Real-estate investments are gradually recovering

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On the 5th of June 2025, the ECB lowered its key rates for the eighth time since summer 2024. In 12 months, they have gone from 4% to 2%, following 10 successive rate hikes between July 2022 and June 2024. While inflation appears to be under control, the focus has now turned to the strength of growth in the main European economies, which are facing the full brunt of combative and unpredictable US policies, with hard-to-quantify repercussions. These issues have shown up in recent shifts of the main real-estate indicators.
Investments, for example, have recovered, while rental activity has been dragged down by companies' wait-and-see attitudes.

WEAK RENTAL MARKETS

European office leasing markets nonetheless expanded by 4% in the first quarter of 2025, year-on-year. Germany once again turned up, by 14%, its best start to a year since 2022. Even so, the main uncertainties shaking the markets have made a considerable dent in business and household confidence in recent months. Fears of softer growth and a subsequent rise in unemployment have dampened any plans for expansion and spending. New leases decreased in France, for example, in both offices and logistics, and vacancy rates have risen, while remaining low for warehouses and in the Paris Central Business District (CBD). Rents are no longer rising and have gradually stabilised for prime locations and new properties. They have fallen for existing and secondary locations.
Activity is still focused on CBDs, as a wide gap persists between city sectors. More recently, the near suburbs of Paris have featured a few rental property transactions of more than 15,000m², involving well-served buildings with large, quality layouts and notable cuts in rents. This is due more to the scarcity of large surface areas available in Paris than to a shift in demand towards its suburbs. Paris is still the first choice for new office space.

A BIG REBOUND IN INVESTMENTS

The fourth quarter of 2024 featured a true acceleration in office property investment. After 18 months of holding back and of shrinking volumes, sellers threw in the towel, accepting lower prices from potential buyers, in particular for assets in peripheral areas. The amounts involved rose sharply late last year, by 27% in France between the third and fourth quarters and even more in early 2025, by 67% year-on-year. Office investments also recovered, with spikes of 180% in France and 60% in Germany in the first three months of the year. On average, office market values rose by 6% year-on-year in the first quarter of 2025 in the top 11 European metropolitan areas.

In France, investments recovered mainly in Paris CBD, with almost 50% of first-quarter 2025 acquisitions in the Ile-de-France (Greater Paris) region, with €1.18 billion, or a spectacular 275% increase of amounts invested compared to the first quarter of 2024, driven in particular by one very large transaction.

Unlike rental markets, investments have, paradoxically, benefited from economic and political uncertainties. For, the steep volatility on financial markets reinforces the attractiveness of real estate, with its tangibility and recurring rental income (4.8% annually on average since 1994, according to MSCI). These advantages are especially apparent in prime CBD office property.

A NEW PARADIGM?

Rising long bond yields in recent months have had a big impact on financial markets. The ECB is expected to hold off for a while on its key rate cuts but could lower them further, depending on future tariff agreements. In the meantime, debt levels in Europe – whether suffered involuntarily in France or voluntarily exploited in Germany to support economic growth – are likely to prevent a significant decline in long-term yields.

The resulting automatic reduction of the risk premium inherent to real-estate investment, far from scaring off investors, reinforces their confidence in their strategy of acquiring prime properties to reposition or restructure them in order to benefit from the narrowing of yields and to justify rent increases. Moreover, the risk premium is far more comfortable when calculated on the basis of the OATi (France's inflation-linked government bond), which addresses the special features of real estate. For, the regular indexation of rents based on indices published by INSEE (the official French statistics agency) allows them to be increased for inflation observed during the period. This ongoing narrowing of the real-estate risk premium is unlikely to undermine investor confidence, as long as it is limited to prime assets.

Sources: Immostat, JLL, MSCI, PMA, Savills.
Data as of Q1 2025.

DID YOU KNOW?

80% of "2050" buildings have already been built.

This standard, based on modelling by the France's Agency for the Environment and Energy Efficiency (ADEME), is requiring an urgent transformation of current real-estate stock. The environmental transition is based on renovation (insulation, renewable energies, repurposing, etc.).

A sustainable future is not just about putting up new buildings. It's also about reinventing those that already exist.

CURSORS

We have adjusted our investment and asset management strategy, as we expect rents for the best-located properties to level off or even sligthly decline. For acquisitions, we are now seeking out properties with long-term leases on which we can approach our tenant clients at a very early stage to extend those leases. Accordingly, we are giving priority to resilient assets generating stable income flows and suited to the structural sociological changes now underway and that are resulting in new uses.