European real estate professionals cautiously optimistic for 2025

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The 1,143 real estate professionals consulted by Urban Land Institute and PwC for their study 'Emerging Trends in Real Estate Europe 2025' are cautiously optimistic, partly reassured by the interest-rate environment fostered by central banks. However, growing geopolitical uncertainty and weak economic growth remain major concerns.

"Real estate professionals have a much more positive outlook than last year, but they remain very cautious," Simon Chinn, vice president, research and advisory Services, at ULI, said to Business Immo. He added, "many industry players feel they have weathered the storms and strong headwinds of rising interest rates and inflation."

As evidence of this, 50% of professionals surveyed say they are confident of seeing an improved market environment in 2025 (versus 33% in 2024), and 46% anticipate an increase in profits for the coming year (versus 31% in 2024). "We have a market where it is possible to generate higher returns because yields have increased and there is less competition," said a senior executive from a private company interviewed by ULI and PwC.

A 'slow and hesitant' recovery

On the other hand, "many risk factors remain on the horizon," said Chinn. International political instability and the escalation of armed conflicts in Europe and the Middle East were cited by 85% and 83% of respondents respectively as the two biggest sources of concern, followed by weak economic growth in Europe (77%) and increased regulation (74%). Conversely, interest rate movements are cited "only" by 60% of professionals surveyed (versus 89% in 2024), and inflation by 56% (versus 83% in 2024).

"The fact that investors have a clearer view of the monetary environment makes a recovery in investment activity conceivable," argued Chinn. "However, the wider macroeconomic environment – including the outlook for economic growth and the changing needs and demands of occupiers, which underpin the rental outlook – remains uncertain and worrying." In fact, 44% of respondents are worried about a drop in rental demand by 2025.

So, while he is optimistic about a possible recovery in European real estate investment, after two years of significant decline, Chinn said "the sector is anticipating a slow and hesitant recovery rather than a major rebound." For several of the professionals interviewed, the recovery of European markets could stretch over a period of three to five years. "Economically speaking, I feel we've reached the bottom of the cycle, and I think we'll be hovering around that point for some time, as we did after the global financial crisis," said one fund manager.

Madrid outperforms Paris

For the fourth year running, London offers the best overall prospects according to the professionals surveyed by ULI and PwC, who cite the depth and liquidity of the market (54%), the city's economic performance (48%) and the availability of assets or development opportunities (37%) as the most important criteria. And just behind, Madrid snatched second place from Paris.

"The established economic engines of the European Union – France and Germany – are suffering a little in terms of growth prospects," said Chinn. "Some of the professionals surveyed consider that other regions could take up the baton and become the continent's economic engines, such as Spain or even Poland, which explains Madrid's rise in the rankings, from 8th place in 2020 to 2nd place today."

Despite its descent to third, the French capital remains "a robust market, with investments linked to the Olympic Games helping to revive momentum against a backdrop of political instability and uncertainty," ULI and PwC said.

"The mood in France was rather gloomy when ULI/PwC organized its first roundtable in June, in the wake of the disruption caused by the dissolution of Parliament called for by President Macron," said Chinn. But respondents felt that "despite a difficult market environment, the French system seems resilient."

"While it was acknowledged that the political impasse following the dissolution of the government has led to regulatory uncertainty and significant fiscal instability, and that investors continue to adopt a cautious approach, some believe that the composition of the new government will have a less severe impact on the industry than had been speculated before the summer. "

In the same vein, despite concerns about the economy across the Rhine, four German cities feature in the top 10 most attractive markets: Berlin in fourth and Munich in fifth, plus Frankfurt (eighth) and Hamburg (ninth). "Compared with some of Europe's major markets, Germany is viewed rather negatively by many in the real estate sector," confirms Simon Chinn. But despite its weaker growth prospects, it is still seen as an important economy as well as a liquid and stable market."

Alternative assets remain popular

In what has become a key trend in the sector rankings published as part of the report, the attractiveness of office and retail properties is being questioned in favor of more alternative asset classes. Data centers, new energy infrastructures and student residences are the three most attractive sectors in the eyes of the professionals surveyed. A sign of the popularity of beds-and-sheds assets, logistics platforms (fourth) and self-storage (sixth), as well as senior residences (seventh) and coliving (eighth), also fare well.

Conversely, office buildings are largely rejected by respondents. Peripheral office buildings (28th) and business parks are the least desirable sectors in Europe, and city-center assets are hardly better (23rd). Retail property is also struggling to convince professionals of its attractiveness, with retail parks (20th), high street (24th), city-center shopping centers (25th) and their suburban counterparts (26th) also languishing at the bottom of the rankings.

"It's no surprise to see the residential and industrial sectors dominating in terms of investment prospects, as they are linked to fundamental demand vectors in many markets," said Chinn. "We can't overlook the position of core sectors at the very bottom of the rankings, but these are still an integral part of the market and remain an important part of long-term institutional investors' portfolios."

Business Immo is a CoStar Group news service covering commercial real estate in France.