

Europe's relative resilience

European Commercial Outlook H2 2025

TALKING POINTS

- The 5-year Euribor swap rate is significantly below the rates in the US and UK. Year-on-year, the Euribor rate continues to trend lower, making financing conditions relatively more accretive for real estate investors.
- Europe remains the main draw for global investors, benefitting from a shift towards safe haven markets and offering relative stability and liquidity from a global perspective.
- Soft US cross-border activity could present opportunities for European real estate investors through thinner competition.
- Defence, innovation-led and demographically driven sectors are well positioned to capture investor demand.

Despite ongoing global uncertainty, the European commercial real estate market is showing signs of recovery, albeit gradual. Falling interest rates and stabilising valuations are creating a more favourable environment for investment.

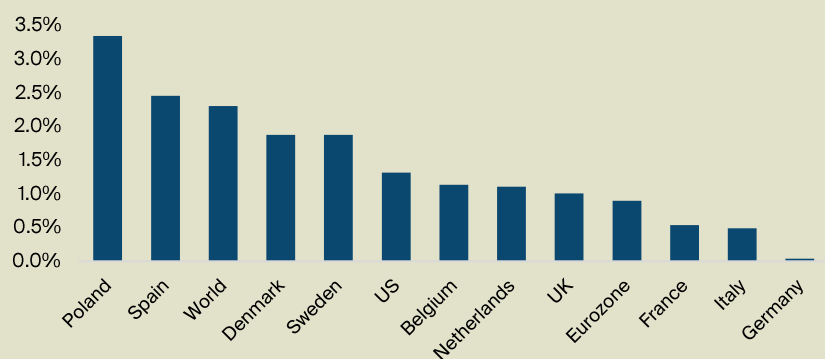
While further ECB monetary easing is likely in the second half of 2025, its pace and extent will depend on inflation dynamics, economic growth, and global policy trends. Economists expect the ECB deposit rate to settle at around or just below 2.0% by year-end.

Eurozone economic growth is expected to remain relatively soft due to continued uncertainty around US tariffs although regional variations remain, with Spain forecast to lead growth. Outside the bloc, Poland and the Nordics are expected to be among the strongest performers in 2025.

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Large variations in the economic growth outlook

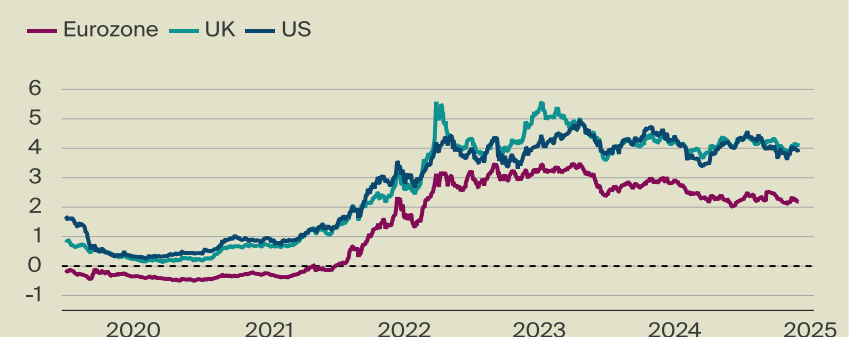
Real GDP growth forecast 2025 (y/y, %)



Source: Oxford Economics, Knight Frank Insight

Widening Euribor swap rate differential with the UK/US

5-year swap rates (%)



Source: Knight Frank Insight, Macrobond

Europe as a perceived safe haven market

Lower interest rates and a favourable swap rate differential in Europe compared to the UK and US make the region relatively more attractive to international investors as well as those capitalising on currency and hedging benefits.

Europe remains the main draw for global investors, benefitting from a shift towards safe haven markets and offering relative stability and liquidity in a global context.

The region may gain from a reallocation of global capital, with investors seeking diversification and reduced exposure to US volatility. A stable regulatory environment further enhances Europe's relative appeal.

That said, sustained weakness in oil prices could lead sovereign wealth funds from oil-dependent economies to scale back international investments.

Meanwhile, US private equity firms facing tighter domestic conditions may reduce their overseas commitments, tempering capital inflows into European markets. This, however, could present an opportunity for European investors through thinner competition.

Significant capital is ready to be deployed, particularly in the value-add space, with core capital gradually returning. Private investors have become an important source of capital, diversifying their focus across asset classes.

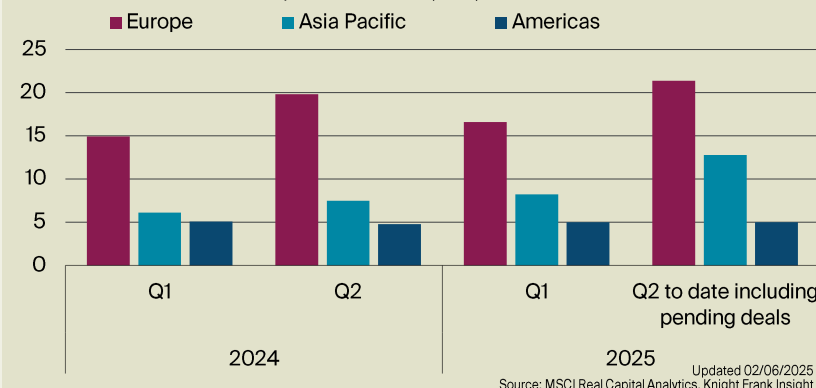
Sector dynamics

Investors will continue to focus on sectors with strong structural tailwinds, such as living and logistics. Prime logistics yields remain stable in most markets and have started to compress in cities like Madrid.

The retail sector, following significant repricing in the last years, is drawing renewed investor interest.

Europe remains the key destination for global cross-border capital

Global cross-border investment, all CRE sectors (€ bn)



The office sector is regaining momentum, as prime rents in key European markets such as Paris CBD, Munich, and Berlin have reached record highs. Limited supply supports a positive rental outlook, though the polarisation between prime and non-prime locations and in asset quality is growing.

Defence-led industrial demand

Industrial markets in Central and Eastern Europe, Germany and other small open economies, such as the Netherlands and the Nordics, could be most affected by the tariffs, but impacts could be cushioned by the increased defence spending plans by European governments.

The expansion of defence and high-tech manufacturing is set to reshape Europe's industrial and logistics landscape, driving demand for specialised facilities and strategic infrastructure. As production scales up, manufacturers will require additional space for assembly, component manufacturing, and materials storage in strategic locations near ports or military bases.

Digital infrastructure

On the digital front, rising investment volumes across the EMEA region signal growing confidence in the data centre market, driven by increasing demand for robust infrastructure, particularly as AI technologies expand.

Innovation-driven demand

Tariff-fuelled disruption to global high-tech and pharmaceutical supply chains may act as a structural tailwind for European innovation hubs. Cities such as Paris, Munich, Cambridge, and Berlin could benefit from increased demand for R&D and lab space as capital and talent shift towards more stable and well-funded ecosystems.

Should US universities and research organisations face further challenges related to funding pressures and talent mobility, Europe may capture an even greater share of global research activity and strengthen its position as a key global innovation hub.

Regional focus

Geographically, Germany is expected to remain a top investment destination despite economic challenges. In France, early indicators point to the beginning of a new cycle, most notably, easing financing conditions, which are helping to restore liquidity and renew investor confidence. Spain, supported by broad-based economic growth, will continue to attract strong investor focus.

To bring this together, Europe's real estate market is well-positioned to capitalise on shifting global capital flows, providing relative stability and liquidity. Sectors supported by structural tailwinds, as well as those driven by defence and innovation offer investment opportunities.

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