Market Insights on European non-listed real estate in March 2025

Strongest European fund performance since Q2 2022

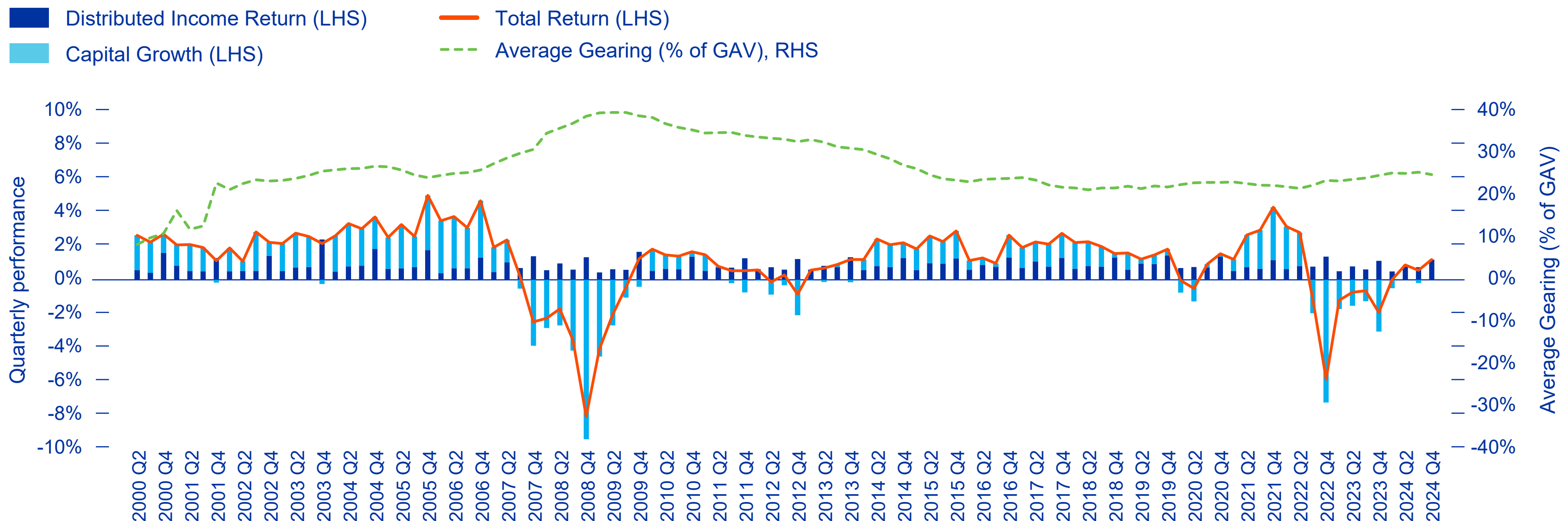
The latest edition of the INREV Market Insights reflects a mixed picture for European real estate. While market performance showed further signs of improvement, sentiment remains cautious, and in some areas, it is deteriorating. The March Consensus Indicator declined from 57.8 in December to 56.7, in light of a broadly subdued economic growth and bifurcated occupier markets.

The Q4 2024 INREV Quarterly Fund Index posted a total return of 1.21%, up from 0.57% a quarter earlier. This is the strongest performance since Q2 2022. However, capital growth remained weak, turning only marginally positive at 0.03% (-0.18% in Q3 2024). The one year rolling capital growth, though improving, remained negative at -0.59%, signalling that challenges persist. Distributed income return provided a boost, rising to 1.18%, up from 0.75% a quarter earlier.

At the sector level, all single sector funds delivered positive results, with residential vehicles in the lead. Notably, office specialist funds returned to positive territory.

Geographically, Dutch and UK-focused funds stood out with the strongest quarterly and annualised results.

Figure 1: European non-listed real estate performance



Source: INREV Quarterly Fund Index, Q4 2024

Positive one year annualised asset level return across main European geographies

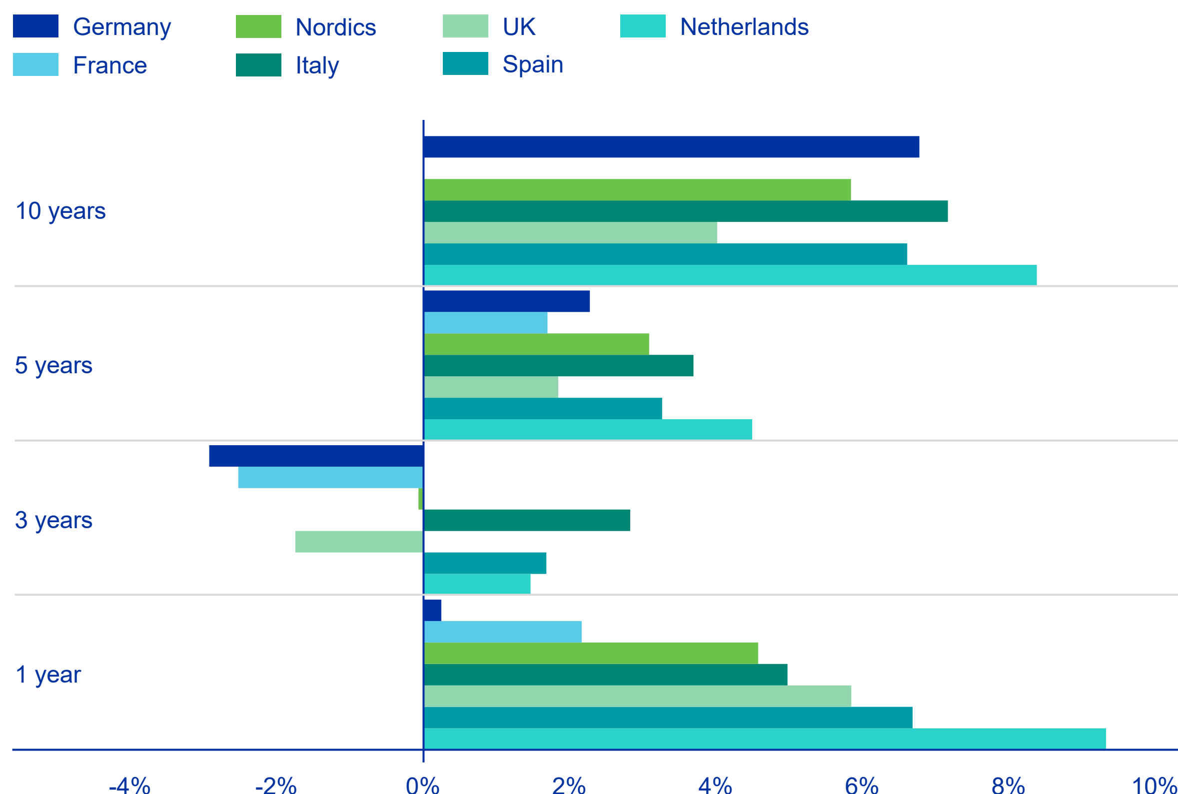
The INREV European Quarterly Asset Level Index posted a total return of 1.81% in Q4 2024, marking the third consecutive quarter of positive performance. Capital growth reached 0.77%, the highest level in ten quarters, reflecting a continued recovery in asset values.

The Netherlands led this quarter with a 2.77% total return, supported by strong residential sector performance at 3.33%. Returning 2.77% on par with the Netherlands, Spain's performance was led by high capital growth (1.60%). The UK followed with 1.88%, boosted by the industrial/logistics assets achieving 2.84% and offices returning to positive territory at 0.48%. France recorded a 1.46% total return, driven by industrial/ logistics at 2.48%. Germany remained in positive territory at 0.35%, largely supported by industrial/logistics at 2.49% as office performance continued to decline (-1.15%).

On a one year annualised basis, all key markets delivered positive returns in 2024, marking an improvement over the three and five year average annual performance, except Germany (see Figure 2). Notably, the one year annualised returns for the Netherlands (9.32%), Spain (6.68%) and the UK (5.84%) exceeded their respective ten year annualised averages. Southern Europe is also gaining momentum, with the Spanish and Italian asset performance reflecting stronger economic recovery. Investment sentiment is improving further for these two markets, as seen in Figure 9 (see page 8).

Meanwhile, Germany's one year annualised 2024 return of 0.24% starkly contrasts its ten year annualised average of 6.77%. Persistently lagging its European peers, the recent US tariffs may add further headwinds, prolonging a meaningful economic recovery.

Figure 2: Annualised European real estate asset performance by country, to Q4 2024



Source: INREV Quarterly Asset Level Index, Q4 2024

Residential and industrial & logistics assets demonstrate strong long-term performance

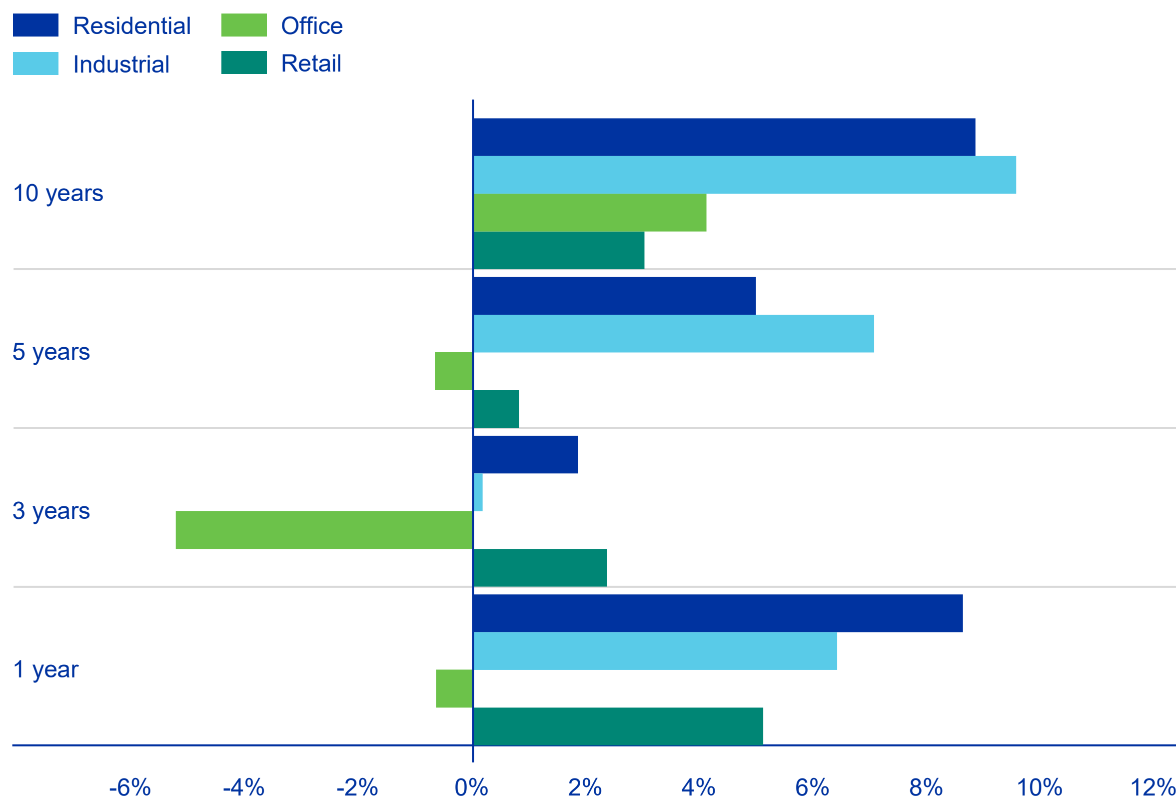
Residential assets remained the best performing sector in Q4 2024, delivering a total return of 2.53%. Industrial/logistics followed closely (2.36%), marking the fourth consecutive quarter of positive performance. These two sectors have demonstrated resilience over the past decade, notably outperforming the other main sectors (see Figure 3).

Retail assets continued their recovery in Q4, reaching 1.78%, a notable improvement from previous quarters. Meanwhile, the office sector remained the weakest performer at 0.35%, weighed down by persistent declines in Germany.

Looking at longer-term trends, residential assets led with a one year annualised return of 8.62%, followed by industrial/logistics at 6.41% (see Figure 3). Retail assets also showed significant improvement, with a one year annualised return of 5.11%, exceeding both the three and five year annualised performance, and even surpassing the ten year equivalent of 3.02%. This confirms the end of the long term pricing correction for the sector, potentially opening new investment opportunities.

Over the past five years, not only the office sector consistently underperformed but also experienced the greatest performance volatility. Its one year annualised return of -0.65% stood very close to the five year annualised equivalent of -0.67%, highlighting the prolonged challenges the sector is facing. However, despite remaining in negative territory, office performance shows signs of stabilisation compared to the negative three year average annualised returns.

Figure 3: Annualised European real estate asset performance by sector, to Q4 2024



Source: INREV Quarterly Asset Level Index, Q4 2024

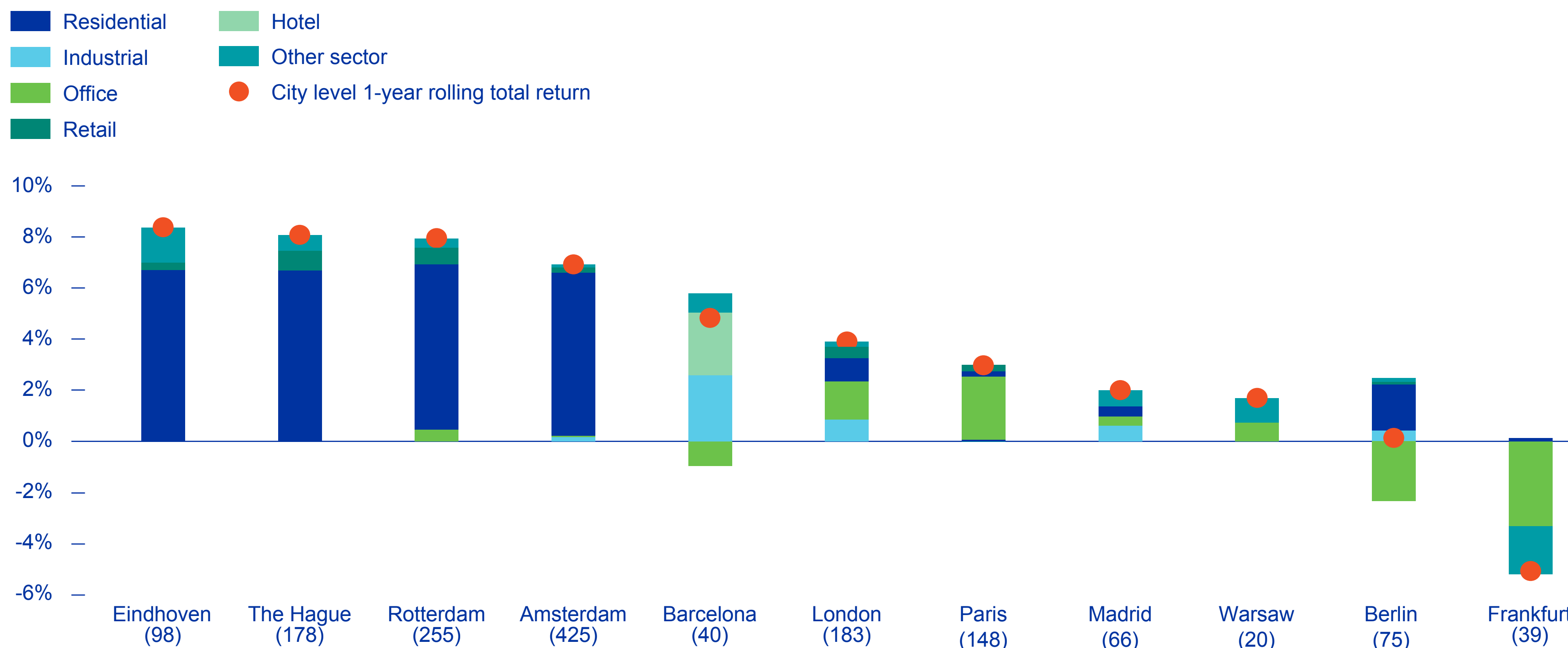
Sector contributions to city level performance vary

Sector contributions to the overall 2024 city level performance continue to reflect distinct regional dynamics across Europe. In the Netherlands, the Randstad cities (Eindhoven, The Hague, Rotterdam, and Amsterdam) are once again supported by the strength of their residential assets, which remain a key driver of returns in the market. This extends across all European cities analysed, with residential making a positive contribution to the 2024 annualised performance, even if marginally, as seen in markets such as Madrid and Frankfurt.

Office sector performance' contribution remains mixed. While office assets have strongly contributed to positive returns in cities like London and Paris, they have notably weighed down overall performance in German markets, including Berlin and Frankfurt.

For cities with a more diversified sector composition of the assets covered in this analysis, the impact of any single sector is less pronounced. Barcelona, London, and Madrid, despite their varying 2024 performance levels, demonstrate how a balanced sectoral mix can mitigate overexposure to any one asset class.

Figure 4: Drivers of city level 2024 annualised asset level performance - contribution analysis



* Number of assets covered in parentheses

Source: INREV Quarterly Asset Level Index, Q4 2024

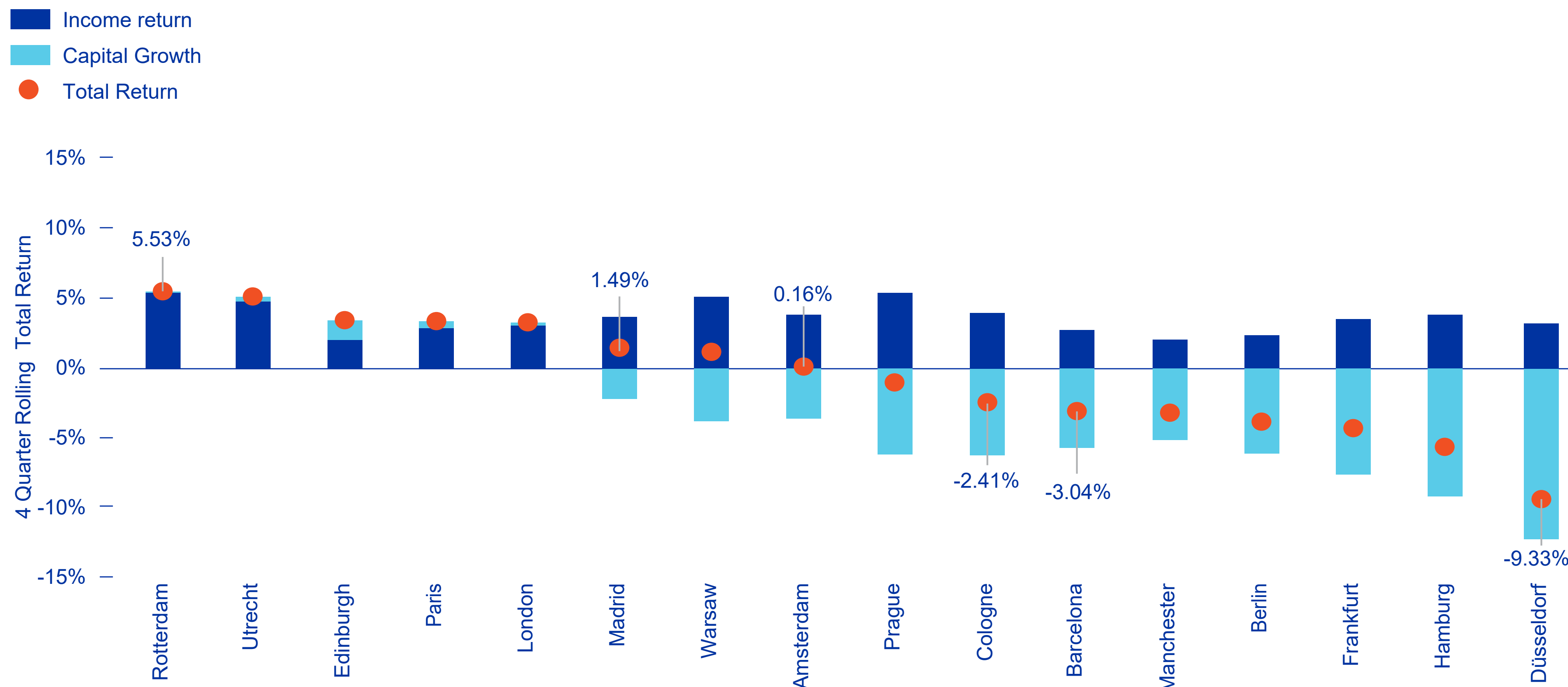
Diverging office performance across European cities

While the 2024 European office asset performance remained in negative territory, there were significant variations across markets. In most locations, returns were primarily income driven, with some selective pockets of rental growth, while capital values continued to decline.

In the Netherlands, Rotterdam and Utrecht stand out at the higher end of the performance spectrum, with their respective 2024 total returns of 5.53% and 5.17% almost entirely driven by the income component. The same is true for the Paris and London offices, albeit their annualised performance is less impressive at 3.42% and 3.31%, respectively.

Capital declines are evident across all other locations, albeit at a varying degree. In 2024, these ranged between -2.1% and -3.6% for Madrid, Warsaw and Amsterdam to declines of 6.1% or more across all of the main German office markets. The German office sector remains highly saturated, adding further downward pressure on values.

Figure 5: Divergence in 2024 European office performance



Source: INREV Quarterly Asset Level Index, Q4 2024

INREV Consensus Indicator declines for the first time since September 2023

In light of broadly subdued economic growth and bifurcated occupier markets, and reflective of the ongoing market recalibration, the March INREV Consensus Indicator declined. It recorded a headline reading of 56.7, down from 57.8 reported in December, the first decline since September 2023.

All five subindicators fell, marking a notable shift in European non-listed real estate sentiment. Investment liquidity (63.2) and financing (61.3), which had demonstrated substantial improvement last year, declined from 63.3 and 61.5 in December 2024. They remain the only two subindicators above the 60 mark, maintaining the strongest sentiment across the five.

The leasing and operations subindicator fell below the 60 mark, pointing to some retraction in rental growth and occupancy rates. The latest results indicate that approximately 7% of aggregate portfolios report a decline in rents, compared to 43% that are seeing an improvement.

The economic and new development subindicators remained in contraction territory. The economic subindicator saw a notable drop to 44.0 from 47.4, the weakest reading this quarter. Rising concerns over high geopolitical and policy uncertainty continue to negatively impact and prolong the subdued economic growth. High trade policy uncertainty and further possible impact on exports and investment dampen the likelihood of a significant near-term rebound for most European economies.

Figure 6: INREV Consensus Indicator

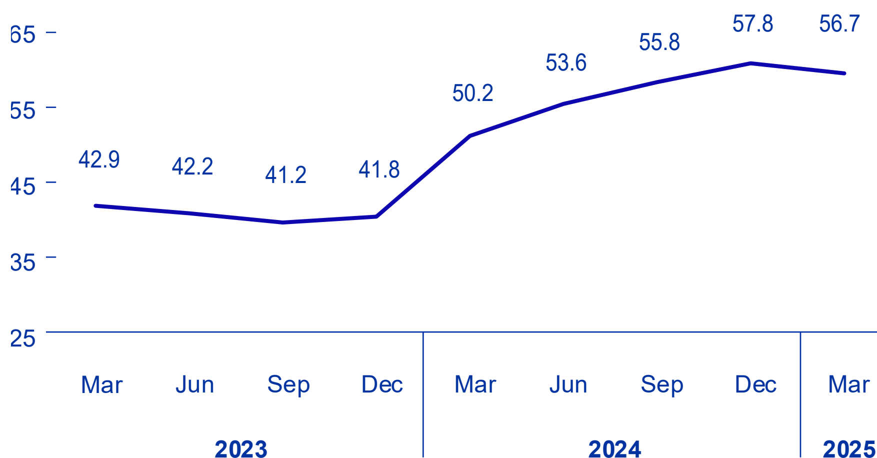


Figure 7: INREV Consensus subindicators

Source: INREV Consensus Indicator, 2025

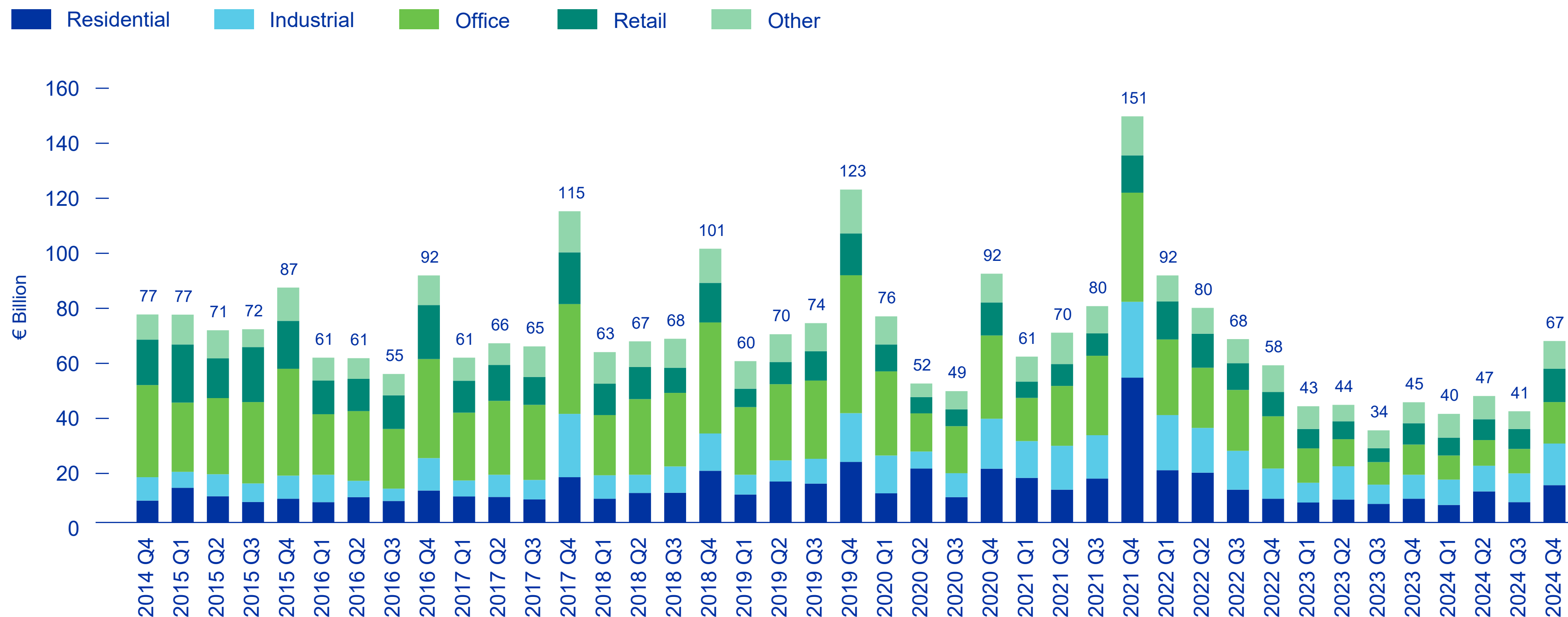
European transaction volumes follow seasonal trends

European transaction volumes increased to €67.3 billion in Q4 2024, up from €41.2 billion in Q3 2024. The significant quarter-on-quarter improvement aligns with the typical year-end uptick in activity (see Figure 8) rather than signalling a broader market recovery. The figure remains well below the ten year quarterly average (€70.2 billion), reflecting continued caution among investors.

Despite subdued volumes, sentiment indicators suggest improving confidence.

The latest Consensus Indicator results show that the investment liquidity subindicator remains above the 60 mark, albeit declining slightly since December. Nevertheless, at 63.2, it is the highest result amongst the five subindicators for a third consecutive time.

Figure 8: European direct real estate transaction volumes by sector



Source: MSCI Real Assets, March 2025

Southern Europe leads sentiment rankings, while major economies weaken

Investor sentiment towards Southern European markets continues to gain momentum at the start of 2025. Spain once again reached a record-high net positive sentiment of 39%, up from 24% in December 2024, and well above its long-term average of 7% since the survey began in December 2020. Italy also saw a notable improvement, ranking second with a net positive sentiment of 24%. These results align with the 2024 asset performance data (see Figure 2).

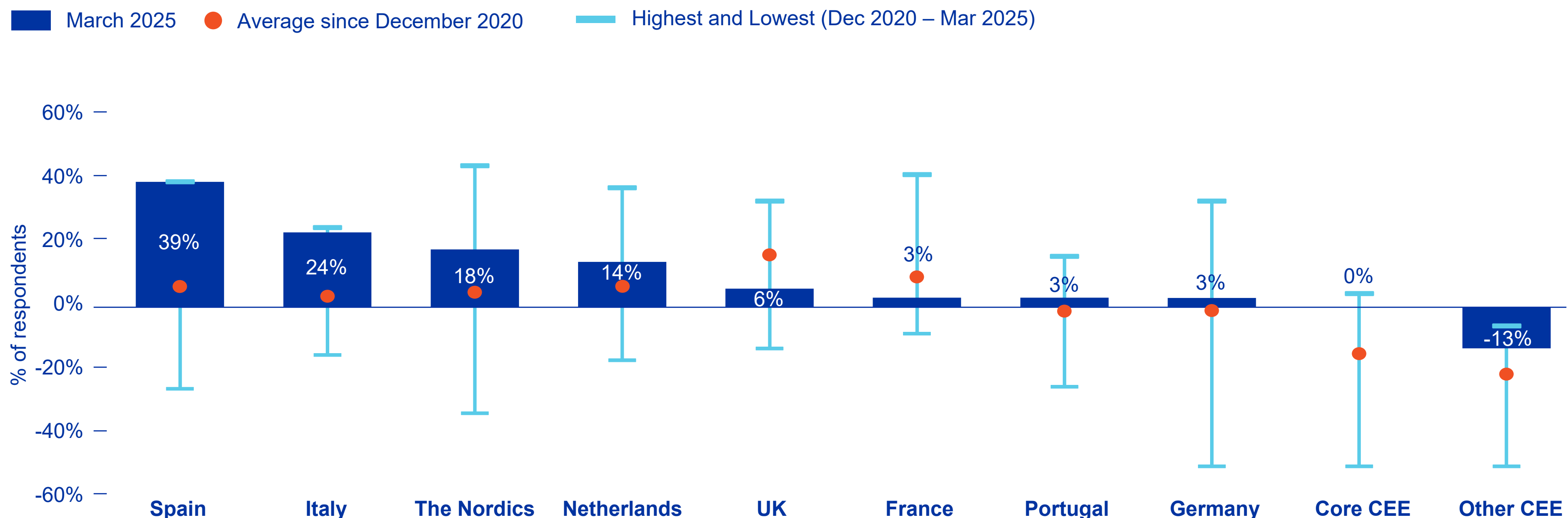
The sustained strength of these Southern European economies, supported by resilient domestic demand and a rebound in tourism, has reinforced this positive trend. In particular, sectors such as hotel/leisure have benefited from increased travel activity.

The sentiment towards the Nordics (18%) and the Netherlands (14%) also remain above their long-term average. However, sentiment has weakened across Europe's largest economies. The UK, which was viewed very favourably over the past three years, saw net sentiment drop to 6%, a level last observed in December 2022.

France and Germany registered net sentiment of only 3%, consistent with their average over the past two years. Encouragingly, Germany maintained positive sentiment for the fourth consecutive quarter, despite ongoing challenges in asset and fund performance amid a recession. As illustrated in Figure 2, Germany may be at a turning point, with most of the correction now priced in.

Meanwhile, sentiment towards Core and Fringe Central and Eastern European (CEE) markets stood at 0% and -13%, respectively, as the war in Ukraine, now ongoing for three years, and broader geopolitical tensions continue.

Figure 9: Net sentiment towards European real estate by geography



Source: INREV Consensus Indicator Survey, March 2025

Strong ongoing appeal for residential while retail maintains momentum

The residential sector continues to record the highest net positive sentiment among survey respondents, reaching 31% in March 2025 (+7% from December 2024). Other living sectors, including senior living and student housing, also reflect positive sentiment, though slightly below their long-term averages since the survey began in 2020.

Retail sentiment remains strong, holding above 20% for a second consecutive quarter. As highlighted earlier in this report, European retail asset performance has been on an upward trajectory.

Sentiment towards the industrial/logistics sector has moderated, standing at 12%, down from 19% in December 2024. While still in net positive territory, this marks a slight dip below its long-term average.

Office performance continues to show regional variation, with markets such as Paris, London, and Madrid reporting positive returns while many remain in the negative territory (see page 4). In terms of sentiment, the sector now stands at 0%, an improvement of 8% since December 2024. While neutral overall, this represents the highest sentiment level for offices since March 2022.

Figure 10: Net sentiment towards European real estate by sector

Source: INREV Consensus Indicator Survey, March 2025

Positive performance sentiment into 2025, but risk concerns grow

As of March 2025, performance expectations for European non-listed real estate remain positive, with 14% of surveyed participants reporting an improved outlook. This extends the trend of positive sentiment seen throughout 2024, marking a good start to the year. This aligns with the Q4 2024 INREV fund and asset indices performances, as seen in the first part of this report.

However, concerns over investment risk have increased notably for the second consecutive quarter. On a net basis, 33% of respondents reported a rise in perceived investment risk, a significant jump from only 3% equivalent in December 2024. This uptick reflects ongoing political and geopolitical uncertainties, alongside persistent concerns about lukewarm economic growth in most European economies and a bifurcated letting market.

Figure 11: View on European real estate performance

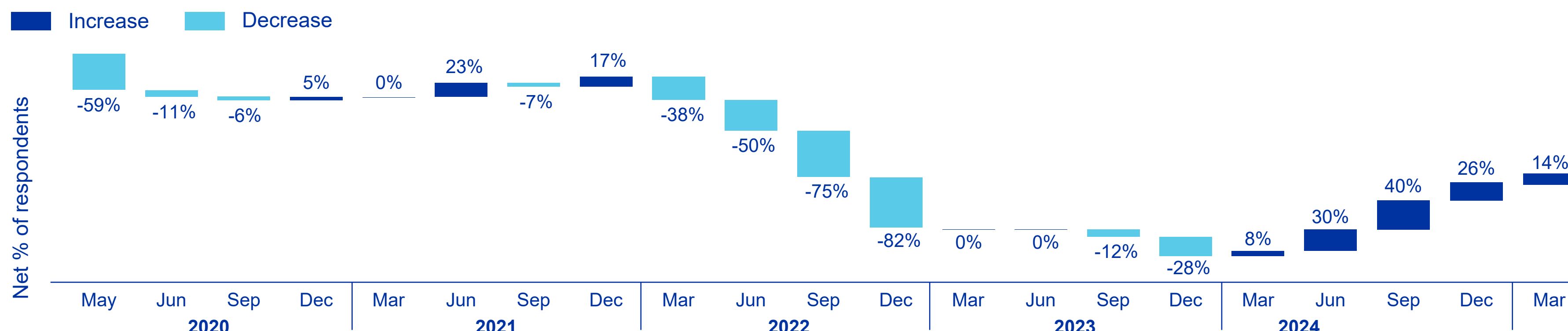
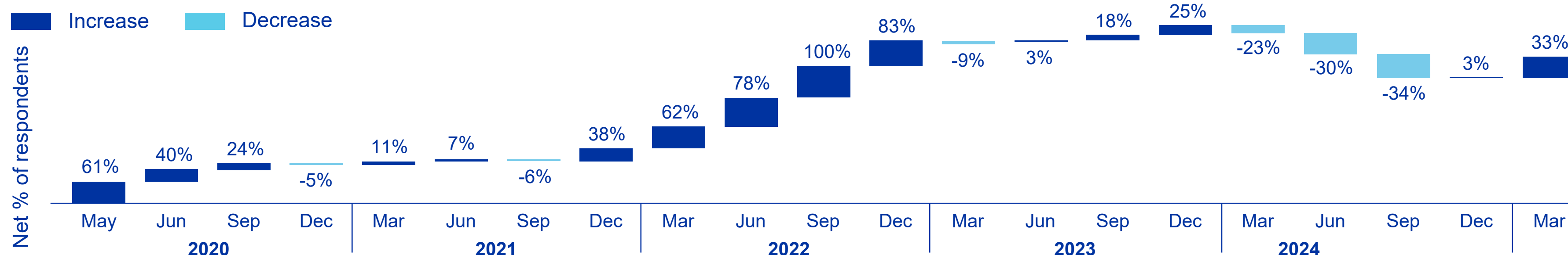


Figure 12: Assessment of investment risk for European real estate



Source: INREV Consensus Indicator Survey, 2025

This update highlights the latest results from the INREV European Quarterly Asset Level Index Q4 2024, INREV Quarterly Fund Index Q4 2024 and INREV Consensus Indicator March 2025 to illustrate the impact on market performance, investment plans and operations.