

M&G Real Estate: UK to lead global real estate recovery in 2025

London: 5 December 2024: The UK is set to lead the global real estate sector's recovery over the coming cycle, according to M&G Real Estate's (M&G) latest *Global Real Estate Outlook*, as a period of increased stability and capital value growth lays the foundations for an uptick in investment into structurally supported sectors.

The report highlights how the UK, in particular, having navigated a prolonged period of uncertainty, has emerged with renewed economic momentum providing attractive opportunities for investors to increase allocations to its real estate market. The four themes expected to drive returns for investors in 2025 are: 1) structurally undersupplied sectors positioned for strongest growth; 2) a mixed but improving picture across Europe; 3) stock selection set to dominate sector dynamics; 4) Asia Pacific returns to growth.

Martin Towns, Deputy Global Head of M&G Real Estate, commented: "As we enter the new property cycle, global investors are recalibrating their portfolios with increased optimism and a keen eye on emerging trends and evolving dynamics. With capital values having stabilised and a recovery phase underway in many global markets, increased optimism and easing interest rates are setting the scene for a rise in buying, selling and lending opportunities.

"Sectors once considered as alternative are now deemed mainstream by many institutional investors. We expect the Living sector to be among the main beneficiaries as investors move to take advantage of attractive entry points and structural tailwinds, underpinned by supply constraints and increasing demand.

"With strong foundations investing across many real estate sectors and geographies, M&G is well placed to help institutional clients to diversify and internationalise their portfolios. We see opportunity to take advantage of the market upswing, tapping into the most attractive performance prospects the asset class has seen in many years."

Structurally undersupplied sectors positioned for strongest growth:

With the UK's supply backlog of 4.3 million homes and house prices close to historic highs, demand for more Affordable accommodation continues. Private investment to unlock housing delivery is critical, the investment case for which is underpinned by favourable supply/demand dynamics, attractive inflation-linked income streams and increased value-add opportunities from new energy efficiency regulation and brown-to-green retrofit projects.

While rental growth in the urban multi-let industrial sector is unlikely to return to the levels seen over the past few years, a critical undersupply of modern, high-quality space in core markets across the UK will sustain investor appetite.

Navigating a mixed but improving picture across Europe:

Despite abundant green shoots of recovery across the region, investors need to navigate a more nuanced environment on the Continent. Southern Europe is likely to continue its economic outperformance, while rate-

sensitive markets such as the Nordics and Netherlands will be beneficiaries of tempering inflation as global investors hunt for exposure to markets enjoying a relatively low cost of finance.

Residential rental growth is expected in most cities due to constrained supply and low office vacancy rates in CBDs (4.6% versus city average of 8.1%) is significantly enhancing their rental prospects over secondary sub markets.

Brown-to-green value-add strategies present opportunities to create higher-quality, sustainable stock as high volumes of motivated sellers and widening discounts in both rent and valuations emerges in a more active transaction market.

Real estate debt is also offering prospects for attractive risk-adjusted returns, especially given today's lower capital values. Retrenchment by traditional lenders, set against a substantial refinancing requirement, sets the scene for institutional capital to step in.

Stock selection set to dominate sector dynamics:

At a global level, investors seeking strong returns from the retail or office sectors will need to emphasise discipline and careful stock selection as the market increasingly bifurcates in favour of the best-located, highly sustainable and amenity-rich assets.

Dominant regional retail schemes are expected to offer improved rental growth as occupiers with strong covenants return to an expansionary mindset for well-located physical stores, while prime grade A office assets command robust levels of interest from both occupiers and long-term capital sources as growth prospects for the highest quality assets outweigh fading concerns about the future of the office.

Asia Pacific returns to growth:

Asia Pacific is set to play a larger part in the strategic asset allocation of global real estate investors, seeking to tap into a diverse market with attractive economic fundamentals. The improving outlook is positively impacting investment activity with real estate deal volumes up 28% year-on-year and more attractive opportunities are expected to emerge with motivated sellers needing to refinance assets in a higher interest rate environment.

Cities are becoming denser in line with the steady rise of inward migration, providing urban investment opportunities in areas such as Tokyo multifamily residential. The Living sectors in developed Asian markets are expected to see increasing investor interest in the coming cycle.

Read the full report [here](#).

M&G's £73 billion² Private Markets business comprises six core centres of excellence. This includes real estate, of which M&G Real Estate is the 11th largest real estate manager globally of those headquartered outside of the US, with nine offices in Europe and four in Asia Pacific. With more than £40 billion in assets under management covering both real estate equity and debt strategies, M&G Real Estate's platform provides global market insight and the ability to deliver a variety of compelling strategies to clients.

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Notes to editors:

¹ Based on a select sample of 13 major European cities, data for Q2 2024 from local broker reports

²M&G as of 30 June 2024

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For nearly nine decades M&G Investments has been helping its customers to prosper by putting investments to work, which in turn creates jobs, homes and vital infrastructure in the real economy. Its investment solutions span equities, fixed income, multi asset, cash, private debt, infrastructure and real estate.

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