

European Commercial - Q4 2025

SPOTLIGHT
Savills Research

European Investment Q4 Preliminary Results & Forecasts



The first cracks of light after the fog

Throughout 2025, Europe's real estate market has continued to search for a clear inflexion point. Investors have been navigating a landscape shaped by shifting geopolitics, inconsistent economic indicators and a general hesitation to commit until the broader picture becomes more firmly defined. Hopes that the strong finish to 2024 would roll seamlessly into a more dynamic 2025 have not fully materialised, yet sentiment has undeniably moved beyond outright caution.

Momentum has been building gradually, with the share of portfolio deals representing slightly above 40% of the total investment volume, a level not seen since 2015. The trend toward larger deals has continued into Q4, with several sizeable transactions completing since October, including Blackstone's €700 million acquisition of the Paris Trocadéro office building, REICO's €682 million purchase of a two-property portfolio in the Czech Republic, and CPI's acquisition, also in the Czech Republic, of a four-property residential portfolio for approximately

€600 million. The return of major institutional buyers ready to execute big-ticket deals, alongside renewed interest in portfolio strategies, is helping sustain this momentum. Still, investors remain selective, and those who are deploying capital tend to be highly researched groups focused on assets with strong fundamentals.

Other market indicators confirm that this cautious revival is gaining traction. MSCI reports that the value of deals under contract at the beginning of October was the highest since 2022. Valuations appear to have completed their downward adjustment, with modest quarterly and annual increases emerging across a wide range of markets, signalling genuine stabilisation. At the same time, eurozone long-term interest rates have eased to levels that once again make core real estate comparatively attractive.

The final quarter, typically the busiest due to year-end allocation pressures, is set for a clear acceleration. Q4 volumes are expected to reach approximately

€77 billion, representing a 12% increase on the same quarter last year. This would bring the full-year total to around €215 billion, 9% higher than in 2024. Markets likely to drive this improvement include the Czech Republic, Finland, Portugal, Denmark, Belgium, Spain, Sweden, Hungary and Norway, each expected to record annual growth above 20%. By contrast, core markets such as Germany and the UK continue to adjust more gradually, weighed down by declining volumes.

Cross-border capital will continue to be the backbone of market liquidity. Based on deals signed since October and others already in the pipeline, we expect cross-border inflows to remain strong, maintaining an average 45% share of total activity. Inflows from the Americas should remain broadly in line with last year, despite softer US volumes, likely reflecting the weaker dollar, while Canadian investment will continue through Q4 and into 2026. European cross-border activity is set to grow further, fuelled by strong engagement from the continent's traditional cross-border

investors, particularly British, French, and Swedish buyers expanding their presence outside their home markets. Asia-Pacific capital is also expected to increase, driven by Australia and an increasingly visible presence from Japanese institutions. Investment from the Middle East and Africa will also rise, supported by inflows from the UAE, Israel and Kuwait.

This year's sector performance reflects both cyclical corrections and deeper structural shifts in investor priorities, particularly the surge in appetite for operational assets, which offer more resilient, predictable income streams. Less cyclical and typically more ESG-aligned, these assets (notably the living sectors) also provide a notable yield premium over traditional sectors. Up to Q3, care home investment surged by 182% year-on-year (YoY), admittedly against an exceptionally subdued comparison period, while PBSA rose 71%, reaching 6% of total investment, a record share for the sector. Retail has staged one of the strongest rebounds, with €25.3 billion invested across Europe, up 18.5%, lifting its

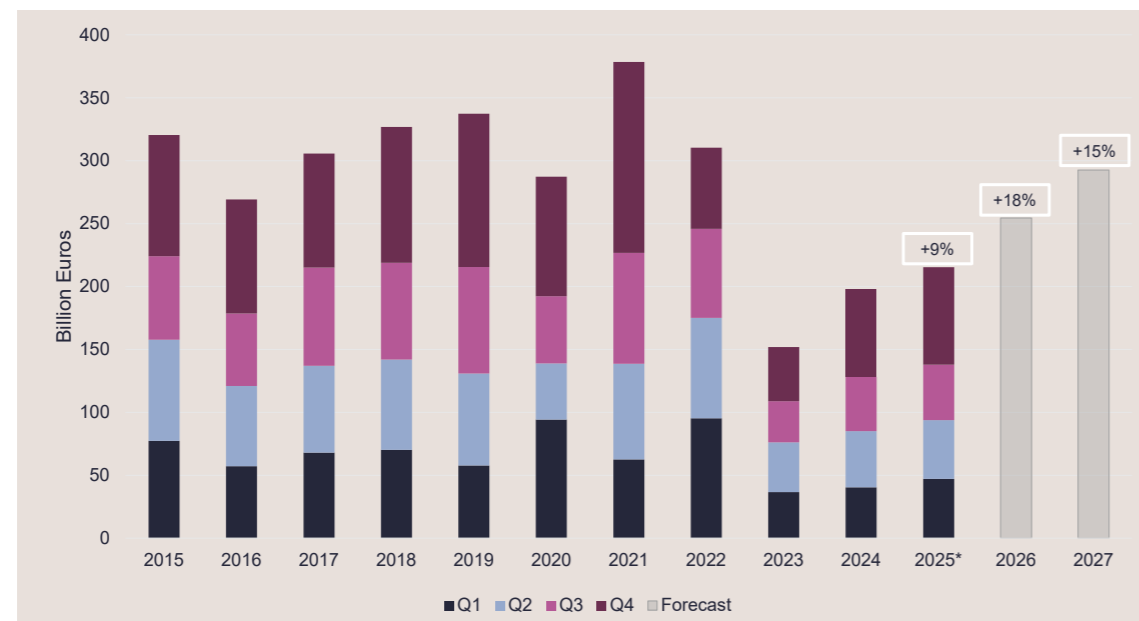
share to 18% of all activity, a level last seen in 2016. Multifamily investment increased by 10.2%, office by 7.4% and hospitality by 1.5%. Logistics was the only major sector to record a decline, with €27.7 billion invested, down 2.6% YoY, largely reflecting asset scarcity and tighter underwriting rather than any structural loss of appeal.

By year-end, the living sectors, including multifamily, senior, care and PBSA, are expected to represent the largest share of total investment, overtaking offices for the second consecutive year. Last year, they briefly ceded this position to logistics.

Looking beyond 2025, the outlook improves further. Investment volumes are forecast to rise by around 18% in 2026 as pricing firms up, macroeconomic conditions stabilise and institutional capital returns more consistently across the main sectors. Offices are expected to regain momentum as investors respond to attractive pricing and renewed confidence in prime assets, while the living sectors are expected to remain

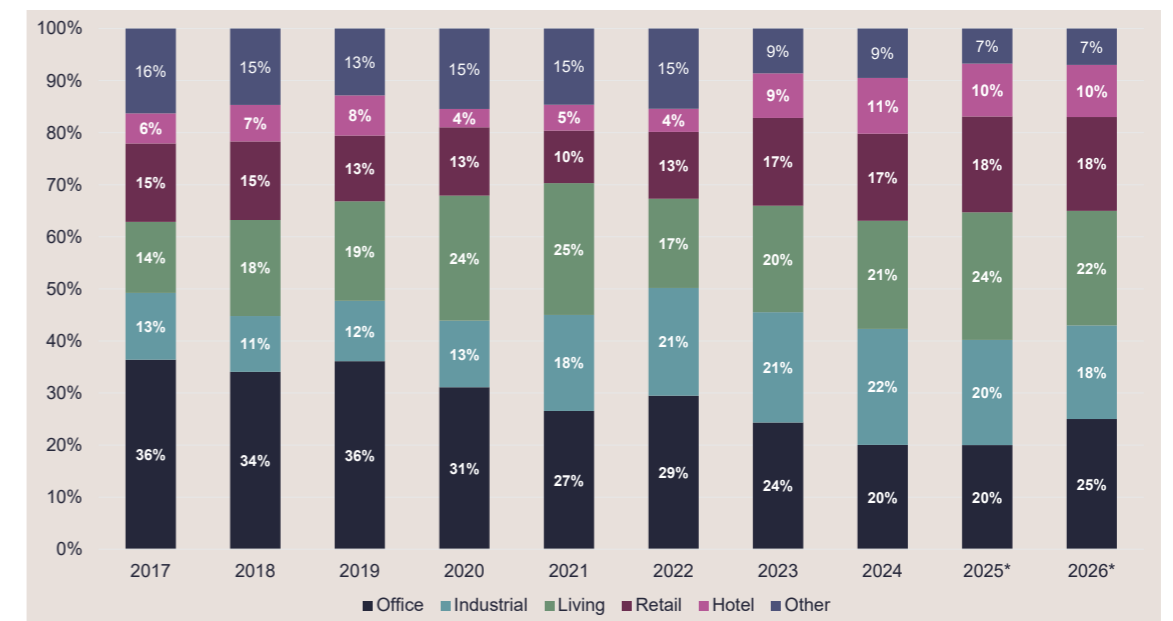
the second-largest allocation. An additional 15% increase in investment volumes is projected for 2027.

European investment volume



Source: Savills Research / * Q4 Forecast

European investment by asset types



Source: Savills Research / * Forecast

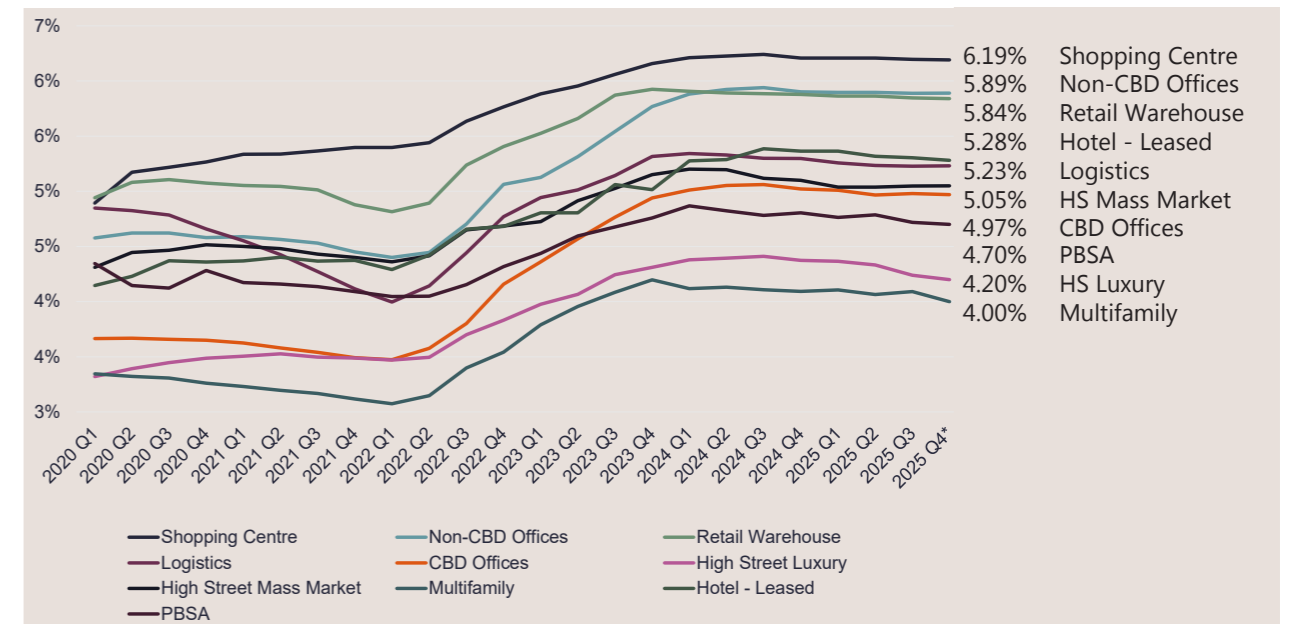
The first ripples signalling a new tightening cycle

Although most investors entered 2025 expecting a meaningful compression of yields, the adjustment has been more muted than anticipated. This is largely because transaction volumes remained relatively weak, debt costs remained higher for longer, and investors remained cautious amid uneven macro signals and lingering concerns about valuation risk. In addition, forced sales did not materialise at scale, limiting repricing opportunities, while buyers and sellers continued to disagree on price expectations, amid an uncertain economic backdrop, slowing deal flow and preventing the competitive bidding environment needed for stronger compression. Finally, occupier markets have been uneven across sectors, making investors more selective and preventing the broad-based yield tightening many had expected at the start of the year.

That said, all sectors have experienced a modest inward shift compared with Q4 2024. The largest adjustment occurred in luxury high-street retail, where prime yields moved down by 17 bps. This was followed by the living sectors, with prime PBSA yields compressing by 10 bps YoY and multifamily by 9 bps. Core leased hotels also recorded a notable inward movement of around 8 bps YoY, supported by strong activity in the hospitality market. Across the remaining asset classes, prime yields moved in by 5 bps or less YoY.

Looking ahead, we expect prime yields to continue to edge lower over the next twelve months, with the exception of non-central business district (CBD) offices. The strongest compression is anticipated for prime CBD offices and retail assets.

Prime average yields



Source: Savills Research / * Estimations

How do you expect the current prime yields to trend in the next 12 months?



Source: Savills Research

European investment top picks for 2026

TOP PICKS FOR CORE /CORE+

Prime CBD offices in major European capitals

High-quality office assets in CBDs remain a defensive core allocation. Low vacancy, strong tenant covenants and an entrenched flight-to-quality continue to support pricing in Europe's largest and most liquid capitals.

Prime hotels in key European tourist gateways

Hotels in established year-round destinations, including France, the UK (notably London), Italy, Spain, Portugal, and Greece will remain in demand, and we expect to see transaction volumes continue to increase in Germany. Strong international arrivals and resilient leisure spending underpin the sector's long-term outlook.

Multifamily in large metropolitan areas

Institutional residential assets in capital cities and major metropolitan areas offer durable income, driven by structural undersupply and ongoing household formation, despite population decline.

Prime high-street retail

Best-in-class high-street pitches in major European cities continue to demonstrate stabilising occupancy, strong tenant demand, and growing tourism flows, while retail sales are stabilising at around 2% on average across Europe.

TOP PICKS FOR VALUE-ADD

Manage-to-green strategies for secondary offices

Upgrading older or non-compliant offices in CBDs or well-connected locations offers strong value-add potential, supported by tightening ESG regulations and widening rental differentials between prime and secondary stock.

Logistics with reversion potential & light-industrial aggregation

Modern logistics assets with short unexpired terms, clear rental reversion, or scope for targeted capex remain attractive. Urban light-industrial aggregation continues to offer scale and operational upside, notably for redevelopment into last-mile logistics.

Optimisation of underperforming retail assets

Retail parks and shopping centres with solid catchments but operational or layout inefficiencies offer opportunities for re-leasing, re-configuration or partial mixed-use repositioning.

Growing niches within operational assets

Self-storage, cold-storage, dark kitchens, open-air storage, EV charging stations; investors are increasingly drawn to these emerging niches, which offer resilient, service-linked income streams and structural demand drivers that are less exposed to traditional real estate cycles. They can also provide higher yield potential.

TOP PICKS FOR OPPORTUNISTIC

Secondary offices with redevelopment potential

Well-located offices with ageing specifications, obsolete layouts or planning uplift provide strong repositioning and redevelopment opportunities as prime offices in well-connected locations remain scarce and new development opportunities remain limited.

Change-of-use strategies

Conversions, most commonly from commercial to residential, remain a key opportunistic theme, particularly in markets facing structural housing shortages, though this is dependent on market regulation and there is big variance across the continent.



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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