





Europe Real Estate sector report

AUTUMN 2024

KEY:

- Improving ● Neutral ● Deteriorating
- ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative





Sector conditions and outlook¹

		Current conditions	Outlook
<p>OFFICE</p> 	<p>The outlook and sentiment associated with the office sector remain weak. The sector is likely to lag behind the other property types for the remainder of the year. Pockets of strength in amenity-rich sublocations are the exception. Prime yields, on aggregate, have softened for the ninth consecutive quarter, though by the lowest amount since the correction began in Q2 2022. Hybrid working remains widespread and occupier demand continues to be highly polarised. European vacancy rates up by a further 80bps in Q2 2024, to 14.7%, according to the MSCI Property Index.</p>	●	→
<p>INDUSTRIAL</p> 	<p>Values turned positive after seven consecutive quarters of decline. The pivot suggests the sector might have entered a recovery phase following a peak-to-trough correction of 21%. Overall, momentum is picking up among investors and occupiers. Supply remains relatively tight, though vacancy has crept up marginally. Rental growth has slowed compared to previous years, while occupiers' demand gravitates towards modern, energy-efficient assets with high sustainability credentials.</p>	●	↗
<p>RESIDENTIAL</p> 	<p>Values have turned positive in Q2 2024 (+1%) after seven consecutive negative quarters and a peak-to-trough decline of 14%. The Netherlands was the best-performing market (+2.3%), followed by the UK (+1.5%). The wider apartment sector—multifamily, single-family, built-to-rent, co-living, student and senior housing—overtook offices as the most invested property type in Q2 2024 owing to favourable structural trends, including acute housing affordability pressure. Falling interest rates and energy costs will provide additional support to the sector by lessening the pressure on disposable incomes.</p>	●	↗
<p>HOTEL</p> 	<p>Hotel sector performed quite well amid increasing investors' appetite, a spike in tourism, and increasing business travel demand. Transaction activity reached €5.6bn in Q2 2024, a jump of 90% over the year prior. It was the fourth-highest second quarter by volume since records began in 2007, largely driven by a return of previously deferred portfolio deals. RevPAR increased by 4% in H1 2024 year-on-year, sustained by a rise in room rates and, to a lesser extent, higher occupancy. Spain and Italy were the two best-performing markets.</p>	●	↗

KEY:

- Improving
- Neutral
- Deteriorating
- ↑ Positive
- ↗ Moderately positive
- Neutral
- ↘ Moderately negative
- ↓ Negative

Sector conditons and outlook (continued)

		Current conditions	Outlook
RETAIL 	Capital flow declined by roughly 16% in Q2 2024 compared to the same period last year, down to €7.1bn, the fourth lowest level since 2010. The fall was driven by France and Germany, whose weak performances were widespread across all property types, owing to a precarious political and economic environment that is tempering their recovery. Capital values increased by 0.3% in Q2 2024 after seven consecutive declines. Retail warehouse was the best-performing retail segment (1.4% capital growth).	●	→
DATA CENTRES 	Data centres remains the sector with the brightest performance and outlook owing to structural supply-demand imbalance. Limited availability of land and power hinders the delivery of new capacity, while the migration to cloud computing and AI keep fuelling demand. Thus, pressure on rents intensified, leading to double-digit growth in several geographies. In the core markets (FLAPD), take up for colocation space exceeded new supply. Vacancy rates declined below 10% for the first time since records began.	●	↑
HEALTHCARE 	The sector continues to grapple with ongoing challenges, including a shortage of workers, a lack of funding, and financial pressure. Transaction volume reached €1.6bn in Q2 2024, a decline of approximately 30% over the prior year, and way below the five-year average. The fall was driven by Sweden, France, and Germany, partially offset by Spain, the Netherlands, and Ireland. Capital growth turned positive after eight consecutive quarterly declines. Yields softened by a couple of basis points to 5.52%, while rents improved by 0.9%.	●	→
STUDENT HOUSING 	Student housing investment volume jumped to €2.8bn in Q2 2024, which was the third-highest second quarter since records began in 2007. However, the robust performance was skewed by a sizable portfolio deal worth approximately €1bn. In our view, the UK student housing market commands some caution in the short term until the impact of the new student visa rule is fully understood. Since it came into effect in January, study visa applications have declined by 17% compared to the same period last year. If this trend persists, it has the potential to undermine the financial sustainability of less prestigious universities.	●	→

¹ Outlook refers to the next 12 months
Source: Principal Real Estate, September 2024

Sector rating	New supply ¹	Demand	Rent growth	Capital values	REIT pricing relative to NAV ²
↘	↘	↘	→	↘	↓

KEY: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

¹ New Supply: Red downward signifies new supply is currently high.

² REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Private equity

There are multiple signs indicating that the European real estate market has passed the worst of the downturn and is gradually moving into a recovery phase. Yet, the outlook and sentiment associated with the office sector remains weak. The sector is likely to lag behind the other property types for the remainder of the year. Pockets of strength in amenity-rich sublocations are the exception.

Transaction activity, a proxy for investor's appetite, was limited in H1 2024. In particular, the UK office market registered the worst first half of any year since MSCI records began in 2007—the CBD office segment was down by 71% compared to its long-term average. Similarly, in Germany and France, CBD office capital flow declined by 79% and 54%, respectively, down to the lowest levels since 2009.

Prime yields, on aggregate, have softened for the ninth consecutive quarter, though by the smallest amount since the correction began in Q2 2022. In Paris, La Defence and Western Business District submarkets saw yields increasing by 25bps in Q2 2024, to 6.5% and 5.5%, respectively. Paris CBD yields remained stable at 4.5%. In the UK, Manchester, Birmingham, Edinburgh, and Glasgow all recorded an increase of 25bps, to a range between 6.8% and 7.3%. On the contrary, yields in all London submarkets remained unchanged.

Occupier demand continues to be highly polarised. Best in class, centrally located assets are more resilient and command relatively robust rental growth owing to low availability and competition among employers. Conversely, lower-quality buildings in less desirable

locations continue to leak value and tenants. This segment of the market has contributed to pushing European vacancy rates up by a further 80bps in Q2 2024, to 14.7%, according to the MSCI Property Index.

Companies are still searching for the right balance between productivity and flexibility. A survey by the Office for National Statistics (ONS) revealed that, in the UK, the share of employees working entirely remotely reached 14% in June 2024, compared to 4.7% pre-COVID and 38% during the first lockdowns in June 2020. Currently, a further 26% have a hybrid working arrangement. Amazon is among those companies with no further doubts: starting from January 2025, all its white-collar employees are required to be on-site each day of the week.

Meanwhile, the office debt market remains challenging. Lenders are very selective, cautious, and conservative when assessing new or existing loans. Financing criteria—location, asset quality, ESG factors and financial covenants are narrower and more restrictive than one year ago.

Public equity

The office sector has been one of the weakest property sectors so far in 2024, though there is a wide divergence of returns within the sector. Companies providing flexible office space, as well as Nordic regional office owners have been more resilient. Regional and lower quality portfolios outside the Nordics have been the weakest. Higher quality CBD focused portfolios in main cities have also typically underperformed this year, despite decent operational results. This is because the long-term prospects for office space requirements are still unclear.

Despite employment levels now above pre-COVID levels and at multi-year highs (apart from the notable exception of the UK), working from home remains widespread, at least for part of the week, resulting in daily office occupancy still well below pre-pandemic levels in most markets. Vacancy has been rising across geographies, but a notable and substantial bifurcation appears evident—prime buildings in best location substantially outperform lower quality assets in less desirable areas. In fact, both tenants and landlords increasingly value the benefits associated with flexible, energy efficient, and well-connected office spaces. Those that do not match these requirements face a growing risk of becoming obsolete and stranded.

The listed office sector is trading at a discount to the last reported NAV of approximately 14% and typically owns assets at the better end of the quality spectrum, where tenant demand has been more resilient.

Sector rating	New supply ¹	Demand	Rent growth	Capital values	REIT pricing relative to NAV ²
↗	→	→	↑	↗	↗

KEY: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

¹ New Supply: Red downward signifies new supply is currently high.

² REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Private equity

European industrial capital values increased by 0.4% in Q2 2024. This marks the first gain after seven consecutive quarters of decline. The pivot suggests the sector might have entered a new recovery phase following a peak-to-trough correction of 21%, according to the MSCI Property Index. However, a handful of markets continued to leak value, including Germany, whose economy is still stagnating due to a prolonged contraction in its manufacturing and construction industries. A poster child for the current country's malaise is perhaps Volkswagen, Germany's largest private employer. At the time of the writing, the company was considering its first-ever domestic factory closure and thousands of layoffs.

Conversely, elsewhere in Europe, the prospects for industrial properties are improving as momentum is picking up among investors and occupiers. Indeed, transaction volume reached around €17bn in the first half of 2024, a level in line with the pre-pandemic average, although 50% below the peak recorded in the first half of 2022. Whereas a lack of supply has constrained transaction volume so far this year, liquidity is expected to increase in the second half amid easing monetary policy and narrowing price expectations between buyers and sellers.

Meanwhile, leasing activity increased by 12% in Q2 2024 relative to the year prior and settled above the pre-pandemic level, according to JLL. Occupiers' demand gravitates towards modern, energy-efficient assets with high sustainability credentials. According to Cushman & Wakefield, a real estate services

company, this building type currently commands a pricing premium of up to 24%, and a rental premium between 10% to 30% compared to lower-quality assets—a more detailed analysis of the latest trends shaping the European industrial sector is presented in our [Decisive Eye Spring 2024](#) paper.

Public equity

The performance of industrial property has been disappointing so far this year, underperforming the FTSE EPRA NAREIT Developed Europe Index. Overall, supply remains relatively tight, with fewer speculative developments being delivered despite stabilising construction costs and healthier margins. However, vacancy has crept up marginally. And whereas demand remains healthy, tenants are taking longer to sign leases. As a result, rental growth has slowed to more normal levels compared to previous years. Valuations are stabilising and returning to growth after a period of rapid yield expansion. The investment market remains active.

Within the industrial sector, companies with smaller last-mile logistics assets have underperformed as previously red-hot demand normalises. Conversely, companies with large development pipelines have typically outperformed as construction and financing costs stabilised and investors move back to focusing on the long-term growth potential of their pipelines. Industrial REITs typically trade at premiums to the last reported NAV.

Sector rating	New supply ¹	Demand	Rent growth	Capital values	REIT pricing relative to NAV ²
↗	↑	↗	↑	↗	↘

KEY: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

¹ New Supply: Red downward signifies new supply is currently high

² REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Residential values have turned positive after seven consecutive negative quarters. According to the MSCI Property Index, capital growth increased by 1% in Q2 2024 in Europe, following a peak-to-trough decline of 14%. Analysis shows seven geographies contributed to the increase, two remained flat, and three contracted further.

The Netherlands was the best-performing market, with 2.3% value growth over the previous quarter. As outlined in our *Decisive Eye Autumn 2024* report, the country faces a housing shortage of approximately 400,500 homes, equivalent to 4.9% of the total stock, according to ABF Research, the agency in charge of producing annual population and housing projections on behalf of the Dutch government. Amsterdam, Rotterdam, Utrecht, and The Hague are the cities most affected by this shortfall, with deficits ranging from 23,000 to 45,000 homes.

In the UK, capital values increased by 1.5% in Q2 after a rise of 0.6% in the previous quarter, driven by rental growth. Yields stood firm at 4.6% and are likely to remain close to this level for the remainder of the year, considering that the Bank of England kept base rates unchanged in September and has tempered the prospects of loosening borrowing costs at its next meeting in November.

Meanwhile, institutional investors' interest in the apartment sector—multifamily, single-family, built-to-rent, co-living, student and senior housing—has gained momentum. The sector overtook offices as the most invested property type in Q2 2024, with a rise in transaction activity in the UK, Germany, Sweden, and the Netherlands, according to RCA. This is on the back of favourable structural trends, including acute housing affordability pressure. The rise in

the cost of living and mortgage rates have made homeownership unattainable for many households, who have now been cornered into renting for longer.

Public equity

After a sluggish beginning, the European housing sector has outperformed this year, largely driven by the change in interest rate expectations. The fall in the inflation rate that occurred in past months has allowed central banks to ease their monetary policy guidance, which, in turn, has boosted the price of residential REITs.

Over the longer-term residential rents have been a good inflation hedge. Yet, the backward-looking multi-year periods used to calculate rent indices for regulated housing in markets such as Germany cause a delay before rental growth catches up with or overtakes inflation. This seems likely to happen over the next few years, should inflation remain subdued. Additionally, rental growth is expected to remain robust given strong demand, limited supply of affordable housing in most markets, and positive reversionary potential.

Meanwhile, falling energy costs are expected to provide two additional benefits to the sector. First, in the Nordics where heating costs are included in the rent, lower utility bills will allow landlords' margins to recover. Second, the decline in energy prices will finally lessen the pressure on the real disposable incomes of European households.

The values of residential assets in public companies' portfolios are now typically around 15%-20% from peak and listed companies' management teams are increasingly confident that the markets have

reached a bottom, or are very close to. Thus, the outlook looks more positive. Fears that equity raises will be needed to repair balance sheets have fallen away due to a steady flow of disposals, refinancings, and the re-opening of the corporate bond market for property. Some companies that had previously paused dividend payments to preserve liquidity have now restarted them, and management teams are starting to mention growth again. The sector trades at an average discount of ~18% to last published NAV.

Sector rating	New supply ¹	Demand	Rent growth	Capital values	REIT pricing relative to NAV ²
↗	→	↗	↗	→	↘

KEY: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

¹ New Supply: Red downward signifies new supply is currently high

² REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

The hotel sector performed quite well in the first half of the year. It continued to benefit from positive momentum amid increasing investors' appetite, a spike in tourism, and increasing business travel demand. Thus, transaction activity reached €5.6bn in Q2 2024, a jump of 90% over the year prior. It was the fourth-highest second quarter by volume since records began in 2007, largely driven by a return of previously deferred portfolio deals. Investors' demand was particularly strong for assets located in the UK, Spain, France, and Italy.

Meanwhile, a strong demand for leisure experiences has pushed international tourist arrivals to new highs. Figures show foreign visitors increased by 12% in H1 over the year prior, up to a level that is 6% above the pre-pandemic peak, according to the European Travel Commission. The growth in tourism was driven by Southern European destinations, which remain consistently popular among holidaymakers due to their relatively lower cost of living and warmer climate.

Thanks to the rise in tourist demand, European hotels have recorded a better performance compared to the same period last year. Revenue per available room (RevPAR), a standard indicator for the hospitality industry, increased by 4% in H1 2024 year on year, driven by a rise in room rates and, to a lesser extent, higher occupancy. Although the improvement was geographically broad-based, the best-performing markets were those in Southern Europe, led by Spain and Italy, where RevPAR jumped by 14% and 8%, respectively.

Italy was also the latest country to introduce a digital nomad visa targeting highly skilled freelancers and remote workers. Effective from April 2024, the scheme allows non-European citizens to reside in Italy for up

to 12 months, renewable annually. This follows the example set by other European countries, including Portugal, Greece, and Spain. According to MBO Partners, the digital nomad population reached around 35 million globally in 2024.

Public equity

Hotels are a relatively small listed sector in Europe, with only one index play available while other non-index plays are mostly through asset light operators. The sector has outperformed the broader property index year to date as business and group travel have seen continued improvements post COVID and leisure transient has been more resilient compared to some other regions, boosted by the Paris summer Olympics and Germany hosting the European football championships. Hotels have also benefitted from falling inflation with less pressure on expenses, particularly utilities and staffing cost pressures which have been high over recent years. Concerns over a backlog of maintenance capex from the COVID lockdowns have also proven false so far. Growth this year has been more balanced between pricing and occupancy vs. recent years. The recovery in business and group demand has contributed to this trend.

Hotel NAV estimates are gradually pushing higher again due to occupancy gains and previous dips during the earlier part of COVID. Asset heavy hotel stocks currently trade at approximately 10% discount to consensus NAV reflecting broadly positive operating fundamentals and cap rates pushing lower. Asset light players have generally performed in-line with asset heavy peers year to date in 2024.

Sector rating	New supply ¹	Demand	Rent growth	Capital values	REIT pricing relative to NAV ²
→	↗	→	→	↗	↘

KEY: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

¹ New Supply: Red downward signifies new supply is currently high

² REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Private equity

Retail capital flow declined by roughly 16% in Q2 2024 compared to the same period last year, down to €7bn. Although it marks a marginal improvement over the quarter prior, it remains the fourth lowest level of transaction volume of the last 14 years, according to RCA. The fall was driven by France and Germany, which recorded a drop of 58% and 32%, respectively, over the same period one year ago. The weak performance of these two markets was not limited to the retail sector but spread across all property types, owing to a precarious political and economic environment that is tempering their recovery.

In France, the surprise decision of President Macron to call for an early legislative election led to months of political deadlock. Although a new government has now been formed, its stability appears fragile as it is based on a fragmented and litigious majority. Thus, political uncertainty is likely to continue to undermine investors' confidence. Meanwhile, the French trade association, Alliance du Commerce, revealed clothing stores' sales declined by 0.5% in July and by 0.3% in August over the previous year, against expectations.

In Germany, the unemployment rate remained stable for the third consecutive month at 6% in August. However, a weak economy, increased corporate insolvency, and news regarding companies' layoff plans have raised job security concerns among households. Thus, consumer sentiment, income expectations and the propensity to spend have deteriorated further in September, according to the GfK Consumer Climate index.

Regarding valuations, European retail properties increased by 0.3% in Q2 2024, the first positive reading after seven consecutive declines. Retail warehouse was the best-performing retail segment (1.4%), while Shopping malls and Neighbouring / Convenience centres declined by 0.2% and 0.3% respectively.

Public equity

Retail REITs have outperformed consistently so far this year. Retail property has benefited from its higher starting yield and low investor expectations at the start of the year. Additionally, falling inflation and energy prices, alongside high wage growth, has lessened pressure on households' disposable incomes and consumer confidence in most European markets.

Retail rents recovered rapidly after the stress of the COVID shutdowns as tenants have honoured rent indexation agreements. Rent collections and vacancies have normalised after the extreme stress of COVID-related closures and rent holidays, with rent levels and values now stabilising after steep falls. Footfall has also recovered but typically remains below pre-COVID levels. Conversely, tenant sales are above pre-COVID levels as the average basket size has more than offset the lower footfall.

Retail REITs still trade at large discounts to NAV, at an average of approximately 17% below last published NAVs. Most retail REITs have made significant progress in deleveraging by selling assets and paying down debt and so within the property sector there is now less concern about retail REIT balance sheets given the progress already made. Returning liquidity

has allowed companies to show progress in reducing debt while also providing transactional evidence of values. However, volumes are still subdued. Retail property owners continue repurposing excess space for alternative uses where this makes economic sense. Owners with stronger balance sheet are now investing again, either in their own assets or through making acquisitions.

DATA CENTRES

Sector rating	New supply ¹	Demand	Rent growth	Capital values	REIT pricing relative to NAV ²
↑	↗	↑	↑	↗	N/A

KEY: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

¹ New Supply: Red downward signifies new supply is currently high

² REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Data centres remains the sector with the brightest performance and outlook owing to structural supply-demand imbalance. On the one hand, the limited availability of land and power hinders the delivery of new capacity. On the other hand, the migration to cloud computing and the rise of AI technologies keep fuelling demand. Thus, pressure on rents continued to intensify in the first half of the year, leading to double-digit growth in several geographies.

In the tier one markets—Frankfurt, London, Amsterdam, Paris, and Dublin, commonly referred to as FLAPD—take up for colocation space exceeded new supply in both the first and second quarters of the year, driven by hyperscaler demand. The largest amount of take up was recorded in London (80MW), followed by Frankfurt (39MW) and Amsterdam (30MW). At the same time, the average vacancy rate declined below 10% for the first time since records began, to 9.8% as of Q2 2024. CBRE expects the vacancy rate to continue to follow this trajectory and tighten to 7.6% and 6.2% in 2025 and 2026 respectively.

The ever-increasing demand for data storage and processing, alongside supply bottlenecks in core markets, is pushing investments towards secondary markets. Among these, Madrid, Milan, Warsaw, and Zurich have the most significant supply pipelines as of June 2024. For example, Madrid has an installed capacity of 147MW but is forecast to reach around 400MW by 2026, according to Spain’s Data Centre Association.

Hyperscaler projects are also expanding further afield to new emerging locations with high availability of land and energy. Two of the world’s largest cloud operators have recently announced a cumulative investment of ca. €22bn in Aragon, a region in the northeastern part of Spain. Meanwhile, a prominent private equity group unveiled plans for a multi-billion data centre campus in Northumberland, a county in North East England, whose construction should start next year.



HEALTHCARE

Sector rating	New supply ¹	Demand	Rent growth	Capital values	REIT pricing relative to NAV ²
↘	↗	→	→	→	↘

KEY: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

¹ New Supply: Red downward signifies new supply is currently high

² REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Healthcare transaction volume reached €1.6 billion in Europe in Q2 2024, representing a decline of around 30% over the year prior and way below the sector’s five-year average. The fall was driven by Sweden, France, and Germany, partially offset by higher deal activity in Spain, the Netherlands, and Ireland.

Capital growth turned positive in Q2 2024 for the first time after eight consecutive quarterly declines. Values are now 8% below the peak reached in Q1 2022, according to the MSCI Property Index. Net Initial Yields (NIY) softened by a couple of basis points to 5.52%, while rents improved by 0.9% over the previous quarter.

The sector continues to grapple with ongoing challenges, including a shortage of workers, a lack of funding, and financial pressure. In the UK, for example, nearly half of the care home providers surveyed

by the Homecare Association in April said they could not meet current demand due to recruitment difficulties. In Germany, insolvency cases continue to occur, although at a lower pace compared to the same period last year—33 care homes and 80 care services had to close in the first quarter of 2024, due to financial distress or lack of nursing staff.

In our view, the healthcare sector is likely to face a slower recovery compared to other property types, including industrial, data centres and residential. However, in the longer term, it will benefit from positive structural drivers. As the European population continue to age, the number of dependent elderly individuals is bound to increase significantly. For example, projections show Germany will need an additional 322 thousand inpatient care places by 2040, according to BDO.



STUDENT HOUSING

Sector rating	New supply ¹	Demand	Rent growth	Capital values	REIT pricing relative to NAV ²
→	↗	→	↗	↗	→

KEY: ↑ Positive ↗ Moderately positive → Neutral ↘ Moderately negative ↓ Negative

¹ New Supply: Red downward signifies new supply is currently high

² REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium

Student housing investment volume jumped to €2.8bn in Q2 2024, which was the third-highest second quarter since records began in 2007. However, the robust performance was skewed by a sizable portfolio deal worth around €1bn comprising 26 schemes in England, four in Scotland, and one in Germany, with a total capacity of 17,000 beds.

Traditionally, the UK accounts for the lion's share of the deal activity occurring in the European student housing market—between 50% to 80%, depending on the year. The first half of 2024 has not been an exception. Yet, in our view, the UK student housing market commands some caution in the short term until the impact of the new student visa rule is fully understood.

Effective from January 2024, the new student visa rule prevents most international students from bringing dependants with them to the UK. As a result, study visa applications have declined by 17% over the first eight months of 2024 compared to the same period last year. If this trend persists, it has the potential

to undermine the financial sustainability of some institutions, particularly less prestigious ones. In fact, domestic student tuition fees were frozen in 2012 and have barely moved since. Universities rely heavily on the more lucrative international student segment to break-even.

Meanwhile, the Office for Students, the regulatory body for universities in England, has reported that 40% of higher education institutions are expected to operate at a deficit this year.

These are the current views and opinions of Principal Real Estate and are not intended to be, nor should they be relied upon in any way as a forecast or guarantee of future events regarding particular investments or the markets in general.

Risk considerations

Investing involves risk, including possible loss of Principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed. Potential investors should be aware of the risks inherent to owning and investing in real estate, including value fluctuations, capital market pricing volatility, liquidity risks, leverage, credit risk, occupancy risk and legal risk. All these risks can lead to a decline in the value of the real estate, a decline in the income produced by the real estate and declines in the value or total loss in value of securities derived from investments in real estate.

Important Information

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. The opinions and predictions expressed are subject to change without prior notice. The information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account.

Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided. All figures shown in this document are in U.S. dollars unless otherwise noted.

This material may contain 'forward looking' information that is not purely historical in nature. Such information may include, among other things, projections, and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This document is issued in:

- The United States by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.
- Europe by Principal Global Investors (Ireland) Limited, 70 Sir John Rogerson's Quay, Dublin 2, D02 R296, Ireland. Principal Global Investors (Ireland) Limited is regulated by the Central Bank of Ireland. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (Ireland) Limited ("PGII") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients

do contract with PGIE or PGII, PGIE or PGII may delegate management authority to affiliates that are not authorised and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority, or the Central Bank of Ireland. In Europe, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID).

- United Kingdom by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorized and regulated by the Financial Conduct Authority ("FCA").
- United Arab Emirates by Principal Investor Management (DIFC) Limited, an entity registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as an Authorized Firm. This document is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organization.
- Singapore by Principal Global Investors (Singapore) Limited (ACRA Reg. No. 199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act 2001. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.
- Australia by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS Licence No. 225385), which is regulated by the Australian Securities and Investments Commission and is only directed at wholesale clients as defined under Corporations Act 2001.
- This document is marketing material and is issued in Switzerland by Principal Global Investors (Switzerland) GmbH.
- Hong Kong SAR (China) by Principal Asset Management Company (Asia) Limited, which is regulated by the Securities and Futures Commission. This document has not been reviewed by the Securities and Futures Commission.
- Other APAC Countries/Jurisdictions, this material is issued for institutional investors only (or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

Principal Global Investors, LLC (PGI) is registered with the U.S. Commodity Futures Trading Commission (CFTC) as a commodity trading advisor (CTA), a commodity pool operator (CPO) and is a member of the National Futures Association (NFA). PGI advises qualified eligible persons (QEPs) under CFTC Regulation 4.7.

Principal Funds are distributed by Principal Funds Distributor, Inc.

© 2024 Principal Financial Services, Inc. Principal®, Principal Financial Group®, Principal Asset Management, and Principal and the logomark design are registered trademarks and service marks of Principal Financial Services, Inc., a Principal Financial Group company, in various countries around the world and may be used only with the permission of Principal Financial Services, Inc. Principal Asset ManagementSM is a trade name of Principal Global Investors, LLC. Principal Real Estate is a trade name of Principal Real Estate Investors, LLC, an affiliate of Principal Global Investors.

MM12006-05 | 09/2024 | 3898014-092025