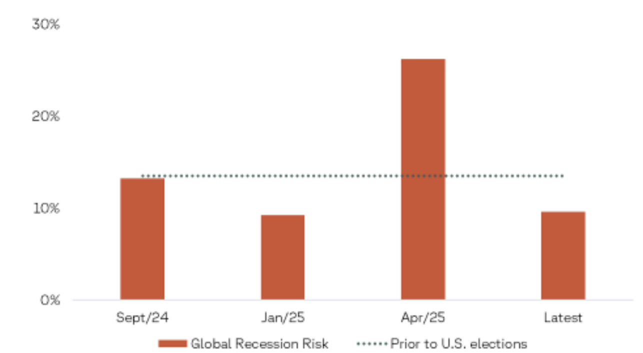
Europe's moment: a real estate revival

Global investment is undergoing a transformation, with Europe increasingly taking center stage. Market activity across the region is gaining momentum, driven by more supportive fiscal policies, declining interest rates, and a sense that real estate values have reached their trough. Total returns are strengthening, supported by stabilising capital values, declining borrowing costs, and continued rental growth – especially in supply-constrained sectors. Further, the recent correction in asset values has largely absorbed downside risk, creating a stronger foundation for recovery paired with significant dry powder available for new investments.

The Liberation Day tariff announcements triggered an increase in measures of uncertainty. The Trade Policy Uncertainty Index surged to an all-time high in April 2025, as tariff announcements undermined business confidence. While the index remains elevated, it has trended downward from its peak, suggesting renewed optimism ahead.

This optimism is further reflected among business leaders regarding the future of the economy. According to the latest Global Risk Survey by Oxford Economics, businesses have become less pessimistic about the near-term outlook for the global economy. Respondents see less than a 10 percent chance of a global recession this year, compared with more than 25 percent in April and 13.2 percent in September of the past year **(Exhibit 1).**

Exhibit 1. Risk of global recession



Source: Oxford Economics, Global Risk Survey, September 2025

This global sentiment is being transferred directly to the European markets where certain economic indicators are reversing their downward trends. The Economic Sentiment Indicator signalled a gradual improvement in confidence, even if it remains below the long-term average.[1] Recent data from the European Central Bank also show an uptick in bank lending to businesses – an encouraging sign that confidence remains resilient.[2] **This offers a glimpse into economic activity in the months ahead. Investor confidence is trending in the right direction despite the persistence of uncertainty.**

Europe's pivot from austerity to expansionary fiscal policy represents a key shift. Higher spending on defence and energy transition initiatives is set to lift aggregate demand and provide fresh momentum for stable growth. To operate independently, Europe is preparing public investment plans of unprecedented scale, driven by profound shifts in the geopolitical landscape. Fiscal stimulus measures are aimed at boosting infrastructure investment, defence spending, and renewable energy, in addition to bolstering semiconductor competitiveness. Planned investments in Europe's strategic autonomy amount to more than €1.6 trillion.[3] This is likely to have some trickle-down benefits for certain real estate sectors, but it could also lead to an increase in building costs if infrastructure projects compete for construction labour and materials.

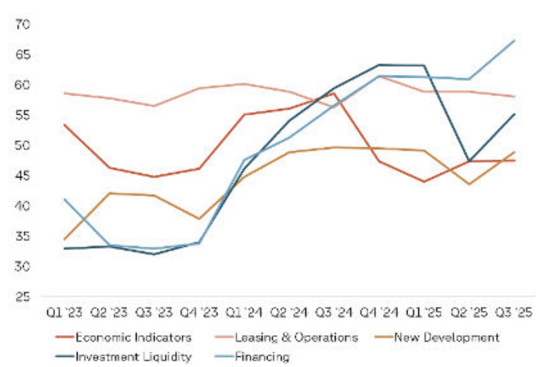
CRE Markets

Total real estate investment volumes in the first half of the year declined by 7 percent compared with the same period in 2024. However, momentum appears to be building. Pending transactions at the end of Q2 totalled just over €17 billion – the highest level since 2022 – which signals a likely acceleration in dealmaking during the second half of the year.[4]

There is growing talk about the potential for a strategic reallocation of foreign capital from the US to Europe. While European markets are gaining traction – buoyed by comparatively clearer policy, improving economic fundamentals, and renewed fiscal stimulus – the narrative remains largely sentiment-driven and anecdotal. Concrete evidence, particularly in the form of increased transaction activity, may take time to materialise.

Investor sentiment in Europe is showing signs of recovery. In September the INREV Consensus Indicator rose to 56.4 – its first increase after two quarters of decline – suggesting a modest shift in market outlook **(Exhibit 2).** As a directional gauge for trends in the European non-listed real estate market, the index offers quarterly insights across investment, leasing, development, operations and lending. The investment liquidity subindicator registered the most significant uptick driven by fewer concerns regarding near-term liquidity, alongside 41 percent of respondents indicating plans to increase investments in the coming quarter.

Exhibit 2. INREV Consensus Indicator



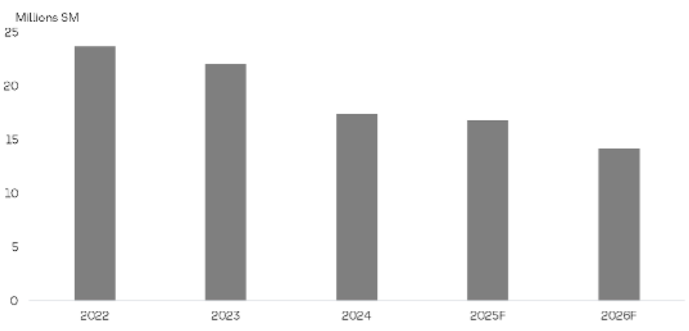
Source: INREV, September 2025

Following a sharp correction in asset values, much of the downside risk appears priced in, laying a more resilient foundation for recovery. Data from MSCI and REIT data suggest the market may have reached a valuation floor. Private valuations in Europe are up 1.8 percent year-over-year and public REITs are sending the same signal, with indices essentially flat year-to-date.[5] As interest rates ease, particularly in Europe, financing conditions are improving, which is expected to lift both investor sentiment and transaction activity.

Compelling opportunities

Europe stands out with attractive investment prospects, especially in sectors marked by resilience and innovation tailwinds. Strengthening total returns – driven by stabilising capital values, easing borrowing costs, and solid rental growth in supply-constrained sectors – are creating attractive long-term opportunities.

Exhibit 3. European logistics completions



Source: CBRE, Q3 2025

Pan-European real estate returns increased to 6.4 percent during the year to June 2025, outperforming the 10-year average of 5.8 percent. This was heavily skewed by improving performance from industrial/ logistics and retail, which returned 7.9 percent and 7.5 percent respectively, while residential recorded 7.0 percent. Offices continue to lag with 3.7 percent returns, although this is a notable increase and significantly closes the gap on the other sectors.[6]

In the **Logistics** sector, rolling 12-month European logistics take-up saw a 3.8 percent fall in Q2 2025. While this is below the five-year average, it remains 9 percent above the pre-pandemic average. Longer-term regionalisation of higher-value manufacturing, rising ecommerce and increased defence spending support leasing fundamentals. At the same time, the delivery of new space in Europe is projected to decline by 40 percent from 2022 to 2026 (**Exhibit 3).**[7] With new supply tightening, the availability of such space is likely to fall short of evolving demand.

Global logistics rental growth has shown a marked divergence across region, according to the latest data from JLL. As of Q2 2025, Europe leads with robust prime annual rental growth of 5.1 percent, reflecting resilient demand and constrained supply in key logistics hubs. In contrast, the North America region saw annual rental growth of only 0.2 percent as of Q2 2025.[8] This may reflect the lagging effect of rent growth in Europe (excluding the UK) where historically, compared with the US, rents did not grow at the same pace but experienced lower capitalisation rates. The equalisation of capitalisation rates between Europe and the US has caused this lagging rental growth factor in Europe. Further, interest rate declines leading in Europe may give rise to a faster yield compression there.

There is also a growing opportunity to capitalise on the exponential growth in demand for **data centre** capacity in Europe. As the global AI market continues its rapid expansion, the demand for data centre capacity is accelerating in parallel. Combined, the US and European data centre markets have expanded by over 63 percent in the past two years, absorbing approximately 16,000 megawatts of capacity.[9]

Across Europe, vacancy rates remain critically low, with the regional average falling below 3 percent. In leading markets such as Frankfurt and Dublin – key hubs for hyperscale and colocation facilities – vacancy rates are under 1 percent, underscoring the intense pressure on available infrastructure. The US is facing a similar supply crunch with vacancy rates of just 1.7 percent as of Q2 2025.[10]

The regulatory environment across Europe places a strong focus on sustainability, data security and privacy, which shapes the way data centres operate. These factors are collectively driving up development costs, lengthening project timelines, and creating uncertainty for operators and investors alike. Despite these hurdles, the European market demonstrates strong momentum with a supply pipeline that reflects sustained investor confidence and regional expansion.

In conclusion, while global trade tensions and macroeconomic volatility continue to pose systemic risks across asset classes, Europe's real estate market is showing early and sustainable signs of resilience. Stabilising valuations, a contracting construction pipeline, and improving financing conditions are laying the groundwork for a cyclical recovery. Europe's shift from fiscal austerity to an expansionary stance marks a major policy pivot, with over €1.6 trillion in planned investments aimed at defence, energy transition, infrastructure, and strategic autonomy to stimulate growth and address geopolitical challenges. In this evolving landscape, select property types may present compelling opportunities for investment.

Notes

1 European Commission, Business & Consumer Survey. September 2025

2 European Central Bank, Economic Bulletin Issue 6. September 2025

3 BNP Paribas Asset Management

4 MSCI. Europe Capital Trends. Q2 2025

5 Per the MSCI UK Quarterly Property Index and MSCI European Quarterly Property Index (Unfrozen, both measured in domestic currency. The FTSE EPRA Nareit Developed Europe Index is down 1.91% YTD, as of September 5, 2025.

6 MSCI Europe Quarterly Property Index (Unfrozen), June 2025

7 CBRE Forecasting, Q3 2025

8 JLL. Global Market Perspective August 2025

9 Data Center Hawk, Q2 2025

10 Data Center Hawk, Q2 2025

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Affinius Capital® is an integrated institutional real estate investment firm focused on value creation and income generation. With a 40-year track record and $62 billion in gross assets under management, Affinius has a diversified portfolio across North America and Europe providing both equity and credit to its trusted partners and on behalf of its institutional clients globally. For more information, visit www.affiniuscapital.com.

CORPORATE CONTACT

Karen Martinus | Senior Vice President Research & Investments

+31 62 6851 588 | karen.martinus@affiniuscapital.com

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