SPOTLIGHT
Savills Research

European Investment
Q1 Preliminary results & Forecasts

Europe's recovery faces a fragile path between progress and pitfalls

On a positive note, signs of economic resilience are emerging in the Eurozone, suggesting a slow but steady recovery. The composite PMI held above the critical 50-mark in February, signalling ongoing expansion, while the Economic Sentiment Indicator climbed to 96.3, according to Oxford Economics. Notably, the industrial sector showed renewed optimism, reflecting a stronger outlook for production. However, the broader recovery remains uneven, with services and retail trade stagnating and construction continuing to exert downward pressure on overall sentiment.

The Eurozone Sentix index (economic sentiment indicators) saw a notable rise of 9.8 points in March, reaching -2.9. Although it remains in negative territory, this marks a significant improvement and the strongest level recorded since June 2024. Germany experienced an even sharper rebound, with the index climbing 17.2 points to -12.5.

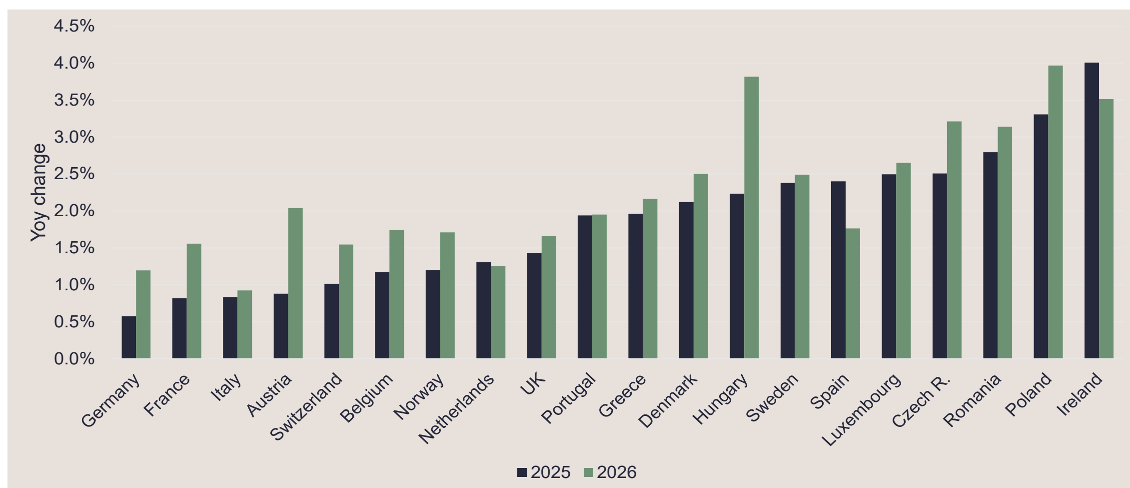
Inflation is on a downward trajectory, further supporting economic stability. Annual Eurozone headline inflation stood at 2.4% in February, marginally lower than the previous month. A decline in energy inflation offset a slight rise in food prices, while core inflation eased significantly. The notable drop in services inflation reinforces the expectation that inflation will continue to moderate, helped by slowing wage growth and a softer labour market. We anticipate that inflation will average just above 2% this year.

The European Central Bank (ECB) is progressively moving towards a neutral monetary stance. In early March, it implemented a widely anticipated 25bps rate cut. However, given that the ECB now perceives its policy stance as considerably less restrictive, the likelihood of a slower pace of easing or a potential pause has increased. Two further cuts in April and June are expected before the central bank shifts to an extended holding pattern.

Despite some positive indicators, significant risks to growth remain, particularly due to trade concerns. Given US President Trump's highly protectionist stance, his administration is now expected to impose a blanket tariff on EU imports, triggering retaliatory measures from Europe. While lower energy prices have improved the EU terms of trade and external balance, exports are expected to provide limited support to growth in the near term. Moreover, the exposure of EU economies to US tariffs varies considerably, with over 20% of EU goods exports directed to the US. This potential disruption could have far-reaching consequences, not only through direct trade effects but also by undermining the EU's complex supply chains, investor confidence, and overall business sentiment.

As a result of these factors, EU GDP growth forecasts have been revised downward, with growth now expected to reach 1.4% in 2025 and 1.8% in 2026. Over the longer term, the Eurozone's fiscal outlook is set to evolve, particularly with increased EU military spending. Oxford Economics assumes that military expenditure will gradually reach 3% of GDP by the end of the decade. While this fiscal expansion is unlikely to provide a substantial boost to growth, it remains a modestly positive factor for the Eurozone economy.

GDP growth in Europe



Source: Oxford Economics

European Investment Q1 2025

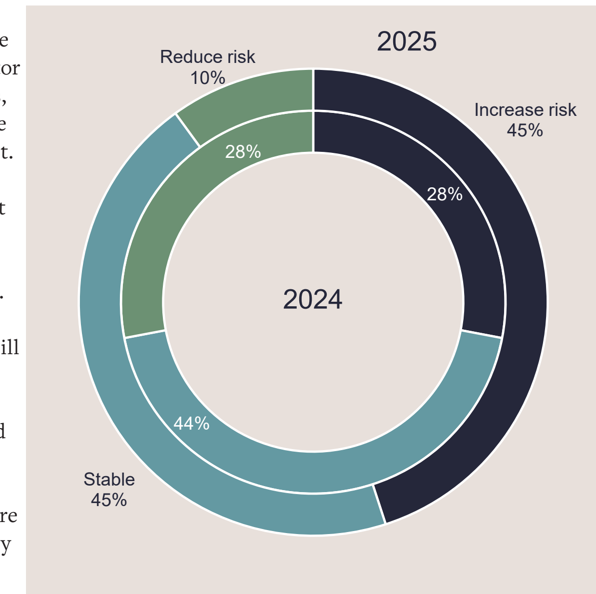
Cautious optimism prevails amid geopolitical volatility

Geopolitical tensions are undeniably mounting, raising concerns about their economic repercussions. Real estate, closely tied to macroeconomic trends, inevitably feels the impact. The major direct impact of new US tariffs on raw materials like steel is pushing up construction costs and causing delays as supply chains are restructured. Yet despite this backdrop, investor sentiment remains surprisingly resilient. After navigating the pandemic and the inflationary shock of the Ukraine war, the market has grown accustomed to operating in uncertainty. Today's geopolitical risks are seen as just another layer of complexity. Investors seem to accept that volatility is the new normal—and are pressing ahead, supported by the sector's solid fundamentals.

The debt market is once again active. Banks are increasingly keen to lend and deploy capital, while CMBS markets are also showing healthy liquidity. Encouragingly, investor appetite for risk is clearly returning. According to our 2025 Investor Sentiment Survey, 45% of respondents intend to increase their exposure to higher-risk strategies, up sharply from just 28% in 2024. This allows us to extrapolate that there is currently healthy investor activity spanning the core, core-plus, and value-added segments across the commercial real estate (CRE) market.

Overall, opportunities on the market remain limited; however, select pockets of large-scale deals are emerging, after a period of dormancy. While some major transactions have been recorded, most deal sizes are still relatively modest, reflecting a more cautious investment environment. In today's environment—where yield compression can no longer be relied upon to drive returns—the unique characteristics of individual assets are more important than ever. Selectivity is key, and investors are scrutinising potential acquisitions more closely to ensure long-term performance. Investors continue to focus on income-generating assets, with active asset management strategies increasingly prioritised.

Investor risk appetite



Source: Savills Research

Cross-border investment trends

The impact of the US political climate on European real estate investment remains uncertain. While US investors are still among the most active in the market, a politically driven shift to significantly increase their allocations to Europe has yet to take shape. Nonetheless, their interest in European real estate remains strong, with the UK and Ireland continuing to feature at the top of their bucket list - especially among private equity players.

One of the most striking investor trends remains the sustained appetite of French Sociétés Civiles de Placement Immobilier (SCPI) for European assets. Their investment activity has been notable in a variety of asset classes, including logistics, student housing, and hotels. Moreover, SCPI funds are increasingly expanding their scope beyond traditional Western European markets into Central and Eastern Europe, particularly Poland. This expansion is driven by a quest for higher yields.

Finally, German capital remains active, particularly in outbound investment. Several institutional investment managers and insurance groups are showing renewed interest in core, income-focused office assets. This is complemented by private German investors, who are also pursuing acquisitions in neighbouring countries. At the same time, while many German players are in buying mode, others are releasing equity through disposals in some of the continent's more liquid markets.

Diversification strategies take centre stage

But because there is still caution, diversification strategies will further increase. With fewer sector specialists, investors are willing to diversify their portfolios, increasingly considering niche markets. They want to avoid strong exposure to one specific asset type to circumvent the volatility of the market. Diversification will remain a priority for investors seeking to mitigate sector-specific risks, meaning all asset classes should benefit from the modest market recovery.

Investors are still strongly focusing on “beds and sheds”. Multifamily is relatively insulated from the current geopolitical tensions, but there is a strong lack of multifamily products. Logistics is likely to feel the effect of reduced international trade flows between the two continents and disrupted supply chains.

Data centres are the buzz sector increasingly attracting a growing number of investors, but due to the sophistication of the asset class, it restrains many from entering the market for now.

The worst appears to be over for retail, which is making a comeback—particularly retail warehousing and grocery-led formats. The sector is drawing renewed investor interest across a range of strategies, from core and core-plus to value-add. Many investors are cautiously exploring opportunities, either through partnerships with local operators or by taking a more hands-on approach to asset management. This trend is particularly notable given the recent hesitancy towards the office sector.

That being said, some office transactions have made headlines, particularly in prime European markets. Large deals have been recorded in Paris, London, Berlin and Stockholm, indicating renewed, albeit selective, interest. Trophy office assets are drawing attention from institutional investors, as concerns around workplace shifts and occupier demand have eased for many investors. Some investors who were active last year have chosen to pause or reduce their exposure, citing rising government bond yields in many western European countries.

The hotel sector has also seen a resurgence in investor interest, particularly in prime tourist destinations and major business hubs. With travel and tourism rebounding, institutional investors and private equity funds are looking at hospitality assets with strong occupancy rates and stable revenue streams. Luxury and boutique hotels in cities like Paris, London, and Madrid are drawing attention, while budget and extended-stay segments are proving resilient due to growing demand from both business and leisure travellers. SCPI funds have been steadily increasing their investments in this segment, drawn by its long-term appeal—though their focus remains exclusively on leased hotel assets.

Reading the signs: how cautious confidence will shape investment volumes?

Investment activity is showing signs of resilience, with preliminary data indicating that Q1 2025 volumes will surpass €50 billion—a 28% year-on-year increase. While this signals a recovery, investment levels remain 45% below the five-year average.

A broad-based recovery is taking shape, with most countries set to record an annual increase in investment activity. Notably, the Czech Republic, Austria, France and Norway are likely to see the strongest annual growth in 2025.

Despite this surprisingly strong Q1, external pressures are clouding the outlook. Recent geopolitical tensions are adding another layer of caution to the market. Against this backdrop, our full-year investment forecast has been adjusted downward slightly. While Q1 has provided a solid foundation, we now expect 2025 investment volumes to reach €216 billion, representing a 13% annual increase—down from the 23% we previously anticipated.

Despite the near-term challenges, the overall investment trajectory remains positive. The market is poised for further growth, with investment volumes projected to rise by 25% in 2026 and another 19% in 2027.

Shifting gears: prime European yields begin to move in

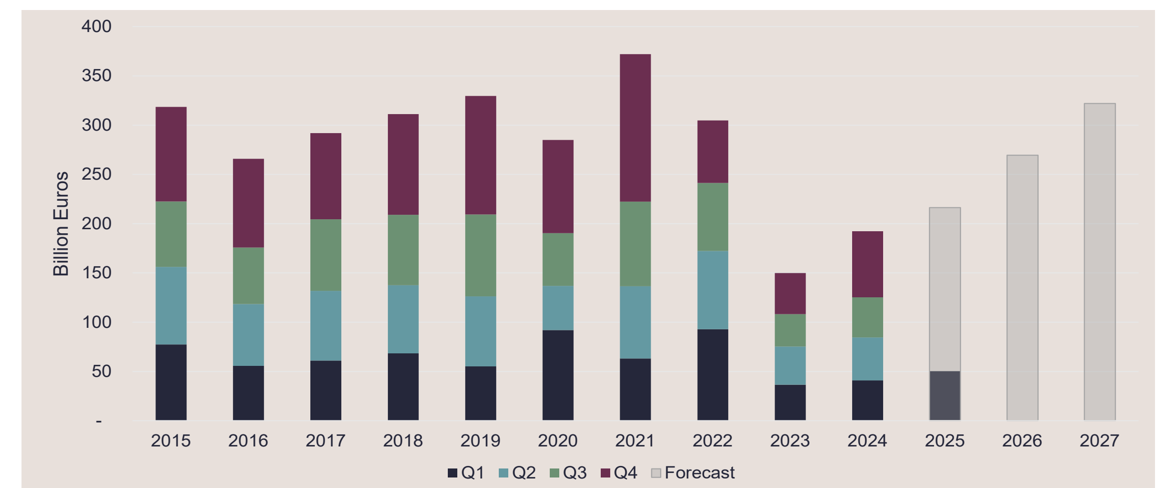
Prime yields across Europe appear to have reached a turning point, with the stabilisation observed over the past quarter now giving way to early signs of compression. What initially emerged in Q3 2024 within prime logistics and CBD office markets has since extended to luxury high streets, suggesting that pricing pressures are beginning to bottom out more broadly.

For Q1 2025, we estimated European average prime yields stood at 5.0% for both logistics and CBD offices, 6.15% for shopping centres, 5.85% for retail warehouses, and 4.3% for prime high street retail. While overall yields are expected to remain flat through Q2 2025, selective inward shifts are anticipated—most notably for prime logistics, with more moderate movements likely in CBD offices and retail parks.

As of March 2025, the European Central Bank has cut its key interest rate to 2.5%, with two additional reductions expected by June. This easing cycle is set to improve financing conditions and reignite investor appetite, laying the groundwork for a broader yield hardening across sectors.

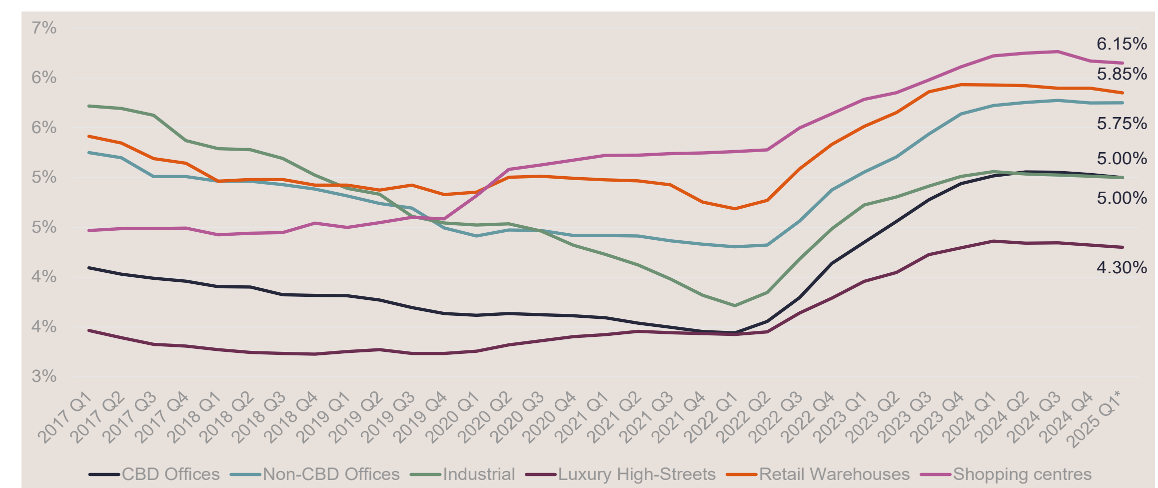
From Q2 2025 onwards, this shift is projected to gather pace, with prime yield compression gradually extending across asset classes and geographies. These developments point to a more optimistic outlook for investment volumes, underpinned by improving capital markets and increased confidence in real estate pricing.

European investment forecast



Source: Savills Research

European average prime yields



Source: Savills Research / * Estimations

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