European Outlook 2025

The European real estate outlook provides a high-level summary of European economies and real estate markets in 2025.

Pan-European overview

Judith Fischer, Partner Commercial Research, Knight Frank

The European real estate market is showing signs of recovery, underpinned by falling interest rates and stabilising valuations, creating a more favourable environment for investment.

While further monetary easing by the ECB is anticipated in 2025, its pace and extent will depend on inflation dynamics, economic growth, and global policy trends. Higher-than-expected inflation in the Eurozone and the potential for protectionist policies in the US could slow the anticipated pace of rate unwinding. Capital Economics currently projects a lower bound of 1.5% for the ECB deposit rate by end-2025. Although Eurozone economic growth is expected to accelerate, regional variations remain, with Southern Europe, particularly Spain, and the Nordics projected to lead growth in 2025.

Europe is set to remain a leading destination for global cross-border capital in 2025 as solid occupier demand and pricing adjustments, combined with a significant swap rate differential between Euribor and US and UK rates, will continue to attract cross-border investors as well as those benefitting from currency and hedging advantages.

Investors will continue to focus on sectors with strong structural tailwinds, such as living and logistics. Prime logistics yields have stabilised in many markets and are starting to compress in cities like Madrid and Amsterdam. The retail sector, following significant repricing in the last years, is drawing renewed investor interest, while the office sector, supported by limited supply of ESG-compliant prime assets, remains a priority for domestic investors.

With European hotel investment in the first nine months of 2024 having outpaced the 10-year average for the period by 14%, we expect to continue to see capital focussing on hospitality supported by solid growth in tourism-related sectors.

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.

Meanwhile, 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.

Geographically, Germany is expected to remain a top investment destination despite economic challenges. France is experiencing positive momentum in retail and alternative assets, albeit whilst navigating the evolving political landscape. Spain, supported by broad-based economic growth, will continue to attract strong investor focus.

As confidence grows across sectors and geographies, Europe’s real estate market is well-positioned for increased activity and sustained global capital inflows in the coming year.

Sources: Capital Economics, Knight Frank Research

Our local experts provide insights into their respective markets, analysing key sectors such as office, logistics, and living. They explore the impacts of various factors, including GDP growth, inflation, interest rates, and more.

Belgium

Shane O'Neill, head of research, Knight Frank Belgium

Turmoil affecting Belgium's most trusted economic partner will impact markets, while assets with strong fundamentals will find validation.

Belgian GDP is forecast to increase by 1.3% in 2025. The Belgian economy and real estate markets will be more directly impacted by the economic and political turmoil in Germany than the next Trump presidency. While the latter will have undeniable medium-term effects such as a trade war which in turn could have all sorts of inflationary ramifications, US real estate investors are not regular players in Belgian real estate. Belgium's immediate concern lies with the formation of a federal government. The longer it will take to form a coalition (currently three months and counting), the higher the threat on its credit ratings.

Indeed, Belgium is much more dependent on Germany as its main trade partner (accountable for over 21% of Belgian exports in 2022). Similarly, Belgian real estate is very dependent on Germany as a source of investment as well as a key source of financing.

As a result, other, cash-rich, European counterparts, mainly from France, will seize the opportunity to increase their influence on Belgian real estate capital markets when the Belgian and Eurozone economy confirms its recovery from inflationary unrest. Belgian inflation is forecast to slow from 3.2% in 2024 to 1.9% in 2025.

Investors will turn to asset classes which have demonstrated maturity and ability to weather a crisis. Such is the case of out-of-town retail, logistics, and industrial in particular. Assets with strong fundamentals, i.e., strong tenants on long-term leases, will also attract investors, and interesting sale & leasebacks will arise across all asset classes. Finally, top-grade offices have demonstrated their ability to keep attracting occupiers these past years. As a result, we expect these will gradually attract larger investment volumes as interest rates keep decreasing. We expect fire-sales and off-market assets to kick start the office investment revival, albeit this will not occur overnight.

Sources: Knight Frank Belgium, Belgian Federal Planning Bureau

Czech Republic

Lenka Šindelářová, head of research and consultancy, Knight Frank Czech Republic

The Czech investment market is recovering, with stable yields, strong domestic buyers, and limited new supply driving tighter vacancies and steady or rising rents.

The Czech investment market showed signs of recovery in late 2024, with growth in both deal numbers and larger lot sizes in negotiations. Expected deal closures by year-end or early 2025 are likely to surpass last year's volumes, boosting investment activity further into next year. Domestic buyers maintain dominance with over 80% market share, a trend expected to continue into 2025. Yields have stabilised and are anticipated to remain steady due to modest repricing.

Czech economic growth is set to accelerate, with GDP projected to grow by 2.5% in 2025, driven by increased consumer spending and real wage growth. Inflation is expected to stay near the 2% target, while unemployment should remain below 3%, fuelling wage pressures. Key risks to this outlook include a slow German recovery and geopolitical tensions impacting supply chains.

In Prague, the lowest-ever new office supply is expected next year, pushing prime rents in central areas higher. While vacancy rates have risen slightly as occupiers rationalise space and renegotiate leases, limited new supply over the next two years is likely to reduce vacancy rates. Industrial demand and vacancy rates have normalised to pre-COVID levels, with slight rent decreases expected in select locations.

Sources: Knight Frank Research

France

Annabelle Vavasseur, deputy head of research, Knight Frank France

Following a mixed performance in 2024, encouraging signs point to a dynamic rebound in rental and investment activity in France in 2025.

Economic activity in 2025 will be driven by a rebound in household consumption amid disinflation, with inflation projected to fall to 1.5%, supported by lower energy prices and stronger household purchasing power. The labour market is expected to remain resilient, with unemployment at 7.6%.

Office space rationalisation and cost control will shape rental dynamics, with available supply increasing, particularly in the Greater Paris region, due to completions and releases of second-hand space entering the market. Vacancy rates are set to rise, with disparities persisting between limited supply in central Paris and higher stock in the outskirts, maintaining upward pressure on prime rents.

The retail sector is poised for growth, buoyed by increased tourist activity linked to major events such as the Olympics, though spending will depend on household purchasing power and factors such as Paris's new limited traffic zone. The logistics market is returning to pre-COVID levels of activity, with secondary clusters, particularly the Centre-Val de Loire region, gaining prominence due to available land and competitive rents.

The market is entering a new cycle with a gradual recovery expected, marked by more fragmented growth across sectors and increasing portfolio diversification. Alternative assets are gaining attention, reflecting evolving investor strategies despite the market's limited depth.

Sources: Banque de France, Insee, Knight Frank

Germany

Christian Steilen, senior consultant research, Knight Frank Munich

Despite challenges from economic and political uncertainties, easing monetary policy should support investor activity.

The German real estate market is expected to exhibit mixed trends in 2025. Rental markets, which began recovering last year, are forecast to strengthen further, though slow economic growth continues to weigh on investor sentiment. While this may temper investment activity initially, improving financing conditions, supported by anticipated further ECB monetary policy easing, are expected to provide a more favourable environment for investors.

The German economy is gradually recovering from a two-year downturn, with GDP growth forecasts for 2025 ranging between 0.8% and 1.1%. Political uncertainty, however, caused by the end of the coalition government and early elections, could influence these forecasts.

The office market is well-positioned for 2025, with rising take-up reflecting growing occupier confidence. Prime rents are projected to increase, driven by strong demand for ESG-compliant, high-quality spaces and limited new construction. Vacancy rates are nearing their cyclical peak, with growth slowing across Germany's top seven markets.

Equity-rich investors, particularly family offices and high-net-worth individuals, are leveraging this period to expand their portfolios. While institutional investors remain cautious, their interest in real estate is gradually improving, with logistics, residential properties, and data centres gaining popularity. Although investment in the office sector has yet to see a significant recovery, the anticipated rise in available properties in 2025 is likely to stimulate activity in this segment.

Sources: ifo, Deutsche Bundesbank, Knight Frank Research

Italy

Alessandro C. Riboni, Chief Executive, Knight Frank Italy

Italy's 2025 outlook is positive, with transaction activity projected to rise to 10-year average levels, underscoring sustained investor interest.

The macroeconomic outlook for Italy remains positive for 2025, with GDP growth projected to accelerate compared to 2024. Growth is supported by a robust labour market, as unemployment currently stands at a 17-year low, reflecting solid employment gains. Additionally, falling inflation is expected to drive a recovery in real wages, enhancing purchasing power and bolstering consumer spending. However, high public debt remains a challenge over the next few years.

Investor strategies in 2025 are anticipated to target sectors with strong fundamentals. Key sectors likely to attract heightened interest include data centres, logistics and industrial, residential, and hotels. These sectors are well-positioned to capitalise on structural trends such as digital transformation, shifting demographics, and the ongoing recovery of tourism-related industries.

Building on the momentum observed in the second half of 2024, transaction volumes in 2025 are expected to surpass those recorded in 2024. Total transactions are projected to reach approximately EUR10 billion, broadly in line with the 10-year average, reflecting sustained investor interest.

Sources: Oxford Economics, MSCI Real Capital Analytics, Knight Frank Italy, Knight Frank Research

Netherlands

Judith Fischer, Partner Commercial Research, Knight Frank

The outlook for the Dutch real estate market in 2025 is more positive as investment activity is expected to pick up and prime yields have begun to stabilise.

Dutch economic growth is projected to accelerate to 1.4% in 2025, driven by the unwinding effects of interest rate cuts. Strong wage growth will play a key role in supporting consumption, alongside a decline in inflation, which is forecast to ease to 2.5% in 2025.

In the real estate market, the Value-Add segment is demonstrating more activity compared to the Core segment, which remains more challenging. Transactional activity is expected to increase in 2025, with sentiment turning more positive supported by easing monetary policy and stabilising capital values. Overall, cross-border investors will likely account for the majority of transactions.

The logistics sector remains one of the most favoured, evidenced by stable rents and the start of yield compression in Amsterdam. Interest in the residential sector is also expected to grow. Following significant repricing, prime office yields in Amsterdam have begun to stabilise. Demand for well-located, ESG-compliant office spaces is predicted to remain strong, placing upward pressure on prime rents.

Sources: Oxford Economics, Knight Frank Research

Romania

Ileana Stanciu-Necea, Head of Research, Knight Frank Romania

Romania's economic prospects for 2025 are positive yet tempered by fiscal pressures, while the real estate market outlook is marked by limited supply and demand on a downward trajectory.

Romania's economy in 2025 is forecast to expand by 3.1%, following 3.3% growth in 2024. Inflation is projected to decline from 5.9% in 2024 to 4%, potentially allowing the National Bank of Romania to lower interest rates, which could stimulate further economic activity. However, fiscal challenges remain, with the government deficit forecasted at 7% of GDP due to high public spending, pension reform costs, and slow tax revenue growth. While fiscal adjustments in 2025 may create some uncertainty, they are unlikely to disrupt the medium-term outlook.

In the real estate market, office space demand is set to decline further in 2025, impacted by headcount reductions in the IT&C sector, the largest local driver of demand, and tax increases affecting the economic climate. Lease renewals will dominate, but pre-leasing activity is expected to rise as completions for 2026-2027 projects approach. Hybrid work models will persist, though efforts by companies to boost in-office attendance are likely to result in a gradual increase in occupancy.

Rental rates, which have risen by €1-2/sqm in key locations over recent years, are expected to stabilise in 2025. Future increases depend on the economic performance, but new projects scheduled for 2026-2027 are already quoting rents approximately €2/sqm higher than existing properties. Limited short-term supply, especially for premium spaces, may support rental values in central locations.

Romania's real estate sector continues to benefit from EU funding through the Recovery and Resilience Facility, amounting to 12% of GDP through 2026. This funding supports key investments, particularly in commercial and infrastructure projects, sustaining interest in the sector despite broader fiscal challenges.

Sources: European Commission, Knight Frank Research

Spain

Daniel Caprarin, Head of Research, Marketing & PR, Knight Frank Spain

In 2025, Spain's real estate sector is set for robust growth, fuelled by a favourable economic outlook that is expected to drive investment opportunities, particularly in high-demand, profitable areas.

GDP forecasts for 2025 remain positive, with an estimated growth of 2.1%, well above the Eurozone's expected growth rate of 1.2%. The CPI is projected to continue stabilising, with an expected decrease to 2.5% by the end of 2025, following a close of 3% in 2024.

Occupancy in both the office and logistics sectors is predicted to remain strong, surpassing the average of the past five years. The focus on high-quality assets is expected to drive an increase in prime rents, given the scarcity and high demand for such spaces.

Investment volumes in these two segments were initially impacted in early 2024 due to uncertainty surrounding interest rate levels, but recovery trends have become apparent in recent months. Retail investment is expected to see a notable increase, largely driven by the acquisition of major shopping centres. The residential market, especially the living sector, is set to gain momentum over the coming months, supported by strong demand and limited supply, which continue to attract investors. Additionally, the hotel sector is expected to benefit from Spain's tourism recovery, with metrics already surpassing pre-pandemic levels.

Overall, 2025 is expected to be a dynamic year for Spain's real estate market, driven by economic stability and sustained demand for high-quality assets

Sources: Knight Frank Research, International Monetary Fund (IMF), CaixaBank Research