

Europe Real Estate sector report

AUTUMN 2025

KEY:

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

Sector conditions and outlook⁽¹⁾

OFFICE



The European office market showed tentative signs of stabilisation in the first half of 2025, with modest rental growth and the first yield compression after nearly three years of outward shifts. However, investor sentiment remains subdued, with demand polarised in favour of prime central business district (CBD) assets and away from older, peripheral stock. Investors should remain highly selective, targeting well-located, prime assets with resilient occupier demand and limited supply, such as the City of London, central Paris, and Madrid CBD.

Current conditions Outlook

● →

INDUSTRIAL/ LOGISTICS



Industrial property continues to benefit from strong structural drivers such as e-commerce, automation, and fiscal spending, supporting resilient capital flows and stable occupier demand. While rental growth has moderated and vacancy edged higher (predominantly driven by older stock), yields compressed further, and development pipelines remain constrained, pointing to sustained medium-term strength and diminishing supply risks.

● ↗

RESIDENTIAL



The residential sector remains one of the most preferred asset classes by investors, underpinned by solid rental growth and early signs of yield compression in core markets. The sector has entered a gradual recovery, with supply-demand imbalance likely to widen further in the next years. Indeed, while housing formation and urbanisation trends point to positive demand, on the supply side, we expect housing delivery growth to slow further, constrained by high construction costs, limited availability of urban land, and tighter regulations.

● ↗

HOTEL







Hotel performance remained positive, driven by resilient leisure demand and ADR growth, particularly in Southern Europe. However, corporate travel demand continued to be subdued as businesses have yet to return to pre-pandemic travel patterns. Transaction volumes remained above trend, supported by large luxury deals in Southern Europe and renewed interest in Germany and the Netherlands.

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Sector conditions and outlook⁽¹⁾ (continued)

| | | Current conditions | Outlook |
|--|---|---------------------------------------|---------------------------------------|
| RETAIL  | <p>European retail investment accelerated, aided by stabilising fundamentals, increasing lot sizes, and renewed investor confidence after years of sector rationalisation. Indeed, retail sales, footfall, and vacancy trends point to a sector on a more sustainable recovery path, with retail parks and shopping centres on firmer ground, whereas high street retail remains in a comparatively weaker position. Going forward, the combination of low inflation, declining borrowing costs, and record-low unemployment levels should provide further momentum to consumer confidence and retail spending.</p> | ● | → |
| DATA CENTRES  | <p>We regard data centres as Europe's best-performing property type, driven by a third consecutive year of demand surpassing supply in 2025. While development bottlenecks persist in core hubs, secondary and emerging markets continue to attract investment. The Nordics and Southern Europe could be the primary beneficiaries of this trend, amid uncongested grids and shorter connection times.</p> | ● | ↑ |
| HEALTHCARE  | <p>Healthcare real estate saw momentum improving significantly, with transaction activity surpassing long-term averages and capital values improving for a third straight quarter. Care operators reported a more favourable environment, primarily due to normalising debt market, positive price effect, and rising occupancy above pre-pandemic levels. Investment was led by care homes and clinics, with the United Kingdom delivering its strongest first half in over a decade.</p> | ● | → |
| STUDENT HOUSING  | <p>Student housing continues to attract significant investor interest, though volumes fell slightly due to a slowdown in the U.K. Continental Europe gained momentum, with record inflows into France, Denmark, and Spain, reflecting strong international student demand and favourable economic outlook, particularly for Spain.</p> | ● | ↗ |

⁽¹⁾ Outlook refers to the next 12 months



OFFICE

| Sector rating | New supply ⁽²⁾ | Demand | Rent growth | Capital values | REIT pricing relative to NAV ⁽³⁾ |
|---------------|---------------------------|--------|-------------|----------------|---|
| → | ↘ | → | ↗ | → | ↓ |

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

⁽²⁾ New Supply: Red downward signifies new supply is currently high.

⁽³⁾ REIT pricing relative to NAV: Red/downward yellow signifies prices are trading at a discount, upward if trading at a premium.

Private equity

The European office market showed signs of stabilisation in H1 2025, though conditions remain polarised. Transaction activity rose by 19% in second quarter compared with the previous quarter and by 6% year-on-year. Yet, this was the third-lowest Q2 in the last fifteen years as investor appetite remains subdued amid high historical allocations and structural headwinds, including hybrid working, artificial intelligence, and tightening sustainability standards. Capital flow was particularly weak for suburban offices, whose share of transaction volume fell from 55% in 2020 to 37% in H1 2025.

Other performance indicators provide reasons for cautious optimism. European office single funds' capital growth turned positive for the first time in ten quarters, according to INREV. However, values remain near the trough, or 18% below the peak reached in Q3 2022. Yields compressed by 5 basis points (bps) to 5.40% in Q2. This marks the first yield improvement after eleven consecutive quarters of outward shifts. Take-up across major European cities increased by around 8% year-on-year, supported by a more active Q2. Rents across Europe rose by more than 6% year-on-year, with Cologne, Paris CBD, London West End, and Frankfurt all recording double-digit growth.

The average vacancy rate increased for the eleventh consecutive quarter, reaching 9.1%, largely driven by older buildings in fringe locations no longer fit for occupiers' requirements. Indeed, the out-of-town vacancy rate was roughly 330 bps higher than in-town assets, with the largest gaps (500+ bps) in Munich, Prague, Brussels, Milan, and Luxembourg. Occupier demand continues to polarise between prime, central assets, and older or peripheral stock. This preference reflects the important role that high-quality assets have in attracting talent and meeting sustainability goals.

Meanwhile, a growing number of firms are mandating more frequent in-office presence. For example, in the U.K.—Europe's market with the lowest office attendance—the share of companies requiring full on-site presence rose from 27% in 2023 to 48% in 2025, led by consumer-facing businesses, manufacturers, and professional services, according to a survey carried out by the British Chambers of Commerce in Q2 2025.

For the remainder of 2025, office demand is expected to remain subdued and concentrated in core CBDs. Against this backdrop, investors should remain highly selective, targeting well-located, prime assets with resilient occupier demand and limited supply. In our view, Paris CBD, Madrid, and London City are prime examples of sub-markets that fit the criteria and that can offer comparatively strong risk-adjusted returns.

Public equity

The office sector has performed close to the property index on average year-to-date (YTD) in 2025. However, there has been a wide divergence in returns across the sector. Prime Spain, Switzerland, and Dutch offices have all outperformed YTD. Higher quality CBD-focused portfolios in capital cities are seeing a resurgence in rental growth, but higher debt costs are holding back improved earnings in some markets, including the U.K. Meanwhile, secondary office REITs continue to trade at large discounts to NAV.

Working from home remains widespread, at least for part of the week, resulting in daily office occupancy still below pre-pandemic levels in most markets. Vacancy has been rising in almost all office markets, but there is substantial bifurcation within these markets. Prime buildings in the best locations are noticeably stronger than secondary assets. Newer, well-located, high-quality assets are favoured as both tenants and landlords increasingly value energy efficiency,

OFFICE (continued)

ease of commute, and flexibility. Lower quality offices risk becoming stranded assets unless owners invest substantial capex to counter the risk of obsolescence, and falling values reflect this.

The listed office sector is trading at a discount to NAV of ~30% and typically owns assets at the better end of the quality spectrum, where tenant demand has been more resilient.



INDUSTRIAL

| Sector rating | New supply ⁽²⁾ | Demand | Rent growth | Capital values | REIT pricing relative to NAV ⁽³⁾ |
|---------------|---------------------------|--------|-------------|----------------|---|
| ↗ | → | → | ↗ | ↗ | ↘ |

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Private equity

The industrial sector continues to attract strong investor interest, supported by solid fundamentals and diminishing supply risk. Despite geopolitical headwinds and global trade uncertainty, capital flows have remained resilient. Transaction volume in H1 2025 increased only marginally year-on-year. Yet, it marked the third-best start to the year since records began in 2007. Activity, however, remained 50% below the post-pandemic surge of 2021-2022. Italy and Poland stood out, recording 50% year-on-year growth to €1.0 billion and €0.6 billion, respectively, while Germany also saw a 40% uplift, although from a low base. According to the INREV Investor Survey, sentiment towards Germany has strengthened notably in recent months, amid the prospect of hundreds of billions of euros in infrastructure and defence spending from 2026 onwards. A detailed analysis of [how Europe's fiscal policy shift can impact the industrial and logistics sector](#) is presented in our August paper.

Annual capital value growth accelerated from 2.4% in Q1 to 2.8% in Q2 2025, lifting total returns from 7.5% to 8.0%. The improvement was broad-based, with the only exceptions of France and the U.K. Net initial yields compressed by 8 bps to 4.7% in Q2, the lowest since Q4 2023 but still well above the 3.3% trough of the previous cycle.

On the occupier side, the market has stabilised and is positioned for further improvement, underpinned by structural drivers such as e-commerce penetration, automation, ESG regulation, fiscal spending, and moderating new supply. Vacancy reached 6.1% in Q2, 120 bps higher than a year earlier, predominantly concentrated in older stock, while Grade A availability remained constrained. Meanwhile, rental growth slowed to 3.8% year-on-year, compared with double-digit increases in 2021–2024.

Development pipelines remain constrained. Total logistics completions fell by 20% in 2024, the first annual decline in more than a decade, reflecting higher financing costs and tighter construction regulations. The U.K., Spain, the Netherlands, and Germany saw the sharpest decline. Leading indicators suggest deliveries could decline by a further 11% in 2025, with the slowdown affecting all warehouse sizes and particularly core hubs where land availability is increasingly constrained.

Public equity

The performance of industrial property has been mixed so far this year, driven by development-focused players and those with mainland Europe's exposure. Conversely, U.K.-focused players have underperformed. Tenant demand increased in Q1 but weakened after the U.S. imposition of trade tariffs that clouded the global economic growth outlook. Tenants continue to take longer to sign new leases. Overall supply levels remain relatively tight, with speculative demand continuing to slow despite stabilising construction costs. Valuations have bottomed and are returning to growth after a period of rapid yield expansion. The investment market remains active and stronger versus other property sectors.

Within the industrial sector, companies with smaller last-mile logistics assets have underperformed as rental growth continues to normalise from recent elevated levels, while companies with large development pipelines, particularly focused on central and Eastern Europe, have typically outperformed as construction and financing costs stabilise and investors move back to focusing on the long-term growth potential of their pipelines. Industrial REITs typically trade at a 10%-20% discount to NAV, wider in the U.K. and narrower for development-focused companies.



RESIDENTIAL

| Sector rating | New supply ⁽²⁾ | Demand | Rent growth | Capital values | REIT pricing relative to NAV ⁽³⁾ |
|---------------|---------------------------|--------|-------------|----------------|---|
| ↗ | ↑ | ↗ | ↑ | ↗ | ↓ |

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Private equity

The residential sector continues to demonstrate resilience and remains highly sought after by investors. According to the INREV Sentiment Survey, net interest in the sector reached 39% in Q3 2025, consolidating its position as the most preferred asset class for the third consecutive year. Transaction volumes rose by 10% in H1 2025, although activity remains around 40% below the peak of H1 2022 and roughly 20% below the ten-year average. Capital flows were concentrated in Germany, France, and Sweden, while volumes in Spain, the Netherlands, and the U.K. declined.

The sector has stabilised and entered the early stage of a gradual recovery, with sustainable rental growth and selective yield compression underpinning capital value gains. In Q2 2025, multifamily rents continued to rise in the U.K. (+4.6%), the Netherlands (+3.1%), and Germany (+1.7%). At the same time, the average European multifamily prime yield remained relatively stable at 4.05%, with modest compression in Germany and the Netherlands.

On the supply side, residential construction across Europe remains very low by historical standards. New housing starts have fallen sharply from the 2021 peak, with the steepest declines recorded in Copenhagen and London. According to Property Market Analysis (PMA), housing stock growth is expected to slow further in the coming years, constrained by high construction costs, limited availability of urban land, and tighter regulations.

Public equity

The European housing sector has lagged this year, primarily due to its pronounced sensitivity to interest rates, which has left it exposed to the impact of rising bond yields. However, recent disclosures from listed entities indicate that rental growth is now outpacing inflation across much of the sector. Historically, residential rents have served as an effective hedge against inflation. Yet, in regulated markets such as

Germany, rent indexation mechanisms (based on multi-year retrospective periods) introduce a lag before in-place rents reflect or exceed inflationary trends. This structural delay implies that regulated rents are poised to continue rising, supported by strong reversionary potential, persistent demand, and constrained supply of affordable housing. In the Nordics, margins are rebounding as energy costs decline. This is particularly relevant as heating expenses are typically embedded within rental agreements in the region. Additionally, improving real disposable income and lower borrowing costs are set to enhance affordability metrics. In contrast, the U.K.'s unregulated rental market is beginning to decelerate following a period of exceptional growth.

After a peak-to-trough decline of 15%-20%, property values have started to increase again this year. However, rising bond yields could tame this positive trend. Meanwhile, improving liquidity in the corporate bond market and successful deleveraging sales have repaired most balance sheets, allowing companies to restart previously frozen growth initiatives and resume dividend payments. The sector trades at an average discount of ~33% to the last published NAV.



HOTEL

| Sector rating | New supply ⁽²⁾ | Demand | Rent growth | Capital values | REIT pricing relative to NAV ⁽³⁾ |
|---------------|---------------------------|--------|-------------|----------------|---|
| → | → | ↗ | ↗ | → | ↘ |

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Private equity

Hotel performance remained positive through H1 2025, though monthly data points to mixed results during the summer period. Smith Travel Research (STR) reported continued year-on-year revenue per available room (RevPAR) growth across most European markets in Q1 and Q2, although June and July were weaker than anticipated due to unfavourable weather conditions in parts of Northern Europe and heightened geopolitical uncertainty. Southern Europe continued to outperform on the back of resilient leisure travel and strong average daily rate (ADR) growth. Conversely, destinations reliant on corporate travel have lagged as businesses have yet to return to pre-pandemic travel patterns, thus impacting hotel performance in major business hubs.

Capital flows registered a mild decline of 10% in the first half of 2025 compared to the same period last year, but remained comfortably above the long-term average. Greece recorded the strongest first half on record, equal to €0.6 billion, primarily due to three large transactions in the luxury segment. A strong volume increase was also recorded in Germany and the Netherlands, although from a low base. Meanwhile, transaction activity in Spain and Italy stabilised at high levels. In both markets, H1 2025 was the third-best start of the year since records began in 2007.

The outlook for the remainder of the year remains broadly positive, although forecasts have been downgraded. RevPAR is expected to increase by 0.7% and 0.8% in 2025 and 2026, respectively. Fewer than anticipated American travellers, depreciation of the U.S. dollar, and trade uncertainty are the main factors leading to a more cautious outlook. However, in the mid to long term, the European hotel sector is expected to remain on a positive path, underpinned by structural drivers including a growing global economy and the expansion of the middle class in developing markets.

Public equity

Hotels are a relatively small, listed sector in Europe, with only one index play available (Swedish listed pan-European player Pandox, an asset-heavy non-REIT). Other non-index plays are mostly through asset-light operators. The sector has underperformed the broader property index YTD in 2025 on the back of broader macro concerns and trade war risks.

Leisure transient has been relatively resilient in Europe YTD compared to other regions, with arrival numbers well balanced between regional and long-haul travellers. Group travel recovery has plateaued following a slow rebound after COVID, with many conferences and events now shorter in duration compared to pre-pandemic levels. On the profitability side, hotel operators have benefited from falling inflation and diminishing expenses pressure, such as utilities and staffing costs. RevPAR growth reached mid-single digit so far this year, driven by occupancy improvements, as rate growth has moderated after the steep increases recorded over the last two years.

Hotel NAV estimates are gradually pushing higher due to occupancy gains. Asset-heavy hotel stocks currently trade at ca. 20% discount to consensus NAV, reflecting recent macro-economic concerns combined with current positive operating fundamentals. Asset-light players have generally underperformed asset-heavy peers YTD in 2025.

RETAIL

| Sector rating | New supply ⁽²⁾ | Demand | Rent growth | Capital values | REIT pricing relative to NAV ⁽³⁾ |
|---------------|---------------------------|--------|-------------|----------------|---|
| ↗ | ↗ | → | ↗ | ↗ | → |

KEY:  Positive  Moderately positive  Neutral  Moderately negative  Negative

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Private equity

The European retail sector continued to recover in H1 2025. Capital flow increased by 35% driven by the compelling entry point, increasing lot size, and stabilising retail landscape after a long period of rationalisation and limited new supply. Spain and Portugal continued to receive strong investor interest, driven by a positive economic outlook, migration, and tourism.

European retail sales increased by 2% in H1 2025, continuing the upward trend seen in recent periods and suggesting positive momentum. Footfall numbers increased across all segments compared to the first half of last year. Retail parks experienced the largest increase, confirming their status as the most resilient retail property type. They remain the only segment with visitor numbers exceeding pre-pandemic levels, reflecting occupiers' successful adaptation to e-commerce via multi-channel strategies and the integration of leisure elements.

The average retail vacancy rate declined below the 2024 level, down to 5.6%. This reduction reflects a stabilisation in tenant activity and a gradual absorption of vacant space, particularly in the shopping centres segment. Rental growth was positive, although modest, across all retail segments in H1 2025, driven by indexation rather than new leasing activity, according to CBRE.

Going forward, retail is expected to benefit from stabilising household disposable income and improving sentiment. The combination of low inflation, declining borrowing costs, and record-low unemployment levels should provide further momentum to the ongoing recovery in retail spending. Southern European markets are the primary beneficiary of this trend. Conversely, consumers are likely to remain cautious in France, amid ongoing political uncertainty—evidenced by the appointment of a

third Prime Minister within a year—and in the U.K., where persistent inflation and a softening labour market might weigh on household spending.

Public equity

Retail REITs have significantly outperformed this year, with all constituents of the FTSE/EPRA Europe Developed Index delivering positive relative performance. The strongest results have been recorded by REITs owning large, high-quality malls and shopping centres, followed by smaller food-anchored and sub-regional portfolios. Performance among companies with high street holdings, however, has been more mixed.

Retail sales have remained robust, supported by rising real disposable incomes and easing inflation and interest rates, despite subdued consumer confidence and elevated savings rates. The high level of savings indicates latent demand, positioning the consumer sector for a potential rebound as sentiment improves. Rental growth is tracking broader property market trends, with reversionary potential gradually strengthening. Stable yields are underpinning capital value growth as rental income continues to rise.

Retail REITs now trade at an average discount to the last published NAV of ca. 12% (about half the discount that applied six months ago). Rising investor appetite has allowed companies to reduce debt through asset sales while also providing transactional evidence of values. Retail property owners with stronger balance sheets are now investing again, either in their own assets or through acquisitions, and companies continue repurposing excess space for alternative uses. Those REITs now trading at premiums to NAV have the potential to fund accretive acquisitions through equity issuance.

DATA CENTRES

| Sector rating | New supply ⁽²⁾ | Demand | Rent growth | Capital values | REIT pricing relative to NAV ⁽³⁾ |
|---------------|---------------------------|--------|-------------|----------------|---|
| ↑ | ↗ | ↑ | ↑ | ↗ | N/A |

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Private equity

Data centres remain Europe’s top-performing property type, with demand expected to exceed supply for the third consecutive year in 2025. Take-up of colocation capacity is projected to reach a record 855 megawatt (MW) this year, compared with 792 MW of new supply. As a result, the average vacancy in core markets has edged down to around 7%, ranging from 4.4% in Dublin to 9.7% in Paris.

Investor capital targeting the sector has continued to rise, supported by cloud adoption, AI applications, and broader digitalisation trends. Europe currently has only one-tenth of the U.S. data centre capacity, highlighting significant growth potential. For example, the European Union set a goal of at least tripling data centre capacity within the next five to seven years, according to its AI Continent Action Plan released in April 2025.

However, in core markets, new development bottlenecks (including grid congestion, land constraints, and regulatory hurdles) pose significant constraints. Thus, developers are accelerating projects beyond tier-one hubs, with secondary markets such as Berlin, Milan, and Madrid gaining increasing traction.

According to Ember, a global energy think tank, the power grids’ capacity to accommodate new demand will dictate the next wave of data centre expansion in Europe. The company expects the Nordics and Southern Europe, with uncongested grids and shorter connection times, to grow at nearly twice the rate of core markets. As developers shift investment towards emerging markets, half of Europe’s data centre capacity could be located outside the traditional hubs by 2035.



HEALTHCARE

| Sector rating | New supply ⁽²⁾ | Demand | Rent growth | Capital values | REIT pricing relative to NAV ⁽³⁾ |
|---------------|---------------------------|--------|-------------|----------------|---|
| → | ↗ | → | → | → | ↘ |

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Private equity

Healthcare sector's conditions have improved in H1 2025, ending a prolonged period of operational pressure, rising insolvencies, and restructuring. Indeed, this year, care operators reported a more favourable environment, primarily due to normalising debt market, positive price effect, and rising occupancy above pre-pandemic levels.

Transaction activity reached €2.9 billion in Q2 2025, up 70% and 13% year-on-year and over the long-term average, respectively, driven by several large portfolio deals, including Franklin Templeton's acquisition of 32 care homes in the U.K. and of a leading psychiatric clinic in France. The care home sector attracted the largest share of investment (ca.60%), followed by clinics and hospitals.

Across the continent, the U.K., which is the largest market by investment volume, has started the year particularly strongly, with £1.5 billion deployed in the first half of 2025, the strongest H1 in the past decade.

Capital values improved modestly for the third straight quarter, while yield compressed for the first time after remaining stable for twelve months.



STUDENT HOUSING

| Sector rating | New supply ⁽²⁾ | Demand | Rent growth | Capital values | REIT pricing relative to NAV ⁽³⁾ |
|---------------|---------------------------|--------|-------------|----------------|---|
| → | ↗ | ↗ | → | → | ↘ |

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Private equity

Student housing continues to rank among investors’ preferred sectors, according to the latest industry surveys from INREV and CBRE. While overall transaction volumes eased in the first half of 2025, activity remained strong across continental Europe, with France, Denmark, and Spain all recording record levels of investment. The U.K., by contrast, saw a slowdown, which was the main factor behind the overall decline.

Given the sector’s reliance on large portfolio and platform deals rather than a steady flow of single-asset trades, short-term fluctuations are common. Nevertheless, the recent activity reflects a broader trend: the investment landscape is becoming more geographically balanced, with capital increasingly directed toward mainland Europe on the back of supportive macroeconomic trends and supply-demand imbalance.

For example, the Spanish student housing market continues to attract capital, underpinned by a positive economic outlook, a growing number of international students, lower cost of living, and an appealing lifestyle. Conversely, in the U.K., traditionally the largest and most mature student housing market, tighter visa rules, immigration backlash, and high tuition fees risk to weighing on international student demand going forward.

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.

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