EUROPEAN OUTLOOK 2025

CUSHMAN & WAKEFIELD

ECONOMY

C&W EUROPEAN ECONOMIC OUTLOOK

A FRAGMENTED PATH TO RECOVERY

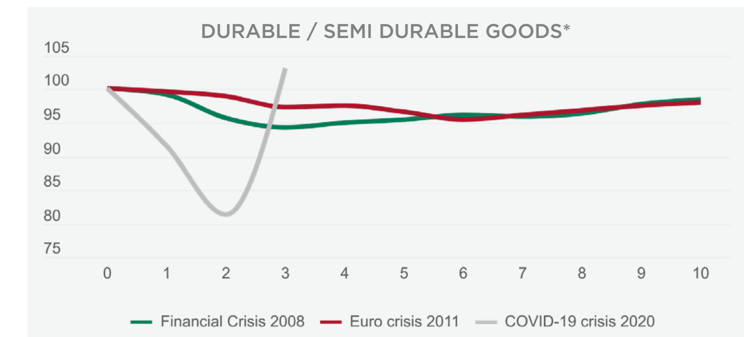
Europe's economy had a slow and bumpy 2024. Real GDP in both the euro area and the U.K. is on on track to grow by less than 1%. Of course, Europe is a large region with many countries traveling at different speeds. Some countries outperformed the continental average (Spain, Portugal, and the UK) while others underperformed (Germany and France), but overall, Europe's growth remained below its potential and lagged other parts of the world. Two key factors have limited the pace of Europe's economic recovery: high household savings rates and subdued demand for durable goods.

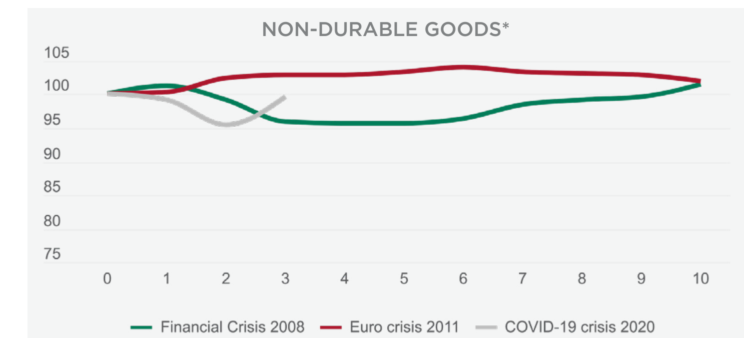
Despite moderate growth in real incomes, household savings rates have remained high. European consumers, in general, have shown restraint in their spending, opting to save rather than spend, even in the face of higher disposable income. This has been particularly true in Germany. This softness in consumer spending has prevented self-reinforcing cycle of demand and economic expansion that typically characterises recoveries.

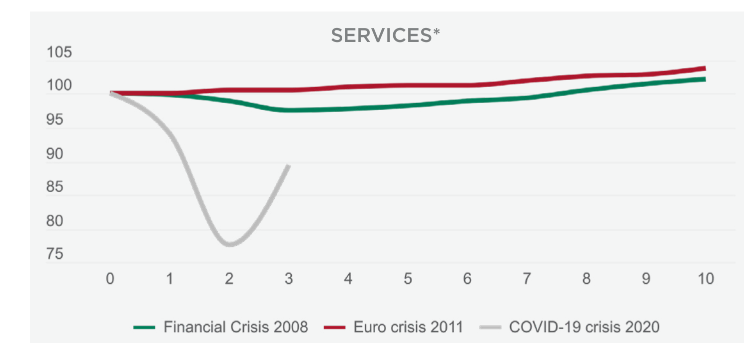
The second factor limiting Europe's growth is the higher interest rates, which have adversely affected demand for durable goods. Durable goods—such as cars, appliances, and electronics—are typically more sensitive to interest rate changes. Higher borrowing costs have dampened demand for durable goods. In addition, there has been a shift in consumer spending patterns from goods to services.

During the pandemic, consumer behaviour was heavily skewed toward purchasing physical goods. Since then, however, there has been a notable shift back toward services. While there has been progress, these headwinds have worked against more robust growth and brought about a more tepid recovery for Europe.

CHART 1: EU-27 CONSUMER PATTERNS







Source: Eurostat, Cushman & Wakefield Research
** quarters from beginning of crisis*

Given the lackluster economic conditions, office take-up across Europe is expected to finish the year in line with 2023 levels. Office vacancy rates have continued to rise, averaging 8.9%, while rental growth has moderated from last year's rates. Capital markets have remained subdued, largely due to the prevailing interest rate environment. However, there have been signs of improvement towards the year's end, suggesting potential momentum heading into 2025.

Better Days Lie Ahead

As we near year-end, evidence is forming that growth in Europe is poised to accelerate in 2025. First, the outlook for consumer spending appears more promising. Real wage growth is expected to continue, providing consumers with greater purchasing power and allow for higher levels of spending. Additionally, the expected decline in interest rates should ease the burden on household balance sheets, making credit more affordable and supporting both consumer spending and investment. A rebound in consumer confidence is likely as economic stability gradually returns.

Moreover, going into 2025, the labour markets remain healthy and resilient, unemployment remains at a near-record low of 6.4% in the euro area, and the global manufacturing cycle appears poised to resume growth which will help drive stronger growth in Germany and other part of Europe.

For 2025, we are now forecasting euro area GDP growth of 1.3%, up from 0.8% in 2024. Although it's a modest acceleration, momentum is expected to build throughout the year with real GDP growth coming in closer to 2% in Q4 2025.

As these positive trends unfold, Europe is expected to see more broad-based growth, driven by increased investment, improved demand across key sectors, and rising consumption.

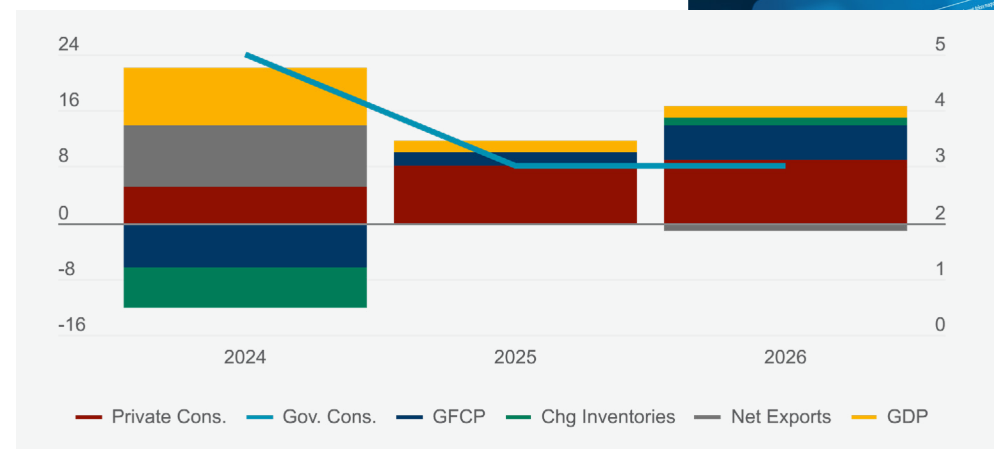
UK economic growth is projected to be 1.3% in 2025 and 1.6% in 2026, signalling a period of modest recovery following the challenges of the past few years. UK economic growth will be supported by rising real incomes and falling interest rates, which should provide a boost to consumer spending and business investment. The pick-up in growth in 2026 is primarily driven by stronger investment in the housing sector, as government policies aimed at stimulating the housing market take effect.

Both the European Central Bank (ECB) and the Bank of England (BoE) are making significant progress on bringing inflation back to target. In 2024, CPI inflation will come in at 2.4%. We see the progress continuing in 2025. Our baseline assumes the ECB will continue to cut rates at a pace of 95bp in 2025 and the policy rate will return to neutral by 2026.

The 10-year government bond yield in the euro area has been fluctuating due to various economic events. As of November 2024, the yield has been hovering around 3.0%. As short-term rates decline, it is expected to trend lower, averaging 2.9% in 2025 and 2026.

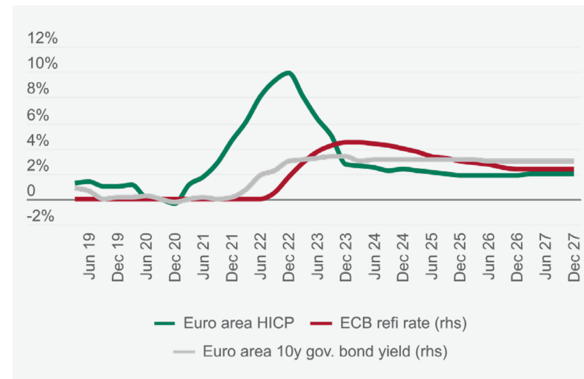
The UK 10-year government bond yield is expected to remain within a relatively stable range of 3.8% over the same period. A 3.8% average yield for the UK suggests that while borrowing costs remain elevated compared to the pre-pandemic period, they are not expected to reach the higher levels seen during periods of more aggressive central bank tightening.

CHART 2: EURO AREA GDP COMPONENTS



Source: Moody's Analytics, Cushman & Wakefield *Research * Forecast refer to Cushman & Wakefield baseline*

CHART 3: INTEREST RATE OUTLOOK



Source: Moody's Analytics, Cushman & Wakefield Research * *Forecast refer to Cushman & Wakefield baseline*

A second Donald Trump's U.S. Presidency throws a potential wild card into the outlook. Tariffs continue to be a key concern for Europe, particularly in light of the proposals put forward by President-elect Trump. His stance on imposing tariffs on European goods has raised significant uncertainty, with the potential to disrupt trade relations and impact various sectors across the continent. These tariffs could lead to higher costs for European businesses, limit market access, and potentially trigger retaliatory measures, further escalating tensions.

President-elect Trump has proposed a 10% tariff on all trading partners, though it's unclear whether this is rhetoric or a negotiation tactic. Notably, he had previously promised 35% tariffs on Mexico and 45% on China during the 2016 campaign, but these commitments were never implemented, This could negatively impact trade and business confidence next year. To read more, check Cushman & Wakefield's research Trump 2.0 & Implications for property.

That said, many of these policies were similar under Trump's first term and the impact was less severe than most originally assumed. The property sector proved to be remarkably resilient. European office vacancy rates hovered in the low range of 7%, demand for space remained healthy, and rental rates continued to appreciate. On the capital markets, sales volumes achieved record levels in 2019 as yields drifted lower. In fact, from the time Trump was sworn in to just before the pandemic hit, prime property values had risen by 25% across Europe. Although it remains unclear if Trump will take more of a surgical approach to tariffs vs. something closer to the severe approach with 20% across the board tariffs espoused on the campaign trail, only time will tell.

The degree to which the economy, inflation and the financial markets are impacted depends entirely on the scope of policies adopted, their timing, magnitude and detail. We know that Trump and his advisors intend to make sweeping changes to certain policies. However, history has shown that Trump revealed a willingness to shift his stance based on the reactions of investors and financial markets, as evidenced by his approach to tariffs during his first administration.

As the economy gains momentum, we expect leasing activity to improve, with revised rental growth projections reflecting this trend. Offices are expected to lead with an average growth of 2.1% across Europe, followed by retail and logistics at 1.9%. Demand for space is likely to increase, helping stabilise office vacancy rates, which we forecast will remain steady at 8.9% in 2025. The constrained supply pipeline will further support leasing activity, enabling existing properties to attract tenants and maintain strong occupancy levels.

Additionally, as central banks continue to cut interest rates, credit conditions are expected to improve, and wider spreads should create more attractive investment opportunities, drawing capital back into the market. This shift, coupled with more favourable financing conditions, will likely stimulate a revival in capital markets. The commercial real estate sector stands to benefit from these changes, offering a range of opportunities across asset classes. While recovery will vary by sector, adapting to shifting economic, environmental, and technological trends will be crucial for unlocking value and ensuring long-term success in the evolving landscape.

Risks remain, but the most probable scenario is that growth across Europe is set improve, the cost of capital will continue to come down, signalling better days lie ahead for property.

HOSPITALITY

C&W EUROPEAN HOSPITALITY OUTLOOK

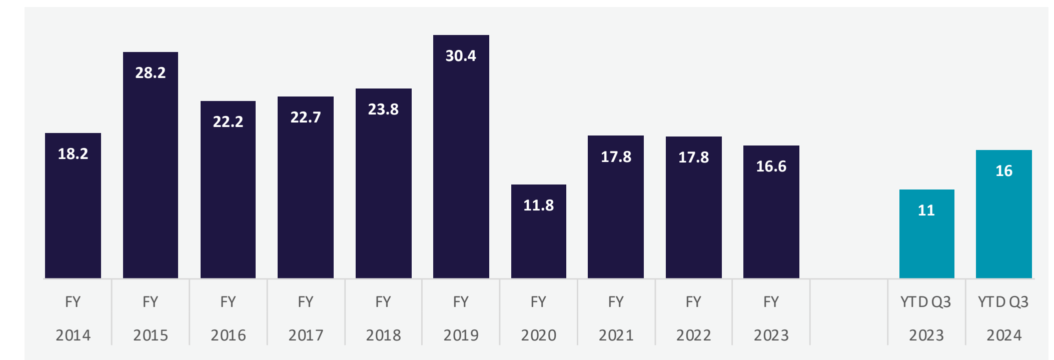
CHANGING GEARS

As we approach 2025, the hotel sector is shifting from recovery to expansion, with value drivers transitioning from income growth to capital appreciation. Recently, strong hotel performance has helped offset the negative impact of rising financing costs and economic and geopolitical uncertainty. While income growth is expected to moderate, it will be complemented by gradually improving yields, driving value growth and transaction activity in 2025. However, these trends will vary across markets and hotel categories, influenced by factors like uneven supply growth, shifting demand, operational efficiency, sustainability, and exposure to economic, geopolitical, and climate risks. Savvy investors will focus on these trends while maintaining a long-term view of the sector's positive structural drivers.

Investment activity in the European hotel sector is accelerating, building on its strong position among asset classes. After two years of subdued volumes, the hospitality sector took centre stage in 2024, driven by significant portfolio sales to private equity investors. These deals highlight the sector's appeal to capital-rich investors who recognise its growth potential and value-add opportunities. However, while high-profile portfolio sales have boosted market sentiment, single-asset transactions in the €30-100m range have remained subdued. This is changing, with the bid-ask spread between buyers and sellers narrowing. A key driver of the market's momentum is the gradual return of core institutional capital, which has largely remained inactive until now. These investors, representing an ultimate exit strategy for many value-add players, are expected to boost market activity heading into 2025. Geographically, investment is expanding beyond southern Europe to key urban markets in the UK, France, and also to the DACH, Benelux, and CEE regions, where investment activity is rising.

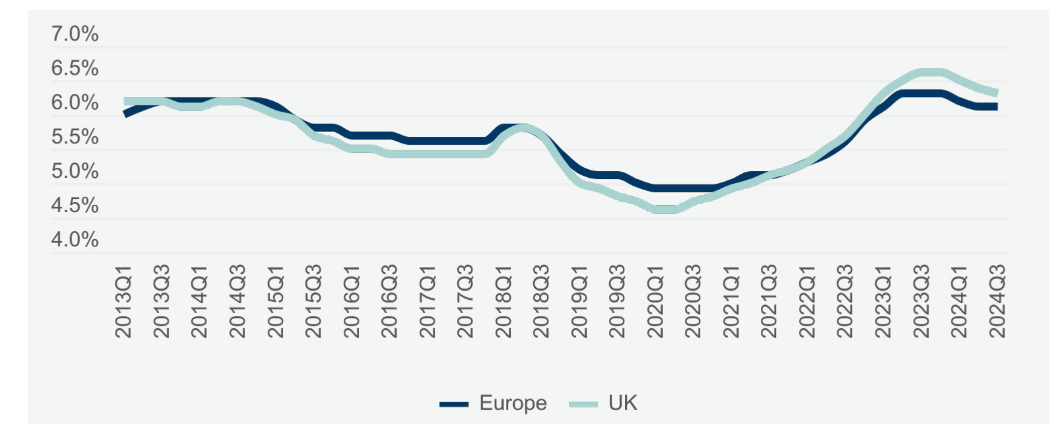
Despite ongoing economic and geopolitical uncertainties, the prevailing sentiment is one of opportunity. According to the C&W Hotel Investor Compass 2024, most investors plan to maintain or increase their hotel sector allocations. This is reflected in the market, with hotel transaction volumes up 42% year-to-date through September 2024. The sector is expected to reach €20 billion by year-end, and if the trend continues, could surpass €25 billion in 2025.

CHART 1: EUROPEAN HOSPITALITY INVESTMENT VOLUME



Source: Cushman & Wakefield Research * *YTD corresponds to Q1-Q3*

CHART 2: HOSPITALITY YIELDS*



Source: MSCI Real Capital Analytics * *Volume and Pricing - Quarterly: Hedonic Edition*

Despite the appeal of the hospitality sector, rising construction costs, reduced leverage, and higher debt costs have slowed new hotel development in recent years. While there has been significant interest in converting underused office spaces into hotels, particularly in key cities like London, Paris, Rome, and Madrid, the pace of such conversions is expected to slow into 2025 and beyond. Factors such as local planning constraints, the recovery of the office sector, and the challenging economics of conversions will limit new supply.

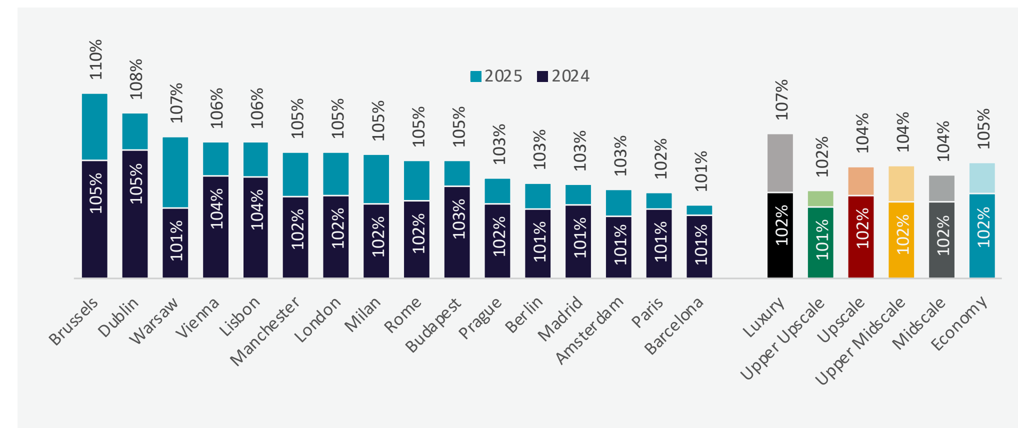
Overall, supply growth in the top 15 urban markets is projected to remain moderate, rising by 2.0% in 2024 and 2.5% in 2025. However, supply dynamics vary across cities. Brussels, Dublin, and Warsaw are expected to see more new supply, while cities like Paris, Barcelona, and Amsterdam will have limited additions due to ongoing development moratoriums. Luxury hotels are expected to see the strongest supply growth, with a projected 4.3% increase in 2025, including high-profile openings like the Chancery Rosewood London, Nobu Lisbon, Thomson Rome, Mandarin Oriental Vienna, and Fairmont Golden Prague.

After several years of strong demand driven by excess savings and revenge travel, growth is now normalising. While demand remains robust, it will vary by market and segment. Corporate and group demand is finally returning, expected to surpass pre-pandemic levels, with nights at European accommodations expected to grow by 16% in 2024 and nearly 15% in 2025, outpacing leisure demand.

With European economies expected to grow modestly and some markets, like Germany, still subdued, the shift in accommodation demand is moving from domestic to international source markets. The weakening EUR and GBP are making Europe more affordable for inbound travellers.

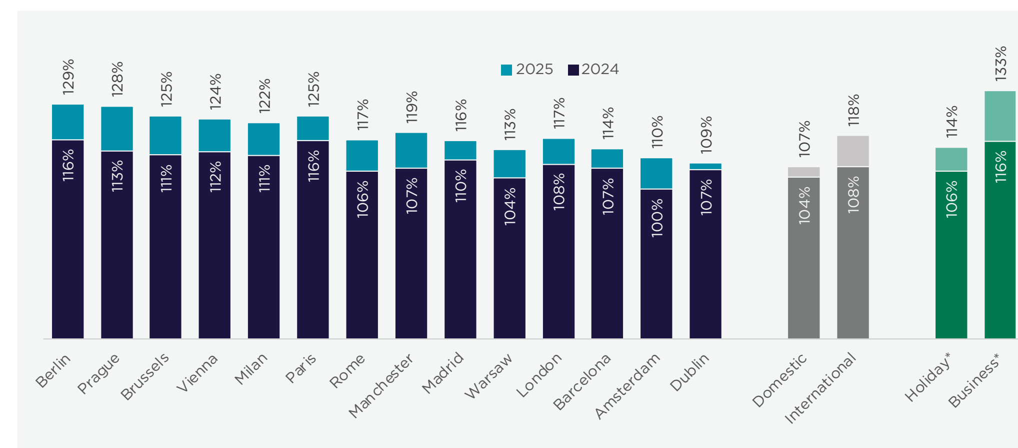
Destinations popular with visitors from China and India, in particular, are set for strong growth, as these markets return in large numbers. Nights from South-East Asia are expected to grow nearly 18% in 2025, with China seeing a 48% increase. Markets with strong international appeal and a balanced mix of leisure and corporate demand should experience solid growth in 2025. However, some destinations, like Venice, Rome, Barcelona, Mallorca, and Santorini, are grappling with over tourism, while climate change-related issues, such as extreme heat, fires, droughts, and floods (e.g., in Spain), are adding further challenges for the hotel sector.

CHART 3: HOTEL SUPPLY OUTLOOK (2023 = 100%)



Source: Cushman & Wakefield Research

CHART 4: ACCOMODATION DEMAND INDEX (2023 = 100%)



Source: Oxford Economics * *Nights in Hotels* ** *nights in all accommodation types - international*

Hotel performance across Europe is becoming increasingly polarised due to uneven supply growth and diverging demand. Revenue growth (RevPAR) has slowed from 16% in 2023 to 6% in September 2024 YTD, with 6 out of 35 markets seeing declines. As a result, attention is shifting towards managing the cost base, to maintain or grow the net operating income. While inflationary pressures, particularly on labour costs, remain, they are partly offset by improved energy cost dynamics.

For branded full-service hotels in 16 key European urban markets, profits continue to grow, with nominal GOP per available room up nearly 10% in the 12 months to September 2024. However, performance varies significantly, with Prague and Barcelona seeing over 20% growth, while Milan and Dublin report minor profit declines. Hotel types with lower labour intensity, such as economy and extended-stay properties, are expected to fare better and attract investor interest.

Due to a cooling labour market in some countries, the continued decline in unemployment, combined with growing automation and technological investment, offers opportunities for improved hotel profitability in 2025 and beyond. Sustainability is also becoming a priority, as it reduces utility costs and helps retain corporate clients and secure conference business. Our research shows that investors are willing to pay a premium for sustainable hotels, while increasing regulation may cause some hotels being stranded and lose value.

Although the outlook is expected to show slower growth, increased availability of debt, with favourable pricing, will boost investor confidence and drive yield compression as bank rates continue to decline. The C&W TIME Score indicates that the hotel sector is entering an expansionary phase, where investment activity will accelerate and the market will see a more sustained upward trend. Hotel investment and values have likely bottomed out, presenting a window of opportunity for early movers heading into 2025.

“ HOTEL PERFORMANCE IS POLARISED, WITH PROFITS RISING BUT SUSTAINABILITY AND AUTOMATION DRIVING FUTURE GROWTH.

LOGISTICS

C&W EUROPEAN LOGISTICS OUTLOOK

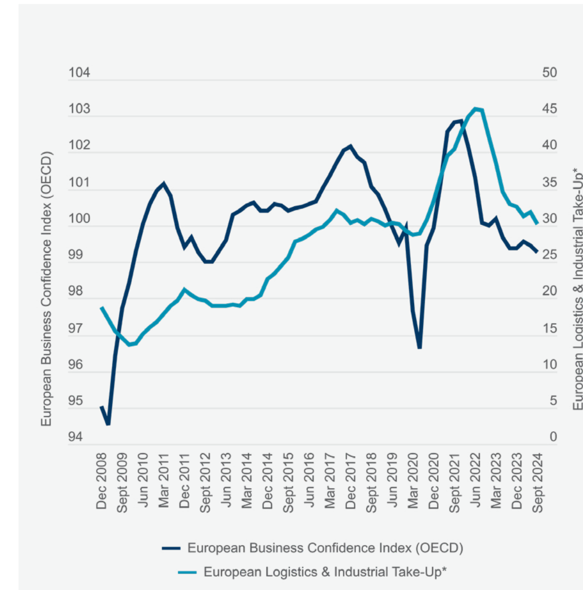
STABILITY TO STRENGTH

By the close of 2024, the European logistics and industrial real estate market will have stabilised, with both occupiers and investors biding their time through the year, awaiting the alleviation to the ongoing economic and political uncertainty. However, the more positive macroeconomic outlook for 2025 signals a potential rebound, with business and consumer confidence expected to improve after a year of fluctuations. As interest rates begin to ease, financing will become more accessible, enhancing investors' fundraising capacity. Together, these factors suggest that the European logistics and industrial market is at an inflection point, with a return to increased activity anticipated in 2025.

Take-up levels have continued to moderate throughout 2024, stabilising at pre-pandemic averages. With ongoing uncertainty, many occupiers have postponed property decisions, resulting in longer deal timelines compared to previous periods. While long-term factors such as the growth of e-commerce, nearshoring trends, and a greater focus on supply chain sustainability will continue to influence occupier activity, the macroeconomic outlook remains a key driver. As occupiers monitor economic conditions and assess their business prospects, take-up is increasingly driven by the need for efficiency, whether through higher-quality space or better-located facilities to reduce costs and improve margins.

Looking ahead to 2025, take-up is expected to remain relatively subdued, but as confidence grows and businesses begin investing in new space, occupier activity should gradually pick up.

CHART 1: EUROPEAN BUSINESS CONFIDENCE AND LOGISTICS & INDUSTRIAL OCCUPIER TAKE-UP

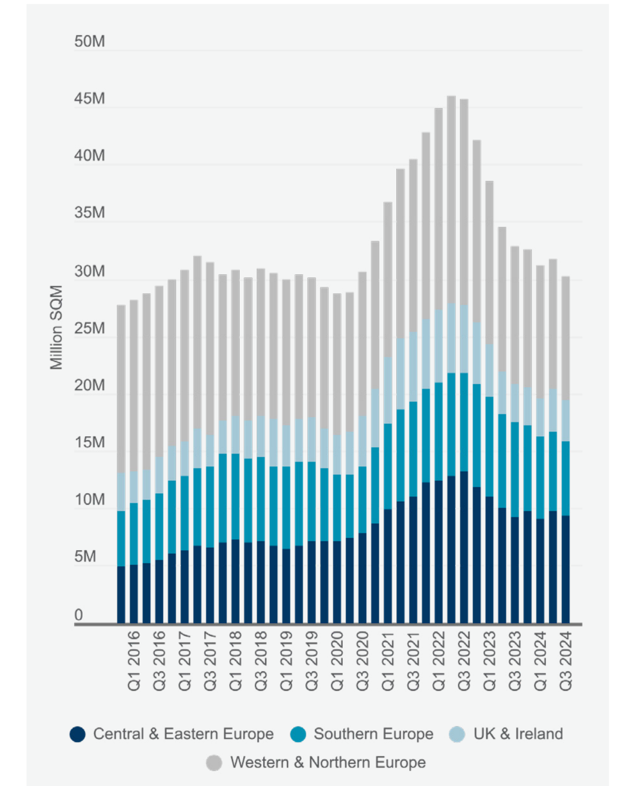


Source: OECD, Cushman & Wakefield Research
** Four-quarter rolling total*

After several years of high developer activity, 2024 has seen a reduction in new project completions as developers scale back their pipelines in response to slower occupier demand. However, the volume of logistics space under development still exceeds pre-pandemic averages, with developers continuing to bring new projects to market, both speculatively and on a build-to-suit basis, to meet demand for modern logistics facilities. In the longer term, additional supply will be needed to meet occupiers' growing need for buildings that align with sustainability targets, driven by both regulatory changes and corporate goals. While this will necessitate refreshing the supply of space, it may not significantly expand overall stock levels.

Despite the volume of new space being delivered, vacancy rates remain relatively low, even in a slower occupier market. Although vacancy rates have risen from the historic lows of 2021-2022, they remain constrained in certain markets, particularly those with limited land availability, such as the Netherlands. In contrast, markets like the UK, where speculative development has been more prevalent, and Poland, where land is more readily available, have seen vacancy rates increase. However, in these markets, vacancy rates are now largely in line with or below pre-pandemic levels.

CHART 2: LOGISTICS & INDUSTRIAL OCCUPIER TAKE-UP*



Source: Cushman & Wakefield Research
** Four-quarter rolling total*

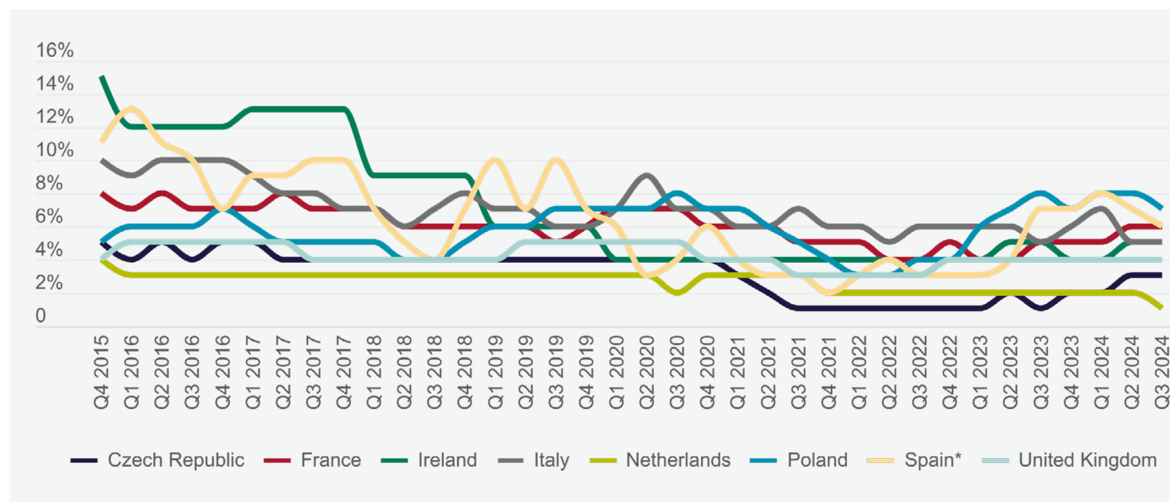
Vacancy rates are expected to remain modest as occupier activity increases and developers continue to be cautious about the volume and timing of new space deliveries. While demand is set to recover, vacancy will remain tight, with developers gradually ramping up their pipelines. As a result, tenants seeking more flexible space options may encounter difficulties in finding suitable space.

Prime headline logistics rents throughout 2024 continue to rise, though at a slower pace compared to previous years. While the overall growth trend seen in 2021-2022 has moderated, there is now greater variation between regions.

Rents have increased significantly in markets such as the UK, Benelux, and Iberia, while growth has been more subdued in the Nordics and Central and Eastern Europe, where some locations even saw rental declines in Q2 2024, although they stabilised by Q3. Additionally, beyond headline rent figures, landlords are increasingly funding tenant improvements and fit-outs, making it more difficult to assess true rental levels, as final deal terms and specifications are increasingly idiosyncratic to individual transactions.

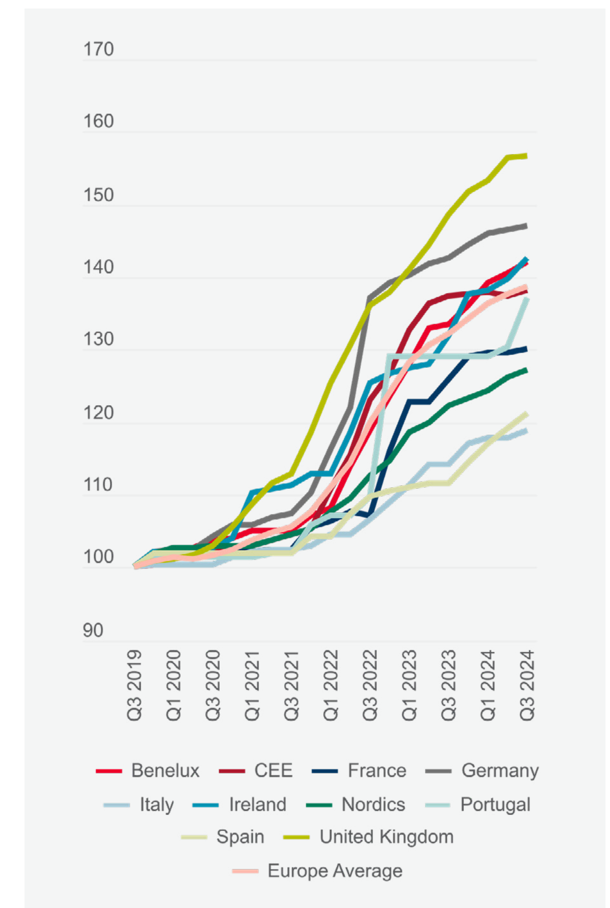
In the future, the drivers of strong rental growth in recent years, such as high demand and limited availability, are expected to be more localised. Cost factors, including land and construction pricing, remain important considerations but have eased since the pandemic. As a result, rental growth is forecast to continue in 2025, but at a more modest pace. Growth will be more market-specific, with the UK, Slovakia, and Ireland expected to see the strongest increases, while countries like the Czech Republic and the Netherlands may experience slower or stable rent levels. Properties with strong sustainability features and those in prime locations are anticipated to outperform, as tenants increasingly prioritise quality in both buildings and locations.

CHART 3: LOGISTICS & INDUSTRIAL VACANCY RATES



Source: Cushman & Wakefield Research * *Spain = Barcelona*

CHART 4: PRIME LOGISTICS HEADLINE RENT INDICES BY MARKET (Q3 2019 = 100)



Source: Cushman & Wakefield Research

Investment activity in the European Logistics and Industrial market remained largely unchanged during the first three quarters of 2024. While substantial capital has been earmarked for the sector, a lack of available assets has constrained transaction volumes. However, as the gap between buyer and seller price expectations has narrowed and central banks began reducing interest rates, more properties are now coming to market. New capital targeting logistics and industrial assets is being raised, and core investors are returning, signaling a stabilisation in pricing.

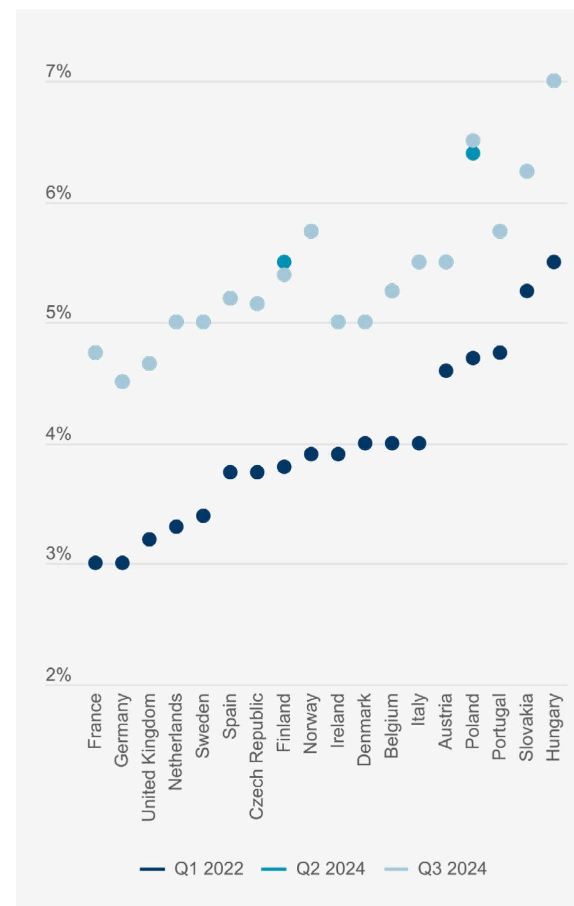
Prime yields have steadied across most of Europe in 2024, indicating that prime logistics asset pricing has reached a new equilibrium. Our latest Fair Value Index reveals that 37 out of 39 European markets are now considered underpriced, suggesting potential for value appreciation moving forward.

Looking ahead to 2025, investment volumes are projected to rise as market volatility decreases, boosting investor confidence. Lower borrowing costs will enhance access to financing and broaden the pool of potential investors. Logistics continues to be a priority area of capital deployment for many investors, and according to our TIME Score and Fair Value Index it is now in a strong place for investment.

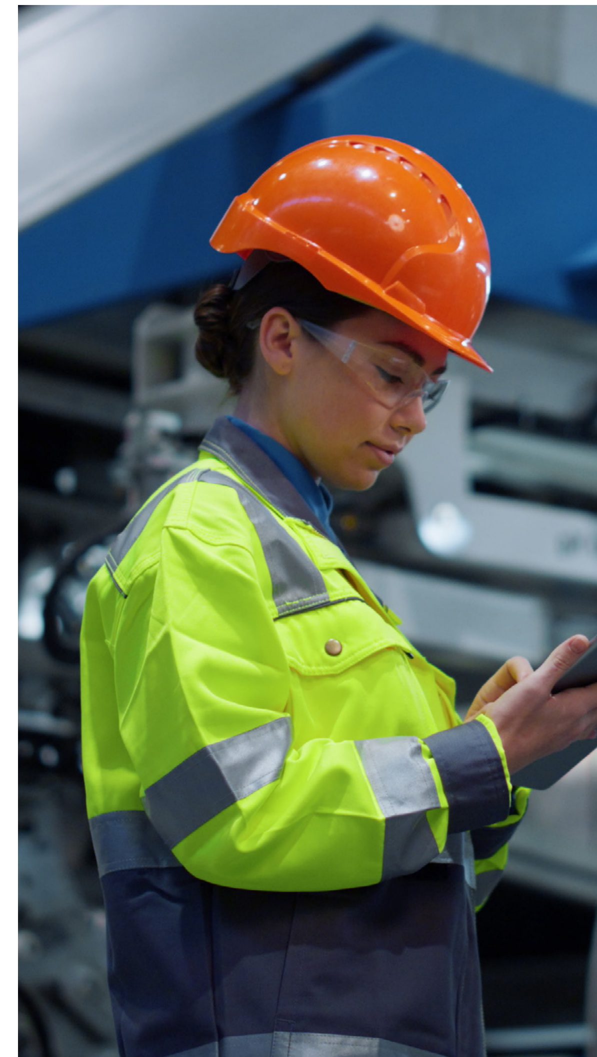
However, the pace of activity will depend on the availability of investment products. As investment activity picks up, prime yields are expected to compress modestly in 2025, with a tightening of 10 to 20bps anticipated across most markets.

LOGISTICS INVESTMENT IS STABILISING, WITH STEADY YIELDS AND IMPROVED MARKET CONDITIONS.

CHART 5: LOGISTICS PRIME YIELDS



Source: Cushman & Wakefield Research



OFFICE

C&W EUROPEAN OFFICE OUTLOOK

OPTIMISM AND OPPORTUNITY

The latest economic indicators point to continued positive momentum and cautious optimism for Europe's economies. Falling inflation and interest rate cuts further support market confidence. An improved economic backdrop provides a more favourable environment for office leasing markets. As economic growth strengthens and business sentiment improves, companies are increasingly confident in their long-term prospects, leading to higher demand for office space.

Office leasing activity in Q1-Q3 2024 showed notable improvement, with 7.4 million sqm leased—representing a 3% increase compared to the same period in 2023. Over half of Europe's markets saw growth in leasing activity, including key cities such as London, Brussels, Madrid, and Barcelona. The market is increasingly driven by a flight to quality, with Grade A leases now accounting for more than 50% of leasing activity in leading cities, up from just over 40% in 2019. Vacancy rates are gradually rising across all grades, partly due to new completions, which are expected to peak this year.

Strong demand for prime office space continues to support rent growth, with prime rents expected to rise by 4.4% in 2024, on average—slightly down from 5.7% last year, but still reflecting the strongest performance across core sectors. Looking, ahead we forecast rental growth to average 1.9% across Europe in 2025 and 2026, in line with our previous forecast.

Carbon reduction will be a critical driver for the real estate sector moving forward. In the European Union (EU), the Energy Performance of Buildings Directive (EPBD)[1] which sets out higher standards for building quality, aligning with the broader push towards net-zero emissions. While the full effects of these regulations won't be felt until later this decade—when local guidance is due by the end of 2026—property owners, both current and prospective, must start preparing for the planned changes. This is particularly important for those facing lease events in the near future, as these regulations could have a significant impact on asset values, leasing terms, and tenant demand.

Additionally, the growing emphasis on climate risk will further shape long-term strategies. Property owners will need to assess how climate-related factors, such as rising temperatures, flooding, or extreme weather, might affect the resilience and future value of their portfolios. Considering these sustainability and climate risks is becoming increasingly urgent, as stakeholders are—including tenants, investors, and regulators—are placing greater emphasis on environmental responsibility and climate preparedness. The need for proactive planning around carbon reduction, energy efficiency, and climate resilience has never been more critical.

Many occupiers now desire the highest quality Grade A buildings in the best locations and with attractive amenities that espouse their corporate persona and help attract the best talent. We have already pointed out the ongoing shift toward higher-quality assets, and this trend is expected to continue driving demand for buildings with higher specifications. However, we recognise that occupiers are increasingly cost-conscious, meaning that aiming for the highest certification standards may not always be practical. Many tenants will likely seek ways to strategically reduce costs to balance the potential premium on rent for top-tier properties.

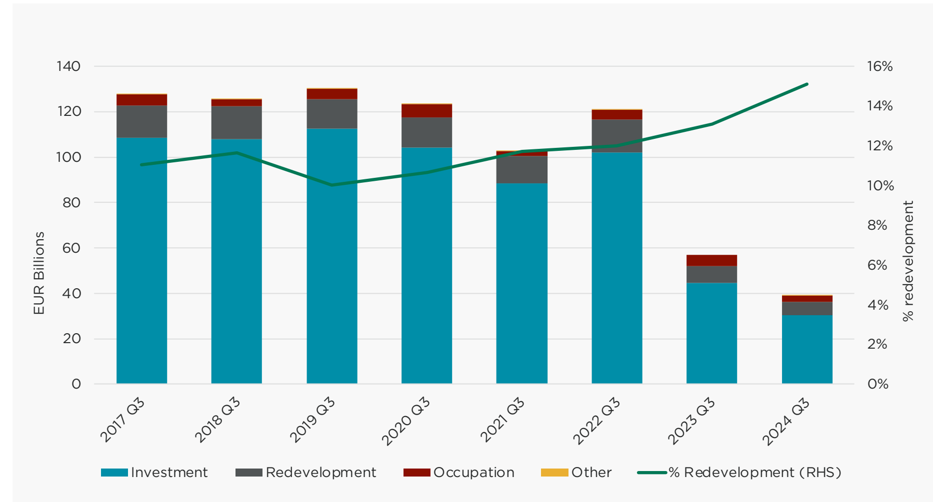
Location remains a critical factor, with a noticeable vacancy gap between central and non-central areas in many key European cities. Central locations, particularly those with good accessibility, continue to see much lower vacancy rates compared to more peripheral areas. On average, vacancy rate is 550bps higher in non-central locations versus central areas, across sixteen key European cities. This can vary across markets. For example, in Madrid, the average vacancy rate in the CBD is at 3.8%, compared to nearly 15% in peripherical areas. In Brussels, where the gap between locations stands at over 800bps with a vacancy rate of 5.5% in the central location.

This trend is expected to persist in the coming years, as demand for office space remains concentrated in prime, well-connected central locations. As lease renewals approach, we anticipate a growing shift away from poorer quality stock. Occupiers are increasingly seeking modern, flexible office spaces that better meet their evolving needs. This will likely result in fewer leases being renewed on older, less efficient buildings.

We also anticipate an increase in the repositioning of assets, as owners seek to upgrade and enhance older properties to remain competitive. In fact, there has already been a significant increase in the proportion of office transactions, focused on renovations and refurbishments, particularly in major capital cities like London and Paris. Conversely, office space in more peripheral areas may face a gradual decline in demand, with assets becoming obsolete over time. For these buildings, repurposing or alternative uses may emerge as the most viable solution, as the demand for traditional office space in these locations weakens. The trend toward asset repositioning and repurposing will likely shape the landscape of the office market in the years ahead.

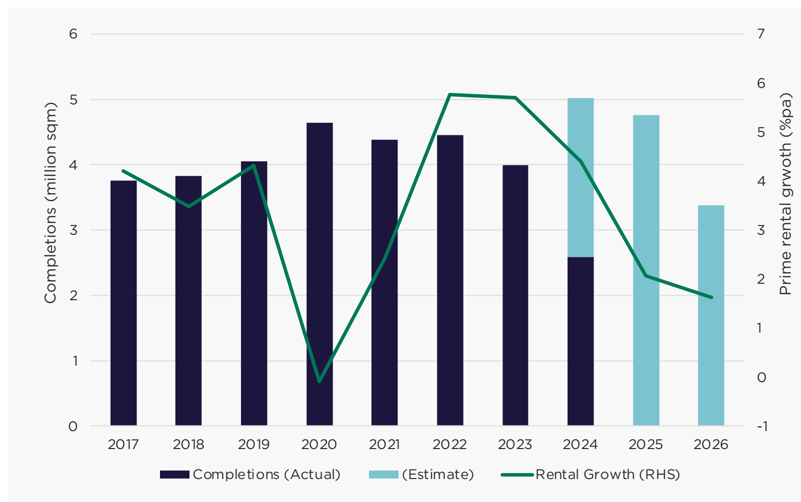
PRIME OFFICE DEMAND GROWS, WITH GRADE A LEASES EXCEEDING 50%

CHART 1: EUROPEAN OFFICE INVESTMENT BY INTENTION*



Source: MSCI Real Capital Analytics, Cushman & Wakefield Research
** Four-quarter rolling*

CHART 2: OFFICE COMPLETIONS AND RENTAL GROWTH



Source: Cushman & Wakefield Research

These trends will continue to exert upward pressure on rental growth as we look to the near term, albeit we expect the pace of growth to soften into 2025 and 2026, dropping back to around 2.1% and 1.6%, respectively at the European level. In part reflecting the relatively high level of completions which is set to peak at 5.0 million sqm in 2024, receding to 4.8m sqm in 2025 and 3.4m sqm in 2026. We expect growth to be strongest across Europe's core markets, notably London City and West End, Paris CBD and Madrid where we see relatively strong demand and tight supply at the prime end of the market.

Pricing in the investment markets has begun to stabilise, with yields remaining largely unchanged and positive rental growth supporting a slight increase in capital values at the prime end of the market. Even so, investment activity remains weak. Over the first three quarters of 2024, office investment was 17% down on the corresponding period a year ago. Office investment now represents just over 20% of total market activity, its lowest share on record.

On a trailing annual basis, office investment in the UK and Germany showed a modest uptick in Q3 2024 compared to Q2, offering some early signs of recovery. Core office markets are expected to lead the revival. We are already witnessing more product coming to the market including larger lots, alongside growing investor appetite for offices. However, sales processes are taking longer in the current environment. This trend is reflected in our latest TIME score and Fair Value matrix featured in the Investment Atlas, where the office sector remains positioned in the strategic matrix, indicating continued long-term potential despite the current market challenges.

At the same time we see an increase in the number of investors evaluating acquisitions. Many remain cautious and are waiting for more activity before having the confidence to re-enter the market. With signs of competitive bidding in core markets for smaller lots, we expect the tide to turn during 2025, making now an ideal opportunity to capture the upswing in the market.

Yields are expected to peak this year with gradual reduction over the next couple of years, reflecting growing demand and transaction activity, combined with further reductions in finance rates. On average, we expect prime yields to edge in by around 30bps over 2025-2026 with the UK and Germany seeing the biggest inward shifts, averaging 40bps. France, Nordics and some Southern European markets are expected to see relatively stronger movements with a focus on core assets, or on secondary stock where the repurposing or reposition of assets provides the opportunity to add value.

RETAIL

C&W EUROPEAN RETAIL OUTLOOK

RECOVERY AND RESURGENCE

The European retail real estate market has demonstrated resilience and is well-positioned for recovery after several challenging years. Increased retailer activity and strengthening rental growth have boosted the sector's appeal to investors throughout 2024, with higher yields compared to other asset classes offering attractive leverage opportunities for debt buyers. The outlook for 2025 is positive for top tier retail assets, with rental growth expected to continue and capital values likely to improve.

Consumer confidence in Europe began to recover in 2024, driven by easing inflation and a more favourable macroeconomic outlook. While optimism is growing, it remains fragile, particularly in Poland, Germany, and the UK, due to ongoing political and economic uncertainties. Looking ahead to 2025, confidence is expected to strengthen further as these uncertainties subside, wage growth resumes, and inflation stabilises at around 2%. Anticipated interest rate cuts should also help by reducing mortgage costs and boosting disposable income. However, risks such as potential inflation spikes or disruptions from geopolitical tensions, remain.

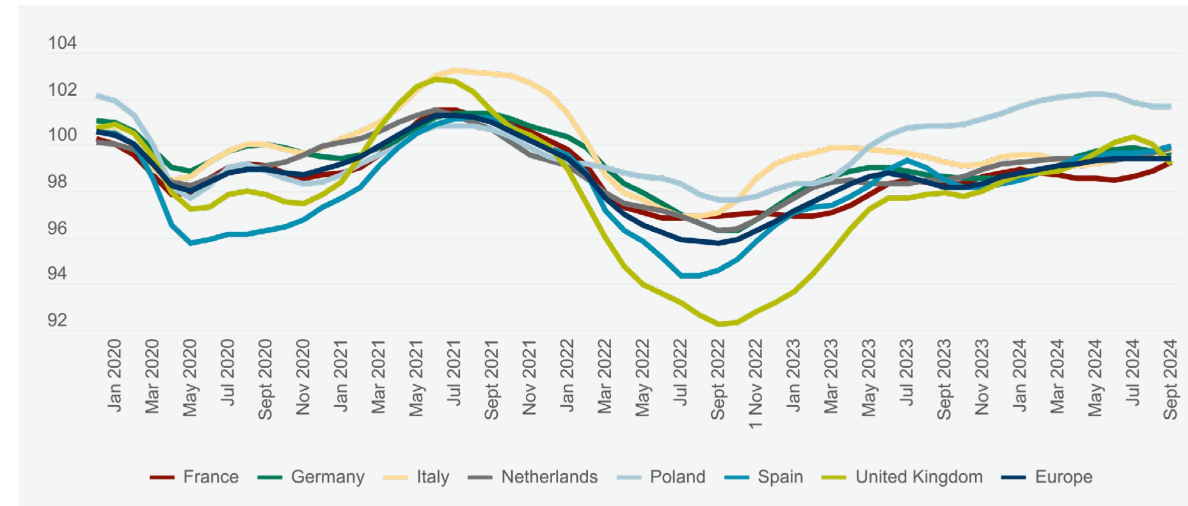
Despite improved confidence, consumer spending in Europe has not yet rebounded to pre-pandemic levels. Spending has remained relatively stagnant, partly due to stalled wage growth, reduced purchasing power from high inflation, and the lingering impact of geopolitical challenges on product availability and transport costs.

Some challenges facing the European economy are expected to ease. Greater macroeconomic stability should boost productivity, supporting wage growth and disposable incomes. As inflationary pressures moderate, consumer spending is likely to recover, though it may take more time for full recovery to take hold.

Tourism in Europe reached pre-pandemic levels in 2024, with further growth projected in 2025. Intra-European travel surpassed 2019 levels by 8%, and short-haul travel led the recovery. Both Middle Eastern and American tourists showed strong growth, with Americans particularly attracted by Europe's affordability due to a strong dollar and rising domestic costs.

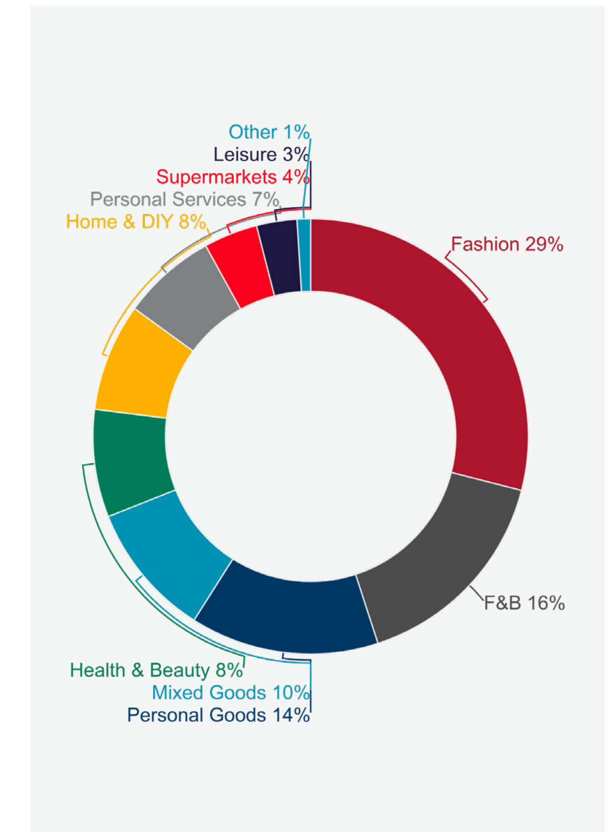
However, Chinese tourist numbers remain below pre-pandemic levels, with many opting for domestic travel, and those who do visit are spending less than in the past.

CHART 1: EUROPEAN CONSUMER CONFIDENCE



Source: OECD

CHART 2: C&W DEALS BY RETAIL SECTOR 2021-H1 2024



Source: Cushman & Wakefield Retail Activity Tracker

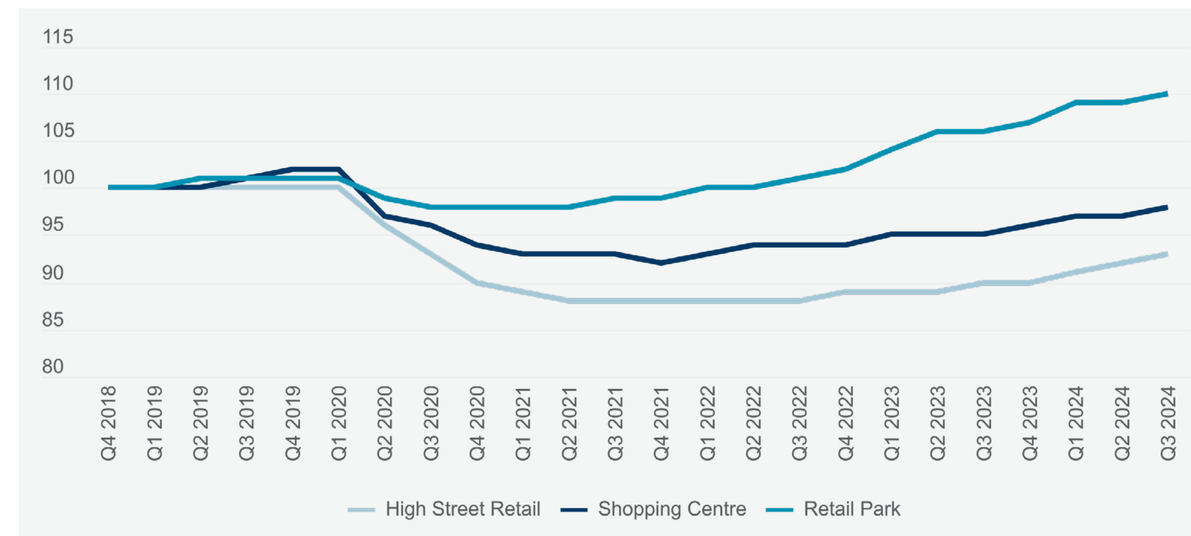
Retailers have demonstrated resilience despite weaker consumer spending. While many companies have reported sales declines, competition for prime retail locations remains fierce. Retailers are increasingly adopting 'city-led' strategies to target both tourists and local shoppers in high-traffic areas. This has led to growing interest in prime high streets and top-tier shopping centres, with vacancy rates significantly lower than in previous years. Physical stores are once again central to retail strategies, acting as hubs to enhance the customer experience, boost brand recognition, and drive consumer satisfaction. The renewed focus on high-quality store design and optimal location reflects the importance of these factors in shaping successful retail operations. Looking forward, retailers will continue to strategically expand, prioritising key locations as market sentiment improves.

During the pandemic, high street and shopping centre rents saw a sharp decline as these physical locations struggled to meet the demands of retailers, who faced operational challenges due to social distancing measures and shifting consumer behaviours. In contrast, retail parks—offering more space, easier access, and a safer shopping environment—emerged as a popular alternative for in-person shopping, thriving in this period. However, with restrictions lifting and consumer confidence rebounding, the trend has shifted. By late 2024, rents across all retail segments have started to rise again, marking the return of activity to high streets and shopping centres. Foot traffic in these prime locations has largely recovered, with vacancy rates decreasing, signalling renewed demand.

According to C&W latest Main Streets Across the World report in Europe, while overall rental growth was modest, a few locations saw strong increases. Milan's Via Montenapoleone surpassed New York's Fifth Avenue as the world's most expensive retail destination, marking Europe's first time at the top. This shift reflects strong rental growth, exceeding 30% in the past two years, Other key locations including London's Regent Street and New Bond Street and Paris's Avenue des Champs-Elysees have also seen rents grow meaningfully in 2024.

These positive changes have created an environment ripe for further rental growth in 2025 though challenges remain. Retailers continue to face pressures from cost challenges, consumer spending, and the need to balance in-store and online shopping. As a result, rental growth is expected to proceed cautiously albeit in positive territory.. This cautious pace reflects the ongoing adjustment to new retail dynamics, where physical stores are now part of a broader omnichannel strategy that integrates online shopping with in-store experiences.

CHART 3: EUROPEAN RENTAL GROWTH ACROSS RETAIL FORMATS



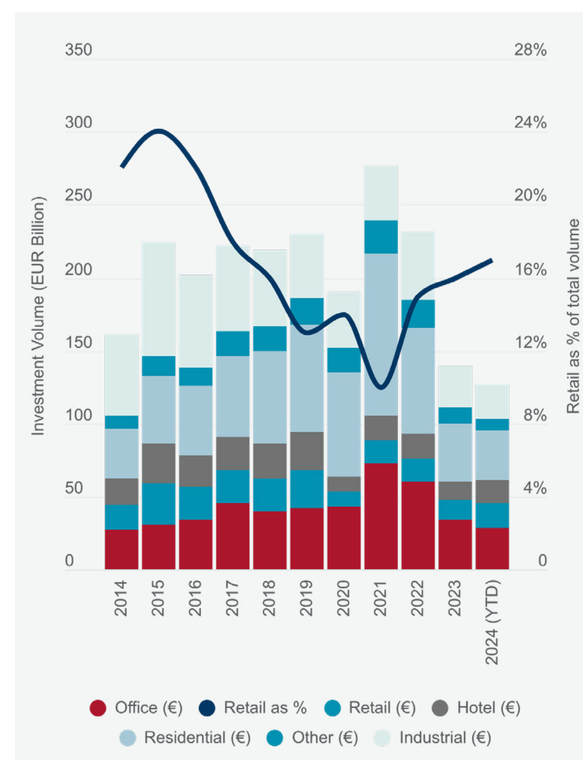
Source: Cushman & Wakefield Research

Investment in European retail real estate has been relatively subdued over the past decade compared to other sectors. Retail asset investment volumes dropped from nearly €80 billion in 2015 to just €38 billion in 2021, while total investment across all sectors rose by 13%, and logistics and industrial more than doubled. However, investor sentiment is now shifting as retail asset performance improves and rental growth resumes. While retail parks, which have consistently attracted interest, remain popular, other retail asset types are gaining appeal as well. In 2024, repricing appears to have stabilised, with prime yields remaining steady across most markets and no further depreciation expected for prime assets. Retail is also proving to be one of the most attractive sectors for debt financing, with yields in this space significantly higher than those in other real estate categories.

The retail market fundamentals are expected to strengthen further in 2025, driving increased investment. As consumer dynamics improve—spurring foot traffic, higher spending, and better occupancy rates—investment volumes are set to rise. Prime yields are likely to compress modestly across retail asset classes by the end of the year. However, this positive momentum will primarily benefit high-quality assets such as retail parks, top-tier shopping centres, and prime high streets.

Meanwhile, properties in secondary or less desirable locations are expected to face ongoing challenges, both in terms of market fundamentals and investor interest.

CHART 4: EUROPEAN COMMERCIAL REAL ESTATE INVESTMENT VOLUME



Source: MSCI Real Capital Analytics, Cushman & Wakefield Research

EUROPEAN OUTLOOK 2025

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ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In 2023, the firm reported revenue of $9.5 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), sustainability and more. For additional information, visit www.cushmanwakefield.com.

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	2021	2022	2023	2024	2025	2026
Euro area Economy						
Real GDP	6.2	3.4	0.5	0.8	1.3	1.7
Job Growth, mils	3.9	2.6	2.0	0.6	0.0	0.4
CPI Inflation	2.6	8.4	5.4	2.4	2.0	1.9
10-year Gov't Bond	0.2	3.0	3.4	3.1	3.1	3.0
Policy Rate (YE)	0.0	1.8	4.5	4.0	3.0	2.4

	2021	2022	2023	2024	2025	2026
UK Economy						
Real GDP	8.7	4.3	0.1	1.1	1.3	1.6
Job Growth, mils	0.8	0.9	0.2	0.1	0.2	0.2
CPI Inflation	2.6	9.0	7.3	2.6	2.3	2.0
10-year Gov't Bond	0.9	3.6	4.2	3.9	3.8	3.8
Policy Rate (YE)	0.1	2.8	5.3	4.9	3.8	2.5

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