European commercial real estate – amidst contrasting dynamics

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Commercial real estate investments in Europe experienced a solid first quarter before slowing in the second quarter, against a backdrop of macroeconomic uncertainty and cascading announcements related to the introduction of new tariffs.

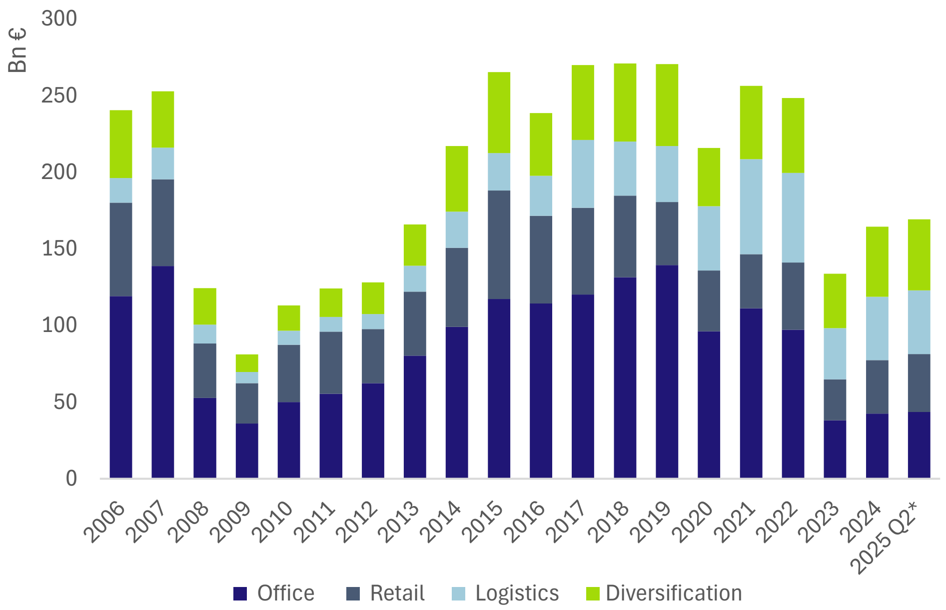
In this context, the recovery appears to be losing momentum, even though some sectors, that are less tied to economic cycles, such as healthcare, continue to demonstrate resilience. The slowdown is particularly pronounced for secondary assets, faced with higher service charges and abundant supply, widening the gap with the prime segment. Finally, office space demand is progressing modestly, supported by growth in service-sector employment and higher workplace attendance rates.

Amid these contrasting dynamics, the growing importance of ESG standards and climate risks is driving the market's shift towards more resilient and sustainable assets.

Investments: Q2 slowdown following Q1 momentum
During the second quarter of 2025, investments in the European commercial real estate market reached €37.1 billion, bringing the total for the first half of the year to €77.8 billion, up 5% year on year. Investment volumes are evenly distributed across the main asset classes with approximately €8.5 billion each:

- The office market, particularly in France and the United Kingdom, is struggling to regain lasting momentum, despite heightened interest in value-add strategies.
- Retail assets, for their part, are maintaining the momentum built up at the beginning of the year, supported by attractive entry yields.
- Healthcare assets totaled €3.7 billion euros in the first half of the year (including €1.5 billion euros in the United Kingdom). Institutional investors continue to show strong appetite for the sector, but supply remains limited.

Investment volume in commercial real estate in Europe (€bn)



** Cumulative over 12 months | Source: CBRE, LF REM Research*

The investment market has regained liquidity, supported by a number of “forced” disposals,’ driven mainly by debt maturities, or the need to free up capital to meet ESG requirements. In addition, more favorable financing conditions have allowed for the return of large-scale transactions, which boost overall investment volumes but mask the still limited number of deals.

Prime yields: stability confirmed despite slight adjustments

Over the past twelve months, prime office yields have remained stable and, in some cases, even experienced slight compressions. This is indicative of a stabilization phase rather than the start of an immediate upward recovery after a sharp correction.

At the end of June 2025, prime office yields in European capitals stood at between 4.00% and 5.25% (London 4.00%, Paris 4.15%, Madrid 4.70% Amsterdam 4.90%), while in regional markets they ranged between 5.50% and 6.50% (Lille 5.85%, the Hague 6.40%, Edinburgh 6.50%).

Despite a clearer financial context, investors remain selective, focusing on quality assets, located in strategic locations.

Office leasing market: overall demand rising but regional disparities persist

In the first half of 2025, take-up increased by 6% compared with the same period in 2024, supported by the growth of service-sector employment and greater workplace attendance as remote work normalizes. However, performance remains uneven across major cities. While London (+31%) and Frankfort (+12%) recorded significant year-on-year increases, demand in Paris fell by 12%.

In this overall climate of caution, investors are implementing cost-rationalization strategies. Peripheral areas, where rents remain more competitive than in central locations, could benefit – particularly zones with excellent accessibility and a diverse range of services.

At the European level, office supply continues to grow, and only four cities (London, The Hague, Milan and Madrid) saw vacancy rates declines over the past twelve months. Vacancy rates in central districts are stabilizing, while those in peripheral areas continue to rise, further segmenting markets. Many cities are seeking to promote the conversion of vacant offices (notably into residential) and to limit new construction; strategies that could help reduce vacancy rates over the long term.

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