. London
2. Paris
3. Madrid
4. Amsterdam
5. Berlin
6. Copenhagen
7. Barcelona
8. Warsaw
9. Stockholm
10. Dublin

Legend

Top 10 preferred cities*

Higher ranking than in 2023



Contents

Other key findings

01

Buying and selling expectations are higher in 2024 than in 2023. Smaller firms typically show greater risk appetite, while the larger institutional investors are willing to offload assets to generate capital. Allocation to real estate remains stable and as risk-free rates drop, investor appetite for property will increase. However, the tightened debt lending market still presents a major challenge for European Investors.

02

Investors expect market activity to increase in the second half of 2024 before fully recovering to the levels registered before the global surge in inflation by the end of 2025. Repricing will continue across certain sectors in 2024, although to a much lesser extent than in 2023.

03

Value-add and opportunistic strategies are on top of investors' minds as they seek to capture yield. Concurrently, appetite for core and core-plus strategies is at its lowest level since the relaunch of our Investor Intentions Survey series in 2021. Residential and logistics have surpassed office as the most sought-after sectors for investment for the first time.

04

The UK retained its status as the market with the highest performance expectations, while Poland emerged as a highly sought-after market in 2024. Southern Europe has continued its resurgence, and German cities and Paris remain attractive.

05

While sustainability factors have come under pressure in the current capital constrained environment, most respondents are willing to consider retrofitting existing assets to meet sustainability standards. Additionally, some investors are still prepared to pay a premium to acquire sustainability-compliant assets.

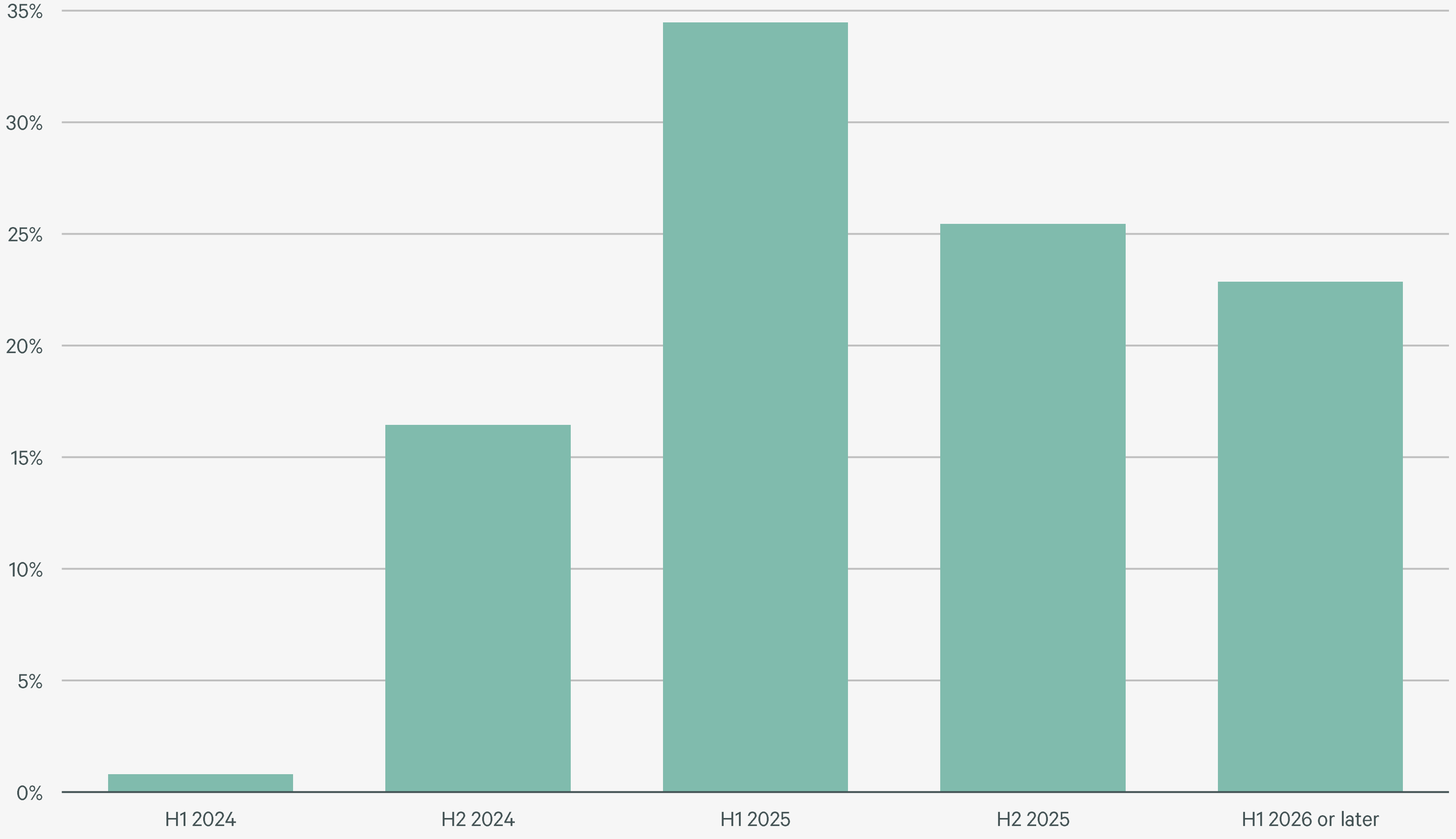
01

Investor Sentiment

Most investors believe that market activity will return to levels registered before the rise in global interest rates by H2 2025

Although 2023 transaction volumes posted their lowest level since 2012, investors remain optimistic for 2024. 52% of investors stated that they expect market activity to return to the peak registered in Q1 2022 by the end of H1 2025, and three quarters by the start of 2026. European market sentiment has already improved as inflation has come down and job markets remain resilient. For now, supply chain disruptions have ameliorated, although Red Sea and Panama canal bottlenecks may pose new challenges for world trade. Mirroring growing investor optimism, European equity markets closed the year on a very strong note. Investors expect at least one round of rate cuts by H2 2024, which will further bolster global capital markets.

Figure 1: Investors' expectations of when investment volumes will return to the levels registered prior to the rise in interest rates



Source: 2024 European Investor Intentions Survey, January 2024

Over three quarters of investors expect purchasing and selling activity to either increase or remain the same in 2024

Purchasing and selling activity expectations are considerably higher than the year prior, with three quarters of investors expecting purchasing and selling activity to either remain stable or increase in 2024. Each figure is higher than the year prior. Notably, selling expectations were registered at their second highest level since our survey's relaunch in 2021. This likely signals that firms will bring assets to the market as they feel pricing levels have stabilised around new levels and look to generate capital in the tight debt market. Therefore, the market should be more liquid than in 2023.

The smallest firms with <$5bn in AUM expect to be the most aggressive, with nearly half expecting to increase purchasing activity, while only 40% of the largest firms with AUM >$50bn are planning to do the same. As for selling activity by AUM, the opposite is true. Half of the largest investors expect to sell more, while only two thirds of the smallest firms expect to do so. The smaller investors are developers or private investors with higher risk appetite and therefore are more willing to implement value-add strategies, whereas the largest are generally institutional funds with more conservate strategies. This divergence in respondent profiles helps explain the moderate spread in risk appetite registered between investors in terms of AUM.

Figure 2: Purchasing activity expectations

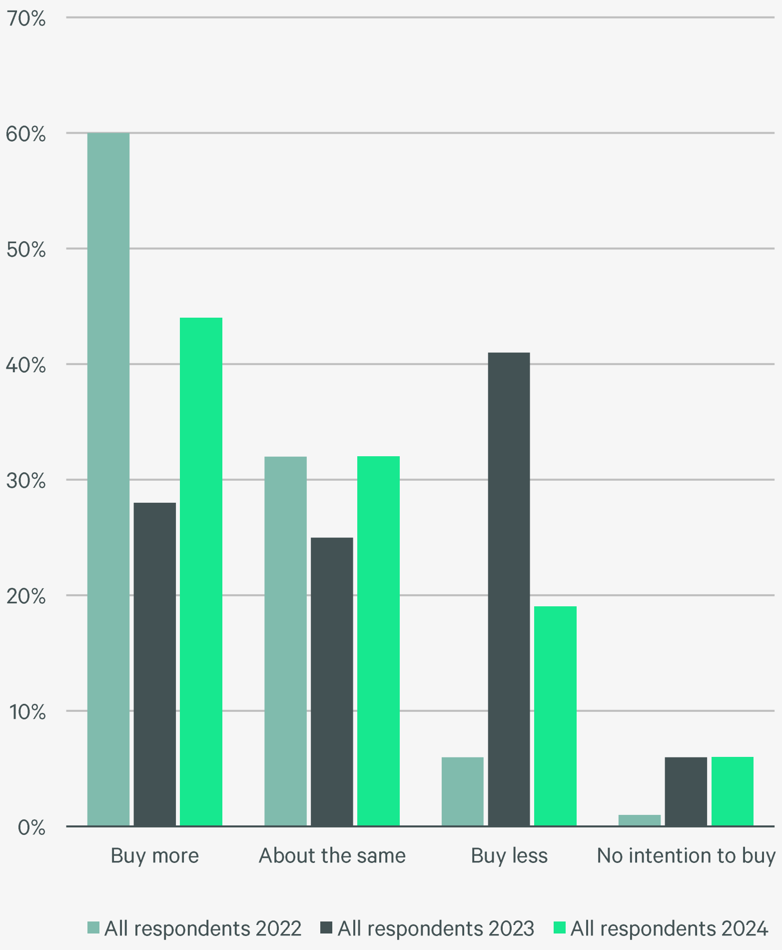
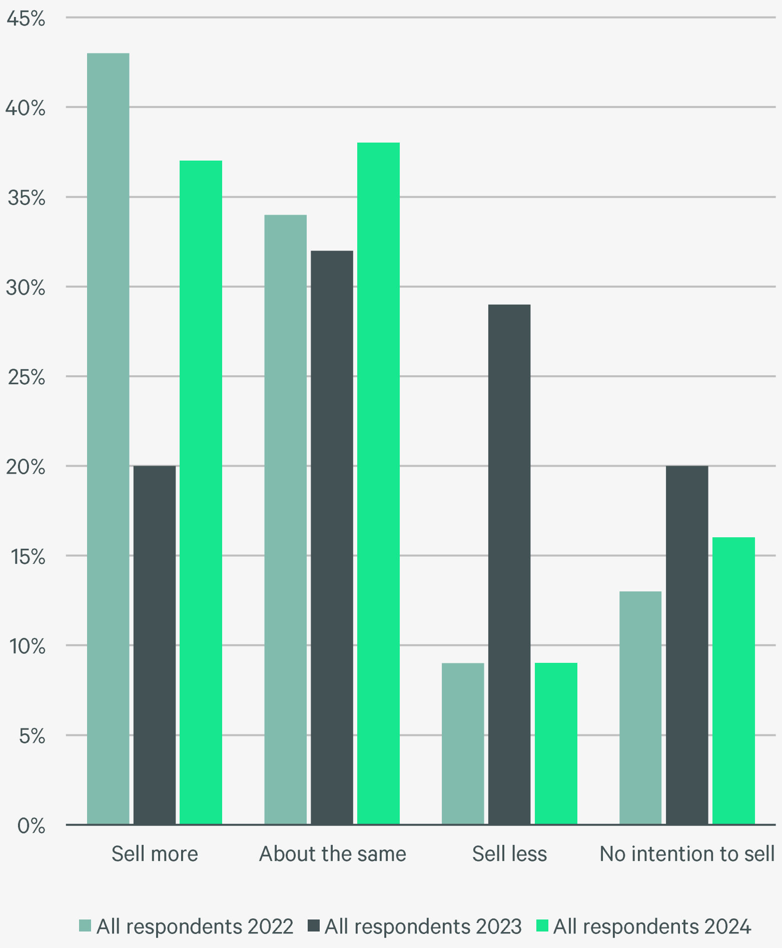


Figure 3: Selling activity expectations



Source: 2024 European Investor Intentions Survey, January 2024

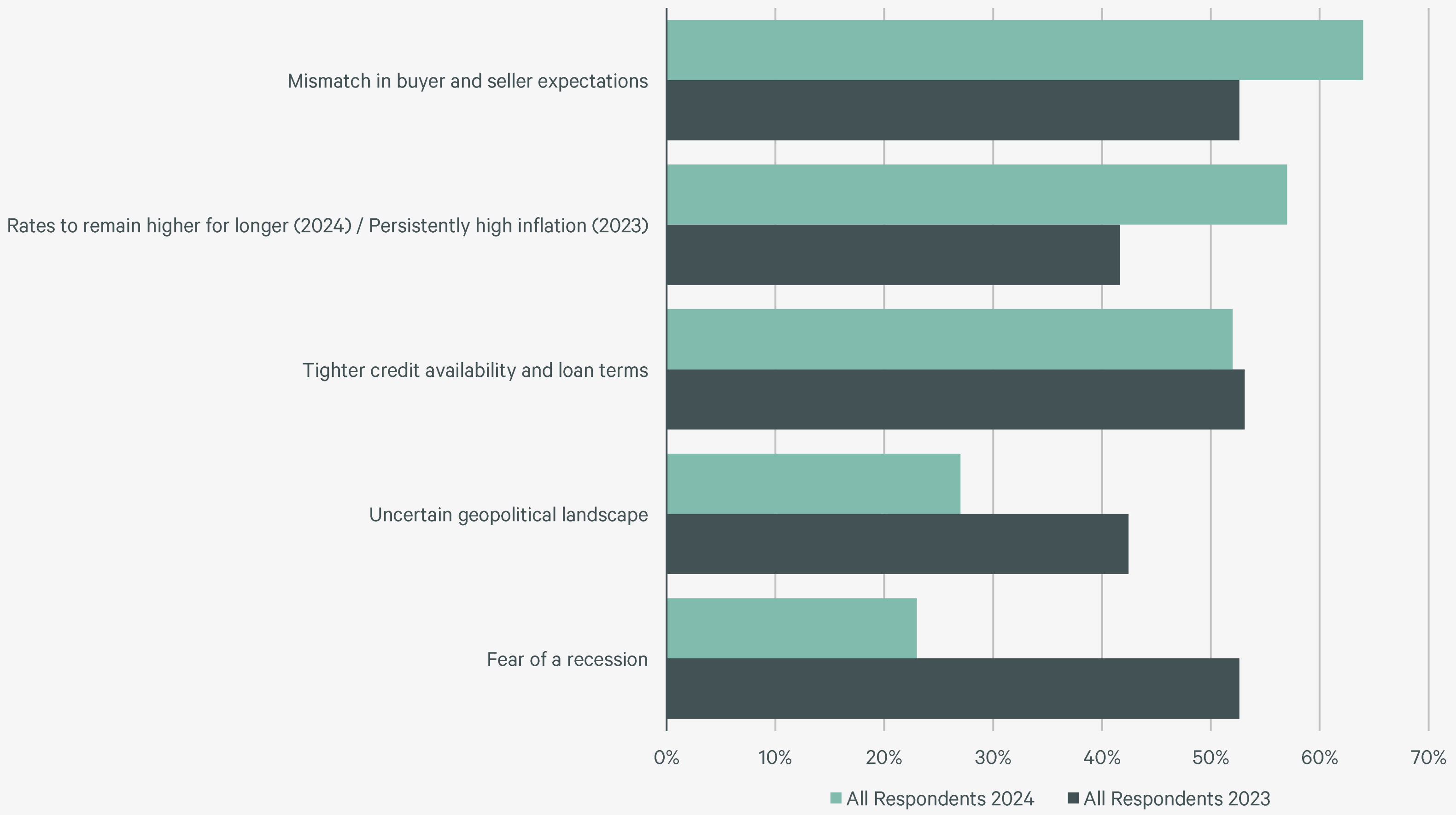
Greatest challenges for investors in 2024: Mismatch in expectations, rates to remain elevated, and tighter lending conditions

In last year's survey, the narrative largely revolved around the possibility of recession across the euro area. While GDP growth stagnated, the economy did not experience the type of upheaval that initially worried investors. In our 2024 Investor Intentions Survey, only 23% of investors fear a recession, a 30 percent point drop YoY.

Respondents to our survey now consider a mismatch in pricing expectations as the largest challenge they are facing in 2024. Price floors were not fully established in 2023, and more movement is expected in 2024, albeit to a smaller extent. Despite the mismatch in pricing expectations, we expect many firms will be sellers as they will have to offload property to generate affordable capital in the current tight debt market environment. Rates to remain higher for longer and continuously tight debt markets were selected by respondents as the second and third largest obstacles to investment in 2024.

The geopolitical landscape remains turbulent and although developments can change quickly, European investors feel that they are more insulated from economic repercussions than in the year prior. In this year's survey, only 27% of investors expect the geopolitical climate to be a major hindrance to real estate investment, compared to 42% last year.

Figure 4: Major challenges facing real estate investment in 2024



Source: 2024 European Investor Intentions Survey, January 2024

02

Capital Markets Outlook

Further repricing across certain sectors will occur although to a much lesser extent than in 2023

In both the 2023 and 2024 editions of our Investor Intentions Survey, we asked investors how they expected pricing levels to evolve compared to where they were at the height of the market cycle in Q1 2022. Overall, less movement is expected but certain sectors will see continued repricing.

In our 2024 edition, fewer investors expect discounts for hotel, logistics, and high street retail than in the year prior. This suggests that pricing floors for these sectors have already formed. Residential and shopping malls saw similar pricing expectations YoY, although investors still expect a degree of movement for both sectors.

According to our respondents, office assets in both the prime and secondary segments of the market are set to experience continued downward pressure on pricing through 2024. This will be most apparent in the secondary office sector. However, interest remains for secondary office assets in centralised locations with refurbishment potential.

Legend

↑ Stronger pricing levels YoY

↓ Weaker pricing levels YoY

(X%) Percent looking for discounts

Source: 2024 European Investor Intentions Survey, January 2024

Figure 5: Pricing expectations in 2024 compared to the peak in Q1 2022

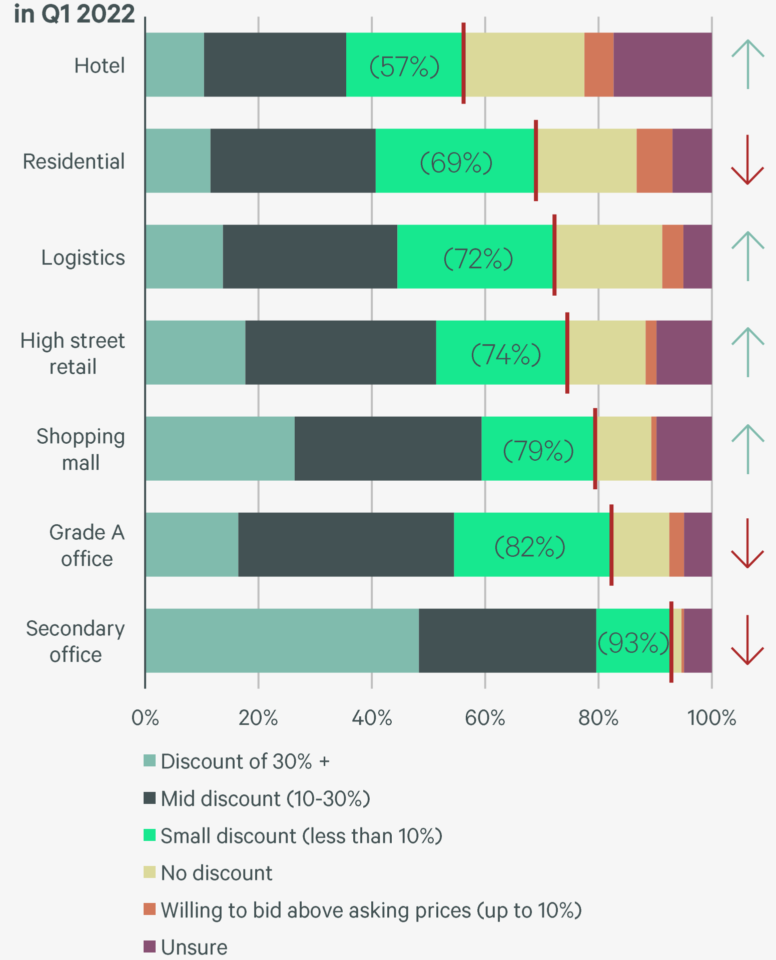
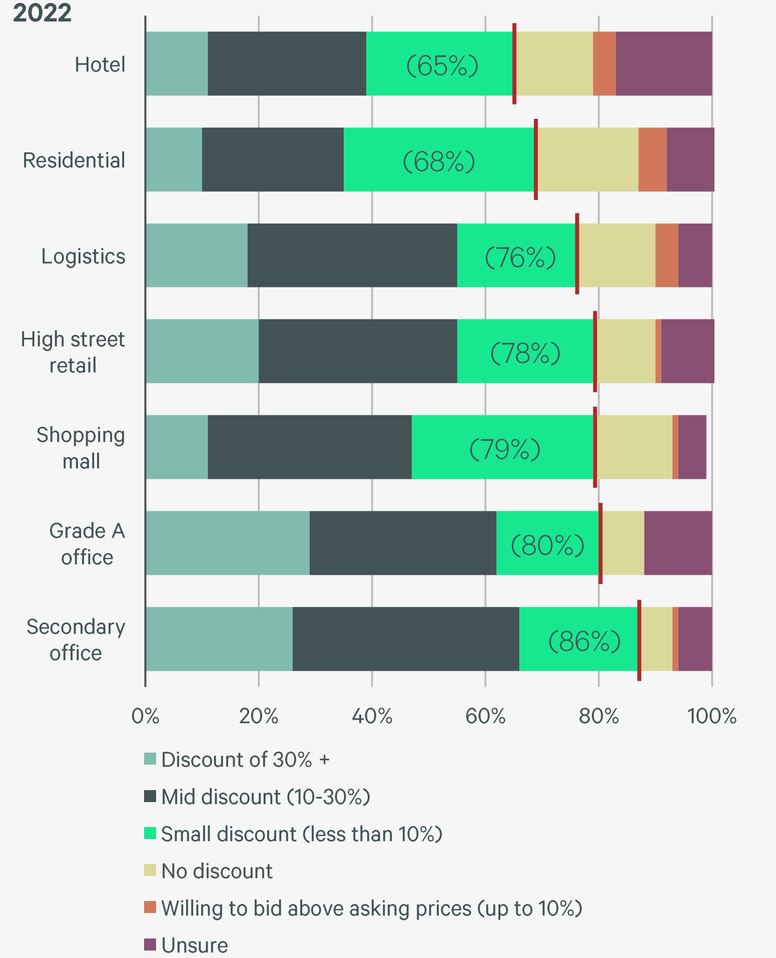


Figure 6: Pricing expectations in 2023 compared to the peak in Q1 2022

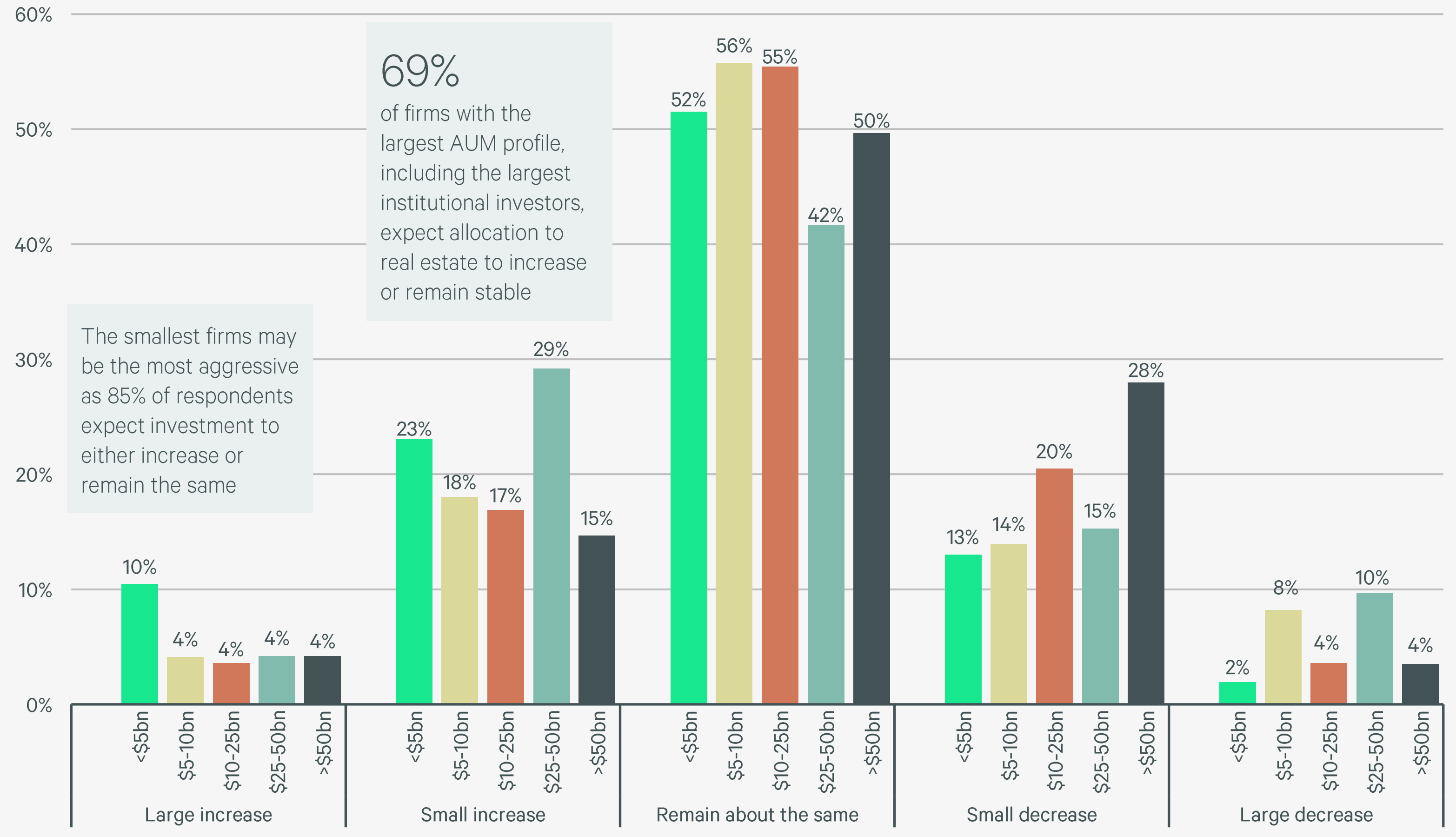


The majority of investors expect allocations to real estate to either remain the same or increase in 2024

Overall, 80% of investors expect allocations to real estate to either remain the same or increase in the upcoming year. This was the same level registered in our previous edition which signals that allocations to real estate have increased since the end of 2022. The denominator effect, which was negative last year, will be positive for real estate in 2024 as equities and fixed income markets have recovered, whilst real estate has seen further repricing.

While interest rates remain high, property yields have expanded considerably since their peak in 2022, meaning it is now more affordable to enter the market. Cuts to central bank rates, which CBRE expects to take place by H2 2024 in the UK and the euro area, will be positive for real estate.

FIGURE 7: Real estate allocation expectations 2024 by AUM



Source: 2024 European Investor Intentions Survey, January 2024

Allocations to real estate expected to remain similar to years prior although the tight lending market still presents a major hurdle for investment

Among investors who employ leverage when making real estate investments, 47% of investors expect to use a similar mix of debt and equity compared to last year. Meanwhile, 35% of investors believe they will reduce the use of leverage, while only 7% anticipate an increase. However, this does not necessarily signal that investors no longer have desire to use debt, but rather that they have limited access to it.

Half of respondents stated that the fall in capital values presents a challenge to refinancing as they now have less collateral to use in the underwriting process. The increased costs of servicing debt and lower LTV ratios are viewed as major challenges by approximately three quarters of investors.

In terms of AUM profiles, some discrepancy has also emerged with the smallest firms stating that they have significantly more difficulty securing debt, especially for riskier assets, as the approval process remain tight. Meanwhile, firms with more than $50bn of AUM who are more conservative, view the increased interest costs of servicing debt as the largest challenge.

Figure 8: Expected change in use of debt financing

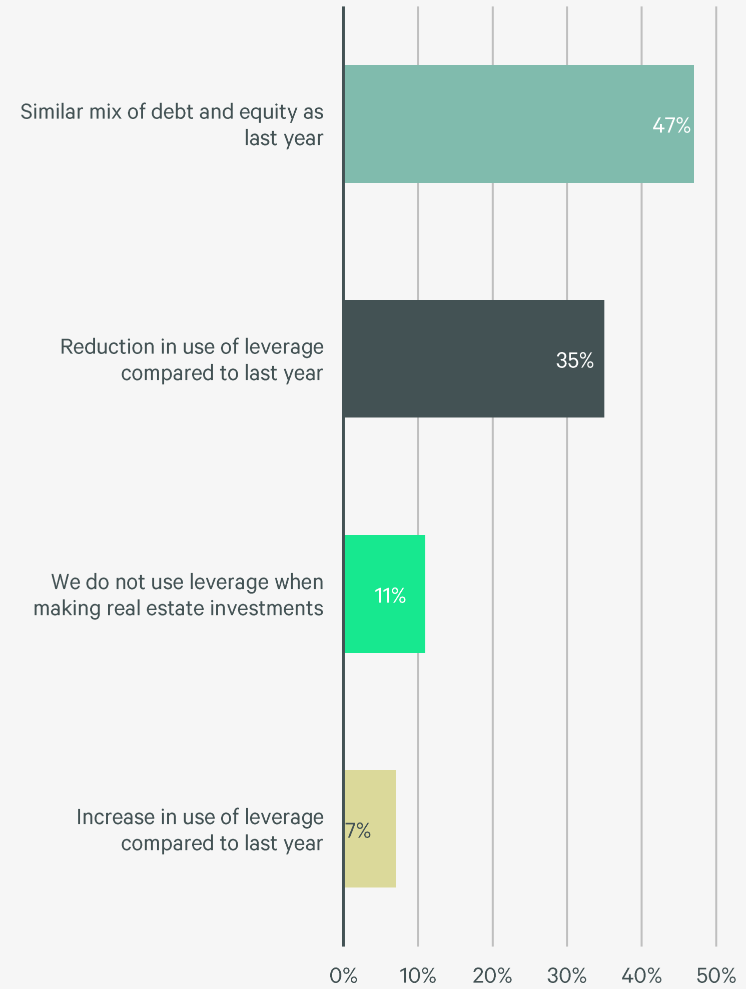
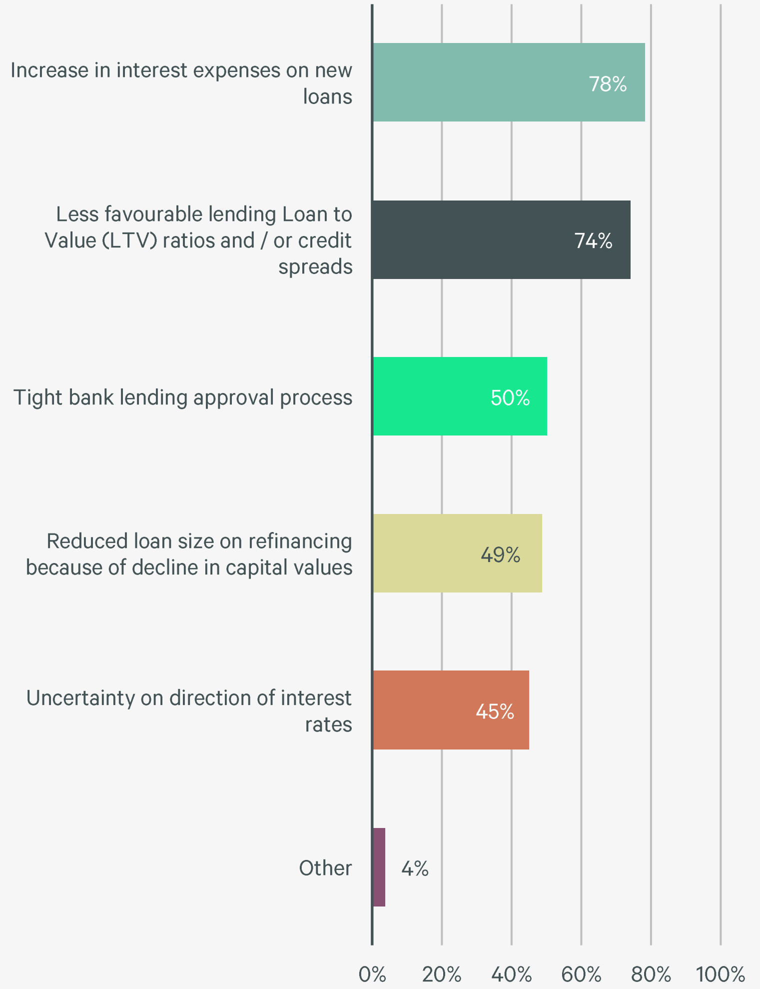


Figure 9: Challenges sourcing debt for investments of refinance



Source: 2024 European Investor Intentions Survey, January 2024

03

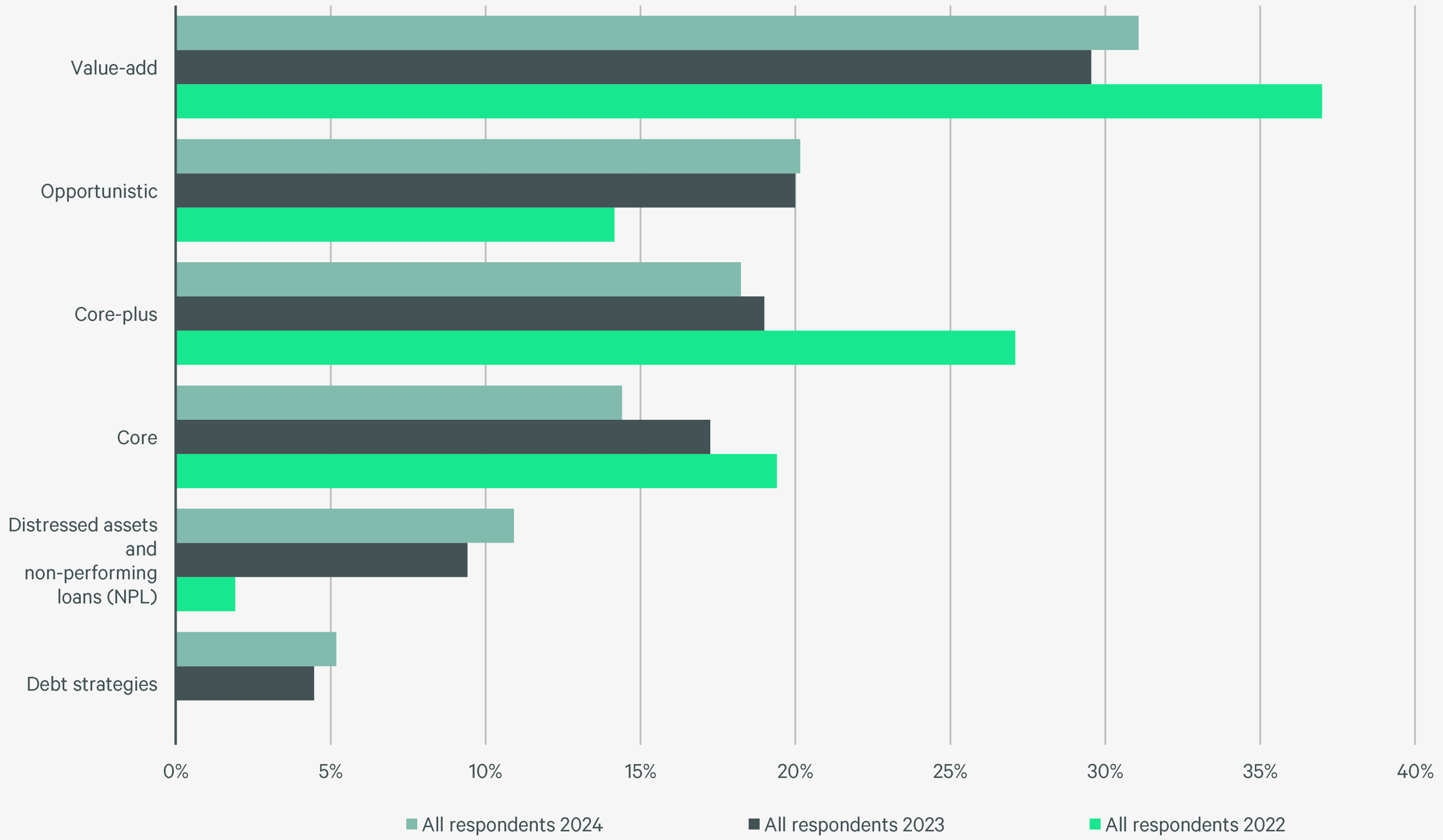
Real Estate Strategies

Investors are targeting riskier asset types to capture yield in the high interest rate environment

Over half of investors signalled that they prefer to target value-add, opportunistic, or distressed asset strategies for investment in 2024, the most since the relaunch of our Investor Intentions Survey series in 2021. This sentiment is also corroborated by market data from Preqin, suggesting that approximately two thirds of unallocated European real estate capital targets opportunistic and value-add strategies.

Concurrently, only one third of investors selected core or core-plus as their preferred strategy, the lowest level recorded in our survey series. Investors are looking for riskier strategies, in part due to their desire to capture yield amidst the high interest rate environment and to take advantage of price dislocation opportunities. In terms of AUM profiles, the smallest firms with <$5bn AUM and the largest firms with >$50bn AUM are most poised to target riskier strategies, while mid-sized firms with $5bn-50bn AUM showed slightly higher willingness to pursue the more conventional core and core-plus asset types.

Figure 10: Most attractive strategy for investment in 2024



Source: 2024 European Investor Intentions Survey, January 2024

Logistics and residential surpass office as the most preferred European sectors

Logistics and residential registered 34% and 28% percent of investor sector preference respectively, surpassing office for the first time. In the logistics sector, respondents signalled that occupier demand remains strong. Two thirds of respondents who selected logistics as their preferred sector believe that occupier demand will either remain the same or increase in 2024. Investors signalling preference for residential are even more optimistic about the future of demand.

The office sector saw less interest than in previous editions of our survey; however, a stronger economic outlook and an increase in office attendance through company mandates will make investors more confident in investing in the office sector. We also noted increased interest in grade B or C assets that have refurbishment potential, provided they are in prime locations and come with sufficient discounts.

Retail encompasses a wide range of investible sub-sectors, offering investors unique opportunities within the sector. Investors stated that operational resilience of the asset class, as well as the belief that certain sub-sectors are undervalued and can be improved through active management initiatives, are all regarded as key reasons to invest in retail.

Much like retail, the hotel sector offers several distinct sub-sectors and operational structure that investors can target for acquisition. Occupational fundamentals for hotel assets remain strong while demand should increase in 2024 as the economy strengthens and travel continues to return.

Figure 11: Sector preference – 2024 IIS Survey

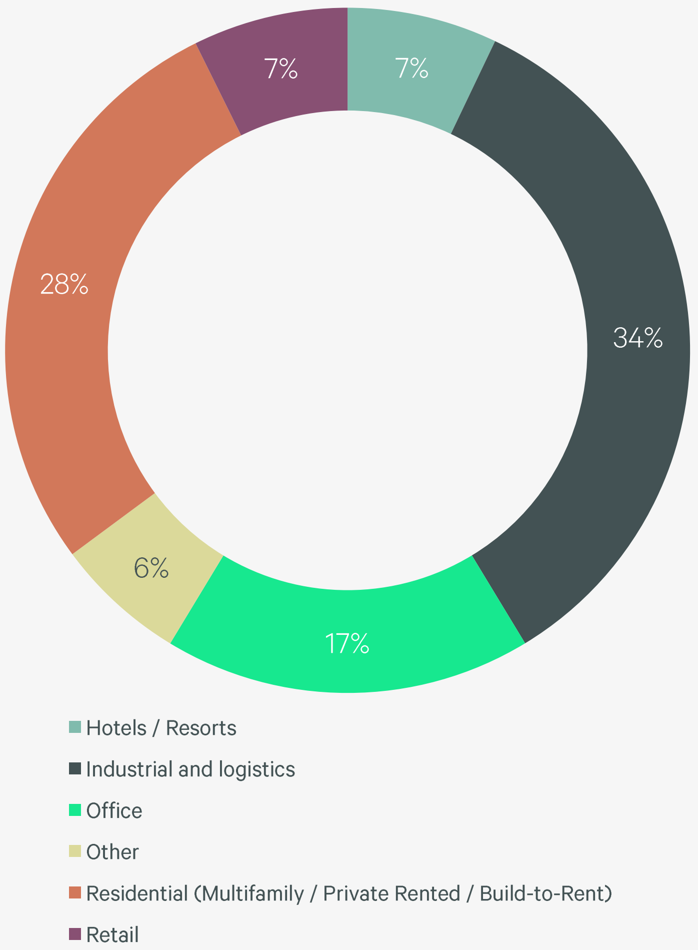
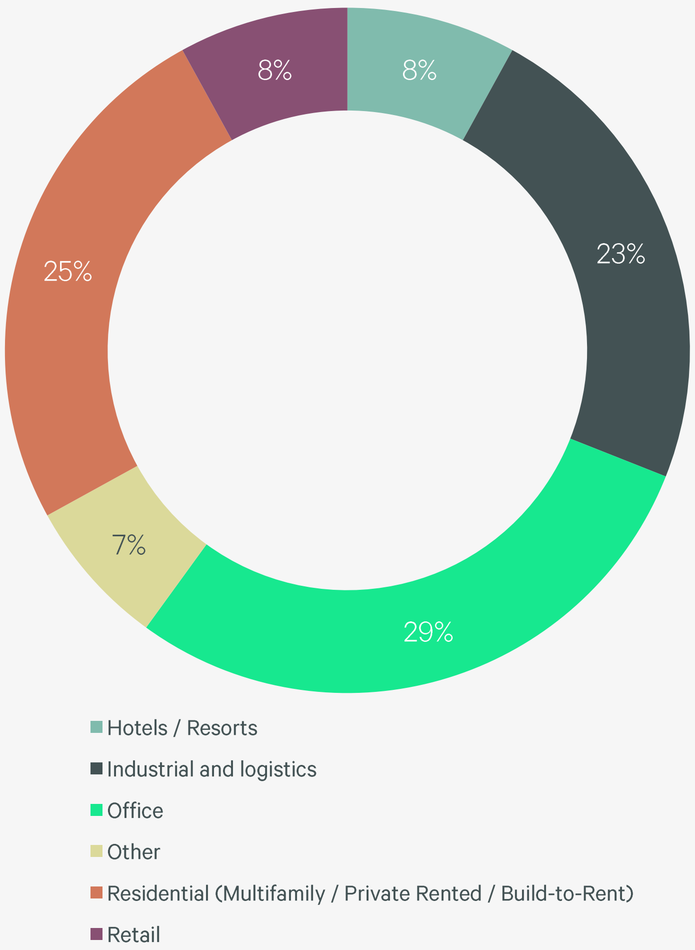


Figure 12: Sector preference – 2023 IIS Survey



Source: 2024 European Investor Intentions Survey, January 2024

Investors were asked their favourite asset type based on their preferred sector...

Office

Of those who prefer office, over half selected Grade A office in a prime location. One third selected Grade B or C in a prime location

Retail

Retail parks remained the favourite but were closely followed by supermarkets and prime shopping centres

Residential

Multifamily / Build-to-Rent was the favourite, while interest in student and co-living assets had increased

Logistics

Half of respondents indicated a preference for modern logistics facilities, while one third selected aged logistics facilities. All selections are for assets in major cities

Hotel

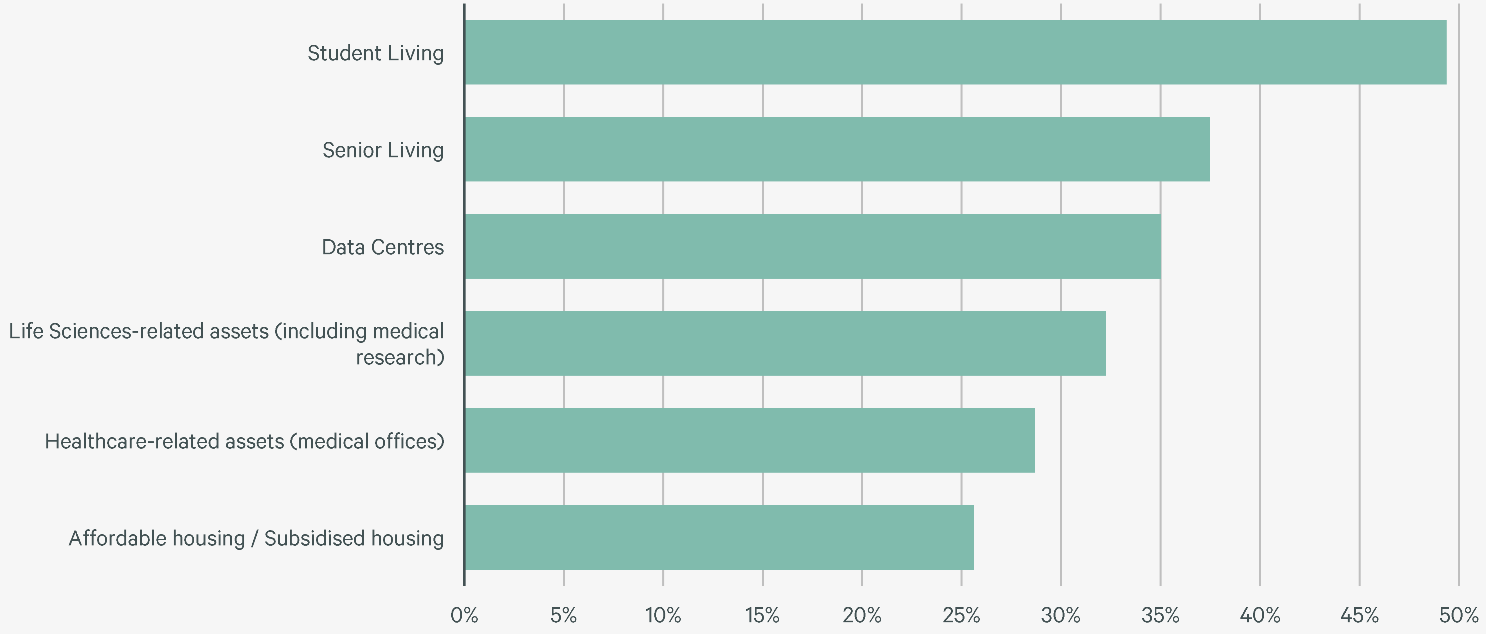
40% of respondents selected the luxury segment, while 30% selected full-service, and 20% limited-service

Residential alternatives remain most sought after, but interest increasing for data centres, life sciences, and healthcare-related assets

Two thirds of respondents to our survey will pursue alternative investment in 2024. The overwhelming favourites were student living and senior living. These alternatives received interest from 49% and 38% of investors, respectively. Preference for senior living was highest in Germany, Eastern Europe, and the Nordics, in part due to market-specific socioeconomic trends. Stock for senior living is less available in Western Europe, where data centres, life sciences, and healthcare are more sought-after. Data centres remain particularly strong in Eastern Europe as the Russia-Ukraine war has prompted significant migration to the area, resulting in increased demand.

Several other alternatives such as renewables, self and cold storage, leisure and entertainment, and roadside and automotive garnered interest. However, it will take more time to develop infrastructure, especially in the medium and smaller European markets, before these industries fully mature in Europe.

Figure 13: Asset types pursued by investors who target investment in alternative sectors



Source: 2024 European Investor Intentions Survey, January 2024

Germany
- Student Living (41%)
- Senior Living (38%)
- Life Sciences (34%)
- Data Centres (31%)
- Affordable housing (30%)

France
- Student Living (43%)
- Healthcare (42%)
- Data Centres (36%)
- Life Sciences (34%)
- Senior Living (31%)

UK
- Student Living (63%)
- Data Centres (46%)
- Life Sciences (45%)
- Senior Living (33%)
- Self Storage (28%)

Italy
- Student Living (63%)
- Data Centres (42%)
- Healthcare (29%)
- Senior Living (29%)
- Renewables (25%)

CEE
- Data Centres (43%)
- Senior Living (33%)
- Renewables (26%)
- Healthcare (21%)
- Cold Storage (21%)

Nordics
- Student Living (57%)
- Senior Living (50%)
- Infrastructure (48%)
- Healthcare (38%)
- Life Sciences (34%)

04

Investment Destinations

The UK retains its status as the top European investment destination

INVESTORS HAVE THE HIGHEST RETURN EXPECTATIONS FOR THE UK, WHILE SEVERAL OTHER MAJOR MARKETS CONTINUE TO ATTRACT INVESTORS

The **UK** saw significant interest from European investors in our 2024 Investor Intentions Survey. The market is now ahead of Germany for the second consecutive year. Inflationary pressure in the UK remains, but the country is in a considerably stronger position than 2023. Investment is forecasted to recover in the second half of the year in concurrence with a drop in rates. Investors are particularly keen on value-add and opportunistic strategies, especially in the residential, logistics, and centralised office markets.

Germany had a tumultuous 2023, marked by a recession and fall in industrial production. However, respondents are adamant that the market will provide returns in 2024. As pricing levels approach their bottoms, investors now have a strong opportunity to enter the historically strongest investment market. The residential sector is particularly well-established and offers significant stock across several large cities. Responses from our survey also indicate that positive sentiment for prime office is higher in Germany than most other major markets.

Poland moved up two places and finished third in our cross-border property return expectations. This is significant given that CBRE data tracks it as only the 12th largest European market in terms of investment volumes over the past five years. Capital values for residential assets have been resilient, especially amidst the backdrop of Ukrainian migration to the country. This migration has also increased demand for office, logistics, and data centres. While inflation remains stickier than other European markets, especially for food, real GDP growth was strong in H2 2023 and is currently forecasted by the European Commission to hover around 3% annually through 2025. This is higher than other major euro area markets such as France, Germany, and Italy. If inflation and political challenges abate, investors in the market should enjoy continued returns.

Two southern European markets, **Spain** and **Italy**, both finished in the top 10 of our cross-border performance expectations. These economies are also undergoing major structural shifts, especially in green energy and digitalisation. As they develop, investors that have entered these markets may be poised to receive strong returns.

France dropped two spots in our rankings as the dip in their market cycle occurred later than other major European markets. France entered 2023 somewhat shielded from inflationary pressures given its strong domestic energy production. However, the tight credit market has weighed heavily on investment. Employment markets remain strong by historical standards and domestic investors indicated the strongest preference for office assets out of any European market. As the macroeconomic landscape strengthens, France may see a resurgence atop our rankings in 2025.

Netherlands, **Ireland**, and **Switzerland** all finished within one or two places from their previous positions in the top 10, indicating that investor sentiment for these markets remains strong. **Sweden** also finished in the top 10 for the first time since 2021 as investors remain especially optimistic about residential investments in the market.

The UK retains its status as the top European investment destination

LONDON CEMENTS POSITION AS THE MOST ATTRACTIVE CITY FOR CROSS-BORDER INVESTMENT FOLLOWED BY PARIS

London finished with a large vote differential ahead of second place Paris in our most attractive city for cross-border investment rankings. According to the US Investor Intentions Survey, investors are very eager to continue deploying capital in the UK, and, by extension London, when market conditions allow.

While France fell in the country performance expectation rankings, Paris continues to garner strong cross-border investment interest. The much-anticipated Olympic games will take place in the summer of 2024 and bring strong economic activity with lasting implications for the city.

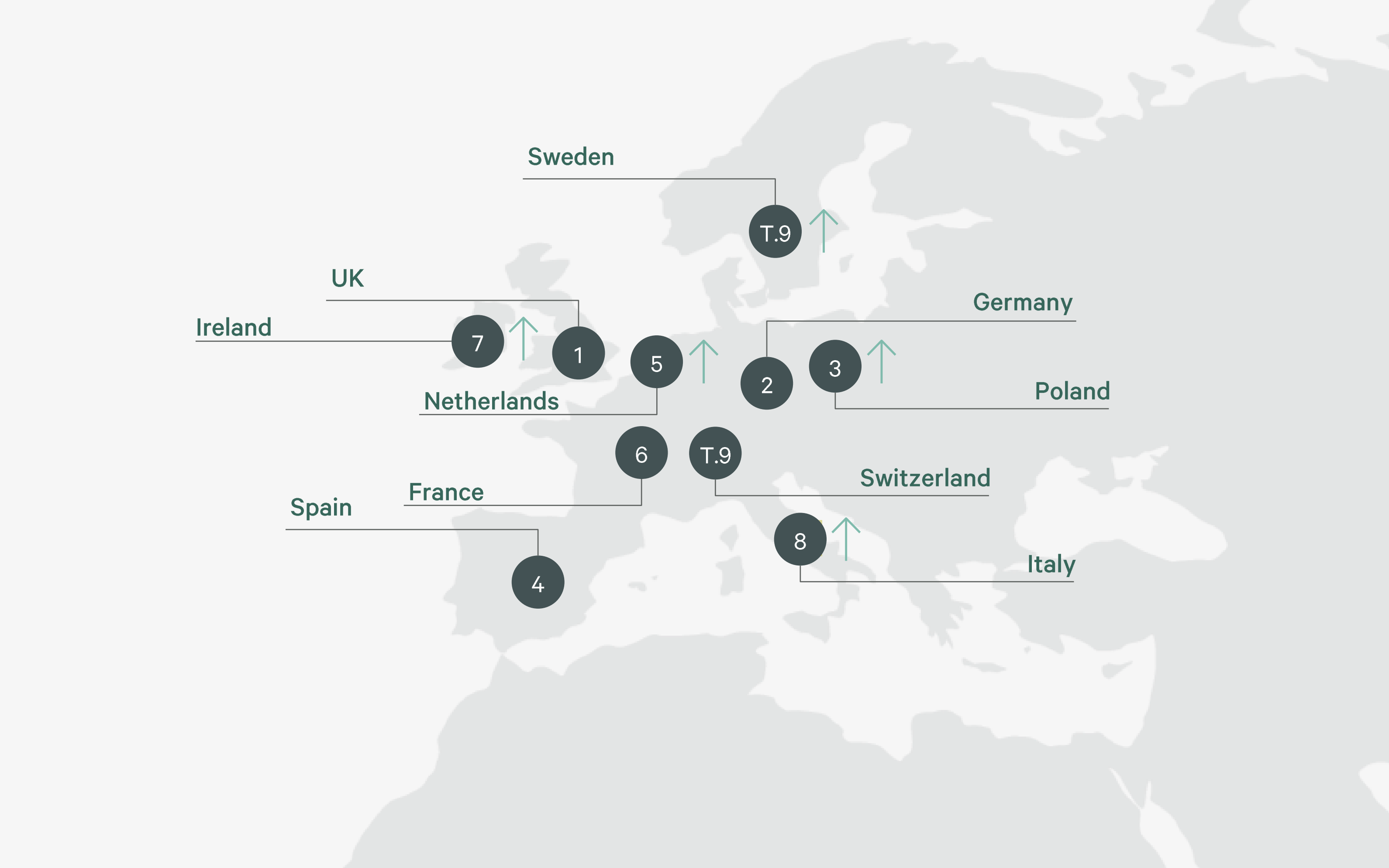
8 of the 10 markets remained on the list from last year's edition. Stockholm and Dublin entered the rankings for the first time, which coincides with Sweden and Ireland’s return in the top 10 country performance expectation rankings.

The UK and Germany are expected to have the highest total property returns in 2023 while Poland moves up two spots to complete the top three

ADDITIONAL OBSERVATION

While the country rankings remove respondents who select their home markets as most attractive to avoid in-country bias, some interesting trends did emerge. Respondents from the UK (63%) were most likely to select their own market as most attractive, further corroborating the strong sentiment registered in our survey. Among other major markets, investors from Italy (47%) and France (37%) were the second and third most likely to select their home market, respectively. Interestingly, Germany, which finished second in the list, received just under one quarter (24%) of votes from in-country respondents.

Figure 14: Country level performance expectations (cross-border* only)



Legend

- # Country level-performance ranking
- ↑ Higher ranking than in 2023

* Only responses selecting markets outside of the country that each investment company is headquartered are taken into account.

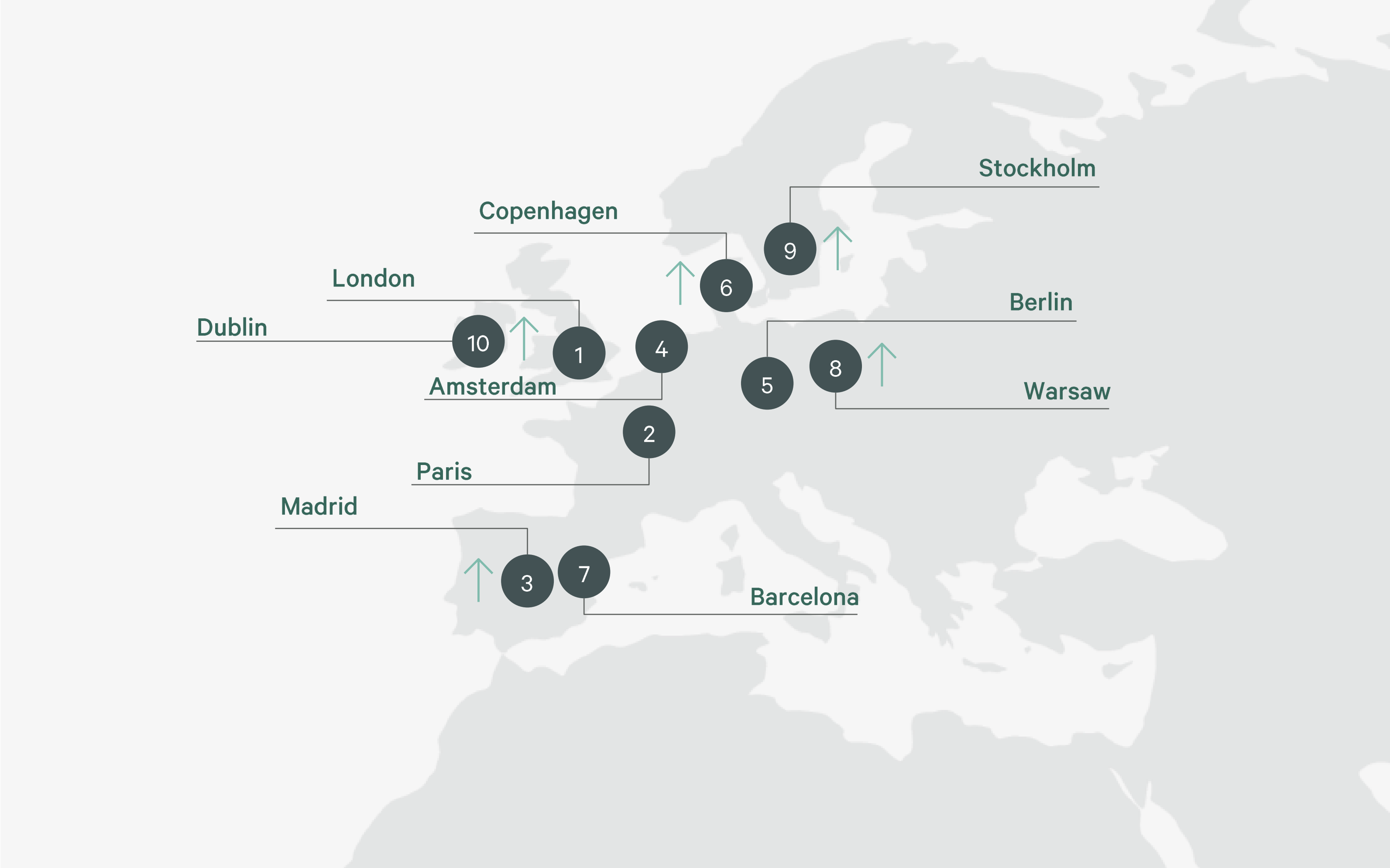
Source: 2024 European Investor Intentions Survey, January 2024

London remains the most attractive city for cross-border investment, followed by Paris, while several traditionally smaller receive strong investor interest

ADDITIONAL OBSERVATION

Historically, German cities occupied three-four spots in the top 10 most attractive cities for cross-border investment. While Germany finished second in the country performance rankings, Berlin was the only market from the country to finish in the city top 10. This suggests that investors want to enter Germany but have yet to decide specifically on which location. Nevertheless, had the top 10 rankings been continued to the top 15, two more Germany cities would have made the list. Milan, Frankfurt, Munich, Lisbon, and Prague would have placed 11-15 in this order.

Figure 15: Markets expected to see highest cross-border* interest



Legend

— Top ten preferred city rankings

↑ — Higher ranking than in 2022

* Only responses selecting markets outside of the country that each investment company is headquartered are taken into account.

Source: 2024 European Investor Intentions Survey, January 2024

05

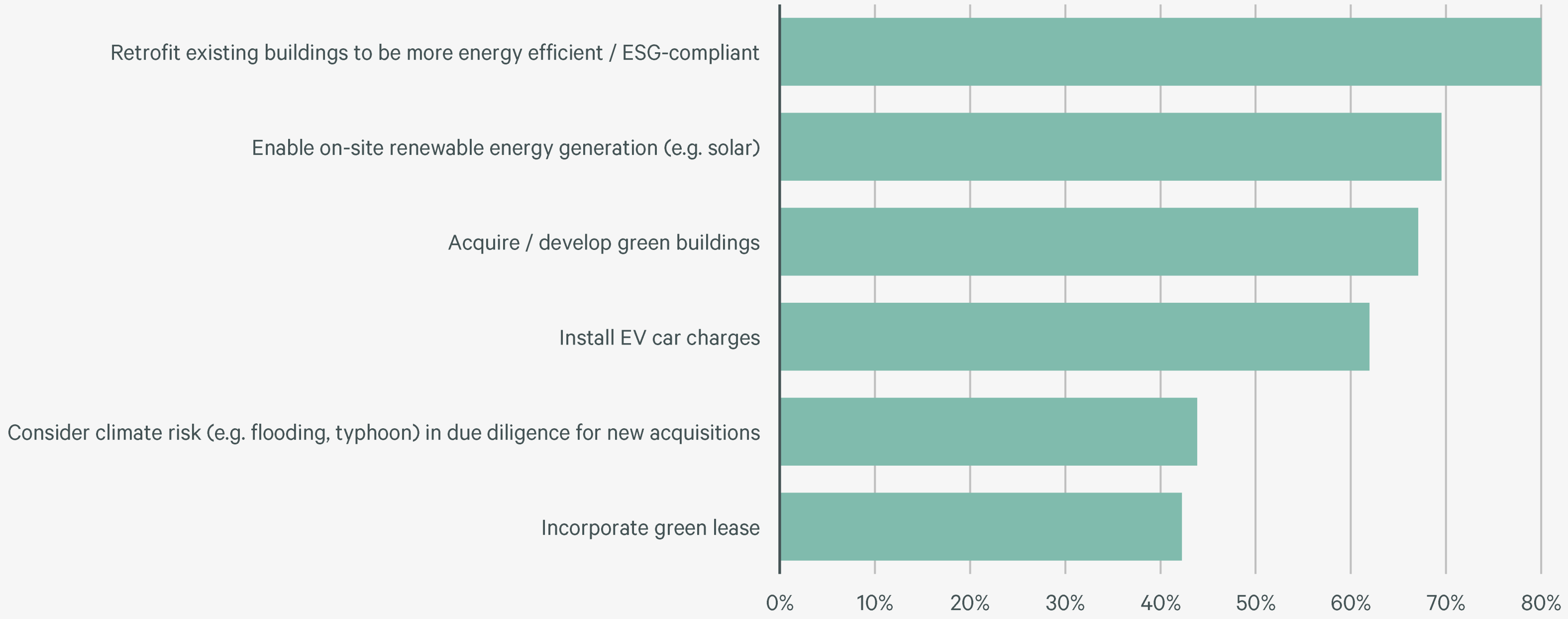
Sustainability and Investment

Investors are looking to retrofit buildings to not only implement sustainability strategies but also capture yield in the value-add segment

As the European economy teetered towards recession in 2023, many investors had to adjust their strategy to reflect short-term trends, while keeping focus on long-term profitability. Navigating this in today's complex, capital constrained environment is by no means an easy task and therefore we have seen sustainability factors come under increased pressure. However, we believe that sustainability initiatives will continue to prove their importance both in terms of asset resilience and for value creation and preservation over the longer term. Nearly all investors who responded to our survey consider such criteria in their investment decisions.

Approximately 80% of investors who indicated willingness to implement sustainability strategies indicated that they seek to retrofit existing buildings for compliance. The improvement of buildings to meet sustainable compliance standards, especially in the office sector, offers a strong opportunity for enhancing returns. Retrofitted green buildings will also be more attractive to occupiers looking to entice workers back to the office and are less capital intensive than new development. Key methods of retrofitting across Europe include the enablement of on-site solar generation and installation of electric vehicle charging stations.

Figure 16: Sustainability initiatives considered by investors who implement such strategies



Source: 2024 European Investor Intentions Survey, January 2024

Germany
- Retrofit existing buildings (73%)
- Enable on site-renewable generation (71%)
- Acquire / develop green buildings (67%)

France
- Retrofit existing buildings (88%)
- Enable on site-renewable generation (60%)
- Install EV car chargers (58%)

UK
- Retrofit existing buildings (85%)
- Enable on site-renewable generation (82%)
- Install EV car chargers (73%)

Italy
- Retrofit existing buildings (80%)
- Acquire / develop green buildings (62%)
- Enable on site-renewable generation (62%)

CEE
- Enable on-site renewable generation (73%)
- Acquire / develop green buildings (73%)
- Install EV car chargers (70%)

Nordics
- Retrofit existing buildings (83%)
- Enable on site-renewable generation (73%)
- Acquire / develop green buildings (68%)

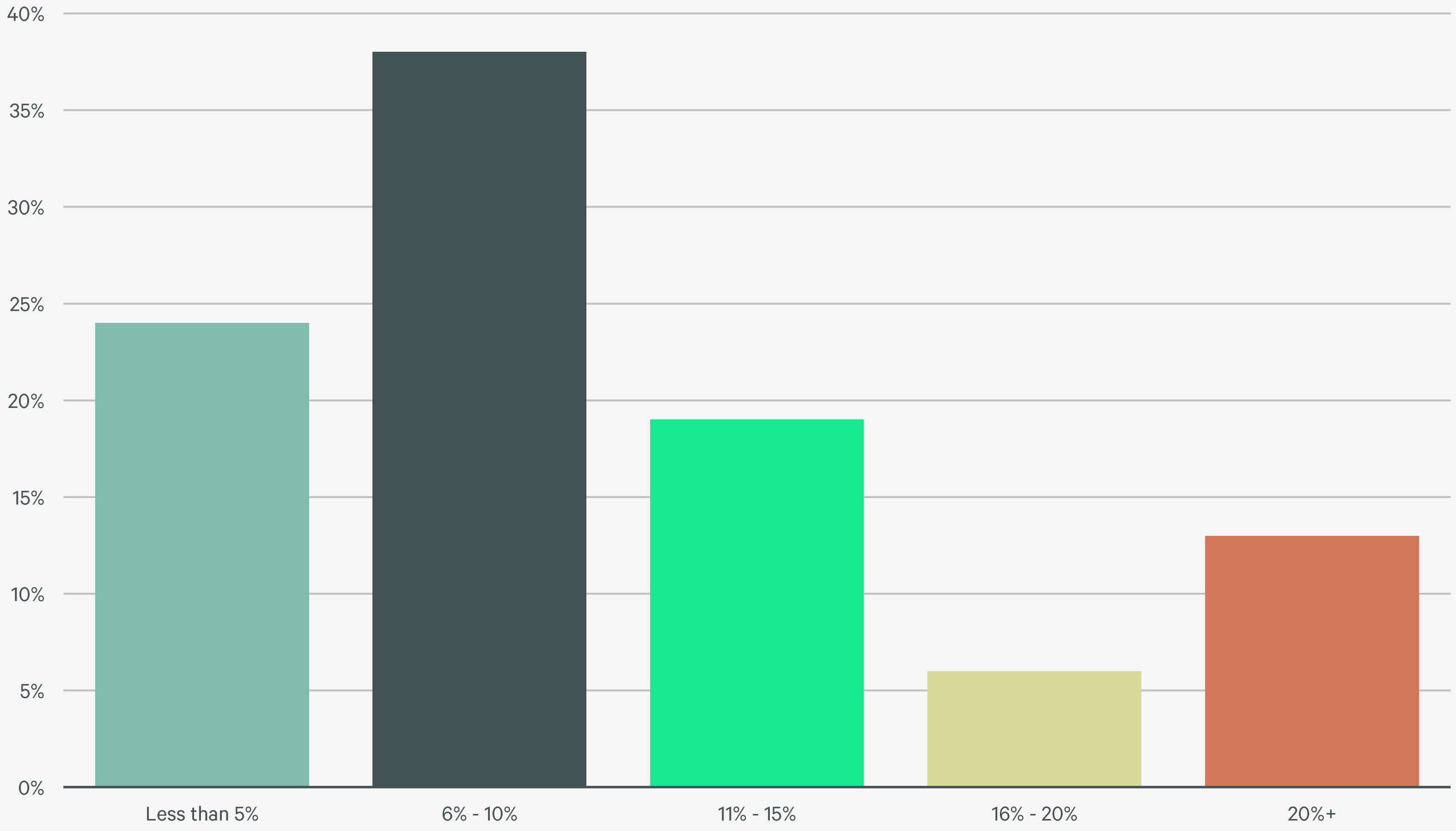
Willingness to pay premiums for sustainable assets has receded YoY although some investors are still prepared to do so

In the 2024 edition of our Investor Intentions Survey, one fifth of investors stated that they would pay premiums to acquire assets that meet sustainability standards. This is down from approximately one third from the year prior. However, as markets recover, we will likely see an increased willingness to pay premiums.

The magnitude of the premiums that these investors are willing to pay have also decreased year-over-year. In 2024, only 13% of investors willing to pay a premium to acquire a sustainable asset said that they could conceivably pay a >20% to do so. Around 50% of likeminded investors were willing to do so the year prior. However, this may be attributed to the overall downward pressure on pricing observed in the market.

The majority of 2024 respondents accepting to pay premiums did indicate that they would pay at least 6% more than a comparable non-compliant green asset. This is being supported by their expectations of occupier preference and rental premium for assets that meet sustainability standards. Indeed, in our latest European analysis, we were able to quantify the impact of sustainability certifications on office rental levels – showing a 7% rental premium for European offices with sustainability certifications, compared with equivalent unrated buildings.

Figure 17: Premium certain investors are willing to pay to acquire assets that meet sustainability standards



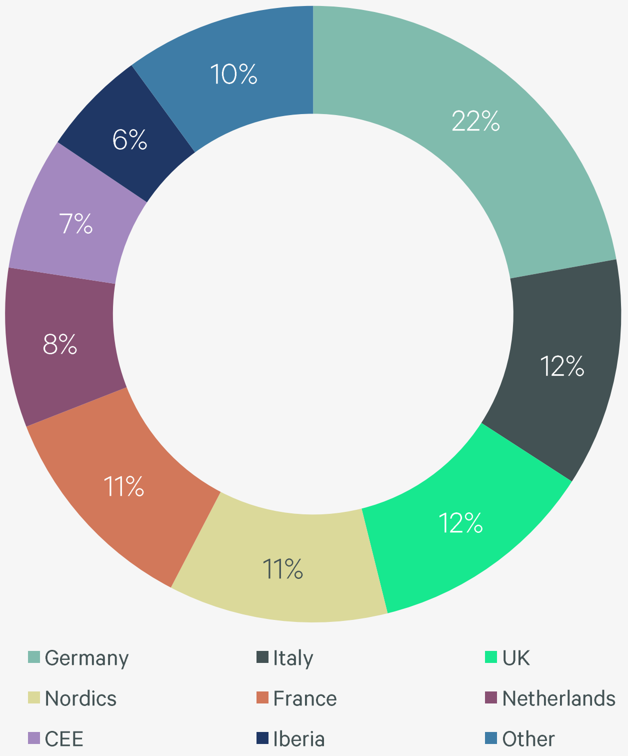
Source: 2024 European Investor Intentions Survey, January 2024

06

Respondent Profile

Total Responses: 888

Figure 18: Percentage of respondents by market



– CEE includes respondents from Hungary, Slovakia, Poland, Czech Republic, and Romania
– Nordics includes respondents from Norway, Finland, Sweden, and Denmark
– Iberia includes responses from Spain and Portugal
– Other includes pan-European respondents, non-European investors, and all other European markets not featured in figure 18

Figure 19: Percentage of respondents by investor type

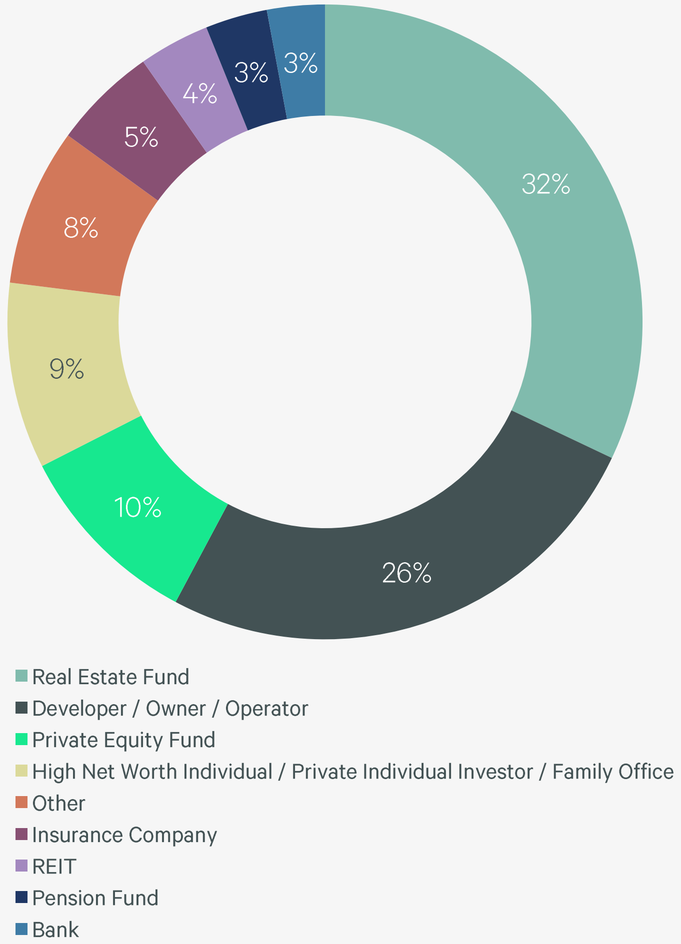
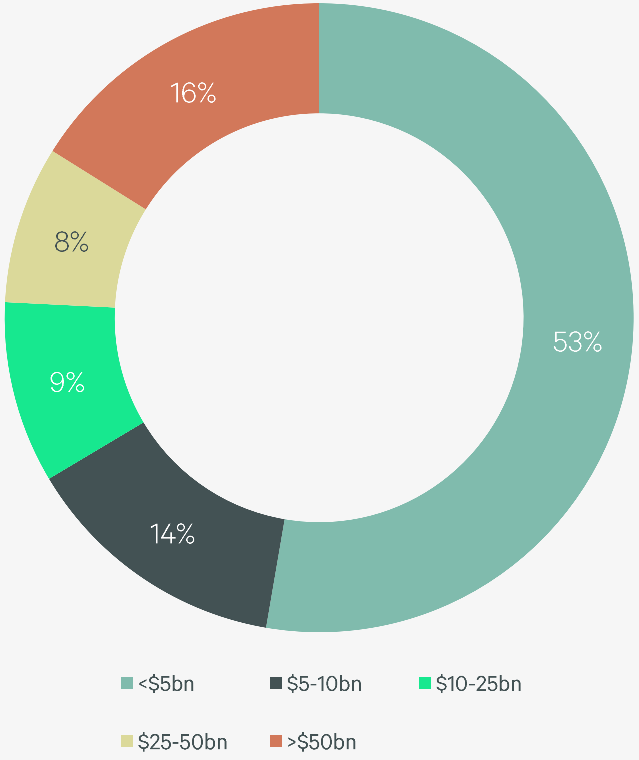


Figure 20: Percentage of respondents by AUM



Source: 2024 European Investor Intentions Survey, January 2024

Contacts

Chris Brett
Head of Capital Markets, Europe
chris.brett@cbre.com

Richard Dakin
Europe Head of Investment Banking and Debt & Structured Finance
richard.dakin@cbre.com

Tasos Vezyridis
Head of Thought Leadership, Europe
tasos.vezyridis@cbre.com

Jos Tromp
Head of Business Development
Head of Research & Data Intelligence Continental Europe
jos.tromp@cbre.com

Richard Barkham
Global Chief Economist, Head of Global Research & Americas Research
richard.barkham@cbre.com

Raphael Rietema
Senior Director, Capital Markets and Residential Research, Europe
raphael.rietema@cbre.com

Benjamin Pipernos
Senior Research Analyst, European Capital Markets
Global Thought Leadership
benjamin.pipernos@cbre.fr

Henry Chin
Global Head Of Investor Thought Leadership & Head of Research, Asia Pacific
henry.chin@cbre.com

Darin Mellott
Vice President of Capital Markets Research
darin.mellot@cbre.com

Jennet Siebrits
Head of UK Research
jen.siebrits@cbre.com

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