



**BlackRock Private Markets**

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# **European Real Estate in a Changing Global Regime**

European Real Estate  
Outlook

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# European Real Estate in a Changing Global Regime

European Real Estate Outlook, April 2025

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## Key Takeaways

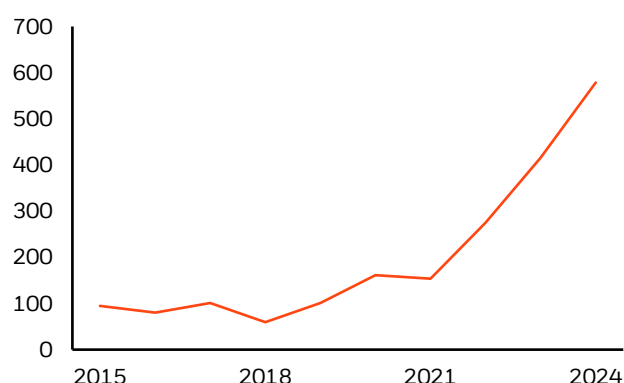
- European real estate is entering a new cycle with momentum slowly building across occupier and capital markets. This is supported by repricing, improving liquidity, and structural tailwinds.
- Amidst persistent geopolitical volatility, the asset class offers resilience, benefiting from its inflation-hedging characteristics, residual value, combined with a valuation reset.
- Going forward, success will be contingent on strategic diversification, granular asset selection, and alignment with long-term Megaforces, such as digitalization, decarbonization and demographics, as performance dispersion across sectors and assets continues to intensify.

**Momentum in the European real estate market continues to build** and appears to be relatively well insulated from broader geopolitical uncertainty. The cyclical recovery has begun, with pricing having bottomed out and liquidity returning to most markets and sectors. However, the macroeconomic environment continues to be characterised by volatility, with rapid changes occurring without clear predictability. Real estate is not immune to these shifts, in this environment embedding resilience into portfolios by aligning with structural shifts essential for long-term stability.

**Policy is no longer a source of stability.** What was once a highly interconnected global system is becoming increasingly unstable. Geopolitical fragmentation is one of BlackRock's Megaforce's and is evolving rapidly, playing an increasingly important role in our decision making. As highlighted in Figure 1, real estate investors are increasingly viewing geopolitics as a major risk factor.

The U.S. administrations imposition of tariffs and the subsequent global retaliation has served to highlight the delicate nature of the global economy. Resulting recessionary risk is the primary concern of investors, real estate is directly exposed to this risk. Tariffs also have an inflationary impact, increasing impact the costs of raw materials, which can drive up construction costs and lead to project delays as supply chains are reconfigured. Conflict volatility also remains high. An end to the Ukraine war appears far off and fresh conflict has arisen in the Middle East which could lead to another supply shock.

**Figure 1: Real Estate Mentions of Geopolitics in Reporting (Index 2019=100)**



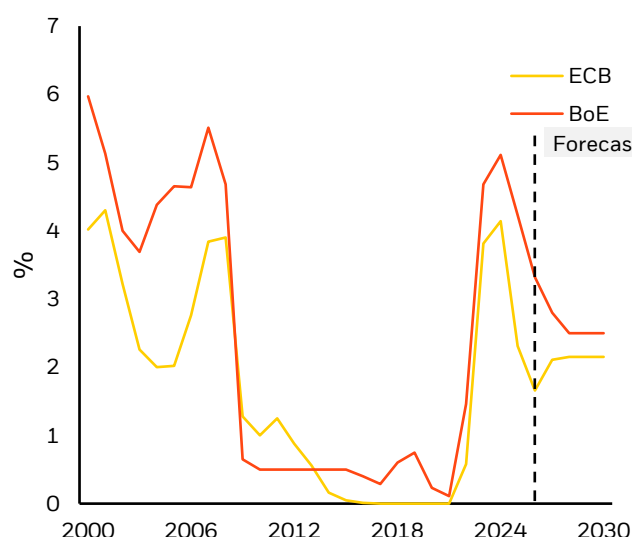
Source: Savills Research, Blackrock, as at 7th July 2025.

It is impossible to predict how rising tensions will play out, how growth will be impacted, or what other risks may emerge. As a result, diversifying portfolios and prioritizing sectors supported by structural tailwinds has become more critical than ever, as these sectors are likely to deliver greater resilience during downturns.

**Within Europe, conditions for real estate investment are improving relative to where they have been over the last two years,** nonetheless we are in a structurally different world today than what we had observed over the last decade. The compounding effect of the headwinds we are seeing today is an environment broadly characterised by lower growth, and higher interest rates.

Central banks are progressively moving towards more accommodative monetary policy. However, rates are not expected to return to the anomalous low levels observed post GFC. (Figure 2). Economic growth across Europe is expected to remain modest in the medium term, with GDP in the UK and Eurozone projected to reach 1% in 2025 and maintain a similar pace in 2026, before gradually accelerating thereafter<sup>1</sup>.

**Figure 2: Central Bank Rate Forecast**



Source: Oxford Economics Forecasting, Forecasts as of 18 June, as at 1 July 2025. Forecasts may not come to pass.

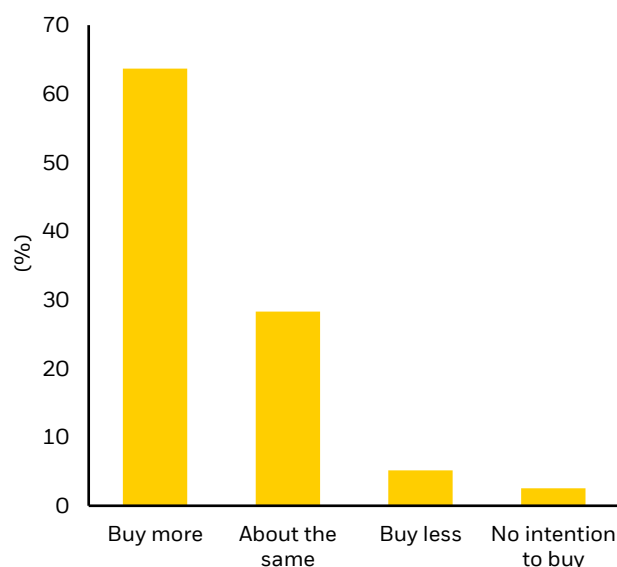
**Despite headwinds, the real estate market continues to recover.** Although real estate is not immune to the effects of a broader economic slowdown, the sector is relatively well placed to weather the current storm. Repricing has already played out, with valuations down peak to trough 25% and 20% in the UK and the Eurozone respectively<sup>2</sup>. We are now seeing valuation uplift across all sectors, excluding offices. During uncertain times, investors look to “long-term anchors” for stability. The BlackRock Investment Institute points to private market investment, like real estate, as the source for this stability.

The European property index shows that returns have been positive across all sectors since March 2024, highlighting that the bottom of the market has been reached<sup>3</sup>. Although core capital is slow to return to the market, investor intentions demonstrate that a significant majority of investors intend to buy more real estate than they did in 2024<sup>4</sup>.

**European real estate is well positioned.** It is our view that we face a once in a cyclical opportunity to acquire European real estate at an attractive discount to 2022 values. In addition to this, the private real estate offers resilience through insulating investors from the sharp, mark-to-market losses seen in the more macro sensitive public markets. Real estate also serves as a natural hedge against inflation given the ability to reset rental levels at often regular rent reviews.

Looking ahead it is likely that European markets may further benefit from the reallocation of capital that had been targeting the US. Although this is yet to be captured by investor intentions surveys, we expect the weakening of the U.S. dollar’s global reserve status to accelerate capital reallocation toward euro-denominated assets, potentially benefiting European real estate markets further.

**Figure 3: 2025 Investor Buying Intentions in Europe**



Source: 2025 CBRE Investor Intentions Survey, March 2025, as at 7 July 2025.

Note: 1. Oxford Economics Forecasting, as at 1 July 2025; 2. MSCI UK Monthly Index and MSCI European Quarterly Index, as at 3 July 2025; 3. MSCI European Quarterly, 3 July 2025; 4. CBRE Investor Intentions Survey 2025.



**As we enter a new cycle, the drivers of performance will shift.** In contrast to the period post-GFC, Europe is set to remain in a higher for longer interest rate environment. This means that rental growth will be more significant driver of returns than yield compression. In fact, as we look across historical cycles, at the turning point investors often refocus on the fundamental drivers of real estate performance, this being income. And with this focus on income, alignment with megafactors becomes a critical component of underwriting growth.

Cyclical turning points also lead to increased dispersion in manager performance. Granularity in asset selection, coupled with the active management necessary for driving income growth (and long-term outperformance) become the key ingredients of success. As illustrated in Figure 3, this trend is already unfolding, with performance becoming increasingly polarized. Strategies that are scaled to provide diversification and align with structural Megafactors such as digitalization, demographic shifts and sustainability are best positioned to outperform.

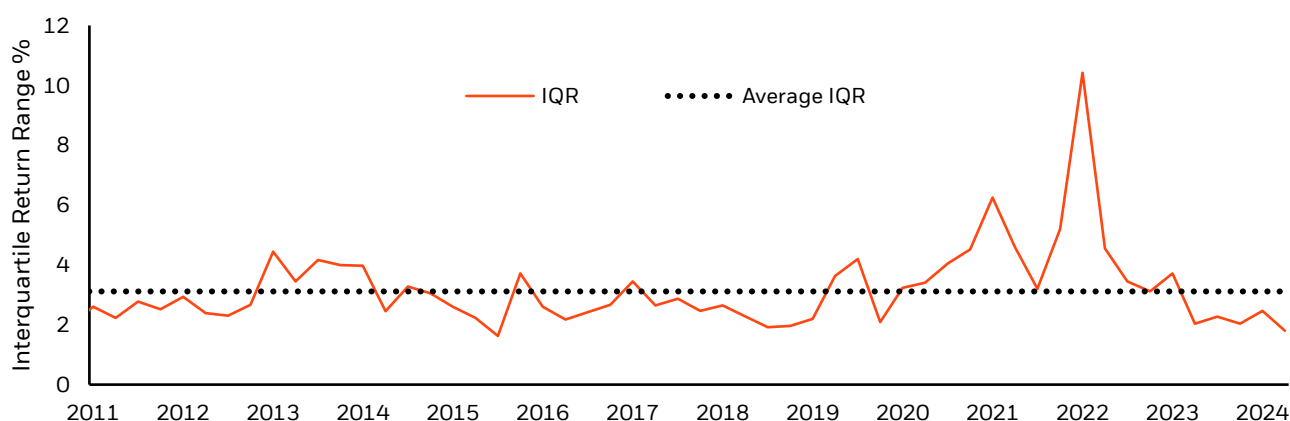
**Appetite for logistics remains strong.** The logistics sector experienced the sharpest price correction when values repriced in 2022. In the UK, downward revaluations occurred over just eight months, from July 2022 to February 2023, after which pricing stabilised and has since started on the recovery phase of the cycle. This revaluation was a direct response to the spiralling inflation and rising interest rate environment, rather than a result of structural or occupational weakness. However, this stalled following elevated trade uncertainties. Occupier markets unsurprisingly have since softened and net growth has slowed.

Industrial vacancy is likely to remain elevated in the near term, given a more muted occupational market. However, demand will be supported by rising online spending and increased corporate appetite for supply chain resilience. Furthermore, the commitment to increased defense spending in Europe will likely drive additional demand in the sector, offsetting some of the impact of a slower occupational market.

**Residential remains an investor favorite.** Beds and sheds are still a common refrain for investors. There is an acute shortage of residential stock in most European cities leading to demand across the cycle. Today, the UK, where more frequent data is published residential sector is the only sector where capital values have fully recovered and are now higher than they were pre-downturn<sup>5</sup>. We expect to see a similar story across Europe. Limited supply, particularly in key cities, alongside favorable conditions for tenants to rent versus buy, means the sector will likely remain in demand.

**Several headwinds are contributing to the structural decline of the office sector.** The post-pandemic uptake in hybrid working and preference for flexibility has created a structural oversupply of office stock. The development of AI, digitalization, and lower levels of office-based employment will result in deteriorating fundamentals for all but top-quality offices over the next few years. Restrictive sustainability legislation is rendering many older offices obsolete, and we think values for such assets still have a way to correct.

**Figure 4: European Interquartile range in Quarterly Return Rates for All Property**



Source: MSCI European Quarterly Index Interquartile returns, as at 3 July 2025. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Note: 5. MSCI UK Monthly Index, 3 July 2025.

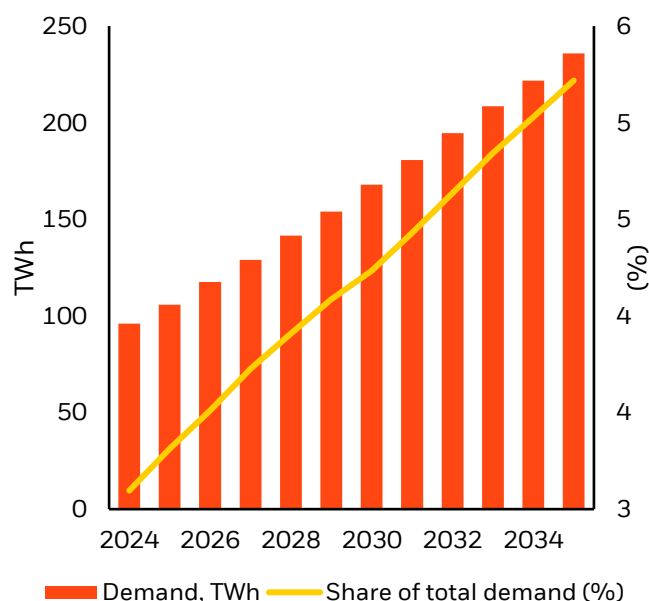
**The retail sector also presents a challenging paradigm.** Retail is nuanced, with significant dispersion in performance across sub-sectors and geographies. For example, grocery-anchored retail parks in the UK and select shopping centres in Spain continue to attract strong occupational demand. However, the story surrounding high street retail in secondary locations remains uncertain. Success is increasingly driven by idiosyncratic asset level factors and localized market specific factors. With e-commerce continuing to pose structural challenges, selectivity and partnering with experienced operators is essential.

**Alternatives have a more important role to play in portfolios than ever before.** Examples of alternatives include data centres, self-storage, senior living property, life sciences and childcare. European real estate has historically focused on traditional sectors, but there has been a clear shift toward alternatives as investors seek greater diversification, innovation, and growth.

Demand for alternative real estate is underpinned by broad, long-term structural trends, such as digitalization and demographic shifts, which tend to carry lower volatility and uncertainty over time. As a result, demand remains resilient, and the additional risk tied to entering less mature sectors is well compensated when executed well.

Data centres are an example of the shifting requirement from the built environment to support societal shifts. The accelerating demand for digital infrastructure, driven by cloud computing, artificial intelligence, and broader digitalisation trends is fuelling rapid market expansion. With limited available capacity, high barriers to entry, and strong tenant demand, data centres offer investors an exciting opportunity. However, data centres, like many 'alternatives' come with the own operational complexities, meaning that those investors who successfully partner with an experienced operator are likely to outperform.

**Figure 5: European Data Centre power demand Forecast**



Source: Independent Commodity Intelligence Services, as at 7 July 2025.  
Forecasts may not come to pass.

## Conclusion

Europe is navigating a distinctly different macroeconomic landscape compared to recent years, one marked by elevated geopolitical risk uncertainty.

Real estate offers several defensive characteristics that support resilience in volatile conditions. Inflation protection combined with alpha potential and an already revalued asset class support the investment thesis.

The buying opportunity remains compelling, with signs suggesting the market is now emerging from its cyclical downturn.

In this cycle, aligning with the megaforces is key as these are durable sources of growth. For investors, selectivity is therefore more critical than ever as performance will be driven by alpha generation.

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