European Association for Investors
in Non-Listed Real Estate Vehicles

# European real estate shows positive signs of recovery

**18 September 2024, Amsterdam** – With a headline reading of 55.8, the latest INREV Consensus Indicator, confirms the much-anticipated recovery for the European non-listed real estate investment market. This represents the third consecutive quarterly improvement since the indicator first exceeded 50 in March 2024[1].

Four of the five subindicators show positive improvement. At 59.5, the investment liquidity subindicator registered the most significant uptick for the second consecutive quarter, rising sharply from 32.0 a year ago. The only reading just under 50 is for the new development subindicator, which is at 49.7, despite consistently improving since December 2023.

Leasing and operations is the only subindicator to decline, sliding to 56.3 – its lowest ranking since we started to monitor the market consensus in March 2023 – and dropping from first to fourth position. This fall reflects the anticipated bifurcation of the lettings market identified by INREV in December 2023. Nevertheless, leasing and operations remains above 50, still pointing toward growth.

**Positive performance across most geographies and sectors**

According to the Q2 2024 INREV Fund Index, total return reached 0.97%, up from 0.02% at the end of Q1 2024. At 0.17%, capital growth turned positive for the first time since Q2 2022.

Positive performance is also underlined by an uptick in transactions volumes, which reached €30.1 billion for Continental Europe in Q2 2024 – up from €24.2 billion in the previous quarter. UK transaction volumes also rose, from €13.1 million in Q1 to €14.6 billion in Q2 2024. While transaction volumes remain below historic averages for both geographies, improving liquidity suggests growing investor confidence.

Asset level results reveal even more nuances around the latest performance. Assets in the Netherlands and the UK marked yet another quarter of outperformance, with 2.56% and 1.59% respectively, showing positive returns across all main sectors: industrial/logistics, office, residential, and retail. France reported a solid industrial/logistics sector result with a return of 1.32% for Q2, followed by the residential sector (0.62%). However, French offices posted a negative performance of -1.01%.

Germany, meanwhile, continued its streak of negative performance for the eighth consecutive quarter, posting a total return of -0.61% for Q2. The German retail sector reported a steep quarter-on-quarter decline of 157 bps to -1.96%. At -1.54%, the German office sector returns remained in the negative territory for the 8th quarter in a row, with further value falls anticipated.

[1] A Consensus Indicator of above 50 represents growth. The further away from the 50 mark the results, the greater the level of change.

At an overall sector level, the Q2 2024 INREV Asset Level Index shows that residential remains the top-performing sector, with a return of 2.37% – a quarter-on-quarter increase of 151 bps. Second is industrial/logistics, with a total return of 1.43%, its highest level since Q2 2022. Retail assets also posted positive returns at 1.01%. Office assets continued a lacklustre performance with a total return of -0.49%, though this still represents a 41-bps improvement from the previous quarter.

However, the picture is nuanced, pointing to a geographical bifurcation of the real estate market. While each geography reflects different levels of sector bifurcation, Q2's best performing European sectors – residential and industrial/logistics - showed the lowest dispersion between their best and worst performing assets. Office assets, on the other hand, reported the highest levels of performance dispersion.

**Strong sentiment towards Spain**

Selected by 31% of respondents, Spain is top of the list for the most preferred investment destination for the first time since the survey began in December 2020. Interest in Spain is predominantly driven by improved economic conditions and higher yields. After four consecutive quarters in the top spot, the UK is now the second-most preferred location for investment, with 25%. Elsewhere in Southern Europe, sentiment is also positive for Italy, which climbed to 13% (up from 3% in June) and for Portugal at 3%.

In Northern Europe, the Netherlands, Germany and the Nordics report only a moderate positive sentiment (6%), which is an improvement for Germany. At 3%, France is lagging after a slight deterioration since June.

**Resurgence of core capital and rise in expectations for yield compression**

Insights from the Consensus Indicator suggest early evidence of a re-balancing between the two key sources of debt. Over the last couple of quarters traditional lenders have become more active – up from 14% in June to 19% in September. Conversely, alternative lenders have dipped from 41% to 29% over the same period. This potentially reflects a tentative return of core capital to the European real estate market.

Views on yield are mixed, but in the UK in particular, 31% of respondents expect further yield compression next quarter. By contrast, market participants in France and Germany expect yield expansion, likely due to a lag in valuations and repricing. Several other markets, most notably the Nordics, Netherlands and Spain, appear to be near the end of repricing. Only 10% of participants anticipate yield expansion in Spain in Q3, a notable improvement from the 33% equivalent for Q2 2024. This aligns with the sharp uptick in sentiment towards the Spanish market this quarter.

Iryna Pylypchuk, Director of Research & Market Information at INREV, said: "European real estate is showing signs of a long-awaited recovery, reflected in both sentiment and the latest performance data. We are seeing a certain level of rebalancing and the first signs that core capital is returning, both on the equity and the debt side. Risks remain, however, especially given we are moving into an alpha market where asset selection, operational efficiency, and asset management will play a pivotal role to performance."

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**Notes to Editors**

*About the INREV Consensus Indicator*

The INREV Consensus Indicator is a new diffusion index, designed to measure the direction of trends in the European non-listed real estate market. The purpose of the indicator is to provide both backward- and forward-looking insights to decision makers, investors, market analysts and asset allocators, and to become the leading indicator for the sector.

The headline Consensus Indicator is a number from 0 to 100 and consists of five sub indicators that summarise whether market conditions are expanding, staying the same, or contracting. A Consensus Indicator of above 50 represents growth, whilst a reading of 50 represents no change. A reading of under 50 indicates contraction. The further away from the 50 market the results lie, the greater the level of change. The sub indicators are economic, new development, investment liquidity, financing and leasing and operations.

Thirty-five organisations contributed to this quarter's INREV Consensus Indicator, comprising of 12 investors and 23 fund managers. The criteria for contributing to the indicator is to be an INREV member with a pan-European coverage, a contribution by a Head of Research / Head of strategy role, and a commitment to regular quarterly contributions to ensure sample consistency. In this early phase of the indicator, INREV are accepting additional contributors for the next iterations of the indicator.

*About INREV*

INREV, the European Association for Investors in Non-listed Real Estate Vehicles, represents the interests of an established industry valued at €3.7 trillion. The association's 510 members collectively contribute €385 billion of stimulus to the real economy of Europe.

Members includes 133 of the largest institutional investors – accounting for 26% of the total membership – as well as investment managers, banks and advisors.

INREV is focused on increasing the transparency and accessibility of non-listed real estate vehicles, promoting professionalism and best practice, and sharing knowledge. It also engages closely with policymakers on key issues affecting the industry. The non-profit association is based in Amsterdam and Brussels.