Savills Takes Stock: Global Capital Markets

Living Q2 2025

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LIVING Q2 2025

Global outlook

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Treading water in turbulent seas

The global economic narrative remains heavily influenced by the actions of the US President, fuelling geopolitical volatility and uncertainty around growth prospects. Despite emerging cracks, the global economy has shown resilience. Equity markets continue to rise and activity levels remain largely unaffected, despite sentiment-based indicators showing some weakness.

Amidst the uncertainty, global real estate markets are treading water, although several preconditions for recovery are in place. A base level of activity persists, with US$193bn transacted in Q2 2025. This is supported by improved sentiment and willingness to transact, a greater acceptance of pricing from both buyers and sellers, and continued broad strength in occupational markets. However, global investment declined by nearly 5% compared to Q2 2024, marking a reversal in momentum relative to the second half of last year.

Fundraising data reflects a similar trend. Nearly US$42bn was raised globally in Q2, according to RealfinX.

This marks the second consecutive quarter of growth, though the figure was boosted by the final close of Blackstone's latest European opportunistic fund. Fundamentally, cash being returned to LP's from existing investments is restricting the capital available for reinvestment. A sustained recovery in fundraising then depends on a revival in transactional activity.

This current state of inertia is underpinned by two factors. **First, long-term interest rates have remained largely unchanged since the start of the year, despite central bank rate cuts.** This is due to a rising term premium, particularly in the US, where concerns over fiscal sustainability have grown following the passage of the 'One Big Beautiful Bill'.

Fiscal sustainability concerns are not confined to the US. The UK, France and Japan face similar issues. Meanwhile in Germany, the relaxation of the debt brake will lead to a significant increase in debt issuance over the next decade to fund defence and infrastructure.

While default risk remains low, persistent fiscal deficits mean investors will demand higher compensation to absorb increased debt issuance, especially in a volatile macroeconomic environment and amid central bank balance sheet reduction.

This dynamic is compressing the risk premium at a time when it arguably should be expanding. Property yields have largely stabilised, except in markets with specific occupational challenges, suggesting a consensus forming on real estate values. However, the outward shift in yields over the last few years has not mirrored interest rate movements, possibly due to expectations of an overshoot in rates amid the global inflation battle.

The second factor behind the subdued transactional market is broader macroeconomic uncertainty. Real estate does not operate in a vacuum, and global instability is clearly weighing on activity. This is not just about tariffs, but the on-off nature of tariffs is not helping. Recent 'deals' with major trade partners, including the EU, Japan and China, should help in this regard. More than anything, investors are looking for certainty to make informed decisions about the future – it is probably naive to believe that these agreements will draw a line in the sand.

With tight risk premiums, there is limited room for yield compression. To meet return expectations, investors are relying on continued strength in occupational markets. From a demand perspective, this depends on the global economy's resilience, which supports leasing demand and rental growth. Elevated uncertainty, volatility and policy by social media clearly act as an impediment to a recovery in deal flow.

On the supply side, the outlook is more encouraging for investors. The same factors stalling transactions are also making new developments difficult. Many global markets face a shortage of the type and quality of buildings tenants seek. This is unlikely to change soon, given the data on new starts and the long lead times for completion.

Overall, the current environment favours a more discerning investor – with a clear understanding of supply-demand dynamics and a comfort with the underlying balance of risk. Investors with strong market presence and sector-specific expertise are best positioned to navigate these early-cycle dynamics. For others, the temptation to remain inactive persists. This may continue to limit the pace of the recovery.

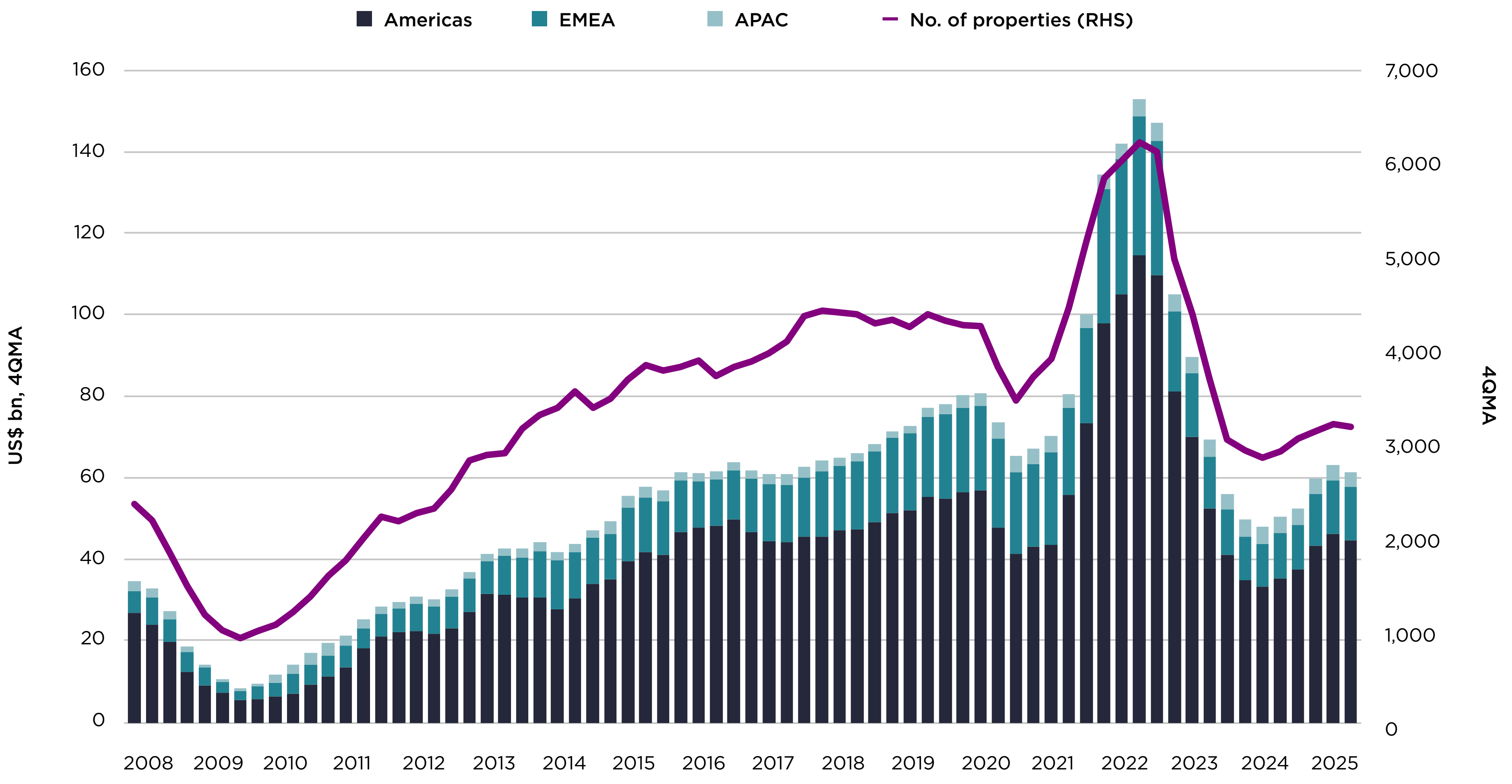
Global living: momentum shifts mid-year

Global investment in the living sector hit US$58bn in the second quarter, falling 9% on the year. This, however, followed a good start to 2025, leaving the half-year up by nearly 8%. The slowdown in the second quarter was underpinned by a 31% decline in the aggregate value of portfolio transactions, with the US market seeing a 50% decline – perhaps in response to wider uncertainty in the economic and political environment (albeit coming off a good base).

The largest deals to complete in the quarter were outside the US. In Australia, Greystar and Future Fund acquired a controlling stake in a student portfolio for US$1bn, while in Sweden, Brinova purchased a multifamily portfolio for a similar value. Likewise, the pipeline for major transactions appears more robust outside the US, especially when considering the relative size of these markets, with several deals in excess of one billion dollars expected to transact in Europe and APAC in Q3.

A decline in investment across single and multifamily was partially offset by growth in other, more niche, living sectors.

GLOBAL: LIVING INVESTMENT TURNOVER



Source: Savills Research using MSCI RCA. Based on independent reports of properties and portfolios. Excluding development sites.

Investment in senior living is up by over 80% year-to-date, headlined by CareTrust's acquisition of Care REIT in the UK, as well as other major transactions in the UK, US and Germany. There was also robust growth in activity across student accommodation, up 15% in the first half, underpinned by solid turnover in the US, UK and Australia.

Investor demand remains firm, with a lack of opportunities to deploy holding back activity in some markets. This is particularly evident in student accommodation across much of Western Europe, as well as the multifamily sector in Japan. In other markets, such as multifamily in the US and Australia, and student in the UK, entry yields remain relatively tight, particularly when benchmarked against other commercial sectors. In the latter, the benchmark prime yields increased by 25bps this quarter.

Appetite to transact remains grounded in the strength of occupational markets. In the US, a record influx of new supply is being absorbed with limited disruption, given robust tenant demand. This trend is set against a backdrop of low house-purchase affordability, with the 30-year fixed mortgage rate hovering around 6.75%. This is particularly true the further north you head, with southern markets generally bearing the brunt of the post-Covid construction boom.

Similar trends are evident globally, albeit largely without the same supply dynamics. Across the EU, for example, permits for buildings with two or more dwellings fell by 3.4% in Q1 2025. In the UK, new starts in the first half of 2025 were around 40% lower than the pre-Covid trend. And in Japan, newly introduced energy efficiency standards underpinned a sharp decline in new starts in the second quarter. These trends will continue to put upward pressure on rents and support the underwrite for existing stabilised assets in these locations. Although, in many of these supply-constrained markets, rental affordability is a growing concern amidst several years of above-inflation growth.

LIVING Q2 2025

Regional outlook

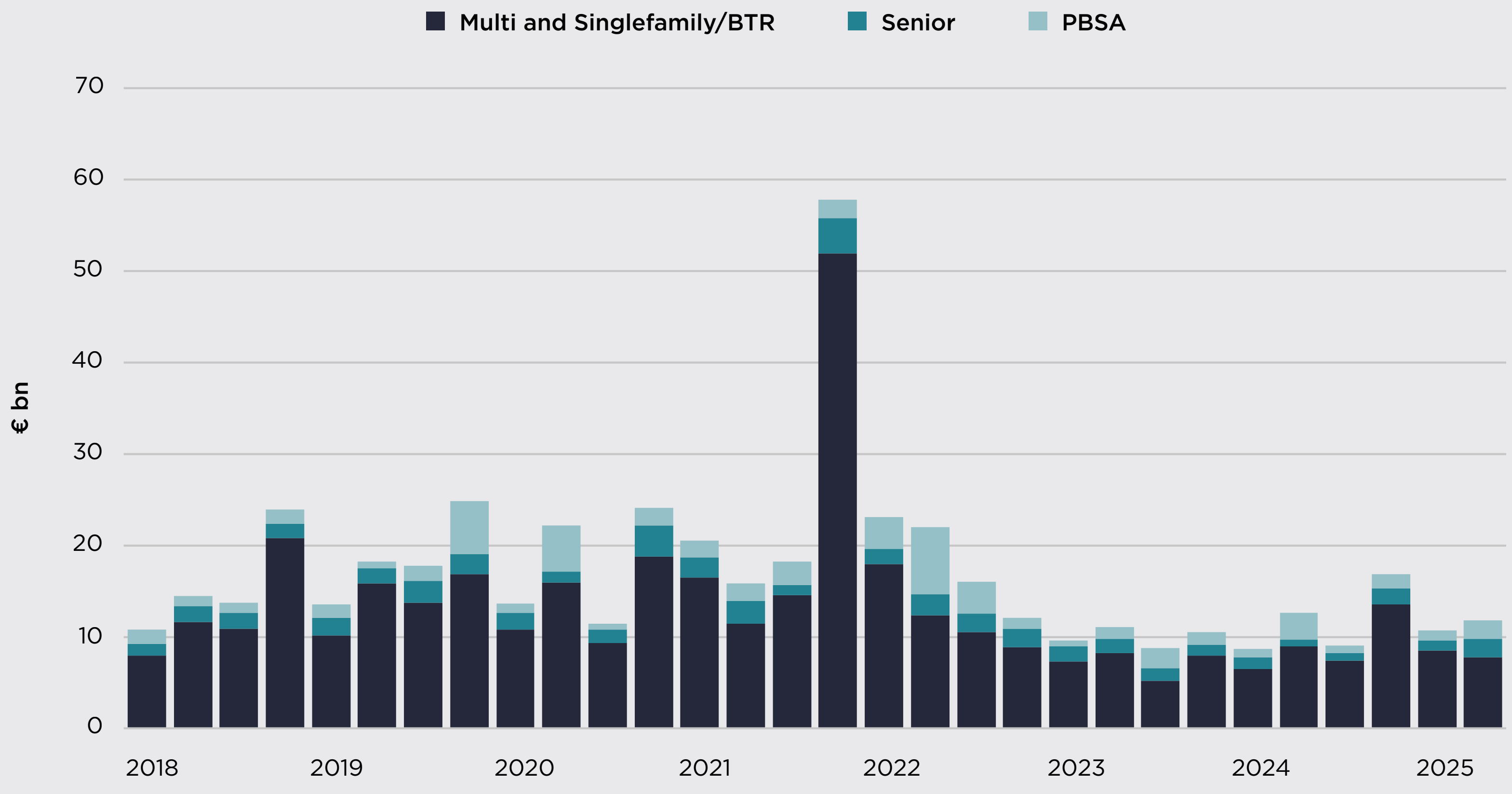
EMEA

Total investment of €11.9bn (US$13.3bn) across the EMEA living sectors represented a 5% decline on the year. Unlike the first quarter, regional investment was more evenly distributed across the region, with Denmark, France, Germany, Sweden and the UK all seeing investment of over one billion euros in the quarter. A strong start to the year means that the year-to-date remains up on the same period in 2024. In Spain, while very little transacted in the quarter, investor interest is no less diminished, underpinned by a good story driving rental growth.

There generally remains appetite and enthusiasm when good assets come to market. Prime yields were broadly stable in the quarter, and most markets continue to see downward pressure. But the market is fairly thin for larger deals – the aggregate value of all deals exceeding €100m in the region fell by 11% in Q2. The pipeline is perhaps more positive in this regard, with a number of large portfolios in the market and soon to trade. With several new funds active in the region, particularly targeting student accommodation, a lack of opportunities may be a greater constraint to activity than underlying demand.

Purpose Built Student Accommodation (PBSA) remains a growth area, particularly in mainland Europe. The provision of private student beds remains limited across most markets on the continent, prompting an expectation that the region may benefit, as international students look for alternatives to the US.

EMEA: TOTAL LIVING INVESTMENT



Source: Savills Research using MSCI RCA. Based on independent reports of properties and portfolios. Excluding development sites.

Across the EMEA region, over €2.0bn (US$2.3bn) of transactions were completed in the second quarter, headlined by the YouFirst Campus in France, where Nuveen and GSA acquired the 3,700 unit portfolio for around €540m (US$610m), and Greystar's first foray into the Nordics with a €360m (US$410m) acquisition in Denmark.

Large portfolios are pending across France, Italy, Ireland, Spain and the Baltic countries, suggesting momentum will continue into the second half. Turnover will be boosted by the €1.2bn (US$1.4bn) acquisition by the student platform Nido Living of Brookfield Asset Management's Iberian student housing portfolio Livensa Living.

In the UK, student accommodation is perhaps more challenging, as pricing is not necessarily compelling investors to deploy at scale. This was underpinned by a 25bps outward shift in the prime yield this quarter, rising to 4.5%. The Build-to-Rent (BTR) sector (the UK's version of multifamily) is, however, seeing a rise in the number of active investors and a greater depth in bidding. Investment of £1.8bn (US$2.4bn) in the first half of 2025 was slightly up on the same period last year, with the pipeline suggesting a strong second-half is in store.

The largest deal of the quarter was in the senior living space. US-listed provider CareTrust completed the acquisition of the Care REIT, marking its first international purchase with the £632m (US$841m) deal, including 32 care homes comprising 7,500 beds and two healthcare facilities. This will quickly be surpassed when the £1.8bn (US$2.4bn) Assura healthcare portfolio trade is completed.

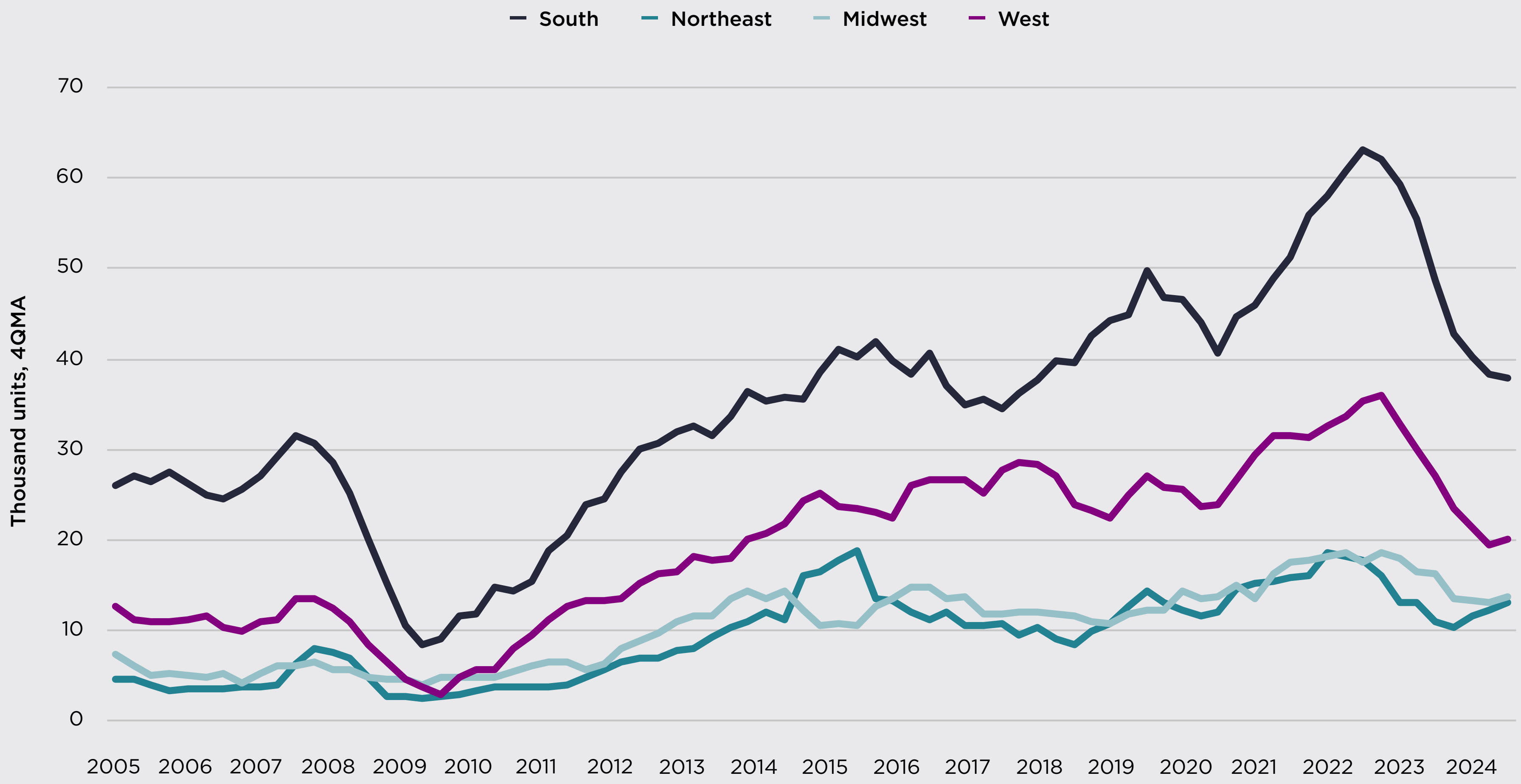
North America

The US occupational market was stable in the second quarter, with strong demand for rental units offsetting elevated new supply, although completions have declined from recent peaks. Net absorption has been positive for three consecutive quarters, and the vacancy rate has fallen to a three-year low, according to RealPage Analytics.

Nationally, average annual rental growth was modest at 0.5% in June. Landlords are working harder to attract and retain tenants, despite falling vacancy. The abundance of new supply in recent years offers tenants more choice as leases come up for renewal. However, the supply pipeline is expected to decline over the next 12–18 months. New construction starts, which typically lead completions by 18 months, have returned to pre-Covid levels. This may shift the balance of power back to landlords. In some markets, rental growth trends suggest this shift is already underway.

Regionally, markets in the South and Southeast are struggling to absorb excess supply. Rents are falling in Texan cities such as Austin, Dallas and Houston due to historically high levels of new deliveries. Similar challenges are evident in several markets in Florida, as well as Atlanta and Phoenix.

US: MULTIFAMILY DEVELOPMENT



Source: Savills Research using Macrobond. Based on the total number of rental units under construction in privately-owned buildings with 2 or more units.

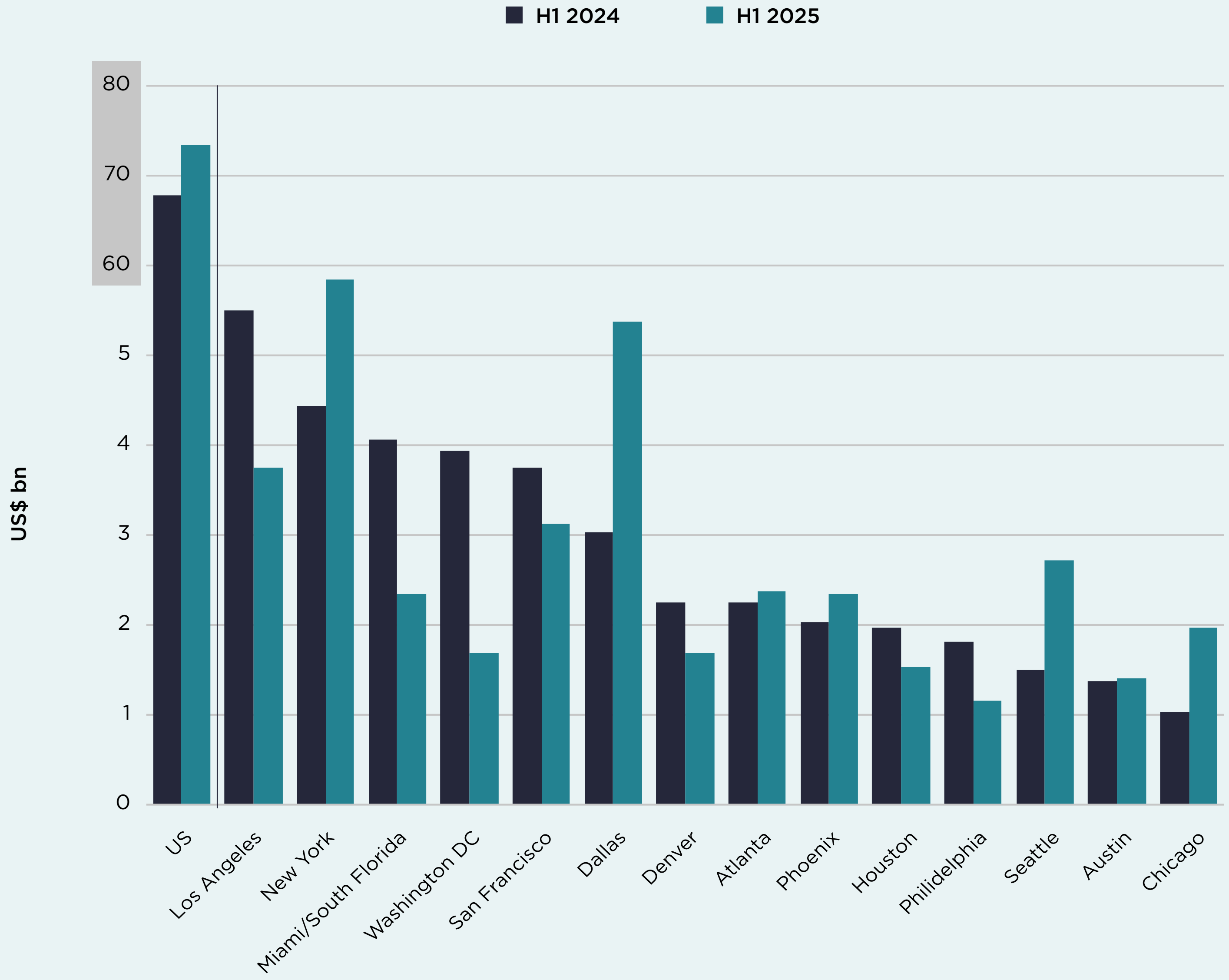
Conversely, the outlook is more positive in many Midwestern, Northeastern and some West Coast cities. Supply-side dynamics remain the key differentiator, but other factors are also influential. Internal migration patterns are rebalancing, favouring major cities like New York and Chicago. Increased office attendance and the emergence of a tech hub focused on AI in San Francisco are also contributing factors.

The investment market weakened in the second quarter after a strong start to the year, largely due to a lack of large portfolio transactions. Investment in the living sector fell 11% y/y to US$38.9bn in Q2. Regional investment trends largely mirrored occupational performance. Chicago, Seattle and New York saw robust activity, but this was insufficient to offset large declines in Washington DC, Miami and Los Angeles.

Dallas was an exception, with investment more than doubling year-on-year, making it the most invested market so far this year, despite occupational challenges. Turnover was bolstered by AvalonBay Communities' acquisition of six multifamily assets from BSR REIT for US$432m. Similarly, Atlanta was supported by the US$535m acquisition of eight multifamily assets by Equity Residential from Blackstone. Both deals were transacted at an initial yield in the high 4% range, highlighting a key challenge for investors. While yields have softened since the 2022 peak, buyers may find better value in other core sectors.

Distress in the multifamily market is growing. The CMBS delinquency rate has more than doubled over the past year, although it remains below the all-property average due to high office delinquencies. A CrediQ analysis of community bank loans revealed the highest distress levels since the global financial crisis, despite a low overall delinquency rate. Much of the multifamily debt that originated during the 2021–22 boom, often with short maturities, is now coming due.

US: TOTAL LIVING INVESTMENT IN MAJOR MARKETS



Source: Savills Research using MSCI RCA. Based on independent reports of properties and portfolios. Excluding development sites.

APAC

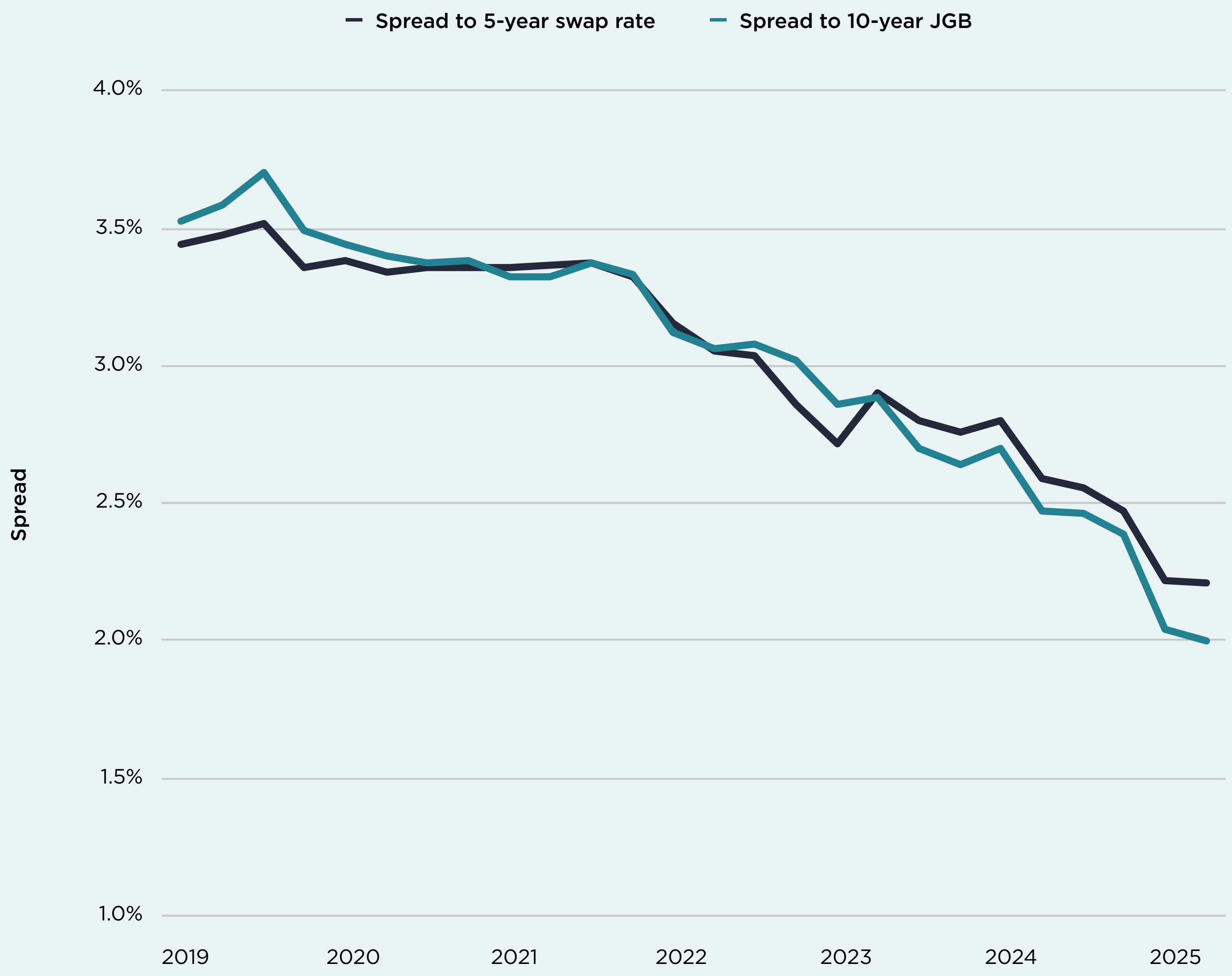
Investment in the APAC living sector totalled US$3.4bn in Q2, marking a 14% y/y decline, largely due to a 52% fall in Japan. Conversely, Australia attracted the most capital, although this was primarily due to a single large transaction.

In Japan, despite weak headline investment figures of JPY157bn (US$1.1bn) in Q2 – the lowest in six years – underlying fundamentals remain strong. Average rents for mid-market apartments in Tokyo's 23 wards rose 8.4% y/y, driven by robust net migration during the spring moving season and positive real wage increases. The annual wage negotiations resulted in an average pay rise exceeding 5%, the highest in 34 years, supporting tenant demand amidst stretched housing affordability.

Supply constraints are also a factor. New energy efficiency standards introduced in April have increased development costs, contributing to a sharp decline in new housing starts – down by more than 25% in the second quarter, although some developers have front-loaded projects to get ahead of the new regulations.

Capital market weakness stems from limited stock availability and increased financing costs. The prime yield for Tokyo multifamily assets remained steady at 3.4% in Q2, unchanged for nearly two years. However, the five-year swap rate, a proxy for debt costs, has nearly doubled over the same period. While debt remains accretive, core inflation in Japan is now the second highest of the G7 economies, putting pressure on the Bank of Japan to further tighten policy, leading investors to adopt a more selective approach.

JAPAN: MULTIFAMILY PRIME YIELDS



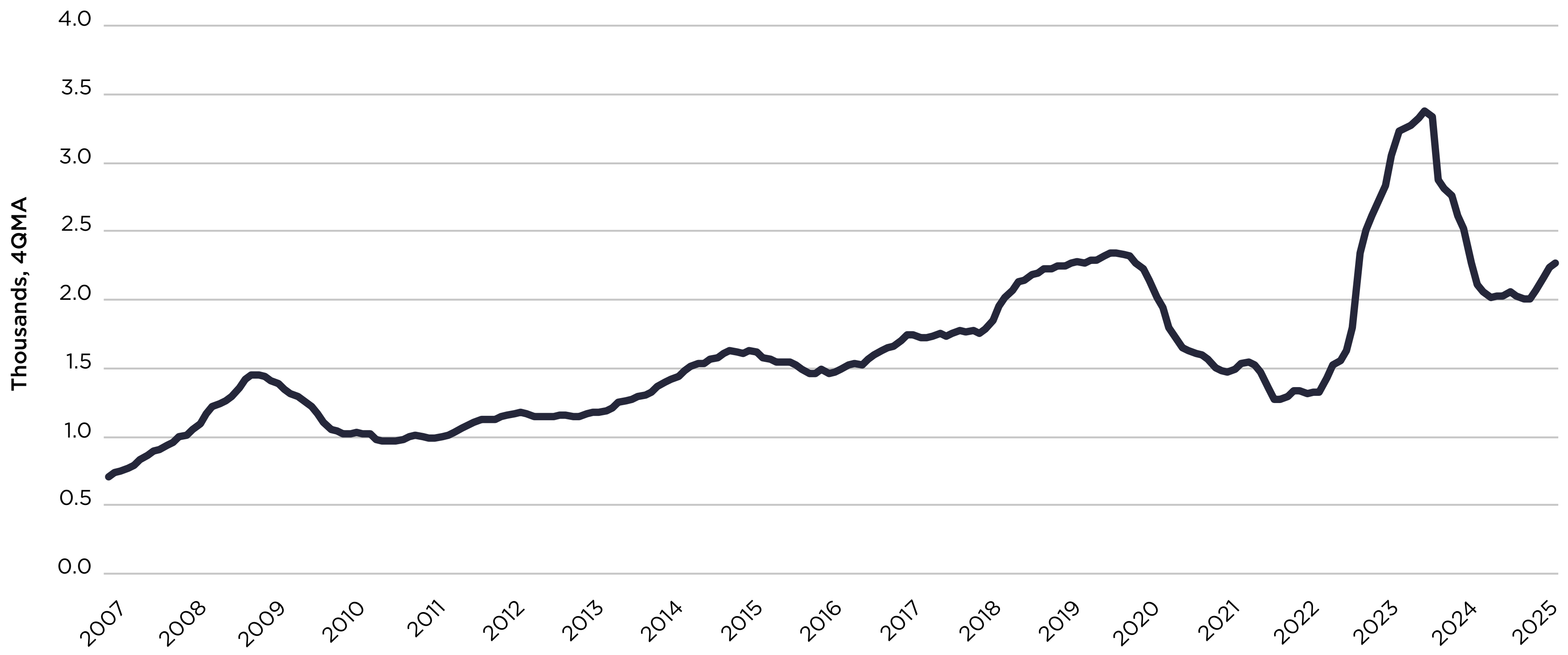
Source: Savills Research using Macrobond.

In Australia, Q2 investment reached AUD1.8bn (US$1.1bn), with 90% attributed to Greystar and Future Fund's acquisition of seven student properties from Singapore's GIC. Equally, Q3 will also see significant growth on the year, with Brookfield selling their senior living platform Aveo to the Living Company for AUD3.9bn (US$2.5 billion), reported to be Australia's largest real estate deal.

These deals skew the data somewhat, as broader investor appetite, particularly for multifamily assets, has softened. The sector, still in its infancy, offers opportunities primarily through development, but high construction costs and limited stock availability pose challenges. Pricing remains tight compared to other sectors. Sydney's prime yield for multifamily assets stands at 4% versus 4.75% for industrial and logistics and 5.85% for office.

Occupational market dynamics in Australia mirror those in Japan. A low vacancy rate of just 1.3% in June, according to SQM Research, continues to support rental growth – albeit at a slower pace than recent peaks. In the PBSA sector, regulatory uncertainty over proposed limits on international students and a more restrictive policy on visa applicants has dampened sentiment. However, visa numbers remain robust – education is a major export for the Australian economy, so significant curbs are unlikely. The ratio of beds to students is low by international comparison, despite good growth in new supply in recent years.

AUSTRALIA: HIGHER EDUCATION STUDENT VISAS GRANTED



Source: Savills Research using Macrobond.

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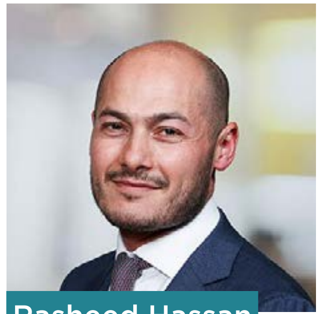
Market view



Rasheed Hassan

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

It is currently much harder than normal to extrapolate trends from data. Transaction levels remain so low, that the presence (or lack) of one or two large transactions in a given sector or geography is skewing data in disproportionate ways. As such, the stats are telling us less of a story right now.

My overwhelming feeling right now is the sense of acceptance is growing. Acceptance from sellers that interest rates are most likely going to remain higher than they had hoped and so pricing isn't going to dramatically change in the near term; and acceptance from buyers that there is very little desperation in the market and bold underwriting will need to be adopted to acquire assets that fall into an 'Investment Committee comfortable' category. The net result is relatively unexciting and we are collectively missing the momentum we crave.

The lack of available opportunities is the biggest factor in keeping the turnover levels where they are. There is definitely more capital than there is opportunity. We have said previously that there is a pent up body of assets that will need to be sold at some point, given the structures that they are held in. However, for now refinancing offers are looking more attractive than outright disposals.

This leads to another point around the abundance of capital, but this time in the credit space. Low transaction turnover is meaning lenders are struggling to find suitable situations to deploy the vast sums of equity raised for debt strategies. The result is that competition is pushing down margins, increasing LTV's and softening covenants. It is therefore somewhat predictable that sponsors are being pleasantly surprised on the upside, when doing hold / sell analyses.

So we end up in a market where pricing is pretty stable for now and it is hard to see what the catalyst will be for a major rise in transaction numbers. In order for that to happen, in my view the market needs is a shock, positive or negative.

PRIME LIVING YIELDS, Q2 2025 (AS AT END-JUNE)

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%	2.0%
Berlin	Multifamily	3.60%	↓	55%	3.6%	3.6%	1.0%
Copenhagen	Multifamily	3.85%	↓	63%	3.3%	4.7%	1.3%
Madrid	Multifamily	3.90%	↓	55%	4.0%	3.8%	0.7%
Sydney	Multifamily	4.00%	→	55%	5.7%	2.0%	-0.2%
Paris	Multifamily	4.25%	↓	55%	3.6%	5.0%	1.0%
Stockholm	Multifamily	4.25%	→	60%	3.7%	5.1%	1.5%
London	Multifamily	4.25%	→	60%	5.1%	3.0%	-0.2%
Melbourne	Multifamily	4.50%	→	55%	5.7%	3.1%	0.3%
Paris	Student	4.50%	↓	55%	3.6%	5.6%	1.2%
London	Student	4.50%	→	60%	5.1%	3.6%	0.0%
Berlin	Student	4.70%	↓	55%	3.6%	6.0%	2.1%
Madrid	Student	4.75%	↓	55%	4.0%	5.7%	1.6%

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 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.

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Key transactions

Multifamily portfolio, Atlanta, US

Sub-sector:	Multifamily
Units:	2,064
Price/NIY:	US$535m/High 4%
Vendor:	Blackstone
Vendor nationality:	US
Purchaser:	Equity Residential
Purchaser nationality:	US
Other comments:	The portfolio of eight properties in primarily suburban Atlanta locations has an average age of 16 years.

YouFirst Student Portfolio, France

Sub-sector:	Student accommodation
Units:	3,700
Price/NIY:	€540 (US$560)/4.8%
Vendor:	Gecina
Vendor nationality:	France
Purchaser:	Nuveen Real Estate and GSA Group
Purchaser nationality:	UK
Other comments:	A portfolio of 18 assets is 80% weighted to Paris, with other assets located near Bordeaux, Lille, Lyon and Marseille. The deal represents the first for GSA in France.

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