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Real Estate
Debt & Capital Advisory
EMEA Marketbeat Q4-2024

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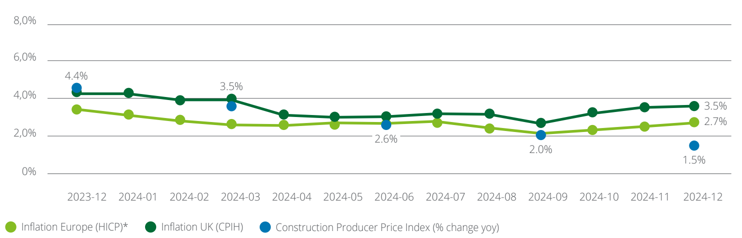
Macroeconomic outlook

Inflation outlook

Inflation across the European Union and the UK experienced a slight rebound at the end of the year, reaching 2.7% and 3.5% respectively in December 2024. This persistent inflation is primarily driven by services in the European Union and by goods and food in the UK. Furthermore, economic growth disparities remain among European countries. In 2024, Poland and Spain led the way with robust growth rates of 2.9% and 3.1% respectively, mirroring Ireland's 3.1% growth in modified domestic demand. Meanwhile, France, Belgium, and the Nordics experienced more modest growth around 1.0%. The Netherlands, the UK, Luxembourg, and Italy saw growth below 1.0%. Conversely, Germany's economy contracted by 0.2%. Overall, the economic outlook for 2025 appears more optimistic, with expectations of lower inflation and moderate GDP growth.

Inflation (one year average rate of change)



Note: (*) The Harmonized Index of Consumer Prices (HICP) is used in the analysis and is a measure of inflation in the European Union (EU).

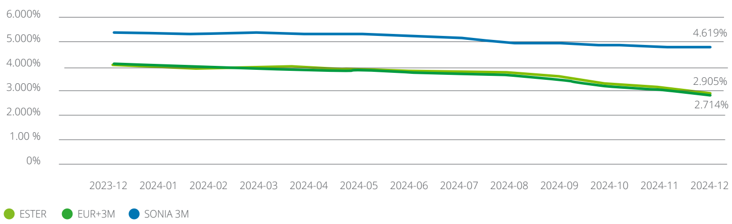
Financing market outlook

2.905%	2.714%	4.619%	2.236%
ESTER**	Euribor +3M**	SONIA 3M**	5Y Euribor swap**

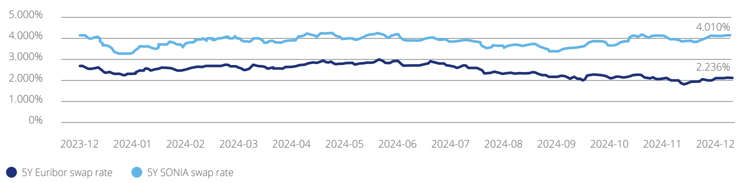
Notwithstanding recent interest rate cuts by the European Central Bank (ECB) leading to marginally improved financing conditions, European lenders remain cautious. Lending activity is concentrated in specific sectors, reflecting ongoing real estate market uncertainties. While financing volumes remain subdued compared to historical levels due to persistently high interest rates, the outlook is brighter. The improved rate environment is prompting investors to reassess their strategies, leading to a surge in financing requests, potentially signalling a lending market turnaround.

Note: (**) Numbers as of the end of December 2024

Euribor +3M, ESTER & SONIA 3M (one year evolution)



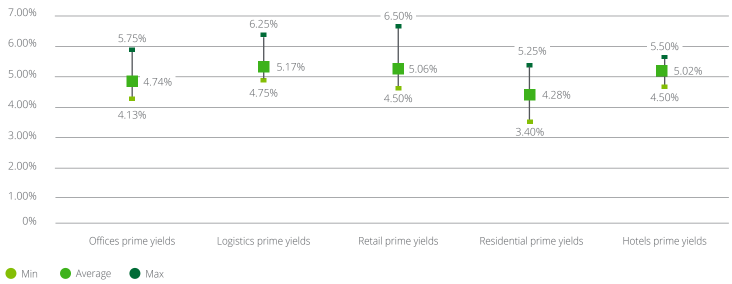
5Y Euribor & SONIA swap rates



Investment market outlook

The European investment landscape witnessed a resurgence in 2024, with investment volumes surpassing 2023 levels by a significant 17%. Transaction activity gained considerable momentum towards the end of the year, surging by 31% from Q3 to Q4 2024. This surge reflects growing investor confidence and a more favourable investment environment. While current investment levels remain below the long-term average, positive indicators such as converging buyer-seller price expectations, stabilizing property valuations, and declining interest rates suggest continued growth in 2025.

Prime yields levels by asset class* (Europe)**



Note: (***) Prime yields are reported for Q3 2024
Sources: Eurostat, Refinitiv, Statista, Bank of England Database

Markets drivers

Interest rates' evolution

In a move aimed at stimulating economic growth, the ECB's Governing Council lowered all three key interest rates on October 17th and December 12th. The rates for marginal lending, refinancing operations, and the deposit facility were each reduced by 50 basis points, bringing them to 3.40%, 3.15%, and 3.00%, respectively.

Political environment

The US election results, and the potential reimplementation of import tariffs have fuelled global economic uncertainty, raising concerns about reduced output, inflationary pressures, and trade disruptions. The lack of stable governments in France and Germany further exacerbated uncertainty in Europe.

Sustainability regulation

Energy and sustainability regulations are reshaping the European real estate landscape. The revised Energy Performance of Buildings Directive (EPBD), in particular, is driving a surge in renovations across the EU, targeting properties with subpar energy performance.

Real estate financing trends

Trends in financing products

In spite of recent interest rate cuts by the European Central Bank, stringent bank lending criteria continue to constrain real estate financing. Consequently, investors require higher levels of equity funding to secure debt financing in the European markets. While investor interest in real estate funds is growing, attracting capital from institutional investors remains difficult. This has led to a surge in alternative debt providers, such as insurance companies, pension funds, and private debt funds, filling the financing gap. Debt funds, while requiring higher margins, offer greater flexibility, particularly regarding loan-to-value (LTV) ratios, notably through whole loans or mezzanine debt.

- ★ **Equity**
- Senior debt
- Whole loan
- Mezzanine debt
- Junior debt

Trends in financed purpose

Despite a gradual recovery in investment activity, European transaction volumes remain subdued. This has led to a focus on refinancing, with asset owners restructuring existing loans. However, development finance, particularly for residential projects, is gaining traction, driven by housing shortages in key markets. Lenders are increasingly supporting development in countries like Spain and Ireland, bolstered by government initiatives such as state-backed offtakes. The anticipated decline in interest rates throughout 2025 is expected to further improve financing accessibility and lead to more favourable lending terms, potentially unlocking new opportunities for investors and developers.

- ★ **Refinancing**
- Development finance
- Corporate financing
- Asset acquisition
- Portfolio acquisition

Trends in financed sector

Within the dynamic European real estate financing landscape, the residential and living sector stands out. Price stabilization and improved financing options, driven by lower interest rates, are fuelling activity. However, affordability challenges in Belgium and Ireland are placing upward pressure on rental markets. The logistics sector remains highly attractive to lenders, characterized by low vacancy rates and sustained demand. In France, self-storage and light industrial assets are experiencing surging demand. However, both residential and logistics sectors may face supply constraints in 2025 due to construction shortages and ESG regulations, respectively. Lender interest in the hospitality sector is also recovering, buoyed by a resurgence in tourism and a lower cost of capital. However, activity in countries like France and the Netherlands remains concentrated in the luxury and prime segments.

- ★ **Residential**
- Logistics
- Hotels
- Retail
- Offices

Deloitte's sample of credentials for the quarter

Offices

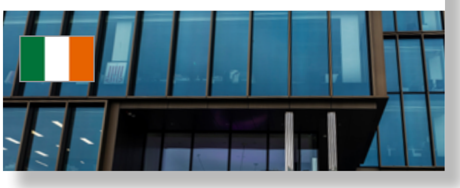
Connaught House

Amount raised:
Confidential

Financing:
Senior term loan

Lender:
Confidential

Deloitte Ireland provided debt advisory services to Fine Grain Property for the acquisition of Connaught House, a 120k sq ft office building located in Dublin.



Retail

Project Rom

Amount raised:
£23 million

Financing:
Senior loan

Lender:
Confidential

Deloitte UK provided debt advisory services to a developer client for the refinancing of an income generating commercial property.

Hotels

Project Jupiter

Amount raised:
£127.5 million

Financing:
Senior loan

Lender:
Confidential

Deloitte UK provided debt advisory services to a luxury hotelier for the refinancing of a high-end hotel in Central London.

Real estate financing sectoral trends and key indicators

Offices

The European office market is increasingly defined by a stark polarization between high-quality, prime assets and secondary, older properties. As occupiers prioritize flexible, modern, and energy-efficient spaces, lenders are responding with increased selectivity. While overall lending remains cautious, there is a growing appetite for Grade-A, sustainable buildings in prime locations, particularly in markets like Ireland and the Netherlands. This trend underscores the growing importance of ESG considerations in real estate investment decisions. In certain markets, such as Poland and Spain, the conversion of obsolete office buildings into residential projects, including Private Rented Sector (PRS) and Purpose-Built Student Accommodation (PBSA), is gaining momentum, reflecting evolving housing needs and investor priorities.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Belgium	50-60%	→	170-225 bps	→
Denmark	55-65%	→	80-120 bps	→
France	45-60%	→	175-190 bps	→
Germany	55-60%	→	150-170 bps	→
Ireland	45-55%	→	250-300 bps	→
Italy	40-50%	→	250-350 bps	→
Luxembourg	55-70%	→	200-250 bps	→
Poland	50-60%	→	260-300 bps	→
Spain	50-60%	→	200-250 bps	→
The Netherlands	50-55%	→	175-275 bps	→
United Kingdom	50-60%	↑	180-250 bps	→

Source: Deloitte based on a market sounding

Residential

The European residential market is grappling with significant supply-demand imbalances, driven by a slowdown in development activity, particularly in major cities. This constrained supply is placing upward pressure on rental markets, exacerbating affordability challenges in countries like Belgium, Germany, and the Netherlands. In response to these challenges, specialized living solutions, including co-living spaces, student accommodation, and affordable housing initiatives, are gaining traction in markets such as Luxembourg and Spain. Similarly, Ireland is witnessing a concerted effort to expand social and affordable housing options. Despite these challenges, the residential sector remains highly attractive to lenders. The persistent undersupply of affordable rentals, coupled with stabilizing market conditions, positions the sector as a relatively low-risk, high-performing asset class.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Belgium	55-65%	→	125-200 bps	→
Denmark	55-60%	→	80-120 bps	→
France	50-60%	↑	165-185 bps	→
Germany	65-70%	→	110-130 bps	→
Ireland	50-60%	→	225-250 bps	→
Italy	40-60%	→	250-350 bps	→
Luxembourg	50-70%	→	200-250 bps	→
Poland	60-70%	→	220-260 bps	→
Spain	50-65%	→	200-250 bps	↓
The Netherlands	55-65%	→	150-225 bps	→
United Kingdom	50-60%	↑	140-225 bps	→

Source: Deloitte based on a market sounding

Retail

Despite facing headwinds ranging from the lingering effects of COVID-19 restrictions to fierce competition from e-commerce, the European retail sector demonstrated resilience this quarter. Improving market fundamentals are driving a gradual recovery in investment volumes and transaction activity, particularly in markets like Belgium and Spain. While the sector's complex dynamics require careful navigation, investors and lenders are showing renewed interest in well-performing retail assets, including retail parks, prime shopping centres, and high street retail, particularly in the UK. However, a degree of caution persists. Investors and banks, particularly in the Netherlands, are maintaining a measured approach, with lending decisions focused on asset-specific factors such as valuation risk, asset stabilization, and borrower creditworthiness.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Belgium	50-60%	→	170-275 bps	→
Denmark	45-55%	→	80-120 bps	→
France	50-60%	→	175-190 bps	→
Germany	50-60%	↑	170-190 bps	→
Ireland	50-55%	→	250-325 bps	→
Italy	30-50%	→	250-350 bps	↓
Luxembourg	n/a	n/a	n/a	n/a
Poland	50-60%	→	210-235 bps	↓
Spain	50-60%	→	300-350 bps	→
The Netherlands	45-55%	↑	200-300 bps	→
United Kingdom	50-55%	→	175-225 bps	→

Source: Deloitte based on a market sounding

Real estate financing sectoral trends and key indicators

Logistics

The European logistics sector continues to attract strong interest from lenders and investors, maintaining its position as a highly sought-after asset class. Prime rents have remained stable or experienced modest increases in key markets like Ireland and the Netherlands. However, limited availability of space is emerging as a constraint in certain countries, including France, Belgium, and Ireland, potentially impacting the sector's continued expansion. While France is experiencing high demand for logistics assets, Germany has seen a softening of demand due to slower growth in online retail and broader economic uncertainty. In the UK, an increase in available space has led to a deceleration of rental growth. However, demand for sustainable and future-proof assets remains robust, highlighting the evolving priorities of investors and occupiers.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Belgium	55-65%	→	125-200 bps	→
Denmark	55-60%	→	80-120 bps	→
France	45-60%	→	175-195 bps	→
Germany	45-55%	→	170-190 bps	→
Ireland	50%	→	225-275 bps	→
Italy	40-60%	→	225-300 bps	→
Luxembourg	n/a	n/a	n/a	n/a
Poland	50-70%	→	200-240 bps	↓
Spain	50-60%	→	250-300 bps	→
The Netherlands	55-65%	→	150-225 bps	→
United Kingdom	50-60%	→	175-225 bps	→

Source: Deloitte based on a market sounding

Hotels

A surge in tourism across Europe is breathing new life into the hospitality sector, creating attractive investment opportunities across the region. Ireland, Belgium, and Spain are experiencing particularly strong growth, while Italy and Spain offer compelling prospects for asset repositioning and strategic property aggregation. Spanish lenders are actively supporting this growth, demonstrating a strong appetite for financing both existing assets and capital expenditure plans. While the German hotel investment market lags behind its pre-pandemic levels, a rebound is anticipated, driven by a decreasing cost of capital and concentrated in prime locations. Poland's hotel market is also exhibiting robust performance, recording a high volume of financing transactions in Q4. Overall, lender appetite for hospitality assets across Europe is healthy, with a clear preference for the luxury segment, experienced sponsors, and assets with a proven track record.

	Financing			
Countries	**Senior LTV Levels**	**Trends**	**Senior debt margins**	**Trends**
Belgium	45-55%	→	180-250 bps	→
Denmark	50-60%	↑	80-120 bps	→
France	45-55%	→	180-205 bps	→
Germany	50-60%	→	150-170 bps	→
Ireland	50-65%	→	275-300 bps	→
Italy	40-60%	→	250-350 bps	→
Luxembourg	n/a	n/a	n/a	n/a
Poland	50-70%	→	250-300 bps	↑
Spain	50-65%	↑	200-300 bps	↓
The Netherlands	50-60%	→	200-275 bps	→
United Kingdom	45-55%	→	200-250 bps	→

Source: Deloitte based on a market sounding

Luxembourg / Luxembourg team's view

After a prolonged period of instability in the residential sector, the end of 2024 showed signs of market stabilization. Buoyed by the interest rate cut cycle and extension to June 2025 of favourable tax measures for property acquisitions, there are expectations for this to continue through 2025. The office market remains under pressure marking the continuation of a downward trend which commenced during the pandemic. The pipeline under construction nevertheless remains robust and prime CBD rents were stable at €54/sqm.

Elena Petrova

Meet the team

The European Debt & Capital Advisory team can assist you in your debt and fundraising processes through a large European lenders and investors' network, and has in-depth expertise in financing and investment markets across the continent.

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