Clearance
Camino Fund

The State of the European Listed Real Estate Sector – Mid 2025

After a tumultuous 2022 and an on-again off-again rebound in 2023–2024, 2025 has seen a firm continuation of the sector's recovery. In May alone, European REITs advanced by +3.9%, supported by reduced volatility and stabilising credit markets. As at the end of May, FTSE/EPRA NAREIT Developed Europe Index (EPRA), the key benchmark for the sector, has posted a solid +8.6% year-to-date return. This resurgence reflects improving earnings and stabilising interest rates in Europe, while a distinct return dispersion between Europe and the US appears.

Global REITs

	Month	Year to date
Global REITs [(1)]	1.7%	1.8%
Europe [(2)]	3.9%	8.6%
United States [(3)]	2.0%	0.1%
Canada [(4)]	6.0%	7.3%

(1) GPR250 Net Total Return Index in USD
(2) FTSE EPRA NAREIT Developed Europe Net Total Return Index in EUR
(3) MSCI US REIT Net Total Return Index in USD
(4) TSX Capped REIT Net Total Return Index in CAD

It all seems to be about rates

Since the start of their rate cut cycle, the ECB has cut their deposit facility rate 8 times, from 4,0% to 2%.

Over the same time, the BOE has cut their base rate 4 times, from 5,25% to 4,25%, with markets expecting a further 2 cuts during the rest of 2025.

While the Fed has cut the Fed Funds rate three times from 5.5% to 4,5%, ongoing tariff and inflation uncertainty is leaving the region's real estate market in limbo for now.

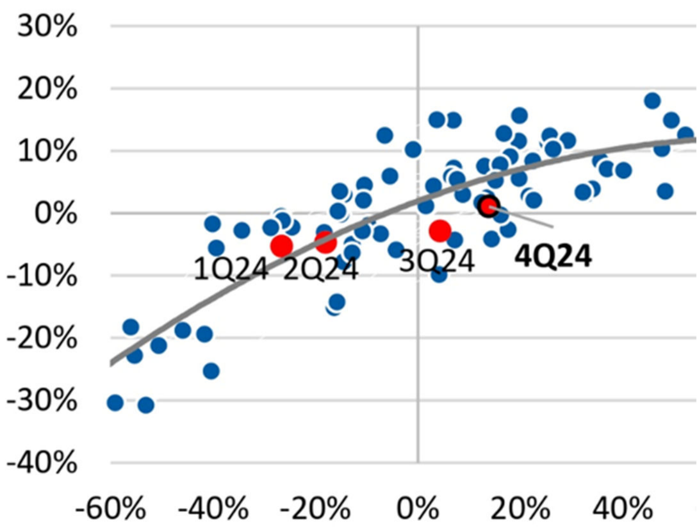
Correlation between property values and activity

Property values are highly correlated with market activity. As transaction volumes (buying and selling of buildings) rise, the heightened competition among buyers drives up property valuations, particularly for prime assets with stable income profiles. In a high-volume environment, comparable sales also provide clearer benchmarks, making valuation more transparent and supportive of higher pricing.

Although still below pre-2022 peaks, Aberdeen reports that aggregate volumes are tracking 15–20% higher year-on-year, a sign of renewed confidence in income-producing real estate across core European markets.

In the UK, transactional activity accelerated despite rising gilt yields, with major deals involving prime office and logistics assets in London, Manchester, and regional hubs.

UK commercial property capital value growth (LHS) vs. UK commercial property transaction volume growth, 12 months

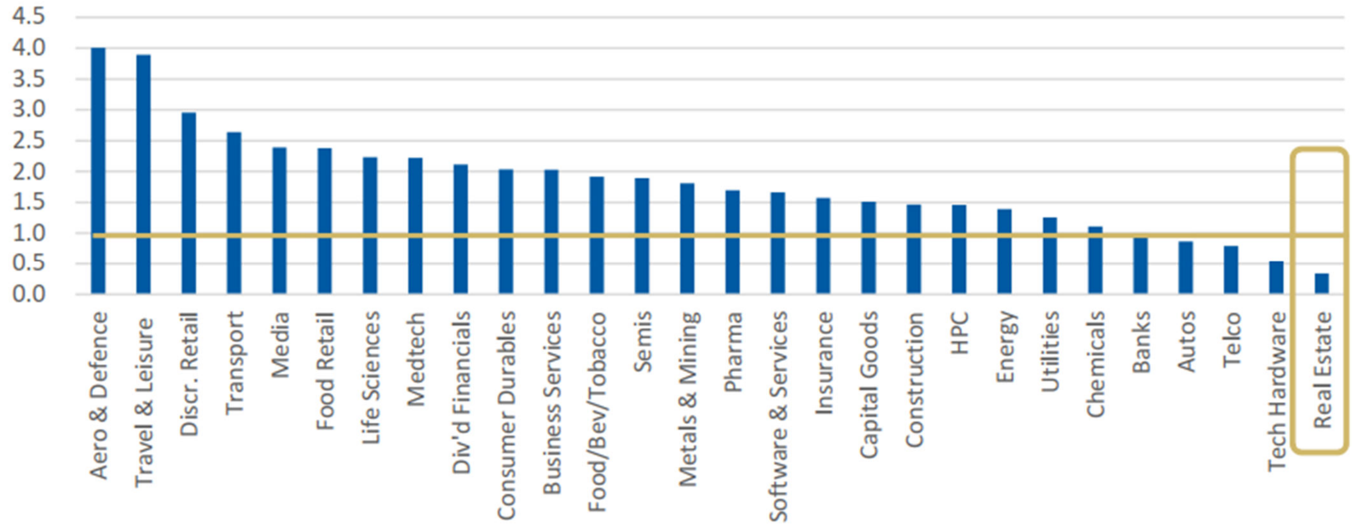


Source: Green Street Advisers

What does this mean for Real Estate Investment Trusts (REITs)?

As bricks & mortar transaction volumes rise, sophisticated investors take note of the disparity between the net asset values (NAV) of the buildings and the discount at which you can gain exposure to them via the listed REIT market. Over the last 12 months, global private equity buyers, US REITs and other sophisticated buyers have targeted listed UK and European REITs to gain access to high-quality assets. Even so, real estate is still the most under-owned sector by global long-only funds, indicating enormous momentum potential as markets catch on to the strong underlying fundamentals of the sector.

Positioning of global long only funds



Source: FactSet, Morgan Stanley Research

Medium term outlook

Commercial property values mostly bottomed out in the second half of 2024. With a stable economy and low inflation, the cost of capital in Europe and the UK is receding. As interest rates evolve from a headwind to a tailwind, REITs are once again able to buy real estate and improve their portfolios in an accretive manner. Sophisticated investors are already targeting discounts in the listed market, driving a resurgence in activity levels in the sector.

This turn in the market sets the stage for exciting opportunities ahead. In an environment where the equity market starts to price in a recovery and direct markets have stabilised, the current NAV discounts of roughly 30% on average across the sector, will continue to narrow. Combine this with healthy free cash flow returns in the region of around 7%, and we have a high total return potential from the listed market.