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SPOTLIGHT

EUROPEAN OFFICE INVESTMENT

Commercial - European Offices - Q1 2026

KEY THEMES

Average prime office yields remained stable at 4.9% during Q1 2026

Elevated sovereign bond yields have increased all-in debt costs.

Cross-border investment returning to European offices.

RESEARCH

European office yields stable in Q1 2026.



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Economic overview

European government bond yields rose by an average of 20 bps during Q1 2026, following the start of the US/Iran conflict on 28th February, reflecting higher inflation expectations as a result of global energy shortages. The number of vessels entering the Strait of Hormuz had fallen by over 90% by early April and despite a two-week ceasefire being agreed between the US and Iran, oil prices hover around the \$100 per barrel mark.

Eurozone inflation rose to 2.6% in March 2026, following the US-Iran conflict, albeit this was lower than anticipated. Inflation is now expected to rise to 3% in 2026 across the bloc, according to Oxford Economics. However, a softer hiring market and low inflation from an already low base should avoid any repetition of the 2022-23 levels

of inflation. The European Central Bank is now expected to increase interest rates by 50 bps to 2.50% in the summer 2026, before cutting back to 2.00% in 2027.

Oxford Economics' 2026 Eurozone GDP growth forecast has softened by 30 bps to 0.8%, given higher import costs and weaker investment levels. More energy import-dependent European countries, including France, Italy and the UK, have also seen economic outlooks downgraded and sovereign bond yields increase more significantly than the European average, given already high levels of government debt.

Prime office yields

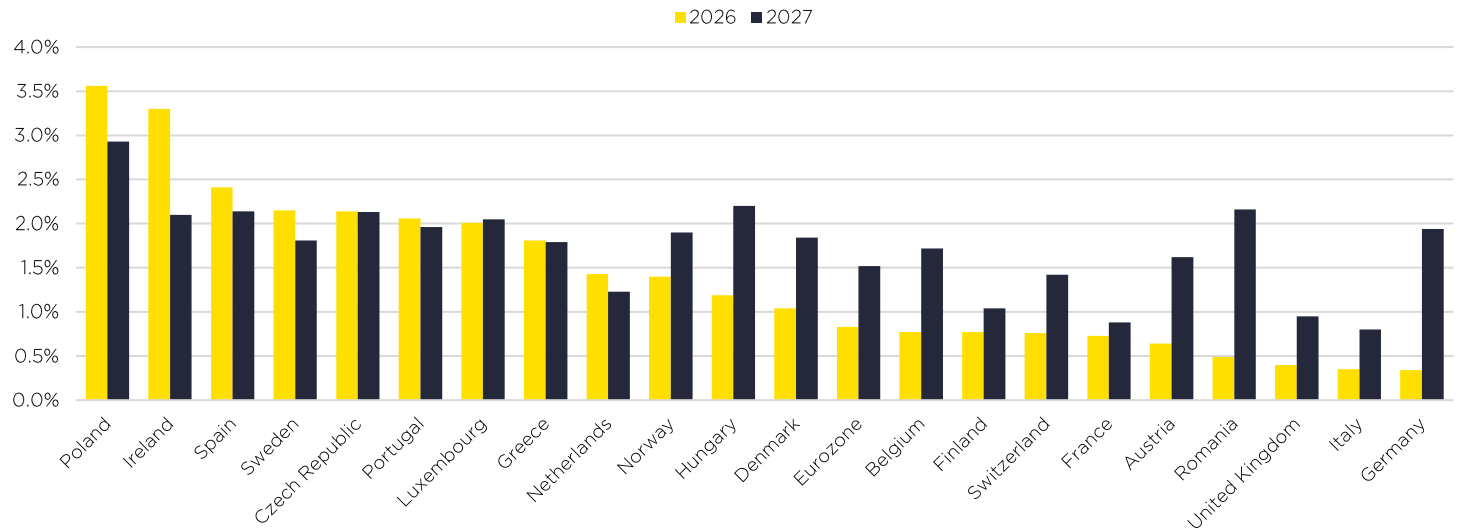
During Q1 2026, average prime European office yields held stable at 4.9%. Bucharest moved in by 20 bps, Barcelona, Madrid and

Manchester moved in by 25 bps, whilst Prague moved out by 10 bps.

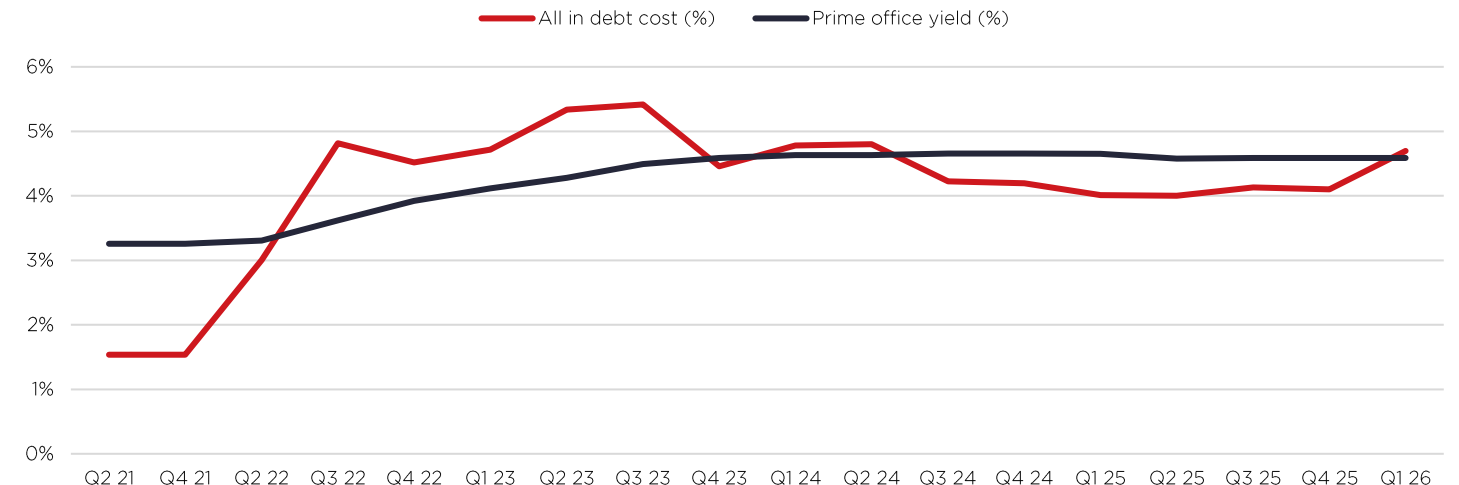
Given increases to government bond yields, European offices currently appear between fairly priced and fully priced. Madrid, Milan and London appear most attractively priced on a fair value basis, given strong rental growth and attractive pricing against historic levels.

Inflation forecasts have increased off the back of the US-Iran conflict, but overall, five-year annualised inflation forecasts for 2026-30 remain lower than for the 2025-29 period, which will support real rental growth prospects over the new forecast period.

European GDP growth by country (% pa)



European average prime office yields and all-in cost of debt (%)



Source: Savills, Oxford Economics

US-Iran conflict to dampen investment recovery in Q2.

Clearly, events in the Middle East have reignited the spectre of higher inflation and added an additional layer of uncertainty for European investors. We expect this will soften investment volume growth during the second quarter, as investment committees scrutinise pricing more closely amid higher debt costs. However, investors seeking price reductions at the later stages of negotiations are generally finding themselves disappointed, as vendors hold firm with their pricing expectations. Deals are taking longer to complete.

On the whole, we are observing recovering demand for larger lot size investment transactions with a rising number of underbidders returning to the market for core assets. Investors remain on the hunt for secure income and are increasingly pivoting back to the office sector to achieve this. There is a wider price expectations gap between buyers and sellers in Germany, with office investment volumes reaching only €700m during Q1 2026, down 82% on the ten-year average. German core buyers are becoming increasingly active on a cross-border basis, however.

Returning cross border buyers to European offices

We continue to see a revival in the volume of cross border buyers of European offices. SCPIs remain active and are increasingly willing to look into UK regional cities and into CEE in search of higher yields. Norwegian, Japanese, Middle Eastern, Czech and Spanish buyers all marked notable increases against their respective five-year average levels of investment during 2025. Despite preliminary RCA data indicating a minor drop in total European office investment volumes for Q1 2026 YoY,

the volume of cross-border activity rose over the same period. Depending on the length of the US-Iran conflict, we may begin to see more Middle Eastern private family offices reallocate capital to safe-haven western European cities.

Debt markets

Banks remain keen to lend against high quality CBD offices, which is gradually improving liquidity for larger lot-size transactions. Spanish office investment rose to over €1bn during Q1 2026 following the purchase of the sale of the Estel office building in Barcelona by Criteria Caixa, which Savills advised on. In Paris, the sale of 83-85 Avenue Marceau to Hines for €243 million is evidence of improving market liquidity.

However, the increase in swap rates as a result of the Middle East conflict is likely to see some real estate lenders tighten their lending criteria in the short-medium term, although any evidence so far has been limited. The average all-in cost of debt for selected European markets rose by 60 bps during Q1 2026 to 4.7%, now in line with the average prime office yield. LTVs generally remain at 55% across prime continental European offices, and 60% for London City offices.

Overall, the proportion of non-performing commercial real estate loans (NPLs) in Europe fell over the last 12 months. Reductions in the proportion of NPLs across Southern Europe offset increases in France and Germany. Debt funds are becoming increasingly active via a back-leverage structure for non-prime lending, which is gradually improving liquidity for secondary offices.

Fundraising remains difficult given elevated interest rates. Share redemptions were suspended from a handful of European open-ended real estate funds during Q1 2026 in response to the Middle East conflict, which could see some vendors return stock back to the market later this year.

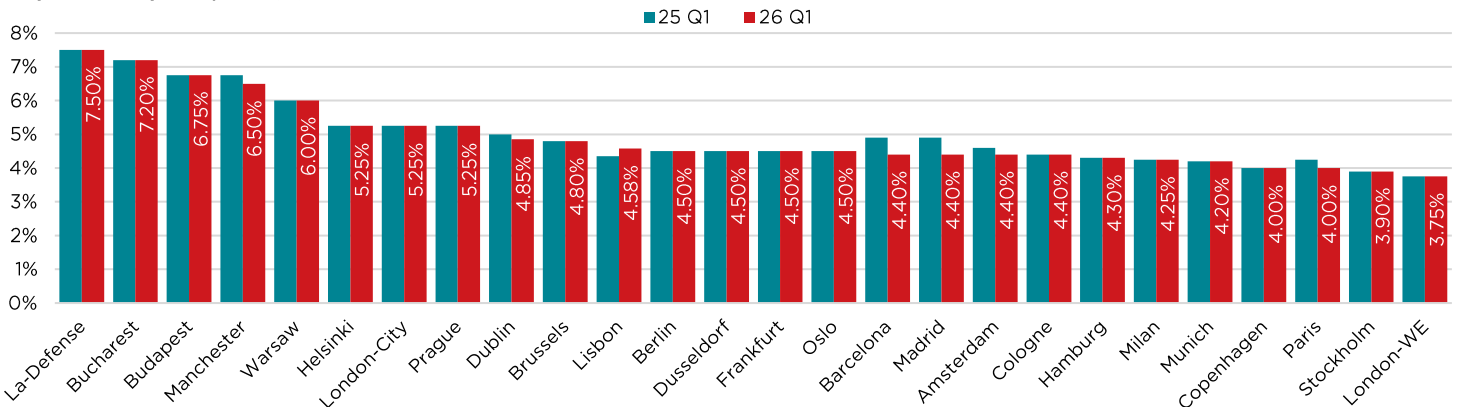
Outlook

Overall, the occupational fundamentals remain attractive for investors as average prime office rents rose by over 4% last year, reflecting an undersupply of good quality stock. Higher steel prices - on top of already existing tariffs - will likely push back the development pipeline until well into 2027, as developer margins are squeezed.

Investors remain cautious over future capex requirements for older office stock. According to RCA data, over €3bn of office stock across continental Europe was acquired for redevelopment during 2025, the strongest year since 2021. Asset managers taking advantage of refurbishing older stock in CBD locations will likely be the beneficiaries.

Despite another geopolitical shock, on a global basis, Europe remains relatively low risk, with inflation well positioned and economic growth still positive. Distress remains limited as the refinancing events continue to roll out - sellers are in no need to dispose of assets and we expect them to hold firm on their pricing aspirations. Nevertheless, we believe that the interest rate rises expected later this year will delay prime yield compression across most jurisdictions until 2027.

European office prime yields (%)



Source: Savills



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