

SPOTLIGHT

EUROPEAN OFFICE INVESTMENT

Commercial - European Offices - Q4 2025

KEY THEMES

European average
prime office yields
hold stable at 4.9%

Cross border activity
accounted for 41%
of total office
investment during
2025

Savills expects to
see minor yield
compression across
selected markets for
prime CBD assets
during 2026

European office investment set for 2026 rebound



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Economic overview

Eurozone bond yields ended Q4 2025 where they started, despite ongoing volatility, due to debt sustainability concerns and geopolitical tensions. Eurozone headline inflation has recovered to target levels, although services inflation remains at elevated levels, whilst energy inflation remains in negative territory. The ECB indicated in its December meeting that interest rates are likely to remain at their current levels for some time. In the UK, inflation rose to 3.4% in December, and Oxford Economics anticipates the Bank of England will cut interest rates by 50 bps during 2026, to 3.25%.

The Eurozone Services PMI fell to 51.9 during January 2026, indicating a slower level of economic expansion, and Oxford Economics anticipates eurozone GDP growth will reach 1.0% in 2026, followed by 1.6% in 2027. Across Europe, CEE and Southern European economies are expected to record the strongest GDP growth in 2026, driven by stronger domestic demand and investment. Western European economic prospects remain more sluggish as exports drag on headline numbers, albeit a stronger performance is expected in 2027. The labour market remains tight however, as the eurozone unemployment rate fell to 6.2% in the most recent data.

Average prime European office yields remained stable during Q4 2025 at 4.9%. Munich (-10bps), Hamburg (-10bps) and Prague (-10bps) all compressed, whilst Bucharest moved out by 20bps.

Average European prime office yields remain in fair value territory, with Madrid, Milan and London City the most attractively priced markets, given strong rental growth prospects and wider yield spreads against sovereign bonds, compared to historic levels.

Why can we expect an office transactional rebound in 2026?

Investor sentiment towards offices has improved- Investors are gradually becoming more sector agnostic and are more focussed on the quality of asset to deliver solid income returns in their investment underwrites. INREV's latest investor sentiment survey for Q4 2025 indicates that investors most favour Southern European markets, with a much-improved sentiment towards Germany in recent months. There are fewer discussions around office attendance and obsolescence than 12-24 months ago, and buyers are now more committed to executing deals.

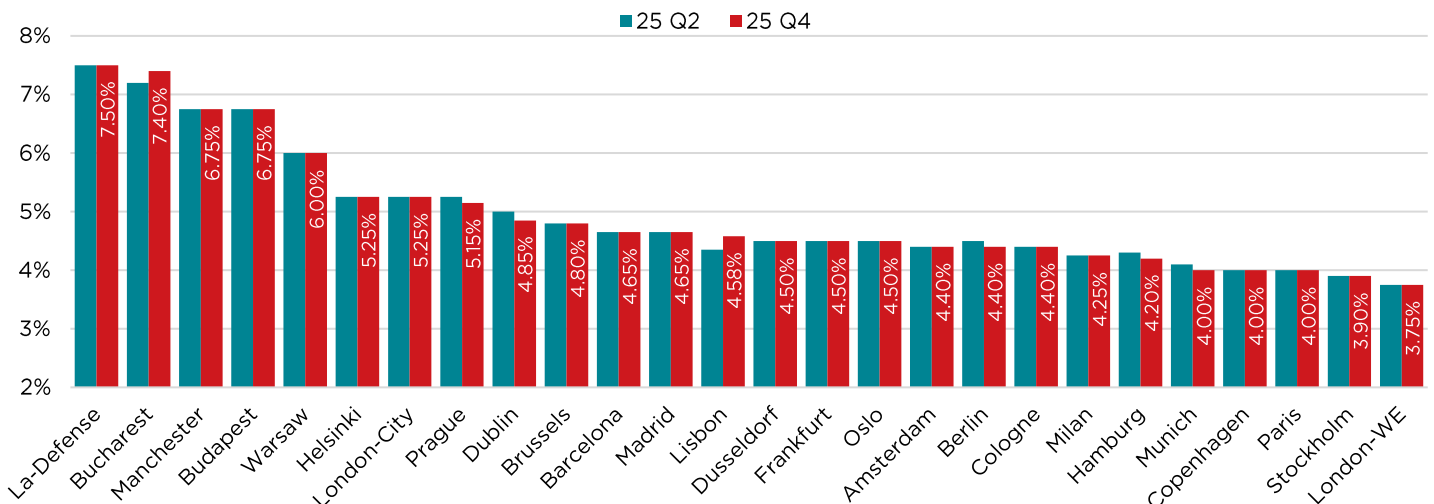
Accretive debt will support larger lot size transactions- The lending environment remains highly competitive into 2026, especially for larger lot size, prime assets. For example, Valesco received an €80m senior loan to finance the acquisition of a prime Milan office for €200m in January, at a reported record low debt margin. Preliminary RCA data indicates that the volume of single asset European office deals in excess of €100m in 2025 rose by 23% YoY. Accretive debt will continue to support the return of larger lot size transactions in 2026.

Returning cross border buyers- Cross border investment will also support liquidity for transactions in 2026. Preliminary RCA data indicates that the cross-border share of European office investment rose from 33% to 41% between 2024 and 2025. European insurance companies have targeted core-plus stock, whilst SCPIs continue to favour higher yielding office stock. Private investors who have been more active over the last 12 months will continue acquiring core assets in 2026.

Occupational fundamentals improving- Tenants are getting stickier and opting to sign lease renewals given both the shortage of well-located prime office space, and the high cost of fitouts, which have risen an average of 67% over the last five years. Landlords are therefore able to capture rental uplift on lease renewals, which is delivering real rental growth, attracting more buyers to prime stock. Given the dearth of new development activity, we expect average prime rents to increase by 3.7% in 2026. Private equity investors are undertaking buy, fix, sell strategies for older buildings in CBD locations to capture rental uplift.

As investors become more sector agnostic, we expect to see minor yield compression across selected markets for prime CBD assets during 2026, supported by attractive pricing, resilient economic growth and an undersupply of prime stock.

European prime office yields (%)



Source: Savills

Feature: European valuation methodology

Are different valuation methodologies across Europe impacting the speed of recovery in office investment markets?

The level of volatility in capital value growth ranges significantly across different European office markets. MSCI data indicates the standard deviation of annual European office capital value growth between 2001 and 2024 ranged from 2.6 in Milan to 11.1 in London, indicating London is a 'riskier' market from a valuation perspective.

Why is there such a range in volatility in office valuations across different countries?

Firstly, the level of market transparency/data availability impact the speed of adjustment and extent of variation in book valuations. More transactional evidence ultimately creates a consensus on pricing and supports liquidity.

Secondly, we note different approaches to valuation methodology across these markets. Whilst traditional growth-implicit methodology still dominates in the UK and Ireland, Discounted Cash Flow (DCF) methodology is the preferred approach for much of continental Europe. It is not so much the methodology that impacts the responsiveness of markets but clearly the methodology adopted is in response to the availability and accuracy of underlying market data. In a liquid, transparent environment such as the UK, where market participants freely publish information on deals closed, and agents and valuers alike are more open to sharing of intelligence, then values adjust more readily even if things are painful for some on the way down. Conversely, in a market where things are hidden and much remains confidential, it is likely that caution is applied by valuers

and adjustments may be more gradual until such time as the situation is clearer to all. It is the reason that DCF methodology dominates in these locations – if you don't have perfect information from which to compare your asset to others, the valuer needs to build a cashflow with explicit assumptions regarding market rental growth, non-recoverable costs and required returns above a risk-free rate.

Many traditional lenders, including European banks, will favour lending in markets with lower volatility in values so that their loans do not breach covenants. Savills data indicates how prime office yields have adjusted fastest in markets including London City, Dublin and Amsterdam since 2022, which has supported liquidity from cross-border buyer pools.

Do different valuation methodologies have an impact on the speed and extent of transaction recoveries?

Higher volatility in capital values implies greater uncertainty/risk for investors and lenders, but also creates new buying opportunities. In markets where book values are more volatile, a higher proportion of loans are likely to breach lenders' agreed loan-to-value ratios during a downturn, resulting in more distress. However, using MSCI data, there is no clear evidence to indicate that European office markets with more volatile book values observe more volatility in the number of office investment transactions.

Of course, the variability in capital value growth is not solely a function of methodologies - occupational market dynamics, political risk, economic growth and interest rates are the main drivers of

value growth. For example, Madrid's office capital value growth, has outperformed European counterparts over the last three years given a strong domestic economy, although it recorded among the most significant markdowns in valuations following the Eurozone crisis given a weaker economy feeding into weaker demand.

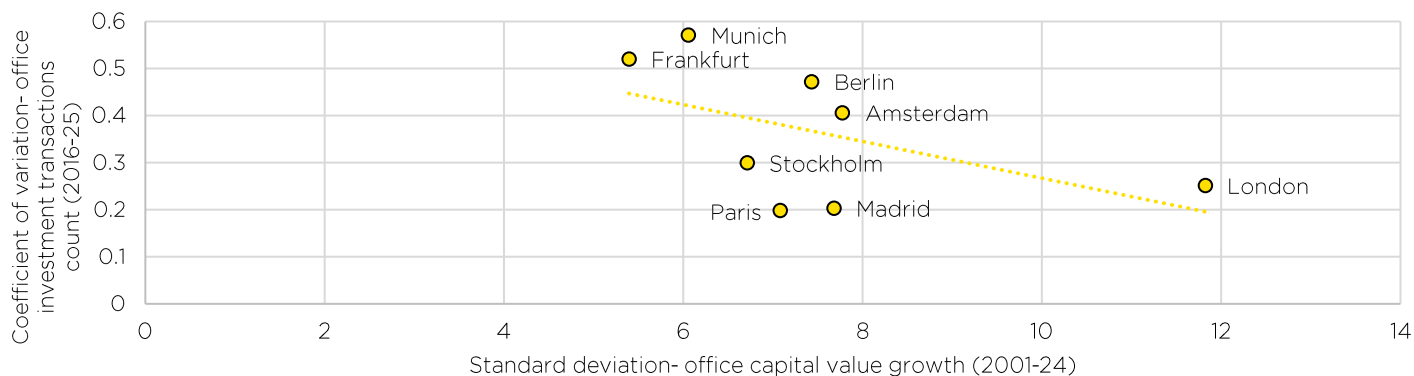
Looking forward

Lower LTV ratios today, compared with post Global Financial Crisis (GFC) have limited the level of distress, and slowed the speed of the investment recovery. In this cycle, we have seen banks extend current terms upon refinancing events, which has reduced the number of distressed sales and protected the banking sector from any similar contagion risk seen to post GFC.

Some traditional lenders are more comfortable lending in markets with lower capital value volatility to ensure their loan covenant is not breached. We expect alternative lenders to become more active in these markets, particularly during refinancing periods following market downturns. Likewise, funds raising value-add capital are more likely to find buying opportunities in markets with more volatile book values.

More transparent and responsive capital values also appeal to cross border investors who are less familiar with local market dynamics. London is the most liquid European market and is able to attract a wider cross-border buyer pool, given the availability of evidence. As transparency improves across other European jurisdictions, we expect this to support more cross-border buyer activity.

Does the variability of office capital valuations impact the volatility of investment markets?



Source: Savills, MSCI



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