



The appeal of European net lease to non-European investors

The global uncertainty created by U.S. tariff policy has unsettled financial markets and has cast a shadow on economic growth prospects. While the situation remains fluid with many moving parts, we believe a corner of stability may be found in European commercial real estate, which has significantly repriced since market peaks in 2022, and where market fundamentals remain solid and macro-drivers, broadly supportive. Defensive, income-oriented strategies – such as European net lease – can be especially interesting for non-European investors seeking stability, yield and geographic diversification. This report sets out the rationale for that conviction.

Why Europe? Attractively priced and fundamentally sound

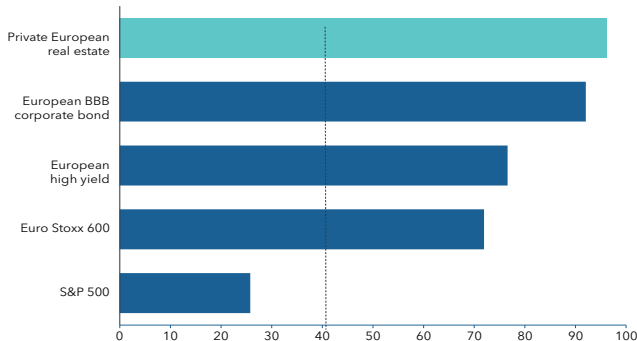
Since mid-2022, private European commercial real estate has experienced a significant repricing. Capital values have recently stabilized, and total quarterly returns have been positive for the past five quarters (Figure 1), suggesting a potentially attractive entry point into the next cycle. Importantly, the delta between appraisal and market cap rates in Europe is minimal relative to the United States.¹ Moreover, European commercial real estate

Figure 1: INREV fund-level return



Sources: INREV, Clarion Partners Global Research, Q2 2025

Figure 2: Relative valuations during 10-year prior



Note: Graph shows normalized Z scores of the following valuation metrics: Private European Real Estate – prime yield; European BBB bonds – yield-to-convention; European HY bonds – yield-to-maturity; REITs – implied economic cap rate, unweighted average of office, retail and industrial; S&P 500 and Eurostoxx 600 – p/e ratio. The asset classes are associated with different levels of volatility, liquidity and other risks.

Sources: Bloomberg, Green Street, Clarion Partners Global Research, Q1 2025

currently compares favorably to other asset classes that have already recovered in value more rapidly (Figure 2). Finally, while developed commercial real estate markets have historically shown high correlation, the diversification benefits offered by European commercial real estate (Figure 3) are likely to become increasingly attractive amid shifting globalization dynamics and growing policy divergence.

Figure 3: Correlation analysis (Q1 2005 - Q4 2024)

Asset type	INREV All Fund
NFI-ODCE	0.76
S&P 500 Index	0.23
Euro Stoxx 600	0.27
European Aggregate Bond Index	-0.25
Bloomberg U.S. Aggregate Bond Index	-0.25

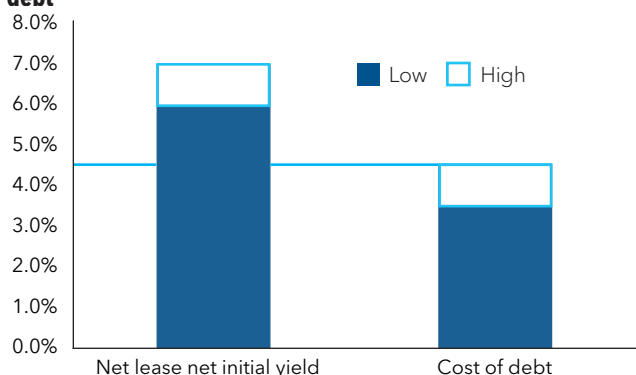
Sources: INREV, NCREIF, Bloomberg, Clarion Partners Global Research, May 2025

Despite global uncertainties, Europe's macroeconomic environment is broadly positive. Inflation in the eurozone has moderated and is now hovering around the European Central Bank's 2 percent target. This creates potential for a more accommodative interest rate and monetary policy stance, which should act as a tailwind for commercial real estate valuations and transaction activity. Market fundamentals remain generally robust across sectors, with vacancy rates relatively low in key sectors, such as logistics, which have seen a relatively less pronounced development cycle compared with the U.S. markets, for example.

Why European net lease?

Within the broader European commercial real estate landscape, we believe net-lease strategies warrant serious consideration. At this stage in the cycle, their appeal lies in a defensive profile – where returns are driven primarily by secured contractual income and lease indexation – rather than relying on less certain assumptions around market rent growth or exit yields. Historically, European net lease has outperformed broader market benchmarks during periods of macroeconomic uncertainty, as investors have placed a premium on long-duration, stable cash flows.² Furthermore, we see four key advantages of European net lease, particularly when compared to equivalent U.S. strategies:

(1) Attractive day-one yield spread: Following interest rate repricing, European net lease now offers an appealing day-one yield spread over the cost of debt (Figure 4). This compares favorably to the United States, where it is not uncommon for new

Figure 4: Typical range of European net lease net initial yield vs. cost of debt

Note: Yield range reflects transactions underwritten by CPE.

Source: Clarion Partners Global Research, May 2025

Figure 5: European commercial real estate cap rate spread vs. investment grade

Sources: Green Street, Clarion Partners Global Research, May 2025

acquisitions to be cash-flow negative in early years due to higher debt costs. More broadly, European commercial real estate also seems to trade at a relatively attractive spread to fixed-income alternatives in a historical context (Figure 5).

(2) Inflation-linked cash flows: A significant differentiator – specifically for European real estate as compared with U.S. real estate – is the indexation of rental income to inflation, either capped or uncapped. This feature provides a built-in hedge against inflation and contributes to capital value preservation through indexed growth. By contrast, U.S. leases more commonly include fixed uplifts that may lag behind actual inflation. During the past five years (2020–2024), European net-lease income grew on average by 4.5 percent per year, versus only 0.1 percent in the United States.³

(3) Market inefficiency premium: European net lease – proxied by corporate disposals – has averaged more than €20 billion [\$24 billion] per year in transactions during the past 10 years.⁴ We think the addressable market is vast, given relatively high ownership rates in Europe (approximately 65 percent).⁵ While expanding, the European net lease market remains relatively opaque, with many transactions occurring off-market via direct negotiation or corporate finance routes. Although this can pose a barrier to entry, it also creates opportunities for specialist managers with strong local networks to exploit inefficiencies, uncover hidden value and generate superior risk-adjusted returns.

(4) Limited capital competition: A corollary of the previous point is the relatively limited capital competition in the European net-lease market. One indicator of this is the number of specialist REITs operating in the space – three in Europe⁶ compared with 17 in the United States⁷ – as well as their comparatively short trading histories. Many net-lease/long-income investors are U.K.-based and typically target a core return profile. There is generally a lack of pan-European platforms pursuing higher-yield strategies. This capital demand/supply imbalance is a compelling feature of the European net-lease market, which allows investors to lock in potentially attractive yields on acquisition.

Conclusions

European net lease presents a compelling investment case for global investors seeking secure, inflation-resilient income in today's fragmented and shifting macroeconomic landscape. With favorable yield spreads, structurally sound fundamentals and inflation-linked rental streams, the strategy combines downside protection with long-term upside potential. While the European net-lease market complexity requires specialist expertise, it also creates inefficiencies from which well-positioned investors can benefit. In a world of growing divergence, European net lease offers a strong risk-adjusted investment opportunity for global real estate capital allocation.

¹ Stepstone Real Estate House Views, Spring 2025 Report

² Findings based on TTM Total Return of MSCI U.K. Long-Income OEPP Index relative to U.K. All Balanced OEPP Index between Dec. 12, 2024, and Sept. 24, 2025.

³ Green Street. Note: Green Street reports I-F-I net rental income growth for Europe and same-store NOI growth for the United States.

⁴ Raising Capital from Corporate Real Estate, JLL, April 2025

⁵ Clarion Partners Global Research estimates based on EPRA

⁶ Green Street had three net-lease REITs under its European coverage as of February 2025.

⁷ Hoya Capital

CONTRIBUTORS



Indraneel Karlekar
Managing Director,
Global Head of
Investment Research
Clarion Partners



Bruno Berretta
Vice President,
Research & Strategy
Clarion Partners

CORPORATE CONTACT

Hugh Macdonnell, Head of Client Capital Management | clarionpartners@clarionpartners.com | +1 212-883-2500 | www.clarionpartners.com

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