



Investment Dynamics in the Living Sector

October 2025

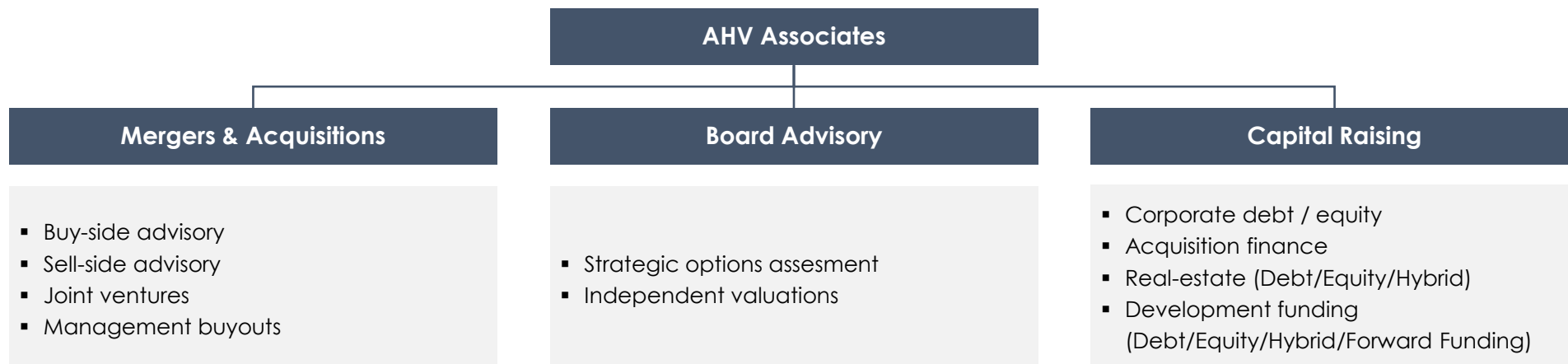
Business Breakfast 2025

ANDREW HARRINGTON

Managing Partner & Co-Founder of AHV Associates

AHV ASSOCIATES – AN INTRODUCTION

Co-founded in 2001 by Andrew Harrington, AHV Associates LLP ('AHV') is an award-winning boutique investment bank focussed on advising private companies across a range of M&A and advisory assignments



AHV specialises in hospitality and has worked with companies that own and/or operate hotels, apart-hotels, serviced apartments, hostels and mixed-use resorts



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1. The Changing Shape of the Capital Markets & Implications of the Living Sector

OPERATIONAL LIVING: AN EXPANDING INSTITUTIONAL ASSET CLASS

Active Management of Properties is Driving Returns in 2025...



Performance of the Underlying Operator

Actively Managed

Operational real estate offers customised services and amenities to tenants

Revenue Beyond Fixed Leases

Owners can capitalise on additional levers for value creation beyond traditional rent collection

Strength in Brand / Management Platform

Operating a strong brand can build intangible value – tenants will pay a premium for well run operations



Investment Drivers

Income is Dynamic

Income is directly tied to daily, weekly or monthly demand compared to secured long term leases

Role of Management

Management goes beyond asset maintenance – operators are involved in the day-to-day activities, marketing, staffing, pricing, and service delivery

Emphasis on Value Creation

Brand loyalty and ESG factors sharpen valuation yields



Sub Sectors

(Apart)Hotels & Serviced Apartments



Single-Family Housing (SFH)



Purpose-Built-Student-Accommodation (PBSA)



Senior-Living



Co-Living



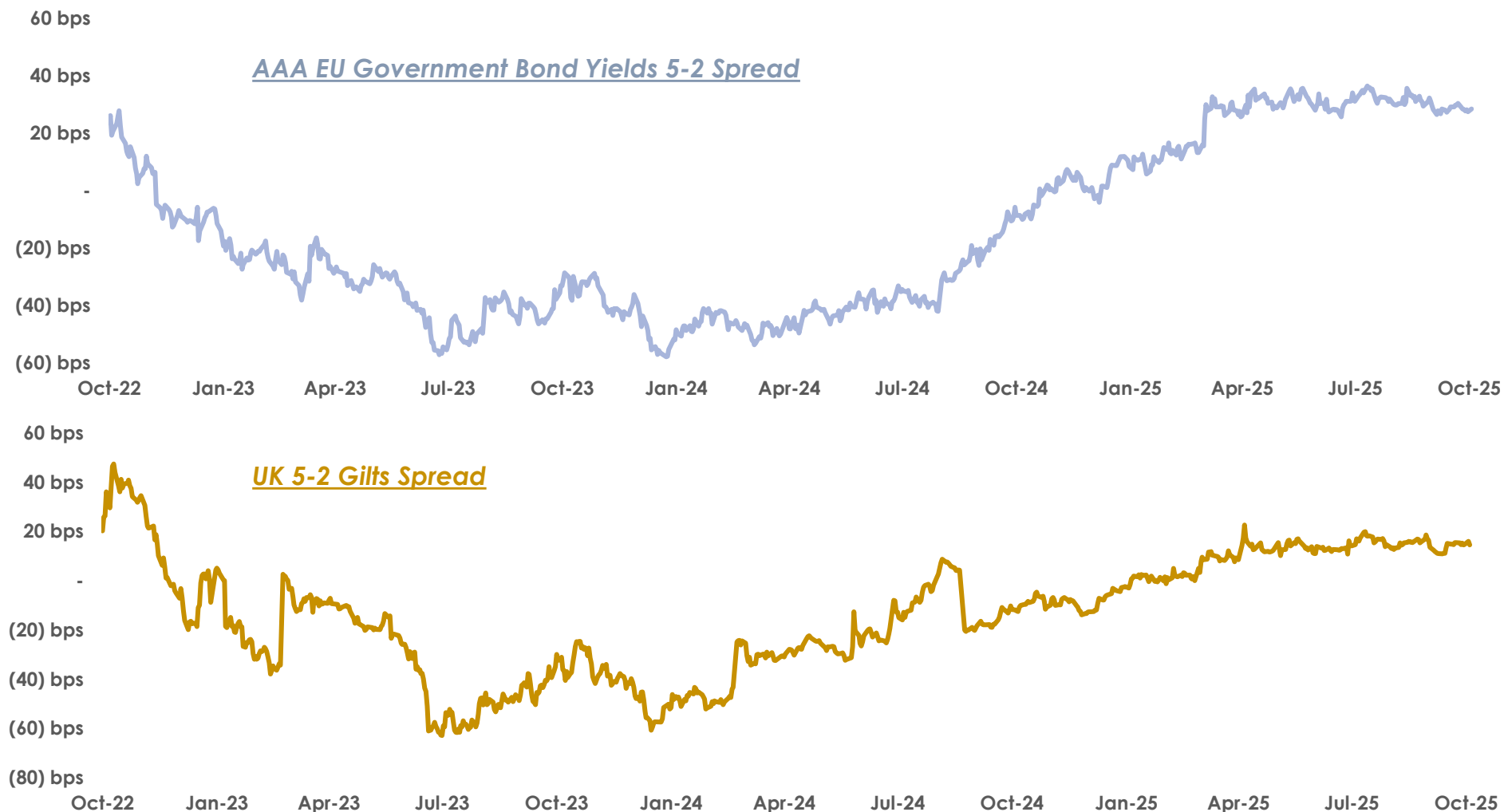
KEY INVESTOR TRENDS IN THE OPERATIONAL LIVING SECTOR



1. Cushman and Wakefield
2. CBRE UK

5-2 SPREAD IS SEEING A NORMALISATION OF GOVERNMENT BOND RATES

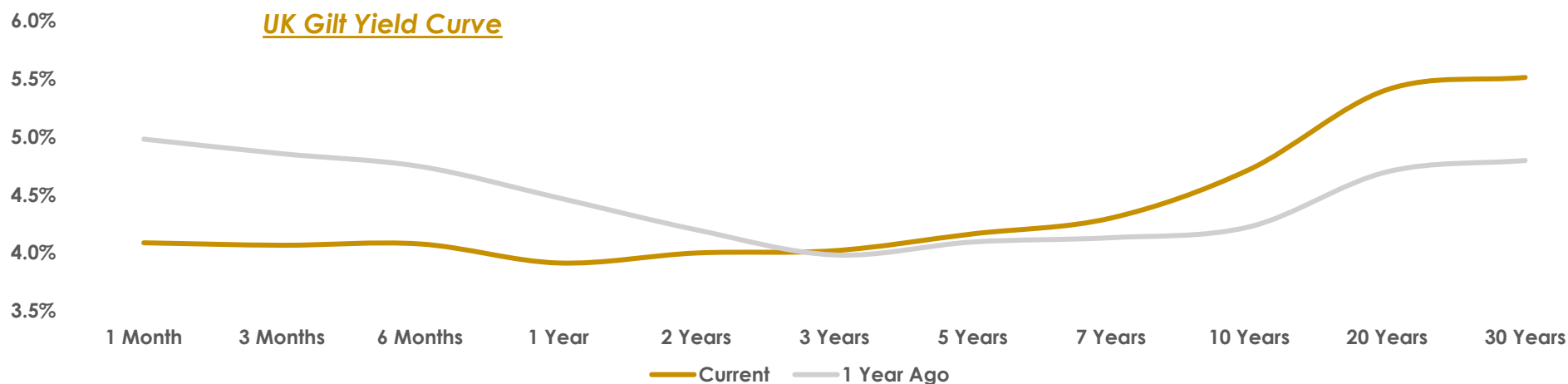
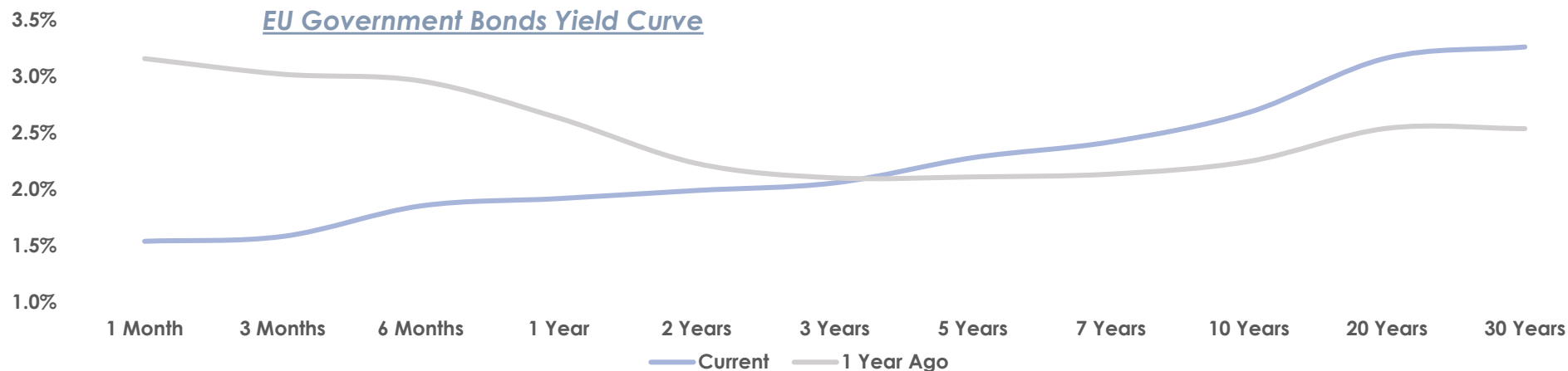
European 5-2 Spread is Currently 28 bps – Lower than Historical Long-term Averages of 37 bps



Sources: European Central Bank, Investing.com

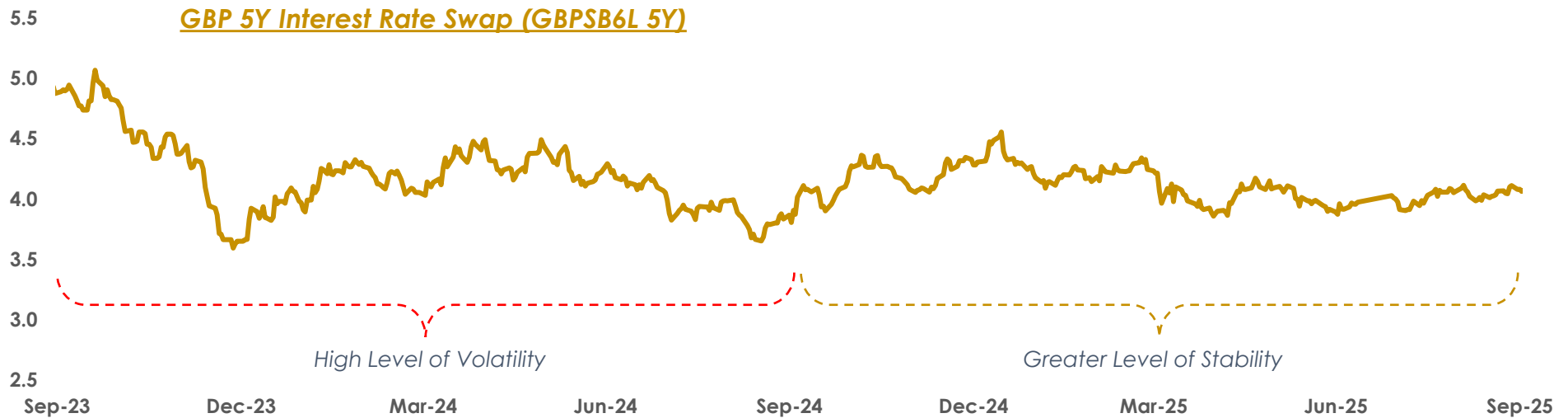
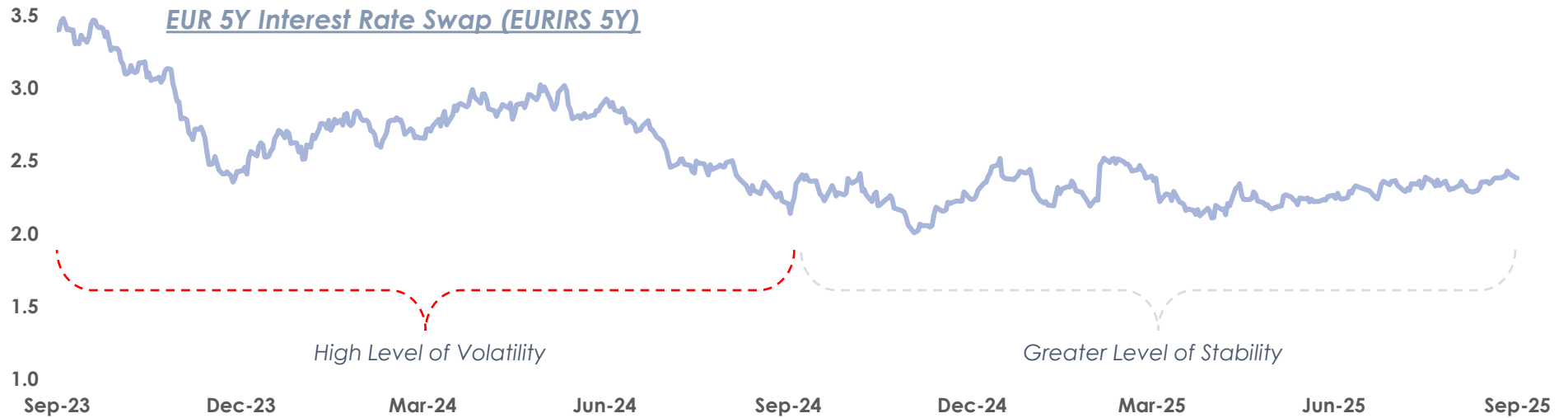
EU AND UK YIELD CURVES HAVE CHANGED IN THE PAST YEAR

Short-term Rates are Significantly Lower than 1 Year Ago, While Long-term Rates are Higher due to Political Risks and Rising Government Indebtedness during a Period of Slow Economic Growth



Sources: TradingView

EU AND UK INTEREST RATE SWAP CURVES ARE SHOWING STABILITY



Sources: Investing.com

KEY TAKEAWAYS

1. Improved Pricing Certainty & Exit Prospects



- ✓ A **narrower 5-2 spread** indicates **lower expected** future interest rate **volatility**, suggesting a more stable cap rate environment
- ✓ A normalised yield curve also **reduces** the **need** for assumptions around **yield compression**
- ✓ This, in turn, strengthens **conviction** in **exit pricing** - particularly for sectors such as BTR and PBSA, where operational stabilisation and income performance are relatively predictable



2. Fundamental Support for Equity Valuations



- ✓ **Short-term interest rates** have **declined** as the **yield curve flattened**, resulting in a lower cost of debt for investors
- ✓ **Capital markets** are reflecting greater **stability**, indicating a more balanced outlook compared to a year ago (see p.9)
- ✓ Thereby boosting **Net Present Value** (NPV) and **equity valuations** for both standing assets and development projects

A Stabilising 5-2 Curve Encourages Capital Deployment and Supports Pricing in a Yield-Driven Asset Class

2. Capital Formation in a New Era

OVERVIEW OF THE PE FUNDRAISING ENVIRONMENT

1

Fundraising is Down

- Closed-end real-estate fundraising fell versus the prior boom years
- Real estate fundraising totals are below peak
- Many LPs are allocating more selectively to established managers or sector/strategy specialists

2

Refinancing Friction

- Many assets that were bought or developed with high leverage and low interest rates are approaching a refinance point
- Lenders are generally asking for materially higher coupons and/or additional equity

3

LP Distribution Drought

- As several funds struggle to exit investments, continuation funds have become a popular way to provide LPs liquidity
- However, failure to raise capital for the secondary vehicle might compromise the fund's capacity to return capital to LPs

4

Valuation Gap + Mark to Market Noise

- GPs with older vintages face real valuation markdowns
- Buyers often prefer to wait for clearer signs of rate stability or distressed opportunities
- This is due to the fact that many of those investments were made during a decade-long ultra low-interest rate environment, where the cost of capital was low and liquidity in markets was high

5

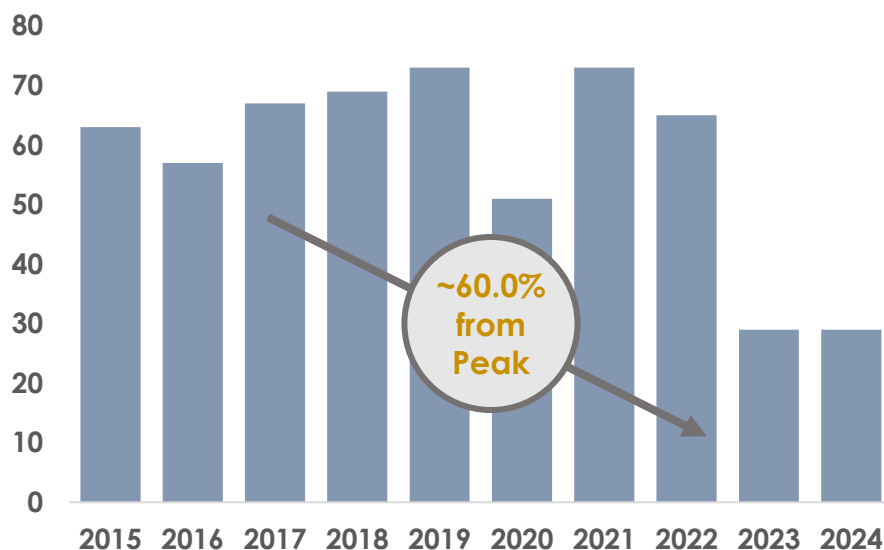
Increased LP Sophistication

- LPs have showcased an increasing level of sophistication and are seeking a greater level of involvement in the investment process
- There has been a trend in direct co-invests and separate accounts rather than blind pools; this reduces the pool of commitments available to raise traditional closed-end funds

NON-LISTED REAL ESTATE FUNDRAISING IS DOWN TO HISTORICAL LOWS

Debt and Equity Capital Raised for European Non-Listed Real Estate is Down ~60% from its Peak

Capital raised for European Non-listed Real Estate (in € billions)



Over €29 billion was raised in Europe for non-listed real estate in 2024, far below the €50-70 billion annual mark reported between 2015 and 2022



European investors however remain the most active despite average real estate allocation decreasing, contributing 38% of overall equity raised globally



Dry powder continues to grow; only 16% of total capital raised in 2023 is already invested; This is the lowest share since 2018

Capital

The fall in fundraising reflects a **tightening** of **capital availability** for European property strategies

Sentiment

Fundraising fall reveals a **confidence crisis** and a strategic rest in European real estate investment

Structure

LPs are showing **preference** for **deal-by-deal, managed accounts**, and **forward funding structures** instead of blind-pool commingled funds

Long Term Implications

Fundraising will likely **remain subdued** until valuations stabilise, and interest rates start to ease

Sources: INREV

3. The Golden Age of Private Credit

OVERVIEW OF PRIVATE CREDIT

1 Increased Capital Flows

- European private credit fundraising was \$30bn for H1 2025, capturing 20% of global private credit fundraising
- This is up from 16% in 2024, reflecting investors shifting allocations away from the saturated US direct lending market

2 Higher Leverage

- Given private debt / preferred equity funds aren't bound by Basel capital rules, they have greater flexibility with their mandates
- Structural provision still remain in place such as warrants or tighter covenants, but are ultimately able to plug the gap where regulations prevent commercial banks from lending

3 Development Lending

- Development lending is higher risk, but specialist development debt and structured equity funds will engage in construction financing via mezzanine / preferred equity structures
- This layering above a traditional senior construction facility, alongside a flat yield curve can enable financing at 85%+ LTC for high quality projects

4 The Search for Yield

- As institutional investors face low returns from traditional fixed income instruments, private debt and preferred equity offers more desirable returns at 8-12%, with asset backing. These risk-adjusted returns are much more attractive

5 Defensive & Income-Focussed Asset Class

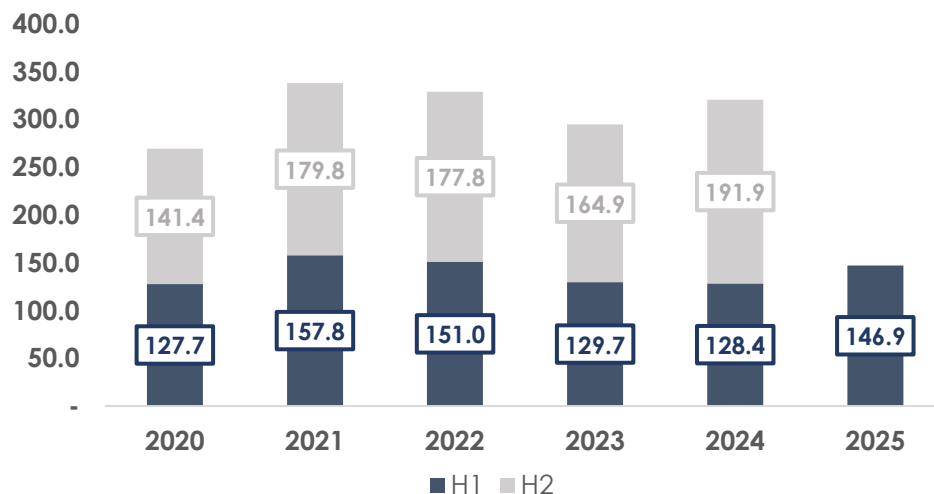
- Private credit, particularly senior private credit is highly attractive to institutional investors (LPs) because it offers secure, high-single-digit to low-double-digit returns
- This stability is crucial, positioning the asset class as a defensive strategy that provides reliable income and acts as a buffer against volatility in broader equity and real estate markets, especially high-interest rate environments

Sources: Private Debt Investor

THE GOLDEN AGE OF PRIVATE CREDIT

Private Credit Remains Buoyant with Strong Industry Tailwinds...

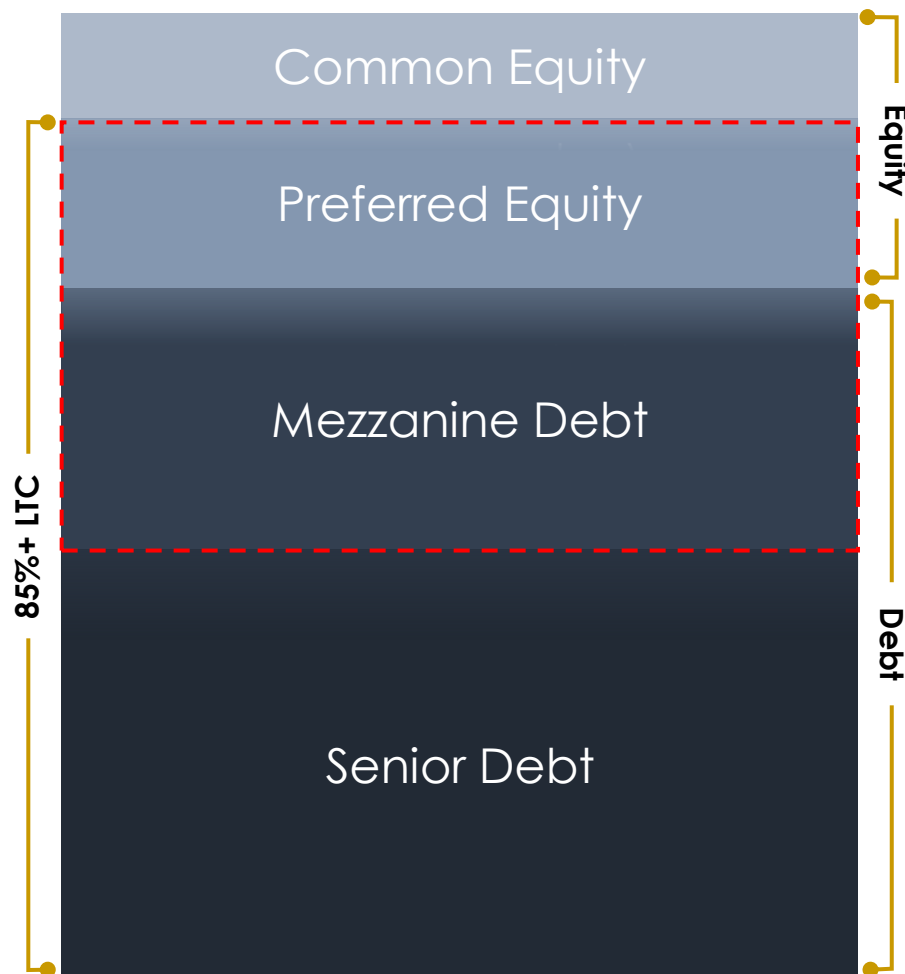
Private Credit Global Fundraising (in USD\$ billions)



The Search for Yield

- Following exit from a decade-long ultra-low-interest rate environment, **the cost of senior debt** has **increased**
- Combined with more conservative loan-to-value (LTV) ratios, this has led investors to increasingly utilise **mezzanine financing** and **preferred equity** to extend their capital stacks
- This trend has been supported by **strong fundraising** activity in the **private credit** market, which has reached approximately \$147 billion in the first half of 2025, the highest level since 2022

Sources: Private Debt Investor



SUMMARISING THOUGHTS

Developments



- Despite a challenging macro environment, commercial real estate (CRE) **investment** activity is **picking up** as market participants have largely priced in uncertainty and benefited from a flat yield curve
- The **Living sector's share** of total CRE investment continues to **rise**, reflecting its resilience and long-term growth potential
- Large-scale investors are increasingly attracted to Living assets for their **brand-building** potential and opportunities to enhance returns by **operating** the **properties** themselves

Flat Yield Curve



- **Narrower yield spreads** reduce rate volatility, giving purchasers **greater confidence** in exit pricing
- Stable cap-rate environments **enhance valuation** and **liquidity**, especially in predictable sectors like PBSA
- When yield premiums on core assets are low, investors shift toward **forward-funded** for **stronger risk-adjusted returns**

Fundraising



- Fundraising activity has **slowed** as investors allocate more selectively and favour direct or co-investment structures over traditional funds
- More conservative lending has pushed investors toward **subordinated capital**, supported by renewed **private debt fundraising momentum** in 2025

Discussion led by **GEORGE SELL**
Editor-in-Chief at International Hospitality Media

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