

REVIEW

# RESIDENTIAL MARKET

EUROPE MAY 2025

RESEARCH & INSIGHTS



**BNP PARIBAS  
REAL ESTATE**

Real Estate for a changing world



Fewer but larger transactions characterized Q1 2025 resulting in an overall increase in residential investment volume

### KEY FIGURES

€8.9bn

▲

+31% y/y

TOTAL VOLUME INVESTED IN Q1 2025

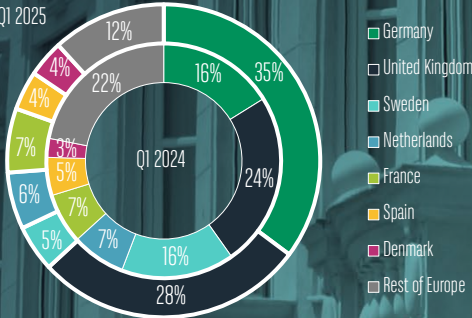
20%

↗

+4p.p y/y

SHARE OF RESIDENTIAL IN TOTAL REAL ESTATE INVESTMENT VOLUME IN Q1 2025

Share of each country in the residential investment volume



INVESTMENT VOLUME

The residential investment volume in Europe showed positive signs in Q1 2025, with the highest Q1 investment volume reaching €8.9bn since Q1 2022.

There were fewer but bigger deals in residential that pushed up the sector's share of volume to 20% of total real estate investment on a rolling year.

Government bond yield rose by 37 bps while residential city yields remained stable compared to the previous quarter. Consequently, the spread decreased in Q1 2025, it now ranges from 20 bps in Warsaw to 190 bps in Lisbon, Dublin and Copenhagen.

The relative stability of the residential sector continues to fuel allocations. Investors expect strong rental growth in the sector as the imbalance between demand and supply persists in large urban cities.

However, the sector faces two headwinds. The first is a rental market regulation that is not consistent across Europe. Some countries are far more aggressive in this area than others and can deter investment deployment. For example, in tense areas in France (Paris, Bordeaux, Lyon etc.), rents shall not exceed a reference rent, otherwise sanctions will apply. From 2025, Spain will also introduce a rent reference index to control rent increases. The second one is a lack of portfolios that enable investors to buy at scale.

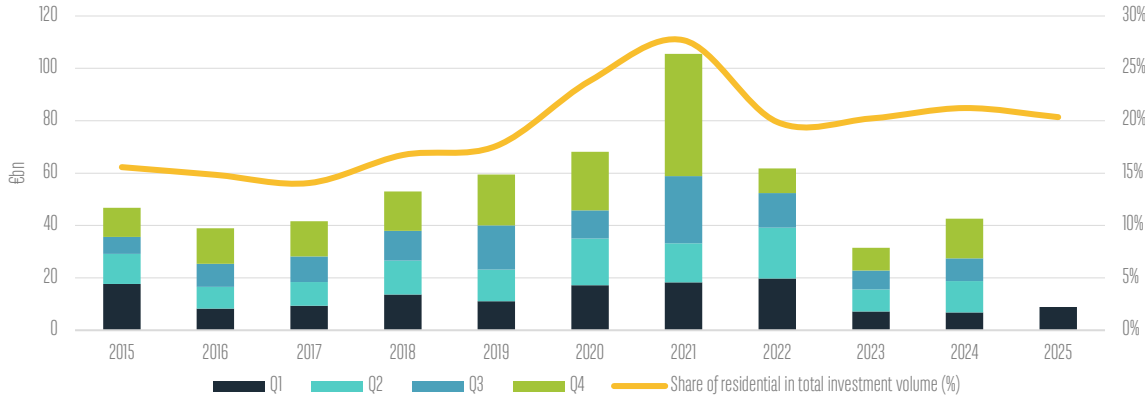
Hence, in Q1 2025, only 1/3 of transactions were portfolios. Transactions above €100M account for 37% of the total volume and 14 deals out of the 189 closed. Greater activity occurred in the €50-€100M segment where 27 transactions occurred, 8 deals more than Q1 2024.

Deals below €50M is where most activity occurred at 41% of volume and 148 transactions, 10 fewer than Q1 last year.

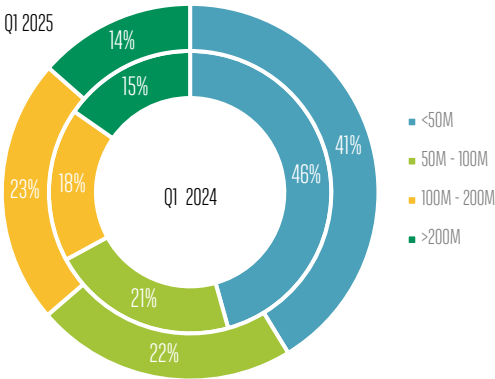
In Q1 2025, Private Investors emerged as the most engaged buyers (43%) in the market, driven by ample liquidity and a strong appetite for seizing new opportunities. They were followed by Investment Managers (28%) who are increasingly focused on diversifying their portfolios.

German (35%) and British (28%) buyers were the most active investors in the residential sector and strengthened their positions compared to Q1 2024. French (7%), Dutch(6%), Swedish (5%), and Spanish and Danish (4%) deployed smaller amounts of capital.

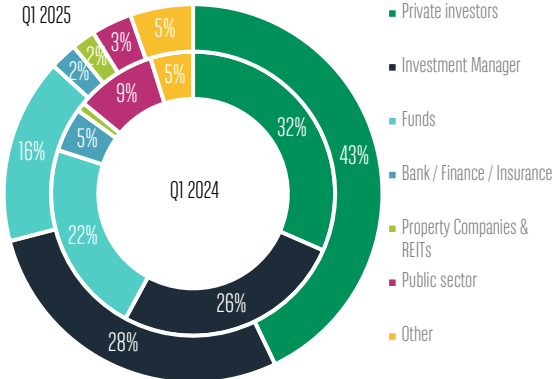
### European Residential investment volume



### Breakdown by volume



### Buyer typology





RESIDENTIAL PRICES

Residential prices across European cities are expanding on average at +5.3% in Q4 2024 vs Q4 2023.

Four cities experienced double digit growth including Madrid (+16% y/y), Warsaw (+15% y/y) and Barcelona (+10% y/y). This is due to the high residential demand from local and foreign investors, especially for second and luxury residences in Spain and the profitability of the rental market in Warsaw with construction costs that are driving up Polish residential prices.

House prices reached historic highs in 9 cities including Barcelona, Copenhagen, Dublin, Lisbon, Madrid, Milan, and Warsaw in Q4 2024. In contrast, house prices continued to fall in Lyon (-6% y/y), Paris (-3% y/y) and London (-1% y/y).

In most European cities, mortgage rates have fallen because of monetary easing: Euro area mortgage rate stands at 3.32% in Q1 2025. However, household housing purchasing power (HPP) is expected to remain weak across cities. An improvement is not necessarily expected due to rising property prices. The pathway for HPP will depend on whether lower interest rates or higher prices dominate market activity.

Mortgage rates

Q1 2025 rates (%) and q/q variations(bps) compared to Q4 2024

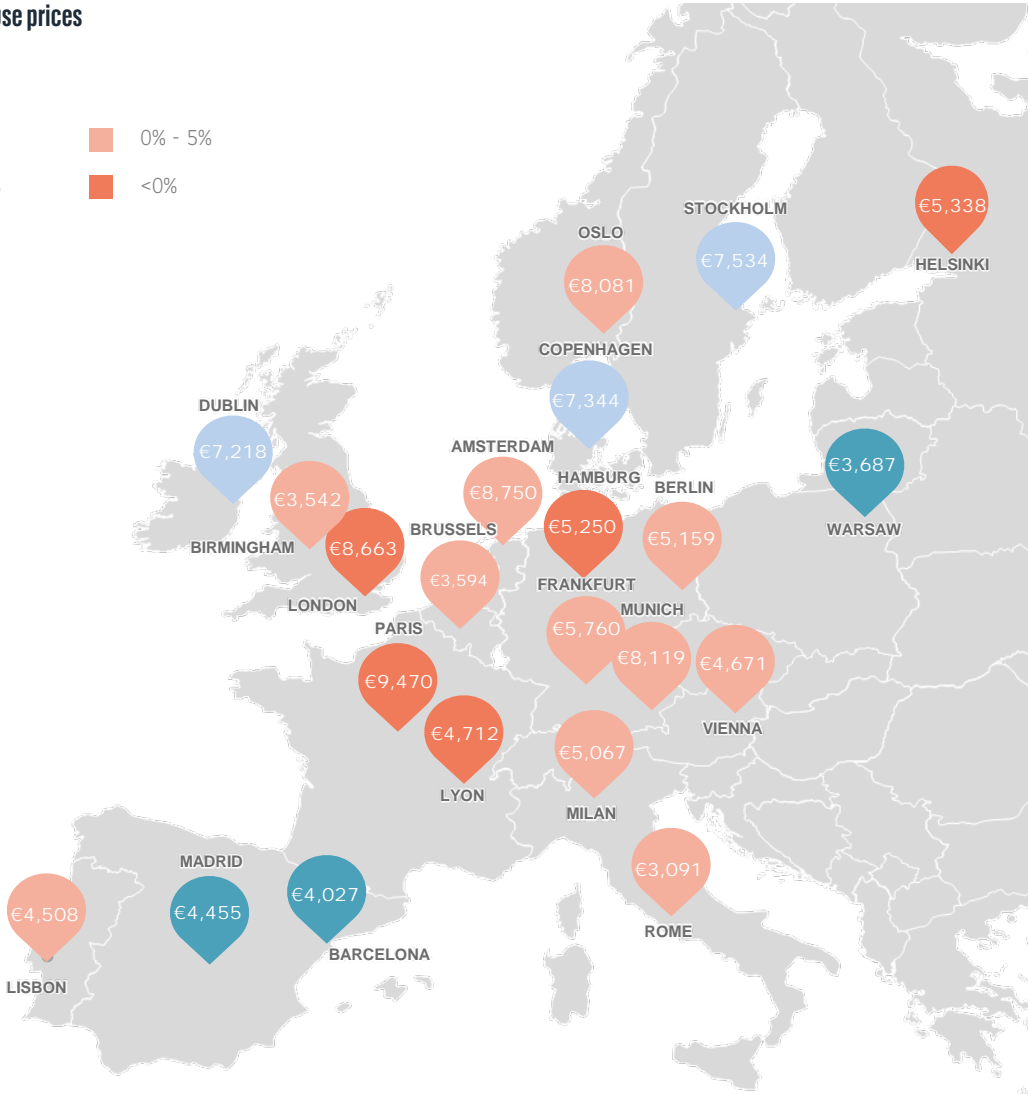
Countries	Rates		Countries	Rates		Countries	Rates	
Austria	3.46	↘ -24bps q/q	Germany	3.61	↗ +4bps q/q	Poland	8.36	→ +0bps q/q
Belgium	3.08	↘ -7bps q/q	Ireland	3.68	→ +0bps q/q	Portugal	3.14	↘ -18bps q/q
Denmark	4.79	↗ +11bps q/q	Italy	3.21	↘ -10bps q/q	Spain	2.82	↘ -11bps q/q
Finland	3.09	↘ -12bps q/q	Netherlands	3.49	↘ -21bps q/q	Sweden	3.24	↗ +47bps q/q
France	3.05	↘ -9bps q/q	Norway	5.23	↗ +26bps q/q	United Kingdom	6.50	↘ -25bps q/q

Residential house prices  
€/sqm - Q4 2024

- >10%

5% - 10%
- 0% - 5%

<0%



Source: BNP Paribas Real Estate, ECO, National Banks

# KEY FIGURES

## EUROPEAN RENTS HIT NEW RECORD HIGHS

IN 18 CITIES

+4.2% vs. Q4 2023  
IN Q4 2024 - EUROPE

+17% vs. Q4 2023  
ROME RENT GROWTH IN Q4 2024

Demand in the letting market continues to rise despite high rental values. The factors supporting this dynamic include lower purchase affordability, supply shortages created in part by rent regulations, greater profitability of the short-term tourism rental market and a lack of new housing construction.



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## RENTS

Despite the central bank rate cutting cycle, household housing purchasing power remains lower in most European cities than three years ago. As a result, **rental demand is increasing and leading to rent growth reaching 4.2% y/y in Q4 2024.**

**Double-digit rental growth occurred in 5 of the 31 markets:** Rome (+17% y/y), Madrid (+15% y/y), Barcelona (+14% y/y), Oslo\*\* and London (+11% y/y).

Though rising at a slower pace **rents continue to reach new records** in Vienna (+4% y/y), Copenhagen and Milan (+2% y/y).

In contrast, rents fell in a few markets, including Amsterdam (-4% y/y), Birmingham (-3% y/y) and Lisbon (-2% y/y).



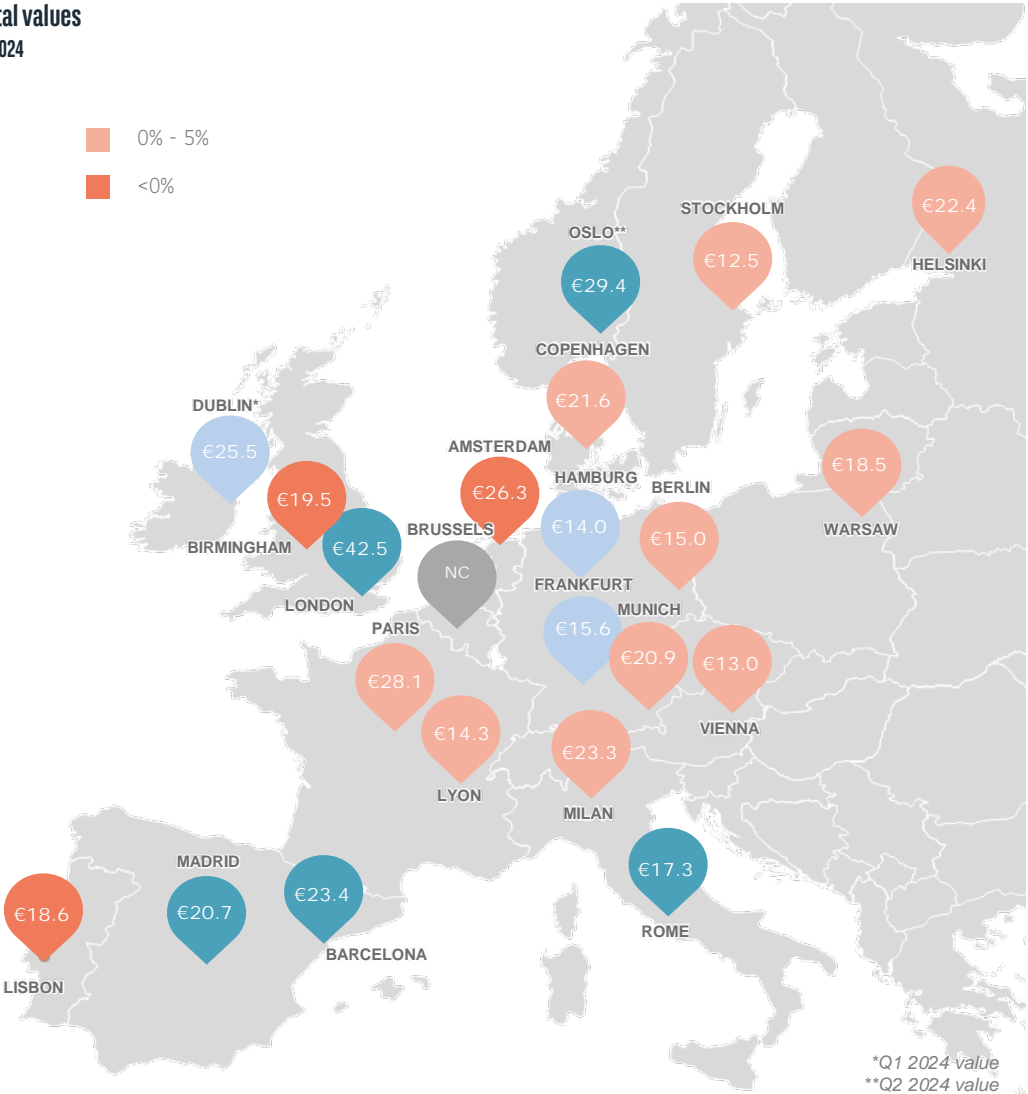
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## Residential rental values €/sqm/month - Q4 2024

- >10%

0% - 5%
- 5% - 10%

<0%



\*Q1 2024 value  
\*\*Q2 2024 value

Source: BNP Paribas Real Estate



KEY FIGURES

2M HOUSING PERMITS

IN 2024 - EUROPE

-11% compared to the long-term average

IN 19 EUROPEAN CITIES

RENTAL DEMAND IS EXPECTED TO INCREASE

Financing conditions

With inflation stabilized, central banks have initiated a new cycle of monetary easing. Despite this, house prices and renovation costs continue to weigh heavily, discouraging purchases for investment or occupation. Nevertheless, easing financial conditions create opportunities, especially for larger players to take advantage of housing needs.

Lack of supply persists

The total number of European housing permits was 2M in 2024, an 11% decrease compared to the long-term average. This decline is partly due to the higher cost of construction combined with a loss of confidence in sales from developers. The complexity of obtaining building permits from the municipality and weaker economic sentiment are factors aggravating the lack of new construction.

Rental demand expected to remain high

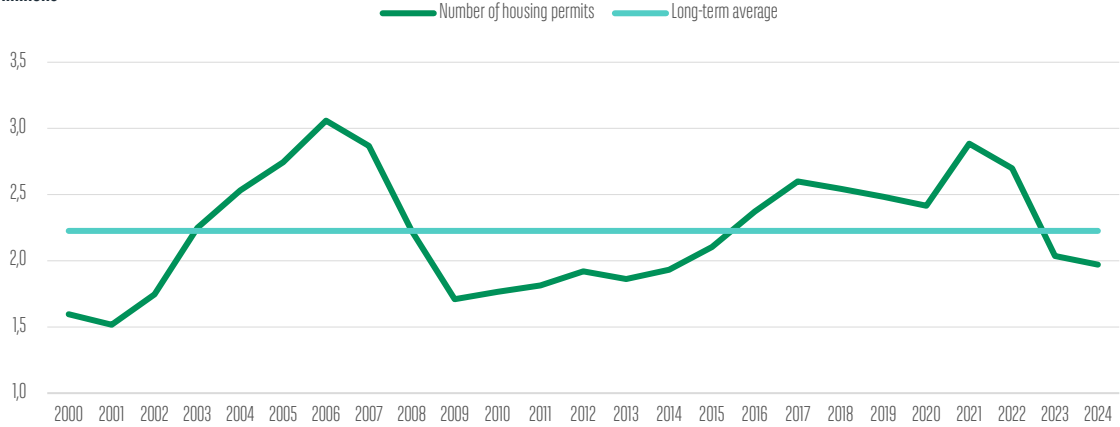
The buy vs rent ratio measures the relationship between the monthly mortgage repayment and the monthly rental value of the same purchasable area. The ratio was higher than 1 in 19 European cities in Q4 2024, suggesting buying is more expensive than renting. Consequently, rental demand is expected to grow in these places, especially in Stockholm, Copenhagen, Prague, and the German and French cities.

Rental market regulations

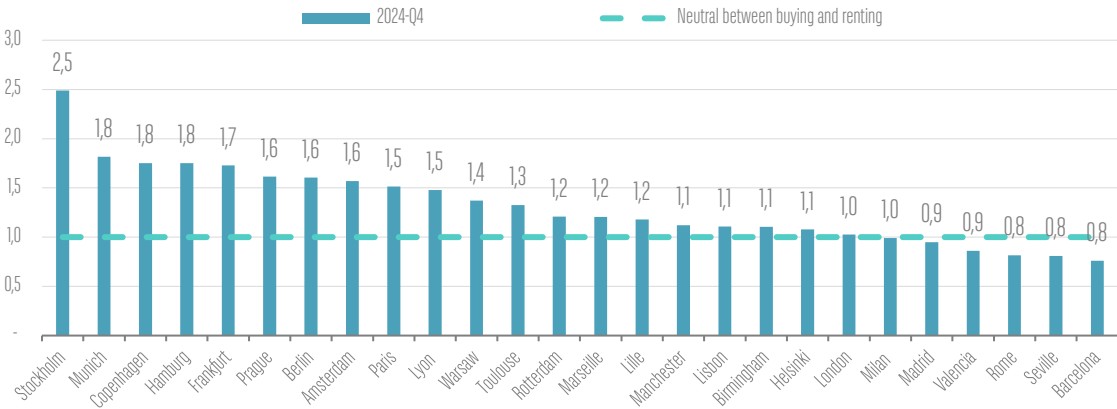
The strength of rental market regulations varies across European cities. Measures such as rental uplift limits were introduced to aid tenants feature in Vienna, Barcelona, Berlin and Paris. In contrast, cities in the UK and Finland have fewer rental controls. Local measures often favour owners.

MARKET FUNDAMENTALS

Housing permits in Europe in millions



Buy vs rent ratio



BNP Paribas Real Estate is working on producing indicators which are as comparable as possible. This is a complex issue, due to cultural differences from market to market. Nevertheless, as we aim to actively contribute to the transparency of the markets, we have highlighted those definitions and indicators which are strictly comparable, so that our readers can understand what the indicators mean.

Exchange Rates into € are the average value observed over the quarter.

### INVESTMENT

**Investment volume** takes into account all residential transactions registered by BNP Paribas. Quoted investment volumes are not definitive and are consequently subject to change.

Full-year investment volumes are made up by adding the four quarters of each year.

**Investment volume by investor/seller type** refers to the following categories: Bank / Finance / Insurance, Private Investors, Public Sector, Property Companies & REITS, Investment Manager, Funds and Other.

**Investment volume by investor/seller nationality** refers to the following categories: Eurozone, Non-Eurozone, North America, Other America, Asia, Middle East, Australia, International and Other.

### LETTINGS & SALES

**Mortgage rates** refer to the composite cost-of-borrowing indicator for households for house purchase and are expressed in quarterly averages (ECB's definition), in %.

**Inflation** (HCPi) is a broad increase in the prices of goods and services that are bought for consumption purposes (ECB's definition). The European Central Bank's (ECB) inflation target is 2%.

**House prices** refer to the average or median or hedonic price per square meter of all dwelling types (apartments, detached, semi-detached...) of a municipality.

**Rental values** are the average or median or hedonic rent per square meter per month of all dwelling types (apartments, detached, semi-detached...) of a municipality.

**Supply shortage** refers to the case when demand for dwelling is higher to disposable supply.

**Yield** refers to the ratio of rental return over the house price. To determine the **net yield**, additional housing expenses (insurance, rates, taxes and all other general building expenses) should be deducted.

- Yield compression refers to reduction in the nominal yield value. This can be due to a rise in dwelling's market value, or a fall in rental return, or even due to an increase in additional housing expenses, etc.
- Yield decompression refers to an increase in the nominal yield value, this can be due to an increase in rental return, or a decrease in the dwelling's market value or even due to a fall in additional housing expenses, etc.

**Housing purchasing power** is a more complete indicator that considers several effects such as the change in mortgage rates, household income and house prices. It enables the computation of the volume of square meters a household can purchase earning a local median income, borrowing money over 20 years at the local mortgage rate, for a local average price per square meter.

**Rental affordability** or rental burden represents the share of housing expenditure for a 60 sqm dwelling in the household disposable income

**Buy or rent ratio** shows the relationship between the monthly mortgage repayment and the monthly rental value of the same purchasable area. If the result is:

- < 1: buying can be more preferably to renting, rent is higher than monthly mortgage repayment.
- = 1: to buy or to rent can be indifferent for household due to same monetary value to pay by buying or by renting.
- > 1: renting can be preferably to buying, monthly mortgage repayment is higher to monthly rent for the same purchasable area.

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MAY 2025

RESIDENTIAL MARKET  
EUROPE



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