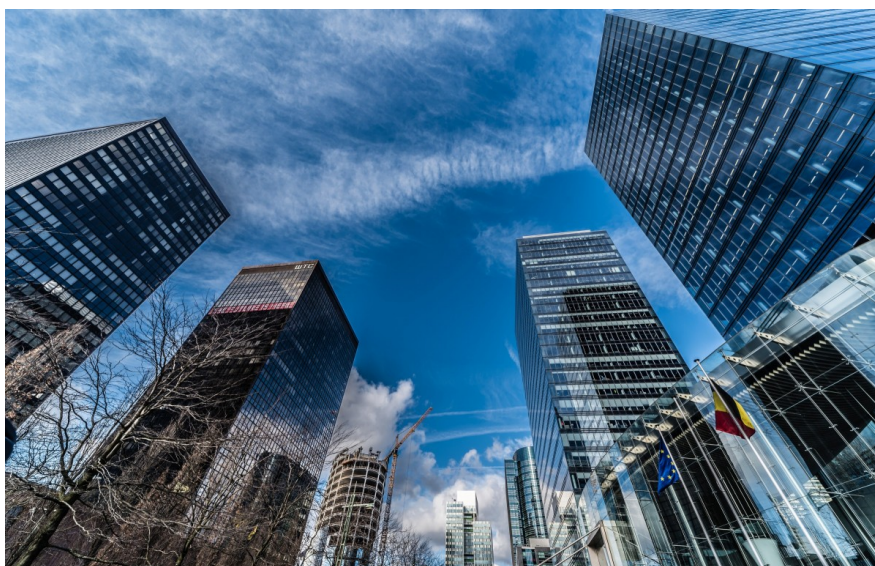


Tariffs dampen European real estate M&A, but a recovery is likely

Hopes for a 2025 revival in European real estate M&A, driven by lower interest rates and improving investor confidence, have so far not materialised, partly due to geopolitical chaos and tariffs. We could still see M&A rise this year, but markets probably need to stabilise first



European M&A: at a glance

- European real estate M&A activity doubled between 2023 and 2024, reaching €31bn last year. However, volumes remain below the 10-year average of €50bn.
- Geopolitical chaos and tariffs have led to muted M&A activity so far in 2025. But we still expect it to pick up.
- Low interest rates fuel M&A deals and the ECB is expected to cut rates further this year.
- We expect European real estate to benefit from the “Sell America” trend as investors, cautious about the volatile US business environment, look to Europe as an attractive alternative.
- The UK and Ireland, in particular, historically remain strong markets for US investors.
- Looking ahead, we anticipate an increase in activity in Germany and France.

European real estate M&A tested by tariffs

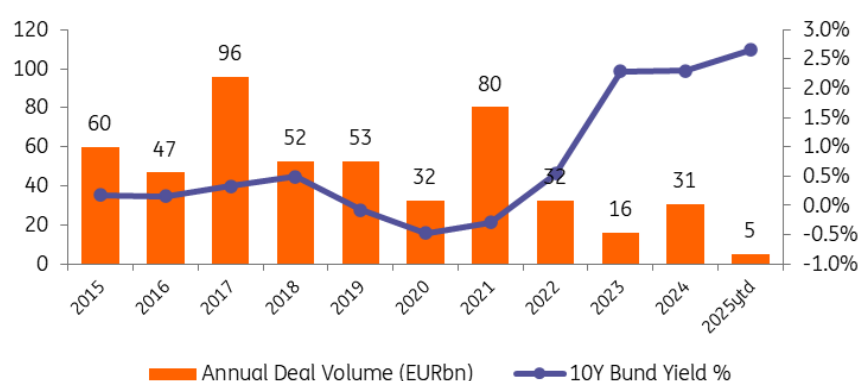
European real estate M&A activity increased last year, with total volumes almost doubling compared to 2023, reaching €31bn. Despite this, volumes remain below the 10-year average of €50bn.

Hopes for a revival in 2025 have been driven by lower interest rates and improving investor confidence, but data from the first and second quarters suggest there has been continued caution. Geopolitical chaos and tariff turmoil have been key reasons for the muted activity so far.

Even so, we expect M&A activity to pick up in 2025, supported by several tailwinds. We are also seeing increasing diversification across real estate sectors and countries.

That being said, we're unlikely to see a repeat of the record years of 2017 and 2021 anytime soon.

European real estate M&A volumes remain subdued in 2025



Source: Refinitiv

There were expectations for a resurgence in M&A activity within the sector this year, driven by declining interest rates, renewed investor confidence, and an improvement in the sector's recovery.

Recent deal announcements have made headlines, including Blackstone's offer for Warehouse REIT and LondonMetric's offer for Urban Logistics REIT PLC, both in the UK. However, the data for the first quarter and the first few weeks of the second seems to suggest that markets remain cautious, with deal volumes still subdued.

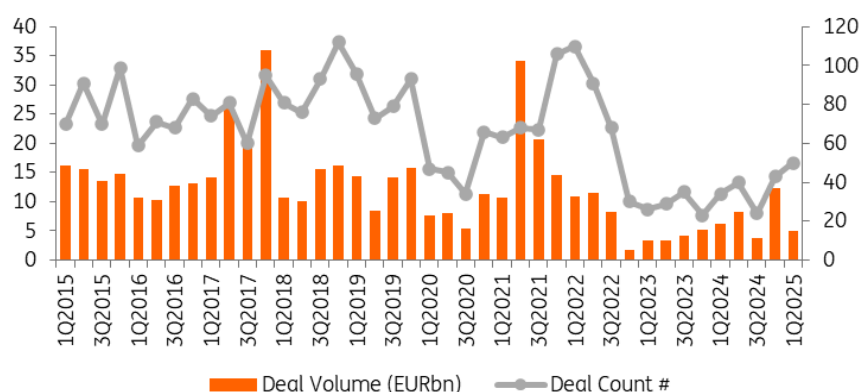
Uncertainty up, M&A activity down

In the first quarter of 2025, transaction volumes reached just over €5bn, encompassing both pending and completed deals. This marked a decline from €12bn in the fourth quarter of 2024 and €6bn in the first quarter of last year. Annualised, this suggests 2025 deal volumes of around €20bn. While the first quarter is typically more volatile, this growth fell short of expectations.

In addition to still-elevated interest rates, Trump's tariff turmoil has contributed to the slowdown. Uncertainty has led to investment delays as businesses assess the impact. Industry participants have become more cautious, and confusion around the chaotic tariff implementation has exacerbated the slowdown, just as Europe's real estate sector is beginning to recover from a

prolonged crisis.

Quarterly M&A volume is down, yet deal count is up



Source: Refinitiv

Despite this, the real estate sector remains relatively immune from direct tariff impacts. Recent events, including the 90-day pause on tariffs for most countries and some exemptions, have helped calm markets and nerves.

Furthermore, the first quarter data reveals an increase in the number of deals both year-on-year and quarter-on-quarter. Fifty transactions were recorded (completed and pending), compared to 43 in the previous quarter and 34 the year before. This resulted in a decline in the average deal size to €98m, down from €285m in Q4 2024.

As such, larger deals appear more challenging in the current market environment, with dealmakers favouring smaller add-on deals that complement existing platforms and add diversification during this period of volatility. This indicates a continued willingness for real estate M&A transactions, but with a current focus on smaller deals as markets navigate the direction and impact of tariffs on the sector.

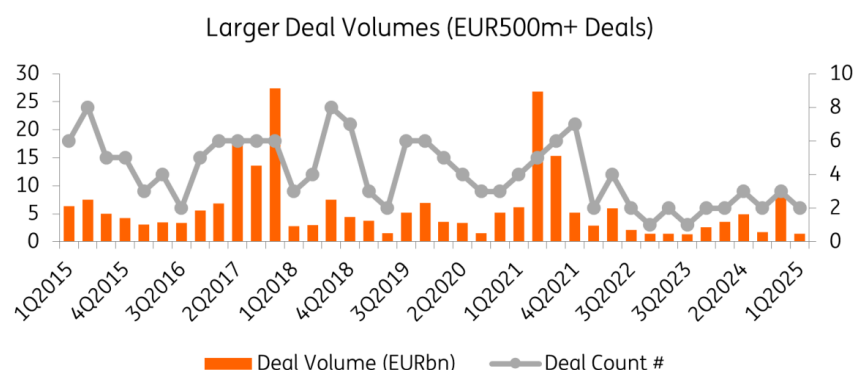
Muted real estate M&A activity since 2022

Since 2022, European real estate M&A volumes have been lower compared to previous years. Higher financing costs, geopolitical concerns, and a decline in investor demand have slowed deal activity. The years 2017 and 2021 were big for real estate M&A, with €96bn and €80bn of transactions, respectively. These years included some of the sector's largest deals, such as Unibail's acquisition of Westfield in 2017 for €19bn, and Vonovia's purchase of Deutsche Wohnen in 2021 for €23bn.

Mega transactions (€5bn and above) have become less frequent. Refinitiv data shows that the only deal to exceed the €5bn mark in recent years was the 2024 transaction where the UK's Ministry of Defence bought back Married Quarter Estate from Annington for €7.2bn.

Taking a broader perspective, larger deal activity (€500m+) also remains muted. So far this year, two larger deals have been announced. While 2024 volumes (€19bn) and deal count (10) picked up from 2023, this was still low compared to historical averages. And the trend so far in 2025 shows that activity in the "larger" deal segment remains soft.

Larger deals (EUR500m+) are not yet picking up

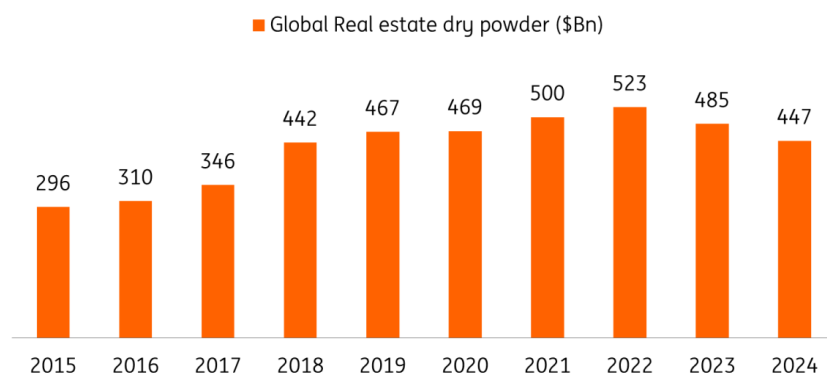


Source: Refinitiv

Money on the sidelines

Despite the sluggish M&A activity in 2025 so far, there is still a significant amount of capital available for real estate M&A. Preqin estimates that global dry powder for real estate was approximately \$446bn (€395bn) at the end of 2024. While most of this capital is expected to be deployed in the US, an increase in capital deployment into Europe is also anticipated. Additionally, dry powder levels for Global Private Equity (€2tr) and Global Private Debt (around €500bn) remain robust, according to Pitchbook data.

Global real estate dry powder levels are still healthy



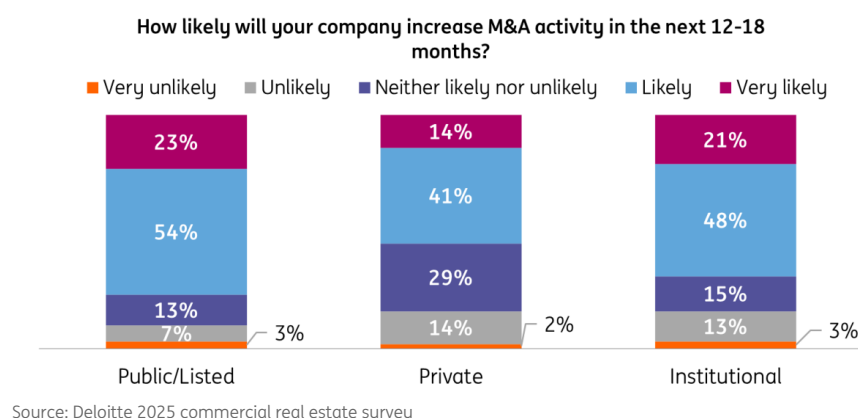
Source: Pitchbook

Public real estate companies in Europe are also increasingly signalling that they have the appetite for M&A. Recent full-year 2024 earnings updates indicated that capital allocation priorities are shifting. For some, growth is back on the table after a few years of balance sheet protection and deleveraging. While this will predominantly include asset-level acquisitions, we also see scope for M&A to pick up.

Acquirors will likely include well-funded investors with a low cost of capital and sufficient headroom to leverage and cash flow metrics. Indeed, according to data published by Deloitte in their 2025 commercial real estate outlook, by investor type, public and institutional investors are most likely to increase M&A activity in 2025 (54%). REITs are most likely to be active in M&A, with

80% indicating in Deloitte's survey that they are looking to conduct more M&A in the coming year.

Public real estate companies are increasingly looking at M&A



We see a few tailwinds

While low interest rates fuelled robust M&A volumes up to 2021, the current interest rate environment is less favourable. However, the ECB's target rate is now at 2.5% following two rate cuts in 2025, with further cuts anticipated – including this week. Additionally, the 10-year German Bund yield has decreased by around 40bp to 2.5% this year. This has improved financing conditions and can set the stage for more robust deal activity.

We also foresee European real estate benefitting from the “Sell America” trend. Investors are cautious about the volatile US business environment, making Europe an attractive alternative. The UK and Ireland, in particular, historically remain strong markets for US investors. On top of that, an improving business environment in both France and Germany enhances the perception of European markets being reliable.

Germany's massive spending plans, including a €500bn infrastructure fund, are expected to boost economic growth and productivity. Enhanced infrastructure will likely increase real estate demand, supported by funds for urban redevelopment and energy-efficient building renovations. The cyclical upswing could also positively impact neighbouring countries.

Despite current market volatility, the real estate M&A pipeline remains robust. As volatility decreases and clarity around tariffs improves, we anticipate activity to pick up. With significant capital on the sidelines and potential deals at attractive valuations, volumes could rise. However, deals may take longer to close, with a stronger focus on due diligence and valuation scrutiny. Target sector allocation will remain crucial as investors seek diversification and earnings growth in this cycle.

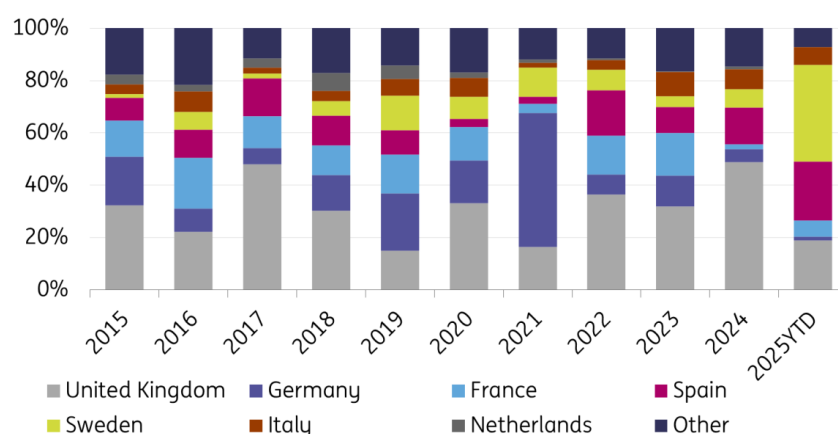
A shift in geographic allocation

Recent years have shown a pronounced shift in geographic activity. Traditionally, Germany, the UK and France have had the highest share of acquisitions. In particular, German companies were in high demand in 2021, as shown below. However, recent years have seen a strong slowdown in France and Germany, with the former impacted by political and fiscal concerns, while the latter's macroeconomic environment has worsened.

Other countries have benefitted, with the likes of Spain, Sweden and the UK favoured for M&A. Real estate markets here have had a good recovery or have remained relatively stable, while the business and macro environments have also improved.

In Sweden, in particular, which is more sensitive to interest rates, the turnaround has been swift. The real estate sector was one of the first to come under pressure in 2022, but valuations have declined significantly since, and the central bank has been quite aggressive in its rate-cutting cycle. Additionally, Sweden has benefitted from recent capital repatriation, boosting domestic real estate markets. Notably, out of 55 M&A deals announced so far this year, 22 are in Sweden.

M&A activity has shifted countries



Source: Refinitiv

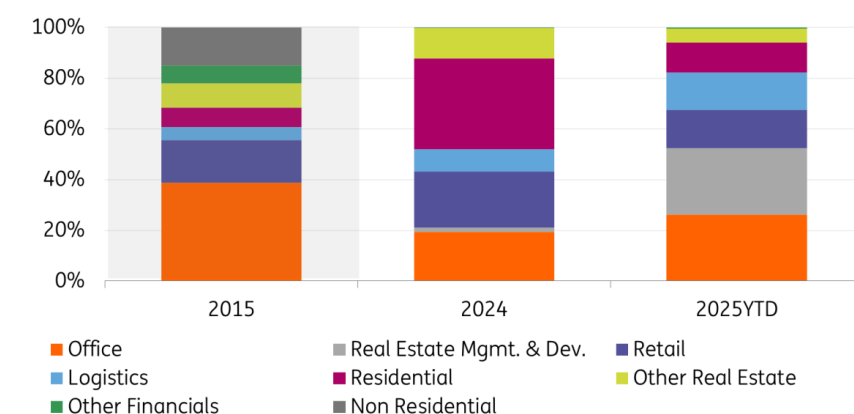
Looking ahead, we anticipate an increase in activity in Germany and France. Political and fiscal concerns in France have diminished, while Germany's fiscal stimulus plans are expected to drive a cyclical upswing. The impact on real estate M&A remains to be seen, but the outlook has become more positive.

Target sector

Similarly, there has also been a shift in the segments companies target for acquisitions. In 2015, as shown below, the office sector was dominant, with a volume share of around 40%. Retail and "Non-Residential" (diversified companies with the main exposure in Office & Retail) also featured heavily. In contrast, in 2024, Residential was the dominant sector, with a volume share of 36%. Retail and Logistics were also big, while Office's share almost halved compared to 2015. Clearly, the market focused on "Beds and Sheds" last year.

So far in 2025, the trend has been more mixed. Office transactions have increased, while Retail, Residential and Logistics have all seen healthy levels of activity. However, it is still early on in the year and volumes have declined, so it may be premature to draw strong conclusions. Nonetheless, the data does seem to suggest that dealmakers are looking across multiple segments, with a growing focus on diversification.

Dealmakers are looking at multiple real estate segments



Source: Refinitiv

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