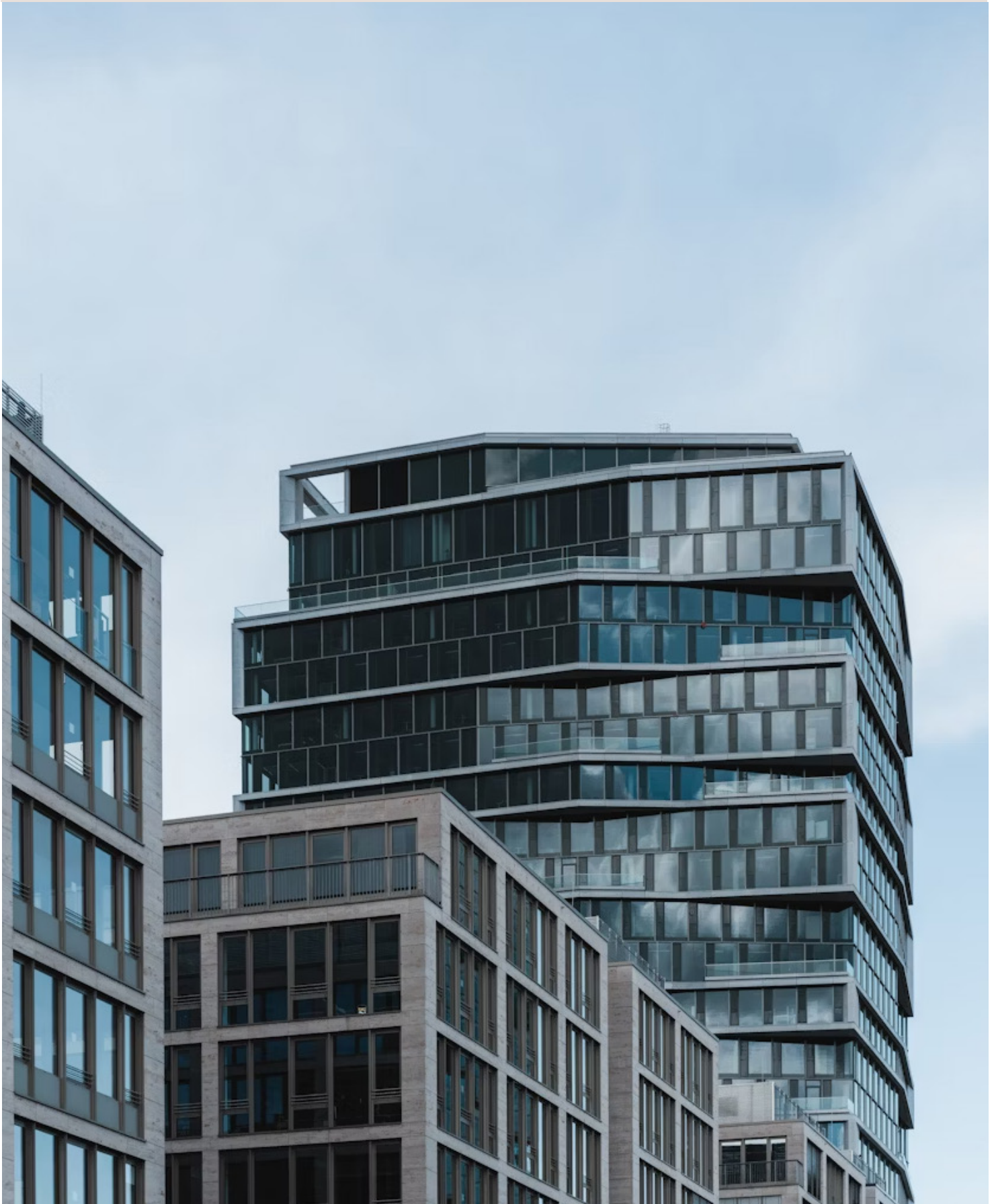


European Commercial - Q3 2025

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SPOTLIGHT
Savills Research

European Office Investment



● Economy ● Yields ● Outlook

Yields stable amid elevated bonds

Appetite for larger lot sizes gradually increases.

Economic overview

Europe's economy continues to battle against political headwinds, stunting the growth outlook. In October 2025, French Prime Minister Lecornu was reappointed, as French bond yields remain elevated and global investor concerns around government debt sustainability continue to rise. In the UK, investors await the Autumn Budget announcement in November for clarity on future tax changes.

Oxford Economics increased its 2025 Eurozone GDP growth forecast to 1.3%, with growth expected to slow to 0.8% in 2026, given current weak momentum. 2026 is expected to show less regional variation in GDP growth figures, as Germany and France recover and southern Europe's more recent outperformance begins to normalise. Nordic economies are expected to outperform in 2026, driven by expansionary fiscal policy and higher consumer spending, maintaining strong domestic demand.

Inflation in the Eurozone rose to 2.2% in September 2025, due to a lower drag from energy prices, while services inflation marginally ticked up to 3.2%, which is expected to keep interest rates at 2.0% for an extended period.

German office investment volumes for Q1-3 2025 remained 73% down on the previous 10 year average and 1% YoY, although we have observed returning prime yield compression across selected German office markets as the number of bidders for the double-digit million lot sizes increases.

During Q3 2025, European average prime office yields remained stable at 4.87%. Dublin compressed by 15 bps to 4.85%, whilst Berlin compressed by 10 bps to 4.4%. Lisbon was the only market to move out during Q3 2025, to 4.6%, due to a lack of prime product being traded.

So far in 2025, average prime yields have compressed by an average of 5 bps. Whilst core market yields have compressed by an average of 12 bps, non-core markets have remained stable.

The majority of European office markets remain in fair value territory. Madrid and Milan appear most favourably priced, given strong real rental growth prospects and a smaller increase in government bond yields, relative to historic levels.

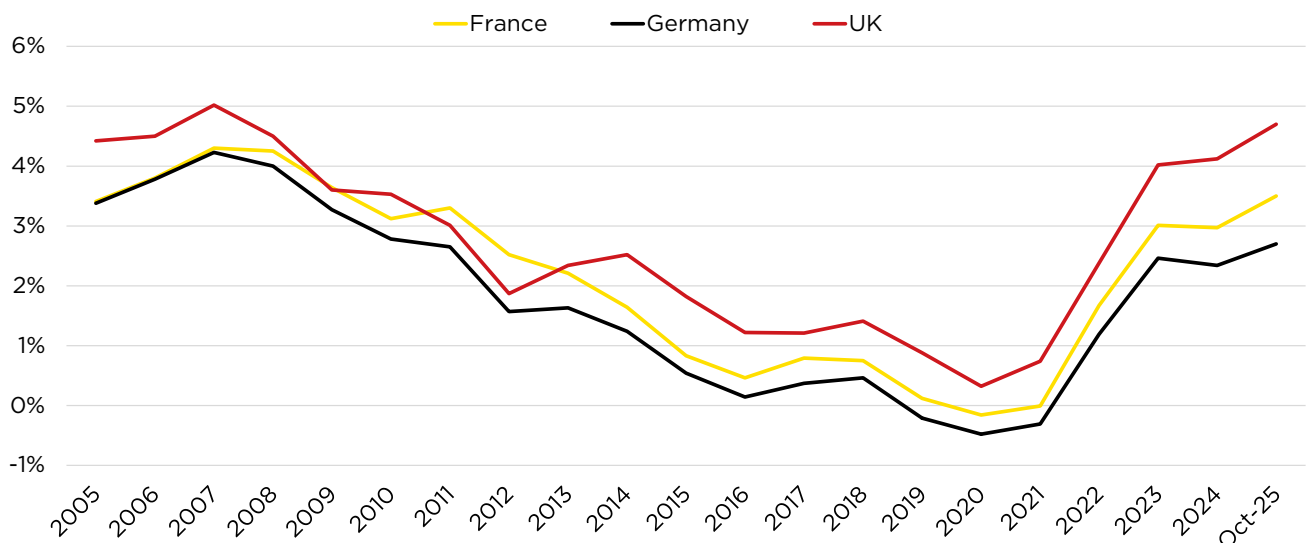
Office investment recovery in waiting
EXPO 2025 marked an improvement in

investor sentiment, with increased appetite for dealmaking, and many investors and agents reported it to be one of the most positive conferences since 2019. The quantum and breadth of buyers has returned and we are seeing a tick up in the number of underbidders for prime stock. The return of yield compression in selected European office markets is also buoying investor demand.

We anticipate prime yields to remain stable during the short term whilst government bond yields are at elevated levels. Fundraising remains difficult, although research from PERE indicates that global private real estate fundraising in 2025 is expected to outpace 2024, the first YoY increase since 2021, with more focus on opportunistic strategies. From traditional core buyers, German open-ended real estate funds are still reporting net outflows, according to data from Deutsche Bundesbank, although any forced selling remains relatively scarce.

Despite weak domestic growth in Europe's core markets, investors are continuing to make acquisitions in non-core markets. For the first time on record, non-core market investment as a percentage of total

Chart 1: Ten year government bond yields (%)



investment reached over 50%, boosted by CEE, Nordics and Southern Europe. Savills forecasts a 7% increase YoY in total European investment volumes in 2025, followed by a 16% YoY increase in 2026.

Investor sentiment recovering

INREV's investor sentiment survey shows an uptick in sentiment during Q3 2025, recovering the losses in Q2 following President Trump's tariffs. Investors felt more positive with regard to financing conditions, new development and investment liquidity, as net investor sentiment was highest for Spain, Italy and Germany.

Net investor sentiment also returned to neutral territory for the office sector, indicating signs of renewed confidence in the sector. Investors are less concerned with the threat of 'stranded assets' in the office sector, given many landlords have now managed these assets back to standard, whilst fears around office occupancy levels have also appeased. Latest metro passenger usage data indicate that London, Paris and Amsterdam are within 10% of 2019 ridership levels, whilst Madrid and Berlin have exceeded pre pandemic levels.

Debt remain accretive in Eurozone markets

Debt markets remain keen to lend. The majority of activity is still focussed around refinancings, rather than loans for new acquisitions, although not from a lack of appetite. Traditional banks have been in the market for some time, but debt funds' willingness to lend on value-add transactions has gathered pace over the last year, particularly for well-located, asset management schemes.

Big deals are returning

Preliminary data from RCA shows that the Q3 2025 average European office transaction lot size grew to €30m, the highest level for three years. Indeed, the number of office investment transactions over €50m has risen by 43% YoY, as investors become more willing to deploy on larger lot sizes and maintain their office portfolio exposure.

Increased cross border activity

RCA data shows that EMEA cross border investment into European offices has risen by 46% YoY compared to the previous 12 months, with Norwegian, Swiss, UAE and Spanish buyers leading the way so far in 2025. US private equity is likely to

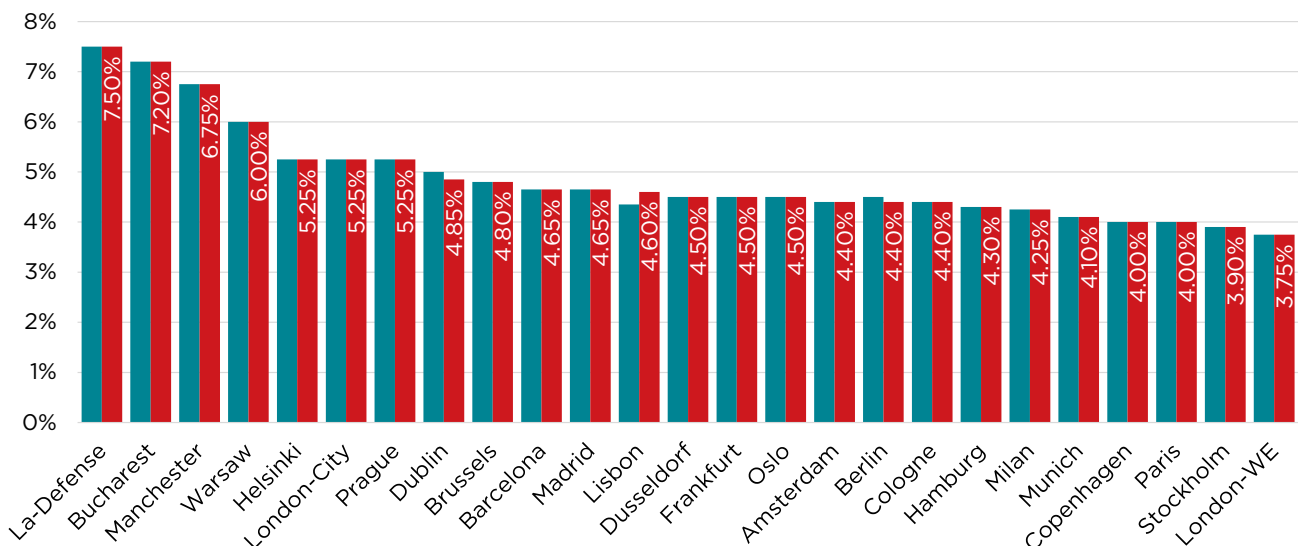
take longer to return to Europe given the relatively weak dollar, although established US investors are resuming activity, with Blackstone acquiring the Trocadero in Paris for circa €700m during Q3 2025.

Low prime vacancy rates ticking up rents

Income returns will continue to be the main driver of total returns over the next twelve months. With a shortage of new developments taking place, occupiers have few options at lease expiry. Interest rates remain high, and occupiers are hesitant to invest in capex on new premises, and we are thus seeing a higher proportion of lease renewals, providing landlords with opportunities to capture prime rental growth.

Prime is still the order of the day for offices and investors continue to prioritise newer stock in central, well-connected locations. Political uncertainty and elevated bond yields remain a headwind for capital deployment, but compared to 12 months ago, there are fewer reasons not to invest, as investor fears around future capex and the occupational market dissipate.

Chart 2: European office prime yields (%)





Savills Commercial Research

We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.

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