

Europe's real estate finds its footing

The end of ultra-low interest rates has exposed vulnerabilities in global property markets while also revealing resilience and opportunity. In Europe, this has led to a selective recovery.

By Sebastiano Ferrante

Warren Buffett once remarked that it's only when the tide goes out that you see who's been swimming naked. Over the past three years, the receding tide of ultra-low interest rates and abundant liquidity has exposed vulnerabilities across global property markets. But it has also revealed resilience and opportunity. In Europe, this translates into a recovery that is selective, strategic, and increasingly supported by global capital.

A shift in the current: capital reallocates to Europe

While the US remains a cornerstone of global real estate portfolios, recent volatility in interest rates, fiscal uncertainty, and shifting geopolitical dynamics have prompted investors to reassess their allocations.



This recalibration is not just theoretical. German investors, traditionally global in their reach, are taking a fresh look at their home markets. Canadian institutions, long active in the US, are now exploring European strategies with renewed interest. Middle Eastern capital, once focused on Asia and North America, is reopening the European chapter. These reallocations take time – investment plans must be revised, committees reconvened – but the direction of travel is clear.

Low tide, high contrast: a recovery of contrasts

Unlike the post-GFC rebound, this recovery will not be driven by cap rate compression. Instead, it will be defined by income growth and asset-level performance. The tide has gone out, and not all assets are basking in the sun.

Prime office buildings in global 24-hour cities – London's West End, central Paris, Munich's Altstadttrung – are seeing rising rents and strong tenant demand. These are the assets where location, ESG credentials, and

modern specifications command a premium.

In contrast, secondary offices in peripheral locations face structural headwinds. In Germany alone, we estimate that up to 30% of office stock could become functionally obsolete over the next 15 years.

Rather than avoid these assets, there is opportunity in transformation. In Germany, we are converting stranded office buildings into micro-living and student housing in walkable, high-demand urban areas like Berlin and Frankfurt. These are not speculative conversions, they are grounded in long term structural demographic trends and good quality, urban infrastructure.

Retail and logistics: mispriced and misunderstood

In other areas, the tide perhaps retreated a little too far. Retail, long out of favor, is quietly reasserting itself. While high-street retail remains challenged, needs-based formats – particularly grocery-anchored retail parks in

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Spain, Germany, and Italy – offer compelling entry yields of 6.5% or more¹. The strength of sentiment against retail in recent years has meant that assets like these have been mispriced and under-allocated for a sustained period of time, despite their resilience and relevance.

In logistics, enthusiasm in recent years has been strongest around big-box assets. But these are now experiencing slower rental growth and there are areas of oversupply, whereas there's still plenty of opportunity in last mile logistics. In Paris, we are actively developing vertical logistics hubs to meet the demands of e-commerce and urban food distribution. These assets are essential infrastructure for modern cities and they are priced accordingly.

Living strategies: the new core

Residential remains a complex but critical part of the European real estate landscape. Regulatory uncertainty and affordability constraints make large parts of the market difficult to underwrite, but there are still interesting opportunities. Senior living in the UK, micro-living and co-living in major German cities, and student housing in Spain are all seeing renewed

investor interest. These operational living sectors offer stable income and lower volatility, making them attractive even in a high-rate environment.

Hospitality, particularly in Southern Europe but also in cities like Berlin, is also enjoying a renaissance. RevPAR (Revenue per available room) growth is being driven by tourism and constrained supply and we are actively investing in leased hotel assets that are expected to offer strong risk-adjusted returns.

Digital infrastructure: data centers and the AI imperative

Artificial intelligence is no longer a future trend, it's a present-day force shaping how we live, work, and interact. From logistics to healthcare to finance, AI is embedded in the very core of our economies, and its infrastructure demands are growing exponentially.

Data centers are at the heart of this transformation. In cities like Frankfurt, Amsterdam, and London, demand for such facilities is surging but supply remains constrained. Power limitations, zoning hurdles, and land scarcity are creating a bottleneck that, for long-term investors, translates into strong value potential. Because these assets are not just digital warehouses.

They are the backbone of the AI era, offering long-term income and strategic relevance in a market where scarcity drives pricing power.

Debt: the quiet catalyst

One of the most underappreciated drivers of opportunity in this cycle is debt. As banks adjust to Basel III finalization and retreat from higher-risk lending, private credit is stepping in. We are seeing a growing need for transitional financing, senior development loans, and recapitalizations, particularly in markets like Germany and France, where traditional lenders remain cautious.

Deals made possible not through bank financing but through flexible private capital that can underwrite the operational upside and ESG repositioning are starting to feel like the new norm.

Conclusion: hearing the signal through the noise

The European real estate market is not in a period of rapid growth. It is in a selective, asset-led recovery. The tide has gone out, revealing both challenges and opportunities. For investors willing to do the work – on the ground, in the data, and with conviction – this is a moment to lean in.

In a world of macro-economic noise, Europe is sending a clear signal. And investors are starting to listen. ■



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SUMMARY

Resilience and opportunity in European real estate are being defined by income growth and asset-level performance.

Investment opportunities include micro-living, co-living, retail, last mile logistics and digital infrastructure.

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