CUSHMAN & WAKEFIELD

OUTTHINK

MIDPOINT 2025

From Caution to Strategic Conviction

ECONOMIC & CRE OUTLOOK

EMEA

Chief Economist Note

Midpoint 2025

Trade Tensions Set the Tone

Trade policy is taking centre stage and is expected to shape the macro landscape through the second half of 2025. Since liberation day, there have been tentative signs of de-escalation, but, more recently, the doubling of U.S. tariffs on steel—from 25% to 50%—has reignited tensions and served as a fresh reminder that the trade situation remains fluid. That said, our base case assumes that the trade war has likely passed its peak. We expect a gradual easing of tariffs as negotiations progress, evidenced by the recent U.S.-UK agreement and the 90-day pause on certain tariffs with the EU. These are encouraging signs that, directionally, we are moving toward de-escalation. Even so, we do not expect tariffs to return to pre-disruption levels over the forecast horizon. In the near term, higher trade frictions will continue to shape the macroeconomic narrative—and by extension, will have implications for business investment decisions, consumer spending patterns, supply chain strategies, and select corners of commercial real estate.

Economy & CRE Holding Up

The European property market entered 2025 on relatively solid footing, supported by resilient occupier demand and early signs that investment activity is picking up. Although prolonged uncertainty poses downside risks, we generally expect the momentum that was forming coming into this year will continue. Sectors linked to global trade, like logistics, may face some caution in the near term given the trade environment, but the underlying fundamentals remain strong. Office demand continues to focus on high-quality, flexible space, with leasing decisions tied closely to overall business confidence. Residential markets remain supply-constrained, which will sustain upward pressure on rents and continue to draw investor interest. Core retail assets are also pulling in capital once again, and the hotel sector is gaining momentum, with transactions increasingly extending beyond tier 1 cities.

Despite the resilience shown thus far, we see challenges ahead. Key forward-looking indicators—including business sentiment, new manufacturing orders, and consumer confidence—have continued to soften, suggesting some loss of momentum. The export boost in Q1, driven by companies front-loading shipments ahead of expected tariffs, appears to have pulled activity forward, rather than signalling the start of sustained improvement. While we continue to expect that the euro area and the UK will escape a recession, growth expectations have been revised downwards. We anticipate a period of subdued growth in the euro area and the UK through the second half of 2025, as lingering uncertainty weighs on economic activity.

On the positive side, with inflation largely under control, central banks now have more room to prioritise growth. The ECB has now cut rates eight times in just over a year and they have more room to continue cutting if needed. The BoE also has ample room to continue easing and we expect them to do so, cutting every other meeting until H2 2026. In addition, a move away from austerity and toward more expansionary fiscal policy will set the stage for a stronger economic picture to emerge in 2026.

CRE Sector Dynamics Vary

While the near-term outlook for European CRE has been revised down slightly, the long-term fundamentals remain compelling. Yields are expected to gradually stabilise as monetary policy eases, while rental growth will moderate in sectors with new supply coming online. As macro conditions begin to normalise in the second half of 2025 and improve in 2026, we anticipate that investment opportunities will become increasingly attractive. At present, a significant amount of capital remains on the sidelines, but momentum is clearly building as investors are anxious to deploy it following two years of somewhat muted activity. Although it will be choppy, CRE was already positioned for a recovery in investment activity and our assessment midway through the year is that those fundamental forces are still in play.

This year will be anything but boring. Uncertainty is high. Many scenarios could play out. We believe our mid-year outlook is based on reasonable assumptions and gives a starting point for how to strategise in the quarters and years ahead.

We hope you find our Midyear Outlook both insightful and actionable. If you're interested in a deeper discussion around Cushman & Wakefield's forecasts or how evolving market dynamics may impact your strategy, we welcome the opportunity to connect.

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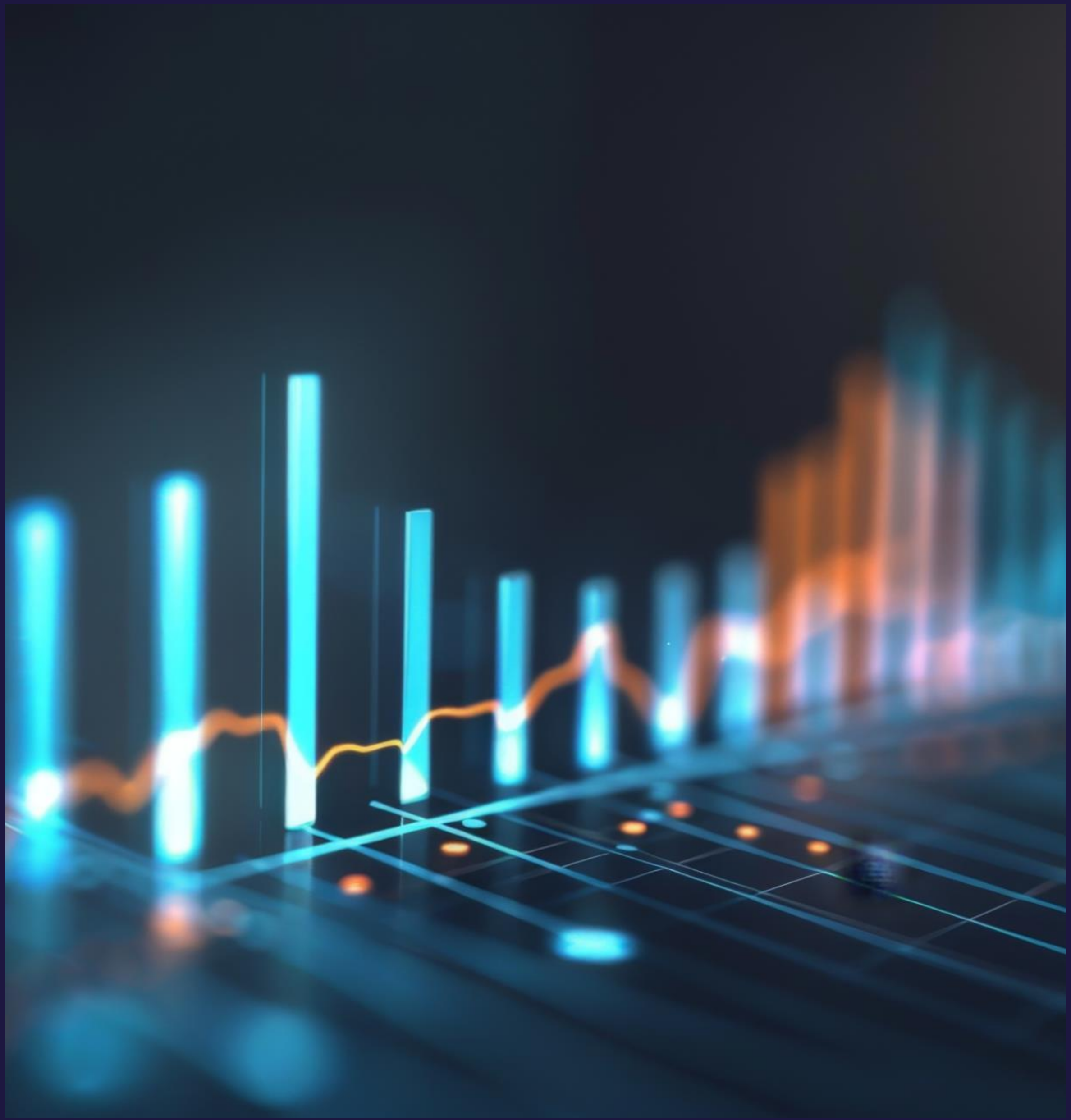
Kevin Thorpe
Chief Economist

Kevin Thorpe



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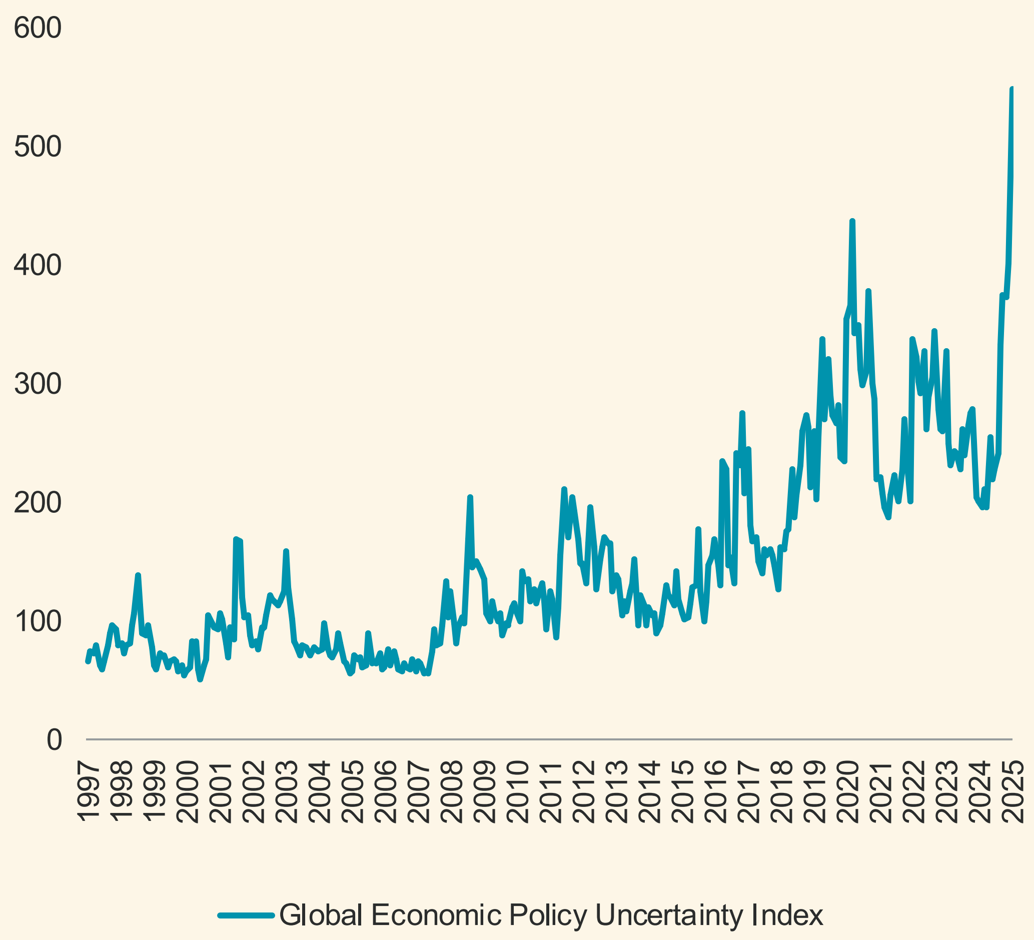
Key Takeaways

Midpoint 2025

- **Near-term growth outlook downgraded** as weakening forward indicators point to softer momentum ahead. Lower rates and fiscal support may help stabilise growth.
- Market volatility and bond yield fluctuations are impacting pricing and investor strategy. Still, historical resilience during **periods of market dislocation suggest potential for recovery** and outperformance as conditions improve into 2026.
- **Office** leasing activity has slowed though **demand remains focused on high-quality space** in core CBDs. Occupiers are expanding cautiously**.** As confidence improves and supply tightens beyond 2025, activity and rental resilience are expected to strengthen into 2026.
- **Retail remains resilient despite tariff-related planning challenges**. Momentum is expected to continue into 2025, supported by improving sentiment, investor interest, and stabilising economic conditions.
- **Industrial take-up is stabilising near pre-pandemic levels**. Easing monetary policy, stabilising demand, and tight supply are expected to support recovery into 2026.
- Persistent supply-demand imbalances across **European housing markets** are supporting a strong rental growth outlook for the living sector and **offering institutional investors a resilient, medium-term income opportunity**.
- **European hotel activity is becoming more geographically diverse**. With a strong deal pipeline and improved financing conditions, volumes are expected to rise in H2 2025, driven by growing interest in both value- add and core assets.

Policy Uncertainty at All-time High



Source: Economic Policy Uncertainty

ECONOMY

Economic Outlook Summary

From Caution to Strategic Conviction

- Growth in Q1 2025 came in stronger than expected, with GDP increasing by 0.3% quarter-over-quarter (QOQ). This upside surprise was likely driven by a temporary boost from export front-loading as firms accelerated shipments in anticipation of incoming U.S. tariffs.
- The continued deterioration in forward- looking indicators—such as business sentiment, new orders, and consumer confidence—suggests a weakening in underlying momentum. As a result, the near-term outlook has been revised downward (see Trump 2.0: The First 100 Days).
- Euro area annual inflation held steady at 2.2% in April 2025, unchanged from the previous month. Core inflation remains firm, supported by services despite disinflationary pressure rising. Contributing factors to these pressures include a stronger euro and declining energy prices.
- Slower growth should ease inflation as demand weakens, though recent fiscal measures may partially offset this by supporting consumption. We expect inflation to converge toward target this year.
- The ECB delivered its eighth quarter-point cut in a year in June, bringing the deposit rate to 2%. We anticipate that the ECB will now hold off on further rate cuts.nThis would place the rate at the midpoint of the ECB’s earlier stated neutral range (1.75%–2.25%).

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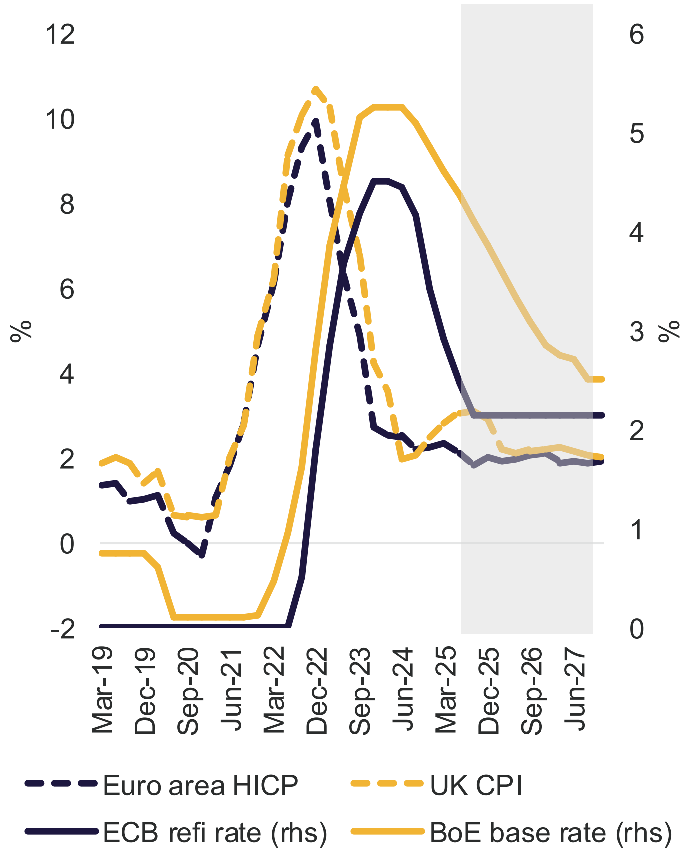
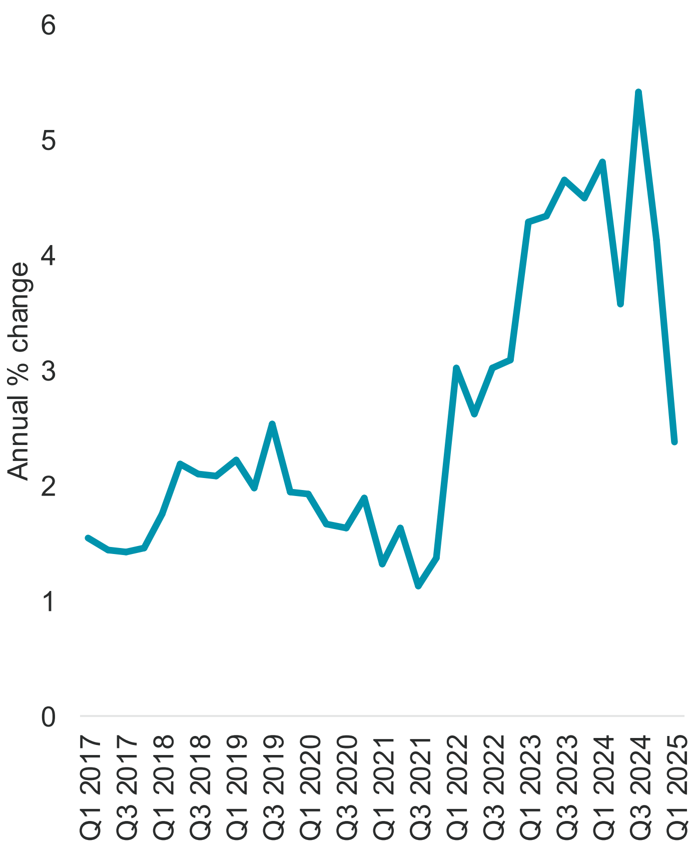
Interest Rate Outlook

Nearing the End of the Rate Cutting Cycle

ECB & BoE Policy Rate (%)



Negotiated Wage Growth (YOY)



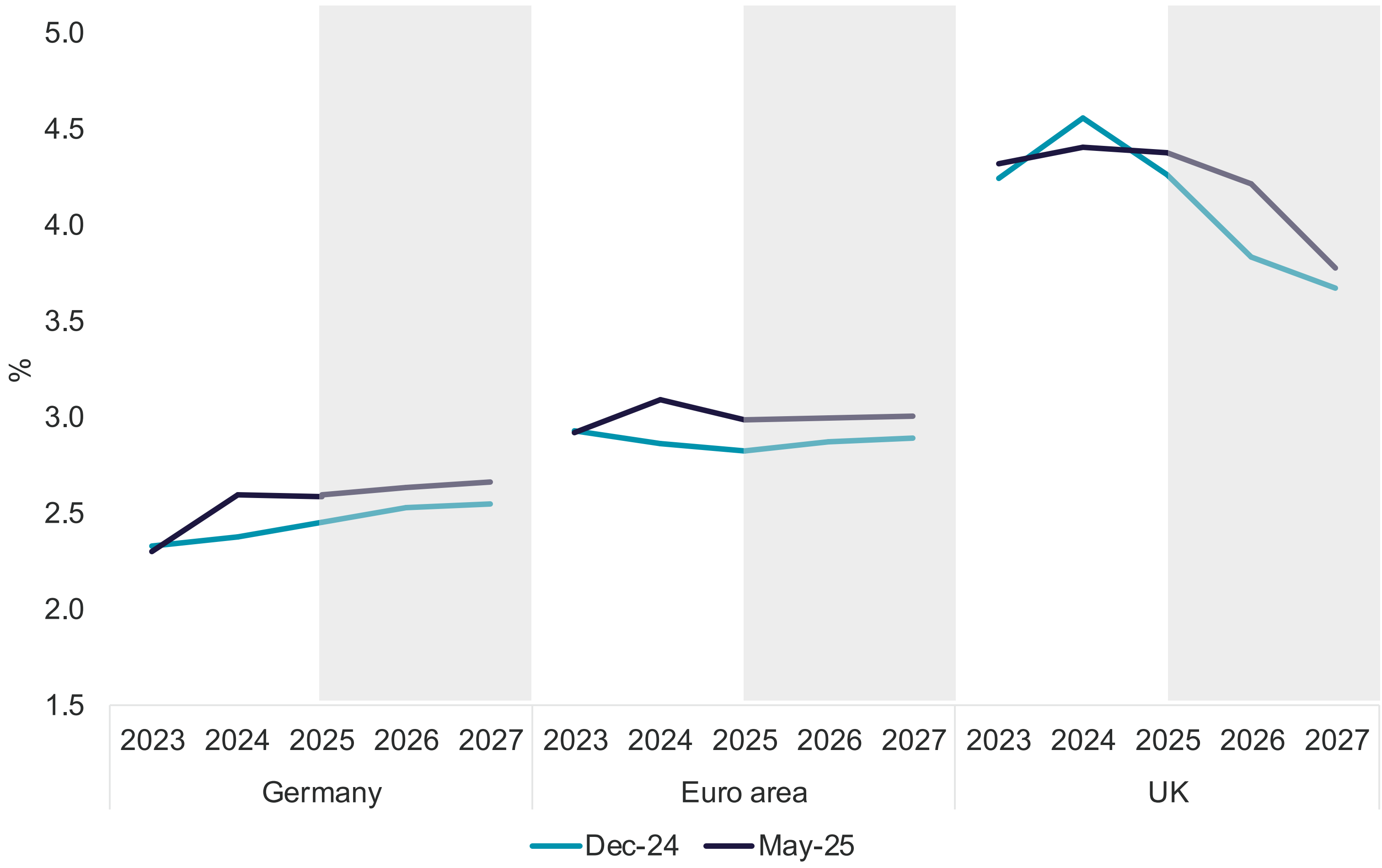
Source: Eurostat, ONS , ECB, BoE, Cushman & Wakefield Research

Inflation in Transition

- In the euro area, inflation faces both upside and downside risks. Factors such as cooling labour markets, weakening wage growth, falling energy prices and weaker growth—driven by falling export demand and tariff uncertainty—are expected to ease inflationary pressures. On the other hand, fiscal stimulus measures could support higher inflation.
- We maintain our expectation that inflation will fall below the ECB's target later this year. Inflation expectations remain an important indicator to monitor—as highlighted in our Trump 2.0: The First 100 Days. However recent data presents a mixed picture. The median household now anticipates inflation rising to 2.9% over the next year, up from 2.6% in February. Together, these factors create a challenging and uncertain environment for the ECB, complicating the formulation of its monetary policy and future direction.

10-yr Government Bond Yields Outlook

Cautious Capital Deployment in Early 2025



Source: Deutsche Bundesbank, BoE, ECB, Cushman & Wakefield Research
(Moody's Analytics December baseline vs Cushman & Wakefield May baseline)

Measured Deployment

- A key theme in our 2025 recovery outlook was the expectation that a more accommodative monetary policy would drive a gradual decline in ten-year government bond yields. This view was underpinned by assumptions of easing inflation, stabilising economic conditions, and monetary policy normalisation.
- However, market sentiment has shifted in response to heightened geopolitical tensions. This shift signals a more cautious stance among investors.
- While rate cuts are still expected in 2025, rising geopolitical risk and market volatility have added uncertainty to the outlook.
- Overall, capital deployment is expected to remain measured as the market adjusts to a slower start. Investors are likely to be more selective, favouring core, income-generating assets and cautiously pursuing value-add opportunities where pricing reflects risk. Institutional capital mainly remains on the sideline, with a potential re-entry focused on sectors with stable fundamentals such as living and logistics.

Economic Summary Tables

	2023	2024	2025	2026	2027
Euro Area					
Real GDP (annual avg, YOY%)	0.5	0.8	0.8	1.1	1.7
Employment Growth, (year end diff, mils)	2.4	1.6	0.4	0.4	0.7
Unemployment Rate (year end, %)	6.6	6.4	6.4	6.4	6.3
Inflation (annual avg, YOY%)	5.4	2.4	2.1	2.0	1.9
10-year Gov't Bond (year end, %)	3.4	2.9	3.1	3.0	3.0
United Kingdom					
Real GDP (annual avg, YOY%)	0.4	1.1	1.0	1.2	1.6
Employment Growth, (year end diff, mils)	0.5	0.3	-0.3	0.1	0.1
Unemployment Rate (year end, %)	4.0	4.3	4.5	4.6	4.6
Inflation (annual avg, YOY%)	7.4	2.5	3.0	2.3	2.1
10-year Gov't Bond (year end, %)	4.2	4.3	4.4	4.4	4.2

Source: Eurostat, ONS, Cushman & Wakefield Research

CAPITAL MARKETS

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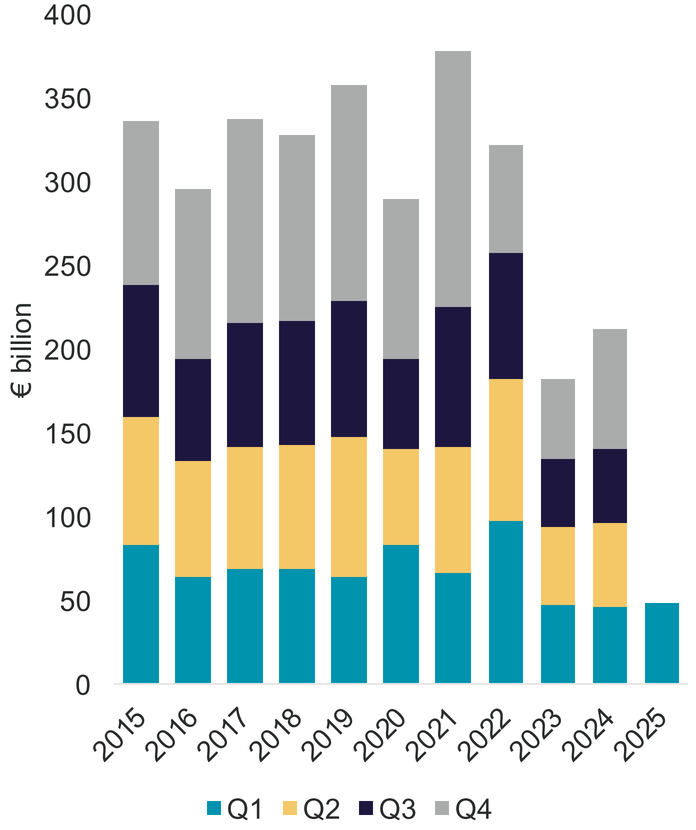
European Investment Market

Volatility, Capital Deployment, and the Road to Recovery

Investment by Quarter



Investment vs Economic Sentiment

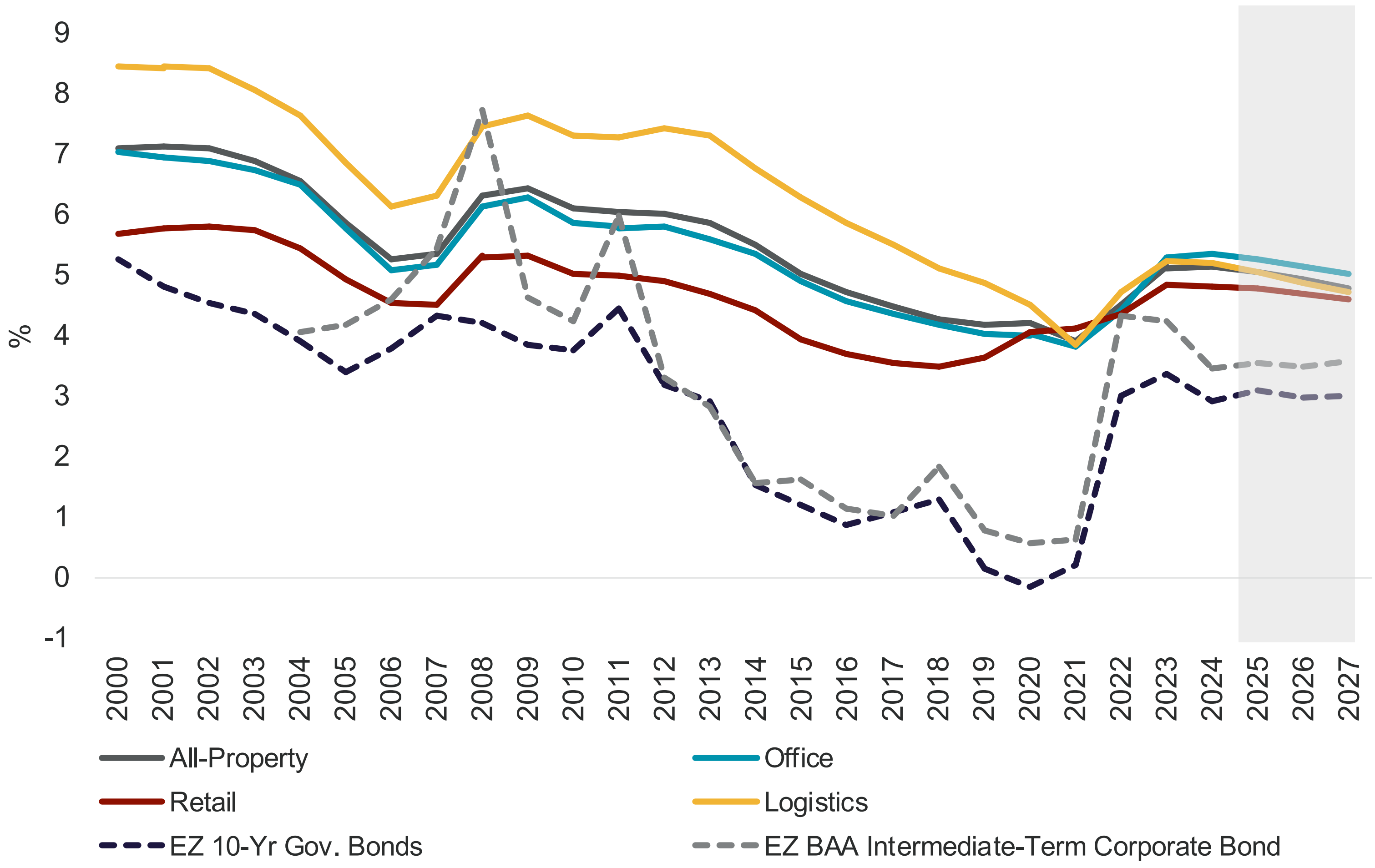
Source: Cushman & Wakefield Research, MSCI RCA (Data extracted in May 2025), Eurostat

Market Momentum

- Recent data does not reflect the prevailing uncertainty in the market seen earlier in the year. Transaction volumes increased 7.4% YOY in Q1 2025.
- The UK and Germany remained the most active property markets in Europe, with Germany seeing a 53% increase in transaction volume—albeit from a low base—while the UK continued the strong momentum from the end of 2024, posting a 18% YOY growth.
- Recent fluctuations in bond yields are likely to impact property pricing and cost of capital. However, this shift could reverse swiftly, depending on the duration of tariffs and ongoing uncertainty. Momentum was building as we entered the year, with capital eager to be deployed.
- Market dislocations have historically set the stage for long-term outperformance, especially for investors who navigate volatility strategically. As conditions stabilise, a pickup in activity as a result of renewed market momentum is expected.

European Prime Yield Outlook

Balancing Forces, the Outlook for Real Estate Yields



Source: ECB, Moody's Analytics, Cushman & Wakefield Research

Yield Dynamics

- Offsetting forces are expected to support a gradual firming in European real estate yields, though sector dynamics will differ.
- Limited supply of high-quality, income-generating assets—especially in the prime segment—is placing downward pressure on yields, supported by resilient rental growth, improved income visibility, and stabilising borrowing costs over the forecast period.
- As interest rate expectations level out, demand for prime assets continues to strengthen. In logistics, robust fundamentals and growing capital inflows drive strong competition for core assets, reinforcing yield compression. In contrast, the office sector presents a mixed picture. Rising 10-year bond yields may temper compression, particularly where occupier demand is weaker. Still, demand for top-tier office space helps cushion upward yield pressure.
- Our latest forecast anticipates average yield compression in 2025 of around 17 bps in logistics, 9 bps in offices and 3 bps in retail. This marks a downward revision from previous office forecasts.

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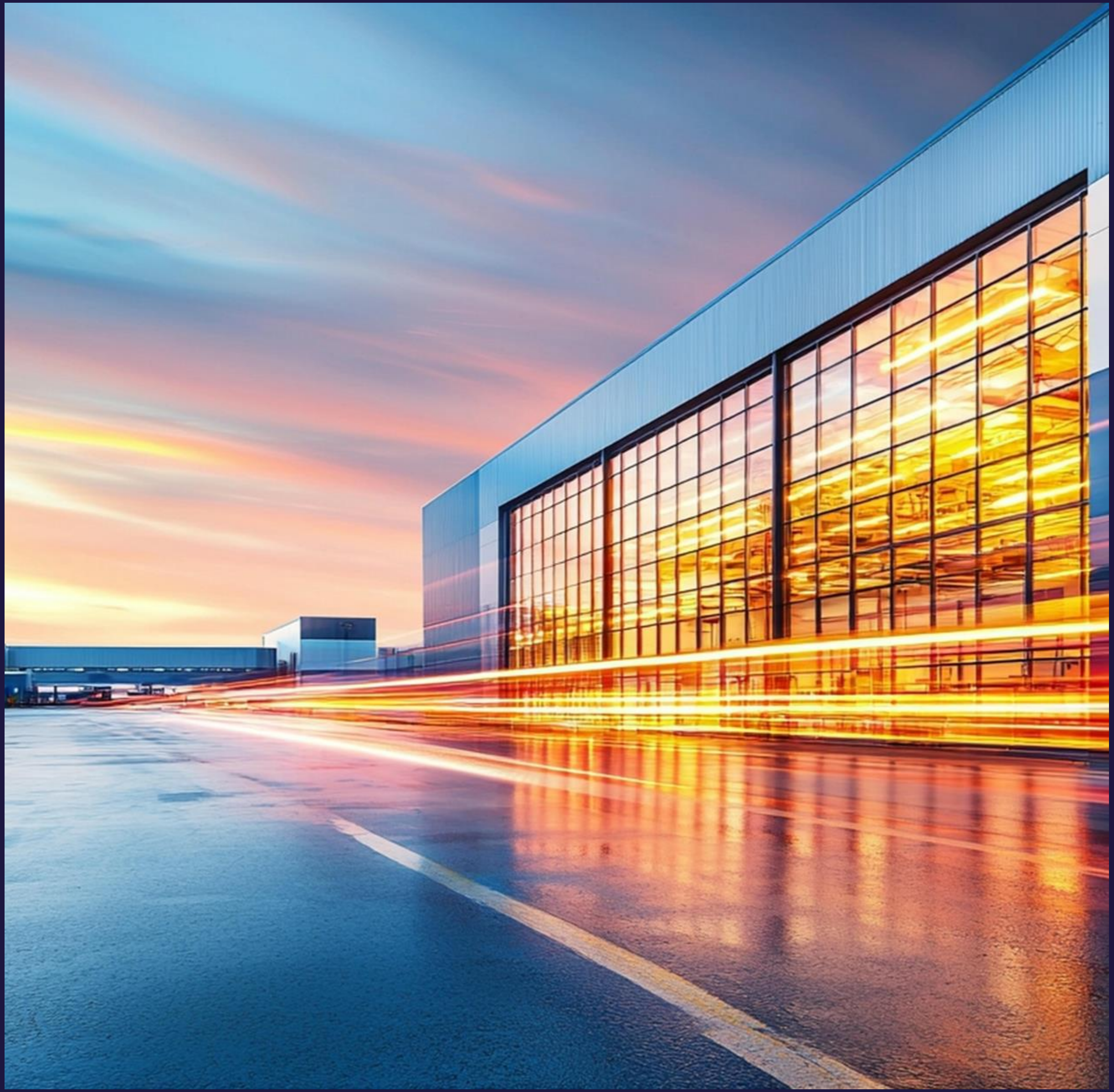
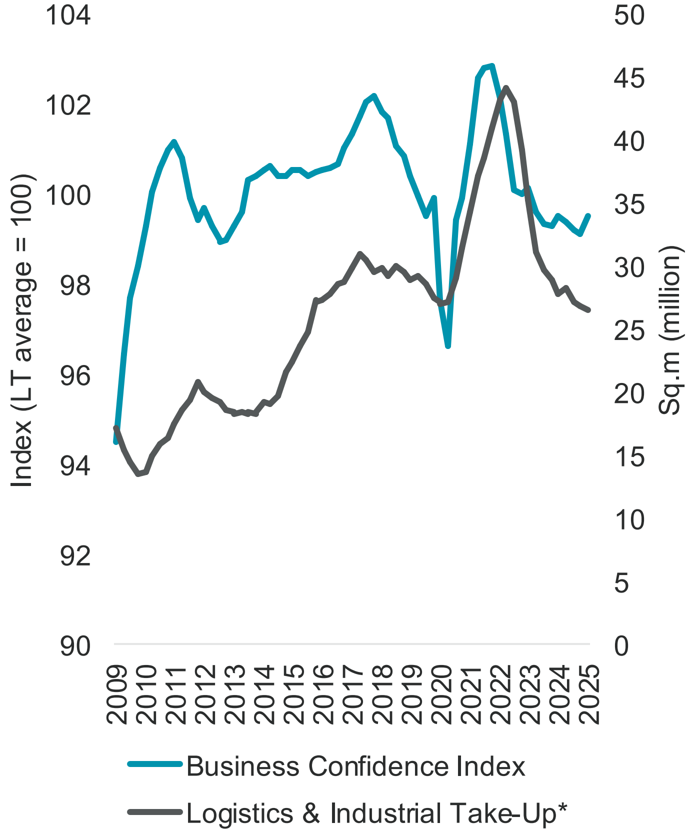
LOGISTICS



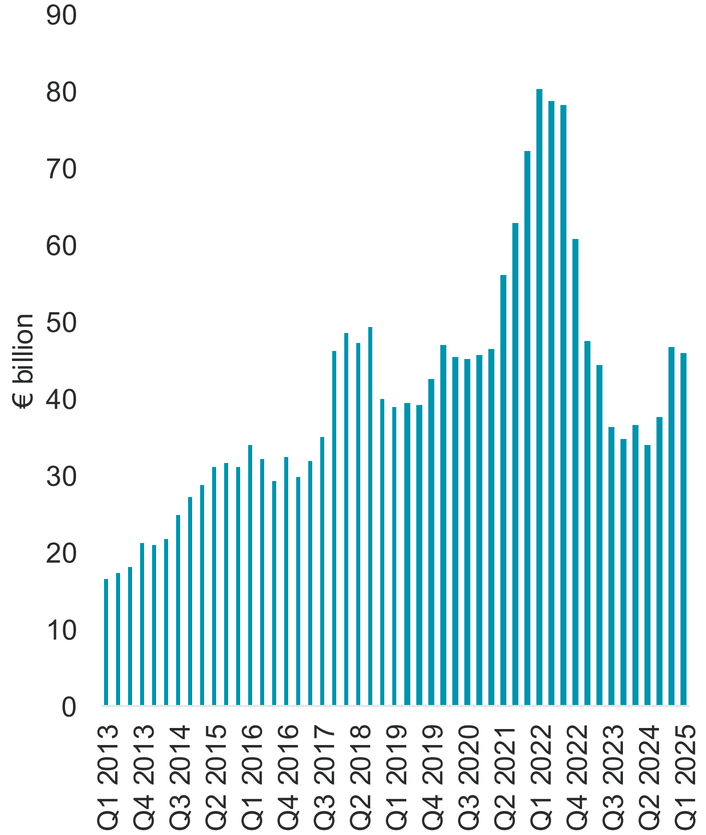
Logistics Leasing and Investment Activity

Gradual Normalisation in Demand

Business Confidence vs Take-up*



Logistics Investment Volume



Source: OECD Leading Indicators, Cushman & Wakefield Research, MSCI RCA (Data extracted in May 2025)
**Rolling four-quarter total*

Levelling Out

- Take-up softened in Q1 2025 but shows signs of stabilising near pre-pandemic levels, indicating gradual normalisation in occupier demand. New completions continue to decline, with less industrial space expected in 2025 as developers reduce new projects amid softer demand and uncertainty.
- Prime rents are forecast to rise at a slower pace, closer to pre-2019 levels.
- Investment volumes rallied in Q1 2025 and are set to increase as pricing adjusts to the new rate environment and vendor expectations align with market realities.
- Easing monetary policy, stabilising demand, and limited supply should support rental growth and investment activity, setting the stage for a market recovery through 2025 and into 2026.

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Logistics Summary Tables

	2023	2024	2025	2026	2027
Europe (exc. UK)					
Prime Rental Growth (%)	4.7	3.5	2.6	1.7	1.5
Prime Yields (%)	5.0	5.0	4.9	4.8	4.6
Prime Capital Value Growth (%)	-11.0	3.8	4.6	4.4	4.5
Prime Total Return (%)	-6.5	8.9	9.7	9.3	9.3
United Kingdom					
Prime Rental Growth (%)	7.6	6.3	5.1	3.0	2.5
Prime Yields (%)	5.7	5.7	5.6	5.5	5.3
Prime Capital Value Growth (%)	3.0	5.8	7.2	5.5	5.0
Prime Total Return (%)	8.8	11.8	13.2	11.3	10.6

Source: Eurostat, ONS, Cushman & Wakefield Research

LIVING

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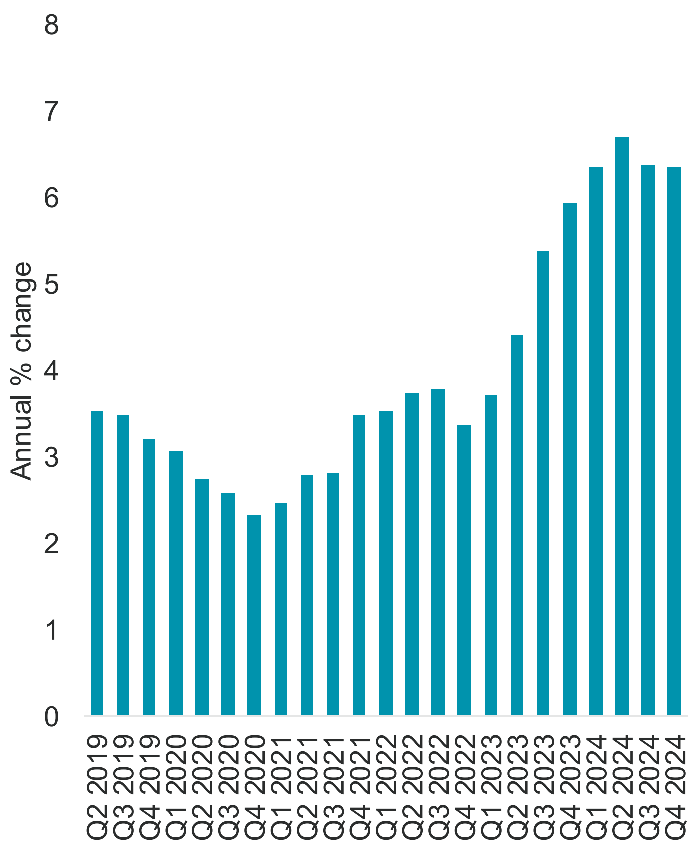
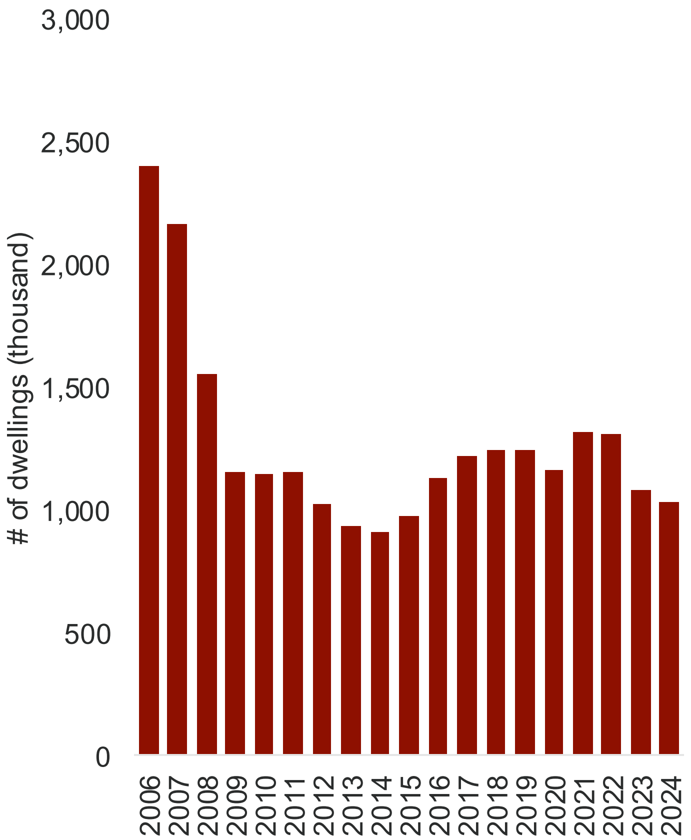
Residential Rental Growth Dynamics

Supply-Demand Gaps Will Drive Rental Growth in Europe

Rental Growth



Building Permits



Source: MSCI, Eurostat*
Selected European countries

Living Opportunity

- Across many European housing markets, supply-demand imbalances remain a defining characteristic—and are showing little sign of easing in the near term. New housing delivery continues to fall short of demand, constrained by a range of structural and cyclical factors. These include restrictive planning frameworks, rising construction costs, and delays tied to labour and material shortages.
- Meanwhile, urban population growth remains robust, driven by internal migration to major cities, increasing numbers of single-person households, and continued inward migration in some markets.
- The result is a sustained upward pressure on rental values, particularly in supply-constrained urban centres. Because of this, the case for rental growth remains compelling—not just in the short term, but well into the medium term— offering institutional investors a resilient income stream in an otherwise uncertain macroeconomic environment.

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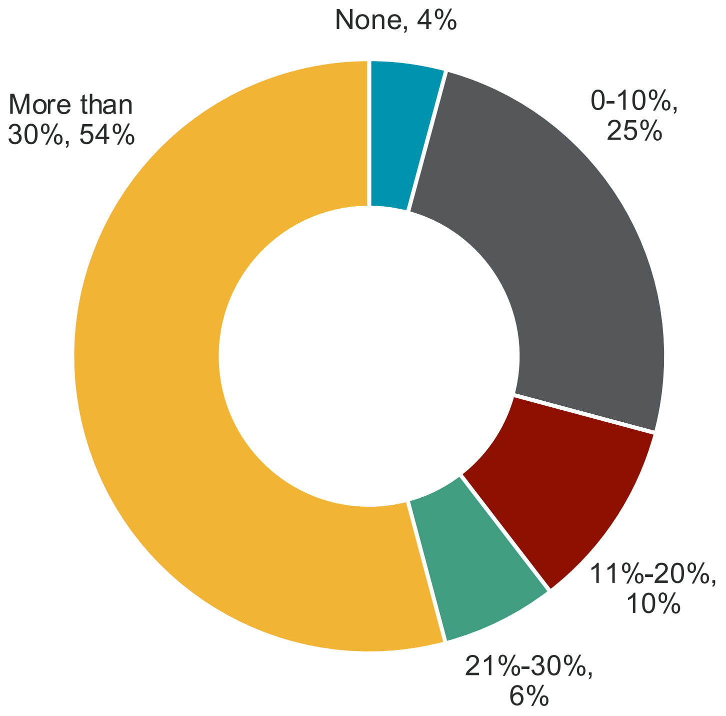
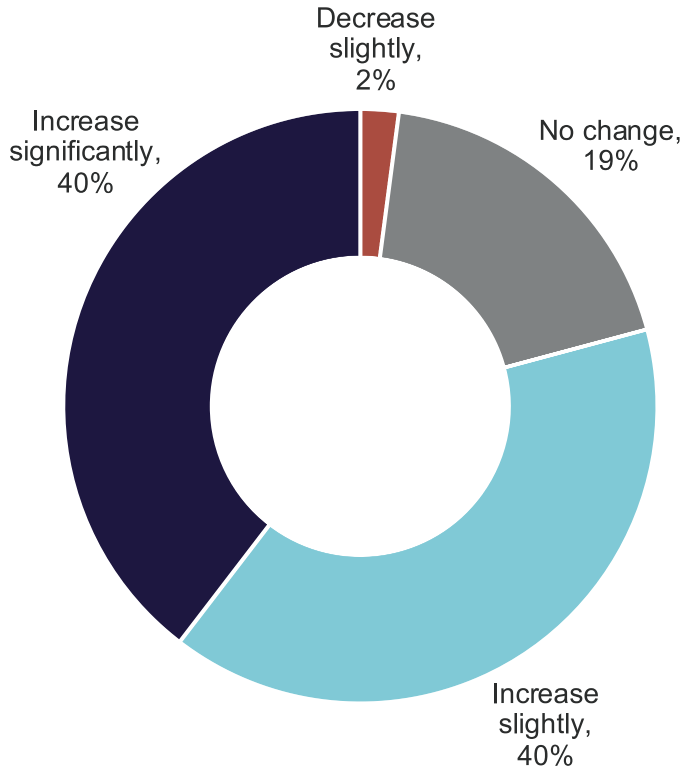
Living Sector Investor Sentiment

Investor Optimism Persists Amid Evolving Regulation

Current Living Allocations



Next 5 Years Investment Shift



Source: Cushman & Wakefield EMEA LIVING INVESTOR SURVEY 2025

Growing Appetite

- Regulatory frameworks across Europe remain in flux. In the UK, the proposed Renters' (Reform) Bill introduces measures aimed at tenant protections, but these changes are expected to increase compliance complexity and weigh on institutional investor appetite. Conversely, governments in Ireland and the Netherlands are reassessing stringent rent control policies as they face declining private sector investment, with both now exploring strategies to ease regulatory burdens and incentivize housing delivery.
- Despite this, investor sentiment toward the European living sector remains strong. According to our latest European Living Survey, 80% of investors anticipate increasing their capital allocations to the sector over the next five years—highlighting its perceived resilience and long-term growth potential.

OFFICE

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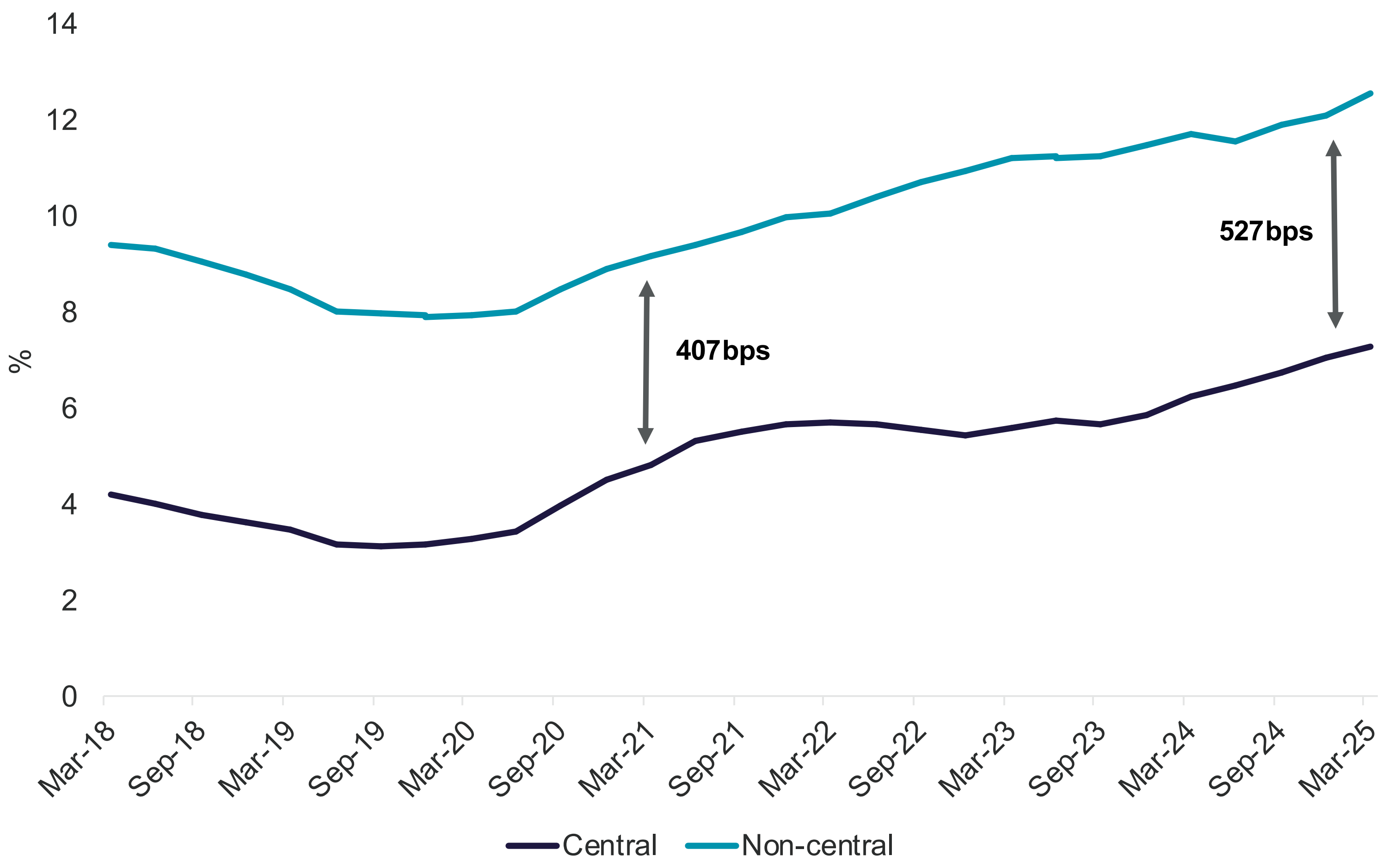
Office Vacancy by Location

Occupiers Double Down on Quality Space



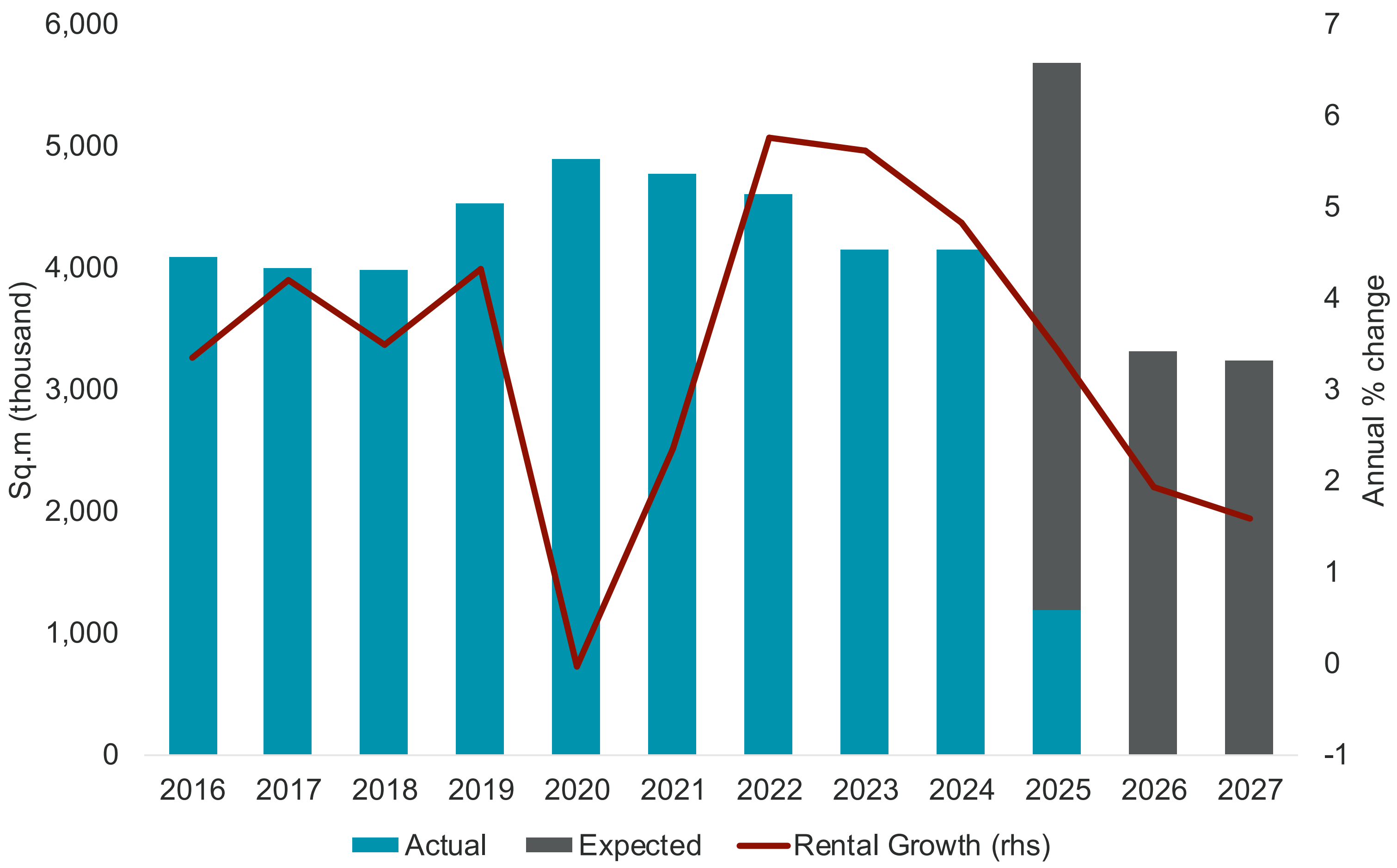
Source: Cushman & Wakefield Research

Resilient Core

- Following a strong end to 2024, leasing momentum slowed in early 2025 amid geopolitical uncertainty, trade tensions, and weaker economic expectations. These factors have delayed decision-making rather than caused a sharp drop in activity.
- Demand remains concentrated in CBDs, with 70% of leasing activity over the past year in central locations—up from 60% pre-pandemic—as occupiers prioritise well-located Grade A space. This focus is likely to continue as companies enhance workplace quality.
- Leasing data also show more occupiers expanding space requirements. In London and key UK regional CBDs, more tenants signed leases with expansion plans in 2024—a trend spreading across Europe, supported by modest employment growth and the return to office.
- Meanwhile, vacancy is rising, particularly for Grade A space in non-central areas, underscoring the growing performance gap between core and peripheral locations. As macro conditions stabilise, activity is expected to strengthen, particularly in prime urban markets.

Office Completions and Rental Growth

Navigating Office Demand, Development Trends, and Rental Growth



Source: Cushman & Wakefield Research

Rental Resilience

- Rents in central locations remain under upward pressure, driven by strong demand for high-quality, well-located space. However, growth is moderating due to affordability constraints and an increase in new supply from recent completions, especially in more balanced submarkets.
- Cost-conscious occupiers are increasingly favouring landlord-provided fit-outs to reduce upfront expenses and maintain flexibility. This is shifting leasing expectations, with more demand for ready-to-occupy, amenity-rich spaces.
- Where prime supply remains tight, rental pressure is likely to persist, encouraging development and repositioning of older assets. With the pipeline set to decline beyond 2025, limited future supply may support medium-term rental resilience.
- Leasing activity in 2025 is expected to stay broadly in line with 2024, with positive net absorption. As geopolitical risks ease and trade agreements progress, improved corporate confidence should lift activity into 2026. Demand will continue to focus on best-in-class, sustainable space in core CBD locations.

Office Summary Tables

	2023	2024	2025	2026	2027
Europe (exc. UK)					
Prime Rental Growth (%)	4.8	4.4	2.7	1.7	1.4
Prime Yields (%)	5.1	5.1	5.1	4.9	4.8
Prime Capital Value Growth (%)	-14.3	4.3	4.4	4.3	4.3
Prime Total Return (%)	-9.9	9.6	9.6	9.4	9.3
United Kingdom					
Prime Rental Growth (%)	9.3	6.8	6.8	2.9	2.4
Prime Yields (%)	6.1	6.3	6.2	6.1	5.9
Prime Capital Value Growth (%)	-3.4	3.5	9.0	5.5	5.0
Prime Total Return (%)	2.5	10.0	15.8	11.9	11.2

Source: Eurostat, ONS, Cushman & Wakefield Research

RETAIL

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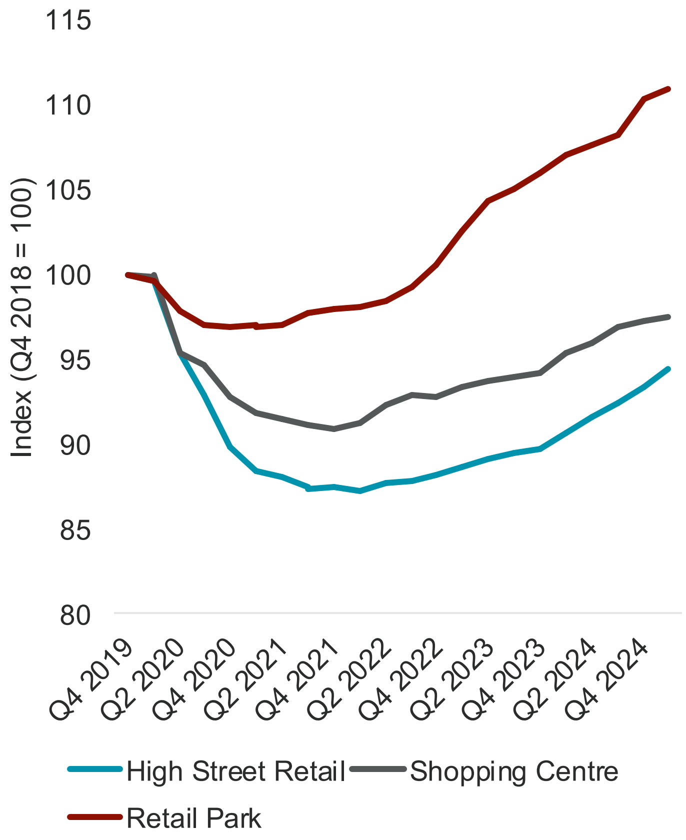
Retail Rental Growth and Confidence

Retail Leasing Strengthens as Occupiers Upsize and Investors Reengage

Rental Growth* by Segment



European Consumer Confidence

Source: Cushman & Wakefield Research, OECD Leading Indicators
**Europe excl. Turkey*

Optimism Returns

- Retail activity remained resilient in 2024 and is expected to maintain momentum into 2025. Retailers continue to seek prime locations and, in some cases, are upsizing to meet evolving consumer needs. However, limited availability in high-footfall areas may constrain expansion.
- Tariff uncertainty is creating challenges for inventory planning, forecasting, and real estate strategy.
- Rents are expected to rise, especially in prime locations where vacancy is tight and competition remains strong. Retailers are prioritising high-visibility, experience-driven spaces, which is sustaining upward pressure on pricing.
- Investor interest has increased since late 2024, with volumes set to grow in 2025 amid improved sentiment, better debt availability, and renewed confidence in retail.
- Looking ahead, stabilising economic conditions and shifting consumer trends should support further leasing and investment growth, particularly in well-located urban centres across Europe.

Retail Summary Tables

	2023	2024	2025	2026	2027
Europe (exc. UK)					
Prime Rental Growth (%)	1.9	2.8	2.4	1.8	1.5
Prime Yields (%)	4.6	4.6	4.6	4.5	4.4
Prime Capital Value Growth (%)	-10.7	3.7	3.3	3.7	4.3
Prime Total Return (%)	-6.6	8.5	8.0	8.4	8.8
United Kingdom					
Prime Rental Growth (%)	1.8	8.4	4.9	2.2	1.6
Prime Yields (%)	5.8	5.8	5.8	5.7	5.6
Prime Capital Value Growth (%)	-0.2	8.4	4.9	3.2	3.1
Prime Total Return (%)	5.5	14.6	10.8	9.1	8.9

Source: Eurostat, ONS, Cushman & Wakefield Research

HOTELS

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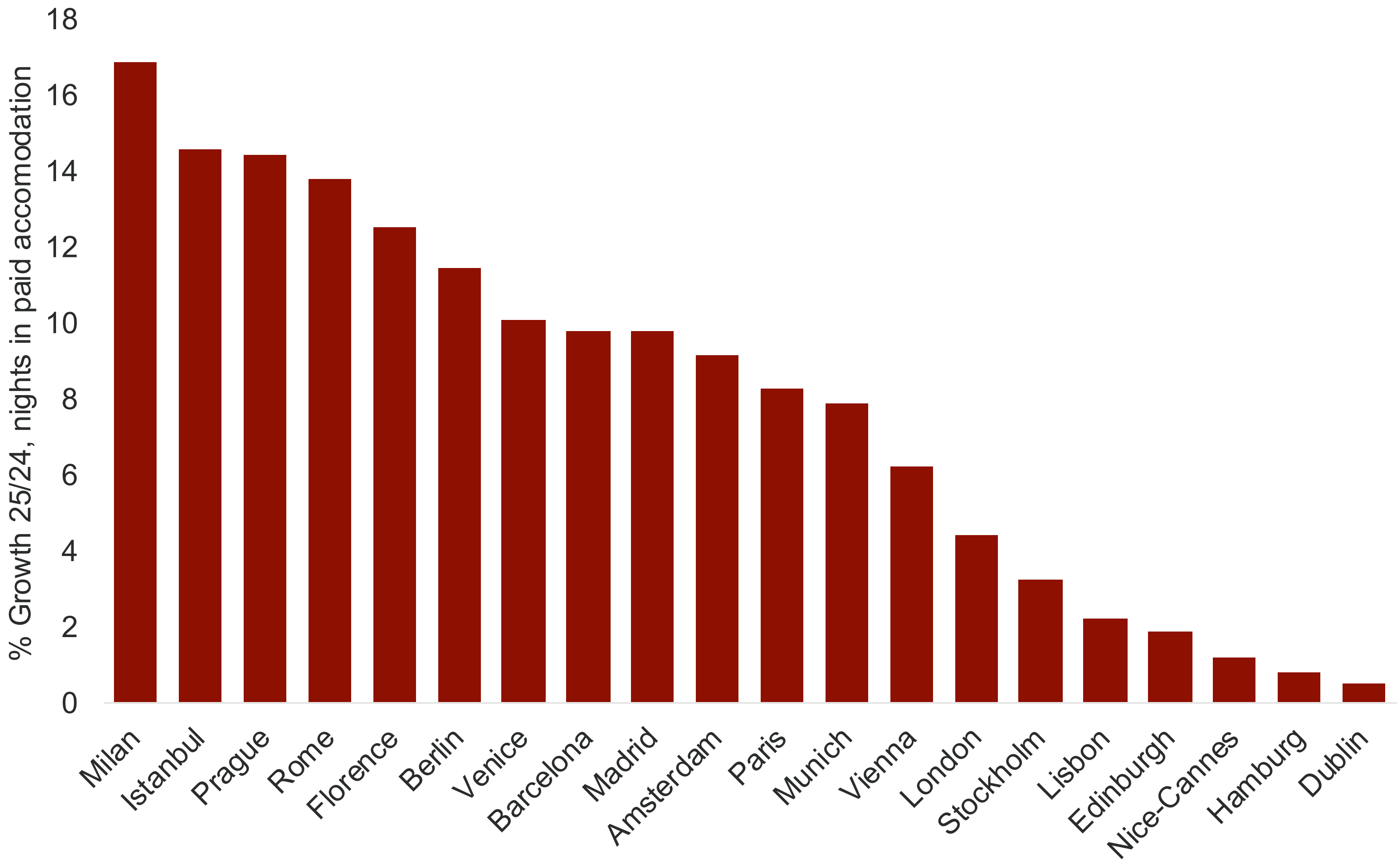
Demand Growth Forecast

Performance Moderating but Fundamentals Remain Solid



Source: Oxford Economics, April 2025

Polarised Growth

- The sustained appeal of European hotel real estate continues, underpinned by a continued healthy operating performance growth, though trends vary between markets.
- According to HotStats, RevPAR rose 7.1% in the 12 months to April 2025, with growth moderating to 3.6% YTD April. Following a robust 2024, growth in gross operating profit per available room (GOPPAR) was subdued in early 2025, reaching a 1.4% growth YTD April, with 8 of the 17 major urban markets seeing a YOY decline.
- Looking ahead, Amadeus data indicates hotel bookings for May are ahead of last year, with levels slightly below 2024 through September and matching last year in Q4 2025. Among 17 key urban markets, five have June bookings on par with or exceeding last year, with Dublin, Copenhagen, and Athens showing notably strong advance bookings (at least 70%). The trend of moderating performance and increasing market polarisation is expected to continue, particularly in cities facing significant new supply like Dublin, Lisbon, Istanbul, and Brussels.

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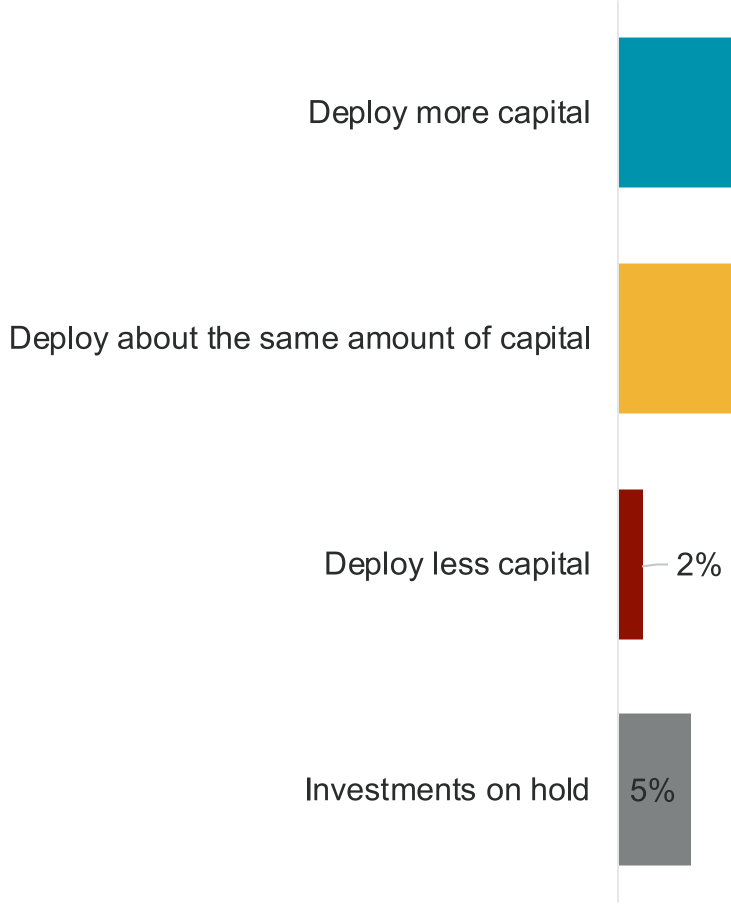
Hotel Acquisition Strategy 2024 vs 2025

More Capital to be Deployed in 2025



Source: C&W European Hotel Investor Compass 2025

Hotel Market Broadens

- Transaction volumes in the European hotel sector declined by 4% in Q1 2025 YOY. However, this dip does not reflect a weakening of investor sentiment. Rather, it reflects an exceptionally active Q1 2024, which was buoyed by several large portfolio transactions—particularly in the UK. Volumes in Q1 2025 were 24% above the 2020–2024 average.
- Investment activity in Q1 2025 has become more geographically diversified. Several regions, including Scandinavia, Central and Eastern Europe, and South Eastern Europe, saw significant growth in hotel investment volumes, indicating a shift beyond the traditionally dominant Western European markets.
- The pipeline of marketed portfolios point to a stronger H2 2025, with investment volumes likely exceeding 2024, driven by better financing conditions and stable rates.
- While value-add and opportunistic deals remain key, growing interest in core and core-plus assets signals institutional capital returning to resilient, high-fundamentals markets.

What It Means For Occupiers & Investors

Occupiers

- **Maintain a long-term perspective:** Continue to implement workplace strategies with a focus on long-term objectives.
- **Leverage tariffs and uncertainty:** Use the current environment of tariffs and uncertainty to your advantage in shaping business strategies and negotiations.
- Regardless of tariff impacts, it is essential for manufacturers to **diversify supply chains as a prudent risk** management strategy.
- Large corporations are likely to capture increased market share post uncertainty. **Position your organisation for growth** by preparing for future opportunities.
- **Take a proactive approach by targeting high-quality assets and locations**. As the availability of premium options becomes limited, this will become an increasingly competitive market.
- **Re-evaluate and re-assess your real estate strategy** in alignment with your business outlook. Determine your organisation's risk profile and tailor your approach accordingly to optimise space utilization.

Investors

- **Focus on the investment horizon:** Prioritise long-term real estate investments, as consistent value appreciation typically occurs over time.
- **Take advantage of market volatility:** Overlook short-term market fluctuations and strategically acquire assets from sellers motivated by uncertainty.
- **Interest rates are unlikely to return to pre-pandemic levels:** Seize opportunities when long-term debt dips below historical averages and strategically allocate capital.
- **Capitalise on short-term rate movements:** Central banks are likely to continue normalising rates, with more cuts if economic conditions weaken. Leverage these changes to optimise your investment strategy.
- **Re-assess investment strategy:** Evaluate your risk profile and begin executing an updated strategy tailored to current market conditions.

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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 2024, the firm reported revenue of $9.4 billion across its core service lines of Services, Leasing, Capital markets, and Valuation and other. Built around the belief that *Better never settles*, the firm receives numerous industry and business accolades for its award-winning culture. For additional information, visit www.cushmanwakefield.com.