

Sizing and seizing the opportunity in global rented residential real estate

Traditional real estate portfolios are undergoing significant change as structural forces reshape the built environment. The rented housing sector is at the forefront. What opportunities, challenges and diversification benefits arise, especially when looking beyond Europe? Financial Investigator spoke to Michael Neal from Savills Investment Management.

By our editorial team

How big is the opportunity set in the rented housing sector?

‘Structural housing shortages, demographic shifts, urbanization, and the rising unaffordability of home ownership are converging to create a powerful investment thesis in the rented housing segment. The size and maturity of institutionally owned rented housing markets vary across the world, but a common theme is the fragmented nature of ownership. The runway for institutional rented housing is

expansive and the broader opportunity lies in delivering professionally managed housing across income bands.

In the US – arguably one of the most mature rented residential real estate markets in terms of institutional investment – Savills estimates that 41% of all private rental homes are institutionally owned, and a similar level is also seen in Germany.¹ That said, while the German institutional owned rental market is relatively mature, Europe’s markets are fragmented with lower institutional ownership levels in Spain and France for instance.

In the UK, Savills records 90,000 and 10,000 institutionally owned multifamily and single family rental (SFR) households respectively, out of a total 5.8 million private rental home market. These combined 90,000 properties represent less than 2% of the private rental sector (PRS).¹

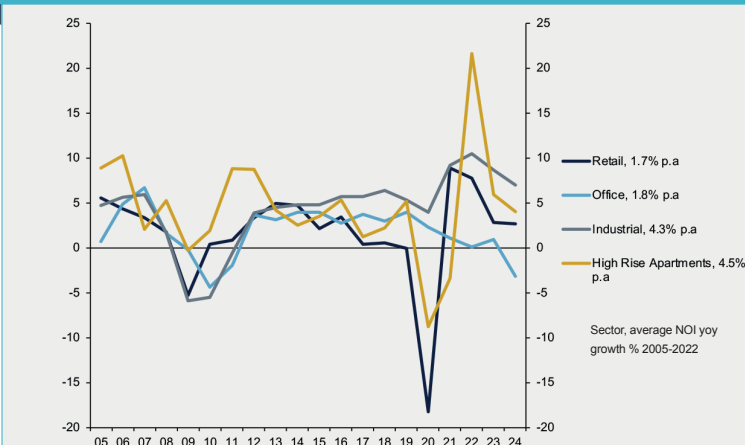
Not only is there generally low institutional penetration into a sector so fundamental, but regional and national house building targets around the world showcase the forthcoming opportunity in the sector. JLL estimates that an extra 3.6 million private rented homes are needed over the next decade to meet the demand expected across Europe.²

What trends are currently driving its attractiveness?

Several key trends are currently driving the attractiveness of the rented housing sector:

- **Supply/demand:** Housing supply in major markets across Europe and the US is not keeping up with demand, supporting rental and capital value growth across the sector. While Asia-Pacific is significantly more nuanced, markets including Australia are also seeing demand outstrip supply.
- **Quality of stock:** In 2025, the European Commission estimated that 75% of buildings and housing across Europe needs energy efficiency upgrades.³ Following a period of high living costs, renters are seeing value in energy efficient homes.
- **Renter pool:** Increasing numbers of people are renting for longer amid affordability concerns and demand for flexible housing. As people rent later into life, the pool of available renters is also becoming more affluent. Savills projects an additional 1 million PRS households in the UK alone by 2031.⁴
- **Defensive income:** The living sector has performed well in times of economic

FIGURE 1: US COMMERCIAL & MULTIFAMILY REAL ESTATE NET OPERATING INCOME GROWTH, 2005-2024



Source: MSCI US Annual Property Index

challenge. MSCI's US Annual Property Index shows that in the five years from the start of 2008, the multifamily sector witnessed nearly 5% per annum higher average net operating income (NOI) growth than other commercial sectors.'

Where do you think investors are in their portfolio allocation journeys?

'In highly mature markets such as the US, multifamily has long been a core allocation. Institutional rental housing routinely accounts for around one-third of annual real estate investment activity and often forms the largest sectoral exposure within many institutional portfolios. By contrast, in Europe and Asia Pacific, investors are still in the process of building up exposure.

While we did witness a drop-off in market activity during the high interest rate environment, we are now seeing clear signs of a new cycle and renewed investor appetite for the asset class. Savills' latest survey showed that over half of respondents are expecting to increase their asset allocation to Europe and Middle Eastern real estate in 2025, up from 35% in 2024.⁵ Specifically within the living sector, residential is undoubtedly a sector of choice for investors. In INREV's 2025 Investor Intentions survey, residential was the most sought after sector in Europe, in favour with 89% of investor respondents.⁶

How are rented residential assets positioned within broader real estate and private markets portfolios?

'PRS assets can provide institutional portfolios with a strong income-based return profile. Amid supply concerns, rental growth is highly likely to be ahead of inflation for the foreseeable future, renters are renting for longer which can reduce net operating income leakage, a wealthier pool of renters can lead to premium rental levels in certain areas, and investors also have the opportunity to take on development risk when investing in PRS, allowing for more of a value add return profile to be targeted.'

Using Japan as a case study outside Europe, how can investors learn and benefit from global diversification in housing strategies?

'Japan is one of the world's most mature and scalable institutional rental housing markets, with Greater Tokyo alone representing the largest multifamily market globally. Japan shares some structural traits with European

markets, such as an aging and shrinking population, and the investment story is defined by city-level dynamics. For instance, Tokyo, Osaka, and Fukuoka continue to attract young working residents, sustaining a deep tenant pool. At the same time, household sizes are falling, driving demand for smaller, efficient units. In our open-ended Japanese multifamily strategy, demand has clearly intensified for high-quality assets, rental growth is running above trend, and we are seeing consistent positive rent reversion. Stabilized occupancy across the portfolio remains well above 90%, underscoring the depth and resilience of the tenant base.

Compared to Europe, Japan's rent-to-income ratio is generally lower, typically under 25% of household income, offering more headroom for rental growth. There are no formal rent controls, although lease norms do protect tenants.

Interest rate trends are now diverging. In Europe, central banks are starting to cut rates after a steep hiking cycle. Japan, by contrast, is edging out of its ultra-low-rate environment for the first time in decades. This makes asset selection and disciplined underwriting crucial.'

Can you elaborate briefly on the risk-adjusted returns and the risks when scaling up exposure to global rented residential real estate?

'Rental housing has consistently delivered strong risk-adjusted returns with lower volatility compared to other real estate sectors. Its income is underpinned by essential, non-discretionary demand, making it more stable through economic cycles. Multifamily assets tend to be countercyclical and consistently exhibit higher Sharpe ratios. Portfolios with meaningful allocations to residential often outperform on a risk-adjusted basis.

However, scaling exposure globally comes with some risks though not insurmountable. Regulatory shifts, such as rent controls or tighter tenant protections, can cap income growth, and deter institutional investment. That said, well-calibrated rent regulation can reduce volatility in tenant turnover, support income visibility, and foster long-term occupancy.' ■

1 https://www.savills.co.uk/research_articles/229130/363755-0
2 <https://www.jll.com/en-uk/newsroom/europe-needs-3-6-million-private-rental-homes-over-next-decade>
3 <https://www.eib.org/en/essays/energy-efficiency-housing-artificial-intelligence-climate>
4 https://www.savills.co.uk/research_articles/229130/356373-0
5 <https://www.savills.co.uk/insight-and-opinion/savills-news/372428/majority-of-investors-looking-to-increase-asset-allocation-to-eme-real-estate-in-2025-with-spain--the-uk-and-france-top>
6 <https://www.inrev.org/news/inrev-news/investment-intentions-survey-2025>



Michael Neal

Global Chief Investment Officer,
Savills Investment Management

SUMMARY

Structural housing shortages, demographic shifts, urbanization, and the rising unaffordability of home ownership are converging to create a powerful investment thesis in the rented housing segment.

Rental housing has consistently delivered strong risk-adjusted returns with lower volatility compared to other real estate sectors.

Generally low institutional penetration into the sector and house building targets around the world showcase the potential for growth.

Japan is one of the world's most mature and scalable institutional rental housing markets, providing opportunity outside of the US and Europe.