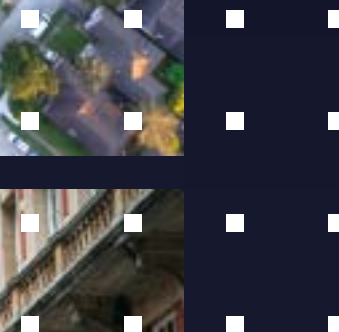
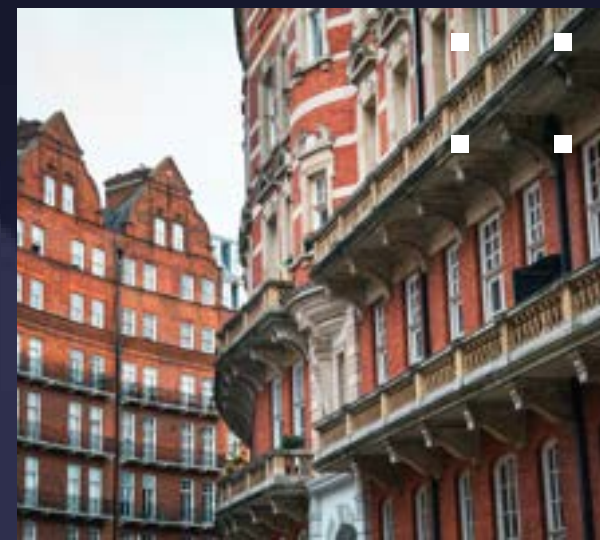
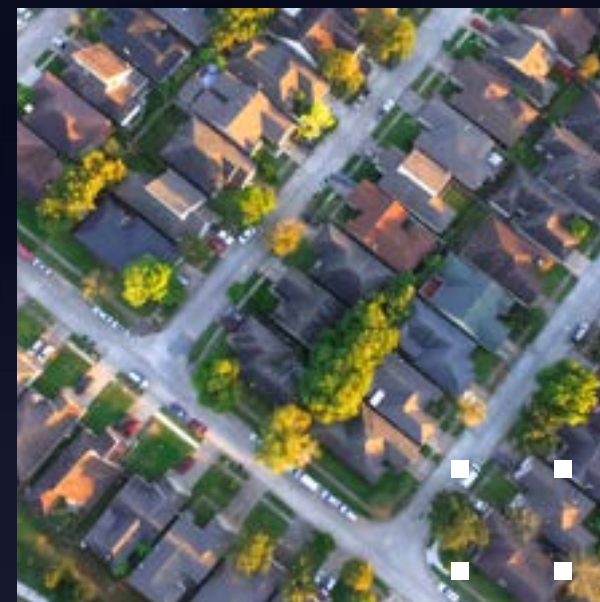


Savills Takes Stock

Global Capital Markets Living Q1 2025



Savills Takes Stock: Q1 2025

Global outlook





Oliver Salmon

Director, World Research

Taxing times as global economic outlook deteriorates

The current global economy as we know it can be divided into two states of being; pre- and post- 'Liberation Day'. In the first, growth was steady, if unspectacular, as falling inflation and robust labour markets supported rising household real incomes, creating a virtuous cycle in activity. In the second, volatility and uncertainty are the prevailing characteristics, following a series of tariff announcements from the US Administration, disrupting a status quo that has persisted for the last 80+ years.

The extent of the economic impact remains highly uncertain, not least because the tariffs are changing on an almost daily basis. The IMF expects a hit to global economic growth of around 0.5%, incorporating tariff announcements up to mid-April (and so not including the deal with China), with the US economy seeing the most significant damage. But the initial hit to sentiment data could lead to a more severe downturn. In the US, for example, consumer confidence has fallen sharply since the tariffs were first announced.

What we do know is that President Trump has now blinked several times due to various external pressures, first providing a 90-day reprieve to most trade partners from his 'reciprocal tariffs', and then exempting some consumer electronics and automobiles from the most punitive of duties. This would indicate that he does indeed have a pain threshold, which should rule out the most extreme downside scenarios. But tariffs are also ideological to the President, which means that while he remains in power, they are here to stay. Even with a temporary deal with China, the average US import tariff has risen from 2.5% at the end of 2024 to nearly 18%, according to the Budget Lab at Yale. So we are not returning to the pre-Liberation Day steady state either.

Until there is some clarity over where we land in the wider spectrum of possible scenarios, a period of caution will grip global real estate capital markets.

Real estate is a GDP-linked asset class, so it stands to reason that many investors would prefer to sit on their hands, and their cash, rather than deploy into this economic environment.

Ultimately, weaker global growth will feed into the outlook for occupational demand and rents across all sectors. Investors underwriting new deals will need to consider the impact on their tenants. This will impact expected returns, and therefore yields may need to rise. But real estate is not a liquid market, and with few motivated sellers to support turnover and price discovery, discretionary vendors have a tried and tested gameplan from recent years: sit tight and wait for better times ahead. In the interim, expect more deliberation over the prevailing 'bid-ask' spread.

“Discretionary vendors have a tried and tested gameplan from recent years: sit tight and wait for better times ahead”

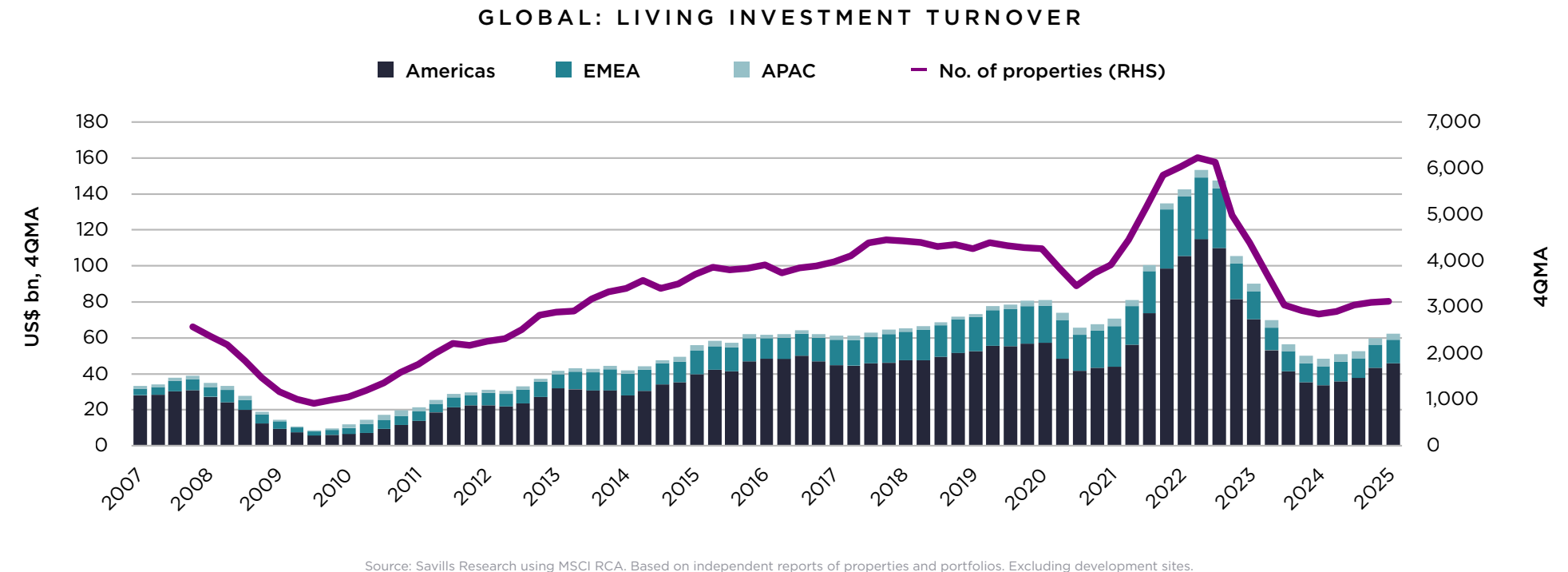
This comes at an inopportune moment for the real estate market, after finally showing signs of emerging from a two-year period of malaise, underpinned by a surge in global interest rates. Global real estate investment rose by nearly 20% in the second half of last year, compared with the with same period in 2023. The first quarter of this year, while not quite hitting the same heights, was encouraging in other ways, for example, there was continued growth in the market share of domestic institutional and cross border investors.

There may be some solace for investors, in the form of lower interest rates and less development. Outside of the US, where monetary policy is conflicted by the dual mandate of full employment and price stability, this is a deflationary demand shock. The major global central banks are expected to cut interest rates at a faster pace than in the pre-Liberation Day world. This could provide a mechanical boost to risk premiums and negate the need for any further yield adjustment. Meanwhile, if it is a risky environment in which to acquire a stabilised asset, then it is even riskier to break ground on speculative development. Scarce assets, with natural-monopoly characteristics in their location, or high quality of amenities, will be well placed to outperform. As the proverb goes, 'fortune favours the brave'.

Tariffs favour ‘beds’ over ‘sheds’

Global investment in the living sector rose by more than 27% in the first quarter of this year, with over US\$50bn invested across single and multifamily, student, and senior housing. Living was easily the best performing of the core sectors in Q1, accounting for around 30% of global turnover. Investment activity has now risen for four consecutive quarters, after hitting a low in Q1 2024, although it remains around 15% below the pre-Covid average.

The US market is leading the recovery in turnover. However, there was also a notable uptick in activity in Europe, underpinned by a strong rebound in Germany. Investment in Japan remains firm, albeit not quite hitting recent highs, with investors becoming more selective in a rising interest rate environment. Private investors remain the dominant buyer type, accounting for over 50% of all acquisitions year-to-date, a similar share to last year. However, domestic institutions and cross-border investors are net buyers, and this has supported strong growth in larger portfolio and M&A activity over the last 6-12 months.



While ‘beds and sheds’ were at the top of the wish list for most investors at the beginning of the year, it may be that ‘beds’ are favoured in a post-tariff world. The industrial and logistics sector, particularly in the US, is likely to see the most disruption from any tariff-induced slowdown in the global flow of traded goods. By comparison, the various living sectors

are likely to be more resilient, given the defensive nature of the underlying assets, with households prioritising non-discretionary spending, such as accommodation, during periods of uncertainty. This was evident during the recent inflation-driven downturn in activity, and it will again be evident should the outlook for weaker economic growth come to pass.

Meanwhile, a structural undersupply of housing across the major institutionalised markets provides an important backstop to returns, and construction activity in most markets is slowing in line with elevated build costs and growing uncertainty in the outlook. A deterioration in labour market outcomes may lead to weaker household formation, but housing affordability remains constrained in a high interest rate environment, pushing more people towards the rental market. For investors delivering new units into some of the more supplied global markets, which are largely concentrated in the Sun Belt region of the US, a more pronounced slowdown in development activity will be welcomed.

Investor returns have been supported by a combination of high occupancy and solid rental growth. With interest rates stabilising and prices bottoming out, total returns are now back in positive territory in most global markets. However, affordability of rental accommodation is also stretched – rents are ‘sticky’ price items that can be resistant to downward corrections, particularly when the supply backdrop is so tight. Most markets have seen double-digit rental growth in recent years, which means there is limited further growth until household incomes catch up. This perhaps favours stabilised mid-market accommodation, as opposed to luxury apartments, or student housing (with less regulatory oversight), where the potential upside on rental growth is greater. Much depends on the outlook for labour markets and real wage growth, which could deteriorate over the coming months and quarters.



Savills Takes Stock: Q1 2025

Regional outlook



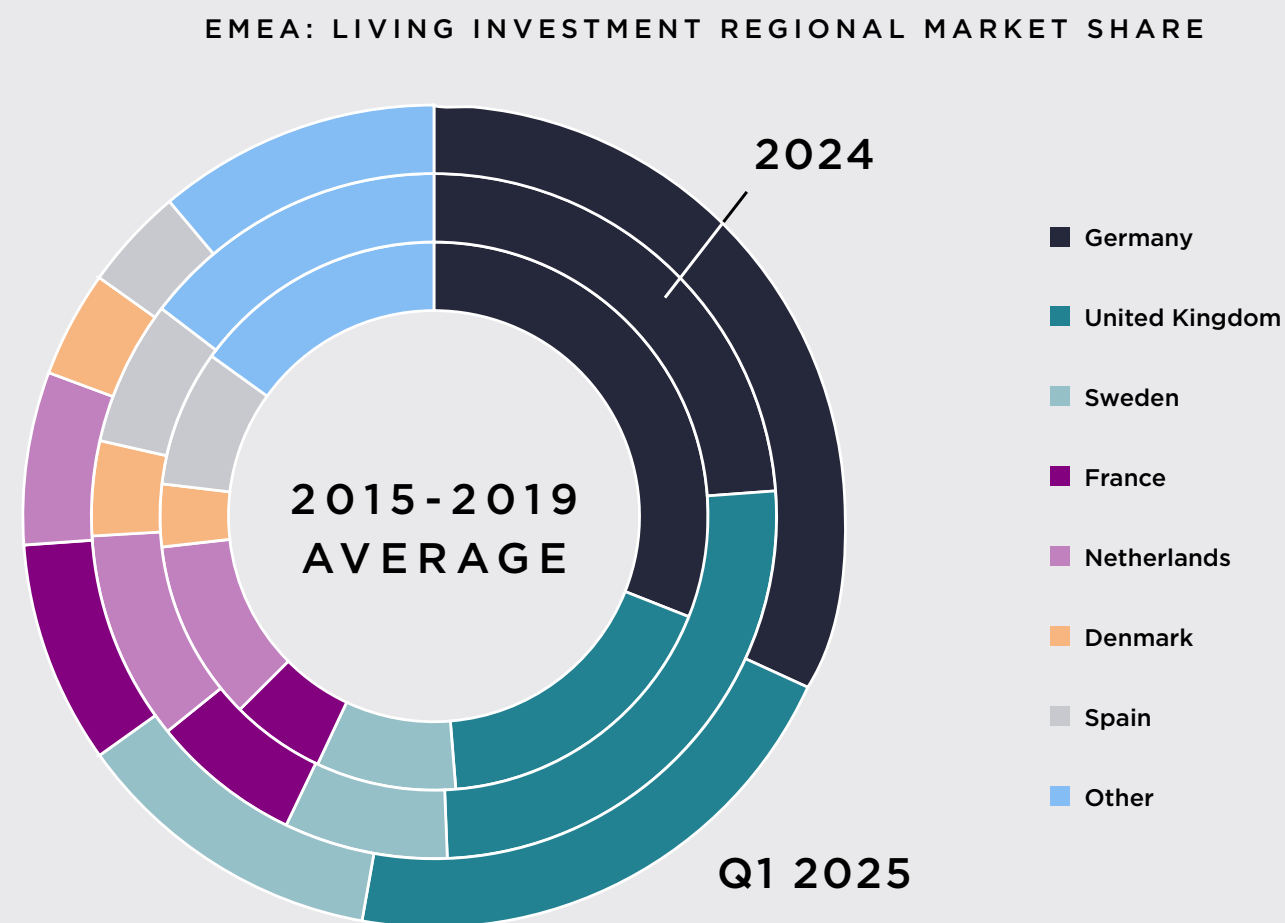
EMEA (Europe, Middle East and Africa)

Total investment across EMEA rose by nearly 17% on the year, with €10.1bn (US\$10.5bn) of living deals transacting in the quarter.

This represented the strongest start to a year since 2022, and living was the largest invested core sector for the region. The German and UK markets were dominant in investor activity, and it was a strong rebound in the former that underpinned the improved regional aggregate. Sweden also experienced a good start to the year, supported by a single large deal, with the domestic investor Brinova acquiring a 3,800 unit residential portfolio from K-Fastigheter for SEK10.5bn (US\$1.0bn).

Across the region, prime yields have stabilised, and we generally see them tightening through the year in line with falling interest rates and strong competition for assets. Meanwhile, increased competition to lend against prime stabilised assets is squeezing margins, compounding a rate-driven decline in the cost of debt.

Investment in the German living sector has more than doubled, following several years of very weak activity, broadly mirroring the sluggish performance of the economy. Activity was boosted by a number of larger portfolio deals, further emphasising the relatively fast about-turn in sentiment. Investors are finding comfort in a more stable and transparent pricing environment, with the benchmark prime yield of 3.6% in Berlin now expected to see some downward pressure due to competitive bidding and falling rates.



Source: Savills Research using MSCI RCA.

Liquidity, meanwhile, is being supported by an increase in disposals by German developers looking to raise cash. In one of the largest deals this quarter, Orange Capital and One Investment jointly acquired a near 90% stake in the Cosmopolitan portfolio, comprising around 6,800 rental units across the state of North Rhine-Westphalia, for €470m (US\$490m). The seller, German investor Adler Group, is reported to be raising cash following two debt restructurings.

Behind Germany, the UK is second largest market in the region, even though investment across the living sectors fell by 7% year on year to £2.3bn (US\$2.8bn) in the first quarter. Nevertheless, there is growing confidence in the market, and new sales are receiving plenty of buyer interest. This is supported by the influx of new entrants to the market, and a good pipeline of deals would suggest that momentum will pick up as we move through the year.

Investors are still positive on the dynamics in Southern Europe, although it is increasingly difficult to develop, and the market for stabilised assets is still relatively nascent. Indeed, funding new development is very challenging across much of the EMEA region – build costs remain elevated, even if inflation has slowed, while development debt is expensive. This will only exacerbate existing supply-side challenges. In the UK, we’ve seen a large decline in new starts of single and multifamily units, and interest rates need to fall further to unlock more development activity. In Spain, most development is driven by public-private partnerships, where developers can get some concessions to make the arithmetic work.

Occupancy rates are generally high for rental units across the region. There are some challenges at the top end of the market due to rising rents, leading to some concerns over the depth of demand, but still plenty of demand for mid-value properties. Student accommodation is generally perceived as more viable than residential – it is easier to develop, and there is more flexibility in the rents relative to multifamily, which have seen strong rental growth in recent years and increased regulatory scrutiny.

EMEA: UK BUILD-TO-RENT CONSTRUCTION



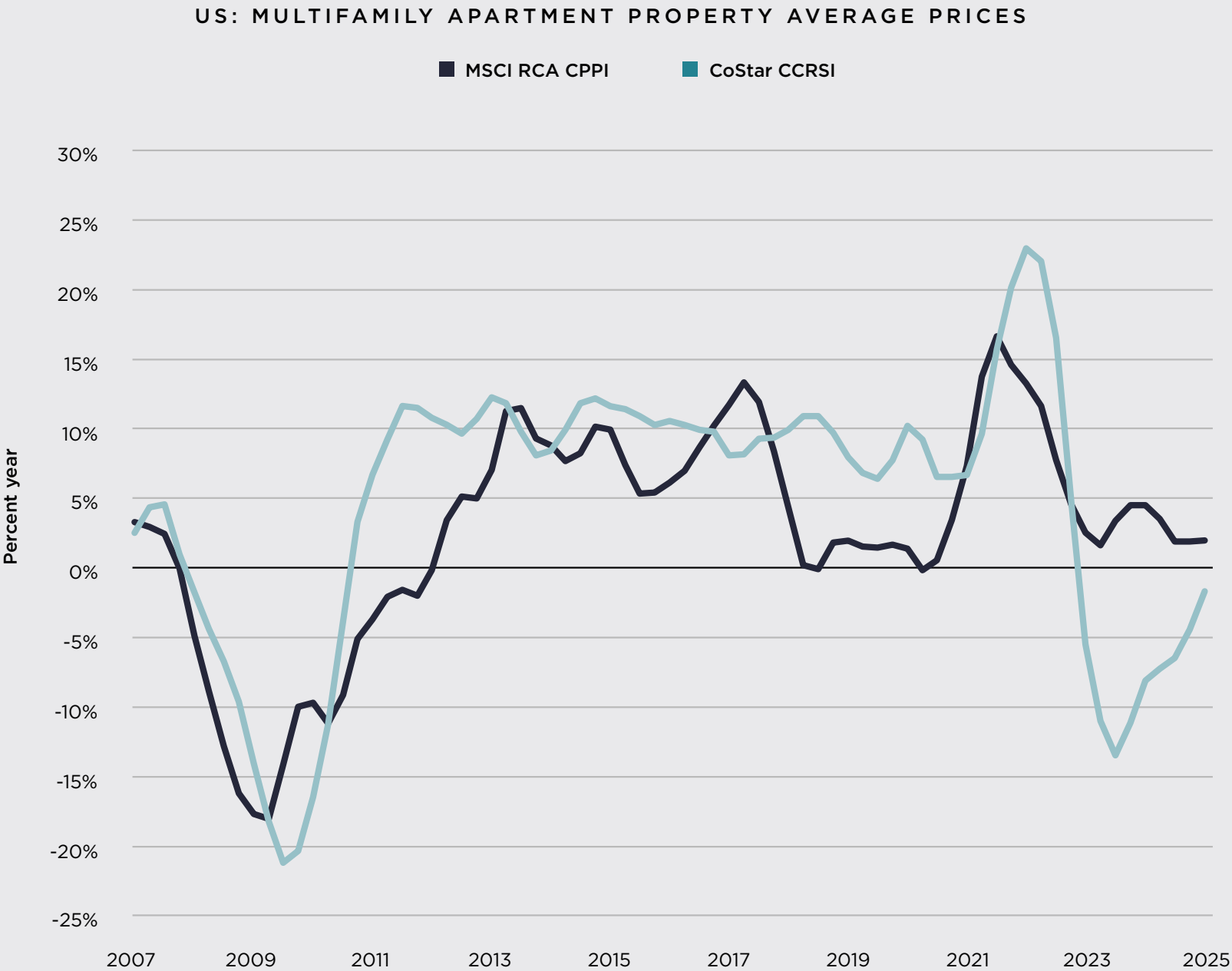
Savills Research using Savills Research using British Property Federation and Molior

North America

Total investment of US\$34.4bn in Q1 across the US living sectors was more than 40% up on the year, continuing the strong momentum in deal activity from the second half of 2024. All subsectors experienced significant growth in activity, including student and senior living. Markets on the East Coast – including New York, Boston, Atlanta, and Miami – in addition to Austin and Dallas in the south, were the best performing major markets in Q1. Both Los Angeles and San Francisco in the west were also prominent in the list of most invested markets, although in both cases turnover was down on the year.

The recovery in activity is supported by a more encouraging outlook on pricing. Yields have broadly stabilised and prices are either close to bottoming out, or are steadily rising, depending on which source data is preferred.

The growing strength in capital markets activity is mirrored in occupational markets. According to RealPage, Q1 was the strongest quarter on record for net absorption of rental units, spanning three decades of data. Indeed, over the last 12 months, take up was broadly in line with the peak of the market in 2022, with tenant demand improving in line with solid economic fundamentals and constrained housing affordability.



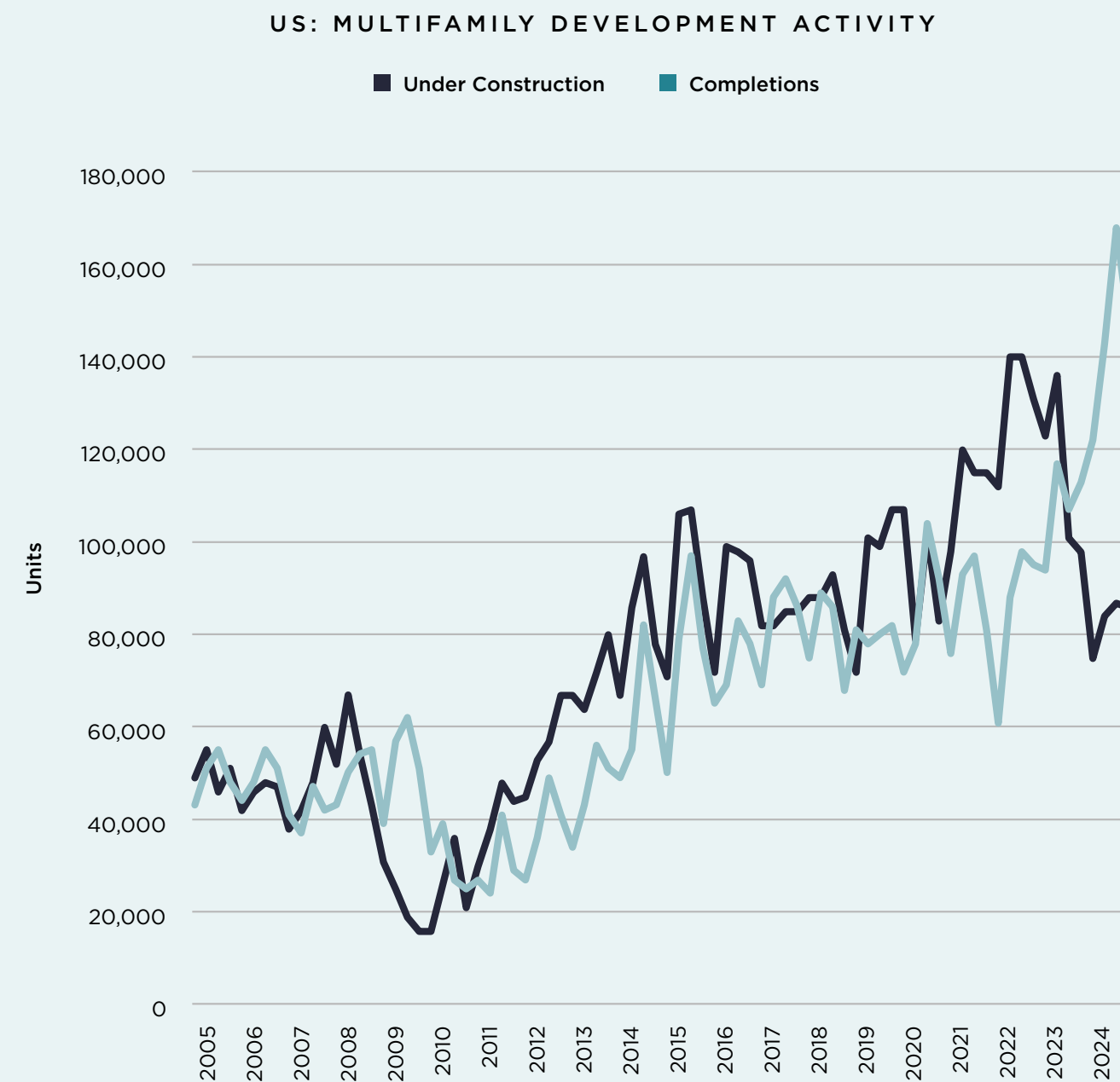
Source: Savills Research using MSCI RCA CPPI and CoStar CCRSI (equally-weighted index)

Strong demand is helping to offset a surge in new completions, which continue to run at elevated levels – a legacy of a construction boom in 2022–23. Average vacancy, according to Moody’s Analytics, held steady at 6.3% in Q1. This could represent the cyclical peak, after rising from a low of 4.8% over the last three years. Construction activity has rebased to pre-Covid levels, while the number of new permits issued in Q1 hit a seven-year low, which should feed into a more stable supply backdrop over the next 17 months – the average time to complete on a new project.

Furthermore, there is no guarantee that developers will be able to break ground on new projects given the rapidly changing macroeconomic environment. While tariffs might represent a boon for those developers approaching completion on new schemes, tariffs and immigration controls are likely to make new construction more costly and more difficult. The National Association of Home Builders estimate that around 7% of materials used in construction are imported, primarily from China, Canada, and Mexico. Then there are additional considerations around fittings, furniture, white goods etc., as well as the impact of restrictions on immigrant workers on labour availability and costs

Meanwhile, elevated mortgage rates and tighter supply will continue to squeeze affordability in the housing market, pushing people into rented accommodation. An uncertain macroeconomic backdrop may lead to slower household formation, particularly if we see a material weakening in labour market conditions. However, tariff induced inflation will also delay further policy easing from the US Fed, which will keep mortgage rates elevated. According to analysis by the Atlanta Fed, affordability is at the lowest level on record, in a period covering 20 years of data.

With tighter supply conditions and still good demand, we are likely to see some upward pressure on rents. Rental growth remains robust in the more supply constrained Midwest and North East regions. And while new supply onboarding is still weighing on the Sun Belt region (Austin and Phoenix, for example), these markets are also seeing the strongest demand. However, affordability is also a concern in rents after rising by around 50% since Covid-19. Investors may struggle to push rents higher as a result, particularly if tariffs have a meaningful impact on economic and labour market outcomes.



Source: Savills Research using Macrobond

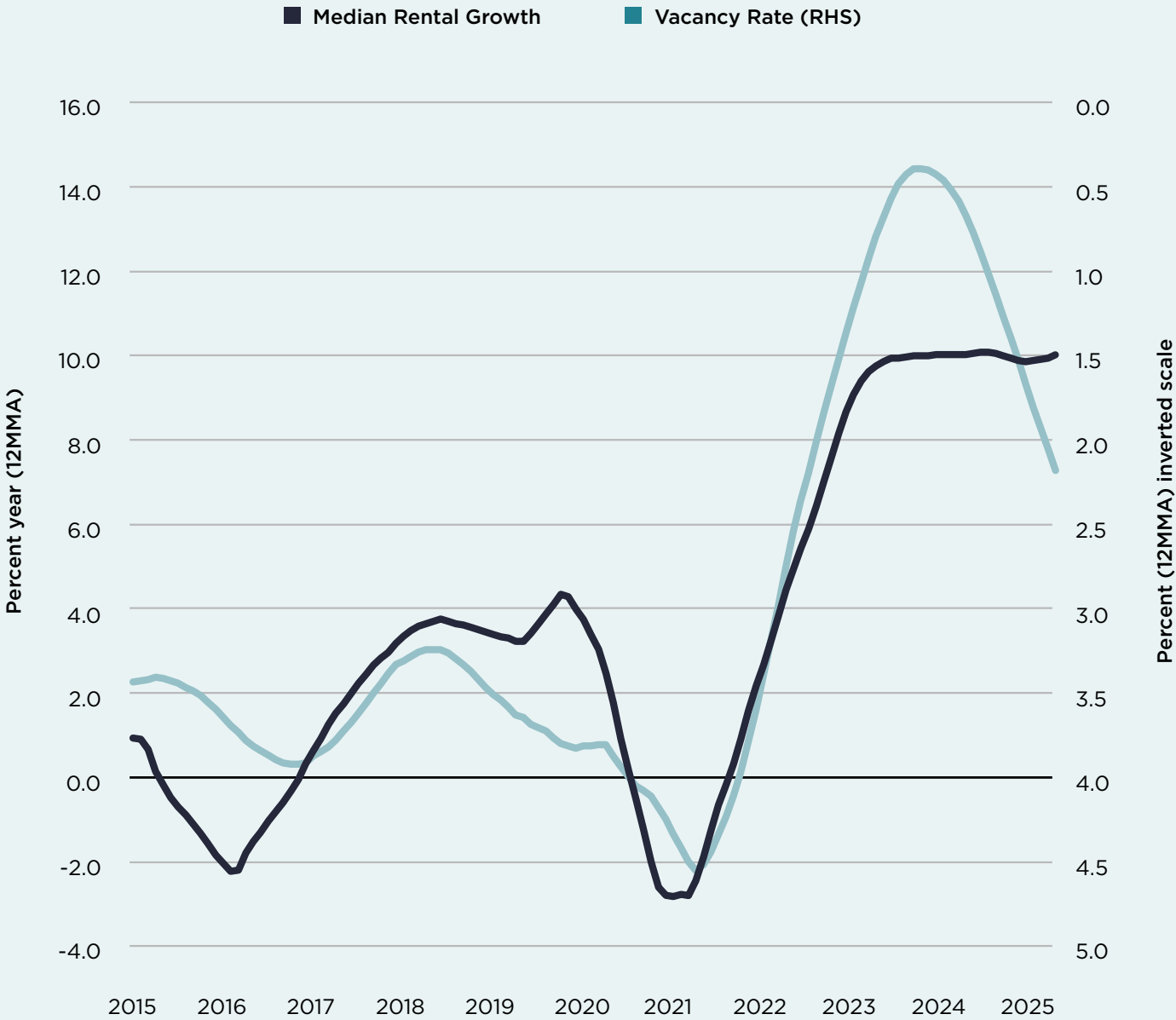
APAC (Asia Pacific)

Total investment across the Asia Pacific region of US\$4.0bn in Q1 2025 represented a 12% decline on the year. However, base effects are important to contextualise this decline, with Q1 2024 the strongest start to a year since 2010. In general, the institutionalised market in Asia Pacific continues to grow – while investment in the first quarter was broadly consistent with the post-Covid average, it was more than 80% above the pre-Covid average outturn.

Deal activity was supported by a number of major transactions in China, with the CNY11.8bn (US\$1.6bn) of investment rising by more than 150% on the year, representing the strongest quarter on record. Meanwhile, over US\$1.0bn transacted in Japan, although this was well down on recent performance. Singapore also had a good first quarter – with Bain Capital acquiring Avery Lodge, a worker accommodation portfolio, from Blackstone for SGD750m (US\$550m).

In Australia, it was a relatively quiet start to the year, with only one deal of note to complete – the joint venture acquisition of GIC’s stake in a student accommodation portfolio by Greystar and Future Fund for AUD1.6bn (US\$1.0bn). However, investment sentiment remains robust, bouyed by the RBA rate cut in February – the first since the depths of Covid in 2020 – and promises of more easing over the rest of this year. Markets are currently pricing around 2-3 further rate cuts this year, which should improve the arithmetic between the benchmark yields of 4.0% in Sydney and 4.5% in Melbourne, and the prevailing cost of debt, which remains above 5.5% (despite coming down since last year). A decisive election result should also provide more certainty to investors.

AUSTRALIA: RENTAL UNITS, VACANCY AND RENTS



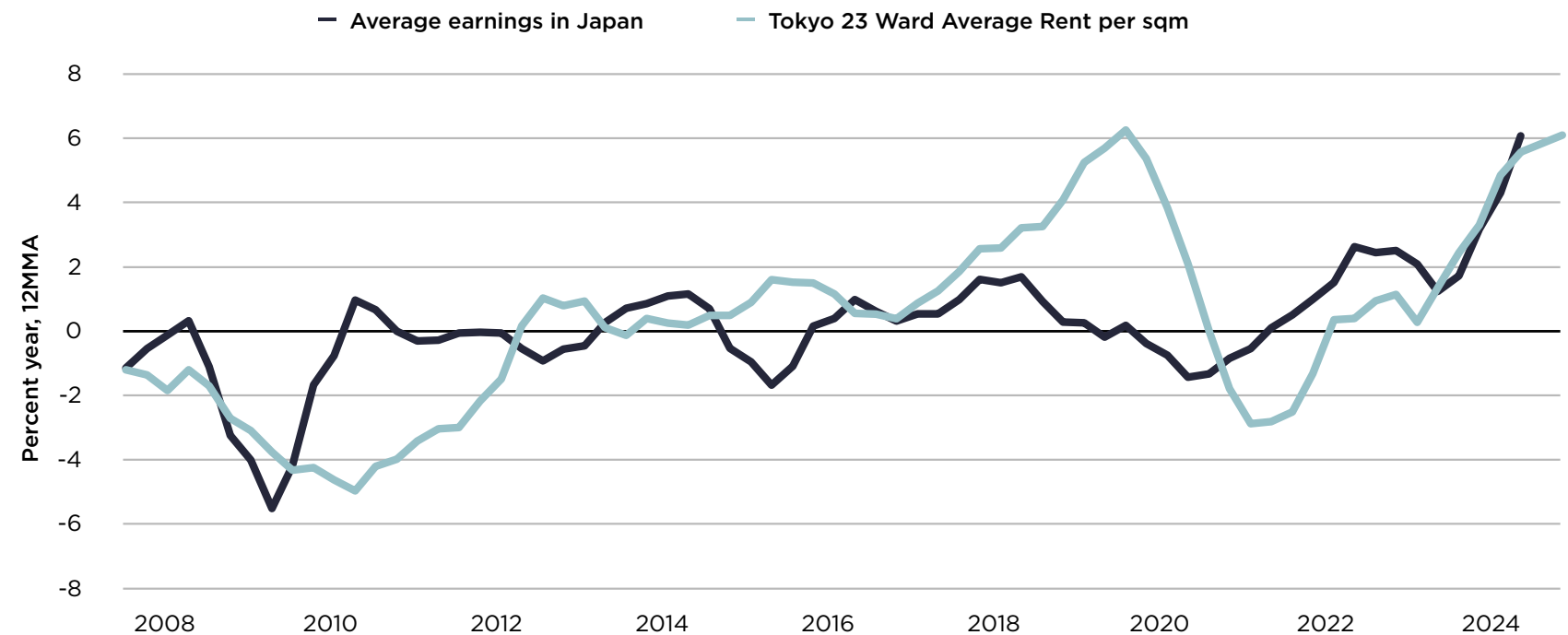
Source: Savills Research using Macrobond

Occupational market dynamics remain solid, supporting investor interest in the sector. A vacancy rate of rental units of just 1.2% in Q1 2025, according to CoreLogic data, remains stubbornly below the pre-Covid average, and is indicative of a tightly supplied market. This should support further rental growth, which despite falling from recent peaks, is still running above 5% per annum.

These fundamentals are broadly mirrored in the Japanese market, despite the soft transactional data, with little changing hands outside of Tokyo. In total, investment of JPY161bn (US\$1.0bn) was over 50% down on the year. The largest transaction was the residential component of Blackstone's acquisition of the mixed-use Tokyo Garden Terrace Kioicho development.



JAPAN: CASH EARNINGS AND MULTIFAMILY RENTS IN TOKYO



Savills Research using Macrobond. Risk premium calculated by subtracting the 10-year government bond yield from the prime office yield

Investors are becoming more selective due to an increase in the cost of finance. While the prime benchmark yield for Tokyo multifamily of 3.4% is the same as it was in early 2022, the all-in cost of debt has risen to 1.3%, in line with a 75-100bps rise in the underlying five-year swap rate. As such, while cash-on-cash returns are still solid relative to global peer markets, they are not attractive as they have been in this cycle, and the Bank of Japan is not done raising rates.

However, the fundamentals remain strong, with mid-market apartments delivering an average of 7.3% annual growth in rents across the 23 wards of Tokyo in Q1, supported by rising real wages. Occupancy rates remain high at 96.8%, allowing landlords to prioritise income over filling vacancies. A tight supply backdrop will keep occupancy rates high, while continued inflows of migrants and reduced housing affordability (due to rising mortgage costs) will support demand conditions for rental accommodation.

Savills Takes Stock: Q1 2025

Market view





Rasheed Hassan

Head of Global Cross Border Investment
shares his view on the market

Are we on or are we off?

We remain in a start-stop market, struggling to recover the momentum we had pre-interest rate hikes. However, despite the various macro challenges, I believe that we are currently more 'on' than 'off'.

Unsurprisingly, 'Liberation Day' has been unhelpful and provided further justification for caution and procrastination, as well as driving some opportunistic, albeit largely unsuccessful, attempts at price adjustments.

Despite this, the market is being supported by rental growth, the falling cost of debt, and a dearth of truly actionable transactions. Pricing is improving for the best assets, and not just in the darling sectors.

In some cases where owners haven't liked pricing holding firm has borne fruit and buyers have come to them. Where this hasn't been the case, the debt market is offering better than expected pricing in many instances, providing motivation to extend hold periods in the hope of better bids in the next 12-24 months.

There's definitely a market out there, and I'm pleased to say that it feels like it's growing. Transaction volumes may not be showing positive growth in all areas, but the breadth of opportunities that investors will consider is certainly improving in terms of sector, geography and risk profile.

There is no let-up in the appetite for 'beds' of all types. The test for investors, however, is their willingness to underwrite the necessary rental growth and exit pricing to be competitive. Industrial and logistics, for the first time in a long time, has shown some signs of vulnerability. But this doesn't seem to be turning investors away. Instead, they are approaching the sector with a little more discernment. Office demand is strengthening, even in the US where it feels like things are finally turning a corner. Yes...US offices. We are also witnessing a similar story in retail.

In recent years, the combined impacts of rising inflation, higher interest rates, falling property prices and Covid-19 (working from home and increased online shopping) have underpinned a major slowdown in development activity, either because of a lack of confidence or financial viability, or both. The resultant positive impact on rents is providing investors with the necessary assurances to both buy standing assets and re-start developments.

Rents are now growing at such a rate that it's increasingly difficult to use initial yields as the benchmark for comparison. Instead, the 'stabilised' yield is the metric that investors with conviction to buy are scrutinising.

The credit opportunity remains one of the biggest competitors for more equity into real estate. Many investors are being presented with returns that seem more compelling, on a risk-adjusted basis, than those available in the equity. If the interest rate trajectory remains downward (perhaps with the current exception of the US and Japan) and occupational markets hold up, then this narrative will continue to tilt towards the equity. However, the size of the current market opportunity also favours credit. Lenders like new transactions with greater clarity on market values, but they can also participate in refinancing, which the equity can't.

The fall in transaction volumes does not mean there is less real estate, just less of it changing hands. The growing book of pent-up stock not being sold will be a test for the market. Right now, this is holding back fundraising as equity needs to be released to reinvest and/or investors would like to see some round trips on existing commitments before investing more. Time will tell how this story plays out.

Will market dynamics continue improving to support more selling at improved pricing? Will there be enough capital to absorb the volume and keep prices elevated? Will we see more IPO attempts to help liquidity? Though there are still plenty of questions and an absence of clear answers, for now the resilience of the market continues to not disappoint.

PRIME LIVING YIELDS, Q1 2025 (AS AT END-MARCH)

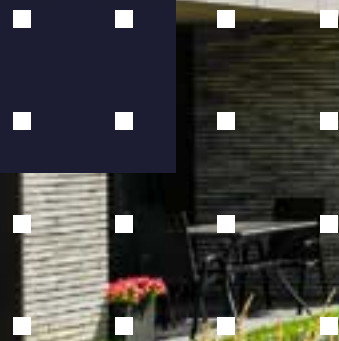
| City | Sub-sector | Prime net initial yield | Outlook for yields, next 12 months | Typical LTV | Total cost of debt | Cash-on-cash yield | Risk premium |
|------------|-------------|-------------------------|------------------------------------|-------------|--------------------|--------------------|--------------|
| Tokyo | Multifamily | 3.40% | ➡ | 60% | 1.3% | 6.6% | 1.9% |
| Berlin | Multifamily | 3.60% | ⬇ | 55% | 3.6% | 3.6% | 0.9% |
| Copenhagen | Multifamily | 3.85% | ⬇ | 63% | 3.2% | 4.9% | 1.3% |
| Madrid | Multifamily | 3.90% | ⬇ | 55% | 4.0% | 3.8% | 0.5% |
| Sydney | Multifamily | 4.00% | ➡ | 55% | 5.7% | 2.0% | -0.4% |
| Paris | Multifamily | 4.25% | ⬇ | 55% | 3.6% | 5.0% | 0.8% |
| Stockholm | Multifamily | 4.25% | ➡ | 60% | 3.9% | 4.8% | 1.3% |
| London | Multifamily | 4.25% | ⬇ | 60% | 5.2% | 2.8% | -0.4% |
| Melbourne | Multifamily | 4.50% | ➡ | 55% | 5.7% | 3.1% | 0.1% |
| London | Student | 4.25% | ⬇ | 60% | 5.2% | 2.8% | -0.4% |
| Paris | Student | 4.50% | ⬇ | 55% | 3.6% | 5.6% | 1.1% |
| Berlin | Student | 4.70% | ⬇ | 55% | 3.6% | 6.0% | 2.0% |
| Madrid | Student | 4.75% | ⬇ | 55% | 4.0% | 5.7% | 1.4% |

Source: Savills Research and Macrobond
Note: Yields may be different to quoted values in markets where the convention is to use a gross rather than net value. Values based on end-of-quarter data. See Methodology for details.

Methodology: Net initial yields are estimated by local Savills experts to represent the achievable yield, including transaction and non-recoverable costs, on a hypothetical grade A asset of institutional scale, in a prime location, fully let. The typical LTV and cost of debt represent the anticipated competitive lending terms available in each market. Cash-on-cash returns illustrate the initial yield on equity, assuming the aforementioned LTV and debt costs. The risk premium is calculated by subtracting the end-of-period domestic ten-year government bond yield (as a proxy for the relevant risk-free rate of return) from the net initial yield. Data is end-of-quarter values.

Savills Takes Stock: Q1 2025

Key transactions



Australian PBSA Portfolio

| | |
|------------------------|--|
| Sub-sector: | Purpose Built Student Accommodation (PBSA) |
| Units: | 5,662 |
| Price/NIY: | AUD1.6bn (US\$1.0bn)/5.0% |
| Vendor: | GIC and Wee Hur Holdings |
| Vendor nationality: | Singapore |
| Purchaser: | Greystar and Future Fund |
| Purchaser nationality: | United States and Australia |
| Other comments: | Consisting of seven assets located across Sydney, Melbourne, Brisbane, Adelaide, and Canberra, Greystar – with backing from the Australian Future Fund – plan to upgrade the properties and integrate them within their global PBSA brand. The deal represents Greystar’s largest acquisition in Asia Pacific. Wee Hur will retain a 13% stake in the portfolio. |



Region Syd Portfolio

| | |
|------------------------|--|
| Sub-sector: | Multifamily |
| Units: | 3,800 |
| Price/NIY: | SEK10.5bn (US\$1.0bn)/Undisclosed |
| Vendor: | K-Fastigheter AB |
| Vendor nationality: | Sweden |
| Purchaser: | Brinova Fastigheter AB |
| Purchaser nationality: | Sweden |
| Other comments: | Brinova is acquiring the Region Syd portfolio from K-Fast, which consists of 108 properties located in the South of Sweden, and Denmark. Brinova will more than double in size following the transaction, which is being funded by the issuance of new shares. |



**Savills Research**

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors.

Oliver Salmon

Global Capital Markets
World Research
+44 (0) 20 7535 2984
oliver.salmon@savills.com

Rasheed Hassan

Global Capital Markets
Head of Global Cross
Border Investment
+44 (0) 20 7409 8836
rhassan@savills.com

Charlotte Rushton

Associate
World Research
+44 (0) 20 7016 3856
charlotte.rushton@savills.com

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