

Europe's real estate renaissance



Stefan Wundrak, Head of European Research

European real estate markets are finally stepping out from the shadow of their American counterparts, as the global investment landscape undergoes a fundamental transformation.

For investors, this presents a compelling opportunity to reconsider European real estate strategies, particularly value-add approaches with the potential for superior returns in an increasingly favourable environment.

Political stability reduces uncertainty

Europe's complex political landscape, spanning 44 countries including 27 EU member states, might appear fragmented, but this complexity delivers something invaluable: regulatory stability. Europe's interconnected network of supranational institutions, national governments and courts inherently encourages compromise and measured decision-making.

This framework, often criticised as cumbersome, provides investors with crucial regulatory certainty. Contrary to popular perception, European countries maintain a relatively low regulatory burden among developed nations, according to the OECD. Furthermore, European public finances remain sound, with the average EU budget deficit standing at just 3.2% in 2024—roughly half the U.S. level.

Economic fundamentals support long-term growth

While European economies may not lead global GDP growth rankings, factors like economic structure, institutional quality, competitive frameworks and ease of doing business drive investment performance—areas where European countries consistently excel.

Europe's resilience during recent challenges reinforces this strength. The energy shock and inflation spike following Russia's invasion of Ukraine could have derailed European growth, yet the continent avoided recession while accelerating its renewable energy transition. With renewables now accounting for over 50% of EU electricity production in 2025, Europe has positioned itself for sustainable long-term prosperity.

Current economic indicators are particularly encouraging. Economic growth is trending upward while unemployment has reached record lows. This combination creates robust fundamentals supporting real estate demand across all sectors.

Capital flow dynamics favour European assets

Global investors are increasingly recognising their portfolios' European underweight, leading to notable capital reallocation. Strong year-to-date returns for European equities (STOXX 600 delivered 6.6%) and euro appreciation reflect growing demand for European assets.

This is significant for real estate. Unlike U.S. markets where cross-border capital plays a marginal role, international flows are market-making in Europe. In major centres such as London and Paris, non-domestic buyers regularly contribute more than half of investment capital, amplifying the impact of shifting global allocation preferences.

Opportunistic entry point in current market cycle

Real estate's cyclical nature provides astute investors with timing opportunities, and current market conditions suggest an optimal entry point. Analysis of spot market data indicates the bottom of the European real estate market around mid-2024, supported by valuation data levelling out toward year-end 2024.

Historical analysis spanning data series back to the mid-1980s reveals that values have never experienced a true double dip, suggesting previous market re-entry points with similar attributes delivered strong returns. Historical patterns indicate that recouping peak values typically takes 17 to 27 quarters, while entering the cycle late materially diminishes return potential.

Investment activity remains cautiously engaged, with a notable shift in sector allocation. Since early 2024, offices, retail, logistics, residential and alternatives have captured almost equal shares of investment volumes, reflecting diversified opportunity across property types.

Resilient occupier markets drive returns

Rather than experiencing both investment value corrections and occupier market weakness, this interest rate-driven correction occurred alongside resilient letting markets that delivered inflation-hedging through accelerated rental growth.

With inflation returning to around normal levels, rental growth has normalised and is expected to continue its healthy upward trajectory. Good supply discipline and focus on renovating existing buildings rather than new construction supports continued rent growth across sectors.

In logistics and residential markets, demand for space remains unabatedly strong, while offices show buoyant occupier demand for prime accommodation. Even retail is experiencing rental growth, after structural correction during Covid and successful consolidation.

Compelling return expectations

Combining strengthening investment markets with resilient occupier fundamentals creates attractive return prospects. Current forecasts show strong expectations for prime assets without leverage, indicating that limited-risk strategies could deliver high double-digit returns.

The return case strengthens significantly with leverage. Five-year return outlooks compared to theoretical required returns—comprising risk-free rates and property risk premiums—show the eurozone and Nordic markets particularly attractive.

The value-add advantage

Fund size strategy significantly affects investment performance, with research by Oxford Economics (using European Preqin data from 2003 to 2024) demonstrating that smaller, nimbler investment vehicles substantially outperform larger counterparts.

Mid-sized funds ranging €100-500 million achieved approximately double median returns compared to funds exceeding €1 billion. These smaller funds allow management teams to maintain focus while avoiding undue deployment pressure and large lot-size retail and office assets that have been factors in the weaker performance of bigger funds.

While core funds benefit from minimum size thresholds for diversification, the agility benefits of smaller size particularly advantage the highly active, complex investment style characteristic of value-add strategies.

Conclusion

In today's rapidly changing global environment, Europe's advantages in regulatory stability and macroeconomic predictability stand out. European real estate's return outlook appears robust, supported by occupier market resilience, lower financing costs and investment markets in early recovery stages.

For institutional investors, this cycle presents an opportunity where high returns need not require excessive risk-taking. Selecting nimble, small to mid-sized value-add funds that have demonstrated superior outcomes across the return spectrum could be the key.

As Europe emerges from America's shadow, the continent's real estate renaissance offers compelling strategic opportunities for forward-thinking institutional capital.

nuveen
REAL ESTATE